

PROMOTION STRATEGIES USED BY LUXURY BRANDS IN THE NEW SOCIO-ECONOMIC CONTEXT

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ABSTRACT

In this paper are presented promotion strategies used by luxury brands in the new socio-economic context. Top 10 luxury goods companies are presented, with related indicators for the years 2012-2014. Within this paper we endeavour to carry out an analysis of the new trends regarding promotion strategies of luxury brands. Also, luxury consumer areas are presented and the main factors (such as currency fluctuations and holiday shopping) influencing consumption of luxury goods and the particularities of each area are identified.

KEYWORDS: *promotion strategies, luxury brands, currency fluctuations, holiday shopping, socio-economic context.*

JEL CLASSIFICATION: *M10, M31.*

1. GLOBAL POWERS OF LUXURY GOODS COMPANIES IMPORTANT

Sales of the world's 100 largest luxury goods companies continued to grow in 2014, although the rate of growth was less than in previous years. Profit margins were higher than in 2013. The polarisation of company performance was greater, with more high performers achieving double-digit luxury goods sales growth and profit margins, and also more companies experiencing double-digit sales decline.

Composite currency-adjusted luxury goods sales growth for the world's 100 largest luxury goods companies was 3.6 per cent in 2014. This was less than half the 8.2 per cent growth rate in 2013.

Profit margins in luxury goods companies (based on their combined revenue and net income) improved on 2013. The composite net profit margin for the 80 luxury goods companies disclosing their bottom-line profits increased by more than one percentage point, to 11.4 per cent. Over half of these companies improved their net profit margin over the previous year. Only nine companies made a loss, down from twelve in last year's report (8th annual "Global Powers of Consumer Products" report). However it should be noted that the composite net profit margin for the Top 100 was boosted by 1.3 percentage points as a result of LVMH's € 2.677 billion exceptional profit from the distribution of Hermès shares.

Sales of luxury goods by the Top 100 largest luxury goods companies in 2014 totalled US\$ 222 billion, giving average sales of US\$ 2.2 billion per company. 45 companies had luxury goods sales of more than US\$ 1 billion, three more than last year. The threshold sales level for belonging to the Top 100 in 2014 was US\$ 191 million.

(<https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Consumer-Business/gx-cip-gplg-2016.pdf>)

Thus, in figure 1 there are the indicators which represent "Top 100 quick stats, 2014".

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- US\$ 222 billion - aggregate net luxury goods sales of Top 100 in US\$
- US\$ 2.2 billion - average luxury goods sales of Top 100 luxury goods companies
- US\$ 191 million - minimum sales required to be on Top 100 list
- 3.6 % - composite year-over-year luxury goods sales growth
- 11.4 % - composite net profit margin
- 47.9 % - economic concentration of Top 10
- 6.1 % - compound annual growth rate in luxury goods sales 2012 - 2014

Figure 1. Top 100 quick stats

Source: Deloitte, Global Powers of Luxury Goods (2016, p.3)

Among the Top 10 companies, three are luxury conglomerates participating in multiple sectors of the luxury goods market; two are cosmetics and fragrance companies; two are jewelry and watch companies; two are apparel companies; and Luxottica is the only accessories company. The top three companies were LVMH, Richemont and Estée Lauder, which retained their positions from the previous year, despite a struggle by Estée Lauder to achieve sales growth. LVMH has more than 30 luxury brands spanning the full range of luxury goods categories in this report, and more than 60 prestigious brands in its entire portfolio (including wines and spirits, retailing and media). Three of the Top 10 are headquartered in the US, three are in France, and there are two in Switzerland and one in each of Italy and Hong Kong. (<https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Consumer-Business/gx-cip-gplg-2016.pdf>)

Global top 10 luxury goods companies with the associated indicators are presented in table 1.

Table 1. Global top 10 luxury goods companies

No.	Company name	Country of origin	FY14 Luxury goods sales (US\$m)	FY14 Luxury goods sales growth*	FY14 Net profit margin **	FY12-14 Luxury goods sales CAGR* ***
1	LVMH Moët Hennessy-Louis Vuitton SA	France	23,297	7.0%	19.9%	3.5%
2	Compagnie Financiere Richemont SA	Switzerland	13,217	3.9%	12.8%	4.0%
3	The Estée Lauder Companies Inc.	United States	10,780	-1.7%	10.1%	2.9%
4	Luxottica Group SpA	Italy	10,172	4.6%	8.4%	3.9%
5	The Swatch Group Ltd.	Switzerland	9,223	3.1%	16.3%	5.9%
6	Kering SA	France	8,984	4.5%	5.5%	4.3%
7	Chow Tai Fook Jewellery Group Limited	Hong Kong	8,285	-17.0%	8.6%	5.7%
8	L'Oréal Luxe	France	8,239	5.7%	15.0%	5.5%
9	Ralph Lauren Corporation	United States	7,620	2.3%	9.2%	4.7%
10	PVH Corp.	United States	6,441	3.9%	5.3%	21.4%
Top 10			106,258	2.0%	13.2%	5.1%
Top 100			221,958	3.6%	11.4%	6.1%
Economic concentration of Top 10			47.90%			

* Top 10 and Top 100 sales growth figures are sales-weighted, currency-adjusted composites

** Top 10 and Top 100 figures are sales-weighted composites

*** Compound annual growth rate

e = estimate

Source: Deloitte, Global Powers of Luxury Goods (2016), p.14

2. FACTORS INFLUENCING THE LUXURY GOODS MARKET

The most recent study regarding the global industry of luxury published by Bain & Company for Fondazione Altagamma, the Trade Association of Italian producers of luxury items, shows that in 2015 the value of this industry exceeded one thousand billion dollars and reported a 5% annual increase, due mainly to luxury automobiles (8%), luxury tourism (7%) and art (6%). The positive factors which boosted the market of personal luxury items were the fluctuations in foreign exchange rates and vacation shopping (continuous purchases of "borderless consumers"). These transformed the heart of the luxury sector, namely personal goods, in a market of over 250 billion euro in 2015, which is an increase of 13% compared to 2014 at current exchange rates, but of only 1-2% in real terms, at constant exchange rates

(http://www.bain.com/offices/italy/en_us/publications/altagamma.aspx).

In these conditions, one of the significant challenges for luxury brands is that of mitigating market volatility, due to exchange rate fluctuation and tourists' purchases flow.

New York, Paris and London are the largest luxury consumption cities globally, each representing a market of 10 billion euro.

According to the same study, Chinese consumers played a primordial role in the increase of luxury expenses at global level, forming the largest portion of worldwide luxury purchases (31%), followed by the Americans (24%) and Europeans (18%).

Europe has recorded an increase in the sale of personal luxury products, supported primarily by Chinese and American tourists, attracted by a weakened euro. The analysis of European duty-free data shows that the purchases of Chinese tourists in Europe increased by 64%, whereas those of American tourists in Europe increased by 67%, mainly in respect of premium and luxury product segments. On the other hand, Russian and Japanese tourists decreased their duty-free European expenses by 37% and 16%, respectively.

Local expenditure in continental China continued to slightly contract. Chinese consumers play a primordial role in the increase of luxury expenses at global level. Chinese buyers continue to spend much more abroad than in their native country, which represents only 20% of luxury purchases at global level.

The most popular travel destinations for Chinese luxury buyers are constantly changing between Europe, South Korea, or Japan, in reply to foreign exchange variations.

The increase of worldwide tourism, but also of online retail have led to an enhanced transparency on the differences of international prices. Moreover, luxury buyers have become more attentive regarding prices and are trying to correlate the price of luxury products with their real value. In this new socio-economic context, luxury brands need to mitigate market volatility, to find the best means of delivering both locally and globally, to conceive new strategies of enchanting their local clients, and also the masses of tourists invading mature markets (Turp-Balazs, A., 2016, *Creșterea luxului impulsivă de turism și de chinezi*, Dialog Textil, 5/2016, pp. 26-27).

3. PROMOTION STRATEGIES USED BY LUXURY BRANDS IN THE NEW SOCIO-ECONOMIC CONTEXT

On account of the decrease in the sales of companies owning luxury brands, but also given the need to mitigate market volatility, a complex, creative, sophisticated promotion strategy should be used, drawing people if not on the path of consumption, at least certainly on the path of brand awareness. Also, consumers are becoming increasingly sensitive to environmental and social factors when making daily decisions to buy, making company managers to face a volatile set of issues impacting the consumer acceptance products, programs and stores (Popescu, I., D., Bagu, C., Popa, I., Hâncu, D. 2009, p. 335).

In the past years, as a result of an increase in the importance of influencing factors over the luxury brands market, especially travel shopping impacting the purchase of luxury products, luxury brands

from the clothing industry use as promotion strategy the presentation of pre-collections, for both summer and autumn seasons, at the basis of which is the impact of the personal brand.

Pre-collections are conceived as jet-set experiences, with planned shows throughout the world, based on creating the element of surprise via a unique event which you absolutely wish to take part in.

Versace in London, Louis Vuitton in Palm Springs, Dior in the south of France, Chanel at Seoul or Gucci in New York count as just a few of the very elaborate ideas of 2015..

The summer pre-collection or cruise or resort collection consist in a series of products meant to be in stores in December in order to stimulate the period after the holidays and the beginning of the new year, when sales are slow and summer trends need to be planned. This micro-collection, representing 15-20% of the summer collection pieces, was originally dedicated to wealthy customers who left to spend the New Year and winter vacation in exotic places. Autumn pre-collections or pre-fall follow the same logic. Hence the luxurious aura surrounding these collections, ushering extravagant stage designs and ingenious marketing solutions, meant to create novelty for loyal customers, the specialized press and professionals in the field, who are invited on a VIP trip and unique experience.

Pre-collections are consequently competitive differentiation strategies. With no imposed framework such as Fashion Week, pre-collections generate complementary turnover, attracting the segment of active clients who travel significantly and look forward to the constant renewal of the clothing offer in shops.

If certain fashion houses have announced in advance the details of the resort collection presentations for 2017, not everyone has done this, specifically in order to grow the suspense.

During the month of French culture in Cuba, Chanel chose Havana, where on the 3rd of May the resort collection presentation took place, inspired by the colours and old elegance of the country. A day before the show, Karl Lagerfeld's photography exhibition, *Obra en Proceso/Work in Progress*, was inaugurated at *Factoria Habana*. The guests visited the house of the writer Ernest Hemingway and were offered a ride in vintage coupé cars. The di granda show bearing the signature of the fashion house took place outdoors, on *Paseo de Prado*, a boulevard situated along the sea shoreline between Old and New Havana and finished with conga for everyone. A sign of openness, the Chanel show is considered the most important event in the country after the resuming of diplomatic relations between Cuba and the USA and is the first show of the French fashion house on the island. Latin America was chosen also by Louis Vuitton, more specifically Rio for the resort collection 2017. Gucci preferred a very different space from the previous year and reserved *Westminster Abbey*. Dior also thought of England and organised the runway at *Blenheim Palace* in Oxfordshire.

If the "rock star tour" strategy is beneficial to fashion houses, this can also be a sophisticated and elegant instrument of brand promotion sponsoring the shows. Thus, besides Mercedes-Benz, for years the main sponsor of Fashion Week worldwide, "fashion" collaborations of automobile producers have become sine qua non choices: Bill Blass and Lincoln, John Varvatos and Chrysler or Hermès and Hyundai.

Cadillac, main sponsor of New York Men Fashion Week, present at the latest three shows Dao-Yi Chow and Maxwell Osborne from the New York brand *Public School*, was the sponsor who proposed the presentation of the pre-fall collection in Dubai, when they had already planned the launching of a new luxury vehicle model. These are beneficial and successful solutions for anyone (Nicolescu, I., 2016, *Grandoare și decadentă – turneul de superstar al pre-colecțiilor*, Dialog textil, 5-2016, pp. 40-43).

Current communication campaigns cannot be limited to a few pretty pictures. Consequently, in the context of a significant increase in the video content demand and online support, large companies invest in real short films of 3-7 minutes, where the products are a pretext in order to communicate the concept of the brand and the mood of the collection, centred around a story.

4. CONCLUSIONS

The increase in global tourism and also of online retail have led to a higher transparency on the differences between international prices. In this new socio-economic context, luxury brand need to mitigate market volatility and to find the best method of delivering both locally and globally.

The influencing factors in the luxury products market, as exchange rate fluctuations and vacation shopping, have imposed the need of luxury brands' adoption of new promotion strategies. Consequently, luxury brands from the fashion sector use as promotion strategy the presentation of pre-collections, for both summer and autumn collections. These pre-collections are conceived as jet-set experiences with planned shows worldwide, where the element of surprise is counted upon, being created by a unique event to which one is drawn to take part in. If the strategy of the "rock star tour" is beneficial to the fashion houses, this may turn into a sophisticated and elegant brand promotion instrument, including of the brands sponsoring shows and luxury automobile brands. This instrument may offer beneficial and successful solutions for everyone.

Also, current communication campaigns of luxury brands need to be adapted to the significant increase in video content and online support.

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