

Luxury goods: why elite brands are weathering the pandemic better than high street retailers

By [Shaun Borstock](#)

17 Nov 2020

Clothes shops are among the worst hit retailers from the coronavirus pandemic. Sales in the UK are [still well down](#) on pre-March levels. Big players such as [H&M](#) and [Gap](#) are closing stores, and jobs are [being lost](#). Strikingly, luxury brands appear to be weathering the conditions relatively well.



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Certainly, [they have](#) been [enduring losses](#), but we have not seen – and are unlikely to see – much in the way of permanent store closures or huge discounting of products at leading brands such as Louis Vuitton, Gucci and Hermes.

All three have in fact [raised their prices](#) by a few percentage points over last year. So why this difference?



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Lifting the veil

The issue could well be one of control. Whereas high street retailers do not typically own their supply chains, the same is not true of luxury brand conglomerates such as [LVMH](#), [Kering](#), [Chanel](#) and [Richemont](#).

As these groups have increased their product offer across their brands over the past 20 years, they have pursued a meticulous strategy [of acquiring](#) the [companies in](#) their [supply chains](#). They now oversee an ecosystem that is virtually self-sufficient. They are able to set their own prices, from raw materials to labour to what customers pay for their products.

The manufacturing and distribution in these supply chains is not much different from the high street fashion chains. Though overall production costs may be higher and quality better, the economics work on similar principles: the cheaper the production, labour and raw materials, the higher the potential profit.

One important difference is in how the luxury groups justify the value of their goods to their customers. These brands put lots of emphasis on heritage. They typically date back more than a century – Louis Vuitton founded in 1854, Kering's Boucheron in 1893, Richemont's Cartier in 1847 and Chanel in 1910.



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The underlying premise has always been that the goods under these brands are luxury as defined by craftsmanship and the raw materials. These ideas continue to add value to the brands – especially [where pricing is concerned](#) – and mark ups have [reportedly been](#) up to 20 times the cost.

Yet while customers are told about the manufacturing process through the companies' marketing campaigns, sometimes they only get part of the story. For instance, Louis Vuitton, which is owned by LVMH, had a [2010 advertisement banned](#) by the UK Advertising Standards Authority for suggesting that bags were hand-stitched when the company would not say how much of the work was done by hand.

When we see into the manufacturing processes, in some instances it can raise questions about the sales pitch. An example would be Chanel's supply chain acquisitions [included Barrie Knitwear](#) of Hawick in the Scottish borders in 2012. [Barrie now makes](#) high-quality knitwear both under its own name and for Chanel: a cashmere beanie under the Barrie label retails at [just over £200](#), whereas a relatively similar one with the Chanel brand [goes for £375](#). I know from having visited the Barrie factory that the raw materials and production methods are the same. This not a question of quality, simply cost.

Which is which?



(Barrie to the left, Chanel to the right)

In some cases, production costs are low. Take Louis Vuitton's Texas factory, which produces the iconic plasticised canvas bags, accessories and luggage featuring the LV logo that define the brand. This is no artisan studio, but a factory more conducive to [mass production](#). The [starting salary](#) for workers was reportedly \$13 per hour in 2019.

Similarly, Louis Vuitton has [used a shoe factory](#) in Romania in recent years, where the labour costs could be expected to be cheaper than in western Europe. All but the soles are produced in Romania, handmade in large quantities. They are then finished in France or Italy.

As well as mass production and low wages, bulk buying of raw materials also significantly reduces costs – just like for your average high street retailer. No wonder these [companies achieve](#) profit margins that are among the highest in the corporate world.

Stock options

One challenge for luxury conglomerates has always been how to cope with unsold stock. [Burberry disclosed](#) in 2018 that it had burned £105m-worth of stock over five years to protect its brand, for instance, but said that it would stop doing so.

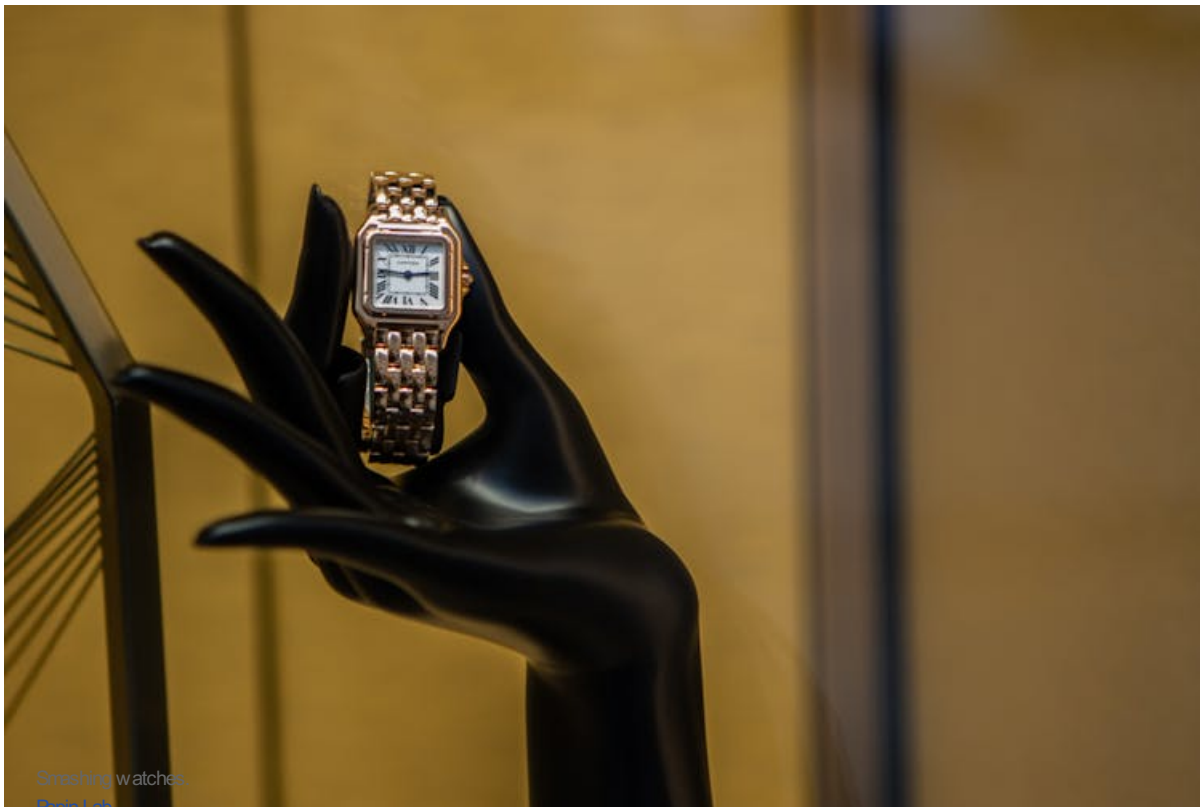


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Cartier, meanwhile, [reportedly dismantled](#) £400m-worth of watches it did not want to sell at a discount over a period of two years.



The French government [has introduced](#) a wide-ranging [anti-waste law](#) banning “designer clothes and luxury goods companies from destroying unsold or returned items”. This will come into effect in 2023.

Yet in an [apparent contradiction](#), luxury brands [will in effect be spared](#), on the basis of protecting their intellectual property rights. LVMH, Kering and Richemont all make [substantial contributions](#) to the French economy.

A new answer that looks to be catching on is to supply online retailers dedicated to second-hand luxuries – [Gucci’s recent supply deal](#) with The Real Real site is an example. Such deals will potentially give these groups even more control over their operation. It means they can resell products without discounting – sometimes even increasing prices as “vintage” often sells for more than new.

In general, however, in an era of increasing customer interest in the production of goods, luxury brands would be sensible to be as open as possible. Not only would this force change in an industry that guards its secrecy, it would increase consumers’ understanding of what luxury really is.



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A spokeswoman for Chanel said that prior to its acquisition of Barrie in 2012, the two companies had been working together for over 25 years. “Through this acquisition, we have reaffirmed our commitment to traditional know-how and craftsmanship, thus ensuring the preservation of a historic brand and our desire to support their development.

“Like all the métiers d’art supported by Chanel, Barrie works with other leading fashion names. The creation of the Barrie brand in 2015 has reinforced this commitment, by allowing the offer of very specific products, with their own identity and price positioning.”

Louis Vuitton did not respond in time for publication.

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