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How can luxury brands successfully price in the post-COVID world?

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Chanel has more control of over its pricing power due to the strength of its brand. Image credit: Chanel

By Mario Ortelli

An increasing number of luxury brands are adjusting pricing policies to recount for some of the losses incurred from the global COVID-19 pandemic, but will this strategy serve their interests in the long-term?

Here are key strategic points for brands to consider.

It has always been the objective of luxury brands to manage their pricing strategies in a way that supports their brand equity, product desirability and bottom lines.

Luxury companies traditionally consider price increases as the most profitable lever while scarcity, for example, does not increase margins to protect and boost the perceived exclusivity of their products, but they also face the risk of sales loss when these pricing actions are not successfully executed. But how can they adjust their pricing strategies while navigating the turmoil seen during the global COVID-19 pandemic?

In these challenging times of lockdowns and demand contraction, luxury brands have increased even more than usual the prices of their bestselling products to offset part of the compression of margins due to the pandemic.

Take, for instance, Chanel which earlier this year confirmed it had brought the prices up of its iconic handbags (11.12, 2.55, Boy, Gabrielle) ranging between 5 and 17 percent in euros and Louis Vuitton which also raised the prices of some of its products in March and May.

It is not a surprise that brands such as Chanel, Louis Vuitton, Herms and Dior, whose handbags are products that are considered iconic and perceived by consumers as investment pieces, can be more bold in increasing prices to protect their margin. But not all companies have such strong brand positioning and therefore cannot raise their prices so easily.

In fact, when customers see prices go up for products that are not iconic and top-of-mind and begin to compare those products to others that are traditionally at a higher price point, a price increase can just result in a big loss of sales.

For instance, when Prada decided to significantly augment the price of its Galleria bags some years ago in an attempt to elevate its leather goods positioning, it moved a product that was already mature in its life cycle into a field of comparison with products from other brands that had higher traction at that particular moment such as Dior, Bottega Veneta and Chanel. Needless to say, the price increase was not something the consumer was willing to pay for.

Likewise, with Mulberry. The British leather goods company tried to elevate its brand by increasing their prices dramatically and the consumer did not recognize this.

Brands should always aim for consistency within their pricing architecture.

On one hand, companies have to execute differentiated price increases for each product according to its desirability vis–vis competitors and the demand environment.

On the other hand, companies should be mindful not to overshoot the pricing power of their iconic bestsellers, in order to avoid an uneven and inconsistent price architecture in their product portfolio.

Another thing to consider in the post-COVID world is how much brands should exploit tactical opportunities.

With luxury consumers traveling less, many brands have raised increased prices in regions such as China where the recovery from COVID-19 is gaining momentum, in comparison to the Western countries where the demand is still weak. This is something that can be transitory and that is not advisable to pursue long term as it is important to keep a coherent global pricing to avoid the re-acceleration of parallel imports.

Finally, it is advisable that brands do not make too many price adjustments. Because at the end of the day, consumers want to buy a product with an embedded lasting value and they can be put off by frequent price changes.

In fact, consumers all over the world are getting more and more sophisticated, informed and aware about luxury goods. And brands would do well not to underestimate them.

In a nutshell, a solid pricing strategy requires, more than ever in the current COVID-19 period, consistency on multiple dimensions: market demand environment, brand traction, product/pricing architecture and geographical pricing difference.

It also worth noticing that the increased gap of performance in the last years between winning and losing brands has shown that usually the more successful brands are the ones who also manage better their pricing strategy and architecture such as Louis Vuitton, Dior and Gucci.

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