Louis Vuitton
Industry Analysis

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Strategic Management
Professor T. Mao

Justine Longo
103394842
Final Exam

Problem

Michael Burke, recently promoted to take over the helm of Louis Vuitton, is faced with the decision of how to push the company further into their success, while maintaining key characteristics and ideas put in place in the beginning of their company. How far can he push Louis Vuitton without diluting the image of high-end craftsmanship they have portrayed themselves as since the start? Which direction should he bring Louis Vuitton in to reach their ultimate success?

External Analysis

Industry Analysis

Life Cycle: Louis Vuitton is in their mature stage, but has a bright future of staying here for some time. Growth in America was expected to remain strong as gradual recovery from the 2008 recession,

Customer Segments: The luxury goods industry is split between three customer segments: absolute, aspirational, and accessible.

- Absolute clients were those of high and ultra-high net worth, customers who looked for true luxury, looking for products backed by brands that were based on heritage and tradition. These customers looked for “excellent craftsmanship, the use of high-end materials, and an excellent buying experience.”
- Aspirational customers include the top 10 percent income earners, such as celebrities and businessmen and women, with high disposable incomes. High quality, an exclusive buying experience and brands based on tradition and heritage were important to this segment.
- Accessible customers who through the purchase of a luxury product “experienced the feeling of having a membership in an elite group.” These customers are more price conscious, the product they buy needs to convey a high level of quality and be backed by a brand that conveyer exclusivity.

Customer segment preferences and behavior varies throughout each. These changing demographics and global economic challenges had led to changes in consumer buying and behaviour, with higher end customers placing more value on luxury experiences, such as trips and spas, instead of luxury purchases.

Competitors: Louis Vuitton has five major competitors in their industry. Though Louis Vuitton was the largest player in the industry with 2011 sales of over €23 billion, other large players such as conglomerates PPR and Richemont were not far behind. The smaller companies within thee conglomerates are Louis Vuitton’s direct competition, such as Hermès, Gucci, Bottega Veneta, Prada and Chanel.

- Hermès focuses in the absolute and aspirational segments. They produce exclusive high quality goods, produced by experienced craftsmen using the best material. Some products are the most coveted in the world, with price tags reaching up to US$2 million. Hermès products include leather goods, apparel, saddler, silk products, shoes, accessories and fragrances.

- Gucci, part of PPR group, focuses on leather goods, ready-to-go apparel, silks, timepieces, jewelry and fragrances. Their mission is to provide excellent products and experiences for their customers based on heritage, craftsmanship, high quality and innovation, all "Made in Italy." Prices range from US$850 up to US$4,700. Gucci revenues had grown by 18 percent in euro terms and 19 percent in constant exchange rate terms this past year.
- Bottega Veneta is also part of PPR group, producing leather goods, shoes, ready-to-wear apparel and fragrances. A brand based on exclusivity, craftsmanship, high quality and innovation, also backed by "Made in Italy" labels. Prices ranging from US$1,400 to US$28,000. 2011 revenues were up 33 percent from the previous year, reaching €683 million.
- The Prada Group, made famous by Prada and Miu Miu, mostly sold leather goods and shoes, accessories, jewelry and fragrances. These brands were based on heritage and craftsmanship, high quality and innovation. 2011 net income was €436 million, with revenues growing 25 percent in euro terms and 26 percent in terms of constant exchange rates.
- Chanel products include sunglasses, perfumes, skin-care, ready-to-wear collections, handbags, shoes and accessories. Handbags and other leather products and apparel are not sold online. Prices start at US$1,650 and have reached up to US$10,000. Chanel's current position in the marketplace is *vis-à-vis* Louis Vuitton. Chanel was ranked higher than its competitors in terms of brand quality, customer experiences and social status by high-income earners.

Louis Vuitton is known in the industry for having some of the top designs and creative talent, which is a key component in keeping ahead of the competition and providing customers with products they were able to view as unique. Louis Vuitton though, has projected it products as being handmade by artisans, leaving customers to think their products were unique and designed and crafted by artisans, what they didn't know what Louis Vuitton had relied on automated manufacturing processes to produce their products, undermining the appeal of the brand to these customer segments.

Porters 5 Forces

Threat of New Entrants: This is very low in this industry. Louis Vuitton has a major following and group of loyal customers that refuse to veer to other luxury good companies. Although the luxury goods market is on the incline, new companies would not enter the market due to the major existing companies that have total control of the segments.

Buyer Power: This is also low; Louis Vuitton products are destroyed, never discounted. Although customers have multiple high-end brands to choose from, once their mind is set on Louis Vuitton products, they tend to stay loyal with their decision. With the price increase in 2011, customers were becoming more value/price conscious, but the market did continue to rise regardless.

Supplier Power: LVMH requires all suppliers' stick to strict environmental guidelines. Though a few large buyers dominate the industry, there is no such dominance in the supplier market. Design and manufacturing is done in house, sourcing only component parts such as zippers, leather, and clasps from external suppliers.

Threat of Substitutability: Buyers of Louis Vuitton, and other brands in the LVMH segment, are very set on buying these products and not settling for anything less. A grey market does exist for Louis Vuitton products and the like, but tight control of distribution to ensure no product get "lost" and end up in a grey market. Louis Vuitton also uses price differentials between markets not high enough to encourage a grey market to appear.

Degree of Rivalry: Rivalry is very high within this industry. The luxury market is always in good standings, and demand has remained steady for the past few years. The luxury good customer base is small and the market is quite saturated with companies so customers with no set decision on one company have the option to choose from the wide range available.

SWOT Analysis

Strengths	**Weaknesses**
• Very high brand recognition • Diversified brand portfolio • Acquired a large number of subsidiaries at reduced prices during bad economy	• Customers not sent on one brand have the option to choose from very saturated market •
Opportunities	**Threats**
• Automated production increasing efficiency • Growing market populations coming out of economic crisis	• Economic downturn due to 2008 financial crisis • Counterfeit products and grey markets arising in some areas

<u>Internal Analysis</u>

VRINE Analysis

Is it Valuable? Yes, it is valuable. The luxury goods market was expected to grow to €250 billion with a compound annual growth rate of between 4 percent and 6 percent. Leather goods and shoes, Louis Vuitton's specialty, were growing the fastest as they formed the largest product segments.

Is it Rare? Yes, these luxury products are rare. At the top of Louis Vuitton's customer segments were individuals of high and ultra-high net worth, those who looked for true luxury, "it must be impeccable." Customers in the top segment were those that needed private fitting rooms set up for them across the country, while the second highest segment included those of the top 10 percent of income earners in the world.

Is it Inimitable and Non-Substitutable? Louis Vuitton is a part of major high-end brands in the luxury goods market, but to consumers willing to pay the price, nothing is comparable to quality, craftsmanship and heritage behind the company. There is a chance of a grey market developing, due to high costs and exclusivity, but Louis Vuitton works hard to prevent these, keeping their products as protected and prestigious as possible.

It is Exploitable? Louis Vuitton's current model is exploitable if operated in ideal circumstances, utilizing online sales, DOS as well as high-end department stores, such as Saks Fifth Avenue (in the Americas). Louis Vuitton does cater to the accessible customers, who aren't always in the luxury good market, therefore online sales help to reach customers in a wider geographical area, giving everyone equal opportunity to purchase.

Key Success Factors: Exceptional brand image, quality and loyalty, and product differentiation. Introduction of lean manufacturing allowed employees to become more diversified, therefore increasing productivity all around. "Louis Vuitton is one of the few companies … who have made that leap to create an alternate universe … another universe that co-exists with the classic universe that it is built on."

Financial Analysis

Key Ratios show in in Appendix A.

It is evident throughout the financials that Louis Vuitton was impacted by the 2008 financial crisis, but is on its way back up. With 2012 revenues projected at €212 billion, Louis Vuitton seems to be in the right industry. Because of the diversified markets, exchange rates do have an impact on total revenues and growth, but constant exchange rates were predicted to be 16 percent for leather goods and 13 percent for shoes in the upcoming year. The Americas have a strong growth rate, and Greater China has recently become the fastest growing region.

Return on equity has gone down from 2010 to 2011, but the company is still a top example smaller firms should follow on how to manage their profit and revenues successfully. A few of the ratios shown in Appendix A has decreased since the previous year, but overall Louis Vuitton does not have an urgent issue to address, and the management of profits, inventory, and investments is currently a successful mix.

Alternatives and Recommendations

Alternatives

Alternative #1: *Stay status quo.*

Moët Hennessy Louis Vuitton has experienced double-digit growth and healthy profitability in the past two years, take part in major acquisitions, and gain and maintain relationships worth having. Currently operating in five businesses: wines and spirits, perfumes and cosmetics, fashion and leather goods, watches and jewelry and selective retailing, the group has enjoyed substantial growth in revenue and profitability between 2009 and 2011. Customers have recently become aware that production has moved away from artesian labor and towards automated, which leaves some not very satisfied with the company and their beliefs.

Alternative #2: *Shift production to an automated assembly line in order to produce more products at a lower quality.*

Shifting all production to the automated assembly line definitely decreases customer perception and satisfaction. Customers are no longer looking at hand-crafter, artesian products, but products that have exact replicas all over the world. Automated assembly does reduce levels of specialization in employees, allowing them to be trained in multiple activities, thus improving productivity. But too much reliance on automated manufacturing could undermine the appeal of the brand.

Alternative #3: *Produce all products through artesian labor, as previously done, to produce fewer products with outstanding quality.*

Artesian labor is what made Louis Vuitton what they are today. In the 1800's Louis Vuitton was able to innovate not only material, but also designs making it difficult for competitors to copy, and allowing Vuitton to thrive. Top customers look for excellent craftsmanship, the use of high-end materials and an excellent buying experience, which Louis Vuitton can easily achieve selling strictly artesian labor goods.

Alternative #4: *Use both automated and artesian labor for different products offered to different industry segments.*

This allows customers of all segments to be satisfied with their products, diversifying the population able to join the luxury goods market. All of the point mentioned above could be used to describe the "pros" and "cons" of this alternative, giving it the combined amount of "pros" of each alternative above.

Decision Criteria:

- High financial benefits
- Maintain large market share and current growth strategy
- Continue quality standards throughout all manufacturing processes
- Keep brand image as high as possible, in as many segments as possible

Decision Matrix: The mentioned alternatives will be ranked on a scale from 1-10, with 10 being the most satisfactory, and 1 being the least.

	High financial benefits	**Maintain market share**	**Continue quality standards**	**Upkeep brand image**	**Total**
Alternative #1	7	10	10	6	33
Alternative #2	8	8	3	4	23
Alternative #3	7	8	10	10	35
Alternative #4	10	10	8	9	37

Recommendation

Louis Vuitton should implement both automated and artesian labor to offer different products to different industry segments (alternative #4). Doing so would allow Louis Vuitton to expand their market segments, introducing handcrafted, and ultra-luxury goods to customers in the absolute and aspirational segments, and assembly line goods to those in the accessible segment. Offering goods in both areas would allow Louis Vuitton to focus efforts on customers who valued privacy, setting up private fitting areas for customers who are willing to pay for these products, while offering those in the accessible segments the ability to feel as though they are a part of the luxury goods market, purchasing products attainable in their budgets.

Improved efficiency, due to automated production, does come with consequences, with customers in the top two segments feeling the brand name is being diluted by the affordable customer segments, but the undeniable efficiency is a key component is keeping ahead of competition.

Implementation

To implement this choice, Louis Vuitton must now continue production in both the automated segments and the artesian. Making the decision between which products will be produced and how will be a main starting point. Customers willing to pay more for products will usually be those who are more impulsive, not spending time saving to purchase an expensive item. These customers and products must be available for their viewing at all times, in any circumstances. Customers looking at the automated production goods will be those who have thought out their purchases, making an investment to place themselves into the luxury goods market.

Continuous plans in the future include: creating products and goods for each segment, allowing them to be viewed as two different markets, those of the ultra-luxury status, and those who aren't, keep price differences small enough to proactively avoid grey markets, continue innovating to keep ahead of competitors, and take time to transition into this new production and sales plan, always keeping customers happiness as our number one objective.

Contingency Plan

If the above plan fails, the next best option is alternative #3, produce all products using artesian labor. Louis Vuitton has always said, "do a fantastic job at production, distribution, and communication, and people will forget about the price." This is exactly what Louis Vuitton has been doing since the beginning, focusing on artesian, handcrafted pieces concentrating on the top two customer segments of the luxury goods market. Brining all production back to artesian production will allow customers to feel the Louis Vuitton name is as prestigious and high quality as they claim to be, and the products and services they offer are impeccable.

Appendix A

(1) Key Financial Ratios:

Profitability Indicators	2011	2010
Net Profit Margin	15,567	13,136
Return on Assets	3065 / 13267 + 33802 = 0.065	3032 / 11199 + 25965 = 0.0815
Return on Equity	3065 / 23512 = 0.13	3032 / 18204 = 0.166
Return on Investment	5154 / 13267 + 33802 = 0.109	4169 / 11199 + 25965 = 0.112

Liquidity Indicators	2011	2010
Current Ratio	13267 / 9594 = 1.38	11199 / 7060 = 1.58

Leverage Indicators	2011	2010
Debt-to-Equity	7266 / 23512 = 0.309	5266 / 18204 = 0.346
Debt-to-Assets	9594 + 13963 / 13267 + 33802 = 0.479	7060 + 11900 / 11199 + 25965 = 0.510

Activity Indicators	2011	2010
Asset Turnover	23659 / 13267 + 33802 = 0.5	20320 / 11199 + 25965 = 0.546
Working Capital Turnover	23659 / 23512 = 1.00	20320 / 18204 = 1.116