

# The Analysis of the Marketing Strategy of Hermès and accompanying word of mouth on social media

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**Abstract.** Luxury brands always have followers obsessed with purchasing the latest or the most popular goods from brands and posting online with related information, such as the customer service they receive, photos of the products, advice for others, etc. Therefore, this paper focuses on Hermès—one of the most successful luxury brands, with the assessment of three tactics (finding inner remarkability, leveraging game mechanics, and making people feel like insiders) it uses to gain customers' word of mouth. A questionnaire is created to determine customers' behaviors and psychologies when buying luxury goods, with 27 people completing the questionnaire. It is clear that the strategies of Hermès contribute to its high reputation among customers and motivate them to buy more. Still, some drawbacks, such as customer resistance and increasing profitable fake goods markets, are also significant. The results can help Hermès to create optimized tactics by considering modern customers' needs during the post-pandemic era when more people decide not to have retaliatory consumption but only spend on necessities.

**Keywords:** Hermès; marketing strategy; social media; word of mouth.

## 1. Introduction

Marketing strategies will affect a firm's impression in the public's minds and customers' behaviors, which is incredibly distinct in the luxury industry. The definition of luxury goods means the cost of production for these non-essential items is relatively high. People can get spiritual enjoyment through high consumption due to the high price. [1] Luxury brands are skilled at attracting potential customers and making them loyal, motivating people to discuss the brands and gain more word of mouth continuously.

The firm chosen for this paper is Hermès, one of the most successful and famous luxury brands; by analyzing the quantitative data from social media and 27 qualitative answers to the questionnaire created by the author, there are some findings, including the effects of the three tactics (finding the inner remarkability, leveraging game mechanics, and making people feel like insiders) of Hermès, and how different financial status of consumers and their attitudes towards Hermès will affect their purchasing behaviors and psychologies. The tactics of Hermès benefit it with more word of mouth and loyal customers but also result in an increasing number of purchasing agents and profitable fake products market. Depending on their financial status, people may treat Hermès as their lifestyle or as a ticket to upper-class social events. Still, according to the answers to the questionnaire, only 7.41% of people will buy more products if they can show off, and 55.56% will purchase based on actual demand.

This paper first gives a brief overview of Hermès's history and business, then introduce its financial status with the data from the stock and the financial reports, and then analyses the three tactics used by Hermès to get more word of mouth on social media. After that, different contents of posts on social media, consumers' behaviors and psychologies are evaluated, and the SWOT analysis at last.

## 2. Hermès

### 2.1 Overview

Hermès, founded by Thierry Hermès in Paris in 1837, aimed to focus on making simple and light harnesses. In 1918, Hermès introduced the first leather golf jacket with a zipper, and the zipper became known in France as the *fermeture Hermès* (Hermès fastener) because of its exclusive rights arrangement. [2] In 1925, Émile-Maurice introduced the first men’s ready-to-wear garment; with more products such as jewelry, watches, and sandals created in the following three years, Hermès began its transition to the arts and fashion field.

Nowadays, Hermès is a family-run company root in France, keeps developing its international distribution network of 306 stores in 45 countries through its 51 production sites with three significant businesses: Hermès Sellier (leather goods), La Montre Hermès (watches), and Hermès Parfums (perfumes). Hermès constantly follows its core value: entrepreneurial spirit for creative freedom and innovative breakthroughs, the preservation and inheritance of exquisite craftsmanship, sustainability, people-oriented, and focusing its majority of production on the French mainland to emphasize its independence.

### 2.2 Finance

The sales of Hermès kept increasing from 5.5 billion euros in 2017 during the last five years, despite the slight decrease from 6.88 billion euros in 2019 to 6.39 billion euros in 2020 caused by the global pandemic, which significantly restricted people's traveling and accompanying purchasing activities. However, the decreased revenue was covered and hit 8.98 billion euros in 2021 in the post-pandemic era, and the potential increase in 2022.

In the last full year, Hermès has generated 8.98 billion euros of revenue (39% recurring operating income), 532 million euros of operating investment, with 2.7 billion euros of adjusted free cash flow (the sum of operating cash flows and change in working capital requirement) by its 17,595 employees at the end of December.

Moreover, 5.48 billion euros of revenue was generated by 18,428 employees during the first half of 2022, 1.24 billion euros more than that of the first half of 2021. The recurring operating income took up to 42.1% of the total revenue, with remarkable 2.30 billion euros. The stock of Hermès is held majorly by all insiders, with 66.98% of the shares, and 644 institutions have the other 11.00%.

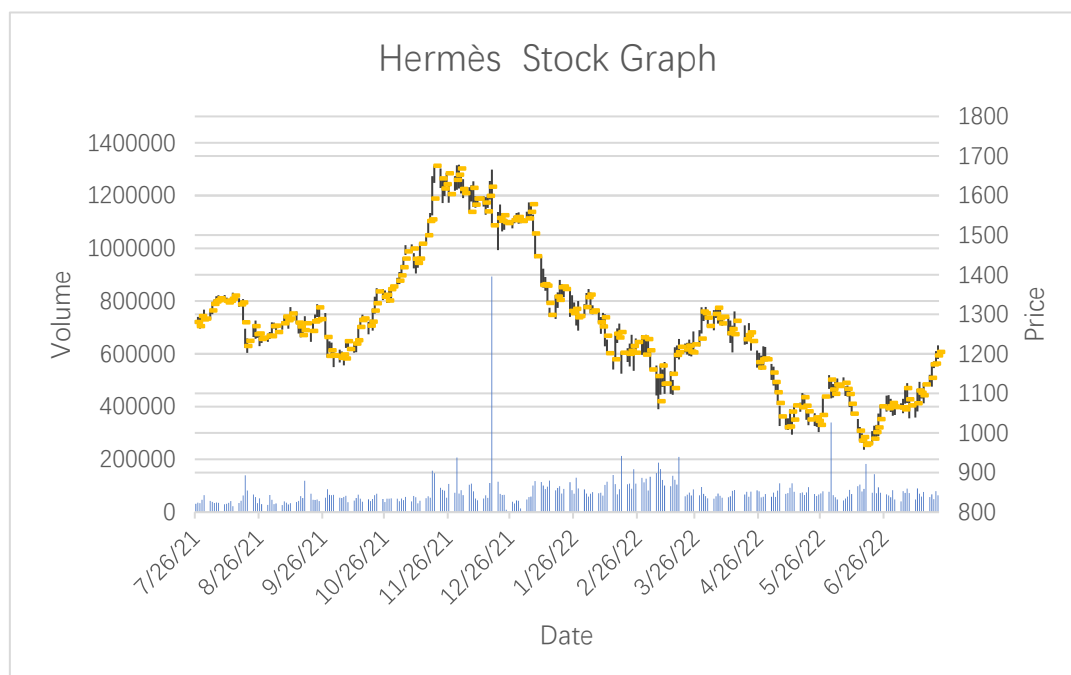


Fig. 1 Hermès stock graph

As the figure illustrates, the price of Hermès experienced a decrease from July 26, 2021, to October 6, 2021, with fluctuations, then began increasing and reached the highest value at 1,675.5 euros on November 19, 2021. After the peak, a general downtrend can be seen from the end of 2021 to March 8, 2022 (1,080.50 euros), and then it showed a brief rally to April 5 (1,316.5 euros), but the following decrease resulted in the lowest price, 970.20 euros, on June 16. Finally, the price recovery was seen in July with 1,205 euros on the 22<sup>nd</sup> and a possible ongoing increase.

The volume was relatively stable, from 31,465 on July 26, 2021, to 63,517 on July 22, 2022, despite the peak at 892,837 on November 17, 2021, and 339,795 on May 31, 2021.

### 3. Marketing Strategies Analysis

Hermès uses three main strategies: finding its inner remarkability, leveraging game mechanics, and making people feel like insiders to increase its social currency.

The inner remarkability contains Hermès's unique handmade craft, which is better than machine production in terms of firmness, durability and impressions; the value of artistry during the process of making the handbags because artisans need to handle and stitch the leather with different tensions carefully to meet the aesthetic requirements while ensuring the quality; and the design created by artists who work together regularly makes Hermès's products are more like art masterpiece rather than everyday daily goods.

The game mechanics of Hermès focus on enriching customers' shopping portfolios to a certain amount to make the customers eligible for purchasing limited handbags. Usually, the value of other products purchased will be 1:1 or 1:2 with the bag's price. Moreover, customers must wait up to six months for some famous or rare edition. However, this mechanic results in some customer resistance because they only want to buy a specific product without paying for dozens of unwanted but expensive products. The other drawback here is the increasing number of purchasing agents already VIPs of Hermès with no limit on purchasing or bundling. Purchasing agents can help people buy the bag and enrich their portfolio, while the customers do not need to do it themselves and can get what they want.

Making people feel like insiders also demonstrates how Hermès utilise social currency. The two key factors here are scarcity and exclusivity. The rare raw materials and exceptional craftsmanship contribute to the shortage: a Hermès artisan can produce 15 handmade Hermès bags of different styles and textures within a month. The animal leather, such as the one from ostrich and crocodile, also contributes to the scarcity of the bags. Furthermore, the exclusivity formed by the scarcity provides customers with not only membership of Hermès but also incentives to buy the bags and desire higher status and identity. The disadvantage of this strategy is that those attracted by Hermès culture will buy fake bags to reach the higher status they want without caring about authenticity.

Although Hermès advertises it as a sustainable firm, people keep questioning it since Hermès uses animal leather which is not eco-friendly or animal friendly. PETA claims the bags are being "constructed from the skins of factory-farmed and cruelly slaughtered crocodiles. In 2021, the Farm Transparency Project released videos from crocodile farms owned by Hermès, showing the small cages and the concrete floors that crocodiles live on and how they are slaughtered by stabbing and electrocution. [3]

#### 3.1 Social Media

Nowadays, many people will choose to post their experiences during shopping online, including the sales' attitudes, services, photos of the products and more. Social media can provide consumers with their voice, not as passive respondents as in their previous relationship with brands, but as active members of brand communities who have the confidence to come into the brand's "space". [4] Online reviews from other customers can provide information about products and recommendations from a consumer's perspective, which is vital for consumers in making purchasing decisions. [5] Word of mouth (WOM) shared on social media can increase people's awareness of the brand and its products.

For example, on the mainstream social app Instagram, the tag #hermes has 43.8 million posts, #hermesbirkin and #hermeskelly have 4.9 million posts, respectively, and #hermesbag has 3.1 million posts. The contents of the posts with these tags are mainly about selfies or videos with the products.

Even in areas without access to Instagram, people are enthusiasts of finding the rarest Hermès bags and how to enrich their portfolios. The case here is in China, where most local people, abroad students, and immigrants to other countries use a different social app called Xiao Hongshu. The number of the notes with the tag #hermes is over 1 million, and over 507k notes with the tag #hermesbag. Differ from the posts on Instagram, notes on Xiao Hongshu focus on teaching others how to pick suitable bags for themselves; giving recommendations about which bag has the best value and can be sold for a higher price after years; exchanging the experiences of enriching the portfolios and related activities held by Hermès.

The advantage of social media is obvious: making more people know this brand and making them desire to purchase Hermès because of millions of posts, making Hermès one of the most streamed luxury brands worldwide.

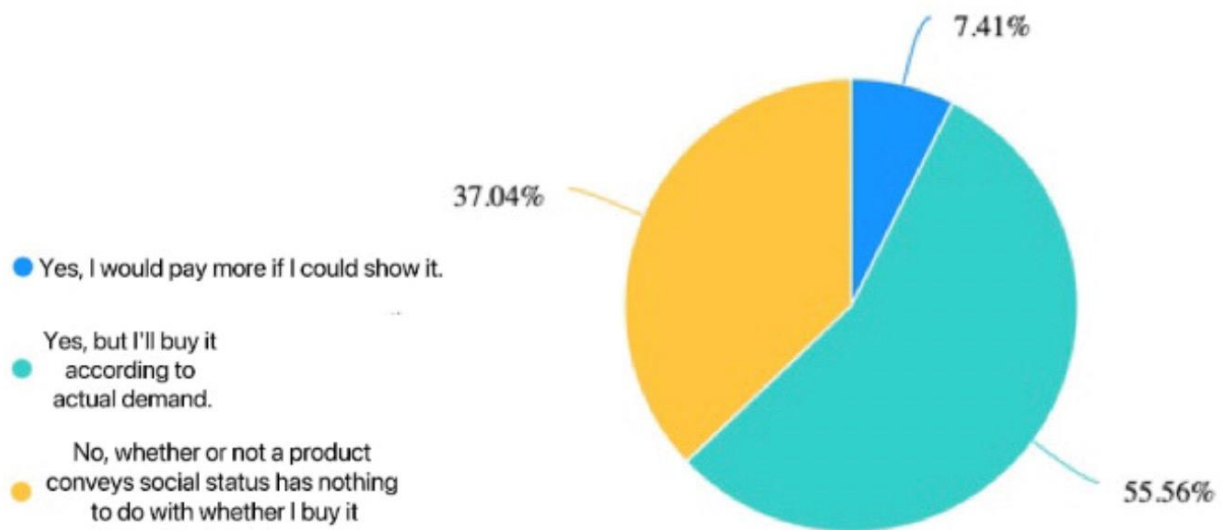
### 3.2 Consumer Behaviour and Psychologies

Theoretically, the consumers who buy Hermès can be roughly divided into two types: one is the rich people who treat Hermès as their lifestyle, and the other one is the lower-middle class people who buy Hermès for the higher status indicated by Hermès. Kotler and Armstrong define the purchase decision of customers: "in the evaluation stage, the consumer forms preferences among the brands in the choice set and may also form an intention to buy the most preferred brand". [6]

For the first type, Hermès introduces its brand culture and background to the consumers, ensuring their loyalty and the feeling of exclusivity, which drives them continuously stick to new goods of Hermès. Some events, such as VIP parties and auctions held by Hermès, will have customers with portfolios over a specific number of monies spent on Hermès as guests; these activities enhance loyalty by giving top consumers chances and platforms to develop interpersonal relationships with other consumers. These customers will also receive the annual handbook printed by Hermès, including the introduction to new products released that year; with the letter and some gifts, Hermès shows the care for the most loyal and valuable customers, and usually, these customers will buy more products for the household to make Hermès become part of their lives.

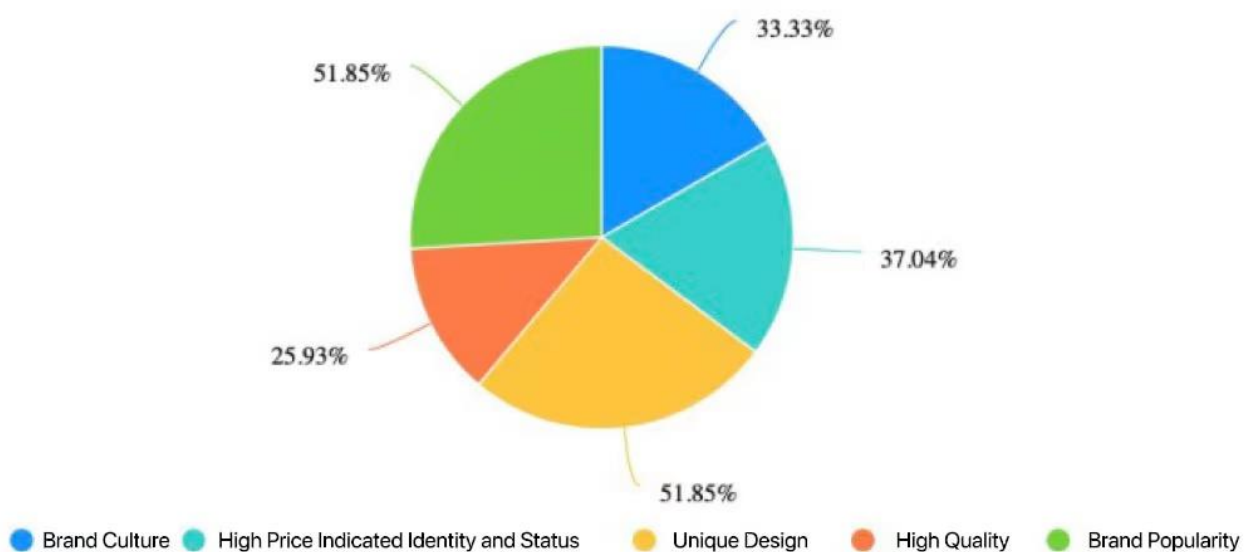
Behaviour is simpler to be explained for the other type. Customers of this type will save money to get a Birkin or Kelly bag because these two are the most famous handbags of Hermès, which can leave others with an impression that people with these bags have high social status and rich identity. Thus, they usually will not buy other products or be as loyal as the first type of consumers and will not know much about Hermès but only use the bags to access the upper class.

However, the 27 answers from the questionnaire show variance when people are asked about their behaviors and psychologies in purchasing luxury goods.



**Fig. 2** Consumers' psychologies

**Figure 2.** illustrates their psychologies, 55.56% of them will buy the goods according to actual demand, 37.04% will not be affected by social status brought by the products, and only 7.41% are willing to pay more to show off.



**Fig. 3** Factors to be considered

Figure 3 shows how these factors affect people's final decisions in purchasing luxury products. 51.85% of them will consider the unique design of products and the brand popularity, 37.04% of them prefer the identity and social status conveyed by high price, 33.33% will consider brand culture, and the rest, 25.93% will put high quality into their priority.

## 4. SWOT analysis

### 4.1 Strengths

As one of the most successful luxury brands, its marketing strategies of Hermès is limited, and the traditional advertising costs are reduced. Funds are invested in serving high-net-worth customers,

cultivating loyal customer stickiness and increasing customer reliance on the brand [6], and this is its strength because these tactics enhance the history and simplicity of the business of Hermès and leave people with the impression that Hermès is always high-end with its high-quality handmade bags.

#### **4.2 Weakness**

Compared to other luxury brands having advertisements on street screens and social apps, Hermès does not have too much exposure, and this results in people thinking of Hermès less than its competitors when they are making their purchase decisions about luxury goods because they will choose the popular one which can be seen everywhere and be chosen by their peers.

#### **4.3 Opportunities**

Without inviting celebrities as the brand's global ambassadors, the value of Hermès is defined by itself and the customers, preventing the brand from being canceled because of ambassador's personal, inappropriate behaviors, and most importantly, ensuring the most loyal customers always think Hermès is the one which will not please the public and will have its exclusivity.

#### **4.4 Threats**

Undoubtedly, luxury brands always make money, but the competitors of Hermès are using strategies that attract more audiences, such as Louis Vuitton holding its fashion runway and collaborating with talented young designers to have more products favored by new generations. While Hermès has adopted a slower model of growth than a number of its competitors, its emphasis on family and craft traditions has in no way barred it from participation in global financial, consumer retail, commodity, and technology markets. [7] Hermès seems too formal to younger generations, which may cause Hermès gradually lose competitiveness compared to its competitors.

#### **4.5 Advice for Hermès**

Even though Hermès can use its traditional tactics and keep the current strategies, there are still some opportunities for it to gain more word of mouth. The first one is to increase the frequency of the advertisement. This can bring more exposure to Hermès to make it show up in people's lives and let them remember the information conveyed by the ad, therefore increasing the possibility of people discussing or taking Hermès as a topic to talk about daily lives. The second one is to design different editions of products in areas with cultural backgrounds other than French. This will significantly make customers in those areas more loyal to Hermès and think it is a brand that respects their culture. The third one is co-branding with other brands and creating a portfolio strategy for leveraging luxury partner brands by starting with a unique understanding of the brand portfolio objectives of the leader brand initiating the collaboration. [8] Meanwhile, Hermès need to quit using animal skin as the raw materials for their bags since people have become more environmentally and animal friendly in modern societies. Artificial leather is an essential choice for luxury brands. Hermès can form some sustainability strategies which align with the fundamental luxury characteristics of heritage, quality, longevity, and timelessness [9-10].

### **5. Conclusion**

When luxury brands catch peoples' eyes in modern society, it is valuable to analyze their marketing strategies and find out how these strategies get people to share the brand's word of mouth. Hermès is chosen for the case because it is one of the most successful and popular brands worldwide. In the analysis, quantitative data from social media and the 27 answers were collected from a questionnaire about customers' behaviors when purchasing Hermès.

By analyzing the data on social media and the answers to the questionnaire, it is clear that Hermès is using three main strategies: finding the remarkability, leveraging the game mechanics, and making people feel like insiders to gain people's awareness and make them spread word of mouth on social

media by sharing photos, videos or shopping experience, personal recommendation, etc. People buying Hermès can also be divided into two groups depending on their financial status and whether they treat Hermès as their lifestyle or as an admission ticket to upper-class social events. Moreover, the SWOT analysis illustrates that the strength of Hermès is its limited but efficient tactics, and it has opportunities to keep customers loyal without having ambassadors. Still, the lack of public exposure is its weakness, and its competitiveness is also threatened by other brands which attract younger generations by collaboration with designers and celebrities.

The shortcoming of this paper is the small number of samples. Due to the limited data collected from the questionnaire, it is hard to give a conclusion to apply to most consumers. Moreover, the questions focus on the consumer's behaviors and the factors that affect their final decision. Therefore, there is insufficient data about people's sharing of word of mouth, such as posting online, discussing with friends, recommending, etc. Future studies on this topic can design a more comprehensive questionnaire with hundreds of people completing it and analyze more qualitative data to get a universal result reflecting the mainstream opinions.

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