

LVMH: organising luxury products in the international arena¹

LVMH is the French-based, world-leading luxury goods group that was founded in 1987 with the merger of Louis Vuitton and Moët Hennessy. Christian Dior, Dom Pérignon, Givenchy and Moët & Chandon are just a few of LVMH's world-famous luxury brand names. By 2022, revenues for the group totalled approximately \$86 billion, putting it among the top five marketers of luxury items (including wines). LVMH operates approximately 5,600 stores across the world and employs nearly 200,000 people, where the majority of employees work outside France. As of 2022, the company generates the bulk of its sales in foreign markets; only 6 per cent of all revenues are earned in France. The United States is the company's single largest market, comprising 37 per cent of revenues. It is important to note that although France earns a small fraction of LVMH's revenues, Europe as a whole (including France) accounts for 24 per cent. Japan accounts for 6 per cent, while Asia (excluding Japan) accounts for 20 per cent. The remaining 13 per cent is generated mainly in the Pacific, Latin America, and Canada. With large shares of sales in each broad region of the triad, LVMH is a true global company.

LVMH's organisational structure is much more than that of a typical conglomerate. The whole organisation focuses on shared costs and synergies, both backward and forward in its value chain. The five main lines of business are really strategic business units (SBUs) that are set up to market well-known, high-quality products while responding to local tastes and regulations. They are: (1) 'Fashion & Leather Goods'; (2) 'Wines & Spirits'; (3) 'Perfumes & Cosmetics'; (4) 'Watches & Jewelry'; and (5) 'Selective Retailing & Other'.

By carefully overseeing major operations from the top while allowing the individual SBUs to make the decisions that directly affect their own local markets, LVMH employs a combination of 'tight and loose' control to maximise its international presence. In the process, it has become the most global retail company.

The profit margin on luxury goods is very high, so control over production, distribution and advertising is central to profitability. LVMH ensures that production standards in its manufacturing operations are the highest. It centralises manufacturing by using a common laboratory for cosmetics research and integrates the operations for all the branch offices in each group to ensure maximum efficiency.

Marketing is a very important part of LVMH's strategy. The company spends around 10 per cent of all its revenues on worldwide advertising and purchases media products in bulk to receive the best value for its money. The 'Made in France' label is stressed to appeal to its home country's reputation for high-quality luxury products. The company sources only in France, Italy and Switzerland.

¹ Websites: www.lvmh.com; www.vuitton.com; www.moet.com; www.dior.com; www.givenchy.com; <https://www.lvmh.com>

Sources: Adapted from www.lvmh.com; LVMH, Annual Report, 2010, 2014, 2018; Stéphane Girod and Alan M. Rugman, 'Regional business networks and the multinational retail sector', *Long Range Planning*, vol. 38, no. 4 (2005), pp. 335–57.

The vision of a totally integrated group was and continues to be an important part of the global strategy that has positioned LVMH as an industry leader. The company walks a fine line between the exclusivity required of luxury goods and the size and scope of its operations. It might operate around the world, but its products are not accessible to all.



Source: FORGET Patrick/SAGAPHOTO.COM/Alamy Stock Photo

Questions for discussion

1. What type of organisation structure does LVMH have?
2. What is the role of the SBUs in the organisation structure of LVMH? What problems might arise if each SBU were run independently?
3. Compare the organisation structure of LVMH to that of Procter & Gamble. Are there any similarities? How are these organisations different?
4. What are some of LVMH's FSAs that are listed in this case?
5. How would outsourcing to less developed countries affect LVMH?

Answer

1. What type of organisation structure does LVMH have?

The organisational structure that LVMH has is a global structure. Each of its strategic business units (SBUs) is responsible for the international operation of its product lines.

2. What is the role of the SBUs in the organisational structure of LVMH? What problems might arise if each SBU were run independently?

Product-specific SBUs of LVMH (i.e., those defined by the type of the product such as wines and spirits) are responsible for the marketing and distribution of their product line across national boundaries. The DFS are responsible for the marketing of LVMH products and other products. Centralised decisions are made at the top of the organisation to organise marketing for the entire organisation and to integrate operations where appropriate. These advantages would be lost if each SBU were run independently.

3. Compare the organisation structure of LVMH to that of Procter & Gamble. Are there any similarities? How are these organisations different?

Procter & Gamble (P&G) has a matrix structure while LVMH has a global product structure. Both P&G and LVMH have a decentralised decision-making structure; however, P&G decision making is location-specific and product-specific, while LVMH's decision making is only product-specific.

4. What are some of LVMH's FSAs that are listed in this case?

Its brand names, which hold a reputation for quality and status, are one important FSA. In addition, its management, production, distribution and marketing abilities, which allow it to benefit from synergies of doing business across product lines and across countries, constitute FSAs.

5. How would outsourcing to less developed countries affect LVMH?

Products developed in less developed countries, whether this is true or not, tend to have a reputation for lower quality. Outsourcing to less developed countries might compromise LVMH's reputation for quality, which is a major FSA.