

The Analysis of Operation Strategy of Chanel in China

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Abstract. This article introduces the basic function of the Chanel brand to clarify the duty and type of products that Chanel makes and point out the type of industry in which Chanel operates. Furthermore, this article focuses on the business of Chanel operated in China with the introduction of the features of relevant market which Chanel operates in China. And the article uses different analysis tools to layout the market position and operation environment of Chanel, including PEST analysis, which describes the outside factors that may potentially affect the strategic making of Chanel, and SWOT analysis, which gives an abstract of both inside and outside advantages and limitations of Chanel, and marketing mix, which introduces the operation features of Chanel in 4 different quadrants. Four different problems that Chanel needs to face in the Chinese market will be evaluated from the concept of the marketing mix, and the relevant suggestions according to the problems will be listed.

Keywords: Chanel; Luxury industry; Marketing Mix; Chinese market.

1. Introduction

The luxury industry in China in 2018 has shown a positive situation compared to the last year, with the growth of market share. And the main customers of luxury goods are those whose assets are larger than 10 million RMB, which indicates that most luxury buyers are high-income earners. Therefore, how to make the consumption of high net worth people return is the highest key point to stimulate domestic demand and promote domestic consumption market and promote high-quality consumption. Since 2017, the growth rate of luxury brands has increased. With the existence of a market gap and relatively low barriers to entry, more and more luxury brands have entered the Chinese luxury industry, which implies higher competition among different luxury brands. Therefore, it is necessary for the foreign luxury companies to adjust and improve the marketing strategy in China and increase their competitiveness against other competitors in the industry.

Chanel, a French luxury fashion house founded by couturière Coco Chanel in 1910, has widely spread over international borders and is leading the fashion trend throughout the whole world. The brand focuses on women's ready-to-wear clothes, luxury goods, and accessories [1], with the mission of addressing issues of customer satisfaction [2]. It is known for revolutionizing ready-to-wear and haute couture [3]. Chanel entered the Chinese industry in 1920 and opened its first brick-and-mortar store in Shanghai in 1999. Since 2010, the growth of the economy and e-commerce industry in China has brought new opportunities for foreign international luxury companies to expand into the mainland. At that time, Chanel insisted the strategy of "international luxury" type growth, which means all the products were shipped to China from Paris.

This research paper is written based on the research gap in the analysis of the business operation of Chanel particularly in China. The research objective is to explore the situation and problems Chanel needs to face when starting trading in the Chinese luxury market by combining the concept of the marketing mix and business tools.

2. Analysis of Chanel

2.1 PEST analysis of Chanel

PEST analysis is a way of managing in which an organization can explore integral effects that could influence its operation [4]. It includes four factors which are political, economic, social and technological.

2.1.1 Political

With the deepening of the “reform and opening up” strategy, China has been actively joining in world trade. Under the political strategy, the tariffs for imports are reduced. Therefore, the number of western luxury goods flooding into China has increased. Moreover, with the strategy of entrepreneurship encouragement, many entrepreneurs have emerged in China, providing channels and opportunities for the development of the luxury industry. For Chanel, the strategy is an advantage for it to enter into Chinese luxury market and utilize the chance to expand its business operation.

2.1.2 Economical

With steady economic growth, China has reached its potential output. Domestic consumers' living standards have improved significantly and have the ability to afford a higher-quality purchasing pattern. Therefore, the number of customers buying luxury goods has increased in a rapid way, especially for upper-class customers. Therefore, it is a good opportunity for Chanel to increase its market share through those groups of customers.

2.1.3 Social

In China, the main customers of luxury goods are young people. With the continuous development of luxury goods in China, people are more willing to pay for luxury goods through their frugality. With people showing off and emotional consumption, the original high-end mystery has been lost, and it has gradually become a symbol of "status". More and more people are seeking a sense of social belonging from luxury goods. In China, a new and unique luxury market, Chanel needs a new positioning to design and sell products in combination with the needs of Chinese consumers. In addition, the nowadays young generation in China are more and more taking notice of the image of Asian people in the western countries, whenever there comes the advertisement containing Asian models, the youths are sensitive about the facial appearance of the model. When Chanel hires models that contains small eyes and high cheekbones, the youths will regard it as a “stereotype” of the appearance of Asian people. Therefore, it is important for Chanel to avoid the advertisements that contains ambiguities. Furthermore, plenty of social media has a sign of increasing followers to Chanel company, for example, there are 22.2M followers of Chanel on Facebook and 1.4M subscribers of Chanel on YouTube [5].

2.1.4 Technical

E-commerce in China is adapting rapidly. With the continuous development and improvement of social software, luxury brands are using new digital marketing methods to communicate with consumers and influence people's consumption choices. People prefer to use this new and digital way to purchase. The money spent on luxury-related social accounts has skyrocketed in just a few years, and consumers who use digital shopping are often not the traditional target consumers for luxury goods. In 2018, for example, 80% of consumers used Alipay to buy luxury goods, which indicates a good opportunity for Chanel to penetrate the business into e-commerce market.

2.2 SWOT analysis of Chanel

SWOT analysis is a standard utilized to analyze the market position of a business and to evaluate strategic planning. It includes strengths, weaknesses, opportunities and threats.

Table 1. SWOT analysis of Chanel [6][7]

Strength	weaknesses
<ul style="list-style-type: none"> ● Chanel has established mature and worldwide brand image for a long period of time ● The clothes are designed perfectly with style and size for target upper-class customers ● High number of workers which is over 1200 ● Market leader among premium luxury industry ● A relatively high customer base and loyalty ● Diversification in different kinds of product in the industry, such as perfume, skin care products and cosmetics 	<ul style="list-style-type: none"> ● Intense competition among other competitors in luxury industry, which limits the growth potential of Chanel ● High prices for the products which may not fit the unpromised quality ● A high brand switching even if a nice brand visibility ● A relatively weak unique selling point
Opportunities	Threats
<ul style="list-style-type: none"> ● The acquisition and merge of Chanel to other brands will give more potential market segment to reach and operate ● Chance to develop more products belong to young generation <ul style="list-style-type: none"> ● High capital used for research and development ● E-commerce and online-welling could help reach more potential consumers 	<ul style="list-style-type: none"> ● Competitors in the industry whcih provide similar products will take some existing customers of Chanel away and dilute the market share ● The economy recession in China is making the luxury industry worse when customers cannot afford the money to purchase luxury goods ● The price war among other competitors will compress the profits of Chanel

2.3 Marketing mix of Chanel

The marketing mix includes product, price, promotion and place. It is a marketing tool which is used by a company to become harden and solidify the brand image and successfully sell out the product and service [8].

2.3.1 Product

The products of Chanel are divided into three lines: fashion boutiques and accessories, watercolor makeup and skin care, watches, fine jewelry. Almost all categories of women's luxury goods are included. Among them, the haute couture uniform is in accordance with the customer's specified Paris haute couture series shows certain clothing, tailored for the customer. Haute couture refers to clothing that has already been made and can be bought in boutiques. It can be slightly modified to fit the body shape of the customer, but the customer can choose the size that suits them and then wear it. This kind of haute couture greatly caters to the consumer needs of most buyers. Luxury goods need to meet the status and wearing occasion, while Chanel haute couture reduces the waiting link of customization, can be directly purchased in boutiques, is different from other brand clothing, and can be slightly modified according to the customer's body shape. This allows consumers around the world to buy a "made-to-measure" dress at Chanel.

2.3.2 Price

The price includes the value and the brand image of a luxury company. In the spring of 2015, Chanel announced a price cut in China. At the same time, the price is raised in Europe. This is to effectively discourage procurement. Furthermore, the price cut could help Chanel develop in China in a longer run. This pricing strategy will attract more Chinese consumers to purchase their favorite Chanel products at a similar price wherever they are, and enjoy better services. However, even though

the price has been cut in China, the actual price is still relatively high compared to that of Europe because of the imported tariff paid by Chanel company.

2.3.3 Place

The popularity of Chanel's products is a perfect demonstration of its ultimate brand image building. Chanel chooses to set up counters and boutiques in upscale five-star hotels, high-end shopping malls, international airports and other places where high consumption groups often gather. Therefore, it could better attract potential customers, which greatly increases the sales of Chanel No. 5 perfume. Such location selection is oriented by the dissemination of its brand value and depends on Chanel's brand positioning and consumer choice. In this way, the target group is well selected. These customers can effectively support the market, and also ensure the brand image of Chanel. The difference between Chanel and other luxury products is that Chanel's products in China are only delivered to Chanel counters and boutiques across the country through the sole general agent in Shanghai, and it has no franchisees in China, which well maintains the high-end brand image of Chanel. It chooses to set up flagship stores in the first-tier cities and busy streets. In this way, the flagship store is not only a place for the sales of Chanel products, but also a place for the exhibition of senior brands. Therefore, the reasonable design and effective use of the flagship store can better attract consumers to buy and reduce advertising costs. At present, the e-commerce market is changing with each passing day and the market competition is becoming more and more fierce. Under this environment, Chanel has to improve the quality of its products and develop more high-end products. In order to adapt to the development of e-commerce market, Chanel has set up the official Chanel China website in China. This website sets up a public shopping platform and avoids the disadvantages of boutiques and counters. People can easily buy high-end garments, skin care, makeup and jewelry on the website. In addition, shopping platforms such as Jingdong and Tmall are gradually opening sales channels for luxury goods. However, there are big loopholes in product quality, after-sale safety and distribution problems, which largely reflects Chanel's lack of experience in online sales.

2.3.4 Promotion

Chanel launches limited edition or commemorative edition, and announce new product information in the next quarter, causing a hunger effect. Each product quantity is controlled to protect the rarity of its unique product. Except for out-of-season clothes, discounts are rarely offered to protect product value. In China, the famous actress Zhou Xun is the first spokesperson for Chanel. When Zhou Xun was selected as Miss Chanel, Chanel jewelry in China was instantly purchased and cleared out, which shows how much influence celebrity endorsement has on product sales. Chanel invites famous fashion models to Chanel fashion show every year to show elegant and fashionable products of Chanel. The stage and products are integrated, and the unique design allows consumers to experience a fashion feast. In addition, Chanel takes part in the Paris fashion shows every year, and its makeup collection is also popular among red carpet actresses.

3. Problems

3.1 Single style of portfolio and the lack of male customers products

Chanel has annual sales of more than 3 billion euros worldwide, of which more than \$1 billion Chanel No. 5 supports the profits of the cosmetics and beauty business. It is also important support for the finished women's wear. In this way, Chanel's overall portfolio seems relatively simple, even though it has good sales every year in China and around the world. But under the accumulation over a long time, the disadvantages of the enterprise still gradually appeared. Chanel No.5 is not launched every year, it has only 7 products, but each is a classic Chanel. Without a doubt that consumers consume more perfumes in long-lasting flavors, but the current variety is scarce and the product mix is relatively simple in terms of choice diversification. Therefore, the feature of Chanel's products of tending to women is limiting Chanel's marketing. The Men's products of Chanel are mostly women's clothes in large sizes. And the perfume for man only has a classic type, lacking the innovation of new styles. Comparing to Dior, one of Chanel's competitors, which researches and develops a variety of

new types of perfume that suit the man of different age groups in recent years and attracts more potential male customers, Chanel still needs to improve the target customer group and reach a larger potential customer base [9].

3.2 Relatively higher price in China

According to the China Luxury Report, Chinese consumers spent 600 billion yuan on luxury goods overseas in 2018. However, the main reason for such domestic consumers to buy products abroad instead of at home is that the domestic price is too high and the price advantage is low. The same Chanel product is sold at different prices in different countries, which leads to uneven distribution of Chanel consumption, and even high prices and closed stores.

The Chanel Classic 2.55 handbag costs 3,000 euros in Europe. The price on the mainland is 37,000 yuan, which is 34% higher in China than in Europe. Chinese customers would rather buy bags in Europe than pay 10,000 yuan more at home.

3.3 Simple design of official shop

Network marketing is based on the traditional marketing mode, citing the Internet technology, through the Internet to carry out the spread of enterprise marketing mode. Chanel's online marketing on China mainly relies on the lack of online sales agents in Chanel China's official website. In the mass online shopping platform, the number of authorizations is small, and the product sales are low. In addition, the design style of the official shop is relatively simple, the lack of clear product instructions, online sales security, diversified payment methods, and after-sales guarantee would all be the potential problem to cause the failure.

With the rapid development of the Chinese film and television arts industry, various styles of celebrity advertisement have emerged. Most kinds of businesses continue to invite stars for advertising endorsement, and fans pursue the products endorsed by stars more. However, while the star effect brings profits, the negative news and Internet hype about the stars will have a potential negative impact on their reputation and the products they endorse. In the early morning of May 5th, 2021, Chanel released the 2021/22 early spring vacation series. However, a statement made by Bruno Pavlovsky, president of the global boutique department of Chanel in an interview with WWD before the show, caused the brand to fall into a crisis of public opinion. Pavlovsky said in an interview that he will continue to work with Michel Gaubert, the music producer who has previously exposed the scandal of discrimination against Asians. Just a month ago, Michel Gaubert posted a video of a private party on Instagram of people wearing "squinting" masks and someone shouting "Wuhan girls" to the music of Le Villejuif Underground. "Wuhan Girls". This action attracted many customers to start the boycott of Chanel products. After the release of a written copy of apologizing for word by Michel Gaubert, this public disturbance finally got ended [10].

3.4 Single production method and complicated production procedure

The products of Chanel sold around the world are manufactured in the Chanel factory in France. It does not have a division of labor in the world, it will invite the world's famous production and processing manufacturers to France, to help it make nice public welfare. This single production method and complicated production procedure greatly increased the production time and extra cost of Chanel products and did not save more cost for Chanel. In addition, Chanel does not set up a contract factory in China. The raw materials and technology of each product are all from France, and the production mode is fixed, which increases the cost of its finished products.

4. Suggestion

4.1 Explore new sublines for male customers

With the problem of lacking male customers' products, Chanel could operate new sublines which devote themselves to producing products that are fit for the male customers. For example, Chanel could innovate male perfume which serves the same theme as female perfume and sell them together as a complete set of couple perfume. Also, it is a productive way for Chanel to operate a section of slap-up ready-to-wear suits which could be directly sold to the male customers. Once open a subline that is for man consumers, the potential customer base of Chanel will therefore increase.

4.2 Increase supply to Free Trade Area

Since the import barriers are rising the price of products of Chanel, it could utilize Free Trade Area and duty-free stores to eliminate the effect of tariffs and other restrictions on prices. In China, there are already Free Trade Areas in various cities that are close to the sea, like Shanghai, Guangzhou, Hainan and so on. Therefore, in this way, Chanel could attract more customers to purchase regarding the lower price in those areas, therefore increasing the sales of products.

4.3 Weaken celebrity effects, strengthen brand image

When negative celebrity effects may influence the reputation of the brand and ulteriorly to reduce the sales of the products, it becomes essential for Chanel to weaken the potential celebrity effects it may encounter. For example, Chanel could cut part of the capital used to operate celebrity advertisements into creating stories for its products. Then, investing in theme videos, website decoration and product quality will help Chanel increase its brand image and gain higher customer loyalty, weakening the effects of negative celebrity news.

4.4 Expand target operating place

According to the target place that Chanel chooses to operate, which are mostly first-tier cities in China, Chanel could consider a wider range of target cities to operate its business. Therefore, it will have more opportunities to reach more potential customers which are the upper-class group in each second and third-tier city. When customers in other cities have access to purchase the products of Chanel, the sales revenue of Chanel will increase and it could gain a higher market share to compete with other competitors in the luxury industry.

5. Conclusion

In general, the PEST analysis and SWOT analysis show the development potential and setbacks that Chanel may have to encounter during the operation in China. The marketing mix of Chanel indicates the selling patterns and production forms of Chanel and some problems it needs to face. For example, the single style of portfolio and the lack of male customers products, a relatively higher price in China compared to that in Europe, which affects the purchase willingness of customers, a simple design of the official shop and potential negative celebrity effects which might influence the reputation of brand image and a single production method and complicated production procedure which will increase the production time lag and cost. Among those problems, Chanel could choose to explore new sublines for male customers, increase supply to Free Trade Area, weaken celebrity effects, strengthening brand image and expanding target operating place to adjust. Moreover, although the political strategy and economic environment in China show a worse operation environment for the foreign luxury industry, the number of upper-class customers and the young generation who are willing to pay for luxury products are increasing. Therefore, with appropriate adjustments to the operation strategy, Chanel will get more opportunities to achieve success during the operation in China.

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