ECONOMICS AND EUROPEAN BUSINESS

MBA – Beijing

IUBE – IAE

2017

Documents are allowed. No PC or other electronic devices

3 hours

After reading the texts, you will answer all the following questions.

Please refer to the classes or cases presented during classes when this is possible.
Do not stick to the texts.

Questions:

1. (7 points). Explain what are the main drivers for the decision of LV to acquire the distribution networks of its products? Is this in line with what a transaction cost analysis would suggest?

2. (6 points). What are the specificities of the Chinese market for LV, and what adaptations were needed? Are those adaptations compatible with a luxury brand strategy?

3. (7 points). Are such luxury brands as LV evolving on competitive markets? If protecting the brand is at the core of their strategy, how can you explain the existence of the fragrance cartel?

INSEAD
The Business School for the World®

KNOWLEDGE

When to Partner and When to Acquire, Louis Vuitton Style

Controlling almost all distribution turned Louis Vuitton into a globally competitive force.

Yves Carcelle is a humble man with penetrating brown eyes. An INSEAD MBA, he is credited with transforming Louis Vuitton (LV) from an old trunk maker into a luxury powerhouse throughout his 23-year long tenure as CEO. Now he is a self-declared "fixer" for the top management team and Vice President of the LVMH Foundation. His own modest handyman-like image is in stark contrast to the venerable leader he is considered both inside and outside of LVMH.

When he became CEO in the early nineties, he knew that LV had grown very quickly across the world without having all the management resources it needed to maintain global leadership positions. This meant that LV had to form alliances with distributors in most of the countries it operated in. These distributors played an active role in the company's business operations.

Yet, 100% reliance on global business partners was not Carcelle's philosophy. One of his earliest initiatives at LV was to take control of 100 percent of the distribution of LV's products in almost all geographies. "With 100 percent distribution, you can have a good database…every morning you see the sales product-by-product, store-by-store, clientele-by-clientele all over the world," he told me in a recent interview.

Partnerships and alliances are valuable drivers of competitive advantage, but if everyone in your industry relies on partnerships, there might be opportunities for achieving competitive advantage in a different way, i.e. when you integrate everything under one roof. Carcelle was willing to go against the grain, and now he remains surprised that no other luxury brand considered such a move. Even now most of LV's competitors have a lot of distribution partnerships worldwide.

But why did LV decide to go against the industry's majority opinion? During the 1990s, business revolved around the concept of outsourcing and many luxury goods companies moved many of their operations overseas. Carcelle argues that LV's key source of competitive advantage was its know-how of product making. Success doesn't always come from "manufacturing everything yourself, but from understanding and controlling the know-how and having your experts in-house," he explains.

Does vertical integration always make sense?

Over time, LV bought out all of its partners, but there was one exception. "The only partners I decided to keep were our partners in the Middle East. This was not only because their values were the same as ours. Friendship and value-sharing is not enough. [A big reason for keeping them was that] the Middle East is complicated, legally and culturally," he said.

As I explain in the new book **Network Advantage: How to Unlock Value From Your Alliances and Partnerships**, LV decided to stick with a Middle Eastern partner - Chalhoub Group. As Yves Carcelle commented, "Decision-makers [in the Middle East] speak Arabic and I decided it was important for us to continue to work with partners that opened doors, be our advisers and we were the first one to organise a joint venture for the whole Middle East market". However, to still ensure as much consistency across regions as possible, LV decided to work with Chalhoub Group across several Middle Eastern markets, and not to try and find a separate partner for each country.

The lesson from Yves Carcelle's experience is clear. The more unique your assets are and the greater the control you need to exercise over the value chain to extract competitive advantage from these assets, the more vertical integration makes sense. However, the higher the uncertainty and complexity in your markets, the more you should think about partnerships. LV's key assets were a unique brand and long term experience in luxury goods. By vertically integrating, LV has ensured a highly consistent image all around the world. If you face a situation when you have unique assets, control over the value chain helps you extract value from them. Yet when you are dealing with complex and uncertain markets, then you need to find a single partner with expertise in most of these markets.

***Andrew Shipilov** is an Associate Professor of Strategy and Akzo Nobel Fellow at INSEAD. He is also the programme director of the **INSEAD Blue Ocean Strategy** executive development programme, and co-author of **Network Advantage: How to Unlock Value From Your Alliances and Partnerships**. You can follow him on Twitter **@shipilov**.*

Find article at
http://knowledge.insead.edu/blog/insead-blog/when-to-partner-and-when-to-acquire-louis-vuitton-style-3538

Document 2.

How Louis Vuitton Has Adapted in China – LV 2.0 China

By Camille Pery on June 14, 2016

Source: http://socialbrandwatch.com/louis-vuitton-case-deal-change-china/

A key part of our work is understanding the key dynamics that underpin luxury in China. A market that has rising with China's spectacular economic growth, but also been challenged by the increasing sophistication that now defines Chinese consumers.

A example of an established luxury brand that has had to re-define itself in China is Louis Vuitton – one of the earliest luxury brands Chinese consumers were exposed to, and one that has been affected by the phenomenon of 'luxury fatigue' – a combination of economic downturn, anti-corruption and a wide style/lifestyle trends impacting how luxury is understood and consumed in the Middle Kingdom.

The "secretary effect" – everyone has an LV bag!

When Louis Vuitton first arrived in China, it was the darling of the newly rich elite. The brand quite simply was shorthand for 'status and social arrival'. In a society emerging from the classless system of pre-reform China, affluent consumers gravitated to brands (and logos) that would be 'recognised socially' by others.

However, as incomes improved, more consumers gained access to luxury goods. The metaphor (or the pain point) for China's rich was 'those secretaries'. Lowly paid white-collar workers living at home, would save all their wages for a month, just so they could purchase an LV bag. This became their 'pride and joy', but from a macro-societal perspective, it meant Louis Vuitton started to become more mass – a direct 'turn off' for those Chinese consumers who believed it was their exclusive right and privilege.

The demand was hot for LV in this 2007 image, from a store in Nanjing

In response, Louis Vuitton has looked closely at how to maintain a special relationship with their VIP customers, investing strongly maintaining a more bespoke relationship with more affluent consumers. This is included exclusive access to new items, and special events held inside the brand's boutiques. Louis Vuitton faced up to the 'secretary effect' by making a very determined effort to keep their 'most sensitive', but ultimately, 'most loyal' consumers.

Stemming the supply, no more stores

The brand decided to stop opening new shops in China since 2010, sticking to the forty-one established at that time. Bernard Arnault LVMH CEO recently said: “Those who want to buy Louis Vuitton items must travel from now on”. An idea that works for Chinese luxury shopper, who travel on-mass to France to enjoy lower taxed goods.

A Louis Vuitton store in Shanghai

Whilst brick and mortar stores remain an iconic part of Louis Vuitton’s presence in China, The brand’s strategy is now focused on communicating digitally, so as to facilitate consumer’s purchases through mobile phones. The average level of the online spending in China increased 28% since 2014 and is still growing. Louis Vuitton has a 100% controlled distribution network, and a strong counterfeiting policy to cope with the trade of fake goods that reduces trust in their e-commerce strategy.

Making luxury relevant with KOLs

To refresh their relationship with Chinese millennials, Louis Vuitton worked strategically with KOLs.

For instance, KOL Zhang Yi, (a model with four million fans) posted one video to promote the “Proenza Schouler” bag. Later, during the 2015 Louis Vuitton Winter and Autumn Fashion Week, the brand invited a famous Weibo fashion opinion leader Gogobo, to take over its official Weibo account to report on fashion week. The brand used KOLs to express an aspirational lifestyle message, but used social media, as a way for ‘normal consumers’ to gain new levels of access to the brand.

Less logo, and no logo

To distance itself from the ‘mass culture’, Louis Vuitton featured their iconic logo-less in China and introduced more bespoke designs to re-premiumize the brand image.

New handbags were also created, in a limited edition with special consumer treatment and without a big logo or brand’s initials.

In fact, a team is mobilized to receive special guests in a private lounge, where the client can choose from 5 different shapes, 26 colours, and 8 types of leather. It takes between 5 and 13 months to receive that personal piece of art, enough time to imagine how unique you will look with it!

LV rethought how they deployed their iconic logo

The brand as an experience

Also, Louis Vuitton realised that the brand had become to narrowly defined as just a product in China. To introduce the brand as an experience, Louis Vuitton focussed on culture, and a collaboration with Chinese actress and model – Fan Bingbing, including her involvement at their Paris events.

LVMH contemporary art foundation was created in the middle of the “Bois de Boulogne” near Paris where key LV fashion shows take place. It is also where special exhibition “Vuitton façon musée” took place last February. Only very special guests were invited to make them feel closer to their favourite brand, by introducing them to the brand’s story. On the guest list was Fan Bingbing, the famous Chinese actress (4th highest paid actress in the world) was a VIP guest as the Chinese ambassador of the brand and was escorted personally by Mickael Burk, Louis Vuitton’s CEO.

So, in market as rapidly changing as China, you can never rest on your laurels, and MUST keep culturally attuned to your core audience

Document 3.

Why Is LV Closing Its Chinese Luxury Retail Stores? March 29, 2016

Source: http://www.chinaretailnews.com/2016/03/29/8330-why-is-lv-closing-its-chinese-luxury-retail-stores/

International luxury brand Louis Vuitton officially confirmed that the company will close two stores located in Shanghai and Shanxi, respectively, by the end of March 2016.

A representative from LV China said that the two stores will no longer operate from April 2016. However, the company emphasized that the store closure does not mean they will stop their Chinese development strategy. LV will continue to invest and expand in China in 2016.

This is reportedly not the first time for LV to close stores in China. According to a report on China's luxury market in 2015 published by global management consulting company Bain, in 2015 LV closed six stores and opened two new stores in China. LVMH, parent company of LV, stated in its financial report for the third quarter that due to the continued weakness of Chinese mainland, Hong Kong, and Macau markets, its Asia Pacific, excluding Japan, market share continued to shrink.

Meanwhile, Bain's report shows that Gucci also closed five stores in China in 2015; Burberry closed two stores; and Prada closed four stores.

Bain said that consumption decline and store closures did not represent the decrease of Chinese people's enthusiasm about luxury products. The growth of outbound traveling and Chinese consumers' dependence on overseas B2C websites stimulated the development of cross-border shopping, which also caused the overall decline of luxury market in China.

Cosmetics design-europe.com

Document 4

Breaking News on Cosmetics Formulation & Packaging in Europe

French authorities fine fragrance makers for cartel

By Simon Pitman, 16-Mar-2006

Related topics: Market Trends

The French Competition Commission has fined 13 leading luxury fragrance brands and three retailers a total of €46.2m after it found them guilty of breaching anti-competition agreements .

According to the Commission, each of the brands entered into an agreement with its distributors, ensuring that every product was retailed at a single price, eliminating any possibility of competition amongst retailers.

The biggest fines went to the three distribuotors: Marionnaud, which was fined €12.8m; Sephora, which was fined €9.4m and Nocibe, which was fined €6.2m. The Commission said that the fines reflected the gravity of the individual businesses' involvement in the cartel.

Amongst the fragrance brands, the biggest fine went to L'Oreal, which was ordered to pay €4.2m, while Chanel and Christian Dior were ordered to pay €4.1m and €2.2m respectively, Yves Saint-Laurent €1.8m, Guerlain €1.7m and ELCO, which represents Clinique and Estee Lauder, €1.6m.

Other leading fragrance brands that were fined included Shiseido France, Givench, Beaute Prestige, which represents Jean-Paul Gaultier and Issey Miyake, together with Kenzo Parfums.

The Commission said that it found the fragrance companies had all entered into agreements with the national retail chains between 1997 and 2000 with the express purpose of putting a stop to any competition between retailers for each of the brands' products.

Luxury brand owner giant LVMH was hit hardest, as it owns both the Sephora retail chains, together with the four brands, Guerlain, Kenzo, Christian Dior and Givenchy.

Although the fragrance brands have remained silent over the fines, both for legal reasons and to protect their positions, a number of vendors have spoken out against pressure to keep fragrance prices high.

A shop in Lyons was quoted as saying of Christian Dior, *"The threats were clear. If we sold for more than 10 per cent under the recommended price, Dior would cut the brand out."*

The Commission referred to the price-fixing as a pricing control system that involved *"checks on the prices practised, and pressure and threats of commercial retaliation against any distributor who refused to apply the prices imposed by the brand, preferring to let competition play by selling at lower prices."*

It also pointed out that although luxury brands are permitted to exercise a certain amount of control over the distribution of their products at retail outlets, the case in question had made it clear that selected distributors were not able to fix the margins, and therefore its own retail price.