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Critically assess the development and strategic importance of operations management.

Operations Analysis (M6X01290)

Bsc – Logistics and Supply Chain Management

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Introduction

The purpose of this report is to present and discuss the operations based on the company « Louis Vuitton ». This brand is a French fashion house and luxury goods company founded in 1854 by Louis Vuitton.

The backbone of this brand's success was built on three rules including « savoir-faire » (expertise), excellent customer service and constant innovation.

Louis Vuitton is managed by “LVMH Moët Hennessy” better known as LVMH, is a French multinational luxury goods company, headquartered in Paris. The LVMH group is active in different sectors which includes brands such as, Christian Dior, Kenzo, Tag Heuer...

I chose this company because it represents the French knowledge and luxury. Furthermore, this company is involved in the preservation of the environment changes his ways of functioning, in order to reduce its carbon impact.

The CEO of Louis Vuitton, Michael BURKE, told:

« Quality design, sustainable development and economic growth proceed together. »

Louis Vuitton has been awarded the Butterfly Mark by Positive Luxury for a company-wide commitment to sustainability.

We can define Operations Management as the activity of managing the resources which are devoted to the production and delivery of products and services. (Nigel Slack, 2016)

In this report we will talk about the Operations management of Louis Vuitton in different part: First, products and services, customer expectations in terms of quality of products and services. Then we will discuss about the Slack's 5 performance objectives and finally, we will analyse the impact of COVID-19 pandemic on Louis Vuitton.

1. Company and customer aspect

1.1. Marketing mix

1.1.1. Product

At the beginning, LV was selling luxury suitcase, but since 25 years, the brand opens up to a new domain: fashion. Indeed, the brand offers men and women product, like « Ready-to-Wear », shoes, jewellery, accessories, watch... as shown in figure 1. All of these products are very expensive and not accessible for everyone.

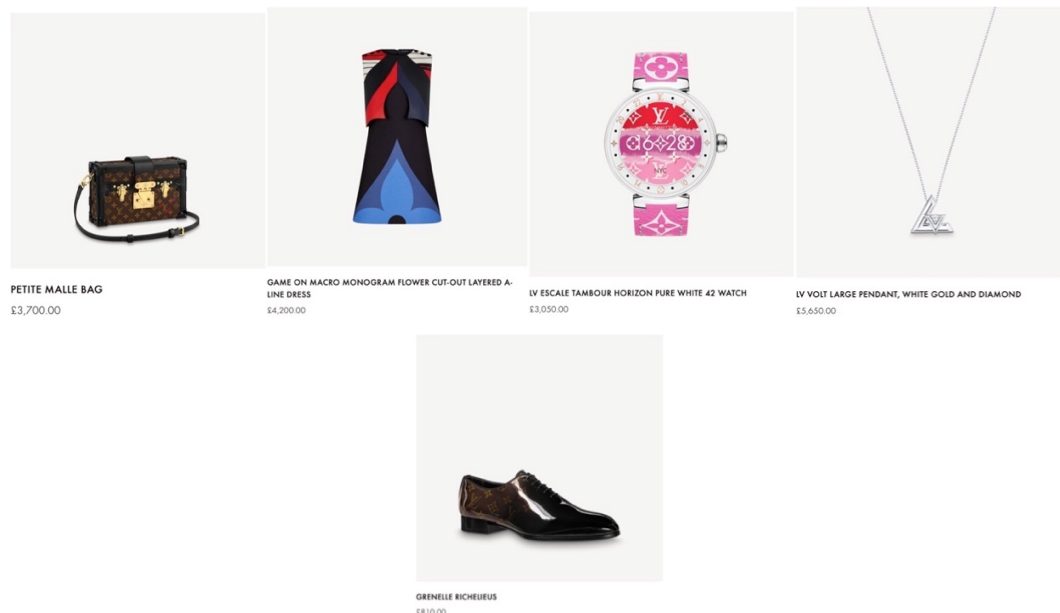


Figure 1. Example of clothes and accessories sold by Louis Vuitton – Louis Vuitton website

1.1.2. Price

Louis Vuitton has always been a luxury brand, with high prices, high mark-ups and limited availability. The brand does not think about reducing its costs or relocate its factories or its “workshops” as they prefer to say, because for them the important thing is not the price but the value of the product. They do not discount their products in order to keep their value and control their price.

1.1.3. Place

The brand does not aim to open a lot of stores and expand its distribution channels. Indeed, the brand decided to sell its bags only in its own high and departmental stores, it allows to control prices and counterfeits

LV has opened its stores in more than 60 countries including China, USA, Japan, UK. Indeed, Asia represents 40% of the brand's sales. (BFMBusiness, 2020)

1.1.4. Promotion

The reputation of the brand is due to belonging to the group LVMH, the biggest advertiser of luxury products in the world. Each year the advertising budget increases, in order to keep their image.

Louis Vuitton uses advertisements in haute couture magazines or on large billboards, in major cities around the world, but also on tv and cinema. The house also has a habit of using big celebrities like models or actors, as Sean Connery (2008) and Jennifer Lopez. (2003)



Figure 2. Louis Vuitton advertising on a French museum in Paris, in 2015.



Figure 3. Sean Connery for Louis Vuitton in 2008

1.1.5. Types of consumers

The main target of the brand are the affluent clients, who are careful of their image and who like travel. Indeed, the taste for travel emerges many times in their advertising spots. It is therefore an older than young clientele because its products are expensive, but the brand have a significant marketing force, because even if young people can't buy its products, they dream of it and maybe in the future they will wear LV clothes or accessories.

Louis Vuitton also has a very present clientele in Asia mostly in China and Japan, who represents a large part of the brand's turnover.

1.2. Expectations in terms of quality

1.2.1. Product quality

LV offer a product of distinguished quality and attention to detail, like luggage or shoes who are hand made by expert craftsmen, high class fabrics and materials are used in their products to ensure quality as well as durability. In addition to the quality, Louis Vuitton also places a strong emphasis on both tradition and innovation. That's why loyal customers of the brand wait with impatience new products.

1.2.2. Service quality

Louis Vuitton is one of those brands that create new fashions and new trends. Indeed, with their creations and innovations, the house brings new things to the market, this is why many other brands, often less upscale, copy the novelty.

2. Performance objectives

2.1.1. Quality

In his book, Nigel Slack devotes a large part to quality. He defines it as « consistent conformance to customers' expectations ». For him, « quality management can contribute to improvement by making the changes to operations processes that lead to better outcomes for customers ».

This diagram shows how it is possible to improve quality while increasing revenues and reducing costs.

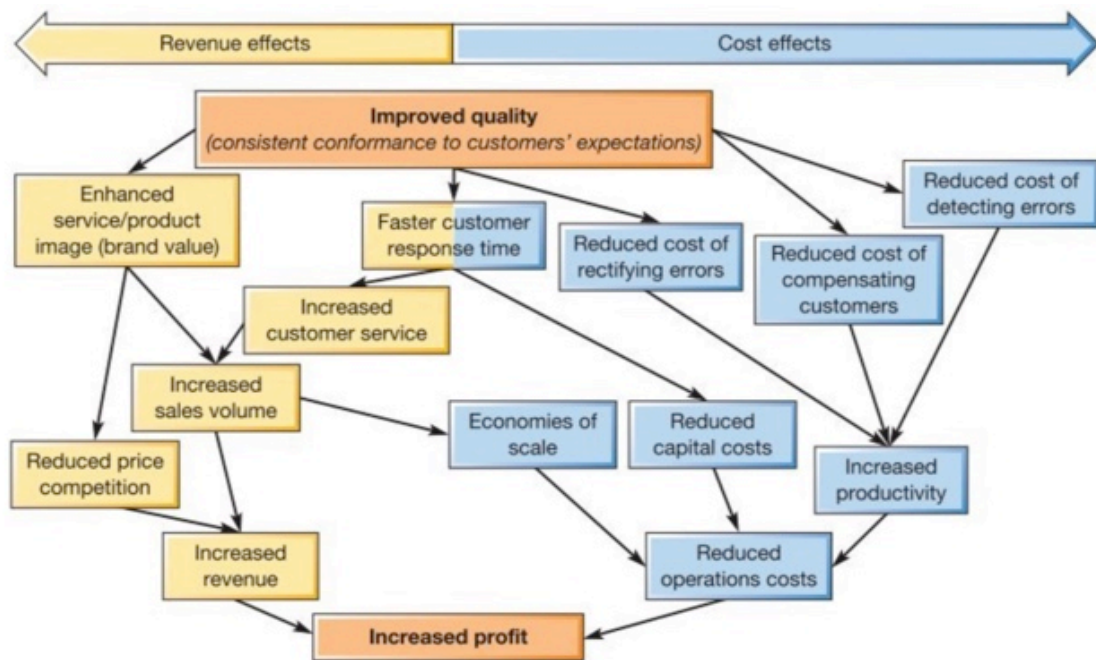


Figure 4. “Higher quality has beneficial effect on both revenues and costs” (Slack, 2019)

It proves the importance of quality management in the operational process.

2.1.2. Product quality

Louis Vuitton luxury is defined by the exceptional character of each item, each item, and in a way their inaccessible side. When a customer buys a Louis Vuitton product, he buys luxury and therefore expects impeccable quality. In fact, customers hope the item they bought will last over time and not wear out despite using it. All Louis Vuitton bags are handcrafted with high quality materials and extreme attention to detail. The clothes, shoes and accessories of the brand are also made with high quality materials, and they are extensively examined in order to sell them without any anomalies.

2.1.3. Service quality

Louis Vuitton has a global network of 466 stores in 66 countries. Including 21 "Louis Vuitton Houses", which are like temples representing the entire universe of the brand. The more known stores are the Champs-Élysées in Paris, Omotesando in Tokyo and 5th Avenue in New York. (L'Express, 2016)

Each person entering a luxury store should be received as a distinguished guest, whether it is a loyal or occasional customer, a potential customer or simply curious. He will be greeted by a smiling person who does not present himself as a salesperson or a sales expert, but rather as the one who will accompany him in this experience: for example, he will offer him a drink, reassure him and advise him in his decisions.

2.1.4. Speed

In his book, Slack defined speed as the time it takes for products and services to move through the supply chain. A product that moves quickly, is a product that does not remain in stock, it saves costs and space in warehouses. (Slack, 2019)

This is the logistics model of recent years, because people want to receive their orders very quickly. Companies like Asos or Amazon are able to deliver in less than 24 hours and because of these, other companies which are not able to offer this service lose a lot of customers.

Louis Vuitton has adapted to this model, before a single distribution center based in France distributed all the stores in the world. Today, the company has built a central warehouse in Cergy, near Paris, a warehouse that distributes the products to distribution center around the world: Hong Kong, Osaka, Tokyo, Singapour, Ontario, Cranbury, Shanghai and Dubai. (TheStraistimes,2013) (Louis Vuitton,2016)

For example, Louis Vuitton can offer different types of delivery (premium or standard) and is able to deliver the same day, if the order has been placed before 1 p.m, but only in Paris and its surroundings. (Louis Vuitton, 2020)

2.1.5. Dependability

For Nigel Slack, dependability means “doing things in time for customers to receive products or services exactly when they are needed, or at least when they were promised”. For him, when every operation is 100% dependable, it means that they are efficient and even save time. Indeed, as each operation are dependable, it allows the actors to have trust and to devote themselves only to their own task, it brings stability. (Slack, 2019)

There must be good relations between the internal actors of the company, so that the external actors (customer), are satisfied with the service.

This is the case for Louis Vuitton. Indeed, a luxury brand like this one, cannot afford to lack reliability during an operation. It is a brand that must sell dreams to its customers and nothing must spoil the pleasure. Luxury represents excellence, which is why the house has no room for mistakes.

2.1.6. Flexibility

In his book, Nigel Slack tells us that flexibility means being able to change the operation in one way or another. This means that the company is able to adapt to many situations and to reorganize its operations. (Slack, 2019)

In the case of Louis Vuitton, the brand has become more flexible using techniques developed by Japanese car manufacturers and electronics developers (Toyota Motor Corp). Indeed, before, workers were specialized in a single task, but with Japanese techniques, they learned to manage several different operations. As they were not specialized, they were able to produce different type of bag, consequently, this change allowed Louis Vuitton to have better production flexibility. Before, it took more than 20 artisans to assemble one type of bag. Now, groups of 6 to 12 craftsmen, each performing multiple tasks, are able to complete the same job in less time. (Wall Street Journal, 2006)

Flexibility is also the ability of operations to do different things for different customers. Some companies have developed their flexibility so that some of their products and services are customizable for each individual customer. They achieve to produce in high volume and mass production, which reduces costs. This approach is called mass personalization. (Slack, 2019)

Louis Vuitton is able to offer this kind of service, with accessories such as handbags, wallets... It's possible to choose different stripes, color, interior color, add initial...as shown in figure H. (Louis Vuitton Online Store, 2020)

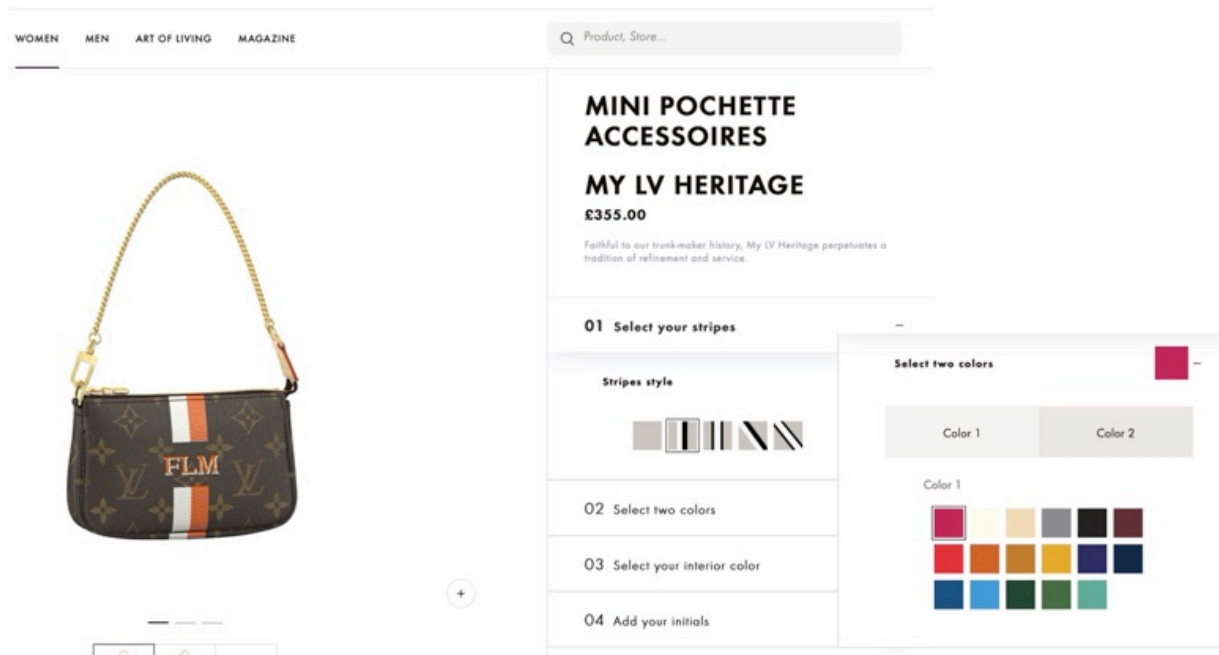


Figure 5. Example of possible personalization on a Louis Vuitton bag.

2.1.7. Cost

Louis Vuitton is renowned as being one of the most expensive textile brands in the world, this is due to the fact that it is a luxury brand, with quality products, made with high-end materials and these are innovative products, but not only because of that. Indeed, these products are made by hand, by highly skilled craftsmen, who spend time on each piece of the brand so that none is missed. But for all consumers of luxury products, it is not the price that matters, because luxury is a way of life.

Currently on the Louis Vuitton website the cheapest womens handbag is £ 1150, while the most expensive is £ 4100. (Louis Vuitton website, 2020)

2.1.8. Specialization

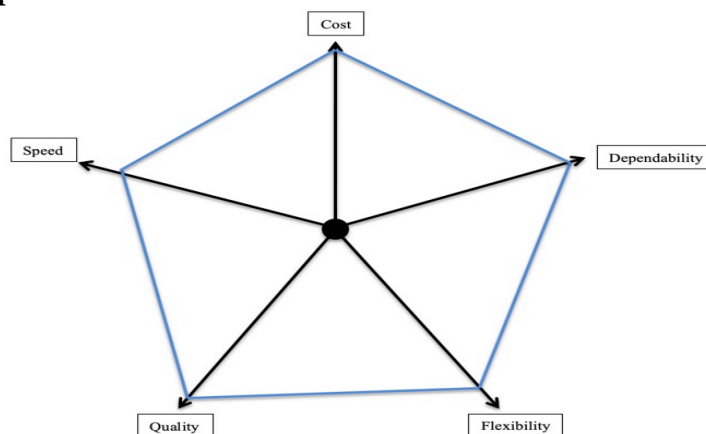


Figure 6. Polar representation of the relative importance of performance objectives for Louis Vuitton - Myself

3. Impact of Covid-19 on Louis Vuitton

3.1.1. Impact of Covid-19

The brand may be the leader in luxury, and sell dreams, but it has not been spared by the coronavirus.

Many industries have been affected by the covid-19 crisis, if not all. However, the most affected are tourism, air transport, catering but also luxury. Indeed, heavily dependent on Asian consumers, this sector has seen its activity decline very quickly. Among these groups, Louis Vuitton, suffered a decline in its activity due to closures imposed by governments in Europe which led it to close stores and production sites.

In a report published in 2019, China was "an engine of global growth in luxury spending." An engine such as the expenses in question should, according to the study, "almost double by 2025". (McKinsey, 2019)

Moreover, with the cessation of tourism, Chinese consumers did not travel, which represented a big deficit for companies in the sector.

3.1.2. First trimester

According to a study carried out in January, sector sales could drop by 35% this year. This drop represents a decline of 600 billion dollars compared to 2019, a bit like during the 2008-2009 crisis. (Bain & Boston Consulting Group, 2020)

The company achieved a turnover of 10.6 billion euros in the first trimester of 2020, down 15%. Compared to the same period in 2019, sales were down 17%. These figures could have been worse given the gravity of the situation, with the closures of stores and production sites, as well as the stoppage of international travel.

Finally, during this first semester, the group's operating profit was 1.67 billion euros, a decrease of 68% compared to 2019. (Reuters, 2020)

3.1.3. Second trimester

The second was positive, with a resumption of activity in June, due to new restrictions in most countries, but the group had announced a decline of 38% of its turnover, with 7,8 billion euros. (Reuters,2020)

3.1.4. Third trimester

The third trimester was better than the second, with an increase in sales of Louis Vuitton, allowing the LVMH group to limit the damage. Indeed, thanks in particular to Louis Vuitton, the group's share price fell only 3% since January, it's better than their competitors. The analysts had expected a 12% drop in sales in the third trimester, while in reality sales fell by 7%. (ZoneBourse,2020)

3.1.5. Opportunities

During this pandemic, despite the closure of many stores and workshops, luxury brands had a lot of new issues. Indeed, confinement was a completely new situation and the brands had to adapt.

This pandemic has affected the brand but also all of its stakeholder : employees, suppliers, customers, investors... The brand had to inform all these stakeholders by communicating to them the news of their management of the crisis.

« At Louis Vuitton, we have always believed in the inspiration that comes from traveling the world.

Given the current challenge that every community on our shared planet is facing, we know that the road ahead can seem uncertain and such optimistic journeys far from the mind.

Right now, the most important thing is each other.

We want to take this opportunity to wish you health, safety, and hope to get through this time together.

We believe in the journey, even the ones that for now take flight in our dream.

*Sincerely,
the family at #LouisVuitton »*

The message given by the brand on its Instagram account, (March 20, 2020)

It was also important for these luxury brands to engage in social action. In fact, during this crisis, consumers have changed their behaviour with a strong social commitment. By moving in this direction, brands could benefit from a double benefit: strengthening their links and their esteem with their stakeholders, while participating in the social effort during the epidemic.

Louis Vuitton understood this well, and during the pandemic, the brand modified its production lines, producing masks and hydro-alcoholic gel. They produced and distributed more than 10 million masks and the gel was supplied to French hospitals. (Bilan, April 2020)



Figure 7. Louis Vuitton's Instagram post, showing their production of masks (April 8, 2020)

It was important for brands to maintain a high level of exposure, because the brands had lost their direct links with their consumers. During confinement people were spending a lot of time on screens, so it was interesting for Louis Vuitton.

It was interesting for Louis Vuitton to use its social networks to communicate with their consumers, by offering them entertainment. On Instagram, the brand's ambassadors offered films to watch during quarantine.



Figure 8. Louis Vuitton's Instagram post, "LV Cine Club" (May 17, 2020)

Conclusion

Through these 3 main axes relating to operations and their performance, we have studied the case of Louis Vuitton.

We have seen that Louis Vuitton has long been and still today a luxury giant in the world, thanks to the management of LVMH, and their perpetual innovation. The brand remains, and will remain a leader in luxury.

It was also interesting to locate the company through the 5 performance objectives of Slack, and we could see that none of the 5 parts were set aside.

Despite the coronavirus crisis and the many problems caused, we found that Louis Vuitton had not been spared, losing a lot of money, but the brand managed the situation. In this great shadow, the brand has been able to draw the positive.

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