

A Fashion Empire's New Clothes

● Louis Vuitton's luxe apparel is having a moment. Too bad high-end frocks still don't make money

It's been a banner year for clothing at Louis Vuitton. Shoppers queuing for a streetwear collection developed with the cult New York brand Supreme; red-carpet appearances by actresses Michelle Williams and Isabelle Huppert wearing the brand; runway shows by star designer Nicolas Ghesquière at dramatic venues including the Louvre and the Miho Museum in Japan. All of this has pushed Louis Vuitton's apparel business into the spotlight. The brand also is enjoying a blast of media exposure as France's new first lady, Brigitte Macron, wears Vuitton at almost all her public appearances. "Ready-to-wear is our fastest-growing category," says Michael Burke, Vuitton's chief executive officer.

But don't expect Vuitton to shift away from its iconic monogrammed handbags. There's a simple reason: High-end clothes are famously unprofitable. The expense of producing collections, staging shows, and displaying apparel in boutiques wipes out the clothing's potential profit, says luxury analyst Luca Solca of Exane BNP Paribas. He estimates Vuitton loses more than €100 million (\$118.1 million) a year on ready-to-wear, which generates less than €450 million of the brand's \$8 billion to \$9 billion in annual sales.

Fashion apparel is "a loss leader" in the luxury business, says Ashok Som, who directs a luxury management program run by France's Essec Business School and Italy's SDA Bocconi School of Management. But runway shows can create an aura around the brand that helps sell more-profitable items, Som says. With Vuitton, that's handbags; with Chanel International DB, it's perfume, which Som estimates accounts for 70 percent of revenue at the privately held luxury house. "Of course ready-to-wear is losing money, but no one will stop doing it, because if you don't have it, you don't create the desire, the image," he says.

Clothing also helps brands reinvent themselves. In the 1990s, the hip-hugger glam looks of Gucci then-designer Tom Ford helped the Italian luxury house shed its image as a producer of men's loafers. "You have a runway show, you have pictures of

actresses and celebrities," says Jaqui Lividini, a New York-based consultant on luxury branding. "Ready-to-wear has incredible power, it's transformative."

Vuitton underwent a similar makeover after its parent, LVMH Moët Hennessy Louis Vuitton SE, hired U.S. designer Marc Jacobs to create the brand's first ready-to-wear line in 1997. He stayed until 2013, winning praise for irreverent collections whose references ranged from Jazz Age showgirls to nurses' uniforms, and over-the-top shows such as one where a custom-built steam train transported models to the catwalk. Still, fashion accounts for no more than 5 percent of Vuitton's annual sales, Solca estimates. (LVMH doesn't disclose results for individual brands.) Yet under Jacobs and now Ghesquière, Vuitton has become known as a fashion brand rather than a stodgy maker of bags and trunks. Sales at LVMH's fashion and leather goods division soared from €3.2 billion in 2000 to €12.8 billion last year as the group's other fashion brands, including Fendi and Celine, pursued similar strategies of using runway fashion to dust off their images. Vuitton is the world's most valuable luxury label, according to consultancy Interbrand, which pegs its brand value at \$24 billion, almost twice that of runner-up Hermès International.

The economics of luxury fashion have gotten even tougher with the spread of social media. Brands scramble for attention online by recruiting celebrity ambassadors and staging ever more elaborate events. Star designers and artistic directors are often paid like football stars, Solca says, with personnel costs running €10 million to €20 million a year for a "major league" creative team. The rise of fast-fashion purveyors also has hurt, as shoppers balk at spending thousands on a dress or blouse they might wear only a few times, when they can find something elsewhere that looks similar for less money. That's less a challenge for the high-end handbag they can carry every day.

Brands more exposed to apparel such as Burberry Group PLC and Hugo Boss AG have seen profits slip in recent years. And houses whose core business is designer ready-to-wear—a segment where the ▶

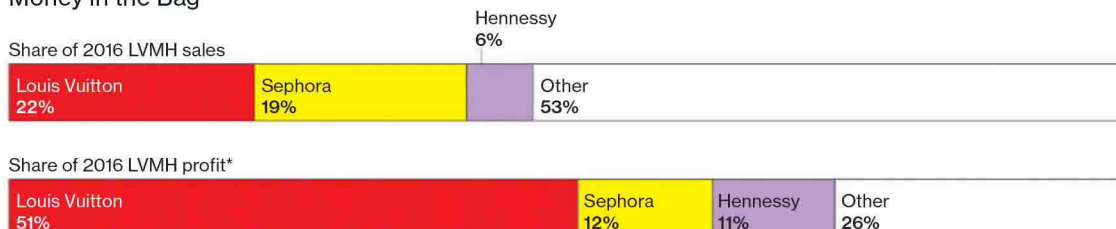


● Brigitte Macron wears Louis Vuitton at almost all her public appearances

◀ average cocktail dress costs north of €2,000—have become revolving doors for designers and managers: In 2016, Roberto Cavalli's CEO and designer both left after less than two years on the job, while the most recent top designers at Oscar de la Renta and Lanvin had similarly brief stints. For luxury companies, says Solca, "high exposure to ready-to-wear [is] a structural weakness." —*Robert Williams and Carol Matlack*

THE BOTTOM LINE Like many luxury houses, Louis Vuitton doesn't make much on its high-profile apparel. But all the runway attention bolsters its lucrative handbag business.

Money in the Bag



*EARNINGS BEFORE INTEREST AND TAXES; DATA: HSBC ESTIMATES