Principles of reshoring development in luxury goods sector

Abstract: This article analyzes the grounds and possibility to induce and develop reshoring activities in the luxury goods sector. The premise of this analysis is the contemporary redefinition of the luxury goods sector, which relates to the increasing volume of goods marketed as luxuries. In this paper, we examine whether reshoring can develop in a similar manner on the respective tiers of the luxury ladder in the luxury fashion, automotive, and jewelry industries. Both premises and examples of reshoring in the luxury goods sector are conceptually analyzed and empirically illustrated.

Keywords: reshoring, back-reshoring, near-reshoring, luxury goods sector, luxury supply chains, country of origin, luxury pyramid

JEL Classification: D24, F23

1 Introduction

Due to the rapid global expansion, luxury goods lose their exclusiveness, which is an imperative to price these items highly and call them luxury [Phau and Prendergast, 2000; Dubois and Czellar, 2002; Kapferer and Bastien, 2009]. Luxury goods, traditionally characterized by uniqueness expressed in design, high-quality materials, precision, craftsmanship, high price, and a social desire [Tsai, 2005; Chevalier and Mazzalovo, 2008; Hudders et al., 2013; Cristini et al., 2017; Becker et al., 2018], are subject to aggressive brand extensions, going along with a marked increase in the volume of production. The reason for this expansion is the rapid increase in demand for luxury goods from aspiring consumers living in emerging, fast-growing markets [Altagamma, 2019]. The need to satisfy the global demand by mass production of cheaper (but still labeled as luxuries) goods has made many producers shift their production to cheap-labor force-containing offshore countries. But is the offshoring trend in the luxury goods sector still financially viable and marketable?

A growing number of research reports show that the offshoring (captive offshoring/offshore outsourcing) shifts in production (mainly in the 1980s and 90s) have not proven to be the long-term optimal solution for many companies [Kinkel, 2012; Ancarani et al., 2015; Wiesmann et al., 2017]. Offshore recipient countries have been losing their global cost-competitive advantage due to the gradual upgrading of their manufacturing capacity and efficiency accompanied with the rise of local production costs [Gray et al., 2013], whereas political instability in many parts of the world raises the risk and costs of long-distance and on–time deliveries [Sardar et al., 2016].
The consumers’ perception (toward the place of production and its consequences) has also been changing. Sustainability awareness grows, bolstered up by human rights or environmental violations in the offshore production, farming, or mining plants. Ethnocentrism relapses partly as a result of growing fear of terrorism and rise of populism in many countries. Sustainable local production serves as a value category that is growing greatly in importance [Urry, 2015, p. 241]. Additionally, in the luxury goods sector, violating the traditional attributes of luxury by making it more accessible makes many “core luxury” consumers turn away from aggressively marketed brands [Boston Consulting Group (BCG) and Altagamma, 2017, 2019].

Despite the fact that offshoring has been, and still is, a strategy used by the luxury business, information about such relocations of production is not publicized. Luxury goods are associated with the places where the brands were created; therefore, communicating both offshoring or reshoring activities reveals inconsistency between the created image and reality.

This results in the scant body of literature on reshoring (or the forecast of its development) in the luxury goods industry (Burberry is an exception; Robinson and Hsieh, 2016). Fratocchi and Di Stefano [2019b] have reviewed and analyzed the literature on manufacturing reshoring in the fashion industry and imply that reshoring decisions appear mostly in the market segments ranging from the midrange to the luxury sector. Thus, this phenomenon does not seem to be spreading in lower-market segments, where manufacturing processes tend to remain offshored. However, Uluskan et al. [2017] claim that luxury goods have both potential and reasons to reshore manufacturing activities not only to sustain the image of the brand being produced in its cradle but also to manage the short delivery times.

This article attempts to analyze what are the chances of developing the reshoring trend in the sector of luxury goods. Can such a phenomenon develop in a similar manner as in other industries on all the tiers of the luxury pyramid? What is the relation between the luxury tier of luxury and the premises of reshoring development? Can reshoring save the traditional perception of luxury?

The remaining parts of the article are organized as follows. The theoretical part describes the luxury goods in the fashion, automotive, and jewelry industries; the basic goals and premises of reshoring; and consumers’ perception of such activities and features. These considerations are the grounds for a conceptual framework, describing the premises and the likelihood of the reshoring development on each tier of the luxury ladder in the three analyzed industries using a model. The empirical part illustrates the conceptual layer by showing the examples of reshoring activities in the luxury goods sector. The article ends with the conclusions, which consider the chances for reshoring to develop in each industry on each tier of the luxury ladder. The final part of the conclusions includes the managerial implications, limitations, and possible directions of research in this area.

2 Theoretical background

2.1 Luxury goods – luxury pyramid and sector characteristics

Over the centuries, luxury products have been associated with outstanding quality, brand heritage, master craftsmanship, high price, uniqueness, polysensuality, and scarcity [Vigneron and Johnson, 1999; Phau and Prendergast, 2000; O’Cass and Frost, 2002; Okonkwo, 2007; Kapferer and Bastien, 2009]. Superfluous, yet desired, luxury products can bring pleasure, increase self-confidence, and improve social status [Berry, 1994; Dubois and Paternault, 1997; Wong et al., 1999; Tsai, 2005; Hudders et al., 2013; Becker et al., 2018]. The high price is the substantial cost for this palette of functional, social, and individual benefits associated with luxury goods or services.

Luxury comes in varieties and can be degradable. This article uses the Bain & Company and Altagamma classifications; however, it emulates other researchers and divides luxury into three parts: absolute, aspirational, and accessible [e.g., Kapferer and Bastien, 2009; Brun and Castelli, 2013; Castelli and Sianesi, 2015].

Absolute luxury brands are characterized by heritage and high level of elitism. This market covers mainly heritage brands that created the luxury segment from scratch and until now have been arousing strong
emotions and a sense of exclusivity among consumers. These brands do not use traditional advertising but rather public relations (PR) strategies that enhance company reputation targeted at a selected group of recipients.

Aspirational luxury brands are still considered as prestigious yet targeted at less-affluent consumers. The range of products is wider and changes more often. This group’s image is created on the basis of cultural reference and art, which are used to justify the high price. Marketing communication is more developed and advertising plays a supportive role.

Accessible luxury brands appeal to consumers in the upper-middle and middle classes, who want to possess the symbols that show social status and those who want to stand out. This segment needs to maintain the communication with consumers; therefore, various tools are implemented: advertising, PR, sponsoring, and events [Brun and Castelli, 2013; Castelli and Sianesi, 2015].

Since the mid-1990s, we have observed a dynamic and continuous increase in the number of luxury goods consumers. The absolute luxury segment has remained fairly stable for years, yet, at the same time, an increase in the aspirational and accessible luxury segment has been noticed. The dynamic increase in consumption on the Asian markets has become the major driving force. The creation of smaller and smaller segments of luxury goods market, even among consumers of the same social class, involves mainly the two lowest tiers of the luxury pyramid. As the number of goods and buyers increases, the sense of exceptionality and uniqueness is achieved by the artificial group division [see, e.g., Silverstein and Fiske, 2003a]. Such a division has resulted in the rise of competitiveness over the middle-class consumer in the sector [Silverstein and Fiske, 2003b] and changed the picture of the luxury pyramid in the past 2 decades; the highest tier has become smaller and thinner, while the bottom and the middle tiers of the luxury pyramid have swollen.

The luxury industry encompasses the production and sales of vehicles, yachts, clothes, footwear, spirits and wines, jewelry, watches, perfume, and toiletries and cosmetics. Fashion items, cars, and jewelry constitute the biggest portion of production and sale in this sector, being labeled the core of the so-called private luxury (i.e., luxury purchased for private usage; see, e.g., Delloite [2019]). In 2018, the value of the global luxury goods market grew to nearly 1.2 trillion EUR, with two thirds being accounted for by luxury cars and personal luxury goods (5% growth in 2018, with positive performance across most luxury goods segments). It is estimated that by 2025, the global luxury personal goods market will be growing by 3%–5% annually [Bain & Company, 2019]. Sales of luxury cars continue to dominate the market, growing 5% year on year (2017–2018; starting amount 471 billion EUR) to 495 billion EUR. Personal luxury goods have outperformed the remainder of the market, climbing 6%, reaching a record level of 260 billion EUR. An increase is also seen in the cases of luxury cars, luxury cruises, hospitality, wines, spirits, and fine wood. A 3% reduction has been noticed in private jets. The other categories have become stable. Bain & Company [2019] forecasts a significant growth in apparel, leather, shoes, related accessories, jewelry, and watches, as well as in fragrances and cosmetics. The personal luxury goods market has experienced growth across most regions of the world. Europe remains the top region for sales (32%), followed by the Americas (31%), Asia (including mainland China), Japan (8%), and the rest of the world (5%).

Although the luxury goods sector has observed dynamic growth in the past decade, currently, we can see stagnation in personal luxury goods, along with sales of luxury cars rapidly rising (as the cars are purchased mainly by Chinese consumers). There might be a few reasons why the personal luxury market is in the doldrums. Lower number of tourists in Europe due to the risk of terrorist attacks is the first one. France, Italy, and Spain are the countries where 70%–80% of luxury personal goods’ demand is generated by foreigners. In the cases of the UK and Switzerland, demand is 50%–55% on average. Approximately 66% of Russian and >40% of Chinese luxury purchases are done abroad. Secondly, the fall in oil and gas prices has resulted in a decrease in demand from consumers living in Russia or in the Middle East countries. The third reason is the introduction of some limitations by the Chinese government to stimulate domestic consumption and stop purchases outside China [see Solca et al., 2016].

The fourth premise may be related to the visible retreat of many high-net-worth-value consumers to less-mass and digital, more-traditional, bespoke, salient, and free from “logo fatigue”, slow and experience-based luxury [Wealth, 2015; Beverly Hills Conference and Visitors Bureau (BHCVB), 2016].
Global disturbances, such as political conflicts, terrorism, and financial crises, have made the world more volatile and less stable. The findings of McKinsey’s Global Executive Survey [Amed et al., 2016] indicate some dangerous trends such as the slowdown of the economic growth in China and the risk of internal problems in the European Union (EU) and the Eurozone. The risk of supply chain (SC) disruption is one of the factors that have led to the halt of the delocalization (relocation) trend of production by European companies in recent years.

As all these considerations make the development of the luxury goods market less predictable, the importance of reliable marketing communication is increasing in order to build strong loyalty and trust between brands and consumers. Such communication must be adjusted to values that are important to consumers, in addition to creating the brand image through not only advertising campaigns but also clever location of operations, appropriate selection of distribution channels, and tailoring assortment to local preferences.

2.2 Reshoring drivers

Reshoring refers to a generic change of manufacturing location with respect to a previous offshore location; back-reshoring is a transfer of manufacturing activities back to the company’s home country; and near-reshoring means bringing back manufacturing to a country geographically close to the company location [Fratocchi et al., 2014]. As Gray et al. [2013] indicate, back-reshoring is essentially related to “where” the relocated production activities are to be performed, regardless of “who” ultimately performs them.

The evidence of reshoring activities has multiplied over the past few years in the economic press and in white papers of consulting firms and the international organizations [e.g., The Economist, 2013; Sirkin et al., 2014; Cranfield University, 2015; De Backer et al., 2016]. A.T. Kearney, Inc., the BCG, the Reshoring Initiative, the European Parliament, the World Bank, the Organization for Economic Cooperation and Development (OECD), and the Reshoring Initiative [2016] survey reshoring motives and analyze reshoring activities and agree with the state of knowledge presented by academic researchers [e.g., Sirkin et al., 2014; Van den Bossche et al., 2015; Di Mauro et al., 2018; Heikkilä et al., 2018a, 2018b; Johansson et al., 2018; Stentoft et al., 2018].

The available body of scientific literature, together with the reports published by consulting companies and professional organizations, has contributed to the understanding of the premises and potential of reshoring. The growing number of publications has led to the need to organize the knowledge through systematic literature reviews, which allowed classifying and analyzing reshoring drivers [e.g., Stentoft et al., 2016; Wiesmann et al., 2017; Barbieri et al., 2018].

The recent literature reviews on reshoring point out that some aspects of this phenomenon should be investigated in more depth and in some other geographical locations [e.g., Fratocchi et al., 2014; Barbieri et al., 2018] as the empirical research on reshoring has been so far predominantly conducted in developed economies, such as the US, Japan, and New Zealand, and in Western European countries (Italy, Sweden, the UK, Germany, Spain, and Denmark).

Most of the reshoring studies have concentrated on activities within the value chain or the motives of manufacturing transfer [Bals et al., 2016; Zhai et al., 2016]. Some other studies distinguish the drivers and barriers experienced during the process of reshoring [see, e.g., Engström et al., 2018a, 2018b]. Several frameworks classify and analyze reshoring drivers [see, e.g., Stentoft et al., 2016; Benstead et al., 2017; Wiesmann et al., 2017; Barbieri et al., 2018].

Reshoring can be perceived as a reaction to one or more of the following:

• Internal changes (e.g., quality issues, emotional elements, communication and coordination costs, reduced operational flexibility, automation of manufacturing processes, company’s global reorganization/changes at the strategic level);

• External environment (e.g., made-in effect, labor costs’ gap reduction, lack of skilled workers in host country/availability of the same in home country, lack of appropriate infrastructure in the host country, poor quality of local products, production and delivery time impact); or
• A correction of previous managerial mistakes (i.e., miscalculation of actual cost, lack of knowledge, bandwagon effect).

The significance of individual factors may vary depending on many factors, ranging from the characteristics of the company itself, through the industry in which it operates, to the characteristics of the home and host countries.

According to the framework proposed by Fratocchi et al. [2016], reshoring motives may be classified by the level of analysis (internal vs external environment) and the goal (customer-perceived value vs cost-efficiency). Motivations related to customer-perceived value explain reshoring as a company activity that is performed in order to stimulate buying behaviors and influence consumers’ preferences. Cost-efficiency motivations are associated with a willingness to reduce logistics costs and to increase the production efficiency. Value-based motivations can increase and strengthen positive associations with the corporate brand in the consumers’ minds.

Reshoring in the luxury goods sector seems to be the result of not only a cost-and-risk analysis [Larsen and Pedersen, 2014; Benstead et al., 2017] but also a smart long-term marketing strategy with patriotic and sustainable implications amply communicated to the public. In the luxury goods sector, reshoring can serve as the restoration of luxury home base production, which is still perceived as a vital value for many luxury consumers. The country of origin (COO) may be an important element of luxury goods positioning, affecting both the overall perception of the company brand and consumer purchasing decisions [Krupka et al., 2014]. By activating various social and cultural attributes, it can be an indicator of the values characteristic of luxury brands [Roxana-Denisa et al., 2016].

Di Mauro et al. [2018] focused on reshoring of companies operating in the textile, clothing, leather, and footwear industry, which is sensitive to the COO effect. The concept of COO is deeply associated with the “made-in” effect, having an impact on the brand image, especially in industries with a strong and long-standing reputation [Bertoli and Resciniti, 2013], e.g., the luxury goods industry. The “made-in” driver is among the most frequently mentioned reshoring motivations [European Foundation for the Improvement of Living and Working Conditions (Eurofound), 2019], which may be associated with consumers’ pressures on firms, resulting from perceived higher quality of goods manufactured in developed countries [Di Mauro et al., 2018]. Thus, the customers tend to assign a higher value to the goods offered by companies that reshored some manufacturing activities [Grappi et al., 2015].

Grappi et al. [2018] analyzed the drivers of reshoring from a demand-side perspective. The authors developed the Consumer Reshoring Sentiment scale, based on six dimensions: superior quality of the reshored production and the “Made-in” effect, followed by government support, competence availability, greater ability to fulfill needs, and ethical issues in host countries. Using this scale, authors tested consumers’ willingness to reward reshoring companies. Demand-side perspective emphasizes value creation for consumers, which differs from the firm-side point of view generally adopted by researches analyzing reshoring drivers and motivations [Grappi et al., 2018; Grappi et al. 2020].

The so-far underanalyzed reasons that drive reshoring are sustainability and ethical issues [Fratocchi et al., 2016; Grappi et al., 2018]; therefore, paying more attention to the relationship between manufacturing relocation decisions and social and environmental issues gains in importance [Eurofound, 2019]. Uluskan et al. [2017], based on data gathered from the US textile and apparel industry, found that speed to market, made-in effect, and green sustainability were three of the four most important strategic approaches inducing companies to reshore their manufacturing activities. The shift in emphasis to experience and sustainability is particularly noticeable in the luxury goods sector; thus, some luxury brands are changing their competitive strategies accordingly [Harvard Business Review (HBR), 2019].

### 2.3 Impact of luxury SC configuration on consumers’ value perception

Business operations deliver both positive and negative values for companies within the SC and for consumers [see Polonsky et al., 2003]. The same SC generates benefits and harms, although the same groups are not necessarily equally affected by both of them.
A steady stream of new products and effective marketing campaigns stimulate consumer demand but, at the same time, contribute to increase in pollution. The continuous endeavor to lower costs by offshoring to cheap-labor-providing countries results in shameful examples of human rights violation in offshore mines and sweatshops [see, e.g., Zwolinski, 2006; Rouge, 2016; Wöhrl et al., 2016], together with the boosting of unemployment rates in the companies’ home markets.

With the growing expectation for companies to become socially committed [e.g., Young, 2004; Matten and Crane, 2005], enterprises must reconsider the composition of their SCs to address this issue and demonstrate their responsible and caring face to the public. Sustainability awareness is a sign of consumer reaction in a postmodern society, where individuals not only weigh up but also actively react to environmental hazards, violations of human rights, or bad working conditions in the third world [Tallontire et al., 2001].

The luxury sector tends to be morally condemned, as it is identified with excess and vanity, producing expensive goods for the fraction of the population that is wealthy. For this reason, luxury and sustainability seem mutually exclusive [e.g., Voyer and Beckham, 2014; Kapferer and Michaut-Denizeau, 2015]. In order to diminish social stigma and make luxury and sustainability more complementary areas, the concept of sustainability is being increasingly implemented in the strategies of luxury companies [Joy et al., 2012; Ho et al., 2016; Stepien, 2019]. One of the important means to prove sustainable efforts is to highlight the quality and control of production performance.

Reshoring serves well to prove the tight control over the production and additionally creates and presents an ethical value for the customer [see, e.g., Fratocchi and Di Stefano, 2019b]. As Ashby [2016] proves in her empirical case study analysis, the reshoring of previously offshored processes can enable greater supplier control and more transparency [see also Caputo and Palumbo, 2006]. Caniato et al. [2011], as well as Castelli and Sianesi [2015], claim that success in the luxury business depends not only on the brand and communication but also on the choices made along the SC.

Caniato et al. [2009] identified a set of critical success factors for competing in the luxury market: premium quality, brand building, emotional appeal, style and design, craftsmanship, exclusivity, uniqueness, COO, lifestyle creation, performance, and innovation. Most of these factors are related to the location of manufacturing. Low complexity and high volumes of products allow for adoption of offshoring strategies in the case of luxury products. Still, these are seldomly used because the quality perception, COO, and brand image might be negatively affected. Offshoring improves cost performance; however, it is not (or at least it should not be) a major objective for luxury brand owners. It can also negatively affect service level and delivery lead times. That is why, according to Caniato et al. [2011], in order to reconcile economic and marketing objectives, luxury products are often manufactured in nearby countries.

A significant problem in estimating the scale of offshoring for luxury brands is the fact that their owners keep this fact secret, hiding the location of production even in official companies’ reports. Some information is available in the case of the fashion industry, which has been characterized by a huge wave of offshoring decisions in recent decades. It is estimated that during the 2010s, >90% of apparel and footwear companies from the US moved (entirely or partially) their manufacturing activities overseas [Yu and Kim, 2018]. The Business of Korea [2018] notes that apparel luxury labels have been using offshoring locations for years, but mostly in Eastern European countries. According to this organization, brands such as Louis Vuitton, Prada, and Gucci sometimes produce goods in countries like Romania, Serbia, or Slovenia but eventually use the tag “Made in Italy”, because the final manufacturing process is carried out in the home country. Stepien and Mlody [2017] pointed out numerous examples of nearshoring luxury brands to Poland. Subcontractors in the Central and Eastern Europe (CEE) region are used by such well-known brands as Burberry, Max Mara, Marc Aurel, Hugo Boss AG, Bugatti GmbH, Dressler, and Pikeur. Among the declared grounds of nearreshoring were flexibility, fast response to clients’ supply requirements, and the high quality of production, combined with relatively low labor costs. Polish manufacturers are suppliers to German, French, British, Dutch, Belgian, and Danish premium apparel brand owners. On the other side, due to the necessity for quick delivery, some clothing luxury brands have shifted some production lines to on-site factories in China to meet consumer demands. The automotive sector is an industry that has largely implemented offshoring, even in its luxury segment. Since the end of the 1980s, carmakers in Europe, Japan, and the US have moved a significant share of production to emerging countries in order to benefit from lower manufacturing costs.
Despite the fact that German brands such as Audi, BMW, Mercedes-Benz, and Porsche retain most of their assembly lines in the home country [Chiappini, 2012], the offshoring in the car industry is rising because of the “cost (dis)advantage of the home country relative to foreign locations” [Head and Mayer, 2018].

Sustainability and credibility are significant attributes associated with brands [see, e.g., Clark, 1987; Thakor and Kohli, 1996]. Sustainable high quality along the whole SC is also one of the key requirements for success in the market [Vigneron and Johnson, 1999; Lamming et al., 2000]. Providing appropriate quality control – of both materials and production processes – should go along with managing close, long-lasting, and fruitful relations with suppliers, contractors, and trainings and human resources management [Christopher and Towill, 2002; Caniato et al., 2009].

These characteristics relate to the perception of the COO. Many global firms highlight the origins of their brands and believe it is the synonym for quality, heritage, competence, and high social standards [Balabanis and Diamantopoulos, 2008]. The more premium the brands are, the more frequent and more important is the use of the COO tag in the communication strategy [see, e.g., Calori et al., 2000; Shukla, 2011; Godoy et al., 2012].

Numerous studies have proven that the COO has a considerable influence on the perception of quality [see, e.g., Bilkey et al., 1982; Roth and Romeo, 1992]. Empirical evidence also shows that the least developed countries are believed to be both riskier production destinations and lower-quality producers, but for many buyers (both consumers and business purchasers), the COO bias can be offset by price concessions [see, e.g., Schooler and Wildt, 1968; Haakansson and Wootz, 1975; Hampton, 1977]. In the case of production in the Far East countries, the protection of key resources along the whole SC is not fully ensured in spite of the introduced supervision procedures. Near-reshoring seems to be a viable method to ensure cost-effectiveness while increasing control over the production process. Statistics from recent years reveal such a (even though slowly emerging) trend.

Taking account of the rich EU-15 countries (being the home base of most of the top- and midlevel luxury companies), between 2013 and 2016, the major destinations for production relocations were the EU countries with lower labor costs (EU-13). Job losses connected with offshoring were the result of production relocation to the tune of >10% to China, 3% to India, and about 9% to other Asian countries. As the share of EU-13 has dropped in recent years, the importance of other European and non-EU countries, mainly Russia, Turkey, and the Balkan region countries, has increased [Eurofound, 2016].

According to the Eurofound [2016, 2019], one of the sectors that suffered most due to offshoring (considering work places) is the apparel industry. At the same time, in recent years, we can observe an increasing trend in employment in high-tech manufacturing sectors, including motor vehicles. The increase in employment in the automotive sector is concentrated mainly in the CEE region. A rise in employment since 2008 in the automotive industry has been observed in Poland, the Czech Republic, Hungary, Romania, Slovakia, and Slovenia. The activities of the large EU motor vehicle manufacturers confirm that in this sector, nearshoring turned out to be economically justified [Eurofound, 2016].

3 Reshoring grounds and types in luxury goods sector – a conceptual framework

Our conceptual framework presents the push-and-pull factors affecting back-reshoring or near-reshoring decisions in the luxury sector. Many empirical studies have examined and successfully used push (reactive: discouraging offshoring) and pull (proactive: fostering reshoring) factors as the main drivers of international production activities [see, e.g., Bailey and De Propris, 2014; Ernst & Young, 2015b; Joubioux and Vanpoucke, 2016; Vanchan et al., 2018].

Regarding the general premises of reshoring, we selected the push and pull factors by analyzing the determinants of such actions described by Stentoft et al. [2016], Fratocchi et al. [2016], Wiesmann et al. [2017], Barbieri et al. [2018], and Eurofound [2019]. This palette was then limited to the most significant ones for the luxury sector after analyzing the reasons for the configuration of value chains in this sector [Caniato et al., 2011; Castelli and Sianesi, 2015] and the importance of particular factors, such as sustainability,
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[Image: Push and pull factors determining back-reshoring and near-reshoring decisions in the luxury goods industry. Source: Own elaboration.]

1. Diminish quality problems
2. Tighten control over SC
3. Make SC more flexible due to location proximity
4. Cost optimization
5. Risk minimization

1. Escape from intellectual theft
2. Regain luxury home-base COO effect
3. Make SC more sustainable

quality [Joy et al., 2012; Kapferer and Michaut-Denizeau, 2015; Ho et al., 2016; Stepień, 2019], and COO, for luxury consumers [see Calori et al., 2000; Shukla, 2011; Godey et al., 2012]. The pyramid of luxury serves here as a kind of filter for the influence of particular factors on the decisions about back-reshoring/near-reshoring. We assume that the pull strength from the consumers’ side results directly from the importance they attach to quality, COO, or sustainability as factors creating the value of luxury.

Figure 1 depicts the push and pull factors considered the crucial ones while deciding about SC location and relocations.

One group of factors is connected with the marketing benefits. Bringing production back to a home country (perceived as the cradle of luxury) will significantly increase the perception of the goods’ value. On the other hand, returning to the home country or region (near-reshoring) increases the supervision over the SC and can prove that the “new” SC is more sustainable.

Underlying premises of reshoring are those that limit the risk of quality deterioration and attempt to optimize costs. The reasons why luxury goods companies opt for back-reshoring or near-reshoring will depend on the luxury ladder tier; the higher the position on the ladder, the more important it is where and how skillfully the goods are made and their production controlled.

In the following section of the paper, we focus on three industries within the luxury goods business, namely, cars, fashion, and jewelry, as they constitute the biggest and stablest portion of private luxury being produced and sold globally [Bain & Company, 2019].

Each of the industries discussed has a different setup of the SC and, therefore, the decisions for reshoring vary.

Table 1 presents the reshoring premises in the three discussed industries, indicating at the same time the likelihood of increase in this trend in the particular segments of the luxury ladder.

The model presentation of the premises of back-reshoring or near-reshoring shows that such activities are best justified in the fashion industry, mainly on the middle tier. Back-reshoring or near-reshoring in this industry can bring all the possible advantages connected with the changed setup of the SC. The first tier of the luxury ladder, regardless of the industry, should not even consider offshoring related to production. However, in the case of, e.g., production of automotive parts, it seems to be not possible. Shimp and Sharma [1987] found that consumers hired in threatened-by-offshoring industries, such as automobiles and textiles, show higher degree of consumer ethnocentrism than those in other industries; however, it seems that consumers slowly get used to the fact that the assembly is not done in the brand heritage country due to the complexity and international distribution of the SC in the automotive industry. The consumers of the lower luxury tiers, regardless of the brand, show relatively low sensibility to COO; therefore, the premises of back-reshoring and near-reshoring are or will be more of a cost and risk optimization nature.

4 Reshoring/near-reshoring examples

The empirical part of this paper presents published examples of back-reshoring and near-reshoring in the luxury sector. We used the publicly available European Reshoring Monitor data set [2019], which is one of
The most comprehensive available data sets collecting reshoring cases, as the main source. This data set collects information on individual reshoring cases from media, press, as well as scientific and practitioner literature. We also analyzed Internet press releases and reports, using search engines and such keywords and phrases as “luxury brand” + “reshoring”, “backshoring”, “nearshoring”, “back-reshoring”, and “near-reshoring”. These activities allowed a total of 10 examples to be identified. Table 2 could have been longer if not for the lack of details of the production relocations. We get snippets of information from the press about the increase in production in the home countries or about plans to start production there.

### 4.1 Fashion industry

Ernst & Young [2015] analyzed the case of Italian manufacturers’ relocation back to the home country by dividing the companies engaged in that process into three groups: (1) Italian luxury groups, which increase their production capacity and relocate part of the production to Italy; (2) international luxury groups, which increase production in Italy via outsourcing or purchasing the manufacturing companies; and (3) medium companies of the luxury fashion industry, which relocate part of the production to Italy. The first two types of the companies see an increase in the luxury goods consumption as the key to the increase in the production share in Italy. For international consumers, “Made in Italy” is the symbol of high quality; therefore, the motivation for back-reshoring of the large luxury groups seems natural. The research was conducted among 45 smaller groups in the luxury segment, whose total market value equals 4.5 billion EUR. Of these, 27%

<table>
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<tr>
<th>Tier</th>
<th>Luxury fashion</th>
<th>Luxury cars</th>
<th>Luxury jewelry</th>
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<tr>
<td>Absolute</td>
<td>Luxury – home production base as the core value. Offshoring activities kept secret, reshoring communicated only when offshore production is publicly disclosed and condemned.</td>
<td>Luxury – home production base as one of the core values. No need to reshore: assembly at brand heritage country, control over SC in producer’s hands. Producer is the brand owner</td>
<td>Bringing the mining of gemstones, silver, gold, etc. home not possible. Local design and production add value mostly to niche – local brands.</td>
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<td></td>
<td>Bringing production home (back-reshoring) adds COO value; near-reshoring regains control over SC, makes SC more flexible and consumer demand responsive</td>
<td>Defragmented SC; production dispersed all over the world, many suppliers concentrated around assemblies. Assemblies placed in lower-labor-cost regions. Some finishing activities, aimed at changing COO into luxury home base, visible.</td>
<td>Production place not regarded as very important, offshored mainly to Far East countries. The brand owners are mostly distributors, to a much-lesser extent, producers themselves. Some early signs of near-reshoring visible, mainly due to quality problems. The consumers’ attention is mainly on the gems’ origin, although SC sustainability plays an important role.</td>
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<tr>
<td>Aspirational</td>
<td>Reshoring drivers are mostly push factors: the method of regaining control over the SC, diminish the risk of international SC, transport costs, and time etc. Brand’s COO is usually outside the traditional luxury home base; Far East production location accepted as a price concession for accessible luxury</td>
<td>More often near-reshoring than back-reshoring drivers both push and pull factors: the method of tightening control over the SC, diminish the risk of international transport costs</td>
<td>Reshoring drivers mostly are push factors; the method of regaining control over the SC, diminish the risk of international SC, transport costs and time, more flexible and consumer demand–responsive SC</td>
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<tr>
<td>Accessible</td>
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</table>

Source: Own elaboration based on previous papers [Caniato et al., 2009; Larsen and Pedersen, 2014; Benstead et al., 2017; Uluskan et al., 2017; Fratocchi and Di Stefano, 2019a].
Table 2. Examples of back-reshoring and near-reshoring

<table>
<thead>
<tr>
<th>Company name</th>
<th>Company country</th>
<th>Host country</th>
<th>Reshoring (back-/near-reshoring) country</th>
<th>Reshoring (back-/near-reshoring) year</th>
<th>Push factors (drivers)</th>
<th>Pull factors (drivers)</th>
<th>Source</th>
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</thead>
<tbody>
<tr>
<td><strong>Manufacture of luxury wearing apparel</strong></td>
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<td></td>
<td>- Little attractiveness of host countries</td>
<td>- Risk of brand counterfeiting</td>
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<td></td>
<td></td>
<td>- “Made-in” effect</td>
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<td>The Weekend Australia [2014]</td>
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<tr>
<td>Paul Smith</td>
<td>United Kingdom</td>
<td>China, Far East</td>
<td>United Kingdom</td>
<td>2014–2015</td>
<td>- “Made-in” effect</td>
<td>- Brand value</td>
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<td></td>
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<td></td>
<td>- “Made-in” effect</td>
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<tr>
<td>Piquadro</td>
<td>Italy</td>
<td>China</td>
<td>Italy</td>
<td>2014–2017</td>
<td>- Production cost increase in offshore locations</td>
<td>- “Made-in” effect</td>
<td>Crivelli [2016a]</td>
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<td></td>
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<td></td>
<td>- Delivery time and logistics costs</td>
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<td>International Leather Maker [2017]</td>
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<td>- Organizational flexibility</td>
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<td></td>
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<td>- Poor quality of offshore production</td>
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<td></td>
<td></td>
<td>- Proximity to customers</td>
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<td></td>
<td>- “Made-in” effect</td>
<td>- “Made-in” effect</td>
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<tr>
<td>Prada</td>
<td>Italy</td>
<td>China</td>
<td>Italy, CEE</td>
<td>2014–2015</td>
<td>- Delivery time</td>
<td>- “Made-in” effect</td>
<td>Corriere Della Sera [2014], The Prada Group [2017]</td>
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<td>- Organizational flexibility</td>
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<td></td>
<td>- Control in their SC</td>
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<td></td>
<td></td>
<td>- “Made-in” effect</td>
<td>- “Made-in” effect</td>
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<tr>
<td>Benetton</td>
<td>Italy</td>
<td>Croatia</td>
<td>Italy</td>
<td>2015–2016</td>
<td>- Product/process innovation</td>
<td>- “Made-in” effect</td>
<td>Ganz [2016], Business Insider [2017]</td>
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<td></td>
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<td></td>
<td>- Loyalty to the home country</td>
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<tr>
<td>Falconeri</td>
<td>Italy</td>
<td>Romania</td>
<td>Italy</td>
<td>2015</td>
<td>- Poor quality of offshored production</td>
<td>- “Made-in” effect</td>
<td>Crivelli [2016b]</td>
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<td></td>
<td></td>
<td></td>
<td>- “Made-in” effect</td>
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<tr>
<td><strong>Jewelry, watches, and accessories</strong></td>
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<td>- Poor quality of offshore production</td>
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<td></td>
<td>- Unattractiveness of the offshore market</td>
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<td></td>
<td></td>
<td></td>
<td>- The occasional catastrophes</td>
<td></td>
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</tr>
<tr>
<td>Mauboussin</td>
<td>France</td>
<td>India</td>
<td>France</td>
<td>2013–2016 (France and Italy)</td>
<td>- Delivery time and logistics costs</td>
<td>- “Made-in” effect</td>
<td>Le Point [2016], Dromard [2016]</td>
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<tr>
<td></td>
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<td></td>
<td></td>
<td>- “Made-in” effect</td>
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<td>- Poor quality of offshore production</td>
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<td>- Proximity to customers</td>
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<td>- Unattractiveness of the offshore market</td>
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</tbody>
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(Continued)
### Table 2. Continued

<table>
<thead>
<tr>
<th>Company name</th>
<th>Company country</th>
<th>Host country</th>
<th>Reshoring (back-/near-reshoring) country</th>
<th>Reshoring (back-/near-reshoring) year</th>
<th>Push factors (drivers)</th>
<th>Pull factors (drivers)</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tesla Motors</strong></td>
<td>US</td>
<td>Japan</td>
<td>US</td>
<td>2017</td>
<td>- Proximity to market</td>
<td>- Automation/technology</td>
<td>- Image/brand</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- Ecosystem synergies</td>
<td>- Manufacturing/engineering joint innovation (R&amp;D)</td>
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<tr>
<td><strong>McLaren</strong></td>
<td>United Kingdom</td>
<td>Austria</td>
<td>United Kingdom</td>
<td>2017, 2018</td>
<td>- Proximity to market</td>
<td>- Image/brand</td>
<td>Peters [2018]</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- Technological innovation kept at home factory</td>
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</tbody>
</table>

**Source:** Own elaboration.
declared that the whole production takes place in Italy, and 71% claimed that they produce goods both in Italy and abroad. When asked about the production location in the following years, they gave various answers depending on the segment they operate in. The high-end luxury companies declare that they will probably increase their production share in Italy, whereas the companies offering the midrange products must take a strategic choice: position their products higher (by “Made in Italy” production) or offer their products at more affordable prices, which will be connected with keeping the production in the offshore countries.

Consumers, including aspiring ones, are willing to pay more for products that are tagged as “Made in Italy”, “Made in France”, or “Made in UK”. The production in low-cost countries is more often perceived as an activity that undermines the value of the product and the brand image. Some companies try to maintain the European label by contracting production limited only to manufacturing certain parts to the Chinese supplier. The end product is manufactured in Europe. Another doubtful procedure is connected with the employment (quite often illegal) of Asian workers in the European factories, where they work at lower wages [USA Today, 2014]. Thereby, the consumers receive goods with “Made in Italy, France” label, and the image remains intact.

### 4.2 Jewelry industry

The examples of reshoring in the jewelry industry are less noticeable. There might be a few reasons for this. Firstly, reshoring does not concern the resource base – diamond and mining of precious metals - and even though instances of worker’s rights violation are reported, reshoring is not a solution to this problem. Secondly, while offshoring is a case in this industry, the consumers are either unaware or not interested in this fact, as they do not consider these actions as value adding. This, however, concerns mostly jewelry, while watches are the distinct exception.

Switzerland, the most important watches’ exporter in the world, is a good example of a country that protects its “made-in” label. In 2007, the Federation of the Swiss Watch Industry (FH) started to work on strengthening the Swiss Made label. It mainly meant changes to the regulations on using the names of Swiss watches. One of the main objectives was a long-term guarantee of reliability of the geographical meaning. As of January 1, 2017, if the watch is to be labeled Swiss, 60% of its production costs must have been incurred in Switzerland (Swiss Federal Institute of Intellectual Property). There are no such regulations for the EU countries – not even for the cradles of luxury, such as Italy or France.

Table 2 presents two jewelry brands that reported relocation of their production from China and India. Mauboussin can be considered as luxury – it has a long production tradition and the prices of jewelry are around several thousands of USD (on the border of aspirational and absolute luxury). The Forever Companies Jewelry Group comprises three interrelated companies: Diamond Nexus, Forever Artisans, and 1215 Diamonds. Each of them is positioned differently on the market. The highest segment is represented by 1215 Diamonds, which may be perceived as an aspirational luxury brand. Despite significant discrepancies among the companies, the reshoring reasons are similar; for the lower tier brands, the host country does not seem cost-attractive anymore, while Mauboussin finally noticed that the “made-in” effect actually plays a role for consumers.

### 4.3 Luxury automotive industry

Just as in the case of the luxury jewelry industry, reshoring examples in the luxury automotive industry are rather scarce. Most of the luxury brands use components imported from various parts of the world through a compound SC; however, the absolute luxury cars are finally assembled in their home countries. Therefore, we cannot say that this is “classical” reshoring. Bentley cars (and engines) are assembled in Crewe (UK), Bugatti in Molsheim (France), Lamborghini in Sant’Agata Bolognese (Italy), Porsche in Zuffenhausen, Leipzig...
(Germany), and the top of the range Audi cars in Neckarsulm (Germany); so, they finally get a tag of “Made in ... the luxury cradle”. It is quite similar for Rolls-Royce Motor Cars, which belong to the BMW group – the assembly takes place in the Goodwood plant in the UK. Other British brands - Lotus and Aston Martin - are also finally put together in the UK. But the place of the car assembly does not mean that the production of individual key components takes place in the same location – for instance, the engines for leading models of the Volkswagen Group are manufactured in Győr, Hungary. Porsche Cayenne is an interesting example – it is produced in Bratislava and then brought over for engine assembly to Germany, which changes its COO into German. It proves that within one tier, the country where the goods are manufactured is still a very crucial purchasing factor.

In the case of vehicles that are positioned lower in the luxury pyramid, e.g., Mercedes or BMW, the production approach of the automotive companies is more flexible, which is caused by the bigger production scale. The US Manufacturing Company of BMW is in Spartanburg, South Carolina. Assemblies are also done in India, Brazil, and Mexico. Mercedes-Benz also has a dispersed production even of the leading cars (e.g., Thailand, Mexico, and Vietnam). Vietnam has become the first market outside Germany to produce the S-Class. So, offshoring does not refer only to standard cars but also to those considered as luxury ones.

The chances for reshoring in the segment of accessible and aspirational luxury cars are quite small bearing in mind the growing car demand in the world. German car companies are facing problems with the shortage of labor force; therefore, they quite often move to distant locations. The Volkswagen Group itself operates in 118 production locations in 20 European countries and 11 countries in the Americas, Asia, and Africa. The European Reshoring Monitor (ERM) Annual Report 2016 [Eurofound, 2016] makes a clear-cut point that automotive companies are planning to increase their production in low-cost countries and are focusing mainly on the CEE region.

Chances for the growth of the production base in the home countries can be seen only in the case of the absolute luxury car brands. For example, Aston Martin is developing its second UK manufacturing plant in South Wales [The Manufacturer, 2017], and the other luxury supercar manufacturer McLaren intends to build its factory in South Yorkshire worth 50 million GBP [British Broadcasting Corporation (BBC), 2017]. BMW and Audi also increased employment in Germany in the automotive sector between 2015 and 2016.

5 Conclusions – are luxury brands ready for reshoring and is it justified?

The conceptual framework, together with empirical illustration of reshoring activities, contributes to the existing literature in the following way.

First, we demonstrate that reshoring activities emerge and spread unevenly in the luxury goods sector, both over the tiers of the luxury pyramid and within industries. Second, we attempted to find the grounds for this discrepancy, namely, the different compositions of the reshoring drivers and the SCs in the analyzed luxury industries (fashion, cars, and jewelry). Third, by analyzing both the SC in three luxury goods industries and the relative importance of COO to different segments of consumers, we demonstrate that the luxury home base production either has deteriorated in its meaning and value to modern luxury buyers (especially to those from lower pyramid tiers) or is blurred by a communication bias. Lastly, but not least importantly, even though we see the role of reshoring in “regaining” the traditional traits of luxury, it is not likely to happen on a massive scale. Democratization of luxury, backed up by rising profits that constitute the sufficient but short-sighted reason to ignore potential threats, has probably gone too far to reverse this trend.

The most back-reshoring and near-reshoring “prone” industry is the luxury fashion in its accessible tier, while the top luxury (irrespective of the industry) tier either is not subject to any offshoring or these

4 For example, labels with the “designed in Italy/ France/ Germany/ USA”, the products of the brands Versace, Karl Lagerfeld, Hugo Boss, and Michael Kors confirm their authenticity, as does the attached hologram, although all the goods are produced either in the Far East or in Eastern Europe.
activities are kept top secret. The upper the tier of the pyramid level, the less are the offshoring activities that should be undertaken, as it means destroying the meaning of luxury [Kapferer, 2012, 457]. Top luxury brands are the ambassadors of the exceptional lifestyle and culture of the home country, and offshoring simply distorts brand reliability [Phau and Leng, 2008; Keegan and Green, 2013, p. 300]. The lower the tier of the pyramid, the more the luxury brands move production outside the home countries, as the risk of losing the image is moderated by cost benefits. The main reason for reshoring of the luxury brands (or, more often, near-reshoring) is not to reduce production cost, but more to lower the risk in the SC itself, improve the quality, and prevent the brand from downgrading.

The COO of luxury brands, even though slowly being deteriorated by lower-tier luxury brands, still remains important for consumers from both developed and luxury-aspiring countries. The COO builds trust, is the symbol of certain values, gives the feeling of prestige and uniqueness, and provides information about product quality. European heritage countries are important for middle-class Asian consumers (the largest luxury goods consumer group in the world), and they are willing to pay premium for “made in... luxury cradle” tags.

5.1 Managerial implications

The reshoring activities of companies in the luxury sector can be used in marketing communication strategies as the important component of brand equity reclaim with social awareness and environmental responsibility components. Consumers can read it as a sign of the development toward a more traditional meaning of luxury that is additionally sustainability oriented. There are a growing number of very wealthy, as well as reflexive and ethical, consumers. While the first group reverses from too popular brands and looks for uniqueness, the novelty for them can be not only the limited number of items, or COO, but also socially and environmentally responsible SC composition. The second group actively reacts to environmental and social hazards and, therefore, may be willing to support reshoring initiatives, aimed at global harm reduction or local economy development. Because an active social awareness (and aptness to cover additional costs of such activities) is the domain of rather well-educated high earners, these grounds for reshoring activities are likely to incubate and evolve in the luxury goods sector.

Reshoring not only favors competitiveness of international production but also prevents job losses and polarization of income. Relocation to the home countries and near-reshoring can change the global value chains [United Nations Conference on Trade and Development (UNCTAD), 2016], yet the changes will only affect selected segments of products. Analysis of the SC of the luxury fashion brands shows many examples of reshoring and boosting of the domestic production base. For instance, the Burberry example shows increased supervision of the SC and the possibility of gradually repositioning the brand [Robinson and Hsieh, 2016]. The trend of relocation to home countries will deepen for key product lines but will not necessarily do so in the case of brand positioning. While the “Made in Italy or France” tag surely serves as an additional value to the most demanding consumers, it does not necessarily have the same meaning for aspiring consumers.

But, even if required, back-reshoring or near-reshoring cannot always be procured. Few years after the production is relocated to the offshore locations, there is a problem with deterioration of local competencies and suboptimal efficiency of local or regional suppliers’ networks. Therefore, the phenomenon of reshoring usually comes together with large capital investments, for instance, in robotization and production automation with the least involvement of the qualified workforce [De Backer et al., 2016]. The shortage of labor force becomes an important barrier for the labor force itself. That is why companies such as Mulberry (UK luxury bagmaker) make efforts to develop long-term training programs for potential employees.

5.2 Limitations and further research areas

The research suffers from some limitations. The first regards the scarce evidence of reshoring activities in the luxury goods sector, as the common policy of luxury brand owners is to not disclose any information,
which would diminish the brand value. Reshoring activities are then announced only in cases where the Far East offshore production has already caused damage and has been widely publically communicated, or the brand wants to move up in the luxury pyramid and reshapes its business model.

The question whether the reconfiguration of luxury SC strategy through reshoring will lead to strengthening of the values and the competitiveness of luxury brands depends on the industry and the tier of luxury pyramid that we analyze. Luxury car brands from the absolute luxury segment are produced in the COOs despite the changes in the ownership structures. It means that their owners see the importance of COO for potential buyers. Limited production of such cars justifies the economic idea of the production in the local factories. We can observe a further offshoring trend in the other segments of cars perceived as luxury, mainly those in the accessible tier. Even though Mercedes, Audi, and BMW have relocated production to low-cost countries, the sales of those cars have increased dramatically— the image of those brands does not suffer from offshoring. At the same time, such a big demand makes it impossible to move production to Germany because of the labor force shortage.

Reshoring is more complicated in the case of jewelry and luxury watch industries. The example of Swiss watches shows that the value of COO is huge and is directly reflected in sales. Luxury jewelry industry needs search resources in various parts of the world, which makes reshoring of most operations in the SC impossible. Nevertheless, luxury jewelry companies should focus on building sustainable SCs, bearing in mind the infamous blood diamond accusations. More detailed, qualitative search of SC composition, as well as the near-reshoring and back-reshoring motives and actions, is needed here.

Future research should also focus on the grounds of consumers’ COO value perception of different brands from different tiers of the pyramid in the context of the three luxury goods industries and their attitude toward reshoring activities and its impact on overall luxury goods’ value.

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