

LOUIS VUITTON IN JAPAN

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Executive Summary

Louis Vuitton is the clear brand value and market share leader in the luxury market in Japan. We dwarfed our two main competitors (Prada and Gucci) in 2004 by having almost double their worldwide sales at 3.8 billion. But as we embark on our second global financial recession in a decade, and as the culture shifts in how Japan views luxury in general, we need to make a change to expand the market in order to stay innovative and keep our market share. Our revenues are still growing in 2008, though at a slower rate than previous years, and growth in the Japanese luxury market as a whole is still expected to grow at around 6% over the next few years. And over 20 million women in Japan already own at least one of our products. So we want to increase our production of smaller and ready to wear items from 15% of our products sold to 25% in the next 5 years to begin to diversify and expand the luxury market in general. This goal is largely in response to those changing attitudes about luxury in the 21st century, as customers are more reluctant to spend and less impressed by status symbols. As the market leaders in our field, our goal is to grow the market by expanding further into smaller, less expensive and more fashionable items while also following the trend of localization to reduce costs and reach new customers. Our main impediments are these changing attitudes about cost, luxury, and about our brand itself. And our solutions involve manufacturing and marketing in new countries and re-positioning the idea of luxury around quality, uniqueness, and more accessibility.

Goals

We want to redefine and grow the luxury market in the 21st century by increasing our production of smaller and ready to wear items from 15% of our products sold to 25% in the next 5 years, while keeping our profitability above 45% (which we have done in all of the previous 5 years). This is following the trend of cost consciousness felt after two global recessions and the shift of interest from luxury items to high fashion - especially among younger customers in Japan. Growing our line of smaller and more ready-to-wear items addresses cost, since manufacturing and materials are less expensive, we can pass those savings onto customers. And it addresses more of an emphasis on fashion, because we can be more innovative and experimental with a broader range of offerings. The average cost of one of these new items will be \$673, which is approximately half the price of our Keepall 55 (the world's most famous travel bag) plus 3%. Assuming people are more than 2X more likely to buy products in this price point, our revenues and market share will continue to increase. Since our revenues are still steadily growing (5,222m Euros in 2006, 5,628m in 2007 and 6010m in 2008), and since we are the strong brand leader, our goal is to grow the market and shift our offerings to follow consumer behaviors - including how luxury is going local.

Our target market is women in Japan between the ages of 20 and 50 because of their love for fashion and their familiarity with our brand. We chose Japan because it has always been a leader in the luxury market - constituting between 12 and 40 percent of worldwide sales in the luxury market - and because we have a lot of experience and historical success there. That said, this is a global strategy as the rest of Asia, the rest of Europe, and the United States begin to give us comparable business (25%, 21%, and

19% respectively). Our revenue in Japan has slowly decreased from 26m in 2006 to 22m in 2007 and 20m in 2008 as we enhance our presence in these other emerging markets for more stability. But Japan is still known as a fashion capital and the luxury capital, so we will test our new products in Japan while increasing our marketing efforts in emerging markets. We chose 5 years, because we are at the front end of another financial recession and believe 5 years will give us time to bounce back to current trends and get measurable results on the other end of the recession.

Impediments

Counterfeiting: One of the impediments Louis Vuitton faces in attaining our goal is worldwide counterfeiting. Because Louis Vuitton is synonymous with status and being a part of a privileged club, counterfeit products threaten our brand as much as our bottom line. Our greatest external threats due to counterfeiting are:

- 1) The more counterfeit products get circulated in the market, the status and “Luxury Product” brand value of LV will be compromised
- 2) People’s mindset will change if the counterfeit products are difficult to distinguish from LV’s in terms of quality and reliability and if the prices are cheaper
- 3) Eventually market share can be affected if enough people buy counterfeit products

One other important challenge that LV faced with regard to counterfeiting was that Japanese laws regarding intellectual property had been modified and become similar to western laws. These new regulations have not slowed counterfeit products.

For the successful establishment, growth, and development of a firm, the Government of the country in which the product is launched plays an important factor. If the firm does not get enough support from the Japanese government for laws regarding intellectual property, it becomes an even larger issue for Louis Vuitton.

An example of this impediment is seen clearly in the “Super Girls Auction Website” - in which it was claimed that more than 90% of the products it sold were fake. Even though it was proven that they broke the law, the issue remained unsolved. This resulted in noticeable decline in sales. The Internet is a global platform that can help promote a business but can also create a new platform for counterfeiting that can make the tool a double edged sword.

These counterfeit products come from all over the world (Hong Kong, Tokyo, Los Angeles, and especially China and South Korea), and they’re able to compete closely in quality; so expanding into new countries and adding new products will only exacerbate this challenge.

Cost of production for new, smaller items: Japan has become the capital of luxury and a mass market paradise for luxury brands. Approximately 30% of our revenue came from Japan in 2005, and the average of the next 10 luxury brands’ overall revenue from Japan was 26.6%. So for a firm like Louis Vuitton to maintain a brand synonymous with luxury, high quality and exclusivity, expanding its product line by introducing new products at the same time will be a big impediment to retaining its cachet.

As the company expanded its product line by applying the craftwork and design of its leather to smaller leather goods - such as purses, wallets, and its whole luggage

line - the cost of production for making these smaller leather goods and less expensive items is still high since the vast majority of our manufacturing is in France and because of our stringent quality controls. The establishment costs of heavy manufacturing machines and hiring of new French labour will add a lot to manufacturing costs.

Eleven out of 13 Louis Vuitton factories are in France, which has one of the most expensive labor markets. If we were to consider moving production to different countries with cheaper labor, we'd risk less quality, which would be another threat to our established brand.

Brand Dilution: Though Louis Vuitton had been an enduring status symbol in Japan, it had to face a major challenge: brand dilution as it moved into offering new product categories. As a strong leader of brand value in the luxury market (21,602m USD with Gucci as the nearest competitor with 8,254m), the challenge is to continue growth in the Japanese market and also maintain the image of being a producer of exclusive products.

Looking back at the timeline of how Louis Vuitton introduced new products in the past: Back in 1850s, LV was established as a producer of flat – bottom trunks; and later down the years, Georges Vuitton took the company to next step of producing monogram canvas bags after consistent market analysis across the United States. Later in the 1950s, Gaston-Louis Vuitton, successor of Georges Vuitton guided the brand into its modern age by expanding the company's product line and by applying the craftwork design of the large leather bags into smaller leather goods - such as purses, wallets,

and the whole luggage line. The establishment of Louis Vuitton Moët – Hennessy in 1987 established the largest luxury goods conglomerate in the world. And the merger resulted in an increase in profits for LV of 49 percent in 1988. But the merger also resulted in the company having five business divisions: fashion and leather goods, selective retailing, wines and spirits, perfumes and cosmetics, and watches and jewelry. With this, the company moved into offering variety of product line categories.

So adding new products comes with some challenges:

- a. As the people of Japan were more aligned towards fashion goods and luxury items, they had already moved into “fit in” stage which is represented by Louis Vuitton. This resulted in almost three-quarters of women in Japan possessing a LV product. This mass expansion and mass distribution of the production has become a real threat to the company’s brand.
- b. The journalist Dana Thomas reported that more than 40 percent of Japanese people believe the Louis Vuitton brand to be ubiquitous in the Japan market. This created a strong negative attitude toward the company, affecting the essence of Louis Vuitton: tradition and longevity.

The company is facing serious brand dilution threats from mass expansion and the over-distribution of their products.

Customer Behavior in Japan: Japan had been known for a group – oriented culture in which there was real pressure to possess luxury, status-driven brands. This was in part

because young women were more beauty-conscious, and because of the relative homogeneity of the country. The trend in Japan had been more towards a compulsory form of social expression of consuming high-end cosmetics and luxury brands as compared to that of other fashionable cities like New York, Sydney, or Paris.

The luxury shopaholics in Western culture were not perceived as well as those of Japan. Japanese society was described more like an “impersonal” society in which they give a lot of importance to the way they look. The people were supposed to dress in a way that reflects their social standing. And the large middle class in Japan helped contribute to the growth in the luxury market as well.

But this trend had been in decline over recent years. Japanese consumers were becoming less inclined to tolerate high prices that had formerly created the desirability. Young women of Japan, though they were still inclined towards sophisticated luxury brands, began to have more of an understanding of the value of money, and they started caring about value as a part of luxury. New trends around the luxury market are creating the following challenges for Louis Vuitton:

- a. Since 2000, the consumers have evolved towards sophistication and away from luxury, even among the urban class community.
- b. The previously existing trend of maturity in considering luxury brands as less attractive in western culture started reflecting in Japanese culture as well

c. With the increase in counterfeit manufacturing from other countries producing high quality fake models, people started moving their attention towards local products of low cost, with the looks as that of luxury brands.

The issue posed by this perspective change of the people must be addressed. One thing to note is that the people have not completely moved away from luxury brands. They have just become cost conscious and the idea of luxury is changing. The LVMH group must seriously consider addressing this issue as this will impact the loss of Japanese market in long term.

Threats posed by New Players in the Market: The people of Japan are shifting towards more of affordable fashion products rather than their previous interest in luxury specific material goods. Quality has always been a major factor for successful brands in the Japanese market, especially for niche brands that are not as successful as market leaders. The new brand entries into the Japan market are posing a serious threat to luxury oriented brands like Louis Vuitton as they offer high fashion products for a much lower cost compared to the products offered by luxury market leaders like LV. The entry of the Swedish brand H&M revolutionized the Japanese market and ultimately paved the way for fast fashion competitors like Zara, Uniqlo etc. to compete with luxury brands soon after their entry into the market. Market leaders like Louis Vuitton should take some serious steps to counteract this trend.

SOLUTIONS

Counterfeiting: Counterfeiting is a problem that every company in the world has faced. We can solve this problem by making exclusive showrooms and making the people aware that Louis Vuitton products are available only at select stores and not with every retailer in the market. The company should register for a Trademark in all the countries it has its business in, as setting trademarks gives a company the power to go to federal courts if someone is breaking the law. So we need to police our products and pursue counterfeiters. One good way is to periodically monitor the sales of goods by retailers as well as suppliers. It helps to verify whether products are original or not. Another good strategy is to match the price and packaging to the location where the products are being sold. This helps to identify products that are not meant for that particular market and can be counterfeits. With the advancement in the field of technology we could also improve our techniques to remove counterfeiting. Technology can be used within the product itself. In clothing, for example, we could add a partially invisible thread that creates a brand-specific pattern that is visible only under certain lighting. We could similarly use a hologram security image or a company-specific color if this becomes a real threat to market share or sales.

These techniques are useless if the customers don't know that there are high amount of counterfeits in the market. Making the customers aware of these counterfeits, ways to fight against them, and to check for genuinity could help us bring counterfeiting down. We can provide the information through our advertisements or through our website that'd make sure that the customer will have a fear of counterfeiting in mind

before making a purchase from any other store than the exclusive stores or authorized stores.

This is especially important if we want to increase our product line and expand to smaller, potentially more easily replicable products.

Addressing lowering of price of LV Product: To address the new, more cost conscious Japanese mindset, Louis Vuitton should concentrate on lowering the cost of production especially for the smaller and ready-to-wear products that we want to increase. As part of a new campaign centered on “*localized luxury*”, we will expand manufacturing to our partner countries while maintaining French design and quality standards. This means we will still have teams of 20-30 people, where approximately 24 workers are responsible for 120 handbags per day, and we still have our intensive quality controls. But manufactures closer to the customer, we can save on labor (while still offering more than the average host countries to help maintain brand consistency), transportation, export, and management costs that can be transferred to the customer. We would establish these manufacturing sites with host countries (especially India and China - our growing markets) and market them as partnerships for “*localized luxury*”, including partnering with local celebrities and artists how we have successfully in Japan. Apart from these providing seasonal discounts at the main holidays of each country like for USA-Thanksgiving, Labor Day, Christmas & 4th of July, For Japan- Golden Week, The Emperor’s Birthday, etc would definitely increase in sales. Since we intend to increase operations of our smaller, more ready-to-wear products to address cost consciousness

and compete more directly with our fast fashion competitors, this is especially important to consider.

Brand Dilution: Brand dilution is the weakening of a brand through its overuse. This happens as a result of ill-judged brand expansion. To solve this problem while expanding our offerings, we should re-explore our success with limited edition products. In the past, we've struggled with maintaining the specialness of the limited editions, but with localized campaigns and more products to promote, this will have less of an affect on the overall brand value. We will take care that we organize sub brands separately and treat each sub brand as its own entity, especially country-by-country. This will enhance the uniqueness of each limited edition, since we can sell Murakami's Japanese bags globally even with a Japanese focus and sell the limited edition of a famous Indian artist simultaneously.

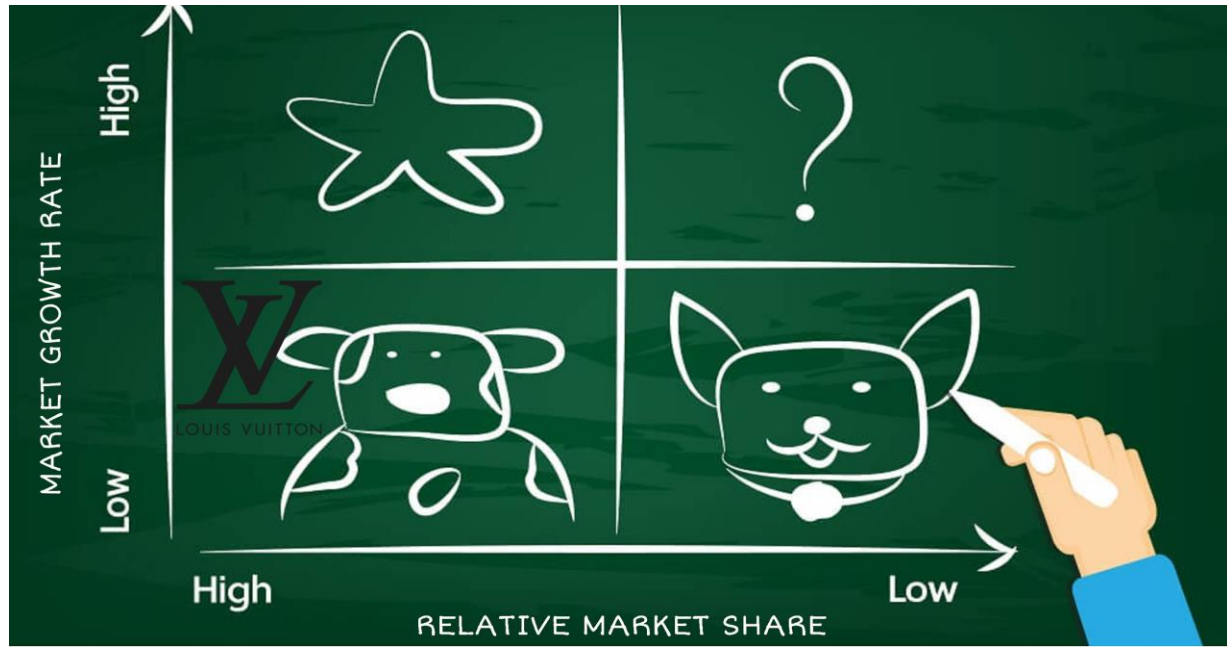
Customer Behavior & Cost Consciousness: We will focus on a particular market segment and will create strategies for each particular target. Our overall "localized luxury" campaign will address the trend of localization in fashion, but it will also confront the trend of fast fashion head-on. Their products are ubiquitous around the globe, and the trends all change with the season and not with anything happening at the customer level. We already have a rich tradition of valuing customer feedback and responding quickly when there are critiques to our products. With local manufacturing, this turnaround can be even faster. This campaign will also promote local hiring - illustrating us as a partner brand with each region; our ads will feature local celebrities to connect with new customers; and our limited editions will partner with local artists. We will

include eco and labor consciousness in our new campaign to include social impact in what it means to be sophisticated - since that is one of the leading opportunities for all businesses in the 21st century. So we're not competing with others in the luxury market, since we are the market leader; but we're competing directly with the fast fashion trend that is changing our customer's behavior. We intend to remind them that one of our products comes with a lifetime guarantee, and that means not replacing it every year with a Zara product of much lower quality. That's good for the planet and the pocketbook over time. We will do this by increasing our ad spending to the industry standard of 10% of revenues for the next 3 years in order to establish this new positioning. We will take most of this from savings from our manufacturing moves, but we also intend to recoup it after the initial investment with our expanded market share into smaller items. All of this push lays the groundwork for new product lines and new perspectives of our brand.

Attitude about luxury items: The challenge is that contemporary buyers are no longer wooed by sticker price to show social status. And they're becoming more interested in the changing and fast fashions of H&M, Zara, etc. Our "*Localized Luxury*" campaign will help redefine with luxury means while offering more competitively priced and more innovative products - addressing both of these changing attitudes while not changing our overall brand. We need to shift the perception so that luxury no longer means your one, nice bag you only bring out for special occasions. Luxury in the 21st century will mean local relationships, social conscientiousness, sophisticated buyers, variety in products, and innovative limited editions and collector's items. And it will always mean the best possible quality.

ANALYSES

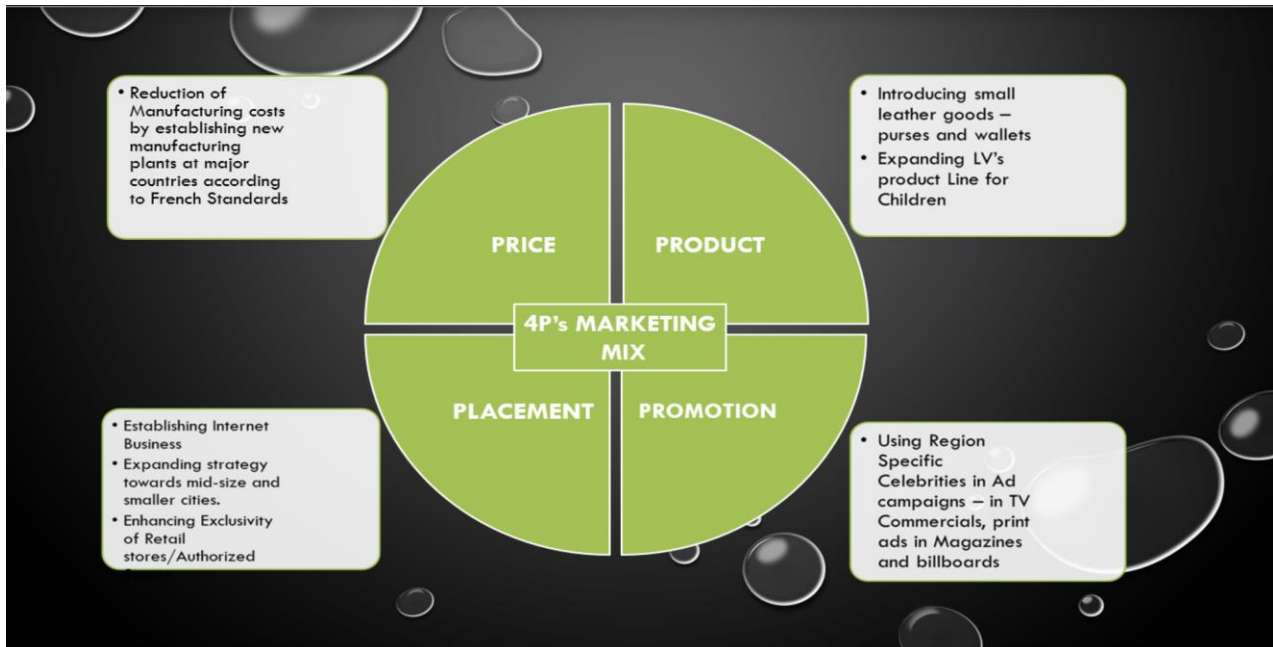
BCG -



SBU -

Industry Attractiveness	Business Unit Strength		
	Strong	Average	Weak
High	Grow ↑	Grow	Hold
Medium	Louis Vuitton	Zara, H&M, Uniqlo ↓	Harvest
Low	Hold	Harvest	Harvest

Marketing Mix 4 Ps -



SWOT-

