COLUMNS

Why the FTC's attempt to block the Tapestry-Capri deal sets a dangerous precedent

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By A LUXURY DAILY COLUMNIST

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In a move aimed at protecting the American consumer, the Federal Trade Commission (FTC) has sued to block the proposed merger of Capri, the parent company of brands such as Michael Kors, Jimmy Choo and Versace, and Tapestry, which owns Coach and Kate Spade, among other brands.

The government's argument is that the combined entity would have too much influence over the accessible handbag market, thus harming the consumer through controlling price, availability and the compensation of those who work within the industry.

Should Tapestry and Capri combine, that would amount to more than 30,000 employees worldwide. While the FTC may have some valid claims, its action creates a dangerous precedent that will harm the marketplace and may even result in unintended consequences.

Anti-competitive chaos

Importantly, an FTC-favorable ruling would make it nearly impossible to establish an American competitor to LVMH or Kering.

The combined entity will not control the accessible handbag market. The FTC's claim that the combined business will have the size and scale to control prices and choice in the accessible handbag market is just not true.

The accessible handbag market is more than just Kate Spade, Coach and Michael Kors. While those three brands may all be household names, numerous national brands such as Tory Burch, Madewell and Aimee Kestenberg all play in that space with similar prices.

If Kate Spade, Coach and Michael Kors raise prices to capture more of the luxury market, they may find themselves competing with brands such as Frame or other more luxury or directional brands. The bottom line is that there are just too many accessory brands out there for the combined entity to be able to dictate prices or options to consumers.

One-size-fits-all approach

Another argument where the FTC gets it wrong is the claim that removing products from department stores or other multibrand retailers harms the consumer. That is not entirely true.

Brands want to be able to protect their brand and ensure that it continues to mean something to consumers.

Wide distribution hurts the brand value. Part of what makes Herms so special is that it is limited in its availability and not everyone can get a Birkin.

The same goes for Coach in the present market. If it were available everywhere at a bargain basement price, then it would not be special and it would not be considered accessible luxury.

The FTC assumes that buyers of accessible luxury handbags do not buy higher-priced luxury handbags. There is no doubt that Herms and Chanel sell, among other things, many of the most coveted and expensive handbags which remain unobtainable to all and are reserved for the most well-heeled or connected shoppers.

However, these luxury houses leverage their halo status to attract customers across the socioeconomic spectrum. Shoppers who may buy a Coach or Michael Kors bag every year may choose to save up the money to buy a true luxury handbag, whether made by Gucci, Bottega Veneta, Dior or Louis Vuitton.

What this suggests is that the FTC does not see or acknowledge the switching behavior of the vast majority of consumers, as most shoppers mix and match high and low fashion for example, luxury handbags with a J.Crew T-shirt and Frame jeans.

Along those same lines, the FTC does not seem to take issue with the fact that the luxury market is controlled by a few major players.

LVMH, Kering, and Richemont do control access to and define the prices of luxury goods. Yet the FTC has not lodged a complaint, implying that consumers who can spend money at the top end of the market require less protection from the regulators.

Unintended consequences

The FTC's goal is to ensure that the affordable accessories market is not controlled by a single player that can dictate consumer prices and that the marketplace remains competitive. Yet, interestingly, blocking the Tapestry-Capri merger may, in fact, reduce competition.

The FTC is looking at the effect that large, multibillion-dollar industry players may have on the market and uses the example of Rebecca Minkoff as to why new entrants to the marketplace may not be sufficient.

The regulators argue it would take a significant investment of time and money for any new entrant to scale up in size and presence to compete with the Tapestry-Capri brands. The reality is that starting a new business is hard and most businesses fail.

In this marketplace, new brands need to establish investors to help support growth. The investors, in turn, need to eventually monetize the investment.

More often than not, this is done by selling the business to a strategic buyer such as Tapestry, PVH or some other conglomerate. If the FTC continues to hold the position it lays out in this matter, then it may become more difficult for new or emerging brands to attract financial sponsors, resulting in fewer businesses operating in the space and creating a less competitive market.

In this case, be careful what you wish for as the unintended consequences may create more damage.

Despite the arguments presented in the FTC's lawsuit, I do believe that the entities will ultimately find a way to get the deal agreed to by the regulators. However, I think it will require selling off some assets and demonstrating that the combined business will not harm consumers.

At the end of the day, nobody needs another luxury handbag, it's simply that, a luxury.

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