

Lymh report



**ASSIGN
BUSTER**

Business Report of LVMH Group members: Rining Mutang Beili Yin 10130350
10153456 10095036 Sekit Chubuppakarn Xu Yang 10095786 10136050

Mahsa Tolou Sharifi 0 Executive summary LVMH, the world's largest luxury group, came into being with the mergers of Moët Hennessy and Louis Vuitton in 1987. Besides its traditional strengths in wines & cognac and leather & fashion goods, other three are perfumes & cosmetics, watches & jewelry and selective retailing. In the external environment of part two, the report analyzed the relevant dimensions of the macro environment by use of the PESTEL framework and the luxury industry by the Five forces framework.

The global economy, people's expectations on luxury goods, drive for technological application, rarity of raw materials, and intellectual property laws all have an impact on LVMH in a broad sense. In a narrower sense, market entry into the luxury sector is defined low, threat of substitutes neutral (low to loyal customers but high to those who normally cannot afford), the power of suppliers, the power of buyers and competitive rivalry all high. Generally the luxury industry can be regarded as in the shake-out stage; however, people in the US, wealthy European countries and different Asian countries are in the different stages of luxury spread process. Following the life cycle of the industry, the cycles of competition model will be illustrated to explain the strategic moves of LVMH and its two main competitors PPR and Richemont. In the strategic capabilities of part two, the report presented LVMH's physical resources, financial resources, human resources and intellectual capital. The Group's core competencies lie in four key elements and price. product, distribution, communication

In the culture and strategy of part two, LVMH's corporate values and culture, and the cultural web in terms of symbols, organizational and power structure and control system are presented respectively. LVMH stresses on the creative design and quality excellence of its products. At the corporate level, LVMH expands horizontally and vertically in both backward and forward integration. The Group's good corporate parenting adds value to the individual brand underneath it. LVMH's strategic direction can be defined as diversification, a combination of market penetration, product development and market development.

The Group's current product portfolio, as diversified as over 50 brands, is shaped by Bernard Arnault's constant acquisitions. LVMH's mission is to let art travel around the world, but due to its price mark-up, the country it enters should have sufficient customers who can afford the LVMH products. Therefore, the Group's international strategy more follows the people of high income than particular countries. The way LVMH chooses to enter a foreign market is usually by acquisitions of reputational domestic brands.

At the business level, we mainly present the strategy of Louis Vuitton, the star brand under LVMH, which accounts for 60 per cent of the Group's revenue. Louis Vuitton differentiates itself by four approaches: stick firmly to the full price, pick store locations professionally, control the production strictly, and manage its own inventory. Innovation and entrepreneurship are fundamental drivers in today's economy, even for well-established MNCs like LVMH. Vigorous product and process innovation contributes to LVMH's long-standing success.

The challenge for entrepreneurs at the maturity stage is to keep their passion and momentum to create new growth for the company. However, this doesn't seem a problem for Bernard Arnault, who has been the CEO of LVMH since 1988.

2 Contents

1. Introduction
2. The strategic position
 2. 1 External environment
 2. 1. 1 The macro environment: PESTEL framework
 - a. Economic
 - b. Socio-cultural
 - c. Technological
 - d. Environmental
 - e. Legal
 2. 1. 2 Sources of competition: Five forces framework
 - a. The threat of entry
 - b. The threat of substitutes
 - c. The power of suppliers
 - d. The power of buyers
 - e. Competitive rivalry
 2. 1. 3 Life cycle of the industry
 2. 1. 4 Cycle of competition
 2. 2 Strategic capabilities
 2. 2. 1 Resource categories
 - a. Physical resources
 - b. Financial resources
 - c. Human resources
 - d. Intellectual capital
 2. 2. 2 Core competencies
 2. 2. 3 Culture and strategy
 2. 3 Corporate values and culture
 2. 3. 1 Corporate values and culture
 2. 3. 2 The cultural web
 - a. Symbols
 - b. Organizational structure and power structure
 - c. Control system
 3. Strategic choices
 3. 1 Corporate level strategy
 3. 1. 1 Value-added by corporate parenting
 3. 1. 2 Diversification
 3. 1. 3 Portfolio management
 3. 2 International strategy
 3. 2. 1 Market entry strategy and entry mode
 3. 2. 2 Market selection
 3. 2. 3 Difficulty of imitation
 3. 2. 4 Drivers for internationalisation
 3. 3 Business level strategy
 3. 4 Innovation and entrepreneurship
 3. 4. 1 Product and process innovation
 3. 4. 2 LVMH's Diffusion S-curve
 3. 4. 3 Portfolio of Innovation Options
 3. 4. 4 Entrepreneurship
4. Conclusion
 4. 1 Introduction
 - Moët Hennessy and Louis Vuitton merged in 1987 forming the incumbent luxury goods conglomerate LVMH (LVMH, 2010). The Group's First Half 2010 Interim Report announced double-digit revenue growth rate in all the five business lines that LVMH is active in: Wines and spirits Fashion and leather goods Perfumes and cosmetics Watches and jewelry Selective retailing There is no

other sector like luxury that the higher the price the more customers desire will be. This is because luxury is a package of tangible product and intangible benefits like emotional satisfaction from others admiration and respect (Okonkwo, 2007). Due to its existing presence in the industry, LVMH is getting through the economic turmoil comparatively well, which is largely driven by the strong momentum of its Louis Vuitton brand (The Economist, 2009).

The Group's latest move will be expanding into LVMH hotel management of the Cheval Blanc brand in Egypt and Oman. This initiative was mainly driven by the demand from its current customers for luxurious travel experiences (Socha, 2010).

2. The strategic position

2.1 External environment

2.1.1 The macro environment: PESTEL framework

a. Economic Global economies have been recovering with uncertain factors still existing. However, due to its established global presence, LVMH's outlook is positive, both in the major markets developed countries where its leadership position has been firmly secured over decades and where people's pursuit for quality luxury is believed to continue; and in emerging markets where the Group's solid foundations has been established and expansion will be accelerated at the right timing (LVMH, 2010). In spite of the economic downturn, the Group has been benefiting from the strong growth in Asia and resilience in Europe. Recessions come and go, but some individuals are always willing to spend on luxury goods like handbags and watches, which in return pay them back in quality life and admiration from friends (Hazlett, 2004).

No matter good or bad economy, it does not have much impact on the spending of those really rich elites. However, according to Bernstein

Research, the rapid growth of luxury goods industry is primarily being driven by the strong demand from the middle class, who account for almost 60 per cent of the total sales (The Economist, 2009). With a quite large and fast growing discretionary income, those affluent middle class have a quite positive attitude towards luxury goods, the quality of which is their first requirement of purchasing (Chevalier & Lu, 2010). . Socio-cultural According to Chevalier and Lu (2010), many luxury goods will be tailored to Asian preference specifically. The underlying reason of Asians affection towards luxury is social order transformation in many Asian countries. A person s social status is no longer rigidly decided by birth and his or herfamilybackground, but based on how much wealth the person possesses. Even though a person was born in a humble background, he or she has opportunities to climb up the ladder and make enoughmoneyto reach certain social status.

Then question comes how to turn the wealth in the bank account into something more noticeable and measurable so that can win respect from others. The influx of western luxury brands with outstanding logos and worldwide recognition seems perfect solution to many Asian new rich (Chadha & Husband, 2006). In contemporary Asia, luxury brands are wearable symbols of identity and social status, while in the US and European countries, consumers are relatively more sophisticated and the luxury goods are regarded as a kind of lifestyle (Okonkwo, 2007). The socio-cultural challenge for LVMH would be how to keep a balance between different markets where expectations from its products are different. c. TechnologicalTechnologyis supposed to post a significant challenge on every

aspect of the luxury industry, from raw material sourcing to strategy development. In the past decade, there has been many business applications related to ICT (Information and Communication Technology) such as ERP (Enterprise Resource Planning) and SAP (Systems, Applications, and Products). All these common databases can help to make things smoother for process flow inside the supply chain.

In this way, the data regarding the market conditions could be analyzed and passed on more effectively and rapidly, also it will be possible to predict the demands of consumers with higher accuracy, the latest designs and prototypes would be able to be proposed at a quicker rate, and there will be reduced lead time when it comes to the releasing of latest products. When luxury brand companies are fully integrated into ICT systems, it may very well help them to create and come up with fresh competitive advantages. Besides that, the organization will also achieve a greater balance in terms of efficiency and cost (Okonkwo, 2010). . Environmental LVMH s success is hugely based on their sales from their luxury brands. In this market, luxury brands are a massive intangible asset, therefore the perceptions and image that is perceived by the public can greatly influence the values of the brand. This is an important issue that LVMH need s to monitor closely. If LVMH wants to maintain and also improve the reputation of their brands, the company should focus on vital components that have already been implemented by many luxury brand companies, which is the Corporate SocialResponsibilityof environmental protection (LVMH, 2009). 7 e.

Legal The Louis Vuitton brand is the most frequently counterfeited one in the luxury category (Chadha & Husband, 2006). The company has 40 lawyers

and 250 investigators and spends approximately \$18 million every year on combating counterfeiting. The issue is particularly serious in China, where most of the faked products come from and the protection for intellectual property rights is weak (Okonkwo, 2007). However, the China Government has shown its efforts to take this issue seriously by approving new laws, raiding on the counterfeiting factories and closing some notorious markets flooded with faked products. . 1. 2 Sources of competition: 5 forces framework a. The threat of entry With help of the Internet, it is possible for a brand to achieve global awareness and credibility within five years. The ever increasing global mobility through business trips and travel also contributes to the rapid expansion of the luxury market. At current stage, entry into this industry is relatively easy (Okonkwo, 2007), especially in the emerging markets where the brand war for market share is still fiercely ongoing. b.

The threat of substitutes Due to the low copy cost and easiness to sell, luxury brands are widely counterfeited. It is estimated that over 80 per cent of the faked products are from Asia, particularly from China, and then distributed worldwide (Chadha & Husband, 2006). With the improving technology and workers skills in China, the quality of counterfeit products are not so obviously inferior to the original ones as they used to be. Moreover, the worldwide distribution chain is getting more and more sophisticated despite the combat of the government and the luxury brands. c.

The power of suppliers When it comes to the production of luxury products, there is high level of quality and exclusive designing involved which are the main factors for success and attracting 8 customers. In order to accomplish

this, the organization needs the combination of highly trained workers and also premium and only top notch input materials when they create, produce, and market the product. In the case of LVMH, they need to establish and maintain tight relationship with their suppliers to ensure that they always receive high quality materials and designs (LVMH, 2010).

Besides that in the luxury goods market, luxury apparel and accessories have been categorized by factors such as exquisite craftsmanship together with high quality and design, therefore the producer of the brand cannot outsource the production processes to other countries other than the original country from which the product was recognized internationally. This is why, the power of suppliers in the luxury goods market can be classified as medium to high, depending on how much input that is received by LVMH. . The power of buyers In the case of LVMH, their buyers are the many retailers in the market which can range from small to large companies. The market players in this sector are the manufacturers such as LVMH. The buyers can push for a strong bargaining position when there are more and more players in the retail market. This industry that LVMH are involved in can offer a wide range of fashion products and also, a wide range of functional classes within the market such as styles, material, logos, and so on.

When a particular brand has become a strong and well known brand, the power of buyers will be decreased and retailers have no choice but to provide the wishes of the end user. Besides that, a new trend that has been popular with some major companies who started erecting their own stores, which is known as forward integration (Chadha & Husband, 2006) . e. Competitive rivalry Some of the big conglomerates that are the competitors

Korea, since their earlier exposure to western brands after the economies took off in early 1990s, people buy luxury goods more for fitting into their lives than just showing off; Hong Kong and Singapore are even further on their way to integrate luxury as a way of life, like the US, wealthy European countries and Japan (Chadha & Husband, 2006). 2.1.4 Cycle of competition LVMH's merger into LVMH in 1987 inspired the establishments of two other French conglomerates PPR and Richemont. The three companies are generally referred to as the big three in the luxury industry (Chevalier & Mazzalovo, 2008). PPR is not as pure a luxury company as LVMH, as it has other businesses like department stores and book and consumer electronics retailing.

Since margins in the luxury market are more attractive, it is very likely that PPR will sell the other non-luxury businesses (The Economist, 2006). Compared with LVMH, Richemont is more relying on the watch and jewelry sector, which is the most severely affected category in case of economic crisis (The Economist, 2009). LVMH's traditional strengths are in its wine & cognac and fashion & leather goods lines. With Bernard Arnault's acquisition strategy, the Group has been kept expanding into other business lines and international markets.

It can be expected that the war between the big three will be how smartly they deploy diversified brands in the future. World-renowned but still independently run brands like Armani, Chanel and Hermes are very likely to be the next targets. 2.2 Strategic capabilities 2.2.1 Resource categories a. Physical resources By 30 June 2010, LVMH has 2,468 retail stores worldwide, a 4.1% expansion rate on the previous year (LVMH, 2010). Inner decoration

of the stores reflects the LVMH traditions and the emotional buzz offer customers unique experience of purchasing luxury and the attention they need (Chevalier & Lu, 2010) .

Unlike some of its competitors, LVMH insists on the high standard of its store decor and product display like everywhere else when it approaches the Chinese market, where counterfeiting is big problem (The Economist, 2009).

12 b. Financial resources LVMH s long-term strategies of building the heritage culture and brandloyaltysupport the sustainability of financial management performance of the organization. In the regression year 2009, LVMH, which are luxury goods, generally, supposes to have a big effect by low confidence of consumer spending. However, in 2 009, there was just only slight decrease (0. % in revenue and 7. 6% for the profit) in the revenue and profit for LVMH compared to that of 2008 (LVMH, 2009). Furthermore, in the first half of 2010, LVMH can pick up the advantages of economy recovery and perform very well. The revenue and the profit of LVMH were 9, 099 and 1816 million Euros, which significantly rise 16% and 33%, respectively, compared to the same period in (LVMH, 2010). There is also the dramatic decrease in the cost of financial debt by 27% compare to the same period in 2009 (LVMH, 2010.). The fixed assets (tangible and intangible) of LVMH are worth 20. 2 billion in 2010 (LVMH, 2010).

Moreover, As of June, 30, 2010, LVMH s credit facilities went over 3. 9 billion Euros which 3. 8 billion Euros w ere the undrawn amount (available) (LVMH, 2010.). LVMH can confidentially continue to invest in the potential projects with these large financial resources. c. Human resources LVMH used to adopt human resource policy applied to every individual country, but from early

1990s, the Group found having a global standard HRM system helped it to achieve higher effectiveness and efficiency. This new approach, regarding human talent as a world pool, creates an international working environment for LVMH.

Besides the requirement of matching with LVMH's corporate culture, the more important determining factor in recruitment has become whether the candidates can bring about something new to the company (Business Europe, 1993). The common HR rules encourage cross-border mobility (normally once every five years) that is important career path within LVMH. Moreover, LVMH has been involved in the partnership with top education institutes in order to bring the potential talents into the organization (LVMH, 2010).

13 d. Intellectual capital Building a luxury brand is a complicated task more than just catching people's attention. The success formula of brand building by Bernard Arnault, LVMH's CEO, is unique positioning of the brand building on its history and the right designers to express the brand values, plus strict quality and distribution control and creation of marketing buzz (Chevalier & Lu, 2010).

2. 2. 2 Core competencies According to Bernard Arnault, CEO of LVMH, high quality of the products, strong appeal of the brands, and rigorous activities of the Group are LVMH's main advantages that make it stand out and secure market share (Business Wire, 2010).

There are four key elements of LVMH's success formula product, distribution, communication and price. LVMH has done a fantastic job on the first three elements supporting the high-end price which identifies the extreme value of the product and differentiates its brand from the others. For decades

LVMH's formula has worked amazingly: customers are seduced by beautiful status-symbols, perfect shops and clever advertising (The Economist, 2009).

2. 3 Culture and strategy 2. 3. Corporate values and culture Corporate values, usually written down as statements, are the most visible reflections of a company's mission and strategies (Johnson, Scholes & Whittington, 2010). In order to generate the unifying corporate culture of the diversified organization, company need to provide the effective leadership, defining goal and creating the set of values and beliefs. It might be very difficult for the diversified multi-business organization which has many different businesses like LVMH to crate the unifying corporate values culture (Grant, 2005).

However, with the great attempt, LVMH has successfully created the five values, which are respectively (LVMH, n. d.): Be creative and innovate 14 - Aim for product excellence Bolster the image of our brands with passionate determinat ion Act as entrepreneurs Strive to be the best in all we do 2. 3. 2 The cultural web a. Symbols Louis Vuitton is most famous for its Monogram series. The delicate Monogram pattern was created to prevent counterfeiting at the beginning, but quite ironic that the series are the most counterfeited among all the luxury products.

The over 100-year-old iconic series are varied by Mac Jacobs and other creative designers every season, coming out with new forms like graffiti, cherry pattern, new colors and materials, etc (Chevalier & Mazzalovo, 2008) As Bernald Arnault said, this is to protect the overexposure of the signature Monogram print (The Economist, 2009). b. Organizational structure and power structure LVMH group are originally French and most headquarters of

the firm are in French. However, the organization strongly believes that multi cultural management needs to be applied.

LVMH s kingdom consists of 5 main business sectors (as mentioned in the introduction) which each group is the combination of the young and old strong brands. Moreover, the independent brand management which translated from the unique culture of each brand help s organization to generate its typical structure and enhances the potency of individual brand (Gooderham & Nordhaug, 2003). There are more than 50 renown ed brands in LVMH s Kingdom and each company has its own president, CEO and management team who responsible to deal with its subsidiaries directly.

Furthermore, the company has a decentralized structure which supports the growth and characteristic of Luxury brand and company also applies the autonomous management by geographic between each destination such as Europe, Japan, Asia and America. The organization structure support company s fast growth by enhancing the level of innovation, control power over distribution and promotional 15 strategies (Gooderham & Nordhaug, 2003). c. Control system LVMH is using the multidivisional structure to have a better internal control (Hitt, Ireland & Hoskisson, 2009).

Also, the decision to enter into the selective retailing market in 1999 supported LVMH to reduce the problems of distribution control . LVMH also supports each brand and employee with the autonomous management which allow them to enhance the level of creativity and adaptability management in different market (Gooderham & Nordhaug, 2003) . Moreover, Bernald Arnault acknowledged his success lied in his management

techniques. He insisted on giving designers complete freedom from financial or marketing concerns to apply their creativity.

But when it comes to the manufacturing stage, the process control system is as strict as militant to ensure the Group's profitability (LVMH brand for success, 2002).

3 Strategic choices

3.1 Corporate level strategy

At the corporate level, LVMH's structure is different from a typical conglomerate. The group expands horizontally and vertically in both backward and forward integration. Horizontally, LVMH has well-established itself in the five main business lines by gradually integrating and possessing some strategic business units (SBUs) since the new group came into being in 1987.

Vertically, it integrates a centralized laboratory for cosmetics research and purchases media companies for the best effects of its promotion (Rugman, 2005).

3.1.1 Value-added by corporate parenting

Good corporate parenting can add value to a scope of businesses offering different products and services that may share few common resources at the operational level. LVMH's business lines range from wines and spirits, to fashion and leather goods, to 16 selective retailing.

Each individual business groups do not have many common resources or capabilities, but they are benefiting tremendously from LVMH's corporate parenting, like receiving support in the classic brands and having creative designers involved (Johnson, Scholes & Whittington, 2010). LVMH's Half Year Interim Report (2010) stressed the Group's priorities will be directed to the most profitable brands with substantial innovation and marketing support, namely Louis Vuitton, Moët Hennessy in drinks, TAG Heuer in watches,

Christian Dior in perfumes and cosmetics, Sephora and DFS (The Economist, 2009).

The economies of scale give the Group synergy benefits like being offered favorable prices for advertising, property leasing and credit card fees. 3. 1. 2 Diversification Diversification is a strategy that takes the company beyond its existing products and markets. LVMH has a highly diversified product portfolio, notably Louis Vuitton, whose momentum is strong enough to offset the Group's profit losses in other lines and keep the overall revenue positive (The Economist, 2009). It could be regarded as a combination of product development, market development and market penetration (Johnson, Scholes & Whittington, 2010).

In terms of product development, artistic creativity and technological innovation both contribute to the Group's success, particularly in the cosmetics business line, which highly relies on the up-to-date R (LVMH, 2010) 3. 1. 3 Portfolio management There are over 50 renowned brands under LVMH's portfolio, each of which has its unique history and brand culture (Gooderham & Nordhaug, 2003). Among them, the most prestigious and could say timeless brands are: Chateau d'Yquem (founded in 1593) Moët et Chandon (founded in 1743) Hennessy (founded in 1765) Guerlain (founded in 1828) 17 -

Louis Vuitton (founded in 1854) Acquisitions normally can alleviate competitive rivalry by reducing the number of players in the market and integrating them under one umbrella (Johnson, Scholes & Whittington, 2010). Bernard Arnault, the CEO of LVMH, is well known for his constantly aggressive strategy of acquiring smaller fashion brands with established

reputation but less impressive business outcomes and incorporating them into the LVMH portfolio. In the next few years, LVMH is expected to take advantage of the recession and have more favorable acquisitions (The Economist, 2009).

Brand power of the French luxury-goods conglomerate is enforced by reaching more customers through these acquisitions (Moffett & Ramaswamy, 2003). One famous example is the acquisition of Fendi in September 1999. When facing both tenders from Gucci / PRR and LVMH, the Italy-based fashion brand sold itself to the latter because of trust in the management capabilities of LVMH's executive teams.

3. 2 International strategy

One of the famous global brands in the world is LVMH. Although it is not as big as TESCO, it is successful because of its groups. Its strategy is more flagship than TESCO.

The strategy can be defined as an integrated distribution network. It is dynamically trust in many non-business foundations through competition world (Girod & Rugman, 2005). Structuring the bridge between traditions, modern, creation and innovation by supporting art in classify around the world, is LVMH's mission (Preiholt & Ha? gg, 2006). It seems LVMH has two types of strategies. The first one is to impose increasing number of sales to make obvious for shareholders which there is a harmony between luxury products and four elements such as: eternal, contemporary, quick rising and making more profit.

The second one is an opportunity of rising in future (Preiholt & Ha? gg, 2006).

18 3. 2. 1 Market entry strategy and entry mode

The most important strategy which is used by LVMH is buying other famous company in luxury

field. Market can be more controlled by this action. According to this strategy, famous brands were selected by LVMH. The most important points of selecting relates to the high quality (Ireland, Hoskisson & Hitt, 2009). Three main things are noticed by LVMH managers. High price, more controlling strategy and arranging franchise are points to get the goals (Hines & Bruce, 2001).

LVMH follows to keep extending its market without afraid of hard situations for setting up the stores there. As an example in first attempt for entering to Chinese and Japanese market, it was not acceptable by people because they didn't have any idea about luxury products and they preferred to follow their traditional products but now LVMH has many stores around China and Japan (Bloomberg businessweek: Louis Vuitton's Life of Luxury, 2007). As mentioned before considering all features of trading and ability to control them are reasons to be successful in entering to new market (Bloomberg businessweek: Louis Vuitton's Life of Luxury, 2007).

For example in Japan concerning about all elements is important for customers also in France value and to be modern is very important. So LVMH is considered in all of the aspects which are important for different countries (Bloomberg businessweek: Louis Vuitton's Life of Luxury, 2007). 3. 2. 2. Market selection According to LVMH mission they need the strategy to enter to worldwide market. Their goal is enter to the market of many luxury purchases. Due to this goal they are looking for customers priority in different countries.

According to this priority, the different product will be matched with customers need. Also they tried to find out that which costs can make

customers happy which can be acceptable by LVMH mission. It means that they planned to fit the products and prices according to the market which wants to be entered. In another word, LVMH marketing managers 19 choose the products and adapting price according to capabilities of the country. LVMH as a luxury brand was limited to specific countries which has strong economic. The main problem for LVMH was, it is very dependent on some countries such as France, Japan and USA.

Using financial analyse, make it up to date and controlling the market could help it to have a better situation than other competitors (Spulber, 2007). Creating the finance economics can organized by LVMH when it buy another famous company (Ireland, Hoskisson & Hitt, 2009). Creating the finance economics can organised by LVMH when it buy another famous company (Ireland, Hoskisson & Hitt, 2009). It was the only luxury companies that could survive from economic crisis which happened recently. According to the reports the income of LVMH in 2008 was EUR 17 million which showed the rising income compare to 2007 in range of 4. % (I am emily, 2009, November10). 3. 2. 3 Difficulty of imitation The main problem for some countries is their products can be faked easily but LVMH product cannot be imitated. LVMH is one of the 500 traders which entered to the international growth market. It is attended into worldwide leadership and differentiation strategy. LVMH based more on outside associate. To against with less legality and organized in other countries are in its nature. Its activity is beyond of having a competition with other luxury brand; it also wants to enter to the market which is risky because of any imitation industry that have no certificate can be trustable.

LVMH makes more profit for industries which have license and other collaborators to attack to imitation industries, since they started to enter to global market (Spulber, 2007). Also they have their own distribution, so they can control everything easily. Although it has more costs for company but makes to be organized their kingdom easily. LVMH consider about the strong partners. Partners were chosen by the good quality (Spulber, 2007). With no doubt, Arnault can be named as a smart CEO to organise growing company with high benefit with ability to create new things (Wetlaufer, 2010).

0 3. 2. 4 Drivers for internationalisation

The significant point for LVMH is that they look deeply into the drivers keys. The most important drivers for LVMH can be significant by innovation. Nowadays, new and modern products are more attracted than old ones. LVMH has special luxury lab to work on innovation parts. In general speaking, rising for demanding luxury products helps LVMH to have more income because they concern about this point and try the best to be well known as an innovation company (I am Emily, 2009, November10).

3. 3 Business level strategy

This part will mainly present the business level strategy of Louis Vuitton, the iconic brand under LVMH, which accounts for 60 per cent of the Group's revenue (Hazlett, 2004) and has a profit margin of 40 to 45 per cent, the highest among all the luxury brands (The Economist, 2009). According to Millward Brown study (2010), Louis Vuitton is ranked the world's 29th most valuable brand, with a value of USD 19.78 billion. Customers have a common mindset that they tend to invest in the products of best quality and value when they have less money, like a Louis Vuitton handbag (The Economist, 2009).

As Yves Carcelle, Chief Executive of Louis Vuitton, said Vuitton was always able to expand market shares during crises. Sustainable appeal of the brand lies in its differentiation-based advantage. Firstly, stick firmly to the full price to maintain the brand value. Louis Vuitton is the only luxury brand whose products are never sold at any discount. Secondly, pick its store locations rationally and professionally. For example, if Vuitton is about to open a new store in the department, its staff will set up a scale to measure the customer flows and pick the best locations based on statistics.

Thirdly, strictly control the production in its own factories. On one hand, approaches in the automobile industry are introduced to streamline the procedures and costs and workers can be easily mobilized from one product line to another in case of demand change. On the other hand, there is high level of quality control over the finished products. Fourthly, never grant licensing to outside companies and operate its own inventory. In this case, the Vuitton brand can be kept high-end and direct control over inventory ensures no space competition from other brands.

3. Innovation and entrepreneurship

3. 4. 1 Product & process innovation

According to Amault the CEO of LVMH (Group mission and values, 2010, n. d.), LVMH's success is due to their long-term creativity and products innovation. It is obvious that LVMH has already put five things as priorities. Firstly, LVMH should be innovate and creative. Secondly, LVMH should produce the excellent products. Thirdly, LVMH needs to build up its famous brand image in people's mind. Fourthly, the leader should pay attention to the entrepreneurship and relationships. Finally, every employee in LVMH should try their best to do everything. LVMH's Art de Vivre has already represented the western

fashion. In addition, LVMH's products mix the tradition, innovation and culture value which give people a dream and passion. 3. 4. 2 LVMH's diffusion S-curve It is clear that the luxury industry has been increased rapidly. Although people have large demand for regular retailing industry, the luxury industry also increased very fast. According to Arnault (2009), in spite of the economic downturn, LVMH's sales have increased very stably. In the early 2010, LVMH's sales have already reached 4.7 billion. The company also performed well in Asia countries. In order to stimulate consumption LVMH has changes their attitudes in luxury industry. For example, LVMH hired many famous designers to develop their products and avoid overexposure; these help LVMH reach a high velocity. 3. 4. 3 Portfolio of innovation options In order to face the changes and challenges, people should focus on the influence of the deployment of option patterns (McGrath & MacMillan, 2000). Therefore, LVMH's success is the company largely subject to the scouting options.

It is very difficult to catch the uncertain reasons like market, world's economic and politics. However, LVMH as a leader in luxury, the company has about 60 famous brands such as Louis Vuitton, Christian Dior and TAG Heuer SA. It covers like wines, fashion goods, perfumes and watches. Moreover, according to McGrath and MacMillan (2000), in order to face the challenges and find the potential markets, LVMH should pay attention to the scouting options and this way can be seemed as entrepreneurial experiment. 3. 4. 4 Entrepreneurship According to Time Magazine, Bernard Arnault is the top 100 influential people in the world.

Because of LVMH's famous brands which include Louis Vuitton, Fendi and Dior, everyone has been interested with the chairman of LVMH and how the leader made the company very big. First of all, Bernard Arnault's kind of fashion was inspired from his creative talent. He brought his talent to the luxury industry and he has his own new vision in luxury market. This is why he can build his fashion country. Then, Bernard Arnault has strong entrepreneurship and business acumen. For example, in the 1990s, he began to expand his company and buy other luxury names such as Givenchy and TAG Heuer.

Although many people criticized his business strategy, Bernard Arnault's LVMH has been the most famous luxury company all the world. Next, with the success of LVMH, Bernard Arnault began to raise his creative talent. Many businessmen don't pay attention to this. However, Arnault believes that a good luxury company should have many managers who love and better understanding of fashion and arts. Finally, Arnault has the ability to do the business rely on aspects like the creative and financial. He focuses on the creativity must be commerce and when he sells his products he pay attention to financial discipline. 23 4. Conclusion

Luxury is a special industry, as the higher price mark-up, the more appeal to the customers. Although the US, wealthy European countries and different Asian countries are in the different stages of luxury spread process, in the long run, people will be sophisticated enough to view luxury as a way of life. LVMH's resources are: physical high standard stores, financial sustainable financial management, human brand history and mobility-oriented international talent pool, and intellectual craftsmanship, etc. According to

Bernald Arnault, the CEO of LVMH, the Group's core competencies are product, distribution, communication and price.

LVMH has done such a good job on focusing on the first three elements to create an appeal so that customers forget about the prices. LVMH's corporate values and culture of pursuing creative design and sticking to excellent product quality are the foundations of its strategies. LVMH's corporate level strategy is characterized by value-added corporate parenting, diversification in terms of product and market, and excellent portfolio management. We can expect competition at corporate level in the future will be brand wars how to deploy different brands more strategically.

As for international strategy, origins of high income people rather than particular countries determine LVMH's entry into those markets. In most cases, the approach LVMH chooses to enter a foreign market is usually through acquisitions of reputational domestic brands. At the business level, the differentiation strategy of Louis Vuitton, LVMH's most famous star brand, is analyzed. The Vuitton company is trying to protect the brand value by sticking firmly to the full price, picking store locations professionally, controlling the production strictly, and managing its own inventory.

Besides the three kinds of strategies, innovation and entrepreneurship are also important drivers for new growth of the companies. LVMH is committed to constant product and process innovation, and this is closely related to the entrepreneurial spirits of its CEO Bernald Arnault. ²⁴ According to LVMH's 2010 fourth quarter report, the Louis Vuitton brand alone contributed over 60 per cent to the Group's annual growth, which demonstrated the Vuitton brand's potent ability to offset risks in a portfolio.

However, the Group's heavy reliance on the Vuitton brand also worried some analysts that what will happen to the Group suppose the Vuitton brand loses appeal to customers one day. However, based on the evidences collected, we are able to believe the insight of Bernald Arnault, who is an optimist of collecting brands. Part of the revenues from the Vuitton brand have been used to support other smaller promising brands, which might grow into another Louis Vuitton in the future. In the next few years after the economic downturn, many opportunities exist for LVMH to keep acquiring new businesses at good prices.

5 References
Bloomberg businessweek: Louis Vuitton's Life of Luxury. [2007]. Available from <http://www.businessweek.com/magazine>
Bruce, M. , Moore, Christopher. , & Birtwistle, G. (2004) . International retail marketing: A case study approach. Oxford, UK: Elsevier Butterworth Heinemann.
Chadha, R. , & Husband, P. (2006). The cult of the luxury brand: inside Asia's love affair with luxury. Finland: WS Bookwell.
Chevalier, M. , & Lu, P. (2010). Luxury China: market opportunities and potential. Singapore: John Wiley & Sons.
Chevalier, M. , & Mazzalovo, G. (2008). Luxury brand management: a world of privilege.

Singapore: John Wiley & Sons.
Girod, S. J. G. , & Rugman, A. M. (2005). Regional business networks and the multinational retail sector. *Long Range Planning* , 38(4), 335- 357.
Gooderham, P. N. , & Nordhaug, O. (2003). International management: cross-boundary challenges. Malden, MA: Blackwell Publishing.
Grant, M. R. (2005). Contemporary strategy analysis. Malden, MA: Blackwell Publishing.
Hazlett, C. (2004). LVMH: Luxury's international name. *Retail Traffic*, 33(5), 64-68.
Hines, T. , & Bruce, M.

(2001). Fashion marketing: contemporary issues (2nd ed.). 26 Oxford, UK: Butterworth Heinemann. Hitt, A. M. , Ireland, D.

R. , & Hoskisson, E. R. (2009). Strategic management: competitiveness and globalization: concepts & cases . Mason, OH: South-western Cengage learning.

I am Emily (2009, November 10). Analysis: LVMH and the future [Web log post]. Retrieved from <http://www.liberalwill.com/analysis-lvmh-and-the-future>

Johnson, G. , Scholes, K. , & Whittington, R. (2010). Exploring corporate strategy (10th ed.). London: Prentice Hall.

LVMH. (2009, July). First half 2009 interim report. Retrieved from http://www.lvmh.com/comfi/pdf/LVMH_DF_2009_UK.pdf

LVMH. (2009). Preserving the environment. Retrieved from http://www.lvmh.com/groupe/Donnee_env_2009_gbr.pdf

LVMH. (2010, July). First half 2010 interim report. Retrieved from http://www.lvmh.com/comfi/pdf/LVMH_RS1_2010_GBR.pdf

McGrath, R. G. , & MacMillan, I. (2000). The Entrepreneurial Mindset. Boston, MA: Harvard Business School Press.

Millward Brown Optimor. (2010, April). BrandZ Top 100 most valuable global brands 2010. Retrieved from http://www.millwardbrown.com/Libraries/Optimor_BrandZ_Files/2010_BrandZ_Top100_Report.sflb.ashx

Moffett, M. H. , & Ramaswamy, K. (2003). Fashion faux pas: Gucci & LVMH. 27 Thunderbird International Business Review , 45(2), 225-239.

Okonkwo, U. (2007). Luxury fashion branding: trends, tactics, techniques . London: Palgrave Macmillan.

Okonkwo, U. (2010). Luxury online: styles, systems, strategies. London: Palgrave Macmillan.

Preiholt, H. , & Hagg, C. (2006). Growth opportunities in luxury. Journal of Fashion Marketing and Management, 10(1), 114-119.

Rugman, A. M. (2005). The regional

<https://assignbuster.com/lvmh-report/>

multinationals: MNEs and global strategic management. Cambridge, UK: Cambridge University Press. Socha, M. (2010). LVMH to expand hotel operations. WWD, 199(76), 2. Wetlaufer, S. (2010, October). The Perfect Paradox of Star Brands: An Interview with Bernard Arnault of LVMH .

Harvard business review. (1993). Why France's LVMH sets common HR rules. Business Europe, 33(43), 7. (2002). LVMH brand for success, thanks to know-how from the top. Strategic Direction, 18(5), 7-9. (2006). Business: One up for LVMH; Luxury goods . The Economist, 381(8498), 82. (2009). The substance of style; LVMH in the recession . The Economist, 392(8649), 79. (2010). LVMH group. Retrieved from http://www.lvmh.com/groupe/pg_mot.asp?rub=1=028 (2010). Group vision and values. Retrieved from http://www.lvmh.com/groupe/pg_missions.asp?rub=2=1 (2010, February 5).

LVMH Confirms the Soundness of Its Strategy in 2009 ; Significant improvement in performances across all business groups in the fourth quarter Free cash flow increased by 66%. In Business Wire. [Audio podcast]. Retrieved from http://kx7gx4pm8t.search.serialssolutions.com/?ctx_ver=Z39.88-2004&info%3Aofi%2Fenc%3AUTF-8&info:sid/summon.serialssolutions.com&t_val_fmt=info:ofi/fmt:kev:mtx:journal.genre=news.atitle=LVMH+Confirms+the+Soundness+of+Its+Strategy+in+2009.jtitle=Business+Wire.date=2010-02-04.pub=Business+Wire.externalDBID=n%2Fa.externalDocID=21820130029