Proceedings of ICFTBA 2024 Workshop: Human Capital Management in a Post-Covid World: Emerging Trends and Workplace Strategies
DOI: 10.54254/2754-1169/146/2024.LD19060

A Study on Merger and Acquisition (M&A) Strategy of Luxury Groups: Using LVMH as an Example

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Abstract: This research examines the merger and acquisition strategy of luxury corporations, focusing on LVMH. The first section focuses on a large-scale literature review. It discusses the history of the luxury industry and the concepts that underpin merger and acquisition strategy. The description of the luxury sector as the epitome of the non-proletarian class and its transformation into a more accessible "mass luxury" market concluded that this change was driven by a variety of transforming influences, including price reductions and sales of luxury brands as a result of the globalisation process, as well as cultural and social influences. Simultaneously, the basic acquisition process is founded on the idea that luxury conglomerates typically purchase luxury brands to gain a competitive edge, expand their market position, and enhance their brand portfolios. As a result of the observed congruence between the features of the luxury industry and the aims of its acquisitions, LVMH made several successful acquisitions, including its largest-ever purchase - Tiffany & Co. As a result, the collected data identify the most important aspects that contribute to successful acquisition in the luxury industry. The findings contribute to the identification of a wide range of difficulties, enabling the optimization of luxury groups' acquisition strategies and ensuring their long-term development growth by combining these approaches while maintaining the independence and exclusivity of acquired brands.

Keywords: Merger and Acquisition, Luxury group, LVMH.

1. Introduction

Luxury fashion, originating from the Latin term ‘luxus’ signifying excess or superfluity, has transformed over the years. Formerly associated with acquiring assets and fulfilling hedonic needs, luxury has evolved to encompass rarity, quality, and semiotic meaning. Fashion luxury is one of the small minority of industries that grew rapidly in the past years, the fastest-growing industry, and firms got double-digit growth rates in the last few years. Strategic M&A typically drives this expansion, allowing companies to enhance their brand portfolios and go-to-market strategies. This growth has been achieved through strategic industry consolidation through M&A, specifically [1]. Thus, buying other luxurious brands helps companies strengthen market positions, optimise their performance, and sustain a competitive advantage within the elite segment. LVMH Moët Hennessy Louis Vuitton (LVMH) can be described as a great example of successfully implemented M&A strategies in the context of luxury business. LVMH has become synonymous with the luxury industry and was a great example of companies which are able to utilise Merger and Acquisition as one of its core value-

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creation pillars. As of this writing Moët Hennessy Louis Vuitton, LVMH, has been established as a global conglomerate with total assets of over 44 billion, having used acquisitions as one of its most significant growth strategies, making it the world's largest luxury goods company and one of the largest global companies. Although it was established in 1987, LVMH has shown the ability to generate value through strategic acquisitions, brand additions, and new market access without compromising the prestige of its products. This company is an obvious case showing the significance of merging and acquisition and could also represent the overall trend of the luxury industry, one of the leading firms in luxury industries that have experienced double figures growth in the last few years. This research aims to identify LVMH's M&A strategy and examine it using the acquisition of Tiffany & Co. The importance of the acquisition, its implications, and its process will be studied. This research work will also analyse and explain the successes achieved through LVMH's M&As so far and suggest how it could further enhance its M&A strategy for future operations.

Merger and Acquisition is the fastest way for companies to grow, combined or consolidated.

2. Literature Review

2.1. Overview of the development of the luxury industry

Most of the luxury brands were born in the early 20th century for people of high status to purchase exclusive and extraordinary products and were only affordable for few. In the late 20th century, these brands broadened their customer base by offering more affordable goods. This caused the appearance of mass luxury brands, with products at a more reasonable price but could be considered as luxurious goods. Most luxury brands were born in the early 20th century for people of high status to purchase exclusive and extraordinary products and were only affordable for a few. In the late 20th century, these brands broadened their customer base by offering more affordable goods. This caused the appearance of mass luxury brands, with products at a more reasonable price but could be considered luxurious goods.

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The change in trends among consumers has been considered among the leading causes of the growth in the luxury sector. In the past, luxury products could be purchased only by the elite. In contrast, in the past several decades, firms that operate in this sector have lowered brand entry prices but have kept their products elite nonetheless [2]. China is expected to take the lion's share in the luxury goods market by 2024 with a market size of USD 102 billion, and this is closely trailed by the United States, which has quickly recovered its luxury sales through confidence and higher demand for luxury fashion and accessories (see Table 1). Regarding market distribution, online or remote sales have become more critical for guaranteeing revenues. According to the predicted statistics, 15% of people will have functional limitations by 2024 [2]. Thus, it was forecasted that 4% of all luxury product sales would occur through eCommerce networks. This growth indicates that the industry is innovating and adapting to changes in technology and consumer behaviour, mainly due to the COVID-19 outbreak, which has shifted online shopping behaviour. According to analysis, the total per capita revenue could be 61 USD in 2024.

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Table 1: Growth Trajectory of Luxury Markets

Year	Global Luxury Goods Revenue (USD Billion)	Revenue Change (%)	Online Sales Share (%)
2018	375.74	3.70%	10.30%
2019	399.55	4.10%	10.80%
2020	338.14	-15.30%	15.50%
2021	382.17	13%	14.30%
2022	405.92	4.90%	15.50%
2023	454.31	3.90%	15.40%
2024	473.90 (forecast)	4.30%	15.4% (estimated)

2.2. Theory of Merger and Acquisition

The theory of mergers and acquisitions describes scenarios organisations use when they want to expand to a certain extent to achieve efficiency in their operations. M&A activities mean that businesses can expand their market position in the global environment and become more competitive by buying firms that already occupy a dominant position in the market [3]. The main aims of M&A are to allow companies to run their operations more efficiently and empower them with solid brands that come with the acquired businesses, their solid customer base, and expertise [4]. For instance, sector-wise M&A transactions in metals and energy in 2018 also highlighted that it was a USD 60 billion business and suggested it was a global activity[3]. Because the luxury industry is highly competitive, theories of M&A have proved to be strategic. The strength of acquired brands is that they have their parent company to support them financially and technically and help develop them, increase their markets, and introduce new brands and products while maintaining the brand's identity.

3. Analysis on Merger and Acquisition of LVMH

3.1. Review of past Merger and Acquisition Cases

LVMH has 75 distinguished Maisons rooted in six different business segments and has completed 41 diversifying acquisitions, with an average of 5.5 billion acquisition amount, most active in 2022 and 2023, with 6 and 7 acquisitions respectively. LVMH has employed acquisition strategies that offer it complete control over the luxury market by purchasing well-known brands with set market standards. Among the significant acquisitions by LVMH in recent years, the flagship one was of Tiffany & Co. in 2021, worth $15. 8 billion [5,6]. This acquisition was strategic as it enabled LVMH to cornerstone its penetration into the United States luxury jewellery segment and fortify its status within the international luxury goods industry. The acquisition of Tiffany & Co. to LVMH’s Watches & Jewelry increased the profit margin by threefold the size of the division over the last decade [5]. True, LVMH has been influential in acquiring these companies by providing great care in sourcing brands that fit in the existing LVMH family and, at the same time, those that will guarantee sustainable growth in the future. In addition, LVMH has a good record of acquiring and running new brands, as it did in the case of Bulgari, which it bought in 2011. These acquisitions have been strategically helpful for LVMH to strengthen upscale jewels and time segments; it keeps a healthy high-profit margin while ensuring the target brands’ differentiation. The expansion strategies LVMH has employed, mainly in luxury jewellery, have been significant keys to creating a solid market presence in the global market [6].

3.2. Significance of Merger and Acquisition

Even though Moët Hennessy Louis Vuitton, LVMH, was formed in 1987, its subordinate brand has roots dating back centuries and was the world's biggest multinational holding company and conglomerate specialising in the luxury industry. Acquisition is indispensable for the rapid expansion of LVMH, out of the 75 brands of LVMH, 41 were brought by acquisition. The use of M&As plays a significant role in LVMH’s growth strategy since it enables the conglomerate to diversify its brands and sustain its dominance in the luxury sector. Using analysis of LVMH, it can be noted that the company has implemented several strategic acquisitions within the last ten years with the potential of delivering sustainable value to shareholders. Some of these include recent acquisitions like Tiffany & Co. in 2021 and Bulgari in 2011, where LVMH can harness the acquired brand's reputation, quality, and experience in the market [5,7]. The expertise that LVMH has gained in acquiring different brands proves that the company has learned how to manage the incorporation of these brands while at the same time maintaining their distinct characteristics.

Tiffany & Co, which is now part of LVMH, was acquired in 2021, and it provided significant support to the consolidated financial structure and its position within the group that specialises in luxury products, including the jewellery sector. LVMH Company’s financial performance significantly enhanced after a particular acquisition, as the Watches & Jewelry division increased by 55% for the subsequent year of the deal [8]. Tiffany & Co.’s reputable brand image, returning customers, and origin history allowed LVMH to increase its sales and diversify in the American luxury jewellery market, thus becoming profitable. The above deal increased LVMH's market share.

4. Case Study: Public buyout of Tiffany & Co

4.1. Background

The taking over of Tiffany & Co in 2021 could be considered as the largest luxury acquisition ever and the most significant and successful acquisition LVMH had done. It was a $15.8 Billion acquisition as Tiffany & Co was an American luxury jewellery brand that lasted for almost two centuries and was listed as one of the world’s largest and most iconic jewellery brands. LVMH realised the potential to reinvigorate Tiffany & Co.’s growth and synergize the business with its broad multi-brand luxury group. The acquisition was strategic for Tiffany as it got an opportunity to leverage LVMH in the international market, specifically in digital marketing, supply chains, and aspects of new products [9]. LVMH has tried to transform Tiffany into the new age by seeking its expansion in the Asia-Pacific region, particularly the Chinese market, and introducing products that would suit the young generation. This acquisition has made LVMH one of the largest luxury goods makers in the world, and this has also helped Tiffany & Co. to be relevant in the jewellery market.

4.2. Process

This acquisition was in process for around two years, since 24 November 2019, the boards of both LVMH and Tiffany & Co announced the headline-making deal that LVMH would acquire all shares of Tiffany & Co for a total of $16.2 Billion. However, in 19 March 2022, a report from Bloomberg indicates that LVMH requested to buy the shares of Tiffany & Co using a lower price than the open market, declaring that the Covid-19 pandemic driven slump and from 2 June 2020 to 28 October 2020, Tiffany & Co and LVMH had a disputation in the price of the shares of Tiffany & Co, both working hard to gain favourable conditions for themselves, Tiffany & Co even files a lawsuit in the Court of Chancery of the State of Delaware, alleging that LVMH should follow the contractual obligation under the merger agreement. Until 29 October 2020, after a long term of lowered bids, lawsuits, and antitrust investigations, the two companies finally managed to salvage their deal, with the result that

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LVMH pays $131.5 per Tiffany Co's share, meaning that LVMH could have enjoy a discount of $425 million, saving LVMH 3% of the initial deal price. On 7 January 2021, this acquisition was confirmed to be completed.

4.3. Result Analysis

In 2021, Tiffany & Co brought LVMH a 6 billion profit, and in 2022 Tiffany's profit had doubled since the acquisition 2 years before, exceeding one billion in profit from recurring operations which had never happened. The Chief Executive Officer of LVMH even commented that if Tiffany & Co was listed today, it would be worth twice the price LVMH had acquired. Tiffany&Co's strong performance prominent the remarkable management and strategy of LVMH after it took over Tiffany & Co.

5. Factory behind the success of LVMH's Merger and Acquisition

5.1. Brand Management and integration

LVMH have mainly focused on the decentralised structure of the group, with each maison having completely creative control and innovations. LVMH was also professional in advertising by posting more emphasis on the social media and celebrities which could help the brand to successfully reach the young generations.

5.2. Marketing Positioning and Expansion

LVMH has all its brands being built on specialty legacy and staying true to craftsmanship, creativity and exclusivity. As Bernard Arnoult, the CEO of LVMH had said, LVMH never charged people a premium price as what they expected, they were successful only because they gave their artist freedom, and break-out products were obtained. LVMH only focused on making high quality goods.

5.3. Focus on the young consumer market

In recent years, the purchasing power of the younger generations has increased, and there is data showing that these generations are expected to make up to 70% of the whole market by 2025. LVMH was the one of the fastest companies changed by letting its subordinate brands to be signed jointly with more trendy brands or celebrities, for Louis Vuitton, LV, it recently joints with Talyor Swift, American singer-songwriter and Kusama Yayoi, a Japanese contemporary artist, popular among young people. The joint products were also favoured by the young, you had to place an order and queue for it.

6. Improvements for LVMH

6.1. Improvements in LVMH's Merger and Acquisition Strategy

To enhance the effectiveness of its mergers and acquisitions (M&A) strategy, LVMH can focus on two critical areas: the elaboration of the mid-price range lineup and the development of the watches segment. Using the above strategies is not only useful for varying LVMH's present offerings but also increases its competitive advantage in the luxury products segment.

6.2. Managing the Mid-Range Product Line

As for recommendations that will enhance LVMH's M&A strategy, it is possible to highlight that the company can and probably should continue increasing the focus on offering mid-range products.

Focusing on the mid-price segment would be suitable for LVMH because although the company has excluded itself from the mid-tier goods market and is targeting a higher-price segment of the luxury goods market, broadening the target group would benefit the group. The present strategy could be of great essence, especially in markets with a higher prevalence of middle-class income earners, specifically in Commonwealth Countries like China and India. Thus, by having its mid-range luxury brands in the LVMH portfolio, it could establish LVMH as a strategic player across a broader range of luxury segments that target not only the pure 'affluent' consumers but also the 'aspirational' luxury consumers who desire luxury, but they cannot afford to pay a 'premium' price for the brands. This diversification would also benefit LVMH because mid-range products have more minor fluctuations in their sales during the economic crises than high-end luxury products.

6.3. Extension of Investments in the Field of Watches

TAG Heuer and Hublot are part of the LVMH portfolio, and the company operates in the watch segment; thus, more focus on developing this sector could benefit it. The global luxury watch market remains expanding mainly due to the impact of consumers' preferences for nostalgia, quality artistry, and the prestige that comes with owning timepieces of high-end brands. LVMH could develop its collection and address the demand for more exclusive brands and the new consumer segment that is anxious to buy their first luxury watch. Also, developing smartwatches or incorporating high technology into watches may attract the younger clientele looking for luxury with a twist of new technologies. This would put LVMH in a vantage position in aiming to capture all the emerging markets in commodities while at the same time retaining its standards in luxury and creation.

7. Conclusion

This research examined the M&A approach of LVMH, paying attention to information on how the firm has grown its luxury goods segment through acquisitions of other companies like Tiffany & Co. Consequently, the research shows how LVMH has used M&A to enrich its brand range and enhance its positioning for growth in an industry that has become complex and competitive. Nevertheless, there are limitations to this study. There are some limitations, the primary of which may be viewed as the limited data set adopted for the analysis with significant detail on a few significant acquisitions. Still, one must admit that a more detailed exploration of other, comparatively smaller and less prominent acquisitions may offer a broader and more accurate picture of LVMH's M&A strategy. As for future studies, details on several aspects can be explored further. For instance, the prospects and synergy of the companies LVMH acquires, especially those in emerging markets, shall also contribute further information to confirm the company's M&A strategy.

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