

# Strategic Appraisal of Gucci



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# Introduction and Company Background

Gucci is a luxurious products company formed in 1921 in Italy; it has today over 3,000 outlets around the world (National Business Daily, 2011). The company's luxury goods range from trunks, shoes, leather goods, jewelry, watches, accessories, sunglasses, and books (Thomas, 2007). The company operates under the flagship vision of building heritage, creativity, and excellence. The mission statement of Gucci is to represent the most refined qualities of western art around the world. The company corporate values are creativity, innovation, and excellence. Additionally, the company aims at fostering and promoting the entrepreneurial skills of its staff through a decentralized organizational structure. The company's main shareholders are customers around the world. This paper will discuss the position and the comprehensive strategy of the company appraisal elements.

## External Analysis

### PESTEL Analysis

In order to understand the position of the company in the market, an analysis of the external environment will be done.

**Political factors.** Political influence has been achieved through the formation of the global taxation policy in the fashion market

environment. The value-added tax (VAT) on Gucci products increased from 2009 due to the impact of new taxation policies in the market. Statistics show that in 2009, VAT was increased by 2.5% affecting consumers' purchasing power due to net tax rise from 6.25 billion pounds in 2010 to 8.23 billion pounds in 2015 (Socha & Miles, 2014).

**Economic factors.** Several research studies show an increase in prices of products, unemployment, and reduced gross domestic product (GDP) lowers the purchasing power of consumers. However, due to the need for prestige, customers may want to associate with the product and purchase more of the cosmetics. The target market for Gucci comprises the wealthy population who live a luxurious life and can afford expensive goods and products (Thomas, 2007).

**Social factors.** These include demographic, cultural, and religious aspects. Gucci Company cuts across the needs of all persons regarding their preferences, tastes, and choices. The company production is diversified on a broad range of products to ensure they consider all groups of potential customers despite their age, income, religion, or origin. The market segmentation distinguishes social classes and offers prestigious status to all the clusters.

**Technology.** The internet has empowered the company's marketing and communication strategies. For example, the websites and social networking sites have provided platforms for online advertisement, buying and selling products.



**Environmental factors.** The products within the industry are user-friendly and do not cause environmental degradation. Therefore, Gucci products are preferred for consumption by a broad range of consumers across the world. The product prices are manageable considering the brand image created by the company to its existing and potential clients.

**Legal factors.** There are no legal threats associated with the use of products from the enterprise. Therefore, the company has gained a better chance to position its products in the market. There have been no side effects attached to cosmetics and perfumes made by the company (Wendlandt & Simpson, 2011).

## Industry Analysis: Porter's Five Forces of Competition

**Threats of new entrants.** According to Magretta (2014), the profit margin of the company is most likely to attract new firms into the business. To counter this, Gucci Company has diversified its communication and production resources in order to maintain customer loyalty via continuous advertising, brand messages, and speeches.

**A threat of substitute product.** To counter alternatives, the company uses the product differentiation technique through packaging their products in attractive cabinets, increasing the use and quality of the products. Ideally, the marketing committee should review their prices to



attract more customers for consuming products (Magretta, 2014).

**Customers' bargaining power.** Gucci wins the market by providing customers with relevant information on location, benefits, and prices of the products. Brand loyalty attached to clients who have tested the products act as a selling point to the organization, thus attracting more sales. To maintain the market, the alternative product uses should be reinforced. Testimonials from trusted customers will equally boost sales (Porter, 2008).

**Suppliers' bargaining power.** For-profit maximization, the industry leads to local markets obtaining raw materials. This cuts down on transport and importation costs as well as empowering local society. Corporate buying power is achieved through negotiation and discounts on imports (Magretta, 2014).

**Competitive rivalry.** As a measure of curbing rivalry, the firm competitively engages in innovation through conducting market research initiatives to suit consumer needs and preferences. Furthermore, this is leveraged through competitive advertising strategies such as product promotion, billboard advertising, and engaging in corporate social responsibilities (Porter, 2008).

## Opportunities

The availability of a large market. The brand has a broad market due to its



exclusive nature, e.g. coverage and durability. The placement as the world's best luxurious industry has given Gucci an opportunity to gain popularity and demand around the world. Additionally, the products are environmentally friendly. Therefore, Gucci has a chance to sell its products freely in the market making it limitless to expansion and growth. Moreover, the use of the internet for communication purposes through the company's website is practiced. The Company obtains feedback, reviews, and sales of their products through e-commerce and other social platforms such as Facebook, blogs, and WhatsApp (Abraham, 2012).

## Threats

The current competition has made the market inadequate. The increased innovations and trends in the development and manufacturing of products in the fashion industry have provided a significant range of substitute goods for Gucci. Besides, the challenge of an economic slowdown in the sector created an impact. Deteriorating economic factors may lead to low-profit level by limiting the customers from purchasing more products. As a result, the minimal growth of the company will be achieved. Additionally, due to the lack of patent rights, other firms in the industry are copying the designs of the products from Gucci. This challenge makes it hard for the company to identify itself fully in the market. Moreover, some counterfeit goods have been defined in the industry. Furthermore, changing consumer tastes, choices, and preferences make it difficult to maintain customers (Porter, 1998).



**Table 1**

*Showing the Sales Volume Trend of the Company's Products over the Past Ten Years in a New York Branch (Volume in Tonnes)*

Products	Year					
	2005	2007	2009	2011	2013	2015
Fashion leather	6010	6302	7581	8712	9926	9883
Selective retail	4376	4533	5378	6436	7843	8903
Wines & Spirit	3126	2740	3261	3524	4122	4173
Perfumes & Cosmetics	2868	2741	3076	3195	3613	3717
Watches & Jewelry	879	764	985	1949	2750	2697
Others	-66	-27	39	-157	-284	-357

From the data above, the trend of the market is shifting positively with a desirable result of an increase in sales. Business growth in the fiscal year of 2007 revenue increased by 19% to \$20.32, whereas in 2009 the net income increased by 29% to \$4.32. Reports from the central executive officer (2009) rate the market demand as follows: wines and spirits have 16%, fashion and leather goods – 37.35%, perfumes, and cosmetics – 15.4%, watches, and jewelry – 4.8%, and selective retailing – 26.5%. The company targets the wealthiest members of society making up to 1.9 % of the population with more disposable income. The yearly income of the company ranges between \$150000 and \$249,000. The difference in sales volume between 2007 and 2009 was caused by the recession that faced





the US in 2008. However, after economic stability in the region and the entire world, the company has attained greater sales volume over the following years (Socha, 2015).

## Internal Analysis

### Identification of Resources and Competencies by Value Chain Model

Currently, the company works on a capital base of more than 29,149 million euros. The company's success is associated with its wide range of resources, market, technological innovation, and competent staff (Wendlandt & Simpson, 2011).

### Gucci's Tangible Resources

#### Financial resources

Over the years, Gucci Company has experienced a growth regarding revenue. Statistics indicate that in 2003, the financial position of the company was 29,149 million euros with a profit margin of 19,094 million euros, which means a 5% increase from the previous year.

#### Machinery and assets

Gucci has tangible and intangible fixed assets worthing about 2.6 billion euros. Correspondence with this financial position leads to growth and





efficient operations of daily activities within the organization.

### **Manpower**

Gucci recruits staff members that are more qualified. The company has a larger number of laborers due to its expansive nature and extensive market coverage. Staff empowerment through training equally helps the team to build on their talents and skills as well.

### **Materials**

The Company enjoys massive disposal of raw materials from diverse suppliers both locally and globally in cost-effective terms. The vendors incorporate both locally and globally enhancing bargaining power and easy dispatching of goods and services from the company across the globe.

## **Gucci's Intangible Resources**

### **Talents and skills**

Knowledge, skills, and talents are an integral part of the creativity section of the firm. Ideally, this creates business models that are authoritative regarding distinctive quality features. For example, global mobility positioning, proper packaging, and branding are highly utilized.

## **Threshold Resources**



### **Advanced technology**

Since 2010, the company has imperatively been associated with technological innovations. Advancements in computing methods through the IT department have objectively diversified the market position of the firm via communication and production of standardized goods to suit the consumers' needs. For instance, utilization of the current engineering techniques in production has profoundly created a favorable brand outlook of jewelry and watches.

### **Huge capital base**

Over the years, Gucci Company has experienced a growth regarding revenue. Statistics indicate that in 2003, the financial position of the company was 29,149 million euros with a profit margin of 19,094 million euros. It means a 5% increase compared to the previous year. Such tremendous results are accredited to effective control over the cost of goods in the market and regulation of advertisement expenses.

### **Entrepreneurial leadership**

The management regularly empowers its staff through a decentralized type of leadership giving each member as well as each department an opportunity to explore their decision towards the success of the organization. This technique helps to market the company's products by the staff.

## **Broad Market Base**



Dating back from 2006 to present, Gucci has a leading position in the market; and, in terms of fashion and design sector, it incorporates a feature that placed the company as the world's most valuable luxury brand operating in more than 50 countries. The company experiences an annual profit margin of 30 billion euros from sales of its products.

### **Core Competence and Capabilities**

The unique feature of Gucci is its ability to deal with multi-brand. The company invests much capital in luxury goods ranging from trunks, shoes, leather goods, jewelry, watches, accessories, sunglasses, and books. Diversifying products acts as a good source for revenue, running a business, and catering for financial needs of the company.

The uniqueness of the brand products gives Gucci a particular identity and position in the market. This identification is achieved through product differentiation. Gucci invests considerable assets in innovation and creativity in order to manufacture unique products.

## **Appraisal of Resource and Competences**

### **Value**

The company makes unique leather materials such as shoes and pouches. Such material selection attracts more customers due to its value and durability effects. A product made of leather stays for a long time. Therefore, it is suggested that the clients explore their material value maximally. Trunks from Gucci are also durable and efficient in use.



## **Rare**

The Gucci Company invented trunks' design made of blue and red striped canvas that is aimed at protecting the contents of the trunk from dust and water and at increasing durability. This design attracts customers due to its unique features. The complexity of the design and the secretive production of the material used make it difficult for competitors to copy. As a result, the Gucci business thrives over its competitors.

## **Inimitable**

Gucci heavily invests in technology and innovation regarding design and content. The product designs are unique and identifiable in the market. As a result, the company has gained a broad market due to product differentiation skills applied in design, packaging, branding, ingredients, and general outlook. For instance, the unique scents of their perfumes attract more sales.

## **Non-substitutable**

Gucci extensively produces non-substitutable products. The latter ones have been created through competitive designing skills and manufacturing efficiency (Duane, Robert & Michael, 2008). This factor gives the company a competitive advantage over its competitors.



# Company's Corporate and Business Strategy

## Strategy Clock Model

The company has strategically positioned itself in the market through various techniques as depicted below.

**Additional value.** Historically, Gucci is associated with its distinct nature of producing unique products of high quality. For instance, the manufacturing unit uses thick fabric and leather material to garnish products to suit consumer needs. Products manufactured from leather are more durable than other products, hence preferred by many people. Such a strategy wins market brand loyalty.

**Hybrid products.** Gucci development dates back to flattop-designed trunks with flat hinges that were stackable and suitable for long-distance travels. A few years later, rival companies in the industry had imitated this plan to stay relevant in the market. Gucci invented another design of the trunks made of blue and red striped canvas. In this new model, the cloth protected the contents of the trunks from rain and dust making it more durable.

**Differentiation.** Nowadays, Gucci maintains its place in the market due to its unique attribution to products. The goods of the company are different regarding material, design, and packaging. The complexity of



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**Focused differentiation.** Gucci produces highly standardized goods that target the wealthy class. The perceived value of products serves as a selling point to the clients. This criterion attracts huge profit margin as well as premium contributing to faster growth in financial aspects of the company's history (Armstrong, Kotler, Harker, & Brennan, 2012).

## Issues and Challenges Facing the Company

### Establishing the Mode of Communication

Linking the clients with products in the organization is a challenge to the whole company. Purposively, most of the clients would like the firm to contact them and inform them about products in the market. This means the company spends a good amount of time and money to pass the messages to their clients.



## Consistent Positioning

Just as any other rival company, the competing company Louis Vuitton threatens Gucci. Maintaining a stable position in the market goes beyond brand recognition. To achieve this, a series of advertisement techniques must be employed lest their competitors dominate in the market (Porter, 1998).

## The Products with High Price Range

The price of the majority of the company's products is high. Hence, it is accessible only to the rich people. As a result, other companies have a chance to target the middle-class population that makes the highest percentage of the population. Through the strategy, the competitors make more sales than the Gucci brand due to the dominant cost factor.

## The emergence of Counterfeit Products

Black marketing experts modify their products and assign the products popular brand names. Due to the poor quality of the products by such individuals, they ruin the corporate image of the company as well as decrease the profitability and sales of genuine products within the industry.

## The Fluctuating Market Trends

Due to seasonal changes such as reduced level of gross domestic product, per capita incomes, and inflation, the firm is unable to depict clearly the future slowing down their operations when the market is facing a latent period before it recovers to normal. However, to regulate





this, comprehensive market research and analysis is needed to be done.

## Identification and Evaluation of Main Strategic Options for Growth

Following the above analysis, it is important to develop a strategic plan option to help in maintaining the image of Gucci and the general position of the company in the market. The company will embrace Ansoff's matrix model in order to establish its strategies as follows.

### Diversified Communication

Communication is a fundamental element of the company since it joins stakeholders, clients, legal bodies, the company, and society. This can be enhanced through open access to information. Managers are encouraged to create via internet cyberspace within the organization to increase several group discussions on achievements, challenges, framing, and urgent issues that clarify the organization's values and objectives.

### Diversification of New Products

Launching new products into the market injects the economy with new outfits that tally with the demands of the public. Ideally, human nature is attracted to try out new methods of doing things, a condition that is



spearheaded by research and innovation. Therefore, new sample products should be displayed in the market with a high buying line to attract more users as well as sales. However, this calls for ideal promotional strategies to outdo competitors and substitutes (Duan et.al, 2008). Therefore, this implies that in-depth market research and analysis is carried out before the implementation of this strategy.

## Establishing Standing Committees

Such committees include the strategic planning committee and global outreach committee. The strategic planning committee should be under the deputy of CEO in order to check the progress of the organization with plans, present annual reports on their findings, and advise the management if needed. Additionally, the global outreach and research committee should be created to explore and access the world market for enhancing research and giving feedback to the management on current trends in the business community in terms of meeting the standards of production, consumer tastes and preferences (Abraham, 2012).

Practically, the best take that will lead to positive growth of the company is diversification of communication. Communication joins all the departments within the organization starting from the management to the consumers establishing a mutual relationship to all parties. This process will selectively include manpower to reinforce the message. For this case, celebrities will create a significant impact. Customer feedback

forums will enable them to have a chance of giving testimonials about the product. Thus, it will help sell the brand to others. Various channels of communication with well-structured messages will be used such as television and radio.

This strategic plan will help the company work out on its production cost-effectiveness and profitability. Maximum employment of the locally available resources would be a factor to promote productivity. Additionally, the strategic plan will help in increasing communication channels to downplay the competition and give the company an upper side in the marketing operations. Moreover, the technique should facilitate the analyzing and research study process of the current trends and aspects that suit the customers' needs (Duan et al., 2008).

## Recommendations and Conclusion

The future of Gucci is highly dependent on setting common goals that will guide the organization and the employees. The shape of the organization is a critical component to be considered in this case. Therefore, the planning committee should design various approaches to making the plan ideal through a thoughtful process.

Profit maximizing is one of the agendas of the company. Therefore, to effectively attain it, the management should embrace the use of locally available resources within the organization to cut off transport and



importation costs. Additionally, this will empower the local society and cooperate with buying power through negotiation and discounts on imports. Creating associations with other organizations will equally help the company to increase bargaining power in both international and local markets. Furthermore, the company should utilize experts who are knowledgeable about current trends in the market to make modern outfits and products fit for the consumer through the research and experience.

## Leadership Positions and Styles

Gucci should encourage directors to enhance staff participation by getting their concerns through open discussion forums. As a way of motivation, the management should determine the mode of working in various departments within the organization and how they are correlated with the performance of tasks as well as building up the organization (Gattorna, 2009). Establishing initiative programs that appreciate staff commitment in the line of duty will also create a good corporate image of the company and encourage workers to be effective regarding objectivity maintaining. This strategy will fuel the drive to obtaining the company's wish image regarding production, profit margin, and service delivery.

Conclusively, Gucci is a fast-growing industry venturing in luxury products and has a great future. The company is predictable and likely to



continue thriving due to proper planning and well-established leadership techniques that give rise to competitive staff through training them to be entrepreneurs. The company is in a better position for expanding itself. Therefore, Gucci should work over future changes through structural planning.

