Strategic Appraisal of Louis Vuitton
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1.0 Introduction and Company Background

Louis Vuitton Moët Hennessy (LVMH) is European luxury goods producing company that has headquarters in Paris, France and was formed following merger of Fashion house Louis Vuitton and Moët Hennessy. Though the company does not provide a vision statement, a look at its mission statement is a representation of its more than 60 luxury brands under LVMH management and that LVMH is focused on providing its consumers with luxury products, elegance, creativity and “Art de Vivre.” A complete mission statement can be seen in Appendix 1(LVMH, 2016). LVMH core business is based on five brand a category namely perfume and cosmetics, watches and jewelry, leather goods, wines and spirits with its Flagship brand Louis Vuitton accounting for more than a third of LVMH’s personal accessories sales and historically one of the company’s most profitable brands (Euromonitor International, 2016). LVMH currently operates in more than 50 countries operating more that 70 stores and employing 120,000 employees according to 2014 statistics (LVMH, 2016). The purpose of this assignment is to undertake a full strategic appraisal of Louis Vuitton Moët Hennessy towards generation, evaluation and selection of strategic options for the firm in its efforts to continue to grow and develop.

2.0 External Analysis

2.1 Wider Macro-Environmental Analysis

Policies, business rules and regulations affect the luxury industry. International policies such as Anti-counterfeiting Trade Agreement (ACTA) have been developed to harmonize anti-counterfeiting legislation around the world (Lagerqvist & Bruck, 2014). However, some policies in its major markets such as UK and China have had negative impact on the industry such as the 2009 UK’s increase in value added tax by 2.5% decreased disposable income and thus decreased spending on luxury products (BBC, 2014). China ban on sales of luxury goods affects LVMH negatively especially following the Crackdown on Corruption and Government Spending (Donovan, 2014).
## Economic Factors

Fluctuations in exchange rates have significant implications on LVMH performance as seen in 2014 where the company’s first half profits fell by 4% despite improvements in sales giving an indication of its vulnerability to fluctuations in exchange rates (Passariello, 2014).

In 2008, for example in UK, rate of inflation decreased by 0.3% to 0.4%, which had effect of increasing purchasing power of money and stimulated increased spending on luxury products.

Between 2007 and 2009, UK market GDP increased by 3.5% which helped to increase disposal income, and reduce speculative behavior of consumers especially during the 2007-2008 global financial crisis and its impacts on credit crunch.

## Social Factors

Chinese travelers are representing the fastest growing markets for luxury goods. According to a report by FBIC Global Retail & Technology, affluent Chinese travelers will likely play an important role for high-end brands where a typical Chinese traveler estimated to spent around US$1,678 on retail purchases per overseas trip while overseas spending by Chinese tourists expected to rise to US$422 billion (Luxury Society, 2015).

Chinese and EU market middle class is growing and corresponding growth in disposable income where it is estimated that for example in China, 75 percent of China’s urban consumers will earn $9,000 to $34,000 (McKinsey & Company, 2015), LVMH can tap into leveraging on its status symbol associated with consumption of LVMH brand extension and product categories (Mahbubani, 2013).

## Technological Factors

Consumers in China and European countries have 98.4% internet penetration and 86.45% do online transactions. Over 89.14% of consumers in these markets use internet to access information, seek opinion and socialize from online social networking platforms like Facebook and Twitter (Danziger, 2015). E-commerce in these markets is experiencing growth with luxury ecommerce argued to be experiencing much larger growth than other ecommerce sectors (Whiteman, 2015).

## Environmental Factors

Issues around climate change have implications on consumer perceptions and purchasing power. The green initiatives, eco-labeling and trends green consumerism is making luxury companies to reorient on their production methods (Lorenzoni et al., 2007).

LVMH has set environmental targets for every company in its supply chain which includes implementation of management systems for environmental targets.

## Legal Factors

EU ruling on sale of luxury goods online brand where owners restrict online sales giving manufacturers greater control over the sale of their goods. LVMH will benefit from this law by having brick and mortar’ shops as well as an online presence as well as increased barriers to new entrants.

### 2.2 Industry Analysis
PAGE 5 REMOVED
2.3 VRIO Analysis

<table>
<thead>
<tr>
<th></th>
<th>Valuable?</th>
<th>Rare?</th>
<th>Difficult to Imitate?</th>
<th>nonsubstitutable</th>
<th>Competitive implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial capability</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Temporary advantage</td>
</tr>
<tr>
<td>Human Resources</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Temporary advantage</td>
</tr>
<tr>
<td>Brand</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Temporary advantage</td>
</tr>
<tr>
<td>Innovation and savoir-faire</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Sustainable Advantage</td>
</tr>
<tr>
<td>Quality</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Sustainable Advantage</td>
</tr>
</tbody>
</table>

2.4 Value Chain Model

The Identification of Louis Vuitton’s Value Creating

Porter’s (1985) value chain will be used to identify Louis Vuitton’s Value Creating Activities.

![Value Chain Model Diagram]

Source: Porter (1985)

LVHM’s key primary activities include its operations it currently takes LVHM less time under the new 4-story system to assemble bags as the new system has increased the efficiency with which products are moved from one workstation to the other. This has enabled the company to distribute its products every six weeks, which is twice faster compared to the past (Donovan, 2014). Secondary activities that play a crucial role in the company include adoption of a common supply chain management system, investment in R&D, top notch designers and centralized system of management (Mahbubani, 2013)

2.5 Financial Analysis (LVMH & Competitors)
<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FINANCIAL RATIO</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RETURN ON ASSETS (ROA): (Net Income/Total Assets) x 100</td>
<td>8.75</td>
<td>7.28</td>
<td>2.33</td>
<td>2.28</td>
<td>7.91</td>
<td>12.51</td>
<td>ROA rising compared to LVMH. Level of efficient management of assets to generate earnings is higher at Richemont than LVMH</td>
</tr>
<tr>
<td>RETURN ON EQUITY (ROE): (Net Income/Total Stockholders’ Equity) x 100</td>
<td>19.57</td>
<td>15.46</td>
<td>9.39</td>
<td>9.16</td>
<td>17.25</td>
<td></td>
<td>LVMH ROE is decreasing compared to rising ROE of Richemont although Richemont and LVMH ROE are health (above 15%)</td>
</tr>
<tr>
<td>NET PROFIT MARGIN: (Net Income/Total Revenues) x 100</td>
<td>14.92</td>
<td>13.95</td>
<td>6.60</td>
<td>8.07</td>
<td>11.57</td>
<td>15.82</td>
<td>LVMH net profit is decreasing compared to increasing net profit margins of Richemont.</td>
</tr>
<tr>
<td>CURRENT RATIO: (Current Assets/Current Liabilities)</td>
<td>1.59</td>
<td>1.38</td>
<td>1.07</td>
<td>1.05</td>
<td>3.48</td>
<td>3.18</td>
<td>Richemont has higher ability to pay back its liabilities compared to LVMH. Both Richemont and LVMH show decreasing ability to pay liabilities.</td>
</tr>
<tr>
<td>DEBT/EQUITY RATIO: (long-term debt/shareholders' equity)</td>
<td>0.20</td>
<td>0.18</td>
<td>0.32</td>
<td>0.28</td>
<td>0.06</td>
<td>0.04</td>
<td>LVMH uses a higher debt financing compared to Richemont.</td>
</tr>
</tbody>
</table>

2.6 The BCG Matrix
Although two market segments where LVMH maintains a lead in terms of market share (Fashion & Design and Wines & Spirits) continues to grow materially, they can act as consolidators of the industry (The Fashion Law, 2015). These products currently act as the company’s “stars” and “cash cows” and “futures.” However, LVMH has opportunity for organic growth by entering the growing markets, such as Perfumes & Cosmetics, Watch & Jewelry and Selective Retailing markets (The Fashion Law, 2015). Additionally, LVMH has opportunity to focus on M&A to enhance its growth and profitability going forward.
However, LVMH suffers from declining margins where LVMH profits have been declining of late despite the cost-cutting measures that the company has initiated in the recent past. Declining shares is another issue LVMH shares have been declining lately. This is a weakness as it affects investor confidence in the company. LVMH closed the 2015 year with its shares having declined by about 3% in China (Reuters, 2015). Another weakness is Conflict of interest where LVMH faces a conflict of interest between fashion and Wines & Spirits. LVMH’s premium pricing strategy is detrimental considering that an average consumer might not be able to buy its products because of high prices when there is a slump in the economy. Furthermore, The broad acquisitions that LVMH has been making have not made any sense and only overburden the company as was seen following its acquisition of Pury & Luxembourg, which has been widely criticized for lack of room for art auction.

3.0 Competitive Strategy

The competitive strategy of LVMH should strengthen the business model from perspective of product, distribution, communication and price. The luxury industry is conventionally unique markets offering products and services that only a few can afford. Furthermore, the latest challenges that LVHM has been facing including counterfeiting, overreliance on Chinese markets and increased association with ‘celebrity status (Liu et al., 2006), have only increased necessitated for LVMH to offer more unique features that fulfill the demands of a narrow market or in other words, focused differentiation as seen under Bowman’s Strategy Clock (figure 3) (Thompson et al., 2013).

![Bowman’s Strategy Clock](source: Johnson et al., 2013)

Celebrity endorsements will also be and a critical element of LVMH brand communication strategy especially via utilization of social media tools to reach to upcoming artists by

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Adapted from Johnson, Whittington and Scholes, 2011

Source: Johnson et al., 2013
4.0 Evaluation of Strategic Growth Options

Strategic growth option selected need to satisfy suitability, feasibility and acceptability (SAF) framework in order to be considered for implementation as a future strategic direction (Agnihotri, 2013). The first criterion is determination of whether the strategic options are suitable and compatible within the current and expected external environment (Johnson and Scholes, 1989). Both the three strategic options (market development, product development and diversity) are suitable in the sense that the current competitive environment presents the opportunities that the company should take advantage amidst growing threats from counterfeiting, competition and other forms of unfavorable factors. Based on the PESTEL Framework, Porters five forces and SWOT analysis, it is obvious that all these strategies can effectively be implemented by employing the firm’s strengths and core competences. For example, product development can leverage on the brand popularity of the existing products to deal with counterfeit of its new products (Donovan, 2014). On the hand, product diversification will enabled LVHM to enter into new markets with less competition unlike when focusing on the current luxury market.

Regarding Feasibility, market development through organic growth is the most suitable option because the company has sufficient resources to pursue the option. When taking into consideration of internal capabilities of the company required for the three options, market development is cheaper to enter into new markets with existing products compared to the cost of developing new products or developing new products for a whole new market. Unlike the other options where the company will be required to invest in R&D, human resources, new product development expenses, market development will only require an addition of and training of manpower and establishment of new stores. Organic growth is feasible because it could make LVHM to look cheap on price-earnings or based on sum-of-parts approach, provide more portfolio management. It promoted generation of enduring brand value which is critical to long-term growth. Organic growth is acceptable due to effect on brand value, since organic growth could make LVHM to create more brand value due to her acquisitive nature. The LVMH organic brand value is responsible for 42% of luxury total enterprise value. This means that adaptation of luxury business models and pricing structures for various segments could improve LVMH brand value especially from accessible customers, aspirational customers and absolute customer segments.

5.0 Selected Strategy

5.1 Description of Selected Strategy

A market development strategy supports LVMH strategic direction. This could be achieved through sales strategy, marketing communication strategy and product strategy. Market development should be characterized by identification of target customer’s namely accessible customers, aspirational customers and absolute customer segments and characterization into economic buyer, technical buyer or end user). Market development should seek to identify
customer luxury product motivation factors for various segments (accessible customers, aspirational customers and absolute customer segments), capacity for LVMH to meet motivation, design of distribution channels, pricing and revenue models, economic competition, potential completion in the geographic markets. Market development within context of market geographies should be informed by customer profiles and profitability and based on segments (accessible customers, aspirational customers and absolute customer segments).

5.2 Resources Needed for its Implementation

LVMH require various resources towards realization of positive revenue and profit. The market development requires LVMH corporate management (Chief Executive Officers – C.E.O; Presidents, Chief Financial Officers – C.F.O. and key top planners. Planning should be done at strategic level (long term, three to five years). LVMH needs to define mission, objectives and business portfolio and growth strategy decisions. The corporate management should follow through to functional and operational planning levels for the growth strategy and these functional and operational plans should be consistent with corporate strategic plan for growth. Functional level resource to growth strategy includes LVMH vice presidents, top level functional area managers, marketing managers, logistics and procurement. Operational level resources include marketing plans, supervisory managers, product managers, brand managers, advertising managers, sales managers, division managers, geographic territorial managers, publicists and specialists in marketing research.

6.0 Conclusion

The growth strategy suggested in this report namely the market development approach through organic growth emerges as the best possible approach for LVMH to establish competitive advantage over its competitors. This has been determined by pitting this strategy against other options for growth that can be pursued. Though product development and diversification seem to be attractive for LVHM considering the field for expansion and possibly of winning new customers and making more sells, these options are disadvantages in terms of the resources required to pursue it and the financial aspect and the stakeholder aspect especially the
Reference List


Appendix 1: Full LVMH Mission Statement

The mission of the LVMH group is to represent the most refined qualities of Western "Art de Vivre" around the world. LVMH must continue to be synonymous with both elegance and creativity. Our products, and the cultural values they embody, blend tradition and innovation, and kindle dream and fantasy.

Appendix 2: Porter’s Value Chain for LVMH
<table>
<thead>
<tr>
<th>Primary activities</th>
<th>Secondary activities:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inbound logistics</td>
<td>Procurement and develop</td>
</tr>
<tr>
<td>The company utilizes quality materials to ensure that quality is not compromised and that customers get value for money.</td>
<td>Investment in R&amp;D</td>
</tr>
<tr>
<td>LVHM sources most of its critical materials, such as leather, clasps and zippers from external suppliers</td>
<td>Use of modern and advanced engineering technology</td>
</tr>
<tr>
<td>Quality leather used in the manufacture of high quality products are sourced from Northern Europe that is free of skin insect bites on animals.</td>
<td>Adopts a perfect and creative production process based on the latest technology.</td>
</tr>
<tr>
<td>LVHM manufactures its products in-house with the company owning 17 factories by 2011.</td>
<td></td>
</tr>
<tr>
<td>LVHM has a team committed workers numbering 10. Organizing the factory system into groups has helped the company free up estimated 10% of the factory’s floor space. This has seen the company recruit more than 300 new employees without necessarily having to open a new production factory.</td>
<td></td>
</tr>
<tr>
<td>It currently takes LVHM less time under the new factory system to assemble bags as the new system has increased the efficiency with which products are moved from one workstation to the other. This has enabled the company to distribute its products every six weeks, which is twice faster compared to the past.</td>
<td></td>
</tr>
<tr>
<td>LVHM has a team of passionate team of craftsmen</td>
<td>Loyalty programs</td>
</tr>
<tr>
<td>LVHM owns its stores</td>
<td>Customer service to customers</td>
</tr>
<tr>
<td>LVHM uses external logistics companies, such as FedEx in distributing its products.</td>
<td>After sale services to customers</td>
</tr>
<tr>
<td>Company has control over the sale and distribution of its products in all the business units.</td>
<td></td>
</tr>
<tr>
<td>Adopts a selective retailing strategy</td>
<td></td>
</tr>
<tr>
<td>Invests heavily on media advertising</td>
<td></td>
</tr>
<tr>
<td>Has an exclusive distribution channel</td>
<td></td>
</tr>
<tr>
<td>Adopts a common supply chain management system</td>
<td></td>
</tr>
<tr>
<td>Top notch designers</td>
<td>Specialized training and development for craftsmen</td>
</tr>
<tr>
<td>Specialized training and development for craftsmen</td>
<td>Focuses on acquiring and retaining top-notch-talent and employees</td>
</tr>
</tbody>
</table>
Appendix 3: Resources and competencies evaluation

a. Physical resource
LVMH has experienced immense growth over the past decade to become a world leader in the luxury goods company. By Mid 2010, the Paris based company’s retail stores had grown to 2,468, making about 4.1% growth compared to the previous year (LVMH, 2015). As part of its marketing strategy, the firm has decorated its inner stores beautifully to provide customers with a peculiar experience as they go about buying the company’s products (Thompson, 2001). In contrast to its rivals in the market, LVMH ensures that high standards of store decoration and product display are maintained throughout its stores. The company has maintained this standard even in China where counterfeiting is a big challenge (Irreland et al., 2008).

b. Financial resources
For a company to succeed in the present-day's competitive business environment the company must have a strong financial footing otherwise it might not be able to meet all its objectives (Wendlandt, 2013). Accordingly, LVMH has set a long-term strategy of building a string brand loyalty and heritage culture to ensure sustainability of its financial performance. During the recent economic recession of 2009, most luxury goods companies experienced a huge decline in performance due to the decline in consumer purchasing power. Even as other luxury goods companies struggled, LVMH was not affected much as the Paris-based company realized just a slight decline in its performance. For instance, in 2009, the firm’s revenue and profits plummeted by just 0.8% and 7.6% respectively compared to the previous year’s performance (LVMH, 2015). LVMH, however, managed to improve its financial performance in the first half of 2010 by taking advantage of the economic recovery that followed the 2009 recession (LVHM, 2014). As such, LVMH is better placed financially and can utilize these financial resources for business expansion, R&D, as well as marketing to give it a competitive edge in the industry.

c. Human resources
Since its founding in 1987, LVMH adopted a human resource policy that is specific to the individual global country. However, the Paris-based firm changed its HR policy in the 1990s, where it began adopting an international standard HRM policy. The adoption of an internal standard has helped the company achieve effectiveness and efficiency with regards to its HR. For instance, the new HR approach about talent management has helped LVMH establish a globalized working environment (LVMH, 2013).

Although building a successful luxury brand is challenging as it does not just involve attracting people’s attention, the company’s CEO Bernard Arnault has managed to overcome the luxury brand building challenges by hiring a pool of talented and competent talents comprising General administration:
- Centralized system as various brands operate autonomously with regards to brand image and creativity
- Managers are few.
of designers. Accordingly, having a pool of talented workforce has enabled LVMH build a strong brand and values that are globally recognized, which has effectively given the company a competitive edge over its rivals in the industry (LVMH, 2013).

2.2.2 Core competencies

LVMH core competencies, according to the company’s CEO include provision of quality products and services, strong brand appeal, and rigorous activities. These competencies have not only helped enhance the position of LVMH in the market, but also enabled it secure its share of the market (Reuters, 2013). LVMH’s success formula can be defined into four fundamental elements, including product, price, promotion and distribution. Overall, the firm has done a good job with regards to product, promotion and distribution, which supports its premium pricing strategy. For many years now, the strategy has worked exceptionally well for the company as it has helped the company entice customers through beautification status symbols, effective advertising and good stores (LVMH, 2015).

Appendix 4: Framework For SAF analysis

![Figure 1](#)