JOURNAL LA BISECOMAN

VOL. 03, ISSUE 05 (212-216), 2022
DOI: 10.37899/journallabisecoman.v3i5.826

Contemporary Analysis of Louis Vuitton Moët Hennessy: Strategic Variables Affecting the Business Performance

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Article Info

Article history:
Received 11 August 2023
Received in revised form 19 September 2023
Accepted 27 September 2023

Keywords:
Louis Vuitton
Business Performance
Contemporary

Abstract

This report concentrates on LVMH, the largest producer of luxury goods globally. Moreover, this paper explores the three prevailing strategic variables which collectively affect the business performance of LVMH. LVMH, a company that operates across various sectors such as fashion and leather goods, perfumes and cosmetics, watches and jewellery, and wines and spirits, is subject to various strategic influences that have implications for its operations and expansion. Furthermore, this report aims to determine an appropriate strategy to tackle the conditions faced by LVMH, relying upon the strategic management concepts, frameworks, and models presented in the class. Ultimately, this paper recommends that LVMH should implement diversified strategies to effectively address the preferences of the younger generation and their customer base. The strategy should leverage technological progress and the prevailing patterns that impact the sales and manufacturing of commodities. To enhance its success, LVMH should consider investing in more effective management practises. It should consider targeting a wide range of demographic groups. LVMH could enhance its market reach and alleviate consumer research efforts by broadening its retail distribution channels and offering luxury-priced merchandise. The implementation of the suggested strategies should be carried out in a synchronised manner while embracing a prolonged outlook..

Introduction

Numerous events in contemporary history have significantly impacted the luxury goods sector, necessitating a shift in the management and marketing strategies luxury brands employ to appeal to their target audience. Expanding disposable incomes, reduced unemployment rates, and rising affluent consumers in developing nations have contributed to a more favourable climate for indulgence in luxury goods (Truong et al., 2009).

Furthermore, the luxury fashion industry is a significant global sector with a multi-billion-dollar valuation, encompassing numerous brands of great significance. This category includes luxury brands such as Louis Vuitton, Hermès, and Gucci. These brands hold significant value and wield substantial influence on a global scale. Despite the significant scale and revenue generation of the luxury fashion industry on a global level, the sector has experienced sluggish growth in its strategic business trajectory. Luxury brands were historically managed using conventional business practices, which relied on intuition and occasionally experimental approaches to decision-making. The conventional advertising methods were heavily emphasized in the traditional approaches, along with a significant emphasis on product development and publicity generation. The present-day worldwide economic landscape necessitates advanced and refined business strategies in managing luxury goods, owing to its swift evolution and intricacy (Okonkwo, 2016).

ISSN 2721-0987 (Print), ISSN 2721-124X (Online)

LVMH (Louis Vuitton Moet Hennessy), a multinational corporation specializing in luxury goods based in France, operates globally. The company is engaged in various industries, such as fashion and leather products, perfumes and cosmetics, timepieces and ornamental jewellery, and spirits and wine. Hence, this report concentrates on LVMH, the largest producer of luxury goods globally. Moreover, this paper explores the three prevailing strategic variables which collectively affect the business performance of LVMH.

Aim

This aim of this report is to determine an appropriate strategy to tackle the conditions faced by LVMH, relying upon the strategic management concepts, frameworks, and models presented in the class.

Identifying the Issues

Porter and Kramer (2006) identified five forces that impact a company's competitive environment. Entry and exit barriers threaten the achievement of LVMH's objectives. The luxury market is characterised by various entry barriers such as differentiation, access to unique factors, unrecoverable expenses, and economies of scale (Chen, 2021). Previously, LVMH had been a prominent player in the market, generating substantial profits. Recently, the pricing of their products has been impacted by various external factors, including the proliferation of counterfeit brands offering products at significantly lower prices, posing a threat to their sustainability (Trinh & Phau, 2012). An additional exogenous variable pertains to the rise of alternative high-end labels, such as Gucci and Prada, and the reliance on the Japanese market (Chen, 2021).

The reputation of LVMH, a company renowned for exhibiting high-quality and sophisticated merchandise, has been compromised by the proliferation of counterfeit products. Consequently, patrons who exhibit loyalty towards a particular brand have switched to alternative options with more complexity in replication or imitation (Amaral & Loken, 2016). The prevalence of counterfeit products has had a significant impact on numerous companies, including LVMH. However, LVMH has been particularly affected by this issue, as it has resulted in a shift in customer perception of the brand. Specifically, younger customers now tend to associate LVMH with an older generation, leading them to seek more contemporary brands that better align with their preferences and requirements (Hansen & Moller, 2017).

The political landscape has had an impact on LVMH, as evidenced by the decision of the United Kingdom to withdraw from the European Union, as per the PESTEL analysis. Consequently, there has been an increase in the import tariffs levied on the merchandise of Louis Vuitton. Consequently, certain nations, including China, impose raised tariffs on imports, leading to a significant price disparity that prompts consumers to seek cost advantages by procuring the product from overseas markets. As a result, LVMH has been inclined to allocate resources toward the tourism sector (Cavender & Kincade, 2014).

From an economic standpoint, LVMH products experience a notable decline in sales due to the price differential caused by other countries raising the prices of said products. In light of the economic downturn caused by the COVID-19 pandemic, there has been a decrease in consumer demand resulting in reduced purchasing by potential customers. Consequently, the escalation of prices led to a reduction in sales volume. Additional variables encompass the contemporary advancements in technology as a promotional medium and the societal outlook towards the brand's merchandise that fluctuates, necessitating adherence to consumer predilections (Karaosman et al., 2023).

ISSN 2721-0987 (Print), ISSN 2721-124X (Online)

Strategic Influences

LVMH, a company that operates across various sectors such as fashion and leather goods, perfumes and cosmetics, watches and jewellery, and wines and spirits, is subject to various strategic influences that have implications for its operations and expansion. The following strategic influences have been significantly noted in LVMH's business performance:

Brand Portfolio

Companies that offer multiple product categories are faced with whether to adopt a unified brand encompassing all categories, employ distinct stand-alone brands for each category, or utilise a hybrid approach combining elements of both extremes. This spectrum ranges from corporate branding, which emphasises a unified brand, to individual product branding, which emphasises distinct branding for each product. Various approaches exist that firms can employ: establishing and preserving local brands, incorporating global concepts and local modifications to revamp their brands or establish novel ones, procuring brands, or devising brand extensions. Irrespective of the approach employed, the capacity of a company's brand portfolio to optimise brand equity will be assessed (Devlin & McKechnie, 2008). The brand portfolio of LVMH is a significant strategic factor influencing the company. LVMH is the parent organisation of several prestigious luxury brands such as Louis Vuitton, Dior, Fendi, Givenchy, Bulgari, and Moet & Chandon, among others.

The varied range of products held by LVMH allows for the utilisation of their proficiency in various product categories and geographical locations. Additionally, this assortment safeguards against market instability in any singular market (Donzé & Wubs, 2020).

Distribution Channels

The extensive distribution channels of LVMH represent a significant strategic influence. The corporation has established a robust foothold in brick-and-mortar retail and digital commerce. It has made significant investments toward augmenting its internet-based distribution platforms recently. LVMH has an extensive array of retail outlets in prominent luxury shopping locations globally, including Avenue Montaigne in Paris and Fifth Avenue in New York (Devlin & McKechnie, 2008).

The strategic impact of LVMH's geographical diversification is noteworthy. The organisation has an international presence in over 70 nations, encompassing established markets like Europe and emerging economies like China and India. Diversifying is a risk management strategy of LVMH in the face of regional recessions or other geopolitical risks.

Vertical Integration

LVMH's success can be attributed to a significant internal factor, namely, its vertical integration. The organisation has significantly invested in promoting excellence in the upstream and downstream sectors.

Consequently, the management of links on product sourcing, marketing, and selective retailing has been regulated. This has facilitated the proficient administration of the market and its commodities. The phenomenon of vertical integration has been facilitated by the strategic acumen of leaders who understand autonomous factions and how personnel can be incentivized to optimise the organization's achievements (Chen, 2021).

ISSN 2721-0987 (Print), ISSN 2721-124X (Online)

Table 1. Categorising the Influences and Understanding the Impact

Strategic Influences	Category
Brand Portfolio	External
Distribution Channels	External
Vertical Integration	Internal

The strategic influences all relate to the internal and external activities of LVMH. LVMH is a multinational conglomerate operating in the luxury retail industry, encompassing various luxury brands across various tiers.

For the brand portfolio, the prevailing belief is that during a recession, consumers in the upper to lower-middle-income brackets tend to curtail their expenditure on non-essential items and high-end brands. During periods of robust economic growth, luxury goods tend to perform exceptionally well. Consumers of Dom Perignon champagne may choose to exercise financial restraint and switch to Veuve Clicquot champagne, which is frequently priced at a lower point while still retaining a high level of quality. Consumers who typically purchase products from Louis Vuitton may opt to switch to alternative luxury brands such as Marc Jacobs or Christian Dior. Notwithstanding, LVMH retains the enterprise due to its extensive diversification and magnitude in the luxury goods sector (Yu,2022).

As for the distribution channels, the company has implemented a global expansion strategy through the utilisation of an exclusive distribution and supply system. The company has strategically established distribution channels in promising markets and implemented a multinational branding strategy. The conflation of international and multinational distribution strategies has facilitated the company's ability to surmount adverse externalities, including political pressures that impact the company and its sales (Lai, 2022).

Moreover, vertical integration has been facilitated by the sharp awareness of independent groups and the effective motivation of employees by strategic leaders, thereby contributing to the company's overall success. LVMH has strategically invested in fostering robust synergistic relationships that facilitate the exchange of resources across its various constituent entities (Chen, 2021). This practise guarantees the preservation of each group's distinct identities and autonomy while enhancing inter-group cohesion.

Conclusion

To conclude, the examination of LVMH indicates that the company's sustained expansion is primarily attributed to effective leadership and innovative practises. LVMH has implemented functional business and corporate strategies, focusing on concentric and focused diversification. The implemented strategies have positioned the organisation in a distinctive stance and sub-classification relative to its rivals. Furthermore, LVMH has achieved favourable sales and performance outcomes as a prominent luxury enterprise by implementing a combination of strategies and leadership approaches. Implementing international, corporate, and multinational strategies has proven to be efficacious in enhancing brand image, production, and distribution, enabling the organisation to sustain its market leadership.

Recommendations

It is recommended that LVMH implements diversified strategies to effectively address the preferences of the younger generation and their customer base. The strategy should leverage technological progress and the prevailing patterns that impact the sales and manufacturing of commodities. To enhance its success, LVMH should consider investing in more effective management practises. It should consider targeting a wide range of demographic groups.

ISSN 2721-0987 (Print), ISSN 2721-124X (Online)

LVMH could enhance its market reach and alleviate consumer research efforts by broadening its retail distribution channels and offering luxury-priced merchandise. The implementation of the suggested strategies should be carried out in a synchronised manner while embracing a prolonged outlook.

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ISSN 2721-0987 (Print), ISSN 2721-124X (Online)