

DOI 10.58880/DKU.2022.02.016

MPHTI 06.52.13

**ANALYSIS OF EXTERNAL FACTORS IN THE MARKET OF SUPER LUXURY
GOODS ON THE EXAMPLE OF THE COMPANY LVMH**

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Summary

This article is about external influences on LVMH in the European market and what conclusions can be drawn from them.

Key words: PEST-Analysis, LVMH, influence, super luxury goods, revenues.

Introduction

The success of a company depends on numerous factors. These can be internal as well as external. While internal factors are usually based on human capital, labor efficiency, patents and business model, they are individual to each company. External factors usually affect an entire industry and its market participants. The latter can often hardly or not at all be influenced by the company, which is why it is important to look at them regularly to be able to make strategic decisions in response to the changing environment.

The company Louis Vuitton Hennessy & Moet (in short form LVMH) is a luxury conglomerate with over 80 brands, which has been successful for over 160 years [1]. In today's fast changing environment, it is important to analyze and evaluate external factors on a regular basis. The purpose of this report is to answer the following three questions:

- What are the external factors to which the LVMH luxury conglomerate is exposed?
- How will these factors affect the company's sales and profits in the future?
- Which factor has the greatest impact on the future success of the company?

In order to answer these questions, a PEST analysis is conducted in the following report.

The keywords of this articles are: PEST, luxus, economic growth, business, environment.

Methodology

PEST is an acronym for four sources of change: political, economic, social, and technological. PEST analysis is a powerful and widely used tool for understanding strategic risk. It identifies the changes and the effects of the external macro environment on a firm's competitive position. The external environment consists of variables that are beyond the control of a firm but require analysis to realign corporate strategy to shifting business environments. Firms operate as part of a larger ecosystem. They are vulnerable to a variety of exogenous factors, which can have a major impact on the firm's competitive positioning. Strategists seek to understand external factors and evaluate how business models will have to evolve to adapt to their environment. The impacts of external factors are mitigated through preemptive strategy, and opportunities are exploited in the wake of new competitive positions that may be created in the process [2]. All in all this method helps companies to analyze their external environment. In the following analysis, the most important influential factors for LVMH are analyzed and interpreted.

Results

Although there are many factors that have an impact on the company there are few factors that have a significant impact on the profits and sales of the company. This is mainly since LVMH operates in the ultra-luxury segment. This market is considered to be particularly crisis-proof, as evidenced primarily by the fact that LVMH has been able to increase sales even in times of war. Due to the additional exclusivity, around the status built up over 160 years, they usually remain unaffected by crises. At the same time, the upper class, that is, LVMH's target group is always interested in spending money [3].

Political	Economic	Socio-cultural	Technological
<ul style="list-style-type: none">• Extent of intellectual property protection and copyright law	<ul style="list-style-type: none">• Level of disposable income• Rate of economic growth• Level of development of entrepreneurship and business environment• Level of globalization and openness of economy• Level of banking development	<ul style="list-style-type: none">• Requirements for the quality of products and level of service• Lifestyle and consumption habits• Culture of savings and credit formation in the society	<ul style="list-style-type: none">• Internet development and penetration, development of mobile devices

Figure 1: most important influential factors based by own secondary information

Political Factors

The most important political influencing factors are:

- *Extend of intellectual property protection and copyright law.* This factor poses a threat to the entire industry as well as to LVMH, as expensive products are frequently copied. According to a 2017 survey, Luis Vuitton is the most copied brand in the world, with at least 72% of all products in circulation being imitations. Although in Europe this right is strongly protected, LVMH is involved in an average of 30,000 lawsuits against counterfeiters annually, which leads to high costs but also affects other market participants. One way to change this situation in the long term is to lobby politicians to enforce tougher laws and penalties against counterfeiters [4].

Economic Factors

There are 5 economic external factors that are all interrelated and can have an impact on the industry as well as LVMH. These are the following:

- *Level of disposial income* - if disposable income increases, the likelihood of generating more sales also increases. At the same time, the industry's attractiveness is also likely to increase, which may lead to more competition. Although LVMH would benefit from this by generating more sales and a higher gross margin, shifting the focus to developing markets is also an important action, as incomes there are rising faster than in developed countries [5].
- *Level of globalization and openness of country globalization* has brought prosperity to many people. Although globalization in Europe is at a high level of development, an increase in market openness can lead to further prosperity, resulting in more disposable income. This should lead to greater demand throughout the luxury industry [6].
- *Level of banking development and entrepreneurship and business environment.* The point development of the banking sector is strongly related to the level of development with entrepreneurship and the business environment. Thus, the banking sector grows concurrently with the development of entrepreneurship, but also acts as an accelerator for the general business environment, as it acts as a lender to encourage and enable the start-up of new activities. Both factors are essentially responsible for income growth and an increase in the density of millionaires within society [7].
- *Rate of economic growth.* All the factors mentioned here can have either a positive or negative impact on European economic growth. Therefore, it is important to look at the overall economic development in the euro area, because this is linked to the size of the target group and thus the size of the turnover and profit [8].

Social-cultural

Consumer behavior determines which products are purchased and which products are avoided. Although consumer behavior changes regularly in most segments, this does not apply to the ultra-luxury segment. Rather, the number of millionaires is increasing, all of whom have a similar behavior pattern, from which the luxury industry has been benefiting for years [9].

- *Requirements for the quality of products and level of service* - It has been observed for some time that people's quality expectations are rising. This plays into the hands of companies in the luxury segment. They are thus able to sell more products and increase their profits. However, for many companies that are not in the ultra-luxury segment, an increase in quality demands can be a major problem. They need to make investments to increase their product quality. Louis Vuitton is not affected by this, as they already offer the best possible quality [10].
- *Culture of Savings and credit formation in the society* - consumers' saving habits only indirectly influence luxury spending. This is because traditional ultra-luxury buyers have less to save, as they generally have multiple income streams [11].

Technological

Technological development, especially the development of the Internet and the market penetration of mobile devices, has significantly changed consumer behavior in recent years.

- *Internet development and penetration, development of mobile devices* - this factor has changed consumer behavior in that consumers expect their goods to be available more quickly. Whereas 20 years ago, luxury items were predominantly purchased in physical stores, the proportion of online orders is growing rapidly. The luxury industry, as well as Louis Vuitton, recognized this trend early on and responded with appropriate measures [12].

Even though there are many other factors, a consideration of each factor is not very useful, as they have little to no influence on the business success of the company. Currently, the economic development in Europe in particular plays into the luxury industry's cards, as this leads to higher income overall and thus to potentially more consumers.

Discussion

When looking at the most important external factors, it is striking that none of them represent a new trend in recent years. The factors mentioned above have existed for many decades (except internet) and are well known to all participants in the industry. Only an emerging environmental awareness could trigger a possible change in consumer behavior. But this has also been an influencing factor in most countries for a long time.

Finally, it can be said that LVMH has a very strong market position and sales and profits are hardly influenced negatively by the environment. This is due to three factors in particular:

- The target group, which consists largely of millionaires and high earners. These are less susceptible to changing their consumer behavior due to a crisis. It can therefore be assumed that the demand for LVMH products will continue to grow constantly and slowly.

- Unique image and market power. LVHM stands for uniqueness and individuality. Values that are becoming more and more important, especially in societies with strong consumption. In addition, LVHM's broadly diversified product portfolio and massive cash reserves put it in the best position of all market players to respond to external forces.

- Increase in global prosperity. Globalization, rising productivity and efficiency have led to people having more and more money at their disposal. As a result, not only the urge for individuality but also the purchasing power of mankind is growing. The number of millionaires has risen steadily in recent years and is expected to continue rising. This is the most important external factor for LVHM. This results in a simple correlation. With the number of millionaires, the number of customers increases, thus the sales grow. In addition, prices are increased every year, which leads to higher margins and a higher profit.

Conclusion

As long as the global prosperity increases, it can be assumed that LVHM will continue to be successful. It is inconceivable at this point in time that an external factor could have a serious negative impact on this successful company, let alone bring it down. Further evidence of LVHM's stability and resilience can be found in its 160-year history. The company has survived both world wars and numerous financial crises in recent decades.

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LVMH в Европе - анализ компании, ее бизнес-модели, потоков доходов и будущих перспектив на европейском рынке

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Эта статья о внешних воздействиях на компанию LVMH на европейском рынке, а также о том, какие выводы можно сделать о них.

Ключевые слова: PEST-анализ, LVMH, влияние, предметы суперлюкса, доходы.

Түйіндеме

Еуропадағы LVMH - Компанияның талдауы, оның бизнес үлгісі, кіріс ағындары және Еуропа нарығындағы болашақ перспективалар

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Бұл мақала еуропалық нарықтағы LVMH үшін сыртқы әсерлер және олардан қандай қорытынды жасауға болатыны туралы.

Түйінді сөздер: PEST талдауы, LVMH, әсер, люкс элементтер, кірі.

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