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Business Report of LVMH (April 2022)

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LVMH BUSINESS REPORT (April , 2022)

Executive Summary:

This business report has identified various factors behind LVMH's success in the past. It has also pointed out huge opportunities in the Gen z, millennials and wealthy sectors in China. However, a few internal strategic weaknesses which may hinder the business development of LVMH are identified ,with special discussion of some potent external threats caused by geo-political tension which had led to rising consumer nationalism and a rapid growth of domestic luxury brand competitors. A PAAC business model is recommended at the end of the report suggesting how LVMH should promote its brand image, brand value and product diversification, with a view to sustain its leading role in the China luxury market, with experimental growth starting from the test city of Shenzhen.

Introduction

LVMH (Moet Hennesay Louis Vuitton) which originated from 1988 under the outstanding leadership of Mr. Bernard Arnault, has no doubt become the current bling behemoth in the global luxury goods market, eclipsing its closest conglomerate competitors of Kering group (headed by Gucci) and Richemont group (headed by Cartier).

LVMH had produced a total revenue of 64,215 million Euros in 2021 (increasing from 44,651 Euros in 2020 and from 53,670 Euros in 2019) , with its share reaching Euro 673 per share by 2021 (LVMH Financial Statement 2021) .

Its CEO Bernard Arnault became the richest man in France and the third richest man just behind Amazon founder Jeff Bezos and Tesla founder Elon Musk. (Abboud, 2021)

Research purpose of this report

What was the secret recipe to the success of LVMH in its past development? Is its growth sustainable in the hottest market of China in the future? What are the opportunities and threats facing LVMH in China nowadays? Are there any internal weakness in LVMH that may pull its leg in its future development? What strategic moves should LVMG adopt in its market expansion or penetration in China ? Which city of China should be the major test point for its new strategic moves? What implementation measures should LVMH adopt in order to improve its business performance in the future? These are the objectives of the exploratory exercise of this business report.

Background of LVMH

LVMH was formed after the merger of two iconic brands of Moët Hennessy and Louis Vuitton in 1987. It was acquired by Bernard Arnault (a Frenchman) in 1988. Bernard Arnault originated his business from his father's construction engineering firm, then branched into real estate development and extending into luxury goods.

Bernard Arnault was an extremely competitive businessman. He had acquired full or controlling shares over 75 luxury brands by 2021, in six different business segments, including: (i) Wines and Spirits (e.g. Moët & Chandon, Hennessy and Dom Pérignon from 1987); (ii) Fashion and Leather goods (e.g. Louis Vuitton, Christian Dior from 2017, Loewe, and Celine from 1996, Marc Jacobs from 1997, Fendi from 2001); (iii) Jewelry (e.g. Bvlgari from 2011); (iv) Watches (e.g. TAG Heuer from 1999, Hublot, Fred, Zenith, Chaumet); (v) Perfumes and Cosmetics (e.g. Givenchy from 1988, Guerlain from 1994, Sephora from 1997, Benefit

cosmetics from 1999); (vi) Luggage & other retailing (e.g. Rimowa from 2016) (Khoo N. 2019).

LVMH has maintained steadfast double- digit growth in the global market in the past 30 odd years, especially in the Chinese market in the past ten odd years. By 2018, it had amassed a net worth at 128.55 billion Euro (PeacockPlume,2020). By 2020, the Kering group (headed by Gucci) was 40 billion Euros less than the net worth of LVMH (mds, 2020), whereas the Richemont group (headed by Cartier) had only a net worth being 1/6 of that of LVMH (PeacockPlume,2020).

By 2021, the business presence of LVMH was into all continents in the world . Its geographical breakdown (in terms of ranking of revenue in Euro millions) as follows:

	2021	2020	2019
Asia (excl.Japan)	1,746	1,514	1,453
Europe (excl. France)	1,203	1,175	1,177
United States	1,014	866	829
Other markets	594	508	494
France	522	512	535
Japan	477	428	427

The divisional profit generated by the respect business sectors of LVMH (as ranked in Euro millions), by 2021, is shown as follows:

	2021	2020	2019
Fashion and Leather goods	12,842	7,188	7,344

Wines and Spirits	1,863	1,388	1,729
Watches and Jewelry	1,679	302	736
Perfumes and Cosmetics	684	80	683
Selective retailing	534	(203)	1395

Methodology of research in this report

Data

The research in this business report is largely based on the financial statements of LVMH and its close strategic competitors. Data released by Governmental departments and/or international NGO are also relied upon. Factual data is also collected through secondary information (e.g. press reports, review by research institutes or review by journalist).

Literature review

Research on the principles of strategic management, implementation or strategic leadership are largely based on peer reviewed articles and those published at the Harvard Business Reviews.

Review framework

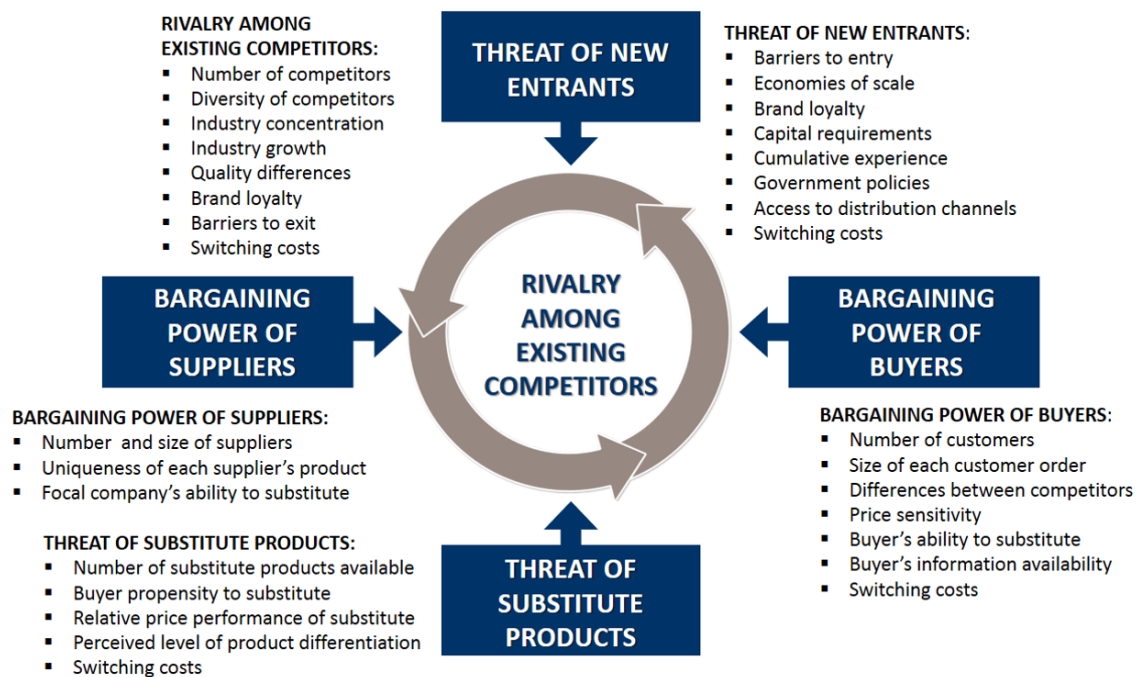
The **Porter's Five -Forces Model of Competition** (Bruin, 2016) will be used to evaluate the competitive positioning of LVMH. The **SWOT test** (Kenton, 2021) will be used to examine the opportunities, threat, strengths and weaknesses facing

LVMH. The internal audit of LVMH will be carried out under the **Balanced Scorecard** framework (Robert Kaplan, 2008). Alternative strategies to overcome the challenges will be suggested under the Quantitative Strategic Planning Matrix model (**QSPM**) (MBA Knowledge Base, 2022).

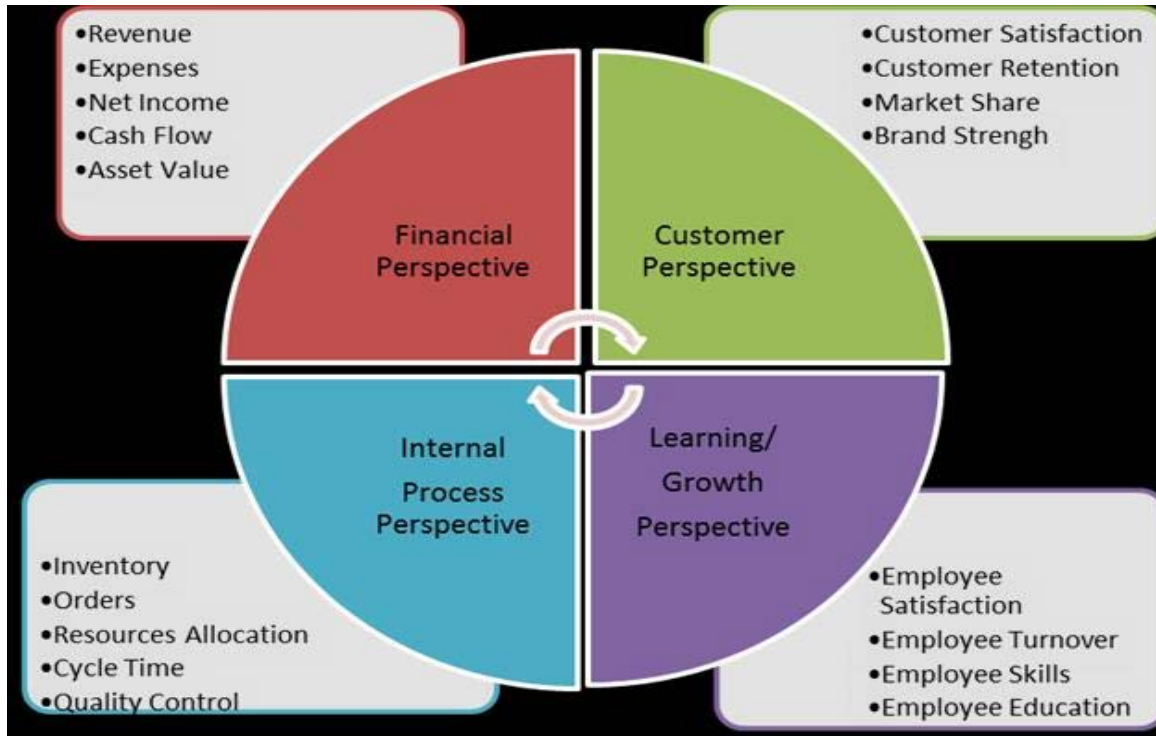
SWOT test



Porter's Five Forces Model



Balanced Scorecard



Competitive analysis

Under the Five Forces Model, the **competitive positioning** of LVMH is set out as follows:

	LVMH	Foreign competitors	Domestic competitors in China
Fashion and Leather	Luis Vuitton Christian Dior Loewe Celine Marc Jacobs	Gucci (of Kering group) Yves Saint Laurent, Chloe, Dunhill ,	Shanghai Tang Ochirly Metersbonwe Bosideng Septwolves

	Fendi Givenchy	Peter Millar (of Richemont group) Versace (of Capri Holdings) Chanel Hermes	Gujin Xander Zhou MJ style Lining ANTA
Jewelry	Tiffany Bvlgari	Cartier (of Richemont) DeBeers Swarovski	Chow Tai Fook Chow Sang Sang Lufook Jewellery TSL Jewellery Chow Tai Seng I Do Keerworld jewellery

Watches	TAG Heuer, Hublot, Fred, Zenith , Chaumet	Cartier Van Cleef & Arpels Rolex Patek Phillipe	WuXi watch Seagull Watches Liaoning Peacock Watch Memorigain
Cosmetics & Perfume		Estee Lauder L'Occitane Lancome Loreal Olay Shisheido SK-II	Pechoin (est in Shanghai in 1931 Cahndo Maysu To Summer
Wines & Spirit	Henessy Moet & Chandon		Mao Tai
Writing instruments		Mont Blanc (of Richemont)	

The leading cosmetics brands in China based on market share (2019) is as follows:

SWOT Analysis

Strengths

1. Diversification of products

It can be seen that LVMH has acquired 75 brands over six business sectors, with Fashion and Leather, Wine and Spirits leading its business growth at the moment.

LVMH's Jewelry sector is catching up as it has jumped up gigantically since early 2021 after its monumental acquisition of Tiffany which was a strong American jewelry brand.

The various luxury brands can synergize in terms of brand image and brand awareness under the auspice of LVMH. Cost in advertisement, supply chain and internal administration are saved in the vertical integration.

The difference in market performance or the shifting consumer needs can be compensated by the profits generated from different business sectors.

2. Decentralized organizational structure (Chaboud, 2019)

LVMH allowed each brand to have its own creative director and left the brand designer to work and decide on their own, thus allowing sufficient autonomy and independence to support individuality and creativity. There was no over - controlling by the central hub which might stifle innovation or artistic expression.

On the other hand, LVMH has created five internal branches on top of each subsidiary designer brand, being (i) Strategic and Financials, (ii) Talent Management, (iii) Creativity and Culture, (iv) Adaptability and (v) Responsiveness and Diversification.

These five branches have enabled LVMH to invest strategically into talent hunting, market testing and strategic deployment of R & D and/or investment funds.

3. Balanced geographic market development

LVMH enjoys quite a balanced global market development, catching up with the rapid growth in Asia, while not ignoring the still rather strong purchasing power in US and Europe.

The extensive global market can work as an insurance net to safeguard against particular local downtrend, whether by reason of economic, political or public health reason .

4. Talent hunting and management (Chaboud, 2019)

LVMH has maintained a very strong tradition in hunting and keeping of talents in design and craftsmanship. It has run a HR pool called the ‘Talent Factory ‘ whereby international renowned designers and young budding designers are constantly sought after to support vibrant design creativity.

The Italian designer, Maria Grazia Chiuri, was chosen as the artistic director of the Maison Christian Dior in July 2016 (being the first woman designer at Dior in 69 years). By 2018, 73 % of the workforce of LVMH were women who were very passionate about their jobs, and 80 % of LVMH employees were working outside France.

Craftsmen in LVMH were trained over years. They kept the unmatched know-how in using exceptional raw materials for the iconic products. Most of the fashion and leather products are made in the places of its origin (mainly France and Italy) to honor and maintain the culture of superb craftsmanship for the luxury products).

5. Innovation and Creativity (Chaboud, 2019)

LVMH pays special attention to continuous creative design of its products. When Louis Vuitton was mocked as old street products, LVMH immediately engaged new designers to refresh its product lines.

LVMH has also engaged in certain product diversification , extending into design for sneakers and jerseywear. In 2018 and 2019, LVMH launched its fiber optic changing colour Louis Vuitton back and sneakers, the personalized lipstick case, and the ever digital radio for perfume lovers (Olfaplay) . In 2019, LVMH launched the electronic label Rimowa as the pioneer design for registration of luggage.

6. Strong ESG measures (Chaboud, 2019)

Since 2012, LVMH had launched the LIFE Program (LVMH Initiatives for the Environment) . In 2015, it established the Corporate Social Responsibility Report (CSR) articulating over four main areas of (i) Prevention of Discrimination and Respect for Uniqueness, (ii) Development of Talent and Know-How, (iii) Constant Attention to Working conditions, and (iv) Social and Territorial Involvement. In 2017, it celebrated the 25th anniversary of its Environment Department. In the United States, it started the Sephora Stand program encouraging women’s entrepreneurship to alleviate the problem of women under-representation in the world.

LVMH was also the first French company to earn the ISO 14001 certification (the global benchmark Environmental Management System) certifying that the processing of all of its leather products are free from availing endangered animal material or harmful chemical and is environmental friendly and restorative. Two of the LVMH warehouses had received the LEED certification (Leadership and Energy and Environmental Design) . ‘Green Supply Chain’ was an integral part of the relationship of LVMH with its suppliers (LVMH, 2015) .

The strong ESG focus of LVMH has fitted with the rising ESG culture in China. According to the McKinsey & Company survey, 60 % of the Gen Zers and millennials in China are environmental -friendly in outlook and are more ready to buy luxury brands that invest in clean tech, sustainable practices that connect with the ‘woke’ culture of the consumers in China (Achim, Jing Daily. 2021).

7. Intensive engagement of digital sale platform

In e-commerce, LVMH had developed the Viva Technology Show (Vivatech) since 2016 and had opened digital consultation service for Maison Guerlain (cosmetics and perfume) and TAG Heuer (watch).

In China, LVMH developed digital advertisement and sale over the weChat platform (e.g. the sneaker -centric WeChat Mini Program) .

Livestream on RED (a user-generated content platform) are tried. LVMH had also collaborated with video game League of Legends on Bilibili (YouTube-live video platform) which was very popular with young consumers) .

8. Vibrant sale promotion , sponsorship and partnership

LVMH was all along very smart in aligning with top-notch artistic events such as the Louis Vuitton Foundation art museum in Paris (which promotes avant-garde arts) and sponsoring contemporary music performance.

It had also sponsored various international sports events and endorsed pop singers, artists and KOL (key-opinion leaders) as its image ambassadors.

9. Clear Consumer experience focused

LVMH is said to have a unique formula of creating new categories and exciting customers with creativity and rare limited editions (Langner, 2021).

LVMH has claimed to hold a **3 P Model** (Kohan, 2018) i.e. (i) **Precise positioning** – creating products keenly apt for the identified target market segment across each business sector ; (ii) **Preemptive distribution** - presenting precisely what the consumer require ahead of competition, creating artistic taste for the consumers, not just following the mass public

sentiment , and (iii) **Perpetual distribution** – constantly delivering iconic brand products to suit the consumers' need.

10. Bold, highly competitive and state-of art leadership by Bernard Arnault

The courageous and shrewd entrepreneurship of Bernard Arnault cannot be ignored in the whole formula of success of LVMH. He had consistently pressed for acquisition of successful luxury brand (e.g. Tiffany) or turning grim business into miraculous cash-cow (e.g. Louise Vuitton ,which had almost gone bankrupt at the time of its acquisition by Arnault) .

In an online survey (Comparably's employer brand solutions) participated by the employees of LVMH, Kering and Richemont, it is reflected that LVMH stands out as a winner in terms of working satisfaction, overall culture, employee net promotor score, gender score, diversity score, perks and benefits score . professional development score , leadership culture ratings, team culture ratings and sentiment culture ratings.

11. Aggressive M & A strategic moves in the past

The success of the LVMH Conglomerate is largely due to the very aggressive and persistent M & A strategies undertaken by Bernard Arnault in acquiring very potential luxury brands, instead of grooming the luxury brands from scratch (unlike Chanel , Hermes, or Gucci) .

In a global expansion of business, such M& A strategic moves saves time for possible monumental growth. Also, on-going growth reduces the chance of the company being acquired by other bigger conglomerates by hostile take-over bid.

12. Political savviness of LVMH

Many foreign brands (e.g. H & M, Nikke and Burberry) have suffered boycott of purchase by the Chinese public by reason of their anti-China stance in the Xinjiang cotton incident (which was perceived as lies and disinformation by the Chinese people).

LVMH had smartly kept quite and did not express any anti-China stance over the Xinjiang cotton incidence (Togoh, 2021) . When asked about the stance of LVMH, chief financial officer Jean-Jacques Guiony of LVMH simply said , “ *I’ve never seen a big threat in being successful in a given country . Everybody’s talking about China being an issue. As far as I’m concerned, it’s more an opportunity than anything else... We’re very happy with the business we do there and we believe that it’s a complex country , like any other business, ...and we are not particularly worried that something very bad could happen there.*” (Togoh, 2021).

Opportunities

Under the SWOT test, the following opportunities in the external environment are identified:

1. Rapid growing middle class with strong purchasing power and desire

LVMH had rightly focused its development in China in the past ten odd years. China had experience unprecedented growth in its wealthy strata and also in its middle class segment, both of which push for drastic and incessant demand for luxury products.

According to the Brookings Institution, the Chinese middle class spent a whopping 7.3 trillion dollars in international purchase, compared to 4.7 trillion by US in 2020.

According to the 2021 report of the China Region Fund (USCOC), the domestic brand of ANTA reported an incredible 73 % increase in business with Lining also reported an increase of 86 % in sale growth (Homes, 2022).

As of today, it is predicted that China will consume 40 % to 45 % of the global luxury goods, compared to America's 21 % -23 % , and Europe's 16 % to -18 %. (Homes, 2022)

The desire for luxury products in China are multi-folds, including : (i) show of status, success and wealth; (ii) purchase as gifts in a 'guanxi' culture; (iii) purchase to show love and affection in a westernized culture (iv) to satisfy cosmopolitan sentiment in using foreign brands, (iv) addressing personal artistic/aesthetic sense , (v) self- reward or (vi) collection , etc. (Lamberti and Wang , 2012).

If once the taste and desires of the Chinese public are targeted correctly, there will be still plenty of room for sale growth among the budding wealthy upper and middle class of China.

2. China growing cosmopolitan and international in culture and taste

As China opens up to the West, many wealthy middle class do enjoy opportunities to travel or study abroad. Their experience and outlook are no longer limited to the local eastern culture. Along with more international exposure, it is natural for them to purchase more commodities that express their cultural experience or aspiration.

3. Budding Gen Z and millennials aspiring individuality, uniqueness and artistic expression.

According to some studies, Gen Z and millennials in China purchase luxury goods more to express their aspiration for individual uniqueness, autonomy and independence.

Luxury items are no longer just for showing affection for loved one. Rather, many single men and women buy the goods for themselves as self-reward or for self-satisfaction.

According to the De Beers Diamond Insight Report 2017, (daxueconsulting, 2021), 25 % of the women in China earn more than their partners, and 34 % of them purchase jewelry goods either for celebrating personal milestones or on impulse, while only 12 % mention romantic commitment as the reason of their purchase.

4. Large untapped market in jewelry sector in China

China has steadily held the second position as the world's largest diamond market for over a decade, preceded only by US. Between 2002 and 2018, the import of net polished diamonds through the Shanghai Diamond Exchange gained an average annual increase of about 27 %.

The trendy young Gen Z or millennials usually prefer platinum jewels or diamond to traditional gold and silver items (daxueconsulting, 2021).

Chinese men also show great appetite for jewels and diamonds. According to a survey by the HK Trade Development Council, 67 % of the surveyed men declared wishes to own diamonds.

Hence, there is plenty of room for the diamond market in China, given there being fashionable design to boost sale.

On the other hand, gold jewelry items (24-karat gold) or (18-karat fashion jewelry) remain the most popular luxury items among Chinese over aged 40 , very often for wealth preservation or investment purpose (daxueconsulting, 2021). Gifts purchased for friends or relatives over wedding or child birth do predominantly consist of gold or silver items.

Traditional domestic jewelry shops of Chow Tak Fook and Chow Sang Sang (of HK origin) are swallowing the major part of the mainland Chinese market, with little competition from any domestic luxury brand in China.

It is strongly sensed that oceanic opportunities are waiting for LVMH to expand its jewelry market in China , particularly for gold jewelry items.

5. Strong jewelry purchasing power in second and third tier cities

It has been pointed in studies (Lambert & Wang, 2012) that the potential purchasing power for luxury goods in the 2nd and 3rd tier cities were growing . With 0.8 billion people being pulled out of poverty and the big cities becoming mega cities, and the 2nd tier cities growing into big cities, the potential purchasing power of the traditional 2nd or 3rd tier cities are enormous.

6. Shenzhen as the most potential mega city to test the new products of LVMH

Shenzhen has developed from a small village in 1979 into the first tier city of China, with over 13 million of people (officially) and 21.8 million (unofficially, if counting those staying in Shenzhen for over 23 days per month for over 10 hours per day). (Huifeng, 2020)

Shenzhen is a hi-tech hub neighboring Hong Kong, and is a core engine for economic reform powering growth and innovation in the Greater Bay area, showcasing the political and economic success of the new China. Shenzhen's GDP per capita ranked first reaching 203,489 (yuan) (or US 31,000) by 2020, based on its official permanent population of 13.33 million (Huifeng, 2020).

With the highest per capital income, the purchasing power of Shenzhen should no doubt be the highest among all Chinese cities. There are numerous major commercial districts in Shenzhen whereby LVMH may open up flagship stores. These districts include Renminnan , Dongmen, Huaqiangbei, Futian Central Business District, Nanshan, Baoan, Longhua, Longgang, etc.

The demographic composition of Shenzhen are mainly millennials, entrepreneurs or young high- tech workforce. The appetite of these sectors to try fashionable foreign luxury products are positively linked with their high per capita income and their high intellectual and international exposure.

Shenzhen is therefore a perfect market for testing the new luxury designs of the talent workforce of LVMH in fashion & leather goods, jewelry & watches or cosmetics & perfume.

Once the Chinese consumer taste is targeted correctly , the benefit of replica of the successful model over other parts of China is exponential.

It must be emphasized that the need and taste of the Chinese public must be handled properly before massive production can be carried out, lest wastage of production costs, publicity costs and impairment of brand value.

According to the global consulting firm BCG, Zhaxemabayeva (2021) , ‘over 75 % of transformation efforts don’t deliver the hoped-for results.’ It is therefore important to test out the popularity of new products gradually. Leaders must shift from the ‘know it all’ mindset to a ‘learn it all’ mindset in order to reduce chance of failure. (Zucker & Rowell, 2021).

7. Opening of large duty-free market in Hainan and other part of China

China had opened up massive duty-free zones in Hainan in order to boost the financial and tourist industry in that area. The trend for luxury goods seems to be unstoppable in such national design.

With the additional benefit of ripping high tariff levied on luxury items elsewhere , the Chinese government will unlikely restrict Chinese indulgence in luxury products (although it had stamped luxury goods in 2013 and 2014 in an effort to counteract corruption).

8. Opportunities to acquire successful domestic luxury brands by M & A

The intense competition from various domestic luxury brands in China (as will be discussed in the following) , appear like threats , but are in fact potential great opportunities for LVMH to flex its M & A muscle to acquire cash-cow brands into its empire.

Weaknesses

Examining the internal capacity of LVMH under the Balanced Scorecard model which emphasize the aspects of: (i) Financial ,(ii) Internal Process, (iii) Innovation & Learning and (iv) Customer

response, it is discovered that LVMH do have at least the following five kind of weakness:

1. Declining popularity ranking

In the 2000's and early 2010's, Louis Vuitton and Christian Dior had always enjoyed top popularity in China.

In the survey by Luxurysociety in August 2012 (Doran , S., 2012), among 50 luxury brands, Louis Vuitton ranked 3rd, Chanel ranked 5th, with Dior ranked 8th, Gucci (19th), Cartier (21st), (Prada(29th) Tiffany (32), Versace (37th, Guerlain (49th) .

However, according to the Agility China Luxury Brand Affinity Rankings for 2021 (Luxurious magazine, 2021) , Chanel came out to the number one (scoring 99) . Dior was behind Chanel, scoring lower in terms of its Brand Stature Dimension (i.e. trust, admiration and social responsibility). Hermes came third, scoring 83, followed by the Lancome, Estee Lauder and Gucci in the 4th position , Rolex, Cartier , Louis Vuitton and Armani also ended in the top 10 .

It is noted that Dior and Louis Vuitton were all behind Chanel, with Louis Vuitton even behind Gucci. Tiffany (the jewelry power house of LVMH) was not even among the top 10, way behind Cartier (the power house of Richemont) .

This ranking survey shockingly showed that in the Fashion and leather sector, Louis Vuitton and Dior had both declined in brand awareness and brand popularity.

In the jewelry sector, the new power house of Tiffany was not even within the top ten. In the cosmetics and perfumes sector, none of

the luxury brand of LVMH (Guerlain or Benefit) had ended up in the top 10 cosmetics brand.

The decline in popularity of Louis Vuitton , losing competition to Chanel , Hermes and Gucci , should be of grave concern to LVMH . Measures should be stepped up to raise its brand awareness or to arouse public interest in its brand value again.

Further, how to cause Tiffany and Guerlain to climb up the popularity ladder in China should be of top priority to LVMH in its future strategic moves.

2. Failure to engage in pivotal effective digital marketing agents in China

LVMH has developed its mini-halls over weChat. However, LVMH seems to have ignored the rising popularity of other digital platforms for the vibrant advertisement and sale of luxury products.

LVMH's opponent Richemont has effectively entrusted its digital sale at the Alibaba Tmall platform , which is arguably a more popular and more effective sale platform than weChat. Other digital agents such as JD.com (京东), RED (小红书, Douyin (抖音) are all very popular among young Gen Z and millennials and should not be ignored. Live streaming by KOL is also a very effective method to promote sale or brand awareness.

While LVMH may maintain its own website and digital sale platform to enhance sense of exclusivity and coolness , it has to adapt to idea of selling high -end products over mass public platform such as Tmall of Taobao , Douyin or RED .

The conservative usage of digital means of weChat may be the main reason causing its decline in popularity and brand awareness lately.

3. Poor performance of some brands within LVMH

There are a few brands within the group that are doing exceptionally poor. LVMH should decidedly divest these brands by selling them off , closing the business operation or re-investing to revive their prospect (which may be too risky, too resources demanding and/or too time consuming).

4. Succession problem

Bernard Arnault was an exceptionally brilliant businessman. He has got a son Alexander Arnault , whom he has attempted to groom to be his successor. However, Alexander is still young (only aged 29 by now) and has not proven to be exceptionally outstanding as his successor (although he was put in charge of Tiffany since 2021).

If there is any health issue with Bernard Arnault, the development of LVMH, particularly its share price, will be at risk, since the public will not anticipate continuous successful M & A approach by LVMH in the absence of Bernard Arnault holding the helm.

5. Culture Clash

Over the M&A process of Tiffany, there has been serious culture clash leading to a bitter legal battle and massive departure of managerial staff and/or designing talents within Tiffany. It has been viewed as a clash between the French and American culture.

While navigating in China, LVMH may also run into culture clash in its future acquisition of domestic brands, and/or in its strategic move to design locally appealing products. Cultural arrogance or cultural presumption must be cast aside to avoid blind spots or cultural misconception. The opinion of local designers and local

managerial staff must be respected to prepare for successful transformation of the LVMH products to suit the rising national sentiments of the local consumer segments in China.

Threats

Examining the external business environment of LVMH under the Five Porters model (which emphasize the rivalry situation among competitors, and the bargaining power of consumers) or the SWOT test (which emphasize the examination of the external threats in the business environment), it is noticed that there are a number of potential threats laying ambush in the background which may materialize into real crisis in the future, thus hampering the smooth development of LVMH in China.

1. Aggravation of trade war by US and/or Europe

Since Trump's time, multiple onerous tariff have been laid over 500 types of Chinese goods. It was not until recently that Us had released its tight tariff policy.

If the Republican party wins control in the coming US Congress election or over the presidential election 2 years later, with the European countries acting in concert with US to wage trade war against China again, China may very likely be provoked to retaliate by laying higher tariff against imported luxury items.

2. Counter- sanction /counter discriminatory measures by China

Given the very volatile geo-political relationship between China and US and /or Europe (partly arising from the recent Ukraine - Russia war and partly arising from the future Taiwan issue), the possibility of future aggravated sanction against China by US

and/or Europe , leading to more counter- sanction measures by China against the profitable European luxury goods cannot be excluded.

Trump started the trade war in 2018. He criticized China to have acted in breach of the WTO rules in undermining the principle of open trade. He blamed China for the big trade deficit between US and China. In March 2018, US recommended protective tariffs under the White House' Section 301 investigation.

Since June 2018, Trump threatened to use his executive power under the Trade Expansion Act of 1962 , the Trade Act of 1974 and the CFIUS (The Committee on Foreign Investment in the United States) to ban tech-related acquisitions by firms with at least 25 % Chinese ownership, and imposed new export controls on critical technologies. The US Congress had passed legislation in 2018 that increased CFIUS 's purview to a wider range of transactions (McBride and Chatzky, 2019).

In July and August 2018 , U applied 25 % tariff on \$ 50 billion worth of Chinese goods, . In Sep 2018 , it applied 10 % tariffs on a further \$ 200 billion worth of goods. Washington raised that tariff to 25 % in May, 2019 to all remaining imports of Chinese good (McBride and Chatzky, 2019). .

In addition, US targeted Chinese top technology companies such as Huawei and ZTE, alleging that they posed threats to the national security of US, and restricted their ability to sell their product or operating in the United States (McBride and Chatzky, 2019) .

On 12th Nov, 2020, President Biden signed the Executive Order to address the alleged threat posed by the military -industrial complex of the PRC, by prohibiting US investment in Chinese companies that undermine the security or democratic values of US and its allies (Briefing Room, 2021) .

On 2nd August 2021, US Department of the Treasury office of the Foreign Assets Control (OFAC) listed 59 entities on its new No – SDN Chinese Military -Industrial Complex Companies List (NS-CMIC List) (Briefing Room, 2021).

Over the years, in response to the sanctions by US against Chinese trade and people, China has passed at least 8 important legislations to counteract US's discriminatory measures (Merics, 2021) . These laws include: (i) Foreign Trade law (in force since 1994, last revised in 2016) that countermeasure discriminatory , prohibitive measures by another country in trade, (ii) Foreign Investment Law (since 1.1. 2020) that allows reciprocal measures against restriction on perceived discrimination against Chinese investors abroad ,(iii) Unreliable Entity List (since 16.9. 2020) imposing costs on foreign companies that restrict market transactions with Chinese firms or individuals, (iv) Export Control Law (since 1.12. 2020) safeguarding China's national security and interests, (v) Rules on Counteracting Unjustified Extra-Territorial Application of Foreign Legislation and other Measures (since 9.1.2021) - designed to deter unjustified extra-territorial application of foreign law such as sanction, (vi) Data Security Law (since 10.6. 2021), empowering state authority over the collection and protection of data in China, (vii) Anti-Foreign Sanctions Law , that established a legal framework for countersanctions against foreign countries which impose sanctions on China and (viii) Draft Personal Information Protection Law (since 29 .4. 2021) which allows countermeasure against deemed discriminatory prohibitions limitations or other measures against PRC.

If France or any European country follows US to lay sanction against China, it is very likely that French or European goods may be banned from import into China in the future.

3. Potential geopolitical war over Taiwan issue

The future of French luxury products may largely hinge on the governmental stance of France and/or LVMH over the Taiwan issue.

As in the Russian -Ukraine incident, LVMH had stopped from buying all Russian diamonds and closed down all the manufacturing processes in Russia as a political expression.

If and when US provokes China and arouses political tension with China over the Taiwan issue (which is already going on at the moment), there is real likelihood that China may de-couple from US and/or Europe altogether, leading to cessation of import of European luxury items.

If China takes military move toward Taiwan, European countries may sanction against China (just like how they treat Russia lately) by banning import of their goods into China.

4. Chinese consumer nationalism

What LVMH has to be most wary of, currently and practically, is the rising tide of Chinese consumer nationalism. As China has grown more confident in its wealth, military might and management power (proven after the Covid -19 challenge), its people quest for more respect and agreement by foreign countries.

The reaction of the consumer public in China over the political statements of H & M was a telling example of how the Chinese consumer public may punish or boycott a foreign company over adverse political stance perceived to be discriminatory or slander

against China. The Gen Z and millennials are the sectors that hold the strongest nationalist reaction against foreign insult.

As a result of the boycott of Nike, Chinese brands such as Lining and ANTA benefited hugely from the consumer national sentiment which move away from foreign brands towards domestic Chinese brands expressing their national pride and confidence.

Incidental national disasters (e.g. the Henan flood in July 2021) also contribute to the rise of consumer nationalism, as generous donation by domestic brands arouse public respect and support for their social engagement.

The local cosmetic & perfumes and local fashion & leather brands also benefit from the rising Chinese consumer nationalism. There is a rapidly rising trend of growth in the domestic Chinese luxury brands (e.g. the local brand of Perfect Diary in cosmetics, trailing as the 3rd largest cosmetic brand in China after L'Oreal and LVMH, with business growing from 635 million yuan in 2018 to 5.2 billion yuan in 2020 (Nikki Sun, 2021) . This trend is dubbed as 'Guochao' (国潮) in the Chinese luxury market(Meyer, 2021).

According to a survey of Chinese shoppers by a global consulting firm AlixPartners, 66 % of the consumers expressed that they were buying domestic brands over foreign brands , and 57 % were planning to spend less on American products , as a result of Trump's anti-China rhetoric speeches and actions. (Achim, Jing Daily, 2021) .

Smart foreign companies (e.g. Estee Lauder and Hermes) had already started to create special luxury lines that bore strong Chinese cultural element (hiding their identities behind the Chinese nationalistic appeal).

In particular, LVMH will have to be careful with the local consumers' reaction to Tiffany (which had gained the reputation as an American luxury brand, although it had originated from France under the hand of a fleeing French man in the 19th centuries) .

5. Rising competition from various domestic Chinese luxury products

With the know-how learnt by Chinese designers and manufacturers in the making of high-end products and the availability of high technologies, the ability of Chinese local brands to produce quality high-end brands is no longer a dream. There will ultimately be close competition between the foreign luxury brands and the local luxury brands over price, quality and cultural appeal.

LVMH will have to pre-empt those tight competition and respect the domestic luxury brands as real competitors , rather than ignoring their rising popularity.

6. Lockdown caused by public health crisis

The Covid -19 pandemic had caused massive economic contraction and reduced the mobility of people and resources in consuming luxury items. The revenue for global luxury goods had dropped by 16.9. % till the 2nd quarter of 2021, according to a report of the Bank of America (CN Logistics Intelligence, 2021)

Although LVMH had managed to rise up in business performance in the 3rd and 4th quarter of 2020, after a temporary slump in the 1st and 2nd quarter due to the Covid -19 pandemic in China, there is every chance that repeated periodical lock down of major cities in China may seriously affect the overall business performance of LVMH in China. The current lockdown of Shanghai is a vivid example of such adverse effect.

7. The ‘Internal Circulation’ and ‘Shared Wealth’ concept

In preparation for potential war or de-coupling from US, the Chinese government had prepared an internal survival mode called the ‘Internal Circulation’- meaning reliance more on consumption of domestic products instead of foreign goods. This self-defense mode may sacrifice foreign luxury goods in favor of domestic luxury products.

Further, the recent ‘Shared wealth’ concept has prompted fear for governmental measures discouraging expenditure on luxury items , in an effort to close the economic gap between the middle class and the less well- off segment in China. This ‘Shared wealth’ concept may be expressed by way of heavier tax laid against foreign luxury items or limitation in personal quota for purchase of foreign luxury items.

8. The ‘Break away’ (断舍离) concept

This modern concept of living in the simplest style and adopting a minimalistic consumerism spirit (something that the Chinese had learnt from the Japanese) may undermine the future development of the luxury market in China (Meyer, 2021) .

Future measures by the Chinese government to prohibit people from buying luxury gifts for running ‘guanxi’ in business may add another impetus impairing sale of luxury goods in China.

9. Counterfeit and secondhand market

Counterfeit products had been a long-term problem in China. Despite governmental measures to stem counterfeit conduct, it is still commonly found in commercial market such as the Lowu

Plaza in Shenzhen (commonly known as A grade goods or B grade goods) .

Legal action to eliminate counterfeit conduct in China is costly and ineffective, since the black market may easily be positioned in other private area. However, with governmental determination to clear counterfeit breaches and the formation of a more law-abiding culture among the middle class , counterfeit conduct has been stalled somehow.

Beside counterfeit problem, LVMH should also be wary of the rising secondhand market in China, which is not conducive to the sale of classic design of luxury goods in the open market.

10. Growing health awareness

It is said that in the long run, the growing health awareness among young Chinese, who tend to stay away from strong alcoholic drinks, is damaging to the market of wines and spirit of LKVMH in China.

However, from the rising shares of Mao Tai, it can be seen that contemporary Chinese are not yet ready to be weaned off from strong alcohol.

Recommendation to directors of LVMH

In view of the weaknesses and threats highlighted above, the board of directors of LVMH are strongly recommended to adopt a **PAAC business model** (meaning **Promotion, Acquisition, Alliance & Creativity**) with implementation testing at the city of Shenzhen, in order to find the most apt strategic measures to combat future challenges or crisis identified above.

1. Promotion

An all-in comprehensive and interactive advertising / promotional campaign is recommended to be launched in the test city of Shenzhen.

All possible digital sale platforms (including Tmall at Alibaba, Douyin, RED, Live streaming) should be used to raise brand image and awareness, with the data carefully analyzed to find out the effectiveness of each respective kind of digital promotional means.

More local celebrities and KOL such as classical singers or music players (rather than foreign celebrities) should be engaged to act as product ambassadors for LVMH.

There should also be more sponsorship by LVMH for significant local events organized via public media (e.g. TV or social media) during local Chinese festivals (e.g. mid-Autumn festival or Chinese New Year).

LVMH should plan to donate generously for victims in national disasters in China, and to support more local environmental projects. It is important for LVMH to be revered by the Chinese public as a virtuous and empathetic brand, in addition to its environmental friendly nature.

The popularity of various brand names under LVMH should be regularly gauged by consulting companies, for the purpose of ensuring their brand awareness are properly maintained and enhanced.

2. Acquisition

LVMH should seriously consider acquiring more successful and affordable competitors, whether foreign brands (e.g. Chanel, which is still a private family business) Estee Lauder, and Hermes, or domestic Chinese brands (which are likely more affordable and potential as a bridge for LVMH to land deeper into the domestic luxury market of China).

It is also recommended that LVMH may consider buying controlling shares in DeBeers, so that it may avail this famous brand to develop a high-end classic diamond market in China .

3. Alliances

In addition to acquisitions, LVMH may also consider forming alliances with local Chinese brands to enhance its oriental cultural image, with a view to gain public favoritism and to facilitate its sale of products with more oriental features.

4. Creativity

With or without successful acquisitions or alliances with competitors, LVMH must aim to revamp its existing design and product development by the following measures:

a. Culturalization of design for all luxury products

LVMH should harness the rising Chinese nationalistic sentiment and produce goods (whether bag, fashion, jewelries , cosmetics or perfumes) that address and honor Chinese culture.

Several foreign brands (e.g. Estee Lauder and Hermes) have already created line of products with predominantly Chinese cultural feature under a unique Chinese brand name .

LVMH should prepare for a few brand branches that can satisfy the Chinese' cultural taste and national pride. For example, design lines called 国粹, 君风 or 皇道 can be developed for men's fashion , leather goods or jewelry/ornaments.

Brand lines named as 傲姬, 木兰 or 花妃 can be set for ladies' fashion / jewelry or cosmetics/ perfume items.

As for family jewelry gift items, brand lines with auspicious names such as 盈福, 团圆 or 亲亲 can be developed for gift ornaments or decorative items.

For fashion and leather goods, while design with oriental features should be encouraged to satisfy public's new sentiment, conventional classic French or Italian designs should nevertheless be retained to suit the taste of a niche consumer segment that crave for foreign style and culture.

However, for the Jewelry sector, the American background of Tiffany should better be played down, with its French origin be heralded as its new public image (particularly when anti-American sentiment may surge high during future geo-political tension with US).

For cosmetics products, LVMH should invest into research for Chinese herbal or natural materials that enhance skin care or the beautifying effect (e.g. herbal materials that remove blemishes and brighten up skin without using 'lead' in its composition). The economic benefit of selling high-end cosmetic products using safe natural organic materials such as 灵芝, 珍珠, 人参 is very promising indeed .

b. Robust development of the gold jewelry market

Gold is invariably the most treasured jewelry in the minds of most Chinese who usually seek to preserve wealth by purchasing gold ornaments, in addition to aesthetic or status satisfaction.

The current gold ornamental items created by the traditional Chinese jewelry shops such as Chow Tai Fook , Chow Sang Sang or LukFook are often far too conventional or boring.

It is suggested that LVMH should step up by creating a stringent gold certification standard to ensure its gold ornaments are internationally recognizable in terms of its alleged quantity and quality, with redemptive price possible (according the traded market gold price), just as how the traditional jewelry shops of Chow Tai Fook and Chow Sang Sang had been doing.

The design for gold ornaments or gold decorative items should be remarkably creative and customized. With latest 3D technology , customized production fitting special request of customers should not be a problem .

The gold jewelry products of LVMH should not only meet the need of wealth preservation by the Chinese, but should also be creatively stylish allowing personal customization to serve as decorative items at homes, office or exhibitions.

c. Diversification of brand to target different consumer segment.

While Tiffany may be remained as the vehicle for fashionable design for ladies, LVMH should avail another vehicle (e.g. Bvlgari) to develop jewelry ,fashion and cosmetics for men. It is too challenging to expect Tiffany to cross over into the man sector.

Another brand line named as ‘Marco Polo’ can be used for design of jewelry products which bear western cultural features. (‘Marco Polo’ is reminiscent of the cultural amalgamation between the East and the West). Such E & W cultural appeal should stand a better chance surviving through escalating Chinese consumer nationalism in the long run .

d. Diversification of products to create an organic LVMH lifestyle.

Accessories such as eye-wear, scarfs, sports shoes, sportswear, writing and stationary items or even women lingerie can gradually be developed to provide a holistic luxury lifestyle for the LVMH loyalists.

These accessory products may help to raise brand awareness of LVMH products. While many Chinese may find carrying a conspicuous LV bag too eye-catching, using smaller luxury items such as a LV tissue bag, mirror box or lipstick case may be more reserved and more convenient with equal potent power to demonstrate class and wealth by the middle class.

Conclusions

With the rise of China, together with its national pride, confidence and cultural awareness, LVMH as a foreign investor must take serious note of the new rising national sentiment and harness them to its advantage, avoiding culture clash in artistic design and incongruent political opinion.

Just as in the old days when Chinese potteries were so cherished by the western aristocrats as showy decorative objects, classic or contemporary western designs will still enjoy a comfortable market among the wealthy and internationally exposed middle class in China.

China has grown to a golden age in terms of purchasing power and consumer curiosity. With cautiously experimental and adaptative strategic moves to path ways for a positive future, LVMH should continue to enjoy leading role as a major player in the luxury market of China for at least a few more decades to come.

- The End -

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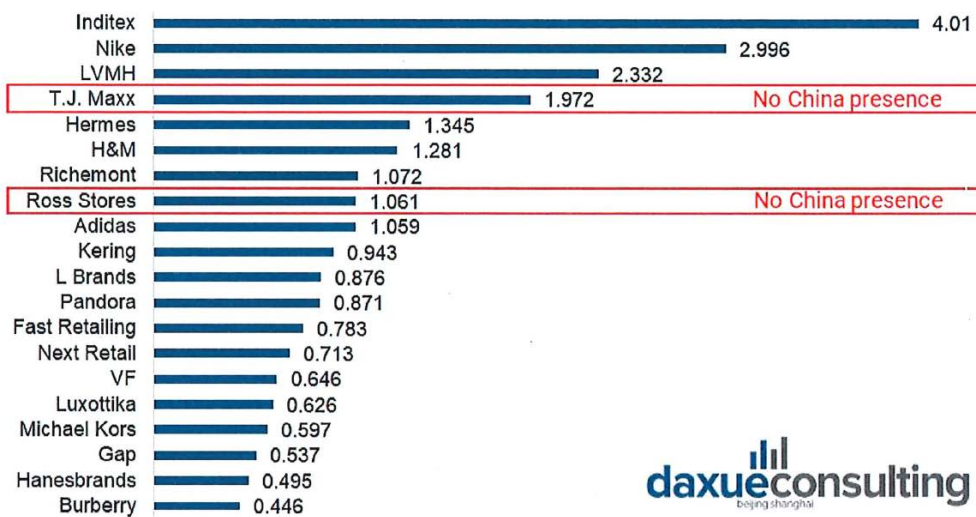
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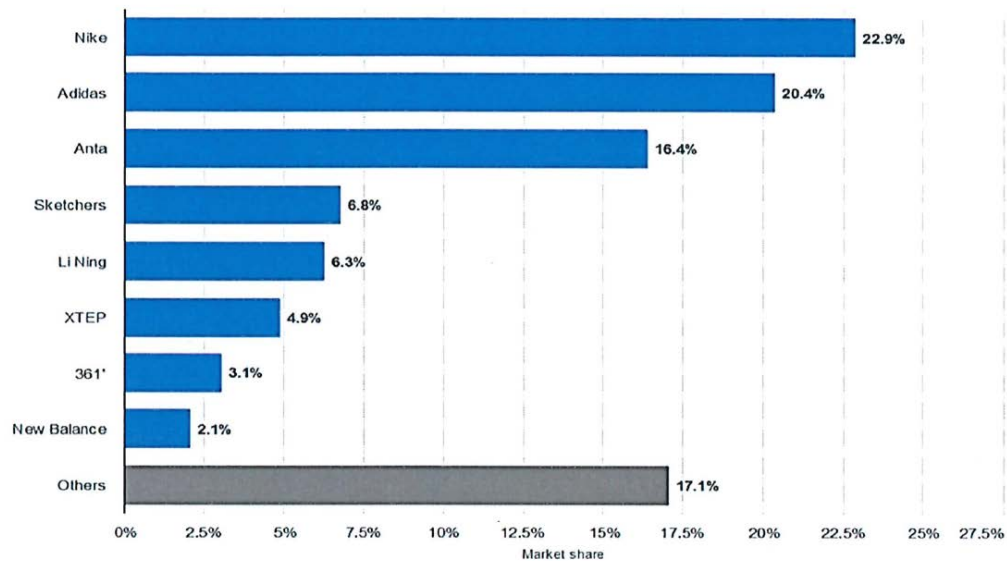
Appendix

Top 20 global fashion players 2017, by economic profit
(in \$ million)



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Breakdown of the sportswear market in China in 2019, by brand



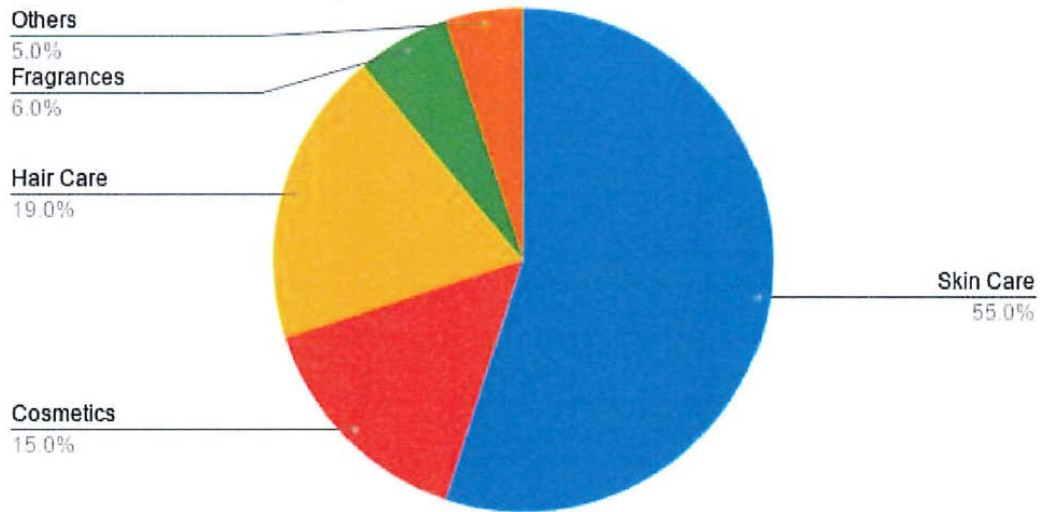
Sources
Forward Intelligence (Qianzhan), Euromonitor
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Additional Information:
China; Euromonitor, 2019

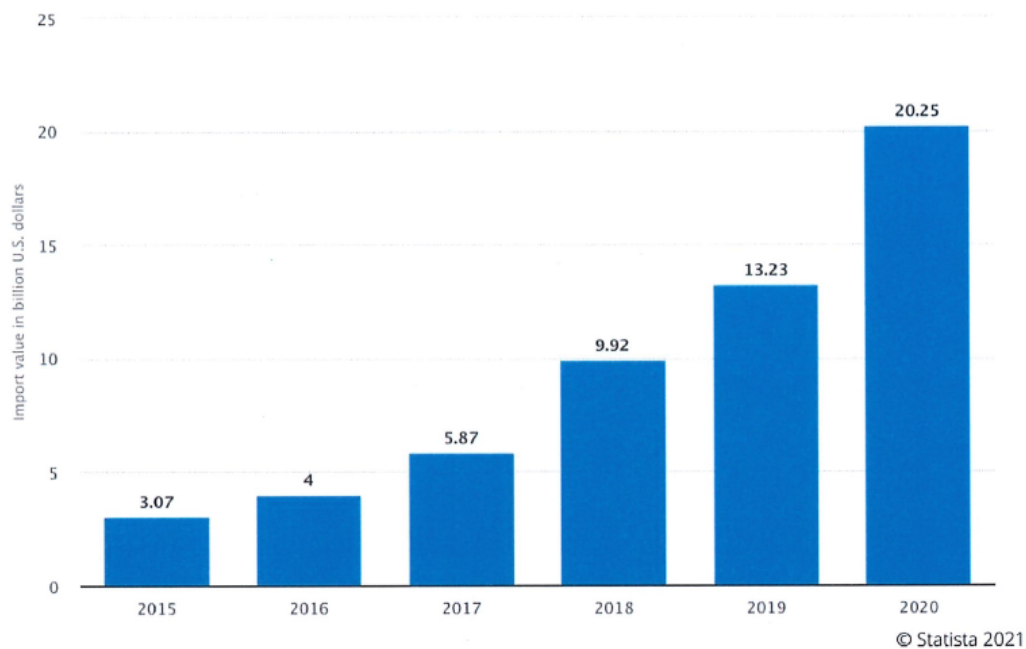
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Market Segmentation - 2018

Data source: IBISWorld



Import value of cosmetics products in China (2015-2020)

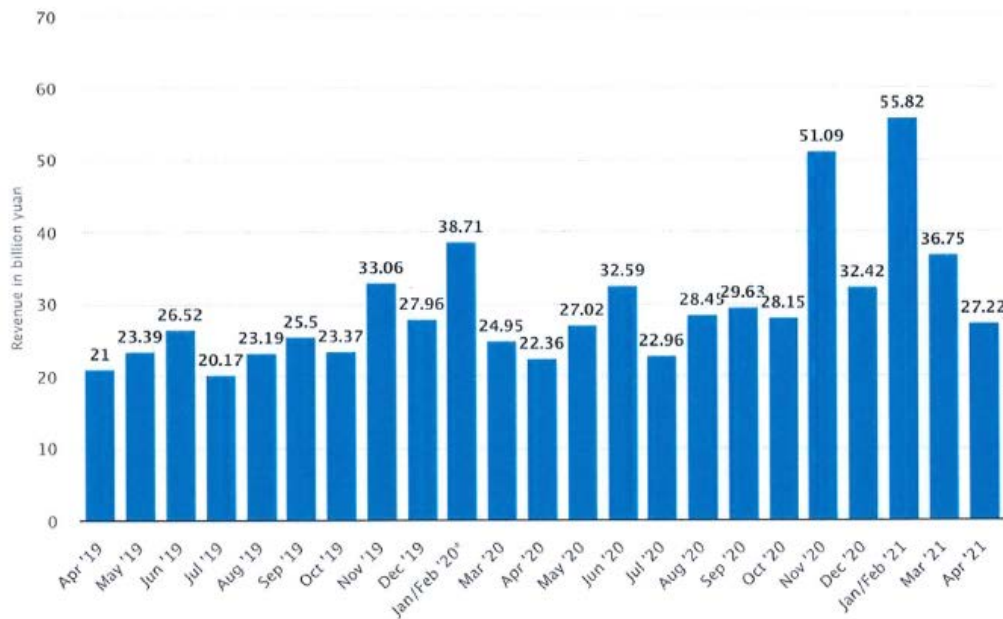


In 2020, the import value of cosmetics products in China was valued at 20.25 billion U.S. dollars, increasing from 13.23 billion U.S. dollars compared to 2019. In the same year, China exported around 4.2 billion U.S. dollars worth of beauty products globally. With the Chinese market that is evolving, foreign brands have still a lot of opportunities to seize.

For example, even though cosmetics and beauty products were at first mainly used by female consumers, male consumers are now more inclined to use them as part of their daily routine as well. Thus, thanks to its huge population and the craze for high-quality products, China is a good and promising market for high-end cosmetic brands. Chinese consumers want to resemble their idols and celebrities. The appearance in China has become extremely important, and people now enjoy putting on makeup, doing their skincare routine, shopping both online and in brick-and-mortar stores, etc. Consumers' demand for eco-friendliness products has also increased these past few years.

Chinese consumers are fond of high-end cosmetics

Retail trade revenue of cosmetics in China (2019-2021)



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Even though the Chinese market witnessed a significant decrease in revenue at the beginning of 2020 following the COVID-19 pandemic, which greatly affected beauty products sales, this industry is seeing a swift recovery as Chinese consumers are more than ever ready to go out again and take care of themselves.

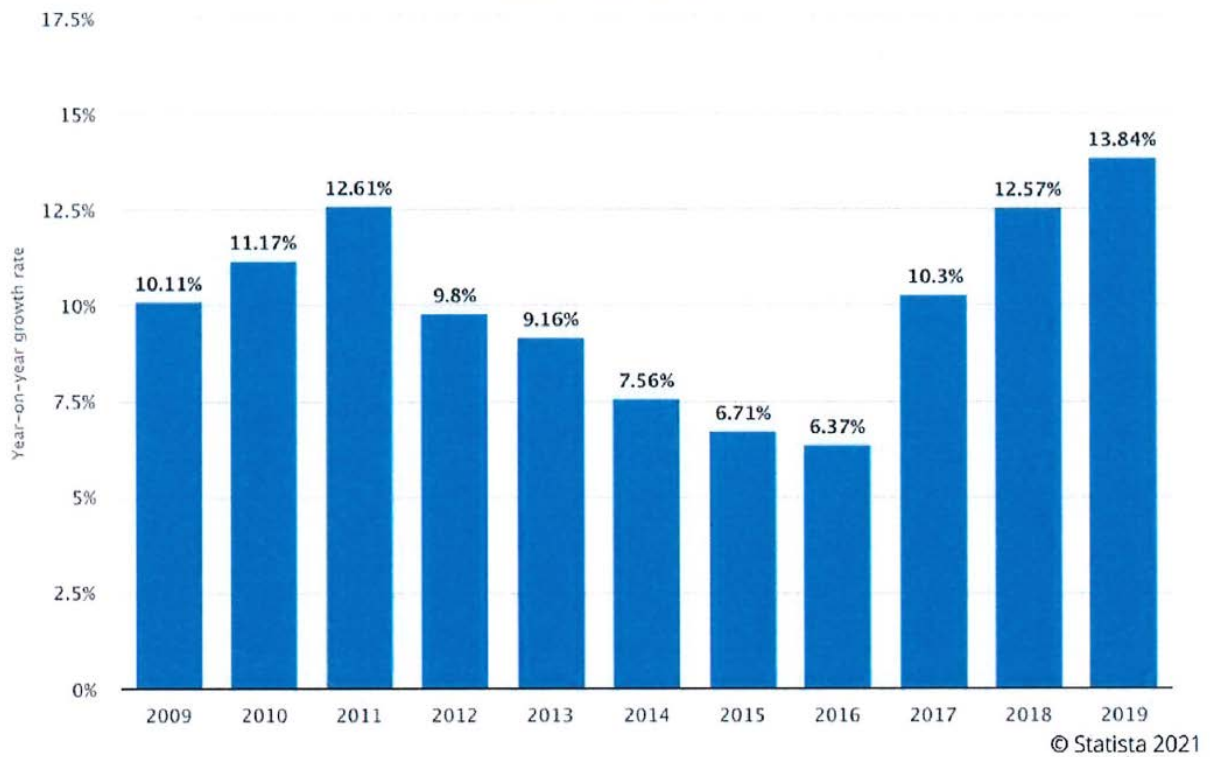
Marketing to China it's also an Agency

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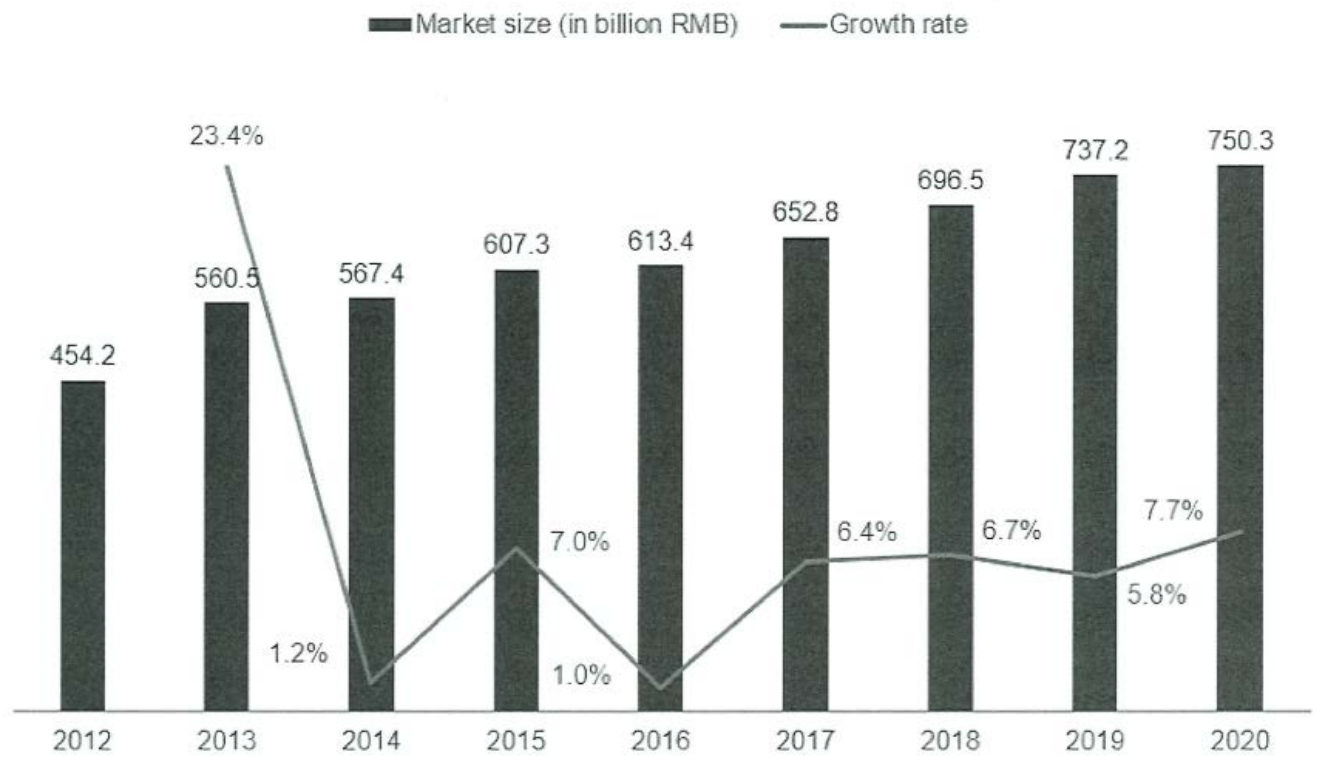
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China's rapid digitalization has greatly contributed to the success of high-end cosmetics

The annual growth rate of the cosmetics market in China from 2009 to 2019

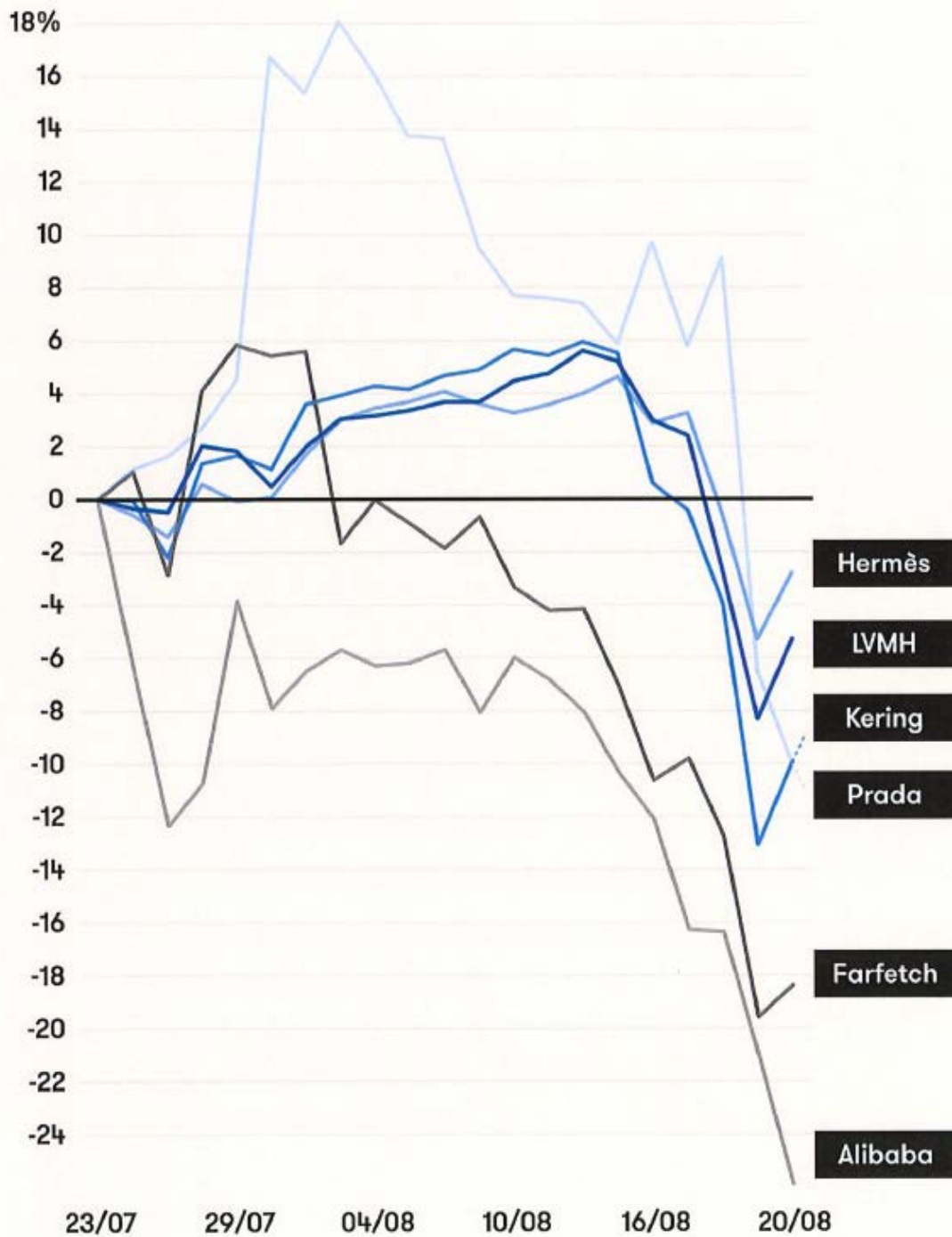


China's jewelry market size 2012-2020



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beijing shanghai

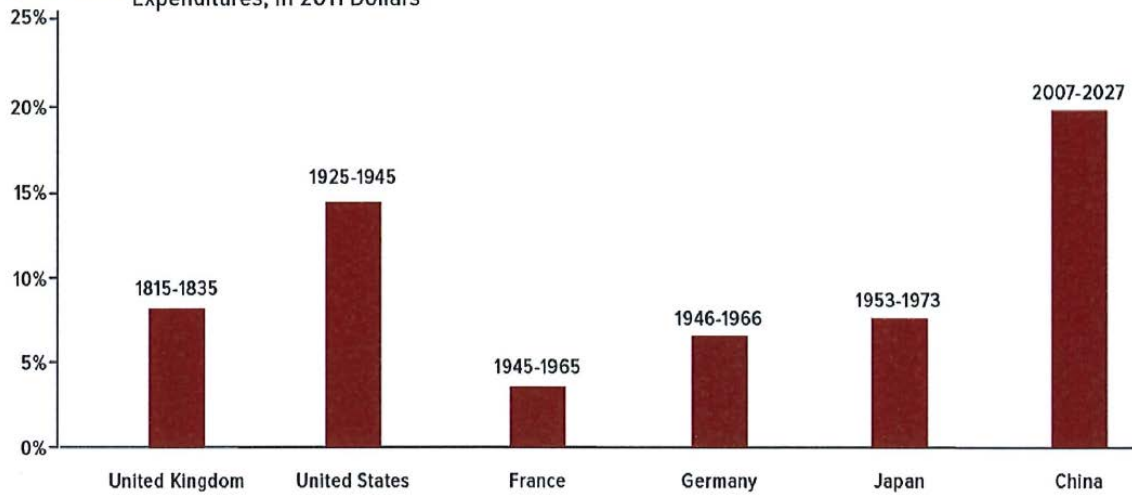
Luxury stock prices fell in August 2021





China Believed to Still Be in a High Middle-Class Growth Phase

Biggest Percent Changes over 20 Years in Share of Middle-Class Consumption Expenditures, in 2011 Dollars



Source: Maddison Historical Statistics, IMF, U.S. Global Investors

Figure 2.4: buying luxury as a gift for business partner¹⁵



Source: <https://www.statista.com/statistics/466986/china-population-of-shenzhen/>

Population of Shenzhen in China 1995-2035

Published by [C. Textor](#), Sep 16, 2020

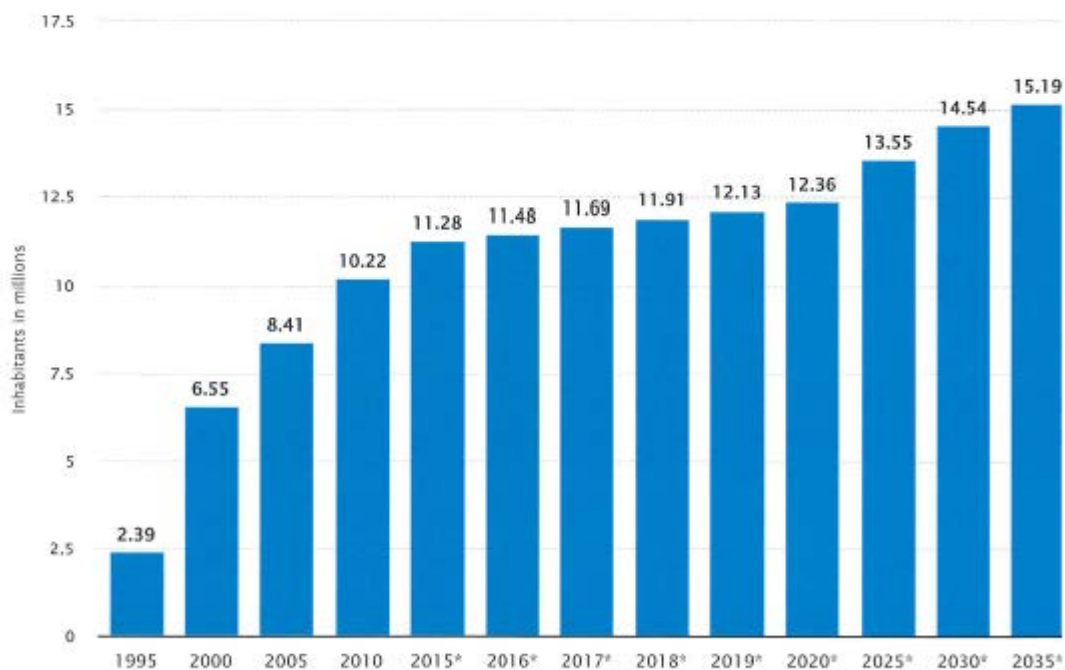
Shenzhen is one of the fastest growing cities in China. Based on estimates, the population of Shenzhen is expected to reach over 15 million by 2035. This rapidly growing city is attracting an increasing number of young Chinese, who want to start and grow their careers.

Development history of Shenzhen

Shenzhen is located next to Hong Kong, one of the key financial and business centers of the world. The city has a short history - Shenzhen wasn't technically a city until 1979. Now, it is home

Population of the urban area of Shenzhen, China from 1995 to 2035

(in millions)



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Figure 2.4: buying luxury as a gift for business partner¹⁵



Figure 2.3: disposable income ranking in Chinese cities¹³

City	GDP per capita (RMB)	Per capita disposable income (RMB)
Shenzhen	92,771	28,838
Shanghai	77,556	28,837
Guangzhou	88,834	28,266
Wenzhou	32,595	28,021
Hangzhou	70,832	26,864
Beijing	68,788	26,738
Suzhou	117,200	26,320
Dongguan	56,591	25,320
Tianjin	55,473	21,402
Wuxi	73,053	17,175

¹² "Multinational Retailers' Quest for Gold in China's Tier 2 and Tier 3 Cities", 2011

¹³ Multinational Retailers' Quest for Gold in China's Tier 2 and Tier 3 Cities

Figure 1.5: brands with top repeat purchase rate in China - Fashion⁵

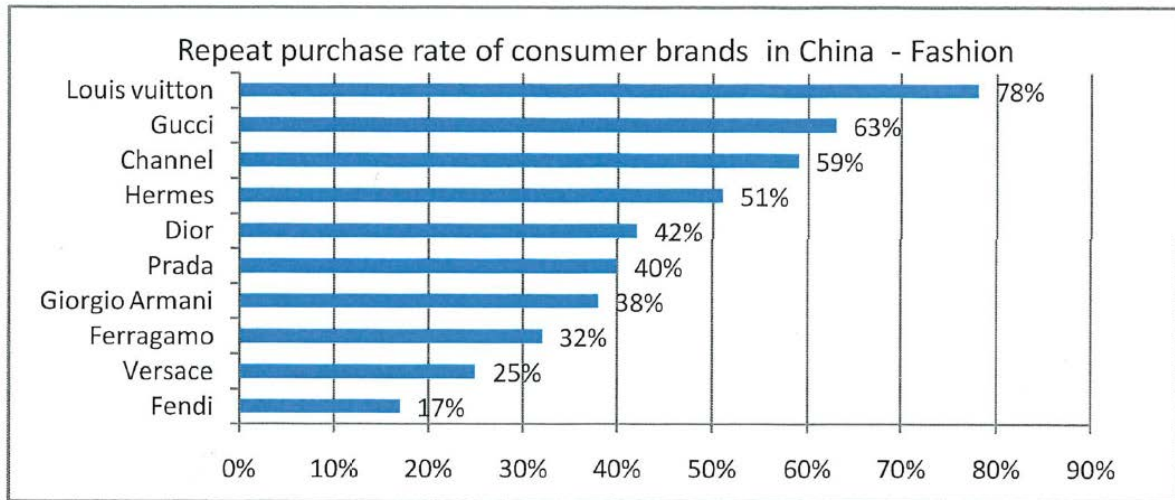


Figure 1.6: brands with top repeat purchase rate in China - Jewellery⁶

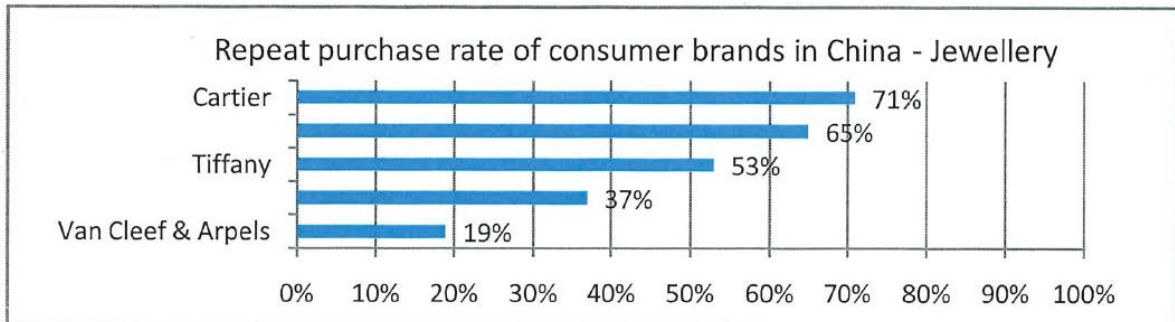
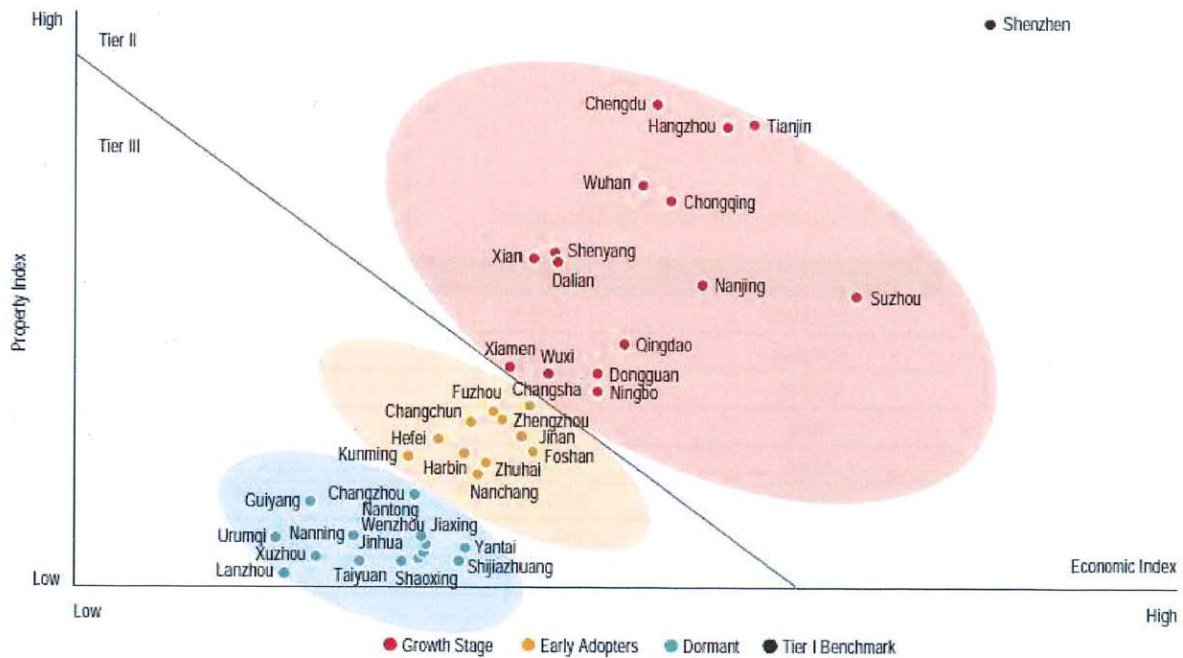
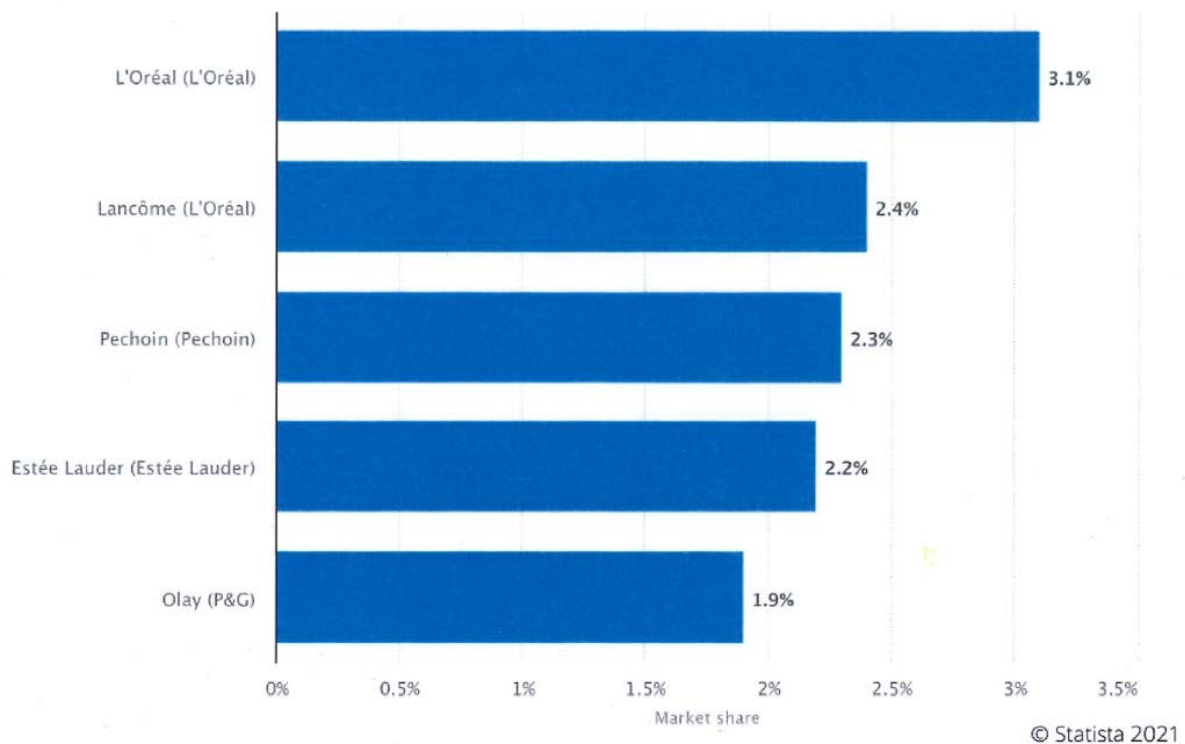


Figure 2.1: definition and display of Chinese 2nd-tier cities

Fig 2: City Evolution Curve



Leading cosmetics brands in China based on market share (2019)



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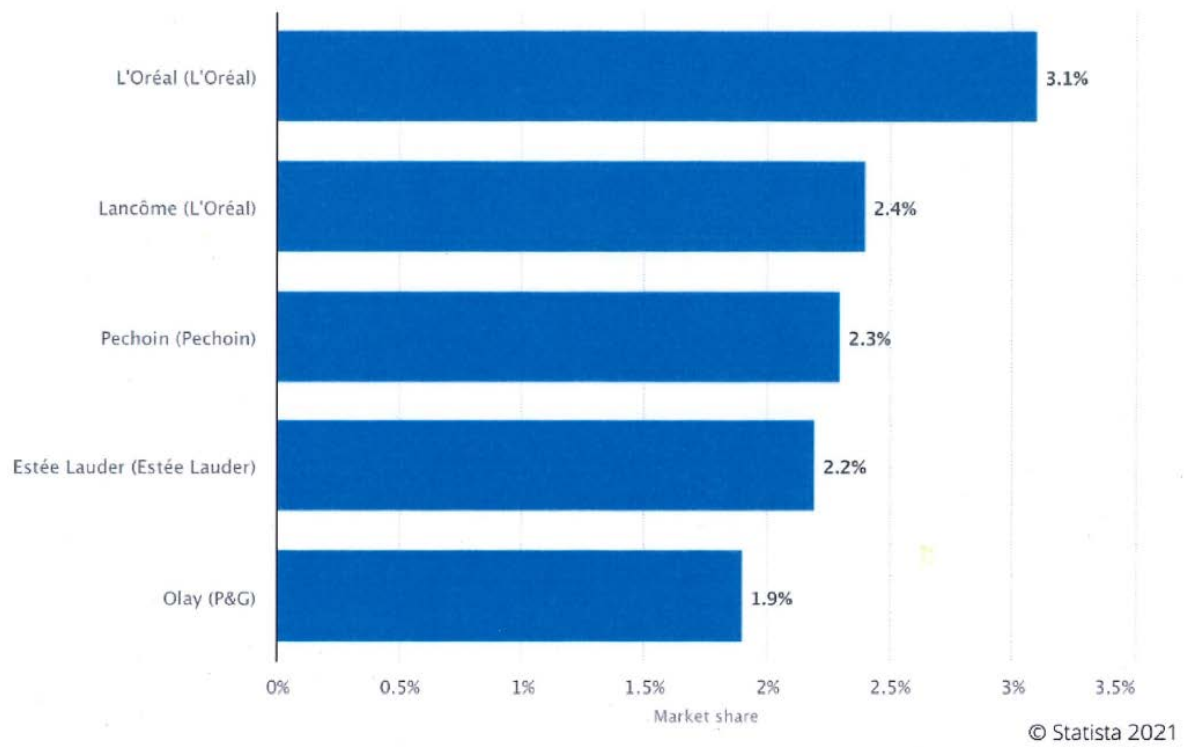


Exhibit 4. The Top Chameleon Brands in China Include Many Well-Known Names...

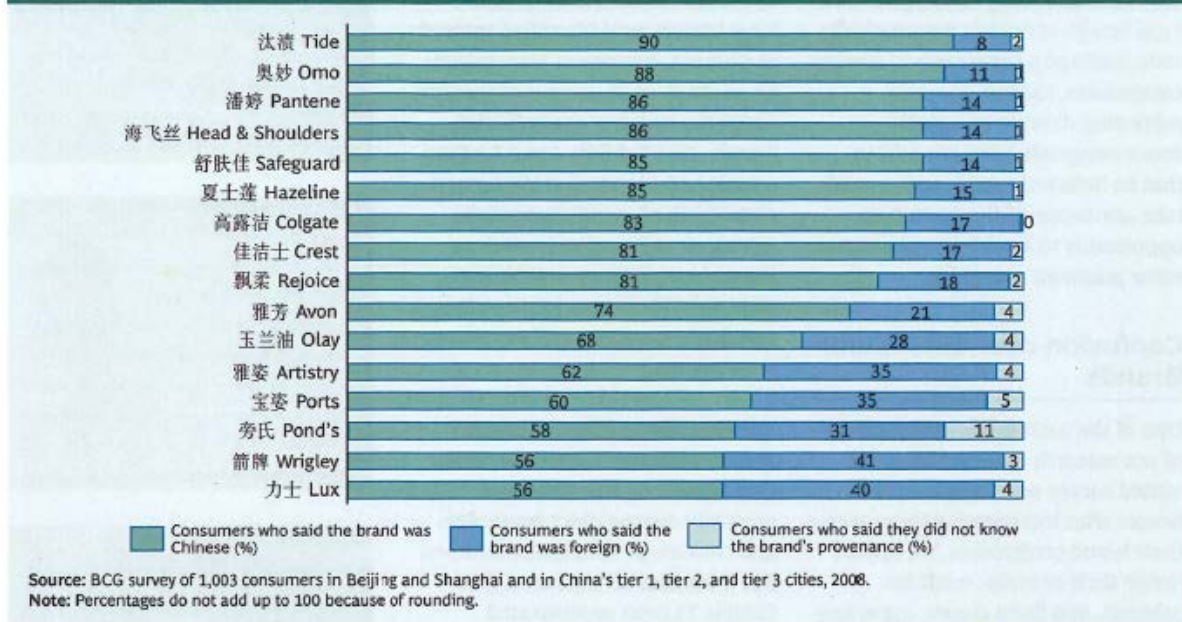
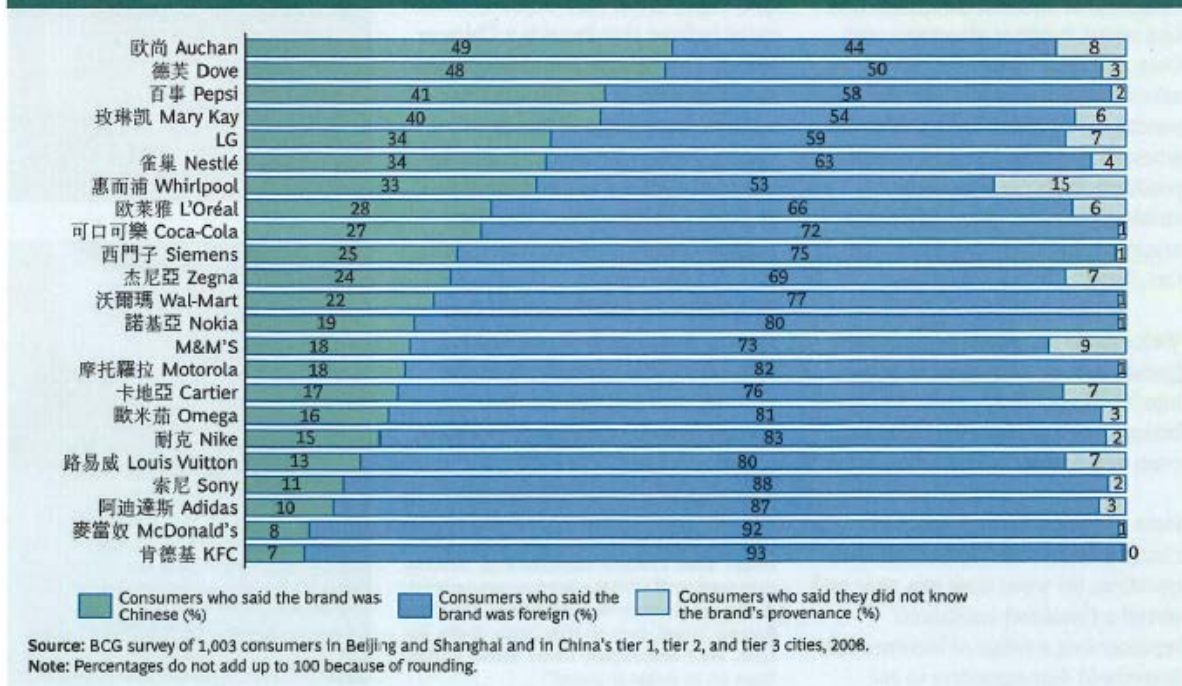
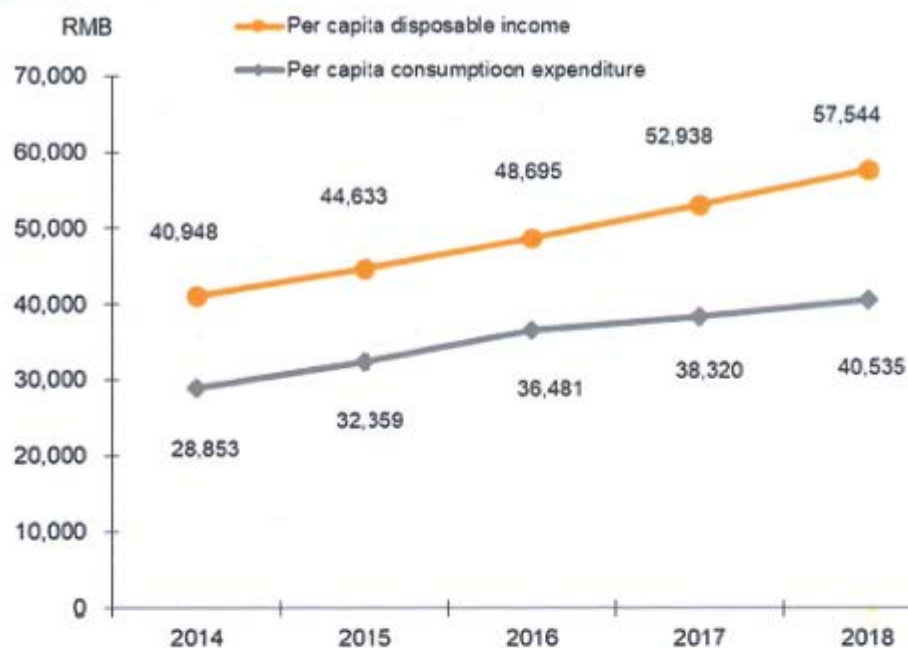


Exhibit 5. ...but the Chameleon Effect Extends Well Beyond Those Top Brands



Per Capita Disposable Income and Consumption Expenditure of Shenzhen Residents



Sources: Statistical Communiqué of Shenzhen Municipality on the 2018 National Economic and Social Development; Shenzhen Statistical Yearbook 2018

Residence was the largest expenditure item for Shenzhen residents, with an average RMB12,160 spent each year, making up 30% of the per capita consumption expenditure. This was followed by expenditure on food, tobacco and liquor which averaged RMB11,836 (29.2%) each year. The average spending on education, culture and recreation was RMB3,935, accounting for 9.7% of the per capita consumption expenditure.

Shenzhen Residents' Per Capita Consumption Expenditure and Share, By Category, 2018

	Per capita consumption expenditure (RMB)	Share (%)
Residence	12,160	30.0
Food, tobacco and liquor	11,836	29.2
Transportation and telecoms	5,694	14.0
Education, culture and recreation	3,935	9.7
Household facilities, articles and services	2,268	5.6
Clothing	2,178	5.4
Medical and healthcare services	1,278	3.2