

MARKETING MANAGEMENT

Assessment 2



LOUIS VUITTON

ENVIRONMENTAL MARKETING ANALYSIS

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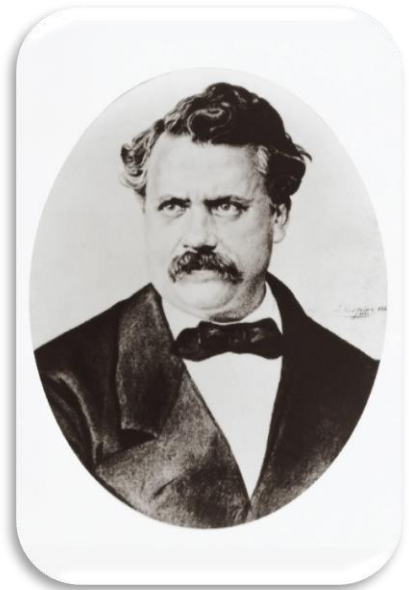
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1. Introduction

Louis Vuitton's path to legendary status began in 1837, when the 16-year-old joined the Paris suitcase workshop as an apprentice. After 17 years of service, he decided to open his own workshop. By 1914, the workshop already had 225 employees. In 2019 LV is the most valued luxury brand in the world (17th out of all world brands and third in growth among the top 20 brands), worth over \$ 32 billion with a growth of 14% (www.interbrand.com 2020).

Today, the brand is part of the LVMH empire and together with other brands in the segment for fashion and leather products, forms 41% of the group's revenues.

This report will provide environmental marketing analysis and will assess the effectiveness of marketing strategies of Louis Vuitton, applying tools such as PESTLE analysis, SWOT analysis, Porter's 5 forces, STP, 4Ps, Ansoff matrix.



2. PESTLE analysis

According to Kotler the macroenvironment is “The larger societal forces that affect the microenvironment—demographic, economic, natural, technological, political, and cultural forces” (Kotler, Armstrong et al. 2019).



Figure 1 Macro and micro environment. Source: studiousguy.com

PESTLE analysis deals with the macro environment and the external forces and factors that influence the organisations.

P	E	S	T	L	E
Political	Economic	Social	Technological	Legal	Environmental
• Import duties when company • Heavily dependent on global travel market for sales. A terrorist act such as 9/11 could severely impact tourism worldwide • Needs more government intervention to prevent counterfeits • Chinese government crackdown on gifts and entertainment impacted sales	• Changes in tax regimes • Exchange rate risk • Interest rates - Economic downturn - Susceptible to economic downturn	• Relies heavily on brand image and association with wealth and rich lifestyles. • Innovates old design to become modern • Changing demographics, people having more of a social conscience • Changing tastes - Aging workforce - difficult to get skilled workers	• New manufacturing machines allow LV to reduce the costs and produce more efficiently • Shift to online sales • Use of technology in shopping experience • Mix of technology and fashion	• Counterfeiting • Working time restrictions in France	• Maintain a high standard of environmental responsibility • Limit the company carbon footprint

Figure 2 PESTLE Analysis

2.1. Political forces

- Import duties: threat – import duties in countries outside EU can seriously affect price.
- Terrorist act: threat – economic downturn after 9/11, airline companies bankrupted, less travel.
- Counterfeit prevention: opportunity and threat – the more governments get involved in the counterfeit prevention the more beneficial and vice versa
- Chinese economy and government policy on expensive gifts for officials (Adam Thomson 2013): threat/opportunity – with share of about a quarter of luxury goods revenue China is important market and any major political influenced change could boost or reduce sales.

2.2. Economic factors

- Tax regimes: threat/opportunity – BREXIT and the unclear future of the UK's economic relations with EU poses a threat, on the other hand the recent trade agreements between Canada and EU and Japan and EU provide opportunities.
- Exchange rate: threat
- Interest rates and inflation: threat
- Economic downturn: threat – reduced buying power

2.3. Social forces

- Associated with brand image values: opportunity – strong brand image, recognised and desired as a status symbol around the world, top luxury brand for more than 10 consecutive years.
- Demographics: opportunities/threats – innovation to respond to the social trends, aging population in advanced economies.

2.4. Technological factors

Technologies are opportunity as generally affect positively all aspects of the modern life, they could provide cost and time savings in the production cycle, give access to enormous number of potential clients through social networks, web sites, etc.

2.5. Legal factors

- Counterfeiting is a big threat for the luxury goods market and legislation in that area differs a lot around the world. LV maintains a strict policy on this issue and prosecutes all established cases, including singer Britney Spears, who was convicted. Patenting all designs is another tool in the LV's arsenal to fight this problem.
- Employment legislation: threat – restrictions imposed by employment legislation could affect production cost.

2.6. Environmental factors

- Environmental regulations and environmentalist organisations as external factor could be a threat, but also gives opportunities for the company to improve its image by implementing its environmental policy (LVMH 2020).

What could be mentioned is that the macro environment influences in different ways, but the company manages to adapt and take advantage and benefits of the circumstances.

Advantages of PESTLE: simple framework, gives view of the wider business environment, external and strategic thinking, prediction of possible future business threats, ability to spot business opportunities.

Disadvantages of PESTLE: can give wrong results depending on data collected, either insufficient or too much, could be based on wrong assumptions, needs to be repeated regularly in order to be effective.

3. Porter's Five Forces

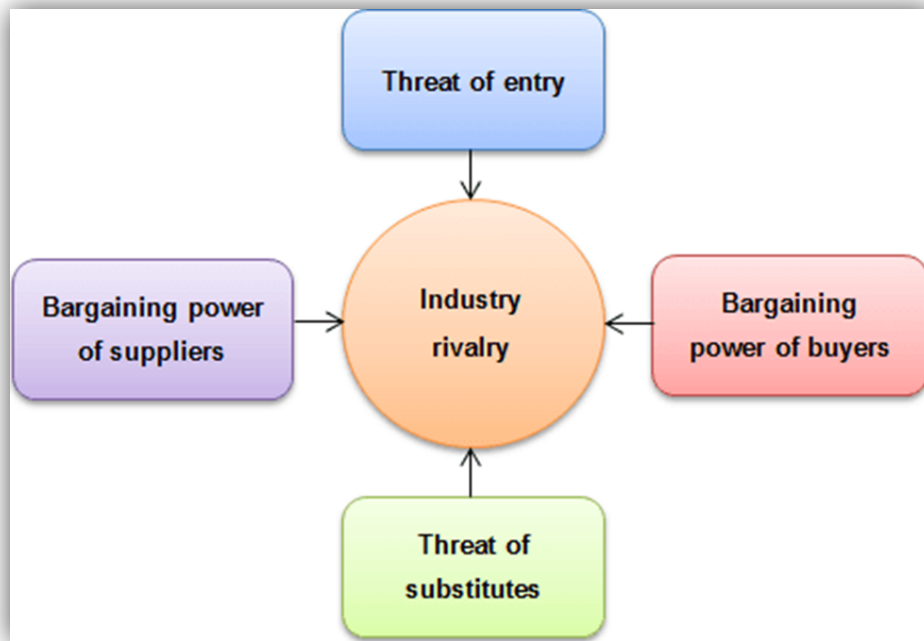


Figure 3 Porter's 5 forces model

Porter's model of the five forces is used to understand the industry and the market in which the business operates. Understanding how profitable an industry is and how easy it is to enter or exit the market, the forces influencing the profitability of the industry, and the ability of companies to change the way they work to become more profitable.

3.1. Competitive rivalry

The competition between the companies is very high in order to maintain their positions on the market. That is why barriers are created for new ones in the business, the companies maintain an emotional connection between the brand and the clients, the search for new ideas and design is constant. One of LV's main competitors, for example, is Chanel. "Chanel boasts the most social followers - more than 57 million globally - and is the leading luxury brand on all platforms except Facebook, where it is a close second to Louis Vuitton, both with around 20 million" (Aliferis 2017). They also have a recognizable logo, brand loyal buyers, long market presence, strong brand image, high quality and ideas.

3.2. Threat of entry

The threat of new participants for LV is very low. It is very difficult for new entrants wishing to enter this niche market, to penetrate the target group and to start using the suppliers of the big brands. LV's customers have been connected with the brand for years, the brand is known for its quality and luxury on the market, the service is impeccable and this makes it very difficult to compete with it.

3.3. Threat of substitutes

The threat of a substitute is rather high for LV. There are many other luxury brands on the market such as Prada, Chanel, etc., which offer their products to the same high-class customers. Therefore, the competition is at a very high level for design, quality and image.

3.4. Bargaining power of suppliers

When we talk about suppliers of a brand of such a high rank, the standards are very high and the suppliers meeting this level are few. We are usually talking about small suppliers who maintain a high level of supply due to the high cost, for example are the suppliers of leather. Here's what a 200-year-old leather goods manager in Spain says from a small artisan company, making bags, wallets and belts for big brands.

"We have to sign a contract of confidentiality, then the factory, the manager and every worker have to sign it. They have an individual contact and they cannot take pictures; they cannot take the designs or anything to do with the products" (Hope 2017).

3.5. Bargaining power of buyers

The market power of customers is relatively low due to the price of the products and the limited number of customers who can afford them. When we talk about the buyers of LV, it should be borne in mind that we are talking about a high-income class and part of the middle class, high-class buyers are not influenced by price and economic changes in the market and are regular customers and middle class representatives who need time to consider the purchase or an occasion to make it.

The advantage of the Porter's 5 forces is that it looks at the industry attractiveness and can provide information for investors on when is the right time to enter or exit an industry.

Disadvantage is that it does not take into account possible strategic partnerships between competitors.

4. SWOT analysis

Strengths, weaknesses, opportunities & treats

S	Rich heritage, strong brand identity and loyal customer base. Ability to leverage their long history in the fashion industry allows them to create a deep sense of authenticity which contributes to their image.	Ability to sell products at full price, with no mark downs, discount, and no outlets	Superior craftsmanship and outstanding quality.	Stringent control of distribution channels. Ability to reach its customers through its own stores and limited number of selected high-end department stores allows them to provide a luxury experience through the layout and design of their stores and customer service.	Virtually integrated supply chain helps them to ensure quality and have greater control.
W	Significantly high cost base, including cost of raw materials, costs of stores, leases per m2, marketing spend	Many of LV products are hand-made. It means there is less flexibility with regards to the design process and the manufacturing, this may lead to missed potential opportunities given the nature of this fast paced modern world which does not wait to wait for the next product.	Limited distribution channels - limited ability to purchase online. Competitor strategies are utilising social media and other online platforms. How Net-a-Porter fashion group now allow their customers to buy directly through platforms like What's App and implementing AI technology to help its customers have a more personalised shopping experience.	Fake imitations affects brand reputation and hurt sales and customer loyalty. The company has to divert significant resources to protect its brand.	Its narrow customer base, which is primarily those who are upper class, elite and socially prestigious. Although these do align their luxury brand image it does mean that they are potentially missing out on large numbers of middle class consumers who would happily pay if they felt their products were in line with their own lifestyles.
O	Increased government regulation and cooperation with internet companies can reduce the availability of counterfeit goods	The development of innovative technologies like virtual reality and augmented reality also may help LV create a virtual experience that is in line with their high status brand name.	Opportunities exist to enter new markets with growing affluence and commercial opportunities	Continual product innovation. Potential to expand the product range further to incorporate new lines and partnerships, and also extend customisation and personalisation of products	Increased demand for online shopping in the luxury good industry. According to Statista, in 2015 online sales accounted for 4% of the total luxury goods market and that has been increasing year on year and is expected to keep on increasing. Moreover, almost 50% of luxury consumers in established online markets such as UK, Germany, China - have brought high-end products online in the last 18 months.
T	High number of product imitations that tarnish the brand image. According to CNN the counterfeit good industry is worth as much as \$462 billion and that the brands most imitated included Louis Vuitton, Nike and Ray Ban (CNN Money, 2014)	While celebrity endorsements can be - provide some benefit - a discredited brand ambassador in the current environment could potentially have a significant reputational impact.	Economic downturn in key markets would potential reduce sales and expose high cost base and limited distribution channels.	Changing customer tastes - potential their customers start to feel that LV is not exclusive enough	Currency fluctuations and changes tax regimes could leave them vulnerable to additional costs, and could deter consumers from buying

Figure 4 SWOT Analysis

4.1.Strengths

Very strong brand name and reputation of a status symbol which they use to create a deep sense of authenticity. Very high brand equity, the highest valued luxury brand in the world (Statista 2020). Strong financial result for 2019 (LVMH 2020). Distribution control of its products is a core strategic priority for LV which allows them to benefit from distribution margins. Outstanding quality and craftsmanship allows LV to sell at full price and it does not discount its products. As many products are continuity items, they remain sellable. Any remaining capsule products are sold to staff at reduced prices, or in extreme cases, destroyed. Very strong patent protection.

4.2.Weaknesses

High cost of production per unit due to cost of materials and the need to maintain about 2000 stores worldwide. Handmade products require highly skilled personnel. Fake products can damage the image of the company and require financial resources. Niche market with narrow core customer base, mainly upper-class wealthy and socially prestigious.

4.3.Opportunities

Government intervention in the prevention of counterfeiting. Better brand equity than competitors. Possibility to utilize technologies better and take advantage of the millions of fans on the social networks in conjunction with the increasing online sales of luxury goods from about 4% in 2015 to 12% in 2019 and the strong R&D investments (Statista 2020). Opportunities to enter new markets in growing economies. Products innovation and product range expansion.

4.4.Threats

High volume of product imitations “The Global Brand Counterfeiting Report 2018 estimates that the losses suffered due to global online counterfeiting has amounted to 323 Billion USD in the year 2017, with luxury brands incurring a loss of 30.3 billion dollars through internet sales” (Adegeest 2018). New rules and regulations in the key markets or sudden economic downturn related to extraordinary circumstances worldwide like virus pandemic for instance.

5. Segmentation

Market segmentation is the dividing of the heterogeneous markets into smaller homogeneous groups. Normally consumer brands segment the market and then apply strategies that push the product towards consumers. Luxury goods market, however, is different. In this case “consumers are pulled towards the brand with the promise of belonging to the exclusive community” which they refer to as being like “part of a parish” where only a select number who share the brand’s beliefs may truly belong (Grigorian, Petersen 2014).

5.1. Demographic segmentation

- Women and men
- Young adults
- Generation-X
- Seniors
- Age range 18-80 years old

5.2. Socio-economic Status

- Wealthy individuals with high amounts of disposable income
- Successful people of the higher social status, well educated

5.3. Geographic

Louis Vuitton is a global brand and is present on all continents. The focus though has always been on countries with high population density and developed economies, like USA, China, India, Japan, Russia, Brazil, EU, etc. (LVMH 2020).

5.4. Psychographic

LV uses also psychographic segmentation to establish a more detailed profile of the customers. Lifestyle is the strategy used with the slogan “The Art of Travelling”.

6. Targeting

LV uses a differentiated strategy, through different messages to different groups of customers, they communicate the values of the brand. Different groups of customers are targeted through print advertising or billboards, through social networks and through live events. Micromarketing, celebrity endorsement, the individual approach, the personalization and the production of custom products for certain clients is also part of the strategy.

7. Positioning

“The way a product is defined by consumers on important attributes – the place it occupies in consumers’ minds relative to competing products” (Kotler, Armstrong et al. 2019). The core strategy used by LV here is the celebrity endorsement. Supermodels, famous musicians, Hollywood stars are the bearers of values of the brand, those with whom everyone wants to identify. Being a more than 160 years old brand, LV also uses history strategy, relating the values of the brand to the success through the years.

8. Marketing mix



Figure 5 The Marketing Mix (Kotler, Armstrong et al. 2019)

Marketing mix is “The set of tactical marketing tools – product, price, place and promotion – that the firm blends to produce the response it wants in the target market.” (Kotler, Armstrong et al. 2019).

8.1. Product

“Product means the goods-and-services combination the company offers to the target market” (Kotler, Armstrong et al. 2019).

LV products include leather goods, handbags, trunks, shoes, watches, jewellery and accessories. The branding strategy of the company is the Family Branding, or Umbrella Branding, which means one brand name as main identifier for the different variety of products. Line filling and line extension are the sub-strategies used.

8.2. Price

Price is the amount of money customers must pay to obtain the product. Prestige pricing is applied throughout the product lifecycle for all that is sold under the Louis Vuitton brand.

8.3. Place

“Place includes company activities that make the product available to target consumers” (Kotler, Armstrong et al. 2019).

Direct channel of distribution is used by LV with more than 2000 own stores worldwide, which is core part of the company strategy to control the accessibility of the products and the demand-supply chain.

8.4. Promotion

“Promotion refers to activities that communicate the merits of the product and persuade target customers to buy it” (Kotler, Armstrong et al. 2019).

Promotion strategy of LV includes advertising (print media, outdoor, some TV), public relations, sponsorship, direct and digital marketing.

9. Ansoff Matrix

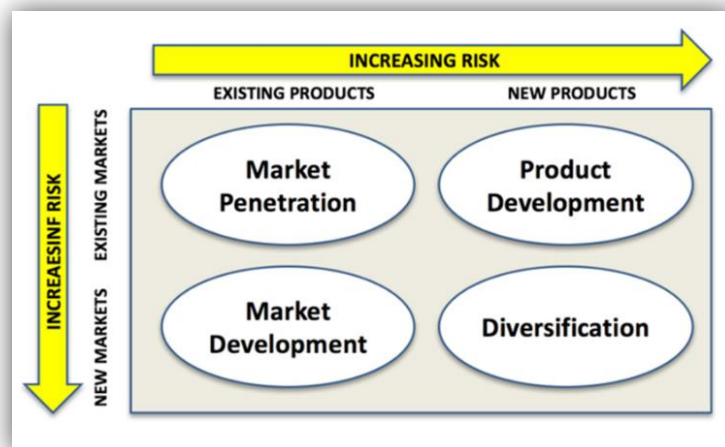


Figure 6 The Ansoff Matrix, Source: internet

9.1. Product Penetration

At this level, the existing market, the integrity market and the use of promotions to retain and encourage customers to make a purchase are considered. LV has a different approach towards sales promotions and encouraging customers to buy their products “Louis Vuitton never makes any sale and Louis Vuitton products are exclusively sold in Louis Vuitton stores and through Louis Vuitton

official website. Louis Vuitton never marks down prices, and unless they are second hand, discounted Louis Vuitton items found on the Web are highly suspicious" (eu.louisvuitton.com 2020).

9.2. Product Development

Product development examines existing market new product, includes information and introducing of the new product through media, PR, digital advertising, email. "Weeks after releasing its debut foosball table, Louis Vuitton has officially introduced its first-ever pool table. Similar to the foosball design, the billiards table is wrapped in the fashion house's iconic monogram print. To complement, the fashion house has created pool balls with floral designs, monogrammed cues, and a branded triangle" (Sawyer 2020).

9.3. Market Development

The company make their existing product available in new country. "Sales growth across the broader Asia region grew by 20.1% in the third quarter. Louis Vuitton reported stable trends in mainland China in the period. "Our digital site has allowed us to attract new clients... It's given us visibility," Finance Chief Eric du Halgouet" (White 2019). The company has used social media as "pop-ups" in China to increase interest.

9.4. Diversification

In this part the company produce product associated with a new industry, new market, new product.

As a recommendation could be mentioned product development of a cosmetics line for young girls, promoted digitally, via web site and mobile apps. Or market development by entering new markets in less economically developed, but fast growing and perspective geographic locations.

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