Gucci case study essay sample

Business, Marketing

1. 0 Introduction

In this report, the author will discuss the Gucci Group company regarding its history, brand overview, product, financial position, its current strategies. The major part of this report will be based on the case study " Envy me? The rise and fall of Gucci" by Sally Simmons and Manfred Kets de Vries; together with other resources which will be referenced at the end of this report. The author also gives some strategic suggestions to improve the company's profitability as the following.

2. 0 Company Description

2. 1 Luxury Goods Industry

Luxury leather good was founded by a company manufacturing in 1837 by Thierry Hermes. Later, Gucci established in 1923 in Italy, and in between and after Italy and around the Europe there are many more companies established following (Business History, 2014). In Europe, it has already been more than 150 years of luxury brand manufacturing product history roots. In Italy around the region in Europe, the luxury brand industry is established very well. Most of the companies is the type of family-controlled luxury good brands, where their customer sector is basically middle aged and has high end-rich, on the other hand in order to follow the trend, the company also aiming youths instead. There is a larger amount revenue spending on this market and public, up to 70% of the profit margin of this luxury brand industry. Maintaining of high status in the society and the matter of current fashion in the society are what luxury goods concerned.

Luxury market is around 60 dollar billion worldwide industry. The entry barrier is lower than its competition. The consumer within this industry prefer constantly shifting, so it cause the concept of luxury itself changing over time. This is the reason why among brands themselves are often refreshing their product lines. Moreover, the luxury brand industry need to have the ability to understand the customer’s need before they know it themselves, so this makes this industry is a risky business. For instance, Chanel and Hermes has heritage and prestige that’s why they can be one of the successful luxury brands.

Even though it takes time and an effort for customers to perceive as a luxury brand but it is a very essential factor of luxury market. Due to the emerging markets in big company, such as China, India, Russia and Brazil, since the economic crisis it caused the sales in this industry declined, but it is still steady due to the emerging as mentioned above. Creating more affordable products to mass market is a recently trend in the luxury market, such as Vera Wang gor Kohls, Roderte for Target or Lavin for H and M. These are the exciting trend for customers who cannot afford real luxury brand, maintaining the brand quality and reputation is what brands should consider for (Globalization 101, 2011).

2. 2 Gucci Group: Background

In 1923 in Florence on the via del Parione, Guccio Gucci opened his own a small shop selling leather goods by offered his customers with repair services and sold luggage which imported from Germany. As the luggage business went good, he opened his workshop to sell and produce his own design. In the 1920 century, the business created success and huge profit, but in the 1930’s when the sanctions imposed, Gucci began to face some challenges on Mussolini. Guccio Gucci faced some shortage of importation of the leather, however, this barrier gave him a new creativity and innovative idea of using new materials and producing small leather goods, such as canvas, wallets and belts that now still turns to be the a big part of the Gucci company (Gucci, 2012).

Gucci became an international fame luxury brand after World War II and over the next two decades the company flourished. Gucci started to fall down in 1970s because of the internal conflict. Most of the conflict came from Aldo and Rodolfo Gucci, the founder’s surviving sons over control and strategy of the company. Rodolfo Gucci passed away in 1983 and left fifty percent of stakes in the company to his own son, Maurizio. One year later, Maurizio seized control over Gucci and determined to transform Gucci into a modern retail organization, but he failed. In 1994, Domenico De Sole and Tom Ford are given the credit for Gucci in order to turn the company into a powerhouse of luxury brand again (Unusual Threads, 2014).

2. 3 Product Portfolio Overview

Gucci group consists of several highly attractive brands, including Gucci, Bottega Veneta, Yves Saint Laurent, Balenciaga, Alexander Mcqueen, Boucheron, Sergio Rossi and Stella Mccartney and this makes Gucci Group is one of the leading groups in the luxury industry and fashion. The company has undertaken several serious steps in its corporate strategy and development, considerable moving towards multi-brand approach creating the value and competitive advantage through diversification of its business and acquisition with independent related brands. The target was to reach customers in the close high-end segment.

Brand image and equity was essential for Gucci, but its products were also more important in Gucci. Key product of Gucci is men and women's ready to wear, leather goods, shoes, watches, accessories, jewelry, ties and scarves, pet, fragrances, kid's essentials and kid's wear. Gucci used a various type of methods to maintain and control its quality products throughout its network. In order to maintain and control the quality of the products that will be sold to its customers, Gucci bought all of the leather used in its products and did 50% of the cutting. Therefore, this is increasing 277% in its own production volume (Kering, 2012).

3. 0 Market Conditions and Competitions

3. 1 Gucci As Brand

€3, 639 million in revenue and €1, 126 million in recurring operating income and 9, 337 429 average number of employees in 2012 key figures.

BREAKDOWN OF 2012 REVENUE (Statista, 2014)

By product category

Leather goods 59%

Shoes 13%

Ready-to-wear 12%

Watches 5%

Jewelry 2%

Others 9%

By region

Western Europe 27%

North America 19%

Japan 11%

Asia- Pacific 37%

Other countries 6%

With a famous reputation for its quality and Italian craftsmanship, Gucci regards to be one of the world's leading luxury fashion brands with its manufactures, designs, distributes highly desirable products. Selling its products exclusively through a network of direct operated boutiques cause 75% of total Gucci revenues, a limited number of franchisees and a direct operate website in electric commerce as well as chose specialty stores and department. Gucci was the first luxury brand company which invested in the website and figured it as a complementary and valuable way of channel in 2002.

With more than 3, 000 items of products available to customers, nowadays by www. gucci. com is the online luxury shopping experience, which is same experience with physical stores. This online store is accountable for leading an essential portion of customers to the bricks-and-mortar shops around the world (Kayla, 2012). Over 90 years old, the Gucci brand is valued all over the world for its achievement, influence and authenticity so this brand was ranked the number one Italian brand and annual top 100 brand ranking (Sophie , 2013). Nevertheless, this brand value is indicated in the perfection of balance between its Italian heritage and Florentine and its fame as a fashion leader. This is supplemented by the increase of appreciation for its commitment to ensure that all factors within its business are continued with integrity.

3. 2 Value Creation

1. Unique product feature of each brand and strategic relatedness between business.

2. Directly operate store.

3. Parenting value added.

4. Manufacturing and logistics capabilities.

5. Creating value in the brand by continuously managing and developing and acquiring new brands.

6. Exceptional Asia- Pacific distribution network is the single for all brands within the company. Internal Analysis

External Analysis

Partnership

Luxury taxes

Management

Demorgraphic trends

Acquisition

Declining Economy

Horizontal corporate structure

: Euro Crisis

Fluctuating Exchange rate

; Asian market

4. 0 Financial Position

When looking at the Gucci financial position, the company is doing well in term of finance. The operating investment of luxury division almost increased doubled in 2012 as a result of involving extensions, re-modellings and store opening and also the significant in investments such as systems, the supply chain or infrastructures. Gucci reported gross operating investments amounting to €204 million in 2012, a rise of 83% compared to 2011. Store-related investments accounted for more than half of gross operating investments. As of December 31, 2012, Gucci operated 429 stores directly, including 166 in emerging countries, of which 72 in Greater China. There were 53 net store additions during the year (versus 59 in 2011), including 25 in emerging countries.

5. 0 Implication and Result of Strategies Used by the Company 5. 1 Business Level Strategies

The current business level strategy used and employed by Gucci Group is the Differentiated and Focus Strategy. The company provide its products to satisfy a specific and focus group of customer in a market, the high-end customer group. Basically, The high-end customer and the middle-market customer are two types of customers, which the high-end or high net worth personally doesn’t matter with the world economic cycles. Moreover, they are increasing in the growth of number. On the other hand, the middle-market are the type of customer who willing to buy luxury products, but they want the goods that the most trendy design and hottest, which make the market increasingly have the creativity and expensive way.

They can efficiently expand market as they are part of the upper-middle class. The middle-market customer aim to be a great opportunity among the luxury market. In addition, Gucci understand the change of strategies from classic brand image to fashion-oriented way which Gucci can attract a large number of customer's middle-market. It also allows the company to understand the customer better and be closer to them as there are fewer customer to focus on. However, as there are fewer number of customer, there are less source of revenue as well. After choosing a specific target group to satisfy, a company needs to choose whether they would like to compete by being different and unique.

The company uniqueness and differentiate by using its quality of product, manufactory, Italian craftsman, location and quality. Personalized and excellent service are one of the main different that the company offers compared to its luxury competitors. The design of their products are also the point which make them unique and perceived to create more value to the product and service the company offers.

5. 2 Related Diversification in Corporate Level Strategies

At the side of values of its creativity, innovation, quality, and Italian craftsmanship, which supports the brand's image and reputation, Gucci trusts in the essential of the environment, a responsible attitude with people, and the communities in which it operates. Gucci is sustaining its excellence, in terms of both customer experience and product offering, while it still stay true to the core values of the brand itself. At the heart of Gucci's mission is a tireless and uncompromising commitment to satisfying customer's needs and desires. Against a complex macroeconomic backdrop, an even more strategy and efficient of internal resource is running better focus on client relationship in depth in each segment of market to reach long-term loyalty and gain more market share.

Gucci purposes to continue reaching long-term sustainable growth across the categories of products and geographic regions, and long-term sustainable growth, while still sustaining high standards of social responsibility. Making the group to be one of the recognized luxury market leader and the strongest, since 2000 the strategy of related diversification has chosen in Gucci Group corporate strategy by proving its reliability. In luxury industry, external conditions and environment are preferable for diversified companies, as long as highly diversified organisation groups are being able to control the core resources and the biggest market stake are successfully used within different divisions within one group supporting trends for diversification in the luxury brand.

The strength of Gucci has been set up and expanding to form a brand with strong economies of scope and international presence which led to tangible and intangible resources. Tangible resources being able to cut fixed cost for support services and administrative and sharing resources within Gucci group among other brands can be considered as one of the company’s strengths. The gain from strengthen intangible resources is much better because corporate reputation of the greater company achieved and then of the constant organisation guided them powerful background and status, but still at this moment the organization is mostly over-depended on its main brand, Gucci. Creating awareness to its customers on services and products that has been provided by the company which including price, product, place and promotion (Maalroy Consulting Group, 2014)

5. 3 Recommendations

Recommendations for the Gucci Group company regarding its strategies will be given in two main categories, short- and medium term, and long-term. However, before one could give any recommendations, Five possible strategies and SWOT analysis must be analysed in order to develop proper strategies for the company (Hitesh , 2014).

6. 0 SWOT Analysis

STRENGTHS

WEAKNESSES

Strong Brand Image

Quality product

Directly operated Stores

Diversification

Advanced IT system

Personalization

Lower margin

Unstable Management

Has to invest huge amount of money in order to protect and maintain its brand image OPPORTUNITIES

THREATS

Emerging luxury markets in economies such as China and India. Growing market for luxury products in Asia

Highly competitive market

Counterfeit or cheaper subsitution

Eurozone crisis

Extremely competitive segment

Market become price sensitive

6. 1 Short- and Long-Term

By analysing the SWOT analysis above and compare with the current strategies employed by the company, the author would like to suggest that in term of business level strategies, the company is doing very well by doing differentiation and focusing on a specific group of customer and business. It helps them to provide product which is highly valued to their customer and allow the company to know its customer better as of the smaller size of the customer base. However, it has some drawback as illustrated in the SWOT analysis as it limits the size of the market that this luxury brand could reach into. For the corporate level strategies, the company could choose to diversify its product more into other segment of the market to grow faster and benefit more.

It could use related diversification strategy which is growing the product line with the product related to the current ones.. By doing so, the brand could reach further into other segment of the market which could provide them more revenue than the current situation. However, doing so, they must be careful about not to damage the brand image too, as reaching into lower market which could devalue the brand position in the high end market. For the long run, apart from the current strategies, the author would like to suggest the Gucci Group to continue deploying differentiate while developing Blue Ocean strategy. The company needs to adjust its marketing and service to focus and responding to the specific needs more to the customer group from the developing economic areas which might be different from the traditional customer’s need.

This could benefit them better in the long run as they can response and understand the changing customer needs better. This can gain them better competitive position in the market as well as they could understand the customer better. The Blue Ocean strategy is simply introducing new product in the new market where there is no competitor. Gucci is always a unique brand since its beginning of its business life. By applying Blue Ocean strategy, the company could create a market where it plays as an only player giving them the power to completely control price, competition, and target market

6. 2 FIVE POSSIBLE STRATEGIES FOR GUCCI GROUP

Having examined the Gucci Group and for the organisation to be able to achieve its objectives in the short term and long term; they need to utilize the five possible strategies stated below which include:

6. 2. 1 DELAYERING OF THE ORGANIZATIONAL STRUCTURE

In order to make a decision making is easier within the organization, the company need to delayer their organizational structure. It can be said that the organizational is currently performing a complex organizational structure which causes the difficulty within the company in terms of reaching its goals. The structure of Gucci group need to be simplified into a more functional structure where everyone has their defined roles within its department and everyone knows whom they are answerable to.

6. 2. 2 DECENTRALISATION

In the meantime, the powers in the company needs to be decentralized in terms of everyone in the company can be empowered to carry out a their tasks within the company. Creating a sense of responsibility among employees within the organization and concurrently, helping to challenges people on the need of creating and doing new things are the powers of decentralization. The time and processes are involving in order to make a decision which will be drastically improved, so this can be said that decentralization offers the difference within the Gucci Group in terms of being able to make a various decision which will favour their business within the areas without taking decision or power from the centre itself.

6. 2. 3 PROMOTION OF ITS BUSINESS ACTIVITIES

Gucci Group also needs to continue in its promotion activities especially in those regions where its business is still growing such as Japan, Asia Pacific and other countries as well. Creating awareness on its service and products to the customers, is what promotion of the business activities helping. In order for Gucci Group to reach its goal whether both short term or long term aims, Gucci needs to being able to create awareness for more potential customers and this will help the organization company to reach its objectives and increase its revenues.

6. 2. 4 MANAGEMENT STYLE

For Gucci Group to be able to achieve its short and long term objective they need improve on its management style to a more democratic style whereby the members of the organisation can be able to participate actively in the decision making process. For today system only allows for some situation where by power comes from the centre and being centre and being passed down to the employees or members of the organisation to be able to implement the decisions made by the senior management like a hierarchy.

Additionally, this kind of situation the people opinions are not been putting into sincere consideration, so this can be said that the opinion of people within the organisation which rank from the bottom position to top position must be able to counting the decision making process, as a result of this before any making decision will be made by the employees and the customers in order to know what their opinion on the implications and the decision to the organisation. This will help the Gucci Group to be able to achieve its short term and long term objectives within the organisation.

7. 0 Conclusion

This report has discussed the Gucci Group in details. Its history, brand overview, the culture, product portfolio and its financial position are illustrated. The strategies employed, at business and corporate level, are also critically discussed and examples are also given to provide better understanding of the employment. At the end, the recommendation on strategies to the Gucci Group are given. Firstly, analyzing the SWOT analysis which shows the external and internal factors, then choosing the strategies to further develop company's strength while lessening the influence of its weakness (Business History, 2014).

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