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**Critically analyse and discuss the procurement strategies
within a company of your choice.**

Procurement and Contract Law (M6X01292)

Bsc – Logistics and Supply Chain Management

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Introduction

The purpose of this essay, is to analyse and discuss the procurement strategies within the company LVMH (Louis Vuitton Moët Hennessy). It's 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.

“Being dissatisfied is one of the conditions for questioning everything all the time. Otherwise, we fall asleep” Bernard Arnault, 2008

This quote from the CEO of LVMH, reflects his leadership mentality, which has allowed him to create the number one luxury group in the world and to participate in the international influence of France. Moreover, this quote has a direct link with luxury companies, and in particular with the textile industry, a sector in perpetual quest for creation and innovation, in order to always propose novelties that influence the world.

It will be interesting to see how a company, present on the world market and leader in its field, manages its supplies, in order to always remain productive, but also by preserving a brand image, a primordial thing in the luxury field.

In this essay, I will first present the company in order to understand its environment. Then, I will define what procurement strategies are, and finally I will describe the procurement strategies within LVMH.

1 The LVMH Group

1.1 Presentation of the Group

Founded in 1987, the LVMH group has been headed since 1989 by BERNARD ARNAULT, a French businessman, and also the 3rd richest man in the world according to Forbes in 2020, with an estimated fortune of 76 billion dollars. (Jean-Jacques Manceau, Forbes, 2020)

LVMH is a family group, whose vocation is to ensure the long-term development of each of its 75 Maisons while respecting their identity, their heritage and their know-how.

The LVMH group is the only player simultaneously present in FIVE major luxury sectors:

- Wines & Spirits,
- Fashion & Leather Goods,
- Perfumes & Cosmetics,
- Watches & Jewellery
- Selective Retailing.

In 2019, the group achieved 53.7 billion euros in sales, owning 4915 shops worldwide and working with more than 163,000 Employees.

LVMH has managed to preserve a family spirit that always favours a long-term vision, with the aim of making their Maisons the ambassadors of a refined art of living. LVMH shares 3 fundamental values with all these players, which represent the pillars of their performance:

- Be CREATIVE and INNOVATIVE, because creativity and innovation have ensured the success of their Maisons over time and established their legitimacy. This creativity-innovation tandem is at the heart of a delicate equation: renewing their offer and looking resolutely to the future, while respecting their heritage.
- To offer excellence, because in the luxury sector no compromise is possible on quality. LVMH embodies the world of craftsmanship at its noblest and most accomplished, with an eye for detail and perfection: from product to service, it is in this quest for excellence that they cultivate their difference.
- Cultivating the entrepreneurial spirit. With its decentralised organisation, the group favours efficiency and responsiveness. It stimulates individual initiatives by entrusting important responsibilities.

1.2 Operational model

The group's operating model is based on 6 pillars, which make it unique:

- A decentralised organisation, which allows them autonomy and a strong reactivity of their Maisons.
- Internal growth, which allows LVMH to do everything possible to develop its Maisons, while protecting their creativity.
- Vertical integration, which allows them to control all aspects of the value chain.
- Implementation of synergies, which allows the sharing of knowledge and resources of the group, while preserving the identity of each Maison.

- Perpetuation of know-how, by enhancing the value of craftsmanship and design.
- Balance of activities and geographical locations

1.3 Commitment

LVMH is a group committed to many areas that are important to it. Firstly, in the field of art and culture, by undertaking actions to share its passion for these disciplines and its creativity with as many people as possible.

Secondly, LVMH is involved in society and the environment, making sustainable development one of its strategic priorities.

In addition, the group has a major role to play in the transmission of knowledge, because it is the heir and custodian of the cultural heritage of the crafts and creative professions, in order to preserve and safeguard the know-how of these companies, some of which are over 100 years old.

Finally, LVMH's performance is based on entrepreneurship and leadership, working with all its employees to achieve ambitious projects. LVMH assumes this position of leadership by taking responsibility, as for example during the coronavirus epidemic. Indeed, China is an important market for the group, and it was the first country affected by the virus. During this period, the group ensured the supply of protective equipment, hydroalcoholic gel and surgical masks to China.

1.4 Activity

LVMH, is the number one luxury group in the world, and every year the group improves its sales. Indeed, its sales between 2018 and 2019 have increased by 15%, and its net income has increased by 13% over the same period.

LVMH has divided its business into different groups, which are:

- Wines and spirits (10% of sales) (Ruinart 1729, Moët & Chandon 1743, Hennessy 1765)
- Fashion and leather goods (41%), (Louis Vuitton 1854, Fendi 1925, Dior 1947)
- Perfumes and cosmetics (13%), (Guerlain 1828, Givenchy 1957, Fenty Beauty 2017)
- Watches and jewellery (8%), (Chaumet 1780, Tag Heuer 1860, Hublot 1980)
- Selective Retailing (28%), (Le Bon Marché 1852, Sephora 1969)

The luxury group has a global presence on all five continents. Its main markets are Europe, Asia and the United States. In 2019, its sales represented 19% in Europe, 24% in the USA and 30% in Asia.

2 Procurement

2.1 Definition

Procurement is the process of acquiring goods, works and services, covering both acquisition from third parties and from in-house providers. The process spans the whole life cycle from

identification of needs, through to the end of the useful life of an asset. It involves options appraisal and the critical 'make or buy' decision. (Lysons, K. & Gillingham, M., 2003)

Procurement, considers the acquisition of raw materials, spare parts and supplies purchased from external organisations to support a company's activities. Typically, procurement costs often account for 60-80% of an organisation's revenue. (Murphy P and Wood DF, 2013)

Today, with changing markets and ways of working, procurement has a more strategic focus in many organisations, and procurement managers have a role to:

- Reduce cycle times
- Play a key role in product development
- Generate additional revenue by collaborating with the marketing department. (John Hyatt, « The Rise and Rise of procurement », 2012)

The objectives of the procurement function are to support business goals, to manage the purchasing process effectively and efficiently and to support operational requirements. But the function also has a relational role, as strong relationships with other functional groups and suppliers must be developed and maintained. (Murphy P and Wood DF, 2013)

2.2 E-procurement

With the rise of new technologies and their introduction within companies, many innovations have appeared and e-procurement is one of them.

E-procurement consists of centralising the management of the company's supplies and purchases through an online platform. It therefore involves using a software solution to simplify the management of the company's B2B (Business To Business) purchases. E-procurement solutions are therefore exclusively dedicated to the B2B sector and cannot, therefore, be used for private purposes. (Axel Lefebvre, LBdD, 2020)

The difference between a traditional online purchase and an e-procurement solution is the integration of functionalities that simplify and even automate certain purchasing processes in companies. For example, it is possible to integrate the company's order validation workflow or even to take advantage of factoring solutions. Most of the time, e-procurement solutions are integrated into the company's ERP system. (Axel Lefebvre, LBdD, 2020)

3 Procurement within LVMH

At LVMH, the procurement manager's mission is to manage all activities relating to a precise procurement plan, to meet customer expectations, and to be available and efficient. He/she must also be able to:

- Participate in the development of the inventory budget
- Define and monitor key performance indicators
- Implement effective planning to meet customer expectations and achieve the desired results
- Share and communicate supply planning strategy and objectives to teams

- Set ambitious but achievable targets and establish a roadmap for the teams involved (LVMH, 2020)

The role of the General Supply Manager of the LVMH group, Christian Galichon, is to group together and pool all the activities that can be pooled together, knowing that each of the activities that exist in the group are independent. (Christian Galichon, EcoVadis, 2019)

3.1 Procurement strategies

One of the main procurement strategies at LVMH is sustainable procurement. This sustainable development strategy is not only present for the supply function, it is a major commitment led by the group for several years on all fronts. This strategy is due in particular to the fact that consumers have become more aware in recent years of the impact of man on the planet, and they want to change things. (Christian Galichon, EcoVadis, 2019)

In addition, the French government has put in place "Sapins II" and "Devoir de vigilance" regulations to force companies to make efforts to protect the environment. (Economie.gouv, 2016)

The group must therefore respect these laws, as it is responsible for everything that may happen within its subsidiaries. Vigilance is all the more important in textile companies that use leather.

3.2 Commitment to sustainable procurement

With a view to protecting the environment, the LVMH Group launched the first ever responsible procurement standard for crocodile leather in 2019. These new criteria were developed and validated by a committee of technical experts, including the independent organization NSF International. The new certification reinforces the traceability requirements already provided by the tannery. (LVMH, 2019)

This certification is based on 4 pillars:

- preservation of the species and respect for local communities
- animal welfare throughout the life cycle of the animals
- the working conditions of the men and women on the farms
- environmental protection.

This is part of an ambitious overall Group policy for all animal supplies that was unveiled during 2019, and complemented the LIFE (LVMH Initiatives For the Environment).

3.3 LIFE

LIFE is a program set up by LVMH to anchor sustainable development within each of the group's companies. The objectives are:

- to improve the environmental performance of all products
- deploy the best standards in the supply chains
- improve the key indicators of environmental efficiency for all sites
- reduce CO2 emissions

The group is making sure to follow these objectives, certifying 70% of its tanneries by 2020, having a 99% RJC certification for their diamonds. In addition, 100% of the French winemakers they work with are sustainable.

3.4 EcoVadis

LVMH works with EcoVadis, which offers a comprehensive Corporate Social Responsibility (CSR) assessment service. The EcoVadis rating covers a broad spectrum of non-financial management systems, including impacts in the following areas: Environment, Social & Human Rights, Ethics and Responsible Purchasing. (Shaneeschna, EcoVadis, 2021)

This collaboration with EcoVadis allowed LVMH to precisely map the suppliers at risk using the data they had collected, in order to classify and know the suppliers at risk, with the objective of setting up actions with these suppliers in order to best meet the group's sustainable commitments. (Christian Galichon, EcoVadis, 2019)

Conclusion

Through this essay, I was able to present the LVMH group, this global luxury giant, by tracing its history, describing its commitments, its operational model and its different sectors of activity. This allowed us to understand what a great group it is, and that it deserves its place as a world leader.

Then, I was able to define the procurement function, in order to understand to what extent this function plays a primordial role within the companies and the logistics departments.

Finally, we saw that the group's procurement strategy is focused on sustainable procurement, with the aim of preserving the environment, which is very important for luxury companies that want to set a good example. In addition, it works with animal leathers and precious stones.

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