

Analysis Of LVMH Buying Tiffany

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Abstract: LVMH announced a \$15.8 billion acquisition of Tiffany, which attracted wide attention around the world. As the biggest one in the luxury industry so far, it invokes debates and analyses not only from professionals but also from luxury amateurs. There are fans of each side that doubts whether the other side deserves LVMH (or Tiffany) to spend so much money (or to be acquired). Also, many are skeptical about the price tag and questioned whether LVMH, a French luxury-goods group, can manage Tiffany of America. This paper will analyze the brand status quo and business models of LVMH and Tiffany in detail and the trend of this huge acquisition. As two giant groups, LVMH has the BATNA to turn its focus on its already got brands and Tiffany has the BATNA to cooperate with other groups. Though the luxury industry is facing the challenge of the effect brought by Covid-19, as the analysis keeps going on, it can be concluded that the development prospect of this acquisition is promising and hopeful.

1. Introduction

LVMH is the world's largest luxury group, and its luxury brands such as Louis Vuitton, Dior, Fendi, and Givenchy now have great influence among the world. It has extensive exposure to the sub-industry of luxury goods and enjoys high recognition and brand reputation in the European market, so it can be called a giant in the luxury industry.

Tiffany is a jewelry luxury brand born in New York. Because of its strong brand effect and significant brand culture, Tiffany is now the sales champion in the luxury industry. Its star product Tiffany Solitaire has become the wedding ring of dreams for millions of consumers. Despite its high prices, Tiffany still attracts a large number of young fans, as well as customers in other age markets, who yearn for fancy love.

In the context of the fashion industry, fast fashion brands like ZARA are becoming more and more popular with the public. In the current epidemic situation, the slowdown of economic growth has reduced people's demand for luxury goods. LVMH and Tiffany need to face such background conditions together and find out Tiffany's own road to success.

Few literatures have been collected about how LVMH operates Tiffany after the acquisition, and there are rumors that the acquisition of Tiffany failed, but no specific literatures have been found to elaborate. By analyzing the brand history and operating status of LVMH and Tiffany, the BATNA of both sides in the case of LVMH's acquisition of Tiffany is explored, and the brand development of Tiffany after the acquisition is conceived. In this paper, LVMH and Tiffany's respective business models and weaknesses will first be focused on and interpreted. Then it comes to the analysis of the acquisition process and the analysis of developing strategies after the acquisition. Finally, the conclusion of this acquisition will be generated.

2. Acquisition Analysis

2.1 LVMH's and Tiffany's Profiles, Business models, and Business weaknesses

(1) LVMH's Profiles, Business models, and Business weaknesses

Louis Vuitton Moët Hennessy, abbreviated as LVMH, was founded in 1987 by the combination of Louis Vuitton and Moët Hennessy. Owning about 56000 employees, LVMH, the biggest luxury group in the world, includes more than fifty brands. In Forbes Global 2000 list, LVMH ranks at No.73. Wines and Spirit, Fashion and Leather Good, Perfumes and Cosmetic, Watches and Jewelry and Selective Retailing are five main areas it involves. As a top luxury group, the most powerful competitors are Richemont and Kering. However, the market value of 250 billion Euro makes it the top in its industry.

In terms of business model, LVMH keeps expanding and acquiring luxury brands and has strong integration ability. Among them, the most famous LV integration principle is “exploring brand history” – outlining brand characteristics, finding suitable designers to express brand genes, straightening out sales channels and creating market images [1]. After turning the acquired Louis Vuitton into a leader in luxury goods by this principle, LVMH has also successfully operated many well-known brands such as Fendi, Givenchy, Dior, Guerlain, Bvlgari, and Celine by it. The success of LVMH's strategically acquiring luxury brands must attribute to Bernard Arnault, its biggest shareholder. After holding shares in LVMH, he acquired many potential brands with sharp vision and paid attention to protecting its corporate culture, combining the original corporate culture with LVMH's business model. “Managing effectively depends on our culture,” Arnault said, “If we don't give them enough freedom, they can't create great products with the necessary aura. Success will depend largely on how well you manage these two seemingly contradictory forces.” He gives designers the freedom of product design as much as possible, pursuing the quality of products, promoting resource sharing and cooperation between brands, but ensuring the independence of brands. In production, publicity and sales, he follows his own principles and has his own standards and rules. Under the condition of ensuring sales volume, he constantly improves brand reputation, creates exclusive brand image and occupies the luxury market [2].

When analyzing LVMH's Business Model with SWOT Model, LVMH's Strength, Weakness, Opportunity and Threat are clearly displayed. First of all, in terms of Strength, LVMH ranks first in both scale and income in the industry, and has a great advantage in existing customers and market share. From the successful operation of several brands, it can be concluded that LVMH's integration ability is also beyond doubt. Taking Matthew effect to analyze, it can be concluded that LVMH has great hope for further development and improvement in the industry.

Secondly, LVMH's Weakness is mainly the limitation of its customer group. LVMH faces the urgent need to keep up with the consumption habits of the new era. On the whole, observing LVMH's biggest brands, it can be found that LVMH's main audience is middle-aged people. For example, Louis Vuitton's design is more in line with traditional styles and styles favored by middle-aged people, but it lacks internal sense of innovation and uniqueness, which makes it difficult to attract young consumers. And now the main consumer has gradually turned to the spending ability of the youth group, their requirements for products more modern. The high-end and traditional nature of its marketing strategy has prevented it from reaching the wider middle and lower classes. In a 2014 interview with former LVMH CEO Pierre-Yves Roussel, he said he would not sell LVMH products over the Internet [4]. Although most of LVMH's brands have opened their official website and online sales channels, it can be seen that LVMH's internal culture is relatively conservative, which is also one of the reasons that hinders the promotion of LVMH's products to the younger generation. In addition, many of LVMH's brands are limited to specific regions (The United States and Europe) and lack of Asian market due to insufficient promotion and untargeted marketing, resulting in the loss of a large part of consumer groups.

In the context of the new era, LVMH faces many Opportunities. Such as social media marketing and promotion of media bloggers from, the Internet is LVMH fastest the best way to come into contact with the young consumer groups, through a series of new media marketing, such as opening the official

video account and regularly publish high quality work, work with good word of mouth and blogger and demarcate activity was introduced in website, LVMH can be further open the market, Reach young consumers.

However, Opportunities are accompanied by Threats. The biggest danger of LVMH is being copied. High prices make it impossible for many people to cross the threshold of luxury goods, but people’s desire and vanity for luxury goods make them not just envy others and do nothing. Many people see the business opportunities here, so they promote the birth of many luxury copycat factories. For example, LV is one of the most seriously copycat brands. Such substitutes will seize the market of LVMH, and its high-end brand image will be destroyed.



Fig.1. SWOT analysis of LVMH [3]

(2) Tiffany’s Profiles, Business models, and Business weaknesses

Tiffany was founded in 1837 by Charles Lewis Tiffany in New York, USA. Is the world’s leading luxury brand, with a long bray and unique market image and culture. In 1845 Tiffany Blue selected Tiffany Blue as the cover color for its Annual Collection of exquisitely Handcrafted Jewels— Blue Book. In 1886, Tiffany solitaire launched a product that changed the development trajectory of the whole brand, which made Tiffany closely connected with “ideal love” and “good life” in the hearts of the public. Therefore, Tiffany blue and white ribbon became the symbol of Tiffany brand, and its benefits gradually expanded. Many people even think that the blue box is as desirable as the ring itself [5]. In 1961, Tiffany and Audrey Hepburn presented Breakfast as Tiffany, the first film set in Tiffany’s flagship store. On the promotional poster, Heiten wore the Yellow Diamond that Tiffany bought with a lot of money, and in the film, she was covered with Tiffany jewelry, which made Tiffany famous and became known to more and more people. Now, Tiffany has become the world’s top luxury jewelry brand.

Using GE Matrix to analyze the Business Model of Tiffany, it can be found that Tiffany belongs to Build enterprise, namely No.4. Tiffany’s Business Unit Competitive Advantage is High. Its sales per square foot ranks first in the industry and second in the world (second only to Apple). Tiffany’s products take the route of high cost, high price, business has been extended to the upstream gem mining industry. The founders spent a lot of time and money introducing new, exclusive gems for Tiffany, such as Kunzite, Morganite, and Blue Tanzanite. This opens up the upstream and downstream of Tiffany Jewelry, demonstrates its huge capacity and business scope, and proves the strength of Tiffany.

It does have financial troubles lurk. Tiffany’s liabilities are mainly composed of long-term liabilities (70%), and the expansion of assets is mainly from long-term liabilities. This is likely to lead to the downgrade of Tiffany’s debt rating by investment banks, and also makes many companies interested in acquiring Tiffany [6]. However, its strong brand image and culture export make the financial trouble not a urgent pressure.

Different from traditional French luxury brands, it has a New York logo and a successful marketing strategy. It has partnered with many high-profile designers (Paloma Picasso, Frank Gehry, and

Francesca, for example), who have brought legendary new collections to Tiffany and attracted their own fans to buy the brand, helping to enhance the brand’s standing. Tiffany pursues high quality products, and with that comes high prices. As Tiffany Solitaire became the perfect wedding ring for girls, it now costs up to \$900,000 for a piece. This enables Tiffany to be defined as “high-end luxury goods” by consumers, which makes its image dreamier in customers’ minds and promotes people’s yearning for it.

In addition to production costs, Tiffany spends a lot of money on marketing. Tiffany uses a myriad of results marketing strategies, starting with celebrity. As we all know, Tiffany blue is the iconic feature of Tiffany, and this blue was chosen by Tiffany because The Empress Eugenie chose the official color -- pale turquoise blue. She was a fashion vane at the time, so Tiffany seized the opportunity and chose a color that was widely sought after.

Besides, Tiffany has collaborated with many of the biggest stars to produce influential art works around the world. For example, *Breakfast at Tiffany*, *Sleepless in Settle*, *Sweet Home Alabama*, and *Diamonds are a girl’s best friend* connect Tiffany with people’s feelings. Every year in the Oscar Awards ceremony, Tiffany will design jewelry for big stars such as Lady Gaga, which makes Tiffany’s noble image and symbol of love deeply engraved in the mind of customers. After one hundred years of marketing strategy, Tiffany’s marketing efficiency has reached a very high level, there are a large number of sticky customer groups, many women also said that their dream marriage proposal scene must have a Tiffany wedding ring. This speaks to Tiffany’s appeal in the marketplace.

As for Industry Attractiveness, Tiffany is in the range of Medium. The index comes from the fact that the luxury Industry is experiencing a crisis. The growing number of luxury brands and the growing number of counterfeit products are pressing the name of the old luxury market. At the same time, the situation in the luxury goods industry is sluggish due to the COVID-19 pandemic. Consumers tend to be more frugal, shopping for necessities at the expense of discretionary items such as luxury goods. Also, brands like ZARA which sell fast consuming production own alloy jewelries that is economical. These become the competitive substitutes of Tiffany.[7] Moreover, Tiffany has been accused of racism in the past. In most of the commercials, Tiffany showed customers happy white families. These are the reasons why Tiffany’s market attraction is not so great at present.

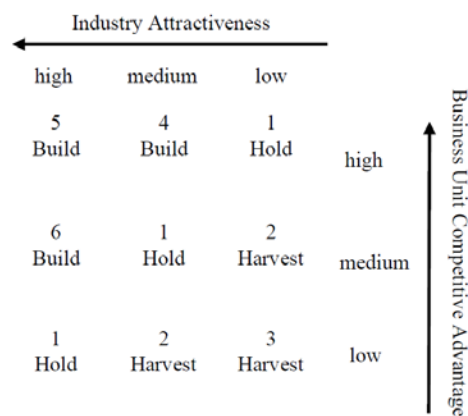


Fig.2. GE Matrix analysis of Tiffany

Table. 1 Profit Statements of LVMH For 2020 From July to December [11] And Tiffany For 2020 From February to October [12].

items	LVMH	Tiffany
Operating Revenue (\$)	31047.00M	347.24M
Operating Cost (\$)	10497.00M	134.75M
Gross Profit (\$)	20560.00M	212.49M
Operating Profit (\$)	8983.87M	17.91M
Net Profit (\$)	6253.00M	12.97M

(3) LVMH's and Tiffany's BATNA analysis

It is well known that LVMH owns numerous successful luxury brands, and Tiffany's arrival will certainly help LVMH, but it is not a must. In addition to the Tiffany acquisition, LVMH owns many prestigious brands, allowing it to focus on operating other brands as well. Dior, for example, has emerged as a cheap alternative to many big-name perfumes. After obtaining the formula of the famous perfume, many merchants began to make their own products and sell them at a low price, which squeezed the market of luxury perfume and made the perfume industry increasingly competitive. Dior, as a brand that has been evaluated as "changing the French fashion industry", has good brand recognition and reputation [8]. Therefore, it is easier to continue to win the support of old consumers and the popularity of new consumers by making breakthroughs and innovations in products on this basis. LVMH can apply its powerful marketing means to its existing brands and focus on the original brands instead of rushing to acquire new brands. That is why it can negotiate with reservations. As a powerful luxury group, the marginal benefit of LVMH's acquisition of Tiffany is far less than that of Tiffany's help from LVMH. Therefore, it can be concluded that LVMH's BATNA is a breakthrough and innovation for existing luxury brands.

As for Tiffany, this century-old Luxury brand in New York has a good reputation and a large number of loyal customers. Its commercial value is very high, and it can be said to be the first giant in the sales of luxury brands. Therefore, Tiffany must have a considerable number of groups want to acquire it. This explains why LVMH paid a whopping \$15.8 billion to acquire Tiffany. In addition to LVMH, Tiffany could partner with other luxury groups, such as Kering or Richemont, or continue to operate independently. However, if we analyze Tiffany's financial situation, we will find that Tiffany carries a lot of long-term debt. Its positioning of high cost and high price has increased the financial burden of Tiffany. According to statistics, about 50% of Tiffany's product cost is used for marketing, which is also the reason why Tiffany's brand image is more distinctive and popular compared with other luxury brands. Therefore, merging into the luxury group can reduce Tiffany's financial burden and is a better choice when the epidemic is restricting the development of luxury goods. Therefore, Tiffany's BATNA is mainly based on the selection of other luxury groups. In fact, other groups have their own advantages compared with LVMH. Kering, for example, has fewer brands than LVMH, but the success of Gucci and Balenciaga has proved its operational capability. LVMH has a larger scale than Kering, which leads to the problem of resource tilt. LVMH has many well-known brands with great development prospects. In addition, because LVMH has many brands that can be further developed, Tiffany may be shelved or abandoned when it is in trouble, rather than being actively helped and solved. Therefore, Tiffany is negotiating with LVMH that BATNA should be merged into other luxury groups, such as Kering.

2.2 Analysis of development after the acquisition

(1) Acquisition scenario forecast

Tiffany is an American brand, while LVMH is made up mostly of French luxury brands. Compared with the United States, France has a long history and unique style of luxury goods, and Tiffany is rooted in the hearts of customers with its unique historical background and brand image. Therefore, in the short term, the integration after Tiffany's acquisition may be relatively difficult, and it requires high ability to combine two groups with different styles. For an already successful luxury brand like Tiffany, it will be even harder to take it further. In particular, COVID-19 has spread all over the world, which has greatly affected the economic situation. People's income has decreased, and their demand for normal good such as luxury goods has also decreased. Therefore, the luxury industry itself has been greatly affected, which also poses a great challenge for LVMH to integrate and develop Tiffany.

But in the long run, the prospects for acquisitions are worth looking forward to. LVMH's goal for Tiffany is to boost sales from \$4 billion to \$10 billion within a decade. Tiffany's century-old culture and image have been successfully established and inherited, with a large number of loyal consumers and a very good operation foundation [9]. The biggest need is to expand the market by virtue of LVMH's sophisticated integrated management and marketing methods. For example, there are only

three Tiffany stores in China. The cost of store operation is high, Tiffany currently holds a lot of long-term debt, and relies on LVMH to alleviate its economic situation, which is Tiffany's expectation for acquisition. With good management and operation of LVMH, Tiffany will grow stronger and stronger. For LVMH, Tiffany's participation will bring it strong fresh blood. As a world-class brand ranked second in comprehensive evaluation sales, Tiffany's brand effect is beyond doubt. LVMH does not need to spend a lot of money and time to develop a creative brand image to operate Tiffany, but can rely on Tiffany's existing successful marketing results. In addition, the U.S. market is LVMH's largest outside of Asia, so the acquisition will bring LVMH a large number of new customers.

(2) Pay attention to the preservation of Tiffany's tradition and culture, and innovate in the new era

LVMH should retain the existing brand positioning of Tiffany, and at the same time make continuous efforts to maintain the brand image, so as to ensure the continuity of Tiffany's labels related to "beautiful love" and "ideal life". This is not only in line with the trend of more and more "emotional consumption" among young people, but also keeps the old customers who recognize Tiffany's image. Although there is a need for running-in transformation at the management level, LVMH should preserve Tiffany's design concept and corporate culture as much as possible to protect Tiffany's excellent design team and production environment. As a group very good at market expansion, LVMH should seize the unique characteristics of Tiffany (such as Tiffany Blue), promote its brand image to the world and occupy more markets for Tiffany.

In the era of rapid development, LVMH should catch Gen Z and millennials, the main new consumers, and find out their preferences so that Tiffany can continue to develop [10]. LVMH can seize the characteristics of young people who "pay for the sense of ceremony" to extend its business: opening offline pop-up shops, launching seasonal jewelry, co-branding with other fashion brands, and designing personification images belonging to Tiffany, etc. Consumers pay more and more attention to the "meaning" of products rather than the "practicability", especially for luxury goods. Therefore, LVMH should seize the development trend and be the first to make breakthroughs and innovations. Of course, this process cannot make Tiffany lose its original brand positioning, and make Tiffany's image low-end, so as not to lose original customers.

3. Conclusion

LVMH is mostly a combination of French luxury brands, and Tiffany's participation can help LVMH to open up the American market. Besides, Tiffany has a strong brand effect, so it is not necessary for LVMH to spend too much energy and resources to create a new brand image for Tiffany. Tiffany's entry will undoubtedly strengthen LVMH. As far as Tiffany is concerned, LVMH is a very powerful luxury group. Under the jurisdiction of LVMH, Tiffany can obtain more commercial resources, expand the market and reduce the economic burden.

It is well known that Tiffany's unique color has deeply imprinted its brand characteristics in the hearts of customers. Therefore, it is questionable whether LVMH, as two brands with different national backgrounds, can protect Tiffany's corporate culture in the process of integration. If you wear away the characteristics of Tiffany itself, for Tiffany is not worth the loss. In addition, people's enthusiasm for luxury goods has decreased at the moment of the epidemic, and LVMH's acquisition of Tiffany at this time is not likely to get a return in the short term. However, in the long run, this acquisition can be called combination of the strong. Given LVMH's strong integration capability, Tiffany has a promising future. Whether this acquisition can become a legendary case mainly depends on whether LVMH can well integrate Tiffany's team and maintain Tiffany's characteristics. The result of this match is worth waiting for.

Many are calling the deal a "huge price", but Tiffany is more valuable than sales and brand recognition for its centuries-old culture. This is why Tiffany is worth such a high price, as consumers are increasingly paying for rituals and feelings as they show a tendency to consume emotionally. Its brand image has been seared into the hearts of consumers, and whether or not we have bought A

Tiffany, we all know that blue lettering and white ribbons are desirable items. Keenly aware of current consumer trends, LVMH has courted Tiffany. With the right strategy, Tiffany has a good chance of becoming the world's number one luxury brand.

In terms of management, LVMH may send former LVMH executives to assist in the management of Tiffany, while maintaining continued cooperation with the existing designers of Tiffany. LVMH needs to inherit the brand characteristics of Tiffany as a marketing tool and continue to link Tiffany with a better life. In addition, LVMH also needs to grasp the millennial customers and the latest trends, and constantly improve its operation methods to find the most suitable for Tiffany and adopt them. At the same time, LVMH should make good use of the Internet to carry out online marketing for Tiffany— operating we-media accounts, social media and official websites. Hopefully, the combination of “two giants” can create a legend in the history of luxury.

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