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LUXURY MEMO SPECIAL REPORT

Richemont – Luxury Memo special report

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Swiss watches exports saw growth in May 2017. Image credit: Piaget

By BRIELLE JAEKEL

Swiss conglomerate Richemont has seen setbacks in the past few years due to the challenging climate in the watch industry where so many of its brands are rooted. But its recent refocused willingness to adapt, innovate and change is likely to exhibit the resilience of the company.

Second only to LVMH, Richemont is one of the largest luxury goods providers in the world, but its focus on watches and jewelry has been the source of many challenges. Cartier, Montblanc, Baume & Mercier, Chlo and Piaget are just a few of the designer brands controlled by Richemont that are known as leaders in the luxury space, although the group's surprising moves within its business is what is keeping it afloat in such a tumultuous end of the market.

"Richemont has made innovative moves, both in terms of product and in terms of marketing, in recent years," said Anusha Couttigane, senior analyst at Kantar Retail, Norwalk, CT. "Cartier and Montblanc are good examples of Richemont's accomplishments when it comes to innovation in the luxury arena.

"When we think of the demands of today how digitally-driven consumers are and who today's luxury consumer is it is clear Richemont has made considered attempts to appeal to this audience," she said. "For example, Montblanc has recently launched an Android Wear watch, representing Richemont's first foray into the smartwatch space.

"This is an important development because it demonstrates the company's willingness to adapt its design for the modern consumer."

Technology and innovation
Richemont's Cartier was one of the first brands outside of Asia that looked to Chinese social messaging application WeChat to connect with consumers in a modern, useful but still high-end approach.

While the conglomerate in the past has been slow to adapt, like many other luxury goods manufacturers, Richemont has recently embraced the digital world to compete in today's market. Richemont's ability to recognize WeChat as the powerhouse it can be shows real progress.

Cartier's The Proposal: Jump Right In

WeChat has yet to reach its heights in Western culture, but its potential is there. If Richemont continues to invest in new and innovating experiences such as WeChat, it could make a big difference for the overall group.

Another major step forward for the conglomerate is the release of the Montblanc Android Wear watch.

The Montblanc Summit smartwatch. Image courtesy of Montblanc

Montblanc demonstrated the ways in which fine watchmaking can meet the digital age with the release of its first smartwatch.

The Montblanc Summit combines traditional horology codes with the latest in wearable technology, an approach to smartwatch manufacturing that has generated success for a number of watchmakers. Although the smartwatch category has not overrun traditional timepieces, brands must show a willingness to embrace new technology, especially as the sector sees waning consumer interest (see more).

This is a major move for Richemont, which sometimes struggles to keep up with LMVH brands, as the latter group is much larger and has access to more research and development and leverages wider reach.

Staying adaptable and consistent with consumer interest is integral for a watch brand, or any luxury goods brand for that matter.

"Cartier's investments in marketing are also important in this ambition," Kantar Retail's Ms. Couttigane said. "It was one of the first Western brands to embrace WeChat, China's leading social media platform, and establish a transactional storefront via the channel.

"Historically, lots of legacy luxury houses have been resistant to the onset of digital developments due to fears over brand dilution," she said. "Yet those such as Cartier that have welcomed this social transition have been able to leverage these developments to give them a competitive advantage.

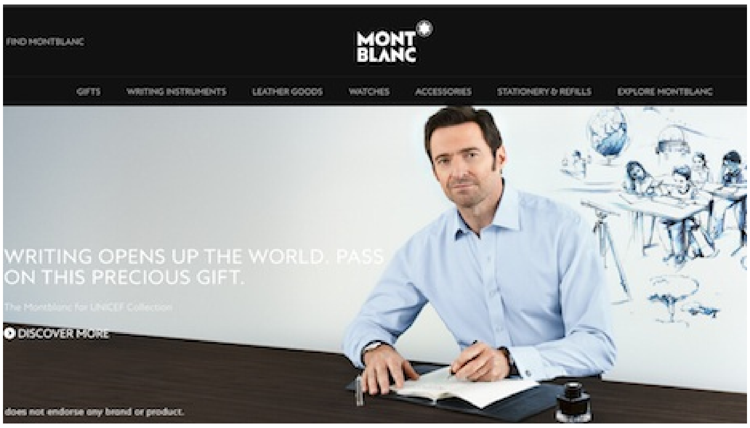
"Chinese consumers are incredibly important to today's luxury market, and it's a highly digitally driven audience," she said. "It's extremely difficult to make headway in China without using digital tools. Cartier's adaptation to the digital landscape has enabled it take a leading spot when it comes brand awareness and demand in China."

Management restructuring

Richemont recently made a major move that could be considered a serious risk in its business practices. Many industry observers were shocked.

The conglomerate decided to abolish its CEO position when its most-recent CEO Richard Lepeu and chief financial officer Gary Saage stepped down.

Richemont chose simply to not replace the executives, opting instead to focus on having a leader for each of its brands, so each house could focus on establishing its own identity.



Montblanc owner Richemont is quite protective of its ecommerce business. Image credit: Montblanc

Richemont's decision came in November 2016 when profits decreased by 51 percent to 540 million euros, or $599 million at then-current exchange rates, for the six-month period ending Sept. 30.

The luxury goods company saw sales decrease by 13 percent at actual exchange rates to 5.086 billion euros, or $5.654 billion at then-current rates. A challenging global environment and strong competition in Japan and Europe had affected Richemont's results, although the group did note positive momentum in China (see more).

As Richemont continued to reorganize at the top, Germany's Montblanc saw a change in leadership as well to reflect the company's strong stance on brand leadership.

The company's nominations committee and board promoted Montblanc's former executive vice president of sales Nicolas Baretzki to CEO of the brand. Effective April 1, Mr. Baretzki took over the role from Jrme Lambert, who moved on to another position within Richemont (see more).

Model Natalie Vertiz and actor Miguel Angel Silvestres for Montblanc's #PassItOn campaign. Image credit: Montblanc

However, while Richemont currently lacks a CEO, Johann Rupert continues as executive chairman. Mr. Rupert owns 50 percent of the conglomerate's voting shares.

"Richemont is a 'controlled' company," said Joseph Harry, researcher at Seeking Alpha, New York. "According to the 2017 annual report, Mr. Rupert owns 9.1 percent of the company through his sole ownership of the 'B' shares, but controls approximately 50 percent of the voting rights.

"There are 522 million 'A' shares and an equal amount of 'B' shares, but the publicly listed 'A' shares are only entitled to 1/10 of the voting rights and 1/10 of the dividend," he said. "Mr. Rupert effectively has the power to make most of the decisions, therefore, but I also believe there's a good chance that my interests will be aligned with his as a fellow shareholder, if I ever decide to partner with him.

The company does things a little differently when it comes to its central CEO role, recently splitting the position into two, Mr. harry pointed out.

Former IWC Schaffhausen CEO Georges Kern is now head of watchmaking, marketing and digital for Richemont's entire brand stable, and former Jaeger-LeCoultre and Montblanc CEO Jrme Lambert is now head of operations.

Mr. Rupert has also indicated that he is looking to inject more youth, more diversity and more women into leadership positions.

Jewelry brand Piaget also made significant steps forward within Richemont when it appointed its new global chief executive this April. Chabir Nouri has taken over as the brand leader after rising through the ranks of Richemont's other jeweler, Cartier.

Piaget's new chief executive is in support of Richemont's goal to become more diverse. Putting a woman who has a rich history in experience in charge may help Piaget to be more in tune with what resonates with consumers.

Female consumers who are interested in buying high-ticket items for themselves now dominate the world of watches and jewelry, which makes Ms. Nouri's addition to leadership extremely important and influential.

Piaget Possession Colors: Green

"The succession of Ms. Nouri to the role of CEO for Piaget is particularly pertinent, as it represents a rare move away from Richemont's homogeneous management structure," Kantar Retail's Ms. Couttigane said. "It's a step in the right direction toward introducing diversity right at the top of its management and, with Ms. Nouri's experience of emergent markets, she will be in a strong position to deliver on the needs of the new' luxury consumer.

"Furthermore, one of the biggest trends we are seeing in the luxury sector is more self-purchasing among female consumers, especially as younger generations of women prioritize careers and push back the decision to settle down or start families," she said. "This gives them a longer period of disposable incomes and more motivation to treat themselves.

"Having a woman at director level will enable Piaget to refocus its product and marketing on the self-purchasing woman, as opposed to her gift-giving relative. The fact that Ms. Nouri has a long history with the company gives Richemont the confidence that she will be able to introduce newness to the brand without abandoning the ethics and design principles that make Piaget unique."

Sales and acquisitions

Richemont's acquisitions and sales have also been major pushes in sending the company forward.

For example, the conglomerate recently invested in duty-free retail, banking on the category's projected growth.

The group has taken a 5 percent stake in Dufry, which is valued at about $470 million. Courtesy of more accessible travel, duty-free retailing's sales have been rising at a rate far faster than the overall luxury market and luxury ecommerce (see more).

Richemont also sold Chinese luxury label Shanghai Tang to Italian entrepreneur Alessandro Bastagli.

Shanghai Tang was founded as a modern Chinese luxury label. Image credit: Shanghai Tang

Established in 1994, Shanghai Tang had been a wholly-owned subsidiary of Richemont since 2008. The transaction, for which terms were not disclosed, was completed on June 30 (see more).

These movements in business will likely only be the start to Richemont's aggressiveness as the company vies for the modern consumer's attention.

Falling sales

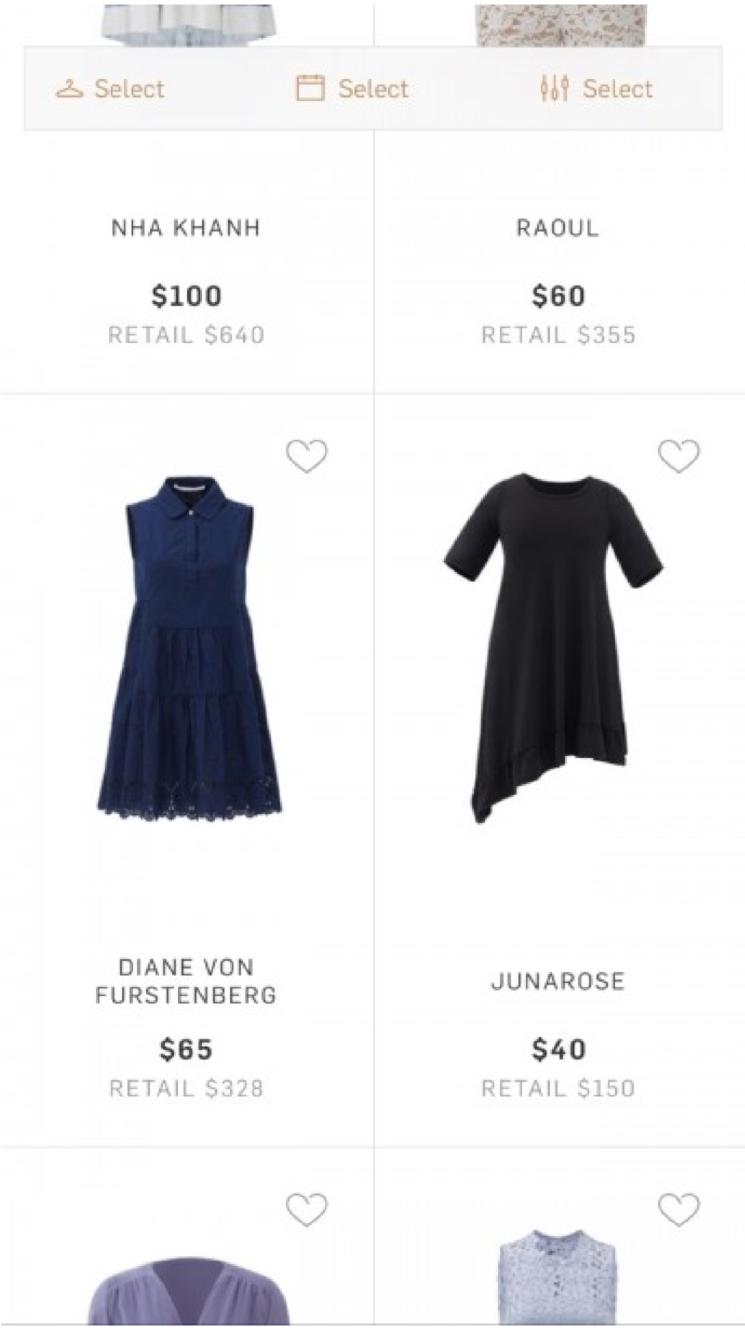
This aggressive business stance and risk with the company's lack of CEO is a direct result of a declining market. Luxury goods as a whole witnessed a not-so-stellar performance this past year, but watches were hit hardest.

Approximately 12 out of 19 wholly-owned brands are considered watchmakers.

A result of changes in consumer demand and consumption habits, luxury conglomerate Richemont's wholesale channels saw challenges in 2017.

While the group's own retail sales grew 4 percent, its wholesale channels decreased 14 percent as the company underwent inventory buy-backs, primarily for its watches. Due to these measures taken to respond to the challenging environment, Richemont's gross profit also declined 4 percent (see more).

The rise of a digital and startup culture has separated the connotation of luxury from the high price tag to which it has been married for so long. Traditional companies such as Richemont that have a long history with high-priced items have found it hard to adapt and been slow to change with the new consumer.



The Rent the Runway app allows users to rent high end clothing for less cost. Image credit: Rent the Runway

But now, consumers are able to buy quality items without paying such high prices, which means traditional luxury manufacturers such as Richemont need to adapt, and fast.

Focusing on the shopping experience and interaction with the brand as a whole and turning it into a luxury experience is vital for luxury brands. Add to that the digital connection and the added "why" factor demanded by younger affluent consumers, as Richemont is discovering.

"It is conscious that, in an increasingly connected world, even luxury products must serve a utility in order to maintain their relevance," Kantar Retail's Ms. Couttigane said.

Richemont houses by category:

Watches and jewelry
A. Lange & Shne; Baume & Mercier; Cartier; Giampiero Bodino; IWC Schaffhausen; Jaeger-LeCoultre; Montblanc; Officine Panerai; Piaget; Roger Dubuis; Vacheron Constantin; and Van Cleef & Arpels

In 2017, Richemont combined its expertise with U.S. fashion label Ralph Lauren to create the joint-venture Ralph Lauren Watch and Jewelry Company.

Sporting guns
Purdey

Fashion and leather goods
Alfred Dunhill; Azzedine Alaa; Chlo; Lancel; and Peter Millar

Best-practice tips:

- Mousumi Bose Godbole, associate professor of marketing at Fairfield
  - "Understanding that the luxury image will not go away by moving on to the online world, that the online world can be as powerful as the traditional brick and mortar world is important.Technology is so advanced that exceptional marketing efforts can absolutely be made in the online world that can simulate some of the brick and mortar effects. This means that heavy investment in online business is the way to go especially since other competitors are investing heavily. This may also mean reducing the leaks in the brick and mortar stores - store closures. A more decentralized decision making in local markets would help. Of course there may be issues of brand dilution but decision making regarding product changes need to be quick for quick turnaround. A whole world of rental and discount formats exist and that world cannot be changed. However, smart and quick product introductions can shake this business especially when consumers find new products when they are not expecting them. Many consumers would prefer to invest in a new original than buy the traditional pieces. Other formats of luxury clothing and accessories have already started - customized ones, something Richemont may look into."
- Anusha Couttigane, senior analyst at Kantar Retail
  - "Today's luxury consumer is incredibly demanding. They're not just after a product; they're after an experience, and a highly personalized one at that. Exclusivity is also an important aspect of luxury status, so it's better to do a few things really well than several things halfheartedly. Service is always going to be important. In the luxury sector, service is the real marker of distinction, and it's the brands that pay special attention to the overall experience, be it speed of delivery, packaging or personalization that will really excel in the current climate. With retail services developing at an accelerated pace, it's becoming harder for brands to keep up on their own. We are already seeing companies joining forces in order to meet the demands of their more discerning customers and this has the potential to truly disrupt the way things are done in the luxury sector."