The Case Analysis of LVMH Moët Hennessy Louis Vuitton

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Abstract. As the luxury goods industry secures a prominent position within the global market, the leading conglomerate LVMH Moët Hennessy Louis Vuitton (LVMH)'s pioneering ventures became a matter of communal concern. The following segments seek to provide operational insights into the management framework and strategic planning of LVMH. Based on three distinctive yet intercorrelated perspectives of analysis, the study unpacks the bullish potentials of LVMH, its sufficiency in risk control and profit generation, and the full-scale success of the conglomerate's strategic planning of mergers and acquisitions. From the perspective of industry analysis, LVMH and other luxury companies focus on local growth and continue to launch new forms of products in line with the times, also maintaining rational and healthy competition is necessary when competing with different companies in the same industry. According to the Financial analysis, LVMH has a relatively low risk and has a good operation ability to generate a steady profit. Through the audacious pursuit of the M&A strategy in consolidating Bulgari in 2011 and Tiffany & Co. in 2021, it managed to triple the size of its Watches & Jewelry business group over the past decade, further boosting its profit margins through the conglomerate's efficacious post-acquisition brand management. The research is dedicated to the growing body of company-based research on luxury brand management, offering reference value for relative companies in the industry.

Keywords: Case Study; Brand Management; Luxury Goods.

1. Introduction

The word luxury comes from the Latin word Luxus [1], which has both positive and negative connotations. It means both the best, noble and delightful, but also expensive, greedy, and wasteful. The rise of luxury can be traced back to ancient Egypt, such as the pyramids. It was also a symbol of luxury in the 17th and 18th centuries when European royalty had magnificent clothes and accessories. At that time, luxury goods were exclusively for nobles, so the luxury products in Europe were very developed, which also laid the foundation for the birth of its in France, Italy, and other European countries.

After the industrial revolution, with the birth of large industrial machines, the process and procedure of luxury goods became relatively simple, which made them gradually become commonplace products. LVMH, the company studied in this report, was merged in 1987 by Louis Vuitton, a company founded in 1854, and Moet Hennessy [2]. LVMH is the largest luxury goods group in the world today, with its principal businesses including wine and spirits, fashion and leather goods, perfumes and cosmetics, watches and jewelry, and selective retailing [3]. Almost every luxury brand has a long history, and it is interesting to investigate the way that they were built and the comments. The epidemic of the last two years has made people realize that the luxury industry has a very strong ability to recover. Therefore, this study is a summary of the past experience and predicts the future direction of the luxury industry and the future development path of LVMH.

According to the existing research reports on the situation of the luxury industry during and after the epidemic, if the luxury industry wants to recover quickly, the following points are summarized: Firstly, "From global traveler to local shoppers" [4], and "Enhance digital engagement" [5], and "manage for cash" [6]. To help a new or developing luxury company to operate and manage themselves better and find a way to recover from COVID-19 quickly, this paper will introduce the basic definition of the luxury industry environment and the path that LVMH operates and stand out from the fierce competition in the industry. The rest part of the paper is organized as follows. Sec. 2 will be the basic descriptions of LVMH. Sec. 3 will be the luxury industry environment analysis. Sec. 4 will be the financial analysis within the LVMH. Sec. 5 will be the merger and acquisition analysis. Sec. 6 will be the limitation and future outlooks. Sec. 7 will be the summary of the whole report, followed by the reference list.

2. Basic Descriptions

LVMH is a family-run group created in 1987 with a mission of deploying a business model marked by creative momentum and a constant quest for excellence and making products designed to last from generation to generation, aligned with its vision of truly timeless art. It's the world leader in the luxury industry and the development has so far comprised more than 75 exceptional Maisons. LVMH is the only group in that all of Maisons could be involved in all five major sectors of the luxury market: Wines & Spirits, Fashion & Leather Goods, Perfumes & Cosmetics, Watches & Jewelry, and Selective Retailing [7]. Until 2021, LVMH has reported annual revenue of €64,2 billion and employs over 175,000 people.

LVMH also has multiple values to share with the community, they are consistently chasing the goal of being creative and innovative and made creativity and innovation to be fundamental to Maisons. These two factors ensure LVMH to be successful over the years and provide infinite possibilities and become the major growth path for LVMH. Back to the essence of LVMH, the product's quantity is the most essential part of its success. They are not only simply maintaining the quality year over year but also keeping higher their quality level in all the products of all the Maisons, in order to present the noblest and most accomplished in the world of craftsmanship, paying meticulous attention to detail and striving for perfection. However, as a group, LVMH cannot keep growing without an entrepreneurial spirit. It retains a startup spirit that makes the entrepreneurial challenges closely tied to creativity and an endless quest for the highest quality. The last value LVMH shares are impacting the community positively. With the huge brand influence, LVMH's every decision or action taken by the Group member will bring an enormous influence on society and indicates Group's commitment to ethics, and social responsibility. In addition, LVMH believes that only sustainable businesses can bring truly desirable products. Therefore, LVMH is committed to ensuring their products from every Maisons and product have a positive impact on the entire ecosystem and the communities [8].

3. Industry Analysis

The luxury industry has always been popular in the world because luxury goods are different from necessities, and the development of this industry is closely related to economic development. The demand for luxury goods will increase according to the improvement in the economy and the increase of people's purchasing power, and vice versa. First of all, due to COVID-19, almost every industry is facing challenges, the same goes for the luxury industry. Through the research report on global luxury power provided by Deloitte, sales in the industry were on the rise from FY2017 to FY2019 when there was no widespread impact from the epidemic. However, by FY2020, the industry's sales dropped by 12.2% year-over-year [9]. Based on the analysis, the decline in sales was due to economic depression and a decline in consumer spending. Meanwhile, owing to the epidemic, costs are rising, causing most luxury companies to choose to maintain profits through multiple price increases. Thus, the top 10 global luxury companies can still maintain their profitability though the overall sales of the industry declined year on year. When the time comes to 2021 and the epidemic shows an improvement, sales and profits start to pick up again to a certain extent. Vogue business has forecasted the future of the industry and according to the new report issued on June 30th, the luxury industry will return to the pre-epidemic level in 2021 and is expected to grow 6% year by year from 2022 until 2026 [10].

Secondly, by analyzing the sales data of all regions worldwide, the US, China, and Japan are the top three in the sales list respectively, while the fourth and fifth places are transformed in France, Italy, UK, Germany, and other European countries [11]. As the top 5 countries and regions are relatively fixed, according to the luxury report released by Bain & Company, the global tourist flow is expected to return to the pre-epidemic level in the second half of 2024. Hence, luxury companies can continue to expand local market opportunities at this stage [12]. China is still not opening its borders at this stage due to the epidemic, but it still manages to be the second largest consumer of luxury goods in the world, so the Chinese region is a presence that cannot be ignored by the whole industry. The CEO of French menswear brand Ami Paris predicts that the Chinese market now accounts for 25% of total sales and will see another explosive growth next year [13].

Subsequently, on account of the epidemic, the whole industry is full of innovation and creativity. Most companies in the luxury industry are likely to take a conservative and traditional approach to market, sales, and products. For example, originally only offline sales were supported, but due to the inconvenience of face-to-face sales caused by the pandemic, a sophisticated luxury e-commerce business model gradually developed. In addition, the industry is not limited to the objectives and forms of goods, such as fashion, leather goods, cosmetics, fragrance, etc. The luxury industry is getting more involved in AI, AR, and non-material goods. New forms of goods, such as NFT collectibles are on fire. A non-refundable token (NFT) is a form of financial security consisting of digital data stored in a blockchain. In April 2021, LVMH, Prada Group, and Richemont joined forces to form the Aura blockchain consortium, and in June 2021, Gucci collaborated with Christie's on a short NFT film for its Fall 2021 collection called Aria [9]. Besides, Gucci donated all proceeds from the auction to UNICEF USA, to support COVAX.

Last but not the least, although LVMH is the world’s largest luxury goods company, its competitors are not to be underestimated. The most competitive of them are Kering and Richemont. The Kering group also owns a series of famous fashion, leather goods, and jewelry, e.g., Gucci, Saint Laurent, Bottega Veneta, Balenciaga. The Gucci anti-acquisition battle was the biggest failure in LVMH's acquisition history. In early 1999, LVMH bought 34.4% of Gucci's shares for $1.4 billion in less than a month in bad faith [14]. In addition, Gucci first expanded its capital and then sold its shares to PPR Group, which is the predecessor of the Kering Group. Using this approach, the PPR Group became the largest shareholder of Gucci, thus successfully diluting LVMH's stake and causing the LVMH takeover to fail. Since then, the Kering Group has gone from being a retail department store to one of the top three luxury brands in the world. Next, Richemont is a Swiss luxury goods company whose main business is jewelry and watch brands, in recent years LVMH has also shifted its acquisition focus from fashion and leather goods to jewelry and watch brands. In the second half of this report, we will analyze in detail LVMH's acquisitions of the famous jewelry brand Tiffany in recent years.

According to the above analysis of the industry,sthe industry as a whole is very promising and profitable. Because this industry sells inelastic goods and services, which means its the price is not easily influenced by demand. Thus, the company can maintain high profits, and return to its pre-epidemic state in a very short time. LVMH and other luxury companies should focus on local growth and continue to launch new forms of products in line with the times. Although the brand influence brought by heritage and tradition is a major selling point of luxury companies, they will eventually be abandoned if they do not follow the trend of the times. When competing in the same industry, they should also be rational and healthy competition, vicious competition will destroy the ecological chain of the industry, and eventually all sides will lose.

4. Financial Analysis

From the financial perspective, it could clearly respond to how LVMH performs in the Luxury industry. This section analyzes LVMH’s financial status by two financial indicators which are the Debt to Asset ratio and Operating Profit Margin.

Debt to Asset Ratio is a Leverage ratio that measures how a company uses debt to finance assets. It could measure how stable a company is and how risky the company is taking. The higher the ratio is, the higher the financial risk the company takes. Normally, a company with a Debt to Asset Ratio lower than 50% is considered a financially flexible corporation [15]. Depending on LVMH's annual financial report for 2016-2021, Debt to Asset Ratios have been computed and shown in Fig. 1. The figure shows obviously that LVMH has an overall upward trend in Debt to Asset Ratio, but all the ratios are around 50%.

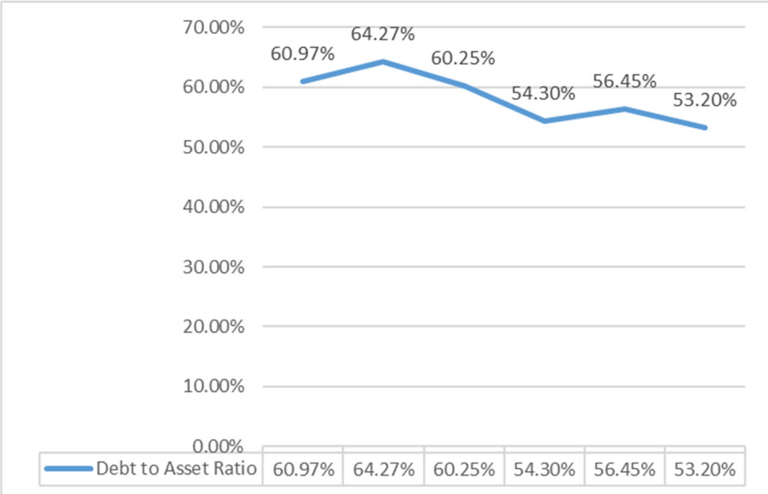

Fig. 1 LVMH - 2016-2021 Debt to Asset Ratio.

During this six-year period, there were two huge jumps that are 2018 to 2019 and 2019 to 2020. The first jump between 2018 to 2019 has a 6% increase from 54.3% to 60.25% which is the biggest in this six-year period (seen in Table. 1). It reflects the firm risk and the Investing risk to LVMH rose sharply. According to the Financial Highlight of annual reports 2019, It reported LVMH has had a huge increase in revenue and number of stores compared to other years [16]. The significant growth of these two indicators identifies directly that LVMH was processing a huge expansion in 2019. As an example, in the Fashion and Leather goods section, "Berluti continued the selective expansion of its store network and launched its e-commerce site in Japan " [16].

Table. 1 LVMH - 2016-2021 Total Assets and Liability.

Year	Total Assets	Current Liability	Non-Current Liability	Total Liability	Debt to Asset Ratio
2021	125,311	76,402	48,413	27,989	60.97%
2020	108,671	69,842	44,524	25,318	64.27%
2019	96,507	58,142	35,519	22,623	60.25%
2018	74,300	40,343	23,510	16,833	54.30%
2017	69,755	39,378	24,389	24,989	56.45%
2016	59,616	31,718	18,908	12,810	53.20%

The second jump was in 2020 which was during the period global pandemic. It dropped 4.5% from 60.25% to 64.27%. At this time, LVMH stopped its expansion, and the operation, revenue, and net profits are all affected seriously. According to the Annual report of 2020, LVMH's operation was disrupted due to various governments fighting Covid-19 and caused the deterioration in profitability across all the business groups of LVMH [16]. Additionally, to adapt to the epidemic era, LVMH had to develop a new market model which increased the cost in the short term. Taking Sephora as an example, it developed multiple operation models and services, like Click & Collect, Call & Collect new apps, and Livestream beauty advice, and set up partnerships with recognized third parties to offer services, e.g., payment deferral and same-day delivery [16]. To sum up, Covid slowed LVMH's expansion and raised the liability, and finally caused the Debt to Asset Ratio to increase. Therefore, LVMH's risk rises again.

However, the report for the first nine months of 2021 indicated that all Groups saw a significant improvement in trends in all activities compared to the first nine months of 2020. The improved performance shows that LVMH has a good resilience to the pandemic [17].

Operating Profit Margin is a performance ratio that reflects the percentage of profit a company produces from its operations and how efficiently a company manages its expenses to maximize profitability [18]. The Operating Profit Margin will subtract the financing cost of interest payments and taxes and solely focus on the operation parts. As LVMH is a luxury retail company, the Operating Profit Margin would be a significant indicator for LVMH, and it could help LVMH to compare to its competitors. According to LVMH's annual financial report for 2016 to 2021, Operating Profit Margin has been computed and listed in Table. 2. From the bar chart illustrated in Fig. 2, it shows that except for 2020, which was greatly affected by the epidemic, LVMH has a steady increase in other years. Among those years, 2021 is the year that is most needed to be mentioned. It has an Operating Profit Margin of 26.71% which is far more than any other year and indicates LVMH has outstanding operating and cost management in 2021.

In conclusion, from the financial perspective, LVMH is a company with relatively low risk even in the face of an overall economic downturn and has a good operation ability that could steadily generate a decent profit for investors.

Table. 2 LVMH - 2016-2021 Revenue and Operating Profit.

Year	Revenue	Operating Profit	Operating Profit Margin
2021	64,215	17,155	26.71%
2020	44,651	7,972	17.85%
2019	53,670	11,273	21.00%
2018	46,826	9,877	21.09%
2017	42,636	8,113	19.03%
2016	37,600	6,904	18.36%

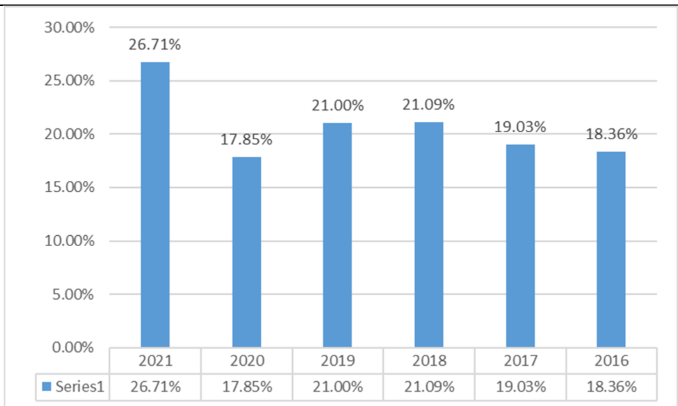

Fig. 2 LVMH - 2016-2021 Operating Profit Margin.

5. M&A Strategy Analysis

Spearheaded by Bernard Arnault, LVMH achieved its market-leading position by pursuing a rather audacious mergers and acquisition (M&A) strategy. The conglomerate invested in prestigious brands that were grappling to attain revenue growth and sought to revive them on the back of LVMH's global distribution reach and financial muscle [19]. Relative M&A strategies were effectively employed in boosting profit margins for the conglomerate's Watches & Jewelry division. The following section probes LVMH's major acquisition activity in the segment in the past decade.

Established in 1999 with the acquisition of Chaumet, Zenith, and Tag Heuer, the Watches & Jewelry business group is a relatively preliminary branch of LVMH [20]. Consequently, the division was considered rather substandard among the conglomerate's chain of eminent segments. In 2010, only 4.85% of the gross revenue was attributed to the Watches & Jewelry division [21]. With the smallest share in revenue amongst all other business groups, the branch was in need of a more extensive brand lineup. LVMH seeks to realize such an objective through two prime acquisitions: Bulgari and Tiffany & Co.

5.1 Consolidation of Bulgari

Established in 1884, the Italian high jeweler Bulgari occupies a potent stance within the Watches & Jewelry industry. Yet, subsequent to the economic recession in 2008, the Bulgari family struggled to retain optimistic growth as net revenue declined steadily from €1.091 billion in 2007 to €890.5 million in 2010 (seen in Fig. 3 [22]). The brand further enfeebled its financial muscles by embarking on big store investments when its sales were plunging [23]. Withal, renowned as a chief player in its sector, Bulgari holds the global potential to prosper under LVMH's scale.

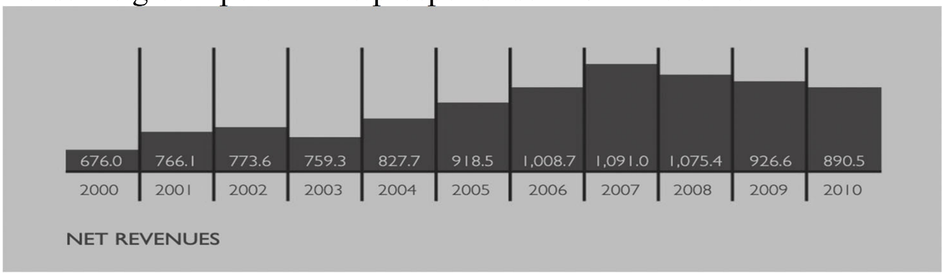

Fig. 3 Bulgari – 2000-2010 Net Revenue in EUR millions [23].

LVMH acquired Bulgari for €3.7 billion in an all-stock transaction, representing a 60% premium over Bulgari's unaffected share price [23]. The consolidation of Bulgari on June 30, 2011, promised worldwide expansion of Bulgari's retail footprints and realized synergies in areas of purchasing and distribution [24]. Correspondingly, the integration stimulated substantial revenue growth in 2011 across all Bulgari product categories. LVMH's Watches & Jewelry division also recorded a 98% increase in revenue and a 107% increase in profit in 2011 [16]. The growth is solely attributed to the consolidation of Bulgari as post-acquisition revenues in the third and fourth quarter of 2011 constitutes 70.45% of the division's total revenue (perceived in Table. 3 [25]). The Watches & Jewelry business group continued to record a 46% increase in revenue and a 26% increase in profit in 2012 [26], exceeding all other divisions in growth and further evincing the conglomerate's competency in post-acquisition management. LVMH's M&A strategy with Bulgari reinforced the brand lineup of the Watches & Jewelry segment as 8.24% of the gross revenue was attributed to the division in 2011 - a 3.39% increase from 2010 [16].

Table. 3 LVMH - 2011 Quarterly Revenue by Business Group [25].

EUR millions	Wines & Spirits	Fashion & Leather Goods	Perfumes & Cosmetics	Watches & Jewelry	Selective Retailing	Other activities and eliminations	Total
First Quarter	762	2,029	803	261	1,421	(29)	5,247
Second Quarter	673	1,942	715	315	1,410	(10)	5,045
Third Quarter	871	2,218	793	636	1,547	(54)	6,011
Fourth Quarter	1,218	2,523	884	737	2,058	(64)	7,356
Total Revenue	**3524**	**8,712**	**3,195**	**1,949**	**6,436**	**(157)**	**23,659**

5.2 Consolidation of Tiffany & Co.

Founded in 1837, the American luxury jeweler Tiffany & Co. is a quintessential token of the global jewelry industry. With its signature Tiffany Blue Box and the classic Breakfast at Tiffany's, the brand occupies a prominent stance in American culture. Yet, in recent years, Tiffany & Co. struggled to retain stable optimistic growth as net sales and earnings stumbled (depicted in Fig. 4 [27]). Consequently, Tiffany & Co.'s shareholder returns plunged, underperforming both the S&P 500 Index and S&P Consumer Discretionary Index from 2014 to 2019 (seen in Fig. 5 [19]). Withal, renowned as a prime emblem in its sector, Tiffany holds the potential to prosper on the back of LVMH's global distribution network and financial muscle.

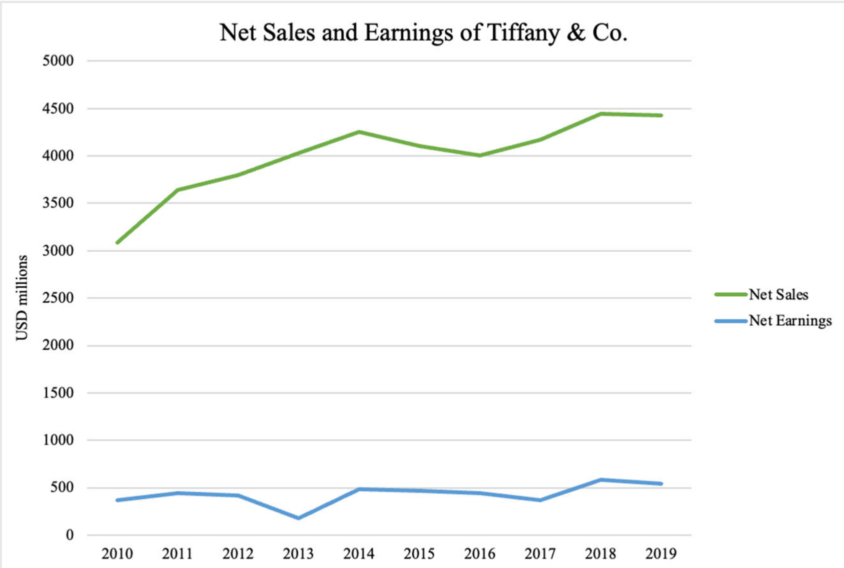

Fig. 4 Tiffany & Co. - 2010-2019 Net Sales and Earnings [27].

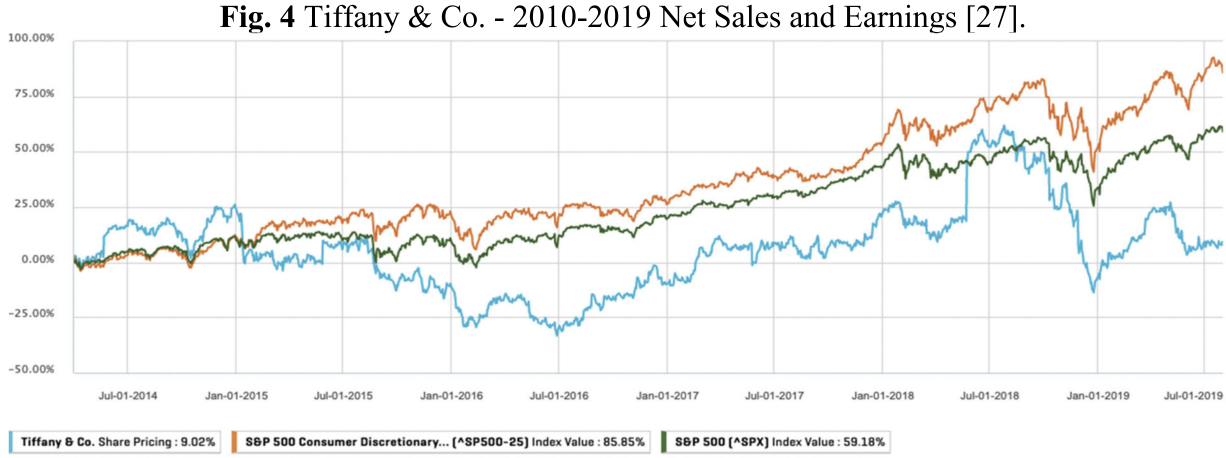

Fig. 5 Tiffany & Co. - Stockholder Returns [19].

LVMH acquired Tiffany & Co. in an all-cash transaction for $131.50 per share, valuing the brand at $15.8 billion. Upon the consolidation of Tiffany & Co. on January 7, 2021, LVMH strived for brand repositioning, elevating Tiffany & Co.'s status as a global high jeweler through crucial launches of high-end jewelry collections - such as the 2021 annual High-End Jewelry Blue Book collection. The launch effectively prompted the brand's high-end jewelry sales to reach an all-time high. Further, in 2021, Tiffany & Co. saw record performance in terms of revenue, profits, and cash flow, stimulating a 167% increase in revenue and a 560% increase in profit for the conglomerate's Watches & Jewelry business group. LVMH's M&A strategy with Tiffany & Co. further extended the brand lineup of the relative segment as 13.96% of the total gross revenue was attributed to the Watches & Jewelry division in 2021 - a 6.44% increase in share from 2020 [28].

LVMH seeks to boost the profit margins for each of its business groups through a rather strategic approach to mergers and acquisitions. Over the past decade, the Watches & Jewelry business group amplified its growth through prime acquisitions of Bulgari in 2011 and Tiffany & Co. in 2021, both provoking a spike in revenue (perceived in Fig. 6 [16]). Barring the impact of the COVID-19 pandemic in 2020, the Watches & Jewelry business group's revenue and profit both traced an upward trendline, which further evinces the conglomerate's competency in post-acquisition management.

Through the pursuit of the M&A strategy, LVMH managed to triple the size of its Watches & Jewelry segment. Now accounting for 13.96% of gross revenue in 2021, the division exceeds the shares of Wines & Spirits and Perfumes & Cosmetics, occupying the third largest share in revenue behind Fashion & Leather Goods and Selective Retailing (depicted in Table. 4 [16]).

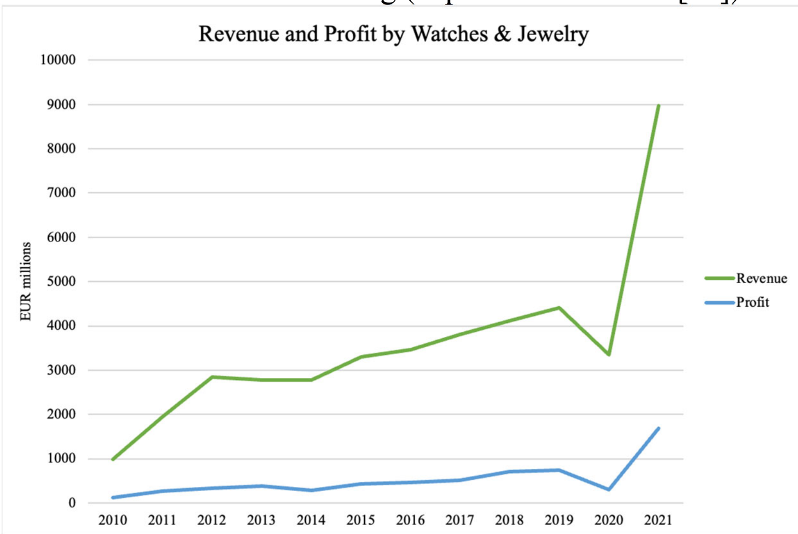

Fig. 6 LVMH – 2010-2021 Revenue and Profit by Watches & Jewelry [16].

Table. 4 LVMH - 2021 Revenue by Business Group [16].

Revenue by Business Group	**2021**
(EUR millions)	
Wines and Spirits	5,974
Fashion and Leather Goods	30,896
Perfumes and Cosmetics	6,608
Watches and Jewelry	8,964
Selective Retailing	11,754
Other activities and eliminations	19
Total	**64,215**

6. Limitations & Future Outlooks

While the preceding discussion provides operational insights into the management framework of the market-leading conglomerate LVMH, the study does have its limitations, prompting future outlooks for the growing body of company-based research on luxury brand management. Restricted to the case study of a single sample company, the narrow scope of discussion allows for consequential bias and deficiency. Further, the analysis is constructed solely upon the operational figures from the past decade, which, considering LVMH's pioneering ventures since 1987, would merely cover the maturing stages of its development. Thus, the discussion proffers a relatively minimized reference value for start-up businesses in the luxury goods industry. Nonetheless, such limitations instigate future outlooks for expanded research on each of LVMH's development stages. From early start-up junctures to mid-to-long term growth and maturity, an all-encompassing review of the market-leading conglomerate would provide maximized reference value in a broad sector. Moreover, field testing modules could further determine if the discussed framework can be utilized by relative companies in the industry.

Hinged solely upon the case study of LVMH, the research does not involve an experimental module; thus, denied access to primary data, the discussion is entirely constructed upon secondary data from the conglomerate's financial documents in the past decade. Processed and generalized before its release, secondary figures may consequent in rather preliminary discussions lacking in novelty and practicality. Nonetheless, such limitations instigate future outlooks for relative experimental modules on field testing and test market studies, yielding novel perspectives for the analysis of the conglomerate.

As specified, LVMH achieved its market-leading position by pursuing an audacious M&A strategy, boosting profit margins for each of the conglomerate's business groups. Hence, the preceding analysis of LVMH's strategic planning of mergers and acquisitions is rather limited as it merely regards the application of the M&A strategy in the conglomerate's Watches & Jewelry segment, neglecting to provide insight into the implementational success in other divisions, while LVMH has made a total of 21 acquisitions as of 2022, the discussion narrowly encompasses 2 major acquisitions in the past decade. Nonetheless, such limitations instigate future outlooks for comprehensive portfolios of LVMH’s past acquisitions, gaining a precise perception of the strategy’s full-scale effect on all 5 of the conglomerate’s business groups.

7. Summary

In summary, this paper investigates LVMH’s comprehensive capability based on the three distinctive perspectives. To be specific, Industry, Financial, and M&A Strategy. The luxury goods market is getting into increased prominence, while most studies about luxury goods are demonstrated by the consumers, a company-based study is necessary to help those growing companies in the luxury goods industry. Study LVMH could be the most meaningful as it is the leader in this area. In this Case Study, we divide into three perspectives to analyze LVMH. The industry analysis focuses on the whole industry sales revenue, coverage of geographic market, industry development trend, and comparison of competitors. Based on the research, the study concludes that the whole industry and LVMH are bullish. The financial analysis used two financial indicators to measure LVMH’s financial status and find out whether LVMH was doing good at risk control and profit generation. In closing, the analysis of the conglomerate’s audacious pursuit of mergers and acquisitions unpacks the sufficiency of LVMH’s strategic planning in boosting profit margins. As most case studies about the luxury goods industry are consumer-based but lack a company-based case study. A company-based case study is necessary to fill up this gap. Through this company-based case study, a startup company or growing company in the Luxury industry could know LVMH from multiple perspectives quickly, and, LVMH could play the leading role, and peers could learn more from LVMH's experience. Withal, the study does have its limitations, allowing for consequential bias and deficiency through the rather narrow scope of discussion and limited access to primary data. Nonetheless, such limitations instigate future outlooks for prompting more comprehensive and novel analyses of the market-leading conglomerate and its brand management framework. Overall, these results offer a guideline for startup company in luxury industry to help them better grow in this industry.

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