

## LOGISTICS IN LUXURY GOODS TRADE

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**Abstract:** *Specific goods category, due to their characteristics, generate specific demands in logistics. In this paper are shown authentic luxury goods' supply chains. It is about extremely valuable goods with large annual turnover on transport market. There are many subcategories of luxury goods. The market is different in regard to other categories of goods. Regardless the trends, which negatively affect the exchange of goods, luxury industry has turned out to be "resistant" to the usual consequences. In this paper are shown the motives for shopping and categories of luxury goods' buyers. Changes in demands and the importance of online selling of luxury goods nowadays, as well as the change of demands are some of specifics of luxury goods industry about which will be discussed in the paper. The connection which appears between CFS (key factors of success) and supply chain management is very interesting.*

**Keywords:** *Logistics, Luxury goods, Chain supplies, Trends.*

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### 1. INTRODUCTION

In the industry of modern goods in 2006 has been achieved \$170 billion in business around the world (Caniato et al., 2009). Regardless the 2009 crisis, luxury goods trade has significantly increased in the last couple of years. There has been an increase of up to 800 B € in 2013 (Shen et al., 2017), including 223 B € so called "personal luxury goods" (clothes, accessories, watches, jewelry, not including yachts, wine, cars, etc.) (Shen et al., 2017). Despite unfavorable economical cycles, luxury goods mark the increase of market, partly because of the increase of social relevance of luxury goods possession, and partly because of great dedication of luxury companies to branding and communication management (Castaldo & Boti, 1999). According to some authors, the design and communication management are only some of the elements which contribute the success of luxury companies, along with production line management, customer service managing and managing distributive channel (Nuevo & Queich, 1998). The industry of luxury goods is interesting to observe from the aspect of managing and supply chains strategies. Besides this, it is important to focus on SC strategies and their connecting to key factors of success (CSF-Critical Success Factors) of goods/markets. Despite of its importance, very few concrete contributions to the luxury are recommended in the existing literature (Caniato et al., 2009). This is one of the motives for writing this paper. The goal is to show the characteristics of luxury goods.

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## 2. LUXURY GOODS MARKET

Luxury fashion industry is important sector which contributes to the increase of the sales volume on the market (Shen et al., 2017). It is known that consumers of luxury fashion goods are among to satisfy functional and social needs. Consumers who buy luxurious fashion goods are usually led by social needs. They don't buy luxury products because they actually need them, but to point out their social status. In luxury fashion industry, social needs are crucial when it comes to making decisions about buying. Fashion consumers can be divided into fashion leaders or fashion followers, depending on how they act (Amaldoss & Jain, 2015; Zheng et al., 2012). These two groups of consumers affect each other, and due to that, they make great social impact (Almados & Jain, 2015). Namely, fashion followers are more willing to buy luxury fashion products if fashion leaders buy more, while, on the other hand, fashion leaders buy these products less if there are more fashion followers who buy them. It means that if the product is available to larger number of people (in this caste the followers), then fashion leaders don't have great wish to buy that product. Leaders want to have rare and expensive products, so owning something everybody has isn't a satisfaction for them.

Strategies, like giving online retail services, are crucial when it comes to managing the luxury goods supply chains (Brun et al., 2008). The offer can significantly affect the decision about online shopping, for example fast delivery or gift package. More important, online retail services can be adjusted to various consumers (Asaduzzaman & Mahswarn, 2007). Consumers can be more or less encouraged to shop online owing to comments on social media, which can make them to start shopping more or less than usual. These situations lead to the change of demand, an as a result of that, increase or decrease of it happens. The example of this happens often in fashion industry, where great changes of demand happen after an unexpected comment of famous analyst about newest collection (Shen et al., 2017). Participants in luxury market are significantly different, not just for characteristics of products, manufacturing and selling (cars, yachts, wine and liquor, clothes, leather, shoes, accessories, watches, jewelry, cosmetics and perfumes), but also from the aspect of company greatness, property structure and universality of activities in general.

Aside from strong increase in reaching and maintaining certain identity of the brand, in order to make a success in luxury market (Keller, 2009), marketing and branding don't guarantee long-term stability anymore, as it was the case before (Caniato et al., 2011). Concept of "value" is related to services which the whole supply chain is able to give, from getting raw materials, all the way to buyers in retail stores. Many factors contribute the success in luxury industry, from projecting and communicational management to user's services and managing the channel (Castelli & Sianesi, 2015).

## 3. SUPPLY CHAIN IN LUXURY GOODS INDUSTRY

As it was defined by Supply Chain Council, the supply chain includes every trouble included into manufacturing and delivering the final product from supplier's supplier to the customer's customer. The term "managing the supply chain" is used in order to explain planning and controlling the material, the flow of information and logistics activities, not only inside of the organization, but also those between companies which are included in supply chain. On operational level, SCM gathers functions which are as old as the trade itself – asks for goods, buys, storages and distributes it. I.S.'s goal is to improve performances through better usage of internal and external possibilities, in order to create one extremely coordinated chain of supply (Kannabiran & Bhaumik, 2005).

There are few significant economic trends which have been appearing in the last years: globalization of the market, the increase of outsourcing activities level, evolution of the consumers who demand larger number of innovative products and products in smaller quantity

which are adjusted to them, high quality and high level of service. All of these changes had great impact on the research and practice in management area, which lead to increase of chain supply significance. Managing SC appeared as a base for accomplishing competition. In the terms when most of the activities are automated, cooperation between all participants is of key matter in order to ensure the delivery to the buyer. In order to compete in today's high competitive society, it is necessary that the strategy of the supply chain aims to adjust characteristic of the product to buyers demands (Caniato et al., 2009). In chain supply management department, during the past few years, the competition between companies doesn't exist anymore, but it does exist between supply chains (Rice & Hoppe, 2001). In this new competitive surrounding, projecting mechanisms which will help companies to coordinate their conflict goals, risk division, cooperative costs and profit division as a result of cooperation, has become a challenge. Models of supply chains are usually little applicable to the luxury sector. Managing supply chain is important in luxury companies because configuration and managing SC can affect their CFSs (key factors of success). Here, you can obviously see the importance of SCM in achieving competitive advantage. According to (Caniato et al., 2009) main CFSs for luxury companies are: high quality level, (heritage of craftsmanship), product exclusivity, appeal emotionality, brand's reputation, style and recognizability of the design, connection to the native country known for excellence, uniqueness and creating a lifestyle. These CFSs can also be considered for jewelry production (Chen, 2011; Brun & Moretto, 2012). SC can be described as a set of activities which are happening from the source of raw materials, over suppliers, manufacturers, distributors and companies with other roles in the chain, to ultimate manufacture. It includes every effort included in manufacturing and delivering final product from supplier's supplier to the customer's customer.

Whole process of the production and distribution can be watched as series of events with one goal: giving service to the end user. Some of the main economic trends which luxury companies haven't stayed immune to are: market globalization, development of potential competition in the world, evolution of the users when it comes to looking for diversity, product adjustment, high level of service quality. In order not to waste their effort, companies usually decide to focus on limited set of key operations. Since there is greater usage of outsourcing, companies don't have whole set of needed resources for covering the entire manufacturing and distribution process in their property, the only way to satisfy the more demanding and sophisticated customers on one side, and stockholders' interest on the other, is to manage coordination or cooperation with partners like suppliers, buyers and 3PL providers, in order to point their efforts to same goals (Castelli & Sianesi, 2015).

#### **4. SUPPLY CHAINS AND KEY FACTORS OF SUCCESS IN LUXURY TRADE MARKET**

The fact to which we have come in the previous part of this paper, that managing SC is of crucial importance for maintaining the pace with the competition on global trade, isn't enough for luxury companies. They usually need to guarantee profitability and to ensure the delivery of the product to buyers, satisfying their demands in means of function, quality, diversity and giving services. Many authors agree that the real strategy SC is the one which is adjusted with CSF of luxury products (Aitken et al., 2003, Demeter et al., 2006). This is one of the reasons why the same approach to the supply chain isn't convenient in every situation. Strong market orientation is needed more and more in order to achieve compliance with CSF. There are several examples about how characteristics of the industry or product can affect the choices of ways to manage SC in accordance with different structures of CSF (Caniato et al., 2009; Al-Mudimigh et al., 2004).

Case study has included 34 known luxury fashion brands all over the world. They are classified in 18 different groups according to product categories (clothes, shoes, jewelry, leather products, etc.). The sample covers both big and small companies. Each of companies (brands) can be put into one of 3 possible segments: Absolute, Aspirative and Affordable segment (De Barnier et al.,

2012). Absolute luxury brands are characterized by elitism, legacy and uniqueness (ex. Harry Winston, Hermes). This segment includes historical connection to luxury and manufacturer of precious products. Aspirative luxury brands make their status by recognisability and distinguishing characteristics (ex. Gucci and Louis Vuitton). Affordable luxury brands are more affordable than the others. Great number of consumers can buy products of brands like Coach and Hugo Boss, and they are usually bought in order to point out status symbol or the feeling that they belong to “the class”. This category of products is mainly bought by medium class in Europe, USA, but in Asian-Pacific too (excluding Japan). Main part of the case study is focused on configuration and managing the choices which are adopted in SC. As a result of tests, goals of LS are obtained, as well as CSF which are mutually coordinated. If we connect luxury CSF and SC goals, we get the list of 745 combinations which make the selection of SC on one hand, and the selection of luxury CSF on the other. The list of 745 pairs of “SC practice-CSF” is reduced to 12 by using Pareto classification (Table 1). Class A (80%) is composed of: exclusivity, extraordinary quality, brand reputation, users satisfaction, (heritage of craftsmanship), country of origin and emotional appeal. Class B is composed of accessibility, design recognition and uniqueness. Class C is composed of the way (style) of life and technique performances.

Table 1. Display of CSF Pareto classification (key factors for success) (Castelli & Sianesi, 2015)

Pareto class	CSF	No. of occurrences in the sample	% in the sample	Cumulate % in the sample
A	Exclusivity	128	17.2	17.2
	Superior quality	123	16.5	33.7
	Brand reputation	114	15.3	49.0
	Customer satisfaction/service level <sup>a</sup>	89	11.9	60.9
	Heritage of craftsmanship	52	7.0	67.9
	Country of origin	49	6.6	74.5
	Emotional appeal	46	6.2	80.7
B	Accessibility <sup>a</sup>	39	5.2	85.9
	Recognizable design	38	5.1	91.0
	Uniqueness	29	3.9	94.9
C	Lifestyle	24	3.2	98.1
	Technical performances	14	1.9	100.0

Note: <sup>a</sup> Indicates the CSF emerged from the interviews

Case study has confirmed to a large degree that many choices and practices along SC are matched with CSF on the market. Respondents were able to identify even decisions made on purpose (via choices that were made in order to make greater results in regards to certain luxury CSF) and choices to which luxury CFS was just byproduct, (accident) result of some other activities (Caniato et al., 2011). Most practices which are used in these companies aren't luxury-specific (aren't characteristic for luxury companies) or exclusively important in finding luxury CSF. The difference between luxury and non-luxury companies usually isn't in type of supply chain choice (SC), but in connecting chosen chain to business strategy.

## 5. CONCLUSION

The luxury goods, as one of specific categories of goods which shows on the market, generates certain specifics in logistics. From that comes that luxury goods supply chain has different characteristics. Trends which have been appearing during last few years haven't had negative influence on the luxury goods market, as it was the case with other goods categories. It is known that consumers who buy luxury fashion products are aiming to satisfy functional and social needs. However, while buying luxury fashion products, they are mainly led by social needs. On the luxury goods market there are 2 groups of consumers, fashion leaders and fashion followers. Fashion leaders buy highly worth goods which isn't on the market in large amounts. On the other hand, we have fashion followers. They are readier to buy luxury fashion products if fashion leaders buy more, while on the other hand, fashion leaders buy these products less if fashion followers who buy that product. Luxury fashion industry is an important sector which contributes to significant increase of sales volume on the market (Shen et al., 2017). The significance of supply chain for luxury companies is seen more and more. However, there aren't a lot of researches in this area, which was the motive for writing this paper. Luxury goods supply chain is different from the usual supply chains, but luxury companies recognize that they don't apply the supply chain which can be said to be for luxury goods only. In the paper has come to connecting key factors of success (CSF) with luxury company's supply chains. They are all put into one of three segments (Absolute, Aspirative and Affordable) in supply chains and key indicators of performances, Pareto classification is made. As a result of this research, we have come to the conclusion that the difference between luxury and non-luxury companies often isn't in the choice of SC, but in connecting the chosen chain with business strategy.

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