

CHAPTER II

COMPARATIVE ANALYSIS

In the luxury industry, compares to their competitors, Hermès holds a quite high position in the market.

The 2020 Most Valuable Brand by Forbes (2020)

	Hermès	Louis Vuitton	Gucci	Chanel
Brand Value	\$21.6 B	\$47.2. B	\$22.6 B	\$12.8 B
1-Yr Value Change	19%	20%	22%	42%
Brand Revenue	\$7.7 B	\$15 B	\$10.8 B	\$13.7 B
Rank	32	9	31	52

(Created by the author based on secondary data, 2021)

As can be seen from the table, Hermès ranked 32nd on the most valuable brand in 2020. But compares to the same industry, as an independent house unlike its top competitors that are conglomerates, Hermès is ranked 3rd in position. However, if compared with revenue, Hermès is left behind its competitors.

To understand how well Hermès is doing in the market competition, Porter's five forces is used as the tool to analyse its competitive advantage. Porter's five forces is a framework used by business organisations to analyse a

company's competitive environment. As its name suggested, there are five forces in this framework which are the threat of new entrants, the threat of substitutes, bargaining power of customers, bargaining power of suppliers, and competitive rivalry (Porter, 1979).

2.1 Competitive Rivalry

The competition in the luxury goods segment is very intense. The demand of this segment has been increasing overtime which shown by research done by Arienti (2017) found that leather goods is one of the fastest growing segments in the personal luxury goods market category, and potentially to increase above the market average by 2023. The rivalry between the luxury goods companies is not about the price but more about the customers' perception towards the brand image. The customers of these luxury brands did not buy their products based on the prices, meanwhile they bought it based on the vision and dreams that these companies sell within their products.

Hermès, being a family business, is very vulnerable in the competition to be overtaken by luxury conglomerates that has access to more capital such as Louis Vuitton Moët Hennessey, Kering and Richemont. Although private and family owned luxury brands have a great position in the market, these luxury conglomerates have a very big influence and power in the luxury industry (Arienti, 2017).

Between rivals in the luxury industry, Hermès is ranked third with \$21.6 Billion of brand value after Louis Vuitton ranked first with \$47.2 Billion of brand

value and Gucci ranked second with \$22.6 Billion of brand value (Forbes, 2020). Although Hermes is ranked quite high, Hermès competitive rivalry is considered high enough.

2.2 Threat of new entrants

According to Porter (1989), the threat of new entrants into the industry depends on existing entry barriers, combined with the reactions of existing competitors that the newcomer can predict. If these obstacles or barriers are large and / or the newcomer predicts stiff resistance from the old faces, then the threat of new entrants will be low. There are six main sources of incoming barriers, namely Porter (1989), namely barriers to entry, economies of scale, brand loyalty, capital requirements, cumulative experience, government policies, access to distribution channels and switching costs.

It is hard for new entrants to enter this industry. The existing brands have established their brands years ago in the market. Hermès has been operating for 184 years, while the other strong competitor such as Louis Vuitton has been operating for 167 years. Therefore, it is difficult for new entrants to penetrate the market and to compete with the already established brands.

Other than that, it is required a lot of capital to enter this industry. Hudders (2012) states that luxury goods are “brands associating with a premium quality and/or an aesthetically appealing design”. However, it is more than just making premium quality products with aesthetically appealing design and selling it with high price. The luxury value is what drives people to purchase luxury items

(Tynan et al, 2010). To build such image, it needs a substantial capital for marketing. Therefore, Hermès' threat of new entrants is considered low.

2.3 Threat of substitutes

Hermès is facing a moderate threat of substitute by 2 main reasons one of which is that there are other luxury brands to choose from by customers. Brand loyalty plays an important role to maintain the market position in this industry. The term "brand loyalty" refers to the degree to which customers purchase and use specific brands (Knox, 1998). According to Keller (2001), brand loyalty directly contributes to purchases and repeat purchases. Regardless how many brands there are in the market, if Hermès has a strong degree of brand loyalty then they can compete in the market.

Another threat of substitute that is encountered by Hermès is counterfeit products. The fake luxury industry is getting better in quality as well as mimicking the original products. These counterfeit products might look identical makes it hard to tell whether it is real or not. According to Amaral and Loken (2016), viewing counterfeit goods can harm or dilute consumers' expectations and perceptions of the brand's essence as well as their probability of purchasing, particularly when a higher-class customer sees a lower-class consumer using the counterfeit version of the brand. Also added by Commuri (2009), genuine item buyers could be turned off by the brand's possible lack of exclusivity and prestige. By offering customers with lower price but with almost identical product, people with lower income might dictate the purchasing of counterfeit goods in order to maintain their good social impression (Wiedemann, et al., 2011). However, for

luxury brand owners, the awareness of the presence of imitation goods has little effect on the actual buying intentions of (Bachmann, 2018).

2.4 Bargaining power of customers

Major firms such as Hermès in the luxury fashion industry target a significantly different set of consumers, as compared to other players in the industry. Typically, Hermès' target market is an individual who seek for social status, exclusivity and high-quality products. It has its own customer base who are willing to buy their products despite how high the price is. The harder to get will enhance the exclusivity that associated to the brand (Aleazurra, 2017). Customers, especially loyal customers, will not likely to bargain for lower price since the exclusivity is the key component of luxury goods (Phau & Prendergrast, 2000). Therefore, the bargaining power of customers of Hermès is low.

2.5 Bargaining power of suppliers

Hermès (2019) mentioned that the durability of Hermès' activities depend on the availability of the high-quality raw materials that are at the heart of the products and are key to the House's unique character. One of Hermès' raw materials come from flora and fauna. However, respecting the Washington Convention (CITES), an agreement between states for the worldwide conservation of species of flora and fauna endangered with extinction, which may have an effect on the materials used in the Leather Goods section, the Tanning and Precious Leathers division, or certain perfume ingredients. Hermès manufactures their products from over 35 different varieties of leather (Hermès, 2019)

Hermès' threat of bargaining power of suppliers is considered low. All leathers used for manufacturing are directly purchased from tanneries, with no intermediaries. Even though the vast majority of the needs are covered by the House's own tanneries, however there are also some outside tanneries which are by French, Italian, German and Spanish tanneries. Altogether must adhere to European standards, which are some of the highest in the world for the industry.

To suppress the threat of bargaining power of suppliers, Hermès has anticipated it by ensuring long-term supplier relationships by retaining core expertise, securing supplies and services, and maintaining balanced and sustainable relationships (Hermès, 2019)