Case Brief : Louis Vuitton (LV)

I. **LVMH Performance and Competitors**

A. Moët Hennessy Louis Vuitton is a **differentiated** luxury brand, biggest and best in Europe, whose **value proposition** is focusing on customers whose:

1. **Needs**: High-quality exceptional and innovative luxury items, excellent craftsmanship showcasing heritage, luxury buyers, and brand enthusiasts
2. **Prices**: Expensive, increased customer's Willingness to Pay for differentiated product
3. **Segment**: Absolute (ultra-high net worth), Aspirational (Celebs, high-income people) and Accessible (price conscious people)

B. Production is **vertically backwards integrated** (in-house), Supplier Opportunity Cost is low which decreases cost of product and increases profit through added value for customer.

C. Acquisitions were the main reason LV enjoyed profitable revenues. It owns 60 luxury brands and enjoyed a revenue €23.6b in sales €3b in net profit while others like PPR had €7m and Richemont had €1b in net profit during the same period.

D. According to 2011 — PPR (Gucci, Bottega Venetta), Prada and Coach, like LV, enjoyed high growth and revenues in Asia (including China). Hermes on the other hand, enjoyed most of its revenue in Europe and saw a huge growth in the US during the same period.

E. According to Porter's 5 forces of analysis, LV is performing successfully because —

1. **Threat of new entrants (Low)** - Because of high capital and market size
2. **Threat of substitutes (High)** - Changing preferences to non-leather goods
3. **Bargaining power of suppliers (Low)** - LV's reputation and in-house producing
4. **Bargaining power of buyers (low)** - Distinctive features, low switching costs
5. **Industry rivalry (High)** - Capacity of size, competing in same countries

F. Three main cost drivers to LV's successful business model which justified the high price:

1. **Product** - Innovative in-house raw material and production techniques, as well as creative design, were critical to staying ahead of the competition and supplying customers with items that were perceived as distinctive. This increased willingness to pay which was higher than price of product, resulting in consumer's added value.

2. **Distribution** - LV highly relied on company-owned stores in prime locations or online while competitors used a combination of direct owned stores, retail stores and online. Per store revenue of LV were €12.7m which was twice that of Gucci and Prada. Excess products were destroyed in order to eradicate grey market sales.
3. **Communication** - High-profile campaigns, elite customer experience on yachts or apartments, celebrity endorsements and home delivery of customised and highly exclusive limited edition products to absolute segment customers.

II. **<u>LV Competitive Advantage</u>** (Activity map included at the end)

A. **Tangible**: Massive financial resources, high-tech innovation, unmatchable product quality and features (durable and strong). (Consistency fit)

B. **Intangible**: Top talent's artistic inventiveness mixed with an innovative production technique — handcrafted goods (mostly) to preserve its heritage and exclusivity. (Optimization fit)

C. **Core Competencies**: It employs excellent planning and maintains tight control over its distribution networks. The purchased brands are thoroughly evaluated. (Reinforcing fit)

D. All the activities above show fit in consistency, reinforcing and optimization.

III. <u>Challenges and Recommendations</u>

A. LV's performance in 2010 and 2011 were exceptional. The challenges, however, were :

1. Were these performances and activities sustainable for a very differentiated product.
2. Demand in Europe and US were stagnant or low due to financial turmoil by governments. Risk of imitation of these “unique” products were high by rivals.
3. Growing LV to more profitability while not compromising on its values and heritage.

B. I think LV should focus more on environment sustainability in order to keep their heritage alive. Leather-free high end substitute products could be the new face to luxury while not compromising on their innovative designs. This would attract new, environment-conscious customers and retain existing ones, thereby, increasing sales and improving brand identity. LV should reduce product wastage by not destroying surplus items and producing mostly on demand. The use of exotic animals concern is known but little is done to change it due to possible compromise in superior quality, but is ultimately important to achieve.

Activity Map