

# Chanel's Successful Pricing Strategy for Maintaining Appeal in an Unfavourable Economic Environment

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## Abstract:

The outbreak of Covid 19 in the world has serious impacts in different countries with most economic sectors suffering a lot. Nonetheless, some sectors like the luxury goods industry demonstrated great recovery and even growth, especially for the big brands such as Chanel. By several correct market positioning and pricing strategies Chanel not only sustains and preserves the brand during the period of crisis but also becomes the leader of the high-price segment. Thus, this research explores pricing strategies employed by Chanel in an unsuccessful economic outlook, to assess how the strategies above have assisted the brand in sustaining its luxury positioning while sustaining customers' interest during the economic crisis. The fact-finding shows a detailed examination of the development of the Chanel brand, the pricing policies of the brand, as well as the market position of the brand to show how Chanel has sustained the competitiveness of the luxury brand through the application of systematically high prices, the principle of scarcity, and brand culture. In addition, the study analyses Chanel's unique strategy and market leadership by comparing it with other luxury brands such as Hermes. The findings suggest that Chanel's sustained price increases and effective use of its brand heritage have enabled it to maintain its leading position in a highly competitive market, while also providing a valuable strategic reference for other luxury brands.

**Keywords:** Luxury pricing strategy; Chanel; Economic recession; Brand exclusivity; Market positioning.

## 1. Introduction

The luxury industry is a highly specialised market whose consumers typically have extremely high purchasing power and are insensitive to price fluctuations. This has enabled luxury brands to maintain

their market position in a downturn environment. The COVID-19 pandemic has brought the global economy into a period of uncertainty, with many industries being affected to varying degrees. However, the luxury sector has shown remarkable resilience, especially for brands with a long history and strong

brand appeal such as Chanel, which has still been able to maintain steady growth amidst the economic turmoil. This phenomenon has triggered an in-depth study of pricing strategies in the luxury industry, particularly exploring how brands like Chanel maintain their brand image and market share through their unique market positioning and strategic pricing. According to data from 2020, the global economy lost about 4.9 per cent of its GDP during the epidemic, with national economies experiencing massive declines. For example, the GDP of the United States shrank by 3.4 per cent in 2020 and the GDP of the European Union fell by 6.1 per cent. However, in stark contrast, the global luxury goods market only declined by around 23 per cent in 2020, before recovering rapidly to pre-epidemic sales levels in 2021. This 'anomalous' performance demonstrates the difference between the luxury sector and other consumer goods industries, as consumer loyalty to luxury brands, as well as their scarcity and exclusivity, make them attractive in times of economic downturn. It also further emphasises the success of the luxury sector in consolidating its market position by maintaining a high price strategy and rebounding quickly during the economic recovery phase.

The purpose of this study is to examine how Chanel maintains its brand appeal and market competitiveness through its high-end market positioning and pricing strategy in an unfavourable global economic environment. The significance of this study is that by analysing the Chanel case in depth, it will provide a valuable reference for other luxury brands, thus helping them to formulate effective marketing strategies in times of economic uncertainty. However, new insights about consumer behaviour especially concerning the effect of price and brand positioning strategy on consumers in the luxury market will be established by this study.

This research uses qualitative and quantitative approaches, where analysis tools employed include case study, SWOT analysis, and 4P marketing theory with comparison being made. In this document, this author describes the findings of how Chanel has used the beauty brand history, pricing, and positioning to defend its market dominance during the global economic crisis. Furthermore, the study also makes a comparison between Chanel with other luxury brands including Hermes to determine its pricing pattern and brand management differentials.

This research will start, by analyzing the effects that the global recession which hit most countries of the world had on the market for luxury goods, consumer behavior, and changes in market demand. After that, the study will scrutinize the evaluation of the attractiveness of the comparable market through understanding Chanel's detailed brand positioning and pricing strategy, and its ability to

sustain the extended attractiveness through a price hike and brand differentiation. Next, this study will proceed to analyze how Chanel is unique in the market by establishing a comparison with other luxury brands. Last but not least, the thesis will provide recommendations about Chanel's further evolution and consider how the company can strengthen its brand position in the evolving market landscape.

## **2. Impact of the Recession on Global Markets**

### **2.1 Analysis of Global Economic Trends**

After COVID-19 this global economy has faced very severe crises many countries have had slow or even negative economic growth rates [1]. For instance, between 2018 and 2023, the U.S. economy saw a contraction of 3.4% in 2020, followed by a recovery, yet still experiencing slower growth in 2022 and 2023. The European Union also faced a significant decline of 6.1% in 2020, with only partial recovery in the following years [2]. In China, while growth remained positive, it slowed considerably from an average of 6% pre-pandemic to around 2.3% in 2020 [3]. Governments adopted stimulus measures to counter the economic downturn, but their effectiveness was limited. Consumer confidence fell, and global consumer spending declined significantly, with the non-essential goods sector particularly hard hit. However, the luxury goods sector showed relative resilience, a phenomenon explained by the purchasing power of luxury consumers and their loyalty to brands. These consumers tend to belong to a high-income group whose spending behaviour is driven more by brand identity and social status symbols than by the direct impact of economic fluctuations.

### **2.2 Impact of Recession On Luxury Goods Consumption**

Despite the enormous challenges facing the global economy, demand in the luxury goods sector remained relatively stable, with sales in the global luxury goods market declining by approximately 23% in 2020, but recovering more quickly than other non-essential goods sectors, with a rapid rebound to pre-epidemic sales levels by 2021 [1]. In contrast, the global real estate market experienced a severe recession in 2020, with US real estate sales falling by around 18% year-on-year [3], while sales in the automotive market declined by around 14% [4]. Luxury consumers typically have a higher tolerance for price volatility and are more solid in their spending habits, especially in times of economic uncertainty, and are more inclined

to invest in brands with lasting value. As a result, luxury brands have not reduced prices to attract more consumers, but have instead increased their position in the premium market by raising prices and creating product scarcity to enhance brand exclusivity.

### 3. Chanel's Brand Positioning and Pricing Strategy

#### 3.1 Historical Overview of Chanel's Brand Evolution

Since the inception of this brand, Chanel has been associated with a unique brand distinctive competence, and good quality products. Since its founder, Coco Chanel, Chanel adopted the design principle of 'less is more' which has set Chanel apart from the rest of the luxury brands. Pricing policy is also closely linked with the brand's history and tradition so the brand can successfully attract consumers from the higher socio-economic classes. In the history of creating the brand Chanel has kept its attributes of modernity and fashion ability while being able to develop and adapt in the progress of time, which all adds to the improvement of the brand's value.

Chanel is not only a fashion house, but an icon that characterizes the spirit of the epoch and reflects the desire for comfort, beauty, and refinement. According to its current position in the global luxury market, the major reasons were identified as its brand identity, product innovation, and high-quality material used in its products. The organization and cultural affiliation also help the brand sustain market relevance at high strata of prices without a major vulnerability to the economic cycles.

#### 3.2 Analysis of Chanel's Pricing Strategy

In the current case, pricing strategy is evident from the fact that Chanel aims to raise the prices periodically and engage in scarcity strategies [5]. While all the motives successfully appeal to consumers, no consumer would associate Chanel with a brand that offers low-priced quality products; the company does not use fixed sales or coupons to market their products; rather, Chanel has been known to constantly increase the prices of its products to maintain high-end image while at the same time informing consumers that Chanel products are rare [6].

Still, in support of the established pricing strategy, Chanel employs brand spokespersons, advertisements, and social media marketing. Chanel's spokespeople are often international celebrities, like Jennie, and such people bring the youthful vigor that is so essential in the fashion world into the brand. At the same time, the partner advertising cam-

paigns in globally known fashion magazines and branded content in well-known social networks, for example, Instagram or WeChat help to develop the brand and its availability in the global market.

Chanel brand's plan is also luxury, pricing high for the brand is not for short-term gains but also to sustain the long-standing image and position of the brand. Using such an approach, Chanel has reached the objective of brand positioning, as the company is seen as an eternal luxurious brand. Interpreting the luxurious accessories, one would agree that Chanel embodies not only elegance but also history.

#### 3.3 Consumer Perceptions of Luxury Brands' Pricing Strategies

Consumers are very sensitive toward the price perception of luxury brands. These are the key values that people are ready to pay more for indicating that they are willing to pay more for culture, history, and brand image [7]. This perception not only increases the loyalty of the market towards the particular brand but also allows the brand to have a steady market share during a period of economic instability. Chanel has achieved a high brand status by maintaining the element of a high price which symbolizes the material culture and history of the brand that the consumers endorse [2].

However, to enhance brand equity Chanel has adopted the following strategic approaches which include; The company has also added the element of novelty and rarity of the Chanel brand through; Collaboration with brand designers in the development of seasonal products or products of limited edition.

### 4. SWOT Analysis

There are various tools that one can use to analyze the market positioning and competition strategies of Chanel.

#### 4.1 Strengths

Chanel has been in the luxury market for over a hundred years, and associations with the brand are directly related to luxury, nobility and elegance. More, Chanel has successfully maintained its leadership position in the high-end market through constant price increases and scarcity strategies. In addition, Chanel has maintained the brand's youthfulness and fashion sense through globalized advertising campaigns and spokesperson strategies. The brand's reputation and premium market positioning as well as strong marketing and brand communication are its strengths. [8].

## 4.2 Weaknesses

The brand is old-fashioned, While Chanel's history and heritage are undoubtedly its strengths as a classic luxury brand, Chanel is more conservative in its innovation and integration with hip culture than brands such as Louis Vuitton (LV). For example, LV has collaborated with hip artists such as Takashi Murakami and Yayoi Kusama on launch limited editions, whereas Chanel relies more on its classic designs and is less proactive in co-branding collaborations with contemporary trends. This old-fashioned branding strategy may affect Chanel's ability to appeal to a younger generation of consumers [6]. Furthermore, Chanel's consumer base is primarily focused on mature, high-end consumers, and the brand has not made any significant attempts to appeal to new, younger consumers. Despite the brand's premium positioning, this 'segmentation' could lead to missed opportunities to cultivate and expand its reach to younger luxury consumers. Unlike some luxury brands, Chanel has been cautious in adopting digital marketing or innovative products that appeal to younger consumers [3].

## 4.3 Opportunities

With the rise of e-commerce, Chanel can expand its market presence through online channels and use data analytics to enhance consumer experience. As for emerging market expansion, Chanel can further explore emerging markets, such as Asia and the Middle East, where high-income groups are growing rapidly.

## 4.4 Threats

The instability of the global economy could affect the growth of the high-end consumer goods market, especially if consumer confidence declines. Besides, the luxury goods market is becoming increasingly competitive with other brands such as Hermes and Louis Vuitton competing for market share through innovation and market expansion.

# 5. Comparative Analysis with Other Luxury Brands

## 5.1 Case Comparison with Hermes

Hermes, another leading brand in the luxury industry, shares many similarities with Chanel in terms of pricing strategy. Both maintain the brand's premium image by constantly raising prices and strictly controlling supply. However, Hermès focuses more on craftsmanship and scarcity in its brand management, and its classic products such as the Birkin and Kelly bags have become iconic

luxury products in the market due to their high level of handmade craftsmanship and extreme supply.

In contrast, Chanel focuses more on strengthening consumers' brand identity through brand story and cultural heritage. Chanel not only relies on its classic product lines (e.g. Chanel 2.55 handbag), but also maintains the brand's vitality through continuous innovative design and fashion leadership. Although both pricing strategies are centred on high prices and scarcity, Chanel expands its market reach more through fashion magazines, advertisements and social media, while Hermes relies more on the unique craftsmanship and scarcity of its products [9].

## 6. Recommendations For Chanel's Future Development

To continue its market leadership, Chanel can further strengthen its pricing strategy and brand management in the following areas. Firstly, Chanel can enhance consumers' brand engagement through more customised services. For example, launching exclusive VIP customer lines or limited-edition collections to further enhance brand exclusivity and customer loyalty. Secondly, the brand can explore digital transformation while maintaining its premium image, utilising emerging technologies such as virtual reality and augmented reality to enhance consumers' shopping experience. By innovating in the digital space, Chanel can better connect with the younger generation of consumers and expand its market reach [10].

In addition, Chanel should continue to strengthen its brand story and cultural heritage, and further enhance the brand's cultural connotation through cross-border co-operation with art, fashion and other fields. Finally, Chanel should pay close attention to changes in the global market, especially the rise of emerging markets, and maintain its leading position in the global luxury market by adjusting its pricing strategy and product offerings.

## 7. Conclusion

Chanel has been able to sustain its market appeal in an adverse economic setting through a marketing mix of its brand positioning strategy and the consistent brand price escalation strategy. Yet, in this global environment, Chanel has managed to fall back on such staples of the luxury brand strategy as the exclusivity of the brand. Therefore, for Chanel to sustain itself in the same market, it will be required to adapt to the market while at the same time ensuring that it does not lose the identity of the company. By further strengthening its brand management and pricing strategy, Chanel is expected to remain a strong competitor in the global luxury market. This study is primarily

based on case studies, and while it provides insights into Chanel's pricing strategy, it may have limitations when generalising to other brands or industries. Future research could further explore Chanel's performance in different market environments and incorporate quantitative analysis methods to provide broader theoretical support. In addition, luxury brands need to constantly adapt their strategies as the market environment continues to change, so future research should focus on the dynamics of luxury brands in emerging areas such as digital transformation and changes in consumer behaviour.

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