An Analysis Based on Profit Model of Luxury Giants —— LVMH as the Example

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Abstract. The project is to make an analysis of the profit model by researching the business model and strategy, financial analysis, valuation for LVMH. LVMH Group is a good observation since it is the largest luxury group in the world. Demand for them is increasing rapidly, with increasing prices. Profit model is meaningful to be explored since it indicates the situation of the group. Firstly, we will see its history, business model, consumer persona, sub-brands it purchased and a SWOT Analysis to complete business analysis. Secondly, there will be financial analysis, including asset, profit, liquidity, profit forecast and so on. In the future, it is predicted that its revenue will keep growing. However, it may face some competitive pressure from its peers.

Keywords: Profit Model, Business Analysis, Financial Analysis, Liquidity, Revenue Forecast

1 Introduction

1.1 Explanation of Key Terms

There are some key words which need to be explained clearly. The first one is “profit model”, which can be considered as a company’s plan that aims to make the business profitable and viable. It lays out what the company plans to manufacture or provide, how sales will be generated, and all the expenses that the business will incur in a bid to make the model viable [1]. Luxury, which represents expensive goods and services, but it is not a necessity. Something expensive which is pleasant to have but is not necessary can be defined as luxury goods.

1.2 Current Situation of Luxury Market

As early as the 19th century, sociologist Veblen concluded that luxury consumption is a manifestation of the relatively high level of wealth of the wealthy class. Cross-cultural psychology research found that for people with a higher concept of power distance, it is easier to be willing to express their status by brands with high profile, thus, they consume [2]. It is an important signal of high social status, which is meaning more symbolic than practical. Today, luxury goods have become necessary section of the

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society. The pursuit of luxury goods by some consumers has gone beyond the scope of rationality. It makes people wonder why the price is so high but the sales are still very positive.

Giovanni Faccioli, the global leader of Fashion and Luxury at Deloitte Italy, says that the luxury sector has successfully faced the challenges of the past few years, showing a very strong recovery and reaching an all-time high [3]. That means the global luxury industry has a rapid development. The report has indicated the amazing figures which tell people the revenue increases in different fields of luxuries fast.

Despite there are many difficulties in the microeconomics condition, the growth in luxury goods is maintained at a stable level, which has return pre-pandemic period. The global luxury market may have its ups and downs, but it is still expected to grow with increasing number of emerging countries [4].

The purpose of doing research on profit model of LVMH is to explore the reason why the business can be still powerful with high profit even during the downturn of global economics by observing its business model and financial situation.

From the perspectives of Finance, Accounting, Economics and Psychology, the profit model is analyzed through quantitative and quantified model analysis.

2 Business Analysis

2.1 Business Strategy

LVMH is a time-honored group with significant historical value. In the beginning, the ambition of LVMH is acquisition of several brands. As the merge of Moët Hennessy and Louis Vuitton, the world's luxury leader was born. During the three decades from 1988, LVMH keeps acquiring brands and expanding its business scale. Besides, it become partner of fantastic international events. Now the group is growing consistently, which has been considered a collection of French luxury brands [5]. As the top luxury group, LVMH has its own value, every product is designed as a symbol of story and dream. Besides its high profile, LVMH focuses on creativity and innovation in their design by launching several types of activities to attract potential designers. Firstly, LVMH created Viva Tech with Publicis Groupe and Les Échos. In the next year, LVMH announces it will create LVMH Innovation Award. During these competitions, the jury will select 30 companies as finalists from the competition to enter the LVMH Lab. Also, with the development of LVMH, it built LVMH Retail Lab, helping the Group's brands develop new solutions in the digital and retail sectors [6]. From Viva Tech to LVMH Innovation Award and then LVMH Lab, LVMH makes innovation into an industrial chain. All these factors can make the status and value of LVMH much stable and powerful.

2.2 Business Model

As for the business model of LVMH, it's a family business launched by Bernard Arnault and is controlled by him and his families until now. The model it operates in has many advantages. The first one is its unique organizational structure. In this decentralized organization, low levels managers make more decisions than its leaders [7]. Each brand of the group can respond very fast while facing any changes with operating autonomously. For example, Dior owns a certain creative director. Secondly, their value chains are controlled by themselves completely. Luxuries are always connected with history, including a place, a culture. As a result, LVMH produces its top luxuries in its place of origin. Besides, LVMH invests a lot in its brands, followed by LVMH Prize. Last but not least, it's important to maintain certainty of the group in the uncertain period.

Table 1. Ownership structure

shareholders	Shareholding ratio(%)
Christian Dior SE	41.79
Arnault family	6.988
LVMH Moët Hennessy Louis Vuitton SE	0.5069
Amundi Asset Management SA (Investment Management)	0.1708
OFI Invest Asset Management SA	0.1330
MFS International Singapore Pte Ltd.	0.1209
State Street Global Advisors Ltd.	0.1167
Crédit Mutuel Asset Management SA	0.1112
CAPFI DELEN Asset Management NV	0.0785

Table 1 shows information which is refer to those in the website www.marketscreener.com (published at August 2024), which indicates the amount of shares each company holds.

2.3 Buyer Persona

Table2. Consumers at different ages

Generation	Percentage of customers (%)
Gen Z	26
Millennial	40
Gen X	30
Baby boomers	4

Table 2 witnesses Stephanie Harlow's research in the consumer trends in different age groups and published the article on the website blog.gwi.com in August 2023. In today's society, percentage of the number of consumers in Asia Pacific regions has become 48%, which is nearly 50%, followed by those in Latin America and Middle East and Africa. In terms of the different age groups, Millennials are the key customers of luxuries, and then 30% of these customers were born in Gen X, which already have the ability to work and get salaries. For Gen Z, 66% of them still live with their parents without any income, they are not very significant in the consumption, but their purchasing power is growing.

Table3. Consumers with different income

Income	Percentage of customers(%)
Low	28
Medium	32
High	36

Table 3 is Stephanie Harlow's research in the consumer trends in different income levels and published the article on the website blog.gwi.com in August 2023.

These consumers have different incomes. Although the most key customers are still high-income group, the difference between the low and high income group is small with 8%.

Table4. Consumers with different purposes

Purpose	Percentage of customers(%)
They are available.	26
Improve health.	39
Follow news and trends.	45
Control personal data.	31
Feel confident.	49

Table 4 is Stephanie Harlow's research in the consumer trends and published the article on the website blog.gwi.com in August 2023.The purposes of purchasing luxury goods are totally different. For example, there was an interview that is reported buyers have several reasons to buy tech products. Most (49%) of them think using new technology can make them more confident which means that they do it to satisfy their own psychological needs instead of being rational consumers. Please note that the first paragraph of a section or subsection is not indented.

2.4 Sub-brands Summary

Until 2024, LVMH owns 75 brands such as Dior, LV, Fendi and others. All these brands have their positioning in the market.

There are six examples of companies in different business groups:

Table5. Prices of groups

Business group	Name	Acquisition price
Luxury jewelry	Tiffany & Co	$15.8 billion
Luxury goods	Bulgari	€ 3.7 billion
Fashion	Fendi	$259.4 million(estimate)
Fashion	Christian Dior	1 franc
Care and beauty product	Sephora	$262 million
Champagne	Veuve Clicquot	Not available

Table 5 shows Matthew Johnston's research and updated the six examples of sub-brands purchased by LVMH in May 2024.According to this chart, they can be divided into several types. Companies' primary revenue stream is from spirits champagne, fashion and leather goods, perfumes and cosmetics, watches and jewelry, selective retail and other business and internal expenses, which are sold in regions like France, Europe (excluding France), the US, Japan, Asia (excluding Japan) and other markets with high quality and ethical and environmental standards. Its revenue represents 13% organic growth (9% when factoring in exchange rate fluctuation) over 2022.

3 SWOT Analysis of LVMH

Two models are used to analyze situation of LVMH. In SWOT (strengths, weaknesses, opportunities, threats), it's easy to find situation of all the aspects of LVMH.

3.1 Strength

It has powerful profile in global market, strong balance sheet and financial situation, diverse products range, certain consumer loyalty.

3.2 Weakness

For weakness, in 2023, LVMH was responsible for 177,484 metric tons of carbon emission, 1,276,458 MWh of energy consumption, and 3,980,020 m^3 of water consumption, that has caused negative environmental impact [8]. Because of this, LVMH has regulatory risks during operation. Its overdependence in physical stores brings it additional maintenance costs.

3.3 Opportunity

For opportunities, it has the potential to expand in emerging market like China, Japan and other areas which have increasing demand in luxury goods. Because of people's focus on health, LVMH has chances to produce products that are good at keeping skincare without harmful components to provide customers with more options. In 2020, LVMH's global R&D expenditure totaled $149 million [9]. That allows LVMH invent in new products which can make them more competitive.

3.4 Threat

There will be high inventory costs since luxuries need careful storage and insurance. Short life cycles are also big problems. Most luxuries are seasonal, LVMH must sell them efficiently in certain seasons. For its competitors, for example, Richemont and Kering, are all powerful groups in luxuries which have the ability to compete with LVMH in quality and design. Sometimes it has to consider those copycats as its competitors, since not all luxury buyers wonder expensive goods, many of them prefer to buy something from copycats as they are cheaper. In terms of substitutes, there are several, such as PPR (Gucci, Yves Saint Laurent) and Richemont (Cartier, Montblanc), they are also luxury brands with high profile, so threats seem to be serious. However, if loyal buyers know the differences between them, substitutes are hard to earn from LVMH's customers. As for new entrants, because of high barriers to entry, new entrants are likely forced out of the market since they don't have enough capital.

4 Financial Analysis

4.1 Revenue

Table 6. Revenue

Time	Change Reported (compare with last year)
2022 A (compare with 2021)	+23%
2023 A (compare with 2022)	+8.8%
2024 H1 (compare with 2023)	+15.9% (predicted)

All figures in the Table 6 are refer to First Half Financial Report of LVMH. For revenue in per quarter, first half year in 2024 has revenue of 41677, which decreases by 1% compared with the second half year's revenue.

Revenue forecast. Take the average of growth rate in revenue during the last two years, which is calculated like (23%+8.8%)/2=15.9%, which means the revenue for 2024 is about 99851(euro millions).

Table7. Revenue by business group （EUR millions）

	2022 A	2023 A	2024 H1
Wines and Spirits	7099	6602	2807
Fashion and Leather Goods	38648	42169	20771
Perfumes and Cosmetics	7722	8271	4136
Watches and Jewelry	10581	10902	5150
Selective Retailing	14852	17885	8632
Other activities&eliminations	282	324	181
Total	79184	86153	41677

Table7 is the table for all figures in the chart of revenue by different business group are refer to First Half Financial Report of LVMH.Until June 30, 2024, revenue for different goods is less than that in the second half year in 2023 in every aspects. The figure in 2024 is almost a half of that in the second half year in 2023.

Table8. Revenue by geographic region of delivery（%）

	2022 A	2023 A	2024 H1
France	12	8	8
Europe （ excl. France）	9	17	16
United States	44	25	25
Japan	1	7	9
Asia (excl. Japan)	16	31	30
Other markets	18	12	12

Table 8 includes all figures in the chart of revenue in different regions are refer to First Half Financial Report of LVMH. Revenue generated in Asia always takes up the largest percentage，except in 2022 and revenue for every parts remains stable, except that in the USA and Asia . Generally, the total revenue decreases. Although the total revenue declines, the value is always high. It is found that the major source of income is fashion and leather goods.

4.2 Balance sheet (unit: EUR millions)

Table9. Asset and Liability

Types of liabilities/Assets	Value (Dec.31 2022)	Value (Dec.31 2023)
Non-current Asset	94500	99984
Current Asset	40500	43710
Total Asset	135000	143694
Non-current Liability (except equity)	47250	45443
Current Liability	31050	33145
Total Liability (except equity)	78300	78588

Table 9 has all figures in the chart of revenue in different regions are refer to First Half Financial Report of LVMH.

4.3 Debt to Asset ratio

Table10. Calculation

	2022 Dec.31	2023 Dec.31	2024 June.30
Total Asset	135000	143694	144449
Total Liability	78300	78588	80373
Debt to asset ratio	0.5800	0.5469	0.5564

Table 10 has figures in the chart of revenue in different regions are refer to First Half Financial Report of LVMH. According to these figures，the values of debt to asset ratio at the three time points are within the range 0.4~0.6. It is considered as a safe and suitable ratio, neither too conservative or too risky [10]. The company not only can ensure the solvency, but also can make use of financial leverage effect to improve profitability. Leverage ratio has been from 0.58 in 2022 to 0.5469 in 2023 to 0.5564 in 2024.

4.4 Liquidity

Table11. Liquidity

	2022 Dec.31	2023 Dec.31	2024 June.30
Current Asset	40500	43710	44924
Current Liability	31050	33145	32525
Current ratio	1.30	1.32	1.38
Acid test ratio	0.65	0.63	0.61
Turnover Rate	0.59	0.60	0.29

Some data in Table11 of liquidity are refer to Financial Report of LVMH in 2022, 2023, 2024.Current ratio means how much money can be prepared for getting 1 back. So the ability to returning money is better compared with that in 2023 and 2022. For every 1 liability, 1,38 assets are prepared.

In this case, acid test ratio in 2024 is 0.61, acid test ratio in 2023 is 0.63. That means the capacity for the company to make the assets mobile to prepare for 1 liability gets worse.

Turnover rate has decreased from0.59 to 0.60 to 0.29 which means the liquidity of the company has been worse.

4.5 Cash flow

Table12. cash flow (EUR)

	2022 Dec.31	2023 Dec.31
Operating Cash Flow	17835000	18403000
Investing Cash Flow	-5920000	-8310000
Financing Cash Flow	-12686000	-9397000
Capital Expenditure	-5082000	-7807000
Free Cash Flow	12753000	10596000

Table12: Some figures in the chart of cash flow are refer to the website Yahoo. Finance. Operating cash flow measures inflows and outflows of a company through their major business activities. The figure in 2023 has higher value than that in 2022, which means the selling and purchasing of inventory is smooth. The expenditure in investment of related activities increases. The flow of cash used to fund the company decreases in the one year.

Capital expenditure is money used in assets that can create future economic benefit. As for free cash flow, is the money to maintain its operations, which decreases.

4.6 Valuation

Table13. Price Per Earnings of peers of LVMH

Company （peers）	Price Per Earnings
Hermes	50.88
Richemont	18.58
Kering	14.35

Table 13 has the figures which are selected on the website Morningstar in July 2024.

Table14. Estimated Value of LVMH

Company	Average of P/E （peers）	Net profit for 2023 ($)	Estimated Value($)
LVMH	27.936667	8111425400	2266 billion

Table 14 is the figure for net profit is refer to the 2023 Annual Report of LVMH. The real price of LVMH now (26 August 2024) is $3813 billion, higher than price estimated., which is overvalued. The reason why may be lack of record of capital expenditures, if the company does not record all of its capital expenditures, the value of company will be overestimated.

5 Conclusion

According to the explosion of the LVMH Group's business analysis and financial analysis, with the consumers' psychology, LVMH has very powerful financial situation and takes up most of the luxury market. So luxury goods' sales will not be destroyed easily and since the company has very good liquidity, although global economics is not positive now, the company has the ability to face the difficulties. As a result, they will not lower the prices of the goods. At the same time, as luxuries have become a symbol of richness and high status, more expensive, better the good is. Demand for them from consumers increases very fast. So for all aspects, luxury goods never worries they do not have buyers at any time even though they are set at a high price level.

Because of the limitations on the length of article, some models and analysis methods which can be combined with SWOT are not done. Lack of some research reports by other companies is also limitation. There is no comparison between LVMH and another group like Kering, so the results may not be very universal.

With the development of global economics and luxury industry, there will be plenty of changes during these decades. By using more methods and information, the trends of luxury market can be explored better. Therefore, the reasons that cause the increasing sales with high prices are looking forward to being completely found.

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