Promotional Mix and Integration of Communication into Management Policy - Case Study

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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.

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

JEL classification: M10, M31

Introduction

During Companies' promotional and communication strategies have the role of informing the public in respect of the range of products and services offered, of persuading consumers of the advantages of their use. These activities are diversifying and becoming more and more complex. Consequently, new techniques, new organizational structures, new expert teams are emerging. Additionally, the attractiveness of operating with the instruments of the marketing communication mix: advertising, direct selling, sales promotion, public relations, personal sales. These instruments, in practice, may be interchanged or some of them may be used in order to promote others, purporting the existence of a single coordination.

The quality of economic activity corroborated with the quality of communication and promotional activities help firms sell more, create new products, generate competition and in the end ensure as many workplaces as possible (Popescu, I., D., 2013, p. 125).

The communication mix can be approached in multiple ways. One of these approaches, proposed by Jean-Marc Décaudin, consists in delimiting the primary communication techniques (those for which communication is effectively the strict

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objective of the envisaged technique) from the secondary techniques (where communication is not the fundamental objective of the respective technique) – Table 1.

Table 1 Communication mix

Primary communication techniques	Secondary communication techniques
• Media advertising • Direct advertising • Event advertising • Public relations • POS (Point of Sale advertising) • Visual identity • Rumours	• Product and design • Packaging • Sales force • Sales promotion • Lobbying • Financial documents • Recruitment ads • Fairs and salons

Source: Décaudin J.-M., *La communication Marketing,* Editura Economica, Paris, 1995, p. 60

In respect of sales promotion, P. Lassègue considers it to be synonymous with "trade dynamics", consisting in all actions which could trigger an increase in sales. It is the case, actually, of one of the four variables of the marketing mix (Ristea, A.-L. –coordonator -, Ioan-Franc, V., Tănăsescu, D., Toma, A., Topiţa. M., 2002, p. 487).

Regarding event advertising, Décaudin defines it as the generic denomination given to sponsorship, patronage, and any other technique based on the use of a certain event (existing or especially created for the occasion). Event advertising uses several types of events (Décaudin J.-M, 1995, p. 105): sports (football, rugby, tennis, automobiles, athletics, motocross), culture (music, theatre, art exhibitions), TV shows (televised patronage), videoclips, the environment (environmental protection is an attractive theme), social causes, scientific and technical research (an investment in this domain values the role and image of the company in the medium and long term).

1. Global powers of luxury goods companies

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".

Figure 1 Top 100 quick stats

- 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

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

There were no new entrants in 2014 to the list of the world's Top 10 luxury goods companies. There was also little change in luxury goods sales, total revenue, or economic concentration for the Top 10 as a whole, with relatively little acquisition activity by the leading companies. Kering's acquisition of Swiss watch company Ulysse Nardin in November 2014 was the only major event.

Chow Tai Fook (sometimes called ‘Asia's Tiffany & Co’), dropped three places to #7 in the rankings following a 17 per cent decline in sales. This was due largely to a spike in sales in 2013, when consumer demand for luxury goods was boosted by a ‘gold rush’ effect, driven by a slump in the international gold price.

This sharp fall in sales for Chow Tai Fook affected overall growth in luxury goods sales for the Top 10 companies. Their total sales (referred to here as ‘composite’ sales) grew by 2.0 per cent in 2014, which is less than the composite sales growth rate of 3.6 per cent for the Top 100 luxury companies. Excluding Chow Tai Fook, combined sales of the other nine companies in the Top 10 grew by 3.4 per cent.

LVMH, which accounts for over 10 per cent of the total luxury goods sales by the Top 100 companies, turned in a very strong performance: it was #1 in luxury goods sales revenue, and also #1 among the top 10 companies for luxury goods sales growth rate and net profit margin. LVMH's high 7 per cent sales growth was due to full year contributions from Q4 2013 acquisitions Loro Piana and Nicholas Kirkwood, as well as steady growth in its core business. Its 19.9 per cent net profit margin was the fifth highest out of all companies in the Top 100, but this figure was boosted by an exceptional profit of €2.677 billion from an enforced distribution of Hermès shares to LMVH shareholders during the year.

Over the two-year period 2012-2014, the compound annual growth rate in luxury goods sales was stronger, at 5.1 per cent, for the Top 10, although this was half the compound annual growth rate for this group of companies in last year's report. Profit margins for the Top 10 companies were higher than in 2013: their composite net profit margin increased by 1.5 percentage points to 13.2 per cent, outperforming the Top 100 companies by 1.8 percentage points. All Top 10 companies were profitable, and half of the group achieved double-digit net profit margins. Swatch Group lost the #1 position as the 'highest net profit margin Top 10 company' that it had held for the previous two years to LVMH, but only because of the exceptional profit reported by LMVH for the Hermès shares. Excluding this exceptional profit, LVMH's net profit margin was the same as Richemont's, at 12.8 per cent. Net profit margins at Swatch and LVMH were among the highest for all of the Top 100 companies in 2014. Both Kering and PVH Corp. enjoyed healthier profits following completion of their restructuring programmes.

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 2.

Geographical analysis reflects a high concentration of luxury goods companies headquartered in Europe, the United States and China/ Hong Kong. Companies are assigned to a country based on their headquarters' location, which may not always coincide with where they derive the majority of their luxury goods sales. Although many companies derive sales from outside their country of origin, 100 per cent of each company's sales are accounted for in that company's domicile country.

Table 2 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

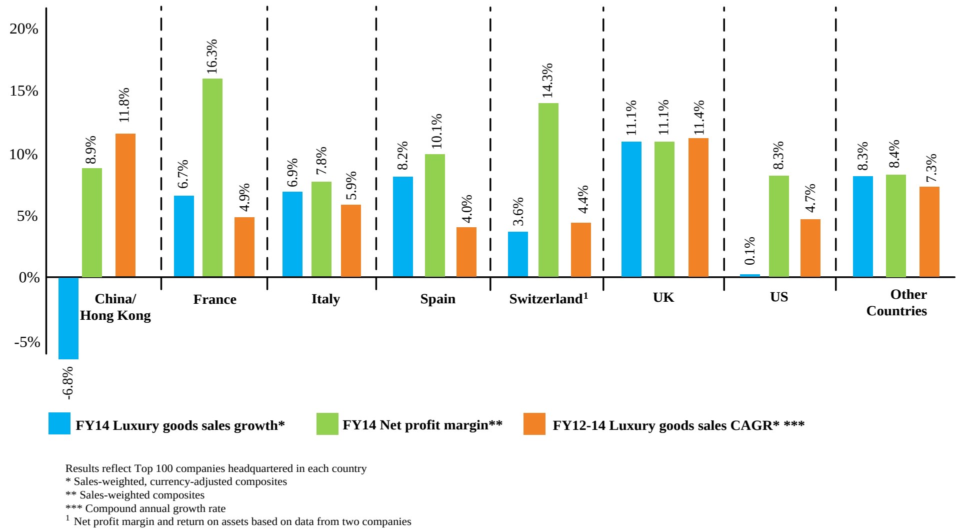
Source: Deloitte, *Global Powers of Luxury Goods* (2016), p.14

China, France, Italy, Spain, Switzerland, the UK and the US together are represented by 84 per cent of the Top 100 luxury goods companies and 90 per cent of Top 100 global luxury goods sales in 2014. Last year's runaway leading country, China/Hong Kong, experienced a decline in sales of 6.8 per cent in 2014, compared to 33.4 per cent growth in 2013. This was due to the ending of the ‘gold rush’ effect that had boosted jewelers’ sales in 2013. Luxury sales growth for companies in most European countries was higher than the 3.6 per cent achieved by the Top

100 as a whole: growth for companies in each of Spain, Italy, France and the UK was over six per cent. The UK was the best-performing country, achieving 11.1 per cent sales growth in luxury goods for the second year running. Sales growth in Switzerland was 3.6 per cent, just below the composite average for the Top 100. Sales growth among US companies fell by 9.3 percentage points in 2013 to just 0.1 per cent in 2014, although this composite figure includes some big winners and some big losers. Amongst other countries, companies from South Korea, Luxembourg, India and Japan all achieved double-digit sales growth, but in spite of these growth figures, there was little change in the overall country representation in our Top 100 companies compared with 2013 **(**https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Consumer-Business/gx-cip-gplg-2016.pdf).

Performance by countries expressed in indicators like luxury sales growth, net profit margin and luxury goods sales CAGR (compound annual growth rate) are presented in figure 2.

Figure 2 Performance by country



Source: Deloitte, *Global Powers of Luxury Goods* (2016, p. 25)

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.

Incentivised by a strong American dollar, the American continent became the largest global region worldwide for the purchase of luxury goods for personal use. However, in real terms, the US market could have been even more interesting. Hence, the "superdollar" was too expensive for many international tourists and even though local consumption increased, it could barely compensate for the decline in tourism income.

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%).

Luxury consumers from mature markets, such as Europe, the USA and Japan, have the tendency of buying locally. However, the economic increase in these regions depends more and more on expenses made by tourists.

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, *Creşterea luxului impulsionată de turism şi de chinezi, Dialog Texti*l, 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).

A recent example of efficient and effective mélange between fashion and technology, benefitting both luxury brands and music videos, respectively the artist wearing the luxury brand clothing article, consists in the promotion strategy used by Roberto Cavalli. Thus, the launch of their latest feminine collection was spearheaded by the already famous yellow dress signed Cavalli, worn by Queen Bey (Beyoncé) in her new album. This dress benefitted from more views in this medium than any other show of the Italian brand up to date. Also, this strategy was advantageous for the singer, who used fashion in building her personal brand and who demonstrated the use of the brand’s power so as to create a global event.

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, as in the case of Beyoncé, on creating the element of surprise via a unique event which you absolutely wish to take part in.

A successful collection and sale depends on the identification of opportunities to think further than the traditional format to which the clients and press have been accustomed. The element of surprise is used in order to offer clients something they did not expect.

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 manner in which pre-collections are conceived and presented lead one to think either of a Madonna or a Rolling Stones tour and less of a fashion show. Thus, to the extent that concerts have become true fashion shows, it is the principle of communicating vessels.

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.

In 2015, Dior presented their pre-fall collection in a sumo arena in Tokyo, at Kokugikan, an arena transformed in a snow fantasy. The cruise collection was presented in the south of France on 11 May, close to the commencement of the Cannes festival, in order to facilitate the planning of actresses' activities who were under Dior contract, but also in order to offer important customers visiting Cannes a glamour event as expected. The runway show was organized at Palais Bulles, property of the designer Pierre Cardin. As Louis Vuitton had announced its show in Palm Springs, not far from Los Angeles, the proximity could not be auspicious for Dior in a contest where the stakes lie in the originality of the endeavour. Loyal to the arty style of Nicolas Ghesquière, Vuitton organized a sumptuous runway show on the property of Bob and Dolores Hope, in the futuristic building created by the famous American architect John Lautner.

One of the best collections belonged to Gucci, brought by creative director Alessandro Michele to New York. An entire block of flats from the artistic Chelsea quarter was closed, an immense industrial warehouse was clothed in carpets, in support of the podium and as reception for the Resort 2015 collection.

The pre-collection presented by Stella McCartney counted itself among the best jet-set experiences. Thus, her show organized in New York was a real party with music, cocktails for everyone and models having fun dressed in the clothes of the collection. Her friends, from Alexa Chung, Alicia Keys, Liv Tyler, Dree Hemingway, the great-great granddaughter of the famous writer, to the daughter of the guitarist John Taylor from Duran-Duran, brought a final touch of chic.

Chanel, having been "on tour" for several years, opted in 2015 after Dubai, Shanghai, Dallas or the Roman studios Cinécitta, for Seoul. More precisely, Dongdaeum Design Plaza, a project designed by the regretted architect Zaha Hadid. Pre-collections currently comprise 70 – 80 % of the fashion house's sales.

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 şi decadenţă – turneul de superstar al pre-colecţiilor, 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.

Ad short clips of fashion brands for spring-summer 2016 were performed in collaboration with directors such as Gordon von Steiner, David Lynch, Nick Knight or Spike Jonze. Thus, Kenzo is playing with the mood of some modern so-called high schoolers, Miu Miu takes a stroll with models in Brooklyn New York, Tom Ford reinvents the dance ring with Lady Gaga.

The remarkable film made by Danny Sangra for Balenciaga "Une incroyable excuse" had as project partner MyTheresa.com, the O'Shea period. Justin O'Shea, a star of street style at all Fashion Week events, was a retailer for MyTheresa.com. All the products in the Balenciaga clip were impossible to be accessed on the website at the time of the video's release. Also, Danny Sagra is the director of the Mercedes video, "A Fistful of Wolves".

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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