Louis Vuitton or Hermès?

Individualism is not the first association that comes to mind when one thinks of China. However, following the country's economic reforms, consumerism has become a new phenomenon on a huge scale. Consumerism, that is, for Western luxury goods... due to a lack of Chinese luxury goods. How can two French fashion houses help to change this market imbalance.. to the benefit of Chinese companies?

China has become the world's second largest market for luxury goods yet it still can't really boast its own brands despite markets opening up over the last three decades. Louis Vuitton and Hermès are two of the world's luxury giants—with annual per capita turnover at 3.35 million euros and 3.25 million euros respectively in 2010— their growth has been stable and sustainable, even in a tough economic environment. What can Chinese companies interested in building a luxury brand learn from them? Looking at the evolution of Louis Vuitton and Hermès, we can identify shared features. First, both companies began with the development and manufacture of classic products that have stood the test of time. These products distinguish themselves on six key traits: high prices; excellent quality; uniqueness and scarcity; aesthetic and emotional value; rich brand history and heritage; and an intangible symbolism from owning the brand. The companies then established a solid business model and rapidly expanded overseas. The international markets proved to be a great platform to showcase the excellent workmanship and to help establish a high-end international brand image. At the same time, the two brands are very different in their management practices. Louis Vuitton is part of the publicly-listed, multi-brand conglomerate Louis Vuitton Moët Hennessy Group [LVMH], while Hermès remains a family-operated independent brand. In terms of strategy, Louis Vuitton is rather progressive; its parent company has expanded and continues to build its multi-brand empire through acquisitions. LVMH has built one of the strongest brand portfolios in the sector, counting 60 top brands among its five divisions and other operations, with Louis Vuitton as its "star of stars". Its message to markets and investors: each of the brands will likely become Louis Vuitton one day, thereby offering great potential for future growth and value creation for potential investors. On the contrary, Hermès' strategy is more conservative; it focuses on the brand's heritage and impeccable craftsmanship, building value over time and through quality—they prefer endogenous growth. Even when it is unable to meet market demand for its iconic Kelly bag, Hermès prefers not to expand production. This is almost impossible for a listed company. The Hermès model is the basis of the luxury industry; if a luxury product loses its characteristic uniqueness, it then becomes a mass consumer product and the price cannot be justified. Louis Vuitton, however, did not perform well in a competitive marketplace and was eventually acquired by the Moët Hennessy Group. The capital markets were able to provide a lifeline to the struggling brand and LVMH was able to successfully restructure and revitalise the brand.

What China can learn

China's reforms have opened up the market considerably but the country's economic and social realities haven't been able to support the development of a luxury brand. The lack of fundamentals can be explained. 1. Economic: There has been a lack of capital and talent in China's manufacturing and creative industries because most of the money and talent have rushed into the booming financial market and property sector that are more likely to yield ultra-high returns in the short term. 2. Social: In a society where people mostly are seeking short-term windfall profits, very few are willing to engage in the manufacture of fine products. Fast-moving consumer goods are much more profitable. 3. Cultural: The Cultural Revolution destroyed the country's traditional cultural values, hindering the modernisation of arts and culture. 4. Legal: In a country where intellectual property rights are not effectively protected and where counterfeiters get rich much faster, innovators are giving way to imitators. But, a new round of macroeconomic adjustments, corporate restructuring and cultural reforms is giving China a golden opportunity for the development of its luxury goods industry. The rapid growth of luxury consumers is an additional positive. For new entrants, "a long history of tradition and a legendary brand story" may not be readily available, but they can still succeed by upholding the spirit of fine craftsmanship and exerting great efforts on other features. Coach, for example, has successfully established itself as a leading, local, luxury brand in the U.S. despite existing for only around 60 years. Its success can be attributed to an adherence to exquisite craftsmanship and good quality products. In recent years some Chinese companies have been applying these practices. The Beijing-based Zhaoyicuiwu jewellery brand, for instance, has produced a range of popular jewellery products by rediscovering the long-lost art of filigree mosaic and integrating it with modern innovation. Currently, it isn't practical for Chinese companies to adopt the development model of the LVMH Group as it first requires the emergence of a large number of competitive local luxury brands. Perhaps to their advantage, Chinese brands are also operating in an economic environment and under market conditions that are very different. Today, for instance, they have faster ways to grow by tapping into capital markets. By learning from the experiences of international luxury brands such as Louis Vuitton and Hermès, and leveraging on favourable timing, Chinese brand builders should continuously upgrade their technologies and improve the value of their products in order to create genuine brands. *Lu Xiao is Associate Professor of Marketing at Fudan University, China. Professor Lu also heads the National Social Science Fund Research Project "Luxury Brand Management and Operation". The article was first published at Tsinghua Business Review February 2012 issue and translated from Chinese by Aileen Huang.*