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LEGAL/PRIVACY

Hermès pressured to uphold traditional practices in LVMH feud

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By TRICIA CARR

Leather goods and silk scarves maker Hermès is fending off luxury conglomerate LVMH Moët Hennessy Louis Vuitton from silently achieving a majority stake to keep the private brand's traditional business model intact.

As an investigating magistrate hired by the Paris prosecutor's office begins to look into Hermès' complaints against LVMH, the French brand is holding its ground to not only prevent a silent takeover, but likely to please family stakeholders who do not wish to operate under the conglomerate. It seems that Hermès will continue to fight for its private status, rather than reap the potential benefits of being part of the group.

"Hermès has the advantage of being able to take a longer term view of its business and pursuing strategies that are compatible with that view," said Ron Kurtz, president of the American Affluence Research Center, Atlanta.

"They do not have to worry about dealing with the pressures for quarterly sales and profit growth that could easily occur if part of a widely held company like LVMH," he said.

On their own

LVMH quietly acquired a 22.6 percent stake in Hermès, according to a recent report from

The Telegraph.

In response, “The Hermès family ring-fenced 51 percent of the 72 percent of their stake in a holding company that cannot be sold to outsiders,” per the report.

Both groups have seen successful sales recently.

Hermès set record profits for 2012 with a 22.6 percent increase in revenue or $4.66 billion.

In 2011, the brand saw an increase of 18.3 percent or $3.82 billion.

The most growth was seen in the Asian market where two new stores were added and six were renovated, and the brand’s accessories seem to be a big driver of revenue worldwide (see story).

As 2012 sales figures rolled in, LVMH also reported a 12 percent increase in net profits to $4.40 billion on sales of $36.94 billion, up 19 percent from the prior year.

The combination of reputable branding on a global scale as well as a focus on key markets is driving luxury conglomerate profits, experts agreed (see story).

But the 2012 financial success of both brands seems to have little weight in the enduring feud.

Instead, Hermès’ stakeholders seem to be in an emotional battle to maintain the current business standards. They remain unwelcoming to LVMH’s “friendly” share acquisition – the term used by Bernard Arnault, chairman/CEO of LVMH, according to The Telegraph’s report.

“I think it's pressure from the Hermès family that is causing Hermès’ management to fend off LVMH,” said Al Ries, founder and chairman of Ries & Ries, a Roswell, GA-based marketing strategy consultancy. “With five-dozen family members involved, there are bound to be some Hermès heirs that get very nervous when outsiders try to ‘take over their company.’

“Hermès family heirs would lose some of their self-esteem if their company were part of a luxury conglomerate,” he said.

What the future holds

The feud between Hermès and LVMH escalated as the conglomerate began upping its stake in the private label.

Hermès filed a complaint July 10 against LVMH for reasons including “insider trading, collusion and manipulating stock prices.”

Then, LVMH filed a complaint against Hermès for “blackmail, false accusations and unfair competition" (see story).

While Hermès could complement LVMH’s brand portfolio and vice versa, the French label does not seem to be open to adapting its operations.

Hermès' family values are also influencing much of its legal activity.

"Some owners are in business for the money, and some owners are in business for the prestige of owning a fashion house," Mr. Ries said.

"Some owners, therefore, would be quick to sell if the price were right," he said. "Some owners would never sell regardless of how much money they were offered."

Hermès is free from the pressure of stock analysts and shareholders that come with corporate groups such as LVMH, per American Affluence Research Center's Mr. Kurtz.

"The Hermès executives probably feel that they would risk losing much of their autonomy and strategic flexibility if they are absorbed into a conglomerate like LVMH," Mr. Kurtz said.

The need to fight for brand independence is not unique to Hermès.

Private luxury brands must weigh the pros and cons of taking legal action against a corporate takeover or embracing it.

"Other private fashion houses would face a similar dilemma if forced to choose between independence and the related benefits versus becoming part of a larger organization that can offer the support of greater resources but at the expense of less independence and flexibility for management," Mr. Kurtz said.

Final Take
Tricia Carr, associate reporter on Luxury Daily, New York