

Analysis on How LVMH Can Be the Leader of the Luxury Industry

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ABSTRACT

Luxury is a conventional definition, it links pleasure and the gratification of human emotions via more snobby items or experiences than the typical person. As we know, LVMH just acquired Tiffany Inc. in January 2021, which is the biggest acquisition in the luxury industry. What kind of company LVMH is? This paper talks about the history of LVMH, the acquisition of LVMH, the marketing strategy of LVMH with the data analysis and literature searching, provides a reference in business strategies for other enterprises.

Keywords: *Luxury, Acquisition, Marketing, Consumer Psychology, Social Media.*

1. INTRODUCTION

Luxury, a new definition is “its relationship to society and the degree of culture and civilization of those individuals”. This paper will research on how LVMH survive, unfailing, acquisition of competitors to become the leading group in the luxury industry, and which contributing to its great success. LVMH Moët Hennessy Louis Vuitton produces and markets luxury goods under various brands and product categories. In 1971, two major distilleries Moët & Chandon and Hennessy merged to form the Moët Hennessy Wines Group. In 1987, the company merged with Louis Vuitton, formally LVMH Group was formed. Today, LVMH Group has more than 50 brands, more than 1,700 stores, 68% of them are outside France, and employs nearly 60,000 people. This paper talks about the history of LVMH, the acquisition of LVMH, the marketing strategy of LVMH with the data analysis and literature searching, aims to provide a reference in business strategies for other enterprises to grow and develop in the future.

2. THE BACKGROUND OF LVMH GROUP

2.1. The Competition with Other Companies

Since the 1980s, the luxury market has grown at about 10% every year, a much higher rate than the world economy [1]. The consumption of luxury goods has increased in recent years, except 2020, because of COVID-19. The average annual revenue growth rate for the major players (LVMH, Estée Lauder, Richemont, Kering, EssilorLuxottica) in the luxury sector over this period from 2010 to 2019 was in the double digits, averaging 10.5%, while the average annual revenue growth rate for the other companies, in this case the bottom ranking companies (Aeffe, Tribhovandas, Van de Velde, Mulberry, Trinity), was only 6.49%. Furthermore, when comparing sales throughout the time periods studied, the differences are significant in favor of the bigger enterprises (see Table 1). This is the key reason why this study utilizes scores to assess these organizations' performance so that they may be compared on an equal basis.

Table 1 Total revenues of companies in the luxury industry (2020-2019, mil, \$) [2]

Ranking*	Company	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
1	LVMH	60,06	55,23	48,08	41,59	39,56	40,63	38,53	35,95	32,90	26,91
2	Estee Lauder	14,86	13,68	11,82	11,26	10,78	10,97	10,18	9,71	8,81	7,80
3	Richemont	16,19	12,87	11,67	12,23	13,12	13,43	13,06	12,20	9,10	7,31
4	Kering	17,78	16,12	12,20	13,70	12,85	13,31	12,82	12,51	11,21	14,58
5	EssilorLuxottica	19,46	12,78	10,36	7,87	7,45	7,52	6,73	6,41	5,83	5,15
82	Aeffe	0,39	0,41	0,35	0,31	0,30	0,33	0,33	0,33	0,35	0,30
87	Tribhovandas	0,25	0,27	0,25	0,25	0,32	0,30	0,31	0,29	0,26	0,19
94	Van de Velde	0,22	0,24	0,24	0,23	0,23	0,26	0,24	0,23	0,26	0,23
98	Mulberry	0,22	0,22	0,22	0,23	0,24	0,26	0,26	0,27	0,19	0,11
100	Trinity	0,25	0,22	0,22	0,23	0,25	0,34	0,35	0,36	0,34	0,26

From this table, it can be seen that LVMH's earnings was far exceed those of other competitors in the same industry in the 2010s, and the share of LVMH gradually increases with the time going on.

2.2. The Development of LVMH

Next, the reasons why LVMH can be the leader in the industry are analyzed. It is not difficult to find out that an important strategy for LVMH to make a fortune is merger and acquisition, and its merger and acquisition activities run through the whole company. LVMH itself was born out of mergers and acquisitions. Since the second year of the company's establishment, LVMH has been "buying and buying". The core logic of its merger and acquisition is that since it cannot grow excessively and produce brands casually, it should buy excellent luxury brands. After all, many old shops in Europe are family businesses. After the polishing of several generations, the products and brands of family businesses have been stable. Moreover, if they want to be internationalize, it is difficult for them to carry out scale operation on the right back. Joining LVMH is a win-win for those family-owned companies unable to achieve this ambition. The ambition of Bernard Arnault (CEO of LVMH) is to take French and even European luxury brands to the world, to help transform and internationalize French family-owned companies. In other words, from a luxury company to a luxury fleet, leading French luxury companies to the world.

At this point, it is clear that LVMH is no longer just a company, but a collection of European luxury companies, with France at the center. The core of this collection lies in preserving the genetic core of European brand culture, uniting them, optimizing and renewing them with excellent designers and operation teams, using

the group's superior resources (legal, financial, channel, marketing, human resources, R&D, information resources) jointly, and reaching consumers with brand and cultural uniqueness. When facing such a giant, smaller brands can only look up to it, for example, to defend such a collection against risks with complementary product characteristics, fewer rival competitors and a comprehensive defense against new invaders. For this reason, LVMH has been the winner of several economic crises - the reaper of small brands.

Although LVMH has been very aggressive in its acquisitions (many hostile takeovers), the company has developed a strong focus on talent and brand independence. The group places great importance on the core designers of its subsidiaries and arguably has the strongest team with top luxury designers in the industry, such as Marc Jacobs, Stephen Sprouse, Takashi Murakami, Christian Dior, John Galiano, Saint Laurent Alexander McQueen, and the longevity of the designers in the company (around ten years on average) ensures continued design stability. The designers are on the one hand a target resource for the company's acquisitions and on the other hand a tool to help the newly acquired company to improve its new image. After the acquisition, the company retains the original family of the brand for non-established brands, and even the main office address remains in the same location.

People summed his methods up in three steps: buy when the economy is depressed; after the acquisition, the company is "free", timely and appropriate sales, through "buy cheap and sell expensive" reintegration, so that its sub-brands always maintain high yield; he has a unique vision in choosing designers for the brand. For example, after LV became synonymous with "old-fashioned street bag", the company decisively appointed the new

designer Marc Jacobs as the creative director of the company, integrating the ancient nobility of LV into modern life.

Having analyzed LVMH's corporate strategy above, the following is about its strategy for consumers. The company has won by being diverse and capturing consumer demand. If the demand for luxury consumption is simplified, two dimensions can be obtained: one is status highlighting, the other is unique scarcity. The main economic problem is scarcity, limit resources and unlimited want. Besides, with the increasing demand of the middle class to consume luxuries, not only just the bourgeoisie, there have been two major changes in consumer behavior. One is the rise of mass consumer, who has money to buy luxury goods but does not have that much money. On the other hand, ordinary people have more opportunities to buy luxuries, while the truly rich prefer to buy those insignificant luxuries, such as luxury consumption of high quality food and spiritual experience. In LVMH's business distribution, we can see such a shadow. For example, fashion and leather goods, jewelries and watches are the core products that mainly lead the company's high-end image. Perfume and cosmetics are for mass consumers and the younger generation of consumers. Wine, tourism and hotels are experience luxuries. All of these products LVMH are involved.

2.3. The Marketing Strategy of LVMH

Whereas traditional marketing companies try to build and communicate with their customers through marketing activities like advertising campaigns, direct sales, and salespeople, luxury brand managers have focused on "communication" policies and other strategies of the luxury marketing mix in recent decades,

2020 Revenue (Organic growth versus same period of 2019)

FY 2020	Wines & Spirits	Fashion & Leather Goods	Perfumes & Cosmetics	Watches & Jewelry	Selective Retailing	Other activities & eliminations	Total
First Quarter	-14%	-10%	-19%	-26%	-26%	—	-17%
Second Quarter	-33%	-37%	-40%	-52%	-38%	—	-38%
Total First Half	-23%	-24%	-29%	-39%	-33%	—	-28%
Third Quarter	-3%	+12%	-16%	-14%	-29%	—	-7%
Nine months	-15%	-11%	-25%	-30%	-31%	—	-21%

Figure 1 2020 revenue (Organic growth versus same period of 2019) [7]

given the importance placed on luxury brands. The use of social networking sites for marketing communication is seen as a commercial take-off tool for luxury fashion brands by expanding the domain of social networking sites [3]. People now have access to a wealth of information about businesses, particularly luxury goods, and are eager to share their experiences with others on social media platforms. As a result, given the influence of electronic word-of-mouth, every communication-based luxury brand firm must analyze the above-mentioned analysis of the influence on the tendency of luxury brands in order to establish and sustain a competitive advantage. It's not only a powerful instrument, but it's also low-risk owing to its low price.

Creating favorable word-of-mouth, according to Klein, Falk, Esch, and Gloukhovtsev, is an important duty for luxury brand managers [4]. Customers develop and share brand-related information to their friends, peers, and other contacts without boundaries on social media, making it a great instrument for electronic word of mouth [5]. Furthermore, the trustworthiness of a well-known follower or celebrity is a vital factor in improving buy intentions for reputable premium goods [6]. The influence of the amount of "famous followers" on brand pages was also investigated and analyzed in this study.

Another point worth mentioning is that when consumers buy at the counter, they can sign up for a membership and when they accumulate a certain amount of spending, the brand will send them gifts or invite them to events on various holidays. For example, Louis Vuitton's flower arrangement activities at Mother's Day. This, to a certain extent, also stimulates consumers to buy more products as well.

3. DISCUSSION AND SUGGESTIONS

2019 Revenue (Organic growth versus same period of 2018)

FY 2019	Wines & Spirits	Fashion & Leather Goods	Perfumes & Cosmetics	Watches & Jewelry	Selective Retailing	Other activities & eliminations	Total
First Quarter	+9%	+15%	+9%	+4%	+8%	—	+11%
Second Quarter	+4%	+20%	+10%	+4%	+7%	—	+12%
Total First Half	+6%	+18%	+9%	+4%	+8%	—	+12%
Third Quarter	+8%	+19%	+7%	+5%	+4%	—	+11%
Nine months	+7%	+18%	+8%	+4%	+6%	—	+11%

Figure 2 2019 revenue (Organic growth versus same period of 2018) [8]

It can be seen from Figure 1 and 2, the revenue of 2019 versus that of 2020, that the overall drop in consumption in 2020 is due to COVID-19, especially in Asia, which has the highest percentage of consumption in previous years. The fact that many people lost their jobs during the epidemic was also an important reason for the drop in consumption, because it is not normal goods.

If LVMH's sales will be affected by other difficulties, without taking this type of exceptional situation into account? Competition from large companies in the same sector is of course inevitable, so if there be some other reasons? Take select shop for an example. When people go shopping, they may notice that the costs in the buying stores are lower than those at the counters, even with the full discounts.

Nevertheless, people do not think it is a significant danger because the buying stores also buy from the counters, but at a lesser price. In addition, more consumers are still buying at the counter. Cutting pricing will simply diminish the luxury status of a company in people's views, hence luxury firms will not be able to attract more customers by lowering pricing. Luxury brands must put their long-term strategy and reputation first, and they must stick to their brand identity, which distinguishes them from other companies and non-luxury companies. Rarity is, in fact, the key to the expansion of luxury.

Historically, luxury companies have offered a one-of-a-kind store-level experience, which has frequently entailed dressing up, entering a high-end boutique, and asking a salesperson what to buy. However, many luxury enterprises are attempting to acquire premium clients over the internet in today's market [9]. In China, where many small communities may lack boutiques and people are unable to leave their homes during the epidemic, China's largest e-commerce platform has signed an agreement with the luxury goods brand to create an online flagship shop on that e-commerce platform. We also know that on the official websites of most companies, you could buy directly online and have it delivered to your home a few years ago. This is also an useful method for dealing with those who are unable to access the freedom of physical stores or who are socially anxious.

4. CONCLUSION

This paper will be beneficial to both researchers and luxury brand managers. The findings of this study might be expanded in the future from the perspective of luxury customers' behaviors on social networking sites or from the many characteristics of the luxury concept to analyze luxury brand purchase intentions. The findings of this research may be utilized to investigate the influence of

social media marketing on luxury items in specific industries like hotels and restaurants. Luxury brand managers may obtain a competitive edge and sustain strong customer connections by emphasizing the "communication" mix of marketing, particularly by applying the conclusions of this study. They can rely on these results when seeking to address existing and new target groups.

In the analysis of brand marketing strategies, this paper only analyses the larger luxury brands of LVMH and does not analyze the brands of other sectors of LVMH, such as the wine industry, because the social buying public is more niche and no marketing strategies have been found for them. It also takes into account the fact that brands such as LV and Dior are among the more profitable segments of LVMH. Despite a variety of theoretical and practical constraints, the research was completed.

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