

Executive Summary

Hermès International S.A., **a manufacturer of luxury goods**, was founded by Thierry Hermès in **Paris, France, in 1837**. **Now known simply as ‘Hermès’**, it is deemed to be one of the world’s most valuable luxury brands. **Its sales** are made up of 30 % leather goods, 15 % clothes, 12 % scarves, 15% ties and 28% other products (<http://www.therichest.com/expensive-lifestyle/fashion/hermes-the-175-year-old-french-fashion-empire/>). **The company also produces one of** the most commonly recognized luxury handbags in the world, named after **the co-designer, Jane Birkin** (<http://www.thefashionspot.com/runway-news/20964-fashion-historyq-the-hermes-birkin/>).

This report presents an investigation of the target market and 4Ps strategies the company uses to promote its Hermès Birkin bags in the French domestic luxury market. It also examines **influences in the French market** that may potentially affect **Hermès Birkin** and the company’s marketing strategies, **such as: the French culture;** demographics and social trends; consumer buying habits, preference, behavior and taste; economic forces; political **environment**; technology; geography and infrastructure; industry structure **and** competitive climate; ethical, environmental and CSR issues; laws **and regulations**; market segments; advertising environment; pricing environment; and, distribution structure.

The research relies entirely on secondary sources. These sources include academic journals, research reports, **and** business and university websites **pertaining to factors affecting the French** luxury market, and **how these factors** specifically affect the marketing of Hermès Birkin bags. Based on the findings, recommendations are made regarding changes in marketing strategies that **could** best reflect the interests of Hermès.

Introduction

In 1937, Thierry Hermès established the first Hermès Fashion House, which became known for its exceptional handcrafted carriage harnesses

(<http://www.therichest.com/expensive-lifestyle/fashion/hermes-the-175-year-old-french-fashion-empire/>). The company began creating **handbags**, footwear and silk ties in 1922. During the **1970s**, Hermès expanded its brand to the international market and opened shops in wealthy countries such as **the** U.S. and Japan.

(<http://www.therichest.com/expensive-lifestyle/fashion/hermes-the-175-year-old-french-fashion-empire/>). By 2008, Hermès had 14 product divisions and the selection of luxury goods it sold included perfume, jewelry, women's clothing, menswear and leather **goods**

<http://www.therichest.com/expensive-lifestyle/fashion/hermes-the-175-year-old-french-fashion-empire/>). Hermès is now an industry leader in the luxury goods industry throughout the world. The luxury Birkin Bag – named after actress Jane **Birkin**, co-designer of the **bag** – is among the **most** commonly recognized handbags in the world

(<http://www.thefashionspot.com/runway-news/20964-fashion-historyq-the-hermes-birkin/>).

Hermès Birkin's Marketing **Strategies**

Targeting **Strategy**

Hermès' strategy of **positioning** itself as a brand exclusively for the **elite** has made it successful for many years. The price of Birkin bags ranges from \$5,000 USD to over \$1,000,000, and **it is well known that one can be on a wait list for a Birkin bag for up to four years. The Birkin bags are not sold** online or through any ~~online~~ retailers (<http://www.luxurydaily.com/hermes-maintains-uber-luxury-status-exclusivity-with-product-control/>). According to Milton Pedraza, CEO of the Luxury Institute, New York, "Hermès' marketing strategy is to be unique and highly exclusive, so that it maintains exclusivity and low supply (<http://www.luxurydaily.com/hermes-maintains-uber-luxury-status-exclusivity-with-product-control/>)."

Product Strategy

As France **has a** unique national identity of '**chic**', Hermès **does have competitors in both domestic and international markets.** To differentiate **the Birkin bag** from other luxury handbags, Hermès **uses** only natural materials while its competitors **usually use** man-made **products** (<http://www.stylesequel.com/designers/hermes/biography>). The company has continuously introduced **bags made from** exotic **animal skins** such as lizard from Malaysia, alligator from Florida, buffalo from Pakistan, crocodile from Australia and ostrich, goat and oxen from all over the world (<http://www.stylesequel.com/designers/hermes/biography>). Moreover, each Birkin **bag** is hand-built by professionally trained **craftspersons and each bag can** take up to 48

hours **to make**

(<http://www.thefashionspot.com/runway-news/20964-fashion-historyq-the-hermes-birkin/>). In these ways, Hermès Birkin has built its unique brand image **up to icon status** in customers' **minds**.

Price Strategy

Hermès' exclusive brand image enables **it** to set **prices for the Birkin bags that are** higher than other luxury brands in a highly competitive **climate**. Hermès Birkin never offers sales **or** discounts for any events, occasions or VIPs, which is compatible with Hermès' core marketing strategy of maintaining exclusivity and only being available to elite consumers

(<http://www.luxurydaily.com/hermes-maintains-uber-luxury-status-exclusivity-with-product-control/>).

Distribution Strategy

One **of the company's key strategies** is that it maintains its status by **keeping its products unavailable through all but a few** marketing channels

(<http://www.luxurydaily.com/hermes-maintains-uber-luxury-status-exclusivity-with-product-control/>). All Hermès Birkin bags are sold only in Hermès stores. ~~that is~~

~~Hermès does not sell Birkin bags online or through any online retailers~~

(<http://www.thefashionspot.com/runway-news/20964-fashion-historyq-the-hermes-birkin/>). Hermès also limits the supply of its Birkin bags **because**, as its CEO Patrick Thomas, says: “Hermès has no desire to become “masstige” – a mass producer of prestige goods

(<http://insidefmm.com/2009/11/hermes-marketing-never-discount-hermes-birkin-kelly-handbags/>.)” **Instead, the company created its famous** years-long waiting list, **which brought to the fore the** Hermès Birkin image of exclusive and rare value

(<http://www.thefashionspot.com/runway-news/20964-fashion-historyq-the-hermes-birkin/>).

Promotion Strategy

Hermès mostly **advertises** its Birkin bags in fashion magazines such as Vogue and Vivi. The company has also strategically **placed the Birkin handbag in** movies and fashion shows. For example, **in her movie *The Proposal*, Sandra Bullock carries** a classic orange Birkin bag, which **served to boost the product’s** reputation

(<http://frenchgirlinseattle.blogspot.ca/2011/12/hermes-kelly-and-birkin-three-symbols.html>).

Additionally, Hermès clientele **now include some of** the world’s biggest celebrities, **for example** Paris Hilton, Nicole Kidman, Julianne Moore, Elle MacPherson, Elizabeth Hurley and Victoria Bacham

(<http://www.therichest.com/expensive-lifestyle/fashion/hermes-the-175-year-old-french-fashion-empire/>). **The celebrities are great promoters for Hermès and its Birkin.**

Photographs of these celebrities **carrying** Hermès Birkins in their daily lives **frequently appear in** various gossip newspapers and fashion magazines (<http://frenchgirlinseattle.blogspot.ca/2011/12/hermes-kelly-and-birkin-three-symbols.html>), and they are fantastic promotional messages **that heighten the handbags'** reputation among fans **of these publications.**

Business Environment Analysis

Cultural Forces

France, **with its culture grounded in the Romantic era, has the** status of a reigning fashion **monarchy.** French people are often considered **the most stylish and fashion-conscious in** Europe

(http://www.escp-eap.net/conferences/marketing/2006_cp/Materiali/Paper/Fr/DeB,arnier_Rodina_ValetteFlorence.pdf). Professor Virginie de Barnier's report **asserts** that **the** French regard product personal history as one of the most crucial stimuli to **purchasing** luxury **items,** because brand name guarantees **long-lasting** quality and security **that the product will last for a long time**

(http://www.escp-eap.net/conferences/marketing/2006_cp/Materiali/Paper/Fr/DeB,arnier_Rodina_ValetteFlorence.pdf). Moreover, the French people prefer to buy luxury products from **companies** that are considered experts in their fields

(http://www.escp-eap.net/conferences/marketing/2006_cp/Materiali/Paper/Fr/DeB,arnier_Rodina_ValetteFlorence.pdf). These findings can be **considered favorable for**

Hermès' Birkin **bag** marketing in France because Hermès **benefits from** the fashion-conscious culture of France **and how it will respond to the company's image of dignity and couture**. Hermès' exceptionally long history and **sustained reputation for hiring only the best craftsmen to build the Hermès Birkin bags make these bags desirable even amongst the plethora of high-quality handbags available in the French luxury market.**

Demographics and Social Trends

The most important thing to note in any discussion of French demographics is that of the country's total population of 65.8 million, 404,000 are millionaires (<http://www.therichest.com/rich-list/world/top-10-countries-with-the-most-millionaires-in-2012/>). These are Hermès' potential customers in its domestic market. However, Nathalie Remy and Thomas Tochtermann indicated in their survey that luxury penetration among domestic European luxury consumers remained stable at around 20%, but over 50% of the top tier domestic luxury consumers **declared lower consumption in the last 2 years**

(http://www.mckinsey.de/sites/mck_files/files/european_luxury_survey_2012.pdf).

Horwath HTL Company researchers discovered a growing trend for global luxury travelling, with Europe being the current primary destination for approximately 41% of tourists who pursue an exclusive experience and want to buy luxury products during their visit choose Europe as their destination (Figure 1). Europe **ranks high in estimations of fastest growing destination among luxury travelers (Figure 2), with about 14% of those specifically choosing France as their destination**

(http://www.iltm.net/files/the_future_of_luxury_travel_report.pdf). Hermès can leverage this social trend and **include luxury travelers in its target market as an appropriate response to the current decrease in French domestic luxury consumption.**

Figure 1

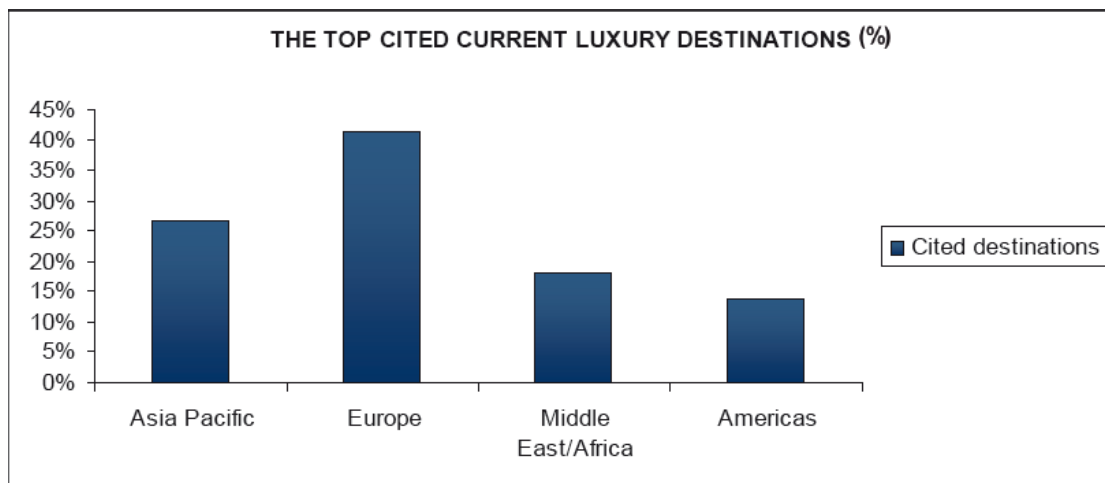
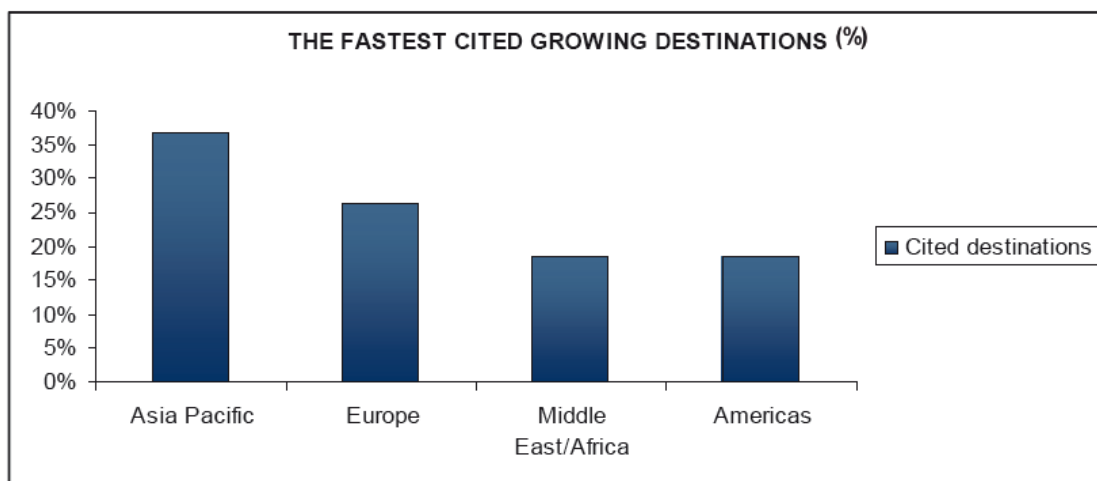


Figure 2



Consumer Buying Habits, Preference, Behavior and Taste

There are two key findings in this area. **While** Horwath HTL Company **reports** that **65%** of French consumers **spent on** luxury fragrances ~~in recent year~~, **not as many purchased luxury handbags as compared to consumers of the same product in other European countries.** Only about **12% of mid-** and high-tier **French** consumers bought luxury bags in **the last** two years, and **it was reported that many were switching to less expensive brands**

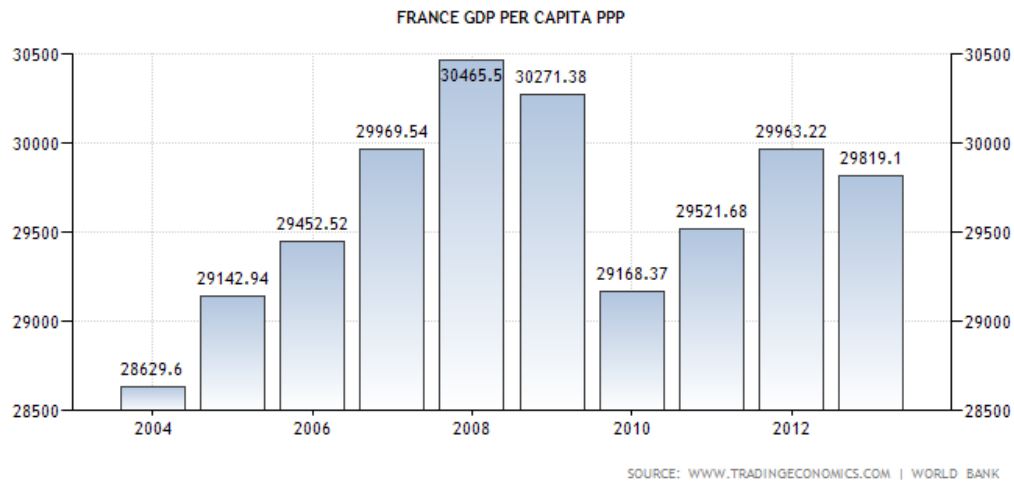
(http://www.mckinsey.de/sites/mck_files/files/european_luxury_survey_2012.pdf),

mainly **due to** the recent depression of **the** European economy. **This change in target market buying preferences may negatively influence** the domestic sale of Hermès Birkin bags. However, the second finding may **indicate where** Hermès **has** an opportunity to boost **domestic sales of** its Birkin bags and other products. France **becoming** one of the most popular luxury **travel** destinations in recent years **means that the** highest-tier consumers are willing to spend money **for quality lodging and services, not only** in must-see **destinations** such as Paris and the French Riviera, **but also** less ostentatious places such as Cap Ferret and Languedoc. ~~Those travellers are also willing to pay to live in the premium hotels but the dining experience is the key~~ (http://www.iltm.net/files/the_future_of_luxury_travel_report.pdf). This finding is beneficial to Hermès Birkin bags' marketing because these luxury **travelers** are **its target** customer group. **These trends give** Hermès **the option to** strategically **place products right in the hotels where its target market is vacationing and thus boost sales** in the domestic market.

Economic Forces

With individual economic power being the main factor in premium product purchases, there is a direct link between that and overall economic force. The GDP and GDP per capita based on PPP is a basic indicator of a country's market scale and potential domestic purchasing power. With a GDP of \$2.7 trillion, France has the world's fifth-largest economy but its GDP per capita based on PPP remains at the relatively low level hit during 2010's global financial crisis (Figure 3). There has been some growth but it is clear that the domestic economy has not thoroughly recovered from the effects of the crisis. ~~From this point of view, the domestic consuming power is relatively lower than that of years ago.~~ On the other hand, Hermès stands out as a brand that managed the financial crisis quite well, and there has been no tailoring of its business strategy or prices to reflect the changing times (<http://insidefmm.com/2009/11/hermes-marketing-never-discount-hermes-birkin-kelly-handbags/>), predominantly because the company's customers are the highest-tier luxury consumers whose consuming power is not greatly influenced by economic fluctuations. ~~Those who suffered in the global economic crisis are the mid and low-tier consumers.~~ Another reason is that France's luxury industry is one of the strongest in the world (<http://about-france.com/geo/french-economy.htm>) and this works in Hermès' favour in terms of available target market. ~~France has a huge luxury market with thousands of luxury brands. The market attracts thousands of luxury tourists all over the world and these people are one of the main~~

consuming forces to boost Hermès' sale in French market.



(<http://www.tradingeconomics.com/france/gdp-per-capita-ppp>) [NOTE: MAKE SURE THERE IS A TITLE FOR FIGURE 3 THAT MATCHES THE OTHER FIGURES]

Political Environment

The politics has been singularly unforthcoming in France over years

(<http://about-france.com/geo/french-economy.htm>). [DO YOU MEAN: French politics have been contentious in recent years

(<http://about-france.com/geo/french-economy.htm>).] Very little was accomplished by President Sarkozy, a conservative who vowed to reform French instructions and get the economy going again. Some feel that he failed to take the strong measures needed to reduce deficits and rein in public spending

(<http://about-france.com/geo/french-economy.htm>). The consensus view even in France is that as of 2013 the French economy is still in the doldrums. French citizens

remain skeptical of current president Hollande's promises of better times ahead, even when presented with positive figures

(<http://about-france.com/geo/french-economy.htm>). **While this gloomy political atmosphere may have overall negative effects, Hermès again remains relatively unaffected thanks to its target demographic of the extremely wealthy.** ~~targeting customers are the highest-end luxury buyers rather than those mid and low-end consumers. As long as there is no deadly chaos in France, Hermès would not be significantly impacted by the political forces.~~

Technology

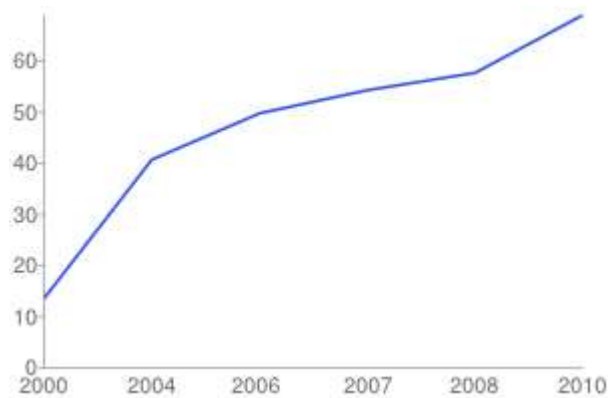
France has **successfully developed a** dynamic telecommunications **industry**.

According to a Google-commissioned McKinsey study, 25% of French economic growth is attributable to Internet-related products and services

(<http://about-france.com/geo/french-economy.htm>). Moreover, the French IT market is the third largest in Europe and is projected to grow at a compound annual growth rate (CAGR) of 4% over 2011-2015

(<http://www.prlog.org/11453399-recently-released-market-study-france-information-technology-report-q2-2011.html>). **Internet accessibility in France has continued to improve since the initial positive development of 2010 indicated in the following chart. Although Hermès' distribution strategy is to make products available only in its traditional stores, and advertise mainly in high-end print media, the**

company could expand that strategy. Taking advantage of France's well-developed IT services by paying more attention to internet and mobile promotion would be an excellent means by which to root its brand image in the minds of its domestic target customers.



(<http://www.brodynt.com/index.php/business-internet-france>)

Geography and Infrastructure

France has placed a great emphasis on investing in **infrastructure; it was** the first country in the world to propose, plan and set up a dedicated high-speed rail network (<http://about-france.com/geo/french-economy.htm>). The country now **boasts** the world's second most extensive high-speed rail network (after Spain), which runs from the North Sea to the Mediterranean, and east-west from near the German border to the lower reaches of the Loire (<http://about-france.com/geo/french-economy.htm>). The advanced transportation system attracts at least 75 million foreign tourists per year, which makes France the most visited country **with** the third largest income from

tourism in the world (<http://static.luxurysociety.com/mg/FR.pdf>). **While not necessarily being of Hermès' elite target market**, these travelers **do have the potential to contribute to the company's** domestic revenue.

Industry Structure and Competitive Climate

While **France's** economy has suffered **from** the global economic crisis, its luxury industry has been thriving. There are 1714 companies in the industry, **with** 282 **associated** service providers (<http://static.luxurysociety.com/mg/FR.pdf>). The top players in the **industry** are the world largest and second largest luxury **groups** LVMH (Louis Vuitton Moët Hennessy) and *Kering Group*, **and the other significant** players are family **businesses** such as Chanel and Hermès. Amongst these there **is intense competition, one example being the manner in which** the top player, LVMH, has **maintained** its status of **world's** largest luxury group **by acquiring** many well-known brands, including Guerlain and Chateau d'Yquem (<http://www.cnbc.com/id/100781119>). Hermès' **handcrafting** and its unique marketing strategy **allows it to stand firm in the industry, but the company is somewhat at risk** of being taken over by **LVMH, which has made several purchases of shares in Hermès International S.A. Acquiring** Hermès would **not only** give LVMH the world's most desirable handbag manufacturer, **but would** also complement Louis Vuitton, where prices are similar to its brand Gucci's at an average of about €1,400 and where sales have slowed sharply

(<http://www.ft.com/cms/s/2/bc275cea-e7ae-11e2-9aad-00144feabdc0.html#axzz2hX83qVyU>).

Ethical, Environmental and CSR issues

Every year, the global leather industry **instigates the slaughter of** more than a billion animals **for the tanning of** their skins and hides. It is reported that **snakes** and lizards are skinned alive because of the belief that live flaying makes exotic leather supplier.

Kid goats may be boiled alive to make gloves, and the skins of unborn calves and lambs—some purposely aborted, others from slaughtered pregnant cows and ewes—are considered especially luxurious leathers

(<http://www.peta.org/issues/animals-used-for-clothing/leather-animals-abused-and-killed-for-their-skins.aspx>). **As a consumer of products of these inhumane practices for**

use in its Birkin bags, Hermès may well find itself in a costly ethical dilemma should it lose the favour of its elite target market and become subject to boycott.

Many of Hermès' competitors have **already** introduced man-made leathers, **either out of ethical integrity or as insurance against any negative public response to unethical practices that might affect future revenues.**

Laws and Regulations

The French government has set several laws to prevent monopolies from forming in

its domestic market. In **2013, French** market regulators found out that LVMH had secretly amassed 22.6% of **Hermès'** combined shareholding, **making** LVMH the largest shareholder in Hermès International S.A. outside **of** the immediate Hermès family heirs, who still exercise ownership rights over the business (<http://www.bornrich.com/lvmh-vs-hermes-an-attempt-to-take-over-the-family-business.html>). In France, companies are required to disclose **stakes of** more than 5 percent of a company's capital if the target company is listed on the stock market (<http://www.cnbc.com/id/100781119>). France's stock market regulators eventually decided to **give an €8 million fine on LVMH** for the “seriousness of the successive breaches of public disclosure requirements (<http://www.ft.com/cms/s/2/bc275cea-e7ae-11e2-9aad-00144feabdc0.html#axzz2hX83qVyU>)”. **This regulation system protects Hermès from being at a more serious disadvantage in its** competition with LVMH.

Market Segments and Target Market Analysis

The world luxury market is mainly divided **into** five segments: watches **and** jewelry; accessories; **homes, etc.**; fragrance and cosmetics; and, fashion **and** clothes (**Figure 4**) (http://www.medialine.de/media/uploads/projekt/medialine/docs/bestellung_download_english/market-information/luxury_0807.pdf), **with the last** segment – in which Hermès is one of the main players - **comprising** 41.9% **of** the market. However, French luxury consumers are not **making large expenditures in the wake of** the global

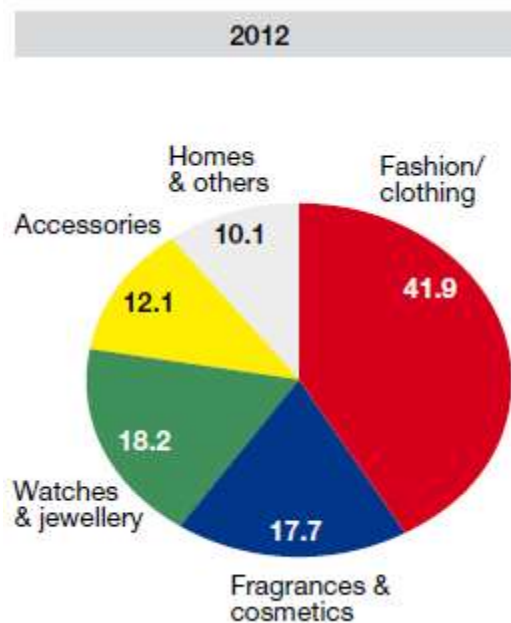
economic crisis; over 50% consumed less in **the last** two years

(http://www.mckinsey.de/sites/mck_files/files/european_luxury_survey_2012.pdf).

Meanwhile, **luxury travelers** from some emerging countries such as China and India have become one of the key target consumer groups in **the** French luxury market

(<https://www.credit-suisse.com/ch/en/news-and-expertise/news/economy/sectors-and-companies.article.html/article/pwp/news-and-expertise/2013/09/en/the-rise-of-the-chinese-luxury-consumer.html>).

Figure 4



Advertising Environment

In regards to online advertising, reports say that “[it] is still going strong,

demonstrating robust growth (CAGR 02 – 11 of 24%) which is expected to continue for

the foreseeable future

(<http://www.rudebague.com/2012/09/26/clipperton-finance-ad-tech-strong/>)". This

is because of the advanced Internet technology and growing Internet use in France.

Advertising websites account for up to 50% of the time French people spend online

(<http://www.rudebague.com/2012/09/26/clipperton-finance-ad-tech-strong/>), **a fact**

of which many of Hermès' competitors, such as Chanel and LVMH, have **long** been

aware. **It would therefore be** beneficial for Hermès to put more **of its** budget **towards**

online advertising.

Pricing environment

Louis Vuitton, a main competitor of Hermès, has raised the prices on its best-selling

monogrammed accessories by up to 12% **in recent years, reflecting an**

industry-wide trend

(<http://www.dailymail.co.uk/femail/article-2301254/Louis-Vuitton-bags-MORE-expensive-luxury-fashion-giant-raises-prices-12-cent.html>).

One of the reasons for the

steady price hikes is that luxury goods have low price sensitivity, **and this naturally**

applies to luxury **handbags** as well. Luxury buyers **tend not to be frugal or** to care

about price; a Hermès Birkin bag **can range in cost from \$5,000 USD to over 6**

figures, but this is acceptable to most of its customers, the highest-tier consumers

in the target market.

Distribution Structure

Hermès Birkin's distribution model is different from that of many other products and brands. A customer has to make a reservation at a **Hermès** store **and be put onto** the waiting list. **Once** his or her Birkin bag **is complete, it comes directly from** the **company to the customer. This** distribution strategy **saves on Hermès' inventory costs** while **differentiating** its brand image from **that of** other competitors.

Recommendations

The analyses above support the following recommendations. **This report advises Hermès International S.A. to:**

- Leverage the **well-developed** Internet technology and online advertising services in France to promote its **Birkin bag** image **while to sell other non-waiting lists products.**
- Pay more attention to the **phenomenon of luxury travelers coming from emerging** countries such as India and China, and train **Hermès domestic store personnel in the sales methods that** serve **these tourists best.**
- **Stay aware of which hotels are most popular with luxury travelers, both in traditionally high-volume locations and at destinations that are just starting to become sought-after, and** strategically enter into **sales contracts with those**

accommodation venues in order to boost domestic sales.

I, _____, declare that this paper includes words.