



Smaller Brands Explore Life Beyond Luxury Groups

INDEPENDENT BRANDS ARE STARTING A NEW CHAPTER AS THE BIG GROUPS STREAMLINE THEIR PORTFOLIOS.

BY SAMANTHA CONTI

LONDON — The big luxury groups are slimming down, taking on a new luxury focus and polishing their crown jewels, so where does that leave the smaller brands that no longer fit into the plan?

They're in uncharted territory, looking for backers — or adjusting to new ones — coping with management changes, mapping out what to do next, or just heaving a big sigh of relief.

Since the start of the year, changes have crashed down like a wave, with Kering spinning off its stake in Puma, selling Stella McCartney and Christopher Kane back to their founder-designers, shuttering the Tomas Maier brand and putting action sports brand Volcom on the block.

After decades of hanging onto its smaller brands, Compagnie Financière Richemont also made some quick-fire moves, selling Shanghai Tang to the Italian investor and businessman Alessandro Bastagli, and Lancel to the Italian accessories brand Piquadro.

In its bid to focus on high-end jewelry, watches and leather goods, Richemont purchased Watchfinder.co.uk, a purveyor of pre-owned watches online and in-store, and Serapian, the Italian leather goods brand and manufacturing powerhouse.

Richemont also took full control of Yoox Net-a-porter earlier this year, delisting it from the Milan Stock Exchange and planning to sell more of its products through the e-commerce platform.

In 2016, LVMH Moët Hennessy Louis Vuitton had already sold Donna Karan International to G-III Apparel, although the French giant has been quiet since then. The French conglomerate has long been loath to sell any of its businesses, but given the current climate, it might strike again.

There is more to come.

"The industry is on the verge of another wave of consolidation," said Luca Solca, sector head, luxury goods at Exane BNP Paribas. "We think we are more likely to see transformational deals as small bolt-on acquisitions risk making conglomerates overly complex and as competition becomes more intense for mono-brand groups."

Asked earlier this summer about Kering's strategy in particular, Solca said the French luxury giant "is very seriously and very diligently streamlining its brand portfolio," concentrating on its core brands and building a pure play luxury goods conglomerate.

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Ashish Burman, managing director at Financo in London, said the luxury conglomerates' strategies have changed significantly over the past few years.

Stella McCartney



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"The indie brands, at some point, gave (the luxury groups) quite a bit of credibility and, in many cases, they wanted to build their businesses and get expertise that could have permeated across their other brands." That said, the indie brands often found themselves "as a small cog in a very big wheel. How much attention could they get from a big organization?" he asked.

So what of the smaller brands that are going it alone? Experts say it all depends on what they want, and how big or small they'd like to become.

McCartney, whose business was founded as a 50-50 joint venture with Kering, decided to take up a long-standing clause in her contract and buy back the French group's stake earlier this year. She said she did it to safeguard her name and challenge herself to build an independent business.

"To have the opportunity to take control of the business that bears my name is extraordinarily exciting," she told WWD in an exclusive interview in March. "To be afforded that chance as a designer, as a woman, as a mother of four, it's something I had to take on."

Investors have already begun to circle McCartney, although it's still early days. The handover process is set to take two years: The first 12 months will see the financial transaction completed, while Kering and McCartney want to give themselves a further year to work together and sort out the final details.

Kane was a different story: Kering purchased a 51 percent stake in Kane's business in January 2013 as part of an aggressive acquisitions strategy that also saw the company buy brands such as Pomellato and Brioni.

The French group failed to build traction for Kane's brand, and in June Kering announced it was selling it back to the designer. Although Kane has not commented publicly on the change, it is understood he's upbeat about the future — and ready to move on.

Experts said opportunities — and challenges — await indie brands with regard to future investment and management.

Financo's Burman said the newly independent brands need to decide what their priorities are as they look for new investment.

"These are all great brands, but the issue is about scalability, and how quickly they can scale. A brand can get to a 15 million pounds turnover, but then how does it go from 15 million to 50 million to 100 million? It's tough without that working capital behind it."

He believes it's more likely that "patient capital" will invest in those businesses. With patient capital — as its name suggests — there's a longer timeline to scale rather than the three- to five-year pressure of private equity. "I think outside of that, it's tough," he added.

Any management transitions will also be challenging for the indies and will hinge on how much control the founder-designers will want to maintain — or delegate to their current or future CEOs.

Caroline Pill, vice president of executive search at Kirk Palmer Associates, said fashion founders can be complicated, and few would disagree with her. As a result, it takes a particular set of skills to manage a founder's business.

"As a CEO, you need to have a delicate balance between a strong, yet discreet, personality to deal with a founder and lead the business at the same time. You have to know how to approach the role at a brand that is somebody's baby, somebody's name. I think it takes a very special person to be able to do that and for the founder to fully trust that the business will both be profitable, and reflect their vision."

Pill added that the indie brands often face a dilemma about how to grow, and that for some companies, bigger is not always better. "Not every business is meant to be Gucci big — and that's OK," she said.