Brand management

1. What are the luxury brands that LVMH sell and what does luxury mean in this context? What is the profile of consumers of luxury brands, in the US, Europe and Asia? What are the characteristics of these market segments and how do they differ from one another? (This includes the present and the potential consumer base in Asia)

Luxury Brands that LVMH Sell

The LVMH luxury brands are divided into four product categories including wines and spirits, fashion and leather, jewellery and watches, perfumes and cosmetics. With regard to wines and spirits, LVMH held about 40 percent market share for the cognac market and 20-25 percent market share of the overall champagne market through Hennessy. In the premium champagne segment, LVMH controls about 50 percent with exclusive brands such as Veuve Clicquot and Moet Chandon. Other luxury brands in the wines and spirits division include Chateau d'Yquem and Dom Pergnon. LVMH's strategy focuses on high-margin businesses; as a result, it does not have products on popular drinks segments such as vodka, whisky and beer.

Regarding the fashion and leather luxury goods, the luxury brand in this division is Louis Vuitton Brand, which comprises of products such as accessories, writing instruments, textiles, jewellery, watches, shoes, ready-to-wear and leather goods. Other brands in the fashion and leather goods division include Stefanobi, Berlutti, Pucci, Thomas Pink, the Givenchy and Christian Lacroix couture houses, Marc Jacobs, Kenzo, Celine, Loewe, Fendi and Donna Karan. Despite an extended brand range under this category, sales in this category are mainly derived from Louis Vuitton brand.

Perfumes and cosmetics division contributed about 18 percent of LVMH sales along with a number of luxury brands such as Givenchy, Kenzo, Guerlain, and Christian Dior. With regard to LMVH strategic goal of making its brands global, the company acquired a number of known brands in the United States such as Fresh, Urban Decay, Hard Candy and Bliss, which are targeted at the younger generation.

With regard to watches and jewellery division, LVMH boasts of luxury brands such as Montres Christian Dior, Chaumet and Fred, Omas, De Beers, and TAG Heuer and Zenith. The watches and jewellery division contributed just 5 percent of the sales during the year 2000 and had an operating margin of about 10 percent.

In the context of LVMH, the concept of luxury brands relates to high-margin products associated with high quality, high price and luxury. Luxury brands can be categorized using a number of variables including price, quality, aesthetics, rarity, and symbolism. With regard to price, LMVH focuses on offering the most expensive and high-margin products in a product category. With regard to rarity, LMVH focuses on selling high quality and top-of-the-line products that can gain value over time. With regard to aesthetics, LVMH places emphasis on elegance. Rarity implies that LMVH luxury products can be contrasted with mass-market brands; this implies that the brand tends to limit its production in order to ensure that the demand is always higher than the supply. Symbolism implies that LMVH luxury brands are associated with a status of affluence.

Profile of consumers of luxury brands in the US, Europe and Asia, and Characteristics of These Market Segments

US Luxury Consumers

The global luxury goods market is posed for a revenue growth for top-notch marketers. During 2005, the United States luxury market was worth $ 1 trillion, which was an improvement of about 11. 6% from the $ 898 billion during 2004. This was drawn from the luxury purchases made by affluent consumers. Yao asserts that the average amount that affluent households spend on luxury goods is an important metric that can be used to profile the US luxury consumer. In this regard, Yao reports that the typical luxury consumer in the US spent an average of $ 52, 588 to purchase luxuries during 2005, which was a 3. 8% improvement when compared to the 2004 average amount spent on the same.

About the benefits sought, the American luxury consumer is also shifting towards experiences in the sense that more luxury consumers are spending substantially more on experiential luxuries. Experiential luxuries refer to the things or activities that individual’s do and not the material things for processions. In the US, in 2005, the typical luxury consumer spent about $ 22, 746 on experiential luxuries. In addition, spending on luxuries such as wines and spirits, jewellery and watches, fashion accessories and luxury apparel is increasing in the United States. In the US, luxury commodities hold less allure to the most affluent as the latter crave for life-changing experiences. Luxury consumers in the United States are less concerned with materialism and ostentation; rather, they seek emotional fulfilment and meaning. Whereas US luxury consumers live a materially enriched and a comfortable life, they are aware that buying more luxury commodities is not going to provide them with the satisfaction they desire. Nevertheless, there are significant generational differences, in terms of age, when it comes to luxury spending behaviour. The wealthy generation X (49 million) has different luxury spending habits when compared to the Baby Boomer Generation (78 million). The wealthy generation X places emphasis on buying luxury materials whereas the older Baby Boomers are more interested in experiential luxury. Generation X in the US has an average annual income of about $ 213, 000 and spends about $ 26, 751 on buying luxury goods. On the other hand, the wealthy Baby Boomers have an average annual income of $ 222, 900 and spend about $ 22, 631 on luxury commodities. Generally, generation X spends more on fashion accessories, wines and liquors, beauty products, cosmetics, men’s and women’s clothing, and fragrance.

European Luxury Consumers

Contrary to Asian and US luxury consumers, the European luxury consumers place more emphasis on the appreciation of heritage and brand values, – the compounds which define luxury in the European market.

The luxury market in Europe is set for a revenue growth. An income profile points out that European consumers are increasingly becoming more discerning and more affluent. A report by Chevalier & Pierre pointed that, in 2001, there were about 22 million Western Europeans posessing more than ˆ 50, 000 disposable assets.

Asian Luxury Goods Consumer

The Asian economy is witnessing a substantial growth, its population is increasing and so is the income of the middle class people in Asia, who are mainly representatives of lower age groups. Asian luxury consumers comprise of mainly middle class individuals, who are different in terms of needs and preferences when compared to the Europe and US luxury goods consumers. The Asian luxury consumers are sensitive and conscious regarding their status. The emerging middle class luxury consumers place emphasis enhancing his/her social status and self-identity; rather than material satisfaction, which is the case of European and US luxury goods consumers, who to some extent, are more interested in experiential luxury than in material satisfaction.

Luxury goods consumers in Asia are mostly younger when compared to the luxury consumers in Europe and the United States. Essentially, Asia has a younger middle class, which places emphasis on product quality, trendiness, and user experience, which are linked to the values associated with a particular luxury brand. Asian luxury consumers are known to have a preference for and sticking only to trusted brands, something that LVMH enjoys when compared to its competitors fighting for the same market-share in Asia.

2. Should LVMH reach out to the new middle class customers who are willing to purchase luxury items? If so, how should LVMH reach this market without tarnishing its brand?

When targeting middle class consumers, luxury brands are faced with the dilemma of exploiting the emerging middle class customers while at the same time standing a risk of losing the exclusivity of their products. Does short-term gain in terms of sales revenue weaken the long-term profitability of the brand? As a result, the trade-off between exclusivity and accessibility of luxury brands is a luxury dilemma, especially in the case of LVMH, which is aiming at expanding its operations to Asia. Nevertheless, the failure of a luxury brand to acquire a market share in emerging economies is a lost opportunity, because millions of consumers from the high-market growth like India and China are categorized under the newer affluent classes, who are aspiring to own premium and luxury brands. The underlying argument is that LVMH should extend its appeal to include a wider range of lifestyle and income segments.

LVMH should reach out to the new middle class customers who are willing to purchae its items; as an increase in the purchasing power of the new middle class consumers firms up the profitability of the company. It is apparent that luxury commodities are no longer a reserve for the high-net-worth persons; the growing middle class is increasingly purchasing more designer goods. The new middle class customers present an opportunity that LVMH can exploit to increase its revenue and expand its global presence, which is in line with its strategic goal. The increasing middle class implies that there is an increase in disposable income, which translates to the increased expenditure that LVMH can exploit to its advantage. The commercial landscape is witnessing a change, particularly with the increase in middle class consumers in emerging Asian markets. From a global perspective, the consumption balance is gradually moving away from the developed economies of Europe and the United States towards these emerging markets that are witnessing an increase in the number of middle class consumers. In this regard, middle class consumers in emerging markets in Asia have a vast potential, and exhibit fundamental differences from the middle class consumers in developed markets. In this regard, LVMH should acknowledge the new trend and take into consideration the diverse preferences and needs for given consumer group in order to acquire and retain a considerable market share. The rising middle class presents vast opportunities stemming from the demands of this consumer group; in this regard, LVMH should focus on the needs of this particular consumer group by identifying their distinctive characteristics and how these characteristics are evolving; this will be instrumental in realigning their business strategies as well as ensuring that these strategies maintain the competitiveness of the brand.

It is possible for a luxury brand to be both exclusive and democratic. In the context of contemporary luxury, there are varying levels of accessibility, which result in different levels of exclusivity; therefore, LVMH cannot compromise its brand exclusivity by targeting the middle class consumers only. With a unique branding, LVMH can reach mass markets without compromising its exclusivity. The increase in accessibility of luxury brands is a new market opportunity, and is especially relevant in the context of emerging markets exhibiting an increase in the middle class population. The democratization of luxury has opened opportunities for new consumers to interact with luxury brands, and that winning the prospective luxury consumer depends on nurturing relationships at an early stage, rather than at a later stage. For instance, Indian women pursuing flourishing career are likely to spend a substantial fraction of their income on buying luxury beauty products, which allows them to experience the luxury brand first-hand. These consumers will, in due course, acquire more expensive luxury gods such as bags and apparel, as the income increases. In this regard, LVMH should reach out to the emerging middle class who are willing to buy their luxury items; this will be instrumental in building brand relationships with the customers, who are likely to trust LVMH products when their financial position improves. In addition, luxury brands that strive to connect and engage with the luxury consumers are likely to attain an early competitive advantage.

However, as LVMH targets the emerging middle class, it is imperative that it strikes a fine balance between exclusivity and accessibility in order to avoid tarnishing its brand. It is a mistake for a luxury brand to target the middle class consumer; however, if the luxury brand can make the product accessible to the new middle class consumer groups without tarnishing its brand appeal, then the long-term rewards will be substantial. In this regard, if LVMH wants to avoid tarnishing its brand, it should not compromise exclusivity while targeting the middle class consumers; this can be achieved using two strategies. First, LVMH can opt not to reduce the price of its products since the emerging middle class have a higher purchasing power and are willing to pay. This will ensure that that exclusivity of LVMH products associated with high price is not eroded, and that LVMH will still be perceived as a high-end brand. Second, LVMH can opt to provide different levels of exclusivity, which is in line with the contemporary luxury view that exclusivity can still be maintained at different levels; therefore, LVMH should embark on product offerings that appeal to a wider range of consumer groups and with different lifestyles and incomes.

3. How can LVMH link between old luxury consumers new luxury consumers and link the two to create new market advantages?

The luxury consumer has evolved as the era of materialism and exclusivity opposed the contemporary era of diversification. For instance, during the 1970s and 1980s, the luxury goods consumer focused on materialistic view of exclusivity; during the 1990s, luxury brands consumers placed emphasis on the appeal to emotion as a key driver for consumers; and the onset of 2000 saw the era of diversification where consumers placed emphasis on high quality products. Across the evolving luxury goods landscape, luxury brands have been compelled to constantly revise their branding strategy in order to appeal to an emerging crop of new consumers with different needs and preferences with regard to the consumption of luxury goods. The old/traditional luxury consumers focus on the satisfaction and joy ensuring the purchase of a luxury product rather than the economic value associated with product itself. Old luxury consumers derive this from the purchase experience, the selection process, using the product, or the pride associated with the procession of a luxury commodity. In this regard, luxury products are considered as timeless classics that have high levels of exclusivity. Traditional luxury consumers are of the view that a luxury brand loses its ‘ luxury’ tag if the aspect of its exclusivity is compromised. On the contrary, the new luxury consumers are more experiential and less experiential. The contemporary luxury consumers are of the view that luxury is for everyone;

however, it is different for every individual. In this regard, they do not place a lot of emphasis on the exclusivity of a brand. The new luxury consumers are primarily driven by the desire to buy and display, and are of the view that luxury products acts as a means of expressing one’s status. The consumer attitudes that are likely to influence the two groups include: (a) old luxury consumers are influenced by a personal experience associated with the “ feel good” factor; (b) new luxury consumers are driven by the need to be part of an elite group associated with the aspirational class such as luxury commodities that can transfer the personality of the brand to the product owner.

In order for LVMH to address the needs and preference of its diverse audience (old and new luxury consumers), it is imperative not only to rely on the brand image, but also give the consumers a motivation to believe that it is worth acquiring and owning LMVH luxury products. In addition, luxury consumers are increasingly becoming price conscious, and seek exclusivity from the brands they perceive as being luxury. Moreover, luxury consumers are increasingly becoming vocal about the sources of origin for the luxury brands, brand value and positioning; as a result, it is imperative for LMVH to offer the most excellent in-class service and develop significant brand loyalty with the consumer. This will help LVMH have a market advantage. For LVMH to have a market advantage while at the same time ensuring that it meets the needs of its old and new customers, the critical success factors include: (a) effective portfolio management in a manner that strategic focus is placed on the right product category; (b) exploiting the emerging markets wave; (c) adopting strategies to engage the consumers such as electronic commerce, social networks and m-commerce; (d) adopting strategies to eliminate counterfeits such as educating the customers regarding the brand heritage; and (d) using advanced technology to offer top-not customer experience. In addition, it is imperative for LVMH to strike a balance between exclusivity and meeting the demands of new luxury consumers; in this regard, attaining a market advantage requires LVMH not to be overly exclusive to an extent that it disregards the accessibility needs of new consumers. This can be achieved by strategies discussed in the previous section, and will be instrumental to LVMH in terms of gaining market advantage as well as ensuring that its brand image is not tarnished.

4. What advantages does LVMH have as a group over independent brands? What considerations are needed to create, sustain and manage a multi brand strategy?

Advantages of LVMH’s Multi-Brand Strategy over Independent Brands

Every market is typified by customers switching brands regularly for the purposes of experimenting with offering different products from different brands. By using a group of independent brands, LVMH can position itself to effectively serve brand switchers. When a firm uses a multi-brand strategy, managers from different business divisions are compelled to operate efficiently so as to ensure high-level ccompetition. A multi-brand strategy entails marketing at least two competing products offered by the same corporation using unrelated and different brands. Since the establishment of the LVMH conglomerate, the company has been using the multi-brand strategy comprising of 50 sub-companies with each managing its own brand autonomously. First, the first advantage associated with a multi-brand strategy for LVMH is that it has helped the company to acquire a greater market space by flanking competition. In this regard, LVMH can make use of flanking to avoid external competition; this is facilitated through using different brands under the product category. Therefore, it is evident that the multi brand strategy fosters internal competition while at the same time fights external competition. The second advantage that LVMH accrued from using the multi brand strategy is that it can fill up the quality gaps and the price gaps, which is only possible when the firm promotes similar products using independent brand names. This allows the market to be saturated with LVHM products. For instance, since the LVMH markets different brands under the perfumes and cosmetics division (Givenchy, Kenzo, Guerlain, and Christian Dior), it is highly likely it will take up a significant proportion of the market space when the brands are marketed separately; this gives LVMH a market advantage when compared to its competitors. The third advantage that LVMG accrues following the use of the multi brand strategy is that it allows the conglomerate to bombard the market with different brands in order to cater for the varying needs of different segments. Another advantage associated with the multi brand strategy is that allows LMVH to have a comprehensive knowledge of the market. With various unrelated brands competing and being marketed differently, LVMH gathers a lot of market information from the various brands, which it can use to devise an effective marketing strategy for its various products.

Considerations Needed to Create, Sustain and Manage a Multi Brand Strategy

Implementing a multi-brand strategy comes with a number of challenges, and if not addressed, will render the whole branding strategy ineffective. First, creating, sustaining and managing a multi-brand strategy requires strong coordination between the various brand portfolios. In this regard, LVMH should refrain from duplicating brands under the same product portfolio. Second, successful implementation of the multi-brand strategy requires effective allocation of innovations in accordance with the positioning of each brand. It is a fact that innovation is a critical success factor for any brand; therefore, it is imperative for LVMH to establish precise and clear platforms for every brand in order to help clarify the main lines used in the innovation and development of the brand. Brand values should be taken into consideration when allocating innovations. Besides brand values, market share and positioning should also determine the allocation of innovations. For instance, there is no need to allocate a specialized innovation, which is supposed to target a small number of consumers, to a mass-market brand. The third requirement for a successful implementation of the multi-brand strategy is to refrain from robbing one brand in favour of another; since the objective is to establish a portfolio comprising of strong brands, LMVH should desist from this practice. Despite the fact that it is a standard procedure to position brands with respect to one another with the aim of maximizing their appropriateness for the targeted segments, it is important to note that, a brand should not be blocked from developing into a strong brand. Fourth, LMVH should not perceive a brand portfolio as a group of unrelated brands; rather, they should be perceived as a global strategy that the conglomerate uses to dominate the market. Fifth, it is imperative that brand replication should be avoided at all costs because it is detrimental to the imagination and competitiveness of the brands. Lastly, is important for LVMH to focus each brand on its portfolio on a particular external competitor; this strategy that can be successfully used to eliminate brands replication.

5. Describe the counterfeit business today. How should LVMH fight against counterfeiting and the gray trade? Note here the advantages of vertical integration.

A counterfeit is a fake imitation of the actual product, which are often created with the primary advantage of exploiting the superior value that the actual product enjoys. The spread of counterfeiting business has become global, and the luxury goods companies are the most affected from this business practice. According to a report by KPMG China, counterfeit commodities comprise of 5-7 percent of the total world trade; however, this is an underestimating because the counterfeit business is secretive. Luxury goods and other commodities that can be reproduced cheaply are the prime targets of the counterfeit business. The strategies adopted by the counterfeiters could include deceiving the consumer into believing that they are buying the legitimate item; persuade the consumer to trick other consumers with the replica. Luxury brands suffer from counterfeiting because it reduces the sale revenue while at the same time dilutes the brand identity. In addition, the counterfeits do not often meet the expectations of the customers, which raise issues regarding the safety of consumers. From the case study, counterfeit products are one of the challenges facing the move by LVMH to expand to Asia, and particular China, which is considered as the capital of the counterfeiting business. Effective measures to combat counterfeiting are a serious challenge for companies producing luxury goods.

There are a number of strategies that LVMH can adopt to combat counterfeiting. The first strategy entails the use of vertical integration, which refers to the level to which a company owns its elements in the supply chain such as the downstream buyers and upstream suppliers. In vertical integration, only one company is involved with the various production processes such as growing the raw materials, manufacturing, distribution, marketing and retailing. For instance, LVMH can make use of one base where all the processes in the supply chain are controlled. When LVMH embarks on owning its suppliers and distributors, the chances of its product being counterfeited are reduced. Other strategies that LVMH can use to combat counterfeiting is through forming coalitions through competitive collaborations with other luxury goods companies to fight counterfeiting; pushing for strict legislations against the counterfeit business with severe punishments and laws; and consumer education and awareness on how they can differentiate a legitimate product from an imitation.

6. What expansion strategies / options should be adopted to combat the issues and challenges in developing LVMH market share in Asia? What arguments and opinion do you have on your proposed strategy and how it will overcome the particular challenges as outlined in the case study?

From the case study, it is apparent that the micro and economic variables of the Asian market are favourable for LVMH; therefore, the company should embark on an aggressive expansion strategy in Asia while ensuring that its brand is not diluted. Other challenges associated with expanding to Asia include cultural differences and political uncertainties, issues associated with pricing and distribution in Asia, the challenge of brand management, cost efficiency and counterfeits. In this regard, the recommended expansion strategy is market penetration, whereby LVMH strives to penetrate the Asian market with its already existing product portfolio. This will ensure that LVMH gains a part of the market share from its competitors and also attract non-users of its products in Asia, and convincing its existing customers to use more of LMVH products through avenues such as advertising. With regard to market penetration, LVMH should embark on market development, which focuses on developing new markets with the existing products. It has been affirmed that there is a market for luxury goods in Asia, especially from its growing middle class population; therefore, the ideal approach for LVMH is to embark on market development by using effective marketing strategies to develop its market. In this market penetration strategy, LVMH should make use franchising as a mode of foreign market entry.

Franchising will play an instrumental role in addressing a number of issues associated with the political uncertainties, distribution and pricing and cost efficiency. Using franchising as a market penetration strategy has a number of advantages including relatively low political risks; low business costs, facilitates simultaneous expansion to different regions, and facilitates vertical integration, since the franchisor (LVMH) has a broader package of the resources and rights such as the equipment, managerial systems and site approval among others. In addition, franchising will play an instrumental role avoiding brand dilution; for instance, luxury consumers expect Western quality, and that the myth of the LMVH brand is always linked to where the goods are manufactured. The only market entry that favours this while guaranteeing cost efficiency is franchising.