

Research on Marketing and Management of Luxury Goods in China Based on 4R Theory

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ABSTRACT

In the past 10 years, with the rapid economic development and people's continuous pursuit of a better life, China's luxury goods market has developed rapidly, and China has become the world's largest consumer of luxury goods. In the face of the coronavirus pandemic, most of Chinese chooses to shop in China. The consumption demand of domestic luxury goods is increasing day by day, and the competition in the luxury goods industry is also quite fierce. Facing the current market environment, the marketing and management of luxury goods are very important. Based on the 4R theory, this paper analyzes and summarizes the selection of luxury marketing theories and the application and implementation of marketing strategies. Based on this, it forms a reference for the marketing strategy layout of other luxury goods.

Keywords: *Luxury goods, Marketing strategy, 4R theory, Luxury goods markets.*

1. INTRODUCTION

Luxury goods are defined internationally as "consumer goods with unique, scarce, rare and other characteristics that exceed the scope of people's survival and development needs", also known as non-necessities of life. From a marketing point of view, luxury goods refer to products with the highest intangible value/tangible value relationship ratio. In recent years, with the continuous development of China's economy, people's cultural cognition level has been continuously improved, and people's yearning and

continuous pursuit of a better life has led to a rapid increase in people's cognition and demands for luxury goods. According to Bain & Company's "Luxury Market Report 2020", in 2020, China's domestic luxury goods market is expected to achieve a growth of 48%, reaching nearly 346 billion yuan. The Chinese domestic market doubled its overall share of the global luxury goods market in 2020 and is expected to grow further by 2025 [1]. It can be seen that the grasp of the Chinese market is particularly important for the luxury goods industry. ("Figure 1")

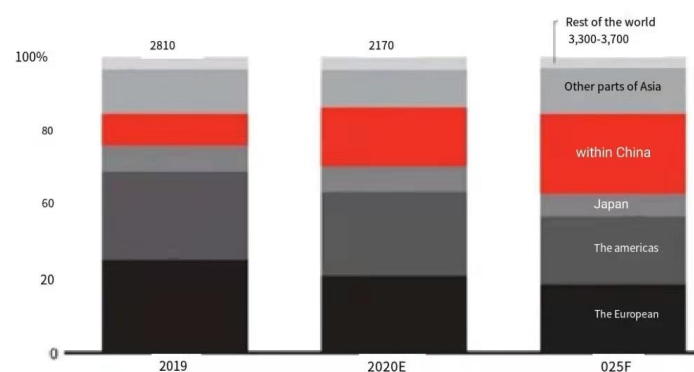


Figure 1 2020 Bain & Company "Italian Luxury Association Global Luxury Report"[1].

At present, China's luxury goods market has gradually entered a mature stage of development. Chinese luxury consumers have also developed from initial ignorance to enthusiastic pursuit, and now to rational consumption. Such development is rapid and inevitable. Compared with the Chinese people's preference for individual big brands in the past, today's consumers prefer to try more fresh brands [2]. The domestic luxury consumer groups are mainly the new generation consumer groups nowadays. Consumers have shifted from being price-sensitive in the early days to pursuing consumption quality [3].

Based on the 4R theory, this article proposes innovative and reasonable optimization suggestions for luxury marketing strategies in this new environment and builds a new marketing strategy model. It is hoped that the 4R theory can be used to explore the future development of luxury goods and complete innovating marketing strategies within the luxury goods market.

2. BUILDING A MARKETING STRATEGY MODEL UNDER THE 4R THEORY

The American scholar Don E. Schuhz put forward the 4R marketing mix theory. The 4R marketing theory based on relationship marketing pays attention to the long-term interaction between enterprises and customers, and focuses on building customer loyalty. It requires enterprises to actively create demand, use optimization and systematic thinking to market through relationships, associations, reactions, returns, etc. Form unique relationships with customers to create unique competitive advantages. The theory is oriented by competitors, taking the value chain as the model to meet the needs of feeling and cultivate loyalty with one-to-one communication and relationship marketing in pursuit of win-win situation. The luxury itself has the characteristics of brand specificity, superior quality, personalization and cultural characteristics. Luxury consumption has the characteristics of feeling-realization, one-to-one, loyal consumption, value consumption, scarce consumption and noble consumption [4], so 4R theory can well meet the needs of luxury marketing strategy.

In the face of the current development of digital marketing, changes in customer demand, and intensified competition, luxury goods can innovate marketing strategies through the 4R theory, and achieve the fours in the 4R theory through

innovations in products, pricing, channels, and integrated marketing. The construction and renewal of subjects will promote the further development of luxury enterprises and markets.

3. ANALYSIS OF LUXURY MARKETING MANAGEMENT STRATEGY BASED ON 4R THEORY

3.1 Relevance

Relevance is the belief that the enterprise and the customer are a community with a shared future. Enterprises should form their own value chains to establish and develop long-term relationships with customers.

In the process of constructing the value chain, this paper uses the value network theory of Prabakar Kathandaraman and David T. Wilson to construct the value chain model. In this model, the value creation of the value chain depends on three main elements that are superior customer value, core competencies and inter-enterprise relationships. For luxury goods in market activities, to establish an effective relationship between supply and demand, the following points must be done:

3.1.1 Customer Value Realization

The core requirement of realizing customer value is to realize the value perception of luxury goods by customers. Improving customer satisfaction and building brand trust are two main ways to realize the value perception of luxury goods by customers. Customer satisfaction is a positive emotional state formed after customers evaluate products and various aspects of the enterprise [5]. Customer satisfaction includes both process and result aspects. Process satisfaction refers to whether the customer experience can match or exceed customer expectations; Result satisfaction refers to the customer's perception or feeling of whether the benefits they receive are appropriate [6]; and brand trust reveals consumers' belief in the products provided by the company. Evaluation is the ultimate goal of corporate marketing. Chanel, LV, Gucci and some other luxury brands which are immersed in clothing, jewellery, bags and accessories have done a good job in this regard. On the one hand, they improve the customer's process satisfaction by improving the service quality of the store, and on the other hand, they improve the product value through

excellent design, workmanship and the shaping of brand culture, thereby improving the customer's result satisfaction and establishing brand trust.

3.1.2 Core Competence Ability Cultivation

The core competence of an enterprise is an ability that can provide potential opportunities for the enterprise to enter various markets, contribute to the identified customer benefits with the help of final products and is not easily imitated by competitors. The core competency of an enterprise is to provide value to customers as soon as satisfy their needs and preferences. Luxury goods companies should mobilize their market capabilities to the greatest extent to study the needs of customers, meet customer needs as much as possible, and convert resources into customer value so they can continuously innovate, break through their core capabilities and make progress.

3.1.3 A Value Chain Through Interrelationships Building

A value chain is a dynamic value creation system linked together by the interrelationships between node enterprises and between enterprises and final customers. High-quality interrelationships will facilitate the creation of customer value. The most important relationship that luxury companies need to establish is loyalty. This is not only in line with loyal consumption, but also provides a source of profit for luxury companies to obtain lifetime value [4]. This shows that luxury goods need to create a high-end luxury image of luxury brands through strict brand value chain management. For example, Lexus, in the product development stage, in order to produce high-end products, they let product designers live in five-star hotels and enjoy VIP treatment so that this feeling can be fully brought into the product during design. In the manufacturing process, Lexus strictly controls the procurement of accessories and has extremely high quality inspection standards for each accessory purchased. When formulating the distribution policy, Lexus absolutely guarantees the profitability of the dealers so that the dealers are fully satisfied so as to provide consumers with the best quality service and let consumers have the best service experience. In terms of advertising, Lexus deliberately placed advertisements in some high-end leisure places, such as outdoor advertisements on golf courses. It can be seen that Lexus has infiltrated the concept of its high-end brand image into each link of product development,

manufacturing, sales, after-sales service, advertising and so on to form a mutual relationship and build a unique value chain of its luxury brand.

3.2 Reaction

Reaction is the speed of market response, which means that enterprises respond quickly to the ever-changing customer demand and quickly meet customer needs. Improving the market's response speed requires luxury companies to proactively approach consumers and shift from a speculative business model to a business model that is highly responsive to demand. Enterprises can establish a business model that is highly responsive to demand mainly through the following points:

3.2.1 The Concept of Luxury Enterprises Should Be Changed

For luxury goods, the cultural heritage of the brand is important but it does not mean that it is immutable. In the face of the new generation of consumer groups emerging in China, luxury goods should pursue the concept of "new, strange and change" to adapt to the changes in consumer demand. For example, the cutting-edge fashion luxury brand "Alexander wang" is on fire with its free, simple, uninhibited and street design style. His shirts and suits are often neat lines and rigid silhouettes, which remind you of architecture and sculpture. His designs make the concept of women cool and handsome more deeply rooted in the hearts of the people. The gender-neutral design concept is increasingly being implemented by major designers. Its design concept and style fully respond to the current women's pursuit of girls power and the concept of "women should not be defined", so Alexander wang has become a new luxury brand sought after by many young people.

3.2.2 The Application of Digitalization and Information Technology Should Be Strengthened in Luxury Goods

Live broadcast mode social media, the construction of physical platform and private domain traffic pool can be used in luxury goods market to realize online digital marketing. Open-screen advertisements placed in the Microblog, Little Red Book and hot search lists, advertisements in the WeChat moments are the most commonly used methods now. The fashion sharing of celebrities and KOLs pushed by big data on Little Red Book is one of the ways of digital marketing of

luxury apparel. At the same time, the digitalization of offline stores must also be matched with the digital transformation of online stores. For luxury brands (such as Balenciaga) with trendy styles and younger positioning, launching digitally-driven brand concept stores is also a good attempt. Nike has established concept flagship stores in New York, Shanghai and other places to create stores that are more in line with consumers' personalities. The products displayed in the store are all the favorite products of local consumers selected based on online sales data. What's more, with the support of new technologies, consumers can achieve self-service and check out without shopping guides. The adoption of the digital concept store model can quickly capture the attention of consumers and improve their shopping experience [7].

3.3 Relationship

Relationship refers to relationship marketing, which is based on the basic idea of system theory, placing the enterprise in the social and economic environment to consider the marketing activities of the enterprise, and the key to seizing the market has been transformed into establishing a long-term and stable relationship with customers. Relationship marketing not only conforms to the consumption characteristics of luxury goods, but also helps luxury goods companies to seize opportunities and take advantage of their advantages.

3.3.1 Internal Relationship Marketing of Luxury Goods Companies

A luxury company with a good internal relationship is the foundation of its success. The establishment of a good internal relationship requires a luxury company to shape a united luxury corporate culture to enhance the core cohesion of the company, pay attention to employees' feelings, cultivate employees' ability and establish appropriate incentive mechanism. In the Global Powers of Luxury Goods 2021 released by Deloitte, Lao Fengxiang ranked 15th in the "Top 100 Largest Luxury Companies in the World" [8], and in the Orient Securities of Sina Finance's interview with Lao Fengxiang, the CEO of Lao Fengxiang pointed out that the key for a company to do well is to have a good mechanism and system, a good leadership team and a good team. On the one hand, the company's 22 operators, more than 30 senior technical staff, chief production workers own the company's equity. The company team is highly motivated. On the other hand, the company has a

good cash distribution system, and has formed an assessment and distribution system with five chief titles including chief designer, chief mechanic and chief salesperson. Under the good mechanism and system, the company has formed a virtuous development cycle. He also pointed out that his company is different from other companies in the broad incentive system rather than a single leader incentive system. Extensive incentive system has achieved its good internal relationship atmosphere and also promoted the success of the enterprise [9].

3.3.2 Luxury Goods Companies Should Build Good Customer Relationship in the Market

To establish a good customer relationship, luxury goods companies need to establish a good communication and feedback mechanism, appropriately implement the customer manager system to provide differentiated services for customers and establish a customer relationship management support system. As the world's top luxury brand, Hermès Group Executive President Patrick Thomas revealed in an exclusive interview with "Business Week", "Hermes' marketing expenses account for about 6% of revenue!" Hermes' usage of marketing expenses is different. Compared to other luxury goods, it minimizes mass media advertising expenses and focuses resources on serving top customers. "Boutique emphasizes one-to-one exclusive service and communication process, unlike mass products, which need to be advertised to millions of consumers. So we would rather invest directly in products, stores, and employees that customers will come into contact with." Thomas said bluntly. Meanwhile, unlike most boutiques that spend their marketing expenses on shows, celebrity endorsements and media advertising, Hermès does not invite celebrity endorsements, but is happy to spend money on annual theme events or silk scarves exhibitions. "We look forward to each store's local perspective and creativity to explain the annual theme, because Hermès never tells the same story, always amaze customers!" Thomas said [10].

3.4 Reward

Reward means that the enterprise achieves enterprise satisfaction on the basis of customer satisfaction, social satisfaction and employee satisfaction by implementing the above marketing ideas to meet customer needs, and finally achieves a win-win situation. The customer satisfaction of

luxury goods companies is mainly to improve the customer's transfer value. The employee satisfaction is mainly to improve material incentives and spiritual acquisition. The corporate satisfaction is mainly to improve the profit rate and the social satisfaction is mainly to increase the welfare of the whole human beings. It can be seen that the 4R theory is a system theory that pays attention to the whole in realizing the reward of luxury goods enterprises.

4. CONCLUSION

The marketing strategy framework of luxury goods based on the 4R theory is an integrated and comprehensive application. Under the guidance of the 4R theory, luxury goods companies actively create demand and meet customer needs. The company and customers are closely connected through cooperation. They establish contact with relevant parties of the company and establish a value chain relationship between supply and demand to form a stable and cooperative relationship and ultimately achieve user returns, supplier returns, and platform cross-border win-win results.

AUTHORS' CONTRIBUTIONS

This paper is independently completed by Yawen Yu.

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