

Research on the Factors Analysis and Strategies of LVMH's Profitability

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Abstract. Moët Hennessy Louis Vuitton (LVMH) has been expanding its territory in the group through mergers and acquisitions. The success rate of the group's acquisition is very high, and through excellent management and operation, many unknown small brands can return to the market and even give the brand life again. During the pandemic, when the world was in an economic downturn, LVMH's luxury goods, as non-essential goods for most people, LVMH's still demonstrated remarkable profitability resiliency. Through the analysis of LVMH's financial data and market data, this paper summarizes the four main factors affecting LVMH's profitability and analyzes the formation reasons behind these factors. Eventually, based on these factors, the author will put forward the company's internal countermeasures and the enlightenment of LVMH on the profit mode in the industry.

1 Introduction

1.1 Research background

Luxury consumption and the industries associated with it keep playing an important role in today's economy and society [1]. The group's shares and share prices have risen rapidly in recent years. In 2023, the company's CEO, Arnault, also successfully ranked the world's richest man. The influence of the luxury empire has penetrated countries and regions, especially in the United States, Europe, and Asia (excluding Japan) [2]. Growing consumer tastes, new technology, industry trends, and the expansion of the global luxury market make room for new players in the luxury market and new business models, which in turn means more competition [3]. From then on, the development of LVMH was remarkable, and it steadily gained a significant position as a dominant player in the market. This article will further discuss the influencing factors and causes behind these remarkable figures by analyzing the group's operating conditions and important indicators. For the company and related industries, the article would put forward LVMH's advantages and potential problems about profitability and further provide business ideas for luxury goods and related industries. For society, the content of this paper can also provide diversified management perspectives and profit methods to help relevant enterprises and managers think deeply about the business strategies that suit the enterprise.

1.2 Literature review

In strategy, Chatterjee described the current situation of LVMH with the PEST model and SWOT method and listed the advantages and disadvantages of LVMH and other market factors affecting the company's operation. The author emphasizes that LVMH's success cannot be separated from its excellent diversification strategy and proposes that LVMH may face challenges and competition in new markets in the future. At the same time, the author also proposed that the economic environment and digital transformation should not be ignored, which will not only directly affect the sales effect but also may affect the development of the company in the long term [4]. In addition, Mira analyzed the company's operating conditions in detail by establishing models and analyzing data during the merger and acquisition of Hermes. The authors pointed out that although it is very positive to analyze the merger of the two companies from the data, the difference in management and business philosophy led to the failure of the merger in the end. This also highlights the importance of management mergers in acquisition risks [5]. Meanwhile, Li provides different levels of thinking for the study of this paper in the Tiffany merge case [6]. The Hermes case provides more guidance for the analysis of finance and financial data for this paper, while the Tiffany acquisition comprehensively introduces the relationship between the management and relevant partners in the acquisition and further helps to analyze the advantages and disadvantages of the company's decision-making and strategy.

1.3 Research gap

In recent years, there have been many studies and analyses on LVMH Group, and most of the articles focus

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on the analysis of various company acquisition cases. For example, the synergy effect after some major mergers and acquisitions, and the process of mergers and acquisitions. At the same time, it also includes some analysis the marketing strategy of the Group and Arnault, that is, some excellent operation methods of the group. However, in these academic analyses, few scholars have analyzed the reasons for LVMH's continuous growth in recent years: its profitability. Although scholars will mention many companies' marketing strategies, they do not integrate data and strategies closely. At the same time, these strategies' specific manifestations and influencing factors in various important data are not mentioned.

1.4 Research framework

Therefore, this paper will discuss the profitability of the company in the past five years, and its realized strengths and weaknesses. And further, discuss the development direction of LVMH in the future market. The analysis will be divided into excellent profitability and problems and challenges. The strengths will include core data analysis, product line analysis, and consumer behavior analysis. Then, it puts forward the profit problems and potential risks the group may face. Finally, combined with the problems reflected in LVMH's earnings, this paper summarizes the company's advantages and merits, as well as some suggestions for future risks, and discusses the opportunities and possibilities of the company in the huge economic market in the future.

2 Case Description

LVMH is the world's largest e-luxury group, with more than 75 brands, and Mr Arnault will become the world's richest man in 2023. It has a wide range of sectors, including wine and spirits, fashion and leather goods, perfumes and cosmetics, watches and jewelry, and selective retail. LVMH traces its roots back to the early 19th century. The founder, Mr. Arnault, started running a construction company and aimed to build a luxury empire. Therefore, he first obtained financing funds through his family background and French financial institutions and acquired Boussac, which is a famous French brand, Christian Dior. Meanwhile, Arnault also obtained ownership of this famous French fashion house. This was the first step in the establishment of the group. It was not until 1971 that Louis Vuitton merged with Moët Hennessy to form the LVMH [7]. In 1987, after the formal establishment of the LVMH, Arnault began a long road of mergers and acquisitions. Among them, the development of LV is very rapid. Louis Vuitton was still making high-end luggage at the time, which the French royal family and European aristocracy favored. As the group grew and expanded, it introduced more lines of fashion, accessories, and stores around the world. In 2021, LVMH officially acquired Tiffany for 15.8 billion US dollars. LVMH is now one of the world's leaders in luxury goods as its brands continue to grow and its reach expands. LVMH now employs more than 196,000

people worldwide and generated sales of 79.2 billion euros in 2022. In the past five years, except for 2020, which suffered the impact of COVID-19, the net profit and company value has been increasing year by year every year, and from 2020 to 2021, the net profit soared from 49.5 billion euros to 126.9 billion euros, which almost tripled and was higher than the net profit in 2019 [2]. However, the company also has some potential problems. With new changes in people's consumption behavior after the pandemic, the profitability of companies and the profit risks generated after mergers and acquisitions are facing constant changes. The entire luxury consumption industry is also facing new challenges in the market.

3 Analysis on the problem

3.1 The profitability advantages

3.1.1 Analysis of important indicators related to profitability

In recent years, various indicators of the company have changed in different dimensions with the market and the company's operation. The advantages and drawbacks of the LVMH Group's recent profitability can be examined using key metrics. First, the group's overall sales rose yearly from 2020 to 2022. And it continues to rise from 446.51 million euros in 2020 to 79,184 million euros in 2022. Secondly, the company's net profit is rising year by year. The profits even tripled between 2020 and 2021 due to a post-pandemic rebound in consumption and national open-door policies. Meanwhile, there has been a general rising trend in the gross profit margin. Despite a 0.1% decline in 2022 over the prior year, margin profit has essentially been consistent over the previous three to five years. This represents that the company's core business's profitability remains stable [2].

3.1.2 Impact of product lines on profitability

The impact of different product lines on profitability is the most intuitive. First, as the largest product segment in total sales, Leather Goods has maintained a growing trend. Although there was a slight decline in 2022 compared to the previous year, the overall trend is upward. Besides, retail earnings are rising as well. In addition to the official opening of the Chinese market in early 2023, tourism and post-epidemic revenge consumption have also greatly boosted consumption. Moreover, as the mid-end product segment in the company, the consumption of many middle-class consumers cannot be ignored. After Tiffany's acquisition, jewelry's operating profit has changed qualitatively, soaring from 302m to 2079m. The stock price rose rapidly, the first time in nearly five years that it rose above 500 euros [2].

Combined with these data, the brand matrix and product diversification provide a strong resilience for the company. The LVMH products not only cover different

fields but also seize a variety of consumer groups and then construct a multi-dimensional brand space. In the product category, there are long-established brands that attract core high-end customers, while many young people prefer fast-selling beauty retailers, such as Sephora and DFS duty-free stores. “E-commerce has been predominant during the COVID-19 pandemic, and retailers have put much effort into building, improving, and promoting their online stores [8].” Thus, the group quickly shifted its online purchasing channels, which helped the group make up for some offline losses. To sum up, multi-dimensional brands and diversified consumer groups could help companies better balance profits and losses and create synergies between brands.

3.1.3 Impact of consumer psychology and pricing strategy on profitability

During the economic downturn, the company grasped the psychology of consumers and raised the prices of some products to cope with inflation and gain profits for the company. Factually, the sales of the group continued to grow in 2021-2022 as the product prices were raised. There are three main reasons for such a strategy. The first reason is related to Veblen’s pricing theory. In theory, the luxury market is different from the ordinary market. The demand for luxury goods increases with the price rise to meet the buyers’ psychology of conspicuous consumption [9]. Another factor is the support from the core group of luxury goods. For the rich, their price response is not sensitive, which may not affect the core purchasing power. Thirdly, raising prices could somewhat stimulate post-pandemic spending by the middle class. Middle-class customers’ incomes have taken a hit because of the pandemic. Therefore, with the rise of prices, people might consider that getting the product before the price increases is a good deal. They may not lose too much if they are later resold as second-hand goods. For the cautious middle class, this allows for both temporary consumption and long-term investment. Eventually, LVMH can remain profitable as long as there is consumption.

3.2 The problem with LVMH’s earnings

3.2.1 The impact of Tiffany & CO’s M&A risk on profitability

Although the acquisition of Tiffany has brought a lot of benefits to the group and contributed to further occupation in the US market share, such acquisition also has underlying risks in the long run. To begin with macroeconomic risks, according to the 2023 third-quarter report, the currency had an impact on product lines, and jewelry products had a 4% decrease in value because of the weakening US market and inflation issues [2]. The second issue is the risk of return. LVMH’s initial acquisition purpose is to make up for the group’s weakness in the jewelry field, and the group is optimistic about Tiffany’s potential. Although the merger between Tiffany and LVMH helped the company initially, as the

post-pandemic impact slowly faded and the market gradually returned to normal, TIFF did not bring an outstanding market performance to the company. The last point is market reaction and stock price volatility. From the third quarter data, Tiffany’s long-term growth is not very significant. Although the group achieved share price growth in 2022 after the acquisition, such gains were not sustained in 2023, and the growth rate of jewelry products shrank by four times in the third quarter as the share price fell during the third quarter, with Bulgari performing even better. In general, M&A may not be as impressive as expected with these underlying risks.

3.2.2 The dissipation of the post-pandemic consumer Boom

Loyal consumers of hard luxury are calming down as the post-pandemic spending frenzy winds down. According to the third-quarter report, growth in many product lines slowed significantly from the previous year. More specifically, except that the growth rate of retail remained stable, the growth rate of other product lines decreased by half compared with the growth rate of the year’s first half [2]. According to the data, in the second half of 2023, LVMH’s stock price has been falling continuously, from 900 euros or even all the way to the lowest point of about 675 euros, and the growth rate of perfume and cosmetics has gradually slowed down. One of the major reasons is the fierce competition in the market. With the rise of new brands focusing on cosmetics production and the increase of the number of competitors, LVMH’s fragrance & cosmetics has gradually lost its important position in the market. Another reason behind this is the slower pace of innovation. So far, the group has always relied on classic products rather than launching new ones. Nevertheless, with the development of media and fast fashion, the speed of change in consumer preferences and the speed of product updates are increasing. Gradually, more and more substitutes have emerged, and the concept of good quality and low price has slowly penetrated the market. As a result, many customers are no longer blindly paying for the “premium”.

4 Suggestion

4.1 The excellent strategies for the industry to learn from

Brand diversification is a key strategy to help LVMH Group achieve significant profit margins. While the percentage of these groups in the luxury market is low, and there are few replicable examples, comparable businesses can still benefit from studying how brands are deployed. First and foremost, the diversification of the application fields of substitutes and products is very important. For instance, for small and micro enterprises, despite the fact that they cannot have diversified brands like LVMH, they can still learn from and derive profit structures suitable for small enterprises. For one thing,

companies can capture different groups of people by producing different products. Similarly, companies can optimize their sales channels based on their internal consumption patterns and build complementary functions along the supply chain as much as possible. When the organization is faced with some uncontrollable external factors, it can also quickly change the production or sales mode to minimize losses. Moreover, digital supply chains are more significant than offline ones, and supply chain management can help businesses reduce labor costs, increase profit margins, and enhance operational effectiveness.

4.2 Capture the needs of future market consumers

Seizing the core of the new consumption generation is the focus of the group's profit optimization direction. According to the KPMG report, "Gen Z will soon become China's major purchase force. Gen Z is leading the adoption of immersive technologies such as AR, VR, and the metaverse [10]." For one thing, it illustrates the significance of the Z era for the Chinese market going forward. Controlling the Z generation's purchasing patterns would be essential to meeting the demand of the Chinese market in the future. Furthermore, this exposition demonstrates the Z era's strong emphasis on the idea of innovation. With the third section of this paper, LVMH's perfume product profitability and update speed have gotten slower. This means LVMH must innovate its products to adapt to the interests of future customers to enhance the profitability of its fragrance line eventually.

According to The Influencer Marketing Benchmark Report 2023, "The influencer-marketing industry is forecast to reach \$21.1 billion in 2023, up from \$16.4 billion in 2022 [11]." Therefore, the company can fully utilize the publicity effect of the media band by establishing a cooperative connection with bloggers. This has two benefits: first, it reduces the cost of cooperation. For corporate finance, only the sample cost and minimal reputational risk. Such a partnership could save many fixed costs and advertising space expenses compared to internal advertising and placement, thus further improving operating profits. For brand effect, cooperation can indirectly benefit the market performance. People are using and consuming more media and online content because of the growth of new media. By working with various content creators who share the brand's values, many brands can effectively raise their visibility while quietly influencing customer behavior and controlling the consumption path.

4.3 Optimize post-merger profitability

Regarding the Tiffany acquisition, it is undeniable that the benefits since the acquisition have been significant. Tiffany not only enhances the value of the group and makes up for the group's weakness in jewelry but also contributes to the company's organic growth. However, from the perspective of the jewelry market alone, it still

cannot compete with the top jewelry, and the subsequent explosive power is insufficient. The company should make timely adjustments to the profit plan to retain sustainable value after the acquisition. More specifically, it includes further innovation and continually tracks changes in inflation, exchange rates, and other economic issues. For the time being, while the Asian market recovers from the epidemic, the rise in marriages and travel will likely give the jewelry business more purchasing power. Nevertheless, the jewelry segment of LVMH was also significantly impacted by exchange rates, which indirectly affected LVMH's profits in the third quarter of 2023. In conclusion, despite the overall positive situation in the market, there are still potential risks in the follow-up performance of the Tiffany acquisition.

5 Conclusion

5.1 Key findings

When studying the profitability of LVMH Group, this paper mainly expounds on the main factors affecting its profitability by studying the company's profitability advantages and challenges. One of the major advantages is that the company's profit advantage is the diversified product layout. This strategy has been throughout the core layout of the group, and it has greatly improved the synergies between different products, thus greatly improving the profitability of the group. Another advantage is capturing core customers and pricing strategies. Since LVMH's core customers are relatively special and mainly of the upper class, it certainly provides the group with significant core purchasing power. These two factors have made the group resilient in the global health crisis, especially during the pandemic. Meanwhile, the group may also be exposed to ongoing risks after the merger and acquisition due to changes in market trends and consumption patterns. Therefore, the company needs to maintain sharp insight and precise strategy to face the market update speed. To sum up, even though the group faces different challenges, LVMH still has strong profitability potential through its years of profit experience, mature team, and positive market consumption signals.

5.2 Research significance

Based on data and analysis, this article summarizes the positive and adverse factors influencing LVMH's profitability and puts forward corresponding solutions and thinking extensions for different problems. This paper analyzes the profitability of the group from a macro perspective that provides ideas for the relevant managers in the industry to apply to the management of the enterprise reasonably. At the same time, this research enables people who are new to the industry to intuitively and quickly understand LVMH's profit method.

5.3 Limitation and future study

The analysis in this paper mainly focuses on the major profitable segments of LVMH group's business instead of all the business segments within the group. Besides, the paper is mainly based on the combination of financial data and related strategies and does not involve the analysis of the financial model and corporate management structure. In the future, the authors will explore other potential factors affecting the profitability of LVMH Group by combining relevant models and corporate structure analysis.

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