

Chapter X: Luxury Start-ups

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More and more luxury brands are recognizing the **innovation of startups and even acquiring them for their technology and for future growth**. This is all in an environment where **rising affluence** and mobile connectivity have created an epic shift towards more **varied, complex, individualized, and meaningful forms of luxury consumption**. Many entrepreneurs have risen to the challenge with their startups and their enterprises bringing fresh ideas and innovations to market. This chapter focuses on the issues that face entrepreneurs serving the luxury sector. In each section we have started by briefly outlining some theoretical constructs before we provide you with examples of the application of theory through various case studies.

1. Introduction

Looking back in history, we know that both Socrates and Plato had, through their various mutterings, noted that it was inevitable that luxury would become a defining element of civilized society. According to Professor Howard Stevenson of Harvard Business School, entrepreneurship is defined as 'a process by which individuals - either on their own or inside organizations - pursue opportunities without regard to the resources they currently control' (Stevenson, Roberts, and Grousbeck, 1989). This may still seem somewhat philosophical until you start to de-construct the words. This definition is all about the entrepreneurial actor focusing on grabbing an opportunity whilst a perceived 'short window' presents itself, but all under an umbrella of resource constraints.

With a *start-up* (a term which became quite popular in the 1990s during the dot.com boom era and where an entrepreneur will seek, develop, and validate a scalable economic model) an entrepreneur has sole control of the capital (whether that be financial, social or human).

Many entrepreneurs will, of course, keep much of the *capital* being spent to a bare minimum (we call that *bootstrapping*), until the enterprise becomes self-sustaining from generating their own cash flow. With luxury start-ups, many entrepreneurs in this space need to find and activate more resources than they control personally in order to satisfy the demands that their target audience requires. This creates another issue; the combination of a lack of access to required resources (the three types of capital we talked about earlier) combined with the pursuance of a novel opportunity is inevitably going to lead to a risk of sorts! The entrepreneur needs to assess this risk and find potential solutions depending on which perspective the risk comes from - demand, finance, technology, or execution. The literature on entrepreneurship has grown tremendously over the past 30 years and the 'enterprise narrative' is predominantly built around two differing views, a) the narrow view, and b) the broad view.

According to early commentators such as Amin et al. (2002), Dees et al. (2001) and Dart (2004), there is a strong relationship between entrepreneurship and economics, and thus exploring and later exploiting market creation opportunities and '*satisfying demand in new and not so new markets*' (Bjerke and Hultman, 2013). This is commonly referred to as the 'narrow view of entrepreneurship' and sometimes referred to as 'the American view'. The 'broad view' of entrepreneurship denotes that '*it*' belongs not just to an economic domain but to the 'whole' of society, and therefore the term is applied when creating anything new. This is equally supported by a plethora of commentators notably, Bjerke (2007), Hardt (2002), Hjorth and Steyaert (2003) and Johannisson (2005) and is sometimes known as 'the Scandinavian view' (Bill et al, 2010).

Although the literature on 'luxury' has struggled to find a consensus for the definition of the luxury concept (Wirtz et al., 2020) and according to Ko *et al.* (2019) there is generally no accepted definition either. The word 'luxury' has often been defined very simply as: "*a state of great comfort or elegance, especially when involving great expense*". Interestingly, as per Ko *et al.* (2019), the 'narrow set of dimensions' include 'high product quality, high price, exclusivity, and positive customer emotions'. One could argue then that the 'broad set of dimensions' could include social hierarchy, hereditary luxury and guardianship/stewardship inheritance.

So in bringing these two definitions together, you find that that 'luxury start-up' is the epitome of elegance, the very core of comfort, and a picture of perfection! Luxury start-ups cherish the idea of their customers, or should we say clients, ensuring that there is *living perfection* in their lives. The global luxury goods industry, which includes cars, jets, drinks, fashion, cosmetics, fragrances, jewelry, and handbags, has increased in value for many years, estimated at \$281 billion in 2021 (Statista, 2021a). Entrepreneurs strive to develop products which become *sought after status symbols* which they hope that clients will acquire and use often. In providing examples of what it means to enjoy a luxury experience, we have recent start-ups such as Brimoncourt Champagne, the Tesla Model S Plaid, and Starr Luxury Jets - all making a significant impact in the luxury start-up space. This rise in demand can be clearly seen in emerging markets (Kiss *et al.* 2017), with D'Arpizio and Levato (2017) reporting that the global luxury market grew to almost US\$1.5tn in 2017. During 2020 and the global pandemic, the global personal luxury goods market has contracted between 20 – 35% (Bain, 2020).

But what exactly do you envisage when thinking about the word 'luxury'? So, at this point, it is worth noting the existing models of 'levels of luxury' (usually visualized with a pyramid), of which one of the most renowned is Kapferer (2012), as well as Rambourg's (2020) model which both suggest that the luxury space can be viewed from a multi-layered perspective.

Kapferer's (2012) narrower categories include:

- Unique luxury
- Luxury
- Premiere
- Standard

Rambourg's (2020) model takes a slightly broader perspective with his categories which include:

- Bespoke
- Ultra-high end
- Super premium
- Premium core
- Accessible core
- Affordable luxury
- Everyday Luxury

People are at the centre of luxury concepts regardless of whether we are talking about tangible products or intangible services. Luxury service attributes can be easily defined. A comprehensive definition says '*economic activities performed by one party for another through access to labour, skills, expertise, goods, facilities, networks and systems; they are time-based, and no transfer of ownership takes place in service transactions*' (Wirtz and Lovelock, 2016, p21).

But the key question here is, what do these terms really mean to customers of luxury products/services and how do **they** define luxury? It all, of course, starts with the entrepreneur! What is their prior experience and expertise?

Without wishing to re-invent the wheel, we suggest that a good way of making some sense of these levels is by their application to real-world entrepreneurs which, as you'll see, is what we do throughout this chapter.

The differentiation could appear to be linked to the different elements of Maslow's Hierarchy of Needs. The historical understanding can potentially be construed as the top of the pyramid (self-actualization) being the conduit into the luxury space. However, given recent works by Rambourg (2020) it seems to appear that a shift has occurred from self-actualization to belonging. This means that entrepreneurs serving every level of any such pyramid need to be fully cognizant of the potential for targeting consumers in a more inclusive way; a way in which the entrepreneur includes everybody who wants to 'belong' - not necessarily only those who have the immediate financial means.

All of this of course means that you (our entrepreneur!) need to consider who your consumer and customers are (Sethna and Blythe, 2019). The answer to this question is simple; all those people with status who want to enjoy your brand, and those also aspiring to be part of your brand.

Entrepreneurs wanting to start-up in the luxury space therefore need to be aware of several concepts:

- **Trust and Relationships.** All luxury does not equal to 'luxury' and is very much dependent on the individual's perspective of what luxury is. While established brands build on their heritage and might target certain related niche areas, they are able to do so based on the already established trust and longevity of the relationship; sometimes built over generations. Luxury startups need to position themselves carefully and

consider where and how they want to position themselves within the minds of the luxury consumer.

- **Type of Luxury and the positioning of enterprise.** There is a vast continuum of consumers and their related behaviour which goes to make up what could be loosely known as luxury. Furthermore there is certainly a shift away from a historical/traditional notion of luxury as indulged by the ultrahigh-net-worth-individuals, to consumers who simply want to *belong* and are willing to pay for this - even if it means that indulgence is beyond their financial means.
- **Location and technology.** Luxury start-ups may find themselves being heavily dependent upon using both location and technology to support them to identify and service a niche market.

The 'when, where, what and why' of luxury start-ups

To further investigate the structure, makeup and nature of the 'luxury start-up', we need to examine the different elements which a start-up comprises. Broadly speaking, the key questions for consideration include:

1. When? - Getting the timing right.
2. Where? - Channel/Route to market
3. What? - Industries/Offerings and discovery
4. Why? - Benefits (narrow and broad) and overall purpose

By starting to answer these questions, you will develop an overview of the different elements that are needed at the start of your entrepreneurial journey and which you as an entrepreneur will have to contend with; all the whilst considering that this is **your** luxury enterprise. Each of

the following sections is divided into two parts: theory and practice. This will allow you to understand the theoretical concepts first, followed by the practical applications and their implications for a range of luxury enterprises ranging from *tech to transport* and *wood to waste*. Compared to a historical notion of luxury brands, luxury start-ups lack something major: heritage; some would say a key element of luxury. We have tried to steer clear from the 'classic' luxury sectors of fashion, hotels, foods or private planes/yachts (which are often steeped in heritage) and instead have brought you a selection of inspirational enterprises from across the primary, secondary and tertiary sectors. The examples you will see here cover a variety of online to offline businesses - all heterogeneity of luxury start-ups - and this will help you to develop and contextualize your understanding of firms within the luxury market.

Table of cases

Using each of the sections (when, where, what and why) please find below a table to give you an overview of the different case companies that you can find throughout this chapter.

Section	Case company
Section on <i>When</i>	http://www.brikk.com/ Business: Gold and diamond encrusted technology Country: USA

Section on <i>Where</i>	https://starrluxurycars.com Business: Luxury car hire specialist Country: UK
Section on <i>What</i>	https://xibitxr.com/ Business: Augmented reality furniture Country: Germany
Section on <i>Why</i>	https://www.sea2see.org/ Business: Sustainable glasses Country: Switzerland

When? It's all about getting the *timing* right

Business history has shown us time and time again that organisations use luxury goods and services to differentiate themselves from the crowd, and in turn provide stability and often significant long-term profits. On the flip-side, luxury purchases remain highly appealing to many,

if not affordable by all. Originating from the mass consumption of traditional luxury products through the social and technological production period entering a period of high-growth amongst the new urban classes in Europe (Broit 2011), Rambourg (2020) noted that the utility of luxury consumption ranges from fitting into society to feeling happy and powered and complete. Back in the 1960s-1980s, many of the players in the 'luxury' market were *"themselves small and medium-sized enterprises, owned and managed by families and organised like crafts, without the financial and marketing resources to meet the demand"* (Donze and Fujioka, 2015). It is important for startups to regard the 'super-premium' luxury market as a different entity to the *usual* luxury market. There are many different factors to consider when it comes to the super-premium luxury market. For one, the fluctuations tend to be larger in this market, which makes it vital to secure the correct timing of the entry point.

Over the past 80 years of post-industrial revolution, we have witnessed the launch of numerous products and services, and where the primary agent for failure has been a misjudgment as far as 'timing' is concerned. Luxury products and brands are not immune to failure and need to continuously remind themselves of the process of building on past failures when braving new encounters. The effects of failure are multiple and there are many arguments both for and against; pros and cons (Neck et al. 2018). Undergoing the process of failure certainly intensifies our cognitive processes which include thinking, knowing, remembering, judging, and problem-solving. These are higher-level functions of the brain and encompass language, imagination, perception, and planning.

Starting a new venture can be frightening and/or daunting. When do you know it is the right time? Taking that leap of faith can be difficult especially knowing that the whole industry has been slowly changing to include vertical integration. It might be an organic and slow start, as you turn a hobby into a part-time and then full time business, or you might invest heavily in resources and go 'all in'. Either way, at some point you just have to start and then keep going.

Remember that you may also need to identify any particular or emergent business and/or consumer trends.

Case study for *When* - BRIKK

BRIKK, USA - Gold and Diamond encrusted technology (<http://www.brikk.com/>)

Founded in 2009 by Cyrus Blacksmith in Los Angeles, USA - BRIKK designs and manufactures couture products and accessories for technology and lifestyle industries (Crunchbase, 2020). BRIKK appeared in the popular press in 2015, where the \$349 Apple Watch was billed for purchase for \$75,000 as it was a 24-karat gold and diamond-encrusted version. More than just a brand, BRIKK exists to ensure sophistication in every aspect of life. BRIKK brings the opulence (BRIKK.com). According to their website: *“More than a single gold-plated iPhone, solid titanium wheels, or a diamond encrusted watch, BRIKK is an all-encompassing lifestyle designed to flaunt a gilded life.”* (BRIKK, 2021) It can be considered a technology luxury design firm as it encrusts by artisan hand, and constructs luxury items such as Apple, Nikon, or Sony technologies with different carat metals such as gold or titanium as well as diamonds. BRIKK has stockists around the world in Los Angeles (USA), Hong Kong, Paris (France) and Shenzhen (China) as well as its own concierge service.

Their website states: *“BRIKK only uses the finest of materials. From near imperial jade to purple diamonds, BRIKK customizes its products to match the taste and personal fashion of all their clients. Everything is handcrafted by gifted artisans, resulting in the perfect extravagance every time. Special products will often be run in sets of 77 to further underscore their uniqueness and make them eternally extraordinary. Always in vogue, BRIKK is the definition of splendid rarity.”* (BRIKK, 2021)

BRIKK designs luxury versions of all items where personalization is possible and "customization is encouraged. Items range from Lux air pods to Apple Watch, iPhone dock as well as other brands including Nikon and Sony. BRIKK created a premium version of Sony's DualShock 4 Controller for the PlayStation 4 (Classic and Deluxe versions) using conflict free diamonds, 24 and 18 karat gold as well as the option of full customization with a variety of bespoke options like platinum plating, titanium buttons, ruby embellishment and gaming-focused upgrades prices were at \$8,495 and \$13,995 USD (Li, 2018) .

In addition to delivering high quality items globally, BRIKK also offers a 1 year BRIKK global warranty and has multiple service centres for cleaning and repair its focus is on opulence and limited, artisan luxury. *"All of BRIKK 's products are designed to be nothing less than fabulous, with the sole purpose of making their devices the envy of the masses. The stunning elegance of BRIKK's heptagon based logo makes each and every product immediately recognisable, demanding respect. Available only to the select few, BRIKK is luxury on display."* (BRIKK, 2021)

Getting their timing right has been crucial for BRIKK. They chose their "when" around new products in order to deliver their personalized approach. Their expansion examines different tech products and follows the demands of their customers providing artisan solutions of opulent elegance for emerging gadgets, mobiles and toys.

BRIKK has created a super-premium luxury brand.

Whilst timing is important, remember that it is merely a function of finding the right balance between supply and demand and the route to market - which we cover in the next section.

Vignette: Questions to ask yourself

- Have you done enough research to know if there is a market for your product/service?
- Are you aware of the emergent trends where you'll need to give credence to timing?
- Did you know, you can start and adapt along the way?
- If not now, then when?

Where? It's all about getting the right Channel/Route to market

Bricks versus clicks (physical versus online presence and the vertical integration that many firms have engaged in) is a common phrase. But where are you planning on being and where will you actually be? Any (bed)room, garage, village, town, city or capital can be the best place to start but making that decision depends on a multitude of factors and can potentially be quite hard.

Remember that this is about the *where*; your route to market. You might be located online, or perhaps you feel you're a *born global*. (and in case you're unfamiliar with the term 'born global' the London Business School defines it as "*business organisations that, from inception, seek to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries*" (London.edu, 2008). The availability and/or lack of financing may be a contributor to the decision of course (Warhuus, Frid and Gartner, 2021). Alternatively, you might need a physical location where you would consider the likely footfall (Khare, Awasthi and Shukla, 2019) and also the representative surrounding buildings. You might be a digital entrepreneur and have remote workers yourself (Aroles, Granter and Vaujany, 2020) and a team based around the world in different time zone or you might think that face-to-face in the same office is key. Choosing the *where*; your effective route-to-market strategy can be crucial to initial success (Gabrielsson, Kirpalani and Luostarinen, 2002; Goyal, 2018) as it will not only enable the company to develop operational plans for a strong customer focus but also to align its strategic goals and value offerings. In management speak, this is about balancing customer needs with revenue growth and profitability (Hawkins and Hoon, 2020) - something which every entrepreneur must be cognizant of.

In terms of developing a strong customer focus, designing a *buyer persona* (Lehnert, Goupil and Brand, 2021) might really help you understand where to pitch your idea and where best to start

up. Alternatively, if you are reliant on certain natural resources (Lazarus et al., 2015) or artisan crafts you may or may not be location bound (Lechuga-Cardozo et al., 2019). In amongst those considerations, you will find out where your customers are and whether you need to be there with them too. This is especially applicable for a transient target market of high net worth individuals (HNWI) and/or ultra-high net worth individuals (UHNWI).

The total number of HNWI continues to grow at a significant rate of around 7% per year, surpassing the 20 million bar of HNWI around the world (based on Capgemini's definition of an HNWI as an individual with US\$1 million in wealth to invest). By contrast, the definition of an Ultra-HNWI is a HNWI with investable assets of USD 30 million or more.

These buyer personas may help an organisation to further craft its offering. Statista (2020) shows the distribution of ultra-high net worth individuals in selected countries in 2019 - with a total 80,508 individuals with net assets of at least 50 million U.S. dollars who are residing in the United States, the highest number of any country. Entrepreneurs may find the dominance of men in ultra-high net worth individual populations - a global trend - somewhat useful. Again, by contrast, the female share of ultra-high net worth in the United States in 2014 stood at 13 percent, comparable to the 14 percent of the United Kingdom or 12 percent of Germany seen in Europe. Entrepreneurs could use the visualcapitalist.com's Wealth Report (Neufeld, 2020) (showing the countries with the highest number of UHNWIs) to help craft their offering to a target population. Interestingly this also gives an indication of how the number of UHNWIs is projected to change in years to come.

Case Study for *Where* - STARR

STARR Luxury Cars, UK (www.starrluxurycars.com)

Starr Luxury cars, founded by Ikenna Ordor positioned his business in London, UK. He targets the luxury travel market and his website claims they have the 'largest luxury car fleet'.

Ikenna, who grew up in Nigeria, until the age of 14, is the youngest of 7. However, having started to study in the UK he initially launched an entertainment company in the North of England (Olalekan, 2019). His business idea evolved and changed due to his clients demands. They asked for transportation, and Ikenna was happy to oblige. Starting with luxury transportation between locations and launched in the capital of the UK, he specialized in travel. He now has a fleet of 'over 80 cars available and offers a nationwide delivery' (StarrLuxuryCars, 2021a). Their cars include luxury marques such as Aston Martin, Bentley, Bugatti, Ferrari and Lamborghini. Starr Luxury offers these cars as self-drive hire or chauffeur driven experiences. In addition, they could be used for any event including music videos, TV and filming, weddings, promotions and special events.

Ikenna realized clients wanted experiences which money cannot buy and which could be location independent. However his clients were initially location sensitive and 'based' mainly in London. Ikenna sensibly decided to build his business around his customer base. Whilst the company is based in Mayfair, Central London, the business provides a seamless experience for its many international clients and operates Nationwide and internationally.

While their locations are important, their own location choice does not influence their customer experience. They will provide the experience a customer wants, from wherever; using technology of course.. Starr Luxury Cars has been designed to be semi-automated, and accessible any time of day from anywhere. Clients can access the website and pay for a vehicle without having to speak to anyone - 24/7, 365 days a year. Customers can have cars delivered to their area or address of choice. Importantly, as a lesson for entrepreneurs, Ikenna describes his business as an 'asset light' experience. He notes that his *service* means customers do not

have to concern themselves with car repairs or maintenance, meaning customers can arrive at any location and immediately enjoy the experience. Starr Luxury Cars offers clients other enhanced services too including chauffeur-driven Lamborghinis, helicopter rides over London, and meet and greets with a Formula 1 racer (StarrLuxuryCars, 2021b). As a part of his 'buyer persona' build, he considered that HNWIs and Ultra-HNWIs wanted to celebrate their money with classic James Bond-esque cars, helicopters and boats, but with the modern ease and immediacy of booking through peer-to-peer platforms, like for instance Airbnb. Ikenna's business is now looking at further locations and has its sights set on expansion. Based on Ikenna's target market, other locations around the world where people seek fun and luxury lifestyles will continue to be targeted - showing how important location is. Who was it who once famously said "*it's all about location, location, location!*"? While Starr Luxury Cars sets its sights on the next target locations including Monaco, Geneva, Paris, Dubai, renowned for both their tourist market and the local market, you might want to consider location and its importance to your business and more importantly your customer.

Starr Luxury cars has created a premium core luxury brand.

Vignette: Questions to ask yourself

- Where do you see yourself in 5 years?
- Where are your customers?
- Where are you suppliers/customers/clients/workforce?

What? It's all about giving the right product/service offering

Start-ups can of course be across any industry sector... from banking to fashion and technology to travel, and everything in-between! The global luxury goods industry is defined by including cars, jets, drinks, fashion, cosmetics, fragrances, jewelry, and handbags. The key to remember is that the ultimate shareholders are the consumers. In the current climate in 2021, with many firms battling with what a post-Covid post-normal world will look like, it seems that both sustainability and a move towards more responsible consumption are equally important. The entrepreneurial actions taken by an entrepreneur will of course then have implications for the product/service portfolio, and ultimately firm performance (Sproul, Cox and Ross, 2019). Another way of looking at performance is the word profitability (Tenucci and Supino, 2020), which would suffer if the 'offering' is out of kilter with the market needs/demands, especially when sustainability is so important in our fast-developing circular economies (Matschewsky, 2019).

Some larger brands sometimes diversify their portfolio by using mergers and acquisitions of more niche luxury brands. For example, this is largely how LVMH has amassed its fortunes - note that as of writing this in 2021, Bernard Arnault becomes the world's richest man with a fortune of \$186.3 billion. In going through this process, many companies adopt lessons-learned practices by developing product-service systems (PSS) to further transform gained experiences into useful knowledge (Chirumalla, 2016). Interestingly, it seems that age and potentially hormones are likely to have an impact when it comes to acquisitions. Young male CEOs appear to be combative: they are 4% more likely to be acquisitive and, having initiated an acquisition, they are over 20% more likely to withdraw an offer (Levi, Li and Zhang, 2010). Even with a recent flurry of various mergers and acquisitions, including Etsy's acquisition of Depop for \$1.6 billion, which would ordinarily suggest that there are some very rich rewards to be had, there are

still some firms who are unwilling to sell due to their values-based operation or indeed their heritage. In amongst this, is a thriving resale market for luxury items. And whilst Kering earlier in 2021 backed a new 178 million euro financing round for luxury resale platform Vestiaire Collective, rival LVMH Moët Hennessy Louis Vuitton, the world's largest luxury group with brands like Louis Vuitton, Dior and Fendi, said it does not plan to get involved at present.

According to Statista (2021b), the U.S., Germany, and the UK, revealed that 'fashion and accessories' is the most popular category when it comes to gifting or buying in all three countries while France leads in the number of leading luxury products companies globally.

Case Study for *What* - Xibit

Xibit Augmented Reality, Germany (<https://xibitxr.com/>)

Abdeljalil Karam and Zakaria Jaiathe co-founded Xibit in 2019 in Berlin, Germany. **Xibit**, considers itself the market leader in mixed-reality brand experiences specialising in visualizing furniture in a space pre-purchase.

One of the elements that makes this start-up so exciting is the 'What'. Zak(aria) worked for SAP as a software engineer for about six years, growing his skills from a full-stack developer to a virtual reality (VR)/augmented reality (AR) specialist. While he had a great career and comfortable life, he wanted more. So he quit his role and used his skills to co-start Xibit.

Xibit set out to reinvent how people design, consider and acquire their interior environment. Using cutting-edge technology, Xibit is a mixed reality platform. You can stand in your room, office or space and can add chosen products virtually into the room before you choose to buy. This means you can really 'see' what a table, chair, light or other would look like virtually within your given area. Augmented reality technology allows you to visualize furniture products before

you purchase them. Gone are the days of measuring your space (sometimes incorrectly), checking the aesthetic design and comparing prices or brands. *“Xibit is the first cross- brand furniture marketplace natively designed with augmented reality for the convenience of customers. Deciding which furniture to purchase is overwhelming. We work on removing the effort to measure, find the right product, and check if it fits in a matter of minutes”* (Xibit, 2021).

Xibit styles itself as a sustainable marketplace. It aims to reduce the logistics and shipping of unnecessary products as well as minimize dissatisfied customers consuming products they do not like by using augmented reality. Further, they sign-post to the added-value they bring to their customers: “As a customer you can find all furniture in one space, making furniture buying easier but also to see immediately how different items interact with each other in your chosen space. Once you have this visualization you can also share a video of your designs with your chosen Network. Thereby collecting opinions and influencing your purchasing decision.” (Xibit, 2021).

Xibit has built trust with world-class companies such as McKinsey, SAP, Techstars (Alldus, 2020) and has been so successful it has won a string of awards including Global Luxury Innovation Award™ 2020, and the Beautiful Software Award 2019 shows that Xibit has identified the what. Their industry experience and support of the customers’ choices demonstrates a deep understanding of the industry and its customers’ requirements.

Xibit have created an accessible core luxury brand.

Vignette: Questions to ask yourself

- What industries do you care about? What interests you?
- How much do you know about your own product/service offering?

- Do you have a hobby you could turn into a business?
- What is a problem or issue that you (or others face) that you can offer a solution to?

Why? It's all about the value created and captured

Opportunity recognition is the cornerstone of many entrepreneurial start-ups and can be conceived as “an activity that can occur both prior to firm founding and after firm founding throughout the life of the firm” (Hills and Singh, 2004). This includes ‘seeking, recognizing, fostering, expanding and creating opportunity, together with the activities involved in value creation and capture when exploiting opportunity (Morris *et al.*, 2013). It is a concept that the entrepreneur believes will create more value than currently exists in the market; but it has to be genuine.

There are different ways entrepreneurs might approach thinking about and realize their own start-up, the value they create and the benefits that it provides to their customers. Their start-up exists because an opportunity exists; and one which they can exploit. They could identify a gap in the market and try to close it to ultimately profit from a customer need. On occasion, and especially after disasters (for instance the Covid pandemic) there are opportunities which present themselves (Gur *et al.*, 2020). Alternatively, using a variety of techniques, they might create an opportunity from scratch by having a business idea or using a breakthrough technology. Many start-ups consider the notion of price sensitivity whereas luxury start-ups might choose to focus on economics, quality and purpose. You are creating a brand/product/service that is more luxurious than others, but the function (unless you are in the tech or musical sector) is arguable the same. Luxury travel, soap or sunglasses are still functional but use higher grade materials or have artisan craftsman. And now, more than ever, luxury is also concerning itself with purpose and sustainability.

So ultimately, it's all about the value that's created and/or captured. Let's dip into value creation first. A luxury start-up strives to provide benefit through the product, packaging design and the features which differentiate its brand. With this brand building comes a notion of security and

longevity. The more clients/customers engage, the more the brand develops its customer knowledge and this cycle repeats through promotion. This newfound confidence enables the firm to provide utility functions through its distribution channels - both offline and online, and often with shorter order cycles with logistics. The exclusivity for many luxury start-ups with their intricate and often highly tailored and individualized client/customer service programmes enables an enhanced buyer experience. From a value capture perspective, there are several strategies that a luxury start-up could utilize. In order to differentiate themselves, many luxury businesses have started implementing a unique business model. For instance, take Cartier as the first luxury watch brand to advertise on WeChat via an influencer campaign in 2016.

Attaining patents, licenses and permits is fine but of course there has always been some tension around the somewhat contradictory concepts of license and luxury. Ask yourselves the question - is it wise for a start-up to make such a strategic decision to *license* which involves fundamental choices about the configuration of its value-chain - which can undoubtedly involve short-term profitability and possibly scale as well but all as a result of partially surrendering operational control? Other value-capture perspectives include (but by no means are limited to) attracting clients away from your competition by creating customer switching costs, establishing exclusive relationships with suppliers/distributors, building on a 'resource-based theory' by acquiring resources or assets that cannot be easily replicated, developing proprietary knowledge, achieving sustainable differentiation, and taking a stance which has ethical luxury written all over it. In this regard, start-up luxury can learn a lot from established players. Since the beginning of 2020, the Valentino Fashion Group and the Armani Group have set a target of zero discharges of harmful waste by seeking to eliminate all hazardous chemicals from the production processes. By using a chemical test management system adopted in all of Armani's factories, they can use a group-wide test request form to enable real-time tracking of such materials. A company known as 'Evolved by Nature' (EbN) attracted investment from Chanel. EbN creates high-performing textiles from liquid-silk, providing a natural alternative to toxic

chemicals that are often used in manufacturing processes and thus promoting green technology. Aims and objectives are important and are being set by many players, for example Ralph Lauren has promised to use 100% sustainability-sourced key materials and to increase the proportion of female employees by 25% by 2025 (Ralph Lauren, 2020). Moncler has set various standards through a mandatory Supplier Code of Conduct which requires full transparency for material sourcing, factories and manufacturing processes. The code also very clearly says that suppliers must not employ anyone under the age of 15 or below the legal age for employment in the country concerned; whichever is higher (Moncler Supplier Code of Conduct, 2016). Similarly, the Kering Group (owners of Gucci, Balenciaga, Saint Laurent, and Bottega Veneta) have clearly stated that they will only hire models who are at least 18 years old, and furthermore Gucci have signed the United Nations Standards of Conduct for Business to tackle discrimination against LGBTI people (United Nations, 2017). Similarly, the LVMH Group (which includes Fendi, Givenchy, Louis Vuitton and Christian Dior) has been taking part in a French Task Force initiative to set out a 3-year plan that incorporates defined gender equality targets. It has not escaped the attention of the luxury sector that the physical and mental health of fashion models should be an area which they invest in - Kering and LVMH and created a joint website providing key advice (Fashion Network, 2018).

As you can see, answering the why question is not easy. It's not an orderly process. In fact, as we know, nothing about entrepreneurship is a process or a linear path. An entrepreneur's best chance of success is to be well-versed in the method; so that no matter what the situation, he/she always knows exactly what to reach for from deep within their toolkit.

Case Study for *Why* - Sea2See

Sea2See, Switzerland (<https://www.sea2see.org/>)

Sea2See was launched in 2016 in Switzerland, by François van den Abeele, a father and entrepreneur with deep passion for oceans and nature.

Made entirely with recycled marine plastic waste collected in collaboration with fishermen from West Africa, Spain and France, Sea2See produces optical frames and sunglasses starting at €99 and watches from €149 (Sea2see, 2021a). Sea2See combines ecological luxury with design and production of optical frames and sunglasses in Italy and their watches in Switzerland.

François' motivation, investigations and investment in R&D have helped him to succeed in manufacturing premium eyewear made entirely with abandoned fishnets and ropes, collected by fishing communities, and thereby reducing ghost-fishing and ocean contamination (Regent's University London, 2020). Sea2See has proved that it is perfectly possible to mix luxury with 'profit, people and planet'!

Sea2see (2021b) describes in detail the process of how they use UPSEA™ PLAST to produce 100% of their eyewear and watches - by upcycling waste to create new products which have been Gold-certified from Cradle to Cradle™. This certification adds to Sea2See's customer experience, as it is the world's most advanced, science-based standard regarding designing and making products for the Circular Economy. Currently their website boasts that over 425 tons of plastic have been collected and a variety of niche collaborations have been instigated. The company uses approximately 1 kg of marine plastic waste, which one collected and recycled, makes one pair of eyeglasses. However, the value creation does not stop there. The packaging and logistics are both also environmentally friendly and shipping is also managed in a thoughtful way for their fashion and eco-conscious customer (Sea2see, 2021c).

At the heart of the business, their vision statement speaks volumes about their work:

Envision the change you want to SEA...and wear it!

François has big plans for Sea2see and sees them at the forefront of leading a change in sustainable luxury products. As a result, there is hope that consumers will start understanding that waste can be transformed into luxury and premium products.

Realising that there is more than just profits and consumption can help start-ups identify their *why*. More and more companies globally are trying now conscientious about the different forms of waste including plastic and textiles. With sustainability at the heart of what they want to do, this leads to eco-disruption of traditional industry sectors - while embracing the luxury sentiment.

Sea2see is an affordable luxury brand founded on: *planet, profits and people*. (3 P's are referred to as the triple bottom line).



Vignette: Questions to ask yourself

- Why do you want to start a business or a new venture?
- What is the purpose for you, as an entrepreneur and for your customers?
- Can you use your idea to be profitable, good for the planet and for people?

Conclusion

This chapter on luxury start-ups initially looked at what luxury 'is' and has subsequently taken you through the different types of luxury you might find within the luxury sector, before examining the different aspects of start-ups in the luxury space. Using the *when, where, what, why* approach, the chapter examined the different aspects of building a luxury start-up. Throughout the chapter you were able to identify the different constituent parts of a start-up and link them to a variety of international start-ups within different areas of luxury.

The chapter presents the diversity and complexity of founding and running a start-up, particularly in the luxury sector which is steeped in heritage and tradition. Creating a long lasting luxury brand can be difficult. The statistics around startup suggest that most businesses fail within the first 3 years and many more businesses within the first 5 years of being created. To be more precise, statistics in the USA suggest around 6.5 million businesses launch every year, but startup failure rates continue to hover around 90%. In the US, just over 21% fail in their first year, 30% in the second and 50% by the fifth year (Bureau of labor, 2019). However, other countries also demonstrate the challenges of having a startup. Failure rates are echoed around the world, suggests Startup Genome, who are a world-leading research and policy advisory organization and work across six continents in 40+ countries. Their 2019 report claims 11 out of 12 start-ups fail (Startup Genome, 2021).

Indeed, even whilst we were writing this chapter, some of the original case studies had to be changed because of the companies going *bust*. This highlights not only the value of understanding your 'basics' (when, where, what and why) but understanding the potentially changing demands of your target market and customers, as well as developing expertise in your chosen niche. Whether you grow your business from passion or an identified gap, your ability to survive as a business, and ultimately *boom*, is key.

Looking forward – or forecasting as the start-up would say - the global luxury goods market is expected to increase from US\$309.6 billion in 2021 to US\$382.6 billion in 2025 (Statista, 2021b)

In addition, Statista (2021b) reports *“Even though online sales of luxury goods are expected to cannibalize the brick-and-mortar share over the next few years, the importance of the physical store continues to increase ... Interestingly, digital-born luxury companies are now opening physical stores to increase traffic to their eCommerce stores, enhance brand legitimacy, provide the touch-and-feel lacking in an online store, and improve local community engagement. An overall Luxury 4.0 model is emerging, which is characterized not only by the growth of the online sales channel but also by the digitalization of a consumer’s entire luxury shopping journey.”*

While historically many start-ups in the luxury sector lay their focus on artisan, creativity, uniqueness or exclusivity, startups now need to also incorporate sustainability as well as considering targeting the most valuable commodity of all - time. Time is an important luxury, and no standard monetary value can be placed on it.

In order to further guide you through the different levels of luxury illustrated at the beginning of the chapter, we created a summary of different levels of luxury based on Rambourg’s (2020) model that you can find throughout this chapter. We hope using the when, where, what, why approach will support you in understanding key elements of start-up and the different international luxury case studies support the underlying ideas.

Level of luxury	Case company example	Where do I find it?
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Bespoke	https://www.privateandregent.com/ Tutoring and childcare (UK)	Case study 1
Ultra-high end	www.woodoo.com Next generation wood (France)	Case study 2
Super premium	http://www.brikk.com/ Gold and diamond encrusted technology (USA)	Section on <i>When</i>
Premium core	www.starrluxurycars.com Luxury car-hire specialist (UK)	Section on <i>Where</i>
Accessible core	https://xibitxr.com/ Augmented reality furniture (Germany)	Section on <i>What</i>
Affordable luxury	https://www.sea2see.org/ Sustainable glasses (Switzerland)	Section on <i>Why</i>

Everyday Luxury	Everyday luxury could be considered as items such as designer fragrances, Champagne or Starbucks and therefore we have not covered this here in this chapter dedicated to luxury start-ups.
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Case study 1 - Private & Regent, a private education company

<https://www.privateandregent.com/>

Private & Regent is a luxury education provider based in Mayfair, London, offering bespoke education for children of all ages. They offer a unique style of teaching that helps change the life of your child through creative and imaginative means.

Born in the foothills of the Himalayas on a family farm and raised in Yorkshire, Sara Jerusalem Khan established Private & Regent in 2019 as a distinctive learning approach which is playful yet rigorous and enhances a child's potential to progress. Sara has managed to incorporate key moments of her life and identity into every aspect of the company to harness individualism and quality. Her specific method is a celebration of old and new and at the heart of Private and Regent's philosophy lies the focus of not only increasing knowledge but working on confidence and emotional empowerment.

Luxury at Private & Regent means adjusting and offering the complete individualized package of educational services ranging from exam preparation, pre-prep to GCSE's as well as advice tailored to both the parent and their child's needs. Targeting families who value education and success, inclusive to all ages, Private & Regent offer bespoke services including: Tutoring, The Confidence Booster Programme, Homework Support, Exam Preparation and Techniques. The range of their bespoke services are developing as the demand from the market grows. They are also able to offer other extra-curricular activities such as classes in Poetry, Horse Riding, Yoga as well as bespoke childcare, babysitting services, The Governess package and Nanny services. Each service hand-picked for the child and their needs.

Private & Regent further sets itself apart by positioning their customers as *members*. Sara believes you are a member of the organisation and not just a client. This highlights a very clear entrepreneurial mindset and a special approach taken towards their customers.

While the headquarters are based in London, members could be geographically based anywhere. Private & Regent exclusively uses only a strategy of word-of-mouth to identify and attract new members – and based on their success to-date, they are evidently very good at it! Typically, this can range from targeting the *HENRY* (high earners, not rich yet) segment to those who have extensive family wealth and are very accustomed to bespoke educational services. In addition, the Private and Regent tutors can act as ‘flying faculty’ and thus, upon request, are also available to travel internationally to visit members and their children. This type of extraordinarily bespoke service for their members and their children is rarely seen in ordinary private tutoring services.

Finally, Sara is a dedicated proponent of integrating social values into her business by making sure that she uses philanthropic means as a way to demonstrate these organizational principles. Private & Regent donates 2.5% of all profits to a charity of her members’ choice.

Case study 2 - DeepTech start-up using translucent wood technology - <https://www.woodoo.com/>

Woodoo are motivated by their passion to pursue both a societal and environmental agenda as well as their desire to help innovate the wood industry. Woodoo, a *DeepTech* technology start-up, bridges synthetic biology and organic chemistry and was born following 5 years of intensive research in cellulosic nano-technology. Using low-grade woods, they create innovative smart

surfaces by blending nature and technology to design patented groundbreaking new materials. Woodoo developed a patented process to turn low-grade woods into hard and translucent surfaces and materials. This luxury, ultra-high tech invention renews what digitization and emotions mean in cars, private jets, yachts. Woodoo's pioneering materials can now be found in tables on-board a Dassault private jet and in high-end Mercedes car dashboards - totally tactile and digital (Girod, 2020).

Timothée Boitouzet, the French co-founder of the start-up Woodoo, states on his website: "*We are inventors of biomaterials*". In an interview he provides a narrative for the motivation behind starting Woodoo, "*the materials that we build with today, were invented thousands of years ago but are utterly unable to cope with the environmental and demographic challenges of the 21st century*". Further, he notes that in order to accommodate the rising urban population, something had to change – thus Woodoo was born.

But what does their patented method actually involve? They have developed a technical process to remove the weak *lignin* parts of a wood board's structure, replacing the lignin with a custom polymer. Using a thin strip of wood less than a millimeter thick, you will be able to observe a slight transparency. Their ingredients are mainly bio-based polymers which, once injected into the wood, allow it to pass 10 to 20% of the light and make it more resistant (Anon, 2016). The result is a sustainable, waterproof material with the strength profile of metal and the cost profile of low-grade wood. This can be used in a multitude of ways to add technology, sustainability and demonstrates luxury as well as durability.

Woodoo add value to the automotive industry and retail who are constantly looking for new materials to optimize the experience of their users, while reducing weight and emissions. Woodoo's innovative smart surfaces are perfectly suited to these uses. And this success has

been recognised! Woodoo is one of the most awarded tech startups in Europe, with over 30 accolades since 2016.

The future for Woodoo looks interesting as the highly versatile product can be sold into different b2b sectors to add value to their products. There are many directions Woodoo could take. Their website suggests they might find ways to replace other non-sustainable materials using their technology to replace less sustainable materials such as plastic, glass and metals. So whilst luxury now becomes just one sector interested in the products, they next might next target the construction industry. Globally, new environment standards are being imposed with the use of increasingly scarce wood species being reduced. This is where Woodoo can support the industry offering luxury and design as an alternative to premium wood, without harming the planet.

Seminar exercises

Discussion topics:

1. WHEN	Starting up might seem daunting. Take a <i>thought-shower</i> and collectively with your group write down all the items you might put in place prior to deciding to start a business. What would you need to consider before you start? What are your key assets? What do you think are your biggest fears and barriers? Identify the similarities and differences and consider at least two ways of overcoming each issue. Use this to consider, individually, when is the time right for you?
2. WHERE	Think about different channels and locations. Should you be based online or offline? For physical locations, consider the advantages and

	<p>disadvantages of regions (Europe, Americas, Asia etc), countries (UK? USA? Nigeria? Egypt? India? China? etc) and different areas within a country (capital, large or small towns, village/rural etc). Construct a table with your ideas on advantages, disadvantages, and notes on each area. Use this to discuss in a larger group what you think are the biggest challenges when considering your route-to-market? What do you need to consider and look for?</p>
3. WHAT	<p>Reflect on your own consumption of luxury services, goods and items or how you perceive luxury start-ups. Write down at least 5 luxury products (and their associated brands) that you consume. What do you value and look for in these brands? What is important about them to you? Exchange the ideas you have about those brands with others in your groups and compare and contrast your answers.</p>
4. WHY	<p>Consider the different ways entrepreneurs might approach a start-up: maybe a gap in the market, a cause that they care about or having a business idea from scratch or using a breakthrough technology. Identify one approach and choose three potential start up ideas in your group. Make sure you consider different ways of coming up with the ideas and approaching this task.</p> <p>Extra: Identify and write down any social, legal, economic, political, technological, and/or environmental causes that are important to you. Consider how you can link these to your entrepreneurial ideas. Maybe you</p>

	can link it to the core values of the business (i.e., Sea2See) or you can support causes through philanthropic initiatives or donations (i.e., Private & Regent)?
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Group exercises:

1. Select a luxury start-up of your choice (any sector, country, or type of luxury) and create a presentation to address the following:

- Describe- Overview of start up
 - (What is the company? Who founded it? Where? Are they offline or online? What do they do/sell/make? What type of luxury? Size and scope of business etc.)
- Evaluate - When did they start up - explain the relevant context that you consider relevant to the business idea
- Evaluate - Where did they chose to start up - add details and considerations to the context
- Evaluate - What industry are they operating in? Who are they competing against?
- Evaluate - Why did they start up? What is their purpose?
- Analyse - Do you think they could have been more successful if: they had started at a different time? and/or in a different location? Explain your rationale.
- Analyse - Looking at their current industry, moving forward - what are the trends and factors they need to be aware of?

2. Research - Carry out research into different luxury start-up contexts around the world. Consider up to date sources and the changes over time, if needed. Use the below points to create visualizations (either an infographic or referenced slide/ mind map) detailing the following:

- Which countries have the most luxury start-ups? (Consider the different definitions of luxury)

- Which areas or regions provide the most support or capital (Financial, Human, Social, Physical...) for a luxury start up? Explain your rationale and back up your ideas.
- Create a list of at least 6 luxury start-up competitions or awards internationally

3. Having seen how others do it, it is now your turn to plan your start-up. In groups, you will plan how you will create your own luxury start-up. Discuss how you will come up with the idea (identifying a pain or an idea from scratch) and what would each team member bring to the table. Are any skills missing?

Create a pitch deck covering the following:

- What is the idea (product/service) and who are you targeting?
- When would you launch it? When would be the 'best' time to launch it and what does the competition look like?
- Where would you launch it and why? (Consider a vision and a mission statement)
- What 'gap' in the market are you filling? What industry are you in?
- Why does this business exist? Are you 'giving back' or 'doing good'? Do you want to add other aspects such as people or planet, or you are just focused on profit?
- Consider how you would get funding for your idea

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