

# Analysis of Hermès Marketing Strategy and Chinese Application

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**Abstract.** After the Economic Reform and Opening up, China's economy has developed rapidly and taken the lead in many industries. However, the luxury industry is almost entirely dominated by European and American brands. It is difficult for Chinese luxury brands to compete with them in China. As a benchmark in the luxury industry, Hermès has been able to run for nearly 200 years. Its marketing strategies have significant implications for the development of luxury goods in China. This paper utilizes the marketing theory of the 4Ps to conclude that high-quality products, offline consumer services and aesthetic experience, the high-priced strategy with rarity as its core and unique publicity and promotion methods are its four main marketing advantages. Based on the current situation of Hermès, this article discusses the contradictions between digital business transactions and brand positioning, rarity strategy and service experience after the outbreak of the epidemic. Finally, the paper explores the application of its marketing methods in China. The experience gained from it is necessary to combine Chinese local culture with brand connotation, formulate a clear brand positioning, carry out bold innovation in combination with contemporary culture and combine with the digital economy, and walk out of the internationalization of luxury goods with Chinese characteristics.

**Keywords:** Hermès; Luxury; Marketing strategy; Marketing Theory of 4Ps.

## 1. Introduction

In recent years, with the rapid development of China's economy, the purchasing power of domestic consumers has increased significantly. It has gradually become an important market for global luxury consumption. In 2019~2021 Chinese average luxury consumption accounted for more than 40% of the world's total luxury consumption. Even with the impact of COVID-19, luxury consumption in China has grown significantly. In 2021, China still occupies 46% of the international market with a growth of 37% [1]. Although China's luxury market accounts for a significant proportion of the global luxury consumer market, its local brands do not support its market. However, when many brands were hit by the epidemic, the flagship store's sales of Hermès in Guangzhou reached about 2.7075 million US dollars on the first day of store expansion in April 2021, breaking the record on the first day of new store opening [2]. According to LVMH's (Louis Vuitton Moët Hennessy) results for the first half of 2022, operating income increased by 21% year-on-year compared to the same period in 2021 [3].

Hermès announced its results for the first half of 2022, showing that total revenue in the first half of 2022 increased by 23.2% in constant exchange rates compared to the same period in 2021[4]. It can be seen that Hermès' marketing model is of reference significance. So, the application of its marketing strategy in Chinese local brands becomes the research direction of this paper. Zhu Yuliang and Yang Yixiong made a detailed analysis of their marketing strategies in the article "Case Analysis of Luxury Brand Management and Marketing - Taking Hermès as an Example". The text explained the Hermès' strategy from the product to the group's internal management model, product positioning and publicity, etc. [5]. Li Ji's "Hermès China Development Strategy Research" explores Hermès' marketing model in China and combines SWOT analysis models with it [6]. Based on the analysis of Hermès' marketing strategy, this paper explores the contradictions between Hermès' marketing strategy and modern digital transactions and whether Chinese luxury brands' marketing strategy can draw inspiration from the development of Hermès. This paper will explore how Hermès, which has a history of 185 years, still maintains its advantages in the era of COVID-19. It will analyze the

marketing strategy of Hermès from the product, place, price and promotion through the Marketing Theory of 4Ps, exploring the contradiction between Hermès brand value and digital marketing by relevant data and studying the possibility of applying its marketing strategy to local brands in China.

## 2. The Introduction of Hermès

In 1937, a 36-year-old young man named Thierry Hermès set up his own business and opened a high-end harness shop named "Hermès" in Paris, France. After its birth, it was quickly welcomed with its high-quality leather goods and exquisite craftsmanship by aristocrats in the upper society of Paris. In the beginning, Thierry's positioning for "Hermès" was pursuing first-class quality and exquisite craftsmanship. Even though the production failed to keep up with the demand and caused the loss of customers, Hermès remained firmly in his original intention. Hermès has carried out the purpose of "Perfection and Impeccable" since it had established 185 years ago. While upholding traditional skills, he keeps pioneering and innovating, combining horse culture with modern culture. Its wide range of products includes harnesses, leather, jewelry, watches, scarves, clothing, life art, perfume, and beauty makeup. As a huge family-owned company, Hermès has set up 303 stores in the world by 2021, including 221 directly operated stores and 19,595 employees. In 2021, the total revenue reached 8.982 M€. and in the first half of 2022, the total revenue reached 5.475 M€[7]. Even if lasting nearly two hundred years, Hermès still has vitality.

## 3. Hermès' Marketing Strategy Analysis

It is critical for Hermès to develop a clear product position with a distinct brand culture as the core. Clear product position is the basis of all marketing strategies. And the brand culture has an impact on product positioning. In the first half of the 19th century in France, people always traveled by carriages. At that time, the equestrian competition was a highly sought-after sport in the upper class. Equestrianism had become a way of life for the French people who advocated romance and elegance. As well as The nobles would show their status through horse equipment [8]. Thus, giving birth to the unique horse culture in France. It is also in such a social background that the brand culture of Hermès, which started from the harness, contains a strong horse culture. At the same time, it also has the unique temperament of France - romance and elegance. However, it was difficult for ordinary families to own carriages at that time. Thierry Hermès, the founder of Hermès, positioned his products for the upper class and firmly established the purpose: to understand the lifestyle of customers, apply exquisite handcraft, create practical, elegant and withstanding objects, and value for society. This also means strictly adhering to the complicated process and the selection of the best raw materials. Its time consumption is not what the average family can afford. Such a concept also determines that the consumer groups it faces are upper-class and high-income groups. The Hermès family still carried out the purpose of "Perfection and Impeccable" even after 185 years. The brand culture that took nearly two hundred years to inherit has been deeply rooted in the hearts of the people, laying a solid foundation for it. The unique brand culture distinguishes it from other luxury goods, and such a unique Hermès is catering to the contemporary people's pursuit of a sense of uniqueness.

This paper will apply the marketing theory of 4Ps proposed by Professor Jerome McCarthy to analyze the product positioning of Hermès. And this brand positioning is reflected in the product, price, place and promotion. Its marketing strategy will be analyzed from these four aspects.

### 3.1 High-quality Products

First of all, the position of Hermès is reflected in product quality. Products as the basis of enterprise survival. Product quality is also related to the sustainable development of enterprises. And product quality consists of two parts, durability and aesthetics. Hermès provides top products for top customers as the brand requirements, and the durability and aesthetics of the products are excellent [9].

The durability of its products is reflected in the selection of materials and craftsmanship. Firstly, Hermès selects the best leather. The best leather suppliers in the world give Hermès the right of priority, ensuring its top materials. Secondly, Hermès apply the best craft. Hermès leather goods throughout the production process manual. The hired workers have extremely high technology, using its unique "saddle stitch". Even the accessories are purely hand-welded.

In terms of product aesthetics, Hermès products have extremely high aesthetic value. But this aesthetic is targeted. The consumer groups targeted by Hermès are the people with high incomes and high social status basically around 25-45 years old. They are more rational and mature in the consumption of products [10, 11]. Therefore, its product style tends to be more Introverted, low-key and simple. For example, Hermès leather bags are mainly simple and low-key style. But with the gradual growth of the younger consumer in recent years, creativity and liveliness have been added to product design. For example, the Hermès silk scarf, in the Lamaisondescarr es.com designed by Pierre Marrie, is inspired by the house, incorporating rich interior design and various characters, and still continues the classic style of Hermès, with high creative flexibility and aesthetic value. Hermès combines sportiness with French elegance to create artistic products.

Therefore, in terms of product quality, Hermès is extremely complete, no matter which aspect is the embodiment of its product positioning, but it is still advancing with the times.

### 3.2 Marketing Channels

The CEO of Hermès, Patrick Thomas has pointed out that Hermès' marketing expenses account for only 6% of revenue [5]. And he mentioned in 2020 that more than 90% of Hermès' sales are contributed by offline stores. Investments in offline marketing are focused. In the offline promotion and sales of products, the design of stores and showcases occupies a very important position. It can interpret the brand image and culture, impacting on the consumer's impression of the product and consumer experience by creating different visual merchandising effects. Positive consumer impressions will affect commercial retail earnings [12]. Hermès has always been an industry leader in store and showcase design. The showcases have always been an important medium for Hermès to share its brand concept and brand story with consumers and have become an important part of its brand art. Even though the trend of digitalization is deepening, Hermès has always refined the showcases design of offline stores, focusing its operations on creating an offline shopping atmosphere.

### 3.3 Pricing Strategy

The high-price strategy is an extremely important strategy in luxury marketing. It greatly increases the brand premium and the value of the product by creating a sense of rarity and implementing limited releases. Hermès' high-price strategy is reflected in the high price and the difficulty and cost of its purchase on the other hand.

For Hermès, limited issuance is an important way of creating scarcity and the high-price strategy. The most typical example is Hermès leather goods products. Except for the objective restrictions such as the selection of raw materials and processes, Hermès will also set the annual output of workshop craftsmen to limit Hermès' output. Such a strategy enhances the scarcity of products and increases consumers' desire for products. As a result, the demand for products is much greater than the supply and the price of Hermès bags became high.

Hermès' allocation of cargo is based on its limited-edition strategy which increases the difficulty and cost of customers to purchase its products and cultivates customer loyalty. Unlike other brands, Hermès does not place the entire range of products in stores and stock resources in stores. Hermès products, especially bags, are basically "Money cannot be sold". Maybe occasionally there is "Kelly" in the store, but the "Birkin" is only displayed [5]. Even through the allocation of cargo, it may be difficult to get the bag. And the huge demand increases the difficulty of buying Hermès bags. Hermès will make a list based on the cumulative consumption of customers. Hermès store staff will measure whether customers are eligible to own Hermès based on the list. A very important criterion is the cumulative amount of customer consumption--- that is, customer loyalty. In addition to screening

high-quality customers, its distribution system can also handle some goods with poor sales. In Hermès, there are many kinds of products, such as 100 €Hermès pencil, nearly 2,000 €silk scarf buttons, more than 6,000 plates, etc. Although these products are not Hermès' main products, but they are still expensive. Many consumers are willing to save a year's salary to buy bags, but may not be willing to buy other products. Most wage earners are difficult to digest such high consumption. Therefore, the distribution system is also able to deal with its products that do not sell well.

### 3.4 Unique Publicity and Promotion Methods

Unique promotion methods help to create a unique brand image. The three main ways of publicity and promotion in Hermès marketing are advertising, offline event of promotion and independent celebrity promotion.

Advertising includes digital advertising as well as periodicals and magazines. Hermès has a great unique point in publicity and promotion that Hermès has never invited celebrity endorsements since its inception. Although according to AC Nelson's statistics in May 2020, Hermès has only 43 print media advertisements, LV has 167, and Chanel has 153. The former is less than one-third of the latter two [4]. But Hermès advertisements are of high quality, revealing avant-garde and fashion everywhere. For example, a 2017 60s commercial directed by France's leading photographer Romain Laurent --- "Man on the Move." It showed us outfits changing in action and moved a fashion exhibition to the city. This advertisement was highly artistic and avant-garde. Each issue of Hermès is designed in collaboration with internationally renowned artists. In the periodicals, Hermès selected targeted magazines and periodicals for the Chinese market and different product types. According to relevant statistics in 2018, a total of 31 were selected [13].

Offline event promotion is an important way for Hermès to enhance consumers' consumption experience and let consumers deeply understand the brand connotation. In 2020, Patrick Thomas, the CEO of Hermès, said in an interview with Bloomberg BusinessWeek that Hermès' marketing expenses accounted for only 6% of revenue. Hermès has reduced the publicity funds of advertising media to the minimum but has spent most of its resources on improving services and offline promotion for top users. Fashion exhibitions and theme parties are one of the most important publicity methods of Hermès. Since 1987, Hermès has licensed its own series of events for regional markets. For example, in 2009, Hermès held a media experience event in Beijing for the winter new product series, exhibiting the new product series in the form of artistic display and interpreting the brand's freedom and exploration spirit. The annual theme party held by Hermès Taiwan Branch often invites VIP guests to Paris to participate in the Jockey Club, arranging a series of activities such as top winery tours, product exhibitions, etc. So that consumers will have a deeper understanding of Hermès' creativity and spirit. In 2007, Hermès performed a fashion show --- "Splendid Dream" silk scarf exhibition at the Shanghai Art Museum, which greatly spread Hermès brand culture [14].

Although Hermès has never invited celebrity endorsements, the celebrities advertise it autonomously [5]. In 2021, Hermès newly launched the smallest platinum bag in history---Birkin Cargo 25, which caused American singer Cardi B's attention, even posted on social platforms to ask for bags and finally got it at twice the official price, taking the initiative to post pictures and texts to show off. Recently, the Chinese series "Nothing but Thirty" promoted the popularity of Hermès. As well as countless stars walked down the Asile with Hermès to advertise for it independently.

## 4. Hermès Online Marketing Analysis

### 4.1 The Current Situation of Hermès Online Marketing

In the past year, Hermès has actively integrated into digital business transactions. Although it has achieved certain results, it still takes offline sales as the main channel. The 2020 financial report announced by Hermès showed that Hermès sales fell 6% year-on-year to 63.89 M€ in 2020. Net profit was 13.85M€, less than 15.28M€ in 2019 [15]. However, its business picked up in the second half of the fiscal year. Fourth-quarter revenue is 21M€ in total, up 12.3% year-on-year and 15.6% at constant

exchange rates. Hermès Chairman Axel Dumas said that sales from online channels accounted for a large proportion in the second half of the year. 75% of a brand's online customers are new customers. The growth of these e-commerce businesses has not declined due to the reopening of offline stores. This phenomenon has also made the alarm the Hermès. Even if it focuses on offline and customer face-to-face service, it cannot abandon the online market. Mario Ortelli, the managing partner of luxury consultancy Ortelli & Co, said Hermès' digital marketing was not a threat to the core business but a reinforcement. Hermès expanded its digital marketing channels and greatly increased sales through fashion shows and online e-commerce sales, making up for some of the negative impacts of the epidemic. Dumas has said that Hermès has been exploring digital marketing channels for five or six years, but offline stores still account for 90% of its performance [16]. It is enough to see the status of offline sales in Hermès marketing, and the second part of this chapter will explore why digital marketing cannot become the mainstream of Hermès marketing and the contradiction between digital marketing and its brand culture.

## 4.2 Hermès Online Marketing Issues

In the past decade, the online business of the luxury industry has continued to develop. The luxury market is growing rapidly. According to Bain's figures, it increased from 43M€ in 2010 to 490M€. Online business also continues to grow. The compound annual growth rate is 28%. Online market penetration increased from 3% to 23%. In 2020, due to the impact of the epidemic, offline stores were hit. But online businesses suddenly attacked and achieved great development, showing their great advantages in the epidemic era [17].

According to the data provided by Bain & Company, specialty stores, department stores, and airport stores have all suffered a certain blow in 2020 compared to the previous year. But online stores grew from 12% to 11 to 23% [17]. These data reflect the continuous increase in the proportion of online channels. Digital business transactions in the luxury industry have become a general trend.

Hermès director station Dumas has said that Hermès has been working hard in the digital business for many years. However, it is still a mainly offline business and offline business accounts for 90% of total sales. There have been several reports that Hermès is tentative and cautious in digital marketing.

This article summarizes three reasons why Hermès has not been able to deeply integrate the digital business into its own marketing. The contradiction between digital business transactions and brand position. To achieve digital business transactions, e-commerce is a very important way. Luxury goods in the international definition is a rare and highly threshold premium products beyond the scope of people's survival and development needs. In addition to the convenience of e-commerce, there is also the feature of lower price. The various e-commerce platform discount promotions extend this feature. So low has always been an important label of e-commerce, but this is precisely contradictory to Hermès brand positioning. If the brand cannot find the balance point, it will become an over-marketing of brand value.

E-commerce is facing all consumers in society, and there is no discrimination. Luxury goods, especially Hermès, these brands have great differentiation. They face consumer groups not all groups of people in society. Such sales methods are easy to undermine their own brand value.

The contradiction between digital business transactions and rarity marketing. Luxury marketing is difficult to balance with discount promotion. Luxury goods are scarce. Although such marketing methods can increase sales, and enhance revenue, it is not a long-term solution for luxury sales. For now, consumers flock to Hermès because of its scarcity. If the sense of scarcity disappears, then such products are no longer luxuries.

The contradiction between digital business transactions and face-to-face service experience. Digital business transactions take place on the digital platform which cannot make consumers feel the one-on-one service experience Hermès face-to-face and lacks the sense of ritual that buying luxury goods should have. Nowadays, with the development of the economy, people's standards of living life have risen. The requirements for a sense of ritual in life are also rising. Hermès is originally

based on high-quality service experience and ritual as its advantage. Increasing digital sales means that it will greatly sacrifice this advantage. In addition, brand value and connotation are difficult to perceive through the Internet. In offline services, consumers can feel the brand culture connotation of Hermès through the real feeling of the product and the service and store design. While online shopping lacks such communication opportunities.

## **5. Application of Hermès Marketing Strategy in China**

### **5.1 Deep Historical Accumulation and Brand Culture Connotation**

Compared with old luxury brands such as Dior and GUCCI, Hermès still has an unshakeable advantage in historical accumulation. Hermès has a history of 185 years. However, this is a bit difficult for local Chinese brands. China's modern luxury industry started late and does not have a long brand history. The brand culture of international luxury brands is rooted in their long brand history. Although China's current luxury brands have no historical accumulation of brand, the companies can base on the brand cultural connotation and China's local profound culture, combining aesthetic and ideological connotation. Hermès started out as a harness store but eventually integrated French horse culture and incorporated its spirit into products [18]. The brand culture of Chinese luxury based on traditional culture is the inheritance of traditional craftsmanship and aesthetic elements and the inheritance of ideas and life attitudes.

### **5.2 Clear Market Position**

Having a clear market position is a very important strategy for a brand not to be confused and go to the long term. Doing distinctly in market positioning, setting a clear brand image and brand temperament, and focusing on the research of target consumer groups are the key points for Hermès to go through 185 years. It is precise because Hermès has positioned its products from the beginning of its establishment to serve top customers, focusing on high-quality, high-art products [18]. Hermès has been passed down from generation to generation. Local Chinese brands can learn from such strategies to set up clear consumer groups and focus on serving them.

### **5.3 Bold Product Creation**

Bravery and creativity are Hermès' distinctive brand personality. It boldly uses the store of Faubourg in Paris to design a leather bag with the same shape as the house. Moreover, Hermès silk scarf is also integrated into the culture of various eras and countries, designing more than 600 styles [19]. To apply it to local Chinese brands, the managers of the brand should use traditional Chinese cultural elements and combine them with other elements and trendy culture to make bold innovations.

### **5.4 Actively Digital Marketing**

China's online shopping is developing rapidly. The supporting logistics and transportation system are very complete which also shows that China's luxury marketing cannot abandon online channels. Marketing methods should be expanded, not only a single price war and discount promotions. It can play the power of digital technology such as 3D digital browsing, online show, and online customized products. The local brand should conduct online marketing without damaging brand value.

## **6. Summary**

This paper analyzes Hermès marketing strategy through the Marketing Theory of 4Ps. Summarized into four directions, mainly divided into high-quality products, marketing channels, high-price strategies and promotion methods. Furthermore, the report analyzed the contradiction between Hermès online sales marketing and brand position. Finally, the author explored the possibility of applying its marketing strategy to China's local luxury goods industry. This paper drew a conclusion that local luxury brands should absorb the connotation of brand culture from the local

history and formulate a clear product positioning, boldly combining with different cultures and actively carrying out digital marketing. This article sinicizes the marketing strategies of international luxury brands and summarizes how local luxury brands in China should develop themselves to achieve sustainable and long-term development. However, there is still a direction that needs to be filled. In the follow-up research, it is necessary to study the thinking of Chinese consumers and the characteristics of Chinese luxury consumption. It can also deeply sinicize the marketing strategies of international luxury brands. Moreover, it is necessary to combine China's unique cultural value and historical accumulation to explore the strategy of national brand luxury goods going international.

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