

RETAIL

Why LVMH declares discount outlets anathema

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Anathema is a strong word with religious overtones. It was a condemnation pontiffs reserved for heretics. Among the definitions of the term in Merriam-Webster is this: the denunciation of something as accursed.

LVMH's Bernard Arnault, the reigning pope of luxury marketing, brings near-religious intensity to controlling the 75 luxury maisons that make up his dominion, with Tiffany & Co. soon to join.

Throughout his empire, Mr. Arnault tightly controls production and distribution of product to tightly control each brands' image which then allows him to set prices to the highest level.

"We do not put the entire company at risk by introducing all new products all the time," Mr. Arnault is reported to have said. "In any given year in fact, only 15 percent of our business comes from the new; the rest comes from traditional, proven products the classics."

Mr. Arnault has declared anathema to discounting Louis Vuitton, most especially to selling in discount factory outlets.

"Affordable luxury these are two words that don't go together," he said.

The **International Council of Shopping Centers** currently identifies nearly 370 factory outlet malls across the country.

While there are plenty of mass brands filling those spaces, the big draw for factory outlet malls are the upscale brands, such as Coach, Polo Ralph Lauren, Michael Kors, Kate Spade and others, where past seasons' overstock goes to be sold at pennies on the dollar, and increasingly made-for-outlet products are offered with the luxury-brand name, but lacking the luxury brand's quality.

And that, in a nutshell, is what American luxury brands need to learn from European luxury brands.

Luxury brands should have very limited, if any, exposure in off-price retail if they want to maintain their luxury status. As Mr. Arnault said, "If you control your distribution, you control your image."

American luxury brands get it all wrong

While LVMH's European competitors have some limited outlet presence, including Richemont's Chloe and Kering's Gucci and Alexander McQueen, their footprints are minuscule compared with those of U.S. luxury leaders Capri Holdings, Ralph Lauren and Tapestry brands.

Capri Holdings operates 266 Michael Kors outlets, in addition to 587 flagship stores, 42 Versace outlets to 146 full-price stores, and 39 Jimmy Choo outlets to 169 full-price stores.

Outlets make up nearly 30 percent of Capri's retail fleet, according to its latest annual report.

As of September 2019, **Ralph Lauren** is even more prolific in the outlet space, with 184 Polo factory stores in the U.S., compared with 41 flagships, 66 outlets in Europe to 28 flagships, and 60 outlets in Asia to 63 flagships.

Tapestry does not disclose its outlet footprint, but Tanger and Simon Web sites, two of the nation's leading factory outlet operators, list a combined total of 103 Coach and nine Coach Men's outlets out of its 391 North American stores, 96 Kate Spade outlets out of 213 stores in North America and eight Stuart Weitzman outlets out of 71 North American stores.

These three American luxury brands are notably reticent about their outlet store businesses. None report sales in these channels and none responded to my request for comment.

Since the companies would not come clean about their outlet strategies, Jay Hakami, president/CEO of **Sky IT Group**, which tracks sales of some 2,000 brands including luxury brands in 160 retailers across the world, explains, "Outlets are a prelude to shopping at a deluxe full-priced store."

"These luxury brands don't want to cater just to the top of the pyramid, they want to bring it down a little bit to make it more affordable," he said. "And through the outlets, the brands get to control distribution rather than sell it on to TJ Maxx, for example."

Mr. Hakami adds that he does not believe outlets hurt American luxury brands, being more contemporary and having a wider audience. European brands are in another class.

But that is just it. If American brands want to elevate themselves to true luxury status, their heavy reliance on outlet sales needs to end.

American brands need to elevate, not denigrate their luxury status

"The luxury sector is different," said Tristan d'Aboville, who leads European research at equities research firm **William O'Neil+Co.**

"Their focus is on inspiring the customer," he said. "That makes the luxury sector unique in the sense that you're not trying to reach out to the customer, but rather to inspire the customer to reach out to you."

As LVMH's Mr. Arnault understands, controlling distribution means controlling price, which gives control of the brand, its most valuable asset.

"You need to remember that luxury as a concept is about creating a superior value that is then marketed," said Martina Olbertova, founder of **Meaning.Global** and strategist on brand meaning. "Luxury brands are the ultimate value creators.

"The commercialization of luxury to pander to the masses goes in direct opposition with retaining its aura of exclusivity," she said. "That's why luxury is suffering now: because it has forgotten its roots and focused too much on generating short-term profits over long-term value creation."

Ms. Olbertova sees luxury as a cultural value that is more at home in Europe, than the over-commercialized American society.

"It's not necessarily what the Europeans know about the luxury market,' but what the Europeans know about the essence of luxury' because Americans aren't essentialists," Ms. Olbertova said.

"American cultural values are very down-to-earth, pragmatic, see-what-works and do that," she said. "American businesses are very utilitarian in that aspect. It's a self-enterprising culture of doing because the constant focus on action and experimentation is good for business and innovation."

And the down-to-earth, pragmatic, do-what-works managers of American luxury brands know that outlet stores work:

they sell lots of stuff. But in their quest for more transactions, American luxury brands have sacrificed their brand identity and value.

"What is good for business is often bad for luxury because it cheapens its inherent value and makes it feel less scarce overall," Ms. Olbertova said. "And as we know, scarcity is tied to value. It is a driver of luxury value."

American brands are trading the immediate gratification of outlet sales for the long-term legacy of the brand.

"Luxury is about the transcendence of time and space," Ms. Olbertova said. "While Americans are all about the form, Europeans are all about the essence. True luxury retains value in time. It goes far beyond the present moment.

"If your mindset is long-term and you care about your brand's legacy over making short-term sales and profits, you won't be in outlet stores. It's as simple as that. Outlet isn't luxury."

AS MUCH AS Coach, Ralph Lauren, Michael Kors and the rest aspire to call themselves "luxury brands," they will never attain that status as long as they operate in the way they operate today, with outlets that cheapen the brand and undermine everything for which luxury ultimately stands.

Perhaps the only true luxury brand coming out of America today is **Tiffany**, which never descended into outlet stores. That is not to say it has not had its share of problems, which it surely has, but being widely regarded as a luxury brand is not one of them.

And after the LVMH deal goes through, Tiffany will finally have a European-inspired approach to managing the brand that truly understands how to capitalize on its luxury legacy and secure its lasting value into the future.

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