

Gabriella Lojacono and Laura Ru Yun Pan

Resilience of Luxury Companies in Times of Change

SLIDES FOR CHAPTER 2

Key Strategic Paradoxes in the World of Luxury



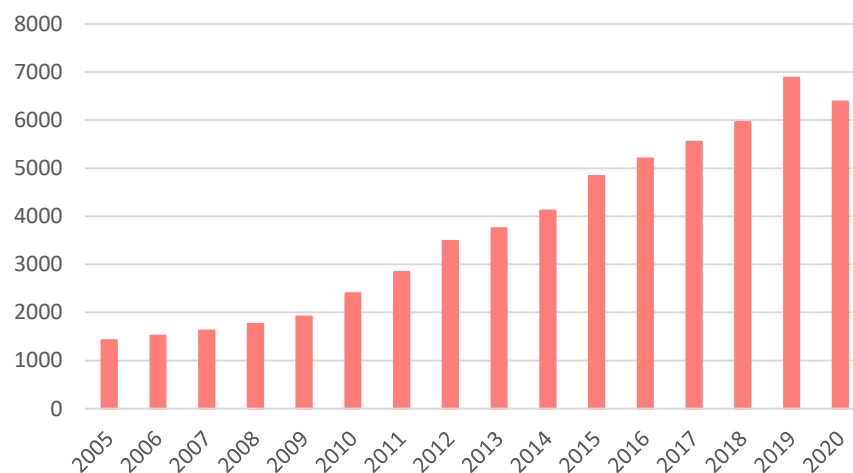


Growth Strategy and Profitability

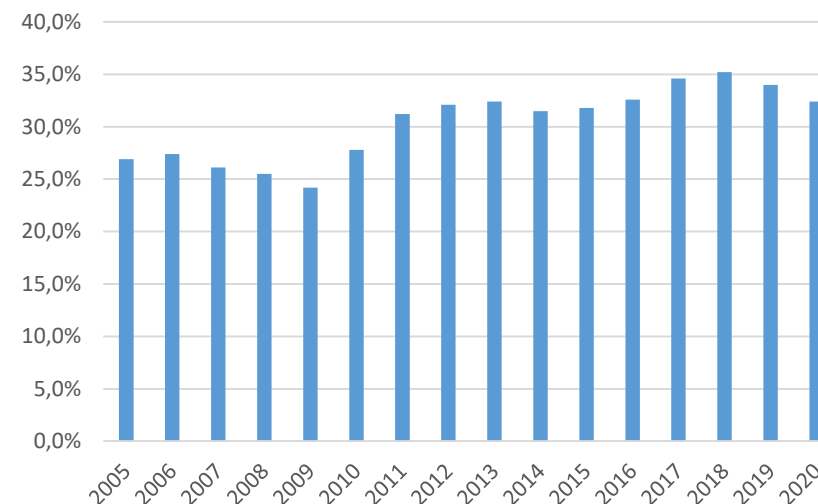
- Growth as exploration of new territories
 - Why to grow?
 - Is growth correlated with profitability?
 - How companies can preserve/increase their revenues and margins?
 - Is it necessary to radically change the business model?
 - Will the structural changes companies are putting in place protect them from the turmoil of Covid-19?

Luxury Companies are Resilient...

Hèrmes Sales (mln €)



Hèrmes Profit Margins (%)



All the current leaders have dominated the industry **for decades** and proved **resilient** to competition and external shocks (e.g. the financial crisis in 2008).

Stock market trend: lvmh

LVMH Moët Hennessy - Louis Vuitton, Société Européenne (MC.PA) ☆

Paris - Paris Delayed Price. Currency in EUR

535.00 -4.80 (-0.89%)

At close: 5:37PM CET



Stock market trend: hermès

Hermès International Société en commandite par actions (RMS.PA) ☆

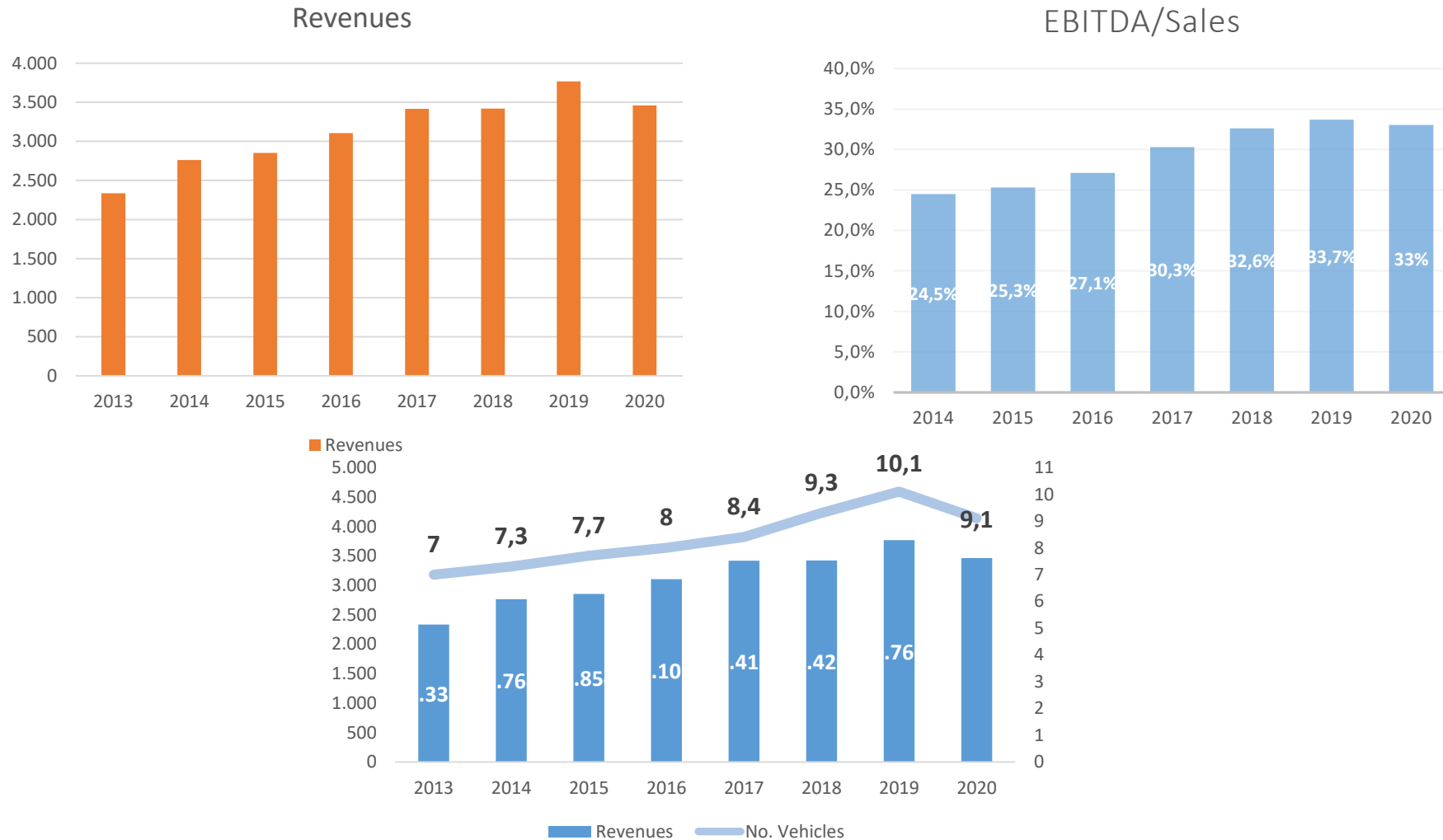
Paris - Paris Delayed Price. Currency in EUR

930.40 -6.60 (-0.70%)

At close: 5:35PM CET



Ferrari combined sales growth and margins



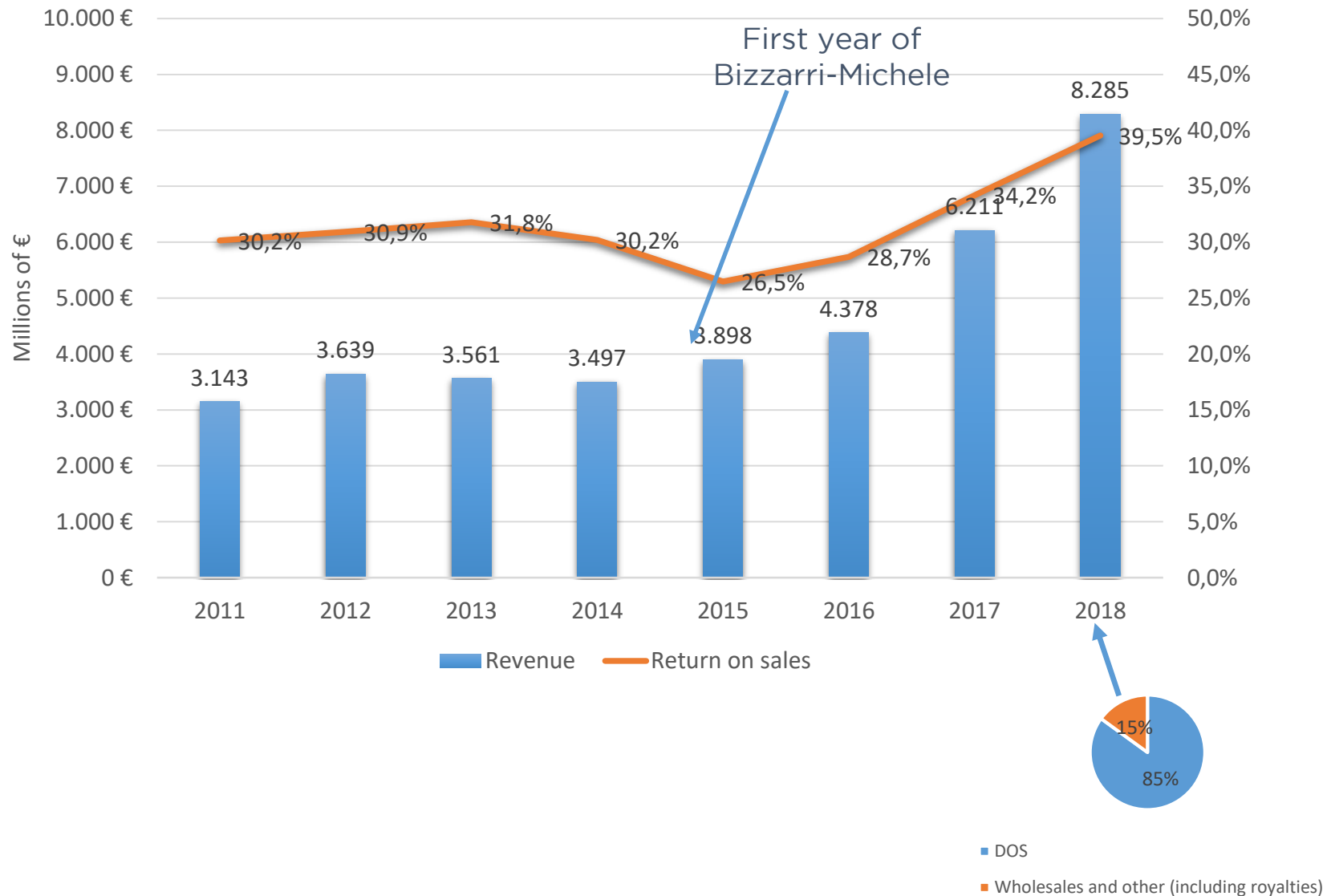
Brand equity and bsi

Provide a Holistic Assessment of Resilience

Ferrari Case

- According to the Brand Finance Luxury & Premium 50 2020 Report, Ferrari is the brand with the highest Brand Strength Index (BSI) score
- BSI is a driver of brand value and is based on factors such as marketing investment, staff satisfaction, and corporate reputation
- Brand value of Ferrari grew to \$9.1billion (+9%) in 2020

Gucci's margins were deteriorating before the new vision





The importance of timeless products

- “De-risking the business”, especially in difficult times
 - A permanent substitute for seasonal times
 - Source of resilience
- Platform from which brands get continuous inspiration
- Strong Identifiers

EFFECTIVE INNOVATION PROCESS COMBINED WITH HERITAGE: MAKE IT POSSIBLE!

“Products developed by Poltrona Frau during its first 100 years of life (1912-2012) represent 32% of total sales in 2020, where the remaining 68% consists of products developed over the last 8 years (44% products from the last 5 years)”

(Nicola Coropulis, CEO, Poltrona Frau)

How to use archives

- Valorizing archive is key to keep the heritage alive, source of inspiration for the new
- Picking elements from archive is not a way to merely blend past and present; archives define a specific aesthetic vocabulary and grammar which participates to the brand specific style and makes it recognizable through time
- *“Our Clash collection took explicit elements of design from the 1930s to make a very new creation. It is like Ludovico Einaudi reinterpreting Domenico Scarlatti to compose movies sound tracks” (Cyrille Vigneron, President and CEO Cartier)*

Management of portfolio and mix of items is at the heart of merchandising

- Overall revision of key activities and rhythm of product development and presentation
- New Business Models that are *Demand Pull* and based on *Advanced Analytics (AA)*



Exclusivity

Exclusivity can be connected not only to a deliberate choice to release limited quantities of product, but to different types of “rarity”

- **Rarity of input:** the materials necessary to create the product are themselves limited, necessitating a low level of production
- **Rarity of distribution:** a product is only available through limited channels and is not widely distributed, either online or geographically
- **Rarity of information:** only certain facts about a product and its availability are made available to the public, and access may be limited to a select community of experts



How to Govern Marketing Pressures and Rarity?

- Marketing strategies aim at optimizing communication by exposing the consumer to a **large number of messages** on different channels and in different ways
- The motive is not so much an immediate return on sales, as a desire to **communicate to a wide audience** beyond the target market
- These marketing pressures are **amplified** in the digital environment
- New objects of desire are often **rare and difficult** to find for those not connected to the brand. Customers may find that they are already sold out and not destined to be restocked, or may be required to sign up for grueling waiting lists
- The **imbalance** between marketing pressures and rarity can have a boomerang effect for companies





1. Unforgettable locations

Extraordinary in a context of excellence

- 1.Design an unforgettable location
- 2.Propose services that allow “intimacy” and personal experience with the brand
- 3.Widen the touchpoints with the client



2. Propose services that allow “intimacy” and personal experience with the brand

Clienteling 2.0

Establishing long-term relationships with consumers,
leveraging data about what they like, what they purchase,
how they behave...

...ensuring that the relationship is seamlessly nurtured both
in store and online combining capabilities of people and
data using advanced tools (e.g machine learning)

Technology-based experiences

- Several studies have shown that retailers and brands can benefit from the adoption of these AR and VR to achieve a higher conversion of visits into purchases and a lower percentage of returns
- AR and VR allow 3D modeling or virtual garment try-on
- Gucci has created a section in its app, Sneaker Garage, with Gucci Virtual 25, the first virtual sneaker. It is also possible to create a personalized sneaker using all the elements of the various models in the collection, share it with friends, and vote for the favorite one among those shared by users
- Gucci has also teamed up with Snapchat to create an app that allows sneaker enthusiasts to virtually see a selection of styles being worn before finalizing their purchases

3. Widen the touchpoints with the client



Should luxury brands standardize their global presence?

- Cases of failure and exit from foreign countries confirm that local peculiarities are important
- Brands must now serve an Asian client who will travel less

La Perla

Since 1954, high-end underwear; it has been acquired by Sapinda Holding (Holland) in 2018.

Decision to enter India in **2007 with Murjani Group**, a franchising company who was partnering with many brands including Gucci and Jimmy Choo

Opening of the **first store at the Galleria in Mumbai's Oberoi** based on reports of a surge in demand for lingerie in India

In **2012, it took the decision to withdraw** from the Indian market:

- The super-premium segment accounts for merely 1% of the market
- The growth of the cosmetic surgery industry in India suggests that women are indeed taking a greater interest in physical appearance
- La Perla overestimated how a sense of liberalisation was shaping Indian society in a culturally conservative country

In **2015, La Perla re-entered** with a new partner (Vikas Jain, Micromax) in Delhi (DLF Emporio) and the Indian CEO based further expansion on underwear for men and e-commerce

Source: Our update on Atwal G., Bryson D., 2017

Bulgari

It entered **India in 2004** via partnership agreement with Lifestyle Tradelinks India (Dia Group) with two stores in Mumbai and New Delhi

The stores were **closed down in 2011** for disappointing results; a month prior the exit LVMH had acquired the controlling stake

- The Indian jewellery market is highly fragmented and Indian families shop at their family jewellers that have established strong bond built on trust over many generations
- Indians are more likely to seek Indian inspired designs and motives, which are more than often flamboyant and acknowledge India's heritage

Bulgari re-entered the Indian market in **2014 via new JV partner** (Luxco India retail) and opened a store at DFL Emporio in New Delhi

Bulgari **adapted products and services** to the discerning needs of the Indian clientele:

- 20% of products are tailored to Indian tastes (yellow gold, bridal jewels)
- The outlet is luscious and opulent, with private rooms for discretion and personal service, part of purchasing experience in India