Confront the ethical issue: the luxury industry’s lack of transparency

An ethical ad campaign by Maison Martin Margiela

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Introduction

Nowadays, individuals’ per capita disposable incomes are increasing rapidly in developed and some developing countries, like China and S. Korea. Many people in these countries have chosen late marriages; thus, they are able to spend more money on themselves instead of on the next generation. Additionally, these consumers have obtained higher education and traveled to more places than their preceding generations, and these changes may explain the fact that some consumers have established good tastes in luxury fashion. However, not every luxury goods consumer has the opportunity to obtain brand education, and information that luxury shoppers have held may not be the fact behind the mirror of luxury brands (Jing Daily, 2011).

Some luxury professionals and scholars argue that the most frequently used skill in luxury marketing is withdrawing part of a brand’s information to consumers, thereby adding to a product’s mystique (Chevalier & Mazzalovo, 2012). Thus, luxury goods consumers often gain asymmetric information from the brand, and in most cases, such information cannot represent the nature of a luxury brand. The “dirty secrets” that luxury brands are withholding include advertising puffery along with low quality products, and the withholding of industrial information (e.g. production costs and the use of animal products). An ordinary consumer is unable to recognize these facts until he/she has experienced a purchased luxury product, or has learned information that from inside the luxury industry (e.g. from college, magazine, newspaper, the Internet, etc.).

The British fashion writer Dana Thomas has been writing for Washington Post, Newsweek and Times’s Paris branch about the luxury industry’s “dirty secrets” for 15 years.
In her book *Deluxe: How Luxury Lost Its Luster*, the writer discloses some facts about top luxury brands like Prada, Gucci and Burberry, facts that brands would not like the public to know (Thomas, 2007). Lack of transparency has become a significant ethical issue in today’s luxury industry. Many luxury consumers choose to expose luxury brand’s “dirty secrets” on social media – posting pictures of luxury products with defects or complaining an unsatisfactory shopping experience. Nevertheless, as a consideration of reputation, luxury brands rarely reply to such exposures, and these brands continue to monopolize the public discourse. These monopolists, specifically large luxury conglomerates, offer arrogant but prestigious images to regular consumers.

However, luxury goods are not low price daily essentials since they belong to a high margin product category. Consumers may have the right to know the true stories behind the extremely high prices that they have paid, and such fairness should not exist between only commodity brands and their consumers. In order to address ethical issues in the luxury industry, this research firstly identifies “dirty secrets” in the luxury industry by analyzing previous literature. Secondly, this study discusses why luxury brands should disclose such secrets from the standpoint of both consumers and luxury brands with two ethical theories’ support. Last, the study proposes an advertising campaign that involves the solution of easing the identified ethical issues in the luxury industry under the name of the niche luxury brand Maison Martin Margiela (MMM) with rationale supporting.
Literature Review

Davies, Lee, and Ahonkhai’s (2012) research shows that consumers’ ethical perception in luxury goods consumption is much weaker than commodity goods consumption. The researchers also conclude that the main factor that leads to this phenomenon is the price difference between commodity and luxury goods. In the study, consumers’ ethical perceptions include concerns about environment and society. Moreover, the researchers state that people always first consider the high price when purchasing luxury goods rather than ethical issues, and because of this fact, luxury consumers rarely switch between brands based on ethical issues (Davies, Lee, & Ahonkhai, 2012). Joergens’ (2006) research shows that ethical issues have little influence on customers because customers always pay more attention to price, style and other factors that have direct links to their consumption. However, the researchers also point out that this phenomenon might be caused by the lack of transparent information in the fashion industry. People cannot gain sufficient information about unethical issues in the industry so they can only use their imaginations to infer the fact.

This study provides a new viewpoint that besides environment and society, luxury consumers should consider about the luxury industry’s lack of transparency. The study examines this issue mainly regarding two aspects: product quality and industrial information.

Quality

Previous literature has shown that product quality is one of the most important facets that consumers like to consider when purchasing luxury goods. Tynan, McKecnie, and Chhuon (2010) explain that luxury goods are not people’s daily essentials but expensive products with finest quality. Jin (2012) argues that high quality is the prime attribute of luxury goods, and
that is the premise of luxury brands’ strategies of premium pricing and restrictive distribution; compared with high quality, uniqueness and exclusivity may seem like “add-on” attributes of luxury goods. Scholars often use product quality as an important index when analyzing factors that influence consumers’ luxury purchasing behavior (Deeter, Moore, & Goebel, 2000). To conclude, high quality is the basic attribute of luxury goods, and most luxury consumers may want to obtain such an attribute over any other benefit, like uniqueness, that a luxury product can bring.

Surprisingly, not all of today’s luxury brands provide high quality goods, or at least they do not provide every product in high quality. Many scandals of product quality issues have been exposed. For example, some claim that, “Prada never made high quality goods” (Welker, 2010). With the brand’s development in China, its quality issues have being complained about by consumers for years. Such issues are involved in the brand’s various product lines, including eyewear and handbags. Some products even break within three days. One consumer complained that Prada’s IT bag Saffiano should not crack on the surface with merely two-time use; however, Prada’s shop assistant explained that the bag has applied a special high-tech glue, and such glue made the bag less durable (Sina, 2014). Another consumer found a screw on newly bought Prada glasses broken off within one day after purchasing the glasses from a Prada’s duty-free store in South Korea (Sina, 2014). If one puts keywords like “Prada, quality” in Google search, numerous posts in only fashion forums can be found. In China’s fashion industry, a saying now goes, “If your Prada does not go wrong in one month, you probably have a counterfeit” (Sina, 2014). However, products in Prada’s advertisements are always glamorous and flawless.
Many other luxury brands are facing the quality issue, including Cartier and Gucci. However, when consumers take a look at these brands’ dreamlike advertisements, would they even consider that they are potentially purchasing luxury products of terrible quality? In the above cases, consumers rarely received exchanges or refunds provided by the brand Prada because of the slot of Chinese business law, and luxury brands rarely give positive responses regarding such issues publicly. In this scenario, consumers are the weaker party compared to those domineering luxury brands.

**Industrial Information**

**Animal Products** Kapferer (2013) puts “killing animals for their fur” (p.10) as an important variable in their questionnaire about luxury ethics, and the results show that this fact is the second most unethical behavior that luxury brands are conducting. However, luxury consumers rarely take this issue into their primary consideration when purchasing luxury goods (Davies, Lee, & Ahonkhai, 2012). Using animal products such as fur and leather is prevalent in the luxury industry. Most luxury consumers are familiar with the cruel and bloody scenes of how raw material manufacturers kill animals and get useful body parts from them. Nevertheless, they may be unaware of other practices that may be unethical. The former chairman of Hermès Christian Blanckaert (2011) describes in his book how the company isolates ostriches when feeding. By doing so, the brand can obtain perfect ostrich skins without any wounds from fights between ostriches; this process may go against the order of nature, and the chairman states that most of these ostriches have depressive disorder (Blanckaert, 2011). These ostriches provide their skins for making Birkin bags, but consumers are not likely to know the whole story behind expensive Hermès leather goods.
However, luxury brands never tell consumers about how they gain raw animal materials. On the contrary, such raw materials have been processed when appearing in luxury brands’ advertisements/short films about brand heritage. A typical mature luxury brand wants people to avoid thinking about the negative facets of animal products used by emphasizing high-level handcraft skills and other “shiny” points that the brand promotes (e.g., Louis Vuitton’s support for the Climate Project). The approach of withholding partial dirty information potentially misleads luxury consumers and makes these consumers’ thinking about ethical issues one-sided. Without knowing the complete information about the use of animal products, luxury consumers have difficulty judging whether a brand they are purchasing is ethical.

**Manufacturing costs** Some scholars and industrial practitioners talk about the issue of manufacturing costs regarding the nature of luxury goods. Nueno and Quelch (1998) conclude that luxury products are “…those whose ratio of functionality to price is low, while the ratio of intangible and situational utility to price is high” (p.61). A McKinsey’s (1990) report states that luxury goods are products with higher prices with incomparable functions. Such definitions may somehow illustrate why the manufacturing costs of luxury goods are not comparable to their retail prices. In many studies, luxury consumers consider the price factor when making a purchasing decision; however, these studies do not discuss whether these consumers have questions about why luxury brands can charge that much. A luxury brand’s intangible equity may allow that brand to charge more than commodity goods, but the strategy of its pricing may lead consumers to think twice before purchasing that brand. Nevertheless, such strategies are always “top secrets of luxury brands.”
In 2012, a Gucci shop assistant reported the shoplifting of a $3,000 handbag in Beijing, China; however, because the buying price was very low (less than $100), the police were unable to set up an investigation (Abrams, 2012). Interestingly, the subsequent explanation Gucci offered to the public regarding price difference made no sense. A similar situation also exists in the perfume industry. The *Daily Mail* exposed that in the perfume industry, the manufacturing costs of the actual “fragrance” inside a bottle is only 3% among total costs, and a perfume brand’s retail prices allow the brand to earn the 95% profit margin (Pearson, 2008). The profit margin is even higher in the luxury fragrance industry. Luxury practitioners indicate that luxury brands never let consumers know the streamline flows for manufacturing perfumes, because that potentially damages luxury brands’ prestigious images (Chevalier & Mazzalovo, 2012). Instead, luxury brands always emphasize the preciousness of the spices they have applied in their soft selling stories in fashion magazines, and that misleads many luxury consumers, specifically those who do not have high educational degrees. Unfortunately, today’s perfume makers manufacture fragrances from low-priced artificial chemicals rather than natural spices, and most perfume makers are selling their products at prices that natural spices cost (Chevalier & Lu, 2009). Undoubtedly, luxury brands never spontaneously admit this dirty secret. When a consumer knows that the cost/retail price ratio of a luxury product is 1:30, would he/she continue purchasing that product?

**The trick of origins** Not every luxury brand has a vertical integration corporate structure (which means a brand participates every session in its manufacturing process from designing to retailing). Most luxury brands provide very limited quantities of labels of origin to their outsourced manufacturers, and so-called high-end or top luxury brands rarely use labels of
origin printed with “Made in China.”– When they have to use such labels, they are sewed in places that are hard to discover (e.g. inside a garment’s lining or at the back of the leather) (Thomas, 2007). A recent international research study among 40,000 consumers conducted by Sanford Bernstein, reveals that most luxury consumers care a lot about “Made in” tags, and that is the key factor in luxury marketing (Friedman, 2014). Some practitioners point out that some consumers’ socio-psychological perception is that “Made in China” represents cheap and low-quality goods (Chevalier & Mazzalovo, 2012).

Nevertheless, producing products in China or other developing countries allows luxury brands to minimize their production costs and maximize their profits by hiring cheap labors (Kapferer, 2013), and “Made in Italy” or “Made in France” brings bonus profit margins to dishonest luxury brands. For example, when making a handbag, some luxury brands would like to make the “bag” in China, but add handles carved “Made in Italy” when it arrives to its “place of origin” (Thomas, 2008). The eyewear maker Safilo holds many luxury brands’ sunglass franchises, and the company leaves spaces for place of origin on the eyewear’s temples when producing them in China. Printing the names of developed countries will wrap up the final production. Importantly, a pair of Giorgio Armani should be printed with “Made in Italy”, while a Chloé needs to be “Made in France.” By doing so, luxury brands are able to charge more money from consumers, and most consumers never know the truth of such tricks of origins, neither would they check the actual origin of a luxury product.

To conclude, four main ethical issues exist in the luxury industry. Some are related to consumers’ benefits (e.g. product quality, origins, and manufacturing cost), and one of them prevents consumers from ethically thinking (animal products). The lack of transparency sets
consumers as lambs for slaughter, and luxury brands are the meat men who earn even more than butchers.

Theoretical Rationale

This study proposes the viewpoint that the luxury brands should reveal their dirty secrets to their consumers. Such a behavior could potentially damage a brand’s image; however, this behavior may also facilitate the improvement of a luxury brand.

The possibility of transparency starts with the consumers’ right of knowing the truth behind luxury products. Rawls’s (1999) work *A theory of Justice* defines two principles of justice. The first principle describes how important liberty is, and the second one describes a concept that combines fair equality of opportunity with the differentiation between least advantaged members and other members. However, both principles emphasize the significance of equality. Rawls (1985) also developed a hypothesis, which could reflect the ideal society in his mind: an ideal society with justice as fairness working well, which is “a system of fair social cooperation between free and equal persons” (p.229). Obviously, the transactions between luxury brands and their consumers are not equal and fair, because both sides do not have the same opportunity to know the truth, and the consumers are not treated fairly by the brands. The situation varies between purchasing luxury goods and commodity goods. People can easily create a relatively fair conversation between a commodity brand. For example, one can estimates the approximate manufacturing costs of a beverage, but that is impossible in the luxury industry: even though some practitioners have created data and indices in industrial reports, some private luxury companies that are not in the stock market would never let the public know their manufacturing costs (e.g., Coty INC.).
To explain the concept of fairness a step further, Rawls’ (1999) introduces an assumption entitled the veil of ignorance. The assumption proposes that people are able to make fair decisions behind a hypothetical veil without knowing who they are—social positions, races, and so forth (Rawls, 1999). Rawls sets up such an assumption in order to avoid the influence of people’s self interests (Muldoon, et.al, 2013).

Thus, if both luxury brands and consumers are behind that veil, the decision might be that “both parties should have the right to know the truth” rather than the scenario in the real world, and even if consumers do not care about these issues (self interests), they still have the right to know the “dirty secrets” in the luxury industry.

On the other hand, according to Mill’s theory of utilitarianism, luxury brands ought to disclose their industrial information to consumers. He proposed that social persons should seek the maximum happiness for the majority of people, and he also describes that the consequence of a behavior should be evaluated as a factor to determine whether the behavior is ethical (Christians, Fackler, & Rotzoll, 1987). Gustafson (2013) defends utilitarianism as a basis of business ethics, and the researcher argues that people always misunderstand utilitarianism because of negative criticisms on this ethical principle. Also, the researcher points out that “utilitarianism provides a vision of ethical behavior which holds the common interests of humanity as of utmost importance when we make a moral decision” (Gustafson 2013, p.326). In addition, the researcher concludes that the welfare of majorities and minorities will not contradict in utilitarianism (Gustafson, 2013). Although luxury brands are targeting a minority of people in the market, these brands may also consider that they should respect the majority’s right to be informed.
Renouard (2011) challenges former scholars’ viewpoint that a corporation should consider the value/economic development first, and then the responsibility to society. The researcher also makes a revised version of this opinion: social development is the first issue that a corporation should consider, and that company’s economic development is a byproduct of social development; social responsibility is the result of the company’s economic development (Renouard, 2011). A higher level of utilitarianism also has been detected: utilitarianism does not only contain the approach of seeking maximum happiness for the majority of people, but also encompasses altruism (Renouard, 2011). That means sometimes the minority of people may choose to sacrifice their own welfare to benefit the majority of people. This may seem against Rawls’ theory of fairness. However, luxury brands are not the ordinary minority. They stand for a powerful social economical position, and they are not the weaker party. Therefore, sacrificing their benefits may bring the greatest happiness to the majority (consumers), and this process may not hurt luxury brands badly.

In sum, luxury brands need to create a fair environment between their consumers, and they should moderately sacrifice some of their benefits to meet consumers’ good.

**Campaign Summary (Line 13 – Objects & Publications)**

In MMM’s previous video advertisements (Line 3, which refers to the product line of fragrance), the brand has exposed the “dirty secrets” of the perfume industry a little bit. Also, in the advertisement, the brand emphasizes that it is product-oriented, and it never uses celebrity endorsements. Also, the brand is known for its avant-garde, anti-fashion attitude. The campaign strictly follows MMM’s aesthetic style - simple, straightforward, experimental, and impersonal. Three short films and three print advertisements are employed
in this campaign, and the brand’s homepage decorated with contents from these advertisements.

**Short Films (Video advertisements)**

**The Fur Coat** A toy beaver’s viscera are removed, but its fur has been kept. The advertisement tells the truth about the cruel scene of how animal products are obtained, and reveals that “although we also produce genuine leather goods, we hereby let you know the truth behind them, and we hope you to think twice for options before purchasing them.” The brand respects consumers’ right to be informed before making their final purchasing decisions. According to Rawls’ theory, MMM believes that the conversation between the brand and its consumers should be fair, and consumers should know negative stories behind luxury goods. Based on the higher level of utilitarianism, sacrificing partial good of the brand to meet the majority’s welfare may slightly damage the brand’s current equity since MMM stands for a stronger social party based on Rawls’ theory.

**The Cost of a Fragrance** This video exposes the real manufacturing costs of a fragrance and the portion of money that consumers have to pay for a fragrance. Since the brand’s fragrance line is product-oriented, the brand is “safe,” but potentially damages its competitors, which also stand for the “powerful minority.”

**The Lottery** MMM’s products have many origins, and the brand is neither shy to admit this fact nor hides actual information of “Made in” tags. Also, the brand wants its consumers to know that products made in China can be of the finest quality since they are made by MMM.

**Prints**

One print demonstrates manufacturing defects of MMM (the quality issue), and the
brand is trying to tell consumers that “a luxury product is not perfect” and “we are brave enough to look straight at this fact, unlike our rivals, and we will improve it.” The other print compares the origins of sunglasses in a creative approach.

**Conclusion**

One concept of the MMM campaign is to promote people’s awareness of the “dark side” of the luxury industry since they have the right to know it. Partially sacrificing MMM’s pristine image may cause some damage to other luxury brands. However, this campaign may bring a more transparent world of luxury goods to customers. In addition, this campaign may facilitate social development regarding MMM’s re-inspection of the entire luxury industry, and the brand can differentiate itself from its competitors such as mainstream luxury brands.

**Appendix**

Videos:

The cost of a fragrance: https://www.youtube.com/watch?v=AYxiX7vwVUA

The fur coat: https://www.youtube.com/watch?v=dOSNX7AdM4g

The lottery: https://www.youtube.com/watch?v=U7sVFK7wHjU
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