Designers tout luxury for less

After years of balooning prices, luxury brands are trimming costs in a bid to maintain market share

BY **COTTEN TIMBERLAKE**
BLOOMBERG

PHOTOS: BLOOMBERG, REUTERS

A woman puts her belongings in a Coach handbag to check its size as she shops in the Coach flagship store on Madison Avenue in New York.
PHOTO: BLOOMBERG

Vera Wang and her fellow designers are getting a reality check.

Wang, known for her US$9,500 wedding gowns, has cut the average retail prices for her bridal wear by almost a third as shoppers become increasingly cost-conscious in the recession. Coach is selling more handbags for less than US$300, and Saks dispatched managers to Europe to help suppliers come up with lower-priced products for its stores.

The moves are part of an industrywide push to expand a tier of luxury that uses simpler designs and less costly materials after years of ballooning prices. Sales of brands that cater to the wealthy may drop 10 percent this year after holding steady at US$240 billion in 2008, according to estimates from luxury adviser Bain & Co in Milan.

"The luxury consumer now wants to understand why the price is what it is," said Michael Fink, a consultant in New York and former women's fashion director for Saks. "It's not going to return to the hype and the waiting lists" for designer goods.

Between 2005 and 2007, the average wholesale price of luxury goods increased 10 percent to 15 percent each year, Fink estimates. A shrinking global economy is reversing that trend. While some shoppers still will buy at the highest end of the luxury range, more consumers will balk at cocktail dresses that cost more than US$2,000 and shoes above US$1,000, he said.

WANG GOWNS

"It has definitely made us all reconsider what we're doing, how we're doing it, and who we are trying to reach as a customer," designer Wang said at a May 20 event in New York. "In a way, it has been a reality check for all of us."

The average price of a Vera Wang Spring 2010 wedding gown is US$3,800, with nine dresses under US$3,500. Previously, the average price of a gown was US$5,500, Elizabeth Musmanno, a spokeswoman, said in an e-mail.

Thakoon, the Thai-born couturier whose bold-print dresses are favored by Michelle Obama, started selling a less costly second line in stores in May. Liz Claiborne, based in New York, is bringing in lower-priced goods at Kate Spade and Juicy Couture, its most expensive brands.

"The luxury consumer wins," Liz Claiborne Chief Executive Officer Bill McComb said in a May 21 interview.

Liz Claiborne has dropped 72 percent in New York Stock Exchange composite trading in the past 12 months, while Coach has fallen 22 percent. Liz shares rose US$0.31, or 6.9 percent, to US$4.81 at 4:15pm yesterday. Coach advanced US$2.09, or 8 percent, to US$28.36.

INTELLIGENT EXPERIMENT?

For the industry, the ideal scenario is that the new goods will encourage consumers to buy more, which would help the sellers hold on to market share, said Luca Solca, a luxury analyst. The danger is that they will cannibalize their own higher-priced sales, he said.

"It is an interesting and intelligent experiment worth trying," said Solca, who is based in London with Sanford C. Bernstein & Co.

In the short term, the effort to generate demand has come at a cost to profit margins, Thakoon and Coach executives said.

Designer Zac Posen says he manages to avoid compromising both on quality and profitability by designing earlier to allow more time for better pricing of materials. He is sometimes using stock textiles instead of developing his own fabrics, and on one gown reduced the volume of the skirt, he said.

Posen has created more daywear, with dresses priced at US$990, while still making US$10,000 couture pieces.

"It is a daily push and fight to stay alive," Posen said in a May 26 telephone interview. "I don't think it about dumbing down clothing, but making more intelligent, more focused and more wearable clothes on a fast delivery time at more accessible prices."

EEL-SKIN JACKET

Demand will switch to goods that are true luxury, in terms of quality and craftsmanship, from those that are merely status symbols, according to Fink, the fashion consultant.

Fink identified examples of luxury value at Neiman Marcus Group's Bergdorf Goodman store in New York. Among other items, he pointed to a US$1,900 Oscar de La Renta black lurex tweed motorcycle jacket hanging next to a US$3,590 red eel skin version.

At New York-based Saks, general merchandising managers traveled to Europe for 10 days in recent weeks to meet "with brand after brand after brand with ideas of how to exploit each of their businesses within a new pricing model," President Ron Frasch said on a May 19 conference call.

Coach, also based in New York, has begun to rebalance its collections so that at least 50 percent of its handbag choices will fall into the US$200 to US$300 range, compared with 30 percent previously, Chief Executive Officer Lew Frankfort said on an April 21 conference call. Sharper pricing has pressured margins, Chief Financial Officer Michael Devine said.

Thakoon's second-line "Addition" dresses sell for US$600 to US$800, compared with US$900 to US$1,200 for the main collection. Thakoon doesn't want to compromise on materials, and can ultimately make up the lost profit margin with volume, said Maria Tomei Borromeo, Thakoon's chief executive officer.

Christian Lacroix files for protection from creditors

The failure of the last fashion house established under formal couture rules suggests that it has become difficult for a brand to survive in the luxury sector without being part of a corporate group that can invest in product development and flagship stores

BY **SUZY MENKES**
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Christian Lacroix, the French couturier whose artistic and exuberant pouf dresses propelled him to fame in the 1980s, became the latest victim of the global financial crisis on Thursday when the fashion house bearing his name filed for court protection from creditors.

The voluntary petition, similar to Chapter 11 bankruptcy protection in the US, was filed with the commercial court in Paris, which will decide whether to restructure or liquidate the company.

Although Lacroix's chief executive, Nicolas Topiol, emphasized that the brand intended to continue operating during the process, the news brought an end to a luxury business model.

Founded in 1987 by Bernard Arnault, chairman and chief executive of LVMH Moet Hennessy Louis Vuitton, the concept was to start with haute couture, at the apex of the luxury pyramid, and develop from it a range of ready-to-wear apparel, accessories and fragrances. This was the system that had reaped mighty profits for established houses like Christian Dior and Chanel.

But despite years of critical success, the company failed to break even, let alone turn a profit. Arnault sold Lacroix in 2005 to the Falic Group, a business based in Florida known for its Duty Free Americas chain. The Falic brothers sought to refocus the luxury brand at the peak, suppressing the lower-priced clothing and jeans lines.

"Since the acquisition of Christian Lacroix SNC, we have been committed to the brand and to its high-end development," Topiol said in a statement. "We will continue to do so, but the sharp downturn of the luxury market has significantly hurt our revenues."

The owners had been in discussion with potential financial partners and investors for the last year, Topiol said, adding that "this process which was in its final phase, was directly hit by the conditions of the financial markets and could not be finalized prior to the filing."

According to people close to the matter, Lacroix was badly hit in the US, where it had opened two stores in New York and Las Vegas and where buyers had recently reduced or canceled orders. Ready-to-wear sales for the coming autumn season were down 35 percent and losses for 2008 were 10 million euros (US$14 million) on overall revenues of about 30 million euros.

Topiol's statement said only that the "long-term strategy for repositioning of the brand was dramatically hindered" by the financial crisis.

That has been evident for some time across the luxury sector, where even the biggest players are being hurt by recession and financial turmoil. LVMH, the world's biggest luxury goods company, recently scrapped a plan to open a Louis Vuitton flagship store in Tokyo. This year, Chanel announced the layoffs of 200 temporary employees.

Versace, an independent Italian house, is in a state of turmoil, announcing that revenue fell 13 percent in the first quarter. The board last week approved a three-year plan to steer the company through the economic crisis while continuing to deny rumors that its chief executive of four years, Giancarlo Di Risio, will soon exit the company.

People shop at a Louis Vuitton boutique in Beijing. Sales of designer goods in China are expected to climb at least 7 percent this year while global industry revenues could fall by 10 percent, consulting firm Bain & Co says.
PHOTO: AP

The lessons seem to be that it is now difficult to survive in high fashion without being part of a corporate group that can invest in product development and flagship stores and that the pyramid model is no longer viable.

The modern strategy, as exemplified by the growth of the Giorgio Armani brand, is a sunburst, with the designer at the epicenter and all product categories (except sunglasses, which are technically demanding) under the brand control.

Yet, significantly, an Armani Prive couture line was created to add prestige and a direct link with celebrity clients.

The loss of Christian Lacroix to Paris haute couture is immeasurable. Although the designer hopes to hold a small presentation during the July couture season, this was the last house established under the formal couture rules. Even a restructuring would most likely have severe implications for the 125-member staff.

The grandeur of the couturier's work was displayed last month in the sumptuous gown created for Philomena de Tornos, the bride of Jean de France, Duc de Vendome, a descendant of the French royal dynasty.

But just as royalty now has less attention than celebrity, so couture has lost its unique prestige, with the word bandied about by any high-end designer. And whereas fragrances produced from the mystique of haute couture once kept the houses afloat, now it is just as likely that a hip jeans brand like Diesel or a celebrity like Jennifer Lopez will have the perfume hit that has stubbornly eluded Lacroix.

Lacroix, who received the Chevalier de la Legion d'Honneur in 2002, for services to fashion, has other strings to his bow, apart from his colorful and sophisticated collections. He was the creative director for Emilio Pucci, the Italian fashion house, from 2002 to 2005, while he was still within the LVMH group.

He also has his own XCLX company, for which he has created decor for the French TGV high-speed train, as well as hotel interiors and uniforms for Air France. He has also designed for theater, opera and dance and acted as curator for fashion exhibits, including one currently at the National Museum of Singapore.