Strategy and future: diversification.

Business

He expanded the company and acquired a number of specialty retail department stores in Paris. 3 u Analysis o errs Forces (Model AT competently) Eleven ten range AT luxury sectors that LAVA has diversified into, the analysis is centered on the LUXURY industry where the game is played by few groups.

The appendices illustrate the following: Appendix: 1 Porter's 5 forces diagram Appendix: 2 Elvis's sectors and subsequent brands Appendix: 3 Top 10 Competitors Appendix: 4 Industry Map Industry & Competitors The luxury industry operates in a high competitive environment.

The need to maintain desirability and uniqueness of each product/brand puts pressure on cost savings and product life cycles, creating a volatile environment where only companies with strong brands, financial resources and the ability to integrate their activities can survive. Advertising, communication and R&D expenses are very high. This is evidenced by Elvis's expenditure on this to be approximately 11% of sales in 2002 (Antonio 2003). Training manufacturing employees is another costly element in an industry where the quality is measured by the final consumer in terms of perfection.

This last element calls for constant improvement in; however at the same time requires the maintenance of the old manufacturing processes. Key managers that can run each business independently but with a group vision are also part of the equation. Additionally the luxury industry is strongly dependent on tourism which is influenced by economy trends. The 9-11 events and the global economy slowdown have had a great impact on the industry. Finally huge investments were done to win strategic position, having an important impact on revenues.

Appendix 5 is an example of the proportion of cost and impact on revenues and the stock performance.

New entrants The risk coming from new entrants is low, except perhaps, for the development of niche brands that can slowly earn a position. The strong financial resources and the “ story” of the brand that is needed to succeed are two elements that create a barrier. Bernard Renault explained that a brand needs a heritage; you an not cross cut and succeed (Thompson, Strickland & Gamble 2005 and Antonio 2003).

Furthermore financial resources are very expensive since lenders perceive that the expected margins are difficult to get; thus it is hard for smaller companies to access financial markets (Colonial 2003). The “ entrepreneur / designer” will need to look for a “ godfather” the support from one of the big groups.

As Muriel Zanzibar, Harrows’ director, observed, “ We may have more patience with smaller brands if they are owned by a parent company, such as LAVA or theGucciGroup. “(Sherwood 2001, p. Additionally the luxury industry is characterized for the need of becoming global from the very beginning. Brands can not survive relying on domestic markets.

A worldwide distribution network is fundamental. The industry has its centre in 3 cities: Paris, Milan and New York, where any luxury business needs to be, making it difficult for start ups to develop their businesses in other parts of the world. Suppliers The power of suppliers could be considered medium. The industry is 100% dependable on a supplier that can assure aSupremequality.

However the supplier has limited choices since the market is controlled by few operators.

Buyers considering ten Dryer as ten Tall consumer; winner ten calicles to Duty Is nurtured by the fantasy and desire of style; buyers would only buy if all their expectations are fulfilled. In this context it is considered to be a medium competitive pressure since buyers can easily switch brands. However brand awareness and uniqueness can prevent the easy switching. In the case of retailers as buyers; the competitive strength is considered medium. Shelf space is a key element for luxury companies.

Indeed in the 20th century the expansion of the retail industry to specialty stores, chain stores and retail centers has hanged the business.

Discounts, cooperative advertising, volumes and exclusivity are some of the elements that put pressure on the industry (Firings 2005). Moreover there is a possible integration strategy affecting the retailers’ power. Substitutes Considering the industry as a whole; the analysis should take in account the customers’ cost for each product. With a big range of prices (a perfume costing $100 to a Jewel costing up to $ 100. 00 or more), the substitutes would also be different for each category of goods e.

G. : trips; furniture, cars, real estate. In addition here is the surge of ‘ best cost providers’ I. E. Brands with a very high quality but with inferior costs, such as Ezra, affecting the business when the global economy puts pressures on society.

The above analysis describes an industry with a medium to high competitive pressure. The industry is attractive in terms of profits for players that are already in the field. Well managed companies with sound strategies can earn profits.

The strength of a big company plus the flexibility and focus of a small business would be the rule. The ability to vertically/horizontally integrate and find synergies between he different sectors and the ability to maintain the energy and identity of each brand are two fundamental attributes of the future of the fantasy industry. 3.

2 PESTLE (External Analysis) Appendix 6 further illustrates how the PESTLE has been applied to the case study. The outside forces that have been deemed to effect luxury goods industry the most are: Consumers' perception of luxury goods War and terrorism related to consumer perception.

Global warming and all the hype surrounding this topic. Use of the internet and amount of people with access to the internet is an issue that usury goods companies can exploit how ever companies also have to be careful with internet fraud and other legal issues. I nee luxury goods Industry Is affected Day global Doctors to a Deterrent extent tan toner industries.

It is clear that the industry is driven mainly by perception. People are willing to pay premium for luxury goods because of the perception of exclusivity. As a result the threat is losing the image of a luxury product.

When customers stop perceiving the goods to be unique, the goods may loose its position. One potential way of this happening is if ‘ copy’ luxury goods become of high quality and not extinguishable from the original.

3. 3 SOOT In balancing the strengths and weaknesses against the opportunities and strengths it can be said that LAVA is in an overall strong position. However this is not to dismiss that it attractive strengths have yet to be developed into competencies. Major competitors also have these strengths that with time and the right management team are easy to copy.

The company’s must learn how to successfully run selective retailing and learn from the events of Septet 11 It must addressed the impacts such as a down turn in the economy leading to a reduction of revenues and shareholder value. Several opportunities present further growth and development for LAVA as long as it is able to respond to changes in consumer preferences influenced by societal changes, e.

G fads and climax. Overall, LAVA has a strong brand name that represents a powerful strategic asset with competitive advantage. Appendix 7 further analyses Elvis’s strengths, weaknesses, opportunities and threats. 4. Key Findings of Analysis/Problem Identification/ Key Strategic Concerns The concerns that will be discussed within the scope of this paper include the following concepts: *Vertical Integration *Diversification *Acquisitions and Mergers 4. Vertical Integration The Vertical integration strategy has had limited success for LAVA.

One of its advantages is that LAVA believes it has achieved protecting product quality and building barriers to entry. This is true by having its own retail chains as it is able to control the quality of the product sold, the quality of the customer service and also the aesthetics of the stores.

However many authors have asked if this is really a necessity. Could the same amount of control be able to be obtained using contracts, agreements and alliances? (Thompson, Strickland & Gamble 2005). The answer is ‘ yes’. There is no reason why with effective controls, LAVA would not be able to achieve the same quality customer service.

Another positive thing that being vertically integrated allows is the fact that it allows to make strategic changes to the processes with less bureaucracy, negotiation and contradiction. Perhaps the most important advantage that LAVA would expect to see is cost savings.

However there is a concern that vertical integration actually increases costs because of inefficiencies (Thompson, Strickland & Gamble 2005). This can be seen in Elvis’s retail sector as both UDF and Seaport have made $100 million Euro loss in 2001. . 2 Diversification LAVA was in 2001 clearly executing a strategy that called for a diversified portfolio of luxury brands and the expansion into multiple regions.

In this context the company described a semi-related diversification strategy, building the Dustless around Duskiness’s winos value canals posses some competitively value strategic fits (Thompson, Strickland & Gamble 2005).

LAVA mostly grew through mergers & acquisitions. Appendix 12 illustrates a timeline of its mergers and acquisitions. It has been an option considered to be part of Elvis's growth strategy however it also a strategy that is used commonly when a many fails to get access to important resources and capabilities. Usually the companies hope to benefit from the mergers & acquisitions through the synergy which enhances cost efficiencies.

However not all mergers are successful as literature indicates that failure rates are as high as fifty to seventy percent Stall (2004, p.). Failure is not solely about financial failure but is also about successfully bringing together two companies' philosophies, styles, values and missions (Unguent & Klein (2003, p. 450). Stall 2004, explained that more importance is often placed on uncial and strategic aspects rather than in the human resources side. Stunt, 2001 noted that failure to focus on behavior can sink a merger or acquisition.

One fundamental problem with mergers is that management may neglect the core business while coping with the mergers.

Daimler Benz CEO Searches, Jjurge (2003) said that merging a luxury auto maker with a mass-market brand is seen as an unnatural combination that offers limited benefits and requires twice the expertise and effort to manage. As LAVA boasted itself to be leader in the luxury industry with strong brand image merging or acquiring weak brands would affect the company's brand image. LAVA valued long- term performance and was willing to cultivate investments into new product brands providing brand support before expecting tangible profits.

Although this improved its market share, it did not match the aspirations of the investing public. Many of the brand acquisitions and line extensions had come at a high price, and most of these businesses were yet to generate substantial profits.

Much of the group’s profitability was still riding on the established business lines; namely, wines and spirits, and leather goods. Analysts were therefore questioning the value of building a portfolio of global brands with diverse product markets from wines and spirits, to leather goods, perfumes, art, and retailing.