Annals of "Dunarea de Jos" University of Galati
Fascicle I. Economics and Applied Informatics
Years XXIII – n°2/2017
ISSN-L 1584-0409 ISSN-Online 2344-441X
www.eia.feaa.ugal.ro

Competitive Strategies in the Luxury Sector: a Qualitative Comparative Analysis on the Fashion Industry

Margherita ANGIONI*, Francesco DONINI**

ARTICLE INFO

Article history:
Accepted June 2017
Available online August 2017

JEL Classification
M11, M21, L10, L25

Keywords:
Personal luxury goods, Firm strategies, Key success factor, Competitive strength, Made in Italy

ABSTRACT

Despite the difficult economic period, companies in luxury sector are showing better results than those in the consumer products market. The objective of this paper is to analyse the competitive strategies in the luxury sector and in particular, in the personal luxury. To this end, we have chosen to study the case of an Italian company (Tod's Group), leader in the personal luxury according to consumers perception. Basing on a theoretical model of competitive strategy, this study shows a comparison with the strategic choices of three main competitors of Tod's, which offer products with similar values (Made in Italy, exclusivity and high craftsmanship); they are listed companies; they derive from a family business and the family still holds the company's control. The analysis highlights the ability of the Tod's Group in valorizing its capabilities and skills, and the ability of the management to exploit the available relational network.

1. Introduction

The luxury sector is increasingly governed by the complexity of countless factors: it's going through a transitional period of great change, driven by technological innovation and the changing demand of increasingly fussy consumers. Italy, which has a good 29 companies in Deloitte's list of the Top 100 luxury goods companies (Deloitte, 2016), is the country chiefly represented despite their companies being smaller than the others. The luxury sector has strong roots in this country and its value is universally recognised. In particular, among the 10 segments in which the sector is divided (personal luxury goods, luxury cars, luxury hospitality, fine wine and spirits, fine food, fine art, designer furniture, luxury private jets, yachts and luxury cruises), personal luxury is the one acknowledged to the greatest extent. In fact, despite the difficult economic period, the companies in the personal luxury market have reported better results compared to those of consumer products and the general economic tendency. With the aim of understanding the competitive strategies of personal luxury, we've chosen to study the case of the Italian Tod's Group, a leading company in the sector according to consumers perception, which has made Made in Italy its major strength. Thanks to its business strategies, Tod's has managed to prevail over the great fashion brands who have already been prominent on the international market for a long time.

Following the theoretical model of the unweighted and weighted competitive strength assessment (Thompson and Strickland, 2001) which will be examined hereafter, the study proposes a comparison with the strategic choices of Tod's three main competitors: Prada, Salvatore Ferragamo and Brunello Cucinelli. They are direct competitors: they offer products with similar values (Made in Italy, exclusivity and high craftsmanship) placed in the same segment; they are all listed companies deriving from family businesses where the family still has control. The analysis highlights the ability of Tod's to enhance their own capabilities and talents which rivals would certainly find difficult to imitate, as the basis for their distinction and achievement of success.

2. Literature review

2.1 Definition of luxury

The term luxury is often used as a synonym of prestige and considering the few differences, they are regularly used as synonyms to indicate brands and products with a substantial intangible and ambitious value (Corbellini and Saviolo, 2007). Numerous interpretations of this term exist in different disciplines. Economists define luxury goods as the asset for which the demand increases proportionally more with respect to the rise in income; the exact opposite of what happens in other sectors. The more people become

*,** "Carlo Bo" University of Urbino, Society and Politics, Urbino, Italy. E-mail address: margherita.angioni@uniurb.it, (M. Angioni)

rich the more the upmarket consumption increases (Ward and Chiari, 2008). Sociologists, business economists and consulting firms define luxury on the basis of market and sector research concentrating on the elements of marketing mix developed specifically for these goods (Brioschi, 2000). A luxury brand has its roots in culture, in history and in geography. As opposed to other brands it can't be discovered but only achieved gradually, bonding reputation and sophisticated followers over time (Kapferer and Bastien, 2009).

2.2 The strategic management of luxury brands

For a luxury brand, the acknowledgement of the brand itself is part of its value and it is therefore necessary to extend the awareness of it outside its reference market (Kapferer and Bastien, 2009). In fact if a luxury brand was known exclusively by people who could afford to buy it then part of their value would be lost. The strategic management of luxury brands distinguishes itself for some particulars which derive from how the brand itself is considered and perceived. Phau and Prendergast (2000) identified five features of luxury brands:

1) they evoke exclusivity;
2) they possess a well-defined famous brand identity;
3) they have considerable fame;
4) they generate a high level of perceived quality;
5) they achieve high levels of customer loyalty.

Dubois and Paternault (1995), underline that the strength and size of luxury brands are both favoured by the level of their fame but they will fall with a high sales volume. For this reason the successful luxury companies have to find the suitable balance between the appropriate distribution of their brand and excessive publicity. In luxury fashion, success shouldn't be measured by the size of the company. In fact on the whole, the luxury fashion brands are small both for the number of employees and for their financial terms because of the features of luxury companies such as: a high break-even point, the outsourcing, the licences and complex deadlines (Chevalier and Mazzalovo, 2008). On the contrary, success should be measured in terms of the brand equity on the grounds that the brand is an integral part in the sustaining of a luxury brand considering it creates and supports attraction and desire (Okonkwo, 2007). So it is logical to base the criteria for success on the concepts of branding. Pickton and Broderick (2005) define brand equity as an intangible fixed asset and the value of the brand results in profit. A major brand equity corresponds to a higher value of the brand and consequently results in success.

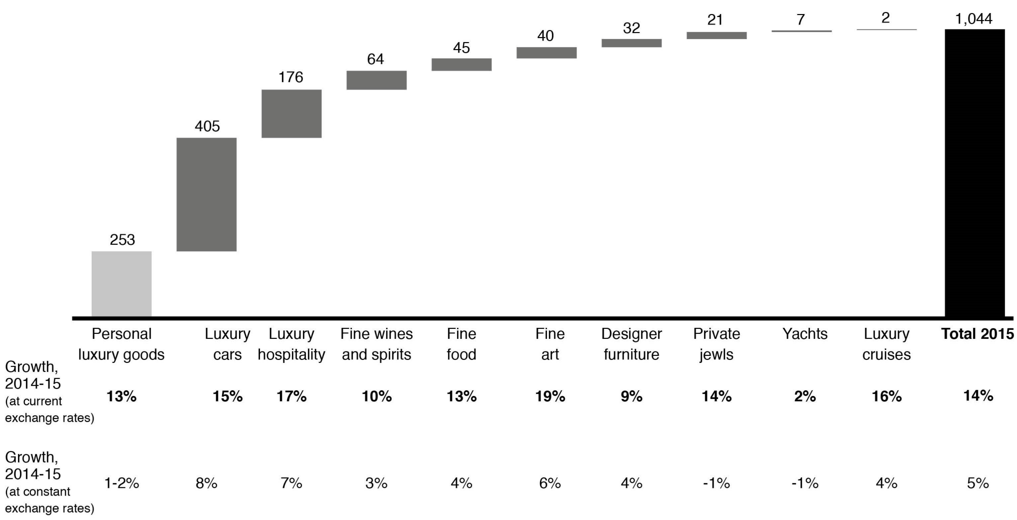
Distribution is fundamental in the management of a brand. In fact, the point of sale represents the last link in the business-to-customer relationship, where the values of the brand are represented. For this reason, the management of the point of sale image is a strategic factor for every brand.

3. Features of the luxury sector

3.1 Global luxury market

The global luxury market comprises ten segments, including personal luxury goods, luxury cars, luxury hospitality, fine wine and spirits, fine food, fine art, designer furniture, luxury private jets, yachts and luxury cruises (Fig. 1).

Figure 1. Worldwide luxury market, 2015 (€ billions)



Source: Bain & Company, 2015

Figure 1 shows that the overall market exceeded €1 trillion in 2015, posting overall growth of 5% at constant exchange rates, and 14% at current exchange rates. In particular, personal luxury goods ballooned to more than €250 billion in 2015, more than tripling over the past 20 years. This represents 13% growth over 2014 at current exchange rates, while real growth has slowed to only 1% - 2% (Bain & Company, 2015).

3.2 Personal luxury goods

The personal luxury goods market comprises four categories: accessories, fashion and apparel, hard luxury and beauty. Each of these, in turn, includes other segments: leather goods and shoes for the accessories category; men's and women's ready-to-wear for the apparel category; watches and jewelry for the hard luxury category; and fragrances and cosmetics for the beauty category.

According to Bain & Company research (2015), accessories are the leading personal luxury goods category (30% of the global market, with 3% growth at constant exchange rates), followed by fashion and apparel category (24% of the global market, with 2% growth) and hard luxury category (22% of the global market, contracting by 3%). Table 1 shows the retail sales value (in € billions) of individual segments for each main category and the percentual growth (2014-2015) both at current and constant exchange rates.

Table 1. Personal luxury goods market, by category, 2015 (€ billions)

	€ billions			% Growth 2014-2015	
	2014	**2015**		**Current exchange rates**	**Constant exchange rates**
Accessories					
Leather goods	38	43		14%	2%
Soes	14	16		16%	4%
Apparel					
Men's ready-to-wear	26	29		13%	2%
Women's ready-to-wear	26	30		14%	2%
Hard Luxury					
Watches	36	38		7%	-6%
Jewelry	14	16		18%	6%
Beauty					
Fragrances	20	23		11%	2%
Cosmetics	24	27		15%	1%

Source: Bain & Company, "Luxury Goods Worldwide Market Study", 2015

Within accessories category, the growth of shoes (16€ billion in retail sales value) surpassed that of leather goods (43€ billion in retail sales value), growing at 4% versus 2% at constant exchanges rates. The performance of the apparel category was low, growing at only 2% at constant exchange rates. Within hard luxury, jewelry (16€ billion in retail sales value) grew at 6% at constant exchange rates. Watches (38€ billion in retail sales value) contracted by 6% at constant exchange rates due to the overstock in Asian channels. Within beauty, fragrances and cosmetics segments grew at moderate rates in constant exchange rates.

3.3 The Global Top 100 luxury goods companies

According to the Deloitte survey (2016), Italy stands out from the other countries for the higher number of companies listed in the Global Top 100 luxury goods companies (Tab. 2).

Table 2. Geographic analysis: country profiles

Country	**No. of companies**	**Average luxury goods size (US$m)**	**Luxury goods sales growth**	**Share of top 100 luxury goods sales**
Italy	29	1,301	6.9%	17%
United States	14	3,096	0.1%	19.5%
Switzerland	11	2,972	3.6%	14.7%
France	10	5,209	6.7%	23.5%
China/ Hong Kong	8	2,963	-6.8%	10.7%
United Kingdom	7	958	11.1%	3%
Spain	5	688	8.2%	1.5%
Other Countries	16	1,391	8.3%	10%
Top 100		**2,220**	**3.6%**	**100%**

Source: Deloitte, "Global Power of Luxury Goods", 2016

There are a good 29 Italian companies - more than double the number based in the United States (see Tab. 2) -, of which two-thirds work in the Apparel & Footwear sector. In particular, there are companies who specialise in soft luxury (high-quality apparel and leather goods).

4. Methodology and Conceptual Model

In order to identify the leading Italian luxury company based on consumer perception, we interviewed a random sample of 1,000 consumers from whom emerged that the Tod's Group was the leader of the sector. Thus we chose Tod's Group as our case study.

The methodology chosen to gather the information necessary for the analysis of the competitive strategies of Tod's Group consists in a qualitative semi-structured interview with their press office and commercial department.

We decided to use the conceptual model of the weighted and unweighted competitive strength assessments (Thompson and Strickland, 2001). This model affirms that to have an evaluation of the competitive strength we have to ask two specific questions:

1) what is the position of the company with respect to its competitors in every factor relative to determining success on the market?;
2) on a whole does the company have a competitive advantage or disadvantage respect his rivals?

This type of evaluation of the competitive strength foresees five phases:

1) the compilation of a list of the main factors of success of the sector and the most significant parameters and the strengths and weaknesses of an organisation (usually using a 6-10 criteria);
2) an estimate of the company's and the competitors performance in each factor, using a scale of values from 1 to 10 (where 1 = very weak and 10 = very strong);
3) the decision about to use a weighted and/or an unweighted rating system;
4) the sum of the evaluations for each factor with the aim of obtaining an overall score of the competitive strength of every company being considered;
5) on the basis of the results obtained, the conclusions on the extent and measure of the competitive advantage or disadvantage of the company can be made and the specific areas of strength and weakness can be identified.

5. A Case Study: Tod's Group

The Italian Tod's Group work in the luxury goods sector, with their own brand names (Tod's, Hogan and Fay) and with a licence (Roger Vivier), as well as numerous collaborations with exceptional partners (Ferrari, Karl Lagerfield, Nendo). They are active in the creation, production and distribution of footwear, leather goods and accessories and apparel. The mission of the company is to offer worldwide customers products of outstanding quality which meet with their practical and aspirational requirements.

Tod's Group base their competitive strategy on their strong points. Their strategic assets are:

a) quality: insurance of a high level of vertical integration (design, selection of raw materials, qualification of the workforce, product and tertiary sector control) to be able to manage the various phases of production as directly as possible;
b) strong brand equity: the strategic decision of not granting licences to protect the qualitative appeal of the three brands of the group;
c) the concept of "New Luxury": combining the traditional values of exclusivity of luxury with the contemporary practical requirements;
d) focus on customer loyalty schemes: made possible by the complementarity of the three brands, by the strong cohesion between product, message and distribution, by a high level of customer service and a rigorous monitoring of change and of new customer needs in terms of lifestyle and requirements which so far have not been made the most of.

The key success factors of Tod's Group are distinguished as follows:

a) expansion of the network of outlets controlled directly: greater control of distribution to increase sales and obtain higher margins;
b) internationalization: in areas with a high development potential still to be expressed, in particular in the USA and the Far East;
c) expansion of the range of products; sale of products with high added value;
d) market position: in the middle between classic and fashionable, contemporary;
e) recognition of a product: recognised by consumers even without its logo;
f) corporate identity: the image consumers have of the company from a viewpoint of tutelage of the brand over a long term period;
g) communication strategy: the group promote the products with substantial investments in advertising by means of meticulous management of its image.

6. Findings and Discussion

We have chosen to compare Tod's Group with the other three main Italian companies which belong to the soft luxury category: Prada, Salvatore Ferragamo and Brunello Cucinelli. These companies offer products with similar values in the same segment (Made in Italy, exclusivity and high quality craftsmanship) and moreover, they are listed companies deriving from a family who continues to keep company control. Table 3 summarises the main strategies and key success factors of the three competitors of Tod's that were chosen.

Table 3. Strategies and key success factors of Tod's Group's main competitors

	PRADA
STRATEGIES	• Differentiation strategy • Expansion of the range of products with the same values and philosophy • Internationalization by means of opening DOS (directly operated stores) in prestigious strategic locations • Expansion of brand portfolio: creation of brand Miu Miu, purchase of Church's and Car Shoe
KEY SUCCESS FACTORS	• Innovation and high quality of products and production process • Integrated value chain • Solid brand image: focused communication

Source: Prada Group, "Annual Report 2015"

	SALVATORE FERRAGAMO
STRATEGIES	• Differentiation strategy • Expansion of the range of products with the same values and philosophy • Internationalization is concentrated in Asia • Ability of the family company to adopt an avant-garde corporate governance • Solid distribution network thanks to sales outlets
KEY SUCCESS FACTORS	• Brand of historical importance and worldwide fame • High quality craftsmanship • Continuous overall product quality research

Source: Salvatore Ferragamo Group, "Relazione Finanziaria Annuale 2015"

	BRUNELLO CUCINELLO
STRATEGIES	• Differentiation strategy • Expansion of the range of products with the same values and philosophy • Internationalization by means of opening DOS (directly operated stores) in prestigious strategic locations
KEY SUCCESS FACTORS	• Positioned in the absolute luxury segment • Growth of the accessory field • The primary value of the brand is the outstanding quality • Prominent Made in Italy • Solid brand image • Strong customer loyalty program

Source: Brunello Cucinelli, "Relazione Finanziaria Annuale 2015"

Here follows Table 4 showing the unweighted competitive strength assessment and, Table 5 with the weighted competitive strength assessment (that is with the weight for each main key success factors).

The evaluation of the competitive strength allows us to draw conclusions on the competitive situation. For this reason, in collaboration with the interviewees of Tod's Group, we identified the crucial factors of the success of the sector: each one was given a weight according to its relative incidence (see Tab. 2).

The quality of the Made in Italy products are the crucial values of the personal luxury business and for this reason they have a higher incidence in the weighted evaluation.

The reputation/image considers the brand and the corporate image as well as the communication strategy to enable a faithful transmission of the company values and philosophy.

The sales network evaluates the distribution capacity of the company, intended exactly like the capillarity of the sales force and coverage of the geographic areas.

Digital experience reflects both the official internet site, with all its various information and online shop plus the management of the virtual strategy to guarantee an efficient customer relationship management in creating customer loyalty.

Ultimately, the capacity of a product to be innovated implies a forward thinking attitude such as patents and the ability to maintain a high standard of know-how to guarantee exclusive products protected from imitations.

All the critical factors of success that have been considered are essential in maintaining and improving competitive advantage.

Table 3. Unweighted Competitive Strength Assessments

Rating Scale: 1 = very weak; 10 = very strong

Key Success Factor/ Strength Measure	**Tod's Group**	**Prada**	**Salvatore Ferragamo**	**Brunello Cucinelli**
Product quality	9	9	9	9
Made in Italy	10	9	10	10
Reputation/Image	10	9	8	9
Sales network/Distribution capacity	8	9	8	6
Digital experience	7	7	6	8
Capacity of product innovation	9	8	7	7
Overall strength rating	53	51	48	49

Table 3. Weighted Competitive Strength Assessments

Rating Scale: 1 = very weak; 10 = very strong

Key Success Factor/ Strength Measure	**Importance Weight**	**Tod's Group**	**Prada**	**Salvatore Ferragamo**	**Brunello Cucinelli**
Product quality	0.30	9/2.7	9/2.7	9/2.7	9/2.7
Made in Italy	0.25	10/2.5	9/2.25	10/2.5	10/2.5
Reputation/Image	0.15	10/1.5	9/1.35	8/1.2	9/1.35
Sales network/Distribution capacity	0.15	8/1.2	9/1.35	8/1.2	6/0.9
Digital experience	0.10	7/0.7	7/0.7	6/0.6	8/0.8
Capacity of product innovation	0.05	9/0.45	8/0.4	7/0.35	7/0.35
Sum of importance weight	*1.00*				
Overall strength rating		9.05	8.75	8.55	8.6

The tables show very similar results. From the analysis of the competitive strategies using the weighted competitive strength assessment chart it appears that of all the competitors, Tod's Group comes out as the winner. Tod's show they know how to make advantage of the winning combination of elements, thanks to the perfect balance of clear ideas and an elevated company equilibrium. In particular, Tod's have recognised how to use and give a value to their talents and skills that is difficult for their competitors to replicate, as the basis for the differentiation and therefore the achievement of success. Moreover, they focused on the strategy of product quality, on the exclusivity, the craftsmanship and on customer service with the aim of covering the segment of top quality Made in Italy products, increasingly requested by the foreign market.

The use of solid communication and marketing strategies have been fundamental in the achievement of a competitive advantage along with the numerous strategic collaborations with exceptional partners who provided a great number of helpful elements in creating new products capable of catching the interest of the market. Finally, the factor which all the companies need to monitor is digital experience since the digital channels influence more than half of the purchases of luxury goods and the importance of this factor is bound to grow.

7. Conclusion

The luxury sector is going through a transitional period of great change, driven by technological innovation and the changing demand of increasingly fussy consumers. Despite the difficult economic period, companies in luxury sector are showing better results than those in the consumer products market.

The term luxury is often used as a synonym of prestige to indicate brands and products with a substantial intangible and ambitious value (Corbellini and Saviolo, 2007). There are several definitions of this term in different disciplines. All of these agree that the strategic management of luxury brands distinguishes itself for some particulars which derive from how the brand itself is considered and perceived by consumers.

The global luxury market comprises ten segments, including personal luxury goods, luxury cars, luxury hospitality, fine wine and spirits, fine food, fine art, designer furniture, luxury private jets, yachts and luxury cruises.

Italy is the country with the highest number of companies (29) in the list of the Global Top 100 luxury goods companies (Deloitte, 2016) and in particular in personal luxury goods.

Our work focused on comparing the competitive strategies put in place by Tod's Group and by his three main direct competitors in the soft luxury field: Prada, Salvatore Ferragamo and Brunello Cucinelli. These companies offer products with similar values in the same segment (Made in Italy, exclusivity and high quality craftsmanship) and moreover, they are listed companies deriving from a family who continues to keep company control.

The analysis was carried out using the model of the unweighted and weighted competitive strength assessments (Thompson and Strickland, 2001).

Both analyses show that Tod's wins against his competitors. The main critical factors of their success is the product quality which also focuses on the transmission of their image and that of Made in Italy. The ability to innovate their products thanks to numerous collaborations with many excellent partners like Ferrari proved fundamental.

However, the model we used does have limits. The first is the choice of the critical factors of success and the relative judgements defined on the basis of our interview with Tod's Group. This may have entailed the exclusion of some factors which could be fundamental for the competitors but not for Tod's and vice versa. Furthermore the opinions given on each critical success factor could have been overestimated or underestimated. The second limit concerns the evaluation of the competitive strength with the unweighted assessment. Given that all the factors and criteria in this model have the same importance towards the final evaluation, the results might not completely reflect the validity of the competitive strategies carried out by the companies.

However, this model of analysis can be useful for companies to evaluate their competitive strategies. The perception that customers have of a luxury brand is fundamental to the success of the brand. Therefore, companies should also investigate their customers' opinions in order to verify if their main critical success factors and their relative weight coincide with the opinion that companies have of themselves.

References

1. *Bain & Company, Fall-Winter 2015, "Luxury Goods Worldwide Market Study. A Time to Act: How Luxury Brands Can Rebuild to Win", http://www.bain.com/Images/BAIN_REPORT_Global_Luxury_2015.pdf*
2. *Brioschi, A. (2000), "Comunicare il Lusso." in Proceedings of Conferenza Internazionale "Le Tendenze del Marketing in Europa" organized by Università Ca' Foscari Venezia, Venezia, Italy*
3. *Brunello Cucinelli (2016), "Relazione Finanziaria Annuale - Bilancio consolidato al 31 dicembre 2015"*
4. *Chevalier, M. and Mazzalovo, G. (2008), „Luxury Brand Management: A World of Privilege", Singapore; John Wiley & Sons*
5. *Corbellini, E. and Saviolo, S. (2007), „L'esperienza del lusso. Mondi, mercati, marchi", Milan; Etas*
6. *Deloitte, 2016, "Global Powers of Luxury Goods 2016. Disciplined Innovation.", https://www2.deloitte.com/content/dam/Deloitte/ch/Documents/consumer-business/ch-en-cb-global-powers-of-luxury-goods-2016.pdf*
7. *Dubois, B. and Paternault, C. (1995), "Understanding the World of International Luxury Brands: the Dream Formula"", Journal of Advertising Research, vol. 4, no. 35, pp. 69-75*
8. *Kapferer, J.N., and Bastien, V. (2008), "The Specificity of Luxury Management: Turning Marketing Upside Down", The Journal of Brand Management, no. 16, pp. 311-322*
9. *Okonokwo, U. (2007), „Luxury Fashion Branding. Trends, Tactics, Techniques.", London; Palgrave Macmillan*
10. *Pickton, D. and Broderick, A. (2005), „Integrated Marketing Communications (2nd ed.)", Edinburgh, Gate Pearson Education Ltd*
11. *Phau, I. and Prendergast, G. (2000), "Consuming Luxury Brands: the Relevance of the Rarity Principle", Journal of Brand Management, vol. 8, no. 2, pp. 122-138*
12. *Prada Group (2016), „Annual Report 2015"*
13. *Salvatore Ferragamo Group (2016), „Relazione Finanziaria Annuale 2015"*
14. *Thompson, A.A. and Strickland, A.J. (2001), „Strategic Management: Concepts and Cases"; MacGraw-Hill/Irvin*
15. *Ward, D. and Chiari, C. (2008), "Keeping Luxury Inaccesible", MPRA 11373, available online at http://mpra.ub.uni-muenchen.de/11373/*