

CHAPTER NINE

Emergence of Pleasure: Communities of Interest and New Luxury Products

Communities of Interest and New Luxury

Products: Emergence of Pleasure with Products

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9.1 INTRODUCTION

'What is luxury?' is a question anyone can answer quickly, but few answers are entirely satisfactory. Literally, luxury means enjoyment of a rich, comfortable lifestyle and the indulgence of pleasure. As a business concept luxury has gathered a lot of attention in strategy and design. Recent mergers and acquisitions through companies such as LVMH, SMH, Gucci or Prada are testimony to the use of luxury as a strategic position (Nihon Keizai Ryutsu Shinbun 1999; Slywotzky and Morrison 1997). These companies have accumulated a set of different luxury brands in various product categories including apparel, watches, shoes and food.

The economic rationale behind this strategy is the superior profitability of luxury products (Table 9.1). Often the high margins are used to justify the acquisition of different luxury brands, or companies producing luxury products, despite the costs of sustaining different images and distribution channels. These developments, and the efforts to create new luxury experiences, show that luxury is becoming an important category in itself.

Table 9.1 Luxury Zone: Profitability in the Fashion Industry

	No. of Companies	Sales (billion Lira)	Average Size, Sales	Profit %
Individual companies	160	17.121	107	3.7
Company groups	30	30.423	1,014	6.1
Listed companies	12	14.726	1,227	8.2
Luxury companies	37	11.879	320	8.7
Top 10 luxury companies	10	9.212	921	11.0

Adapted from Il Sole 24 Ore 1999

Luxury is a complex and ambiguous concept. Alleres (1997) reports that Dior, Chanel and Yves Saint-Laurent are the most prestigious and well-known luxury brands, ranked according to share of awareness and share of attention by customers. Surprisingly, Benetton and Chevignon rank close to the top and Cartier, Louis Vuitton or Piaget rank much lower. This complexity and ambiguity does not only exist in the fashion and textile industry. In the car industry, for instance, different manufacturers, including BMW, Daimler Chrysler, Honda, Rolls Royce, Toyota and VW, target the market for luxury vehicles.

Luxury products provide unique value to customers and yet they are often criticised. The unique value includes prestige and, more important but often forgotten, pleasure (Kuethe and Reinmoeller 1999). Luxury products provide pleasure to such an extent that prices for luxury products can be very high. In the luxury industry the market constellation can be similar to a monopoly, where demand exceeds supply and manufacturers are able to sell the quantities they determine at prices they command. Such 'monopolies' are based on superior value creation.

Luxury products are often criticised as wasteful products. Owners pay premium prices and go to great lengths to enjoy luxury products and services. Luxury products are created by use of material, processes, packaging, distribution and promotion that exceeds the level of standard products to allow for pleasure and indulgence. The economist Frank (1999) interprets this effort beyond the average and reason as similar to Veblen's theory on conspicuous consumption, and reveals prestige seeking as an important reason for wasteful consumption. He describes social dynamics related to luxury products that limit free choice through peer pressure and misallocation of productive resources (Frank 1999).

These differences in understanding luxury products, as sources of pleasure and waste, show that luxury is a relative phenomenon. This paper explores the contingency of luxury as being a socially constructed pleasure and as a strategic opportunity to create value for customers. The main argument is that intellectual and physical experiences as well as social dynamics in communities of interest promote the emergence of luxury.

Several questions need to be answered. First, is luxury a public and socially shared, or a private and personal phenomenon? Second, is there a difference between luxury brands and luxury products? Third, are luxury brands and products limited to certain

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The following section introduces the concept of luxury appreciation as a function of knowledge and context. In the third section communities of interest are introduced; complexity theory is used to understand the emergence of appreciation as a process of social construction. The fourth section presents four types of luxury; each is based on different knowledge processes in the context of communities of interest. The case study of the cellular phone category and brands illustrates the luxury types and conditions for emergence. The fifth part analyses the links between top-brands and luxury products. Implications for design strategy conclude the paper.

9.2 LUXURY APPRECIATION IS RELATIVE TO KNOWLEDGE AND CONTEXT

Historical, cultural, economic and individual contexts influence the appreciation of luxury. Appreciation of product experiences means to enjoy, understand and to judge products. Luxury products correspond to highest levels of appreciation; without appreciation there is no pleasure in luxury products. Such appreciation is a function of knowledge and contexts.

Knowledge influences luxury appreciation

Information affects knowledge by adding something to it or restructuring it (Machlup 1962). Because information is pervasive and accessible to everybody it is a commodity. Knowledge is context-specific, relational, dynamic, and is created through social interactions rooted in individuals' value systems and their commitment (Nonaka and Takeuchi 1995; Nonaka and Reinmoeller 2000).

There are two types of knowledge: explicit knowledge and tacit knowledge. Explicit knowledge can be expressed in formal and systematic language. It can be easily 'processed', transmitted and stored. On the other hand, tacit knowledge is highly personal and hard to formalise; it resides in the human mind and body. Subjective insights, intuitions, preferences and hunches are examples of such knowledge. Tacit knowledge is rooted in action, values and contexts. Therefore, it is difficult to communicate tacit knowledge to others. Both types of knowledge are complementary and the interactions between are key processes of knowledge creation (Nonaka and Takeuchi 1995).

Luxury appreciation involves both types of knowledge. Explicit knowledge on product specifications, for instance, does not justify high margins. The uniqueness of pleasure through luxury products lies in the tacit dimension. Tacit knowledge such as subjective pleasure and emergent meaning is based on direct experience and dialogue; it provides important value that can justify high margins (Reinmoeller 1996; 1997).

Contexts influence luxury appreciation

Luxury appreciation does also depend on context. Appreciation is an interaction process in context that involves more knowledge as it unfolds over time. Five kinds of contexts influence luxury appreciation: physical, temporal, natural, technological and social.

Physical proximity can determine experiences of luxury; being close to or moving towards something special can constitute luxury. The temporal perspective shows that luxury goods of the past, like tobacco, coffee or travel, are evaluated differently today. Technological change can accelerate changes of appreciation as, for instance, a

comparison between the first cellular phones and current standards shows.

This paper focuses on the social context that is the key to appreciation of luxury. The dynamics of social consensus, shared value systems and beliefs go beyond prestige seeking; luxury appreciation emerges as socially constructed reality (Berger and Luckmann 1966). Social contexts determine the valuation of naturally and technologically unique products.

Luxury is socially constructed through repeated interaction between people sharing similar interests and knowledge. The creation of knowledge about a product and its valuation are continuing processes in social communities.

9.3 COMMUNITIES OF INTEREST AS SOCIAL BASE FOR LUXURY APPRECIATION

Communities of practice (Lave and Wenger 1991; Wenger and Snyder 2000) or communities of interest are groups of people informally bound together by distributed and shared expertise. The members share passion for products, qualities, ideas or other objects of interest. One prototype is the apprenticeship pattern describing how people acquire the skills and know how of their masters and peers. The interaction among members primarily supports mutual complementing of knowledge and continuous self-refinement (Lave and Wenger 1991). The members share interest in a domain. The purpose of such groups is learning and developing skills and knowledge. The members select themselves according to passion, commitment, and identification with the group's knowledge on the domain. Virtual communities meet regularly and interact directly with others that meet in chat rooms, networks or on the Internet (Rheingold 1993). Other communities are linked loosely by similar demographic data and indirect interaction, such as people who visit the same specialised markets.

Communities grow when interaction intensifies and widens; they decline when the special interest in the domain, the commitment of the members and interaction subsides.

Different communities have different cultures. While the underlying cultural differences between Asia, the US and Europe continue to be important, communities without boundaries such as professional communities of medical doctors, physicists, stock brokers, bankers or e-commerce entrepreneurs are becoming more important to individuals.

9.4 LUXURY AND EMERGENCE IN COMMUNITIES

Luxury is pleasure with products that emerges from communities. The communities construct knowledge and reality through social interaction (Wenger 1998). Such a process of co-creation involves a certain number of members who interact as in complex systems.

Complexity theory helps to understand self-organising properties and the inherent heterogeneity within such communities. The absence of central control is common to complex systems and communities of interest. Similar to complex systems, communities describe the emergence of meaning from the large number of members, their interactions and embeddedness in the environment (Granovetter 1985). Emergence is a product of coupled, context-dependent interactions. The interactions are non-linear; **the result is unpredictable; they cannot be inferred by adding the behavioural effects of individual members.** But the complexity of emergence can be reduced by understanding the behaviour of single members taking into account the nonlinear interactions (Holland 1998). Thus we can understand highly complex emergent phenomena through the discovery of simple rules, the linear and non-linear interactions. Such emergence

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described in systems theory, theories of consciousness and complexity theory is based on competition and cooperation (Buetz 1997).

In a similar way public mental models emerge from activities and coupled interactions. The public mental models are based on large numbers of private, individual models that are iteratively altered through interaction with other people and the environment. A process of creation and adaptation helps shared mental models to emerge and evolve.

Shared mental models influence luxury appreciation. In communities the results of interactivity are a shared understanding and experiencing of products and emerging of appreciation of products. Shared understanding is important for an individual's appreciation of products.

9.5 LUXURY TYPES

Different knowledge processes (Nonaka and Takeuchi 1995) occur in communities of interest. The following luxury types are based on multiple-case study analysis and expert interviews in several industries including textile, consumer goods and entertainment. Two perspectives synthesise the results of in-depth case studies. The case of digital cellular phone systems in Japan and NTT Docomo 'I mode' illustrates both perspectives. The static perspective reveals four luxury types: emerging luxury, new luxury, luxury brands and luxury patterns (Figure 9.1). The dynamic perspective describes patterns of change between the four types (see section 9.6).

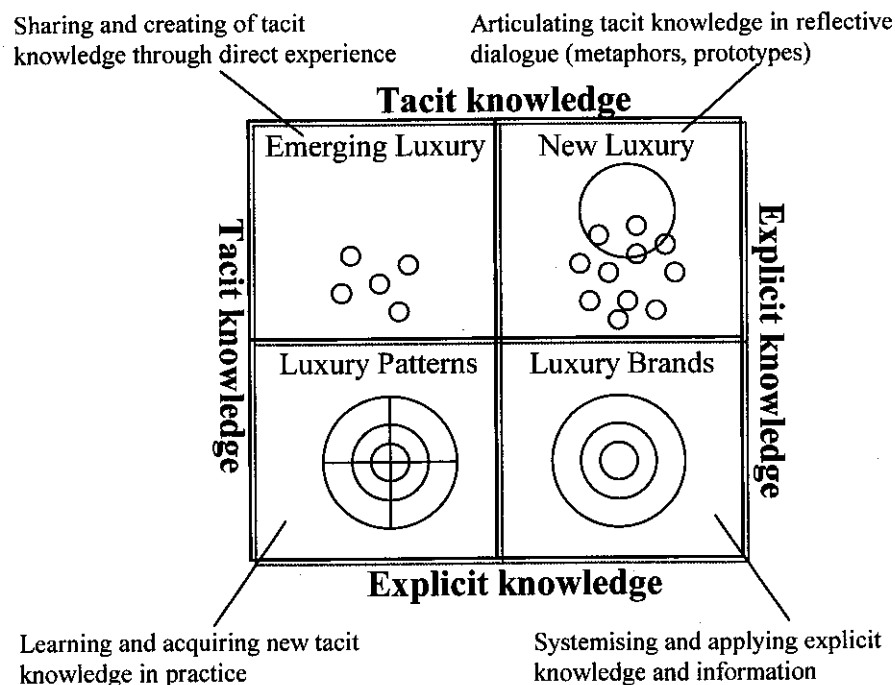


Figure 9.1 Four types of luxury: static perspective

Luxury patterns

Luxury patterns are based on the learning and internalising of explicit knowledge. In other words, in the developing of criteria by which products are appreciated as luxurious. Criteria for appreciation are often evaluation standards in the community. These luxury patterns include exclusivity, scarcity, high quality of materials, technology, price, aesthetics, manufacture, symbol and time (Kuethe and Reinmoeller 1999). These learned patterns of evaluation seem to be universal criteria; they are often linked to specific elements of design such as material, shapes, colours or ornaments according to the community.

Emerging luxury

Emerging luxury is often related to new experiences and new product categories. Sensing emerging luxury requires knowledge about the products, communities and contextual experience of use. Emerging luxury is based on sharing of tacit knowledge within small communities. The sharing of experiences of products in multiple contexts reveals new pleasures for the members of the community. This process of distributed accumulation of experiential knowledge is fundamental to emerging luxury; iteration refines judgement and appreciation of these products.

New luxury

Articulation makes tacit knowledge of newly discovered pleasures and luxury products explicit within medium-size communities. By making tacit knowledge explicit, it can be shared with others more easily. Tacit knowledge is often articulated as metaphor, image, concept, diagram, narrative or prototype. Articulation facilitates appreciation of products and can create or establish new luxury products within communities. Further stimulation helps luxury to transcend the boundaries of communities.

The articulation of newly discovered luxury goods in community magazines, on websites or in chat rooms is becoming more important. It can expand the community. However, mouth-to-mouth communications on highly appreciated products in personal networks remain the most trusted source of knowledge.

Luxury brands

Brand image is built through a variety of factors, such as logos, product aesthetics, marketing campaigns, visuals and standards. Such sets help to communicate fast and efficiently within large communities. Brands and other forms of explicit knowledge are exchanged, reconfigured through symbols, documents or information networks. The communication of knowledge about brands is facilitated by the large amount of images and narrative available in print, broadcast and new media including the Internet.

Ironically, the more ubiquitous a brand becomes, the greater the danger that people will stop seeing it as a luxury brand. The luxury brand manufacturer must take care that the brand does not become seen as a commodity brand as sales increase.

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9.6 CELLULAR PHONES IN JAPAN: 'I MODE'

When in 1979 NTT introduced mobile phones in Japan luxury patterns were used. These mobile phones were built into cars. This advanced technology was positioned as an expensive business instrument for executives and corporate use. The limited number of phones made the community of users an exclusive circle. The fundamental pattern was limited usage by the business elite. In 1987 NTT introduced the first mobile phones. Similarly pagers were positioned as communication tools for people in middle management. The use of the most advanced technology used for business purposes justified the indulgence. Later young teenagers and kids discovered their parents' pagers and began to use them for private communications with peers.

In 1989 DDI, a competitor of NTT, sensed opportunities in a growing market, entered the market for cellular phone services, and promoted the emerging luxury. In 1993 NTT began the digital phone service. Despite the elevated prices the growing community of users had begun to attract new companies and services. Before 1994 cellular phones were rented or leased to users, since then the phones are sold to the users. This has reduced the overall cost for users. It also created the possibility to own phones and to enjoy the technology.

The cellular phone became a new luxury in the second half of the 1990s after the start of the PHS services, based on a different standard with much lower rates. The luxury of mobile communication was becoming more common. In 1996 the community of users had reached 10 million and cellular phones were established as a new luxury. The growing number of users created a lot of interest in the media and articulated the benefits and costs of mobile communication widely.

With the introduction of the second technological solution (PHS) for mobile communication, the number of different mobile services has grown. The category is established and expands market volume. In March 1999 the total number of cellular phone users reached 40 million, or one third of the Japanese population. The competition between technological standards and brands has intensified. Generic cellular phones and mobile communication have become common and the market leader NTT Docomo has a market share of 57.5 % and owns one of the best known luxury brands.

The establishment of competitive luxury brands is increasingly important. In digital services, for instance, the confrontation between two brands is notable. In 1998 the DDI group began to provide services in the European CDMA format. NTT Docomo then introduced the new 'I mode' service in February 1999. 'I mode' combines a cellular phone with Internet access. The development of 'I mode' Internet websites and exclusive contents has helped to establish 'I mode' as the luxury brand. In 14 months the number of 'I mode' users has reached 5 million. In order to strengthen the appreciation of 'I mode' services, NTT Docomo has developed new models for cellular phones in the future (Figure 9.2). They emphasise image processing through installed cameras and large colour displays for real-time video communication. NTT Docomo's challenge is to broaden the appeal of its product whilst maintaining a luxury image.

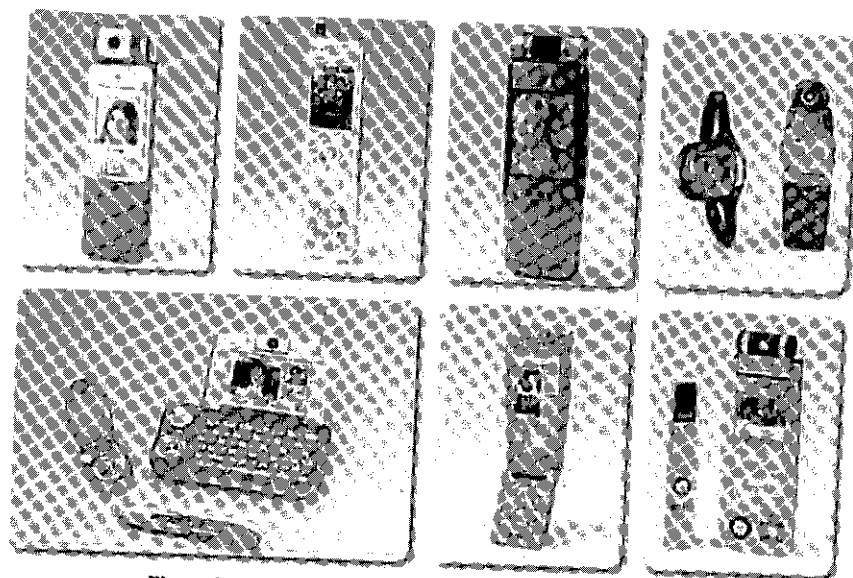


Figure 9.2 Prototypes for future NTT Docomo mobile communication
(NTT docomo homepage)

9.7 PATTERNS, LUXURY AND BRANDS: THE DYNAMICS OF LUXURY

The dynamic perspective shows links between the different luxury patterns and evolutionary development over time. **These links point towards overtime.**

Luxury patterns are platforms for emergent luxury products. Adherence to established patterns first brings attention from core customers. If communities of interest begin to interact in relation to the product, luxury begins to emerge. Based on existing patterns new luxury can establish itself. Direct experience of the products by more members of the community, and complex interaction patterns among them, leads to appreciation of the products and recognition of them as luxury items. The case of NTT docomo shows that brands can maintain luxury appreciation by upgrading experiences.

The creation of luxury brands and differentiation often follows when new luxury categories are already established. If branding strategies and marketing techniques are successful the luxury brands become available easily. **Success in making luxury brands accessible, however, has to be balanced with avoiding that the products become mere standard or commodity.** The recent development of Starbucks in the US shows how replication changes the meaning of luxury brands. In the case of 'I mode' the position as leading value provider is not used to gain high margins but rather to increase diffusion.

Luxury brands can decline when they are perceived as mere pattern. Luxury brands employ specific ways of teaching markets about their value. Innovative ways of luxury branding, such as gifts for an elite or event sponsoring, lose their lustre when communities become familiar with such branding techniques. To avoid the impression of mediocrity, luxury brands need to innovate.

For small communities of interest luxury products are well known (luxury = brand), branding these products helps to go beyond the original community. Depending on several factors such as the size of the new, enlarged customer group the original community can be alienated (brand $\neq$ luxury). Luxury brands can strike a profitable

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balance between luxury for a limited community of interest and mass-market brand. The profitability of this strategy has attracted a lot of investment recently.

9.8 CONCLUSIONS AND IMPLICATIONS FOR DESIGN STRATEGY

Luxury products are the result of material and immaterial design. Luxury patterns employ traditional models, technologies and know how to claim superior evaluations. Luxury patterns are often established through the 'traditional' design work including the design of fonts, visuals, products, architecture, and so on.

Immaterial design involves nurturing social interaction processes that define the degree of appreciation by communities of interest.

The different types of luxury such as luxury patterns or brand were introduced. Four strategies can be identified. A generic focus on luxury patterns is indispensable. Specific strategies can focus on the importance of small communities for emergent luxury or on multiple or large communities (brands). The strategies can be integrated in a sequence including support of emergent new luxury products in small communities and then articulating luxury brands in large communities.

The success of these strategies depends on how communities of interest are facilitated and used. The task for design management and design strategies includes promoting self-organisation of communities as dynamic contexts for knowledge processes.

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ABSTRACT

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