

Luxury stores caught out as shoppers go hell for leather

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Outside Louis Vuitton's flagship emporium on Paris's Champs-Élysées Angelia, a financial controller from Malaysia, says the €920 (\$1,260) bag she has just bought is her second choice.

"The monogram bag I wanted was out of stock – we tried three Vuitton stores and none of them had it. So I've settled for a different size," she says.

For the past two weeks, the shop, where tourists queue to enter, has been shutting an hour earlier than usual. Along with Vuitton's other standalone Paris stores, the shop is trying to sell fewer products and preserve stock for Christmas.

It is not the only luxury goods company to have been caught unawares by the strength of demand after last year's slump.

Chanel has pushed up the price of its classic quilted leather bags by 20 per cent, citing rising leather costs, while Salvatore Ferragamo the Italian shoemaker, says sales have risen by 20 per cent since June.

At the Paris motor show, all five Bugatti World Record cars, with a top speed of 415km per hour and a price tag of €1.95m (\$2.67m) have sold out. Ferrari has also sold its 80 limited edition SA Aperta, costing €400,000.

Luca Cordero di Montezemolo, Ferrari chairman, said at the motor show that the carmaker could end the year with close to record profit.

Vuitton's supply problems are surprising, given that the company – part of LVMH, the luxury goods group – prides itself on an efficient and auto-m a t e d s u p p l y chain to s h o p s w h o s e stock it controls, since it does not sell to third-party retailers.

As Yves Carcelle, head of Louis Vuitton told the Financial Times in May: "We are the only luxury brand that controls completely our distribution. So our distribution is the most exclusive in the industry."

But having slackened production last year, it will be unable fully to meet the surge in demand until a new factory – its 12th in France – opens next year.

Antoine Belge, analyst at HSBC, does not expect the early closures to have a noticeable impact on sales. Only three stores are affected out of more than 400 worldwide and normal opening hours are set to resume next month.

But he does not believe that Vuitton, which drives profitability at Paris-based LVMH, the world's largest luxury goods group by sales, can continue growing at recent rates. The group does not disclose Vuitton sales figures, but the fashion and leather goods division, of which it is the biggest part, grew by 18 per cent in the three months to June. Mr Belge estim a t e s that Vuitton sales were up 20 per cent organically – double Vuitton's 10 per cent informal annual target.

"Clearly the 20 per cent has to slow – it's untenable," he says. "There's a limit to the speed at which they can train people and open factories; it's a nice problem to have." This raises again the issue of LVMH's dependence on Vuitton.

LVMH has an enviable collection of brands, including Kenzo, Donna Karan and Marc Jacobs, in fashion; Christian Dior and Givenchy in perfumes; TAG Heuer, Chaumet and Hublot in watches and jewellery; and Dom Pérignon and Château d'Yquem in wines and spirits.

But it relies on Vuitton for most of its profits. Analysts estimate that Vuitton accounted for more than half LVMH group sales of €17.1bn last year and 60 per cent of operating profits.

The business has the highest returns in the industry, according to analysts, helped by operating profit margins estimated by JPMorgan analysts at 44 per cent. Its rapid growth rates have been helped by an early move into China, which is now one of its key markets.

“LVMH is indeed dependent on Louis Vuitton,” says Luca Solca, analyst at Bernstein Research. “There are two major legs in LVMH – Vuitton and wines and spirits. LVMH does have a long tail of underperforming brands and, if it divests them, it will become a better company.”

There are no signs that LVMH aims to reduce its dependence on Vuitton, at least in the short term.

Meanwhile, Jeff, a student from California, explains why he is happy to queue in the Champs-Élysées: “I’m looking for a wallet – they are about \$50-\$60 cheaper here than back home.”

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