**LVMH Strategy Analysis**

**Name**

**Institution**

**Course**

**Date**

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# **Executive Summary**

Moet Hennessy Louis Vuitton (LVMH), as a leading luxury fashion brand, has a number of strategies it can implement to grow its existing share of the market. Key among these include mergers and acquisitions, the entry into new markets, and better branding. An analysis of the operations of the company and the resources it has shows that entry into new markets is the most ideal strategy that can be implemented due to the low capital costs that will be required and the significant impact on revenues and profits. Mergers and acquisitions on the other hand would more complicated to undertake due the high cost implications and the fact that the industry is dominated with a few firms that also have significantly large asset bases and may not be interested in a merger.

# **Introduction**

Moet Hennesy Louis Vuitton (LVMH) is a leading luxury fashion brand that operates globally. The company was founded in 1987 as a fashion brand and was soon able to grow its operations internationally by adopting a differentiation strategy (Donzé & Wubs, 2020). By only dealing in high-end luxury fashion items, the company was able to set its products apart from most others present in the market, which allowed it to develop a distinct brand that is specifically known for quality. Innovation has been a critical part of the growth of the company. Its products are innovatively designed to stand out in the market, while its internal operations and supply chain are designed to be efficient. The company, however, deals with a great deal of competition from several other luxury brands that have also built strong brand reputations that can set their products apart from those of the competition. An effective marketing strategy has, however, enabled the company to grow its share of the market as well as build customer loyalty.

This paper analyzes the overall strategy of the company and the changes it can make to achieve more growth as a luxury brand. Key strategic options that are available to the company include mergers and acquisitions, entry into new markets, improved branding using corporate social responsibility, and other strategies.

# **External Analysis**

## **General Assessment of the Environment**

The luxury fashion industry is mainly dominated by a few firms that account for most of the sales. Studies have shown that the total revenues from the industry are more than $120 billion and are expected to keep growing as demand for high-end fashion products continues to grow. Competition among leading brands is significantly high, with each brand using a differentiation strategy that is meant to make its products stand out in the market.

## **Stakeholder Analysis**

The customers are the most significant group of stakeholders for the company. The extent to which the company is able to address the needs of its customers determines the success it will have in its market. The operations of LVMH are designed to best serve the needs of its customers. The design of its products and services is meant to ensure customers get high-quality goods that stand out from most others sold in the market (Wan, 2023). The distribution strategy used by the company is also designed to reach consumers in all parts of the world.

The public is also a key stakeholder that is impacted by the company’s supply chain and operations. The operations of the company can have detrimental impacts on the natural environment, which can place the public at risk in areas where it undertakes its manufacturing operations. The company has tried to address this by making its operations more sustainable and minimizing the chemical damage that its manufacturing operations used to have.

Internally, management and employees are also key stakeholders who influence how the company operates and how it is perceived by outside stakeholders. The company maintains a significantly large workforce of more than 190,000 workers and is known for its employee-friendly work policies. The company also has an effective internal organizational culture that is meant to make its employees more creative and innovative in their work.

## **Porter's Five Forces**

**Competition**

The industry the company operates in is highly competitive. While the number of firms in the industry is low, customers are highly loyal to specific brands, which limits the market that can be controlled by one firm (Chen, 2021).  Customers can also switch between luxury brands at times without incurring any costs, which means that companies with the best products will get to control a significant section of the market. Intense competition means the company has to continuously make improvements to its products and services if it is to maintain its market position.

**Influence of Consumers**

Consumers and how they perceive the brand have a major impact on the success of the company. If consumers perceive the brand favorably, it is highly likely to be successful in growing its share of the market. If consumers don’t perceive the brand favorably, it will struggle to stand out in the market and may lose its competitive position if it does not improve its brand reputation. The majority of consumers in the market, however, view the company’s brand favorably, which increases its chances of successfully growing its market share in the future. The decisions of individual consumers, however, have almost no impact on the total revenues of the company.

**The Influence of Suppliers**

Suppliers have limited influence on the operations of the company. The company uses a wide range of suppliers and can easily switch between them if it wants to do so. The suppliers used by the company are significantly too small to have a major impact on its operations. No single supplier is a monopoly, meaning the company is free to switch between a wide range of suppliers. Supply shortages are also rare, as switching between suppliers does not significantly increase the operating costs of the company (Li, 2021). Generally, suppliers have a limited influence on the operations of the company.

**Substitution**

Products sold by the company have few comparable substitutes in the market that are often sold at a similar price. While cheaper substitutes are plentiful, they don’t directly compete with the company’s products due to major differences in quality. Switching costs can also be significant due to the high value of products sold in the luxury market. Substitutes and how they are marketed therefore have a significant impact on the performance of the company.

**Likelihood of New Firms**

The fact that the company deals in highly specialized goods makes it difficult for new firms to enter the industry. The company has numerous competitive advantages that take time and a lot of resources to acquire. This means it is difficult for new firms to establish and grow operations in the industry.

# **Internal Analysis**

## **Financial Analysis**

A financial analysis of the operations of the company that analyzes its revenues, profitability, asset value, and debt shows that the company is relatively stable and is performing better than most of its industry peers. The total revenue of the company increased steadily in the last three years, indicating that the market share of the company is growing. Revenues increased from £44.6 billion in 2020 to £86.2 billion in 2022 (Chen, 2022). The profits of the company also increased as revenue increased, which shows that the company was able to efficiently manage its operating expenses. Profits increased from £4.7 billion in 2020 to £15.1 billion in 2022 (Chen, 2022). The increase is attributed to both the growth in revenues of the company as well as efficient internal operations that keep costs down.

## **VRIO Analysis**

**Value**

The strong brand value of the company as a key resource provides immense value to the company. The company is known in key markets where it operates as a provider of high-quality goods that surpass most others in the market (Fiorani et al., 2022). The company’s products, as a result, stand out in the market, meaning sales can be made with limited advertising.

The innovativeness of the company is also a key resource that provides lasting value to its operations. The company makes continuous improvements to its products and services in line with the changing needs of users and the market. Internal research and development initiatives are in place that are meant to identify ways of making improvements to different areas of operations.

The high asset value is also a key resource that provides immense value to the company. With its high asset value, the company can easily raise the capital that is needed for the different projects it may choose to undertake.

**Rare**

The global market presence of the company is a rare resource that enables it to create and maintain growth. The company distributes its products globally, meaning changes in demand in a single market will not have a significant impact on its operations.

The company has also built customer loyalty, which is critical to its operations. Sales can, as a result, be made without aggressive marketing, as is the case with most other apparel companies.

The company's access to crucial raw materials is also a rare resource that reduces operating costs while at the same time providing competitive advantages. In addition to making its own raw materials, the company has numerous suppliers of high-quality raw materials that are needed to create its high-quality products.

**Imitability**

Although the pricing strategies used by the company can be imitated by competitors, the quality of the company’s products is significantly more difficult to imitate, which aids the company in retaining its key competitive advantages. Most of its key competitors in the luxury market also have high asset values and can invest in innovative products that can make them stand out in the market. The innovation strategy used by the company can therefore be imitated by competitors.

**Competitive Advantages**

The strong brand reputation of the company is a key source of competitive advantage that enables it to stand out in its market. Due to its strong brand reputation, the company is often freely marketed by celebrities, which makes it easier to retain and grow its share of the market.

## **Value Chain Analysis**

The value chain of LVMH is significantly complicated and includes numerous parts that work together to acquire raw materials, process them into finished goods, and deliver them to markets. In terms of infrastructure, the company has a large asset base that includes facilities needed for acquiring raw materials, processing them into finished goods, and delivering them to key markets (Chatterjee, 2020). Financially, the company is also stable and can cover all its resource needs with available assets.

In terms of human resources management, the company maintains highly skilled labor in different areas of its operations. In total, the company has more than 190,000 employees working within its supply chain. The company is also listed among the most valuable employers in the world, meaning it has sound human resource strategies that enable it to retain most of its workforce.

Technology is a key aspect of the operations of the company. Supplier management is mainly done using internal software that enables the company to order raw materials on time as well as monitor the performance of its numerous suppliers. The company also maintains an online store where customers can purchase products and services they are interested in. Thus, it helps the company maintain a global market presence that covers almost all parts of the world.

The procurement strategy of the company includes both sourcing for raw materials from third-party suppliers as well as internally from farms owned by the company. This enables the company to keep its procurement costs at a minimum while at the same time ensuring the raw materials it sources are of significantly high quality.

The delivery of raw materials to the company or inbound logistics is mainly done by third parties who have a supply contract with the company. Distribution or outbound logistics is also mostly handled by third-party stores that source finished goods from the company for sale.

# **Strategy Identification**

To grow its operations in existing and new markets, the company can adopt a variety of strategies depending on the resources it has ready to commit towards an expansion project. Key among these is a merger with an existing company or the acquisition of an existing company in the same market. The luxury fashion market is dominated by a few major brands that are responsible for most of the products sold in the market. A merger with my existing company will therefore be strategically advantageous by reducing the intensity of competition within the industry while at the same time providing new resources that can be used for growth.

The company can also select to enter new markets where it currently does not have a distribution strategy using a variety of methods. Key among these is establishing manufacturing operations in the selected market. While this will require substantial resources, it will enable the company to reduce its operating costs in the selected market in the long term. Alternatively, the company can choose a direct selling strategy, where finished goods manufactured elsewhere can be sold in the new market as imports. This significantly reduces entry costs, as the company will not have to invest in facilities.

The market entry strategy that the company selects will be largely influenced by the overall firm's strategy. Currently, LMVH uses a focused differentiation strategy that focuses solely on the luxury market. Key products made by the company are meant to serve the needs of these markets, meaning the company can only enter into markets that can afford its products.

The overall strategy selected by the company will also need to consider corporate social responsibility and the impact it can have on its overall reputation and brand value. Customers often consider the impact the operations of a firm have on the natural environment as well as the extent to which the company caters to the needs of external stakeholders. A detailed corporate social responsibility strategy therefore needs to be part of the growth strategy that the company selects.

# **Recommended Strategies**

A number of strategies can be selected by the company as it seeks to grow its operations. Key among these is a merger with other firms within its supply chain. A merger can either be horizontal, with firms that offer the same products, or vertical, with firms that are higher or lower in its supply chain. A merger, especially with a key competitor, can enable the company to significantly grow its share of the market without investing additional capital (González et al., 2020). A merger will also enable the company to gain access to talented employees as well as innovations that can have a profound impact on its overall operations. The firm created after the merger will also be highly diversified, which means higher profitability in the long term. On the downside, a merger means the company will need to give up control of part of its operations. Ownership will be diluted, and current owners and managers will not have the same control that they have at the moment. The culture and long-term strategy of the company may also be significantly changed.

The company can also select to grow its operations through an acquisition. While the acquisition of a major competing brand can be significantly expensive, even for the company, it is possible to acquire firms that are lower in its supply chain. The supplier of key inputs that the company needs in its operations can be successfully acquired using available assets. This would provide strategic advantages by enabling the company to reduce the costs of inputs it uses in its operations by eliminating the margins that suppliers charge (David, 2021). The company can also acquire shares of a key competitor, which would enable it to acquire its market without giving up control of part of its operations, as would be the case in a merger.

Thirdly, the company can select a direct selling strategy as the entry mode for new markets. Direct selling involves identifying a new market where the key products of the company can be sold and then exporting these products directly without establishing local operations in the country. As a leading luxury brand, the company can successfully sell its products in almost all parts of the world where it can establish a distribution network. New markets where the company does not currently operate can therefore be identified, after which direct sales can be made in these markets without additional investments in manufacturing capacity.

# **Selected Strategy**

Selecting new markets and using direct selling as a market entry strategy is the most ideal strategic choice that can be made by the company. Using this option, the company avoids the additional capital expenditure associated with establishing operations in new markets that it intends to distribute its products in. A great deal of capital would be needed to successfully establish operations in each potential market if the company used other market entry strategies.

A key advantage of direct selling as a market entry strategy is the fact that the company will get the chance to personalize the products it sells in each market it selects to expand into. Personalization is of critical importance for a luxury brand. Customers willing to pay higher prices for a product usually expect it to be tailor-made to meet their needs. A direct selling strategy would require the company to analyze each market it intends to expand into and, as a result, deliver products that best suit the needs of that market.

Direct entry also significantly reduces what the company spends to acquire a customer. Market entry strategies such as mergers and acquisitions require a company to make major investments in the selected market before acquiring a customer. Direct selling, on the other hand, allows a company to immediately start marketing a product to potential consumers without significant investments in local facilities.

Mergers and acquisitions are also difficult to organize, especially in an industry with a few firms that control most of the market. The luxury goods industry is dominated by a small number of firms that control most of the market. They are, as a result, highly profitable and are less likely to consider a merger. Due to the high profitability of firms in the industry, their asset values are also significantly high, which also makes an acquisition quite difficult to undertake. A market entry strategy that does not require the firm to make major investments in capital will therefore be ideal. This means direct selling in new markets is the most ideal strategy that should be persuaded by the organization.

# **Strategy implementation plan**

To increase the chances of the selected strategy being successful, the company needs to carry out detailed research that will make it easier to understand the needs of potential buyers in these markets. Market research will enable the company to identify products and services that will best fit in a specific market, as well as make changes to its products to make them more appealing to that market. Before market entry, the company also needs to create an effective marketing strategy that will enable consumers to understand the products being offered and the value they can provide.

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