Case 14: Louis Vuitton in Japan[1]

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1 In Japan, whether you are in Tokyo, Osaka or Nagoya, just turn your head and Louis Vuitton is everywhere. The celebration of the 30th anniversary of the presence of the illustrious, glittering French multinational in Japan took place in Aoyama, one of Tokyo's fashionable districts. A unique vision of luxury took shape when Louis Vuitton opened yet another new store inside Comme des Garçons on September 4, 2008, in the heart of Japan's capital. The pop-up store situated on the prestigious Omotesando Street was an illustration of Louis Vuitton's attachment to the Japanese luxury market.

2 Yves Carcelle, chairman and CEO of Louis Vuitton, said, "This project not only brings a new meaning to luxury, but also speaks volumes about how the know-how and heritage of Louis Vuitton have always been perceived in Japan, including by its foremost designers. We are very proud to have been able to help Rei Kawakubo[2] relive her memories in such an original and creative way."[3] The Omotesando guerrilla marketing event reflected Louis Vuitton's success in Japan. Louis Vuitton had been following an aggressive marketing strategy in the country, opening extravagant stores such as those in Ginza or Roppongi. Take a walk on Ginza's main street, Chuo Dori, the centre of a paradise for shoppers, with long-established department stores, such as Mitsukoshi, Takashimaya and Matsuzakaya. Continue through the high-end fashion street Namiki-dori. Stop. There it is. You have reached the massive flagship Louis Vuitton store.

3 When Louis Vuitton, the world's biggest luxury-goods firm, inaugurated its huge shop in 2002 in the district of Omotesando, Tokyo, hundreds of people were queued outside. During the first few days, sales exceeded the initial estimations by ¥1 million.[4] In the last decade, Japan had been Louis Vuitton's most profitable market, representing almost half of its profits, but it seemed that with the 2008–2009 economic crisis, there might be the start of a decline in sales.

14-1 14-2

4 Facing a weak economy and a shift in consumer preferences, Louis Vuitton started adapting its strategy in the Japanese market. The days of charging a high price for products with a proprietary logo seemed to be gone in Japan. The company had to launch relatively low-priced collections to boost sales. The firm had also been taking steps to open stores in other mid-size cities where the LV brand was not well known.

5 Louis Vuitton might be French, but Japan had become the land of Louis Vuitton lovers. Over the years, Japanese consumers had demonstrated fascination and passion for the iconic brand. What would be the key to Louis Vuitton's continuing success in the Japanese market?

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LOUIS VUITTON—THE HISTORY

The Foundation

6 Louis Vuitton Malletier, often referred to as Louis Vuitton, was an international, well-established brand mostly famous for its craftwork leather bags and trunks. The firm was established in France in 1854 by Louis Vuitton and became known as one of the oldest French luxury fashion houses.

7 Louis Vuitton, the company's founder, was born in 1821 in Anchay, Jura, France. He became a Layetier in Paris and earned a reputation while working for the Empress Eugénie de Montijo, wife of Napoleon III. Learning from his work for the French aristocracy, he acquired personal "savoir-faire"[5] about leather luggage. In 1854, he founded the firm, "Louis Vuitton: Malletier à Paris."[6] The flat-bottom trunks of Louis Vuitton with trianon canvases represented a real revolution for travelling in those days as they combined lightness and storage capacity. In 1885, the firm opened its first overseas store in London, England, on Oxford Street. In 1888, Louis Vuitton developed the Canvas Damier Pattern in order to make the Louis Vuitton experience unique and recognizable by anybody. The logo "marque Louis Vuitton deposée," meaning "mark Louis Vuitton deposited," was also created.

8 Following the death of Louis Vuitton in 1892, his son, Georges Vuitton, took over the leadership of the firm. He was ambitious about taking Louis Vuitton to the next step—building a global brand and setting up a multinational corporation.[7] He participated in the Chicago World Fair in 1893, presenting the company's product, and travelled all around the United States to promote the brand. In 1896, Georges Vuitton created the Monogram Canvas and attained worldwide trademarks on it to limit counterfeiting. The LV monogram was inspired by the Japanese and Oriental designs of the Victorian age. By 1914, the company opened the Louis Vuitton Building of the Champs-Elysées, now a symbol of the success and prestige of the company. Though World War I had begun, the firm initiated its global expansion strategy by opening stores in New York, Bombay, Washington, London, Alexandria and Buenos Aires. In 1936, Gaston-Louis Vuitton took over the direction of the company when his father, Georges Vuitton, passed away.

The Modern Age of Louis Vuitton

9 Gaston-Louis Vuitton guided the brand into its modern age. The company expanded its product line by applying the craftwork and design of its leather to small leather goods, such as purses and wallets, and to its whole luggage line. As a consequence, the Monogram Canvas was redesigned in 1959 to fit the new range of products. The brand started its first advertising strategy by handing bags to Hollywood celebrity actresses. Audrey Hepburn carried a Louis Vuitton bag in 1963 in the film *Charade*, directed by Stanley Donan.

14-2 14-3

10 In the mid 1970s, Louis Vuitton had become the world's biggest luxury brand in terms of market share. The Vuitton-Racamier family,[8] owner of the brand, had focused mainly on building a Japanese clientele. By 1977, the company owned two stores in Japan with annual profits of US$10 million. It further tapped into the Asian market in 1983, in Taipei, Taiwan and, in 1984, in Seoul, South Korea. The creation of Louis Vuitton Moët-Hennessy (LVMH) in 1987 established the largest luxury-goods conglomerate in the world. Moët et Chandon and Hennessy were the leading manufacturers of champagne and brandy. The merger resulted in an increase in profits for Louis Vuitton of 49 per cent in 1988 compared to 1987. By 1989, Louis Vuitton had entered into 130 countries across the world.[9]

11 In 1990, Yves Carcelles was nominated for president of Louis Vuitton. He carried on with an international expansion strategy, inaugurating the first Chinese store in the Palace Hotel in Beijing. The Monogram Canvas centennial was celebrated in 1996. Seven cities across the world held extravagant parties at stores and Louis Vuitton asked seven prestigious designers to imagine new products featuring the LV monogram. Azzedine Alaia, Manolo Blahnik, Romeo Gigli, Helmut Lang, Isaac Mizrahi, Syvilla and Vivienne Westwood created seven original and functional objects in a limited edition series.[10]

Louis Vuitton in the 21st Century

12 In 1998, the American designer Marc Jacobs was appointed as Louis Vuitton's art director. Jacobs was already a highly successful international designer, who became distinguished as the youngest fashion designer ever to be awarded the industry's highest tribute, the Council of Fashion Designers of America (CFDA) award for New Fashion Talent. The challenge was huge, as Jacobs had to guide Vuitton's first shoes and ready-to-wear collections. With this nomination, Louis Vuitton aimed at establishing the brand as a consistent trendsetter in high fashion.

13 Since the late 1990s, creating limited-edition collections had become Louis Vuitton's marketing strategy to capture consumers' attention and reinvigorate the brand's identity while boosting the bottom line. In 2001, Stephen Sprouse and Jacobs collaborated to design a limited edition series of Louis Vuitton bags. Sprouse was already a highly popular artist, as he had collaborated with the extravagant Andy Warhol and with contemporary artists and musicians such as Debbie Harry and Duran Duran. In line with what *The New York Times* called Sprouse's mix of "uptown sophistication in clothing with a downtown punk and pop sensibility," the collaboration with Jacobs resulted in a limited edition that featured green and white graffiti written over the monogram pattern. All bags were made for Louis Vuitton's VIP list and were meant to be collector's items. In 2001, following the success of the Louis Vuitton limited edition, Jacobs designed Louis Vuitton's first jewelry piece. In 2002, the Tambour watch collection was introduced.

14 Pursuing its globalization strategy in the 21st century, Louis Vuitton opened one of its most famous stores on Fifth Avenue in New York City, then opened more stores in Sao Paulo, Brazil, Johannesburg, South Africa, and Shanghai, China. The brand reopened its store on the Champs-Elysées, which became the largest Louis Vuitton store in the world. Louis Vuitton celebrated world wide its 150th anniversary in 2004. It had taken more than a century starting with a family house to build a timeless image of class, luxury and elegance.

14-3 14-4

15 The industry-leading luxury conglomerate, LVMH, had been a major player in Louis Vuitton's success; it had been setting the tone and practices of the brand. The LVMH group had divided itself into five business divisions: fashion and leather goods, selective retailing, wines and spirits, perfumes and cosmetics, and watches and jewelry. There were 50 plus luxury brands belonging to the group, which captured business in many countries. Louis Vuitton had been returning the favour to its parent company, as it represented the group's best-performing brand due to continuous double-digit growth during the past years. Although LVMH did not disclose sales for Louis Vuitton alone, analysts reckoned that in 2003, sales had grown at least 16 per cent worldwide and had repeated that growth in 2004. Thanks to Louis Vuitton's rapid growth, LVMH's Paris-traded shares had almost doubled in price in 2004 to more than $75. Exhibits 1 to 4 show LVMH's financial results for 2008, LVMH's Fashion & Leather Goods Division's 2008 financial statements and the division's key figures.[11] The LVMH group's upward trend was said to be poised to continue as chairman Bernard Arnault's expectations for the future were very optimistic. At that time, Louis Vuitton had already quintupled sales and increased margins six-fold since Bernard Arnault had bought the company in 1989, and the brand was said to have the greatest potential for growth of all luxury brands (see Exhibit 5).

EXHIBIT 1: Louis Vuitton Moët-Hennessy Financial Highlights (Financial Year 2008)

Key consolidated data *(EUR millions and percentage)*	**2008**	**2007**	**2006**
Revenue	17,193	16,481	15,306
Profit from recurring operations	3,628	3,555	3,172
Net profit	2,318	2,331	2,160
Group share of net profit	2,026	2,025	1,879
Cash from operations before changes in working capital*	4,096	4,039	3,504
Operating investments	1,039	990	771
Total equity	13,887	12,528	11,594
Net financial debt* / Total equity ratio	28%	25%	29%

*Before income taxes and interest paid.

*Net financial debt does not take into consideration the purchase commitments for minority interests included in other non-current liabilities.

Data per share			
Earnings per share (EUR)	**2008**	**2007**	**2006**
Basic group share of net profit	4.28	**4.27**	**3.98**
Diluted group share of net profit	4.26	**4.22**	**3.94**
Dividend per share Gross amount paid during the period†	**1.60**	**1.60**	**1.40**

†Excludes the impact of tax regulations applicable to the beneficiary.

Source: Official Financial Report 2008, Louis Vuitton Moët-Hennessy website, published December 31, 2008, www.lvmh.com, accessed July 8, 2010.

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EXHIBIT 2: Louis Vuitton Moët-Hennessy, Revenue by Business Group (Financial Year 2008) (Eur Millions)

Product Category	**2008**	**2007**	**2006**
Wines and spirits	3,126	3,226	2,994
Fashion and leather goods	6,010	5,628	5,222
Perfumes and cosmetics	2,868	2,731	2,519
Watches and jewellery	879	833	737
Selective retailing	4,376	4,164	3,877
Other activities and eliminations	(66)	(101)	(43)
Total	17,193	16,481	15,306

Source: Official Financial Report 2008, Louis Vuitton Moët-Hennessy website, www.lvmh.com, accessed July 8, 2009.

EXHIBIT 3: Louis Vuitton Moët-Hennessy, Fashion & Leather Goods Division 2008 Financial Statements

	2008	**2007**	**2006**
Revenue (*EUR millions*)	**6,010**	**5,628**	**5,222**
Revenue by geographic region of delivery (%)			
France	8	9	9
Europe (excluding France)	21	20	19
United States	19	20	21
Japan	20	22	26
Asia (excluding Japan)	25	23	20
Other markets	7	6	5
Total	**100**	**100**	**100**
Type of revenue as a percentage of total revenue (excluding Louis Vuitton)			
Retail	47	49	50
Wholesale	44	38	36
Licenses	8	8	7
Other	1	5	7
Total	**100**	**100**	**100**
Profit from recurring operations (*EUR millions*)	**1,927**	**1,829**	**1,633**
Operating margin (%)	**32.1**	**32.5**	**31.3**
Number of stores			
Louis Vuitton	425	390	368
Fendi	180	160	135
Other brands	485	439	451
Operating investments (*EUR millions*)	**311**	**246**	**319**

Source: Official Financial Report 2008, Louis Vuitton Moët-Hennessy website, published December 31, 2008, www.lvmh.com, accessed July 8, 2009.

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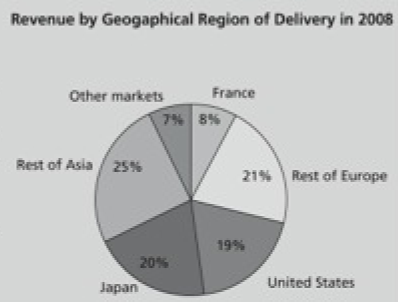
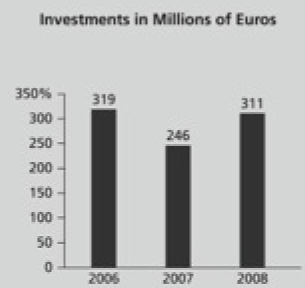
EXHIBIT 4: Louis Vuitton Moët-Hennessy, Fashion & Leather Goods Division 2008 Key Figures

Revene and Profits from Recurring Operations

Million of Euros	2006	2007	2008
Revenue	5,222	5,628	6,010
Profit from recurring operations	1,633	1,829	1,927





Source: Compiled using statistics from Louis Vuitton Moët-Hennessy website, www.lvmh.com, accessed December 31, 2008.

The Vuitton Machine: Inside the World's Biggest Luxury Brand

16 Thinking of Louis Vuitton, what would come to mind? It would certainly be top model celebrity ads in trendy fashion magazines, or fashionistas in new Louis Vuitton retail temples from the Champs Elysées to Tokyo's high-end Omotesando shopping district. Behind the glamorous image of Louis Vuitton, one could see what made it unique, and what made it the most profitable luxury brand worldwide (see Exhibit 6).

17 As Louis Vuitton had been progressing smoothly for the past years, Yves Carcelle, the charismatic textile executive who had been widely credited with masterminding Louis 14-614-7Vuitton's ever-rising growth, had commented about the brand's growth that "the sky's the limit." With $3.8 billion in annual sales, Louis Vuitton represented in 2004 about twice the size of its two main competitors, Prada and Gucci Group's Gucci division. This fact was even more striking when LVMH announced a 30 per cent increase in Louis Vuitton's 14-714-8earnings in 2003 due to a record operating margin at 45 per cent. The standard average margin in the luxury accessories business was 25 per cent.[12]

EXHIBIT 5: Louis Vuitton SA—Financial Data

Financial data are given in euros (millions)	12/2007	12/2006	%	12/2005	%	12/2004	%
Number of months	12	12	12	12			
Summarized Results	12/2007	12/2006	%	12/2005	%	12/2004	%
Turnover	1,848	1,697	9	1,566	8	1,444	8
Export turnover	1,650	1,513	9	1,385	9	1,307	6
Wages and expenses	5	6	−17	5	20	5	0
Value added	688	676	2	618	9	578	7
Gross operating surplus	667	655	2	598	10	559	7
Operating income	637	659	−3	588	12	560	5
Financial result	491	456	8	462	−1	378	22
Exceptional result	−5	−55	91	−8	−588	−50	84
Net income	866	819	6	815	0	650	25
Cash flow	919	892	3	841	6	706	19
Balance Sheet	12/2007	12/2006	%	12/2005	%	12/2004	%
Net fixed assets	1,242	1,242	0	1,229	1	1,062	16
Net assets	1,297	1,315	−1	1,545	−15	1,495	3
Equity	2,187	2,197	−0	2,154	2	1,952	10
Long-term debt	1	3	−67	3	0		
Current liabilities	286	291	−2	555	−48	513	8
Yearly investments	40	61	−34	46			
Cash	12/2007	12/2006	%	12/2005	%	12/2004	%
Net working capital	945	956	−1	927	3	889	4
Working capital requirements	946	957	−1	926	3	890	4
BFR overall turnover days	184	203	−9	213	−5	222	−4
Cash	−1	−1	0	−1			
Main Indicators (%)	12/2007	12/2006	%	12/2005	%	12/2004	%
Profitability	46.89	48.25	−3	52.03	−7	45.03	16
Rate of value added	37.26	39.84	−6	39.43	1	40.01	−1
Solvency	286	291	−2	555	−48	513	8
Financial independence	86.14	85.96	0	77.66	11	76.32	2
Debt ratio	0.01	0.03	−67	0.15	−80	0.13	15

Source: Kompass International Neuenschwander SA website, www kompass fr/recherche.php?action=signin, accessed December 31, 2007. The original French version was translated into English.

EXHIBIT 6: The Leading Luxury Brands in the World in 2008

Rank	Brand	2008 Brand Value in USD (m.)	2008 Brand Value in Euros (m.)	Country of Origin
1	Louis Vuitton	21,602	16,718	France
2	Gucci	8,254	6,388	Italy
3	Chanel	6,355	4,918	France
4	Rolex	4,956	3,836	Switzerland
5	Hermès	4,575	3,541	France
6	Cartier	4,236	3,278	France
7	Tiffany & Co.	4,208	3,257	United States
8	Prada	3,585	2,775	Italy
9	Ferrari	3,527	2,730	Italy
10	Bulgari	3,330	2,577	Italy
11	Burberry	3,285	2,542	United Kingdom
12	Dior	2,038	1,578	France
13	Patek Philippe	1,105	855	Switzerland
14	Zegna	818	633	Italy
15	Ferragamo	722	559	Italy

Source: "2008 Leading Luxury Brands," Interbrand, 2008, www.interbrand.com, accessed July 5, 2008.

Efficient Management Practices

18 Through the years, Louis Vuitton had established a strictly controlled distribution network thanks to an efficient structuring of the company that relied on continuously increasing productivity in design and manufacturing. Louis Vuitton owed much to its executives. Emmanuel Mathieu, who had headed Louis Vuitton's industrial operations since 2000, had contributed to the boost in manufacturing productivity by five per cent a year, with more productivity, efficiency and teamwork. In 1999, the firm took 12 months to launch a new product; in 2004, the time was reduced to about six months. This continuous improvement had been the theme of Louis Vuitton's industrial operations and was facilitated by manufacturing methods from auto makers and other industries that had been adopted to boost productivity.

19 Managers such as Emmanuel Mathieu had helped transform the brand from a family business to a 21st-century business.[13] The manufacturing of Louis Vuitton products was still a labour-intensive process. Each team of 24 workers was responsible for producing about 120 handbags a day. Over a period of time, the brand seemed to have achieved perfect equilibrium between machines and labour.

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Quality Products

20 Louis Vuitton focused on constant improvement of quality and offered lifetime repair guarantees for its customers. The brand had been striving to increase both fidelity and endless desire in its consumers. Louis Vuitton based its strategy on the loyalty of its consumers and strove to attract more consumers to buy bags ranging from classic tan-and-brown monogrammed bags to newer lines, such as the Murakami line, which was priced at $1,000, and Suhali, a line of goatskin bags priced at more than $2,000. As they bought Louis Vuitton items, loyal shoppers stepped into the dream of the brand. The more the prices were raised, the more they would come back.

21 When Jacobs joined Louis Vuitton, the New York designer had a challenge—attracting young buyers. However, Jacobs happened to be the perfect match as the two product lines that he had launched (ready-to-wear and shoe lines) tapped into a market of younger consumers, even if those lines accounted for less than 15 per cent of the brand’s sales. The younger buyers were attracted by brand image and older clients by quality and lifetime free repairs.

Production and Quality Control

22 The efficiency of the manufacturing facilities and employees helped Louis Vuitton compensate for its decision to keep most manufacturing plants in France, one of the most expensive labour markets in the world. Eleven out of 13 factories that made Louis Vuitton bags were in France. The brand had never planned to manufacture its products in a location where labour was less expensive as the quality control standards in France were very high and customers expected “un savoir-faire à la Française,” meaning the famous refined French know-how.

23 Quality control was conducted in the brand’s test laboratories. The leather raw material came from the hides of Northern European cattle. They were known for relatively few blemishes from insect bites. Despite high-quality leather, the quality of the bags was tested with mechanical arm hoists. The bags, loaded with weights, were lifted and dropped, again and again, as part of quality checking. Then, ultraviolet rays were projected on the handbags in order to determine their resistance to fading. Eventually, zippers were opened and shut 5,000 times. For other pieces, such as jewelry and bracelets, mechanized mannequin hands were strongly shaken to make sure none of the charms would fall off.

24 In all Louis Vuitton factories, employees worked in teams of 20 to 30. Each team was responsible for one product at a time and were encouraged to suggest improvements in manufacturing. They were also briefed about the products, such as their price and how they were selling. The aim was to have autonomous and multiskilled employees.

25 The Boulogne Multicolor shoulder bag provided and example of how the whole production process worked. With the success of the Murakami line in 2003,[14] the marketing executives thought that this line could be a source of further revenue. They questioned store managers and found out that customers wanted a Murakami shoulder bag. A prototype of this new Boulogne Multicolor bag went directly from the marketing department to top executives. Straight away, they approved it. The prototype went to the factory in Ducey on the Normandy coast of France. The teamwork efficiency of Louis Vuitton’s factory paid off. When some workers were asked to test it, they discovered that decorative studs were causing the zipper to bunch up. Following this discovery, managers were informed right away and technicians managed to place the studs a few millimetres away from the zipper in less than one or two days. The problem was solved.[15]

14-9 14-10

Advertising

26 As Louis Vuitton had been going global, it had been able to develop a successful advertising strategy in line with its global expansion strategy. The advertising strategy of the company remained based on the idea that productivity would not sustain growth. Rather than cutting its ad budget like most luxury groups, the company increased ad spending by 20 per cent in 2003. This figure might have seemed very high but in fact it only represented five per cent of revenues, half the industry average.[16]

27 The company meticulously cultivated a celebrity culture and employed famous models and actresses, such as Jennifer Lopez and more recently Madonna, in its advertisement campaigns. However, in 2007 the firm implemented a change in its strategy and announced that former Soviet leader Mikhail Gorbachev would feature in an advertisement campaign with sports stars Steffi Graf, Andre Agassi and Catherine Deneuve.[17] The firm wanted a shift from hiring traditional top models.

28 Louis Vuitton frequently used print ads in magazines and billboards in large cosmopolitan cities. The campaigns often involved famous stars like Gisele Bündchen, Eva Herzigova, Sean Connery and Francis and Sofia Ford Coppola. Lot of customers were attracted to the mind-boggling 90-second commercial advertisement on television with the catchy question, “Where will life take you?” Translated into 13 different languages, it helped LV to build brand. The media (communication) department was strategic in choosing the newspapers and magazines to reach out to the higher income group.

Future Challenges

29 The most serious issue that would remain for years to come was the question of whether Louis Vuitton had reached its growth potential or not. One of its challenges would consist in reducing its risky dependence on the Japanese market. In 2004, 55 per cent of revenues came from Japanese consumers. To reduce dependence on this market, the brand aspired to continue building its sales in the United States as well as tapping new emerging markets, mainly China and India.

30 The second challenge would be to fight against worldwide counterfeiting. This was important because Louis Vuitton had been itself synonymous with status, convincing customers that they belonged to a privileged club.

31 In the future, Louis Vuitton would have to face a shift that all fashion houses feared, the possible departure of Jacobs. Yet, Jacobs had signed a contract as Louis Vuitton’s artistic director until 2018 and Marc Jacobs’s label[18] was one of the rising stars in LVMH’s portfolio.

32 However, the biggest challenge was in keeping control of the multinational business. As brands went global, the temptation for many was to immediately find new outlets and new channels of distribution and to decide on the price in different countries. However, Louis Vuitton was highly disciplined and focused on quality.

JAPAN—A KEY MARKET

Overview of the Japanese Luxury Market

33 Over the past few years, Japan had become the capital of luxury and a mass market paradise for luxury brands. According to an estimate by HSBC in February 2009, it was the final destination of 45 per cent of luxury goods sold worldwide.[19] According to some luxury 14-1014-11analysts, the statistics were exaggerated. Indeed, Japan was considered the world’s largest market for luxury brands but statistics said that Japan represented between 12 and 40 per cent of worldwide sales. The rate would vary according to the definition of the market.

EXHIBIT 7: Top Multinational Luxury Fashion Brands—Percentage of Overall Revenue from Japan in Total World Wide Sales (2005)

Baccarat	35%
Bulgari	26%
Burberry	36%
Coach	22%
Hermes	25%
Gucci Group	27%
LVMH Group	15%
Louis Vuitton (Fashion & Leather Goods)	30%
Salvatore Ferragamo	27%
Tiffany & Co.	20%
Van Cleef and Arpels	33%

Source: "Japan is the world's most concentrated source of revenue for luxury brands," Japan External Trade Organization, May 2006, www.jetro.org/content/361 15, accessed February 18, 2008.

34 Claudia D'Arpizio upheld that, "Japan is the world's largest market, and has the highest per capita spending for luxury goods." She added, "Much of that volume is from Japanese purchases while on trips to Hawaii, the US or Asia."[20]

Competition

35 Japan was the world's most concentrated source of revenue for luxury brands. It represented the mass market and consequently the first source of profit for many international luxury brands. Exhibit 7 shows the percentages of several companies' overall revenues generated in Japan.

36 The CEO of Bulgari, Francesco Trapani, revealed, "Accounting for 26 per cent of total revenues, Japan is for Bulgari the first and most important market." In 2006, Japan represented the biggest market for other luxury brands such as Baccarat, Burberry, the Gucci Group, Louis Vuitton and Salvatore Ferragamo. In addition, Japan was the second biggest market for Coach and Tiffany & Co.[21]

37 Comparing Japan's geography to the U.S. geography, the former was equivalent in size to the region of Montana. Within its tiny territory, Japan was sprinkled with 34 Bulgari stores, 37 Chanel stores, 115 Coach stores, 49 Gucci stores, 64 Salvatore Ferragamo boutiques, 50 Tiffany & Co. boutiques and 252 stores of the LVMH group, including leading brands 14-1114-12such as Louis Vuitton, Donna Karan, Marc Jacobs, Berluti, Moet & Chandon, TAG Heuer and De Beers LV.[22]

38 Quality had always been a key factor for successful brands in the Japanese market, especially for smaller brands or niche brands that did not enjoy the same success as larger brands, such as Louis Vuitton. But new, foreign brands were trying to shake up the market share of existing luxury companies in Japan by offering high quality at competitive prices. The popular worldwide Swedish brand H&M tapped into the Japanese market in 2008 with its fast fashion concept. The entry of H&M into the market completely revolutionized it. As a consequence, the effectiveness of the business models of brands like Zara, H&M or Uniqlo enabled them to compete with quality brands amazingly quickly. Affordability was a new concept that was radically changing the mind set of Japanese customers, who were always eager to resemble top fashion models from famous catwalk shows.

Consumer Behaviour in Japan

39 Japan had been known for a group-oriented culture in which there was a real pressure to possess luxury status-driven brands. Successful brands such as Prada, Hermès or Louis Vuitton had made the Japanese luxury market the mass market.

40 The Japanese way of consumption was different from the Western one. In Japan, young women were more beauty-conscious. The proportion of the urban population in Japan that possessed a famous, expensive luxury brand item was immense, reflecting a tendency not as deeply ingrained in other developed cities such as New York, Sydney or even Paris, the high-end capital of luxury fashion. The Japanese way of consuming cosmetics and luxury brands seemed more like a compulsory form of social expression.

41 According to Davide Sesia, the president of Prada Japan, Japanese women, to a much greater extent than Europeans, had a "psychological need to own something considered to be beautiful."[23] In Western societies, luxury shopaholics were not very well perceived among society. However, the cultural and social homogeneity among Japanese society helped explain its attachment to luxury items. The existence of a large middle class and a high population density affected Japanese habits. Japanese people were used to spending more time out of their homes than people in any other culture. Japanese society could be described as an "impersonal" society in which looks were very important, and people were supposed to dress in a way that corresponded to their social position.

42 Yet, times had changed and Japanese consumers were becoming less inclined to tolerate high prices that had formerly created desirability. Although young Japanese women would still be eager to save money for the "it" brands, they had become more aware of the value of money. The lower-priced accessories and small leather items, such as wallets, travellers or clutches, had reported a huge increase in sales in the recent past.

43 Since 2000, luxury goods had held a different position in the consumer mindset. As the market had evolved towards more sophistication, luxury brands were no longer purchased as badges of membership in the new urban class. The norms of mature brand behaviour and consumer habits seen in the Western world were about to be reflected in the Japanese luxury market. Davide Sesia had advocated that, "The increased attitude of Japanese women in their 20s and 30s understanding themselves much better than in the past was a 14-1214-13key phenomenon."[24] As a consequence, in the luxury market, the ready-to-wear segment had most incontestably been affected by the new trends in Japanese women's choices.

New Perspectives

44 In response to the sluggish economy and appreciation of the Japanese yen, foreign luxury brands were lowering their prices. Louis Vuitton and Christian Dior had lowered their prices the week before Christmas in 2008. Louis Vuitton had made a seven per cent price reduction on leather goods, accessories, ready-to-wear, shoes, watches and jewelry. The decrease in prices was justified by "a policy of offering its products at appropriate prices."[25] This policy relied on the exchange rate fluctuation, manufacturing costs and quality considerations as the yen had strengthened against the euro in 2008.[26]

45 Although sales of luxury products had notably decreased due to the global financial crisis, which originated in the United States and spread all over the world during 2008–2009, a new, curious phenomenon had taken over—the rental of bags. Nonetheless, many luxury brands were aiming for the return of better days, like the luxury Belgian chocolatier Godiva, which was carrying on with plans to open two new cafés in Tokyo, or the luxury mobile phone company Vertu, which planned to open a shop in Ginza. Characteristics of the evolution of the ageing Japanese population, such as wealthier families and older women with increased purchasing power, represented new perspectives for the future of the Japanese luxury market.

46 Though there was sustained slowdown in the demand for luxury goods in 2008 and 2009 due to the adverse consequences of the global recession, the Japanese luxury market would remain a healthy and growing industry. There had never been an annual sales decline and the growth for the next few years was still expected to be around six per cent.[27]

47 The Japanese market was defined as cyclical in the sense that there were periods of huge spending often followed by periods of slow growth and moderation. In order to compete, brands would have to rethink their decisions and strategies in a more complex way than in past years. Milton Pedraza, the chief executive officer of the Luxury Institute of New York, upheld that, "Luxury has to reinvent itself every few years, and I believe it will return to the traditional meaning of something unique and exclusive."[28] In the near future, prices of goods and lines of products would oscillate but the average price would be considered the crucial issue in the luxury market.

Louis Vuitton in the Japanese Market

48 The year 1977 saw the opening of the first stores of Louis Vuitton in Japan in Tokyo and Osaka. In the 1980s, with the economic boom in Japan, there was "Vuittonmania" in Japan. Around 20 million Japanese women (out of a population of 127 million people in Japan) owned a bag of the brand and each year, Louis Vuitton sold more than five million units of "Keepall" and "Speedy," the classic leather monogram bags.[29] The famous Malletier made more than a third of its profit in Japan. What had been the key to its successful strategy?

The Entry into the Japanese Market

49 Louis Vuitton was the first multinational luxury house to open its own shop-in-shops in Japan, without the help of a Japanese distributor. This strategy had become an efficient economic and commercial business model in the luxury market. In the 1970s and 1980s, foreign firms had manufactured and distributed their products by licensing. When Louis Vuitton decided to opt for a controversial strategy and to establish its own subsidiary, the company turned out to be a pioneer. It decided to export products from France to Japan.

50 Kyojiro Hata had been the CEO of Louis Vuitton Japan for 28 years. Louis Vuitton's headquarters' management style meant strict control of the selective retail store network across the globe. Each subsidiary was, to a certain extent, extremely autonomous. The French headquarters had been relying on the Japanese business savoir-faire, believing Japanese managers to be more likely to make efficient market-driven decisions as they understood the local people.

51 Louis Vuitton entered into the Japanese market at first through department stores with a single brand of its portfolio. The company offered its Japanese partners, like Seibu or Mitsukoshi, an interior design comparable to that found in its flagship stores in Paris. The purpose remained making a French luxury purchasing experience and controlling entirely the shop-in-shops (prices, products, sales teams, etc.).

52 A few years later, in 1981, Louis Vuitton opened its first retail store in Namiki Dori, Ginza, in Tokyo. The company followed its expansion strategy and, by 2007, controlled 54 stores through a directly owned shop network in Japan.[30] LVMH as a group had more than 250 stores in Japan. Some of them were stores opened as franchisees during the last decade. New generations of shops opened in Nagoya, Osaka, Sapporo, Tokyo and elsewhere, revolutionizing the whole purchasing experience of luxury goods. The architecture of the stores had become part of the brand's identity. A perfect illustration of this was the architecture of the Louis Vuitton building in Omotesando, Tokyo, built by Jun Aoki, which looked as if several trunks were piled up. Louis Vuitton had shifted towards a new approach in which the experience in a store would accord with the emotion brought out by the products.

53 Louis Vuitton took advantage of the Japanese demand for high fashion. Japan had been and remained a source of creative ideas and trends. In a sense, Japan represented a fantastic laboratory to test new selling methods and to inaugurate innovative Louis Vuitton stores. Contrary to Europe, there were few rules and standards to follow in terms of urbanization and architecture. This enabled Louis Vuitton to design audacious and amazing stores like the ones in Ginza, Ometesando and Roppongi in Tokyo, or even one of the latest stores inaugurated in February 2007 in Nagoya's Midland Square, just below the Toyota headquarters. The Japanese clientele were receptive to Louis Vuitton, as they were truly avid for new products and very demanding of the quality of products they bought.

Strategic Approach

54 Louis Vuitton had always been a trend-setting brand strategist in Japan, a country that revolved around tradition and culture. Since the designation of Jacobs as the artistic director of the brand, Louis Vuitton had successfully entered the Japanese ready-to-wear market. Jacobs had strived to combine his own artistic universe with the tradition and heritage of the brand. The designer had created a new energy and enthusiasm for each ready-to-wear runway collection, mixing tradition and innovation.