

CHAPTER II

**COMPARATIVE ANALYSIS OF LVMH GROUP'S MARKET
POSITION AND HOW THEY GAINED COMPETITIVE
ADVANTAGE**

As the main player and one of the most experience company in luxury group industry, LVMH Group has an excellent ability to maintain their great performance from time to time. Having a niche market and targeted for upper social class, LVMH group has fierce and varies competition with their competitors in the same industry. As they operate in oligopoly industry structure, they have few big competitors, mainly the Kering Group, Richemont and Hermes.

2.1 LVMH Group external analysis using Porter's Five Forces

From the external point of view, using Porter's Five Forces framework would be helpful to analyse an industry and identify the attractiveness of the company in term of five competitive forces.

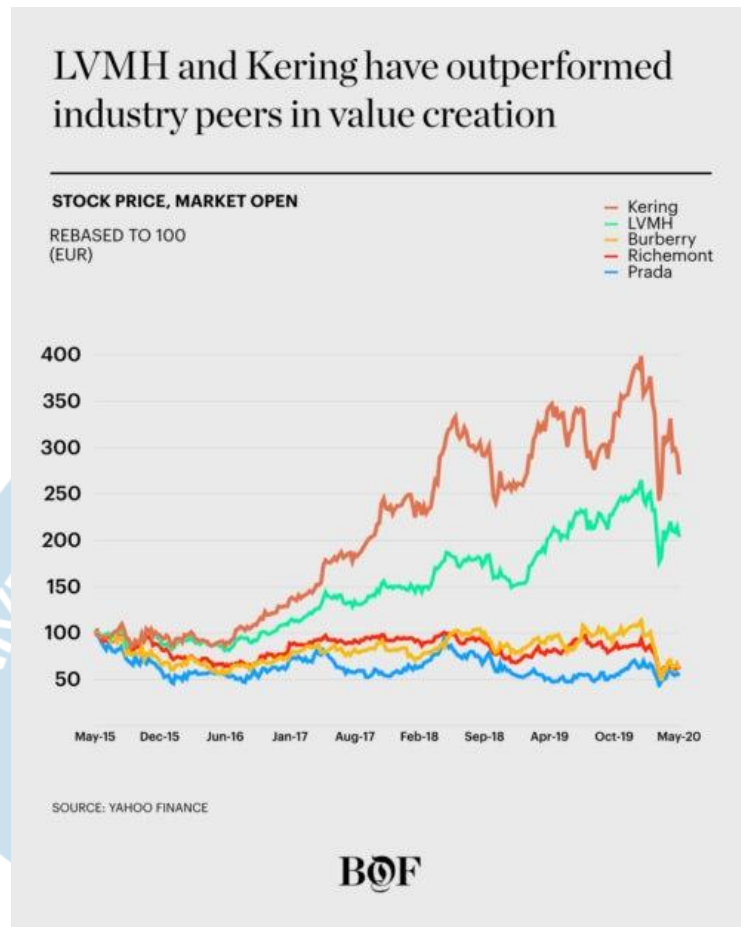


Figure 2.1 LVMH and their competitors stock price. (Source: The business of fashion)

A company that could be considered as the potential competitive rivalry is the organisation that targeted the same customer group and provide the similar product and services (Johnson, et al., 2017). The industry rivalry in this luxury industry is quite high. Even though they are in an oligopoly market where the number of their rivals is not that much compared to the mass market, however, the competition between companies is very fierce. They try to improve their brand image and produce high performance, so that it can generate high income and profit. As a company that started as a family business and has now developed into a company that makes major corporate acquisitions, LVMH has two major

competitors in the same field, namely Kering and Richemont. In addition, other independent brands are also included in their competitors, such as Hermes, Burberry, Chanel, Ralph Lauren, Coach and Prada Group. Therefore, the competition in the luxury brand industry is relatively high, the number of companies in this industry is also quite a lot, they are trying to provide the highest value to the community so that their brand is increasingly recognized in society. Figure 2.1 shows that from their stock price, the competition between companies is very tight. Even though Louis Vuitton is in the most valuable brand, their stock price has been beaten by Kering Group.

The possibility of new entrant in this luxury brand group industry is moderate. New companies can emerge through their large competitors launching new brands. Moreover, the threat can not only come from Europe, but from China there are already companies that have carried out mergers and acquisitions such as LVMH and now they have become LVMH competitors. The next factor is the bargaining power of buyers which is categorized as low, because they are targeting a small market. LVMH only targets high class societies with high income so that the influence is not large. Furthermore, the bargaining power of supplier factor is also considered low, because LVMH deals directly with their suppliers for low prices with good quality. In addition, LVMH also acquired their leather supplier, Les Tanneries Roux, thereby keeping bargaining power low and lowering storage and delivery costs. The last factor is the relatively high threats of substitute products, because these substitute goods can come from competitors and the existence of counterfeits that can damage the unique value of the brand.

2.2 Porter Generic Strategies to define LVMH Group's strategic plan to achieve competitive advantage

Considered as the leading luxury brand conglomerates, LVMH has very unique strategies and business model in luxury goods industry that taking their company as one of the top companies in the industry. Based on the Porter Generic Strategies, LVMH is applying both differentiation leadership and differentiation focus. They develop both strategy and making it a hybrid strategic competition to compete in the fierce competition with their competitors. The combination between those two strategic plans, LVMH using differentiation leadership as they are doing strong research and development so that they can put innovations into their diverse products and services with such superior quality and more attractive that can strengthen their brand image to achieve competitive advantage, while also using differentiation focus which they are in oligopoly industry with a niche market and are targeting a group of customers that has different set of needs than other market populations. They advocate incorporating an image of elegance into their brand while they are constantly innovating on not only their products, but also their services and distribution channels including sustainability integration, celebrity collaboration, environmental impact, and many more (Ha, 2019).

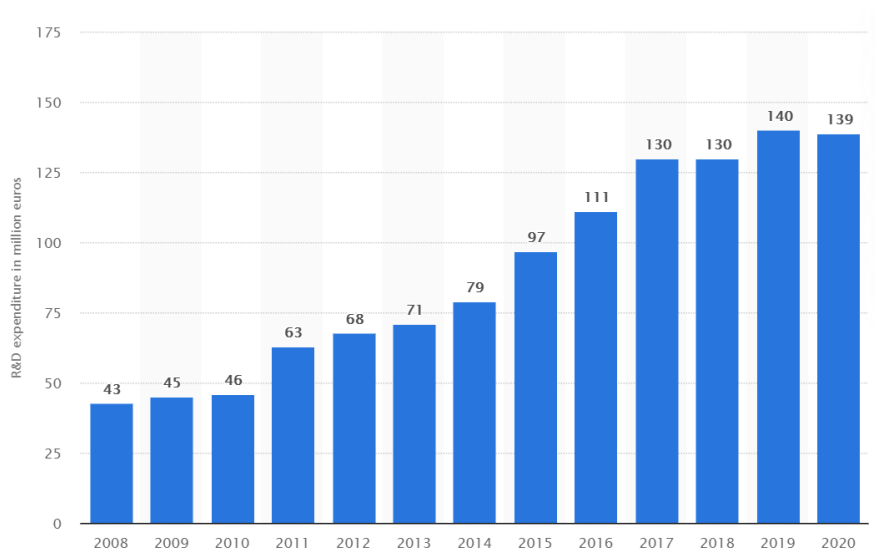


Figure 2.2 Research and development (R&D) expenditure of the LVMH Group worldwide from 2008 to 2020 (in million euros). (Source: Statista)

From Figure 2.2, it shows that through the years, the funds they spend each year continue to grow. Means that LVMH dare to spend large funds for the development of innovative products, services and their distribution channels. LVMH established their own perfume and cosmetic research center called the Hélios on November 18, 2013. Built with High Environmental Quality standards, the campus is designed to stimulate creativity by bringing the entire LVMH research team to focus on 3 main areas, namely research, development. and expertise so as to produce a world-class product that meets the highest quality standards, according to their strategies and commitments (LVMH, 2013).

In addition, a former Louis Vuitton CEO, Yves Carcelle, recruited several managers from Toyota because he felt that other industries had a better handle on best practices compared to the fashion and luxury industries. The managers from Toyota help LVMH improve their supply chain management, especially in the

integration of their IT systems with suppliers. Thus, now Louis Vuitton has the same system as Toyota, which is to share real-time information about their customer requests with their suppliers so that they can manage the manufacturing schedule (Shipilov & Godart, 2015). This can increase supplier relationships and also gain competitive advantage.

LVMH also not only rely on property, plant and equity investments to generate sales, but also having a great marketing strategy to position itself in the attractive markets which customer value. The group has excellent marketing vision abilities in responding to changes in marketing orientation over time that occur due to changes in consumers. Concrete evidence of that is that they now provide personalized services in their boutiques, enhance customer service using digital technology, special exhibits geared toward consumer interaction and education and increase more interactions on their websites (Cavender & Kincade, 2014). In selective distribution, one of the subsidiaries of LVMH, Sephora, continues their e-commerce strategy by providing more innovative and personalized tools such as mobile applications that help customers choose a foundation colour that matches their skin tone available in offline and e-stores personalized advice, called My Sephora (Chaboud, 2019).

LVMH develops more its marketing through e-commerce in their various brands which is useful for customer relationship management and also for tracking which after this time of the pandemic, impacted offline store sales, they are now competing with Kering Group in sales via their e-commerce (Guilbault, 2020). They trying to engage with their customer even more while in this new situation

where people have to minimize meeting with other people and keep their distance from each other, so they maximize their resources and capabilities through digitalization technology so that they get a competitive advantage.

