

Analysis on Luxury's E-commerce and Luxury Bags' Price During the Pandemic

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ABSTRACT

In 2020, Covid-19 had a significant impact on the retail industry, especially for the luxury industries. After analyzing the adjusted price and financial report for LVMH, Kering and Chanel., we discover that the pandemic affects luxury goods' changed price. Also, the pandemic induced luxury retails to embrace e-commerce. Due to the limitations of e-commerce, the author mentions luxury brands could make some updates to their current e-commerce retail strategy: they could set more immersive shopping environment and arrange personal fashion counselors to customers.

Keywords: *Market segmentation, e-commerce, luxury bags, Covid-19.*

1. INTRODUCTION

Luxury goods are walking to everyone's nearside. Girls dream of their first luxury high heels, and boys desired their first sports car. Accessories, clothes, cosmetics advertisements cover airports, ways, and malls-- luxury goods are part of our lives. The market for luxury goods realized a worldwide revenue of 313 billion dollars in 2019. Affected by the pandemic, luxury goods' world revenue decreased to 285 billion, a 13% decrease to the year before, but it was predicted that there would be 388 billion revenues in 2025. As for e-commerce, the worldwide online share has foreseen to grow by 51% between 2018 and 2023. During the pandemic, luxury goods suffered a huge impact. People could not travel and buy goods abroad, shows do not have any audience, and media offers people another experience instead of entity goods. Since the luxury industry needs to cover inflation and labor costs, price rising is regular. Affected by the pandemic, the recent raising price is unusually aggressive. [5]The author first adopts the market segmentation to better focus on objects-- luxury leather bags. Then the author analyzed its e-commerce prices, revealing the importance of e-commerce to luxury bags. Though luxury e-commerce has limitations, the author gives some suggestions for luxury goods' e-commerce retailing.

2. MARKET SEGMENTATION

Market segmentation is to subdivide entities into several groups by characteristics. People add some

description to each segmented part, which helps them analyze customers' preferences and adjust our market strategies. Normally, for business, companies segmented the market in different aspects, including customers, products, demography, benefits or psychology. In certain segmented part, like customer segmentation, customers could also be segmented by gender, age, and other characteristics. After cooperate segmented the products or customers, they focus more on the slighter group and give specific strategies.

Segmented by product, the luxury goods market is divided into 5 segments, including luxury leather goods, luxury watches and jewellery, luxury fashion, luxury eyewear, and prestige cosmetics and fragrance. Of those segments, luxury leather goods take part in 15 percent in 2020. The reports show that luxury leather goods has the greatest increasing potential from 2019 to 2025, which is 33.3%. [4] It reaches a high value of 45801 million dollars in 2020. In the price analysis, we mainly focused on leather bags, since bags are more unitary and their prices are easier to be traced.

As the widespread of the internet, e-commerce is accepted by most people. E-commerce gradually becomes an important channel for people to buy luxury goods. In the bar chart, we could observe that the percent of luxury goods that is taken part by e-commerce is increasing each year. As for the online retail share of accessories, the online sale reaches 22.8% in 2020. Segmented by areas, luggage and bags are consumed the most in HongKong, which reaches 286.9 per capital, while the United States ranked the fifth,

holding 85.1 per capital. We mainly focused on the market in the United States. Since the industry holds several big companies, we mainly choose three companies to do the research—the LVMH company, Kering, and Chanel. LVMH's key brands related to luggage & bags contain Louis Vuitton, FENDI, Christian Dior, Givenchy, Celine, BVLGARI, LOEWE,

RIMOWA. Of those brands, Louis Vuitton is the world's most valuable luxury brand, valued at 47214 million dollars in 2019. Kering also had multiple bag brands, such as Gucci, Balenciaga, Saint Laurent. Chanel, famous for its fashion and leather goods, also has a place in the luxury industry.

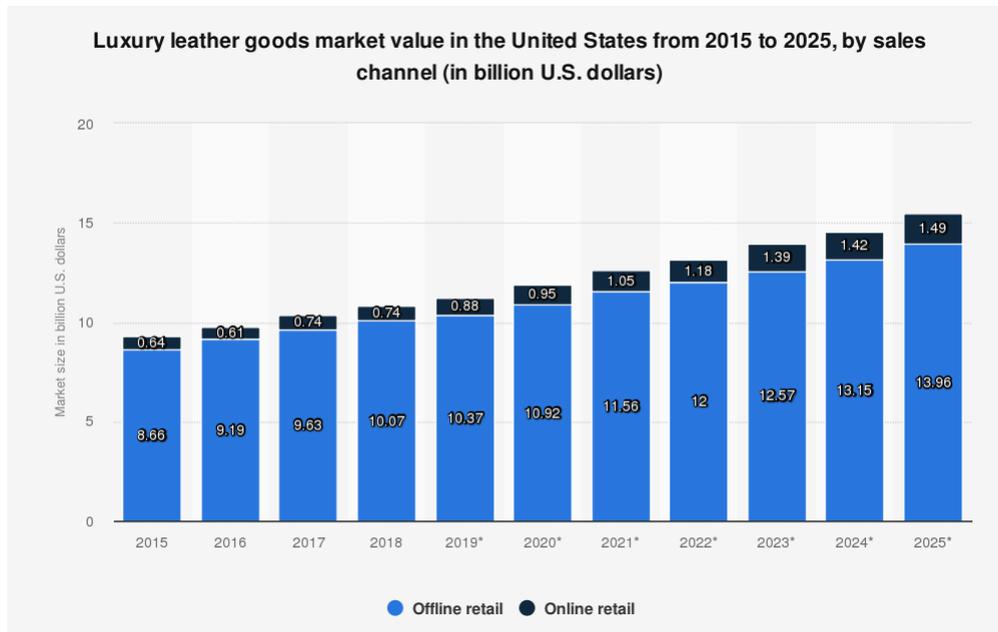


Figure 1. Luxury leather goods market value in the United States from 2015 to 2025, by sales channel [11]

3. E-COMMERCE FOR LUXURY BAGS

Luxury goods are high-valued sometimes not only because of their products, but also their service, shopping environment. However, e-commerce will prevent people from having a shopping experience. People could only see bags in the picture, without the real touching feeling of bags. However, for the accessories, the online share is pretty large, which is 22.8%. In 2019, the statistics are 19.6, and in 2018 there is only 16.7%. The increasing trends show that e-commerce for accessories is spreading fast. There are a few reasons for e-commerce to become popular. First, e-commerce offers people broad choice. The far fetch, one of the biggest e-commerce luxury website, offers 13 brands of bags, 381 designers, with specific categories. The website's categorized design could help customers find what they need fast. Second, the website shows the product comprehensively. In far fetch, we could see after we click the product to discover its detailed information. There is an enlarged picture of the bags, and the bag on the model. Below the pictures, there is a description of the bag, and the detailed size of the bags. At bottoms of the web page, there will be other elements on the model, which might suggest customers to do more shopping. The customers could have a good sense of the bag though they did not see it. Third, luxury e-tailors like far fetch will give people fashion tips, and

the latest fashion trends. These articles are like a fashion magazine, helping people to follow the trends and do the shop. Fourth, the millennium and Gen Z have become the main consumers for luxury goods. Their embracing of e-commerce and luxury goods drive the fast growth of luxury's e-commerce. Fifth, luxury brands are also embracing online sales. Brands started to launch sites, build social media, post video shows. These luxury brands put more effort on their e-commerce marketing. [1]

4. BRANDS' INCREASING PRICE

4.1. Dior

The financial report points out that the lady Dior bag has become a global icon. [6]The price for the Lady Dior bag is adjusted aggressively. From the chart, we could observe that the mini-size lady Dior bags and Dior D-lite canvas bag change by near 9%. Also, saddlebags changed the most, for 13% and 20%. Another interesting fact is that the bag that is relatively small-sized rises much higher than larger sized bags. Comparing the increasing rate between the 2021's and 2020s, we discover that 2020's increasing rate is higher than in 2021 for most bags, except for the mini saddle bag and canvas book tote bag. It is another sign to show that the mini bags are becoming more attracting for customers.



Figure2. Price change for lady dior bags

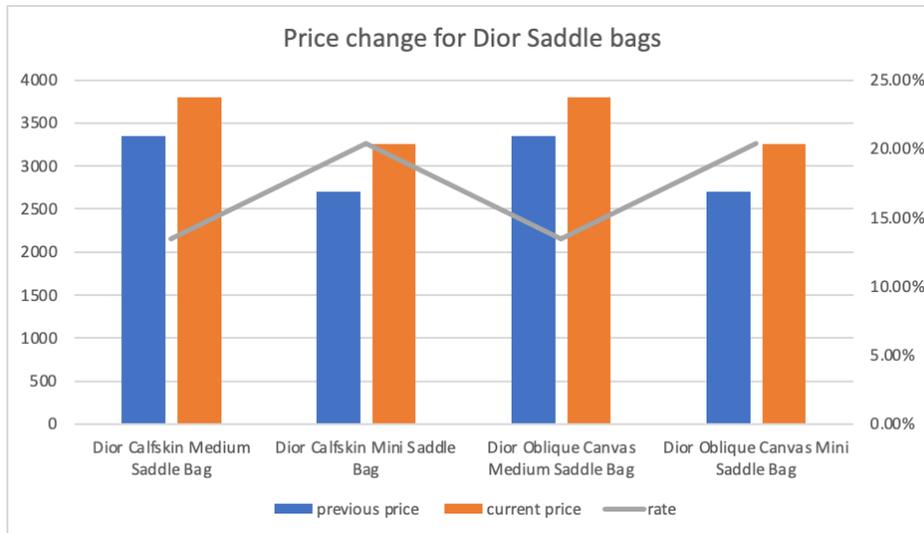


Figure3. Price change for Dior Saddle bags

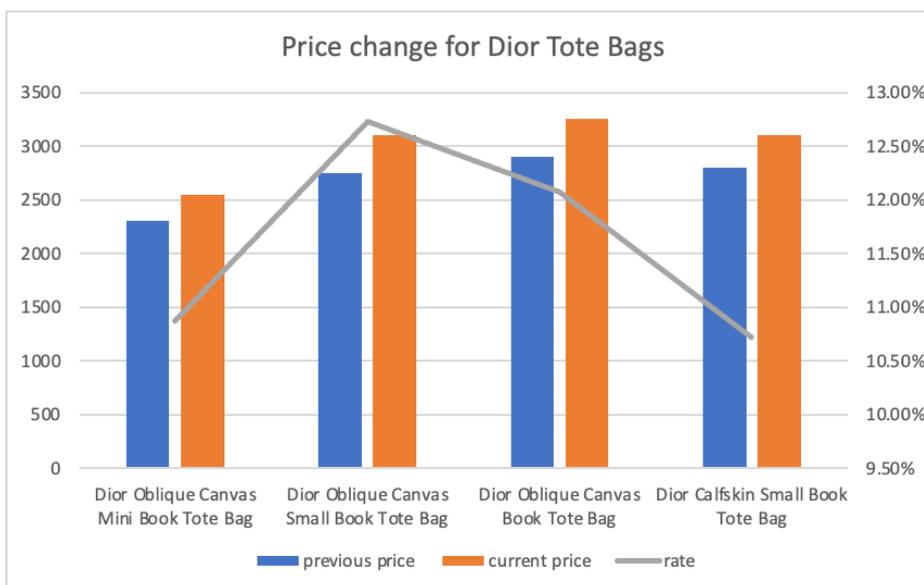


Figure4. Price change for Dior Tote Bags

4.2. Louise Vuitton

Compared with Dior, the price change for LV is rather small, with an average of 6.65% for the on the go bag and neverfull bag. It is worth noting that during 2020, the Louise Vuitton experience the second price increasing in May. [3]It is possible for the pandemic.

Since these luxury goods are mostly produced in Europe, and Europe suffered the pandemic during March and April. It is likely that the supply of Europe could not match with demand globally, and that will cause the price to grow higher. The double price increasing might have a direct effect on price increasing this time.

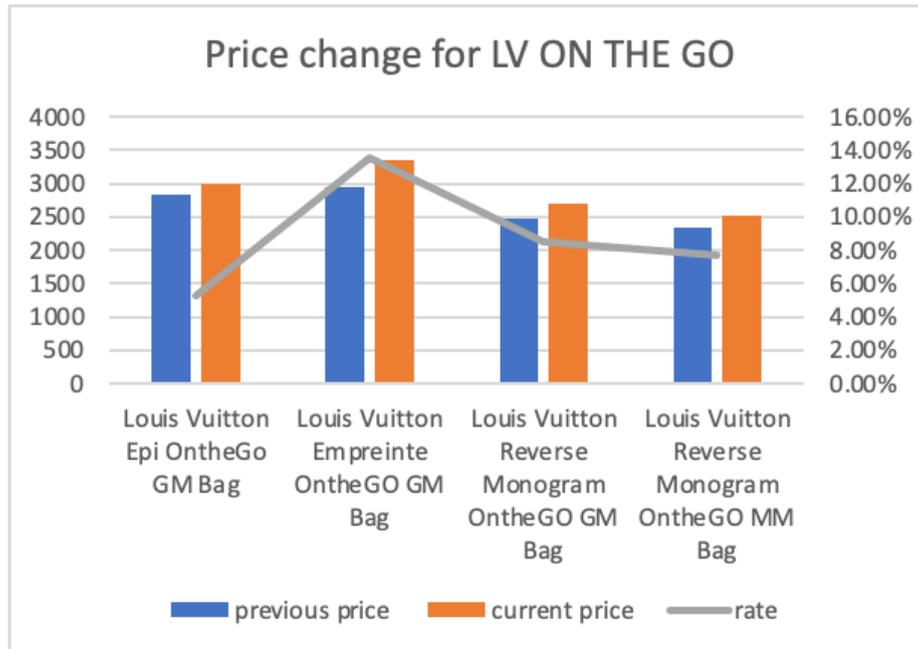


Figure5. Price change for LV On The Go Bags

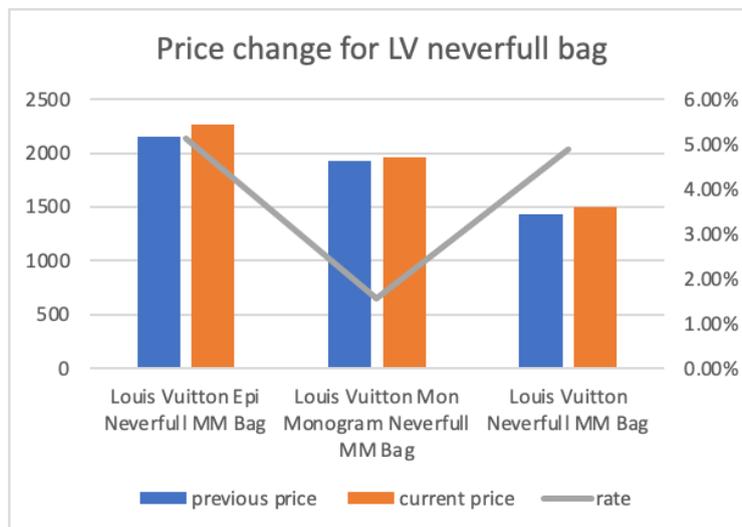


Figure6. Price change for LV Neverfull bags

4.3. Chanel

Chanel's price increasing is rather steady for each bag, around 11.2%. However, after comparing 2021's increasing rate with 2020's increasing rate, we will find that 2021's increasing rate is far less than the 2020s. We will discover that the 2021's price increasing rate is far less than 2020's increasing rate for each bag. The 2020

price increases in May, which is the second price raising in 2020. It is possible that due to the pandemic, Europe's productions have problems in following the demand for bags. Luxury brands shut down a large number of factories in Europe. [9]The supply is less than the demand, which leads to aggressive price increases in 2020

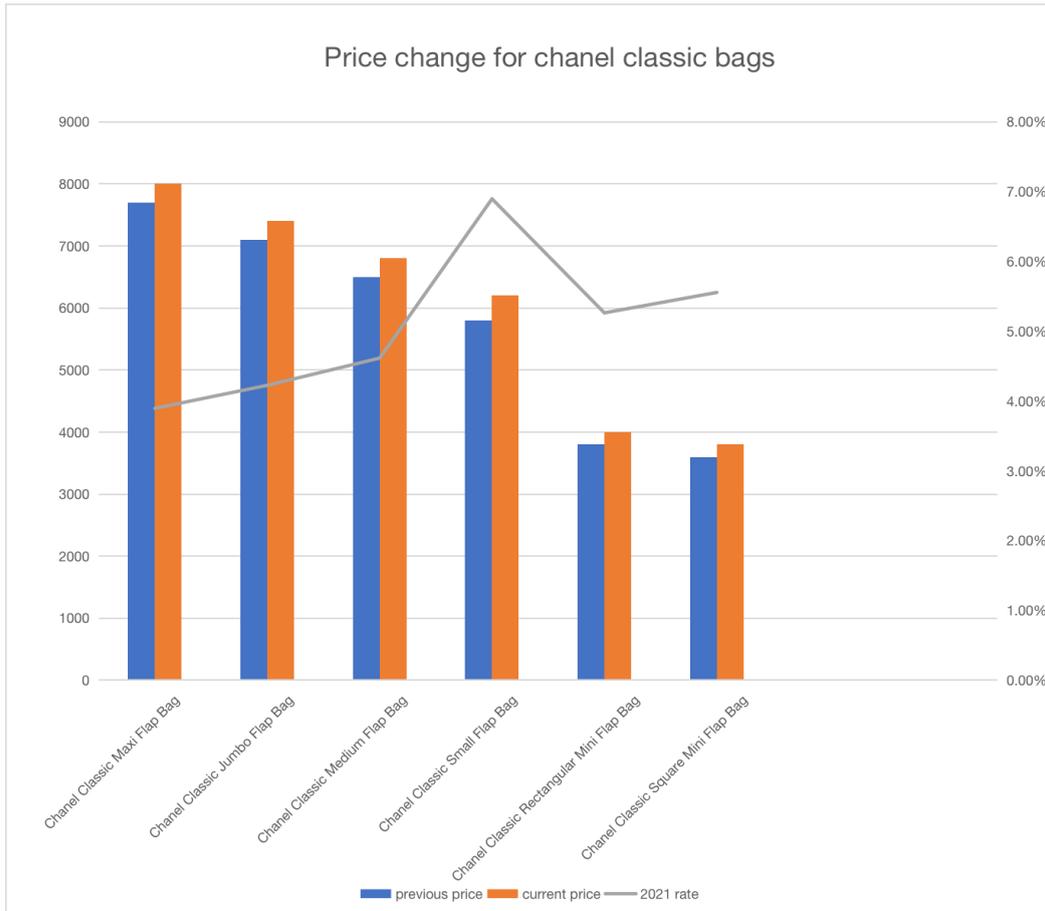


Figure7. Price change for Chanel Classic Bags

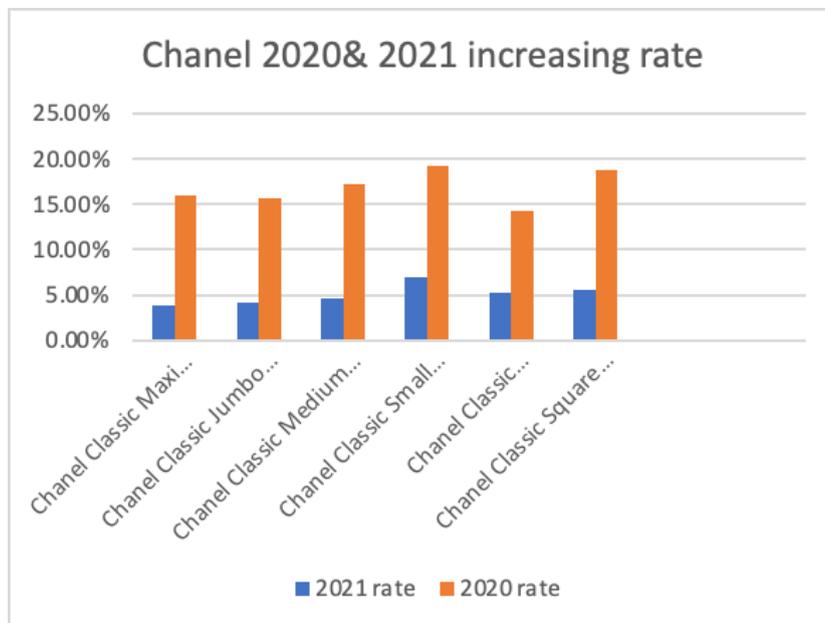


Figure8. Price change for Chanel2020&2021 increasing rate

It is interesting to find that the increasing rate actually reduced in 2021. One possible explanation is that during the pandemic, the quantity of luxury brands sold has already reduced. If they set the prices too high, people maybe not willing to buy those goods. Another explanation is that since e-commerce selling does not

require so much cost, brands do not have to increase the prices as much as before to cover the increasing costs. It could explain that why increasing rate in 2021 is lower than 2020.

5. E-COMMERCE STRATEGY FOR LVMH, KERING AND CHANEL

Because of the pandemic, LVMH and Kering have changed their strategies toward e-commerce. In the past, Kering actively engaged in e-commerce, outsourcing on YNAP. In comparison, LV only put a little market on e-commerce, which only added some brands on 24s, which is only a small part of LVMH's revenues. Contrary to our intuition, e-commerce is actually not so cheap. Luxury brands need to spend extra costs on transporting, IT maintaining. Nevertheless, compared to stores, which comprises labors costs, rental fees, e-commerce is still relatively low-cost. Thus, the e-commerce's market is growing larger each year, and it will be a significant part of luxury goods in the future. Companies have already adopted some changes. Kering owns 51% of Yoox Net-A-Porter, a retail site. Besides the merger with YNAP, Kering also has its own e-commerce selling. Gucci, started in 2001, has great performance in the e-commerce area. As for LVMH, different brands have different marketing methods. In the past, LVMH is reluctant to enter the e-commerce market, believing it is the most valuable luxury group in the world and does not need the online market. However, the Covid-19 changed the LVMH's thoughts. It has set a chief omnichannel officer, which means that LVMH has also prepared to enter the markets. [7]Chanel, another luxury brands that did not enter the e-commerce market, believed that "less is more". Chanel did not make too much effort to popularize e-commerce to the public, but focused more on exclusivity. Unlike LVMH and Kering, it even does not exploit social media like Instagram. [8]However, Chanel outsources its luxury goods to another platform--G&Co. It's a platform that especially focuses on user experience(UX) and user interface(UI). It emphasizes conversations between customers, intending to give customers high-quality service that is corresponding to their high prices [10].

Luxury brands are preparing to enter more in China's e-commerce market. Chinese e-commerce platforms have a massive market, like JD.com and Tmall, each of which cooperated with Farfetch and YNAP. Except for the luxury brand, brands also developed its website to conquer the huge Chinese market. [2]

6. DISCUSSION

The pandemic changed too many things—the way people work, the way people shops, the way people learn. Everything moves online, including shows, shopping. Luxury goods used to put little effort into e-commerce because buying luxury goods is also buying their service. After a whole year, society still did not return to the normal state. Also, since people have quarantined at the home for a long time, some of them

could possibly change their shopping habits to e-commerce. It means that e-commerce has been accepted by more people. Luxury goods could not ignore part of this. Luxury brands have closed for hundreds of stores outside because fewer people shop. It is the timing for them to embrace the new channel.

E-commerce for luxury goods is totally different from other retail' products. Thus, luxury brands could create a new shopping model. Firstly, for example, they could add more interactive materials on the internet or record videos for bags to help customers identify that what exactly the bags look like when appeared in streets, gardens, or airports. Adding realistic scenes help enforce people's concept of the product. Second, the websites could give people advice on how to put together an outfit. They could also design some games, to make customers match clothes onto the models to see the best fit. What's more, the luxury brands could also offer customers personal fashion consultant, to give practical suggestions for them, so that people will have more interactions with the brands, instead of only clicking and pay for the money. The new program "boutique of tomorrow" of Chanel is a good example of highly interactive digital retailing. It showcased a virtual showroom, with high- tech interaction with customers, offering customers numerous "fashion advisors". [8]

7. CONCLUSION

Segmenting the market, the author chose to focus on luxury leather good. The Covid-19 has a great impact on us, preventing people from going out and shopping. Stores are closing, reducing luxury goods' revenues. Shopping turns to the online channel, and the luxury industry has to embrace e-commerce more. Companies like LVMH and Kering have already adjusted their strategies in online shopping. The pandemic also affects luxury goods' prices. After segmenting the markets, we mainly focus on the bags in the United States. Every year, luxury bags raise their prices because the costs rise globally. This year, the price increases aggressively, but for some brands like Chanel, the increasing rate decreases. One possible reason is that the reduced increasing rate is to fit for the online shopping environment. Also, we could observe people's preference for mini- sized bags, because their prices rise more than larger sized bags. There is some advice for e-commerce because e-commerce erodes the interactive service, personal advice. Luxury websites could focus more on those aspects.

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