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COMMERCE

With luxury slowing, venture capital turns to smaller, aspirational brands

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Dr. Jart+ was acquired by The Este Lauder Companies in late 2015

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NEW YORK When it comes to investing in a brand, there is no magic formula for identifying the proper brand, time or terms, according to a panel at the FACC Luxury Symposium 2016.

From the brand's side, entrepreneurs need to be thinking about and preparing to seek venture capital before they actually need it. While there is no consistent method, a number of guidelines and principles can go a long way toward helping brands and investors have mutual success.

"First, [brands must] decide when [they] need to consider a partner," said Laurent Droin, managing director and head of consumer advisory Americas, BNP Paribas. "In many cases we are called but it is too late, we don't have time or something else. So during one cycle, prepare for the next."

The FACC Luxury Symposium was organized by French-American Chamber of Commerce.

The right stuff

Panelists during "Finding The Right Financial Partner" were united in finding aspirational brands to be better investments than those in luxury. With a tumultuous global economy slowing growth even in China and geopolitical instability in a number of other emerging markets, the luxury price-point is too risky for many investors.

"Luxury needs a lot of years to make it happen and takes a lot of patience, and it's hard unless the luxury brand has already captured credibility in multiple categories," said Ron Frasch, operating partner of Castanea Partners. "But to assume they are going to be able to make a positive foray into additional categories is a pretty big leap of faith within the luxury arena."

At the aspirational level, investors could find themselves preparing to exit in around five to seven years the three-year model was widely dismissed as mythical among panelists.

According to Joseph Ferrara, co-founder, co-CEO of Resonance, brands must be captured during a period when their growth is speeding up, not when it is slowing down. BNP Paribas' Mr. Droin agreed, stating that "catching new waves" earlier is important because "those waves can be bigger quicker."

Both operational and creative talent are important, but investors differed on how to prioritize these aspects.

"We are looking for brands that can finish the sentence, 'I make the finest' or 'I make the best,'" Mr. Ferrara said. "Areas like printed textiles or full fashion knit, that kind of specialization where you can make a brand standout from design through execution is really important to us."

Mr. Frasch differed only slightly, echoing the idea of belief in the product being the foremost consideration, noting that the investor has networking and business experience that brands do not and can replace insufficient businessmen to ensure operations go smoothly.

However, Virginie Morgan, deputy CEO of Eurazeo, leaned more heavily on the people. While the product and finances maintain importance, the people can make or break a deal.

"The management, some are absolute geniuses and very complete in terms of expertise," she said. "Even if two brands and finances are the same, it's day and night depending on who is in the company."

Mr. Ferrara went even further.

"No question you are betting on the entrepreneur, the creator, the essential talent to dominate in a product category and be meaningful," he said. "People first, customers second; number three is product."

And from Mr. Droin, it is not the product so much as the overall brand proposition a consistency of brand offering and a pitch for desirability and exclusivity speak louder than the quality of the product itself.

With so much dissent on what makes a good investment, and even who or what is the primary site of investment, it follows that different investors have different goals and terms.

The Este Lauder Companies rarely buys market share, focusing, as with other panelists, on small brands with growth potential, as was the case with M.A.C a billion dollar company purchased when its value was around $30 million and La Mer purchased at less than $1 million. However, Este Lauder Cos. is also open to minority share deals.

"A number of the deals we have been doing, we were not the highest bidder, but we were the best overall package," said Peter Jueptner, executive vice president, strategy and new business development at The Este Lauder Companies.

"Increasingly people want the best home for their brands because they have a legacy and want that legacy to survive and prosper, and I think that's what we offer at Este Lauder.

"To make a minority investment, our preference is to have a path to control, and the simple reason for that is because even in a minority investment we do have a lot of knowledge and really help the entrepreneur," he said. "So we don't want someone else to take control after we do all that work."

And when it comes time to exit, investors should protect the entrepreneur first and foremost. Those who cover their wallets foremost will lose their reputation as being a good place for new brands and entrepreneurs. That reputation is a better long-term preposition than any individual deal.

Luxury IPOs
A number of luxury brands have recently gone public or been acquired by larger companies.

For example, British footwear brand Jimmy Choo conducted its initial public offering in London in October 2014 for an approximate $1.1 billion valuation.

The brand sold a 25 percent stake of its recently created holding company, Jimmy Choo Limited, and became the first independent luxury footwear brand to become publicly traded. Other luxury footwear brands may make a similar move in the near future (see story).

"Smart money is getting smart, and don't underestimate the potential of the basic connection of the brand with the people," BNP Paribas' Mr. Droin said. "You are determined to connect with the brand and connect with the founder and lead them to create good value."

Similarly, this past September French fashion house J. Mendel boosted its expansion capabilities with the addition of new majority shareholder Stallion, Inc.

The new investor joins the existing shareholder Giles Mendel, the creative officer of the label and fifth generation family member, who is retaining a sizeable stake in the company. Increasingly, family-owned luxury brands are turning to outside investors to help them remain competitive in a global luxury business (see story).