

LVMG Analysis Based on SWOT and PEST and Competitor Analysis

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Abstract. LVMH and Kering are two of the largest luxury goods groups in the world, and their financial statements show a certain degree of similarity in the composition of their revenue streams, so this paper has chosen to compare the product lines and financial positions of these two companies. The financial situation of both LVMH and Kering has been significantly affected by the epidemic and the global economic downturn. The paper compares the operations and future of LVMH and Kering in terms of operating strategy, EBITDA, free cash flow, and turnovers, comparing their past operations and prospects. LVMH's competitive advantages and prospects in the industry are analyzed using the swot and pest methodologies, while the strengths and weaknesses of its competition with Kering are considered. The comparison between the two shows the impact of the epidemic on the luxury industry as a whole and the outlook for the industry as a whole.

Keywords: LVMH; Kering; group comparison; group strategy; the luxury industry.

1. Introduction

1.1 Background

Firstly, the luxury market will be severely affected by the expected recession in the global economy, especially in the US, due to interest rate hikes and high inflation. All of LVMH's brands will generally feel some pressure as consumer spending on luxury goods is constrained. In addition, there are many uncertainties in the major markets of the developed world, such as energy prices in Europe ahead of the winter season, currency issues in Asia, and the US elections, to name but a few. At the very least, the economic environment will affect the purchasing power of the middle class, and we are already starting to see data on this. All in all, this paper shows that the luxury sector does best during peaceful economic booms, as they will see in 2021, but today, various issues make the general environment less peaceful and therefore less likely to prosper for the time being [1].

1.2 Objection

The main objective of this article is to show the competitive advantage of LVMH in the luxury industry and to make a reasonable projection for the future of LVMH, based on the current social development and the impact of the epidemic.

In the article, the strengths and weaknesses of LVMH in the industry are analyzed using the swot and pest methods, and the operating conditions and resistance to risk are compared between the two companies. Meanwhile, the article compared the benefits of Kering and LVMH and show the future outlook of LVMH. The article compares the differences in operations and strategies between LVMH and Kering, highlighting LVMH's position as the dominant player in the industry. At the same time, the article compares the financial chains of the two companies, reflecting the strengths and weaknesses of their operations. From a development point of view, both companies show better trends in the years, except for the decline in overall revenue and growth rate of 2020, which was affected by the epidemic. From a market perspective, the PE ratios of both companies show an increasing trend between 2018 and 2020, with a decrease between 2020 and 2021 due to the epidemic, but an overall increasing trend from 2021 to date. The SWOT and PEST analyses are used in this paper to demonstrate LVMH's competitive advantage in the market. Four recommendations for LVMH and one for Kering are given in conjunction with the text.

2. Basic Descriptions of LVMH and Kering

The Moët Hennessy Louis Vuitton Group, Abbreviated as LVMH, is one of the biggest luxury holding companies in the world. The headquarter is located in Paris, France. Under the auspices of six branches—the Fashion Group, Wines and Spirits, Perfumes and Cosmetics, Watches and Jewelry, Selective Distribution, and Other Activities—the subsidiaries are frequently run autonomously. About 56,000 people from all over the world work for the organization, yet just 33% are French. In 1987, the business was founded with 50 renowned luxury brands. LVMH is a decentralized company that is continually expanding, changing, and acquiring new companies. The company's basic values include "acting as entrepreneurs and seeking to be the best in whatever we do," "striving for product excellence," "being creative and innovative," and "marketing our brands with passion." Despite the fact that LVMH is a French corporation with its headquarters and all of its main offices there, its management is multi-cultural. The group is divided into five categories, each of which is made up of a number of potent brands [1].

A global company with its headquarters in Paris, France, Kering is known for its luxury and fashion products. Its portfolio includes premium businesses that are experts at creating, manufacturing, and marketing high-end items, particularly in the leather goods, ready-to-wear, watches, and jewelry industries. The former Hospital Laennec in Paris's 7th arrondissement now serves as the home of Kering. Groupe Artemis is the primary holding company of Kering. 2020 saw a 17.5% increase in revenue for Kering to 13.1 billion euros. The company has 1,381 stores and 30,956 employees. 84% of the group's revenue came from the labels Gucci, Saint Laurent, and Bottega Veneta. 87% of the group's revenue comes from ready-to-wear items, leather goods, and shoes [2].

The comparison between LVMH and Kering aims to analyze the way of operating, measuring sustainability, and the trend of the hold industry. Kering, Richemont, and LVMH are known as the triumvirate of luxury groups, with Kering and LVMH having similar revenue streams. A comparison between the two reflects the risks and prospects for the industry as a whole due to the impact of the epidemic.

3. Balance sheet

3.1 Financial Strategy Analysis

3.1.1 Analysis of LVMH's operation strategy

Acquisitions by LVMH: As the organization with the greatest number of luxury brands, LVMH's position in the market and current successes are heavily reliant on acquisitions and post-acquisition management strategies. In terms of timing, LVMH took advantage of the bottom of the economic cycle to purchase undervalued luxury brands for comparatively little money; in terms of post-acquisition integration, it used its special "LV integration rule" to improve the operations of troubled brands; in terms of management, the group shared its channel resources while maintaining the relative independence of each brand, taking advantage of synergies, and concentrating on producing a synergistic effect. While maintaining the relative independence of each brand, the group has been able to pool its channel resources and forge synergies in terms of operations. The group has also concentrated on developing core brands like LV to increase the value of all the group's brands. The LVMH umbrella currently includes 59 luxury brands. It took LVMH 15 years to develop into the huge luxury conglomerate it is now, from 1987 to the start of the twenty-first century. LVMH has grown into a key player in the luxury market through a succession of acquisitions, including businesses in wine, leather goods, clothing, fragrances, cosmetics, jewelry, watches, and retail.

The brand's operating income increased by 44.5% year-on-year to €2,521 million in 2021, up 23% compared to the same period in 2019. The brand's sales have increased sevenfold in 10 years since 2011, making it the Group's most stable and fastest-growing brand. 2021 operating margin surged 5.4 percentage points to 28.3%. There is still room for improvement. In recent years, the brand has

increased its investment in building channels in emerging markets, with about half of its 268 directly managed stores located in emerging markets [3].

3.1.2 Analysis of Kering's operation strategy

With leather goods, footwear, and ready-to-wear accounting for 86% of the group's income while jewelry and watches only makeup 8%, Kering's business sectors are more "streamlined" than LVMH's. Nevertheless, jewelry has had the fastest rise over the previous two years, not just for high-end leather goods and fashion labels like Gucci but also for specialized jewelry businesses like Boucheron and Pomellato. The report points to strong demand in Asia, represented by China, as the most important driver of growth in fine jewelry results, with the boom in Western Europe and the Middle East improving from 2020, but still not recovering to 2019 levels.

On March 1, 2021, Kering Group announced the acquisition of approximately 5% of Vestiaire Collective, a leading global second-hand luxury goods platform, and its representation on the platform's board of directors. founded in 2009, Vestiaire Collective is Europe's leading second-hand luxury goods e-commerce platform, which was impacted by the epidemic in 2020 and the platform turnover doubled, and in 2021 has shown momentum to become an industry unicorn after the entry of multiple strategic investors such as KAIYUN.

On July 8, 2021, Kering eyewear signed an agreement with LINDBERG to acquire 100% of the share capital of LINDBERG. The acquisition is due to close on September 30, 2021. With a number of technical patents, including those for hypoallergenic, adjustable, and screwless frames, Lindberg is today a premium maker of design-driven, lightweight, and customizable optical frames with a distinct advantage in the premium eyewear market. Through this acquisition, the two companies will exploit synergies at the level of distribution channels and regional markets, and further strengthen Kering Group's position as a key player in the luxury eyewear segment [4].

3.2 Analysis of cash holdings

According to Fig. 1, Louis Vuitton's yearly free cash flow in 2021 was \$15.39 billion. The yearly free cash flow for Louis Vuitton in 2020 was \$12.448 billion, down 4.58% from 2019. The yearly free cash flow for Louis Vuitton in 2019 was \$13.046 billion, up 102.61% over the previous year. The yearly free cash flow for Louis Vuitton in 2018 was \$6.439 billion, up 19.83% from the previous year.

In comparison to 2020, Kering's yearly free cash flow increased by 94.28% to \$4.671 billion in 2021. 2020 saw a 41.15% increase in Kering's annual free cash flow to \$2.404 billion over 2019. 2019 saw a 51.2% decrease in Kering's yearly free cash flow to \$1.703 billion from 2018.

FCF illustrates a company's capacity to manage risk, the status of its business, and its size. The report shows that LVMH has a stronger operational profile and durability than Kering.

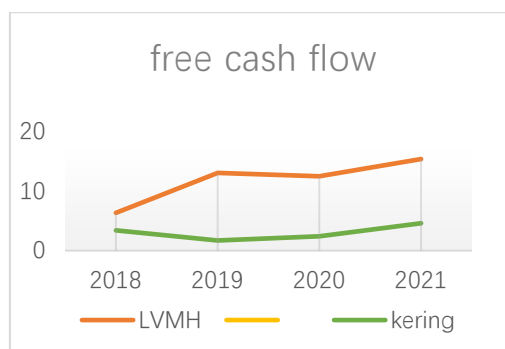


Fig. 1 Free cash flow (Photo credit: Original)

3.3 Development capacity analysis

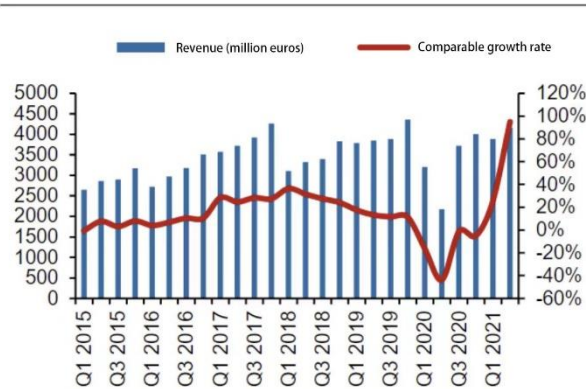


Fig. 2 Revenue and comparable growth rate
 (Photo source: <https://stock.us/cn/report/view/06j33q8w>)

According to Fig.2, 21Q1 fashion leather goods grow at a record pace, with double-digit growth recorded in the US and Asia. The LVMH Group's first quarterly report shows that the company posted revenues of €14 billion in 21Q1, up 32% year-on-year, with organic growth of 30%, compared to the same period in 2019, and organic growth of 8%. After several consecutive quarters of declining results in 2020, the LVMH Group returned to growth. All divisions contributed well to the Group's performance, except Specialty Retail, which was still affected by cross-border travel restrictions, and in particular, Fashion Leather Goods, which grew at a record organic rate of 52% [5].

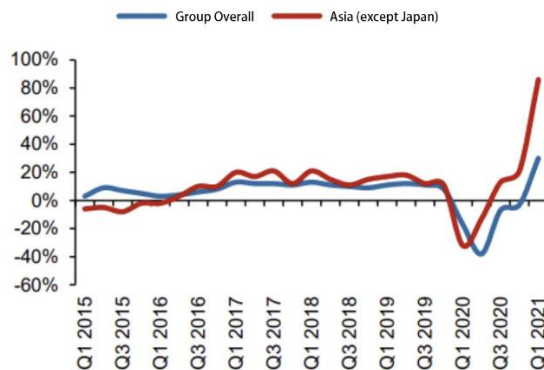


Fig. 3 Group overall and Asia (except Japan)
 (Photo source: <https://api.stock.us/api/v1/report-file/0geooypw?type=text?>)

As shown in Fig .3, 21Q2 Group performance recovery picks up the pace with net profit up 159.5% year-on-year Kering Group's half-yearly report shows that 21H1 Group revenue rose by 49.6% to 8,047 million euros, with revenue of 4,157 million euros recorded in the second quarter alone, of which 3,981 million euros was recorded in luxury sales, with comparable sales up 92.5% year-on-year. The comparable sales rose by 92.5%. By channel, comparable sales in the luxury retail channel increased by 98% year-on-year in Q2 21Q2, accounting for 82% of overall sales, with the online channel Comparable revenue growing by 59% year-on-year (approximately 14% of revenue), with triple-digit growth in the e-commerce channel in North America in 21H1 and in Western Europe/Asia Pacific/Japan. The online growth rate was 59%/76%/15% respectively; the comparable growth rate for the wholesale channel was 67% [6].

4. Marketing

4.1 Analysis of the market development situation

The LVMH Group reported revenues of €28.7 billion in the first half of 2021, up 56% from the same period in 2020, according to the official release. The LVMH Group's portion of net profit in the first half of 2021 was €5,289 million, up 62% over the same period in 2019 and ten times as much as in 2020. More than three times as much operating free cash flow was generated during the same period in 2019—more than €5 billion. When compared to the same time last year, the operating margin increased by 5.5% to 26.6%. Profit growth in the Fashion and Leather Goods division was significantly higher than it was prior to the epidemic. For the first half of the year, the LVMH Fashion and Leather Goods Business Group reported a profit of €5.66 billion, which is 74% higher than the same period in 2019 and more than three times the profit from the same period in 2020.

The Kering Group published its first half-year report for 2021 on July 27. According to the data, Kering Group's consolidated revenues in the first half of 2021 were €8.05 billion, up 8.4% and 54.1%, respectively, over the same time in 2019. Operating profit was €2,237 million, up 134.9% from the same time in 2020. EBITDA totaled €2,950 million, up 76.2% from the same time the previous year. The main operational income of Kering Group for the first half of 2021 was about on par with the first half of 2019 and 2.3 times greater than the same period in 2020. North America, which contributed 25% of total revenues, and Asia Pacific, which contributed 43%, were the two regions that Kering claimed were driving "great momentum" in sales. In comparison to the same period in 2019, Gucci's revenue for the first half of 2021 was €4,617 million, or roughly pre-epidemic levels, at €4,479.3 million [7].

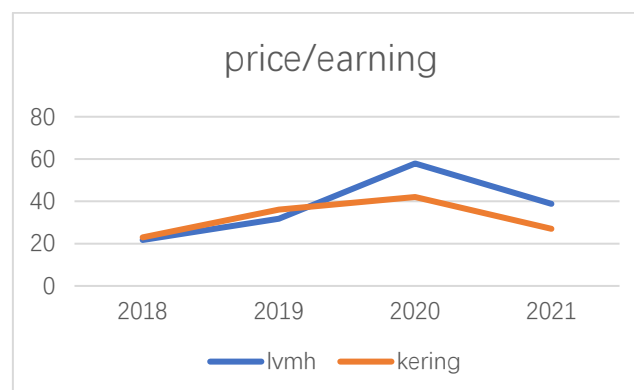


Fig. 4 Price to earning (Photo credit: Original)

As shown in Fig. 4, LVMH Moët Hennessy Louis Vuitton SE now has a P/E ratio of 22.69 based on its share price of \$654.38 and diluted earnings per share for the previous twelve months of \$28.84. The PE ratio grew from 2018 to 2021, peaking in 2020.

With a share price of \$50.56 and diluted earnings per share for the previous twelve months of \$3.24, Kering SA currently has a P/E ratio of 15.6. As of June 2022, Kering SA's diluted earnings per share for the prior six months was \$1.70. Diluted earnings per share for Kering SA during the previous 12 months were \$3.24. LVMH SWOT to show LVMH's competitiveness

4.1.1 Strengths

a. Global market segmentation: In order to understand the supply and demand for products, countries are categorized using a global viewpoint. This enables us to comprehend the supply and demand for our products and to offer quick information about the market.

b. Favorable after-sales and maintenance service: In order to make a good impression on our customers, we offer a final after-sales and maintenance service using genuine repair techniques. The consumer is left with a positive impression.

c. High quality: We insist on using vegetable-tanned leather of the highest caliber, durable bronze

d. High pricing: Because LVMH sets the bar so high and is always on the cutting edge of fashion, celebrities think that great costs equal high quality. The superiority of the company's products boosts revenue.

e. The most recognizable brand in the world, with the best manufacturing and marketing techniques, is worn by the most well-known guys worldwide. It is a world leader in the field of fine art thanks to some of the best craftsmanship and marketing practices.

4.1.2 Weaknesses

a. Low price elasticity: the product's price is difficult to adjust, making customers sigh in dissatisfaction and lowering their readiness to purchase is simple. Market entry is challenging, and sales are easily

b. Low manufacturing rate: Because the product is handmade, the production pace is constrained, which can prevent more than one purchase per individual.

c. Expensive: LVMH is a luxury good that is out of reach. Taking into account the limited purchasing capacity of consumers.

4.1.3 Opportunities

a. a greater desire to purchase things that are in line with current trends since LVMH positions itself as a trendsetter and designs its products to do so. Customers are more likely to purchase because the products follow

b. Utilization of advertising media: marketing and advertising tactics win over

c. Increasing its reach: Having a large global network of distribution centers gives the business more chances to succeed in a cutthroat market.

d. With advertising and product prices set at a global level, LV's marketing strategy is centered on a "global" framework. Party marketing is a specialty form of worldwide marketing that targets the aspirations of high society and the top of the pyramid. To expand one's knowledge, connect with peers, and build a network, one should socialize with upper-class people. As a result, there is only one way to access this section. The ideal venue to sell is at the party. Moreover, a training seminar the party is the best platform. Additionally, LV has partnered with fashion houses like Chanel and Gucci

4.1.4 Threats

a. There is strong competition because there are PRADA, CHANEL, and other well-known brands nearby.

b. Products made in China, Korea, and other countries produce a high number of counterfeit goods that are available on the market, which reduces profitability for businesses.

4.2 PEST analysis

Refers to the study of the macro environment, also referred to as the general environment and made up of all macro elements that have an impact on the market and the company. Depending on the features and business needs of each industry and organization, the specific analysis's contents may vary, but typically, the macro environment elements will be examined from four perspectives: economic, political, social, and technological. The political, economic, social, and technological advantages of LVMH are shown in this research using PEST analysis (Table 1).

Table 1. PEST analysis chart

Political	no significant political affiliation
Economic	1, strong GDP growth in emerging markets 2, lipstick effect in an economic downturn 3, volatile currency movements 4, luxury sector's recovery from a pandemic-induced slump
Social	1, shifting of consumer preferences toward experiential spending 2, demographic segmentation impacting the luxury market's growth 3, geographical and societal influences. 4, growth in the Chinese market due to travel restriction
Technological	1, Initiatives for luxury digital engagement for customers 2, merging of style and technology 3, Connecting customers through digitalization

5. Suggestion

Richemont specializes in watches and jewelry, whereas King focuses on clothes and leather ("soft luxury") ("hard luxury"). In light of a formidable rival like LVMH, the strategic combination of these companies makes sense. According to UBS, the combination of Gucci and Cartier, two of the biggest brands in the soft and hard luxury categories, would solve Kering's increased exposure to fashion and Richemont's poor portfolio management of lesser businesses. According to the UBS assessment, LVMH is beating its rivals because all of the company's business units are operating at peak efficiency, but each of its rivals has a significant area of operation that requires improvement. With its shares up 33%, LVMH has enjoyed a successful year thanks in large part to Chinese shoppers. China experienced the biggest overall growth of any LVMH area in the third quarter, accounting for 26% of all revenues. The supply chain is another possible problem for LVMH in the future [8]. The corporation needs a steady flow of raw materials and completed items because it is a massive retailer with intricate sourcing, production, and transportation processes. On the company's third-quarter results call, CFO Jean Jacques Guiony stated that "we're not worried about the manufacturing" at this time. "Shipping capacity declining for any reason is the only scenario that may cause a fall in sales. However, it is not what we anticipate, so there is no need for fear [9].

To efficiently and effectively formulate a new skincare brand, develop synergies with suppliers, or pool resources from the already-existing brands. In order to attain high quality for the new skincare items and build a devoted consumer base to take on the competition, great R&D investment will be necessary. forecast sales with accuracy. Talented workers are trained and high-skilled employers are recruited in order to study and modify the merging company's Savoir-Faire and make it compatible with their own [10].

6. Conclusion

In the paper, the overall operations of LVMH and Kering are analyzed in terms of revenue, operating costs, net profit, share price analysis, market analysis, market share, competitor analysis, industry analysis, and business valuation methods, and it is concluded that LVMH's market size, resilience to risk and revenue are higher than Kering's. The SWOT approach in the paper shows that LVMH's strengths in the industry are Global market segmentation, Good after-sales, and maintenance service, Good quality, and The world's most recognized brand. There are also many growth opportunities. In the PEST analysis, the advantages of LVMH from an economic, political, social,

and technological point of view are derived. In this paper, the comparison and differences between the two companies can be reflected, as well as the trends in the luxury industry as a whole.

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