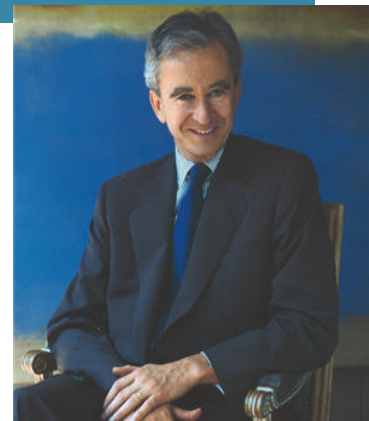


Indiana PHAM
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Case study

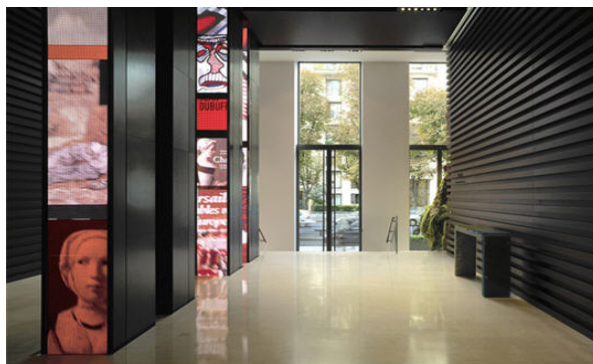


Luxury market



SUMMARY

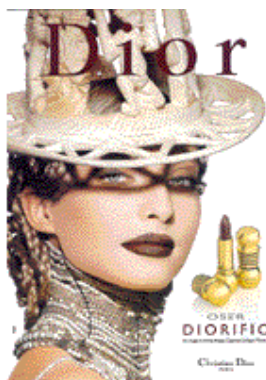
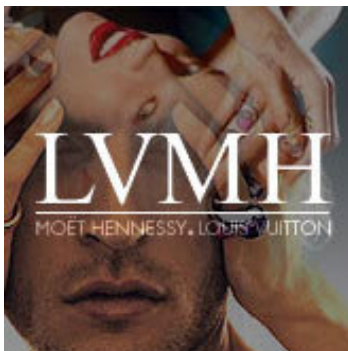
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INTRODUCTION

With more than 60 famous brands (Louis Vuitton, Christian Dior, Moët & Chandon...) and 5 sectors of activity, LVMH group imposes itself as the worldwide leader on the luxury market. Worldwide leader because since 1987, the group is in constant growth: 15 306 million Euros of turnover in 2006; a rather good profit margin (more than 60%) and a constant increase of dividends.

In an environment always more competitive, we can wonder what is the strategy of LVMH group to maintain its leading position. More than that, LVMH products and particularly Louis Vuitton products have a great success in China and the group realizes 17% of its turnover in this part of the world (except Japan), so what are the strategy and the potential of emerging countries for such a luxury brand? Finally, what are the future perspectives of the group?



I) LVMH, the uncontested leader on the luxury market

LVMH's presentation

LVMH is the leader of the luxury market in the world. Created in 1989; it is the result of the connection between Louis Vuitton and Moët&Chandon. At present, the Arnault family is the main shareholder of LVMH and Bernard Arnault is the CEO.

With a turnover of 14 billion Euros in 2006, it is present on the main luxury markets in the world, on the fashion and beauty markets and the group benefits from a huge portfolio composed by more than 60 brands.

LVMH is present in five sectors of activities:

- ✗ Fashion and leather goods
- ✗ Selective retailing
- ✗ Wines and Spirits
- ✗ Perfumes and cosmetics
- ✗ Watches and jewellery

However, the group is well implanted in the United States, Europe and Asia.

The American market represents more than 27% of the LVMH turnover, Europe 35% with 14% in France and Asia 31% with 14% in Japan.

Shops

In 2006, the group owned more than 1756 shops with more than 700 in Europe and 278 in France. It owns a lot of shops in Asia with more than 260 shops in Japan.

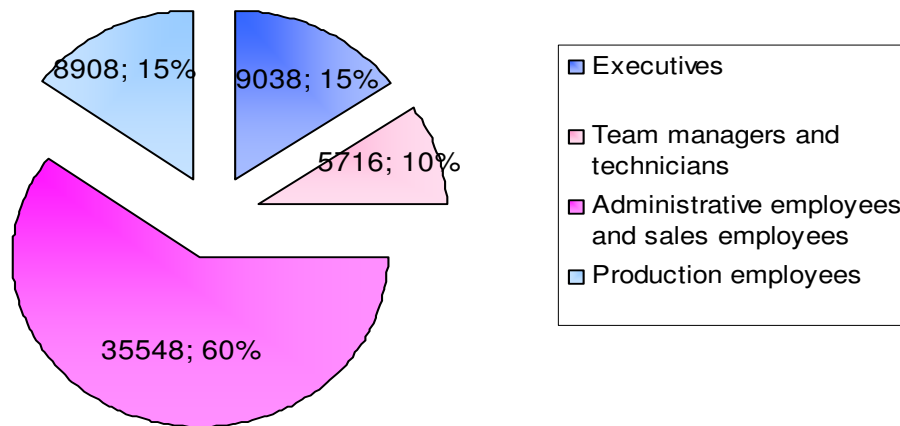


Human resources

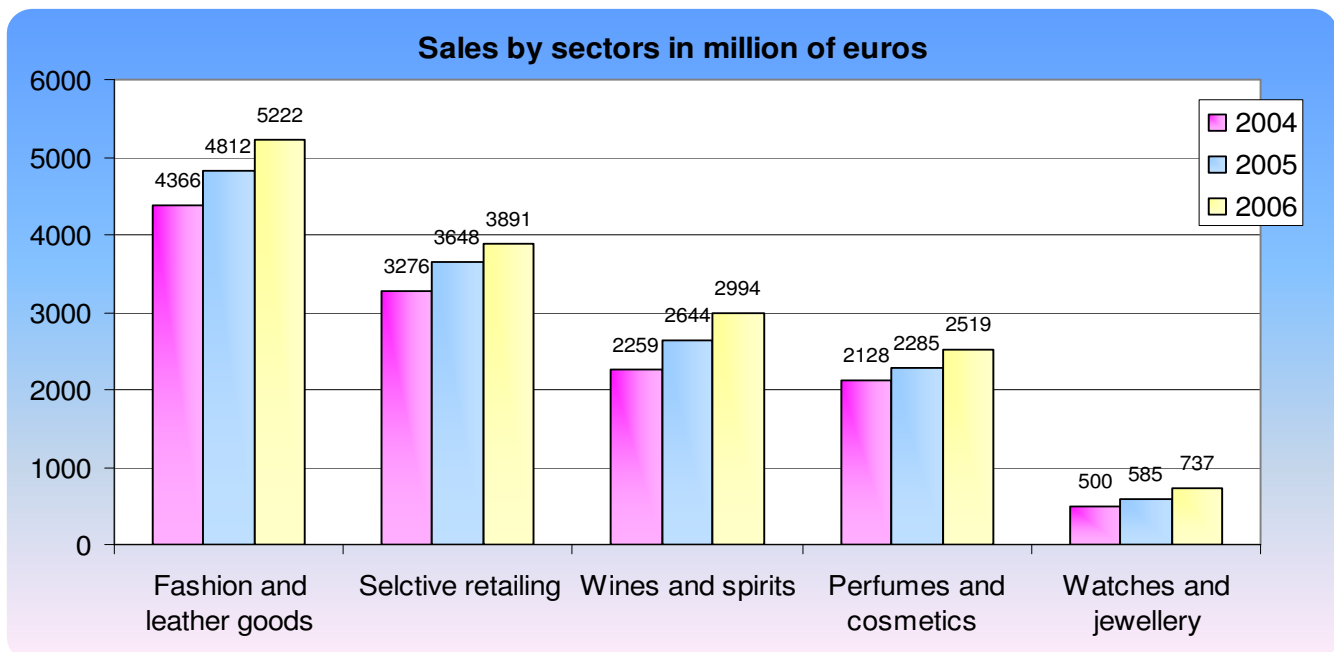
At the end of 2006, there were 64 253 employees who worked for the group in the world.

The percentage of women in LVMH was about 70% at the end of 2006.

Employees distribution in 2006



THE MAIN BRANDS IN EACH SECTOR



✦ FASHION AND LEATHER GOODS

It is the most important sector for the group with a revenue of 5 222 million Euros in 2006.

Louis Vuitton

Concerning leather goods, the most famous brand of the group is Louis Vuitton, founded in 1854, thanks to its luggage, bags and accessories. Moreover, Louis Vuitton has developed a large range of other products like ready-to-wear, shoes, watches and jewellery.

The brand employs more than 11 400 people in more than 350 exclusive shops in 51 countries.

Marc Jacobs

Created in New York in 1984, the brand joined the LVMH group in 1997. Marc Jacobs with his famous personality was appointed Artistic manager of Louis Vuitton.

Marc Jacobs activities are very diversified, although only dedicated to women at first, it makes creation for men, accessories and perfumes.

Kenzo

The brand was launched in 1970 by Kenzo Takada and joined LVMH in 1993. The brand is famous for its originality thanks to a mix between East and West styles and has developed a large range of product: It is present in more than 270 sale places.

✦ SELECTIVE RETAILING

It is a very important sector for LVMH with a revenue of 3 891 million Euros in 2006.

Sephora

The brand joined the group in 1997, and is very wide in Europe with more than 420 shops in 9 countries. There are lots of shops in the United States since 1998 and a website *sephora.com*.

The brand tries to show its creativity in a more and more competitive sector.

La Samaritaine

The brand was founded in 1870 and integrated the group in 2001.

La Samaritaine tries to develop its activities, especially in fashion, beauty and decoration sectors. However, La Samaritaine is closed since 2005 for security reasons but it will re-open in 2011.

DFS

It was created in Hong Kong in 1961 and is the worldwide leader for sales to international travellers.

During these last ten years, DFS has developed its activities and is now present in 150 shops in 15 Asian countries and in the United States. It employs more or less 5 000 workers worldwide.

× WINES AND SPIRITS

The sector represents a revenue of 2 944 million Euros.

LVMH is the worldwide leader on the market of champagnes and cognac.

Moët&Chandon

Since 1743, Moët&Chandon makes the more famous champagne in the world.

Its vineyard of 1 000 hectares is the biggest one in Champagne and the brand employs more than 1 000 employees.

Henessy

It was founded in 1765 and became the leader in the market of Cognac with more than 40% of market shares in volume.

The main market is in the United States but the brand is also well implanted in China where the market of champagne and cognac is more and more developed.

Mercier

The “Champagne Mercier” was founded in 1858 The brand has merged with Moët&Chandon in 1970 and belongs to LVMH since 1987. Its strategy is essentially oriented towards the French market.

× PERFUMES AND COSMETICS

The sector represents a revenue of 2 519 million Euros.

Dior

It was created in 1947. The brand is not just present on the fashion market but has a good notoriety with its products in the cosmetic and perfume markets.

The brand focuses its strategy on creative and new colours.

Givenchy

Givenchy perfumes began in 1957 and have encountered a real success thanks to the association between Hubert de Givenchy and Audrey Hepburn. The brand has also launched make up and skincare lines dedicated to women beauty.

More than 1 400 people are employed by the brand.

Guerlain

The brand was founded in 1828 and was bought by LVMH in 1994. Since its creation; more than 700 perfumes have been created. However, the brand is also well known for its skincare and make up lines.

Their image is very controlled thanks to a network of stores in France which are exclusive and only sell Guerlain products

× WATCHES AND JEWELLERY

The sector represents of 737 million Euros revenue. In this sector, the group is the 5th in the world.

Dior

Dior watches was founded in 1985 and since this date, it has imposed the brand and its product in the sector of fashion accessories.

The success is due to the original products but also to the quality:

The watch making is guaranteed by the Swiss Made Label, watches have a two-year guarantee and the brand has a good after sales service for its clients.

Tag Heur

Created in 1860, the brand is one of the most famous in the world and has played a real part in the watch market. The brand is represented by celebrities and is now the fourth luxury watch brand in the world.

The price is between 400 and 4 000 Euros in France.

Chaumet

The brand was created in 1980 and has been rebought in 2001.

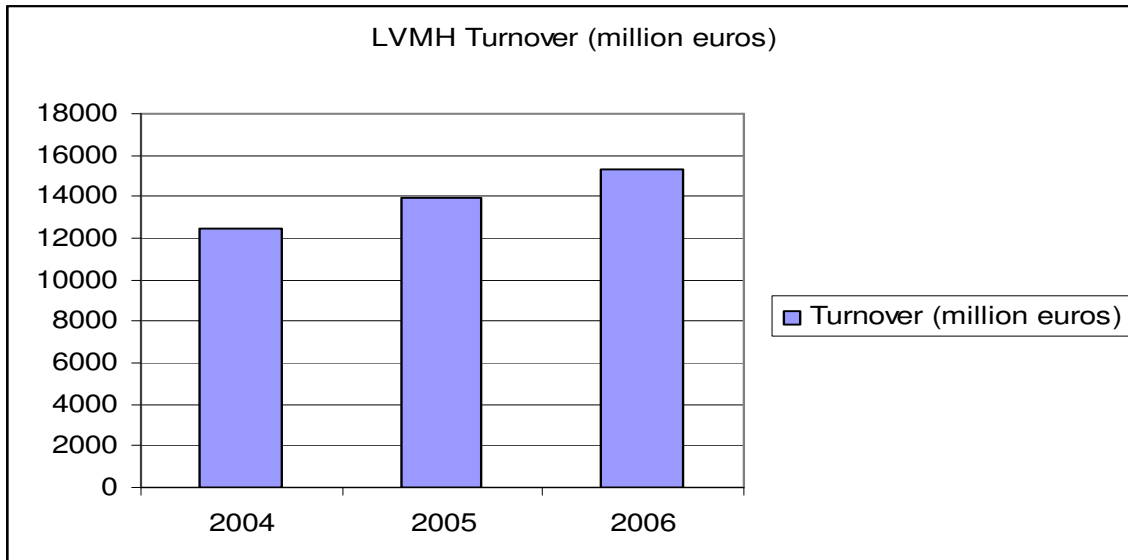
Chaumet is a French company which is present in the sector of luxurious watchmaking and jewellery.

LVMH Financial situation

1. Turnover

✓ In general :

As we can see on this chart, LVMH turnover is growing since 2004. In 2006, it was 15 306 million Euros which represent an evolution of 22.6% in two years.



Source : rapport d'activité 2006

✓ By geographical zone :

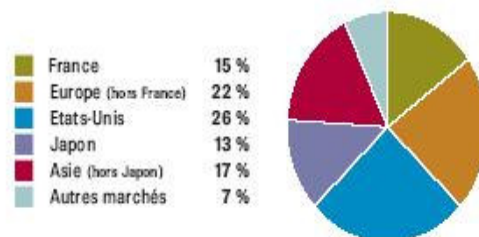
These charts illustrate the worldwide dimension of LVMH:

2003:



2006:

Ventes par zone géographique de destination en %

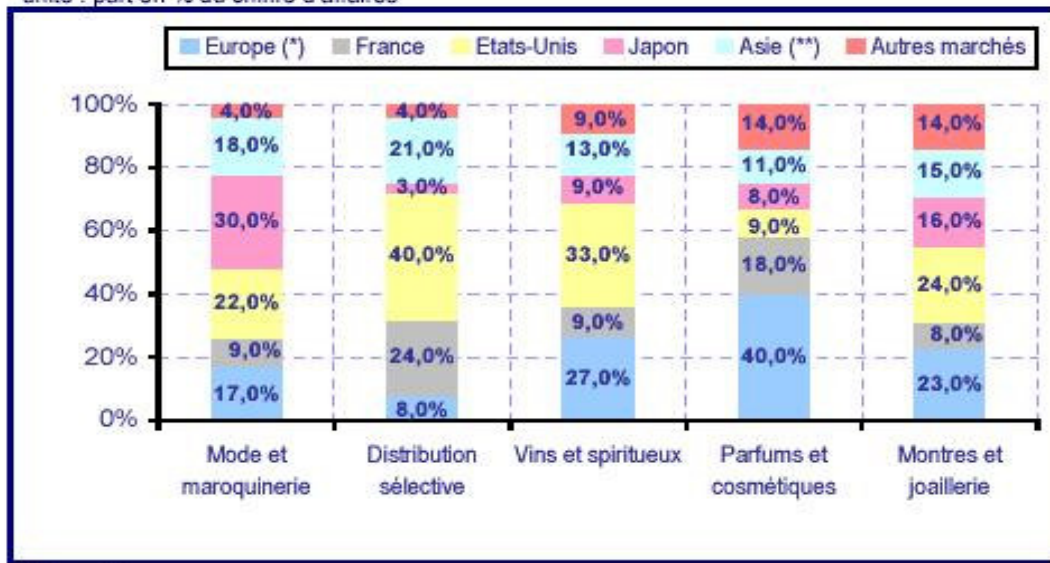


Source: rapports d'activité 2003 et 2006

It is interesting to notice that the relative part of turnover is constant for almost all geographical zones except for Asia (except Japan). This market progressed from 13% to 17% in only 3 years.

Répartition du chiffre d'affaires des pôles d'activité LVMH par zone géographique

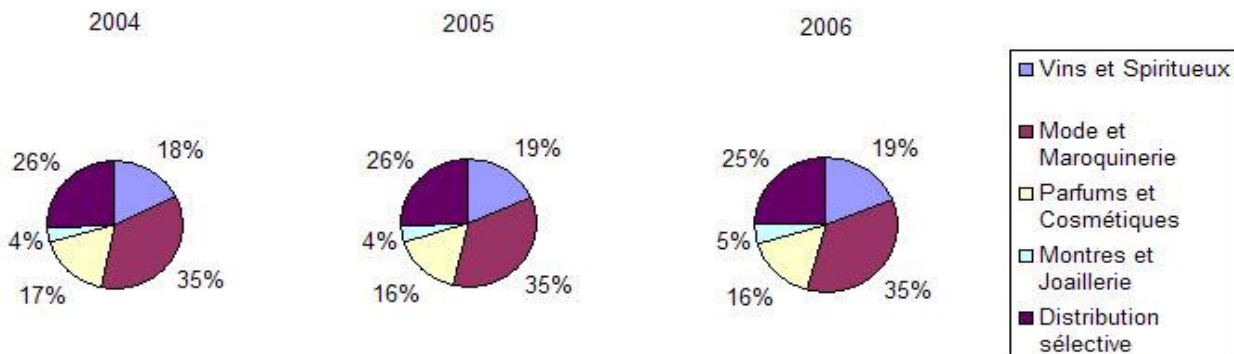
unité : part en % du chiffre d'affaires



Source: rapport d'activité 2006

Moreover, we can see that Japanese women consume fashion products and that the United States prefer wine.

✓ By product category :



Source: rapports d'activité 2004,2005 et 2006

35% of the turnover comes from sales of fashion and leather working products. The repartition of turnover by product category is constant and hasn't change since 2004.

2. Gross profit margin



Source : Assemblée Générale Mixte 2006

Since 2003, the gross profit margin is declining so the group decided to outsource their production in emergent countries like Poland, China or India (see part III).

3. Net Return



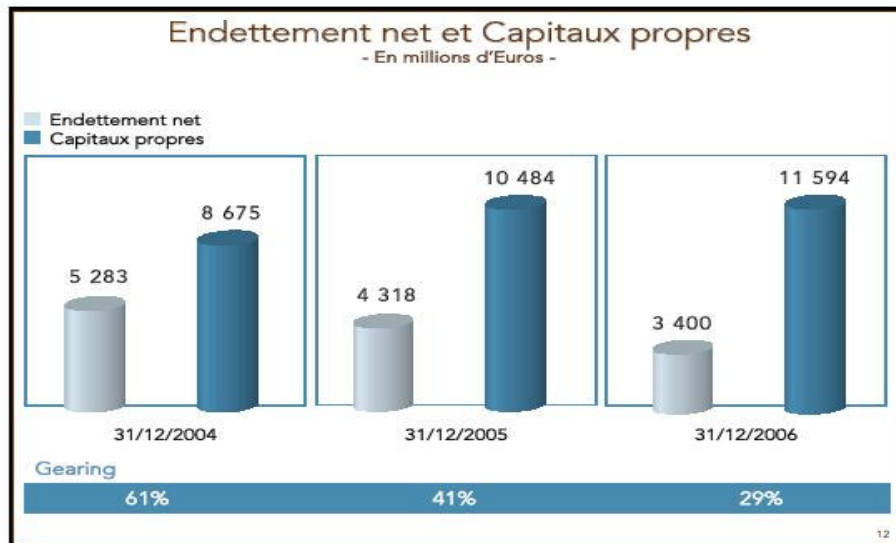
Source : Assemblée Générale Mixte 2006

$\% \text{ net return} = \text{net return} / \text{turnover}$

The net return of the group is still increasing from 0,8% in 2001 to 12% in 2006.

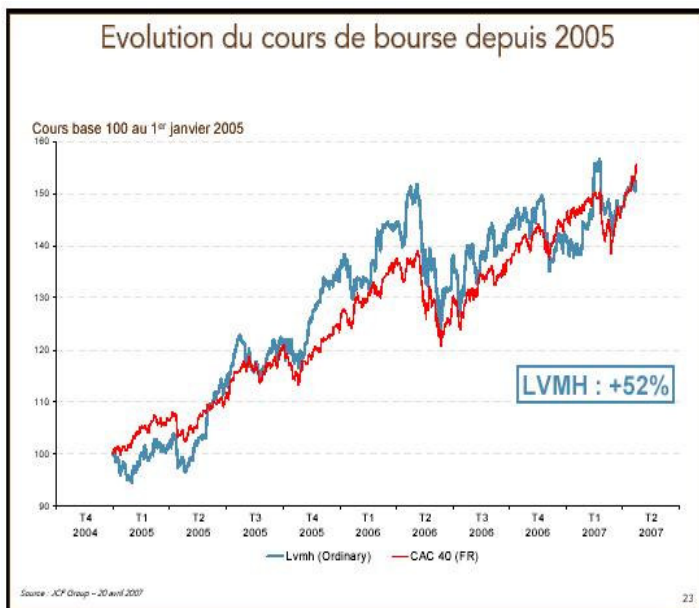
4. Indebtedness

This chart shows that the financial situation of the group is quite good and solid. The level of indebtedness is constantly decreasing if we compare with shareholder's equity.



Source: Assemblée Générale Mixte 2006

5. Stock Exchange situation



Source: Assemblée Générale Mixte 2006

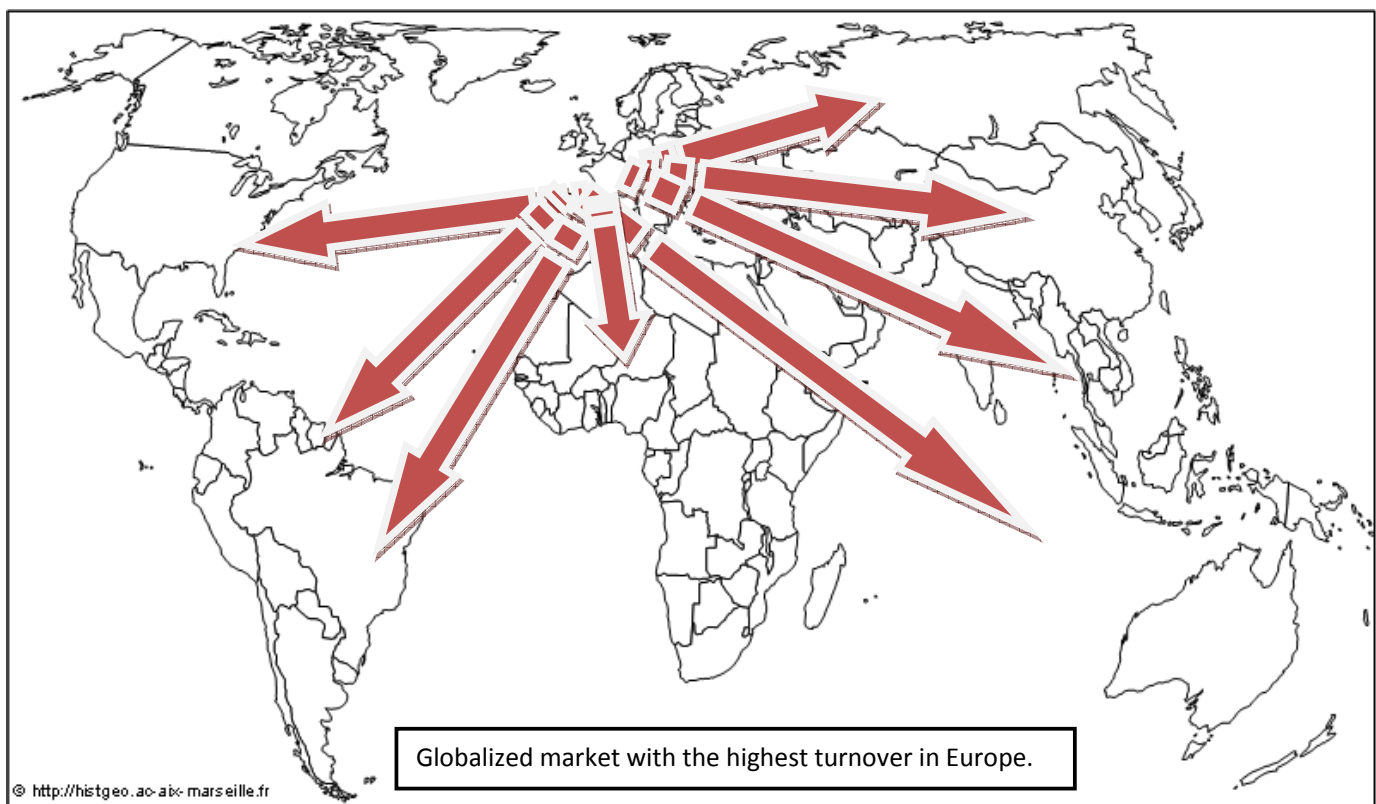
The dividend per share is still increasing and we can notice an evolution of 22% between 2005 and 2006.

II) LVMH, a globalized strategy on a competitive market

LVMH's strategy

LVMH is an uncontested leader on the luxury world market. For many years, they have developed a global strategy with a main objective: to be present on every branch of luxury industry and to take care of their corporate image. On one hand, this MNC has a group strategy and in the other hand they have a desire to separate each brand to enable them to have a strong breathing space. We are going to see below the key success of this amazing MNC.

- ✓ **Be present everywhere in the world.** After Europe, USA and Japan LVMH's desire was to create a dynamic around the emerging countries especially the BRICs. The BRICs represent an attractive market for luxury industry. Since several years, LVMH has decided to distribute its products in emerging countries, especially in Asia. 17% of the LVMH's market share is realized in Asia (leader on luxury market in China). Indeed, the demand for luxury products from emerging countries is increasing sharply.



- ✓ **An increasing millionaire people** (6,5% in 2005) is certainly a reason of LVMH interest's to be represented in countries with high economic potential like Brazil or China. According to Bernard Arnault CEO of LVMH, China will become in twenty years the first market for the brand Louis Vuitton.
- ✓ **Increasing shops in famous and touristic places.** In fact, they would like to make profit thanks to tourism industry. For example, China becomes an attractive country with 22 million tourists in 2006. Thanks to the Olympic Games, China could become the country the most visited in the world instead of France. Moreover, some Chinese people have a high purchasing power. LVHM decided to follow the Chinese wave and set up some shops in fashion Chinese places. In 2005, LVHM had 591 shops in Asia (Japan included), which represented the second continent in number of shops after Europe.
- ✓ **Diversified offer:** LVMH has many brands in order to recover the entire luxury industry. In fact, since a long time LVMH has star brands like Luis Vuitton in leather goods, Dior in fragrance industry and in the meantime they develop new luxury products in watch making (Chaumet) and selective retailing (Sephora). LVMH wants to reinforce its history products by brands on dynamic and expansion markets.
- ✓ **Selective retailing:** It is an essential point of LVMH's success and its competitiveness. Indeed, LVMH manages its retailing network and can control quality and setting-up of products in retail outlets all over the world. Moreover with this strategy, they want to restrict the counterfeiting which is a real problem on the luxury market. To wrestle with this worldwide problem, at least LVMH's 60 employees work only for protecting the MNC and decreasing this huge underground economy.
- ✓ **A strong management politic:** They have a decentralized management. According to Antonio BELLONI, general director of LVMH, each brand of the group has his own strategy and they have a real decision power. For a group like LVMH which is really diversified, the key success is not to have an only one management model but on the contrary to have a politic adapted for each brand. Nevertheless, LVMH wants to be also a community to share ideas and knowledge. Indeed, on a worldwide market it is essential to know ideas of everyone to understand better needs of each country.

- ✓ **A strong involvement in the culture:** in 2006, Bernard Arnault announced the creation of Louis Vuitton foundation in Paris for 2010 which will be a place dedicated for the modern art. This amazing building will be created by the famous architect Frank O’Gehry. This huge creation will enable to consolidate the brand Louis Vuitton star brand of the MNC, on top of the world on leather goods.

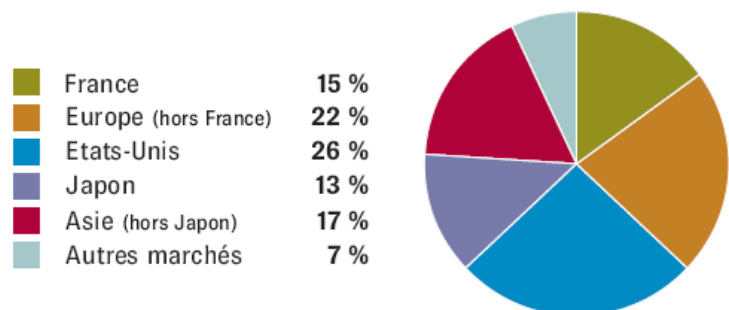


- ✓ **Combination between handcraft products and modern management methods:** LVMH’s strategy is based on a harmony question where modern organization is used to manage high value products and to promote ability and personalization. Luxury is a pleasure for each client, a way of life in which they want to buy a product with a history. By its marketing methods, LVMH wants to promote handcraft and eternal products.
- ✓ **Growth in emerging markets:** The BRICs is increasingly significant on the luxury market. For example, the Chinese market is the third worldwide market on this branch of industry and they could become the first in five years. We can see on the graph below the number of retail outlets in Asia which is the most important: 363 (Japan not included).

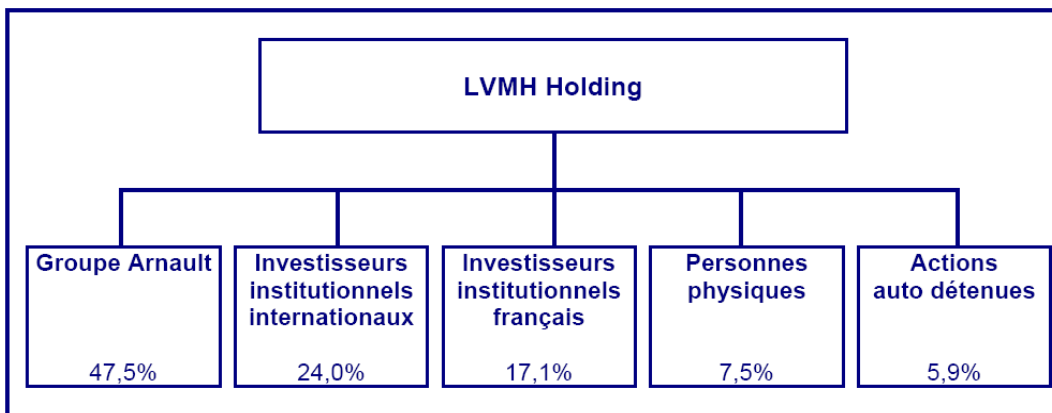
Réseau de magasins au 31 décembre 2006

France	288
Europe (hors France)	456
Amérique du Nord	409
Amérique Latine	19
Japon	278
Asie (hors Japon)	363
Pacifique	31
Afrique et Moyen-Orient	15

Ventes par zone géographique de destination
en %



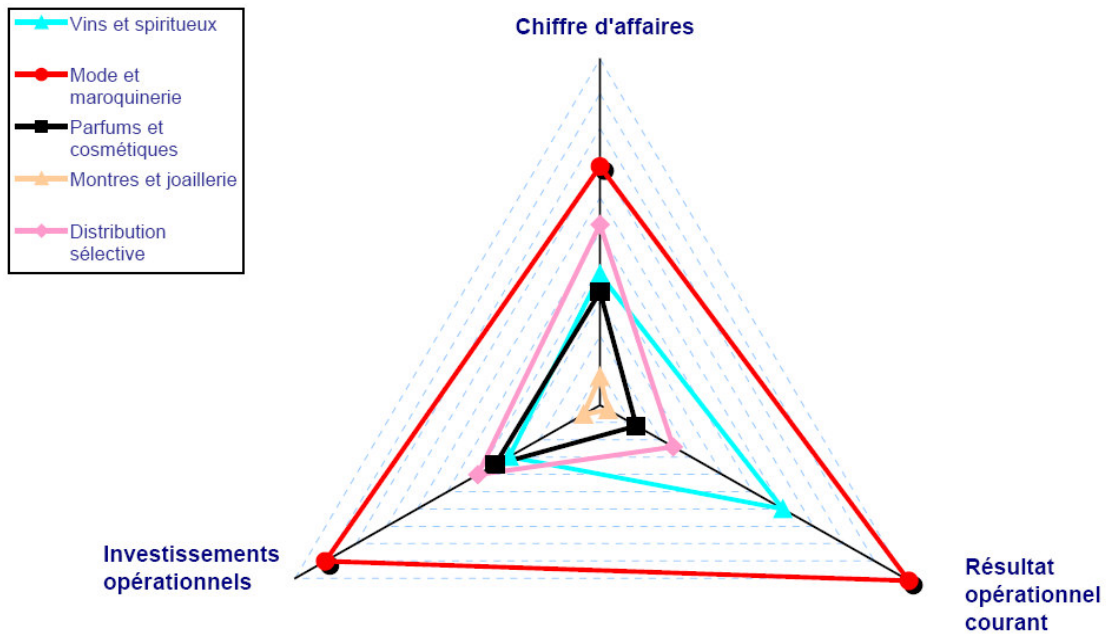
- ✓ **Be active in every luxury market:** LVMH is the only company which has a brand on every segment of the luxury market. By its diversification, the MNC is much represented and they benefit of the globalized market. Since 1987, LVMH has bought more than sixty brands; this growth strategy is a key success of the MNC. They developed in the past their company purchases before to reduce its purchases in the last years. Nowadays, they have an investment politic Moreover, Bernard Arnault would like to keep only economic brands and he decided to leave Christian Lacroix.
- ✓ **Strong power of Arnault family in shareholding:** Indeed, they benefit of a strong influence with 47, 5% of the capital and 63, 9% of rights to vote. You can see below the shareholding structure.



Source : Xerfi via enquête Euroclear France sur les titres au porteur au 31/12/2005

- ✓ **Leather goods, the most economic branch of industry:** Fashion and leather goods represent star products of the MNC. Of course, Louis Vuitton's success contributes at the good financial health that is why Bernard Arnault decides to invest more in this brand (setting-up and updating of retail outlets). Besides, wines and spirits are increasingly important in the group thanks to Moët & Chandon and the increasing of champagne sales.

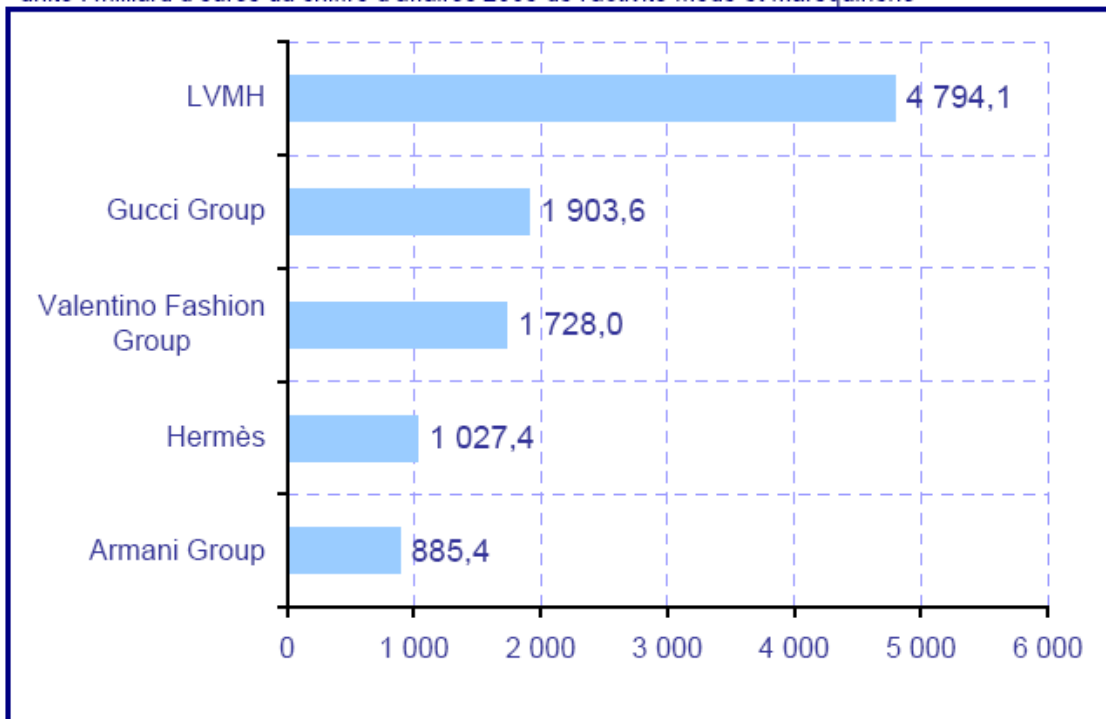




On the graphic below, LVMH's turnover is twice more important than the second Gucci Group.

Chiffre d'affaires des principaux groupes mondiaux de mode et maroquinerie de luxe

unité : milliard d'euros du chiffre d'affaires 2005 de l'activité Mode et Maroquinerie



Source : sociétés

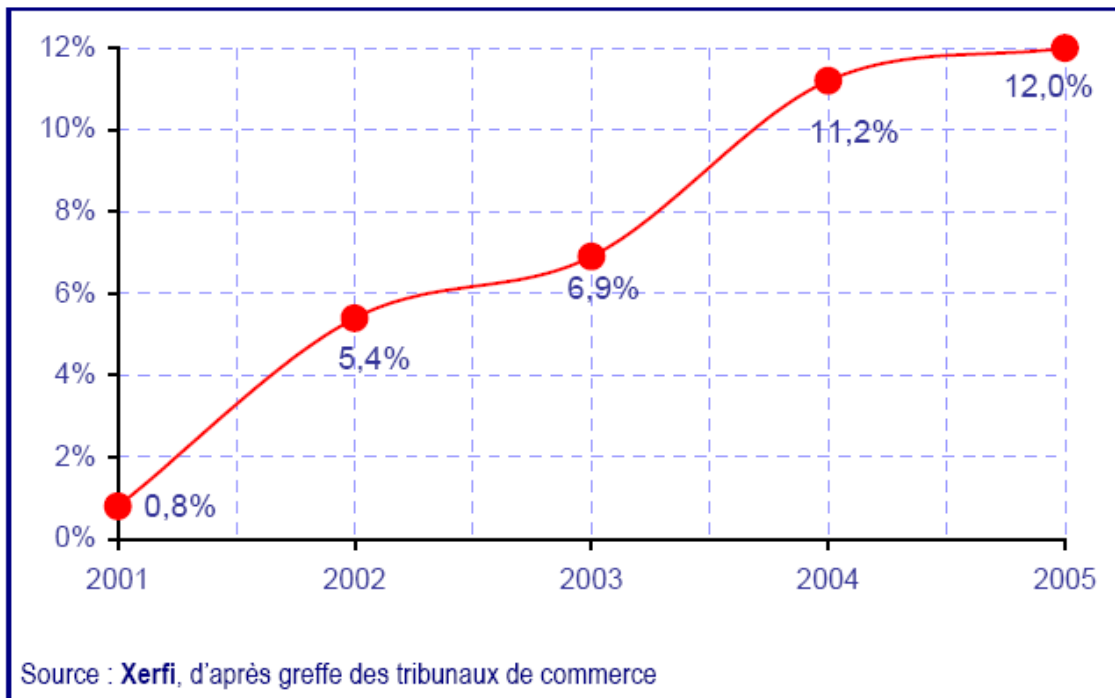
- ✓ **Investments in communication and innovation:** in 2005, they spent 1, 4 billion Euros in communication. Indeed, they use some famous people to promote brands especially in fashion and cosmetics. In the same time, they spent a lot in research and development to launch innovate products everyday. Bernard Arnault considers that LVMH has pretty brands and they have to improve now their supply network and launch new products in each existing brand.



LVMH’s strategy is very organized and adapted for each country which has specified feelings and desires. On the one hand, they lean on star brands like Louis Vuitton and on the other hand they launch new products on emerging countries (The BRICs). They want to innovate everyday and to be present everywhere in every branch of luxury industry. We can see below the positive consequences on the net profit which underline the position of world leader.

Taux de résultat net

unité : %, résultat net sur chiffre d'affaires

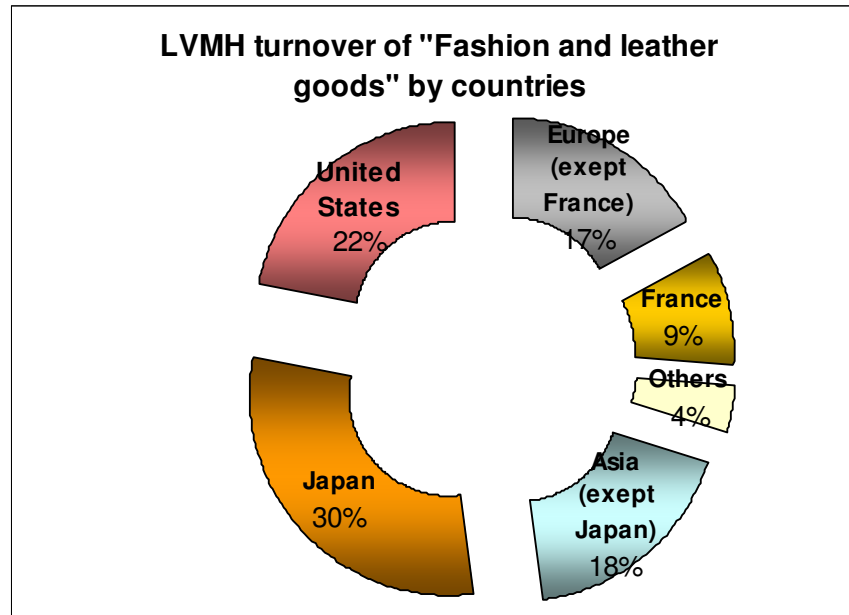


LVMH's competitors in Asia

LVMH has four direct and big competitors even if in term of sales turnovers, LVMH remains the world leader of fashion and leather goods. What it is necessary well to understand, it is that the companies of the luxury have to face market trends and request: the arrival of middle class consumers in the luxury stores and the emergence of rich class in the developed countries but more especially the emergent countries such as China, Russia and India. This is why the marks of luxury is based on two strategies of development: the development of their distribution network and the extension of their brands in the emergent countries. Industry surveys estimate that global annual sales of luxury goods are €100 billion to €150 billion. The Japanese in their home market are responsible for some one-third of demand.

In our case, we will be interested particularly in the fashion and leather goods in Asia. Indeed, LVMH is a multibrands and multigoods company and we have choice to study only fashion and leather goods activities.

Luxury in Asia started in Japan and each companies used to different strategy. For example, Gucci decided to sign a contract of agency with a specialized retailer, whereas Hermès had been represented by a chain of department stores. LVMH decided a different and innovative strategy, separating the contracts from distribution and the contracts of management. These contracts imposed on the department stores a whole series of restrictive clauses aiming at framing the sale, such as the choice of the shop place, the drawing of the material necessary to the sale and the uniform of the salesmen, prohibition to make fall the prices or the total creative assumption of responsibility of publicity. LVMH could thus control all the stages of manufacture to the sale, and make it possible to the Japanese customer to seize “the values of the mark, namely its history and its tradition.” Today, LVMH realize 48% of its sales turnover in Asia, i.e. 30% in Japan and 18% in the remainder of Asia. According to the following graph extracted the management report of LVMH of 2005, its larger market remains Japan, largely exceeding the market of Europe and the United States.



source : LVMH report 2005

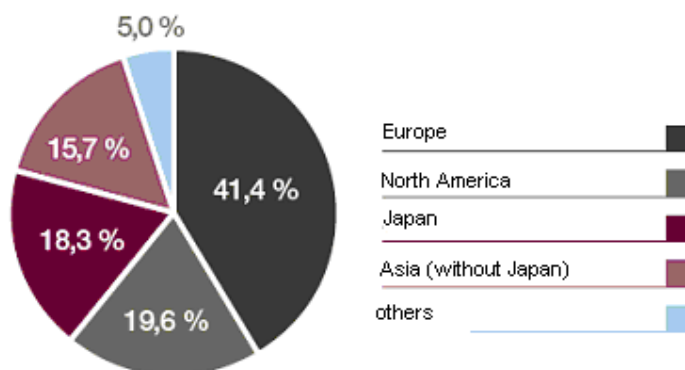
The four competitors to LVMH are the **Gucci group**, the **Valentino Fashion group**, **Hermès** and **Armani Group**.

Gucci Group is one of the multibrands groups of luxury leaders in the world, after group LVMH. Through the Gucci marks, Yves SAINT LAURENT, Bottega Veneta, Alexander McQueen, Balenciaga, Bédar & Co, Boucheron, Roger & Gallet, Sergio Rossi, Stella McCartney and YSL Beauty, Gucci Group carry out the design, the manufacture and the distribution of products of luxury of high quality, including hand bags, luggage, leather goods, shoes, jewels and accessories. Gucci Group manages stores in clean on the principal international markets and also distributes its products in franchised stores, shops duty free, department stores and specialized stores. Gucci Group belongs to group PPR (in the last Pinault-Spring-Redoute), a European leader of the Distribution and major actor of the Luxury over the world.

The new manager of Gucci, Robert Polet, has based his strategy on a strong development in China of the Gucci brand, even if he still refuses to produce in Asia. However, the other Gucci group brands are famous in Asia. Indeed, Yves Saint Laurent is still overdrawn and brands such as Bottega Veneta, Sergio Rossi, Alexander McQueen and Boucheron are unbalance. On the Asian markets, in growth of 16,1% in 2005, Gucci Group reinforces its positions clearly. At the end of the year 2005, 217 stores were located in the area, on a total of 426 stores managed into clean. During two next years, 50% new openings of Gucci Group will be carried out in Asia. In 2005, the Gucci group turnover amounted to 1 903,6 million Euros, in progression of 13,6%.

The stores managed into clean account for 71% of the turnover in 2005 and recorded a growth of 14, 7%. Gucci carried out a growth of 20, 7% in Asia.

Part of the Gucci Group turnover by localisation



Source : Gucci group2005

Valentino Fashion Group is an Italy-based company active in the fashion industry. The activities of the company are divided into three segments: Valentino, Hugo Boss, and the licensed brands Marlboro Classic and M Missioni, and the Company's own brand Lebole. Valentino Fashion Group produces clothes, accessories and footwear for both men and women.

The Valentino group exploded its sales thanks to its establishment in China. In 2005, Valentino Fashion group turnover amounted to 1 728 million Euros. To its 72 shops in 64 countries, the house will add 30 openings in the two years to come with a priority to Asia: this year, three stores should open in China, two in Hongkong, like in Taiwan, New Delhi, Bangkok, Kuala Lumpur, Bahrain, and Moscow. In 2005, the group saw its sales in Asia increasing from 32% and 66% to China and 40% of the company retail turnover was done in Asia.

Hermès

Symbol of the French luxury, the family group Hermès is a multiproduct company: leather goods, perfumes, passing by the textile and arts of the table. It is also strongly internationalized. The group realizes in particular nearly the third of its sales turnover in Japan, the first market of the world luxury. Its presence outside holds especially of an important network of shops held into clean. Besides it wishes to reinforce its park these next years, in particular in the emergent countries such as China, Russia or India, where the prospects for growth are strong.

Thus, it carried out a turnover of 1027,4 million Euros in 2005 in its activity of fashion and leather goods over the world. Sales in Japan, which accounts for 29 percent of total sales, rose 7.2 percent to €128.5 million in 2005 and the Asia Pacific region enjoyed a 7.9 sales increase to €68 million.

Armani Group

The Armani Group, one of the leading fashion and luxury goods groups in the world today, designs, manufactures, distributes and retails fashion and lifestyle products including accessories, jewelry, home interiors, fashion and cosmetics under a range of brand: Giorgio Armani, Armani Collezioni, Emporio Armani, Armani Jeans, Armani Exchange, Armani Junior and Armani Casa.

Giorgio Armani became one of the first Italian designers to enter China, with a boutique in Beijing in 1998 and he insisted on a lacquered red door to appeal to his Asian clientele.

Giorgio Armani projects a greater expansion in China with the opening of approximately 50 new exits of detail and the investments in other projects, according to the Italian news Service ANSA. Armani has already 35 stores in 12 Chinese cities and expects to have 50 of them towards the end of the year 2007 (including Hong Kong and Taiwan). It has also 28 shops, according to directors' of the Armani group. China's 35 stores contribute 10 percent to the group's turnover and the growth is really important. Indeed, Giorgio Armani's sales in 2005 rose 8 per cent worldwide and 25 per cent in China.

The Italian group is currently classified sixth among the companies operating in China after Hugo Boss (Valentino_67 stores); Ermenegildo Zegna (60 stores); Ralph Lauren (49 stores); Burberry; and Ferragamo.

Giorgio Armani plans to spend more than €100 million, or \$136 million, this year 2007 to quicken store openings in Asia and other parts of the world. The company is moving aggressively and are moving especially fast in China.

About 15 of the new openings will be directly owned stores and the rest will be through franchise agreements. Emporio Armani is a line of sportswear aimed at people between 25 and 45 and is priced about 40 percent less than the most expensive ready-to-wear line Giorgio Armani.

Within new Armani stores, its plans to open a 12-story building in Tokyo's Ginza district at the end of this year, across from Gucci and next to Christian Dior. The tower, which is currently being built and will be leased and restructured by Armani, includes six floors of selling space, the first Armani health spa in partnership with L'Oreal and corporate offices.

The Tokyo building will also feature a Giorgio Armani restaurant on the top floor as the designer continues to expand into lifestyle activities, which includes his 2005 agreement to open hotels with Dubai's Emaar Properties PJSC.

In 2007, the market of the luxury is a global market and the luxury companies have to improve today their development strategy in Asia.

LVMH are distinguished from these competitors thanks to a great diversification of these products. Besides their strategy of acquisition privileges brands which have an international vocation in order to easily extend sales in other foreign countries. LVMH remains the leader in “fashion and leather goods” but have strong competitors as Gucci group which has also international brands well established.

III) LVMH, growth perspectives on emerging markets

The luxury industry is small in terms of the number of companies. However the estimate for global sales of luxury products is above 100 billion dollars per year. The influence of luxury industry is wider. Indeed you will find the best materials, the best design, the best merchandising, the best packaging and the best innovative products. Consequently, luxury brands frequently influence the rest of the world, that's why mass market imitates and copies luxury trends. Since few years, there is a phenomenon of democratization in the luxury sector.

Consequently this new trend enhances conquest of emerging countries. Today, Europe, the US and Japan represent each one a quarter of the market. China, Russia and India, which constitute 20% of the request, will account for 32% of the sales in 2014 according to an article of « lemonde.fr”.

🚩 India, China , the future for luxury brands ?

India

English official language

English is one of the fifteen official languages of India alongside with Hindi and others. English is spoken by the majority of Indians and facilitates the exchanges and the sale of Western European products.

Economic openness

Until 1991, the Indian economy was not opened to foreign trade. The development of infrastructures, the opening borders, the fall of customs duties, simplification in the procedures, opening to the FDI of many sectors with some exceptions (banks, insurance and distribution of detail for example) which should disappear gradually, the vertiginous increase in the number of consumers which results from the expansion of the middle class, make this country a major target for the French companies.

Main figures

Indian people had double their purchasing power between 1999 et 2003. Among the 1,07 billion of inhabitants, 10 to 30 million of Indians can offer luxury products (i.e. 1% of the Indian population) and 1 million are millionaires. 22 millions of Indian join the middle class each year. 67 millions have an average annual income of US\$ 25,000 which is the same one as in Milan. According to the firm Mc Kinsey, 1,2 million of Indian are in the segment of the “super rich person”. This segment corresponds only to the third of what it represents in China but it increases of 20% per year.

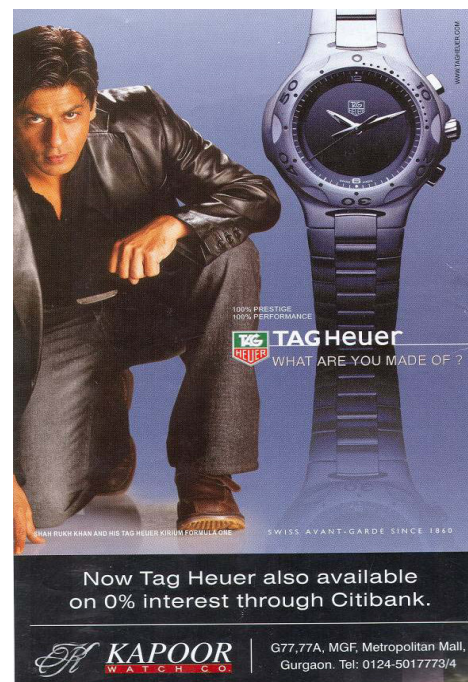
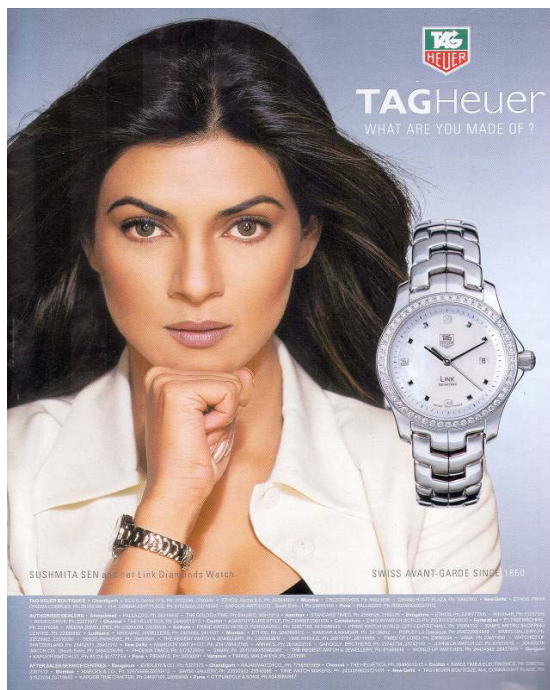
LVMH and its Indian strategy

According to an article of abc-luxe.com written in 24/09/2007, we learn that Louis Vuitton has chosen FeedBack Venture so as to build a factory of more than 11 900 m2 in Thondamantham near to Pondicherry in India. It's the first time that Louis Vuitton is established outside EU or the USA for the manufacture of shoes.

Louis Vuitton wants to be installed on long term on the Indian market and predict to purchase a minority share of the Indian company of leather working, Hi Design.

LVMH WATCH & JEWELLERY INDIA PVT LTD sell the watches brands “Christian Dior” and “Tag Heuer”. These 2 brands holds approximately 10% of the luxury watches market in India and aims at the 20% for the next years (it plans to sell 5.000 parts of each mark from here 2007).

LVMH WATCH & JEWELLERY INDIA PVT LTD invested a budget of 100 million INR (nearly 2 million Euros) for its countryside advertising executive 2004. To build its image in India, the group called upon Indian celebrities, as ambassadors of their brands. The brand “Christian Dior” is represented by Yana Gupta. For the brand “Tag Heuer”, Sushmita SEN represents the watches women and Shah Rukh Khan the watches men. You find two of its advertisements below.



LVMH WATCH & JEWELLERY INDIA PVT LTD wishes to position its brands “Tag Heuer” as a challenger on the Indian market behind the brand “Rolex”. Benefitting from the growing passion of the Indians for the trendy watches luxury, LVMH WATCH & JEWELLERY INDIA PVT LTD gradually will introduce its collections of watches “Fendi” and “Zenith”.

China

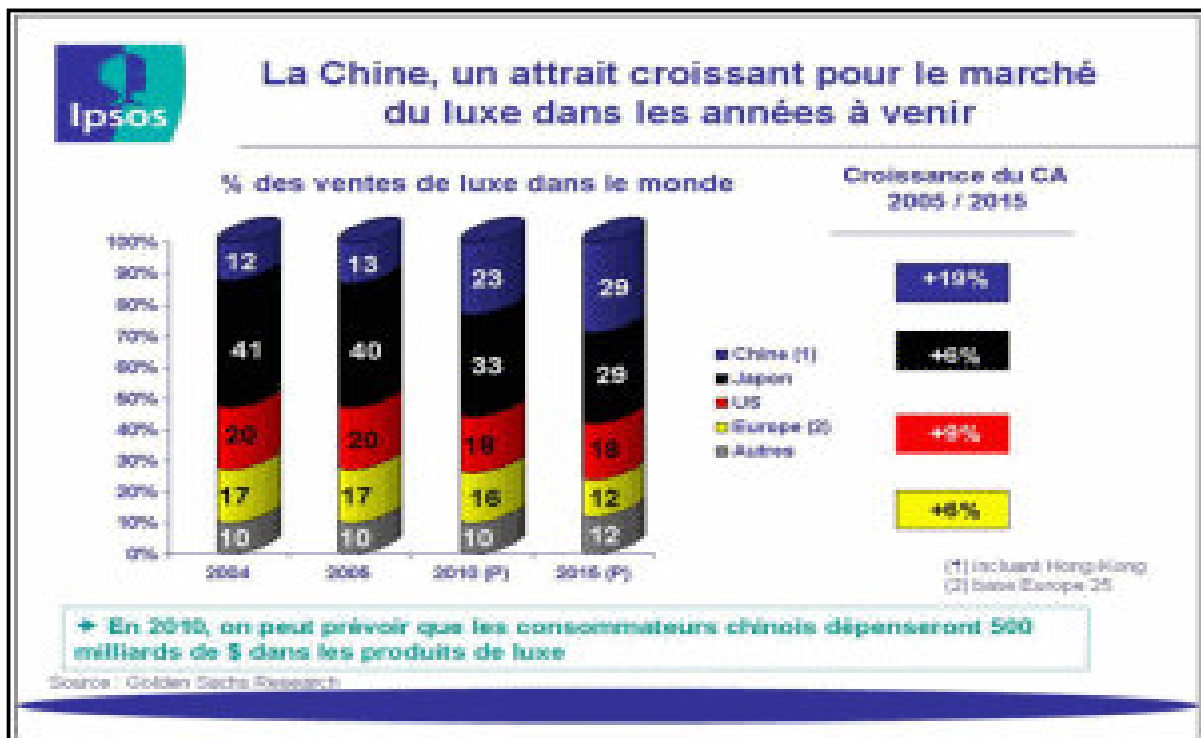
The main figures and economic outlooks

China, the new major actor on the international scene, since 2000, is the country the most populated with 1, 3 billion of inhabitants which represent one 6th of world population. Thus even if a strict natalist policy illustrated by the policy of single child, this population increases less and less quickly. Nevertheless China seems to be a gigantic reserve of consumption with a GDP growth of 10% in 2005.

China is the third market for luxury products with 12% of global sales behind Japan (41%) and the USA (17%).

Nowadays, we estimate that 0, 8% of Chinese people have the income to buy luxury products. With a global population of 1, 3 billion of Chinese people in the world, number of Chinese luxury consumers is around 10 million.

According to « le Quotidien du peuple », in 2011 China will probably become the first buyer of luxury goods. Their expenses might represent a quarter of the luxury companies' turnover, against 11% currently.



The Asian market accounts for 40% of the sales of French and Italian luxury products in the world. Indeed European products profit of a positive image and quality.

Twenty years ago, China had no middle class but presently the growth rate of the country's upper-middle class and young urban professionals is among the highest in the world. According to a study of the Colbert Committee, the profile of the Chinese brands buyer is an urban rich person, educated and old only from 18 to 30 years old.

On the luxury market in China, the most sold brands are Omega, Longine, Burberry, Cartier, Prada or Louis Vuitton. Dior carries out 10% of its turnover in the haute couture in China. However, the brands do not have all profitable stores, but their presence is important for the future. Indeed, as we saw higher, China has a real potential in fashion and in luxury sector. The aim of this non-profitable presence is to ensure their success in the more or less long term by accustoming the Chinese to their name of their brand, increasing in addition their notoriety like their turnover. The major stake in China is the education and the development of consumer loyalty.

The major Proof of the emergence of passion for luxury products in China is the inauguration at the beginning of 2004 of “the Pearl”: It is the first complex of luxury products in Canton joining together the largest luxury brands (Dior, Louis Vuitton, Hermès, Prada, Fendi...).

Comprising five levels (100,000 m²), the building shelters already 51 shops and the occupancy rate is around 90%. With 700,000 visitors awaited per month, the hotels five stars which integrate in their walls of the shops do not have any more the monopoly as regards luxury products distribution.

Luxury sector is now accessible to a wider range of customers, whose monthly purchasing power is the highest of China, behind Shenzhen but in front of Shanghai and Beijing.

The emancipation of Chinese women

Until recently, 90% of the expenses related to the luxury products in China were dictated by the men. But nowadays the modern consumers of luxury products are the businesswomen, the celebrities and the women of new rich people.

The Chinese women are catching up with the men on the luxury product's consumption. A higher economic independence brings her a higher purchasing power, was declared at the Summit of Luxury products in China based in Shanghai.

The chairman of LVMH, Emmanuel Prat, said that the men were usually the purchasers, and in 2001, 3 consumers of 4 were men. But now, because of a greater economic independence, the women represent a part much more significant on luxury market, and the potential is as much important.

A study of KPMG agency revealed that the Chinese women started to exceed the businessmen, old of more than 35 years old, as consumers of luxury products.

Potential of Hongkong

The market of Hong Kong is similar to the Western market. It is very competitive because it is an open market, without trade barriers or quotas, where all the products can enter easily. Because of British presence until 1997, the population is strongly occidentalized.

The offer in luxury products in Hong Kong is abundant and structured. The inhabitants of Hongkong are keen on shopping which consider this activity as leisure and a social activity. In terms of volume and growth, Hong Kong is the most powerful market behind Japan for luxury products.

Weaknesses

However these major strengths, it is important to take an eye on the aspect of the income. China is an extremely diversified country. Chongqing thus gathers 31 million inhabitants but an average purchasing power per annum only 631 \$.... The clothing budget of Chinese people is very reduced since its average wages are between three hundreds and four hundred Euros, while the price of a bag Dior, is between 600 and 800 Euros (for an average bag only).

The major weakness in China is counterfeit. In spite of new legislative protections and advertising campaigns created by the Chinese authorities (trainings of the magistrates, installation of rooms specialized within the courts, operations anti-corruption...), the foreign companies know great difficulties to make respect their rights of ownership intellectual. According to certain observers, the counterfeit would currently account for 8% of the China GDP and would allow the use of 3 to 5 million people. This economic situation explains the lack of enthusiasm of certain local institutions (administrations, police force...) who, in addition to the fact of having other priorities, want to preserve the local economy. .

But a catch of conscience is being done because of pressure of the Western brands, but especially thanks to the development of the Chinese luxury brands which wants to be protected.

The luxury brands clash on a strategy of size and “on occupation of ground” according to the Chairman of Dior, in order to have a maximum visibility in a country where many things still remain to be made as regards luxury products. For example, Chaumet is established in 12 towns of China which, for the majority, are not known of the French, at least not yet! Gucci holds 10 shops in China and Dior has 17 of them, including 9 in Hongkong. China is a very wide country with a surface of 9.561.000 km² (that is to say 17 times France). China is the third country of the world by its surface after Russia and Canada. Consequently geographical conquest is very complicated. Moreover China is an agricultural country. Indeed, 50 to 60% of the Chinese labor is always agricultural. The economic difference between the rural area and the city do not cease increasing.

LVMH's perspectives

A problem of profitability for LVMH:

LVMH has to face the decreasing of its gross profit margin (see part 1) since 2003: from 65.1% to 64%. To solve this problem, the group decided to outsource a part of its production in emerging countries:

- In May 2007: Moët Hennessy (wines and spirits activity) bought a wine factory (Wen Jun Distillery) in China.

- In April 2007: LVMH announced that they decided to close the firms which made Kenzo, Pierre Cardin, Givenchy suits. The production should have been outsourced in East Europe: Poland, Rumania, or Bulgaria. This announce created a scandal and LVMH decided to cancel this decision temporarily.
- In September 2007: Vuitton bought some parts in an Indian shoes factory and we learn in the same time that LVMH was building a shoes factory in the same region.

Outsourcing for all the luxury market:

Since a few months, we heard a lot about delocalisation in the luxury sector:

- Lamarthe made its bags in Rumania;
- Prada also made its clothes in Rumania;
- Dolce and Gabbana is in Turkey;
- Valentino is in Egypt;
- And Hugo Boss is in China.

Consumer behaviour concerning outsourcing:

Is it really a good thing for luxury brand to outsource their production?

“No, consumers are still judging outsourcing like something immoral and unacceptable, firms lose their image of quality”, said Maxime Koromyslov, specialist of outsourcing in the luxury market. But since 1990, there is a democratization of luxury products. For example, jeans or t-shirts are now part of luxury collections. And for that type of products, “origin is not significant for the consumer”(Maxime Koromyslov).

So we can't foresee the consumer behaviour concerning outsourcing of luxury market and maybe luxury brand must pay attention if they don't want to lose their customers.

But it is possible to hide the outsourcing:

For luxury brands who want to hide the fact that their production is outsourced, there are 2 ways:

- The first way is to change labels when they import products if they think it's important for the consumer.
- The second way is about the “made in France”, which is a symbol of good quality product for the consumer. In France, to put the “made in France” on the products, you have only to do the last operation of the fabrication process in the country.

So despite more and more information about outsourcing of luxury product, we can exactly know what part of the production is outsourced.

As a conclusion, we can say that luxury market is successful today with significant gross profit margin and a worldwide expansion particularly in emerging countries like China. But we can't foresee the future of luxury market because we don't exactly know how the consumer will react.

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