Baccarat: Strong on Luxury

By Nagami Kishi

"While other manufacturers of luxury products are suffering from a sudden slump in sales after the collapse of the bubble economy, we are maintaining our strength mainly through an increasing presence among young women," says Ryoichi Kazue, senior managing director of Baccarat Pacific, which is the Japanese subsidiary of Baccarat, a world famous manufacturer of luxury crystal glassware products.

In 1764, a French glass factory named Baccarat was established in Baccarat Village, 400 kilometers east of Paris, under a license from Louis XV, and it entered into full-scale production of crystal glassware products in 1816. In the 19th century, it exhibited its products at the World Fair, held in Paris at intervals of about 10 years. In due course, Baccarat increased its popularity among royalty and aristocrats, eventually achieving an indisputable status as a prestigious crystal glassware maker.

In Japan, Baccarat had sold its products through an agent until 1984, when it incorporated Baccarat Pacific to embark on full-scale sales activities. The subsidiary grew rapidly, riding on the wave of the bubble economy. In those days, department stores were Baccarat's major sales channel, through which it could easily sell a number of super-luxury sets of glassware priced at ¥100 million to ¥150 million ($770,000 to $1.15 million at the rate of ¥130/$).

Kazue, who had been general manager of Louis Vuitton, joined Baccarat Pacific as Japan representative in August 1990.

During the first few months, he observed the flow of products, atmosphere and activities within the organization, as well as the way of doing business at department stores. Seeing super-luxury products meet a ready sale one after another, he felt a sense of crisis rather than excitement. What worried him was that orders for products in the price range of ¥5 million per piece and ¥100 million per set were coming from department stores, which wanted to use them as the chief attraction of their special sales events for regular customers.

Although these products were displayed during such events, their prospective buyers were usually known to the stores beforehand. In this way, both the stores and Baccarat could achieve large sales without much risk. Kazue, however, thought that this way of business would not last very long. Through his experience at Louis Vuitton, he had learned that the number of customers for super-luxury products was quite limited.

Level of awareness

Another reason for his sense of crisis was that sales of the traditional mainstay products of Baccarat were declining, although only slightly, while those of high-end products with extremely high prices were sharply increasing.

He says, "Soon I noticed that we were not accepting orders for these products due to the lack of stock. My predecessor had taken decisive action to reduce the stock of these products. He probably considered that the company could earn more efficiently by placing emphasis on high-end products."

Moreover, he found out that orders for high-end products were no more than verbal promises. Orders for products worth over ¥100 million were being verbally placed, and then readily canceled. This way of business forces the company to bear bad risks.

Kazue also circulated a questionnaire to identify the level of awareness among consumers concerning Baccarat and its products. According to this survey, five out of 10 respondents recognized the products sold by two similar businesses, Royal Copenhagen and Wedgwood. The Baccarat products, on the other hand, were recognized by only one respondent; two more answered that they knew Baccarat only by name. Looking at the results, Kazue strongly felt the need to increase brand familiarity among consumers.

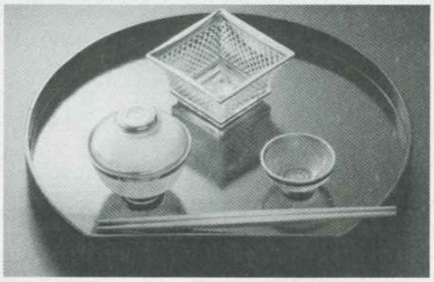
He developed a new policy which involved a drastic change in strategy. First, he decided to decrease the number of department stores carrying Baccarat products from over 50 to 33 or 35. From these, he chose a number of priority stores, and entered negotiations with each of them for the installation of an in-store logo shop, which would have the same interior design and 50 square meters of floor space. Not all of the department stores handled the products satisfactorily. Poor handling might harm the image of Baccarat. He found greater potential for growth in placing logo shops at a limited number of outlets and concentrating on them.

This idea was not readily accepted by the department stores. In those days, luxury products, whatever they were, sold well. The stores wanted to carry as many brands as possible, and did not welcome the idea of using much space for any one brand. Besides, an investment of ¥30 million was necessary for the installation.

Baccarat Pacific had internal problems as well. Although the parent company consented to the idea of creating logo shops, conclusions were not easily reached concerning detailed design, and time passed without agreement. Meanwhile, Tenmaya, a leading department store in Okayama Prefecture, agreed to open a logo shop, and Kazue created the first shop at his own discretion, without waiting for the headquarters' agreement.

After Tenmaya, Yokohama Takashimaya became the second, followed by Keio Department Store in Shinjuku and a few others. "It was lucky that we started negotiations two years ago. The bubble economy collapsed afterward and many stores began to refrain from new capital investment," Kazue reflects.

The stores have been suffering from an approximately 30% year-on-year reduction in sales, particularly of luxury



products. In this severe environment, however, the department stores which have Baccarat logo shops are enjoying strong sales growth of 50%. One department store gave up all its plans for capital investment except to introduce a Baccarat logo shop. Now, six logo shops are operating and Kazue intends to open two to three new ones every year.

Baccarat Pacific dispatches one employee to every logo shop and priority department store as a sales consultant. Sales activities for brands like Baccarat can be more effective when a prospective customer is given information on the history and background of the products. The consultants' job is to explain these things to prospective customers as well as to the sales staff of the department store.

Kazue says, "We have two shops under our direct management at prestigious hotels in Tokyo and Osaka where we have dispatched 10 employees in total. Including these staff, our organization consists of marketing specialists covering non-priority shops, and support staff, bringing the total number of staff to 40. Our competitors and department stores are surprised to hear of our low level of staffing. I am sure that Royal Copenhagen and Wedgwood, for instance, require many more people, since they have sales corners at around 200 outlets each. I think that our narrowing down and priority policy was correct."

Growing popularity

Kazue went on to hold an exhibition displaying the range of Baccarat products, to which he invited people in the same industry, mass media, opinion leaders, artists and other celebrities. Kazue comments, "I was glad to see many top management members of department stores and editors of magazines at the exhibition. This event gave us an opportunity to start a relationship with these people. Thanks to this relationship, Baccarat often appears in magazines.

Last year, Baccarat Pacific spent ¥100 million on such exhibitions and advertising. The parent company was not happy about this large expenditure, but Kazue is convinced that the effects were great. He says, "One day, an editor of a women's magazine proposed to feature Baccarat in a special color article. It was not an ad, but an article. I think that the spending of ¥100 million yielded effects worth ¥200 million, or even ¥300 million."

Since Baccarat began to often appear in magazines, young women began to visit the Baccarat shops and buy glassware. Noticeably, it was Baccarat's low-end products that gained popularity among its wide price range from ¥10,000 to several million.

Kazue says, "Our fiscal 1991 sales were approximately ¥2 billion ($15.4 million) on a wholesale basis, or ¥3.5 billion on a retail basis, slightly increasing from the previous year. The slight increase, when most other companies had a bad year, was a good result, and this is because of the firm demand from female customers, coupled with people's growing interest in interior goods shifting from clothing."

Although Baccarat Pacific projects a slight sales decline this year, this can be regarded as another successful year, compared with other luxury goods makers, which will see a 30% to 50% drop in sales over the previous year. The policy which Kazue is stubbornly adhering to is that the company will never discount Baccarat brands. This attitude is quite distinct from other luxury brands, which are being sold at markedly less than their list prices. Kazue believes that once a luxury brand is discounted, its high-grade image will be permanently damaged.

"Over and over, I say to the parent company that despite the worsening business environment, our business over the past few years has been good and this is because of the satisfactory sales of low-end products. But the parent company still wants us to find buyers for higher-priced items. You know, I am trying very hard to convince them that wealthy individuals who have been our best customers were most seriously damaged by the collapse of the bubble economy," says Kazue with a forced smile.

"At present, about 40% of all crystal glassware imported into Japan is of French make. In the Japanese market, our sales are by far the best achieved by one company. With this significant performance, our behavior inevitably attracts attention from everywhere. Our parent company, department stores and people in the same industry say that we are taking a too hard-line attitude in negotiations with department stores. On the contrary, since I took over the post of senior managing director, orders for super-luxury products are no longer verbal promises, but are written contracts. Now there is much less risk than in the past."

He says, "Now I am considering finding a cheaper place for our office. Many foreign-capital companies have already left the center of Tokyo. The problem is that our parent company is very reluctant to allow us to do this."

Kazue, a man of significant leadership, has another negotiation to go through.

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