Luxury Daily®

The News and Intelligence You Need on Luxury

RETAIL

How LVMH's latest acquisition will shake up the luxury industry

December 3, 2019

Tiffany is in the box for LVMH. Image credit: Tiffany & Co.

By Susanna Nicoletti

There is no doubt that the luxury industry is a very competitive field, with riches of risks as well as opportunities.

While standalone brands and smaller groups such as Prada and Tod's are struggling to find their path to growth, recently founded American groups such as Capri Holding and Tapestry are trying to create a critical mass in the United States, despite several internal differences.

Interestingly enough, the three main luxury groups of the world are developing their businesses in very different ways.

Three leaders with different visions

LVMH, Richemont and Kering could not be more different in terms of group strategy and revenue development.

The fact is, there is no standard solution that can be applied to luxury businesses and one of the keys to success is the courage to follow your own way of business, rather than trying compete in the same field of opportunities.

LVMH, the first luxury group in the world, recently announced the acquisition of iconic jewelry house Tiffany & Co. in a $16.2 *billion* deal.

The latest move is one of a very clear group strategy focused on:

- Buying key luxury brands to dominate not just leather goods and apparel, but also hard luxury, hospitality (Belmond group), and travel (Rimowa)
- Enlarging the perimeter of the group business, while distributing and balancing the financial risk (new focus on U.S., different product categories)
- Investing in long-term growth through a dynamic and well-driven approach

LVMH at a glance

LVMH already owns 75 iconic brands that range from cosmetics, retail, leather goods, ready-to-wear, wines and

spirits, and hospitality, but the acquisition of Tiffany's is the most expensive deal ever made by the group, with Bulgari being bought in 2011 for $5.2 billion.

The move is representative of the long-term vision and the unstoppable energy of the LVMH group.

But the group's U.S. acquisitions have not always turned out as big successes. From Donna Karan to Marc Jacobs, the French conglomerate has not found much satisfaction from the U.S. branch of business.

Rather than cry over spilled milk, LVMH started a new series of businesses that appear to enjoy better performances. From Fenty by Rihanna to Tiffany, the group seems to have a strong intent of not focusing all its attention on the Chinese market.

While LVMH previously gave little attention to smaller, undeveloped watch and jewelry brands, the group earned its first ranking in the luxury industry by acquiring Bulgari in 2011.

Sharp business strategy, nearly impeccable execution, a healthy dose of sangfroid and endless strength took Bernard Arnault into the Olympus of the wealthiest people in the world.

Closer look

Bloomberg recently reported that the French conglomerate market value is 203 billion euros ($223 billion).

On the other side of the pond, there is another smart businessman behind the deal: Francesco Trapani, former CEO of Bulgari, whose relative, Sotirio Bulgari, just happened to have founded the brand.

The mastermind behind the sale of the Roman company to Mr. Arnault's group is also a shareholder and director on Tiffany's board.

How small can the world be? Alessandro Bogliolo, current CEO of Tiffany, had been a loyal chief operating officer of Bulgari when Mr. Trapani was heading the family company. He left some time after the LVMH acquisition of Bulgari.

With the help of LVMH, Bulgari managed to double sales since 2011 and saw profits increasing fivefold, Mr. Arnault said recently. The step taken by the French group gives the momentum needed to remarkably outstrip its most direct competitors: Kering and Richemont.

Competitor strategy

Kering, owned by rival Francois-Henry Pinault, implemented a strategy that is exactly the opposite of LVMH.

Mr. Pinault opted to push for huge internal growth, focusing mainly on China and dismissing brands such as Puma, Sergio Rossi and Volcom, which were deemed less relevant.

Kering prioritized key brands such as Gucci, Saint Laurent and Balenciaga to enable as much growth as possible in the past five years, and succeeded in achieving remarkable growth in revenues and visibility.

Gucci rapidly became a global phenomenon with a stunning stellar growth of its annual revenue from 3.5 billion euros in 2014 to 6.21 billion euros in 2017.

However, Kering also lost the sustainability flagship brand of the group.

Stella McCartney pledged alliance to LVMH, leaving behind many questions as to why the partnership with Kering did not work out.

Kering also suffered due to an investigation of the Italian tax authority and signed an agreement accepting to pay an amount close to 1.25 billion euros in a settlement.

Last but not least, the acquisitions that the French group made in recent years such as Chinese jewelry brand Qeelin, British designer Christopher Kane and the Italian Pomellato, in addition to watch brands such as Ulysse Nardin, did not seem to contribute enough to the revenue surge and certainly did not conquer the shiny top ranking of the best-performing luxury brands.

LVMH focused on steadily driving the revenue growth of its brands and on expanding the diversity of its own portfolio by making very focused investments and acquisitions.

Let us not forget that the failed prospect of a Herms takeover left LVMH an interesting amount of cash.

To allow a long-term leap, Kering pushed stellar vertical growth of its existing brands and did not invest further in relevant acquisitions.

The trouble is, if the stellar growth of Gucci, Saint Laurent and Balenciaga reaches a peak and is forced into a normalization phase, there will be no internal brand capable of sustaining the double-digit growth that Kering experienced in the past five years.

As LVMH might eye Chanel next, is Kering willing to invest its cash in expanding its own portfolio? Possibly targeting a global powerhouse such as Valentino?

Competition between the two French groups is certainly far from over, even if with the dimensions of the groups morphing into different things.

And then comes Richemont, last, but not least.

The Swiss luxury group founded by South African Johann Rupert became successful thanks to hard luxury. It carefully integrated high-end luxury watch brands, such as Jaeger-Le Coultre and IWC, with legendary jewelry brands, such as Cartier and Van Cleef & Arpels.

All the while, Richemont also launched ghost brands such as Panerai, making it a niche, sought-after brand, ultimately driving it to success with fashion brands including Chlo.

The Swiss group, positioned as traditional and conservative, made great headlines thanks to the unexpected acquisition of one of the key players in high-end ecommerce: Yoox-Net-A-Porter.

Recently Richemont continued with the long wave of acquisitions of jewelry brands such as Buccellati and also launched into a new fashion venture, funding the creation of Alber Elbaz's own brand.

Slowly but surely, Richemont became the hard luxury giant moving ahead with its own confident pace rather than rushing into reaching double-digit growth. However, this also comes with the inevitable risk of lagging behind LVMH.

What now?
A question is raised as the fight for the top of luxury groups ranking is now taking a new turn: why are Richemont and, more notably, Kering, not expanding their own brand portfolio stretching it into new categories? Why are they remaining dependent on China and on their own core businesses? Why so little focus on acquisitions?

In 2018, the revenue of LVMH was 46.8 billion euros, with 136,000 employees. Kering was at 13.7 billion euros in revenue and 35,000 employees, while Richemont reported 10.9 billion euros and 29,000 employees.

The Tiffany acquisition projects LVMH into new heights and very likely will stimulate a shift in the strategy of Kering and Richemont, if not the entire luxury industry.

Certainly LVMH's strategy has some intrinsic risks of losing control in the management of such a big corporation with very few generals and possibly too many soldiers.

But at the end of the day, it is an opportunity to become the first and unreachable luxury global corporation, with some level of uncertainty due to it being heavily dependent on its founder, Mr. Arnault. But, so far, the French conglomerate's strategy has proved more successful than its competitors.

LVMH also showed that, in a global luxury market, to be keeping the pace by focusing on internal growth of its existing portfolio is not enough.

To focus on the Chinese market is not the greatest strategy, and to bet all company growth on a very concentrated and traditional range of categories is more than a risk.

In a world where the definition of luxury is getting stretched and evolves by each second, keeping it safe and "just" developing the business as it always has been done is more than a danger it is an inevitable downfall.

In a time when stakeholders are becoming increasingly opinionated and demanding, the more the lifestyle is involved, the better it will be.

LUXURY BRANDING is not just about the product anymore, it is all about how much of the lifestyle a group can fulfill with its portfolio.

Placing a total focus on accessories is not a safe harbor anymore, but distributing the experience of the key touch points and all five senses is.

Enjoying a five-star hotel, drinking fine wines, traveling with style, taking advantage of the best cosmetics and restoring one's spirit with refined fragrances and curated apparel and accessories that is the luxury experience.

The top luxury groups should see themselves as companies that strive to enhance the joys of life at all levels. And, no, managing a complex group of brands with an outdated style is most certainly not the key to success in this business.

Susanna Nicoletti is founder of LuxFashion

Susanna Nicoletti is a brand catalyst and founder of LuxFashion.

Reproduced with permission from Luxury Society, a division of Digital Luxury Group. Adapted for style and clarity.