

LVMH

Keep control of the brand

THE POLITE, GENTEEL WORLD OF LUXURY GOODS HAS BEEN turned on its head by Frenchman Bernard Arnault. The *New York Times* describes him as a man who has “built an empire out of companies he pried, for the most part, from the resistant grasps of others, one by one.”

Born in Roubaix in northern France in 1949, Arnault attended the prestigious École Polytechnique and earned a reputation for being studious rather than social. He was raised by his strict Catholic grandmother and worked in the family property and construction business, including stints selling real estate on the French Riviera and in Florida. At twenty-five he was CEO of a company with one thousand staff members. Arnault was influenced by the American can-do approach to business, a far cry from the more conservative French approach.

He is now the richest man in France and among the top-ten richest people in the world, with an estimated fortune of \$20 billion. According to *Forbes* magazine estimates, his net worth will triple between 2003 and 2005. His family now owns 48 percent of Louis Vuitton Mœt Hennessy. He presides over a \$40.5 billion empire of the world’s most prestigious brands, including Louis Vuitton (the most profitable luxury brand in the world), Christian Dior, Guerlain, Givenchy, and Mœt et Chandon, with interests in wine, fashion, retail, jewelry, leather goods, perfume, and beauty products. In 2004 the group had sales of more than \$15.1 billion.

In 1984, the former property developer entered the luxury goods business when he invested \$15 million of family money in buying a

bankrupt textile company called Boussac, as part of an \$80 million deal with a consortium of investors. The portfolio included the unprofitable Christian Dior brand and a diaper company called Peaudouce. Arnault believed that Dior was worth salvaging. He sold off most of the Boussac companies, unceremoniously culled half of the company's sixteen-thousand-strong workforce and began building his empire, one brand at a time. Arnault was cashed up, thanks to the sale of the diaper business, which netted \$400 million. He set his sights on the French bastion of luxury, Louis Vuitton Mœt Hennessy, executing a hostile takeover in 1988 that cemented his reputation as the "wolf in cashmere clothing." His takeover style involved his holding companies buying up stock and then, with 45 to 60 percent of the company equity, taking over. Then it was on to the next acquisition.

When Arnault took over LVMH, the group controlled ten luxury brands; now it owns more than fifty, including Chateau d'Yquem, Celine, Christian Lacroix, Dom Perignon, Bon Marché, TAG Heuer, Domaine Chandon, Hennessy Cognac, St. Emilion, and Glenmorangie. LVMH is also involved in joint ventures with DeBeers and DFS duty-free stores.

Arnault calls his company a "federation" of brands. He has built his luxury goods empire on his two favorite things: creative force and hard-nosed business, principles he calls "the artist's vision and the logic of worldwide marketing."

Arnault buys the history, tradition, prestige, and recognition of a brand and takes it from there. He reinvigorates each brand, not just the products themselves but the business from end to end, the design, the manufacturing (all brought back in-house to maintain quality control), the distribution (no licensing, all in-house) and sales, all with the help of impossibly glamorous, high-end advertising campaigns and the right celebrity endorsements. The transformation must also include tight cost controlling for higher profit margins.

Under Arnault, every stage of the manufacturing of a purse is meticulously planned for high productivity. "If you control your

factories, you control your quality: if you control your distribution, you control your image,” he says. Each business is kept separate and independent, but there is synergy between them. If one knows of good leather supplies, or a better way to make a product, then there is cross-pollination and all the little brands add up to a superpower.

In more recent times, Arnault has talked publicly about his “star brands” theory, explaining how they take time to grow, how they need heritage. Arnault estimates that it takes a decade to build or rebuild a brand into what he calls a “star brand,” that is, a brand that is “timeless, modern, fast-growing, and highly profitable.”

Arnault describes the compelling offer to customers of his star brands: “You feel you must buy it, in fact, or else you won’t be in the moment. You will be left behind.” He argues that the history and tradition of a brand are not enough. Aristocratic links and status certainly help a brand, but they do not guarantee a star brand that makes products that people have to have now, right now.

For his brands to move out of their comfort zones, Arnault had to do things differently. He removed the almost sacred designer Hubert de Givenchy from Givenchy and brought in twenty-seven-year-old Saville Row tailor and British bad boy Alexander McQueen. Similarly he hired British fashion devil John Galliano to take over as chief designer at Dior. Arnault says he is only interested in the youngest, brightest, and the most talented. Since Galliano came on board, he may have presented some outrageous collections—one inspired by the homeless of Paris, another with a 1950s-meets-ancient-Egypt theme—but Dior sales have quadrupled under Galliano’s creative direction. “I don’t care what they do as long as it’s on the front page,” says Arnault, who has had the Dior haute couture shows rescheduled to the afternoon so the show’s images can make the evening news and the next day’s newspapers. Arnault estimates that it took six years to transform the Dior brand “from a fashion dowager duchess to a young hipster.”

To keep the LVMH juggernaut firing, Arnault has surrounded himself not with fashion sycophants but with experienced executives from multinationals who understand the business world outside fashion realms. Though when he interviews senior executives for roles in his companies, he is said to set out one hundred ties and asks candidates to choose ten. If they pick bad ties, they must go on to the scarf test. If they choose badly again, there is little chance of them getting a job. Arnault wants staff with the business skills and good taste to help sell a dream to the world. No one needs a \$5,000 hand-stitched purse, but for many across all races and demographics, it is an object of enormous desire. And creating desire is what luxury goods retailers must do. Says Arnault: “Our products are about making people dream. We take it really seriously.”

NOTES

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- “**Star brands . . .**” Givhan, Robin. “The French Connection,” *Washington Post*, 4.28.02, p. F01.
- “**Star brand . . .**” Wetlaufer, Suzy. “The Perfect Paradox of Star Brands: an Interview with Bernard Arnault of LVMH,” *Harvard Business Review*, 10.01.
- “**You feel you must buy it . . .**” Johnson, Jo. “Arnault Defers Decision on Sale,” *Financial Times*, 3.7.03, p. 26.
- “**I don’t care what they do . . .**” *The Economist*, “The Cashmere Revolutionary,” 7.15.00.
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