



Research on the Current Situation and Development Direction of China's Luxury Goods Industry under the Regular Epidemic-Taking LVMH as an Example

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ABSTRACT

The outbreak of COVID-2019 brought about an economic crisis that swept the world. Until now, we entered the phase of normalization of the epidemic, but the unchanged circulation of people still limits our economic development. The impact of the epidemic was far-reaching, and until now, China's economy has remained depressed. Miraculously, China's luxury goods market has seen an explosion after the epidemic. But this growth was caused by external factors and without a change in its strategy, this growth due to the epidemic will gradually slow down in the foreseeable future. Therefore, in order to help the luxury industry to develop new strategies and find new space for growth, take LVMH as an example., this paper analyses the unique advantages of LVMH through SWOT analysis method and provides solutions for the future strategic development of luxury brands by combining the consumer psychology, demographic structure, and national policies in China today.

Keywords: *Luxury, Epidemic, Consumer Market*

1. INTRODUCTION

On April 6, 2020, Xu Hejian, deputy director of the Propaganda Department of the Beijing Municipal Party Committee, said that "As the global epidemic continues to spread rapidly, it is impossible for Beijing, the capital of international exchanges, to completely end the epidemic prevention and control in a short period of time. We are in the stage of regular epidemic prevention now, we must adapt to the normalization of epidemic prevention and control it. we must continue to prevent imports from outside, prevent rebound from inside." [1]. Since then, it has marked that the epidemic in China has entered a stage of the regular epidemic, which is difficult to completely end, and the dynamic clearing policy under the normalization of the epidemic has also made China's economic development not as good as in previous years. Now, due to the policy of epidemic prevention and control, the circulation of people in the country is much more troublesome than before, and the communication with foreign countries is even more difficult. Many real economies are in crisis, and the service industry in areas where the epidemic is more serious, such as Wuhan and Shanghai, has received a major blow during the period of personnel control.

The annual GDP of 2021 will be 114.367 trillion yuan, an increase of 8.1% over the previous year, and an average growth of 5.1% in the two years [2]. Although the repeated epidemics have brought severe challenges to China's society and economy, according to the "2021 China Luxury Market Report" released by Bain Company, the luxury goods market in China (excluding Hong Kong, Macau, and Taiwan) will continue to maintain double digits of rapid growth in 2021. The size of the personal luxury goods market has doubled compared to 2019 and is expected to grow by 36% year-on-year in 2021, reaching nearly US\$73.6 billion (approximately RMB 471 billion) [3]. In order to better show the status of China's luxury goods industry, this article will use the SWOT analysis method to represent the world's largest luxury goods industry leader, Moët Hennessy-Louis Vuitton, with a short name LVMH. LVMH achieved a total operating revenue of €28.7 billion in the first half of 2021, up 56% year-on-year, with an endogenous revenue increase of 53%. The company's operating profit for the first half of the year was 7,632 million euros, up 44% year-on-year. Net profit attributable to the mother company was €5,289 million, an increase of 62% year-on-year.

Although China's luxury goods industry has ushered in rapid development in recent years in the context of the normalization of the epidemic, the global economy is sluggish as a whole and the country is still fighting the epidemic. If the companies do not change the existing strategy, it is difficult for China's luxury industry to achieve sustained high growth with external forces. This article will focus on the SWOT analysis model, combined with consumer psychology, national conditions with Chinese characteristics, digitalization, and other aspects, to objectively analyze the potential growth drivers and feasible development strategies of China's luxury goods industry. In the general environment of epidemic normalization, many companies are caught in the situation of difficult revenue growth. This paper takes the luxury industry as a perspective and SWOT analysis as an entry point to provide a perspective to think about the future development direction of the industry in China. Hope to let each enterprise find a suitable development strategy for itself through the analysis method in this paper.

2. METHODOLOGY

Analyse the current strength, weaknesses, opportunities, and threats of China's luxury goods industry. Using this method, based on the internal and external competitive environment and situation analysis under competitive conditions, is to analyze various main internal advantages, disadvantages, external opportunities and threats, etc., which are closely related to the research object. And then use the idea of systematic analysis to match various factors to each other and analyse, from which a series of corresponding conclusions can be drawn, which it easy to summarize the development direction of the luxury industry.

3. SWOT ANALYSIS BASED ON LVMH

3.1. Strengths

3.1.1. Brand Culture

Brand culture is one of the important messages transmitted to consumers. Under the influence of brand culture, consumers' perception of brands is not only a sign that is different from other commodities but a symbol beyond the meaning of the text. The reason why luxury brands are known, sought after, and respected by consumers, is not only because of the exquisite workmanship and ingenuity of the product but also because the concept behind the brand conveyed to consumers is meaningful [4].

Brand culture is a social phenomenon, a product created and formed by people for a long time. At the same time, it is a historical phenomenon and an accumulation of social history. Therefore, culture must

have some kind of natural connection with luxury goods with a long history of evolution. In the process of brand building, culture plays the role of catalyst, making the brand more meaningful. A brand with a good heritage can bring people a kind of spiritual comfort and spiritual enjoyment. What is luxury brand culture? Luxury brand culture is a combination of ethics and aesthetics. Luxury brands provide consumers with a perceptual world. Luxury brands always convey a dream and emotion to consumers consistently and uninterruptedly to make consumers forget about practical economic considerations. "Artisan art" and "historical heritage of the founder" are important assets of luxury brands. Some scholars have also proposed that the characteristics of luxury brands are: excellent quality, expensive price, scarcity, aesthetic value, heritage history, and non-essentiality [5].

The predecessor of the LVMH group originated in 1854. The name LVMH is a synthetic abbreviation of Louis Vuitton and Moët Hennessy. In 1987, Louis Vuitton, the world's top fashion and leather manufacturer, and Moët Hennessy, the world's leading wine producer, announced to form a large luxury production and sales group - LVMH Group. Since its development, many well-known top fashion luxury brands, such as Dior, Fendi, Kenzo, etc., and even the top brand in the jewelry industry, Bulgari, behind all these brands the control and operation of the company are inseparable from the same name, which is the LVMH group. At present, the LVMH group manages more than 70 famous brands, mainly involved in five industries: wine and soft drinks, leather clothing and leather goods, perfumes and cosmetics, jewelry and watches, and selected retail [6].

3.1.2. Management Style

In terms of corporate governance, the LVMH Group has built a parent-subsidiary model based on an investment holding relationship and independent financial control of operations. As the parent company, LVMH manages and coordinates all its business activities and its ten subsidiaries and provides them with various services to assist in their management, particularly in legal, financial, tax, and insurance matters [7]. All these services are invoiced to the subsidiary companies, at true cost prices or under normal market conditions, operating on a fee-for-service basis by type of service. In addition to this, LVMH manages the Group's long-term financial debt and the related interest rate risk, centralizing the foreign currency hedging of its subsidiaries. For the brands it manages and holds, LVMH relies mainly on the unified management of its three subsidiaries, which means that LVMH operates its brands with a portfolio perspective that allows it to maintain the relative independence between the brands on the one hand (also known as

loose management), i.e. each brand operates independently and LVMH no longer receives brand royalties, LVMH treats the different as portfolios with different types of risks, and builds an internal brand management style characterized by financial investment; but at the same time, financially, each brand is closely managed by its subsidiary, which is responsible to the Group for the investment of different brands in the form of financial investment trusteeship, thus building a financial brand management model.

3.2. Weaknesses

Although the brand image can give LVMH group a unique publicity advantage, compared with the brand image of ordinary goods, the maintenance of the brand image of luxury goods is more difficult. Luxury brand business in the global expansion, consumer groups have ethnic, cultural, and religious beliefs and other differences, therefore, luxury brands in product design, publicity, and even the official website design should pay special attention. In recent years, although the normal epidemic brought a lot of suffering to the Chinese people, on the other hand, also made the people more united, patriotic feelings are more sensitive to foreign brands in the domestic political position. In recent years, although the epidemic has brought a lot of suffering to the Chinese people, on the other hand, it has also made the people more united and patriotic, and they are more sensitive to the political stance of foreign brands in China. Although LVMH has many brands, each brand is independent of the other, but when a brand is boycotted by domestic consumers because of its political stance, it may also involve other brands.

In addition, the luxury industry has been maintaining a certain distance from the Internet, unwilling to authorize the e-commerce platform. The main reason is that the e-commerce platform in the storage and logistics and other sales process has the risk of transferring and selling counterfeit goods, once the consumer received a complaint about counterfeit goods, it is difficult to pursue responsibility [8]. In addition, the e-commerce platform will attract consumers through preferential activities, and this will affect the luxury goods themselves. This is also the reason that although the IoT industry has been developing rapidly in China this year, the luxury industry has been trying to get a share of the pie but dare not join.

3.3. Opportunities

Previously, luxury goods were mainly targeted at middle-class and middle-aged women above the middle class, but in recent years, China's demographic structure is changing dramatically. At the end of 2019, China's population exceeds 1.4 billion, of which 18.1% are aged 60 and above, and 12.6% are aged 65 and above,

gradually entering a deep aging stage of 14% [9]. On the other hand, the number of single people in China is increasing dramatically, and living alone is becoming a social trend. More and more young people in cities are choosing to be single due to the accelerated pace of life, and the declining marriage rate and rising divorce rate are also leading to an increase in the number of people living alone. Louis Vuitton, the most famous of LVMH's many brands, is targeting young people. If each of LVMH's brands were sold primarily to a specific consumer group, LVMH could cover young, middle-aged, older, male, and female consumer groups.

In addition to the changes in China's population, the country's policies related to importing and exporting commodities have also undergone great changes in recent years. For example, the duty-free policy led by Hainan Island Duty-Free Shop has become the object of attention for more and more luxury companies this year. With the release of the 14th Five-Year Plan of Hainan, the advantages of Asia-Pacific duty-free channels have gradually come to the fore. The proportion of duty-free sales of various luxury goods has been increasing, such as Estee Lauder, whose proportion of duty-free sales in China even reached 18% in the first quarter of 2021. Major airports in China have also started to cooperate with duty-free companies led by China. In the foreseeable future, duty-free sales will also become a must for various luxury goods industries [10].

3.4. Threats

Luxury goods do not belong to the bulk goods. Only when people have satisfied their existing needs, they will use the extra money to buy extra luxury goods. When the economic crisis comes and people's salary cannot even meet their daily needs, luxury goods will be the first thing people will cancel to buy. 2021 global consumer market as a whole shows a decreasing trend, and the dynamic zeroing policy implemented by China to resist the epidemic is also affecting China's macro economy from time to time. It will make more and more people's demand shift from the demand of luxury goods to the demand of basic living. If COVID-19 is still not eradicated in the future, it will further hit the Chinese economy. For example, due to the continued spread of the epidemic in both Beijing and Shanghai this year, in the first quarter of this year, Gucci's revenue in Asia Pacific has been dragged down by the sluggish business in China by 6%. Fear and anxiety will spread among the population. Some people who can go for luxury goods will turn to conservative consumption because of their negative attitude towards the future. This will make the consumption of luxury goods decrease drastically.

4. STRATEGIES FOR IMPROVEMENT

4.1. *Moderate Marketing without Compromising Brand Value.*

Luxury consumers seek to taste their favorite brands and don't like to be called rich people. However, while keeping a low profile, they also want to make people understand the luxury meaning of their consumption, so luxury marketing needs to find a balance between "highlight" and "low profile", which is called "low-key luxury". The so-called "low-key luxury". However, if a brand is not promoted, the public will not know enough about it and the taste of luxury consumers will not be understood by others. However, if the brand is widely spread, it may be counterproductive and reduce its brand value.

The top luxury goods are spread by word of mouth, while the common goods are usually marketed in magazines and TV commercials. If the top luxury goods are advertised on TV, it is not far from the public brand. For luxury goods, the brand history and brand spirit are more important than the product itself. Therefore, it must be marketed moderately without lowering the brand value.

4.2. *Actively Try to Digitize Luxury Goods*

Since 2020, luxury brands have concentrated on domestic e-commerce platforms, and more than 200 luxury brands such as Cartier, Gucci, Prada, Parisienne, and Armani have opened their Tmall flagship stores one after another. Although all the major brands under LVMH have opened flagship stores on online shopping platforms such as Tmall and Jingdong, at present, major brands still focus on offline store sales [11]. But after entering the normalization of the epidemic, people's desire to travel may further decline, which is a blow to offline stores but also an opportunity for Internet channels. Luxury brands and the entire luxury retail industry should accelerate their full embrace of digitalization, allowing luxury brands to shift their marketing focus to online, layout social media, carry out digital marketing, open up and cooperate with various platforms, and develop online sales as much as possible. However, it is worth noting that the Internet does not give people a feeling of luxury, it may lower the brand taste in people's minds and civilianize luxury goods, so the process of the Internet must be very careful. LVMH can first take a few brands with fewer sales share to try first to avoid a blow to the whole brand culture.

4.3. *Actively Layout The Duty-Free Field*

Since the introduction of the Nanhai 14-5 policy, even under the influence of the epidemic, the duty-free revenue and duty-free revenue share of major brands

have been expanding. In the foreseeable future, when the epidemic is over, the duty-free sales field will see an outbreak, so LVMH should lay out the duty-free field early to prepare for the future sales outbreak in the duty-free field.

4.4. *Actively Adjust The Target Demographics of Each Brand*

Since 2015, the demographic structure of China is undergoing great changes. First of all, the fertility rate has dropped significantly and sharply, and the proportion of elderly people is getting bigger and bigger. Second, the main force of luxury consumption is gradually changing from middle-aged people to young people, and the number of target groups of various luxury brands in previous years is changing dramatically [12]. Once the positioning of the company's target groups cannot keep up with the demographic changes in time, it will face the risk of revenue decline. At the same time, however, this has become an advantage for LVMH, as with over 70 brands under its umbrella, LVMH can achieve full coverage of various consumer segments: youth, middle-aged, elderly, male, and female, in response to the unique brand culture of each brand.

5. CONCLUSION

5.1. *key Findings*

According to the research of this paper, under the environment of normalization of an epidemic, the future economy of China will not maintain the super-high growth rate in the past 10 years, and the growth will even be stagnant. In this environment, the demographic structure, the main group of consumers, the main channels for consumers to purchase luxury goods, and the related policies of China have all changed greatly. Despite the macroeconomic downturn, the SWOT analysis reveals that LVMH has a unique advantage over other companies in that its huge number of brands allows LVMH to cover the entire consumer base easily in the face of demographic changes. LVMH's unique corporate management model also allows its brands to be dynamic. On the external front, there are many new areas worthy of LVMH's entry despite the macroeconomic downturn, such as digital e-commerce platforms and the tax-free policy in the South China Sea. As long as LVMH can organically combine its strengths with new opportunities and fully utilize its dynamism, I believe it will not be difficult to continue to maintain high growth in the future.

5.2. *Future Studies*

In the future, LVMH should promote its brand moderately without affecting its own brand value. At the same time, it should actively try to digitize luxury goods,

and it can take a small number of brands as a pilot first and cooperate with e-commerce platforms to develop new business models. Also, it should lay out the duty-free market in Nanhai according to the national policy and prepare for the explosion of the duty-free market after the epidemic. Last, it should reasonably adjust the target groups of each brand and make positive adjustments in response to the demographic changes in China, so as to achieve comprehensive coverage of consumer groups.

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