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# ***AN EXPLORATORY INVESTIGATION ON NEW PRODUCT DEVELOPMENT IN FAMILY LUXURY BUSINESSES***

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## ***Abstract***

*In the actual scenario characterized by new and ever-changing dynamics of the global market, firms need to quickly and timely anticipate competitors' next moves, monitor market tastes, adapt their products and properly communicate their positioning. The history of many luxury brands is linked to a family, though they may have changed ownership over time. The products often remain faithful to the style impressed by the family and when it does not happen, the risk is to lose enamel. Since this phenomenon has not been thoroughly investigated, this research aims at investigating the relationship between family and products in the luxury sector, in order to understand if and how, the family affects the success of the company. We have interviewed 19 family businesses operating in the luxury sector discovering that the involvement of the family and its essence are deeply anchored in the core business of the company.*

**Key words:** *luxury; family firms; product; new product development, Italy; family*

## 1. Introduction

Worldwide spending in luxury product rose by 13% in 2010, 10% in 2011 led by Emerging Markets (PwC, 2012) pushing total luxury goods revenues to an estimated € 212 billion (Bain and Company, 2012). This is the third year in a row of double-digit growth for the personal luxury goods market over the € 200 billion.

Recently, the credit crunch seems to have waning the demand in luxury goods in the West but it has also to be observed the growing interests in luxury in the emerging economies such as China, Asia, Latin America and India (Verdict, 2007; Tynan et al, 2010).

An important characteristic of the luxury industry is given by the fact that is dominated by family businesses: 8 out of 10 of the top luxury brands in 2010 were owned and managed by a family (Carcano et al, 2011). This is confirmed by the study of Kenyon and Ward (2005) according to which family businesses tend to dominate certain sectors. Family businesses operating in the luxury segment compete in a particular context, in which the advantages and disadvantages of the family model clash and face particular challenges. In this new era, internet-based technologies have significant impact on entrepreneurial enterprises in many ways. In this "digital age", new concrete challenges arise from the decision making perspective, in particular regarding the new product development decisions. Moreover, in this industry the competitive advantage resides not so much in the price as in the quality of product, the ability to innovate, the adherence to the trends of the moment and, also, the time to market (Mosca, 2010).

All of these variables create a reputation that becomes more important in family businesses because product's brand is not only linked to the company, but also to the family and its people, becoming part of a larger system (Ferda, 2010; Montemaggi and Severino, 2007). Moreover, the commitment of family members in the business is very high and also their level of involvement in the decision making process with regards to new products: a single error in introducing a product in the market could ruin forever the brand reputation and the family image (Saviolo and Corbellini, 2009).

The main difference between companies that successfully survive for decades or even centuries and those who fail often lies in the ability to seize opportunities and changes taking place in the market, and to correctly manage company and family dynamics: ownership, business and family, in order to create a competitive advantage hard to imitate (Pearson et al., 2008; Vrontis et al., 2011; Bresciani et al., 2013).

In the light of the above, this paper tries to give a different perspective on the relation between luxury industry and family businesses. In this paper 19 Italian family firms operating in the luxury industries has been interviewed. Italian family firms have a very strong culture of good standing, quality and brand (Attanzio, 2011).

So, the authors seek to explore in a qualitative way the involvement of family members in the business and in particular in the product development process: the impact of the family on the different activities "happens through a combination of social interaction, networks, family business corporate identity, family goals, dynamics, values, culture and heritage that act on the company in several forms of behavior, acts, decisions and plans" (Cassia et al, 2011).

The paper is organized as follows: Section 2 describes the literature review; Section 3 describes the research method and the sample; Section 4 presents the results of this research. Finally, Section 5 offers some conclusions, managerial implication and limits of the research.

## 2. Literature review

### 2.1 Family businesses and luxury industry: an overview

Define family businesses is a hard task and it is one of the most discussed issues (Lansberg, 1988; Chua et al, 1999; Cassia et al, 2011). In this paper we have followed the European Commission's definition (2008) whose objective was to ease the process of data gathering and comparison, both within the same country and among different sectors:

"A firm, of any size, is a family business if:

- 1) The majority of decision-making rights are in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child or children's direct heirs.

- 2) The majority of decision-making rights are indirect or direct.
- 3) At least one representative of the family or kin is formally involved in the governance of the firm.
- 4) Listed companies meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25 per cent of the decision-making rights mandated by their share capital”.

In Europe nearly 85% of the companies are owned by a family (European Commission, 2008) and in Italy the percentage rises to 90% (Pratesi, 2008); moreover, some recent researches (e.g. CERIF, 2011) estimated that family businesses produce nearly 70% of the total GDP of the country. It seems obvious the crucial role played by family businesses, not only in Italy but all over the world (Aronoff and Ward, 1995): their strong impact on the growth and employment of national economies is confirmed by a lot of researches and studies (Gallo, 1995; Poutziouris et al., 1997).

The first strong evidence between family businesses and luxury industry is given by the “Osservatorio AIdAF-Unicredit-Bocconi” (2011) that affirms that among medium and large enterprises operating in the luxury segment in Italy, around 80% are controlled by an entrepreneurial family.

But which are the elements that characterize the luxury industry? According to Aiello and Donvito (2006), luxury is described mainly by the following attributes: Status (the superior status that an object confers to the owner/user), Emotion (self-realization with the property of the good), Qualitative Excellence (in materials or innovation), Aesthetic refinement (design), Exclusive (very few customers in number), Rarity (reduced availability of the product), High Price (sacrifice made for purchase), Tradition (craftsmanship or style), Investment (durability).

In addition, further three types of effects that luxury goods exercise on consumers were proposed by Vigneron and Johnson (1999) and Brioschi (2000). They are based on consumers’ buying motivation and are: a) the Veblen effect (see Veblen, 1899), b) the “snob” effect and, c) the “bandwagon” effect. Summarizing these effects it is possible to affirm that three main reasons pushing consumers to buy luxury goods and they are: publicly display their wealth, feel unique and be part of an exclusive community.

Moreover, the concepts of “Veblen”, “Snob” and “Bandwagon” were further described by Vigneron and Johnson (1999) believing that there are motivations and behaviours of an alternative “personal” nature, from within the consumer.

However, luxury products typically refer to tangible product categories such as transportation, real estate, household items, artwork, clothing accessories, food, healthcare products as well as intangible services such as a private club membership, sports leisure projects, or professional services (Kaufmann et al., 2012).

## *2.2 The role of a family and the role of a product*

Several scholars state that family businesses have a competitive advantage over public companies (Aronoff, Ward, 1995; Levring and Moskowitz, 1993; Pervin, 1997), but reasons for this are not clear (Hoffman et al., 2006). Some scholars think that the business-family dualistic system is the basis for family firms' competitive advantage, but others believe it is the main cause of a business' shutdown (Ibrahim et al, 2009).

According to the analysis carried out by Hoffman et al. (2006), literature is full of examples of resources owned by family businesses which are considered unique to this type of firm, because of the existence of a family and its values.

For example, let us consider that a businesses which is identified by the family name must pay close attention to the service provided to customers, offering high quality products and a very good client care service (Cooper et al. 2005), because it is putting at stake not only the firm's name, but also the name of the person and family itself. Consequently, in order to best satisfy the final consumer, the firm must also be able to grant to its personnel and managers a positive and engaging working environment. In this regard Ibrahim et al (2009) say that the personal relation the family business develops with the consumer, its quick answers to people's needs, the credibility it builds with clients over time and its employees' loyalty and sense of belonging, all represent intangible resources that give the family business its unique and sustainable competitive position.

In the luxury world the product brings with itself a number of intrinsic messages that its owner wants to communicate to the others. At the same time, the values of the family are often embodied in products since the company and the brand represent a single entity in the consumer’s mind. Thus, the product is filled with symbolic meanings and this is why the new product development (NPD) process is fundamental to the growth and longevity for the company’s success, family business or not, over time (Crawford and Di Benedetto, 2006).

The launch of a product which turns out into a success creates several advantages for the company, more than anything else that can happen (Tardivo et al., 2011).

Within the company, the product development process is managed by product development experts. In small companies or in family businesses, mainly, the inputs for the creation of a new product come from the entrepreneur's personal vision of the market (Calabrese et al., 2002; Mihai, 2012); in this way, family's values and tradition are preserved over years and absorbed by products. The peculiar features of most of family-owned fit almost perfectly with the competitive logic of hard and soft luxury approaches; so, the unique bundle of resources family firms own implies the potential to provide an advantage over non family firms in luxury-related industries.

Unfortunately, the literature presents very few contributions on the link between family businesses and the product development process highlighting an important research gap. In one of the most recent researches, Cassia et al. (2011) report that the family companies “with shared family values, a high desire to raise the family name and reputation, high level of communication among family members, and low agency costs are likely to experience more successful product development processes, while those firms that display a higher closure attitude towards the external environment, a higher aversion to risk and less professional management, appear to be disadvantaged with respect to the product development processes”.

Moreover, family businesses have some key characteristics: they are managed by a limited group of people, their decisions are made quickly (Miller and LeBreton-Miller, 2005), the final approval on a new product is often given by the family members who leading the company (Bertoldi et al., 2011) and so in a more rapid and effective way than that of new product development committees in public companies (Mussati, 2008).

### **3. Research method and sample**

The research method adopted is based on a multiple case study. Although the different limitations of this approach (Yin, 2003), multiple case study can represent a correct perspective in order to study the complex phenomenon of family businesses.

Family businesses are companies in which the interaction between the three spheres – family, business and ownership – creates special dynamics among family and non-family members involved in the company. So, in order to study and understand these dynamics the most suitable approach, as suggested by Yin (1984), is the qualitative one.

This is consistent with our research questions:

- In the luxury family businesses, are family members involved in the NPD process? Is their contribution recognized as essential?
- In the luxury family businesses, which are the key success factors in the NPD process?

In table 1 the description of the sample is presented.

**Table 1** Description of the sample

Firms	Year of establishment	Production	Number of employees	Number of family member involved	Turnover
1	1911	Mosaics	5	2	0-1 M€
2	1988	Cat and dog food and supplies	5	3	0-1 M€
3	1993	Artistic Ceramics	6	2	0-1 M€
4	2009	Clothing	1	1	0-1 M€
5	1995	Clothing	1	1	0-1 M€
6	2000	Majolica stoves	1	1	0-1 M€
7	1969	Jewelry	NA	2	0-1 M€
8	1985	Jewelry	2	2	0-1 M€
9	2002	Jewelry	12	2	0-1 M€
10	1890	Furniture	30	5	1-10 M€
11	1982	Jewelry	10	2	1-10 M€
12	1989	Jewelry	5	3	1-10 M€
13	1961	Silverwork	27	4	1-10 M€
14	1963	Chandeliers	100	4	10-50 M€
15	1966	Elevators	220	2	10-50 M€
16	1969	Yachts	2500	3	>100 M€
17	1975	Doors	750	15	>100 M€
18	1938	Billiards	15	2	NA
19	1959	Carpets	8	3	NA

Source: personal elaboration

Information was collected during a special conference on Family and Luxury Business held in Verona in November 2011 through personal interviews with the family and the management of the companies operating in different sectors (Table 1).

In conducting the interviews we used a questionnaire divided in three sections:

1. General questions on the Family and the Company;
2. Family and firm values;
3. Product development process.

At the end of the interviews all the answers and data collected were verified with interviewers in order to check information.

Data collected were processed, analyzed and combined with available bibliography, companies' documents and internet websites; the data-triangulation is useful to validate and integrated all the information coming from different sources (Olsen, 2004).

The selection of family businesses operating in the luxury industry was quite immediate: we asked to all the companies present to the conference to take part to the interviews and those with available time and willingness to take part to the study were finally interviewed; this is the reason way of such heterogeneous sample.

The most part of the sample is composed by family businesses at the first generation (9 out of 19), while the others reached the second (6 out of 19) and third generation (4 out 19) experiencing the trans-generational process. These results can have an influence on the dynamics between the three spheres -family, business and ownership- and, in part, they can justify the way in which relationships between relatives are regulated. In fact, from interviews emerged that the relationships between family members are regulated by formal family agreements only in three companies. In the other cases, tasks and succession processes are managed trough oral agreements and/or practices rooted.

#### 4. Results

The first common results observed was the leadership role of family members inside the company: in all the companies the CEO is a family member and only in two cases he is supported by external managers. In these two cases the relationship between the family and the external management were formal: everyone played his role with accountability, consistency and correctness.

The second common trend with regard to our first research question, and the most interesting one, is that the majority of the companies performed internally all the phases of the product development process. The phases in which family members are mostly involved are the idea generation and the product design, while the level of commitment is lower in market research and production. These data suggest that family members are placed where the core competencies of the company reside. In fact, the final decision on the launch of a product into the market lies always in the hands of the family.

On average, 35% of the companies think that the contribution of the family in the development phase of the product accounts for the 90%; the 29% of respondents think that the family contribution accounts for the 100%, while the 24% believe that accounts for the 50%, while a smaller percentages think that the family is influential by 70-80%.

**Table 2** Results

Firm	Generation leading the firm	New products launched per year	Family members involved in new product development	% of family members in product development	Final approval of the new products	Values inherent in new products		Importance of respecting family tradition
1	Third	4 to 6	2	2	Family	Quality	Innovation	2
2	First	1 to 3	2	2	Family	Quality	Innovation	2
3	First	More than 10	2	2	Family	Quality	Prestige	3
4	First	More than 10	1	1	Family	Quality		1
5	First	More than 10	1	1	Family	Quality	Family Tradition	3
6	Second	More than 10	1	1	Family	Quality	Prestige	2
7	Second	More than 10	1	1	Family	Quality	Prestige	3
8	Second	More than 10	1	1	Family	Quality	Prestige	3
9	First	More than 10	2	2	Family	Quality	Innovation	1
10	Third	4 to 6	3	3	Family	Quality	Prestige	3
11	Third	More than 10	2	2	Family	Quality	Innovation	3
12	Second	More than 10	1	1	Family	Quality	Prestige	2
13	Second	More than 10	1	1	Family	Quality	Prestige	3
14	First	More than 10	4	4	Family	Quality	Prestige	3
15	First	1 to 3	2	2	Family	Quality	Innovation	3
16	First	4 to 6	2	2	Family	Quality	Prestige	3
17	First	4 to 6	10	10	Family	Quality	Innovation	3
18	Second	1 to 3	2	2	Family	Quality	Innovation	3
19	Third	4 to 6	3	3	Family	Quality	Innovation	2

Source: personal elaboration

Data on the new products launched per years clearly showed that the majority of the firms introduce more than 10 products per year. This represents that our sample of family firms operating in the luxury industry are very innovative and dynamics; these characteristics associated with the high quality of the products and the tradition of these Italian family brands seem to represent a step toward the success.

Finally, from the analysis of these results it is possible to underlined the higher degree of involvement of family members in the product development process and, the level of power in the hand of the family: it has always the final approval on products. It seems that just the family has the necessary competences and the right intuition, the instinct to recognized successful products.

The second part of the interview was used in order to understand the key success factors for family businesses operating in the luxury sector. Through a deep analysis of the interviews was possible to identify common features and, in particular, were identified three main factors:

- Pursuing high product quality and other shared values: all the entrepreneurs stated that the quality is an essential characteristic of luxury products but, they also underlined that quality has to be paired up with other values. The first value is the *product prestige*: a set of features such as design, cost, fashion, etc.; secondly, the *innovation inherent in the good*: not only in the product but also in the manufacturing process. Often due to the different academic education successors have shown an impetus toward innovation. The innovation in the family businesses is mixed up with the essence of the family tradition. The third value, *the quality of finished products* of design and manufacturing that is never left up to fate, but is based on a careful choice repeated overtime. Suppliers are often kept by the new generation thanks to personal relationships based on mutual trust. They invest consistently in research and development, product sophistication - from a technical perspective and not only from an aesthetical one - and in training of their craftsmen. Finally, the fourth is the *tradition*: the second or third generations have never subverted the

company's soul but have only introduced incremental improvements. Oftentimes, even after the intergenerational process, the past generations remained present to support new managers and make sure that tradition is respected.

- Maintain a high level of control (by the family) on the product development process: owners are the ones who design products, and the final approval is always left to family members. This trend is even stronger when the firm is at the first generation: the companies operating in the clothing sector were the most recently established. Within them, family control is very powerful because the entrepreneurial activities stem from the founder's idea and in the first operating years with the family are the ones with the necessary know-how, creativity, knowledge. Therefore they have the absolute power on deciding products to be launched on the market. As the company grows, both in terms of experience and size, more and more people possess the necessary know-how to create new products. However, the final green light on every project is always given by a family member.
- Preserve the family tradition as a competitive advantage in the market. All the family businesses interviewed deemed the family and their entrepreneurial orientation of the family members as fundamental to the business success. First of all, family members are living the company since the childhood; moreover, the family component is highly important for clients, in fact family members put themselves in first line every time they place a new product on the market. So customers believe that, being fully responsible for every success or failure of their own brand, they strive to create quality products in line with market expectations.

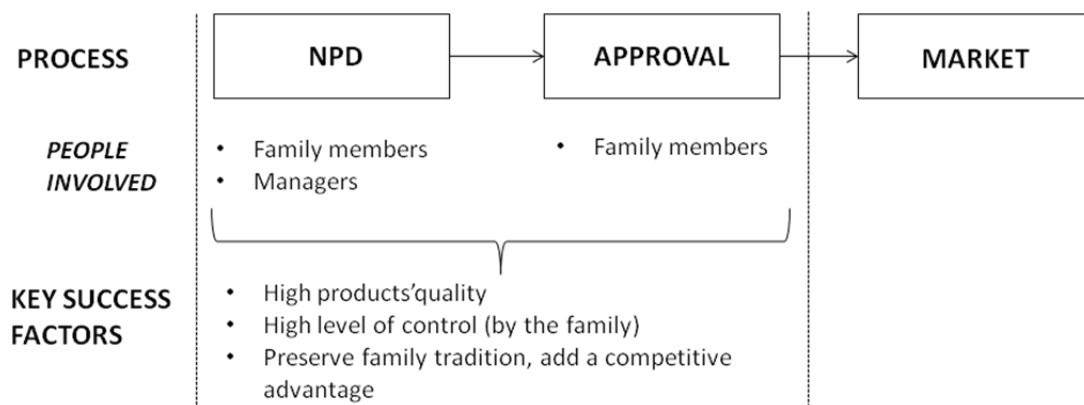
## 5. Conclusions

The analysis of the data collected allows authors to state that the level of involvement of family members in the product development process is very high. In fact, from the interviews emerged that the family is always involved in the process and, above all, is the final decider on the launch of new products into the market. Moreover, in the majority of the companies is recognized that the contribution of the family is fundamental in the product development phase and it is a key factor for maintaining the success in the luxury market (Figure 1).

In general, Italian firms are very careful and adopt a step-by-step approach toward any kind of innovation (Bresciani and Ferraris, 2012). As a result, they become aware of the advantages deriving from the introduction and use of the new technologies only after a long and slow growth in production (Iannuzzi and Berardi, 2012). In this new "digital age" uncertain situations are full of new opportunities. The most important entrepreneur task is to continuously identify high-potential business opportunities and exploit these opportunities with speed and confidence. Entrepreneurial family leaders are distinguished from other managers by their personal practices and their deep commitment in the family business (McGrath and MacMillan, 2000). In this framework, a more family oriented approach in the new product development process could lead to a rapidly launch of new products into the market in order to avoid time wasting and to reduce the risks associated to the shorter products' life cycle.

From the point of view of the entrepreneurs and/or family members seems clear that in order to have success there are three main factors to remember and to transmit to the company. These three common features, regardless of the companies' sectors, are: pursuing high product quality and other shared values, maintaining a high level of control on the production process with the involvement of the family and, finally, keep alive the family tradition as an added value in order to have a competitive advantage in the market.

**Figure 1** The NPD: The family involvement and the key success factors in the luxury business





**Source: personal elaboration**

In particular, with regards to the first common feature, the ethical dimension in luxury family businesses is extremely important, and should be implemented in daily operating activities and in relations with all stakeholders. This sense of ethics and fairness toward the market must be translated in the quality and prestige of the products as a fundamental component in order to maintain reputation and family tradition. Interviews clearly show that family ownership reach excellence for special care in product quality and focus a strong attention in details. Family businesses continue to accumulate and transfer knowledge through the “continuity of his legacy through time and generations” and develop talent with passion for the product.

Moreover, the entrepreneurial orientation emerges such one of the most critical factors that lead to business success in this industry and it is strictly linked to the product innovativeness, product development speed, customer-focused performance and firm's performance (Rauch et al., 2009; Rhee et al, 2010; Pérez-Luno et al., 2011; Chen, Li and Evans, 2012).

This research presents, therefore, some managerial implication. In fact, it clearly shows that the tradition and the values shared by family members promote the successful marketing of new products and highlights that the high degree of involvement of family members in the new products development process is a key factor for maintain the success. In addition, the research provides to luxury family firms some common guidelines in order to achieve success. The common guidelines emerged could help firms to take the right managerial decisions in a growing business that, however, could lead firms to quickly lose their competitive advantage.

This research shows some common trends and opens the way for more extensive research, both nationally and internationally, to confirm the results identified and/or to add new insights to identifying characteristics of luxury family businesses, in order to achieve definitive results. In particular, it would be interesting to interview a larger panel of companies in order to identifying peculiar characteristics of each sector of luxury especially in those sectors that in this research were mentioned only marginally. Thus, it would be interesting to examine whether and how the values identified in this work may find a different effect in the different areas and why. Moreover, from a quantitative point of view, it would be interesting to analyze the performance of family businesses in which the family owns the product development process and the ones in which external managers own the process.

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