

# History of luxury goods industry marketing essay



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In late 1996, after collaboration ended between BBL (Bharat Bijlee Ltd), a Mumbai (India) based elevator Business Company and Schindler, a Swiss-based elevator and escalator manufacturer. Schindler started planning to operate and expand the business fully own subsidiary.

In 1874, Robert Schindler established the company in Switzerland. The company starts manufacturing the escalators in 1989 and by 1998 the company had worldwide presence and revenues of 6.6 billion Swiss Francs. The company employed over 38,000 in 97 subsidiaries and looking to start own operation in India.

Alferd N. Schindler, Chairman of the company felt that India had a large emerging market and the company had great growth potential. He himself spent several weeks in India and travel in different cities to understand the market and potential. India is not relatively a new market for Schindler; in 1925, first elevator was installed in India. In late 1950s Schindler appointed local distributor to increase the market presence and agreement done with ECE, an Indian Company which was later ended in 1958. In 1985 Schindler entered into a technical collaboration with Mumbai-based Bharat Bijlee Ltd (BBL) to manufacture and sell its elevator.

Silvia Napoli, a Harvard MBA graduate; joined Schindler in Sept 1994 as head of corporate planning in company's headquarters in Ebikon, Switzerland. Napoli had been appointed vice-president of South-Asia and Head of the India

## **INTRODUCTION**

The luxury goods industry is well established in Italy around the region in Europe. Most of the family- controlled luxury good brands and few of the company still run by 5th generations. The customer segment are high end-rich customers basically middle aged but the trend was changed and the companies also targeted youths. The profit margin of the luxury goods is very high i. e. up to 70% so there is large amount of revenue spent on marketing and publicity. Luxury goods are a matter and current fashion trend and maintaining of high status in the society. Middle income groups' customers have a dream to buy the luxury goods one day in future and join the elite club.

## **HISTORY OF LUXURY GOODS INDUSTRY**

In 1837, Thierry Hermes founded a company manufacturing especially luxury leather goods. Later 1923, Gucci established in Italy and there are many more companies established in between and after in Italy and around the Europe. 150 years of luxury goods manufacturing history roots in Europe.

## **ANALYSIS (BASES ON PORTER'S FIVE FORCE OF COMPETATIVE POSITION)**

### **MARKET ENTRANTS:**

About 75% luxury goods are manufactured in Europe and there is a huge demand of these products in Europe and overseas especially in North America, Japan and other Asian countries. The global market for luxury brands in 2001 is around \$70 billion. LVMH commands the largest market share of 15% compared with 6% of the next largest group.

Geographic distribution of global wealth, the market is divided into 3 geographical areas such as Europe, North America, Japan and other Asian countries: approximately 40% of sales are made in Europe, 28% in North America and 24% in Asia, with the remaining 8% scattered amongst the remaining regions. YSL Couture generates 60% of its revenue in Asia, as does 35% of Hermes, 40% of Christian Lacroix sales, more than 50% of Leica sales.

## **Overall luxury goods market segment:**

### **Sl No.**

### **Luxury Goods category**

### **Percentage**

Fragrance and cosmetics

24- 37%

Ready-to-wear and fashion

14-30%

Leather and shoes

13-16%

Watches and jewelry

08-32%

Wines and spirits

15-22%

Others

05-09%

## **COMPETATIVE RIVALRY:**

The fashion luxury goods companies are basically located in Italy or in Europe. So their cultural background is same and almost all brands are family-oriented luxury goods business. Few companies are acquired by public, and Gucci was one of them. There are advantages and disadvantages for both family farm as compared with public company and vice versa. The basic competition is not the price war it's about product design and brand image. Gucci's creative director Tom Ford is an advantage edge for the company who give a new direction to the company i. e. fashion-oriented approach, which makes Gucci truly a luxurious brand.

In 1998, sales by product figure (please see case note's exhibits 2) gave an idea that Gucci was 3rd position of leather goods sales, 4th in Jewelry and watches and 5th in apparel. It gives a negative picture to the stakeholders that Gucci is not become a leading luxury brand in any specialized category of goods. However, at the beginning Gucci specialized for leather goods. The positive point is that Gucci doesn't need to depend on a specific category of good which was a good sign. The company balanced overall sells figure and not dependent on a specific category of goods.

In 1998 sales by region (please see exhibit 1), Gucci was doing overall good business and balanced the sales figure almost same in North America,

Europe and Asia. Whereas the other brands such as LVMH and Bulgari is close to Gucci's sales distribution. It was a good indication for Gucci that during regional economic downturn the company compensates overall sells in another region. Recent days natural disasters and terrorists threats increases, which affects the regional economy ant time e. g. 9/11 attack in U. S., 26/11 in India, Gulf war, war against Taliban, volcano eruption in Iceland tsunami in east Asian countries etc.

## **PRODUCT AND TECHNOLOGY DEVELOPMENT:**

There are no real substitutes for the luxury goods buyers. Cost is not a big factor for luxury goods, customers look for elegant design. Customers might not be so found of particular designer unless the designer famous likes Tom Ford who associated to Gucci. Technology plays a big role to shape the products and increase volume of the production. With use of the latest technology the quality of the product will be high standard and production will be faster so that easy to balance the production and demand.

Gucci understand this important step of the business so De Sole helps the supplier to provide latest technology and financial support for up gradation of the equipment for e. g. If Gucci uses the latest technology to cut the leather and results cutting will be better, faster and wastage of materials will be less. High quality leather is very costly so lot of savings for Gucci and ultimately production is cost less and high profit margin.

## **SUPPLIERS**

Suppliers are backbone of a company and without cooperation of suppliers a company will be paralyzed any time. So the relation between the supplier

and the company should be close and good for future success of the company. Specially, when companies outsource the goods. Gucci's success is because of the quality craftsmanship and which all-time low in 1993 because unable to pay. De Sole visited every individual suppliers and selected best of them and cut the rest and pushes them hard to reach the parameter of Gucci's expectation. Suppliers have clear vision after discussion with De Sole that what they have to continue the relationship with Gucci. The relation was better and transparent, which help to improve the brand image though quality products and on time delivery.

## **CUSTOMERS**

There are two types of customers:

The super-rich

The middle-market customers

The super-rich customers (or high net worth Individuals) seem not subject to the world economic cycles. In addition, they are a growing number. The middle-market customers are those that are willing to buy luxury goods, but “ they want the hottest, trendiest design, which increasingly have to be marketed in creative and expensive ways”. They can potentially expand the market quite dramatically, as they are part of the upper-middle class. They are considered to be both a great opportunity. Gucci understand this and changed their strategies from classic image to fashion-oriented approach where they can attract large middle-market pool of customers. While the price is less and no of customers is more. Hence, the cash flow is more; the

sales figure in 1994 (please see exhibit 1) total revenue was \$263. 6 million and in 2001 the sales figure reached to \$2, 285. 0 million.

## **GICCI'S POSITIONES AND DE SOLE'S CRITICAL MOVES**

Gucci was a family controlled business and from the beginning has experienced many changes since it founded in Florence in 1923. In 1950s Gucci's first opened outside Europe DOS store in New York. Very fast the products attract the famous celebrities around the world. As celebrities are using the luxury goods Gucci gets publicity through the media and Gucci become a luxury global brand. The brand expands their stores in 1970s UK, Japan, Hong Kong and other Asian countries.

In the 1980's after Rodolfo Gucci died, the family-run company faces new challenges internally from their own family members. In 1989, InvestCorp Int. acquires a 50% share in Gucci and forms a 50-50 joint venture with Maurizio Gucci. Later in 1993 the Gucci family sold rest of the share to InvestCorp Int. and InvestCorp Int. gains full ownership of the company. After acquired by InvestCop Int. Gucci become a public company and listed on various stock exchanges respectively.

In early 1990s, the entire luxury goods industry was going through downturn because of gulf war, the US recession and reduced no of tourists around the world because lots of economic uncertainty and anti US sentiment after the Gulf war.

In 1994-1995, the first professional managers' team took charge of Gucci group by Domenico De Sole as a CEO of the company and Tom Ford, creative

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director of the company. De Sole was appointed by Maurizio Gucci as a legal adviser, president and managing director of the company of Gucci America. He was associated with the company for few years and he has cultural and geographical knowledge of Europe as he is native of Rome and he completed his higher study in US. When De Sole took over charge as a CEO in 1995 the company had \$500 million net revenue and in 2001, the total revenue of the company is \$2, 285 million (please see exhibit 1). The operating cost was high \$121. 1 million and the figure changed to \$355. 1. The growth of total revenue and the operating cost gives a clear picture that there are lots of initiative had been taken to improve the image and expansion of the brand.

Mr. De Sole had been taken various critical majors to repositioned Gucci and he did some fundamental moves or withdrew some family plans and transformed the family-based mono brand to a multi brand. He restructured the organization results he took decision and fired few old employees and appointed new managers who have deep retail experiences. It's a great move to regenerate new energy and strength to the pool of employee, which helped to redistribute the work force. It also helped to translate the company's goal (corporate level) to execute the job in the business and functional level. It gave more power to the individual stores to take decisions for day to day task without wasting time to get approval from corporate or business level.

The decision of distribution control and whole sale distribution moved to in-house. It helped the company to improve distribution channel whereas earlier the distribution was disorganized and delay in deliver the goods. It

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also helped to deliver on time and centralized inventory system to monitor the stocks of goods and supply. Stopped licensing to the new products helped to improve quality and to improve the brand image.

Gucci also loses the luxury brand image and decided to outsource limited to Italy based suppliers and reduced the no of suppliers drastically. De Sole selected few trusted suppliers and helped them financially and technology to improve the overall quality of the products. Uses of latest technology helped to improve quality of goods, and cost effective as well volume increased. Only 5% premium range of products manufactured in-house to maintain high quality standard and brand image.

A very crucial decision had been taken to move from classic image to fashion-oriented approach. Basically Gucci's customers are 30-50 years women's. With globalization and competitive market Gucci need to rethink the position to be competitive in the market. The company's new strategy was fashion-oriented approach to attract both sex average age of 25 years customer segment. So the decision was taken to spend more to attract youth customers so an average of 10% spent on the advertising. The company's new strategy fashion-oriented, which increased customer's expectation and they expected new fashion goods in every seasons result the company had to invested more to designing and production.

It was also decided that Gucci group products should be primary shells through ' direct operated stores' (DOS) (please see exhibit 2). It is very important for a brand that when a customer buys a luxury product the customer must get an essence of luxury treat, good presentation and high

class service which is not possible to maintain for franchises shops and merchandising dealers. DOS also contribute and anticipate the brand image and brand publicity.

Right strategies planned in the corporate level lead by De Sole and well supported by his executive group and all together their effort to transform Gucci from a moribund brand into a billion-dollar company (please see exhibit 2). In 1998, the Gucci group become a one billion-dollar company; Maurizio's dream comes true.

## **DE SOLE'S STRATEGIC MOVE TO BUY YSL AND SR**

The family oriented single-brand firms were facing challenges due to close competition with the luxury multi-brands companies. To overcome the challenges in 1998-1999 there were a sharp rate of increase in mergers and acquisitions. LVMH's portfolio continuously increased and in 1999 company spends around \$2.9 billion on acquisition on the leading brands. Later Prada and LVMH formed a joint venture that beat out Gucci to acquire 51% of Fendi for close to \$600 million. In 1999, LVMH spend \$1.4 billion to become Gucci's largest shareholder and LVMH want to buy Gucci. Also LVMH want to appoint a director to Gucci's board so that LVMH come to know Gucci's strategic moves; Gucci emerged competitor for LVMH. Later PPR bought 40% of Gucci for \$2.9 billion, diluting LVMH's holding to 19.6%.

In Nov 1999, Gucci acquired Sanofi Beaute' consisting of two sister companies: Yves Saint Laurent Couture, which produced YSL ready-to-wear and accessories and YSL Beaute, which produced cosmetic goods. Gucci also acquire 70% share of Sergio Rossi paid of \$96 million, which makes high-

fashion shoes. This acquisition transforms Gucci into a multi-brand luxury group with nearly \$3billion in cash.

This acquisition continues challenge for Gucci to handle YSL and SR as a different brand because both brands have their own identity and a segment of customers e. g. Gucci's ready-to-wear is totally different from YSL ready-to-wear. Gucci's also don't want to lose YSL's customer to make a single brand. Both brands have their own DOS in Europe, US and Asia. Even it is easy for Gucci to operate YSL and SR without changing the management team, only need YSL's & SR's CEO need to report to De Sole and Tom Ford appointed creative director of YSL.

The sales figure after acquisition of YSL and SR in (please see exhibit-1) in 2000-2001 around 30% revenue contributed by these brands and Gucci's performance also improved individually. The decision of acquisition of YSL and SR was taken very quickly just to follow LVMH. However, Gucci itself goes through transition phase. Any decision, which makes profit of the company consider to be a good decision for the company.

## **GUCCI'S STRATEGY TO GOING FORWARD**

There are lot of scope to improve or to make new strategies for Gucci's expansion and improve the brand image are as such:

To expand the stores in other Asian countries such as China and India, these two countries are emerging new economic power of the world. There is a big group of wealthy customers who have capacity to expend to buy luxury goods and they travel to Dubai and Singapore just for shopping. In China, customers can buy online Gucci's products from China based manufacturer, <https://assignbuster.com/history-of-luxury-goods-industry-marketing-essay/>

which is not a good strategy for a luxury brand. It will help to flourish the gray market and the customers cannot enjoy and get essence of luxury goods shopping.

The Asian customers are still not very comfortable of buying the luxury goods online. Online shopping might be a good option for American and European customers. It's always good for a luxury brand to sell the goods directly in the market. When a customer buys luxury goods they would like to celebrate the moment with their friends and family members so this moment will be missing in online shopping.

In Asian countries it will be difficult for Gucci's to establish and run their business and make significant profit. Asian countries are culturally very deep rooted, which influence the business. These countries have their own fashion trends and they are quite capable to change the trend of fashion any time. Such as India's Bollywood industry which plays a big role to change the fashion trend with just release of one movie and brings the new trend of fashion. China and Korea's visual media is dominant on the fashion industry. To overcome this challenge it's good for Gucci to design some luxury goods with the help of local designers which will reflect the culture of that country. Real world example like McDonald and KFC and few other global brands their products or menus are different from country to country to attract local customers and compete with the local challenges or brands. Gucci need continue to sell their classic design goods which are universally accepted to maintain the luxury classic brand image.

Duty free shop (DFS) is a good platform to showcase, promote and sell the luxury goods. There are long list of international and national airport terminals which is better than a mall. In Asia, New Delhi, Dubai, Singapore and Thailand and many more airports, which are world-class. Asian travellers or customers would like to save money while shopping so shopping at DFS stores is a good place to buy Gucci's products. Selection of airport and country is very crucial for Gucci to open DFS.

According to Kotler, " Traditionally, price has been the major determinant of buyer's choice". But there are few exceptions for e. g. baby products, medicines and luxury goods. For baby products the profit margin is very high and companies know the fact that parent don't compromise with the quality of the product because baby is very sensitive as well as future of the next generation.

Medicine is costly because of the research and development and the pharmaceutical companies keeps high price to make more profit. No choice for the patients as they want to cure fast so they have to buy good quality medicine. So the Government and WHO controls the price of few essentials medicines specially vaccines and life saving drugs and gives subsidy to reduce the price of the medicine for common people and poor countries.

But in case of luxury goods customers are willingly to pay high price for the luxury goods. They just care about the brand image in the society and the quality of the product. Most importantly, Gucci continuing to improve the brand image and quality of the products. Promotion of the brand by famous international celebrities as a brand ambassador or with top models.

Classic products are the assets of Gucci's and the customers associate with the classic goods are loyal customers of Gucci. The production cost will be less to manufacture the classic goods in comparison to design and production of new goods. There is less chances of loss because the classic models never off fashion and there is average demands of the good round the year.

Gucci's fashion-oriented move will be challenging for the designers to design new trend fashion and creative goods. The company need to attract talented creative designers around the world because the customers' expectation will increase with increase of buying power and they want new items in every special occasion or season.

It is important for a brand or product, which will anticipate the brand and it is lacking in case of Gucci's. A real life example is iTune which anticipate huge success of iPod and iPhone and vice-versa and another is Harvard Business School and publication etc. Gucci can start a fashion designing school it will bring the brand to the next level of expertise goods manufacturer and technology equipped institution. The company can earn money through the institution and hire their own students after complete the study or training. It will help Gucci group to groom their future employee and save expenses training of new employees for 3 years. Gucci group will get huge publicity through different media outside the luxury world, which attract new segment of customers. Gucci can also save money on advertising. It is also true that luxury industry hide lot of information from outside world and media to keep secret of their success or signature work and design etc. But nothing is possible if the idea is creative and innovative.

## **Exhibit 1**

### **GUCCI GROUP PERFORMANCE: 1994-2001**

## **Exhibit 2**

### **GUCCI GROUP: RETAIL NETWORK DEVELOPMENT**

## **Exhibit 3**

### **GUCCI GROUP REVENUES: REGION**

## **Exhibit 4**

### **GUCCI GROUP REVENUES: CHANNEL**

## **Exhibit 5**

### **OUTSTANDING BRANDS AND PRODUCTS**

## **Exhibit 6**

### **GUCCI GROUP DIVISIONS**