

Research on Strategic Adaptability of Enterprises under the New Crown Epidemic - Take Lamh as an Example

Murong Shen

High School Affiliated to Renmin University of China, Beijing, 100080, China

E-mail: shenmurongmadison@163.com

Keywords: Enterprise strategy, Case study, Lvmh

Abstract: Retailing has occupied a significantly important proportion of the global market, however under the circumstances of global pandemics, retailers have been influenced largely. This article will focus on the global leading corporate LVMH as the subject, via quantitative and qualitative analytic methods, to study the corporate strategic choices. The results show that first, global health crisis like Covid-19 has significant impacts that are hardly ignored, and corporates are supposed to reevaluate their strategic planning; second, diversification of business is necessary during unstable period, since it enhances the competitiveness of the corporate and prevents it from any loss that might be caused by changes in external environment; third, corporates are supposed to avoid the diminishing marginal efficiency. In above, on the one hand the conclusion of this article provides empirical support for investors' investment, on the other hand, it has a certain degree of industry expansion for the development of enterprise strategic theory.

1. Introduction

During first quarter of 2020, parts of the Asian market were negatively influenced by Covid-19, especially the China market, because of the closing stores and production facilities. During the second and the third quarter of 2020, while China market started gradually recovering from depression, other markets have been influenced largely till now. Many industries and various economies have been influenced directly by the global pandemic, including the luxury industry. Those are caused due to the lockdown of cities and travel restriction and the revenues produced from tourisms have been collapsed significantly. Also, the depression of economies that leads to increase in unemployment rate and households' incomes reduces the consumption.

SWOT analysis is an analytic technique applied commonly in various fields for strategic planning, and SWOT is acronym of Strengths, Weaknesses, Opportunities, and Threats respectively^[1]. By using SWOT analysis to LVMH of luxury industry, we gain the strengths and weaknesses of retailers of luxury goods comparing to the competitors^[2], as well as the opportunities and threats of corporates caused by changes of external factors^[3]. Corporates should avoid threats, reduce weaknesses, and take use of opportunities and strengths^[4]. Matrix of SWOT analysis could be established to assist decision makers in strategic planning that is practical under the contemporary situation of global pandemic^[5].

All in all, Covid-19 has influenced the luxury industry generally and dramatically. Even though numerous researchers and experts have studies about strategic planning and SWOT analysis for luxury industry, they focused on previous normal economic and social conditions where global crisis like Covid-19 that could influence the global economy and the luxury industry did not occur. So, the result from those previous studies cannot be applied to and would be inaccurate under the current situation. Therefore, this article will focus on the market forecast for corporates of luxury goods as well as the support theory for strategic choice of luxury industry, in particularly under current situation of global pandemic.

2. Data and Method

2.1 Data

There are 5 houses under LVMH which are managed by 60 sub-companies autonomously.

Table 1 the Number Of Stores Opened in Different Markets Before June 30th. 2020

Markets	United States	France	Japan	Asia	Europe	Other markets
The number of stores	834	528	430	1471	1175	495

Data source^[6]

In order to analyze the potential to expand its scale, I consider the profits and assets of the enterprise in comparison to the average of the industries and competitors in the industries. According to the Form 2 with data collected from consolidated income statement, even though the net profit before minority interest of the first-half year of 2020 is only 544 EUR million due to the influence of Covid-19, there is a tendency of increasing net profit before minority interest in the long term. According to the Form 3 with data from consolidated balance sheet, the total assets of LVMH tend to increase and the rates of annual change in total assets are increasing generally.

Table 2 the Annual Net Profit Before Minority Interest of Lvmh from 2016 to 2019

	2016	2017	2018	2019
The Annual Net Profit Before Minority Interest	4453 EUR millions	5840 EUR millions	6990 EUR millions	7782 EUR millions

Data source^[7]

Table 3 the Annual Total Assets of Lvmh from 2016 to 2020 June

	2016	2017	2018	2019	2020 June
The Annual Total Assets	59616 EUR millions	69755 EUR millions	74300 EUR millions	96507 EUR millions	103643 EUR millions

Data source^[8,9]

Investment is another indicator for the growth of company. I do not consider the data for 2020 because the closure of sub-companies and corresponding departments due to the Covid-19 would result in the decline of investing activities (1491 EUR millions) and in turn not USEFUL analysis/data/conclusion?. But, according to the cash flow statement of LVMH, in the previous fiscal years, the net cash used in investing activities is 33 EUR million in 2016, 6331 in EUR million in 2017, 401 EUR millions in 2018, and 5869 EUR millions in 2019, showing an inconsistent but general increase in net cash used in investment activities of LVMH. So, we can say that the net cash used in investment activities will be increased in the long term, showing a good sign of future performance of company. Besides, according to financial statement of parent company income from investment and other revenue from 2015 to 2019 is 6842.7, 3441.3, 2912.8, 3866.5, and 4631.5 in EUR millions. The revenues gained in 5 fiscal years tend to increase, after a short downward of revenue between 2015 and 2014.

2.2 Method

The case study methodology is particularly suitable for this study for three reasons. First, this study aims to answer the question of how does the enterprise in luxury industry reevaluate and change its strategic planning in order to prevent negative impacts from global crisis, belonging to the category of "how" questions. Second, the purpose of this study is to systematically explore those internal factors and the external factors of enterprise that could bring potential advantages to the corporates in luxury industry when global crisis occurs, and the demand for data richness is high. Both the luxury industry and the economy under depression are complicated and multi-dimensional, which make it more appropriate to examine the question by analyzing organizational context rather than adopting only

quantitative approach. Third, academic researches on luxury retails under global health crisis are still limited and at the exploratory stage. The exploratory case study is especially appropriate for all new or existing academic fields that lack adequate research.

Selecting LVMH as the object of the case study is based on the following three criteria. First is the principle of importance and representativeness. LVMH stands for Moët Hennessy Louis Vuitton, which is the largest conglomerate in luxury industry all over the world. Luxury industry is a combination of monopolistic competition and oligopoly, in which most of corporates have large influence over the market prices and the industry is mainly divided by three big retailers, including LVMH, Richemont, and Kering. But the products are differentiated and innovation of brands and main products is highly weighted as important criteria between competitors. Therefore, choosing LVMH as a case study company follows the importance and representative principles of case selection. Second is the principle of theoretical sampling. The case study method selection of cases is based on the need to fill in existing theoretical gaps or develop new theories, rather than statistical sampling reasons. Although previous studies considered the strategic planning of corporates of luxury goods, the special condition or crisis that might be vital for the businesses were not taken into consideration when analyzing the internal and external environments of the corporates. Third is the consistency between the enterprise’s theoretical goal and its practice. The management and the frontline selling of LVMH have achieved significant success thanks to the key capabilities and the actions at the strategic and operational levels. I am very impressed during the investigation and the historical data in LVMH is also relatively complete. In short, successfully developing capabilities and taking action in the strategic and operational aspects is the key to achieve and maintain the leading position in luxury industry. This is consistent with the goal of great resilience represented by the corporate in the luxury industry under a global crisis.

This study follows the case study procedure of identifying a research problem, theoretical review, data collection, and data analysis. By analyzing theory and data, the study maintains its focus and discovers theoretically innovative points.

3. Results and Discussion

Using SWOT Analysis, we can figure out the strength and weaknesses compared to competitors and potential opportunities and threads from the markets or industries.

Table 4 Swot Matrix For Lvmh under Covid-19

Internal factors External Factors	Strengths/S S1. Good resilience to crisis or any other uncontrolled factors S2. Diversification business strategy. S3. Strong brand positioning	Weaknesses/W W1. The risk and difficulty in management with business diversification W2. Easily effected by the government’s controls and international restriction under any kind of global crisis.
Opportunities/O O1. Increasing online shopping trend by development of internet technology	SO Strategies (Attacking strategy: leverage strengths to maximize opportunities) SO1. Initiate and enhance the online shopping platform during global pandemic. SO2. Develop online platform for more businesses or brands	WO Strategies (Build strengths for attacking strategy: take advantage of opportunities to overcome weaknesses) WO1. Develop online shopping platform to minimize the negative impact or loss from global pandemic WO2. Enhance the management of corporate by training employees.
Threats/T T1. The impact of Covid-19 on the macroeconomy T2. Demand for the main products could be significantly influenced by	ST Strategies (Defensive strategy: use strengths to minimize threats) ST1. Enhance brand image and positioning to minimize the impacts	WT Strategies (Build strengths for defensive strategy: reduce weaknesses and avoid threats) WT1. Increase diversification of the corporate and enhance the brand popularity

economic change	of external factors ST2. Reduce the impacts of external factors by improving diversification	and image among consumers
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3.1 S

3.1.1 Good Resilience to Crisis or Any Other Uncontrolled Factors.

Although the global pandemic has largely influenced small and middle businesses worldwide, it has less influence over large retailers like. According to the data from Interim Financial Report, there is an increase on the number of stores opened from 4699 in 2019 June to 4933 in 2020 June. The net profit is 544 EUR millions in June 2020 and 3605 EUR millions in June 2019. Therefore, even though the net profit is lower than the same term in 2019, the net profit is positive and the stores were not influenced by pandemic, maintaining the high stability in general in LVMH. Such good resilience makes sure that stores can be opened quickly when the situation turns better and the operations will be on track as soon as the pandemic passes and the various government controls are off. Strong capability of recovery is sufficiently showed in the financial statement of the second quarter in China’s market.

3.1.2 Diversification Business Strategy.

LVMH have five houses including wines and spirits, perfumes and cosmetics, fashion and leather, watches and jewelries, and other selective. The sales and revenue of some houses might be influenced negatively by Covid-19 but other houses might not. For instance, according to the financial statement of LVMH, in the first half year of 2020, the revenue of watches and jewelry is 1319 EUR millions and is 2135 EUR millions at the same period in 2019, representing a decrease in half of its revenue. While the revenue of fashion and leather goods is 7989 EUR millions in June 2020 and is 10425 EUR millions in June 2019, representing a relatively smaller decrease in percentage in revenue. It shows that some houses have been influenced less than other houses. Likewise, those brands have stores in different markets all over the world including United States, Europe, France, Asia, Japan, and other regions. In the first and second quarters in 2020, the travel suspension and lockdown in Europe markets and France markets largely damage the profits and operations of production facilities and stores of LVMH within those markets, since those markets rely largely on consumption of tourisms. However, thanks to the globalization, corporate to open stores in different markets all over the world. Some markets are damaged by global pandemic more severe than others. Because of the lockdown and limitation on international travel, markets in regions like United states and Asia markets were influenced less due to the high consumption of local households. Especially, in China, the revenue boosted in the second quarter in 2020 when the economy started recovering from pandemic. The profits from some markets can be used to support the operations of stores in other markets and the corporate, therefore, would not be risked from global crisis. Last but not least, because the estimate 60 sub-companies are autonomous under LVMH, it is beneficial for the long-term development of the corporate because of the decentralization of power and encouragement of creativity. Therefore, the diversification of houses and worldwide operations of LVMH minimize the risks.

3.1.3 Strong Brand Positioning.

A strong brand positioning can build a positive image to maintain old consumers and attract new consumers. According to the LVMH, its mission is to “represent the most refined qualities of Western ‘Art de Vivre’ around the world. LVMH must continue to be synonymous with both elegance and creativity”. Every house has been focused on the quality of their products and services in order to enhance the brand images further. With a strong brand images, LVMH is able to maintain a significant number of large customers and old costumers, as well as attracting other new costumers. The profits would be, in turn, increased stably and restlessly in long term. Besides, LVMH, as the largest retailer of

the luxury goods, has huge influence in the industry and in the same way the main brands and products are able to set the prices and rules in the industry.

3.2 W

3.2.1 The Risk and Difficulty in Management with Business Diversification.

Even though the benefits of diversification of business mentioned above, diversification has some risks and drawbacks on management. First, the competitiveness between brands under LVMH could be intense, reducing the competitiveness to other competitors outside LVMH. Second, it is difficult in management of such a large group with multi-brands and daughter companies and hard to be synchronized. Third, it is less efficient when decisions have to be made between the parent company and sub-companies.

Easily effected by the government's controls and international restriction under any kind of global crisis.

LVMH as a retailer in the luxury industry, its revenue can be easily influenced by various local government controls and international restriction. During the pandemic, local governments have released a series controls and many international travel restrictions and trade restrictions have been come out. According to the LVMH consolidated income statement, the quarterly change in revenue is -15% in the first quarter of 2020 and is -38% in the second quarter of 2020, resulting in the reduction of revenue in the first half year of 2020 by -28 % in general. This is mainly because of the local government controls including closure of stores, travel suspension, and cities lockdown. This is also partially because of the decline of households' living standards caused by unemployment during pandemic. The closure of stores not only reduces the revenue, but accumulates a large number of products that has become outdated. This means that those products will not be able to sold out even after the global pandemic increasing the total costs of production and reducing the profits relatively.

3.3 O

3.3.1 Increasing Online Shopping Trend by Development of Internet Technology.

E-commerce has gradually become important part of retailing, especially in the several important markets of LVMH include Asia market, United States market, and Japan market. Online shopping is popular in especially young people which are the main consumers of luxury goods. The advancement of the internet technology facilitates the process of online shopping by establishing a better online shopping experiences and services in order to attract more consumers. Also, changing in people's opinions and in cultures accelerates the development of e-commerce and the popularity of online shopping. The perfumes and cosmetics houses are the largest beneficiary of online shopping trend. One successful example is Sophora, a brand under the selective retailing house of LVMH group selling mainly make-up. In addition to the traditional offline stores, Sophora has its own cell phone app and online website that sell their products. Other successful examples include Benefit, Make Up Forever, and so on, which are brands that hardly reach such popularity without the assistance of development of e-commerce and telecommunication technology.

3.4 T

3.4.1 The Impact of Covid-19 on the Macroeconomy.

Covid-19 has influence over the global economy, causing depression throughout different continents. Close of stores, production facilities, and other infrastructures reduce the revenue of companies in the global scale. Companies with less profits have to either lay off staffs increasing the unemployment rate, or cut on employees' salaries. Because of the decreasing disposable incomes, households' living standards reduce, as well as the consumption and savings or investment in the economies. Also, the consumption of tourism and investment of enterprises, organizations, and individuals from other

countries are reduced due to the lockdown of the city and travel restriction. Last but not least, demand will shift from luxury goods and normal goods to mainly necessities or inferior goods, reducing the demand of luxury goods significantly.

3.4.2 Demand for the Main Products Could Be Significantly Influenced by Economic Change.

There are two reasons for that. First, LVMH is a retailer for luxury goods which are income elastic. Income elastic goods means when the incomes become higher people would be more likely to purchase luxury goods, vice versa. In other word, the demand for luxury goods changes following the changes of income. If the incomes decrease, the demand for luxury goods will be reduced, diminishing the revenue of the company. Second, luxury goods are in cyclical economy. If the economy is in depression, the consumption will be reduced and the revenue of the corporates in turn. If the economy boosts, the consumption and investment will follow and increase so does the revenue of the corporates. Therefore, when the economy changes the revenues of the company would be largely influenced.

4. Conclusion

By analyzing the statistics from the 2016 to 2020 June financial statement of LVMH, the internal environment of LVMH, and the external environment of LVMH, this article is able to draw a conclusion: first, global health crisis like Covid-19 has significant impacts that are hardly ignored, and corporates are supposed to reevaluate their strategic planning; second, diversification of business is necessary during unstable period, since it enhances the competitiveness of the corporate and prevents it from any loss that might be caused by changes in external environment; third, corporates are supposed to avoid the diminishing marginal efficiency.

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