Q1) The positioned players in the luxury goods business are Chanel, Hermes, Prada, and LVMH. Hermes and Chanel focused on increasing buyer's willingness to pay, representing the higher end of luxury products. LVMH and Prada focused on cost leadership, where LVMH created synergies among its brands, controlling its production and distribution while Prada focused on the modern anti-luxury brand. In contrast, Gucci only pivoted its business strategy in the 90s, hence why they are behind compared to its rivals.

Referencing Appendix A, in the late 1980s, Gucci positioned itself as a company focused on low differentiation and low-cost leadership, as evidenced by De Sole initially joining Gucci and firing 150 employees, consolidating operations, and expanding control over its distribution. Secondly, in the same period, Gucci was flooding the market with over 22,000 products at a price structure much higher than the buyers' willingness to pay, due to their cheap design and quality. Unfortunately, this also allowed replicas to enter the market, diminishing brand value.

In 1994, under the leadership of Maurizio Gucci, Gucci was at its lowest point as the company dropped its points of sales to $194 million in 1993 from more than $600 million in the late 1980s. The contributing factors to the poor performance included (1) high prices compared to the buyers' WTP, (2) disorganized production, and (3) delays in product delivery. As a result, Gucci had low-cost leadership and differentiation similar to the late 1980s. However, comparatively, the company outlook was significantly worse in 1994 (See Appendix B).

By 2000 the company's image and strategy had changed under the vision of De Sole and Tom Ford. From a cost leadership standpoint, the company incorporated professional management, financial controls, and cost controls. Secondly, Gucci upgraded its production and delivery systems and refreshed its product designs all of which increased its cost leadership position. Finally, De Sole improved product delivery timeframes, relationships with suppliers, and the network of operated stores. From a buyer’s willingness to pay perspective, the company changed its customer segment from the wealthy and conservative to the modern and urban consumer by reducing its pricing by 30% on certain products; this expanded its economic value creation. Additionally, Gucci added benefits for their employees, increasing buyers' willingness to pay through more robust customer service [1]. The company also focused on utilizing customer data for advertising and increasing its marketing budget. Overall, this allowed the company to gain both a high-cost leader and a differentiation strategy (see Appendix C).

Q2) Leading up to 1994, Gucci’s difficulties in creating and capturing value were rooted in lack of executive alignment and phased implementation. These gaps resulted in Gucci’s sharp decline in sales during repositioning. De Sole focused on cost control and brand repositioning. However he made quick, major changes to Gucci’s distribution network such as closing almost half of their stores, and downsizing the remaining ones [1]. Before implementing these changes, De Sole did not align with Maurizio Gucci and other executives on a phased approach, which would have provided time for their customer base to accommodate the changes. Therefore, Gucci lost sales and customer loyalty, reducing their ability to create and capture value.

Gucci did not have proper business analytics. Without these reporting procedures, there was confusion, disorganization, and foundational inefficiencies in Gucci’s supply chain and operations [1]. Gucci was not making informed decisions on purchasing materials and pricing their products, leading to poor cost structure and reducing their ability to create and capture value. Additionally, Maurizio Gucci was too focused on product development and image creation. Combined with poor cost structure, Gucci couldn’t effectively price their products, so prices exceeded the buyers’ willingness to pay, reducing their ability to create and capture value.

Finally, we must consider that during this period, from a sales perspective the luxury goods industry was hurting due to the Gulf War and a U.S. recession [1]. However, these events did not factor into Gucci's business strategy. For example, Dawn Mello began developing new products and a luxurious, highly-priced image for Gucci while De Sole began shutting down stores without enough planning and constraint [1]. Consequently, Gucci's strategy was not aligned with customer demand during a recession, therefore reducing their ability to sustain value creation and capture in favor of their lower-priced competitors, such as Ralph Lauren.

Q3) De Sole transitions away from traditional family-oriented operations to international corporate management. The reorganization changed the value chain both in primary and support activities (see Appendix D). De Sole started with consolidation of operations, product lines, brand management, manufacturing, distribution, points of sale and quality control. The focus was to stabilize product availability and partnerships with manufacturers. Further refinement of the human resources pivoted towards retail and sales generation that improved the buyers' value of the brand. Lastly, he offered stock to employees, who became motivated to further drive business goals [1-2]. These activities directly improved key cost drivers in the value chain, leading to increased revenue and profitability.

De Sole also improved the brand's value chain value through the market tiering. The Gucci brand maintained a level of prestige and shortened its offerings. At the same time they launched "ready to wear" for a younger generation, broadening its image, further enhanced by significant marketing spend, resulting in increased buyer willingness to pay. Furthermore, the acquisition of YSL allowed Gucci to capture an audience at a lower economic tier without diluting Gucci's value. Lastly, diversification into accessories created market opportunities that complemented existing products.

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Appendix A - Map of Competitive Positions of Different Players in the Luxury Goods Business in late 1980s.

		Differentiation	
		Low	**High**
Cost Leadership	**High**	Prada, LVMH, Ferragamo, YSL, Sergio Rossi	
	Low	Gucci	Hermes, Tiffany, Vendome, Cartier, Vacheron, Constantin, Mont Blanc, Chanel, Bulgari, Versace

Appendix B - Map of Competitive Positions of Different Players in the Luxury Goods Business in 1994.

		Differentiation	
		Low	**High**
Cost Leadership	**High**	Prada, LVMH, Ferragamo, YSL, Sergio Rossi	
	Low	Gucci	Hermes, Tiffany, Vendome, Cartier, Vacheron, Constantin, Mont Blanc, Chanel, Bulgari, Versace

Appendix C - Map of Competitive Positions of Different Players in the Luxury Goods Business in 2000.

		Differentiation	
		Low	**High**
Cost Leadership	**High**	Prada, LVMH, YSL, Sergio Rossi, Ferragamo	Gucci
	Low		Hermes, Tiffany, Vendome, Cartier, Vacheron, Constantin, Mont Blanc, Chanel, Bulgari, Versace

Appendix D - Gucci's Value Chain: De Sole's Changes