

Research on the Development of China's Luxury Goods Industry-based on LVMH

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Abstract. LVMH, the leading conglomerate in the luxury goods industry, possesses a diverse portfolio of renowned brands. With projections indicating China's emergence as the largest luxury goods market by 2025, LVMH's notable growth in recent years can be attributed to the steadfastness of the Chinese market. This study aims to examine the successful case of LVMH in China, specifically focusing on the analysis of LVMH's product strategy and large-scale shop opening strategy in the Chinese market. Additionally, it will analyze the financial status of LVMH since 2021 and assess the future development prospects of LVMH in China and the global market. This analysis will be based on an understanding of the efforts made by LVMH in the Chinese market and its longer-term goals. Through a comprehensive examination of this notable case, recommendations can be formulated for local luxury brands operating in mainland China. Given the rapid growth of China's luxury market and the robust purchasing power of Chinese consumers, it is imperative to analyze how these publicly traded companies can effectively cultivate consumer preference within the favorable policy and market landscape in China.

Keywords: LVMH luxury Group, China's luxury goods industry, China's own luxury brands.

1. Introduction

1.1. Background

Since the onset of the 21st century, China's economy has experienced significant growth, mostly attributed to key initiatives such as the reform and opening-up policy and its membership in the World Trade Organization. As a result, China's gross domestic product (GDP) has consistently positioned itself among the leading economies globally, securing its position as the second-largest economy worldwide. Simultaneously, there is a progressive improvement in the income and consumption levels of the Chinese population. As national living standards in China have advanced, customers have increasingly sought out luxury items to enhance their enjoyment. Chinese consumers exhibit a strong preference for luxury goods due to their perceived comfort, brand prestige, and the provision of comprehensive after-sales services. China has emerged as the global leader in the luxury goods sector due to its substantial consumer base. The LVMH luxury group holds a significant market position in China, thereby placing significant emphasis on its trading activities within the market. The consortium comprises a collection of 75 renowned and exceptional brands, such as LV, Dior, and Bulgari, among others. The enterprise encompasses various sectors, including fashion apparel, handbags, cosmetics, and more. The company has established its headquarters in Hong Kong, which is widely recognized as the most advanced city in China's international trade sector. Additionally, the company has strategically positioned its brand stores in the vibrant business districts of key cities in China. These locations are currently experiencing the highest sales figures in the luxury goods market in China.

1.2. Related Research

Liu analyzed the marketing scenario and tactics employed by the long-standing brand Louis Vuitton in China. The author subsequently presents a series of viewpoints regarding the marketing and promotion strategies adopted by Louis Vuitton in the luxury market of China [1]. Wang provided a detailed analysis of the current state and distinctive features of China's luxury consumption market, while also examining the prospective trends for its future development. The essay points out that the

rapid development of China's luxury consumption and luxury sector has become an inevitable trend and therefore puts out important countermeasures to improve China's luxury consumption market [2]. Jiang et al. conducted an initial inquiry into the dynamic correlation between face consciousness and materialism in influencing the intention of Chinese consumers to purchase counterfeit luxury goods. The findings indicated that Chinese consumers tend to be motivated by the social implications of counterfeit luxury goods, as these goods are perceived to convey a prestigious social image to others. This preference can be attributed to the high level of social recognition associated with genuine luxury goods [3].

Mody analyzed the factors and potential strategies for promoting and cultivating transfer activities within the luxury goods business. This analysis is based on the current redefinition of the luxury industry, which pertains to the growing prevalence of products being marketed as luxury goods. The study investigates the potential for developing shifting-based activities within the luxury fashion, automotive, and jewelry sectors across different levels of the luxury hierarchy [4]. Ge and Li provided a comprehensive definition of luxury and analyzed the current progress of luxury companies following their establishment in China. They identified two significant challenges encountered by these firms, namely the issue of aging brands and the reliance on a single retail channel. Additionally, the authors highlighted two major problems faced by luxury companies about the development strategies adopted by certain luxury brands in China [5]. Lu employed a mixed-methods approach, incorporating both quantitative and qualitative methodologies, to examine the influence of frequent mergers and acquisitions within luxury conglomerates on the globalization of their brands. The study focused on the LVMH Group as a specific case, and Lu's findings revealed a strong positive correlation between the number of brands owned by the group and the global presence of their retail outlets [6].

Utilizing a phenomenological methodology, David and Eric successfully enlisted a cohort of 11 top executives affiliated with the LVMH Group in New York to engage in a comprehensive exploration of prevailing trends within the business. The research effectively recorded alterations in consumer mentality and perspectives on luxury, along with the challenges encountered by international luxury businesses in connecting with customers during the epidemic. The study also highlights the constraints and potential areas for further investigation [7]. Wang integrated the conventional perspective of luxury based on money with an alternative perspective that emphasizes luxury capabilities. This approach involved exploring the interplay between the wealth-based view and the capabilities-based view in the context of consumption objectives. The factors to be taken into account are the selection process and the utilization of resources, as well as the resulting consequences of consumption. The authors of the study have discovered both individual and social moderators. In the subsequent sections, the authors suggest future research questions and research propositions. This information may be found in reference [8].

Christine M. and Natalie A. examined how consumers form their perceptions of the value of luxury brands, as well as the factors that contribute to these perceptions. Specifically, the research focused on consumer knowledge, reference group influence, and accessibility as potential antecedents to these judgments. The research was carried out within the United States; however, it offers a more comprehensive viewpoint from the consumer's standpoint [9]. Mainolfi's study seeks to examine the interplay between cosmopolitan trends and patriotic sentiments among luxury buyers in the context of trade conflicts. Specifically, the study attempts to investigate how these factors interact with economic hostility and influence the intention to acquire luxury items from nations that are perceived as hostile [10]. Jia elucidated the correlation between the advancement of luxury commodities and the preservation of the environment within the framework of the Chinese economic paradigm. It was expounded that the majority of the primary resources employed in luxury goods emanate from the forestry sector, thereby establishing a strong interdependence between the growth of the luxury market and the progress of the forestry economy [11].

1.3. Objective

This study aims to analyze the impact of China's legislative changes during the epidemic on the Chinese luxury market, with a specific focus on LVMH as a case study. Additionally, it seeks to provide an analysis of the Chinese luxury industry. Chapter 2 of this study centers on providing an overview of the prevailing circumstances of LVMH in the Chinese market. This encompasses a review of the firm, its product distribution strategy, financial status, and other pertinent factors. Chapter 3 primarily centers on the overall state of LVMH as discussed in Part II, offering recommendations for the company's future progress in China. Additionally, it offers constructive guidance on how domestic Chinese businesses might effectively establish their presence in the luxury market within China.

2. Company Analysis

2.1. Product Layout

LVMH is a prominent conglomerate in the luxury industry that emerged from the merger between Louis Vuitton, a distinguished fashion and leather manufacturer, and Mot Hennessy, a renowned wine family. With a portfolio of over 70 globally recognized brands, LVMH has established itself as the largest conglomerate in the luxury goods sector worldwide. Through strategic mergers driven by capital operations, the LVMH Group has progressively expanded its presence across five key sectors: wines and spirits, fashion and leather goods, perfumes and cosmetics, watches and jewelry, and boutique retail.

The LVMH Group combines tradition and innovation in order to pass on the brand's spirit. The symbolism of the brand is explored through its history and stories: Louis Vuitton, which originated from the French royal family, has always advocated the philosophy of travel throughout its history and has constantly updated its travel stories, making the spirit of travel a unique style for the brand. Secondly, Louis Vuitton has become a trend-setter by catering to the needs of innovation and integrating products for sale, for example, by extending its classic products with a series of product extensions, demonstrating its extraordinary creativity. LVMH also insists on handcrafted products, utilizing its highly efficient design and manufacturing capabilities to demonstrate superior quality, creativity, and craftsmanship. Last but not least, LVMH has maintained a clear and consistent positioning over time, with the Louis Vuitton brand's elegance, sophistication, and perfection and its focus on heritage and innovation creating a distinctive brand image in the minds of consumers.

2.2. Financial Condition

The first quarter results for 2023 of LVMH Group, the world's largest luxury goods group, were released on April 12th. The report indicated that LVMH's sales surpassed expectations by 17%, primarily due to a significant rebound in the Chinese market, which offset the decline in the United States. As of the conclusion of March in the current year, the group's sales for the first quarter amounted to 21.035 billion euros, exhibiting a year-on-year growth of 17%. This figure is above market projections of 8.97%, indicating a greater performance than anticipated. Following the publication of the results report, LVMH U.S. shares experienced a notable increase of over 4% within a brief timeframe. Similarly, European shares also witnessed a 4% surge, leading to a new record high in the stock price and a market value of around 433 billion euros. To date, LVMH U.S. stock prices have had a cumulative increase of 30% throughout this year. From a business perspective, Sephora saw notable growth in its sales within the selected retail sector, with a year-on-year gain of 30% amounting to 3.961 billion euros. This surge in sales marks the highest growth rate among all business sectors. The fashion and leather goods businesses of LV and Dior experienced notable growth in sales, with an increase of 18% year-on-year, reaching a total of 10.73 billion euros. Similarly, the perfume and beauty business witnessed a growth of 11% year-on-year, generating sales of 2.115 billion euros. The watch and jewelry business also experienced an 11% increase in sales,

amounting to 2,589 million euros. Additionally, the Wines and spirits business observed a modest growth of 3%, resulting in sales of 1,690 million euros, as shown in Table 1.

Table 1. Revenue by business group

Euro millions	Q1 2023	Q1 2022	%Change Q1 2023/Q1 2022
Wines & Spirits	1694	1638	3%
Fashion & Leather Goods	10728	9123	18%
Perfumes & Cosmetics	2115	1905	11%
Watches & Jewelry	2589	2338	11%
Selective Retailing	3961	3040	30%
Other activities and eliminations	52	41	-
Total LVMH	21035	18003	17%

2.3. Development Status

The LVMH Group places significant emphasis on the expansion and growth of the Chinese market. In June 2023, Bernard Arnault, the Chairman of LVMH, undertook a visit to China, encompassing the cities of Beijing, Chengdu, and Shanghai. During his visit, he conducted tours of the retail establishments affiliated with his brand, spanning a total of 12 luxury stores across these three major urban centers in mainland China. During a conference call with analysts earlier this year, the speaker emphasized the significance of shops in the recovery of the Chinese market. The speaker stated that there is a diverse range of shops available, varying in size, and an increasing number of these shops cater to customers seeking higher-quality products and a more personalized shopping experience. From June 2022 to June 2023, LVMH's fashion, leather goods, watches, and jewelry divisions introduced 83 new shops in mainland China, spanning 20 cities. The city with the highest number of new shops was Chengdu, which serves as the economic hub of Southwest China, with a total of 20 shops. Following Chengdu, Shanghai and Nanjing in the Yangtze River Delta region secured second and third place, respectively, with 13 and 7 new shops. Furthermore, the expansion of new shops extends beyond Tier 1 cities, primarily targeting provincial capitals in non-Tier 1 cities. The aforementioned brands have established a distribution network in China, with 29% of their shops located in Tier 1 cities (namely Beijing, Shanghai, Guangzhou, and Shenzhen) and the remaining 71% in non-Tier 1 cities, excluding the aforementioned four cities. Notably, this expansion includes the establishment of shops in 12 provincial capitals, namely Hefei, Xiamen, Guangzhou, Nanning, Guiyang, Zhengzhou, Wuhan, Nanjing, Jinan, Taiyuan, Chengdu, and Hangzhou. These statistics indicate that LVMH is strategically increasing its presence in China, moving beyond its previous focus on economically developed cities and gradually extending its reach to second-tier cities.

In light of China's rapidly growing economy, substantial population, increasing national income levels, and the ongoing enhancement of duty-free shopping policies in Guangdong, Hainan, and other coastal regions, it is anticipated that LVMH, a prominent luxury goods conglomerate, will expand its market presence in China. Furthermore, the robust purchasing power of Hong Kong and Macau, along with their pivotal role in the development of the luxury market within the China Great Bay Area, further contribute to the positive outlook. As China's demand for luxury goods continues to rise, an analysis of LVMH's financial performance in the Chinese market over the past year suggests that the company will prioritize investments in this market. Consequently, it is expected that Chinese consumers will generate satisfactory profits for LVMH.

3. Recommendations and Implications

3.1. Store Design and Layout

In order to optimize its market presence and strategic blueprint in the Chinese market, LVMH ought to consider augmenting the scope of luxury brand penetration. Given the substantial population of 1.4 billion individuals in China, along with the remarkable pace at which its economy is expanding,

it is evident that numerous cities inside the country have already cultivated a significant segment of affluent consumers. As an illustration, Chongqing, which is classified as one of China's four municipalities, currently has a resident population of over 32 million individuals as of 2022, positioning it as the second most populous city globally, trailing solely behind Tokyo, Japan. In addition to its substantial population, Chongqing exhibits noteworthy economic progress. Notably, during the initial half of 2023, Chongqing's Gross Domestic Product (GDP) secured the fourth position in China, following the prominent worldwide metropolises of Shanghai, Beijing, and Shenzhen.

There are several cities, such as Chongqing, where the local populace exhibits robust purchasing power. These cities also boast expansive commercial districts that offer opportunities for establishing retail outlets. LVMH, a prominent player in the economic hub of southwest China, Chengdu, has devised a comprehensive strategy to capitalize on the profitability of opening numerous stores in this region. Moving forward, LVMH's expansion plans in China should prioritize the strategic placement of outlets in second-tier cities like Chengdu, Chongqing, Hangzhou, and others. This approach aims to broaden the company's consumer base and augment market size, ultimately leading to increased profitability.

3.2. The Impact of Finance During the COVID-19 Pandemic

One of the primary consequences of successive waves of epidemics on the general population is the observable depletion of their financial resources and a notable decline in their purchasing capacity. However, it is worth noting that luxury conglomerate LVMH has experienced a significant surge in both sales and profits. The rationale behind this phenomenon can be attributed to the consistent expansion of the Chinese market. Despite the constraints imposed by the epidemic, China's affluent population has demonstrated robust purchasing power in the luxury goods sector. Consequently, LVMH has maintained a favorable position in the Chinese market due to China's centralized epidemic control policies. Notably, even with limited international travel and the adverse impact on individuals' income, the Chinese luxury goods consumer base remains substantial. This has enabled LVMH to generate profits in China, mitigating some of the setbacks experienced in developed markets during the epidemic. Analysis of LVMH's financial statements for 2021 and 2022 reveals a significant growth in revenues and profits in 2022, a period marked by a more prevalent epidemic. This growth can be attributed to the stable development of the Chinese market, which has provided substantial support for LVMH's financial performance, as shown in Table 2 and Table 3.

Table 2. LVMH earnings profile (Euro millions)

	Through December 31,2022	December 31,2021
Total Revenue	79184	64215
Gross profit	54196	43860
Operating profit	21018	17122
Net income	14084	12036

Table 3. Growth rates of indicators

Gross margin TTM	68.72%
Operating margin TTM	26.41%
Net interest rate TTM	18.93%
Return on investment TTM	17.18%

During its meeting in the China region, LVMH acknowledged that the ongoing epidemic has resulted in alterations to the consumer composition. Specifically, it was seen that there has been a notable increase in the number of ultra-high-net-worth clients and their corresponding purchasing activities. Henceforth, LVMH aims to cater to the discerning preferences of the ultra-high-net-worth segment by persisting in the development of upscale product offerings while concurrently

implementing price increases to gradually eliminate the diminishing customer base with no disposable cash.

3.3. Forecasting the Chinese Market

The confluence of the epidemic and the complete liberalization of the Chinese market in the initial six months of 2023 imply that LVMH's forthcoming endeavor in the Chinese market holds promising prospects. With the implementation of optimized and adjusted anti-epidemic policies and the subsequent recovery of travel consumption since the conclusion of 2022, coupled with the increased enthusiasm for travel and the surge in holiday consumption since the onset of 2023, China's unparalleled advantages in terms of overall economic volume and market size, along with its status as the world's foremost consumer market for fashion and luxury goods, as well as its significant position in terms of retail infrastructure, e-commerce development, technological innovation, and various other dimensions, LVMH remains highly confident in the Chinese market. The company continues to express its unwavering commitment to further increasing its investments in this market.

China's domestic luxury brands are currently facing challenges in their development. To overcome these challenges, independent luxury brands should adopt strategies similar to those employed by established luxury conglomerates such as LVMH. By focusing on product layout, these brands can position themselves to take advantage of future opportunities in China, which is the largest luxury market globally. This will enable them to attract the attention of high-spending consumers. Additionally, these brands must prioritize the high quality of their products. For instance, companies like Guizhou Moutai Baijiu Group and Tianjin Seagull Watch Group should ensure that their products meet exceptional standards. By doing so, they can secure a significant market share and establish a competitive edge against foreign luxury conglomerates. Ultimately, these efforts will contribute to the further growth and development of China's luxury market.

4. Conclusion

This paper has examined the reasons for LVMH's success in the Chinese market and, based on its success, has made recommendations for the next step in the development of Chinese luxury brands. LVMH has been gradually focusing on the Chinese market, which has a large population base, since the time of the pandemic, and with the support of China's high-income population, LVMH will still maintain high profits in 2021 and 2022 and have a certain upward trend. Thus, in 2023, mainland China adjusted the corresponding policy, the large-scale expansion of the market, as well as the further layout of the products, thus enabling LVMH to create a new high turnover in the first half of 2023. Certain Chinese local luxury brands should focus on meeting their own development requirements, as they possess distinct characteristics that differentiate them from European and American luxury goods. These brands have inherited traditional Chinese culture, but they currently face challenges in terms of product positioning and consumer purchasing behavior. To address this, it is crucial to draw lessons from traditional European and American luxury goods conglomerates. Additionally, integrating online sales and adopting a nationwide market perspective are essential strategies. Simultaneously, effective advertising campaigns must be implemented to align with the thriving luxury goods consumption market in China. Simultaneously, it is imperative to enhance our product layout and broaden the market scope in order to cater to the preferences and requirements of domestic consumers seeking Chinese luxury brands.

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