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Table of Contents

1. Introduction

Luxury goods have long been the pinnacle of consumer goods, whether bags or jewellery, these goods historically represent the wealthiest of society. However, amidst an industry-wide slowdown after a period of rapid expansion and shifting consumer purchasing habits (Exhibit 3), luxury companies find themselves at a crossroads: Should they expand and appeal to a wider audience, or preserve the exclusivity that luxury goods have traditionally been known for? This divergence has shaped the strategies for the two dominant players in the industry, LVMH, which has chosen scalability and accessibility, and Hermès, which has remained true to its roots as an ultra-exclusive luxury fashion house.

Founded in 1837, family-owned French house Hermès International S.A. has cemented itself in the luxury industry through its timeless and iconic high-quality handmade artisanal goods. Amidst an industry which has become overexposed, lowered its standard of quality, and hiked prices in the name of expansion (McKinsey & Company, 2025), Hermès has differed in its strategy by not following the industry trends. The house's focus on quality goods produced in small quantities has created high demand and made it the most trustworthy luxury brand amongst consumers (Exhibit 4). Combined with shifting consumer preferences towards quality and authenticity over flashiness (Mak, 2024), it is no surprise to anyone that Hermès has enjoyed consistent long-term revenue growth (Exhibit 5), reporting a 15% growth in revenue in 2024 (Hermès, 2025). This report will asses whether Hermès possesses a competitive advantage and if the house is leveraging it over its competitors in the luxury goods industry, as well as recommendations for possible limitations and challenges that the house may face in the future.

2. Firm Analysis

It is no understatement to describe Hermès' ability to rival the size of LVMH as anything but remarkable, considering that Hermès' revenue in 2024 was €15.2 billion (Hermès, 2025), less than five times that of LVMH's reported €84.7 billion (LVMH, 2025). While the house's revenue may not match LVMH's, Hermès was recently reported to have surpassed LVMH to become the world's most valuable luxury brand, in terms of market capitalisation, with Hermès being valued at €247 billion (Spencer, 2025). This drop in share value for LVMH represents a greater industry trend due to economic downturns. Nevertheless, it highlights that Hermès has been taking a different approach to the rest of the industry.

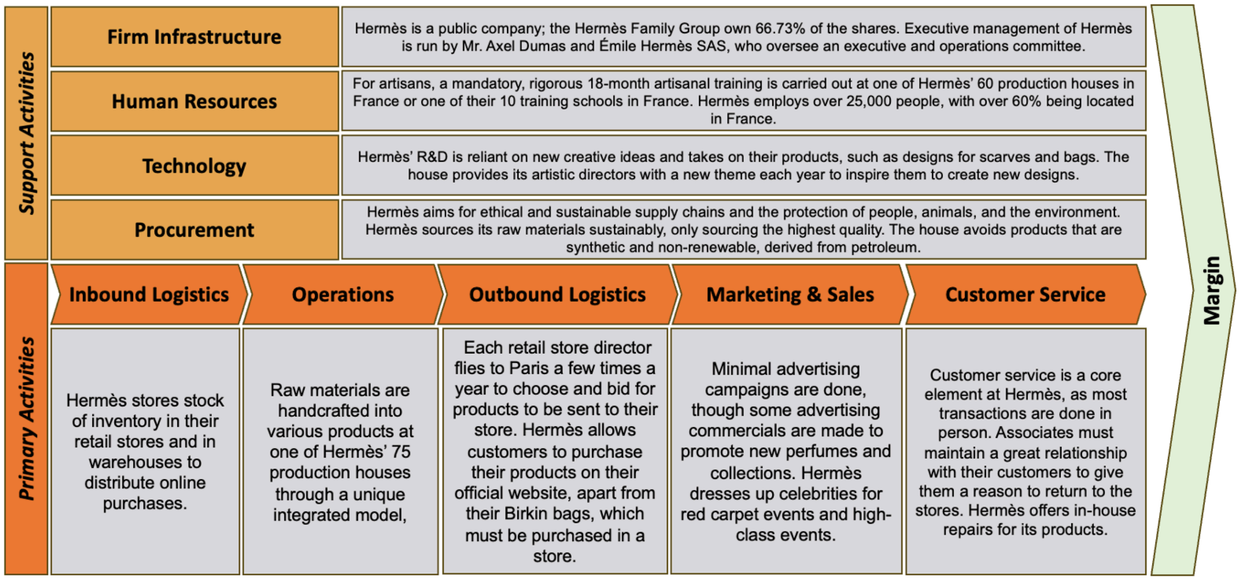
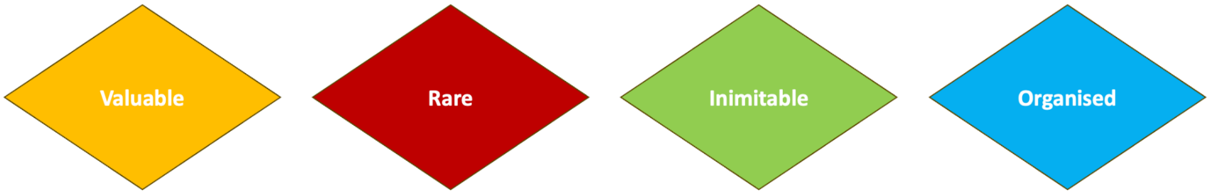


Exhibit 1: Value chain of Hermès International S.A.

As seen in Exhibit 1, Hermès places a high priority on its operations and customer service, and supports these activities through having strong human resources and procurement. These indicate that Hermès has a focus on its craftsmanship and the human element within the house. Indeed, this can be seen as a core value on the house's website, where it is stated that the house has been faithful to its artisanal model and human values since its founding (Strategy, no date). The method that Hermès takes towards its outbound logistics also signals that the house makes its products intentionally exclusive, by each boutique's on-hand stock and limiting which products can be purchased online versus in person. Aside from this, the minimal marketing and sales also indicate that the house relies on its products and customer experience to speak for itself, rather than using marketing to spread its brand image. This differs the house from its competitors, which use advertisements to convey luxury and class.

As stated by Robert Chaves, Hermès USA's previous CEO: "People want things that not a lot of people can get…That's what it is like in the luxury world. Once something becomes very saturated, that luxury customer doesn't want it anymore" (Sumers, 2018). Hermès understands this better than anyone, which is why the house's high-class reputation is second to none, attracting affluent customers to the house as the luxury fashion industry trends towards quiet luxury, which focuses on quality and design over bold logos.

2.1 VRIO Framework



Valuable: Hermès products signal the customer's social class due to their exclusivity. High-desirability products such as the Birkin bag cannot be directly bought. Rather, they must be offered to customers by sales reps, usually after building a relationship. These bags can resell for upwards of $30,000 USD on second-hand platforms.

Rare: While competitors also produce quality products, the level of quality and desirability is vastly different to Hermès. 55% of all products are made in internal workshops, and 74% in France.

If a consumer desires a Louis Vuitton bag, they can visit one of the thousands of stores worldwide and purchase it immediately, whereas for a Birkin bag, they must enter a long queue for it, due to the limited supply and high demand. This causes for Hermès products to gain a high level of desirability compared to their competitors.

Inimitable: Hermès' brand reputation cannot be easily replicated. It is the result of decades of high-quality craftsmanship and intentional strategy to create desirability for their products.

Its minimal advertising has also created a shroud of silent luxury around the brand, rather than the loud and eye-catching luxury LVMH brands are known for.

Organised: By having a limited supply of its most desired products, Hermès is able to create more demand and make its products more valuable. Though the house has been increasing the number of production houses to better meet demand.

The process by which store directors obtain new inventory for their stores also leads to greater scarcity and desirability for their products, as directors have to visit Paris and place orders/bids for new stock, tailored to their store location's customer base. Store representatives are also trained to build relationships with customers to give them incentives to return.

Exhibit 2: VRIO framework of Hermès International S.A.

2.1.1 Valuable

While a Louis Vuitton or Dior bag may signal price, a Hermès bag signals exclusivity and status. Indeed, while LVMH brands are expensive, many would not consider them to be exclusive, as products can be purchased at any one of LVMH's 6,307 stores worldwide. On the other hand, a Birkin or Kelly bag cannot be directly purchased from any of Hermès' 293 stores, as the opportunity must be offered by a sales representative. This reflects in the price in second-hand stores, such as the Birkin, which can be found anywhere upwards of $30,000 USD (Wat, 2025). While this price tag is reflective of the house's brand reputation and desirability, it is also due to the high level of craftsmanship required to create these bags. Hermès opens internal ateliers specifically to create their products, holding each atelier to a high standard, with each artisan having to go through an 18-month rigorous training course taught by master artisans, a position that takes eight years to reach, and each Kelly bag requiring 15-20 hours for an artisan to complete (Cheung, 2021).

2.1.2 Rare

While competitors also produce bags that are made of quality, the level of quality and desirability cannot be compared to that of Hermès. Although all companies produce goods in the same industry, they attract different consumers. LVMH makes use of its visibility and reach through its vast brand portfolio to attract a large consumer base that spans various income brackets and cultures. Compared to Hermès, which targets the ultra-wealthy who purchase to signal their high profile. This target segmentation has allowed Hermès to cement itself as the premier luxury brand for those looking to purchase a quality craftsmanship luxury good that is reliable and known for its exclusivity.

2.1.3 Inimitable

Hermès' historic brand reputation is not one that can be easily replicated. This can be seen in the house's minimal conventional marketing. While Hermès dresses celebrities for red carpet events and other high-class events, as well as releasing advertisements for new product lines, compared to its competitors, it lacks many marketing-driven strategies, nor does it post celebrities on its official social media, instead focusing more on relationship marketing. Conversely, LVMH and Kering have heavily used celebrities and influential figures to endorse their products, especially in recent times. While this increases visibility and makes their products more appealing to the everyday consumer, it imposes their luxury image and exclusiveness. Indeed, Hermès has proved itself so valuable and difficult to imitate that LVMH secretly purchased a significant number of shares back in 2010, causing a large controversy as it appeared to be an attempt at a takeover (How Hermès got away from LVMH- and thrived, 2020).

2.1.4 Organisational Support

The house's reputation and craftsmanship are maintained through two key ways: an exclusive distribution network and a selective approach to selling big-ticket items. While Hermès does not officially limit the production of its products, the demand for its products, bags in particular, far outweighs the supply. Hermès distributes its products to each of its boutiques through events held yearly in Paris, attended by the directors of each store to choose their stock, where the number of bags sent to each store is limited. Indeed, directors themselves are unaware of when they will receive their next shipment of bags, and it is this process which causes bags to be scarce and hard to come by for the average customer, increasing the exclusivity for customers who do manage to get their hands on a bag. This leads boutiques to have a highly selective approach when selling bags, so-called ‘The Hermès Game’ is a term coined by consumers, as customers who wish to purchase a highly sought-after Birkin or Kelly bag must first build a reputation with their local customer representative to be given the opportunity to purchase a bag (Klasa, 2023).

3. Limitations & Challenges

3.1 Economic Downturn

The global economy has been facing a downturn in recent years, which has led to decreased purchasing of luxury goods, as they are only purchased in stable economic times when consumers have disposable income. Customers have also been pursuing luxury experiences rather than goods, presenting more issues to the industry during the slowdown. As stated earlier, companies such as LVMH and Kering have seen their market capitalisation decrease over the past few years, with LVMH seeing a reported decrease of 2% in its revenue compared to 2023 (LVMH, 2025). However, unlike their competitors, Hermès has not been affected much by the economic downturn. To reiterate, this can largely be attributed to Hermès targeting a different consumer base compared to LVMH and Kering, who are less affected by economic downturns, as well as Hermès possessing timeless and iconic products that show resilience due to their ability to hold value over time. Birkin bags have shown to be a smart purchase, with an average annual increase in value of 14.2%, which is greater than the S&P 500 and gold markets (Hermès Birkin Values Research Study, 2016).

3.2 Sustainability & Regulations

The fashion industry is the second-largest global polluter (Federowski, 2023), making sustainability both in terms of pollution and the environment where the resources originate from. In this regard, Hermès is one of the standouts in the industry, with the house placing a heavy focus on sourcing resources sustainably, as well as upcycling, mending, and reusing its products. Hermès states that the house repaired and mended over 200,000 products in 2024, showing their commitment to keeping products away from landfills (Sustainable development, no date). Hermès has also found uses for leftover materials, introducing the Petit H line, mini versions of their popular products.

Regulations also pose an issue for Hermès, as the house has 15 production houses located all around the globe that support their 60 main production houses in France, such as the US and UK, which currently pose threats to the export and import of goods. Mainly, the US's recent policies of tariffs have led to potential concerns that Hermès should be aware of when producing goods in their US production houses.

3.3 Product Diversity

Compared to their competitors, Hermès does not boast a deep portfolio of luxury brands, with the house only having three strategic partnerships, nor does it engage in many collaborations. The house's most notable collaboration is creating Apple Watch straps, and artist collaborations are limited to reinterpretations of its popular bags and scarves, which are not attention-grabbing when compared to their competitors, such as Louis Vuitton. Its most recent collaboration was with Takashi Murakami for the brand's 20th anniversary since the release of the first Louis Vuitton x Takashi Murakami collaboration. While such collaborations increase visibility and draw short-term attention to the brand, it does not align with Hermès' strategy. However, reliance on its timeless and iconic pieces could expose the brand to possible generational preference shifts. If future consumers favour more dynamic and forward-thinking pieces, Hermès could find itself stuck in the past. As such, house creatives must strike a balance in preserving the house's heritage and staying culturally relevant to secure its long-term future.

4. Recommendations & Conclusions

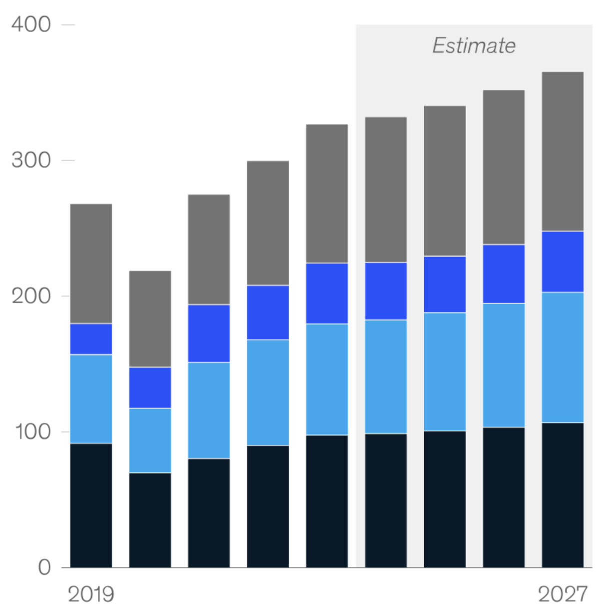
When considering the possible changes Hermès could make to its strategy in the long term, few feasible ideas that could be realistically considered come to mind. Hermès has been following a strategy that has proven itself to work, considering their consistent growth over the years. However, that does not mean Hermès is guaranteed to stay on top of the industry if it only maintains the status quo. Hermès could potentially increase its reach amongst the wealthy by sponsoring high-end, quiet luxury sporting events and creating products for these events, such as Wimbledon, fencing, and golf. Hermès has already looked to expand its product line into other physical activities, such as equestrian-themed yoga activewear in 2023. This could help Hermès improve its product diversity while maintaining its high-class status and desirability by releasing sport-specific items that match the target segment, rather than collaborations, which could compromise the house's brand image.

Aside from this recommendation, Hermès should continue to maintain its status quo, following its timeless legacy and the prestige of its craftsmanship and design, continuing to produce for the high-class. Hermès should also look to have controlled expansion of its production houses and boutiques around the world to increase supply and match the high demand for its products. Additionally, it should continue its sustainable work to cement itself as a fashion house that brings value to the world of luxury fashion.

Appendix

Global luxury sector growth slowed considerably in 2024 and will be modest in the years ahead.

Global market for personal luxury goods, by region, $ billion



	CAGR, %			
	2019–23	2023–24	2024–25	2025–27
Rest of world	4	4 to 6	2 to 4	2 to 4
China	18	–7 to –5	–3 to 0	3 to 5
US	6	1 to 3	3 to 5	4 to 6
Europe[1]	2	0 to 2	1 to 3	2 to 4

Note: Luxury goods market includes: apparel, footwear, leather goods, jewellery, and watches.
[1]Includes Russia.
Source: Analyst reports, company results, and expert interviews; ECB; Euromonitor historicals; Savills; Trading Economics; McKinsey Global Fashion Index in The State of Fashion 2025; McKinsey Global Institute analysis

McKinsey & Company

Exhibit 3: Global luxury sector growth is estimated to be modest in years ahead from McKinsey & Company (McKinsey & Company, 2025)

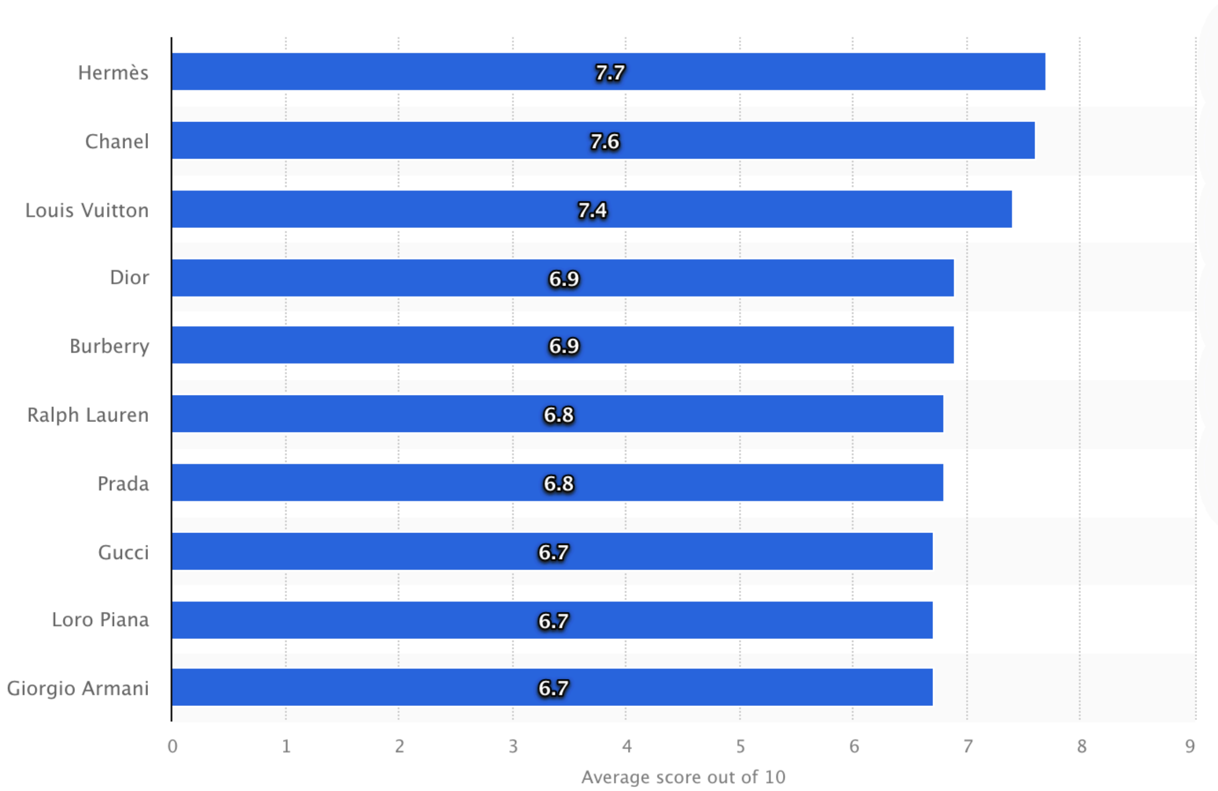


Exhibit 4: Leading 10 luxury brands most trusted by consumers worldwide in 2022 from Statista (Vogue Business, 2022)

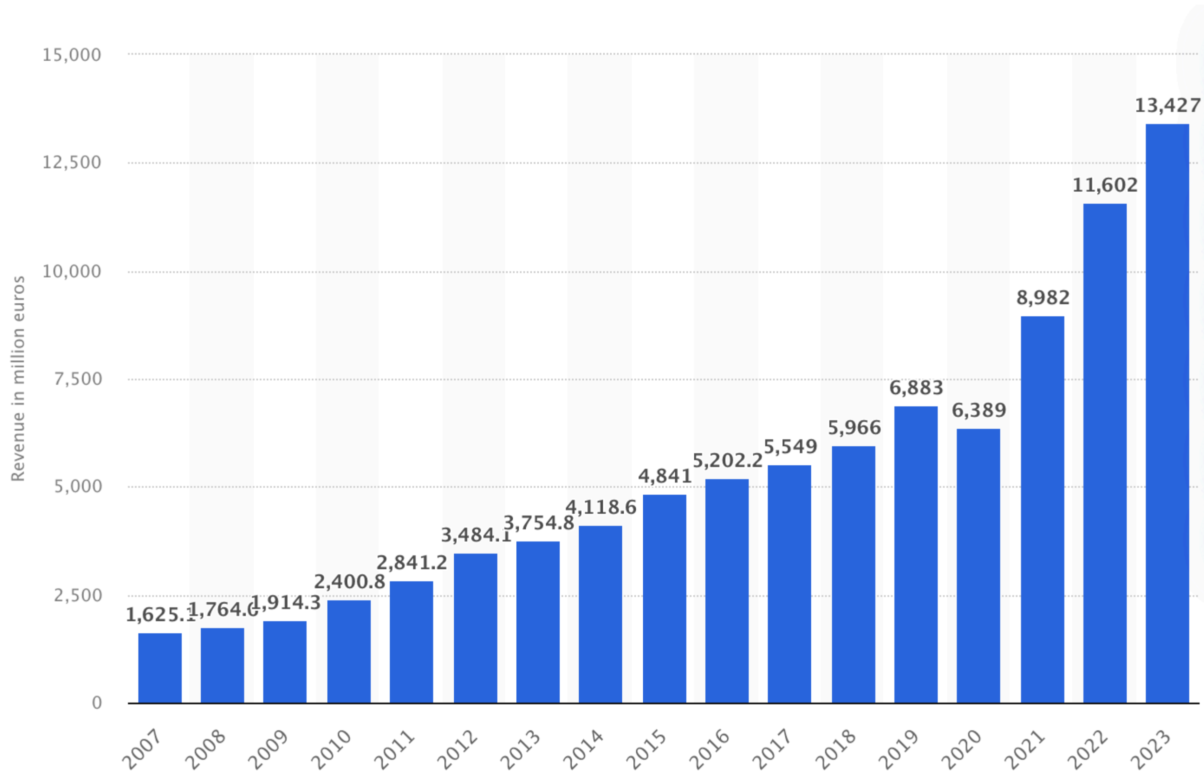


Exhibit 5: Revenue of Hermès from 2007 to 2023 in millions of euros from Statista (Hermès, Company filings, 2024)

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