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When to Partner and When to Acquire, Louis Vuitton Style

Controlling almost all distribution turned Louis Vuitton into a globally competitive force.

Yves Carcelle is a humble man with penetrating brown eyes. An INSEAD MBA, he is credited with transforming Louis Vuitton (LV) from an old trunk maker into a luxury powerhouse throughout his 23-year long tenure as CEO. Now he is a self-declared "fixer" for the top management team and Vice President of the LVMH Foundation. His own modest handyman-like image is in stark contrast to the venerable leader he is considered both inside and outside of LVMH.

When he became CEO in the early nineties, he knew that LV had grown very quickly across the world without having all the management resources it needed to maintain global leadership positions. This meant that LV had to form alliances with distributors in most of the countries it operated in. These distributors played an active role in the company's business operations.

Yet, 100% reliance on global business partners was not Carcelle's philosophy. One of his earliest initiatives at LV was to take control of 100 percent of the distribution of LV's products in almost all geographies. "With 100 percent distribution, you can have a good database…every morning you see the sales product-by-product, store-by-store, clientele-by-clientele all over the world," he told me in a recent interview.

Partnerships and alliances are valuable drivers of competitive advantage, but if everyone in your industry relies on partnerships, there might be opportunities for achieving competitive advantage in a different way, i.e. when you integrate everything under one roof. Carcelle was willing to go against the grain, and now he remains surprised that no other luxury brand considered such a move. Even now most of LV's competitors have a lot of distribution partnerships worldwide.

But why did LV decide to go against the industry's majority opinion? During the 1990s, business revolved around the concept of outsourcing and many luxury goods companies moved many of their operations overseas. Carcelle argues that LV's key source of competitive advantage was its know-how of product making. Success doesn't always come from "manufacturing everything yourself, but from understanding and controlling the know-how and having your experts in-house," he explains.

Does vertical integration always make sense?

Over time, LV bought out all of its partners, but there was one exception. "The only partners I decided to keep were our partners in the Middle East. This was not only because their values were the same as ours. Friendship and value-sharing is not enough. [A big reason for keeping them was that] the Middle East is complicated, legally and culturally," he said.

As I explain in the new book **Network Advantage: How to Unlock Value From Your Alliances and Partnerships**, LV decided to stick with a Middle Eastern partner - Chalhoub Group. As Yves Carcelle commented, "Decision-makers [in the Middle East] speak Arabic and I decided it was important for us to continue to work with partners that opened doors, be our advisers and we were the first one to organise a joint venture for the whole Middle East market". However, to still ensure as much consistency across regions as possible, LV decided to work with Chalhoub Group across several Middle Eastern markets, and not to try and find a separate partner for each country.

The lesson from Yves Carcelle's experience is clear. The more unique your assets are and the greater the control you need to exercise over the value chain to extract competitive advantage from these assets, the more vertical integration makes sense. However, the higher the uncertainty and complexity in your markets, the more you should think about partnerships. LV's key assets were a unique brand and long term experience in luxury goods. By vertically integrating, LV has ensured a highly consistent image all around the world. If you face a situation when you have unique assets, control over the value chain helps you extract value from them. Yet when you are dealing with complex and uncertain markets, then you need to find a single partner with expertise in most of these markets.

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