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COMMERCE

Is the luxury footwear arms race on?

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By RACHEL LAMB

With the recent acquisition of luxury footwear company Kurt Geiger by Jones Group following the sale of Jimmy Choo to Labelux last month, the two massive conglomerates are being presented with new opportunities that rival fashion empires LVMH Moet Hennessey Louis Vuitton and Pinault-Printemps-Redoute.

Although this does not seem to be a typical arms race of footwear giants, both conglomerates are clearly decisive when choosing brands to add to their respective portfolios. Additionally, both Jones and Labelux are most likely to be watching one another quite closely as the market continues to improve and acquisitions become more likely.

"You still have a situation where many small but high-growth potential luxury brands are available, especially with the economy and BRIC markets put together which are giving tremendous growth opportunities," said Milton Pedraza, CEO of the Luxury Institute, New York.

"These two parent companies will be the LVMH and PPR equivalents and have a portfolio where one or few brands become a massive hit and it can have very significant returns that drown out the others that don't do so well," he said.

"What you're seeing is a very active market in acquisitions."

The mergers

Jones Group announced yesterday that it is buying British retailer Kurt Geiger for $350 million from Graphite Capital.

Kurt Geiger is one of the leading footwear maker in Britain, selling its nine brands at high-end department stores such as Selfridges and Harrods.

The brand will join companies such as Stuart Weitzman, Givenchy, Judith Jack, Jessica Simpson and Anne Klein in the Jones Family.

Meanwhile, upscale footwear manufacturer Jimmy Choo was sold to German luxury goods company Labelux last month.

At the time, Jimmy Choo was said to have been valued between $650 and $895 million.

Labelux owns Derek Lam, Bally, Zagliani and Solange Azagury-Partridge.

"Public and private often organizations operate and exist for different reasons," said Chris Ramey, CEO of Affluent Insights, Miami. "Public companies work to increase stockholder value by nurturing the value of their brands.

"Historically we've found that private equity groups buy properties to sell them at a profit," he said.

Just as luxury conglomerates LVMH, PPR, Richemont and Prada Group are acquiring other brands at the same time, their rivalry is not a battle.

"There is a label of expertise that the Labeluxes of the world have that [small] luxury and premium brands really need in order to grow," Luxury Institute's Mr. Pedraza said.

Marketing

There does not seem to be a trend with other acquisitions that suggest brands will lose their identities or drastically change their marketing efforts.

For example, even though Christian Dior has been owned and controlled by LVMH since 1984, it still retains the classic and timeless advertisements, products and image as it did when it was first conceived earlier in the century. That portral is classic: elegant women wearing or using Dior products.

Kurt Geiger's marketing consists of digital, out of home and print media, especially in publications such as The New York Observer and Glamour.

The ads are slightly risque and usually just show the shoes.

Kurt Geiger ad

Jimmy Choo's ads, on the other hand, consist of women in brightly-colored clothing against bold backgrounds.

Jimmy Choo ad

Also, Jimmy Choo runs extensive marketing, including print ads in Vanity Fair and Vogue and out-of-home and online ads.

Only time will tell if these brands will control their advertising techniques under the new leadership.

"Some holding companies have tremendous expertise and position that a lot of small premium brands don't have within their ranks," Mr. Pedraza said. "Every time conglomerates bring someone in their ranks that become a great marketer, they are squashed and removed from the ownership.

"In order to survive with a new leader, you need to be brand-centric and customer-centric," he said. "This is what conglomerates such as Labelux are designed to do."

The competition

As in the fashion world, there are conglomerates and there are independents.

From the outside, it does not seem as though these acquisitions are as emotional as, say, LVMH's lust over scarf and handbag maker Hermes, but in the world of fashion politics, feelings cannot get in the way.

"Acquisitions are about economies of scale," Affluent Insights' Mr. Ramey said. "Brands may be about emotion, but financial organizations are not."

Furthermore, acquisitions do not always mean that brands will suffer.

On the contrary, luxury and fashion houses are usually picked up when they are on the verge of bankruptcy or are having trouble surviving.

Footwear powerhouses such as Tod's and Manolo Blahnik are self-governing – for now – but can independents survive in a world of luxury conglomerates?

“Companies with money like Labelux are looking to buy, and they are very good at doing what they do and they tend to manage brands very well,” Mr. Pedraza said. “These two brands need to become strategic in their growth and brand communications, especially needing to make sure that they build relationships with top-tier products and find out which products resonate with consumers in the market.

“Resources such as these in the luxury world are very scarce,” he said. “If some resources grow independently they can become scattered and although they will be large, they are undisciplined, unwieldy and sometimes unprofitable.

“Being under the care of a conglomerate can add skill, technique and knowledge to the luxury label, especially in terms of marketing and knowing the customer.”

Final Take
Rachel Lamb, editorial assistant on Luxury Daily, New York