How Do Luxury Brands Utilize NFTs to Enhance Their Brand Image?

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Abstract. Non-fungible tokens (NFTs) have witnessed unprecedented dynamism over the recent years with only few luxury brands experimenting with the technology albeit the very personal characteristics of NFT ownership. Little is known about how luxury brands use NFTs to develop their brand image and what opportunities luxury brands anticipate from NFTs as a new technology, digital product category or customer relationship channel. The present research note offers an applied research design to tackle these questions and systematically understand the potential of NFTs for personal luxury brands at large.

Keywords: NFT · luxury brands · brand image · blockchain · qualitative study

1 Introduction

In 2021 the term NFT (non-fungible token) started making headlines when American graphic designer Beeple sold his "Everyday: The First 5000 Days" digital artwork for $69 Million in partnership with auction house Christies [1]. NFTs technology can be described as a unit of data stored on a blockchain that certifies a digital asset to be unique and not interchangeable, while offering a unique digital certificate of ownership. NFTs can digitally represent almost any type of asset, including digital artwork, real estate, in-game items like avatars, and even event tickets [2]. The NFT ecosystem flourished as it generated over $23 billion in trading volume in 2021 [3], partially driven from the development of virtual worlds such as the Metaverse [4].

Although NFTs tend to be associated with the art world, there are many ways in which NFTs can be applied [1]. They are a particularly fast-growing area of interest for luxury brands which recently accelerated their digitalization process during the Covid-19 pandemic [5]. Among the luxury brands that have started experimenting with non-fungible tokens, Italian fashion house Dolce & Gabbana bridged the physical aspect of fashion and metaphysical aspects of NFTs with its "Genesi" collection. The items in the collection were produced in a traditional way and then turned into an animated digital versions of NFTs, hence buyers actually bought the physical item and the NFT together [6]. Other luxury houses such as Givenchy, Gucci, and Louis Vuitton opted for a more

traditional NFT path by selling NFTs based on graphic designs from a collection, or as a movie featuring their fashion (idem).

Given the NFTs industry's fast expansion and global attention, the development of non-fungible tokens by luxury brands and its connected opportunities are worth researching. With personal ownership of NFTs dominant, this development is particularly relevant for personal luxury brands, which includes segments such as apparel, accessories, watches, jewelry, and eyewear [7].

1.1 Research Gap

With regards to disruptive trends, luxury brands have historically taken a more conservative approach to mitigate associated risks [8]. Although there are luxury brands which have already been incorporating NFTs into their business strategies, many brands are still hesitant [9]. And even though NFTs continuously gain popularity worldwide, there is only sporadic high-quality research on the topic, with only 32 academic articles published from 2017 to 2021 (idem). Most of the identified studies focus on the technical aspects of non-fungible tokens such as regulations (copyright), protocols, standards, and desired properties [10], lacking a concrete and systematic review of luxury brands developing non-fungible tokens.

1.2 Project Objective and Research Questions

Luxury brands compete for the ability to create a strong, favorable, and unique image of the company in consumers' memory [11]. In fact, the image of a luxury brand is considered an essential exterior clue related to purchasing decisions [12]. Consequently, luxury brands incorporate new technologies, including NFTs, to recreate and improve their brand image [13, 14]. Given the image-driven strategy of luxury brands [15], this research aims at investigating the different ways NFTs are utilised by brands in the personal luxury goods segment, to enhance their brand image.

In addition, non-fungible tokens represent multiple opportunities for luxury companies [16]. Thus, this study will explore what actual opportunities managers of different luxury brands (in the personal good segment) associate NFTs with. The overall research investigates:

1. How are NFTs utilised to enhance different brand image factors of luxury brands?
2. What opportunities do luxury brand managers associate with NFTs?

2 Background and Relevance

2.1 Non-fungible Tokens (NFTs)

NFTs are digital ownership certificates that are based on blockchain technology, whose possession proves the indisputable proprietorship of a purchased digital asset [10]. Non-fungible tokens can be minted (in more simple terms, "uniquely published") with a large variety of creative assets such as a sketch, historical documents, or even a fashion runway moment, all of which are particularly enjoyable for a tech-savvy younger generation of

consumers [17]. Some of them do not only buy the physical version of the luxury item but they buy their own non-fungible token, to be able to bring it to a video game or any digital environment (idem). NFTs are widely used in the metaverse (a collection of virtual reality worlds) where users are able to create their own avatars and purchase virtual products, or have real-world products delivered to them. NFTs can be used in order to represent ownership of any digital asset in the metaverse [18]. Despite the NFTs seem to be holding immense potential for the future of luxury fashion, one of the challenges faced in this market is the fact that NFTs are considered a nascent type of assets and the legal issues around them are ambiguous and still in the making [19, 20]. Furthermore, several studies show that the minting process of NFTs has an astonishing environmental footprint, since it requires large amounts of energy, making the sustainability of NFTs a complicated issue [21, 22].

2.2   Luxury Brands

There is a variety of definitions for luxury brands starting with the need to offer luxury products [15]. A luxury brand is characterised by symbolic, imaginary, and social values, which differentiates it from other brands [23]. Key attributes of luxury brands are high prices, high quality, and rarity/uniqueness [24]. The price of luxury brands does not have to be explained rationally, because it includes intangible factors such as the history and prestige of the brand [25]. High quality attributed to luxury brands building on (a) the expertise of the producer and the complexity of the production process; (b) technical skills developed by the brand due to its long tradition; (c) the importance given to innovation/development; (d) stylistic competencies in relationship with designers and artists; (e) craftsmanship and (f) attention to details [26]. Scarcity is also an attribute of luxury brands inherited due to high prices and restricted distribution of their products, which makes luxury brands an especially strong category for those who want to display uniqueness to others [27].

2.3   Brand Image

Brand image is described as the general perception and feeling of consumers toward brands [28]. When consumers buy a product or service, they often do not just buy that product or service, but they essentially buy what the brand stands for [29]. In the case of luxury brands, the images in the minds of consumers comprise associations about a high level of price, quality, aesthetics, scarcity, extraordinariness, and a high level of non-functional associations [26]. Luxury brands are particularly concerned about their image and to refresh it, they have recently started to leverage new technologies [13]. Non-fungible tokens can provide multiple benefits if incorporated into business models of luxury brands as they are found to improve brand image, especially in connection to the younger affluent consumers [30].

Applying the "Brand Image Factors Model" [31], this research aims to identify how NFTs are affecting factors of brand image such as loyalty towards the brand, brand recognition, brand communication, brand expansion, brand value, and trust in the brand. Brand loyalty is behavior-related and refers to the level of repeated purchases. Brand recognition reflects the ability of consumers to identify a specific brand just by its attributes,

e.g., by its visual elements, or by brand associations such as reliability or quality. Brand Communication refers to the idea of communicating a brand's attributes and benefits to customers, e.g., by the use of information and communications technologies or social media. Brand expansion describes the use of an established brand name in new markets and areas and can have both, benefits and disadvantages for brand image. Brand values are defined as the beliefs that a company stands for. They enable a company to distinguish itself from its competitors. Brand trust is crucial for building strong relationships with stakeholders. The concept refers to consumers' perception that a brand performs in accordance with its promises. Depending on the level of trust, customer experiences can be positive or negative [31].

3 Research Design

Because this research aims to find out "how NFTs are utilised to enhance brand image factors of luxury brands?" and "what additional opportunities do luxury brand managers associate NFTs with?", qualitative research is chosen as the preferred method. To further explore the research questions, a responsive qualitative interview method will be applied as it encourages interview participants to offer extensive in-depth answers regarding the stated topic, allowing a more open dialogue [32]. This type of interview enables the participant to provide vivid examples and more thorough explanations which is beneficial for the discussion (idem).

3.1 Empirical Sample

The core sample will consist of participants that allow the researcher to gather different and comparative information relevant to the research question [33]. Respondents will need the necessary knowledge in the area of research and be willing to contribute to the study [34]. Participants will therefore be selected people who work for a brand in the personal luxury goods industry and who are familiar with NFTs in their work context.

As of the current status of the study, interview participants are seven luxury brand managers (including marketing managers, product managers, etc.) from seven different luxury companies from different segments, such as apparel, accessories, watches, etc. With a few personal luxury goods companies embracing NFTs, interview participants particularly from those brands will be invited to participate.

3.2 Interview Outline

The interview outline was divided in different focus areas containing a list of main and of follow-up questions. Follow-up questions allow to gain more depth on certain topics of interest [32]. Based on a thorough review of published literature [33] and taking the research questions into consideration, the interview outline is developed around three focus areas (Fig. 1).

The interviews will open with a set of "general information" warm-up questions, whose primary purpose is to introduce and ease the participants to the interview setting as well as provide the researcher with information about them, e.g. how their luxury
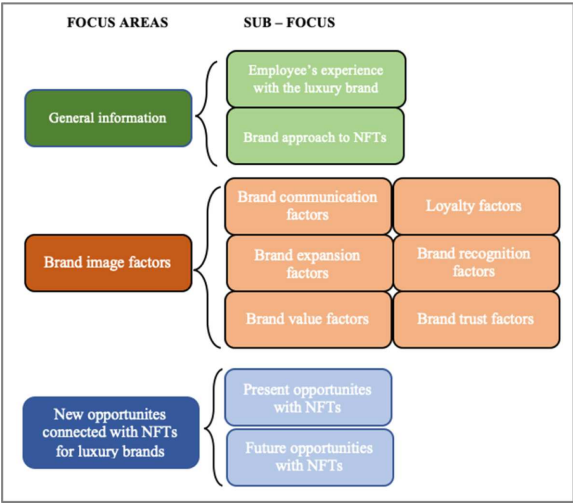
Fig. 1. Focus Areas (Topics) of the Interviews (own illustration)

company has started using NFTs and what kinds of projects they see developing within the industry. The second focus "brand image factors" aims at finding answers for the first research question (how are NFTs utilised to enhance brand image factors of luxury brand?). It includes the various factors determining the creation of the company's brand image [31] such as loyalty towards the brand, brand recognition, brand communication, brand expansion, brand value, and trust in the brand. Interview questions will focus on the brand image factors in order to understand how luxury companies leverage NFTs to enhance their brand image. Finally, "new opportunities connected with NFTs for luxury brands", will tackle opportunities that come along with the creation of NFTs. Interview questions aim to provide answers to the second research question (what additional opportunities do luxury brand managers associate NFTs with?).

3.3   Data Analysis

Interviews will be transcribed in a "full and accurate word-for-word" written reproduction of the interviews [32] and coded in a deductive approach with inductive elements [35] based on existing theory, e.g., the brand image factors [31]. Inductive category elements will be based on the material gathered [35] where similar topics and ideas will be grouped together with the aim to identify patterns.

3.4   Limitations

This study presents a few potential limitations. One constraint is that the research topic has not been widely explored yet with a significant gap in academic research about NFTs for luxury brands. Furthermore, the recruitment of interview participants follows very specific criteria, why it would be difficult to work on a larger sample.

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