

The Luxury of Scarcity and Craftsmanship as a Competitive Strategy

The Hermès Case

Executive Summary · Giuliano Cerullo · Supervisor: Prof. Luca Pirolo · Academic Year 2024/2025

The full thesis (70 pages) is written in Italian; this summary presents its aims, method and main findings in English.

Research question

Luxury brands break the usual rules of marketing: instead of maximising volumes, they protect value by limiting supply, controlling distribution and refusing discounts. The thesis studies how **scarcity** and **craftsmanship** work together as a competitive strategy, using Hermès as the reference case. It addresses three questions: (i) which operational and narrative levers turn scarcity from a constraint into a competitive advantage; (ii) how craftsmanship can be scaled without losing its authenticity; and (iii) how controlled scarcity is applied in industries beyond fashion, and how the approaches differ.

Method

The work follows a comparative and interpretive approach. The theoretical framework draws on luxury brand management (Kapferer & Bastien), the resource-based view, commodity theory and the economics of conspicuous consumption (Veblen), complemented by industry reports (BCG–Altagamma, Bain–Altagamma), company filings and specialised press. The Hermès case is rebuilt from the group's annual results for 2015–2024. The aim is a systematic reading of the strategic mechanisms, not a quantitative causal test.

1. Theoretical foundations

- **Exclusivity over positioning.** A luxury brand seeks to be unique rather than compared on price and quality; it must be widely known but hard to obtain (the “dream equation”).
- **Two kinds of scarcity.** *Natural* scarcity comes from rare materials and slow manual work; *controlled* scarcity is a deliberate choice (limited editions, waiting lists, selective distribution). The strongest brands combine the two, so that limited supply looks credible.
- **Craftsmanship as a rare asset.** Manual know-how is slow to build and hard to copy, acting as a barrier to entry and a signal of authenticity: 89% of top-tier luxury clients cite craftsmanship and quality as the main drivers of value (BCG–Altagamma, 2025).
- **Symbolic value and status.** Luxury goods signal belonging and distinction; the shift from logomania to “quiet luxury” shows how brands tune these signals for different audiences.

2. The Hermès case: four reinforcing levers

- **Artisanal production.** Most leather goods are made entirely by one artisan in French workshops: a Birkin or Kelly takes 15–25 hours of work, and artisans train for 2 to 5 years before signing a bag. The workforce grows slowly (about 200 new artisans per year, 7,000+ in total), so supply cannot be accelerated.
- **Scarcity and the purchase ritual.** Iconic bags are not freely available: access is managed through client wishlists and sales associates’ discretion, turning the purchase into a reward for loyalty (the so-called “Hermès game”).
- **Control of channels and prices.** Around 300 stores, over 200 directly operated; slow expansion in China; no marketplaces and iconic products kept offline; no sales, and steady annual price increases.
- **Long-term governance.** Family control, secured through the H51 holding after LVMH’s 2010 stake building, and rare, highly selective collaborations (Apple Watch Hermès, Bugatti Chiron) keep the strategy consistent over time.

3. Financial performance

The strategy translates into best-in-class results. In 2024 Hermès generated **€15.2bn of revenue** (+15% at constant exchange rates), a gross margin above 70% and a recurring operating margin of **40.5%**, after a record 42.1% in 2023, almost double LVMH (~26%) and Kering (~24%). The model also proved resilient: margin held at 31% during the 2020 crisis and organic growth reached about 20% a year in 2022–2023. Scarcity does not cap growth; it creates excess demand that the group absorbs gradually by opening new workshops (one per year through 2028).

4. Controlled scarcity in other industries

Industry	Example	How scarcity works	Nature of the effect
Streetwear	Supreme, Nike SNKRS	Weekly drops in tiny quantities and short time windows; value largely captured by resellers	Performative, short-lived hype
Automotive	Ferrari	“One car less than the market demands”; limited series allocated to loyal clients; order book full to 2026	Structural and relational
Consumer tech	Apple, NVIDIA, PlayStation 5	Launch shortages from production limits, amplified as marketing	Cyclical, fades as supply normalises
Watchmaking	Rolex, Patek Philippe, Audemars Piguet	Volumes below demand and multi-year waiting lists, justified by manual production	Presented as a by-product of quality

5. Limits and risks

Scarcity is not a free lever. When every brand uses limited editions, consumers grow tired of them (“scarcity fatigue”); products that feel impossible to obtain can turn admiration into frustration; and scarcity perceived as artificial damages trust, as shown by Rolex’s 2021 public statement denying a deliberate strategy. Above all, scarcity does not scale linearly: Supreme’s expansion after the VF Corporation acquisition eroded its exclusivity, until the brand was sold to EssilorLuxottica.

Conclusions

- **Scarcity becomes an advantage** when it is institutionalised across the whole value chain, so that every touchpoint, from production to the purchase ritual, confirms exclusivity.
- **Craftsmanship scales by replication, not industrialisation:** training new artisans and opening workshops, while accepting a natural ceiling on volumes.
- **The principle travels across industries** (supply kept below demand), but its duration and legitimacy differ: permanent in luxury and watchmaking, relational in automotive, episodic in streetwear, cyclical in tech.

Limits and next steps: the analysis is qualitative and centred on a successful case, which exposes it to survivorship bias. Future research could quantify the effect of scarcity on prices, waiting times and resale premiums, and test how fair clients perceive discretionary allocation.