Creating Stability in the International Fashion Industry by Using Corporate Structures and Conglomerates

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St. John's University

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CREATING STABILITY IN THE INTERNATIONAL FASHION INDUSTRY BY USING CORPORATE STRUCTURES AND CONGLOMERATES

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Abstract:

This paper will analyze global fashion industries’ organizational structures with a focus on corporations. According to the Forbes Global 2000, apparel companies make up 29 of those top businesses. For instance, a corporate structure helps businesses like TJX Companies (headquartered in Framingham, Massachusetts) – which owns TJ Maxx, Marshalls, HomeGoods and Sierra Trading Post – to operate efficiently and maintain over 1000 stores in the U.S., Canada, U.K., Ireland, Germany, Poland, Austria, The Netherlands and Australia. It sells apparel and home fashions (sheets, pillows, picture frames, etc.).

In addition, this paper will examine corporate conglomerates in the fashion industry, such as LVMH (Moet Hennessy Louis Vuitton SE) which is a multinational luxury goods conglomerate based in Paris, France. In 1971, Moet & Chandon, a champagne producer, merged with Hennessy, a cognac manufacturer. In 1987, Louis Vuitton, the high end fashion brand, merged with Moet and Hennessy. Today, the company holds approximately 60 subsidiaries, including Dior, Fendi and Sephora, and is a component of the Euro Stoxx 50 stock market index. By including diversified goods, this Societas Europaea (“SE”), a European (Public) Limited Company is succeeding in its quest for stability.

Introduction – 1. An Overview of Economic Stability:

The United Nations has created the 2030 Agenda for Sustainable Development and in the Preamble under the topic of “Prosperity”, the UN writes that “We are determined to ensure that all human beings can enjoy prosperous and fulfilling lives and that economic “. . . progress occurs . . .” (United Nations, 2015, p. 1). In Goals 8 and 9, the UN includes the goals of economic growth, productivity and development, all of which lead to economic stability. (United Nations, p.10).

Unfortunately, “. . . the macroeconomy, if left to itself, can be extraordinarily dysfunctional in generating extreme stability. But . . . [r]elax these assumptions and the model. . . is liable to temper if not eliminate the possibility of instability.” (Fine, 2016, p.28).

Eliminating instability or creating stability means that an economy experiences steady growth, has sustainable outcomes and avoids recessions or disruptions – in other words, minimizing the effects of boom and bust cycles. (Investopedia.com).
A boom and bust cycle is a process of economic expansion and contraction that occurs repeatedly... is a key characteristic of today’s capitalist economies. During the boom the economy grows, jobs are plentiful and the market brings high returns to investors. In the subsequent bust the economy shrinks, people lose their jobs and investors lose money. Boom –bust cycles last for varying lengths of time; they also vary in severity. (Investopedia.com).

There have been a dozen boom-bust cycles since the 1940’s which are caused by the central bank’s money supply strategy. When central banks make it very easy to borrow money and inexpensive as well due to low interest rates, consumers may overinvest (“malinvestment”) during a “boom”. In addition, government subsidies can lead to booms. For instance, a mortgage interest tax deduction may lead to more consumers investing in homes. During the “bust”, credit tightens which leads to a “recession” or in severe conditions, a “depression” which is characterized by investors losing money, consumers cutting spending and industry slashing jobs. (Investopedia.com).

An opposing view is offered by the Harvard Business Review in an article entitled “Managing Risk in an Unstable World”. Writer Ian Bremmer states “Finally, it is worth noting that though instability translates into greater risk, risk is not always a bad thing... Politics has always been inseparable from markets; the world’s first transnational trade organizations were moved by the political waves of their time. Today, goods, services, information, ideas, and people cross borders with unprecedented velocity – and the trend is only intensifying. For company leaders seeking profit in places that are socially, culturally, and governmentally alien, the complementary insights of political and economic risk analysts are vital.” (Bremmer (2005) pp. 16-17).

2. Stable versus Unstable Businesses:

Large well-established and stable companies like American Express, Coca Cola and Disney are considered as “blue chip” stocks which are named for the highest-value poker chips. These stable companies have a history of consistent earnings growth and dividend payouts. They can handle economic downturns and maintain profitability. They are categorized as having large market capitalization, strong balance sheets and good cash flow. Stable blue chip companies’ performances often correlate closely to the S&P 500 performance. These stable companies are elite – Author Amy Fontinelle has noted in “Banking on Blue Chip Stocks” that of the tens of thousands of publicly traded companies, only a few hundred are called blue chips. The downside about blue chip stocks is that they are expensive and yield slower growth and lower returns than from riskier investments. (Fontinelle, Investopedia.com).

Statistics and facts on Clothing, Shoes & Apparel

Despite the current global economic downturn, the global apparel industry continues to grow at a healthy rate and this, coupled with the absence of switching costs for consumers and great product differentiation, means that rivalry within the industry is no more than moderate. The apparel industry is of great importance to the economy in terms of trade, employment, investment and revenue all over the world. This particular industry has short product life cycles, vast product differentiation and is characterized by great pace of demand change coupled with rather long and inflexible supply processes.
Clothing is essential to consumers who are individuals. Where brand loyalty exists, it is more likely to be to the designer than the retailer, although this is usually towards the top end of the industry. There is a growing demand for discount apparel with stores such providing low cost prolific-output fashion. Fashion, by its very nature, is unpredictable. The products are determined by designers, sub-cultures and creative industries and are subject to sharp and unpredictable changes. Key suppliers in this industry are clothing manufacturers and wholesalers, with retailers able to source from both.

Source: https://www.statista.com/markets/415/topic/466/clothing-apparel/

Author Marc Davis identified “The 8 Most Volatile Sectors” in an Investopedia.com article. They are: Technology, Consumer Discretionary, Energy, Financial Industries, Healthcare, Materials and Telecommunications. The “Consumer Discretionary” sector includes apparel, accessories and luxury goods. This encompasses specialty apparel retailers, department stores, specialty stores, footwear, general merchandise, catalog and internet retailers. (http://wwd.com/business-news/financial/lvmh-richemont-fashion-apparel-ranking-10303382/)

The “Consumer Discretionary” category is the second most volatile stock category. These stock prices can go up and down quickly based on a variety of factors including trader emotions such as fear and panic or based on news events – either positive or negative. These swings can result in dramatic changes in prices or massive sell-offs or buying sprees.

In summary, the apparel industry faces the business challenge of being in one of the most volatile industrial sectors. The fashion or apparel industry includes clothing ranging from haute couture to clothes from Wal-Mart (prêt-a-porter or ready to wear). (Metropolitan Museum of Art, 2016, p.9). The fashion industry can also include shoes, accessories, cosmetics and fragrances.

### Facts on the Apparel market in the U.S.

<table>
<thead>
<tr>
<th>Overview of the U.S. Apparel Market</th>
<th>Values</th>
<th>Statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size of U.S. apparel market</td>
<td>225bn USD</td>
<td>Details –</td>
</tr>
<tr>
<td>Sales of women’s apparel in U.S.</td>
<td>110,826m USD</td>
<td>Details –</td>
</tr>
<tr>
<td>Ø price per apparel article in U.S.</td>
<td>19 USD</td>
<td>Details –</td>
</tr>
<tr>
<td>Clothing store sales in U.S.</td>
<td>187.13bn USD</td>
<td>Details –</td>
</tr>
<tr>
<td>Projected size of the U.S. apparel market in 2025</td>
<td>385bn USD</td>
<td>Details –</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>U.S. Apparel Manufacturing</th>
<th>Values</th>
<th>Statistic</th>
</tr>
</thead>
</table>
### Trade & Wholesale Values

<table>
<thead>
<tr>
<th>Statistic</th>
<th>Value</th>
<th>Statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of U.S. apparel imports from China</td>
<td>29,392.2m USD</td>
<td>Details →</td>
</tr>
<tr>
<td>U.S. wholesale purchases of apparel, piece goods and notions</td>
<td>94.7bn USD</td>
<td>Details →</td>
</tr>
<tr>
<td>Gross margin on apparel in U.S. wholesale</td>
<td>52.49bn USD</td>
<td>Details →</td>
</tr>
</tbody>
</table>

### Retail Values

<table>
<thead>
<tr>
<th>Statistic</th>
<th>Value</th>
<th>Statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clothing store sales U.S.</td>
<td>187.13bn USD</td>
<td>Details →</td>
</tr>
<tr>
<td>Per capita expenditure on apparel in U.S.</td>
<td>978 USD</td>
<td>Details →</td>
</tr>
<tr>
<td>U.S. apparel and accessories retail e-commerce revenue</td>
<td>63.5bn USD</td>
<td>Details →</td>
</tr>
<tr>
<td>T.J.X. retail sales in U.S.</td>
<td>16.78bn USD</td>
<td>Details →</td>
</tr>
<tr>
<td>Global net sales of Walmart</td>
<td>481.32 bn USD</td>
<td>Details →</td>
</tr>
</tbody>
</table>


### 3. SWOT Analysis of the Unstable Fashion Industry:

![SWOT Analysis Diagram](image-url)
STRENGTHS: Clothing is a necessity
Continued improvements, like wearable technology

WEAKNESSES: Overseas production can lead to safety issues and wear and tear on clothes before they enter the U.S.
Constantly changing personnel

OPPORTUNITIES: Boom Economy
More on-line sales
Brand loyalty

THREATS: Bust Economy
Knock-offs
Fewer brick and mortar store sales
Bankruptcies
Fickle Tastes of Consumers

STRENGTHS:

Clothing is a necessity and the U.S. government works with the fashion industry with export.gov, a website dedicated to assisting exporters with understanding the packing, labeling, documentation and insurance requirement (export.gov). The U.S. Customs and Border Protection (CBP), which reports to Homeland Security, is committed to the safety of these transactions. The U.S. International Trade Commission tracks exported and imported textiles and apparel. Also, the United States Supreme Court heard and decided a fashion law case this term. In Star Athletica v. Varsity Brands (Slip op., No. 15-866 (2017), the Supreme Court held that the stripes and chevrons on a cheerleader uniform could be copyrighted. In addition to standardizing a fragmented area of law, this case recognized that a design on a useful article could be copyrighted. (Clarida, 2017, p.3)

The fashion industry continues to amaze with technology. There are wearable technologies (http://www.newyorklawjournal.com/id=1202781849816/Patents-for-Wearable-Technologies-That-Withstand--Patentability-Challenges) such as Fitbits that track all-day activity like steps, distance, and calories burned and active minutes and shirts with GPS (http://www.huffingtonpost.com/2015/02/18/autism-gps-device_n_6705368.html) that can be used to track a lost child or help a coach decide to sit a slower-moving, tired soccer player. A patch can detect sweat, a watch can give biofeedback to an epileptic and a temporary tattoo provides blood level information. (https://www.wearable-technologies.com/2016/02/we-will-
Although convenient, these wearable devices can raise privacy concerns. “As our bodies and images become more at one with technology . . . more brands will attempt to straddle the fashion/tech continuum.”

Global apparel market size projections from 2012 to 2025, by region (in billion U.S. dollars)
The United States' apparel market is expected to grow from USD 225 billion in 2012 to USD 285 billion in 2025; a CAGR of two percent. Source: https://www.statista.com/statistics/279757/apparel-market-size-projections-by-region/

WEAKNESSES:

One of the tradeoffs of using cheaper labor overseas is the transportation needed to get the goods to the U.S. market. There is less American oversight of overseas production which can lead to safety issues and delays. Also, the goods have to endure the long trip, often by boat for bulk shipments which can lead to rust and/or mildew of the product.

A different type of labor issue can also arise at the top of the company. A dizzying number of changes of head designers has occurred in recent seasons. When Raf Simons left Christian Dior, Maria Grazia Chiuri became the new artistic director. (Fury, 2017, p.3). Raf Simons then went on to become Chief Creative Officer of Calvin Klein. (Friedman, 2017, The New York Times.com). Creative Director Riccardo Tisci left Givenchy (Cochrane, 2017, The Guardian). In Style magazine reported on the appointments of Anthony Vaccarello at Saint Laurent, Pierpaolo Piccioli at Valentino, Bouchra Jarrar at Lanvin as well as Fernando Garcia and Laura Kim at Oscar de la Renta (December 2016, p. 86). Even Zayn Malik has gotten into the fashion business. Zayn, a British citizen, used to be a member of musical group One Direction and is the boyfriend to American supermodel Gigi Hadid. Paris Vogue reported that he was recently named as the Creative Director for a capsule collection at Versace’s Versus collection.

OPPORTUNITES:

As the chart below shows, income for the fashion industry is growing. However, it is changing. The vast majority of Americans are no longer going to the mall to shop at Sears and J.C. Penney’s for clothes. The trend today is to buy on-line from Amazon and other e-tailors. (Electronic retailing is the sale of goods and services through the internet. Electronic retailing, or e-tailing, can include business-to-business (B2B) and business-to-consumer (B2C) sales of products and services, through subscriptions to website content, or through advertising. (Electronic Retailing (E-tailing) - Investopedia). One such e-tailer is Stitch Fix. This is a privately-owned mail-order business that Katrina Lake started in her apartment in Cambridge, MA.

At first the company catered only to women, but has since expanded to offer men’s clothing, plus sizes and maternity wear. . . When customers sign up, they fill out an extensive form detailing style preferences, clothing needs and price points. The start-up’s
algorithms then churn out a set of potential choices, which one of its 3,400 stylists – most of them part time – then tailor to the individual customer before sending out five items in a package. Anything a customer does not want can be returned free of charge, and customers receive a 25 percent discount when they buy everything in the box. . . ‘Some people call this the ‘Moneyball’ of fashion. (Merced 2017, pp. B1, B8).

**Outlook Report: Fashion**

**Trends, Insights & Top Players**

- Revenue in the "Fashion" segment amounts to US$391,256m in 2017.
- Revenue is expected to show an annual growth rate (CAGR 2017-2021) of 12.8% resulting in a market volume of US$633,529m in 2021.
- The market's largest segment is the segment "Clothing" with a market volume of US$261,866m in 2017.
- From a global comparison perspective it is shown that most revenue is generated in China (US$159,014m in 2017).

Source: [https://www.statista.com/outlook/244/100/fashion/worldwide#takeaway](https://www.statista.com/outlook/244/100/fashion/worldwide#takeaway)

In order to survive in today's economy, retailers should aim to create frictionless shopping experiences, such as easy online shopping and enhanced shopping experiences to entice shoppers to go back into the stores with special events, like fund-raising days where a percentage of sales goes to a non-profit or fashion shows or unique experiences like using Neiman Marcus’ Memory Mirror. (nm@ memorymirror.com)
Nike has recently rebuilt the self-lacing sneakers Michael J. Fox wore in his movie classic “Back to the Future II”. The actual consumer version called HyperAdapt 1.0 is set to be released Nov. 28. While not all sneakers are such intricate gadgets they certainly have become one of the most favored fashion accessories of today.

As our infographic shows, Nike is America’s most shopped for sports shoe brand. According to our Statista Survey Sports Brands US the brand named after the Greek goddess of victory has a rather comfortable lead with 47 percent of respondents saying they bought a pair in the past 2 years. The German brand Adidas comes second and New Balance makes third place. This chart shows the share of customers who bought sport shoes by following brands in the last 2 years in the U.S. (in percent)

Source: https://www.statista.com/chart/6389/americas-most-wanted-sneaker-brands/

THREATS:
Regarding knockoffs, Vivia Chen “. . . argues that counterfeiting poses a larger threat to luxury designers than in the past. She alleges that the quality and turnaround of high-end knockoffs manufactured in hotspots such as China and Korea have improved dramatically in recent years, allowing counterfeiters to court the bargain-hunting wealthy and fool discerning customers.” (Espejo, 2006, p.76).

The danger posed by counterfeit goods to the Italian high fashion industry is twofold: They don’t just cut into sales; they sabotage the exclusive image and brand of the company . . . companies spend millions to create an aura of exclusivity around their luxury products, which becomes difficult if the goods are too easy to purchase . . . counterfeiters are still ahead of the game. . . At the annual watch trade fair at Basel, Switzerland, in the Spring, counterfeiters regularly photograph the watches on display and reproduce them, down to the last detail, in less than a week’s time. (Gabriel Cuonzo of the Milan law firm Trevisan & Cuonzo) . . . “Fighting counterfeits is a business problem and requires a business approach” says Cuonzo. “Sooner or later, you need to think like a multinational.” (Chen, 2006, pp.80-83).

Bankruptcies present another threat. BCBG Max Azria Group LLC filed for bankruptcy in Manhattan earlier this year, due to a debt of $685 million. In February, other fashion companies had filed for Chapter 11 protection: Eastern Outfitters LLC, Limited Stores and The Wet Seal. (Tribe, New York Law Journal, March 3, 2017, p. 1). Edward Lampert runs hedge fund ESL Investments, which combined Sears (which recently sold Land’s End) with Kmart. Sears Holdings has been losing over a billion dollars a year for seven straight years. Sears Holdings, the parent company, stated in March 2017, “Substantial doubt exists related to the company’s ability to continue as a going concern.” “It takes a retailer like Sears a long time to die.” Said Greg Melich, senior managing director and head of consumer research for Evercore, and the last Wall Street analyst still covering Sears.” (Stewart 2017, p.B1) Mark Cohen, a former chief executive of Sears Canada and a professor at Columbia Business School has observed that “Mr. Lampert ‘has stripped Sears of its assets,’ . . . It’s the longest liquidation in retail history. His reputation in the retail community is that he’s a financial pirate.” (Stewart p. B5).

Sears Holdings and J.C. Penney Co. have announced that they will each close more than 100 stores. Macy’s said that they would close 100 stores, which is 15% of their 650 stores. (Fung, 2017“Bears Are Targeting Mall REIT’s” p.B6). Nordstrom has announced layoffs and J. Crew is deeply in debt after having 3 straight years of losses. (Merced, 2017, p.B8). In addition to the anchor stores, the smaller chains are also facing challenges. Payless has declared bankruptcy. (http://money.cnn.com/2017/04/04/news/companies/payless-shoesource-bankruptcy/) Claire’s is experiencing financial troubles and may declare bankruptcy in October. (https://www.bloomberg.com/news/articles/2016-09-16/claire-s-skips-interest-payment-amid-debt-exchange-disagreements). Why is this happening? “Shopping habits . . . As long as people keep buying clothes, books and groceries online, from sites like Amazon.com, bricks-and-mortar retailers may continue to have a hard time . . .”. (Hughes, 2017, p.B8) So what is going into the
empty stores at the mall? A few are bringing in grocery stores. A Wegmans Food Market is going to open next year in what was previously a J.C. Penney’s in Natick, MA. (Fung, 2017 “Supermarkets Drop Anchor at Malls” p.B6).

With customer traffic sagging, U.S. retail landlords are using their sprawling concrete fields to host carnivals, concerts, and food truck festivals. A large event can generate $60,000 for a landlord in a week, says event producer KevaWorks Inc. Events bring “additional traffic and also encourage people to stick around longer,” says Lisa Harper, senior director for specialty leasing at CBL & Associates Properties Inc.

That’s a much welcome boon after a 20 percent decline in shares of publicly traded mall landlords in the past year. (https://www.msn.com/en-us/money/markets/new-life-for-america%E2%80%99s-dead-malls/ss-BBANECb)

The stores that are continuing to thrive are the ones that the bargain-hunters shop at: T. J. Maxx, Dollar General, H&M and Zara (which makes cheap knockoffs of expensive brands). (http://money.cnn.com/2017/04/04/news/companies/payless-shoesource-bankruptcy/). T.J. Maxx, Marshalls and HomeGoods carry merchandise from past seasons that fickle consumers did not buy at full price.

4. Fostering Stability through Corporate Structure, Creating Conglomerates and Other Strategies:

Are there ways to cope with the Weaknesses and Threats in Fashion Businesses as identified in the SWOT Analysis? One strategy may be to incorporate the business or create a Limited Liability Partnership or Company (Barnes, 2015, pp. 456, 458) to attempt to shield the business owners’ personal assets in the event of a loss (Herzeca, 2013, p.15) and for tax reasons (Jimenez, 2013, p.143). Creating a corporate conglomerate, a group of enterprises, which includes some (or all) fashion-related businesses can also temper the extreme profits and losses similar to a mutual fund.

In 2015, it was estimated that 90% of the top 10 fashion companies were publicly traded. On the other hand,” . . . the privately held fashion companies score 30 percent less in terms of market value than their publicly traded peers due to a liquidity discount.” (https://fashionunited.info/news/business/top200/2015120174) British designer Paul Smith states “We’re an independent company owned by me. We’re not under the pressure or the greed of shareholders, and so the brand identity can be more spontaneous and natural.” It works for him. His company has annual sales of 200 million pounds (approximately $245.5 million). (https://www.nytimes.com/2017/01/04/fashion/paul-smith-fashion-maverick-menswear.html) Chanel is the only luxury brand that isn’t owned by a conglomerate. (https://antoniasophia.wordpress.com/2015/11/18/conglomerates-dominating-the-industry/)

Other large or publicly traded fashion houses/companies which are independent include: American companies Michael Kors, Anna Sui, DvF, Vera Wang, Ralph Rucci, Oscar de la

Global Top 200 Fashion Companies

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company Name</th>
<th>Mcap USD</th>
<th>Country</th>
<th>Holding</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Inditex</td>
<td>$111,974,719,395</td>
<td>Spain</td>
<td>Public</td>
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<tr>
<td>2</td>
<td>Nike</td>
<td>$109,756,178,823</td>
<td>United States</td>
<td>Public</td>
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<tr>
<td>3</td>
<td>LVMH</td>
<td>$92,089,269,324</td>
<td>France</td>
<td>Public</td>
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<td>4</td>
<td>Hennes &amp; Mauritz AB</td>
<td>$55,692,749,838</td>
<td>Sweden</td>
<td>Public</td>
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<tr>
<td>5</td>
<td>TJX</td>
<td>$47,854,574,520</td>
<td>United States</td>
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<tr>
<td>6</td>
<td>Compagnie Financière Richemont SA</td>
<td>$41,751,275,852</td>
<td>Switzerland</td>
<td>Public</td>
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<tr>
<td>7</td>
<td>Fast Retailing</td>
<td>$41,262,931,406</td>
<td>Japan</td>
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<td>8</td>
<td>Hermes International S.A.</td>
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<td>9</td>
<td>Christian Dior</td>
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<td>11</td>
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<td>Kering</td>
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<td>United Kingdom</td>
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</tbody>
</table>

Showing 1 to 20 of 200 entries

Source: https://fashionunited.info/news/business/top200/2015120174

Most of the companies (38%) are from the U.S., with Italy, the U.K, France and Germany rounding out the top 5. The U.S. companies are a blend of department stores, sportswear, luxury and fast fashion. (https://fashionunited.info/news/business/top200/2015120174).

Ramachandran wrote about conglomerates in the Harvard Business Review” stating that “Pioneered by DuPont and General Motors in the 1920’s, the divisional structure was supposed to improve the parent’s ability to deal with diversification . . . problems . . . extra layers of senior executives, opaque accounting, the inability of headquarters to cope with different businesses . . .” However, there are positive aspects to conglomerates “ . . . membership in a business group provides access to the highly diverse resources of sister companies, and that allows affiliates to
tap into greater growth opportunities. . . potential synergies . . . A business group’s brand, motto, reputation, and organizational identity are important sources of value. . . To keep groups competitive, group centers will need to focus intensely on both strategy and identity.”

Forbes points out that “Large conglomerates can bypass the banks and use the income from established businesses to jump-start new activities. . . Conglomerates can also be beneficial when internal markets for capital, labor and ideas facilitate competitive advantage.”

“Joining forces with other brand groups under a global consciousness, many conglomerates, . . . improve the sustainability of their products.”

There can be a “. . . ‘parenting advantage’ – those strategies, structures and processes whereby the ‘parent works through its business to create value.’ Parenting advantage is concerned with the extent to which a business unit gains a competitive advantage as a result of its link with a parent corporation and vice versa. “(Moore, (2005) pp.256-270).

“Conglomerates have more wiggle room in comparison to private brands . . . Private brands have to be nimble, whereas maneuvering a big ship is more difficult . . . One poor decision at a conglomerate is but a blip on the bigger picture.”

What is a “Luxury Brand”? According to Professors Corbellini and Saviolo of Bocconi University in Milan, there are 4 central features of a luxury brand: (1) perceived exclusivity, (2) well recognized brand identity, (3) high levels of brand awareness and (4) strong sales and customer patronage. (Moore, pp.256-270). There should be strategic brand management and product development. “ . . . [C]ompanies are usually increasingly, vertically integrated. In particular, Luis Vuitton is integrated both in design, manufacturing and retail.” “Luxury is not about fashionability . . . Luxury is about timelessness. It’s about legacy, heritage of the brand . . . timeless categories, watches, jewels. Leather goods . . . Silk accessories . . . craftsmanship . . .” Because of the focus on tradition, it is difficult to establish a new luxury line. Coach would be considered as “accessible luxury” because of its price point.

“Luxury can be defined as something adding to pleasure or comfort but not absolutely necessary. Handbags aren't necessary for survival still they're selling very well. Louis Vuitton is the most valuable luxury brand in the world 2016. Burberry was ranked the seventh most valuable luxury brand worldwide with a brand value of about 4.59 billion U.S. dollars.” (Dyfed Loesche, April 4, 2017)

The luxury goods business has changed. “. . . ‘it was a niche business for a niche clientele . . . Louis Vuitton only had two stores – in Nice and in Paris.’” Contrast this business
model with the year 2013, when Americans spent more than $200 billion on clothing and related goods and services (Bureau of Labor Statistics). “And this reflects a global change from the old, European way of doing business, when design houses championed creativity over the bottom line.”

(Figure: <http://www.npr.org/2015/03/14/392788955/how-the-luxury-fashion-industry-became-all-business>)

Fashion blogger Meg Davies tells us that “The majority of fashion brands, whether they are high or low end, are owned by huge conglomerates . . . The aim is to make brands eternal.”

(Figure: <http://megangd.blogspot.com/2015/12/fashion-conglomerates.html>)

This chart shows the 10 most valuable luxury brands worldwide by brand value in 2016 (in billion U.S. dollars)

<table>
<thead>
<tr>
<th>Brand</th>
<th>Value (billion U.S. dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Louis Vuitton</td>
<td>28.51</td>
</tr>
<tr>
<td>Hermes</td>
<td>19.82</td>
</tr>
<tr>
<td>Gucci</td>
<td>12.59</td>
</tr>
<tr>
<td>Chanel</td>
<td>10.32</td>
</tr>
<tr>
<td>Rolex</td>
<td>8.15</td>
</tr>
<tr>
<td>Cartier</td>
<td>6.75</td>
</tr>
<tr>
<td>Burberry</td>
<td>4.59</td>
</tr>
<tr>
<td>Prada</td>
<td>4.41</td>
</tr>
<tr>
<td>Tiffany &amp; Co.</td>
<td>2.47</td>
</tr>
<tr>
<td>Dior</td>
<td>2.07</td>
</tr>
</tbody>
</table>

https://www.statista.com/chart/8798/luxury-brands-brand-value-2016/

The largest conglomerate, Louis Vuitton Moët Hennessy (“LVMH”) which owns Louis Vuitton, Celine, Givenchy, Fendi, Emilio Pucci and Marc Jacobs, was the first to sell in China. The oldest LVMH brand is wine producer Château d’Yquem which was started in 1593. (Wikipedia) The largest shareholder is Bernard Arnault’s family holding company, Groupe Arnault, and, oddly, Christian Dior owns over 40% of LVMH. (Figure: <http://searchingforstyle.com/2010/11/fashion-101-who-owns-what/>) Christian Dior was a Parisian couturier who created the “New Look” in 1947. (Blackman, 2012, p.14) On April 25, 2017, LVMH announced that it plans to make a

The second largest group is Kering, which like, LVMH, is French.

![Kering Logo]

Guccio Gucci started his business in his family’s leather saddler shop in Florence, Italy. In 1938, he opened a stop in Rome and in 1953, he opened a store in New York City. (Alford, 2014, p. 163)

The third largest is Swiss conglomerate Richemont which holds Chloe, Cartier, Van Cleef and Arpels, Azzedine Alaia and Net-a-Porter. (https://antoniasophia.wordpress.com/2015/11/18/conglomerates-dominating-the-industry/)

The Prada Group owns Prada and Miu Miu. Miuccia Prada believes in strategic management, “For me, it’s important to anticipate where fashion is going.” (Metropolitan Museum of Art, 2012 p. 31)

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