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Luxury Pricing and Consumer Trust: Economic Challenges Facing Chanel in the Post-Pandemic Market

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Abstract. Chanel, a renowned French luxury brand, was founded in Paris in 1913 by Coco Chanel. Chanel offers a wide range of products, including clothing, watches, jewelry and accessories, cosmetics, skincare, and perfumes, each renowned for its quality. A brand with a century-long history, Chanel fashion is always characterized by its elegance, simplicity, and exquisite style. While adept at breaking with tradition, it is currently facing challenges in growth. Chanel's sales reached \$18.7 billion in 2024, primarily hampered by weak performance in the Chinese market. However, they decided to continue their \$1.8 billion capital expenditure from last year, a 43% increase from the previous year, demonstrating the company's determination to strengthen its competitiveness. Furthermore, Chanel will invest \$600 million to strengthen its supply chain to further control the production process of its products. This article will analyze the current problems facing Chanel from three aspects: macroeconomic factors, microeconomic conditions, and interbrand competition and rapid product structure. It will also attempt to provide solutions from three aspects: hedging and market optimization, microeconomic enhancements, and customer management.

Keywords: Luxury branding, pricing strategy, consumer behavior, luxury market competition, Chanel

1. Introduction

Chanel is regarded as one of the most iconic luxury brands of women in the world that is now grappling with serious issues in a chaotic global economic environment. The company saw a 4.3 per cent decrease in revenue year on year in 2024, and a 33 per cent reduction in operating profit, which is its first significant decline in several years [1]. This turnaround performance indicates that the long-term strategies of the brand, especially high prices aggressively, are not sustainable in the post-pandemic luxury market. The objective of this paper is to perform an in-depth analysis of the predicaments of Chanel, in terms of both macro and microeconomic theories. PEST analysis and purchasing power parity theory will be used to analyze the macroeconomic factors and the demand elasticity calculation and Interbrand competition models will be used to analyze the microeconomic factors. On these analyses, specific solutions will be offered to handle the problems found. The results will not only give practical information to the Chanel but also other luxury brands that are currently facing economic uncertainty.

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2. Analysis

Chanel has found headwinds in the political, economic, social and technological environment. In politics, the intensified geopolitical tensions, especially among the leading economies, have derailed global supply chains and cross-border trade, making operations to be more expensive. There are also the increased compliance costs caused by stricter intellectual property laws in some of the major markets and anti-counterfeit measures are still a challenge [2].

2.1. Macroeconomic factors

On the economic front, inflationary pressures across the globe have greatly diminished consumer-buying power. The core consumers of Chanel, high-income consumers have become less indulgent in their discretionary expenditures, although they still value basic luxury products. Currency volatility, especially the appreciation of the US dollar against the Euro and the Yen has also led to the pricing gaps across the markets which have supported parallel trade and the grey market which has compromised the pricing-controlled strategy of the brand [3].

On the social side, demand patterns are changing as consumers change their attitude to luxury. There are a growing value-consciousness and distrust of arbitrary price-raising by consumers, particularly younger generations, post-pandemic. The preference is shifting towards brands with a sense of authenticity, sustainability, and ethical conduct, which is pushing Chanel to change its image beyond exclusivity. E-commerce and social media have made luxury information democratic, and consumers are more price conscious. Simultaneously, the brand has not adopted digital retail, which has become a point of tension in the customer experience, especially among younger, digitally native customers.

The purchasing power parity theory also brings into focus the effect of currency changes, and inflation rates on the sales of Chanel in the regions. Indicatively, the weakening of the Japanese Yen has increased the cost of Chanel products by a big margin to the domestic customer. Although this at first resulted in panic buying as consumers tried to hedge against rising prices, the long-term price increases eventually reduced demand in the long term. On the other hand, in economic recovery that has not been even such as in China, prices have been high enough to scare away local consumers and inbound tourists who have previously been a major revenue generator to the brand [4].

2.2. Microeconomic conditions

The aggressive pricing strategy adopted by Chanel that increased the prices of its Classic Flap bag by almost two thirds in six years was successful initially because luxury goods were low price elastic. Research indicates that the price elasticity of demand of Chanel handbags is estimated to be -0.3, which implies that a price change of a 10 percent results in a reduction in the quantity demanded by only 3 percent. The brand prestige and perceived value of investment caused this low elasticity which enabled the company to generate revenue by increasing prices and not by increasing volume [5].

Nevertheless, the approach has gone as far as it can go. The ever-rising prices have rendered it unaffordable to middle-income clients who are the traditional core customers of the brand but did not entirely appeal to ultra-high-net-worth clients who would choose Hermes. The outcome has been a drop in sales volume and watering down the brand to younger consumers who now find Chanel products too expensive and overpriced. This shift has also been reflected in the secondary market, as

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the resale value of Chanel Classic Flap bags decreased by 83 percent of the retail price in 2019 to 77 percent over the past years, indicating a decline in the perceived investment value of the brand [6].

2.3. Interbrand competition and rigid product structure

Chanel competes highly with the other luxury brands, especially Louis Vuitton and Hermes. Whereas Louis Vuitton has used its size and product differentiation to sustain its growth, Hermes has intensified its scarcity-focused position and developed an image of exclusivity which Chanel is finding hard to keep pace with [7]. The product line that is still highly dependent on traditional handbags is also becoming inflexible in the eyes of evolving consumer demands at Chanel. In contrast to its competitors, who often release new designs and limited-run collections to jumpstart demand, Chanel has concentrated on incremental price growth as opposed to product development, which makes its products susceptible to consumer burnout.

3. Solutions

To reduce the effects of currency volatility, Chanel ought to adopt an all-inclusive foreign exchange hedging program. This would entail the employment of financial instruments that would help to fix the exchange rates like forward contracts and the options as a way of mitigating the chances of unexpected price changes across markets [8]. Also, the brand may focus on regional price changes that take into consideration the differences in purchasing power, instead of using standardized price increases, to reduce gray markets and preserve consumer confidence.

3.1. Hedging and market optimization

Chanel needs to reevaluate its market position and competitive strategy using the Five Forces model of Porter. The threat of new entrants is low as it has high barriers to entry into the luxury market, however, the bargaining power of buyers has risen considerably due to increased price transparency and competition. In response, Chanel ought to work on improving its relationships with suppliers to guarantee the quality and exclusivity of its raw materials in addition to increasing its customer loyalty by offering personalized services and exclusive experiences [9]. The threat of substitutes especially with the emergence of other luxury brands and sustainable alternatives must be countered by making a case in its marketing communication on the heritage, craftsmanship, and sustainability of Chanel.

3.2. Microeconomic enhancements

Chanel can use third-degree price discrimination to maximize revenue among various consumer groups. This includes providing differentiation price in relation to consumer demographics, purchasing power, and market conditions. As an illustration, the brand might use entry-level products, including beauty and accessories to appeal to younger buyers and brand awareness, but still retain its high-end handbags and couture to ultra-rich buyers [10]. Moreover, regional exclusives and limited-edition products may serve to address various markets, and the chances of cannibalization will be minimized as well as the brand image of exclusivity will be preserved.

Chanel must use signal game theory in marketing communications to reestablish consumer trust and support its pricing policy. The brand must give clear messages to consumers of quality and value, including the craftsmanship, heritage, and ethical processes involved in its products. This may involve the behind-the-scenes content that includes the production process, collaboration with the

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artisans, and sustainability efforts. Chanel can address the issue of its products being perceived as being overpriced by aligning its pricing with tangible value propositions and becoming a leader in the luxury market.

3.3. Customer management

The management of customer lifetime value needs improvement to achieve long-term success of Chanel. The brand needs to work on improving the current customers by providing services that are personalized, loyalty programs, and exclusive events [11]. This involves providing personalized advice, being the first to receive new products and personalized styling services to improve customer experience. Chanel can promote repeat purchases and limit customer churn even amidst competition against other luxury brands by emphasizing retention, as opposed to only acquisition. Also, high-value customers can be identified using data analytics and marketing can be focused on their likes and dislikes, which is necessary to ensure that resources are distributed effectively.

4. Conclusion

The present troubles facing Chanel are a mixture of macroeconomic volatility and poor strategic decisions at Chanel. The aggressive price increases, which were once effective, have now come to an end, scaring away its loyal consumers and undermining the competitive edge of the brand. Nonetheless, with specific changes to its pricing policies, marketing communications, and practices regarding customer management, Chanel will be able to cope with these issues and resume its growth path. The suggested solutions such as foreign exchange hedging, price discrimination of the third degree and improved customer lifetime value management offer a guideline to the brand on how to sail through economic uncertainty, without losing its luxury status. Chanel can regain consumer confidence and enhance its luxury market standing by walking the fine line between exclusivity and accessibility and using its history and craftsmanship as the basis to justify its pricing. The experience that Chanel has to go through can also be of great help to other luxury brands that sell to women, pointing out the necessity to adjust to evolving consumer demands and economic trends.

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