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COMMERCE

Will the Q1 profits sustain for luxury conglomerates?

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By TRICIA CARR

Luxury conglomerates saw considerable revenue increases in the double digits during the first quarter, but it is likely that these sales will plateau in the remainder of the year.

Conglomerates LVMH Moët Hennessy Louis Vuitton and PPR shone during the first quarter in terms of revenue, and while this is a sign of success for the luxury industry, it is not expected to last throughout the year. Brands that focus on creativity and exclusivity are likely to outdo those that damage a luxury label by selling lower-quality goods.

"We seem to have returned to the original 'luxury is essentially recession-proof' paradigm," said Paula Rosenblum, managing partner at RSR, Miami.

"This was not the case in the recession and I honestly did not think we would come back to it, but we have," she said. "I think things will go well over the short term.

"My long-term worries remain a loss of creativity and the impact of economic uncertainty in the European Union."

Show me the money

The three most-powerful conglomerates in the luxury sector saw double-digit percent increases in overall revenues during the first quarter this year.

Dior's Lady Dior ad campaign

LVMH had a 25.4-percent increase in first-quarter revenues year over year. LVMH owns brands such as Marc Jacobs, Fendi, Louis Vuitton, Christian Dior TAG Heuer and De Beers.

Meanwhile, French conglomerate PPR saw a 15.4 percent increase year over year. This was due to high sales revenue of its brands including Gucci, Yves Saint Laurent and Bottega Veneta.

Gucci spring/summer 2012

Additionally, Richemont -- which owns Cartier, Alfred Dunhill, Chloe and IWC – saw a 42.7 percent increase from last year.

The success of these brands will likely continue, but the numbers may not be as impressive.

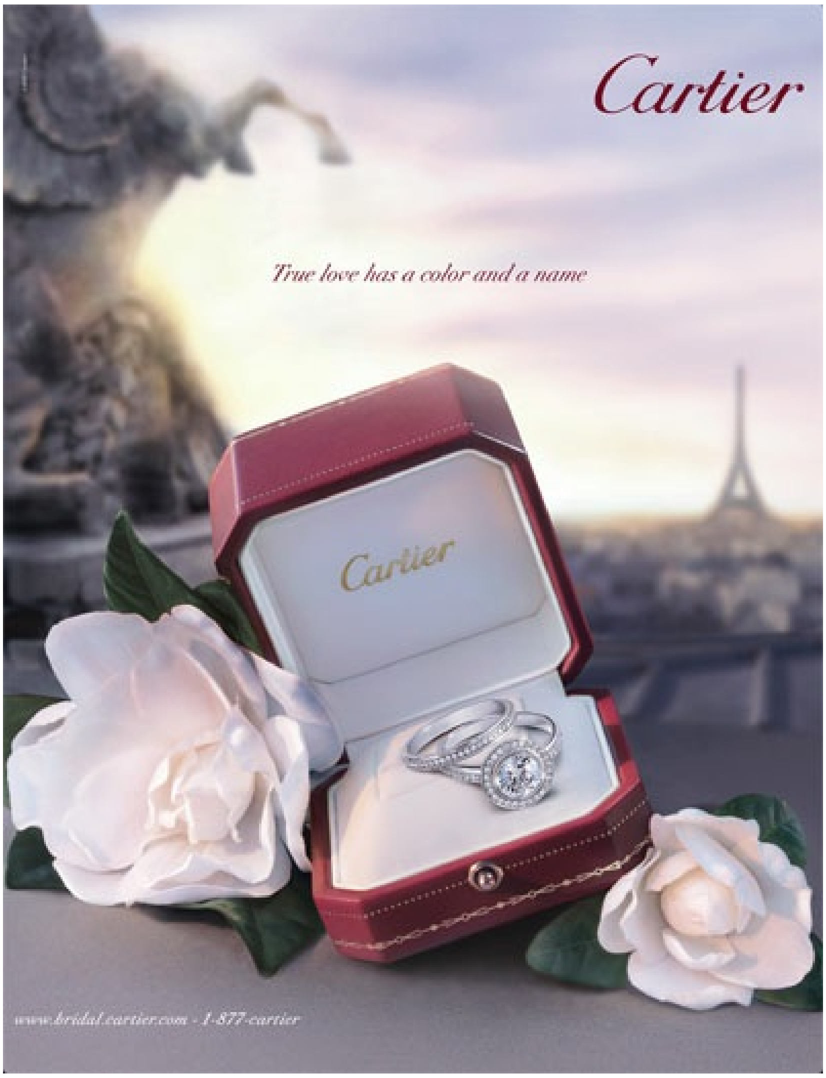
There is a limit to how a brand can leverage economies of scale to reduce operating costs, per Ms. Rosenblum.

Inflation in low-cost sourcing countries seems to still be on the rise. Meanwhile, cotton costs are declining significantly. This should give brands a slight gross margin boost.

In addition, the impact of economic uncertainty in the European Union is having an effect on business in general.

For every positive in the BRIC countries, there is a negative in the PIGS - Portugal, Italy, Greece and Spain.

In addition, there is concern about ongoing inflation in countries such as China.



Cartier ad

"The risk with conglomerates is that the bean counters start to drive the technology agendas and cost-control initiatives surpass creative initiatives," Ms. Rosenblum said. "Luxury products need inherent brand equity, but how do you maintain that brand equity as part of a conglomerate?"

Born this way

Brands that have not bowed to the recession should not consider this an option.

Lowering price point and appealing to mainstream consumers could hurt a brand in the long-term.

“A danger of conglomerates is to lose the streak of entrepreneurism and creativity that made the component companies great in the first place,” Ms. Rosenblum said.

“Product designers, especially in luxury, have to be allowed their idiosyncrasies," she said.

To strengthen a brand, conglomerates must keep the focus on exclusivity.

Even if brands see a decrease in revenue, they should hold steady for the short term.

Rather than looking for ways to cut costs, brands should improve and increase creativity.

Technology that supports creativity is a good investment. Technology should not replace creativity.

“I think strategies that emphasize the exclusivity of brands are extremely important, particularly premium pricing strategies,” said Ted Hurlbut, principal at Hurlbut & Associates, Foxboro, MA.

“I also think that pursuing lean inventory strategies are important to keep assortments fresh and turning to maintain a sense of urgency among the target customers, but also to protect against any downside risk to profits should business slow down unexpectedly,” he said.

Final Take
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