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APPAREL AND ACCESSORIES

Chanel, Louis Vuitton new price hike is gutsy

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Louis Vuitton's Spirit of Travel campaign. Image credit: Louis Vuitton

By LUXURY DAILY NEWS SERVICE

Raising prices during an economic slowdown is always a risky idea, but that has not stopped Chanel and Louis Vuitton from going ahead with their attempt to harmonize cost of goods to customers.

Chanel has raised prices on goods from 5 percent to 17 percent, while Louis Vuitton has instituted a 5 percent hike on top of a 3 percent increase in March. Both raises were effective this month.

Leading the pack

While media have covered these raises and even panned them it is clear that these two luxury leaders are confident that their brand appeal will withstand any potential pushback from customers globally.

The increases particularly affect the China market, which is a major source of revenue for both Louis Vuitton and Chanel.

In China, the increase can be explained away as price harmonization with the rest of the world.

But it also recognizes that COVID-19 restrictions will limit Chinese travel to key markets in Europe and North America, so it makes sense to raise local prices as purchases may be made locally for the time being.

Switzerland's UBS, one of the leading wealth managers worldwide, had previously said that normalized global pricing architectures across luxury following a few years of muted price contribution to growth left more room for price increases, particularly in a downturn.

Now, with a global recession looming, foreign exchange moves and inflation in raw material prices seem to be the main reasons for the price hikes at Louis Vuitton and Chanel.

What is likely to happen is simple, per UBS.

Chanel's Coco Crush rings. Image credit: Chanel

Herd follow?

The price hikes will help grow both brands' revenue and profit margins in the current market if the demand holds up as well as widen the organic sales growth gap compared to Louis Vuitton and Chanel's peers.

That said, the magnitude of the price increases and effect on future sales volumes, particularly as the second-hand resale market gathers steam, makes it a risky move for Louis Vuitton and Chanel.

The stakes are higher if comparable rivals such as Herms, Cartier, Gucci and their ilk keep their prices stable in the duration of the downturn.

Per UBS Evidence Lab data, the luxury business has only raised prices by roughly 1 percent, on average, over three years in the goal to normalize pricing architecture.

Only innovative and well-performing brands versus the overall luxury sector command pricing power, limiting it to Louis Vuitton and Chanel, as well as Herms, Gucci, Prada and Bottega, all of whom could follow suit with their own price hikes.

The recent reluctance of Herms and Kering, owner of Gucci and Bottega Veneta, to substantially increase prices on a like-for-like basis could deter them from that, potentially enabling market share gains, according to UBS.