

# Strategic management of gucci marketing essay



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BUSTER**

In 1923, Guccio Gucci opened a small shop in Florence and initially selling imported leather luggage and offer repairing works. Very soon Gucci faces challenges due to shortage of imported leather but due to innovation and using of other materials such as canvas as well as producing of small leather goods the company moves forward very fast as an international brand. The brand was based on style, ranges of new products are less but there are classic products and the target segments are 30-60 years wealthy customers. The strategies did not alignment with the goal to reach 1 billion revenue.

Domenico De Sole, CEO of the company transformed Gucci from moribund to a multiband company. It was not an easy job for De Sole when he had promoted to become COO of the company in Nov 1994. The company was disorganized, employees are feared and depressed. With help of Fold both partner work hard and drive the company towards a successful path.

There were lots of initiatives had been taken in the organizational level, manufacturing, distribution, branding, marketing and acquisition etc. Few of the strategies work very well but decisions could be done better for better outcome. Few of the successful strategies such as introduce of professional executive team in higher-level of the company. to give a truly luxury image of the brand, tightening procedures of production such as providing financial and technical support to the selected suppliers so that they produce good quality product with cost effective, distribution and licensing such as strengthening the network, supply, renovation and increase no of the direct operated stores, review of cost and reduce the price average of 30%, and

focusing on the fashion to attract the youth customers rather than middle and old age customers.

Few decisions which could be done better such as drastically reducing the distribution and acquiring all of Gucci's Franchises in North America in short time which constrain financial burden on the company when the company need financial boost. Dropping of too many old classic products overnight without any proper replacement which may lose the classic customers and the investor might be withdraw the investment amount fear of losses. Too many acquisitions in short time which may divert the focus from the parent company to streamline the new acquired company. However, De Sole did good job.

## **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

generation. The customer segment are high end-rich customers basically middle aged but the trend is changing and the companies also targeting youths. The profit margin of the luxury goods is very high i. e. up to 70% so there is large amount revenue spends 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**

1

Fragrance and cosmetics

24 to 37%

2

Ready-to-wear and fashion

14-30%

3

Leather and shoes

13-16%

4

Watches and jewelry

8-32%

5

Wines and spirits

15-22%

6

Others

5-9%

## **COMPETITIVE RIVALRY:**

The fashion luxury goods companies are basically all located at Italy or Europe. So basically their cultural background is same and almost all brands are family-oriented luxury goods business. Now few companies are acquired by public and Gucci is one of them. There are advantages and disadvantages for both family firm 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-based and make Gucci a truly a luxurious brand.

In 1998 sales by product figure gives an idea that Gucci's is 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 leading luxury goods in any specialized category where at the beginning of the company specialized in leather goods specialized. The positive side is that it is not depends on a specific category of good which is a good sign that it will balance the overall sells figure and not dependent on specific category.

In 1998 sales by region, Gucci is doing good business overall and balancing the sales almost same in North America, Europe and Asia. Where the other  
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brands such as LVMH and Bulgari is close to Gucci for sales distribution. It is a good indication that during regional economic downturn the company will do business in another region. Recent days natural climate and terrorists affects the regional economy ant time e. g. 9/11 attack in U. S., Gulf war, Afghanistan-Taliban war, volcano eruption in Iceland 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 looking for elegant design. Customers might not be so found of particular designer unless the designer is very famous like Tom Ford who belongs to Gucci's. 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 to produce high quality goods and to reduce the production cost. For e. g. If Gucci uses the latest technology to cut the leather and results cutting will be better, faster and wastage will be less; high quality leather is very costly so lot of savings for Gucci and ultimately production cost less and profit margin high.

## **SUPPLIERS**

Suppliers are backbone of a company and without cooperation of suppliers accompany will be paralyzed any time. So the relation should be very close and good for future success of the company. Specially, when the company

outsource the goods from the suppliers. 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 do with to continue the relationship with Gucci.

## **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 will be less and no of customers will be more. Hence, the cash flow will be more and if we see the sales figure in 1994 the sales revenue was 263. 6 million USD and in 2001 the sales figure reached to 2, 285. 0 million USD.



## **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 renewed celebrities from North America and as they are using the brand the brand get publicity through the media and the brand 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 % interest 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.

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

In 1994-95, the first professional managers' team took charge of Gucci group by Domenico De Sole as a CEO of the company and Tom Ford, creative director of the company. De Sole was appointed by Maurinzio 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 US as he completed his higher study in US. When De Sole took over charge as a CEO in 1995 the company has 500 million US dollar net revenue and in 2001, the total revenue of the company is 2, 285 million USD. The operating cost was high 121. 1 million USD and the figure changed to 355. 1 USD. If we compare the growth of total revenue and the operating cost it gives a clear picture that there are lots of initiative has been taken to improve the image of the brand and expansion of brand.

Mr. De Sole had taken various critical majors to repositioned Gucci and he did some fundamental moves or withdraws some family plans and transforms 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 employees and which help to redistribute the work force which can translate the company's goal (corporate level) to execute the job in the business level and functional level. It will give more power to the individual stores to take decisions for day to day task without wasting time to get approval from corporate level or business level.

Control over distribution, moving of whole sale distribution in-house it will help the company to improve the channel of distribution as earlier the distribution was disorganized and to deliver the goods on time and centralized inventory system to monitor the stocks of goods and demands. Stop licensing to the new products to help the quality control and basically focus on main products and improve the brand image. Gucci also loses the <https://assignbuster.com/strategic-management-of-gucci-marketing-essay/>

luxury brand image so the outsource limited to Italy and the no of suppliers had been reduced drastically. Few trusted suppliers had been helped financially and technology to improve the quality of the product and uses of latest technology to cut and stitch the goods so that the quality will improve, manufacturing cost will reduce as well as the no of production will increase. Only 5% premium range of products manufactured in-house to maintain high quality standard of the 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 comparative in the market. The company's new strategies move to fashion image to attract both sex average age of 25 years customer group. So the decision was taken to spend more on advertising to give fashion brand and to attract youth customers so an average of 10% spent on the advertising. By this customer's expectation grew any they expected new fashion goods in every seasons result the company has to invest more to designing and production.

It was also decided that Gucci group products should be primary shells through ' direct operated stores' (DOS). 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 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 together their effort to transform Gucci from a moribund brand into a billion-dollar company. In 1998, the Gucci group become a one billion-dollar company; the vision of Maurizio's come true.

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

The family oriented single-brand firms were facing challenges due to close competition among with the luxury multi-brands company. To overcome the challenges in 1998-1999 there were a sharp rate of increase in mergers and acquisitions. LVMH's portfolio continuously increasing and in 1999 company spend around \$2.9 billion on acquisition of 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 know the Gucci's strategic move as emerging a 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. Also 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, only need YSL's & SR's CEO to report to De Sole and Tom will be creative director of YSL.

If we see the sales figure after acquisition of YSL and SR in (please see exhibit-) in 2000-2001 around 30% revenue contributed by these brands as well as the Gucci's performance also improved individually. The decision of acquisition of YSL and SR is taken very urgently just to copy LVSR where Gucci itself goes through transitions. Any decision, which makes profit of the company consider a good decision for the company.

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

There are still lot of scope to improve or make strategies for Gucci's expansion and brand image.

To expand the stores in other Asian countries such as China and India, these two countries are emerging economic power and there is large group of wealthy customers who have a capacity to expend to buy luxury goods and they go to Dubai and Singapore just for shopping. In China, customers can buy Gucci products from China 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 sense of luxury goods shopping.

Online shopping it might be a good option for America and Europe but it's always being 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 moments with their friends and family members so this moment will be missing in online shopping. The Asian countries people still not very found of buying the luxury goods online.

If Gucci's plan to extend the business in Asian countries, which is not easy to establish and run their business and make significant profit. Asian countries are very deep rooted culture and it influences 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 play a big role to change the fashion trend with one movie and bring 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 reflects the culture of that country. Real world example like Mcdonald and KFC and few other global brands their menus are different form country to country to attract local customers and compete with the local challenges. But Gucci continue to sell their classic design goods which are universally accepted to maintain the luxury 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's and many more airports are world class and when people travel especially Asian they want to save same money so DFS is a good

platform to sell for Gucci but the selection of airport and country is very crucial.

According to Kotler, " Traditionally, price has been the major determinant of buyer's choice". But there are few exceptions for e. g. the baby products, medicine 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 amount the companies sell they can overcome the price but still they want to make good money. No choice for the patient they want to cure fast so they have to consume good quality of medicine. So The Government controls the essentials medicine price or gives subsidy to reduce the price of the medicine for common people. 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. So for Gucci's the most important is to continue to improve the brand image and quality of the products. Promotion of the brand signing of brand ambassador from Hollywood or other international celebrities.

Classic products are the assets of Gucci's and the customers are loyal and for forever. The production cost will be less to manufacture the classic goods in comparison to design and production of new goods, and there are less chances of loss because there is not off fashion goods.

If the strategy of Gucci's is fashion-oriented then the company have to be very creative and need to attract talented creative designers around the

world because the customers want new items in every special occasion or season.

There is not such product or brand which will anticipate the Gucci. A real life example is iTune which anticipate huge success of iPod and iPhone and vice-versa and Harvard Business School and publication and many more. Gucci can start and fashion designing school it will bring the brand to the next level of expertise where the earn money through the institution and hire their own students without wasting 3 years training for haring a new employees. It will get huge publicity through different media and where as now Gucci spending lot of money just to ad on luxury magazine. It is also true that luxury industry hide lot of information from outside world and media to keep secret of success or signature work, design etc.

For a public company it is very important to keep good relationship with stakeholders including suppliers and in this case it was different when De Sole is CEO of Gucci. It didn't reflect good image of the company and it may reflect on share and business.