

The Arnaults Try to Refashion LVMH for Millennials

● The luxury brand powerhouse is trying to court younger buyers

At the Louis Vuitton menswear show in Paris last month, designer Virgil Abloh sent hoodie-clad models down the runway toting duffel bags made from gleaming high-tech plastic, all to the latest Kanye West album. West, who embraced the tearful Abloh as he took his bows, was joined by his wife, Kim Kardashian. Seated steps away: Bernard Arnault, head of parent LVMH Moët Hennessy Louis Vuitton SE, and four of his adult children.

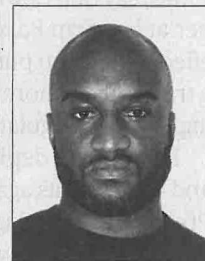
The duffels were a far cry from the classic monogrammed brown bags that the senior Arnault long relied on to help LVMH define and dominate the global luxury industry. But the updated totes are one of the ways the next generation of Arnaults—four of Bernard’s five children hold senior positions at LVMH—are helping remake their father’s company to adapt to a changing luxury environment.

Arnault’s long-time strategy of acquiring iconic European brands and enhancing their exclusivity has been wildly successful. The portfolio of 70 brands he’s amassed, including Vuitton, Christian Dior, Moët & Chandon Champagne, and Tag Heuer watches, brought LVMH about \$48 billion in sales in 2017. Lately the company has been expanding its playbook. With the encouragement of the younger Arnaults, LVMH in the past year has

shaken up its managers and designers, rolled out e-commerce platforms, and started a makeup line with the singer Rihanna. It’s also generated buzz far from the runway by becoming a patron of French technology, subsidizing a startup incubator, and handing out awards to young entrepreneurs.

“Luxury companies are required to engage the consumer in ways they never did before,” says Mario Ortelli, who runs a London-based luxury strategy firm. “It’s become more of a collaboration” because response on social media can either boost or sink collections. The younger Arnaults, Ortelli says, “can look at this market with the eyes of someone who is closer to it” than their 69-year-old father.

Abloh’s hiring as men’s artistic director at Vuitton in March illustrates the transformation. A Ghanaian American streetwear designer with 2.6 million Instagram followers, he was a creative consultant to West when he was spotted by Delphine Arnault, 43, Vuitton’s executive vice president, and Alexandre Arnault, 26, head of German luggage unit Rimowa. “What’s exciting about him is his approach and the fact that he’s so open to the world,” Alexandre said, standing on the rainbow-painted runway at Abloh’s show. “It’s about redefining the codes of luxury, making it more accessible for young people.”



● Abloh

Arnault doesn't plan to retire for at least a decade, and there's no clear front-runner to replace him at LVMH, which is 47 percent owned by the family. But as his children expand their influence—and as the serial dealmaker runs out of companies to buy—the luxury group is reshaping brands it already owns.

The luxury business “is not about ‘it’ bags anymore,” says Federica Levato, a partner at Bain & Co. in Milan. “Streetwear, T-shirts, puffy jackets are becoming an important part of the core collection.” Marketing such items to customers, luxury houses have to focus on “communication, visuals, social media—all the touch points.”

LVMH can afford to move cautiously. Its sales are almost three times those of its nearest rival, Kering SA. And Arnault, the world's sixth-richest person with a \$75 billion fortune, “has a sixth sense about what's next” in luxury trends, says Ron Frascch, a former president of Saks Fifth Avenue who works in private equity at Castanea Partners in New York.

Yet there are worrisome signs. Gucci, owned by Kering, is outpacing LVMH in the race for younger customers—an urgent concern, as 85 percent of growth in the sector comes from shoppers under age 38, according to Bain. Designer Alessandro Michele has rebooted Gucci with collections that pile on crystals, embroidered flowers, dragons, and cartoon cats. And Gucci, which says 55 percent of its sales are to millennial shoppers, reported revenue up 49 percent in the first quarter of 2018, to €1.87 billion (\$2.2 billion). Revenue for LVMH's fashion and leather goods division, dominated by Vuitton, increased by 16 percent for the same period.

Starting in the 1980s, Arnault snapped up dozens of mostly family-owned companies, scaling them up and finding markets in the developing world, especially China. But now there are few opportunities for game-changing deals. In 2010 family shareholders of luxe handbag maker Hermès International SA, for example, rebuffed Arnault's advances.

To spur organic growth, LVMH has been recruiting talent. It recently replaced the longtime head of Christian Dior with Pietro Beccari, former head of the Fendi fur and handbags unit. Beccari won acclaim there for his e-commerce savvy and for whimsical shows, including one where model and reality-TV star Kendall Jenner appeared to walk on water as she traversed a transparent runway over Rome's Trevi Fountain. The Arnaults have hired designer Hedi Slimane, a menswear trendsetter known for bringing back skinny jeans and suits at Dior Homme in the early 2000s. He's set to show his first collection at Céline in September. Designer Kim Jones, who first brought streetwear to Vuitton last year, is now introducing it to Dior Homme.



The Arnault children increasingly are leaving their mark on the company. Abloh caught Delphine's attention in 2015 when she picked him as a finalist in an annual competition she runs to spot promising young designers. Antoine, 41, was named LVMH's communications director in June. Alexandre helped persuade his father to bring aboard Ian Rogers, a former Apple Inc. executive, as the company's chief digital officer in 2015. Alexandre also helped seal the acquisition of Rimowa in 2016. Frédéric, 23, became head of “connected technologies” at Tag Heuer last year.

Still, LVMH's track record in e-commerce, a retailing format key to serving younger consumers, is mixed. While Vuitton and Sephora have successful online boutiques, a designer site called Eluxury was shut down in 2009 after failing to gain traction. Last year, LVMH started an online boutique and mobile app called 24 Sèvres, but it's struggled to catch up with leaders such as Net-a-Porter and Matchesfashion.com. LVMH's leaders “have been slow over the years to grasp the importance of the digital channel,” Castanea's Frascch says. “But they're going full steam now.” —Carol Matlack and Robert Williams, with Hayley Warren

▲ Abloh's take on a Louis Vuitton men's duffel was shown during Paris Fashion Week in June

● Share of consumers in the global personal luxury-goods market born in 1980 or later

30%
2017 estimate

45%
2025 forecast

THE BOTTOM LINE About 85 percent of growth in luxury spending comes from shoppers under age 38, according to Bain. So LVMH, the No. 1 luxe company, is trying to get hip.