Analysis on the Acquisition of LVMH on Tiffany & Co.

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Abstract

A famous acquisition case happened on Nov. 25, 2019, within the luxury industry — LVMH’s acquisition of Tiffany & Co. This paper analyzed the acquisition and focused on LVMH as the purchaser and Tiffany as an acquiree. By using the day of the acquisition as the tipping point, this research will focus on comparing qualitative and quantitative aspects of changes as reasons to support the main argument. Preliminary estimates, the acquisition overall brings benefit to the LVMH whether on its sales revenue or its organizational structure. After all the LVMH is a huge company that has businesses worldwide with numbers of sales streams, this small acquisition won’t bring much effect on the whole company’s original structure and operation. However, for TIF itself, the acquisition did not provide a decent amount of advantages. Instead, the companies fame and popularity, even sales amount got diminished as it predicted to be in the future.

Keywords: Tiffany & Co., LVMH, acquisition, Stakeholder analysis, SWOT analysis

1. INTRODUCTION

The acquisition is a form of a growth strategy that used to develop and promote the whole company to gain more profit and sales revenue. Acquisition usually happened to be connected with the operation and future growth of the two or more companies. Each of their interest gets to fulfill or hurt by the acquisition under a variety of perspectives. This paper aims to give an overall evaluation about the advantages and disadvantages of the acquisition will also be included. By going through some important qualitative aspects of this acquisition, analysis and argument will be conducted or stated. Despite this specific case of acquisition, there are numerous types of mergers and acquisition cases that happened or about to happen. This research uses the Acquisition of Tiffany as an example to elucidate important points or views that companies or businesses need to pay attention to when making such decisions.

According to the agreement announced on November 25, 2019, LVMH will acquire Tiffany, the global luxury jeweler, for $135 per share in cash, in a transaction with an equity value of approximately €14.7 billion or $16.2 billion.” On Nov. 25, 2019, LVMH acquired Tiffany & Co. with $16.2 billion. LVMH purchased the TIF for $120 per share. It offers support to TIF but TIF also faces many changes and challenges [1].

The background or details of the two companies and the acquisition are essential for the whole analysis since it needs to make a comparison between the time before and after the acquisition.

LVMH: “LVMH Moët Hennessy Louis Vuitton SE, the world’s leading luxury products group. Numbers of a famous luxury brand that belongs to LVMH. announced that stockholders of Tiffany & Co. (NYSE: TIF) (“Tiffany”) have voted overwhelmingly to approve the previously announced merger agreement relating to the proposed acquisition of Tiffany by LVMH at a special meeting of Tiffany stockholders [1]. Tiffany & Co. is an American luxury jewelry and specialty retailer headquartered in New York City. It sells jewelry, sterling silver, china, crystal, stationery, fragrances, water bottles, watches, personal accessories, and leather goods. Tiffany is known for its luxury goods, particularly its diamond and sterling silver jewelry.

Even though the overall analysis is stated as above, there are still benefits for TIF and disadvantages for LVMH to keep it balance. This analysis provides significantly broad aspects of the acquisition through different views.

About LVMH and Tiffany, stakeholder analysis, swot analysis and other measurement tools will be used as methods to evaluate the qualitative aspect of the acquisition. Also, important business/company concepts such as Change and Strategy will be discussed and
interpreted as support information for the final argument of the analysis. Therefore, the research question clearly stated as “To what extent the acquisition of Tiffany affect the qualitative aspect of both companies?”.

1.1. Stakeholder Analysis

Stakeholder analysis (LVMH&TIF): Stakeholder analysis is an important tool used to evaluate a business’ qualitative behavior or influence caused by important business decisions.

Shareholders: According to articles and news, LVMH’s shareholders won’t face any share dilution after the acquisition because the number of shares didn't get reduced. Instead, the per-share value that each shareholder in LVMH can get has an amount increase due to the additional purchase from TIF, basically is that the number of shares doesn’t decrease but the earnings add from TIF to LVMH. However, TIF’s shareholders do not own the shares anymore after acquired by LVMH.

Customers: The origin customers of TIF will face a potential increase in the price of Tiffany’s products. Based on LVMH’s organizational culture, every new brand that they acquired and take in control need to go through the process of raise in its average price. This phenomenon happened with RIMOWA who increase their price according to the command from LVMH. On the other hand, the customer base of LVMH that used to buy brand products will face an increasing trend. Also the number of purchases and number of potential customers. By comparing the price of TIF’s luxury or jewelry with other luxury products under LVMH, TIF’s products are much cheaper.

Investors: LVMH’s investors will increase the interest in continue investing LVMH and the flooded brands. Mainly due to the bright prospect of the whole product group within the additional benefit brought by the acquisition of TIF. However, according to David and Tom Gardner, who are famous investor leaders, the estimation shows that the investment in LVMH is not in the TOP 10 worth invest list. [2] This estimation might change the original investor’s thoughts or prevent new potential investors.

Competitors: After the acquisition of TIF by LVMH, rising competitiveness goes against the competitor of LVMH, Van Cleef & Arpels, which they now need to face a competitive power from a new luxury jewelry brand under LVMH. With cheaper prices that can attract more consumers with average purchase power.

Employees: Although the shareholders of TIF does not work in TIF anymore, the employees still belongs to the company and continues with daily operations. The difference is that the workers now need to follow New rules, aims and new objectives. Even with big potential organizational culture conflict between the new managers and old employees. However, there are benefits for the workers: more attractive remuneration, new motivation methods and new punishment and penalization.

Managers: Managers in TIF now have to follow directions from LVMH as the new leader. Essentially they got less decision-making power. They need to follow new strategies made by LVMH such as expanding the market in Europe and continue to boost sales in Asia. LVMH made this decision basically because the new leaders or shareholders revealed the incredibly strong purchasing power among Chinese consumers.

1.2. SWOT Analysis

A SWOT analysis outlines what the entrepreneur will do if things do not go as planned. Usually, a company will make a SWOT analysis of themselves to assess the current and future situation of a product, brand, business, proposal or decision. (Paul Hoang) SWOT analysis also includes the considerations of both internal and external factors that are under the current changes or issues. The following SWOT analysis is based on the point views of LVMH as a business group and on TIF’s point of view [3].

•Strength: internal factors that are full of competitiveness compare to the competitor.

•Stronger brand awareness - Since TIF is acquired by LVMH, the original customers now potentially added to the customer base of LVMH and to the group of brands under it. An increase in customer base could essentially increase brand awareness and popularity.

•Complete control over the production process - After the acquisition, LVMH is able to get full control of TIF with its own methods of operation. This helps LVMH’s whole company’s operation.

•Weakness: internal factors that are a lack of competitiveness compared to the competitor.

•Loss of previous/old clients - After changes in leaders and shareholders level, the old business partners and the client might get changed which creates potential conflicts. The loss of partnership with the old client may also lead to the loss of potential followers/buyers who were attracted by the client.

•The trend of decreasing profit for TIF - The news articles and announcements from the company itself states that Tiffany & Co. has recently facing a decrease in the value of stocks. Overall resulted in a decrease in its sales revenue.
Figure 1 Profit and loss account of Tiffany & Co. [8]

- Opportunity: the external possibility for future development.

- Market development - LVMH has a strong market share and power in the jewelry industry. As a result of the acquisition, TIF reaps the benefit of high power and influence. Also the potential of the increasing market share of its own.

- Threats: external factors that hinder the prospects for an organization.

  - Adverse changes in fashion and taste - After TIF has been acquired by LVMH, the concept of design might get to change with the different views from new shareholders, or the new designer hired. The change of fashion or position of taste impacted the consumers’ intention on purchasing the product from TIF. Also, Outside the company, the overall change of preference in the fashion market could also impact the future sales revenue of the company.

  - Conflict interest between the main customers from the two companies - There are customers in TIF who do not like or agree with the company concept of LVMH. On the other hand, there are LVMH fans who dislike Tiffany’s design notion and ideas. This negatively impacts the both company’s potential sales volume and the company’s reputation.

  - Loss of potential investors for TIF - The investors and analysts say that the value of investing in TIF is not going to be high in the future, instead, it might decrease so that the company failed to attract the investment that could help with their development and growth.

1.3. Ansoff Matrix Analysis

The Ansoff matrix (1957) is an analytic tool that helps managers to choose and devise various product and market growth strategies. (Paul Hoang)

The acquisition is known as a type of change in the business structure that also helps with the expansion and development of the company. In this specific acquisition, the Ansoff matrix helps to demonstrate and categorize the current decision making leads the company to which category of company expansion. Ansoff matrix shows whether the company belongs to Market penetration, product development, market development or diversification according to the change in products and markets.

Figure 2 Demonstration of Ansoff matrix

The current decision made by LVMH which is the acquisition of TIF is classified in the category of Market development. Before the acquisition, LVMH does not own any brand under the luxury jewelry industry or even expand into the jewelry market. Hence, since TIF is already a matured company inside the luxury jewelry market with its own concept of design and vision statement, with the relatively stable consumer base, the acquisition helped LVMH to expand into a new market with comparatively low product development - high possibility that LVMH will get into the product design section of TIF in future development.

The point of Market development is that LVMH is now selling existing products in the new market for LVMH, and this change in strategy is considered as a medium risk growth strategy. Basically, LVMH is getting new customers for the existing products. However, different from other company’s market development, LVMH can not enjoy the potential benefit of a strong familiarity with its product that can make the development easier and safer to achieve because it’s an acquisition by LVMH with basically no experience of design or sells any pieces of jewelry.

Bernard Arnault, Chairman and Chief Executive Officer of LVMH, commented: “This approval is a significant milestone as we move closer to completing our acquisition of Tiffany, an iconic company with a rich heritage and unique positioning in the global luxury jewelry market. A globally recognized symbol of love,
Tiffany will be an outstanding addition to our unique portfolio of luxury brands. We look forward to welcoming Tiffany into the LVMH family and helping the brand reach new heights as an LVMH Maison.”

![Figure 3 Finance statement of Tiffany & Co. [8]](image)

2. CONCLUSION

According to the analysis above, from the TIF’s perspective, the internal stakeholders are mainly gaining benefit from the increase of popularity and stronger control over operation and security on finance that both are important to their interest. But, the company faced a potential loss in interest of the external stakeholders: consumers faced an increase in price, competitors increased their pressure of competing over TIF and LVMH. Meanwhile, the acquisition is considered to be a potential growth of the two companies. LVMH is under the state of market development after the acquisition, which has a large potential increase in profit in return for the high risk. However, the company itself has a strong and matured system in the market which provides an inclusive ability for failure. As for TIF, the acquisition saved it from the unsatisfactory prospects and provide a more accountable future for its existence and growth. Overall, the benefit outweighed the drawbacks since the biggest disadvantage of the acquisition, which is the decrease in sales revenue or reduction in the purchase of luxuries, is an overall trend in the market due to the COVID-19 pandemic or reduced economic growth worldwide.

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