LVMH Sparks Fears of Chinese Slowdown across Luxury Industry

Mild slowdown at Louis Vuitton parent pushes down stock prices. LVMH, which owns the Louis Vuitton brand, reported lower-than-expected revenue.

PARIS—A mild slowdown at LVMH LVMUY 1.83% Moët Hennessy Louis Vuitton SE, the world's biggest luxury goods company, sent a shudder across the sector Wednesday, pushing down stock prices amid fears that a pullback by China's big-spending shoppers could end a year's long boom for the industry.

LVMH shares traded down more than 7% in Paris after executives detailed third-quarter sales, disclosed Tuesday evening, on a call with analysts. Gucci parent Kering SAKER -0.04% fell 10%, Burberry Group BURBY 2.15% PLC dropped more than 8% and Hermes International SCA was down 5.5%.

Louis Vuitton, LVMH's biggest brand, reported slightly slower sales from Chinese shoppers during the third quarter, LVMH Chief Financial Officer Jean-Jacques Guiony told investors and analysts Wednesday. "But we are really talking about going from high-teens [growth rate] to midteens," Mr. Guiony said.

The French luxury-goods conglomerate reported third-quarter revenue of €11.38 billion ($13.08 billion), up 10% when adjusting for currency impacts and other factors. But the figure marked a decline from 11% in the second quarter and 13% in the first quarter.

Those third-quarter numbers roughly hit market forecasts, but analysts say LVMH needed to do better than that to reassure investors. China's economic slowdown has cast a cloud over the sector in recent months, raising fears that the industry would be hit hard if Chinese shoppers rein in their spending. They are the luxury industry's most important clientele, representing roughly a third of all purchases globally.

Geopolitical tensions are also roiling the sector. Investors fear a widening trade dispute between the Trump administration and China could become a full-fledged trade war, hurting Chinese consumers. Investors appear to be betting that negotiations between the two nations to end the dispute will reach an impasse, said Luca Solca, an analyst at Exane BNP Paribas.

"If that's the case, it's only rational you price a less favourable environment for luxury," Mr. Solca said.

Concerns about China have sent LVMH shares down around 15% since the end of August, when they were trading near an all-time high.

Still, Mr. Solca said, “in the current numbers there’s very little you can show in the way of bad news.”

LVMH is viewed as a bellwether (trendsetter) for the luxury goods sector, with dozens of brands including high-fashion house Dior, cognac maker Hennessy, watchmaker TAG Heuer and dozens of others.

Mr. Guiony also highlighted weakness at some of LVMH’s other businesses. The U.S. watch market was weak, particularly for watches priced less than $3,000, he said. “It’s really bad below $3,000” he said.

“We are having a tough period with TAG Heuer in the U.S.,” he added.

On Tuesday, the company said its fashion and leather-goods division, which includes Louis Vuitton and accounts for more than a third of total revenue, posted 14% organic sales growth in the third quarter.

Sales at its perfumes-and-cosmetics division were up 11% in the three months and its watches-and-jewellery arm was up 10%.

Investor concerns about luxury stocks were compounded by a research note from Morgan Stanley, in which the bank’s analysts said they believed Chinese consumer confidence—traditionally a leading indicator for European luxury companies—has peaked, with a weaker trend expected in the second half.

Assessment Task (25 marks)

You are a product manager for one of LVMH brands, you are required to develop a new product for launch into the Chinese market to address the issues outlined in the above case. You are required to provide report to the Board outlining the reasons for the choice of the new product.

You will produce a 1200 word (+/- 10%) report for the Executive Committee that describes the following key areas:

1. Describe the new product
2. Undertake a SWOT analysis to support your decision.
3. Undertake STP (segmentation, targeting and positioning) analysis to support your decision.

Papers must be submitted via the Turnitin link on Moodle by the due date.

Late submissions will loss 5% per day up until day 5. After this a zero mark will be awarded.

Papers must be submitted in Microsoft word using the Harvard referencing system

Criteria	5	4	3	2	1	0
1. New Product **Up to 5 marks**	Comprehensively described the new product.	Effectively described the new product.	Described the new product, but could have provided detail that is more relevant.	Superficially described the new product and provided irrelevant information.	Failed to adequately describe the new product.	Failed to describe the new product.
2. SWOT Analysis **Up to 7.5 marks**	Comprehensively described and applied theory, demonstrating a detailed understanding of the company/brand.	Effectively described and applied theory, demonstrating a sound understanding of the company/brand.	Described and applied theory, however could have demonstrated a greater level of understanding of the company/ brand.	Superficially described the company/ brand..	Failed to effectively describe company/ brand..	Failed to describe company/ brand...
3. STP Analysis **Up to 7.5 marks**	Comprehensively outlined STP analysis with a comprehensive description of the target market.	Effectively outlined STP analysis with a through description of the target market.	Outlined STP analysis with a clear description of the target market.	Outlined STP analysis but more detail was required.	Failed to outline STP analysis	Failed to outlined STP analysis.
5. Essay Structure and referencing **Up to 5 marks**	The report is well structured, with a clear framework. The report is interesting, clearly expressed, with no errors. Correct use of Harvard referencing style	The report has a clear structure and framework. The report is well written, with few errors. Correct use of Harvard referencing style	The report structure could be clearer. Some expression is unclear with grammatical, vocab and/or spelling errors Correct use of Harvard referencing style	The report structure is poor. Expression is unclear, with many grammatical, vocab and/or spelling errors, making it difficult to understand large sections of the report. Correct use of Harvard referencing style	The report is difficult to interpret, and/or is poorly presented and/or has no evident structure.	The report is difficult to interpret, is poorly presented and has no evident structure.