

Based on COVID-19, the effectiveness of corporation strategies—case study of Hermès

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Abstract: Luxury market is developing rapidly in recent years, so the strategic study of luxury companies is a new management science worldwide. The competition among luxury brands is increasingly fierce. Top companies in the industry, such as LVMH, Richemont and Kering, have introduced different strategic management plans to compete for market share. However, the arrival of COVID-19 in 2020 is undoubtedly a huge blow to the luxury industry. Based on the relevant theories of corporate strategic management, this paper analyzes Hermès's financial statements, development status and new strategic management plans under the epidemic situation in turn. On this basis, the case analysis method, BCG matrix and other methods are used to analyze Hermès's strategic model and obtain the strategic objectives to be implemented by the company. The results of the study show that Hermès has performed remarkably well during the pandemic. This paper contributes to the existing literature from two aspects: on the one hand, it comprehensively analyzes the implementation of Hermès' strategic management in all aspects during the epidemic; on the other hand, it predicts the main direction of Hermès' strategic management in the future.

1. Introduction

In recent years, the global luxury goods market has developed rapidly. In 2017, the world's 100 largest luxury goods companies achieved total sales of \$247 billion, an increase of \$30 billion from the \$217 billion in the previous fiscal year. The compound annual growth rate that was calculated after the exchange rate adjustment also rose to 10.8%, which was much higher than the 1.0% of the previous year. 76% of the top 100 luxury goods companies achieved sales growth. The lowest revenue of the luxury goods companies that entered the 2017 top 100 list was 218 million US dollars, an increase of 7 million US dollars compared with the 2016 fiscal year, and the average revenue scale was 2.47 billion US dollars. It shows that the global demand for luxury goods is very huge.

However, the arrival of the coronavirus-19 in early 2020 has undoubtedly brought an unprecedented impact on the luxury goods market. The overseas luxury goods market was affected by the epidemic: Chanel and Lord & Taylor filed for bankruptcy protection one after another, and Tiffany & Co closed 70% of its offline stores. In China, when the new coronavirus swept through, due to travel restrictions and fear of contracting the virus, people in China no longer travel abroad and buy luxury goods, resulting in a decrease in sales of luxury goods by about 35%.

Now that the post-covid-19 period has come, the global economy is slowly recovering, and the Chinese market is the first one that recovers the loss. In 2020, the global luxury goods market is shrinking by 23%. After the circumstances about covid-19 in China improves, the share of the Chinese domestic market in global luxury goods consumption has doubled, rising from about 10% to 20%, which is not unsightly. China has become a major strategic market for luxury goods companies. In order to recover sales as soon as possible, major luxury goods companies have introduced many new strategies and management methods under the covid-19 and in the post-covid-19 period.

About enterprise strategies, domestic and foreign scholars have done a lot of research work.

The idea of strategic management was born in 1962, and the book "From Strategic Planning to Strategic Management" published in 1976 first discussed the concept of corporate strategic

management, which improved the theory of corporate strategic management formally to the systematic research stage [1]. The mainstream schools of business strategic management research mainly include: the design school, the planning school, the positional school, capacity school and the resource-based school of strategy [2]. The current definition of corporate strategy refers to the overall and long-term plan formulated by companies in order to adapt to changes of the future environment, apply strategic ideas and theories to corporate management, and seek long-term survival and stable development. The corporate strategy system can be divided into three parts: company overall strategy, competitive strategy and functional strategy. The definition of enterprise strategic management is that determine the development direction and goals of the enterprise according to the environmental conditions, including external environment and internal capabilities of the enterprise, and to implement the entire management process. This process can be roughly divided into three parts: "strategic analysis", "strategic selection", and "strategic implementation and control". In the strategic analysis part, the specific methods are as follows: PEST model, BCG matrix, value chain model and SWOT model. In the process of strategy implementation, the company first considers the relationship between strategy formulation and strategy. The better the cooperation between the two, the easier it is to succeed in strategic management; secondly, the company must also consider the impact of the implementation of different strategies on the current status of the company; finally, the company must set up the strategic planning system. To achieve their strategic goals, companies must not only effectively formulate strategies, but also effectively implement strategies. A problem with one of the two will affect the success or failure of the entire strategy [3].

Based on the above analysis, we can find that although there are abundant researches on corporate strategy, there are still few researches on the background of COVID-19.

This article will specifically focus on the top luxury brand Hermès, and observe whether it implements new strategies to achieve sustainable development and make up for loss of sales during the covid-19, and whether it has a separate strategy for the huge luxury market in China.

2. DATA and method

The case study method is well suited for this study for two reasons. First of all, the origin of enterprise strategic management is depended on thought and theory, which are intangible things that are difficult to quantify with specific data. The embodiment of the application about strategic management in reality is cases. A case is an epitome of enterprise strategic management and analysis of its effectiveness can determine whether the enterprise strategic management is successful to a certain extent. Secondly, a company's strategic management plan will not be released to the public, so it can only be derived from multiple different cases, relying on multiple sources of evidence, and a solid description and systematic understanding of the case. By this way, a more comprehensive and holistic view can be obtained.

There are two main reasons for choosing Hermès as a case study. First of all, as one of the top three luxury brands in the world, Hermès has a professional team in corporate strategic management and is able to deal with all kinds of emergencies maturely. Second, during the period of the COVID-19, larger luxury companies will be more affected. The impact of the epidemic suffered by Hermes as a top luxury brand is obvious. However, in the post-epidemic era, Hermès' financial report showed that its sales increased by 44% year-on-year. Therefore, the study of Hermès' corporate strategic management is representative and helpful to other brands in the luxury industry.

3. Result and Discussion

This paper will evaluate the effectiveness of Hermès' corporate strategies which have been established to deal with the epidemic by analyzing Hermès' diversified sales strategies, socially responsible marketing, separate strategies for specific regions (e.g. China and Japan) and financial statements in recent years.

In 1837, Thierry Hermès opened a Hermès high-end saddlery factory in Paris Grands Boulevards, dedicated to serving the European nobility who were keen on equestrianism at the time. From the beginning of its establishment, quality has been the core of the product. After nearly two hundred years of development, Hermès has successfully transformed itself into one of the top luxury goods brands. Based on the development of the world, since the last century, the main business has been changed from horse saddlery to leather goods. Hermès, focusing on the layout of the global market, set up stores in many cities in various countries, developed multi-category business, and achieved steady growth in performance step by step [4].

3.1 Financial performance research

The scale of the personal luxury goods market has been booming in recent years. In 2019, the global luxury goods market reached 281 billion Euros, but in 2020 it has fallen to 217 billion Euros, with the market size shrinking by nearly 23% [5]. The same condition for Hermès, the gross profit in the annual report has been rising year by year. In the past five years, it has risen from 5.2 billion euros in 2016 to 6.88 billion euros in 2019. In 2020, due to the COVID-19 epidemic, the gross profit of Hermès decreased slightly to 6.39 billion euros, a reduction of 7%. However, compared with other luxury goods companies, such as gross profit of LVMH shrinking by 16.8%, Hermès is already a successful case in responding to the epidemic. Even in the post-epidemic era, when the global luxury goods market has just begun to recover, the Hermès' first-quarter 2021 financial report released on April 22 has shown that during the reporting period, Hermès's sales rose 44% year-on-year to 2.084 billion euros. Although the leather and saddlery sector, which includes the handbag business, is still the most profitable department of Hermès, businesses in other sectors have begun to catch up.

In terms of product categories, Hermès divides its products into seven categories: leather goods and saddleries, ready-to-wear and accessories, silks and fabrics, life art (including jewelry, tableware, and furniture, etc.), perfumes, watches, and others. Among them, leather goods and saddleries are still the most important source of the company's revenue. From 2010 to 2019, the annual contribution is closely equal to half of the company's total revenue. Since 2016, the revenue of leather goods and saddleries accounted for four consecutive years and the ratio has stabilized at 50% and recorded 3.413 billion euros in 2019. The ready-to-wear and accessories business constitutes the company's second-largest source of revenue, which can provide a proportion of about 20%. It fluctuates slightly from 2010 to 2019. It has shown an upward trend in the past three years, reaching 23% in 2019. Silk and fabrics are the company's third-largest business, and its revenue accounted for about 10%. It has shown a slight downward trend in the past ten years and has remained at 9% in the past two years. The revenue of other categories of products accounted for a relatively low proportion, and the overall situation remained stable [4].

3.2 Strategy research

Among them, the new corporate strategy released by the Hermès Group during the epidemic is particularly important. After experiencing the impact of the 2020 epidemic, Hermès adjusted its business strategy in 2021; while international tourism has not yet recovered, Hermès has chosen to increase investment in brand communication, marketing, and retail network construction in key markets in a targeted manner. Clearly, Hermès's strategic management is responsible for the sales recovery.

We can use the BCG matrix to simply divide the product categories of Hermès: Hermès began to develop and produce saddleries a hundred years ago and then transformed them into leather products. From the perspective of historical and quantitative data, both saddlery and leather products are Hermès products, which are cash cows. They are characterized by a low growth rate and high market share. The sales volume is large, the product profit margin is high, and the debt ratio is low. Hermès announced on January 1, 2021, that the prices of its leather goods, such as luggage and bags, have risen by 5%. Compared with other luxury goods, the price increase of Hermès is not high. It is in a range that can be accepted by customers while the increase can stimulate consumption. This strategy has successfully allowed Hermès to obtain a large number of profits in a short period. According to

the report for the first half of 2021, Hermès has achieved nearly 2 billion euros in revenue in leather goods and saddlery.

Ready-to-wear and accessories and watches are the star products of Hermès. With a high growth rate and gradually increasing market share, Hermès should increase investment to support its rapid development to actively expand the economic scale and market opportunities, increase market share and strengthen its competitive position. In terms of selling star products, consumption methods and distribution media has been mainly changed due to the epidemic in 2020. With the growth of e-commerce and the continuous improvement of customer experience, the communication between stores and customers has become more direct and flexible. Hermès has made the strategic choice to increase online sales, successfully launched new proprietary platforms worldwide, attracted and retained new customers, and developed services and programs. The digital flagship store is designed like any Hermès store, with its spirit of fantasy, authenticity and diversity, showcase, products, services and stories all gathered in one virtual place. In addition, the sales of all categories of Hermès products and watches for men and women have been growing for five consecutive years, and Hermès H08 and other new products have been used to expand sports-style works and continue to expand the economic scale [6].

3.3 Marketing research

Apart from the categories mentioned above, Hermès also includes silk and fabric, living artworks (including jewelry, tableware and furniture, etc.), perfume, and other categories. Dogs and Question Marks in the BCG matrix are difficult to define in Hermès products because Hermès's latest corporate strategy is to seek balanced development of categories. On June 25, Hermès opened its first women's shoe Boutique in the world, Hermès Shoes Boutique, in Japan. "Due to the growing popularity and wide range of footwear products, we decided to open a women's shoe Boutique," Hermès said. On June 28, Hermès opened a "Hermès After-sale counter" dedicated to the repair and maintenance services of Hermès products at the Hilton Plaza in Osaka, Japan. This is the first time for Hermès to open a repair shop, covering an area of 105 square meters and staffed by Hermès artisans [7].

It is worth mentioning that Hermès has also established a corresponding corporate strategy for China, a huge market, during the COVID-19 epidemic. China is a mainstream market for luxury goods. According to statistics, sales of luxury goods in China have decreased by 35% during the epidemic. However, when the global luxury market shrinks by 23% in 2020, after the epidemic in China improves, the share of the domestic market in the total global luxury consumption doubles, rising from 10% to 20%, and it is the only region that shows bucking the trend. On Jan 22, Hermès opened a perfume flagship store on Tmall, an e-platform in China, selling perfumes, body washes, shampoos, lotions, creams, soaps, aftershave and body sprays, as well as a variety of gift boxes [7]. The logic behind this is that perfumes tend to be cheaper and more readily available products for luxury brands. To consumer character as if a "stepping-stone". When consumers buy a fragrance, they are more likely to be attracted to other products of the brand. This is good for educating the market and developing potential customers. And for the brand, perfume can bring very considerable profit. Hermès' perfume division has room to grow after a relatively weak performance in 2020. So, there is a reason to believe that the opening of an online fragrance store dedicated to the Chinese market will help Hermès's overall fragrance division regain growth. The menswear spring/Summer 2021 show, which was originally scheduled to take place in Milan and Paris, was moved to an online fashion show for more Chinese audiences, and Hermès seized the opportunity to promote the brand. The show was an artistic collaboration between Hermès and a French contemporary theater director Cyril Teste, which fully demonstrated the brand's charm in seven minutes: exquisite workmanship, profound thinking and extraordinary creativity.

Hermès also showed its brand a sense of Humanity during the epidemic. In March 2020, Hermès announced the closure of all production sites in France, involving about 40 manufacturers and tanneries [8], and used its perfume factory in Vaudreuil to produce hand sanitizer.

Bain company suggested that luxury's leadership team should prioritise action on three areas to help mitigate the upheaval caused by the pandemic: "Govern through a new leadership framework," "Act

to maximize short-term financial, operational and brand resilience” and “Transform the value proposition and business model for the future.” In terms of the first area, Hermès is a family business, in order to ensure the continuity of the brand, it is difficult to establish a new leadership framework. But on the latter two points, Hermès has a good profit margin in 2021 and it has also changed its business model from purely offline shopping to a combination of online and offline shopping.

4. Conclusion

In conclusion, Hermès's corporate strategy aims to increase sales and expand potential customers to increase market share on the basis of promoting balanced development of categories. Hermès pays more attention to the strategic development of long-term operation, rather than the benefits brought by short-term sales growth. Instead of blindly pursuing the increase of the number of stores, Hermès is more willing to optimize the existing stores or try to open stores of new categories, such as women's shoes boutiques and after-sales counters, which establishment is based on consumer psychology. Hermès thus has a keen insight into consumer preferences to shape its strategy. In addition, Hermès' family governance ensures the good inheritance of brand culture. During the epidemic period, Hermès transformed its perfume production line to produce hand sanitizer, and carried out a live show to reflect its brand charm. Consumers are also happy to see that the brand of products they buy has a sense of social responsibility. Therefore, in terms of customer satisfaction and financial results, Hermès's corporate strategy facing the epidemic is undoubtedly successful. Moreover, the future trend is that the young generation is becoming the main group of luxury goods buyers, and China has become the main consumption area. Therefore, it could be forecasted that Hermès' next strategic management will be based on these two points. The design style will be more youthful in the future and in combination with the continuous development of culture and subculture elements, such as religion, nationality, and ethnic minorities, in the design, to cater to the main hobby. Hermès will further develop vertical e-commerce in China and expand further in second - and third-tier cities through the combination of offline experience stores and e-commerce.

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