

LEGAL/PRIVACY

LVMH will not back off. What should Hermes do?

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By RACHEL LAMB



Luxury conglomerate LVMH Moët Hennessey Louis Vuitton is

stuck in the craw of family-owned scarf and leather-goods maker Hermes. Crying foul is not working - not with that famed collector of luxury houses, Bernard Arnault.

In its latest effort to beat back the interloper, Hermes has allegedly requested that LVMH halve its shareholding from 20 percent to 10 percent. But LVMH is not legally bound to divest its Hermes holdings and shows little inclination to fulfill that request.

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“There’s not much [Hermes] can do except to keep building its business, which would make it more expensive for LVMH to purchase additional shares,” said Al Ries, president of **Ries & Ries**, a Roswell, GA-based brand consultancy.

LVMH is one of the largest conglomerates in the luxury industry, having acquired known brands such as Christian Dior, Alexander McQueen, Louis Vuitton and Marc Jacobs. The most recent acquisition was Bulgari, another storied family-owned luxury jewel.

Shooting the messenger

LVMH stunned the world in October with the news that it had acquired a 17.1-percent stake in Hermes.

The move by the stealthy raider was suspected a coup by Hermes, but the conglomerate maintained an amicable and non-threatening façade.

However, time wore on and LVMH steadily gained shares – 20.2 percent – in family-owned Hermes, fueling suspicion of an attempted takeover.

In an article published by French newspaper Le Figaro on Monday, May 31, Hermes chairman Bernard Peuch called on LVMH to decrease its stake in the brand by 50 percent.

LVMH continues to dismiss allegations that it was trying to destabilize its smaller rival. But Hermes is not buying that.

“After six months, we are the target of incessant attacks of the kind we’ve never seen in 174 years, even though LVMH says its approach to us is friendly,” Mr. Peuch said in the article.

“With friends like these, who needs enemies?” he said.

However, whining publicly may not be the best way to fend off the powerful LVMH CEO, Mr. Arnault.



“It was probably a mistake to complain about LVMH’s share purchase,” Mr. Ries said.

“They should have done the opposite and bragged about being such a successful company that the biggest company in the luxury goods business has seen fit to purchase a large block of Hermes stock,” he said.

If Hermes builds itself up to be more powerful than LVMH seems to think, it could possibly fend off a potential attack from the conglomerate and maintain its independence.

In the saddle?

When LVMH's Mr. Arnault sets his eyes on a brand – let alone one that has been playing hard-to-get for almost eight months – his lust for famed luxury houses usually gets him his way.

While the world was still watching the back-and-forth play between the two rivals, LVMH quietly made a deal to acquire Italian jeweler Bulgari in March ([see story](#)).

This could have been seen as just another business deal to some, but it sent a message and warning to Hermes that LVMH's voracious appetite for lustrous brands is far from satisfied.

The larger that LVMH gets, the more it squeezes from suppliers and vendors better pricing and terms for raw materials and supplies, as well as enhanced clout for talent and for pushing product quickly from factory floor to retail store.

For its part, Hermes is working on a poison-pill defense by setting up a holding company controlling more than 50 percent of the brand.

The most that Hermes can do now is to fight for its right to be independently owned, and to make it harder for LVMH to acquire more shares in the company.

Although Hermes may insist on maintaining its independence in a world of luxury conglomerates, few cannot claim that LVMH's branded goods are not of the same beauty and quality as they were when they were independently owned.

"Hermes' image will probably not be tarnished in an LVMH acquisition," Mr. Ries said. "Hermes would be in good company with brands like Bulgari, Louis Vuitton, Moet & Chandon and others."

Final Take

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