

LUISS

Department of Business and Management

**Scarcity as Strategy: Pricing Power and Resilience in Luxury
During Demand Slowdowns — Evidence from Hermès and
LVMH**

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ABSTRACT

This thesis examines whether scarcity-based competitive systems generate stronger pricing power and greater resilience than scale-based systems in the luxury industry during demand slowdowns. It is motivated by a central strategic tension in luxury: firms must grow, yet excessive expansion can weaken the exclusivity, rarity, and symbolic distance that sustain premium willingness to pay, a tension made especially visible during the post-Covid normalization of 2024–2025.

Building on the Resource-Based View, brand equity theory, signaling theory, and corporate strategy, the thesis conceptualizes scarcity not merely as limited availability, but as a mechanism of strategic asset governance. Scarcity-oriented firms preserve value through controlled access, supply discipline, and protection of symbolic capital, whereas scale-oriented firms rely more heavily on portfolio breadth, geographic reach, retail expansion, and organizational scope. Hermès and LVMH are used as polar archetypes of these two logics, while a broader panel of eight listed luxury firms provides the empirical basis for the analysis.

The study adopts a quantitative firm-level panel design covering the 2010–2024 period, using consolidated financial data from Orbis and company reports. Operating margin is used as the main proxy for pricing power, while inventory intensity is used as an observable proxy for supply discipline. The empirical analysis includes descriptive comparisons, correlation analysis, baseline OLS regressions, and robustness checks.

The findings show a strong and consistent negative relationship between inventory intensity and profitability. Firms with lower inventory intensity tend to exhibit higher operating margins, and this result remains robust across alternative profitability measures, alternative inventory ratios, and restricted samples. The evidence for resilience is directionally supportive but more cautious, while the relationship with growth is mixed and strongly influenced by common cycle effects. Overall, the thesis finds that scarcity-related discipline is most clearly associated with pricing power rather than with superior performance across every dimension.

The contribution of the thesis is therefore twofold. Theoretically, it reframes scarcity as an economic and strategic mechanism through which luxury firms protect intangible assets and sustain willingness to pay. Empirically, it shows that disciplined scarcity has measurable performance implications in the luxury sector. The central conclusion is that, during demand normalization, the ability to remain rare is not a constraint on luxury strategy, but a key condition for preserving profitability and long-term competitive advantage.

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1. INDUSTRY CONTEXT AND STRATEGIC TENSION IN LUXURY

1.1 Economic Foundations of Luxury

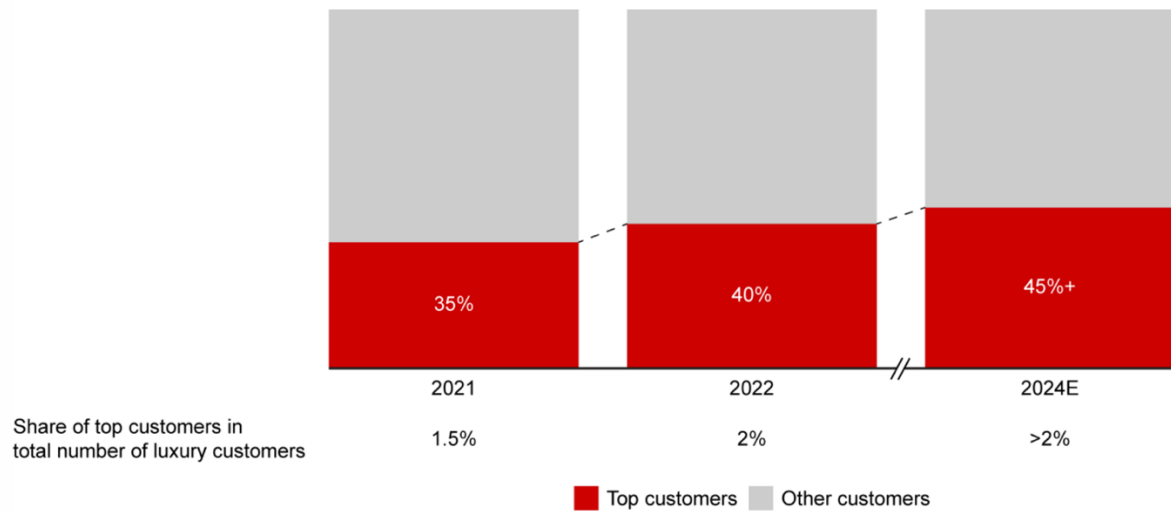
Luxury goods differ from standard consumer goods because their value is not reducible to functional utility alone. In luxury markets, consumption also carries social and symbolic meaning, so that consumers purchase not only product attributes, but also distinction, prestige, and identity. A foundational reference is Veblen's concept of conspicuous consumption, according to which individuals may buy expensive goods in part to signal wealth and social position. In this setting, price is not merely a monetary sacrifice; it can also function as a socially meaningful signal of exclusivity.

This logic is closely related to the economics of positional goods. When utility depends partly on relative social ranking rather than absolute consumption, restricted access becomes central to value creation. Scarcity, whether arising from genuine production constraints or maintained strategically through controlled supply and distribution, helps preserve the social distance that gives luxury goods their symbolic value. For this reason, luxury demand may deviate from the standard downward-sloping logic assumed in conventional consumer markets. In some segments, higher prices do not simply ration demand; they also reinforce desirability by strengthening perceptions of rarity and prestige.

However, luxury demand is not uniformly price-insensitive. The industry is internally segmented, and this segmentation has major strategic implications. At the upper end, very high-spending clients typically face weaker budget constraints and may interpret repeated price increases as confirmation of exclusivity. By contrast, aspirational consumers are more exposed to macroeconomic uncertainty and to the cumulative effects of sustained price elevation. As a result, identical pricing decisions can generate very different demand responses across customer groups. Firms more dependent on aspirational demand may expand faster during favorable market conditions, but they may also become more vulnerable when confidence weakens or when price increases begin to outpace perceived value.

Recent market evidence is consistent with this pattern. The spending contribution of top customers increased materially between 2021 and 2024, despite the fact that these clients represent only a very small share of the overall customer base. This indicates that the luxury market has become increasingly concentrated in a narrow segment of high-spending consumers.

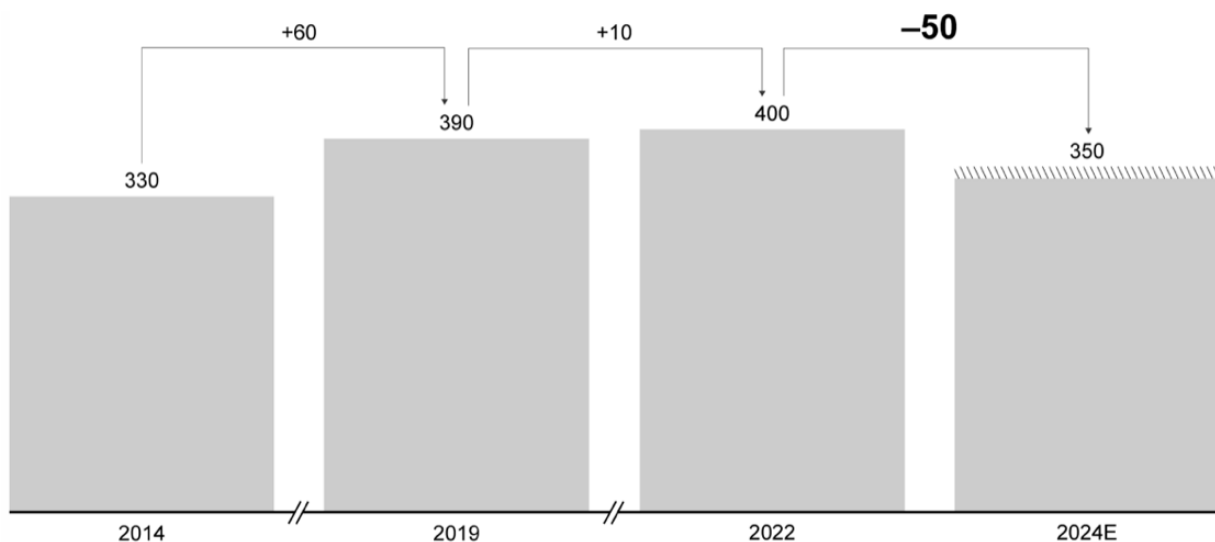
Figure 1. Increasing Share of Top Customers in Total Luxury Spending (2021–2024E)



Source. E indicates estimated value. Top customers are defined as individuals spending more than €20,000 per year with a luxury brand. Data from Bain & Company (2024).

This concentration becomes even more significant when considered alongside the contraction of the overall luxury customer base. While spending became more concentrated among top clients, the total number of personal luxury goods customers declined during the same period, indicating that recent market normalization has disproportionately affected the aspirational layer of demand rather than the very top end of the market.

Figure 2. Personal Luxury Goods Customer Base (2014–2024E, Millions of Customers)



Source. E indicates estimated value. Data from Bain & Company (2024).

Taken together, Figures 1 and 2 illustrate an important structural shift in the luxury market. Demand has not disappeared, but it has become more selective and more concentrated. This pattern is strategically important because it suggests that firms relying more heavily on broad aspirational

demand may face greater pressure during periods of slowdown, whereas firms anchored more strongly in high-end clientele may prove relatively more resilient.

Luxury's economic distinctiveness is also grounded in intangible assets. Brand heritage, craftsmanship, aesthetic coherence, symbolic codes, and reputational capital function as strategic resources because they sustain willingness to pay and reduce substitutability. From a resource-based perspective, these assets are valuable not only because they are scarce, but because they are difficult to imitate credibly. Their economic power depends on cumulative history, embedded routines, artisanal know-how, and social legitimacy. In luxury, firms therefore compete less through cost efficiency than through the preservation and monetization of symbolic differentiation.

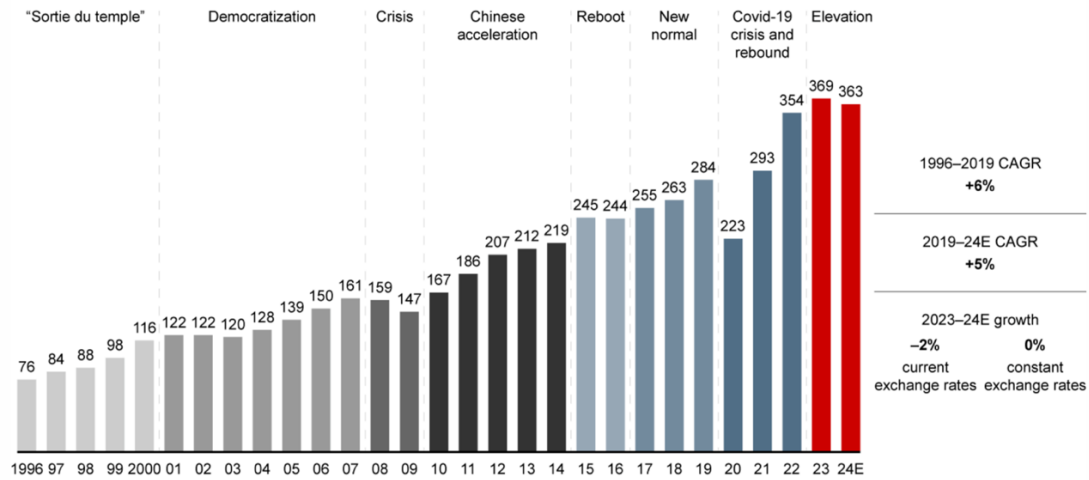
This has a direct strategic implication. Growth in luxury is inherently delicate. Expansion can increase revenue, but it can also dilute the exclusivity on which premium pricing depends. The central economic problem is therefore not whether firms should grow, but how they can do so without weakening the rarity and symbolic credibility that sustain long-run pricing power. This tension becomes especially visible when market conditions soften, because firms that relied more heavily on broad access or aspirational demand may discover that top-line expansion was easier to achieve than price integrity is to defend.

These dynamics culminate in a structural paradox: luxury firms require growth, yet growth, when pursued through expanded access, broader distribution, or excessive volume orientation, can weaken the very mechanisms that sustain long-run profitability.

1.2 Industry Structure and Competitive Configuration

The relevant segment for this thesis is personal luxury goods, including leather goods, apparel, watches, jewelry, beauty, shoes, and eyewear. According to the Bain–Altagamma market series, this segment expanded from approximately €167 billion in 2010 to €284 billion in 2019, contracted to €223 billion in 2020, and then rebounded to €369 billion in 2023 before moderating to an estimated €363 billion in 2024. The long-term trajectory therefore points to strong structural growth, but also to significant cyclical sensitivity.

Figure 3. Global Personal Luxury Goods Market (1996–2024E, € Billions)



Source. E indicates estimated value. Some historical data restated in line with the incorporation of additional brands in the 2024 market definition. Data from Bain & Company (2024).

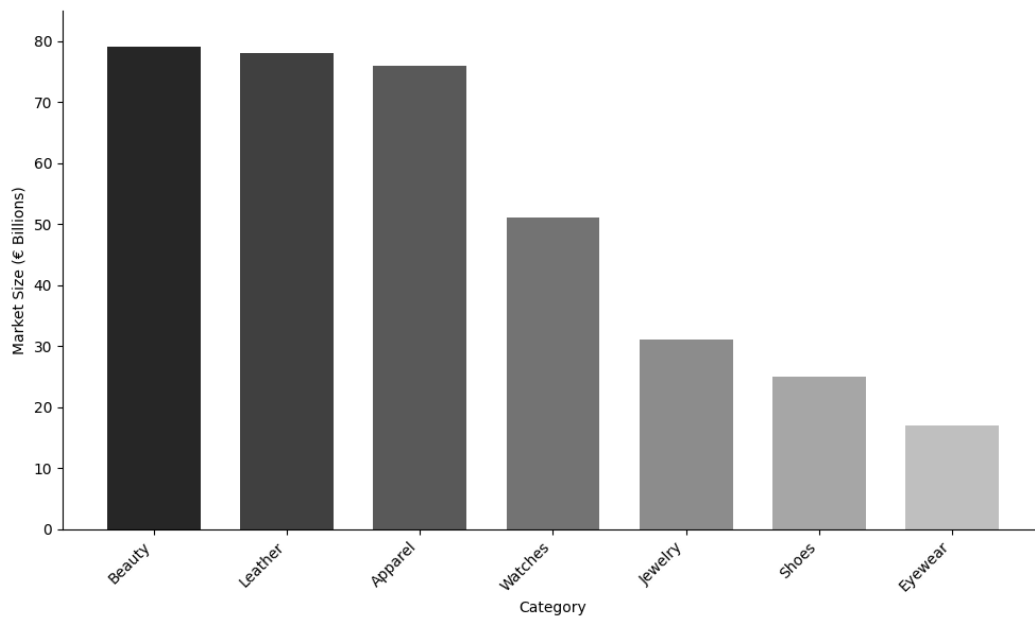
Figure 3 shows that luxury is not a stable premium niche insulated from economic fluctuations. Rather, it is a structurally attractive market whose growth remains exposed to macroeconomic shocks, tourism flows, regional demand swings, and shifts in consumer confidence. This point is central to the argument of the thesis: because the sector combines high margins with cyclical exposure, differences in strategic configuration become particularly visible during periods of demand normalization.

Yet market growth alone does not explain competitive outcomes. The luxury industry combines favorable structural conditions with substantial firm-level heterogeneity. Barriers to entry are high, but not simply because production is expensive. New entrants can produce premium goods, yet they cannot easily replicate heritage, cultural legitimacy, symbolic authority, or global desirability. Luxury competition is therefore not based primarily on conventional price rivalry, but on competition over prestige, scarcity, desirability, selective access, and brand legitimacy.

The industry is also highly concentrated at the corporate level. In 2024, LVMH reported approximately €84.7 billion in revenue, Hermès €15.17 billion, Kering €17.194 billion, and Richemont €21.4 billion. However, concentration does not imply uniformity. These firms differ materially in portfolio breadth, governance structure, category mix, geographic exposure, and growth model. In other words, they operate within the same broad industry, but not according to the same economic logic.

Category structure further shapes competitive performance. The composition of the personal luxury goods market matters because different categories exhibit different demand dynamics, symbolic functions, inventory patterns, and margin profiles.

Figure 4. Category Breakdown of Personal Luxury Goods (2024E, € Billions)



Source. Market size estimates for 2024E. Data from Bain & Company and Fondazione Altagamma (2024), cross-category dynamics snapshot.

As Figure 4 indicates, beauty, leather goods, and apparel account for the largest shares of the market, followed by watches and jewelry. These categories do not generate identical economics. Leather goods often play a central role in brand identity, repeat purchasing, and margin support, whereas watches and jewelry may be more exposed to discrete-ticket cyclicality, inventory normalization, and regional concentration. Category mix therefore affects not only revenue composition, but also volatility, profitability, and the degree to which firms can preserve sell-through discipline during weaker demand conditions.

Geographic configuration is equally important. Luxury demand is global, but unevenly distributed across regions. Company disclosures indicate that both LVMH and Hermès remain significantly exposed to Asia-Pacific, while Europe is closely linked to tourism flows and the United States has recently shown clearer segmentation between resilient high-end demand and softer aspirational spending. Consequently, a sector-wide slowdown does not affect all firms equally. The same normalization phase can generate different outcomes depending on regional exposure, customer mix, and category composition.

The luxury industry should therefore be understood as structurally attractive but strategically uneven. Industry conditions create the possibility of premium returns, yet sustained performance depends on how firms govern the trade-off between growth and exclusivity. This trade-off becomes particularly salient in the post-pandemic period.

1.3 The Post-Covid Boom (2021–2023) and the 2024–2025 Normalization

Following the contraction of 2020, the luxury market experienced an unusually strong rebound. Demand recovered rapidly as mobility restrictions eased, social consumption resumed, and high-income consumers benefited from favorable wealth effects. The rebound was often described as “revenge spending,” but that label is insufficient on its own. The boom was not driven purely by volume recovery. It was also characterized by repeated price increases, upward product mix shifts, and exceptionally favorable conditions for premiumization.

This distinction is analytically important. The years 2021–2023 should not be interpreted simply as evidence that luxury demand is structurally inexhaustible. Rather, they represent a period in which brands were able to elevate price and mix under highly supportive market conditions. By 2024, those conditions had weakened. The market did not collapse, but it normalized. According to the figures reported in this chapter, the sector softened from €369 billion in 2023 to around €363 billion in 2024 and was expected to remain broadly flat in 2025 at constant exchange rates. What changed, therefore, was not the existence of luxury demand, but the breadth, quality, and ease of demand absorption.

This normalization exposed differences that boom conditions had partly obscured. China weakened, Europe remained partially supported by tourism and exchange-rate effects, and the United States displayed more visible segmentation between resilient top-end spending and softer aspirational demand. Recent performance is therefore better interpreted as a phase of divergence than of uniform contraction. Firms with different customer structures, inventory profiles, and growth logics were not equally well positioned for this environment.

The contrast between Hermès and LVMH captures this divergence especially clearly. Although LVMH remained far larger in absolute scale, Hermès entered the normalization phase with stronger revenue growth and substantially higher recurring operating profitability.

Table 1. Comparative Financial Snapshot of Hermès, LVMH, and the April 2025 Market-Capitalization Crossover

Variable	Hermès (2024)	LVMH (2024)	Market-Cap Crossover Event (April 2025)
Revenue (€ billions)	€15.2 bn	€84.7 bn	Hermès briefly surpassed LVMH in market-capitalization
Revenue growth (2024 vs 2023)	+15% (approx.)	−2% (approx.)	2025-04-01
Recurring operating margin (%)	40.5%	23.1% (profit from recurring operations)	Hermès ≈ €243 bn; LVMH ≈ €241 bn (approx., Reuters April 2025)
Investor signal	High margin stability despite slowdown	Revenue miss triggered share-price decline	Demonstrates valuation sensitivity to growth deceleration

Source. Hermès financial data are based on Hermès 2024 annual results. LVMH data are based on LVMH 2024 annual results. The market-capitalization crossover refers to the April 2025 episode in which Hermès briefly overtook LVMH in market value, as reported by Reuters. Market-cap figures are approximate and are included here for interpretive rather than valuation purposes.

Table 1 should not be interpreted as evidence that one model universally dominates the other. Rather, it illustrates how the 2024–2025 normalization made differences in growth quality, profitability, and perceived resilience more visible to investors. The temporary market-capitalization crossover between Hermès and LVMH is therefore used here as an interpretive signal, not as a valuation test. Its relevance lies in showing that, under conditions of demand deceleration, investors became more sensitive to the durability of margins and the credibility of growth.

1.4 The Strategic Tension: Scale vs Scarcity

The core strategic issue in this thesis is the tension between two broad competitive configurations: one oriented primarily toward scale and breadth, the other toward scarcity and controlled access.

A scale-based competitive system seeks growth through portfolio breadth, geographic reach, retail expansion, and active capital allocation across multiple brands and categories. Its advantages lie in diversification, organizational reach, resource deployment, and the capacity to capture growth across a broad opportunity set. A group built on this logic can absorb shocks more effectively across regions and categories, invest heavily in retail and brand development, and exploit synergies unavailable to more focused firms.

A scarcity-based competitive system, by contrast, seeks to preserve willingness to pay through tighter control of supply, selective distribution, restricted access, and stronger protection of symbolic capital. Its advantages lie in price integrity, lower markdown dependence, and tighter governance of brand diffusion. In this configuration, growth is managed more cautiously because excessive expansion can weaken the social and symbolic conditions that support premium pricing.

The distinction should be treated as one of dominant strategic logic rather than absolute categorization. Scale is not inherently incompatible with luxury, and scarcity is not simply artificial restriction. Both can support competitive advantage, but they do so through different mechanisms and accept different trade-offs. A scarcity-based system may relinquish part of short-run growth potential in exchange for stronger protection of exclusivity and margins. A scale-based system may secure faster expansion, portfolio diversification, and broader market coverage, but it also faces greater complexity and greater risk that growth loosens the discipline required to sustain rarity and sell-through quality.

This trade-off is central because it links the industry context to the empirical design developed later in the thesis. If scarcity contributes to pricing power by preserving rarity, controlling stock, and

limiting dilution, then firms organized around tighter discipline should display stronger profitability and potentially greater resilience during demand normalization. If scale contributes primarily through breadth, diversification, and capital allocation, then scale-based firms may retain important strengths, but those strengths do not automatically imply superior margin protection when demand weakens.

The strategic problem is therefore not whether scarcity or scale is universally superior. It is whether, under the specific conditions of a luxury slowdown, scarcity-oriented discipline is more strongly associated with pricing power and resilience than scale-oriented breadth.

1.5 Hermès and LVMH as Polar Competitive Archetypes

Hermès and LVMH provide the clearest empirical contrast through which to examine this problem. They operate within the same broad industry, yet embody markedly different strategic configurations.

Hermès is a more focused luxury house whose operating model is closely associated with controlled growth, craft-based production discipline, and selective access. As reported in the chapter, it operated 293 stores across 45 countries in 2024, continued to expand through new workshops, and generated €15.17 billion in revenue with a recurring operating margin of 40.5%. This combination of relatively contained scale and exceptionally high profitability is consistent with a model in which exclusivity, supply discipline, and brand control are tightly linked.

LVMH represents a different logic. It is a diversified luxury conglomerate with 75 maisons, 6,307 stores, and €84.683 billion in 2024 revenue, with an operating margin of 23.1%. Its structure reflects the economics of scale, scope, and portfolio management. It benefits from vast organizational resources, category breadth, and geographic reach, while also relying heavily on flagship high-margin divisions such as Fashion & Leather Goods. LVMH is therefore not simply “less exclusive”; it is strategically broader, more diversified, and organizationally more complex.

For analytical purposes, the comparison is useful precisely because the two firms are not identical except for size. They represent different ways of organizing advantage in luxury. Hermès appears more strongly aligned with scarcity-oriented discipline, whereas LVMH appears more strongly aligned with scale-based breadth. The thesis also notes that inventory intensity differs between them, with Hermès reporting lower inventory-to-sales than LVMH, while acknowledging that category mix partly affects such comparisons. That qualification is important. Inventory measures do not capture scarcity in full, but they do offer a tractable empirical proxy for differences in stock discipline and operating configuration.

These firms should therefore be treated as polar archetypes, not as pure theoretical opposites. Hermès also grows, invests, and internationalizes; LVMH also protects exclusivity within key maisons and

categories. The point is not that one firm embodies “pure scarcity” and the other “pure scale,” but that each is dominated by a different strategic logic. This makes their contrast especially useful for the thesis.

Taken together, the industry dynamics outlined above create a natural setting in which to investigate the central question of the thesis: whether firms organized around tighter scarcity-related discipline are better able than broader scale-oriented firms to sustain pricing power and margin resilience during a period of demand normalization. Chapter 2 develops the theoretical basis for that question more formally by linking luxury competition to the literature on competitive advantage, scarcity, scale-based systems, and resilience under uncertainty.

2. THEORETICAL FRAMEWORK AND LITERATURE REVIEW

2.1 Competitive Advantage in Luxury Industries

Strategic management literature explains persistent performance differences across firms through two broad analytical lenses. The first emphasizes industry structure and strategic positioning, arguing that superior performance depends on occupying attractive positions within an industry and defending them effectively against competitive pressures (Porter, 1980, 1985). The second, associated with the Resource-Based View (RBV), explains heterogeneity in firm performance through firm-specific resources and capabilities that are valuable, rare, difficult to imitate, and non-substitutable (Wernerfelt, 1984; Barney, 1991). In luxury industries, both perspectives are relevant. Industry conditions clearly shape the overall attractiveness of the sector, yet they do not fully explain why firms operating within the same favorable context generate markedly different levels of profitability, pricing power, and resilience. For that reason, the present thesis places particular emphasis on the internal organization, protection, and monetization of strategic assets.

This emphasis is especially appropriate in luxury industries, where competitive advantage depends less on cost efficiency than on the preservation of intangible value. Luxury firms compete through heritage, craftsmanship, aesthetic coherence, symbolic legitimacy, and reputational capital. These assets are economically significant because they support premium willingness to pay and reduce substitutability. Their strategic value lies not only in their scarcity, but also in their credibility. Luxury brands derive advantage from resources that are cumulative, socially embedded, and historically constructed; they cannot be recreated simply by replicating product features or increasing advertising expenditure. In this sense, luxury competition is shaped by differences in symbolic capital as much as by differences in product characteristics.

Brand equity theory reinforces this interpretation. Strong brands create stable and favorable consumer associations, reduce substitutability, and support willingness to pay beyond functional utility (Aaker, 1991; Keller, 1993). In the luxury context, this mechanism is amplified because consumers purchase not only product performance, but also prestige, identity, and social distinction. Brand equity is therefore not merely a marketing outcome; it is a strategic asset with direct implications for profitability, price integrity, and resistance to commoditization. The economic value of a luxury firm depends heavily on its ability to preserve the symbolic premium attached to the brand.

However, a purely static RBV interpretation is insufficient for the purposes of this thesis. Possessing valuable intangible assets does not automatically generate sustained competitive advantage if those assets are poorly governed. In luxury markets, the strategic issue is not only resource ownership, but also resource protection. Symbolic assets are unusually vulnerable to erosion because their value

depends on socially recognized exclusivity. A firm may possess heritage and prestige, yet still weaken its own advantage if it expands too aggressively, distributes too broadly, or allows the brand to become excessively accessible. Accordingly, competitive advantage in luxury depends not only on owning prestigious resources, but also on governing them in ways that preserve their scarcity value over time.

This argument aligns with the literature on isolating mechanisms. Rumelt (1984) argues that long-run profit differentials persist when firms are able to prevent imitation, dissipation, or devaluation of the assets on which their advantage depends. In luxury, the relevant isolating mechanisms are not limited to know-how, design, or proprietary codes. They also include the preservation of rarity, prestige, symbolic distance, and selective access. These are not merely communicative or aesthetic features of the brand; they are part of the economic architecture that sustains willingness to pay. Luxury advantage therefore depends on more than differentiation in a generic sense. It depends on the disciplined preservation of socially recognized exclusivity.

At the same time, broader research on performance heterogeneity shows that firms operating within the same industry may still perform very differently because of both firm-specific and corporate-level influences (McGahan & Porter, 1997). This point is particularly relevant in luxury, where some firms operate as focused houses while others belong to diversified conglomerates characterized by greater scope, broader portfolios, and different organizational capabilities. A satisfactory theoretical framework must therefore go beyond the simple claim that “strong brands outperform.” It must explain how alternative strategic systems govern luxury-specific assets and how those systems may perform differently when market conditions deteriorate.

For this reason, the present thesis combines insights from RBV, brand equity theory, signaling theory, and corporate strategy rather than treating any one of them as sufficient on its own. RBV explains why intangible assets matter; brand equity theory clarifies how symbolic differentiation supports willingness to pay; signaling theory explains why exclusivity and price can reinforce value; and corporate strategy explains how breadth, diversification, and internal capital allocation may also generate advantage. The core theoretical problem addressed in this chapter emerges precisely from the tension between these logics: whether competitive advantage in luxury slowdowns is better protected by scarcity-oriented discipline or by scale-oriented breadth.

2.2 Scarcity as a Strategic Mechanism

In standard economics, scarcity refers to the condition of limited resources relative to demand. In luxury strategy, however, scarcity should not be understood only as an exogenous constraint. It can also function as a deliberate strategic mechanism through which firms preserve exclusivity, protect

symbolic assets, and sustain premium willingness to pay. This distinction is essential. Scarcity in luxury is not economically relevant merely because some products are difficult to produce; it is relevant because limited access itself may be value-enhancing.

The theoretical roots of this argument lie in the literature on conspicuous and status consumption. Veblen (1899) famously argued that certain goods derive value from visible expensiveness because they help signal wealth and social position. Bagwell and Bernheim (1996) later formalized this intuition by showing that when consumption generates status utility, consumers value not only the object itself but also the social signal associated with ownership. Under these conditions, scarcity strengthens the credibility of exclusivity. If too many consumers can acquire the same product too easily, its signaling value may weaken. Scarcity therefore supports luxury value not by reducing utility, but by preserving the symbolic meaning for which consumers are willing to pay.

Luxury branding literature reaches a closely related conclusion from a managerial standpoint. Kapferer and Bastien (2012) argue that luxury brands cannot be governed according to the logic of mass-market abundance because excessive accessibility can erode prestige, dream value, and symbolic distinction. Kapferer (2015) similarly emphasizes that luxury growth must be carefully managed if rarity is to be preserved. Scarcity should therefore not be understood only as a by-product of artisanal limits; it is also a strategic choice concerning how far a brand is allowed to diffuse across products, channels, and customer segments.

This interpretation adds a more precise strategic dimension to the literature. In the present thesis, scarcity is treated neither as a purely demand-side phenomenon nor as a simple production constraint. Rather, it is understood as a mechanism of strategic asset governance. If heritage, prestige, and symbolic legitimacy are valuable resources, scarcity helps preserve the appropriability of those resources by limiting the conditions under which they can be diluted. This sharpens the RBV logic rather than merely restating it. The relevant question is not only whether resources are rare, but whether the firm organizes its operations in a way that keeps them rare in economically meaningful terms.

At the organizational level, scarcity commonly appears in three forms. First, firms may constrain production growth, either because output is tied to artisanal capacity or because management deliberately limits expansion. Second, firms may control distribution through selective retail systems and limited exposure to broad wholesale channels. Third, firms may regulate access through high prices, waiting lists, allocation practices, limited editions, or other mechanisms that restrict availability. These forms differ operationally, but they serve a common strategic function: they reduce overexposure and help preserve the credibility of exclusivity.

Scarcity also has an intertemporal dimension that is central to this thesis. A firm that expands more cautiously may sacrifice some short-run revenue, but it may also reduce future markdown pressure, inventory overhang, and brand dilution. In this sense, scarcity is relevant not only to signaling and prestige, but also to resilience. Tighter supply discipline may enable a firm to defend profitability when demand weakens because it is less exposed to forced sell-through, channel pressure, and the need to support volume at the expense of price integrity.

This does not imply that scarcity should be romanticized. Scarcity is not automatically a superior strategy. It may slow growth, limit scale economies, and reduce the firm's ability to exploit periods of exceptionally strong demand. It can also be mismanaged. Scarcity that appears artificial without being credible may alienate consumers rather than intensify desire. Its strategic value therefore lies not in restriction for its own sake, but in the disciplined alignment of controlled access with brand legitimacy and demand quality.

The conceptual implication is therefore straightforward but important. Scarcity should not be reduced to a branding trope or an aesthetic of rarity. It is a strategic choice concerning the governance of access, supply, and brand diffusion. Its relevance to competitive strategy lies in the proposition that disciplined scarcity may help convert symbolic differentiation into more durable pricing power and stronger protection against margin erosion during periods of demand slowdown.

2.3 Scale-Based Competitive Systems

In contrast to scarcity-oriented systems, scale-based competitive systems seek advantage through breadth, diversification, and organizational reach. The relevant theoretical logic here comes primarily from corporate strategy. Diversified firms may create value through economies of scope, internal capital allocation, shared infrastructure, cross-business learning, and the transfer of capabilities across units (Chandler, 1990; Goold, Campbell, & Alexander, 1994). In such systems, competitive advantage arises not from preserving narrow exclusivity alone, but from coordinating and leveraging a broader asset base.

In luxury industries, scale can take several forms. A group may manage multiple brands across categories, maintain a broad geographic footprint, operate extensive retail networks, and support those activities through centralized functions and significant financial resources. Such scale can create genuine strategic benefits. Portfolio diversification may reduce dependence on any single brand, category, or region. Larger organizations may invest more heavily in brand building, digital infrastructure, talent acquisition, retail real estate, and selective vertical integration. They may also be better able to absorb volatility because weakness in one business can be offset by strength in another.

This logic is consistent with the concept of parenting advantage. Goold et al. (1994) argue that a multi-business parent can create value not merely by owning attractive assets, but by allocating capital, coordinating strategy, and supplying capabilities that stand-alone firms would struggle to replicate. In luxury conglomerates, such capabilities may include global retail infrastructure, managerial talent pools, real-estate expertise, procurement leverage, brand incubation, and the ability to stabilize businesses across the cycle. Scale-based systems are therefore not simply “large firms”; they are firms organized to exploit breadth.

Scale also creates growth optionality. Firms with broader distribution systems, stronger financial resources, and larger organizational platforms can often respond more rapidly to favorable demand conditions than firms constrained by artisanal capacity or stricter access discipline. During boom periods, this may translate into faster revenue expansion, broader market coverage, and more diversified sources of growth. Scale-based systems can therefore be highly effective in expansionary phases.

Yet scale creates a strategic tension that is especially acute in luxury. The broader the portfolio and the wider the distribution footprint, the more difficult it may become to preserve symbolic coherence and disciplined exclusivity across brands, regions, and categories. This matters because luxury value depends not only on demand capture, but also on the credible preservation of rarity and prestige. Growth through breadth can therefore create an internal contradiction: the same organizational capabilities that expand reach may also increase dilution risk if they weaken selectivity, intensify dependence on volume, or broaden exposure to more price-sensitive aspirational consumers.

A more critical perspective is therefore necessary. Corporate strategy literature often treats diversification and scope as sources of value creation, but in luxury those same mechanisms may also generate hidden fragilities. Breadth can protect the group at the portfolio level while simultaneously making the protection of exclusivity more difficult at the brand level. A conglomerate may thus enjoy powerful resource-allocation advantages while still facing greater pressure to coordinate heterogeneous brand logics, customer segments, and category cycles. Scale is therefore not inherently superior or inferior. Its strategic value depends on whether the firm can prevent breadth from undermining symbolic differentiation.

For the purposes of this thesis, scale-based systems are therefore understood as competitive configurations in which firms pursue advantage primarily through portfolio breadth, geographic reach, organizational scope, and capital allocation capabilities. These systems may perform strongly during periods of growth and may benefit from diversification, but they may also face greater coordination complexity and dilution risk when demand slows. Their strength lies in breadth; their

vulnerability lies in the possibility that breadth weakens the discipline on which luxury pricing power ultimately depends.

2.4 Trade-Offs Between Scarcity and Scale

Scarcity-based and scale-based systems should be understood not as isolated tactics, but as competing strategic configurations. Each reflects a distinct combination of organizational priorities, economic mechanisms, and performance trade-offs. The central tension concerns the relationship between growth and exclusivity.

Scarcity-oriented systems privilege control. They seek to preserve symbolic differentiation through constrained supply, selective distribution, and disciplined access. Their expected advantages include stronger price integrity, lower markdown dependence, tighter governance of brand diffusion, and potentially more stable margins during periods of weaker demand. However, those advantages are inseparable from important costs. Scarcity can slow capacity expansion, reduce the firm's ability to capture high demand rapidly, and limit the extent to which it can exploit economies of scale or scope.

Scale-oriented systems privilege breadth and flexibility. They seek growth through portfolio diversification, broader distribution, larger retail networks, and greater organizational reach. Their expected benefits include faster expansion, portfolio-level shock absorption, stronger internal capital allocation, and superior resource deployment across regions and categories. Yet these advantages may come with corresponding costs: more difficult coordination, greater exposure to heterogeneous demand cycles, and a higher risk that exclusivity is weakened by the operational demands of scale.

These trade-offs arise because the underlying objectives are partly in tension. Growth often requires broader access, but broader access can weaken the rarity that sustains prestige. Conversely, tighter control preserves exclusivity, but may prevent the firm from fully monetizing favorable market conditions. This tension is especially pronounced in luxury because value depends partly on social distinction rather than solely on functional quality. A strategy that is efficient in volume terms may therefore be costly in symbolic terms.

At this point, it is important not to overstate the dichotomy. Scarcity and scale are better understood as poles of a continuum than as mutually exclusive categories. A diversified group may preserve strict scarcity within flagship brands or categories, while a focused house may still scale selectively through vertical integration and international expansion. The question is not whether firms belong perfectly to one type or the other, but which strategic logic dominates their configuration. This point is particularly important because the empirical analysis later relies on proxies and comparative patterns rather than claiming that any firm represents a pure embodiment of one model.

The trade-off is also dynamic rather than static. Different market conditions may reward different configurations. During strong demand phases, scale may be especially advantageous because firms can absorb and monetize growth rapidly. During normalization or slowdown, scarcity may become more valuable because it protects sell-through discipline, reduces exposure to markdown pressure, and helps preserve margins. The key issue is therefore contextual performance, not universal strategic superiority.

The present thesis builds directly on this insight. It does not assume that scarcity always dominates scale or that scale is inherently incompatible with luxury. Rather, it asks whether the relative advantages of these systems differ under conditions of demand slowdown. This is a more demanding question than the standard luxury narrative according to which rarity is inherently desirable. It requires comparing alternative systems of organizing competitive advantage and asking which system better protects economic performance when market conditions become less forgiving.

Before introducing the research question and hypotheses, it is useful to summarize the two configurations and their expected trade-offs in comparative form.

Table 2. Scarcity-Based versus Scale-Based Competitive Systems

Dimension	Scarcity-Based System	Scale-Based System
Core logic	Exclusivity preservation and symbolic distance	Growth through breadth, scope, and organizational reach
Main mechanisms	Supply discipline, selective distribution, controlled access	Diversification, retail scale, capital allocation
Main source of advantage	Pricing power, brand protection, margin integrity	Growth capacity, shock absorption
Main strategic risk	Slower capacity expansion and forgone short-run growth	Dilution, coordination complexity, greater cyclical exposure
Relationship to luxury value	Protects rarity and non-substitutability	Monetizes brand assets across a broader system
Expected effect in slowdown	Higher resilience	More heterogeneous resilience

Source. The table summarizes the conceptual distinction developed in Sections 2.2–2.4. The comparison is analytical rather than absolute: firms may combine elements of both systems, but differ in the degree to which one strategic logic dominates the configuration.

Table 2 highlights the central trade-off that underpins the thesis. Scarcity-based systems are expected to protect exclusivity more effectively, whereas scale-based systems are expected to generate broader growth opportunities and portfolio-level flexibility. The unresolved issue is how these competing advantages translate into economic outcomes when luxury demand slows.

2.5 Pricing Power and Resilience Under Uncertainty

The key outcomes examined in this thesis are pricing power and resilience. These concepts form the bridge between the theoretical distinction developed above and the empirical analysis presented in the following chapters.

Pricing power may be defined as a firm's ability to maintain or raise prices without suffering proportional deterioration in demand or profitability. In strategic terms, it reflects the depth of differentiation and the extent to which customers perceive the brand as difficult to substitute. In luxury industries, pricing power depends not only on product quality, but also on prestige, symbolic legitimacy, and the social meaning of ownership. It is therefore best understood as an economic manifestation of successful symbolic differentiation.

At the same time, pricing power is not directly observable in pure form through accounting data. This point must be stated explicitly. The present thesis therefore treats operating profitability, and especially operating margin, as an empirical proxy for pricing power rather than as a perfect measure of the concept itself. The logic is that firms with stronger pricing power should, all else equal, be better able to preserve margins by passing through price increases, sustaining premium positioning, and limiting reliance on discounting. Although this proxy is imperfect, it is analytically defensible and consistent with the available firm-level data.

Brand equity theory suggests that stronger symbolic differentiation supports pricing power by reducing substitutability and increasing willingness to pay (Aaker, 1991; Keller, 1993). Signaling theory further suggests that in status-relevant markets, high prices can reinforce desirability rather than merely ration demand (Bagwell & Bernheim, 1996). Combined with the discussion above, these arguments imply that firms with stronger scarcity-related discipline may be better positioned to preserve price integrity because exclusivity remains more credible and demand remains concentrated in less price-sensitive consumer segments.

Resilience, by contrast, refers here to the ability to preserve profitability when external conditions weaken. In this thesis, resilience is treated as an economic outcome observable through the stability of operating margins during periods of demand normalization. A resilient firm is therefore not one that avoids all cyclical pressure, but one that experiences less deterioration in profitability when sales growth slows, inventories become more difficult to absorb, or aspirational demand weakens.

Both scarcity and scale may support resilience, but through different mechanisms. Scarcity-based systems may protect resilience through tighter supply discipline, lower inventory pressure, reduced markdown risk, and stronger concentration in less price-sensitive demand. Scale-based systems may also provide resilience through diversification across brands, categories, and regions. The existence of these competing mechanisms is theoretically important because it prevents the argument from becoming tautological. If only scarcity could plausibly generate resilience, the question would be trivial. The real issue is that both systems offer plausible protection, but through different channels.

This is precisely where the literature remains incomplete. Luxury studies have extensively emphasized exclusivity, rarity, and dream value (Kapferer & Bastien, 2012; Kapferer, 2015). Corporate strategy has extensively emphasized diversification, scope, and parenting advantage (Chandler, 1990; Goold et al., 1994). Yet relatively little work compares these systems directly as alternative forms of strategic organization under slowdown conditions. Prior literature usually explains why luxury requires exclusivity or why diversified firms may create value; it says much less about whether scarcity-oriented discipline or scale-oriented breadth better protects economic outcomes when demand becomes more selective. The present thesis addresses that comparative question directly.

The 2024–2025 normalization phase provides a particularly suitable empirical setting for this purpose. It is not a collapse in luxury demand, but a deceleration that exposed differences in customer mix, inventory intensity, growth dependence, and investor perceptions. Such an environment allows the thesis to examine whether scarcity-oriented discipline is associated more strongly with pricing power and margin protection than scale-oriented breadth, while also allowing for the possibility that scale may retain advantages on other dimensions.

2.6 Research Question and Hypotheses

The literature reviewed above provides the conceptual foundation for this thesis, but it also reveals a clear gap. RBV explains why intangible resources matter (Wernerfelt, 1984; Barney, 1991). Brand equity theory clarifies how symbolic differentiation supports willingness to pay (Aaker, 1991; Keller, 1993). Signaling theory explains why exclusivity and price may reinforce one another (Veblen, 1899; Bagwell & Bernheim, 1996). Corporate strategy explains how diversification, scope, and capital allocation may generate value (Chandler, 1990; Goold et al., 1994). What remains less well established is how these alternative strategic systems perform relative to one another under conditions of luxury demand slowdown.

This gap is theoretically important because the two systems embody different assumptions about how competitive advantage should be protected and monetized. Scarcity-oriented systems place greater

weight on discipline, exclusivity, and controlled diffusion. Scale-oriented systems place greater weight on breadth, flexibility, and portfolio-level resource deployment. Both logics are plausible. What is not yet sufficiently established in the literature is which of them is more strongly associated with pricing power and resilience when luxury demand normalizes.

The present thesis addresses that gap by examining whether the distinction between scarcity-based and scale-based competitive systems is associated with systematically different economic outcomes during the 2024–2025 slowdown. Hermès and LVMH provide the clearest polar archetypes of these two configurations, while the broader panel of listed luxury firms allows the empirical analysis to move beyond a purely illustrative comparison.

The central research question is therefore as follows:

Does a scarcity-based competitive system generate higher pricing power and greater resilience than a scale-based system in the luxury industry during demand slowdowns?

From this question, three hypotheses are derived.

H1: Firms exhibiting stronger scarcity-related discipline are associated with higher operating profitability, reflecting stronger pricing power.

This hypothesis follows from the argument that tighter control of supply, distribution, and brand access helps preserve exclusivity, reduce discounting pressure, and sustain premium willingness to pay. In observable economic terms, this should be associated with stronger operating margins.

H2: Firms exhibiting stronger scarcity-related discipline experience smaller deterioration in operating margins during slowdown periods, indicating greater resilience.

This hypothesis follows from the view that tighter inventory discipline, lower dependence on broad aspirational demand, and stronger control over sell-through reduce vulnerability when market conditions weaken. If scarcity protects not only symbolic value but also margin quality, operating-margin deterioration should be more limited during normalization phases.

H3: Firms exhibiting stronger scarcity-related discipline may display a more stable growth profile over time, but this stability may be accompanied by some sacrifice in growth speed relative to more scale-oriented firms.

This hypothesis captures the central trade-off implied by the framework and is intentionally formulated with caution. The argument is not that scarcity necessarily produces lower growth in every period, nor that scale automatically produces faster growth in all cases. Rather, the theoretical expectation is that firms organized around tighter discipline may avoid some of the volatility

associated with aggressive demand capture, inventory expansion, and broader exposure to cyclical aspirational segments, while also accepting some constraint on the pace at which they monetize favorable market conditions. Scale-oriented systems, by contrast, may retain stronger growth optionality, but potentially at the cost of greater exposure to cyclical swings. This hypothesis therefore concerns the stability-versus-expansion trade-off more than a deterministic ranking of growth outcomes.

Together, these hypotheses translate the distinction between scarcity-based and scale-based systems into observable performance implications. They also establish the analytical bridge between the theoretical framework developed in this chapter and the empirical strategy presented in Chapter 3.

3. METHODOLOGY AND DATA

3.1 Research Design

This thesis adopts a quantitative firm-level panel design to examine whether different competitive configurations in the luxury industry are associated with systematically different levels of pricing power and resilience during periods of demand normalization. Building on the theoretical distinction developed in Chapters 1 and 2, the empirical analysis investigates whether firms exhibiting stronger scarcity-related discipline perform differently from firms whose competitive systems are more strongly oriented toward scale, breadth, and portfolio reach.

The research design operates on two complementary levels. First, Hermès and LVMH are treated as the clearest polar archetypes of scarcity-based and scale-based competition, respectively. This comparison provides the conceptual anchor of the thesis because it renders the strategic tension between controlled exclusivity and organizational breadth particularly visible. Second, the analysis extends beyond this stylized contrast by constructing a broader panel of listed luxury firms. This wider sample is necessary to avoid relying on a purely illustrative case comparison and to assess whether the patterns suggested by the Hermès–LVMH contrast are observable more generally across the sector.

The empirical objective of the thesis is explanatory rather than strictly causal. More precisely, the analysis does not claim definitive causal identification of the relationship between scarcity-related discipline and firm performance. Given the limited number of firms, the accounting nature of the available data, and the difficulty of observing the full strategic system directly, such a claim would be methodologically excessive. The objective is instead to test whether the observable relationships between supply discipline, profitability, margin stability, and growth dynamics are systematically consistent with the theoretical framework developed in the previous chapters. The design is therefore comparative, theory-driven, and deliberately parsimonious.

This methodological choice is not merely a concession to data constraints; it is appropriate to the underlying strategic question. The mechanisms of interest—exclusivity, controlled diffusion, selective access, and tighter supply discipline—are embedded in broader organizational systems rather than in discrete and isolated events. They do not lend themselves easily to quasi-experimental identification. A panel design based on repeated firm-year observations is therefore a more credible way to examine whether firms associated with different strategic configurations display systematically different performance profiles across changing market conditions.

At the same time, the design is intentionally cautious in its claims. It does not seek to infer that scarcity causes superior performance in a narrow econometric sense. Rather, it tests whether the patterns

visible in the data are directionally and economically aligned with the proposition that tighter scarcity-related discipline is associated with stronger pricing power and, more tentatively, with greater resilience under conditions of weaker demand. In this sense, the methodological contribution of the chapter lies not in technical complexity for its own sake, but in disciplined operationalization of a strategic question that is inherently difficult to observe directly.

The full empirical workflow was implemented in Python, which served as the principal environment for data cleaning, transformation, variable construction, descriptive analysis, statistical testing, regression estimation, robustness checks, and table production. Python was also used to generate the thesis-ready outputs reported later in the empirical chapter. Its use strengthens the transparency and replicability of the analysis because each transformation and estimation step is explicitly codified rather than performed manually in a non-reproducible manner. Methodologically, Python was not an auxiliary instrument but the core analytical environment through which the research design was executed.

3.2 Sample Selection and Time Frame

The empirical analysis is based on a sample of eight publicly listed firms operating in the personal luxury goods segment: Hermès, LVMH, Richemont, Prada, Moncler, Burberry, Ferragamo, and Brunello Cucinelli. These firms were selected because they are established luxury players, provide sufficiently long and comparable financial series, and display meaningful variation in size, organizational structure, category exposure, and strategic orientation. This variation is analytically important because the thesis is not interested in estimating an average firm effect in the abstract, but in observing whether firms associated with different competitive systems exhibit systematically different performance patterns.

The sample deliberately includes both diversified luxury groups and more focused luxury houses. This distinction is central to the thesis. Hermès and LVMH remain the clearest strategic archetypes of scarcity-oriented and scale-oriented competition, but the wider panel allows the analysis to move beyond a binary contrast and to test whether similar relationships appear more broadly across the sector. The sample is therefore not intended to be statistically representative of all luxury firms worldwide. Rather, it is designed to capture structured heterogeneity within a clearly defined strategic domain.

The focus on listed firms reflects both practical and analytical considerations. Publicly listed companies offer more consistent and accessible financial disclosure, making it possible to construct a harmonized multi-year panel. More importantly, listed firms are especially relevant to the thesis because they are visible participants in the strategic, competitive, and investor dynamics discussed in

Chapters 1 and 2. Their disclosures provide the level of comparability required to examine whether differences in business models are associated with recurring differences in profitability, resilience, and growth.

The observation window spans from 2010 to 2025. This longer horizon captures multiple phases of the industry cycle: the post-financial-crisis recovery, the sustained expansion of the 2010s, the disruption associated with Covid-19, the post-pandemic rebound, and the subsequent normalization phase. This temporal breadth is important because the thesis is concerned not only with cross-sectional differences across firms, but also with how different strategic systems behave under changing demand conditions.

Because 2025 data are not equally complete across firms, however, the core analytical sample is restricted to the 2010–2024 period. The 2025 observations are retained only for descriptive extension and selected robustness checks when the data appear sufficiently complete and reliable. This choice improves comparability and reduces the risk that the main results are distorted by provisional or unevenly updated accounts. The main sample is therefore intentionally conservative: it prioritizes internal consistency over superficial panel completeness.

3.3 Data Sources

The empirical analysis relies primarily on firm-level accounting data extracted from Orbis (Bureau van Dijk). Orbis was selected because it provides standardized financial information across firms and countries, thereby making it possible to construct a harmonized panel dataset suitable for cross-company comparison. To improve consistency, the dataset is based on consolidated annual accounts and a common extraction setting across companies.

The raw variables collected from Orbis include operating revenue, EBIT, EBITDA, stock, total assets, number of employees, net income, cost of goods sold, and net property, plant and equipment. Among these, the inventory item reported under the label “Stock” was used as the principal inventory measure. This choice is methodologically important. The more generic “Inventories” field returned incomplete observations for several firms and would therefore have weakened the continuity and comparability of the panel. By contrast, the “Stock” field yielded a more complete and operationally consistent series across the firms in the sample.

As with any international financial database, however, standardized extraction does not eliminate the possibility of incomplete or inconsistent observations. Automated datasets may contain missing values, reporting mismatches, or classification irregularities across firms and years. For this reason, the dataset was manually reviewed for missing entries, anomalous jumps, and firm-year inconsistencies. Where necessary, outlying observations were checked against official annual reports.

In the few cases in which the database output appeared inconsistent with company disclosures, the relevant observation was corrected manually and explicitly flagged in the dataset. This procedure improves transparency and reduces the risk that the empirical analysis is driven by obvious mapping errors rather than by meaningful variation in firm performance.

After extraction, the data were imported into Python for cleaning and standardization. The workflow included harmonization of column names, conversion of text-based numerical fields into numeric format, replacement of placeholder entries with proper missing values, verification of firm-year uniqueness, and separation between the full sample and the main analytical sample. This step was necessary to transform the raw database export into a usable and internally consistent research dataset. The methodological role of Python therefore began at the stage of dataset construction rather than only at the stage of estimation.

3.4 Variable Construction

The empirical analysis is based on a limited set of variables selected to operationalize as closely as possible the theoretical arguments developed in Chapter 2. Because the thesis investigates the relationship between scarcity-related discipline, pricing power, resilience, and growth, the variables are designed to capture both performance outcomes and observable proxies for strategic configuration.

The main dependent variable is **Operating Margin**, defined as EBIT divided by revenue. This variable serves as the principal empirical proxy for pricing power because it captures the firm's ability to convert sales into operating profitability while preserving margin quality. Compared with bottom-line profitability measures, operating margin is less affected by capital structure, tax regimes, and non-operating items, making it more suitable for cross-firm comparison. It does not measure pricing power directly in a pure conceptual sense. Rather, it approximates one observable economic manifestation of pricing power: the ability to sustain profitable premium positioning without excessive erosion of margins.

A second profitability measure, **EBITDA Margin**, defined as EBITDA divided by revenue, is included as a supplementary outcome variable. This measure is useful because it is less sensitive to depreciation, amortization, and certain accounting treatments related to fixed assets. It therefore functions as a robustness measure for the main profitability patterns identified in the baseline analysis.

To capture resilience, the thesis uses **Change in Operating Margin**, measured as the year-over-year difference in operating margin. A smaller deterioration in margins is interpreted as evidence of stronger resilience during weaker demand conditions. This operationalization is consistent with the definition of resilience developed in Chapter 2, according to which resilience refers not to immunity

from external shocks, but to the ability to preserve profitability when the market environment becomes less favorable.

In parallel, **Revenue Growth**, measured as the annual percentage change in revenue, is included to capture growth dynamics and to assess the trade-off between stability and expansion emphasized in the theoretical framework. Revenue growth is not treated as a sufficient indicator of strategic success on its own, but as an important dimension through which the scarcity-versus-scale trade-off becomes empirically visible.

The principal explanatory variable is **Inventory Intensity**, measured primarily as stock divided by revenue. This variable is used as an observable proxy for supply discipline. Lower inventory intensity is interpreted as broadly consistent with tighter control over production, stock accumulation, and sell-through, whereas higher inventory intensity is interpreted as more consistent with looser supply discipline or with business models more exposed to scale and stock build-up. This proxy is necessarily imperfect, and that limitation must be taken seriously. Inventory intensity does not capture scarcity in its entirety, which also depends on selective distribution, access regulation, artisanal constraints, brand governance, and the broader management of symbolic exclusivity. Nevertheless, it remains analytically defensible for three reasons. First, it captures a directly observable operational dimension of discipline. Second, it is economically relevant to the mechanisms discussed in the theory chapter, particularly markdown pressure and sell-through quality. Third, it can be measured consistently across the available sample in a way that richer but more qualitative indicators cannot.

Because inventory structures may also reflect differences in category exposure and asset composition, a second ratio, **Inventory-to-Assets**, is constructed as a supplementary indicator. This alternative measure allows the robustness checks to test whether the results depend excessively on the denominator used in the main proxy.

To reduce the effect of structural heterogeneity across firms, the empirical design includes control variables for firm size. Specifically, the dataset includes the natural logarithm of revenue and the natural logarithm of total assets. These controls are necessary because the firms in the sample differ substantially in scale, and raw differences in profitability or growth may otherwise reflect size rather than strategic configuration. The number of employees is also retained as an additional descriptive indicator of firm scale.

Finally, the dataset includes time indicators intended to isolate key phases of the luxury cycle. A **Slowdown 2024** dummy identifies the principal normalization year, while a **Slowdown 2025** dummy is retained only for supplementary analyses where 2025 observations are sufficiently complete. A **Post-Covid Boom** indicator marks the rebound period from 2021 to 2023. These

variables were generated programmatically in Python together with the other derived indicators, ensuring consistent construction across all firm-year observations.

3.5 Data Structure and Transformation

The dataset is organized as a firm-year panel in which each observation corresponds to one company in one year. This structure is appropriate because it allows the analysis to capture both cross-sectional differences across firms and longitudinal changes within firms over time. In the present context, this is essential for examining whether firms associated with tighter inventory discipline also display systematically different profitability, resilience, and growth profiles.

The raw Orbis export was initially structured in wide format, with years reported in separate columns. It was therefore transformed into long format so that each row corresponded to a single firm-year observation. This transformation was necessary both to construct derived variables consistently and to make the dataset suitable for descriptive analysis, correlation testing, and regression estimation.

In operational terms, the panel construction and transformation were performed in Python. The script first loaded the raw file, standardized column names and key text fields, converted year and financial variables into numeric format, removed invalid observations lacking firm or year identifiers, and sorted the panel by firm and year. It then generated the main analytical variables, including operating margin, EBITDA margin, inventory-to-sales, inventory-to-assets, revenue growth, change in operating margin, logarithmic size measures, and the time dummies used later in the analysis. A duplicate firm-year check was also performed to verify the internal consistency of the panel.

Before analysis, the dataset was checked for missing observations, implausible jumps, and firm-year inconsistencies. Particular attention was devoted to the most recent observations, especially 2025, which were flagged whenever incomplete or provisional. The treatment of the data is intentionally conservative. Rather than interpolating missing values or forcing full balance, weaker observations are marked explicitly and their role in the main analysis is limited. This approach prioritizes transparency and helps preserve the credibility of the empirical results.

The final cleaned dataset was saved in both Excel and CSV formats, distinguishing between the full sample and the main analytical sample restricted to 2010–2024. These files then served as the common input for all subsequent descriptive, graphical, correlation, and regression analyses conducted in Python. This procedure ensured that all empirical outputs were derived from the same standardized panel, thereby improving internal consistency across the chapter and the empirical findings that follow.

3.6 Empirical Strategy

The empirical strategy proceeds in three stages.

The first stage is descriptive. Summary statistics and firm-level comparisons are used to assess whether firms with lower inventory intensity also appear to exhibit stronger profitability, lower margin deterioration, and a distinct growth profile. This stage is important because it establishes whether the raw patterns in the data are directionally consistent with the theoretical argument before any multivariate analysis is introduced. In practice, Python was used to generate overall summary statistics, firm-level averages, a focused Hermès-versus-LVMH comparison, a 2024 cross-sectional snapshot, and volatility measures for revenue growth.

The second stage examines the bivariate relationships among the key variables. In particular, the analysis tests whether lower inventory intensity is associated with higher operating margins, more favorable margin dynamics, and distinct growth outcomes over time. These relationships are not interpreted as causal evidence, but they provide a first formal assessment of whether the direction of association in the sample is coherent with the hypotheses. This stage was implemented in Python through Pearson and Spearman correlation matrices, supported where useful by graphical inspection.

The third stage uses multivariate regression analysis to relate firm performance to inventory intensity while accounting for firm size and time effects. The baseline specifications use Operating Margin, Change in Operating Margin, and Revenue Growth as dependent variables. Inventory-to-Sales is the main explanatory variable, while size controls and time effects are included to reduce the risk that the observed relationships merely reflect scale differences or common macroeconomic shocks. An interaction between inventory intensity and the slowdown period is then introduced to test whether supply discipline becomes especially relevant when the market environment weakens.

The baseline models are estimated using ordinary least squares (OLS) regressions with heteroscedasticity-robust standard errors. Given the limited sample size and the structure of the data, the purpose is not to estimate an overly complex model, but to assess whether the core relationships are stable, economically meaningful, and theoretically coherent. This methodological restraint is deliberate. A more elaborate specification would risk creating a false impression of econometric precision unsupported by the data.

This parsimonious approach should therefore be interpreted as a strength rather than a weakness. The thesis addresses a strategic question in which conceptual clarity and disciplined interpretation matter more than technical sophistication for its own sake. The aim is not to maximize model complexity, but to test whether the distinction between scarcity-based and scale-based systems is reflected in observable performance patterns. The use of Python reinforces this objective by ensuring that

descriptive outputs, correlation measures, regressions, and formatted tables are all generated from the same cleaned panel and under the same coding assumptions.

3.7 Limitations and Robustness Checks

The empirical design has several limitations, but these are addressed as transparently and systematically as possible.

First, the sample is relatively small and restricted to listed luxury firms. This is appropriate for a focused sectoral study, but it necessarily reduces statistical power and limits external generalizability. The thesis addresses this limitation by prioritizing transparency, using a parsimonious design, and interpreting the quantitative evidence alongside the strategic discussion developed in the previous chapters. The findings should therefore be understood as structured evidence within a clearly defined empirical domain rather than as universally generalizable estimates for the entire luxury industry.

Second, the central explanatory variable is only a proxy. Inventory intensity does not measure scarcity directly; it captures one observable dimension of supply discipline. Scarcity in luxury also involves selective distribution, controlled access, artisanal capacity constraints, brand governance, and the preservation of symbolic exclusivity, none of which can be fully observed in standardized accounting data. The empirical findings must therefore be interpreted as evidence on a measurable proxy for scarcity-related discipline rather than as a full measurement of scarcity itself.

Third, firms in the sample differ substantially in business mix. Inventory structures may partly reflect exposure to different product categories, such as leather goods, ready-to-wear, watches, or jewelry, rather than strategy alone. This issue is mitigated in three ways: by using ratios rather than raw levels, by including size controls, and by interpreting the quantitative results in conjunction with the strategic discussion developed in Chapters 1 and 2. Even so, some residual heterogeneity inevitably remains.

Fourth, standardized financial databases may contain mapping errors or inconsistencies across firms and years. This is a common challenge in international panel construction. To reduce this risk, the dataset was manually checked for implausible values, and anomalous observations were verified against official annual reports where necessary. In addition, the Python workflow explicitly flagged special cases and enabled robustness checks excluding potentially influential observations. This procedure improves the reliability of the final panel and strengthens the credibility of the empirical analysis.

Fifth, the most recent year is less reliable than the rest of the sample. Because 2025 data are incomplete for several firms, the core analysis is restricted to 2010–2024, while 2025 is used only as

a supplementary extension when the relevant observations are sufficiently complete. This choice sacrifices some recency in favor of stronger comparability and methodological caution.

Finally, the use of Python improves computational transparency, but it does not eliminate the interpretive limits of the design. The empirical findings remain sensitive to the chosen proxy, the small sample, and the accounting nature of the data. For this reason, the thesis complements the baseline estimations with robustness checks using alternative profitability measures, alternative inventory ratios, and restricted samples that exclude corrected observations, the Covid shock year, or one of the two flagship firms.

Overall, despite these limitations, the methodology is appropriate to the objective of the thesis. It provides a transparent and empirically grounded framework for testing whether firms that appear to maintain tighter supply discipline also display stronger pricing power and greater resilience during demand normalization. The design is fully consistent with the conceptual framework developed in the previous chapters and offers a credible basis for the empirical analysis that follows.

4. EMPIRICAL FINDINGS

4.1 Descriptive Evidence

This chapter examines whether the empirical evidence supports the central argument of the thesis: that tighter supply discipline is associated with stronger pricing power and, more cautiously, with greater resilience during periods of demand normalization. In line with the empirical strategy defined in Chapter 3, the analysis proceeds in four steps. It first considers descriptive patterns across the panel, then evaluates the main bivariate relationships, next estimates baseline regressions, and finally assesses the robustness of the central results. This sequence is important because it allows the chapter to move from observable patterns to more structured empirical tests without overstating the explanatory power of any single specification.

The descriptive evidence already suggests that the panel contains economically meaningful variation in the core dimensions of interest. Across the eight listed luxury firms in the sample, profitability, inventory intensity, growth dynamics, and firm scale differ substantially. This heterogeneity is analytically valuable rather than problematic: it creates the variation necessary to assess whether the distinction between scarcity-oriented and scale-oriented configurations is associated with systematically different outcomes. In other words, the panel does not merely reproduce the stylized contrast between Hermès and LVMH; it also allows that contrast to be situated within a broader sectoral comparison.

Table 3. Firm-Level Average Performance and Inventory Intensity (2010–2024)

Firm	Operating margin	EBITDA margin	Inventory-to-sales	Inventory-to-assets	Revenue growth	Δ Operating margin	Log revenue	Log assets
HERMES INTERNATIONAL	0.3494	0.4002	0.1839	0.1463	0.1453	0.0087	15.58	16
MONCLER S.P.A.	0.2774	0.3493	0.1471	0.0995	0.1601	0.0056	13.97	14
LVMH MOET HENNESSY LOUIS VUITTON	0.2116	0.2722	0.2796	0.1567	0.1151	0.0012	17.57	18
PRADA S.P.A.	0.1713	0.2905	0.1778	0.1147	0.0864	0.0022	15.01	15
COMPAGNIE FINANCIERE RICHEMONT SA	0.1679	0.2296	0.4277	0.2361	0.0995	-0.0035	16.39	17
BURBERRY GROUP PLC	0.1627	0.2361	0.1707	0.174	0.0381	-0.0071	14.87	15
BRUNELLO CUCINELLI S.P.A	0.1243	0.206	0.3003	0.2791	0.1444	0.0048	13.12	13
SALVATORE FERRAGAMO SPA	0.111	0.1978	0.2537	0.2625	0.0325	-0.0111	14	14

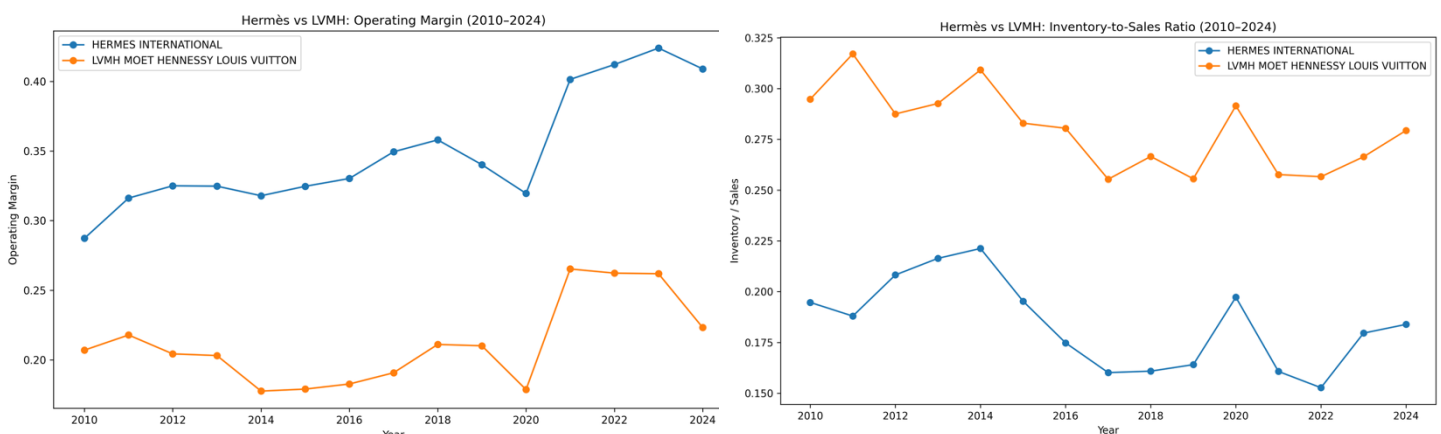
Source. The table reports firm-level average values over the 2010–2024 period for the main variables used in the empirical analysis. Operating Margin is defined as EBIT divided by revenue; EBITDA Margin as EBITDA divided by revenue; Inventory-to-Sales as stock divided by revenue; Inventory-to-Assets as stock divided by total assets; Revenue Growth as the annual percentage change in revenue; and Change in Operating Margin as the year-over-year difference in operating margin. Financial variables are based on consolidated annual accounts extracted from Orbis and cleaned through the panel-construction procedure described in Chapter 3.

Table 3 reveals a pattern that is highly consistent with the theoretical framework. Hermès records the highest average operating margin in the sample, at approximately 34.9%, while maintaining a relatively low average inventory-to-sales ratio of about 18.4%. LVMH, by contrast, combines a materially lower average operating margin, around 21.2%, with a substantially higher inventory-to-sales ratio, close to 28.0%. This gap is economically large and is consistent with the strategic contrast developed in the earlier chapters: Hermès appears closer to a scarcity-oriented configuration based on tighter supply discipline, while LVMH reflects a broader scale-oriented configuration based on organizational reach, portfolio breadth, and category diversification.

The broader sample reinforces this pattern. Moncler also combines high profitability with relatively low inventory intensity, while Richemont appears at the opposite end of the distribution, exhibiting the highest stock intensity in the sample. Ferragamo combines comparatively high inventory pressure with weak operating profitability, whereas Prada occupies a more intermediate position, with stronger margins and lower stock intensity than several peers. These firm-level averages do not by themselves establish a structural relationship, but they indicate that lower inventory intensity and stronger profitability tend to co-occur across the panel.

Because Hermès and LVMH remain the clearest polar archetypes in the dataset, their trajectories deserve separate attention. A focused comparison between the two firms is preferable to a crowded multi-firm chart because it isolates the strategic contrast most directly connected to the research question. When the two series are observed jointly, the descriptive evidence becomes especially clear: Hermès maintains both a structurally higher operating margin and a systematically lower inventory-to-sales ratio than LVMH over most of the 2010–2024 period.

Figure 5. Hermès vs. LVMH: Operating Margin and Inventory-to-Sales Ratio (2010–2024)



Source. Panel A reports the operating-margin trajectories of Hermès and LVMH over the 2010–2024 period. Panel B reports the corresponding inventory-to-sales trajectories. Based on the cleaned panel dataset described in Chapter 3.

The importance of Figure 5 lies not only in the magnitude of the gap, but also in its persistence. Hermès does not outperform LVMH in margin terms only in isolated years; it does so throughout the sample while simultaneously maintaining tighter stock intensity. This persistence matters because it makes a purely cyclical interpretation less persuasive. The contrast is more consistent with a structural difference in competitive configuration and operating discipline than with short-term noise. At the descriptive level, therefore, the evidence already points in the same direction as the theoretical argument advanced in Chapters 1 and 2.

The descriptive section yields a preliminary but important conclusion. Firms that appear to maintain tighter inventory discipline also tend to exhibit stronger profitability, and the Hermès–LVMH comparison illustrates this relationship especially clearly. The next step is to examine whether these patterns remain visible when the analysis moves from simple levels and trajectories to formal pairwise associations.

4.2 Correlation Analysis

The correlation analysis provides a first formal assessment of whether the main variables move together in ways that are consistent with the conceptual framework. This stage remains intentionally limited in scope. Correlations do not identify causal mechanisms, but they are useful for establishing whether the direction of association in the sample is aligned with the hypotheses. The analysis therefore serves as a bridge between the descriptive evidence and the multivariate regression results.

The most important result concerns the relationship between inventory intensity and profitability. Inventory-to-sales is negatively correlated with operating margin under both Pearson and Spearman measures. The Pearson coefficient is approximately -0.428, while the Spearman coefficient is about -0.486. The same pattern holds when profitability is measured using EBITDA margin: the corresponding coefficients are approximately -0.479 and -0.545. These are not trivial relationships. They indicate that firms with higher stock intensity tend to be systematically less profitable, regardless of whether the association is assessed in linear or rank-order terms.

This result is central to the chapter because it provides the first formal indication that the descriptive contrast observed earlier is not confined to the Hermès–LVMH comparison. Rather, the negative association between stock intensity and profitability appears to characterize the broader panel. In the terminology of the thesis, lower inventory intensity appears empirically consistent with tighter supply

discipline, while higher inventory intensity appears more compatible with looser stock management or with business models more exposed to scale and accumulation pressures.

The relationship between inventory intensity and resilience is weaker. Inventory-to-sales is negatively associated with the year-over-year change in operating margin, which is directionally consistent with the idea that inventory-heavy firms may experience less favorable margin dynamics over time. However, the relationship is modest compared with the one observed for profitability. This distinction is important because it anticipates one of the chapter's main conclusions: the evidence for pricing power is considerably stronger than the evidence for resilience.

The relationship between inventory intensity and revenue growth is weaker still. Inventory-to-sales is only mildly negatively associated with revenue growth, implying that firms carrying more stock do not systematically achieve stronger top-line expansion. This is a useful corrective to an overly simplified interpretation of scale. A more inventory-intensive model does not automatically translate into a superior growth profile; at minimum, the relationship appears much less stable than the one linking inventory intensity to profitability.

One further methodological result deserves mention. Log revenue and log assets are extremely highly correlated, indicating that they capture closely related aspects of firm scale. For this reason, the regression analysis relies on log revenue as the main size control and does not include both measures simultaneously. This preserves parsimony and reduces the risk of unnecessary multicollinearity.

Taken together, the correlation analysis refines the descriptive evidence without altering its direction. The clearest empirical relationship in the data is the negative association between inventory intensity and profitability. By contrast, the relationships with resilience and growth are weaker and more ambiguous. This hierarchy of results matters because it shapes the interpretation of the regression analysis that follows.

4.3 Baseline Regression Results

The baseline regressions provide the chapter's main empirical test of the hypotheses. Their purpose is not to claim strict causal identification, but to determine whether the negative relationship between inventory intensity and firm performance remains visible once firm size and common time effects are taken into account. In accordance with Chapter 3, the models use operating margin, change in operating margin, and revenue growth as dependent variables. Inventory-to-sales is the main explanatory variable, log revenue is the principal size control, and selected models include year fixed effects or slowdown indicators. All specifications are estimated with heteroscedasticity-robust standard errors.

Table 4. Baseline Regression Results

	Operating margin	Operating margin	Operating margin	Change in operating margin	Change in operating margin	Revenue growth
Variable	(1) Main effect	(2) + size control	(3) + size + year FE	(4) Slowdown year	(5) Interaction	(6) + size control
Inventory-to- sales	-0.4115*** (0.0821)	-0.5116*** (0.0819)	-0.5134*** (0.0773)	-0.0994** (0.0493)	-0.0969* (0.0510)	-0.2922** (0.1400)
Log revenue		0.0258*** (0.0042)	0.0283*** (0.0042)	0.0026 (0.0037)	0.0026 (0.0037)	0.0079 (0.0095)
Slowdown 2024				-0.0230* (0.0135)	-0.0111 (0.0292)	
Inventory-to-sales × Slowdown 2024					-0.0497 (0.1548)	
Year fixed effects	No	No	Yes	No	No	No
Observations	119	119	119	110	110	110
R-squared	0.183	0.336	0.413	0.050	0.050	0.037

Source. The table reports baseline OLS regressions estimated with heteroscedasticity-robust standard errors (HCl). Operating Margin, Change in Operating Margin, and Revenue Growth are used as dependent variables. Inventory-to-Sales is defined as stock divided by revenue and is the main explanatory variable. Log Revenue is included as the principal size control. Selected specifications include year fixed effects, and resilience specifications include the Slowdown 2024 indicator and its interaction with Inventory-to-Sales. Significance levels: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$. Based on the baseline regression output and thesis-ready regression tables.

The profitability regressions produce the strongest and most consistent results in the chapter. When operating margin is regressed on inventory-to-sales alone, the coefficient on inventory intensity is negative and highly statistically significant, at approximately -0.4115. Once log revenue is introduced, the coefficient becomes even larger in absolute value, reaching about -0.5116, while remaining significant at the 1 per cent level. The specification with year fixed effects yields a virtually identical result, with a coefficient of approximately -0.5134, again highly significant. At the same time, log revenue enters positively and significantly, indicating that larger firms tend to enjoy higher margins on average. Crucially, however, the inventory effect remains strong after this control is introduced.

These estimates provide strong empirical support for **Hypothesis 1** within the limits of the thesis's proxy-based design. Firms with higher inventory intensity, interpreted here as an observable indicator of weaker supply discipline, are systematically associated with lower operating profitability. The stability of the coefficient across specifications strengthens this conclusion. The result does not disappear once firm size is controlled for, nor once common year shocks are absorbed. In substantive terms, the estimates are consistent with the view that tighter stock discipline supports pricing power by protecting sell-through, limiting markdown pressure, and preserving the exclusivity conditions that sustain willingness to pay in luxury markets.

The resilience regressions produce a more qualified result. When the dependent variable is the year-over-year change in operating margin, inventory-to-sales enters negatively and significantly in the baseline specification, with a coefficient of approximately -0.0890. The coefficient remains negative and significant in the model that adds the slowdown dummy for 2024 and the size control, where it is estimated at roughly -0.0994. The slowdown dummy itself is also negative and marginally significant, suggesting weaker margin dynamics during the normalization phase. However, once the interaction between inventory intensity and the slowdown year is introduced, the interaction term is not statistically significant.

Accordingly, **Hypothesis 2** receives only partial support. The evidence indicates that higher inventory intensity is associated with less favorable margin dynamics in general, but it does not support the stronger proposition that this adverse effect became significantly more severe specifically in 2024. This distinction should be stated clearly. The data are consistent with the idea that tighter supply discipline contributes to margin preservation over time, but they do not justify a stronger claim that the slowdown year fundamentally altered the relationship.

The growth regressions are weaker and require greater caution. In the simpler specifications, inventory-to-sales enters with a negative coefficient and is close to conventional significance thresholds in the baseline model. Once log revenue is added, the coefficient becomes statistically significant and remains negative. Yet this relationship weakens materially once year fixed effects are introduced. In the specification with year effects, the inventory coefficient loses significance, while the time dummies themselves capture the major cyclical movements in the sample: a strong negative sector-wide shock in 2020, a sharp rebound in 2021, continued strength in 2022, and renewed weakness in 2024.

For this reason, **Hypothesis 3** receives only limited support. The data do not show that more inventory-intensive firms consistently achieved faster growth once common time effects are controlled for. If anything, the simpler models suggest the opposite. But because this relationship is

not stable across specifications, it would be inappropriate to make a strong claim on this dimension. The most defensible interpretation is therefore that revenue growth is far more sensitive to common cycle effects than to inventory intensity alone.

The baseline regressions thus establish a clear ordering of empirical strength. The evidence for profitability is strong, stable, and difficult to dismiss. The evidence for resilience is directionally supportive but more limited. The evidence for growth is mixed and specification-sensitive. This hierarchy is important because it disciplines the chapter's claims and prevents the empirical argument from extending beyond what the data can support.

4.4 Robustness Checks

The robustness analysis tests whether the chapter's main result is sensitive to alternative variable definitions, sample restrictions, or potentially influential observations. This step is particularly important in a small panel setting, where a visually compelling result could in principle be driven by a limited number of firms or by one unusual year. The robustness checks therefore assess whether the negative association between inventory intensity and profitability survives when the specification is altered in ways that are both economically meaningful and methodologically prudent.

Table 5. Robustness Checks

	EBITDA margin	Inventory-to- assets	Excl. manual override	Excl. 2020	Excl. Hermès	Excl. LVMH
Inventory variable	-0.4999*** (0.0700)	-0.5669*** (0.0785)	-0.5181*** (0.0778)	-0.4746*** (0.0786)	-0.3497*** (0.0724)	-0.5288*** (0.0735)
Log revenue	0.0208*** (0.0036)	0.0117*** (0.0043)	0.0281*** (0.0043)	0.0259*** (0.0043)	0.0199*** (0.0033)	0.0425*** (0.0071)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	116	119	118	111	104	104
R-squared	0.472	0.340	0.417	0.344	0.407	0.465

Source. The table reports selected robustness checks estimated with heteroscedasticity-robust standard errors (HCl). The checks include: EBITDA Margin instead of Operating Margin; Inventory-to-Assets instead of Inventory-to-Sales; exclusion of the manually corrected observation; exclusion of the Covid shock year 2020; exclusion of Hermès; and exclusion of LVMH. Standard errors are reported in parentheses. Significance levels: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$.

The first robustness check replaces operating margin with EBITDA margin. The coefficient on inventory-to-sales remains negative, large, and highly significant, at approximately -0.4999. This is an important result because it shows that the central finding is not an artefact of one particular

profitability definition or of depreciation-related accounting treatments. The relationship appears to capture a broader profitability pattern rather than a narrow operating-margin effect.

The second robustness check replaces inventory-to-sales with inventory-to-assets. Here too, the profitability result remains strong. In the operating-margin specification, the coefficient on inventory-to-assets is approximately -0.5669 and highly significant. This suggests that the adverse association between stock intensity and profitability is not dependent on the particular choice of denominator. Whether inventory is scaled by sales or by assets, firms carrying greater stock intensity appear to exhibit weaker operating profitability.

The sample-based checks lead to the same conclusion. Excluding the manually corrected observation leaves the main result essentially unchanged, with the coefficient on inventory-to-sales remaining around -0.5181 and highly significant. Excluding the Covid shock year 2020 also preserves the result, with a coefficient of approximately -0.4746. These checks materially strengthen the chapter because they show that the main finding is not driven by one corrected data point or by one extreme macroeconomic year.

Most importantly, the result survives the exclusion of each focal firm in turn. When Hermès is removed from the sample, the coefficient on inventory-to-sales remains negative and highly significant, at approximately -0.3497. When LVMH is removed, it remains negative and highly significant, at around -0.5288. This is a crucial point. The chapter's main result is therefore not merely a restatement of the Hermès–LVMH contrast; it also characterizes the broader sample. The two flagship firms help motivate the argument, but they do not mechanically generate it.

Not all outcomes are equally robust, and this should be acknowledged explicitly. In the resilience specification that uses inventory-to-assets instead of inventory-to-sales, the inventory coefficient becomes statistically insignificant. This indicates that the evidence linking supply discipline to margin resilience is more sensitive to measurement choice than the evidence linking supply discipline to profitability. A rigorous interpretation must therefore differentiate clearly between the chapter's strongest result and its more tentative ones.

The robustness checks sharpen rather than weaken the overall conclusion. They show that the profitability result is highly stable across alternative definitions of both profitability and inventory intensity, across alternative samples, and across alternative exclusions. At the same time, they also clarify that the resilience result is less secure. This asymmetry is not a weakness of the chapter; it is part of its empirical precision.

4.5 Strategic Interpretation of Results

The empirical evidence presented in this chapter is broadly consistent with the theoretical framework developed in Chapters 1 and 2. The most robust result is straightforward: firms with lower inventory intensity tend to exhibit higher profitability. In strategic terms, this supports the thesis's core argument that tighter supply discipline is associated with stronger pricing power. Lower stock intensity appears to matter not because it is desirable in itself, but because it signals and facilitates tighter control over sell-through, weaker exposure to markdown pressure, and stronger preservation of the scarcity conditions that support willingness to pay in luxury markets.

The Hermès–LVMH contrast remains the clearest illustration of this mechanism. Hermès combines persistently lower stock intensity with materially higher margins, while LVMH combines greater breadth and scale with lower average operating profitability and higher inventory pressure. Yet the broader panel is equally important, because it shows that this contrast is not merely anecdotal. Moncler aligns more closely with the high-margin, lower-inventory pattern, whereas Ferragamo and Richemont illustrate configurations in which heavier stock intensity coincides with weaker or more volatile margin outcomes. The evidence therefore suggests that scarcity-related discipline has measurable economic content, rather than being a purely symbolic feature of luxury branding discourse.

At the same time, the results call for a nuanced interpretation of the scarcity-versus-scale trade-off. The data do not support a simplistic proposition according to which scarcity always dominates scale in every dimension. What they show, more precisely, is that scarcity-related discipline appears especially valuable as a mechanism of **profitability protection**. The resilience evidence is weaker, and the growth evidence is mixed. This suggests that the main economic advantage of tighter discipline lies in margin quality and price integrity rather than in an unambiguously superior response to all phases of the cycle.

This distinction matters conceptually. Scale continues to provide real advantages, including diversification, geographic reach, category breadth, and access to organizational resources that smaller or more focused firms may not possess. The findings do not invalidate those advantages. Rather, they indicate that scale alone does not ensure stronger profitability when it is accompanied by greater inventory intensity. In this sense, the chapter reinforces the thesis's broader strategic claim: luxury firms face a persistent tension between growth and exclusivity, and the economic returns to breadth may weaken if growth is pursued in ways that loosen stock discipline and expose the firm to greater pressure on sell-through and margins.

The chapter therefore arrives at a disciplined empirical conclusion. The data provide strong evidence that lower inventory intensity, interpreted as an observable proxy for tighter supply discipline, is associated with stronger profitability across listed luxury firms. The evidence for resilience is directionally consistent but more limited, while the evidence for growth remains mixed and strongly shaped by common time effects. The overall pattern is thus most consistent with the view that scarcity-oriented discipline constitutes an economically meaningful source of pricing power during demand normalization.

5. DISCUSSION AND CONCLUSIONS

5.1 Summary of Findings

This thesis examined whether a scarcity-based competitive system generates higher pricing power and greater resilience than a scale-based system in the luxury industry during demand slowdowns. The question was developed from a central strategic tension in luxury: firms must grow, yet the mechanisms that enable growth can also weaken the exclusivity, rarity, and symbolic distance on which luxury value depends. The post-Covid normalization of 2024–2025 provided a particularly relevant setting for this analysis, because the slowdown did not eliminate luxury demand but made its quality, selectivity, and distribution across consumer segments more visible.

The thesis began by showing that luxury differs from ordinary consumer markets because value is not grounded only in functional utility. Luxury goods also carry symbolic, positional, and social meaning. For this reason, scarcity is not merely a production constraint; it can be a strategic mechanism that protects desirability, strengthens price integrity, and sustains willingness to pay. At the same time, the luxury industry is not homogeneous. Some firms are organized around controlled access, selective distribution, and disciplined supply, while others rely more heavily on portfolio breadth, geographic reach, retail scale, and corporate diversification. Hermès and LVMH were used as polar archetypes of these two strategic configurations, while the broader empirical panel allowed the analysis to move beyond a purely illustrative comparison.

The empirical findings provide a clear but disciplined answer to the research question. The strongest result of the thesis is that lower inventory intensity, interpreted as an observable proxy for tighter supply discipline, is systematically associated with higher operating profitability. This result appears in the descriptive evidence, the correlation analysis, the baseline regressions, and the robustness checks. It remains stable when profitability is measured through EBITDA margin, when inventory intensity is scaled by assets instead of sales, when the Covid shock year is excluded, and when either Hermès or LVMH is removed from the sample. This consistency gives strong support to Hypothesis 1. Firms that appear to exercise tighter supply discipline tend to display stronger pricing power, as reflected in their ability to preserve higher operating margins.

The evidence on resilience is more qualified. Inventory intensity is negatively associated with changes in operating margin, suggesting that firms with heavier stock intensity tend to experience less favorable margin dynamics. This is directionally consistent with Hypothesis 2 and with the argument that tighter supply discipline may protect firms from margin erosion. However, the interaction between inventory intensity and the 2024 slowdown period is not statistically significant, and some robustness checks weaken the resilience result. The thesis therefore cannot claim that

scarcity-related discipline became significantly more important specifically in the slowdown year. A more cautious conclusion is appropriate: scarcity-related discipline appears associated with stronger margin preservation over time, but the evidence for resilience during the specific normalization period is only partial.

The findings on growth are the most mixed. The analysis does not show that more inventory-intensive or scale-oriented firms systematically achieve stronger revenue growth once common time effects are taken into account. Revenue growth appears more sensitive to sector-wide shocks and rebounds than to inventory intensity alone. Hypothesis 3 therefore receives only limited support. The thesis does not demonstrate a simple trade-off in which scarcity always produces stable but slower growth and scale always produces faster but more volatile expansion. Instead, it shows that the stability-versus-expansion relationship is more complex and more dependent on the broader cycle than the profitability relationship.

Taken together, these findings support a nuanced conclusion. Scarcity-oriented discipline is not shown to dominate scale across every performance dimension. Scale continues to offer important advantages, including diversification, organizational resources, capital allocation capacity, and broad market reach. However, the evidence indicates that scale alone does not guarantee superior profitability, particularly when it is accompanied by greater inventory intensity. The most robust conclusion of the thesis is therefore that scarcity-related discipline constitutes an economically meaningful source of pricing power in luxury. Its clearest effect lies not in producing superior growth in every period, nor in fully insulating firms from slowdowns, but in protecting margin quality and sustaining the economic value of exclusivity.

5.2 Theoretical Contributions

This thesis contributes to the literature on luxury strategy and competitive advantage by reframing scarcity as a strategic mechanism rather than as a purely symbolic or aesthetic feature of luxury branding. Existing literature has long emphasized the importance of rarity, exclusivity, heritage, and dream value in luxury markets. However, this thesis argues, and provides empirical evidence consistent with the claim, that scarcity can also be interpreted as a form of strategic asset governance. If luxury brands derive value from intangible assets such as heritage, craftsmanship, symbolic legitimacy, and reputational capital, then scarcity helps preserve the economic appropriability of those assets by limiting overexposure and protecting their social meaning.

This perspective extends the Resource-Based View in the specific context of luxury. The RBV explains why valuable, rare, inimitable, and non-substitutable resources can generate sustained competitive advantage. Yet in luxury, the possession of valuable symbolic resources is not sufficient.

These resources must be continuously protected from dilution. Heritage, prestige, and brand equity may lose part of their economic value if the firm expands too broadly, distributes too widely, or allows access to become too easy. The thesis therefore shifts attention from the ownership of luxury-specific resources to their disciplined governance. Scarcity becomes one of the mechanisms through which firms preserve the rarity and credibility of the resources that sustain willingness to pay.

The thesis also contributes by connecting luxury branding theory with corporate strategy. Much of the luxury literature emphasizes exclusivity, while corporate strategy highlights the benefits of scale, scope, diversification, and parenting advantage. These two perspectives are often treated separately. This thesis brings them into direct comparison by asking whether scarcity-oriented discipline or scale-oriented breadth better protects pricing power and resilience during demand slowdowns. In doing so, it avoids a simplistic celebration of rarity and instead treats scarcity and scale as alternative strategic configurations, each with distinct advantages and costs.

A further contribution lies in the empirical operationalization of this theoretical tension. Scarcity is difficult to measure directly because it includes qualitative and organizational dimensions such as access regulation, selective distribution, production discipline, brand governance, and symbolic control. By using inventory intensity as a measurable proxy for supply discipline, the thesis offers a practical way to connect a complex strategic concept to observable firm-level outcomes. This proxy is necessarily imperfect, but it captures a meaningful operational dimension of scarcity: the extent to which firms avoid excessive stock accumulation and preserve sell-through discipline.

Finally, the thesis contributes to the understanding of performance heterogeneity within luxury. The industry is often discussed as if it were uniformly protected by high margins and strong brand equity. The results show instead that luxury firms differ materially in profitability, inventory intensity, and margin dynamics. These differences are not random. They are linked to deeper strategic configurations and to the way firms manage the tension between growth and exclusivity. The thesis therefore reinforces the idea that industry attractiveness alone cannot explain superior performance in luxury. Competitive advantage depends on how firms organize, protect, and monetize the symbolic assets on which luxury value rests.

5.3 Managerial Implications

The managerial implications of the thesis are significant because they concern one of the most difficult decisions in luxury management: how to grow without weakening the foundations of desirability. The findings suggest that managers should treat supply discipline not only as an operational issue, but as a strategic component of pricing power. Inventory intensity is not simply a balance-sheet ratio. In luxury, it can reflect the degree to which a firm maintains control over

availability, sell-through quality, and the risk of future markdown pressure. When stock accumulation becomes excessive, the firm may not only face financial inefficiency; it may also undermine the perception of scarcity that supports premium pricing.

For luxury managers, the first implication is that growth must be evaluated in terms of quality, not only quantity. Revenue expansion is attractive, especially during favorable demand conditions, but growth achieved through excessive access or inventory build-up may weaken long-term margin integrity. The post-pandemic boom demonstrated how rapidly luxury demand can expand under supportive conditions, but the subsequent normalization showed that not all growth is equally resilient. Managers should therefore distinguish between growth that reinforces brand desirability and growth that merely increases exposure to more cyclical or price-sensitive demand.

The second implication concerns pricing power. The findings suggest that firms with tighter supply discipline are better positioned to sustain high operating profitability. This does not mean that firms should restrict supply mechanically or artificially. Scarcity is valuable only when it is credible and aligned with brand legitimacy, product quality, and consumer perception. However, it does mean that managers should be cautious about strategies that pursue broader access without preserving the symbolic distance that makes luxury demand distinctive. In luxury, price increases are more defensible when they are supported by perceived rarity, craftsmanship, and controlled availability.

The third implication concerns scale. The thesis does not imply that scale is undesirable or incompatible with luxury. Large diversified groups can benefit from portfolio breadth, financial resources, geographic reach, and managerial capabilities that focused houses may not possess. However, scale must be governed carefully. The greater the organizational breadth of a luxury group, the more important it becomes to preserve brand-level discipline. A scale-based system can generate value, but it can also create complexity, heterogeneous demand exposure, and pressure to monetize brands across wider channels and customer segments. Managers of diversified luxury groups therefore face a particular challenge: they must exploit the advantages of scale without allowing scale to erode exclusivity.

The fourth implication relates to slowdown management. During demand normalization, the temptation may be to support revenue through broader distribution, promotional activity, or inventory-driven sell-through. The findings suggest that such responses may protect short-term sales but risk weakening margin quality. Luxury managers should therefore prioritize price integrity and brand discipline even when growth becomes harder to achieve. In a slowdown, resilience may depend less on aggressive demand capture and more on the capacity to preserve the conditions that make demand valuable in the first place.

Overall, the managerial message is not that luxury firms should avoid growth. Rather, it is that growth must remain subordinate to the preservation of desirability. The strongest luxury strategies are not those that maximize access, but those that convert controlled access into durable pricing power. In this sense, scarcity is not the opposite of growth. It is one of the conditions that allows growth to remain profitable, credible, and strategically sustainable.

5.4 Limitations

The thesis has several limitations that should be acknowledged clearly. The first concerns the size and composition of the empirical sample. The analysis is based on eight publicly listed luxury firms, selected because they provide sufficiently comparable financial data and represent meaningful variation in strategic configuration. This sample is appropriate for a focused sectoral study, but it limits statistical power and external generalizability. The findings should therefore be interpreted as structured evidence within the listed personal luxury goods segment, not as universal estimates for all luxury firms or all luxury categories.

The second limitation concerns the measurement of scarcity. Inventory intensity is used as a proxy for supply discipline, but scarcity is a broader and more complex strategic construct. It also includes selective distribution, controlled access, waiting lists, artisanal production limits, retail governance, pricing architecture, and symbolic brand management. Accounting data cannot capture all these dimensions. As a result, the empirical analysis measures one observable operational manifestation of scarcity-related discipline rather than scarcity in its full strategic meaning.

The third limitation concerns differences in category mix. The firms in the sample operate across categories with different inventory characteristics, margin structures, and demand dynamics. Leather goods, apparel, watches, jewelry, beauty, and other categories do not generate identical economic patterns. Some differences in inventory intensity may therefore reflect category exposure rather than strategic discipline alone. The thesis mitigates this issue through ratios, size controls, robustness checks, and cautious interpretation, but residual heterogeneity remains.

The fourth limitation concerns causal identification. The empirical design is explanatory and theory-driven, but it does not establish strict causality. The results show strong and stable associations between inventory intensity and profitability, but they do not prove that lower inventory intensity alone causes higher margins. The relationship is likely embedded in broader strategic systems that include brand strength, customer mix, distribution control, product desirability, and managerial discipline. The findings should therefore be understood as consistent with the theoretical argument rather than as definitive causal proof.

The fifth limitation relates to the observation period and data availability. The core analysis covers 2010–2024, while 2025 observations are treated only as supplementary because they are not equally complete across firms. This conservative choice improves comparability but limits the extent to which the thesis can fully evaluate the most recent phase of the slowdown. Future data may clarify whether the patterns observed in 2024 persist, strengthen, or weaken over time.

Finally, the thesis relies on publicly available accounting data. These data allow for comparability and transparency, but they cannot fully reveal internal managerial decisions, allocation practices, production constraints, markdown policies, or customer segmentation. Many of the mechanisms most relevant to luxury strategy operate inside the firm and are not directly observable in standardized financial statements. This limitation reinforces the need to interpret the empirical results alongside the theoretical and strategic analysis rather than in isolation.

5.5 Future Research Directions

Future research could extend this thesis in several directions. First, a larger sample of luxury firms could be developed, including private companies where reliable data are available. This would allow for stronger statistical power and a broader test of whether the relationship between scarcity-related discipline and profitability holds across different ownership structures and market positions.

Second, future studies could develop richer measures of scarcity. Inventory intensity captures an important operational dimension, but it could be complemented by indicators of retail selectivity, wholesale exposure, store density, product allocation practices, waiting-list dynamics, pricing frequency, markdown activity, and resale-market behavior. A multidimensional scarcity index would allow researchers to test whether different forms of scarcity have different effects on pricing power and resilience.

Third, category-level analysis would be particularly valuable. The strategic meaning of inventory discipline may differ across leather goods, apparel, watches, jewelry, and beauty. A category-specific dataset could clarify whether scarcity-related discipline is especially powerful in certain segments or whether the profitability relationship identified in this thesis holds across the full luxury spectrum. Such research would also help disentangle strategic effects from category-driven inventory patterns.

Fourth, future work could examine customer mix more directly. This thesis argues that scarcity-oriented firms may be less dependent on aspirational demand and more anchored in high-end clientele, but firm-level accounting data do not allow this mechanism to be tested directly. Data on customer segmentation, repeat purchasing, average transaction value, geographic demand concentration, and top-client contribution could provide a more precise understanding of how demand quality mediates the relationship between scarcity and resilience.

Fifth, the time horizon could be extended as more complete data become available for 2025 and subsequent years. The post-Covid normalization phase is still evolving, and additional observations would make it possible to assess whether the results identified in this thesis represent a temporary adjustment or a more durable reconfiguration of competitive advantage in luxury.

Finally, future research could combine quantitative analysis with qualitative case studies. Interviews with managers, analysis of retail practices, and detailed brand-level case evidence could reveal how firms make strategic decisions about supply, access, pricing, and growth. Such an approach would complement the firm-level panel design used here and provide deeper insight into the organizational mechanisms behind the observed financial patterns.

In conclusion, this thesis has shown that the distinction between scarcity and scale is not merely a theoretical contrast or a branding narrative. It has measurable economic implications. The evidence indicates that tighter supply discipline is strongly associated with higher profitability across listed luxury firms, while the evidence for resilience is supportive but more cautious and the evidence for growth remains mixed. The central lesson is therefore precise: in luxury, the ability to grow matters, but the ability to remain rare matters even more for the preservation of pricing power.

The strategic strength of luxury does not lie simply in selling expensive products. It lies in sustaining the conditions under which high prices remain credible and economically defensible. Scarcity, when disciplined and authentic, protects those conditions. Scale can amplify a luxury system, but it cannot substitute for the symbolic and operational discipline that gives luxury its pricing power. During periods of demand normalization, this discipline becomes especially visible. When growth is no longer effortless, the firms that are best positioned are not necessarily those that have expanded the most, but those that have preserved the strongest control over the meaning, availability, and profitability of what they sell.

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