

LEGAL/PRIVACY

What does Bernard Arnault want with Hermès?

December 23, 2011



By RACHEL LAMB

LVMH Moët Hennessy Louis Vuitton's courtship of leathersgoods maker Hermès is not a secret, nor is it subtle. Conglomerate chairman Bernard Arnault claims his motive is not to take over Hermès, but if this is true, what exactly is it that he wants?

Sign up now

Luxury Daily

It is generally acknowledged – by both Hermès executives and the luxury industry – that Mr. Arnault's continually-rising stake in the saddler is not seen as a friendly gesture, and the family-owned Hermes is putting most of its efforts into ensuring that LVMH does not have a takeover share. Mr. Arnault raised his stake in Hermès earlier this week from 21.4 percent to 22.3 percent and now owns 16 percent of its voting rights, according to a report from Women's Wear Daily.

"I think that Hermès has impeccable products, the top-tier of luxury goods," said Milton Pedraza, CEO of the Luxury Institute, New York. "In terms of what customers want, they have the top design, quality and craftsmanship.

"So, that's what's attractive to Mr. Arnault, as well," he said. "However, where other investors come in to milk brands, he invests in them.

"Frankly, I think that Hermès could benefit from his views on customer service and

experience, and not just products.”

Back in the saddle

Mr. Arnault wants Hermes, but it is not as if Hermès needs LVMH.

Most mergers and acquisitions are agreed upon because a company is struggling or needs a product refresher.

Hermès is not that case. In fact, it posted a 16 percent increase in sales last year, and its net profit margin increased from 15 percent to 18 percent from 2009 to 2010.

What Hermès may need, however, is a refresher course in customer experience, according to Luxury Institute’s Mr. Pedraza.

“Consumers tell us in research and anecdotally Hermès is the pinnacle of product delivery, but they could become far better in customer experience,” Mr. Pedraza said.

“Hermès could benefit from that and Mr. Arnault gets that,” he said. “That’s probably his interest in Hermès.

“But Hermès is becoming cognizant of that – I think that they will take this opportunity to improve in a human-oriented way, not just a product-driven way.”

High stakes

In September, Hermès was allowed to sell shares to a private holding company rather than publically, which would make it harder for LVMH to gain a controlling stake in shares.

This decision was brought on by LVMH’s refusal to halve its shares when Hermès publically asked. Instead, just a few months earlier in July, LVMH raised its stake to 21.4 percent.

Hermès claimed that the creation of the company will strengthen the independence of the label in the long-term and support the continuation of strategy and creativity in craftsmanship and brand values.

The thing is that if Hermès was to be bought by a label, LVMH would likely be its best bet. This is because Mr. Arnault not only takes interest in brands, but he builds them to the highest essence of luxury as possible.

After all, LVMH did not become the luxury powerhouse that it is without powerful business strategy, claims Luxury Institute's Mr. Pedraza.

“It seems that Mr. Arnault has a formula for running luxury brands that is working quite well, so the brand would likely prosper,” said Pam Danziger, president of Unity Marketing, PA. “But time will tell whether he and the LVMH management team can keep that magic touch in the future.”

Final Take

Rachel Lamb, associate reporter on Luxury Daily, New York

© Napean LLC. All rights reserved.

Luxury Daily is published each business day. Thank you for reading us. Your **feedback** is welcome.