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## **“Carolina Herrera” Internationalization Strategy: Democratic Luxury or Maximum Exclusiveness?**

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***Abstract:***

*The Company Carolina Herrera has identified a market niche that demands garments, apparel and accessories and to which it can offer a somewhat differentiated product with excellent quality. This market niche is the target of several companies such as Loewe and Vuitton, which may be clearly identified as the leading companies and worldwide references. In this scenario, the question of which internationalization strategy must be pursued to access the luxury fashion product market should be raised. A Benchmarking analysis was carried out for the purpose of identifying best commercial performances of leading worldwide Brand names to determine the marketing planning strategy. Results show the companies' recognition of a globalised luxury and the discovery of a global market niche with huge growth potential, such as luxury handbags, make us state that there are still growth opportunities that have not been exploited.*

***Key Words:*** *Internationalization, Benchmarking, Branding, Fashion Markets*

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***JEL Classification*** *L21, M30, M31*

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## **1. Introduction**

Carolina Herrera is a fashion Brand name with a renown and quality image. The company has identified a market niche that demands garments, apparel and accessories to which it may offer a somewhat differentiated product with excellent quality. However, this market niche is already targeted by several companies with very renowned Brand names and great reputation, such as Loewe and Vuitton, which could clearly be identified as the leading companies and worldwide references in the luxury fashion apparel sector (Reynolds, 1985). Faced this scenario, we examine whether there is the possibility of carrying out a complete new Brand positioning to enter this market niche, or on the contrary, efforts should focus on strengthening its Brand positioning strategy within an international scope.

To answer this question, Spanish fashion retailer Carolina Herrera's (hereinafter CH) internationalization process and strategy are going to be analysed as a case study. For that purpose, three elements of marketing strategic planning will be used, such as the Benchmarking, segmentation and positioning and finally the Marketing-mix, viz., marketing variables that the Company has to reach this potential market. Because Brand plays a determining role in the firm's internationalization and in penetrating international markets (Malhotra, Peterson and Kleiser, 1999), the role played by Brand as a transmissive vehicle of internationalization strategy is analysed in this study.

## **2. The Company's Beginning, Conceptualization and Internationalization Process**

### ***2.1 The Beginning of the Company and the Carolina Herrera Concept in Current Context***

The European textile and clothing sector is characterized by its fragmented and disperse production, with great number of small and medium size companies (Nordas, 2004), whereas textile distribution channels are characterized by their huge concentration level (Stengg, 2001). In this context, the Company Sociedad Textil Lonia, S.A. (STL) was launched in 1997, as an industrial project of clothing and sale of garments, apparel and accessories whose aim is the medium-term development of several brands in all worldwide markets.

The first brand that STL launched onto the Spanish market in 1998 was Purificación García, with men and women's collections, aiming at the market segment with a medium-high purchasing power and which also demands quality and design apparel.

On the other hand, fashion designer Carolina Herrera, signed in 2000 a commercial licensing contract with STL to start up the worldwide expansion of her firm and planning the inauguration of stores in Europe, the United States, South America and Asia in the medium term. CH aimed primarily at the market segment with high purchasing power, offering great quality and exclusive design products.

Nowadays, the CH brand is the flagship of the company located in Ourense (Spain). Over a thirteen-year period, STL has opened 305 stores in 23 countries worldwide and 102 points of sale for the PG Brand in three countries.

The textile Company owns a commercial licensing contract for both brands. Under this contract, STL is in charge of the global design, tailoring, distribution and management of the two brands. Control of the overall procedure, including design, production and distribution is from central headquarters in Ourense.

Due to its business experience and to the abolition of quotas on textile exports in 2005, the company has reorganized its production process, getting rid of the tailoring and dressmaking activities. So, following Berkeley and Steuer (2000); and Keenan, Saritas and Kroener (2004) there is a clear example of product subcontracting of the labour intensive parts of the production process to third countries with lower wages costs.

## ***2.2. The Business and Management Model: “One Company, Two Brands”***

Dealing with two fashion projects set in different market segments such as PG and CH has forced the company to lay down two different marketing strategies for the two brands. The company has tackled possible cannibalization between CH and PG by differentiating brands, particularly by product, image and target market.

Fashion companies are becoming much more flexible and vertically organized (Samiee, 1995), and are adopting new technology to increase productivity and development (Berkeley and Steuer, 2000). In fact, the business strategy followed by STL lies in its unified, quasi-integrated and global management model, which provides the company with great control over the production process, distribution and commercialization, as well as great flexibility and speed in adapting production to market needs in the short term.

This enables the company to have a large degree of verticalization, meaning that different stages of the value chain are integrated, such as the design, patterning, distribution and store management. Its flexible structure, as well as its customer orientation and the advanced information technologies used, allow a flexible and swift response to the customers’ demand and excellent market orientation. Even though it cannot be called a ‘Just-in-time production system’, it does fall into the quick response system, because it allows a rapid response to changing customer demands (Castellano, 1993, 2002) and makes the productive and commercialization system more flexible.

That way, the management method used by the company is quasi-integrated management of design, production and distribution, which allows adjusting production to real demand and removing production channel intermediaries. As remarked on previously, this integrated and global business management model gives production control to the company. This management model is backed by an advanced IT system, which every day processes all information from the stores to central headquarters, which provides daily monitoring of articles sold at each point of sale.

### **2.3 The CH Brand Internationalization Process: Motives, Market Selection and Entry Process**

#### **2.3.1 The Carolina Herrera Brand's Internationalization Process**

A trend observed in recent decades in the textile, clothing and fashion sector consists of the sector's increasing internationalization, as well as the appearance of new international rivals (Akehurst and Alexander, 1996; Bonache and Cerviño; 1997; Cerviño, 1998; Guillén, 2006).

In this extremely competitive setting, CH opened its first store in Ourense in 2001. International expansion began in 2002 with the inauguration of the Miami store (USA). In 2010 the company operated in 23 countries and international sales accounted for 60% of total sales, with the United States and South America by far the most important markets. The reason for commencing international growth in North American market was due to the fame fashion designer Carolina Herrera attained in this market, where she continues with her haute couture company 'Carolina Herrera New York'. The company continued to expand in Mexico and South American countries, likewise because of the fame the fashion designer had in those markets, due to her Venezuelan status.

#### **2.3.2 Internationalization Motives**

Previous literature has classified retail internationalization reasons into 'push' factors, those that encourage the company to search for international opportunities, and 'pull' factors, those that involve attractive conditions in foreign markets (Alexander, 1995; Treadgold and Davies, 1988). The limited growth opportunities in the domestic market had been the main influence in Carolina Herrera's international expansion decision. So, as Treadgold (1990) remarked, the perception of non-existent opportunities in their domestic markets, linked to the business opportunities perception in new international markets is the most important motivating factor.

Thus, 'pull' or motivating factors for CH are brand awareness in foreign countries such as the United States or South American countries, uniformity of consumption patterns throughout the different countries 'sharing a unique fashion culture', the existence of consumer groups that demand design and quality fashion in different countries and finally, the abolition of barriers to export and import, and the development of IT.

McGoldrick (1995) and Hutchinson, Alexander, Quinn and Doherty (2007); contribute with a third group of factors related to company organization, which are the qualifying or empowering factors. CH's expansion in New York, specifically the store on Madison Avenue that opened in 2010 and upcoming openings in Paris and Tokyo, are only justified on image and status reasons, because these capital cities are considered 'fashion capitals' and are extremely competitive.

Quinn et al. (2009) also mentions the inhibiting factors, that hinder internationalization. The first stage of internationalization is characterized by

physical and cultural distance, perceived risk and lack of experience. Administrative barriers in South American countries (export trade barriers in countries like Mexico, Colombia, Venezuela or Argentina) and the different season in the Southern hemisphere in South America were inhibiting factors, as well as the cultural distance in the Middle East and the geographical distance in Asia.

The notion of physical distance and level of uncertainty a company has to certain foreign markets have been cited as a critical factor in deciding where to carry out international expansion (Dupuis and Prime, 1996; Evans, Treadgold and Movondo, 2000). However, previous research has shown that some retailers overcome physical barriers due to their products and particularly desirable brands (Ferne, Fernie and Moore, 2003; Moore, 1998). Many authors have pointed out that this is the situation of fashion retailers that sell exclusive brands (Laulajainen, 1992; Lewis and Hawksley, 1990; Moore, 2001).

### ***2.3.3 Market Selection: Disperse Internationalization***

Carolina Herrera’s internationalization process in no way follows the classic ‘stages model’ (Cavusgil, 1980; Bilkey and Tesar, 1977; Johanson and Wiedersheim-Paul, 1975), starting their expansion in closer geographical and cultural markets, followed by more distant ones. Carolina Herrera carries out what author Treadgold (1990) calls Disperse internationalization. Thus, the expansion process began in the United States, a geographically and culturally distant market, and it was the popularity of the fashion designer in this country that was the key factor in market choice.

In this first stage of ‘cautious expansion’, between 2002 and 2004, CH expanded in the North American market, especially in large cities with a large Hispanic population such as Miami, New York, Las Vegas, San Diego, Houston, South Coast and Dallas. In 2010 expansion continued with the ‘image’ store opening on Madison Avenue in New York, which was a strategic company decision to create brand awareness and international prestige. 2010 also saw the Orlando Outlet (Florida) open for logistics reasons.

The second stage in the expansion process, in 2005, focused on Mexico, followed in 2006 and 2007 by the Middle East (Kuwait, Qatar, UAE, Bahrain, Saudi Arabia and Lebanon). From 2006 to 2009 growth focused on South America: Panama, Colombia, Venezuela, Aruba, Argentina, Costa Rica, Brazil, while at the same time point of sales continued to open in new cities in Mexico, like Puebla, Monterrey, Los Cabos and Cancun.

European expansion began in 2009, starting with London and Warsaw openings and continued with Paris in 2010. Having overcome the continuous export barriers in South American countries, the company planned brand expansion in countries such as the Dominican Republic, Ecuador, Chile and Uruguay. It was also in 2010 when the company attempted to conquer the Asian markets, such as Japan and China, searching for local partnerships and agreements with commercial partners well established in this area. The company is now planning to open in cities

like Tokyo, Osaka, Seoul, Kuala Lumpur, Hong Kong and Taipei. A summary of the countries where the company has already entered, as well as chronological development and the entry method used in each country is shown in Table 1 (Market Entry Strategies).

**Table 1: Market Entry Strategies**

Country	Year of Establishment	Type of entry	Number of stores by type of entry			
			own store	corner	franchise	joint venture
<b>Spain</b>	2001	Own store and corner	30	75		
<b>Portugal</b>	2001	Own store	4	1		
<b>USA:</b>						
Miami	2002	Own store	1			
New York	2003	Own store	1			
Woodbury	2003	Own store (Outlet)	1			
Las Vegas	2004	Own store	1			
Houston	2004	Own store	1			
Dallas	2004	Own store	1			
San Diego	2005	Own store	1			
Scottsdale	2005	Own store	1			
Boca Raton	2004	Own store	1			
Orlando	2010	Own store (Outlet)	1			
New York (Madison Ave.)	2010	Own store	1			
<b>Mexico:</b>						
Mexico D.F.	2004	Own store and corner	4	16		
Puebla	2004	Own store and corner		3		
Monterrey	2004	Own store and corner		3		
Cancun	2004	Own store and corner	1	2		
Guadalajara	2004	Own store and corner		3		
Los Cabos	2009	Own store (Outlet)	1			
Punta Norte	2009	Own store and corner	1			
<b>Middle East:</b>						
UAE (Dubai)	2005	Franchise			4	
Kuwait	2006	Franchise			1	
Lebanon	2007	Franchise			1	
Saudi Arabia	2007	Franchise			1	
Qatar	2007	Franchise			1	
Bahrain	2007	Franchise			1	

(cont'd) Country	Year of Establishment	Type of entry	Number of stores by type of entry			
			own store	corner	franchise	joint venture
Central America:						
Panama	2007	Franchise			1	
Aruba	2008	Franchise			1	
Costa Rica	2009	Franchise			1	
South America:						
Colombia	2008	Franchise		3		
Venezuela	2009	Franchise		3		
Costa Rica	2009	Franchise		1		
Brazil	2009	Franchise		1		
Argentina	2009	Franchise		1		
Dominican Republic	2010	Franchise		1		
Chile	2011	Franchise		1		
Ecuador	2011	Franchise		1		
Peru	2011	Franchise		1		
Uruguay	2011	Franchise		1		
Europe:						
United Kingdom (London)	2009	Own store	1			
Poland	2009	Own store	1			
France (Paris)	2011	Own store	1			
Romania	2011	Own store	1			
Czech Republic	2011	Own store	1			
Asia:						
Turkey (Istanbul)	2011	Franchise			1	
Russia	2011	Joint Venture				1
Japan	2011	Joint Venture				1
South Korea	2011	Joint Venture				1
Taiwan (Taipei)	2011	Joint Venture				1
Malaysia	2011	Joint Venture				1

**Source:** Own elaboration (2010 data).

Carolina Herrera’s international expansion has adopted three different entry methods. First, its own point of sales or branches. This direct investment strategy is the most expensive and means high control and risk levels. Carolina Herrera has adopted this strategy in most European countries, the United States and South American countries.

The second method is the ‘joint-ventures’. This is a cooperation strategy that combines ‘know-How’ and foreign company experience with production facilities, especially in large competitive markets (Gualti, 1995; Jorde and Teece, 1992; Ring and Van de Ven, 1992). This entry strategy is considered for more risky markets due to geographical and cultural distance, such as Asian countries where CH is not yet established but planning future openings.

The third and final strategy is the franchise, which is selected for high risk countries that are culturally distant (Coviello and McAuley, 1999; Flavian and Polo,

2000). These include important markets like Saudi Arabia, Kuwait or Central America countries. The CH franchise follows the same business model as its own point of sales, meanwhile, the franchisee is responsible for fixed assets investment and staff recruitment.

Once a decision is taken for entering a specific country, CH follows an expansion pattern known as ‘oil stain’, a strategy defined by Castellano (2002) as opening the first store in a strategic area for the company, for the clear purpose of obtaining information related to this market and gaining experience (Blanco and Salgado, 2004). An example can be seen with Carolina Herrera, which began its North American experience in Miami and spent one year learning about customers, their needs and preferences and a year later, it continued its expansion in New York City, gradually and slowly expanding throughout the entire territory.

### **3. Benchmarking and Competition Analysis**

#### ***3.1 Carolina Herrera’s Rivals on a Worldwide Scale: Loewe and Louis Vuitton***

Company management believes that its main rivals are Loewe and Louis Vuitton, so we will analyse their commercial and international expansion strategies.

##### ***3.1.1 Loewe: History, Commercial and Internationalization Strategy***

Loewe, the most emblematic firm in Spanish luxury industry, has belonged to the Mœt Hennessy Louis Vuitton Group since 1996, when the French group, which pools together different luxury firms, took overall control of the Spanish company. The French group was trying to strengthen the Loewe foreign implementation process; because important synergies were obtained with its own international brands network (Barwise and Robertson, 1992).

In this new stage, Loewe began an image modernization process and renewed its product line. The goal set by the company was to provide the historic firm with a more trendy and dynamic image, getting closer to younger customers, yet protecting the classic Loewe identity and its quality, design and handmade craftsmanship. With this objective, it launched a more aggressive communication campaign and started up a new architectural design in the firm’s eighty stores.

The company carried out an optimum resource plan. First it reduced the number of handbag models, to launch a far more uniform range and to cut expenses, down from 230 ladies’ handbags in 1996 to around a hundred. Leather goods and accessories dropped from more than a hundred to little more than sixty and those models less in demand were removed. The company has revived private fashion shows to commercialize its catwalk collection. After huge success in Asia, Loewe launched the ‘Made to Order’ sales formula in the Spanish market in 2008, an annual leather and furriery collection that is sold at private event presentations.

Regarding its financial results, Loewe failed to make profits in 2008, as a consequence of reserving funds for the firm’s reorganization plan, recording a total



loss of 10.53 million euros. Nowadays, the company has a total of 125 own stores and also sells at a hundred of multi-brand point of sales. We should emphasize that 51.4% of its turnover comes from outside Spain. This is a remarkable difference with STL, which under no circumstance sells its products in multi-brand stores, believing that this distribution format loses customer contact and product control.

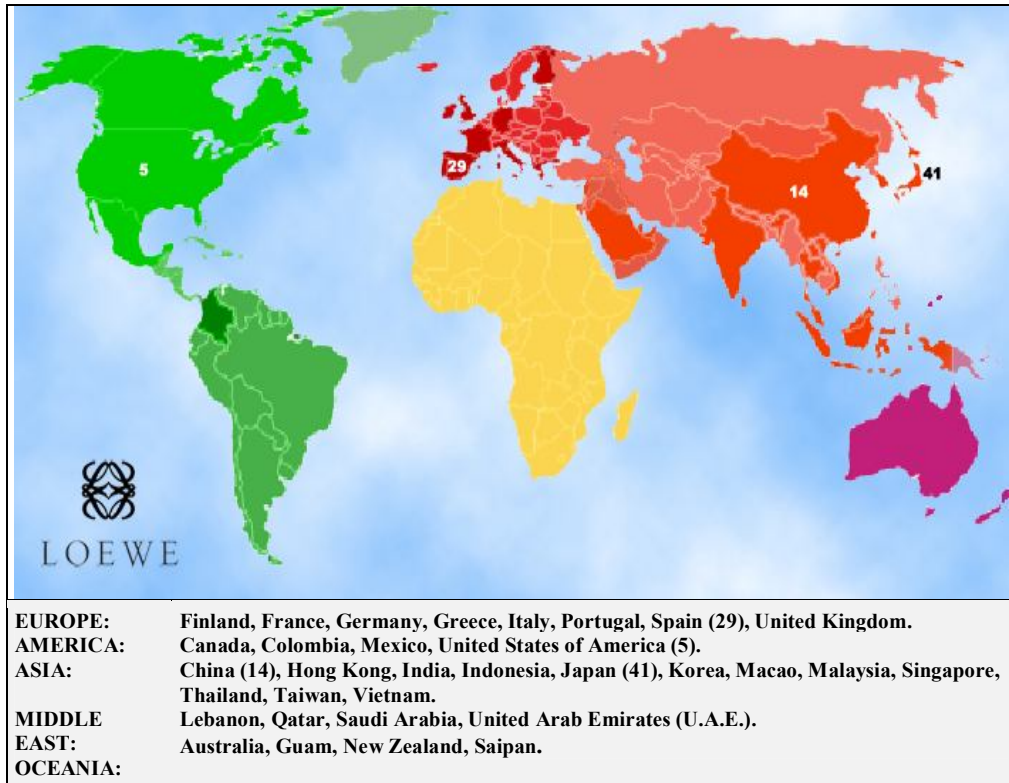
### ***3.1.2 Loewe Brand Internationalization Process***

The new commercial strategy of the company aspires to turn Loewe in a worldwide benchmark luxury brand for leather articles. The company wants to develop the Loewe Brand as a global brand and empower its internationalization based on its strong point, which is leather craftsmanship.

The company's future plan consists of three different operating guidelines. The first one, a new product policy, reducing the number of models and developing the men's prêt-à-porter collection. Furthermore, the company wants to boost fashion apparel collections in order to endow the company's prêt-à-porter with prestige and strengthen it. Another of the company's lines is the perfumes, where there are ambitious projects in place, due to their obvious synergies with the LVMH group. When analysing the company's product portfolio, we see that in 2009 handbags accounted for 40% of company sales, followed by accessories and leather articles that represented 18%. Taking into consideration the company's turnover, perfumes are third, totalling 16% this year. Finally, women's collection accounts for 12% of turnover and scarves and ties for 9%. Men's collection only represents 5%.

The company's second line of action is the ambitious internationalization plan that involves new store openings in Europe, especially in Germany and France. In addition, the company plans to approach the North American market, and for that reason fashion designer Narciso Rodríguez was commissioned in 2007. Finally, the company expects to approach the South American market in 10 years' time. Japan is one of the company's bulwarks, where the brand has been present for 45 years, and is its biggest foreign market, with a higher trade volume than the Spanish one.

The outline followed by the company in selecting foreign markets for internationalization is of particular interest. The first country was Japan in 1965, a country with outstanding cultural differences with Spain and geographically quite far-off. The selection of Germany as the second destination market might be explained by the German origins of the company's founder and therefore it could be considered an emotional expansion reason, because Germany is also a market that is culturally different from Spain (Treadgold, 1990). It would make more sense to continue international expansion in South America instead of the United States of America, due to its higher cultural proximity. Data from 2009 are quite significant, because they reveal that the European market accounts for up to the 45% of total sales of the company (including the Spanish market), meanwhile the Pacific region represents 34% of total sales and Japan the remaining 21%.

**Table 3: Markets where brand Loewe is set up (year 2009)**

**Source:** Own (number of most remarkable countries point of sales).

Finally, an innovation plan. The extremely high quality level of its products has led the company to manufacture products for other luxury brands such as Cartier, Escada Piel and Dunhill, due to the high company's production capacity. This fact should be highlighted in comparison with STL, which has never manufactured for other brands, keeping a full control over its designs and products. Furthermore, the product development strategy, clearly identifying the luxury leather handbag segment, with excellent quality and a classic design, has been imitated by CH as well as by PG.

### ***3.1.3 Louis Vuitton: History, Commercial Strategy and Internationalization Strategy***

This company was launched in 1854 as a specialised travel articles brand. Nowadays, the suitcases, trunks and handbags have become key products of the company, but the Louis Vuitton brand ranges from garments to accessories. A decisive step in the company's expansion process was its introduction into the North American market, because great Hollywood film stars were loyal brand customers.

In general, we can state that Louis Vuitton is the very first luxury brand in the world, a firm that links fashion with tradition. The brand is also owned by the French group Mœt Hennessy Louis Vuitton (LVMH).

This is a company especially sensitive to forgery, putting a ‘zero’ tolerance policy in place, with constant monitoring in the fight against forgeries. It is the leading brand in luxury products, and therefore the most forged.

Handbags are the company’s most important product, along with leather accessories, as these are the most popular items sold. In spite of new trends, classic icon handbags, like the ‘Speedy’, continue to head the sales figures. In 2009, up to 37% of company’s turnover came from leather accessories and fashion collections.

The company that brought luxury to handbags and suitcases 150 years ago has a vertical organizational structure: the retail chain controls product distribution and it defines itself as a ‘retailer’, because it completely controls the distribution channel. The sale of its products is exclusively through its own point of sales, thus controlling the customer’s purchasing experience and in fact maintaining brand control. It does not sell through commercial licences or franchises in any country.

At this point, we find great differences in comparison with STL, especially in making use of franchise as a way of entering international markets and particularly in those markets that are distant from the Spanish one. This way, a faster expansion is achieved by the company; however, the company loses control over the point of sale and customer contact. On the other hand, STL, as occurred with Vuitton, has strengthened in the luxury handbag segment by imitating the strategy followed by its competitors.

It is important to remark that Vuitton is conscious about the fact that the luxury market is becoming democratic and that luxury and glamour are not only reserved for a few privileged persons. This situation does not concern the company, which recognizes that luxury is global and plural nowadays and underlines the brand emerging markets like China or Brazil (Table 4).

Besides searching for new markets, the company explores new consumer niches. If traditionally it aimed at women, it is currently beginning to aim at men and since 2010 the company has been immersed in online store development. This business development strategy has also been imitated by STL, maybe encouraged by the success acquired by this purchasing channel at the Spanish company Inditex, with its Zara Brand.

Table 4: Markets with Louis Vuitton brand presence (year 2009)



**Source:** Own (number of most remarkable countries point of sales).

### 3.1.4 Benchmarking Analysis Managerial Implications

From this 'Benchmarking' analysis we can conclude three important questions. First of all, as the company Louis Vuitton had already perceived, the luxury market is going through a democratization process, which fully explains the intense internationalization and deep expansion processes carried out by the three companies analysed (Carolina Herrera, Loewe and Louis Vuitton).

In second place, we can comment on the real find of a global market niche, with huge growth potential, like the luxury handbags segment, which now represents the highest sales percentage to these companies, moving ahead of fashion collections.

In third and final place, another issue that merits attention is the brand extension strategies followed by the companies analysed to other products or items that complement the fashion collections and handbags, such as perfumes, leather

articles, and other accessories. In that respect, we find that there are great growth opportunities as yet unexploited. In Carolina Herrera’s particular case, last year’s brand extension focused on children’s garment collection, baby articles and jewelry, for the clear purpose of continuing brand extension to home clothing.

#### **4. Segmentation and Positioning**

At an international level, the textile sector is also suffering sweeping changes and transformations (Cerviño, 1998) and over the last two decades it is appropriate to highlight three phenomena of huge relevance in the fashion markets. Firstly, we can mention the ‘democratisation’ phenomenon of the fashion sector (Mazaira, González and Avendaño, 2003). Thus, huge textile distributors like Zara or H&M have greatly contributed to this change, offering the latest designs at affordable prices. However, STL considers itself to be a company that designs, produces and sells ‘stylish’ products, viz., garments that are not subject to the vagaries of fashion, which could be the case with Zara, and which require great care in the quality and details. Secondly, there is an ever greater number of consumers that want to purchase clothes that lend them a different and original style, but at reasonable prices. Lastly, there is a trend towards globalisation of markets. Levitt (1983) describes the appearance of globalised markets and the opportunity to identify global segments. These new consumers have been referred to as ‘global consumers’ and possess similarities with people from other countries in terms of lifestyle and consumption patterns (Hassan, Craft and Kortam, 2003). Based on this idea Parrish, Cassill and Oxenham (2006), pointed to the importance of appropriately defining and identifying the segment or strategic niche where companies from the fashion sector should position themselves.

##### ***4.1 Definition of the segment at which the company should target itself***

As specified in the previous section, a new group of consumers has arisen in recent years, with similar preferences, who purchase similar brands and who communicate globally (Levitt, 1983). These new consumers have been referred to as global consumers, and possess similarities with people from other countries in terms of lifestyle and consumption patterns (Hassan et al., 2003). The lifestyle related to fashion is defined as the attitudes, values and interest of consumers with regard to purchasing fashion products (Gutman and Mills, 1982; Ko, Kim and Kwon, 2006). This variable is deemed very important in predicting consumers’ behaviour in purchasing products and brands. Using this idea, and bearing in mind the global niche or segment concept, we can define that the segment the CH Brand should target is characterised by the style and exclusive nature of Carolina Herrera New York. In fact, the Carolina Herrera CH Brand creates a lifestyle and concept characterised by a modern image based on values such as elegance, femininity, taste for detail, cosmopolitanism and design.

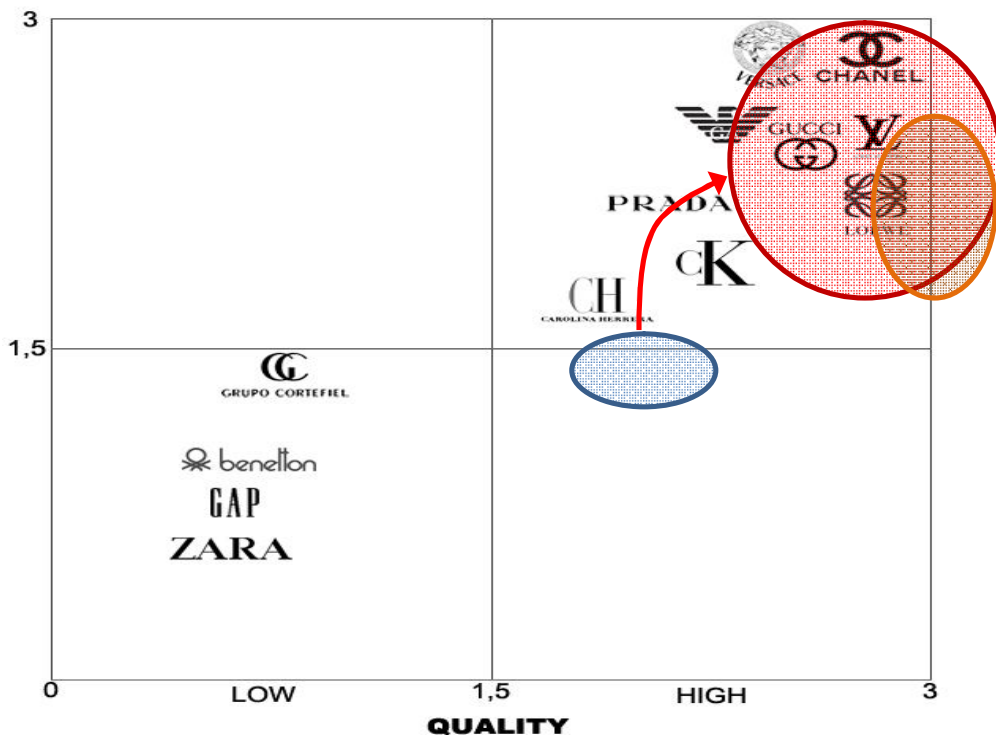
#### 4.2 Positioning

Carolina Herrera offers a luxury prêt-à-porter collection, with a unique style. The sales price of its products is three or four times higher than in the medium segment of the market, and is a further positioning tool of the brand in the market. To set a sales prices abroad, the company carries out a comparative analysis of its rivals Vuitton and Loewe, yet always remembering that it is selling a luxury brand not only targeted at a few, but to a global segment of the market, and therefore can be considered as a sales price that is accessible for this segment.

This positioning map of the Carolina Herrera Brand and other brands uses the price and quality attributes. These two attributes are commonly accepted as the most important ones for this kind of fashion product (Brown and Rice, 1998). While the price is an objective attribute, quality depends on the subjective perception of the consumer and is extremely difficult to define (Roger and Lutz, 1990).

The studies reveal the characteristics of a purchaser of the CH brand: 73% are women and the remaining 27% are men, 46% have a high level of income (with high considered as income of €60,000/year), while 52% have average income, 89% live in urban areas with more than 100,000 inhabitants and 68% have a high or medium cultural level.

Figure 2: Positioning matrix of fashion brands (attributes considered: Price and quality)



Democratic Luxury Brands vs. Luxury Brands

Fashion accessories

Source: Sociedad Textil Lonia (figures from 2009).

The product and business lines targeted at the higher segment and the prestige of the CH Brand have allowed the brand to see a broader horizon, such as the launch of a line of luxury accessories, which includes handbags, leather goods, footwear, scarves, ties and costume jewellery. The company has also launched a line of perfumes and is extending the line of products with the Carolina Herrera accessories Brand, always targeted at the market segment that demands quality brand products (Figure 2).

### **5. Brand Equity Strategy and Marketing-Mix Variables in the Fashion Products of the Luxury Segment**

We will analyse the role of the brand and the key marketing variables. So, although it is important to position the brand properly and focus it towards a specific niche or segment in the global market –in our case it would be the luxury and highly exclusive accessories niche–, management of this will also be important.

Moreover, in the current globalisation process the brand is seen as a strategic variable of growing importance for internationalisation strategies and decisions (Cervino, 2002; Kelz and Block, 1993; Luostarinen and Gabrielson, 2004) as well as for the creation of greater brand capital. For this brand capital to acquire the highest value possible for the client, it is essential to have appropriate management of marketing variables (Holehonnur et al.; 2009; Raggio and Leone, 2009). In this regard, the costs in communication, sales network, PR, packaging and marketing events are factors that contribute to brand equity (Simon and Sullivan, 1993).

#### ***5.1 Product Standardization versus Adaptation and Unique Design***

An examination of the benchmarking carried out shows that achieving a unique design is associated to high exclusivity. This aspect becomes even more relevant in the case of fashion products and has been highlighted by Moore et al., (2000) and Zaichkowsky (2010), whereby personalisation also plays a determining role. Here, we can state that CH sells a product that to a large extent is uniform for a global market. However, there are some adaptations to its product offer, because of the differences in local markets. The clothing sizes of collections in the United States have been adapted, the colouring of the collection has also been adapted for the Mexican market. However, we can state that the company does not anticipate the particularities of each market, but rather has a reactive attitude, modifying the features of products as an afterthought.

Of note is the fact that the company refuses to use any kind of identification or association with its Galician or even Spanish heritage (Ghemawat and Nueno, 2003), meaning that the country of origin removes importance from the expression of the global image.

### **5.2 Distribution: Strategic, Selective Location and Utmost Service**

The distribution channel can directly affect brand equity through actions of support promotion and, indirectly, in the nature of product associations. Moreover, the distribution channel plays a determining role in achieving an exclusivity image.

#### **5.2.1 Setting and Location of the Store**

The image of the point of sale has been considered as one of the most important determining factors in the distributor's success (Amirani and Gates, 1993). Consumers' perceptions about retail stores are formed quickly and unthinkingly (Oxenfeld, 1974; Sewell, 1974) and this is why the atmosphere inside a point of sale is a key factor when it comes to influencing the decision-taking process (Birtwistle and Shearer, 2001; Greenberg et al., 1983). In addition, studies suggest that consumers tend to mentally abstract the information on image attributes such as style, trends, range of products and reputation or notoriety of the distributor (Boulding, 1956; Newman, 2003).

We can state that CH has great potential as it focuses very carefully on its points of sales, carefully checking every detail of the décor and furniture of the stores, which are renewed every so often to bring them up to date. Another of the key elements of the point of sale is the location. The top designers from France, Italy, United Kingdom and, to a lesser extent, the USA, which head the list of luxury brands, have chosen London as the first worldwide reference centre to launch their luxury brands onto the international stage. This data strengthens the theory of the importance of the utmost exclusivity in positioning a luxury fashion brand.

#### **5.2.2 Customer Service**

Service, which includes relations with sales staff, is an essential part of the distributor's image, and promotes favourable emotions and feelings in consumers (Bitner, 1992; Mattila and Wirtz, 2001). As highlighted previously, personal treatment enables value to be added to the end product (Berman and Evans, 1992), which confirms the importance of the store's service as a hugely important factor in supplying greater value-added.

### **5.3 The Price**

The prices of CH garments vary from country to country, and it is the Spanish and Portuguese markets where the lowest prices can be found, while prices in international markets are generally higher due to the logistics expenses. Prices are set in accordance with a market focus strategy and bearing in mind the position chosen by the brand. This means that certain articles such as handbags and accessories are never put in the sales. In the case of fashion, price promotions are an effective marketing tool for sales but have a negative influence on perceptions of quality (Tong and Hawley, 2009), and they communicate negative product association (Blattberg and Neslin, 1990).



### **5.4 Communication**

Communication plays a vital role in the creation of brand equity (Biel, 1993). We can state that companies like Vuitton or Loewe have followed the brand alliance strategy with designers and celebrities. However, there are notable differences between them, because while Loewe pursues a brand alliance with a renowned designer like Narciso Rodríguez to strengthen its brand, for its latest advertising campaigns Vuitton has opted to recruit global celebrities with a high worldwide impact, yet not directly related to the world of fashion, such as Mijail Gorvachev, Francis Ford Coppola, Bono or Sean Connery. Studies reveal that the support from celebrities, used properly, plays a very valuable role in development of brand equity and in increasing its competitive position in the market (Till and Shimp, 1998).

The different means of advertising reveal different effects and strengths in the creation of brand equity. While television as a communication media has penetrated most households and is the most popular communications media among consumers (Liu, 2002), printed advertising, especially in magazines, is an effective communication media for fashion brands and products. However, CH conducts very little advertising on TV and press and relies on the store, together with PR, as the core communication tool.

## **6. Implications and Conclusions**

Below we synthesise the main business implications and conclusions as a result of analysing this case. We have followed the logical order presented throughout the case.

### **6.1 Management Model**

The business strategy pursued by STL lies in its unified, quasi-integrated and global business management model, which provides the company with great control over the process of production, distribution and marketing, as well as huge flexibility and agility to adapt production to market needs in a short period of time.

So, the company has a large degree of verticalisation, which enables it to integrate different stages of the value chain such as design, patterning, and delivery at points of sale, distribution and store management. Its flexible structure, as well as client focus and the use of advanced IT technologies, enable a rapid and flexible response to consumer demand and very good market orientation. Although we cannot say this is a just-in-time production system, it does fall within the quick response system, as it enables a quick response to changing demands of consumers and gives flexibility to the productive and marketing system.

### **6.2 Management Model**

Four fundamental issues can be concluded from this benchmarking analysis. Firstly, luxury and glamour are not reserved for the elite or a few privileged persons,

and they implicitly recognise, with their internationalisation plans, that nowadays luxury is globalised, understanding that there is a worldwide market niche that requires exclusive and high-quality products. In this regard we should point to the emergence of new markets for these brands such as China or Brazil, economies with high growth rates and which represent very important markets. However, it is appropriate to point out that luxury, understood as the utmost exclusivity, must not be confused with democratic luxury. Brands like Hermés, Armani or Gucci are for the elite and not for the masses.

Secondly, we can highlight the discovery by the three companies analysed of a global market niche, with huge growth potential, such as luxury handbags, which now represent the highest percentage of sales for these companies, ahead of the fashion collections. There is logic to this fact, given that both Loewe and Vuitton started out by manufacturing articles of leather and luxury briefcases and handbags, before subsequently developing the collections.

Thirdly, another issue that merits attention is the strategy of brand extension pursued by the companies analyzed towards other products or goods that complement fashion collections and handbags, such as perfumes, leather goods or accessories. Here, we understand that there are still growth opportunities that have not been exploited.

### ***6.3 Segmentation and Positioning***

Variables like exclusivity, design, service quality and location and format of the point of sale -as mentioned previously- are key factors in developing a luxury fashion brand. In addition to these variables, brand positioning is also extremely important. Recent research (Moore et al., 2000) has suggested that there are two fundamental aspects to creating a real luxury brand identity: i) its capacity to create a specific lifestyle; and ii) not everybody that aspires to a specific brand can afford it. This data strengthens the theory of the importance of the utmost exclusivity in positioning a luxury fashion brand.

A fundamental element in positioning of luxury brands is the store location and setting. Thus, through merchandising and an innovative design, certain flagships (the discreet setting of an Armani store or the elegance of Gucci) have created a distinct brand. Analogously, the location must respect the criteria of utmost exclusivity.

### ***6.4 Brand Strategy and Comprehensive Management of Marketing-Mix Variables***

#### ***6.4.1 Diversification of the Brand Portfolio, Range Extension and Global Niches***

To deal with the spread of demand and a greater increase in demand for designer brands, we propose the formula of diversification and definition of segments or global market niches. We propose creating new brands with products that are less expensive than the main brand or line as well as extending the brand

towards new product categories that must be targeted at a different segment (e.g. Emporio Armani).

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#### **6.4.2 Comprehensive Management of the Marketing-Mix Variables**

The brand requires comprehensive management of the marketing-mix variables. Thus, the product or collection, packaging and even fashion events must be based on the fundamental values on which the brand is supported.

Given all these criteria, we can conclude that the position put forward by the company in order to compete directly with brands like Prada, Armani or Gucci is desirable in the long-term but would lack sense as things stand today, due to the absence of any highly exclusive brand image, definition of a specific lifestyle and the need to foster the distribution strategy by creating exclusive places and settings that are far more innovative. Therefore, the strategy to strengthen the company's position in international markets and position in the democratic luxury market is more consistent at the current time.

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