

# Strategic Management: Concepts | (3rd Edition)

Chapter MC24, Problem 1DQ

Problem

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## LVMH in China: Cracks Its Empire of Desire?

Why has LVMH been so successful in China? With the Chinese economic slowdown, do you think there are risks to LVMH growing aggressively in China? What do you think should be its strategy in China going forward?

### Step-by-step solution

#### Step 1 of 2

The luxury brand LoVut has been not only successful in China, but also is in existence there for long time without contest. Many factors have contributed to the invincible position of the LoVut.

- The company has established its first presence thirty years back and has been doing promotions to position itself as a luxury brand
- The products of LoVut appealed to the wealthy Chinese intensely
- The LoVut brand enhances the prestige of the Chinese, and even middle class Chinese aspire to own this brand

Comment

#### Step 2 of 2

Definitely, the economic slowdown is going to affect the sales of LoVut products. The reason for low sales is not because the affluent customers cannot afford it. Only they are moving away from the brand, because during the boom time, the brand has crept into the middle class segment, and the affluent lot lost the identity of being elite.

The LoVut should slow down their sales in China, and attempt to regain the image as the retailer of the elite.

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Nike's Core Competency: The Risky Business of Fairy Tales If you are a competitor of Nike (such as adidas, Under Armour, New Balance, or Li-Ning), how could you exploit Nike's apparent vulnerability? Provide a set of concrete recommendations

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## Problem

### LVMH in China: Cracks Its Empire of Desire?

Which strategic initiatives does LVMH pursue to strengthen its position in China? In particular, how does LVMH encourage Chinese customers to purchase LVMH products in China rather than abroad? Do you think these strategic initiatives will be successful? Why or why not? What other ideas do you think LVMH should pursue to encourage Chinese customers to purchase LVMH products in China?

## Step-by-step solution

### Step 1 of 2

In order to pick up sales and to woo the extremely rich customers in China, the company must take the following strategic steps.

- Carry the prominent international collection merchandise in the Chinese stores also, and design products specifically for the Chinese community. The Chinese designs must be sold only in China
- Control the free walk of the buyers into the stores, and make the stores open to the customers only by invitation
- Produce only limited editions of products for each design
- Develop a customer referral system, in which the known customer introduces other aspiring customer. The company creates the profile of the new customer and then invites them to present the exotic collections
- The price of the products may be increased and discounts may be offered to the customers based on the purchase history and the quality of the referrals.

Comment

### Step 2 of 2

Since the Chinese customers buy the LoVut products to enhance their prestige, the company must help the customers to make them feel unique. The above suggestions are intended to make the customers stand out in the crowd, and are likely to be successful.

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Louis Vuitton is LVMH's flagship brand. Much of Louis Vuitton's appeal is that it bestows exclusivity on its owners. In the last few years, however, the Louis Vuitton logo has been applied widely with handbags and accessories proliferating at an unprecedented speed. In addition, counterfeiting further leads to a proliferation of the "Louis Vuitton brand." One analyst concluded that LVMH is "way overexposed in China, with too many stores and too much in fixed costs."4 Is LVMH changing its strategic position of Louis Vuitton from a focused differentiator to a broad differentiator the brand losing its appeal? Does Louis Vuitton risk being "stuck in the middle"? Why or why not?

## Step-by-step solution

### Step 1 of 3

The analyst is right; LuVot lost its appeal to the core customers because of it's over exposure to the market. The core customers of the company are the rich and affluent segment of China, who wishes to stand out in the crowd.

Comment

### Step 2 of 3

Too many stores in the country and accessibility of the products to the middle class, made the core customers move away from the brand. The rich class began to shop for LoVut products in foreign countries or looked for other luxury brands.

Comment

### Step 3 of 3

The company is inadvertently losing its competitive advantage by practicing broad differentiation rather than focused differentiation. LoVut should come back to its original position as a provider of luxury goods for the elite. Focused differentiation and the niche segmentation are the solution for this predicament.

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Chapter MC24, Problem 4DQ

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## LVMH in China: Cracks Its Empire of Desire?

Given the backlash in China against corruption and conspicuous consumption, what recommendations would you give LVMH?

### Step-by-step solution

#### Step 1 of 2

It is really a devastating revelation that the LoVut's products have been used for corrupting the officials. Every company expects to acquire genuine customers, but using the products for illegitimate purposes by the pseudo customers drains the brand value of the business. The company may be able to fight low sales volume, but the products getting associated with scandalous issues is a misfortune.

Comment

#### Step 2 of 2

The company may adopt the following approach to overcome the negative image,

- Close down the stores where there is apparent incidences of illegitimate purchases, and overexposure to the real customers
- Without reducing the price add real value to the products, and do a campaign to increase the perceived value among the customers.
- Get associated with anti-corruption movement and educate the customers about the real value of the LoVut products
- Highlight the impact of purchases on the artists who create the products

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### Problem

#### LVMH in China: Cracks Its Empire of Desire?

LVMH is a diversified conglomerate owning a number of luxury brands including Louis Vuitton (fashion and leather goods), Bulgari and Tag Heuer (watches and jewelry), Moët et Chandon and Dom Pérignon (wines and spirits), and Dior (fashion, perfumes, and cosmetics). Identify core competencies, economies of scale, and economies of scope that would allow LVMH to create value as a diversified conglomerate ("diversification premium"). What factors could lead LVMH to destroy value as a diversified conglomerate ("diversification premium")? Explain

### Step-by-step solution

#### Step 1 of 3

For a company to enter the luxury goods market, it must have four competencies: economies of scale, product differentiation, ability to spend on unrecoverable costs, and high degree of innovation. Of course, other minor assets required for the business include design patents, financial resources and experience in the market. The parent company of LoVut has all these qualifications.

Comment

#### Step 2 of 3

LoVut, parent company's corporate strategy is a conglomerate diversification with interests in fashion, watches, leather goods, jewelry, fine wines, perfumes, retail stores, etc. Generally conglomerates are not successful in managing diverse business interests, but LoVut's parent company is successful because of its strong brand names, international reputation, and ability to market luxury goods. The conglomerate is able to keep away competition through niche value creation and focused differentiation strategy. The value capture system is very intricate and the company extracts premium price from the customers.

Comment

#### Step 3 of 3

Moving away from niche, focused differentiation, high pricing, and innovation, the conglomerate is likely to destroy its competitive advantage.

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