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## **Luxury relying on banking and finance (19th-21st centuries)**

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### Luxury relying on banking and finance (19th-21st centuries)

#### Abstract

*Luxury-specific production systems have expanded through upstream-downstream integration, from commodities (silk, precious metals, etc.) to processing industries and luxury houses themselves. Banks financed companies, trade, foreign exchange and flows of means of payment. Starting in the 1980s, business bankers supported companies building a capitalism of luxury firms: they helped them to integrate the game of financial markets. For managers of companies in the luxury sector, the challenge has always been to create strong self-financing capacities in order to be able to distribute dividends ensuring the loyalty of family shareholders, finance investments (workshops, shop networks), and contain indebtedness. When tensions were encountered, the dependence on bankers and investors, in the event of a stock exchange listing, often led to the takeover of control by leading groups.*

**Keywords:** Luxury, family business, Bernard Arnault, François Pinault, investment banking, cash-flow, capitalistic restructurings.

### Banque et finance partenaires de l'économie du luxe (19<sup>ème</sup>-21<sup>ème</sup> siècles)

#### Résumé

*Des systèmes productifs propres au luxe se sont dilatés par le biais d'une intégration amont-aval, des produits de base (soie, métaux précieux, etc.) aux industries de transformation et aux maisons de luxe elles-mêmes. Les banques ont financé les entreprises, le commerce, le change et les flux de devises. À partir des années 1980s, les banquiers d'affaires ont accompagné des sociétés à construire un capitalisme de firmes de luxe : elles les ont aidées à s'insérer dans le jeu des marchés financiers. Pour les patrons des entreprises du secteur du luxe, l'enjeu a sans cesse été de dégager des capacités d'autofinancement fortes afin de pouvoir distribuer des dividendes assurant la fidélité des actionnaires familiaux, financer les investissements (ateliers, réseaux de boutiques) et contenir l'endettement. Quand des tensions ont été ressenties, la dépendance vis-à-vis des banquiers puis des investisseurs, en cas de cotation en Bourse, a souvent débouché sur la prise de contrôle par des groupes leaders.*

**Mots-clés:** Luxe, capitalisme familial, Bernard Arnault, François Pinault, banque d'affaires, cash-flow, restructurations capitalistiques.

**JEL:** N14, N24, N80, O16

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<http://ideas.repec.org/p/grt/wpegrt/2019-06.html>.

## Issues

Far from the stunning world of luxury, the storytelling<sup>1</sup> and the magic of creators,<sup>2</sup> this text endeavours to appear as a kind of an atlas of the fragrances and styles of money, to find out the leverage forces played by managers of assets, cash flows, credits, market-finance to support the durability and growth of luxury houses, either in family business or in listed companies through an enchantment of operational engineering—our study being focused on high end circuits of luxury goods and services, based on authenticity.<sup>3</sup> In the backside of brilliant mode events and temples of wealthy shopping, heads of finance and treasury, corporate bankers, merchant bankers (actors of mergers and acquisitions-M&A) and even specialists in private law struggle to fuel the achievement of creativeness and its transformation into mines of profitability.

Deprived of an exhaustive survey of statistics and companies' history, this text succeeds anyway in drawing the whole array of financial issues along materialistic topics: how to finance upstream the supply of rare goods (like silk, gold or diamond)? How to sustain the momentum of investments and development by luxury houses through capital and debt? How to lay on financial engineering to launch offensives on companies building luxury groups, or to resist such hostile bids? Readers will thus respire the vapour of banking brains more that “the perfume of gems”...<sup>4</sup> or, as said, “design for cash, not just for flash”.<sup>5</sup>

Organizational changes, the recurrent emergence of markets, and now global luxury<sup>6</sup> couldn't but mobilise the portfolio of competences of bankers to shape the financial basis of this productive and commercial system. As a rare opportunity, French banks could even take profit of such reshuffling because Paris played a key role in such revolution.<sup>7</sup> Europe will draw most of the attention as it had been a broad field for luxury houses<sup>8</sup> and outlets, but outlooks on some worldwide scope will take shape too.

The mere skills in managing foreign exchanges for the account of ever internationalised houses (flagships in London for French ones; then Europeanised and transatlantic sales across high end bourgeoisies; worldwide palaces—before the momentum of globalisation from the 1970-90s) epitomized the discreet activities that bear the daily life of luxury, which relied on the clearing of bills of exchange—as was the case by the Medici<sup>9</sup> in the 14-15th centuries at the service of the European circulation of luxury goods—, then later on market rooms managed by bank employees and managers.<sup>10</sup>

<sup>1</sup> “Quand le luxe redécouvre la magie du conte”, *BalistikArt*, 2 November 2016 [www.influencia.net].]

<sup>2</sup> Pierre Bourdieu & Yvette Delsaut, “Le couturier et da griffe: contribution à une théorie de la magie”, *Actes de la recherche en sciences sociales*, 1975, n° 1, p. 7-36.

<sup>3</sup> See: Yves Michaud, *Le nouveau luxe : expérience, arrogance, authenticité*, Paris, Stock, “Les essais”, 2013. Wided Batat, *Luxe et expérience client*, Paris, Dunod, 2017.

<sup>4</sup> Simone Marchetti & Annick Le Guérer, *Bulgari: The Perfume of Gems*, New York, Rizzoli, 2018.

<sup>5</sup> M. Socha & D. Kaplan, “Designed for cash, not just for flash”, *Daily News Record* (a fashion journal), 1996, 26/180, p. 1.

<sup>6</sup> Pierre-Yves Donzé & Rika Fujioka (eds.), *Global Luxury. Organizational Change and Emerging Markets since the 1970s*, London, Palgrave-Macmillan, 2018.

<sup>7</sup> Hubert Bonin, “A reassessment of the business history of the French luxury sector. The emergence of a new business model and a renewed corporate image (from the 1970s)”, in Luciano Segreto, Hubert Bonin, Andrzej Kozminski, Carles Manera & Manfred Pohl (eds.), *European Business and Brand Building*, Brussels, Peter Lang, 2012, p. 113-136.

<sup>8</sup> Jean-Claude Daumas & Marc de Ferrière Le Vayer, “Les métamorphoses du luxe vues d'Europe”, *Entreprises & Histoire*, 2007, n° 46, p. 6-16.

<sup>9</sup> Raymond de Roover, *The Medici Bank: Its Organization, Management, Operations and Decline*, London, Pickle Partners Publishing, 2017 (reedition).

<sup>10</sup> See: John Atkin, *The Foreign Exchange Market of London: Development Since 1900*, London, Taylor & Francis, “Business & Economics”, 2004.

Management of brands and luxury groups might seem somewhat specific.<sup>11</sup> To build a luxury brand with a strong financial valuation implies that the financial strategy will be to maximise, not the net profit, but the luxury brand's value. Another consequence is that since brands have never been set out on the balance sheet at their true worth, successful luxury companies generally have a very high return on equity, a phenomenon often accentuated by very high profitability. Given the importance of the investment to be made in creation, communication and distribution, which are strongly qualitative and only profitable over the long term, a very high gross margin is crucial to the company's durability by itself, that is its survival as an independent one.<sup>12</sup>

A whole range of stake-holders then support growth: business bankers and lawyers for structural moves, day to day bankers for credit and means of payment management, assets managers and brokers to fuel the stock-markets, and, more recently junior luxury start-ups and unicorns seduced private equity funds. A chain of value thus structures this productive system, itself tackling about \$1.8 trillion in 2012 which joined banking flows and accounts somewhere; and this explains the dedicated reports from consulting cabinets (BCG, Deloitte, Mazars, etc.) or *The Economist*,<sup>13</sup> that try and extract case studies of relevant and acute management, in search of practical solutions to address toughest challenges, and on the financial levels, to manage risks, among which currency risk management.

## 1. Banks financing luxury upstream: The commerce of the Lyon silk and money flows

Luxury-specific production systems have expanded through upstream-downstream integration, from commodities (silk, precious metals, etc.) to processing industries and luxury houses themselves. A whole chain of financing had to be engineered to help companies gathering momentum, then developing their investments. Bankers were involved through the brokerage of the securities issued, credits, flows of means of payment, and foreign exchange operations. Specialists in trade finance became the partners of the core market flows.

Upstream of the production and distribution of consumer-ready luxury products, the need to provide funding to actors in the supply of raw materials and basic materials or intermediate consumption for luxury industries must be taken into account. These international or national flows generated important banking operations, inscribed in the traditions constituted since the Middle Ages and the Modern Times, when the Italian or German bankers, for example, were key cogs of luxury places. Two cases of study will be studied: the financing of Chinese silk trading, and gold and diamond mining.

### A. Banking forces at the service of the silk trade

A first case study considers the entire productive system of silk, as it generated opportunities for credit and banking services throughout the commercial and productive chain. At the turn of the 20th

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<sup>11</sup> Michel Chevalier & Gérald Mazzavolo, *Luxury Brand Management: A World of Privilege*, Singapore, John Wiley & Sons, 2012. Jean-Noël Kapferer, "The specificity of luxury management: Turning marketing upside down", *Journal of Brand Management*, March 2009, volume 16, n° 5-6, p. 311-322.

<sup>12</sup> Annabelle Gauberti, "Financing luxury companies: the quest of the Holy Grail (not!)", London, fashion law firm Crefovi-Creativity Focus Vision, 28 April 2013; *Les Échos*, 13 May 2013.

<sup>13</sup> *Exclusively For Everybody. Special Report Luxury*, *The Economist*, 13 December 2014.

century, France, and especially the Lyon region,<sup>14</sup> was still leading the global silk industry in spite of the fact that Switzerland, Italy and the US had been putting up some stiff competition since the 1870s. Apart from Lebanon and Japan, China had become a key supplier of raw silk, mainly because it was cheaper and because French silk production had been badly hit by disease. French trading houses had settled in Guangzhou because the port was the outlet for silk producers from several districts who tackled a huge amount of silk trade, with the total amount being estimated at 25 million francs in 1905. A chain of transfers got reinforced, from the producers of mulberry leaves, breeders of silk worms, Chinese merchants and lenders, down to French merchants and bankers.

Trade companies from the Lyon market-place were establishing themselves more and more in Hong Kong and Guangzhou, which became their gateway to the silk cluster in the Guangdong.<sup>15</sup> French houses (R. Chauvin, E. Pasquet, *Générale des soies*, Gerin & Drevard, *Meurer frères*, Madier-Ribet, etc.) competed with the British Jardine Matheson and the German Arnhold Karberg. Warehouses lodged silk, either by merchant intermediaries, or at the *Banque de l'Indochine's* own go-down. It offered a classical range of credit, and loans pledged by silk balls or cloth piled in the go-downs. It financed traders to help them purchase silk from Chinese spinning mills.<sup>16</sup> The trading houses welcomed the introduction of such a local branch, which saved them from having to use Hong Kong brokers (with a 1/8 percent commission) and banks, as well as sending a constant stream of telegrams, which led to significant cost cuttings. This enticed HSBC to imitate its competitor and set up its own branch in Guangzhou in 1908.

The branch was inserted into the chain of trade and credit linking Guangzhou to Europe: transportation, inventories in Marseille then Lyon, pending sales to French merchants and (weaving) industrialists, which fuelled the remittance of bills of exchange, with the risk on credit (documentary credits) and the risk on foreign exchange (FOREX), for which it was granted autonomy from the Hong Kong branch in April 1910. Along all these chains of credit, *Banque de l'Indochine* faced competition from HSBC, even in Lyon, where the latter had opened a special branch.<sup>17</sup> It relied on the *Banque de l'Indochine's* Paris headquarters or its London branch to support its connections. It also took help from its correspondents in Lyon, especially local banks dedicated to the community of silk merchants (*Veuve Guérin & Fils* family bank<sup>18</sup>) or branches of Parisian institutions such as *CNEP-Comptoir national d'escompte de Paris*, *Société générale* and *Crédit lyonnais*. Banks there received the remitted documents, followed the course of sales, picked up the repayments or repaid the *Banque de l'Indochine* by themselves thanks to their own credits to importers. They transferred the amounts to the *Banque de l'Indochine* in Paris which, in turn, cleared the accounts of its Guangzhou branch in its books.

<sup>14</sup> See: Louis Bergeron, *Les industries du luxe en France*, Paris, Odile Jacob, 1998.

<sup>15</sup> Louis Gueneau, *Lyon et le commerce de la soie*, Lyon, 1932. Tse-Sio Tcheng (Zheng Zixiu), *Les relations de Lyon avec Chine*, Paris, L. Rodstein, 1937. Guy Durand, "Le monde des soies : le marché lyonnais des soies asiatiques", *Les Cahiers d'histoire*, 1995, tome 40, n° 3-4, special issue *Lyon et l'Extrême-Orient*, p. 323-335. Bernadette Angleraud & Catherine Pellissier, "La capitale de la soie", in *Les dynasties lyonnaises, des Morin-Pons aux Mérieux, du XIX<sup>e</sup> siècle à nos jours*, Paris, Perrin, 2003, p. 18-44.

<sup>16</sup> Marianne Bastid, "Le développement des filatures de soie modernes dans la province du Guangdong avant 1894", in *Policy and Economy of China. The Late Professor Yuji Muramatsu Commemoration Volume*, Tokyo, 1975, p. 175-178.

<sup>17</sup> Claude Fivel-Démoré, "The Hong Kong & Shanghai Bank in Lyon, 1881-1954. Busy, but too discreet", in Frank King (ed.), *Eastern Banking*, Londres, Athlone, 1983, p. 467-516. Frank King, "The Bank's first European 'special agency'", in Frank King, *The Hong Kong & Shanghai Bank in the Period of Imperialism and War, 1895-1918*, 1989, p. 135-142.

<sup>18</sup> Serge Chassagne, *Veuve Guérin & fils. Banque et soie. Une affaire de famille (Saint-Chamond-Lyon, 1716-1932)*, Lyon, BGA Permezal, 2012.

Despite military events, the silk sector regained momentum in the 1920s. The *Banque de l'Indochine* branch's advances on raw or spun silk climbed to HK\$ 1,748,600 on 15 December 1926. Loans to silk traders were estimated at FRF 2,205,000 on January 1930. At the height of the boom, Gérin-Drevard was granted HK\$ 275,000 for its local silk trade (against HK\$ 325,000 as pledges), which allowed the firm to pay its Chinese suppliers, pending sending its staples abroad. The connections between Guangzhou and Lyon were strong,<sup>19</sup> and *Banque de l'Indochine* resumed the use of its French counterparts there (*Société générale, Crédit lyonnais, CNEP*) as bearers of the pending documentary credits till the sale of imported goods: "The credit establishments at Lyon are very well organized and provide document-holders with all facilities for the financing of their maturities till the moment of actual delivery of the merchandise. As such, these establishments can easily monitor traders' commitments, the growth of their business and consequently, are fully informed regarding their situation and that of the market."<sup>20</sup>

From the 1920s, the US absorbed growing silk amounts. The French American Banking Corporation, set up in New York by *Comptoir national d'escompte de Paris*, became the correspondent of the *Banque de l'Indochine's* Guangzhou. The trade houses exporting to the US could onward transfer their letters of credit and trading documents (for documentary credit), and rely on that platform to clear the banking operations<sup>21</sup> with their US counterparts. The bills ("silk paper") arrived in New York and where paid for in cash or, pending their repayment, were rediscounted locally for a few months (three to four), and acceptance operations complemented the process,<sup>22</sup> with about a final 0.5 per cent profit margin. "Given that the paper drawn on the United States is exclusively on letters of credit and thus gives us a high level of security in our transactions, it would be a mistake to withdraw from this domain of our local business, and my intention is to continue these purchases to the extent that they leave me with a normal margin."<sup>23</sup>

## B. Bank's intimacy with Lyon silk capitalism

The Lyon market-place itself, from the 1850-70s onwards, had to finance its supply of foreign silks. "The Lyon merchant depended on the foreign for his purchases: 34 percent in Italy, 49 percent in China."<sup>24</sup> It is understandable why *Banque de l'Indochine*, confronted for a time to *Banque industrielle de Chine* (installed in Lyon in 1920), played a key role in the animation of the money circuits between Asia and Europe. However, in the 1920s-30s, the place of Lyon suffered from the development of the American industry: the place of New York becomes a great hub for imports of Japanese and Chinese silks, hence the creation of a major centre of bank financing and foreign exchange.

In the Lyon area, silk traders and banks provided funds to industrialists, whether it be the "fabricants" (gross trade houses) (300 in 1914 and 600 in 1930) or, more upstream, the spinners, hence a chain of commercial paper linking manufacturers and merchants. Each seasonal campaign had to be financed by the banks, hence a very elastic discount or overdraft savings. The Paris head

<sup>19</sup> See Tse-Sio Tchong (Zheng Zixiu), *Les relations de Lyon avec Chine*, Paris, L. Rodstein, 1937. Lillian M. Li, *China's Silk Trade: Traditional Industry in the Modern World, 1842-1937*, Cambridge (Mass.), Council on East Asian Studies, Harvard University, "Harvard East Asian Monographs, 97, xv", 1981.

<sup>20</sup> Letter from the *Banque de l'Indochine's* Paris headquarters to the manager of the *Banque de l'Indochine's* Guangzhou branch, 24 September 1930, Historical archives of *Crédit agricole SA, Banque de l'Indochine* fund.

<sup>21</sup> *Ibidem*, 15 August 1923.

<sup>22</sup> "Acceptance by an American company of remittances on irrevocable confirmed credit drawn by Gérin Drevard on a few banks of the New York clearing houses", *Ibidem*, 26 January 1931.

<sup>23</sup> Report of the manager of the *Banque de l'Indochine's* branch for the first term of 1928.

<sup>24</sup> Report of the branch of *Banque de France* in Lyon, December 1931, historical archives of *Banque de France* in Paris.

office of *Banque nationale de crédit* provided funds to its branch in Lyon, for example: “The branch of Lyon asks us to make cash facilities available to the most important silk traders of the place, in preparation for the cocoon and bristle buying campaign that will begin.”<sup>25</sup> And 21 trading houses were then such beneficiaries in 1923.

A systematic review of the accounts of luxury companies would be required to reconstruct the cash and foreign exchange flows of their international sales. So there are just a few things to mention here. For example, sales of Lyon silks generated a large flow of money. “Silk exports have created significant foreign exchange reserves.”<sup>26</sup> Exports of silk fabrics reached a value of FRF 1.7 billion in 1922 and, with silk cuttings, reached 1.949b in 1923 (10 percent of French exports).<sup>27</sup> It reached 3,5b in 1924 that is 8.54 percent of overall French exports.<sup>28</sup> Local banks (*Société lyonnaise de dépôts*, family house *Guérin & Fils*), the branches of Paris banks in Lyon (*Crédit lyonnais*, the first ranking on that place, *Société générale*, *Comptoir national d’escompte de Paris*, Aynard, then from 1917 *Crédit commercial de France*) and British ones (Westminster Foreign Bank, HSBC, active in Lyon) took thus part to such operations: management of means of payment, international transfers, exchange. Thanks to the silk trade, Lyon asserted itself as a major place of exchange: as England absorbed 30 percent of the sales of fabrics in 1930, for an amount of FRF 891 million compared to the total of exports of 2,867b, the operations franc/pound were abundant.

Dependency on the banks increased when these houses experienced treasury tensions during recessions, as in 1931: “Lyon’s place is in a deep slump. The old silk industry, which groups together more than 45 percent of the capital committed and the general turnover (for 1930, silk: FRF 2.5b francs; silks: 3.8b) is particularly reached [...]. For the manufacturer, the situation is serious: big overdrafts among bankers and suppliers [...]. Many houses suspend their payments.”<sup>29</sup> This explained the fall of the house Guérin and its branches in Milan and New York, one of the symbols of this internationalization of the Lyon banking place. A part of the history of Lyon luxury was ended. On the one hand, depression and then war stifled the silk system: silk consumption collapsed from 7 million kg in 1928 to 2.3m kg in 1932, which cut into international business banking. Export fell from FRF 3.808 million in 1928 to 1.989m in 1931 and 1.083m in 1932, those towards Great Britain from 1.282m to 0.795m and 0.356m, which flattened the FOREX operations with London, whilst Japanese competition grew on. On the other hand, the progression of chemical artificial silk undermined historical luxury.<sup>30</sup> After WWII, the silky economy was no longer one of the levers of Lyon’s growth<sup>31</sup>—till the purchase of a few subsisting houses by luxury groups like Hermès.

## 2. Banks financing luxury upstream: Gold and diamonds mining

Gold and diamonds have fascinated every contemporary epoch both through luxury objects (jewels<sup>32</sup>) and by the opportunity to speculate on their upstream value, thanks to investments in

<sup>25</sup> *Banque nationale de crédit*, 23 April 1923, historical archives of BNC, National Archives in Roubaix.

<sup>26</sup> Report of the branch of *Banque de France* in Lyon, 6 June 1925, historical archives of *Banque de France* in Paris.

<sup>27</sup> Report of the branch of *Banque de France* in Lyon, 5 May 1923.

<sup>28</sup> *Ibidem*, 6 June 1925.

<sup>29</sup> Report of the branch of *Banque de France* in Lyon, December 1931.

<sup>30</sup> Bernadette Angleraud & Catherine Pellissier, “Le chant du cygne de la soierie lyonnaise”, in *Les dynasties lyonnaises*, *op. cit.*, p. 191-201.

<sup>31</sup> Bernadette Angleraud & Catherine Pellissier, “Quel avenir pour la soierie ?”, in *Les dynasties lyonnaises*, *op. cit.*, p. 744-660.,

<sup>32</sup> See: Jacqueline Viruega, *La bijouterie parisienne, 1860-1914 : du Second Empire à la Première Guerre mondiale*, Paris, L’Harmattan, 2004.

securities issued by mining companies.<sup>33</sup> Their productive system consisted of several stages involving finance and banking.

#### A. Financing gold and diamond at the turn of the 20th century

Each mining rush, especially from the Californian boom of the mid-19th century,<sup>34</sup> aroused financial “fevers” in the markets of capitalist or bourgeois investors—while credit channels provided the funds to individual operators and especially to the treasury of emerging companies. Even Rothschild took part in the California rush: With the backing of major European financial houses, the purchase and remittance of California gold became a major business. Rothschild provided its agent Benjamin Davidson with a credit of £40,000, which was renewed monthly and could be drawn on houses in London, Paris, Frankfurt, Naples, Vienna, or New York. He made monthly shipments of \$150,000 to \$300,000 (often nearer \$100,000), and he remained in partnership in the gold dust business for eight months.<sup>35</sup> The Rothschild were durably partners of the gold economy.<sup>36</sup> Each gold rush ignited flows of cash and credit, and then, if durable success, fuelled the structuring of capitalist structures in the UK, the US or in South Africa.<sup>37</sup>

Due to its large brokerage and investment capacity, the City hosted most of the securities issued by mining companies in the late 19th century. Some of the institutional and bourgeois savings were thus involved in providing the money necessary for the growth of a sector on which the branches of the downstream luxury depended. The speculative fever of the 1890s revealed this interlocking between the place and the financing of gold mines: “Jobbers, speculators, promoters and brokers had flooded onto the market in large numbers, and this had seriously limited the ability of the major mining finance houses like Consolidated Gold Fields, Wernher-Beit & C°, The General Mining & Finance Corporation and Barnato’s Johannesburg Consolidates Investment Cy to influence market behaviour.”<sup>38</sup> Such a stock mania, with 138 companies registered in the sole 1895, left room to a recession—with only 30 societies registered in 1897, and many financial losses among investors. This enticed such stakeholders and European banks to forge out a kind of syndicate to manage the variations of values along more appeased rhythms in the 1900s.

<sup>33</sup> About these mining segments, see: Philippe Chalmin & Yves Jégourel (eds.), *CyclOpe. Les marchés mondiaux 2018*, Paris, Économica, 2018.

<sup>34</sup> Paul Rodman, *California Gold: The Beginning of Mining in the Far West*, Harvard University Press, 1947.

<sup>35</sup> Gilles Constable, “The Rothschilds and the gold rush: Benjamin Davidson and Heinrich Schliemann in California, 1851-52”, *Transactions of the American Philosophical Society*, July 2015, volume 105, n° 4.

<sup>36</sup> Robert Vicat Turrell & Jean-Jacques Van Helten, “The Rothschilds, the exploration company and mining finance”, *Business History*, 1986, 28/2, p. 181-205; republished in Geoffrey Jones (ed.), *Multinational and International Banking*, Aldershot, Edward Elgar, 1992, p. 381-405.

<sup>37</sup> Peter Richardson & Jean-Jacques van Helten, “The development of the South African gold-mining industry, 1895-1918”, *The Economic History Review*, New Series, August 1984, volume 37, n° 3, p. 319-340. Charles Harvey & Jon Press, “The City and international mining, 1870-1914”, *Business History*, 1990, 32/3, p. 98-119. Stanley Chapman, “Rhodes and the City of London: Another view of imperialism”, *Historical Journal*, 1985, 28, p. 647-666. Donald Denoon, “Capital and capitalists in the Transvaal in the 1890s and 1900s”, *Historical Journal*, 1980, n° 23, p. 111-132. Williams Gardner, *The Diamond Mines of South Africa: Some Account of Their Rise and Development*, Cambridge, Cambridge University Press, 1902, 1905 & 2011. Robert Kubicek, “Finance capital and South African goldmining, 1886-1914”, *Journal of Imperial & Commonwealth History*, 1975, n° 3, p. 386-395. Robert Kubicek, *Economic Imperialism in Theory and Practice. The Case of South African Gold Mining Finance, 1886-1914*, Durham, North Carolina, Duke University Press, 1979.

<sup>38</sup> Jean-Jacques Van Helten, “Mining share manias and speculation British investment in overseas mining, 1880-1913”, in Jean-Jacques Van Helten & Youssef Cassis (eds.), *Capitalism in a Mature Economy: Financial Institutions, Capital Exports and British Industry, 1870-1939*, Aldershot, Edward Elgar, 1990, p. 159-185; here: 173.



At the Paris Stock Exchange, mistrust dominated against values considered speculative. It was through the “*coulistiers*”, acting on the edge of the official market, that they were distributed in France, such as the banker of Russian origin Jacques de Gunzburg: he proposed in 1895 those of the Randfontein (1889). He then wanted to develop this type of operations and created the *Banque française d’Afrique du Sud* in 1895: it had to create a clientele of investors seduced by the boom of mining securities. His consulting engineer Louis de Launay published extensive manuals: *Les mines d’or du Transvaal* (1896), *Les Diamants du Cap* (1897). In order to take participations overseas, Gunzburg founded in parallel (in 1895) the *Compagnie française des mines d’or & d’exploration* (then *Compagnie française des mines d’or & de l’Afrique du Sud* in 1901 and *Compagnie française de banque & de mines* in 1911. But Paris remained a junior place for these securities in front of London, and from 1901, the *Banque française d’Afrique du Sud* became part of a new business bank, *Banque française pour le commerce & l’industrie*.

On his side, within merchant bank Goudchaux, Albert Kahn got initiated to mining business, in the wake of a trip he made to South Africa (by travelling on an old cargo ship) in 1888. Discoveries of diamonds and gold deposits in Southern Africa, Transvaal (Pretoria, Kimberley) in the second half of the 1880s led to new companies having to place their securities in Europe (Kimberley Central, Rand, De Beers, Gold Fields), during a stock exchange boom that lasted about a golden decade, before a severe decline around 1897-98. As early as 1888, Kahn involved Goudchaux in two operations to introduce *De Beers Diamond Mining Co.*<sup>39</sup>—before founding his own bank later on.<sup>40</sup>

One point must be made: without the involvement of banks and finance, the economy of the luxury of gold and diamonds downstream could not have been fed by upstream mining capitalism. Part of the prosperity of Standard Bank and of Barclays Dominion, Colonial & Overseas (set up in 1925, with the integration of the National Bank of South Africa, created in 1890) was due to clients of the gold and diamond system, and this from the 1890s: “In South Africa it was trade in precious metals that was of particular concern to the British banks. The finance of gold shipments from the newly discovered deposits of the Witwatersrand formed a considerable part of Standard Bank’s activities. In the mid-1890s perhaps half the gold output of the Transvaal passed through the hands of the Standard Bank on its way to Britain. A great deal of the work of the bank’s Johannesburg branch revolved around the handling of gold and its dispatch to London for sale. With its own assay office, the bank was in a position to buy gold outright as well as advancing against it, and it could make higher advances on smelted gold. During the 1890s Standard Bank developed a close relationship with De Beers, who acquired a large share of the South African diamond industry in that decade”, and it “forged a link with one of that company’s most powerful rivals in the 1900s, the Premier Mining Company”.<sup>41</sup>

## B. Finance and luxury metals at the turn of the 21th century

Jumping over decades, an outlook on the issues of finance connected with gold and diamond might broaden this analysis. Beyond the role of gold as a basis of financial stability, its role as a global luxury

<sup>39</sup> Jean-Jacques Van Helten, “La France et l’or des Boers: Some aspects of French investment in South Africa between 1890 and 1914”, *African Affairs*, 1985, n° 84, p. 247-263.

<sup>40</sup> Hubert Bonin, « Albert Kahn, ou l’esprit d’entreprise appliqué à la banque et à la finance », in Musée Albert Kahn (ed.), *Albert Kahn, singulier et pluriel*, Paris, Lienart, 2015, p. 34-51.

<sup>41</sup> Geoffrey Jones, *British Multinational Banking, 1830-1990*, Oxford, Clarendon Press, 1993, p. 85. See: William Worger, *South Africa’s City of Diamonds*, New Haven, Yale University Press, 1987. Ally Russell, *Gold & Empire: The Bank of England and South Africa’s Gold Producers, 1886-1926*, Johannesburg, Witwatersrand University Press, 1994.

commodity and that of diamond too fostered financial arrays and hubs.<sup>42</sup> South African-based companies, like De Beers, and else ones either use banks for their day to day operations (credits, FOREX, means of payment management), or mobilise financial markets as spring-boards for their external growth, whilst institutional and private investors bet on the value of their securities.

Diamond De Beers had ever marched with bankers, first Rothschild UK from its inception in 1888, then with JP Morgan, the bank helping Ernest Oppenheimer, the head of a big mining firm,<sup>43</sup> to get control over De Beers in 1926 (with 40 percent): “To consolidate his new Wall Street tie, Oppenheimer insisted on the word *American* appearing in the new company’s name. Thus was born the Anglo-American Corporation, afterward Africa’s richest company”.<sup>44</sup> The finance history of De Beers relied on its ability of capital accumulation: the agreement reached with the London-based Diamond Syndicate in 1889 helped regulating output and maintaining prices. Such force helped De Beers to take over the Premier Mine (1902) in the 1910s; altogether Anglo American and De Beers accounted for 30 percent of South Africa’ exports in 1973, thus tackling huge amounts of cash flows. And the purchase of the Oppenheimers’ stake in De Beers Consolidated Mines by Anglo American in 2011 mobilised USD 5.1 billion in cash among banking entities, to shareholding the part from 45 to 85 percent.

All in all, financial flows pour from mining companies, the exchange markets of diamonds through direct buyers or auction sales, down to the places where diamonds are cut and polished (Antwerp, Tel Aviv, New York, Russia, India, China) and credit operations are grappled. Downstream, financial and banking support the life of worldwide market of jewellery (\$60b for diamonds) all along the value chain<sup>45</sup> (till 10,000 jewellery manufacturers and 250,000 retailers), but reconstituting the various interventions is impossible. From the 2000s, “the Indian banks have supported the industry [around Mumbai] as it has grown to be a world leader in the midstream segment [...]. The question is more about the cost of finance, rather than availability. Being an export focussed industry, the lack of affordable funding made businesses unbearable. Part of the problem relates to how banks and rating agencies approach the risk management for the industry”,<sup>46</sup> that latter involving five million people in India and 7 percent of Indian GDP, all the more that connections between India and Antwerp have to be sustained (through a dedicated branch of State Bank of India or an Indian subsidiary of ABN AMRO, for instance), mainly about FOREX remittances and trade finance.

As for connections between diamond and banking, the Amsterdam and Anvers/Brussels market-places still remain key magnets. A symbolic tool is ABN AMRO that kept its specialised department (International Diamond & Jewellery Group). A pillar was Antwerp Diamond Bank,<sup>47</sup> which had succeeded in 1937 to the *Comptoir diamantaire anversois* opened in 1934, the first financial institution to focus on the needs of the diamond industry, connected with several banks and De

<sup>42</sup> See: Sandra Bott, “Introduction. Towards a global history of gold”, in Sandra Bott (ed.), *The Global Gold Market and the International Monetary System from the late 19th Century to the Present*, London, Palgrave-MacMillan, 2013, p. 1-16. Timothy Green, *The New World of Gold: The Inside Story of the Mines, the Markets, the Politics, the Investors*, New York, Walker, 1981.

<sup>43</sup> Duncan Innes, *Anglo American and the Rise of Modern South Africa*, London, Ibadan & Nairobi, Heinemann Educational Books, 1984. Theodor Emanuel Gregory, *Ernest Oppenheimer and the Economic Development of Southern Africa*, Cape Town University Press, 1965 & 1977.

<sup>44</sup> Ron Chernow, *The House of Morgan: An American Banking Dynasty and the Rise of Modern Finance*, New York, Simon & Schuster, 1990, p. 350.

<sup>45</sup> Bob Pisani, “The diamond rush. The billion dollar business of diamonds, from mining to retail”, *CNBC*, 27 August 2012.

<sup>46</sup> “Diamond and Jewellery Financing 2018. Mitigating Risks Effectively”, conference notice, Mumbai, 11 May 2018.

<sup>47</sup> Bruno Comer & Even-Zohar Chaim, *Financing the World’s Most Precious Treasures: Antwerp Diamond Bank, Commemorating its Diamond Jubilee, 1934-2009*, Ramat Gan, Tracy, 2009. See [[https://en.wikipedia.org/wiki/Antwerp\\_Diamond\\_Bank](https://en.wikipedia.org/wiki/Antwerp_Diamond_Bank)].

Beers. It became a major participant in the financing of rough diamonds at the sights that DeBeers conducted in London through the Central Selling Organization. Its subsidiary (since 1982) Antwerp Diamond Bank (Switzerland), financed international diamond transactions and on portfolio management. In 1999, Belgian KBC Bank acquired the bank, rich with offshoots in New York, Hong Kong, Mumbai, Dubai, Singapore; but it had to absorb its teams in 2015 and to complete a divestiture program.

A few banks entertained within their commodity business specialised units earmarked to spot gold trading: that was the case in London for Barclays for its metals and mining sales department. With regulatory scrutiny showing no signs of abating and cost pressures still elevated, the commitment of banks to the precious metals benchmarks has been questioned by the industry since 2007. A few had been historically involved in the gold-setting process: the “London gold price fix” was lodged till 2004 on the premises of Nathan Mayer Rothschild & Sons by the members of the London Gold Market Fixing Ltd. since September 1919, with a stop in 1939-1954). The participating banks as market makers got gold orders on their own behalf (proprietary trading) and on their clients’ behalf (brokerage). They had to be vigilant about fraud and speculation processes. And they face competition with the Shanghai Gold Exchange, set up in 2002 and conquering leadership recently.

### C. Financial markets involved in gold and diamond

At the turn of the 21st century, the suppliers of processing and trading located upstream of the luxury jewellery shop participated in the capital recomposition imposed by financial globalization, the quest for profit margins sufficient to propel stock exchange prices upwards. The key example is Barrick Gold Corporation, a company launched in 1980 and listed on the Toronto Stock Exchange in 1983 and in New York in 1985—the name adopted in 1992 became the symbol of the interbreeding of internal and external growth. Successive purchases of mines, the rise of their productive and beneficial level, a tail-excellent cash flow (539 \$million in 1998), and high gold reserves transformed it into a token of Canadian competitiveness.

Despite the volatility of gold values and that of its market-value (from USD 15.9 billion to 8.6b in 1997, for instance), the firm asserted itself as a big player on the financial markets: it launched successful bids, on Lac Minerals in 1994, Placer Dome (itself the result of the amalgamation of six companies in 1988-2003) in 2005 (\$12,1b Canadian dollars), and reached therefore the first world rank for gold mining in January 2006; then it bought out Rangold Resources (\$6,1b) in 2019, before a hostile bid over Newmont in March 2019 (\$18b). Investment banks couldn’t but be involved in such financial operations, either to achieve the bids, or to complete divestitures: JP Morgan and Morgan Stanley arranged the floatation in London of African Barrick Gold in 2019, which resulted from a spin-off of Barrick Gold. Two financial models can be drawn: “Barrick has historically relied on acquisitions for growth, amassing billions of dollars of debt”, whilst “Newmont in recent years focused on organic growth and financial discipline”<sup>48</sup>—the reactions of the investors constraining Barrick to give up its bid in favour of a joint-venture in Nevada mines.<sup>49</sup>

Investors and asset-managers are companions to the listed gold and diamond companies, the first ten private ones delivering 30 per cent of global output in 2017. Several market-places are in touch, like Toronto (Newmont), Vancouver, Johannesburg or London. Analysts are therefore attentive to the effects of luxury consuming trends, the variations of raw values, the agility of firms: about gold firms’

<sup>48</sup> John Tilak & Ernest Scheyder, “Cultural clash overshadowing Barrick’s Newmont bid”, *Reuters Business News*, 2 March 2019. Hervé Rousseau, “Fusions-acquisitions à répétition dans les mines d’or”, *Le Figaro*, 2 March 2019.

<sup>49</sup> Nichola Saminather & Debroop Roy, “Barrick Gold ends hostile Newmont bid, signs Nevada joint venture”, *Reuters Business News*, 11 March 2019.

issues are cash cost per ounce, market capitalizations, enterprise value divided by resources (available ounces). Investments less debt (amortization), cash, production costs, etc. One must not forget that huge capitalizations are at stake: in 2008-2013, those of Goldcorp varied from \$21.6b to 23, of Barrick Gold from 26.9b to 19.4, of Newmont from 18.2b to 16.1, etc. In 2008, the total capitalization value of the ten leaders reached \$125b. In Canada, as of September 2009, there were twenty companies with a market cap of one billion \$ or more. Numerous specialised media follow such values; and assets managers deliver special reviews to their clients investing in upstream luxury goods: they gauge risks like overall debt (\$30b in 2015, when companies swallowed cash), net assets, volatility, trends and uncertainties about market values and the fluctuations of gold price (as revealed by the index *NYSE Arca Gold Miners*), along a large screen of criteria.

### 3. The issue of finance by family luxury firms (1850s-1960s)

Finance and banking topics were part of the building of luxury firms in contemporary times. The first issue is to scrutinize the financial aspects of the development of family companies from the mid-19th century till today. Beyond design talent, creativity in fashion models, art of connections among high bourgeoisies, perhaps a few financial aspects could be identified, even if a comprehensive study of this topics is till impossible, except through some rare case studies. For instance, *Crédit Lyonnais* complained that “the Chanel house transmits its balance sheet to nobody, even its bankers”,<sup>50</sup> led by *Crédit commercial de France* in the 1950s. But the main point is to gather a short array of conceptual subjects, and, first, how finance was a key leverage of the durability of such societies.

#### A. Missing data: Self-financing ahead

Charles Frederick **Worth**<sup>51</sup> could be crowned one among the first to entertain the Paris luxury place. Advertisement, art and design, intimacy with the Court and the bourgeois and aristocratic *salons*, creation of true *griffe* (signature), capital of reputation were factors of the growth of his house, of its revenues, and of its resistance through four generations, all thanks to high profit margins and self-financing. A second revealing case study might be Jeanne **Lanvin** (1867-1946). Coming from a low-key family, herself a mere worker by some mode craft-shops, she set under own hats business in 1885 in Paris, where she expanded rapidly thanks to her growing sales with a collection for ladies from 1909. Inventiveness and diversification pushed the house upwards till the apex in the 1920s-30s, with a thousand employees, a fashion *griffe*, perfumes (1924), and household adornments. It became the eldest house of French Haute Couture after WWII. But fragmentary data prevent from seizing the financial aspects of such a development: Cash-flows and self-financing might be the most powerful levers indeed.

The **Chanel** case<sup>52</sup> confirms the importance of thick layers of permanent funds. Throughout the 1950s, a large part of profits was piled up as reserves, then transformed into capital, or immediately pumped into the capital. This latter was raised from FRF 4.2 million to 12.6 in June 1946 thanks to the 1945 profits; then to 50.4m in April and November 1949 owing to the 1948 profits; and once more to 100.8m in July 1950 and to 168m on September 1950 through a transfer from the 1949 profits. Then, the reserves fuelled the rise to 200m in October 1952. Two increases were achieved through the bias of reserves: to 300m in December 1956 and to 400m in December 1957.<sup>53</sup>

<sup>50</sup> Note from *Crédit Lyonnais*, 23 November 1943, “Chanel”, Historical Archives of *Crédit agricole SA*, Fund *Crédit Lyonnais*, Financial Studies, 39005.

<sup>51</sup> Chantal Trubert-Tollu, Françoise Tétart Vittu, Jean-Marie Martin-Hattemberg & Fabrice Olivier, *La maison Worth 1858-1954. Naissance de la Haute Couture*, Paris, La Bibliothèque des Arts, 2017.

<sup>52</sup> “Chanel”, Historical Archives of *Crédit agricole SA*, Fund *Crédit Lyonnais*, Financial Studies, 39005.

<sup>53</sup> *Journal spécial des sociétés*, 26 December 1957, *ibidem*.

Considering the balance sheet of *Parfums Chanel* (its name at this time) in 1949 (with assets of FRF 349.5m), it was strongly stabilised owing to a 50.4m capital and 79.7m permanent funds, supplemented by a special reserve of 68.1m and 7.7m in State securities. Profits reached 131.6m, as debts were only of 24.4m, against a stock of goods of 46.6m and customers' debt of 46.6m. Growth could be easily engineered by self-financing, when expansion was focused on France and European customers attending the Paris house, conversely with the swallowing of cash by worldwide expansion at the turn of the 21th century.

## B. Finance at stake by Moët & Chandon

Claire Desbois-Thibault already scrutinized the financial impact of the growth of the champagne house Moët & Chandon.<sup>54</sup> During the 1880-1910s, permanent funds doubled (till FRF 57.7 million: 2.3 percent each year, instead of 7.6 percent in 1833-81), despite important distribution of dividends on a few years. But a policy of reserves complemented such financial policy, with 29m piled up in 1882-1913 thanks to growing profit margins (a total of 85m in 1882-1913): a quarter of them being oriented towards the reserves account. In the meanwhile, a permanent supplier credit policy was entertained with winegrowers and else, causing an elastic level of debt.

Later on, a series of data<sup>55</sup> helps understanding the key role played by permanent funds and their growth to sustain the momentum of growth. Moët & Chandon had transformed itself into a *société anonyme* in 1923, then twice in 1962 after a period of limited-responsibility company (SARL) from 1941, but the family kept its control, with Count Paul Chandon-Moët as chairman and CEO in the 1950s. The company took profit of its properties (331 hectares of planted vineyards) and of its sales; they reached one million bottles in France and 1,5 million on foreign markets in 1950,<sup>56</sup> that is 9.74 percent of the overall sales of champagne (30,2m bottles). That year, the profit account provided an amount of 5.395 millions francs; it was cut into two parts: 2,8m put in the general reserves, and 2,3m distributed as dividends. The key point is thus enhanced: fuelling permanent funds on the long term was the main tool to finance growth and preserve independence—as shown for the whole 1952-62 period.

Table 1. The balance sheet of Moët & Chandon in 1956-62  
(all in thousands francs, then new francs-1960)

	Ratio raw profits/assets	Raw losses and profits account	Profits	Permanent funds and reserves	Long term debts (mortgage loans)	Middle terme debts	Short term debts (mainly suppliers)	Balance sheet: assets	Stock of champagne (gross value, without the legal discount)
1950			79	1.031	7	/	482	2.164	
1951	25.2	694	?	1.031	7	/	338	2.753	2.044
1952	24.5	697	71	1.602	7	/	506	2.844	2.589
1953		?	80	1.645	7	/	355	2.667	2.710
1954		?	98	1.734	7	/	454	2.883	2.833

<sup>54</sup> Claire Desbois-Thibault, *L'extraordinaire aventure du champagne Moët & Chandon. Une affaire de famille, 1792-1914*, Paris, PUF, 2003, p. 278-283. About champagne, see: Yves Tesson, "Champagne, between terroir and luxury, 1945-2014", in Pierre-Yves Donzé & Rika Fujioka (eds.), *Global Luxury. Organizational Change and Emerging markets since the 1970s*, London, Palgrave-Macmillan, 2018, p. 87-107. Steve Charters (ed.), *The Business of Champagne. A Delicate Balance*, London, Routledge, "Routledge studies of gastronomy, food & drink", 2011.

<sup>55</sup> "Maison Moët & Chandon, 1947 à 1955", Historical Archives of *Crédit agricole, Crédit lyonnais* Fund, DEEF 52719/1. "Maison Moët & Chandon, 1956 à 1962", Historical Archives of *Crédit agricole, Crédit lyonnais* Fund, DEEF 64779/2

<sup>56</sup> General assembly of 17 May 1951.

1955		560	100	2.397	17	/	649	3.211	3.154
1956	11.1	572	118	4.132	17	50	824	5.140	3.392
1957	18.6	675	124	2.592	6.2	200	655	3.629	3.474
1958	18.1	949	146	2.846	5.6	450	1 731	5.231	3.848
1959	17.9	1.516	23	6.442	6.1	379	1 575	8.478	4.472
1960	14.9	15.658	1.11	72.3	0.059	4.7	28.1	105.3	75.1
1961	11	12.952	3.6	72.15	0.057	5.5	36.5	117.8	86.35
1962	12.1	16.073	5.4	80.73	0.055	4.5	41.8	133.1	95.6

### C. A few comparative studies of luxury finance

Even if a comprehensive study about financial issues is direly missing, one can understand that producing profit margins, self-financing flows, and prudent reserves is the second mission of a luxury house, beyond conceiving seducing goods (see tables 1 & 2). As said Bernard Arnault (from LVMH), “what’s lure me is the idea to transform creativity into profitability”.<sup>57</sup>

Table 2. A comparison between a few luxury houses confirm this dependence on gross and operating margins and net income in 2000

	Sales (\$billion)	Net income (\$million)	Gross margin	Operating margin
Armani	1	113	66.3 %	18.7%
Gucci	2.3	340.3	65.8	14.4
LVMH	10.9	678	68.2	16.9
Polo Ralf Lauren	2	59.3	41.4	-1.3

Source: Richard Heller, “Armani the indispensable”, *Forbes*, 12 November 2001

The case of Hermès does confirm the mix of profitability, thick permanent funds, self-financing of investments to prop up growth and independence.

Table 3. Hermes financial data in 2002-2017

(million euros)	Turnover	Operational results	Net profit	Net treasury	Self-financing capacity	Investments	Permanent funds	Equity	Return on capital employed (ROCE) (%)
2002	1.242	320	215.5	375	273	102	979,5	/	25
2003	1.230	332	217	484	259	94	1.095	721	23
2004	1.331	336	214	535	292	119	1.216,5	873	25
2005	1.427	383,5	247	584,5	306	118.5	1.380	921	27
2006	1.515	415	268	536	322	134	1.409	912	26
2007	1.625	424	288	485.5	357	156	1.460	934	25
2008	1.765	449	290	432	379	160	1.588,5	1.049	22
2009	1.914	463	288	576	401	207	1.790	1.184	21
2010	2.400	668	421	828,5	571,5	154	2.150	1.397	32
2011	2.841	885	594	1038	723	214	2.313	1.719	42
2012	3.484	1.118	740	686	885	370	2.344	/	46
2013	3.755	1.218	790	1.021	1.016	232	2.826	/	41
2014	4.119	1.299	859	1.494	1.049	322	3.449	/	43
2015	4.841	1.541	973	1.614	1.218	267	3.742	/	45
2016	5.202	1.697		2.345	1.439	285	4.383	/	49
2017	5.549	1.922		3.050	1.598	270	5.039	/	57

Source: Hermès annual reports

<sup>57</sup> Quoted by Yves Michaud, *Le nouveau luxe*, op. cit., p. 69.

The Richemont group also epitomizes the connections between growth, operating profit, and production of cash flow: its performance in March 2017-March 2018 kept with the path followed through its recent history: gross profit (\$7.150b=65.8%), operating profit (\$1.844b=a 16.8 percent margin), against a 11b turnover; and an increase of cash flow from \$827m in 2017 to 2.723m in 2018). This allowed a net cash disposal reaching \$5.3b in March 2018, after 5.8 in March 2017.<sup>58</sup>

#### D. Financial shortages and the risk of over-endebtment

Another key issue was the continuity of family property, the cohesion of heirs in order to retain control of capital, even though their company must invest in commercial network, in diversification channels. Routine self-financing capacity might no longer be sufficient, whereas own funds might be too small. A drift towards too much debt could therefore take place, as is the case with **Lanvin**. This society resisted for four generations: Jeanne's daughter, Marie-Blanche, both owner until her death in 1958 and stylist; Bernard Lanvin, a grandnephew of Jeanne, and his wife, stylist Maryl, kept control until the late 1980s. "Financial difficulties" aroused which hindered growth; but little is known about their causes: too strong competition? Insufficient margins? Lack of elasticity or differentiation to globalize the brand? In any event, Midland Bank International came to the rescue and took 34%, then 40% of the capital in 1989.

But this capitalistic and probably banking anchor was not enough to guarantee success: it was therefore the strategic and managerial failure and a bank overload that explained the end of family status and the financial shift towards groups: Orcofi (Louis Vuitton family), in 1990, and finally L'Oréal, which increased its share in 1990-96 and refocused Lanvin on perfumery and abandoned the luxury of other activities, until the 2001 buyout by investors who then dislocated the first one, before the *haute couture* was taken over by Chinese Fosun in 2018. "The auditor had alerted the Paris Commercial Court about the company's critical situation [...], forcing the Taiwan group to look for ways to recapitalize, in order to cope with its liquidity difficulties"<sup>59</sup>, and to cumulative net losses of 55 million in 2015-17: a hundred million euros were to be found.

One lesson will be learned: reliance on bank credit became critical when the brand did not have enough strength to secrete sufficient revenues and margins; this fragility of the financial base justified calling for investors. In the 1920s, for example, Georges Aubert, a banker and international trade specialist, placed his fortune in houses of Paris *haute couture*: Germaine Patat, Paul Poiret, Georges Dœuillet, Jacques Doucet<sup>60</sup> in 1925 (merged into Dœuillet-Doucet, till the close-down in 1937), Maison Agnès and Drecoll & Beer (gathered into Agnès-Drecoll en 1930). But his death in 1933 destabilized these houses, if which a few survived nonetheless. Any creator (and sometimes collector and artist) had to rely on one or more investors at a stage in the history of his or her home, whether they were individuals with capital or capitalist partners. If Frédéric Boucheron managed his jewellery house in Paris in 1858-1902, and if his descendants took over the business, in 1994, the family business shifted to a more global approach with its selling out to Schweizerhall, then Gucci and later on Kering.

#### E. Joining financial markets

Worldwide investments demand thick lines of permanent funds. Today some houses choose to use IPOs rapidly: José Neves brought his Farfetch platform (a digital luxury company distributing high-

<sup>58</sup> Richemont annual report for the 2017-2018 year [www.richemont.com/investor-relations/reports.html].

<sup>59</sup> Victoria Adam, "Haute couture : le chinois Fosun au secours de Lanvin ?", *Boursier.com*, 12 February 2018.

<sup>60</sup> See: François Chapon, *Mystère et splendeurs de Jacques Doucet, 1853-1929*, Paris, JC Lattès, 1983.

range fashion) on the NYSE in 2018 with a value of \$7 billion. But that was also the case since the take-off of big-wigs: “The date of the enterprises’ initial public offerings (IPO) is a good sign of their transformation into big businesses. For family firms, as was the origin of many luxury companies, going public allowed them to enlarge capital to support their reorganization and expansion into global markets. It expresses a fundamental change in the management of luxury business and in the organizational structure of the industry [...]. IPO was often chosen as a way to fund the capital necessary for M&A and for the opening of new stores throughout the world.”<sup>61</sup>

“The IPO’s dates of the 25 largest luxury companies in 2013 show clearly that the 1980s were a turning point at that large French luxury groups became the benchmark of the industry. Of these 25 firms, only three were not listed in 2016 (Giorgio Armani, Rolex and Swarovski). In 1980, only five companies were already traded in stock exchanges (Chow Sang, Coty, L’Oréal, PHV and Shiseido) [...]. Then, during the 1980s, six new companies entered stock exchanges, among them three general luxury companies which dominate the industry today: LVMH (1987), Richemont (1988) and Groupe Pinault (1988, today Kering). Next, six companies were listed in the 1990s (Estée Lauder, Hermès, Lao Feng Xiang, Luk Fook, Luxoticca and Ralph Lauren) and five after 2000 (Burberry, Chow Tai Fook, Coach, Michael Kors and Prada.”<sup>62</sup> More recently, so many SMEs gathered momentum in the luxury markets through their brand image and skills that they propped up stock exchanges when they got listed—as in US jewellery: these upstarts became thus targets for M&A operations, both stages livening up bank advisors.

#### 4. Capital at stake

A determining basis for the durability of luxury companies is their capital itself. Either they broadened efficiently this socle, or they might be submitted to offensive bids and dismantles.

##### A. Successes: Stable capital

On one side, family business could prove its resistance, as for **Chanel**. When the fashion society staggered at the start of the 1980s, Alain and Gérard Wertheimer pondered the feasibility of a renewal instead of a cession. They managed the legacy of Pierre and Paul Wertheimer, the owners of *Parfums Bourjois*, who had been associates to Gabrielle Chanel for her perfumes since 1924 and the purchasers of the capital of Chanel SA after the merger of Chanel fashion and perfumes in 1954. This led to the recruitment of Karl Lagerfeld in 1982, a choice that confirmed their will to stick to the family business profile.<sup>63</sup> But no financial data had been available<sup>64</sup> till the 2017 year, when Chanel Ltd (the financial head of the group instead of New York since 2018, in parallel with Chanel International BV, a holding controlling since 2014 Chanel SA and a little hundred of affiliates) revealed its consolidated operational profit of \$2.7 billion in front of a turnover of 9.6b...

The same track of stability has been followed by **Hermès**. With the day to day support of its three bankers (in 1990: BNP, BFCF, Hottinguer), the group diversified through vertical integration (like the purchase of the Lyon silk companies Perrin and AS), and through diversification of products and brands<sup>65</sup> (1989: *Cristalleries de Saint-Louis*, in Lorraine; April 1990: Jean-Louis Scherrer, with the

<sup>61</sup> Pierre-Yves Donzé, “The birth of luxury big business: LVMH, Richemont and Kering”, in Pierre-Yves Donzé & Rika Fujioka (eds.), *Global Luxury. Organizational Change and Emerging markets since the 1970s*, London, Palgrave-Macmillan, 2018, p. 19-38; here: p. 20.

<sup>62</sup> *Ibidem*, p. 19-20.

<sup>63</sup> Juliette Garnier, “La maison Chanel en deuil du Kaiser”, *Le Monde*, 21 February 2019.

<sup>64</sup> Thiébauld Dromard, “Les Wertheimer aussi riches qu’invisibles”, *Challenges*, 10 July 2014, n° 397, p. 44-48.

<sup>65</sup> “Hermès” file, Historical archives of *Crédit agricole*, Fund *Crédit lyonnais*, 91AH123.



Seibu group, which distributed Hermès in Japan). In the meanwhile, Hermès launched a policy of developing its network abroad. But it succeeded in defining a strict financial strategy, which allied vigorous internal growth, huge profits, and reinvestment of 90% of these latter: “The policy of opening foreign shops (thirty in two years) was almost entirely self-financed. The endebtmnt of Hermès is neglectable.”<sup>66</sup>

Later on, the same topics could be detected: Despite a rapid growth under manager Patrick Thomas, its turnover jumped from €1.23b in 2003 to 3.48 in 2012, when the leader of the sixth generation Axel Dumas became head manager. Why such an exception? The net result tripled in a decade to reach 740m in 2012, whilst the self-financing capacity amounted to 885m. The strategy of identity (climbing towards more luxury) was the springboard for the financial strategy (broadening profit margins, with an operation margin of 32 percent in 2012). Family business was pervasive: the descendants were still holding the control of 70 percent of the capital. The “civil society” Émile Hermès had been transformed into a limited partnership society (*société en commandite par actions*) in July 1989, the SARL (society with limited responsibility) downwards being the “*commandité*”. It expressed the desire to cement the control over the house before a future flotation, which was achieved in 1993.

A large majority of descendants stuck to their faithful commitment to the family basis, thus resisting the offensive launched by LVMH,<sup>67</sup> which seduced only a minority. In the fall 2010 its head Bernard Arnault seized the opportunity of the retirement of the manager of Hermès Jean-Louis Dumas in 2006, then of his death in May 2010. As a number of 52 inheritors were bearing the familial participation, B. Arnault bet that he might seduce part of them. He convinced Nicolas Puech-Hermès to sell his package (about 6 percent) through his Swiss wealth manager Éric Freymond.<sup>68</sup> In parallel, a discreet operation to pick up *Hermès* securities in direct on the Stock Exchange succeeded to collect 17.1 percent of the capital (October 2010), then 22.3 percent (January 2013), with an average price of €85.

Experts proved afterwards that LVMH was hidden under the coverage of portage societies,<sup>69</sup> which was denounced by the *Autorité des marchés financiers*. Rothschild, Lazard and business lawyer Bredin-Prat conceived such background processes: LVMH subsidiaries in Luxemburg and Delaware (5 percent), an Irish subsidiary of Natixis, the investment bank of *Caisse d'épargne* group (4.7 percent), *Société générale* (4.5 percent), *Crédit agricole* (through two funds: 3 percent)<sup>70</sup> got packages through “swaps” operations, permanent renewable promises of purchases (*equity swaps*) as fluid assets, that ended being actually bought by LVMH in June-October 2010. Anyway, the 51 other family holders accepted to keep their stocks for twenty years: they brought them to the financial holding H51 created on 14 December 2011, with 51 percent of the capital. The fifth and sixth generations unify to block LVMH’s offensive.<sup>71</sup> Suits occurred in 2012 which ended with an agreement: LVMH sold its stake with a profit of €1 billion. “Grey shades of capitalism” were reminded through that financial case on

<sup>66</sup> Nadège Forestier, *Le Figaro*, 17 April 1990. See: Susan Adams, “Inside Hermès: Luxury’s secret empire”, *Forbes*, 8 September 2014.

<sup>67</sup> Hubert Bonin & Bertrand Blancheton, *Crises et batailles boursières en France aux XX<sup>e</sup> et XXI<sup>e</sup> siècles*, Geneva, Droz, “Publications d’histoire économique & sociale internationale”, 2017.

<sup>68</sup> Nicole Vulser, “Nicolas Puech-Hermès, le meilleur allié de Bernard Arnault”, *Le Monde Économie & entreprise*, 19 May 2013, p. 3.

<sup>69</sup> Nicole Vulser, “Le plan très secret de LVMH pour entrer chez Hermès”, *Le Monde Économie & entreprise*, 19 May 2013, p. 3. Grégory Raymond, “Affaire Hermès-LVMH : tout comprendre sur le montage financier de Bernard Arnault”, *Le HuffPost*, 31 May 2013; 5 May 2016.

<sup>70</sup> Mathieu Pechberty, “LVMH-Hermès : les trois banques françaises qui ont aidé à l’offensive”, *La Tribune*, 12 November 2010.

<sup>71</sup> Ivan Letessier, “Hermès : la sixième génération monte en première ligne face à LVMH”, *Le Figaro*, 5 June 2016, p. 18.

the Paris Stock Exchange.<sup>72</sup> But the family members' fidelity was rewarded as the value of the *Hermès International* share grew up to a capitalisation of €56b in June 2018 when it was admitted to the *CAC40* index, rejoining LVMH, L'Oréal and Kering.

Italy also faced tensions in the family capital of luxury companies. A stimulating case study is **Armani**: in 2001, "having avoided expensive brand acquisitions, the company had \$300 million in cash at the end of last year. Armani owns almost 100% of it. His net worth is conservatively estimated at \$1.7 billion"<sup>73</sup>, whereas he founded his society with \$10,000 in 1975. He used part of his cash to purchase semi-industrial suppliers upstream and distributors downstream. Thus, at the age of 83, in 2017, Giorgio Armani created a foundation in order to stabilize the control of his Milanese company (dating from 1975) in order to avoid its dismantling after his death.<sup>74</sup>

The **Prada** family (head-manager Patrizio Bertelli and his spouse Miuccia Prada) was tempted in 2007-8 to sell part of its capital, either on the stock exchange or with investors in the Middle East. It joined the Hong Kong stock exchange in 2011, intending to lure Chinese investors, close to a market of luxury which grew strongly: it raised then \$2.14b (16.5 percent of its new capital),<sup>75</sup> altogether to finance its Asian development and to alleviate the load of debt. Raising funds on the international market while keeping the Italian anchor seemed a relevant equation.

## B. Capital at stake: Failures

Conversely, the De Chambrun family, which controlled Baccarat<sup>76</sup> since the marriage of Joseph de Chambrun with the lady Godard-Desmaret inheriting *Cristallerie de Baccarat*, in 1853, ended selling its stake to the **Taittinger** group in 1989; the Fondation Josée-&René-de-Chambrun had concluded that it had no more the financial dimension to fuel the renewal of the luxury company. Later on, on their side, the Taittinger themselves, who had accompanied the champagne firm launched in 1932 agreed to sell their shares to US investment fund Starwood in 2005 (€2.5b).

Despite luxury nuggets in hotel business and crystal, the diversification towards middle-range activities (hotels, perfume) revealed as cash swallowing: pumps of self-financing lacked efficiency. But, conversely, the family could rely on French bank *Crédit agricole* to take profit of the disinvestment by Starwood of Taittinger champagne, which came back under the familial umbrella—before, on its side, Starwood dismantled the group by selling its jewels to worldwide investors. *Crédit Agricole du Nord-Est*, the sixth Regional *Caisse* of the *Crédit agricole* group, drew from its corporate banking tool box, in association with the *Caisse nationale*, and redeemed Taittinger, the seventh world champagne producer, for €660m, almost urgently in order to preserve this French heritage. Then it designed a financial arrangement in order to transfer it to the Taittinger family in December 2007.<sup>77</sup>

Such fluidity of the family capital was to be found by Italian fashion house **Fendi**, created in 1925. If the second generation kept hold since 1946, the second (five daughters) and third generations (11

<sup>72</sup> Werner Seifert, *Invasion of the Locusts. Intrigues, Power Struggles, and Market Manipulations*, Berlin, Ullstein Tachensbuch Verlag, 2007.

<sup>73</sup> Richard Heller, "Armani the indispensable", *Forbes*, 12 November 2001.

<sup>74</sup> Christopher Moore & Stephen Doyle, "The evolution of a luxury brand: The case of Prada", *International Journal of Retail & Distribution*, 2010, volume 38, n° 11-12, p. 915-927.

<sup>75</sup> Elzo Barreto (*et alii*), "Prada prépare une IPO de 2,6 milliards de dollars à Hong Kong", *L'Usine nouvelle*, 6 June 2011.

<sup>76</sup> Dany Saulot, *Baccarat, une manufacture française*, Paris, Massin, 2003.

<sup>77</sup> "Avec l'aide du Crédit agricole du Nord-Est, la famille Taittinger devrait garder son champagne", *Le Monde*, 30 May 2006. "La vente du champagne Taittinger au Crédit agricole finalisée", *Challenges*, 31 July 2006. "Champagne Taittinger : la famille reprend le contrôle", *Les Échos*, 17 December 2007.

children) ceded the control to LVMH in 2001. Beyond their divisions, they estimated that high-levelled net income, assets and revenues were not sufficient to consolidate the financial basis confronted to globalised backgrounds.

Another family put its assets into consideration when **Bulgari** joined LVMH too<sup>78</sup>: it perceived that its financial basis could no longer guarantee enough forces to develop the brand.<sup>79</sup> When he pondered why no huge group emerged in Italy, like Kering, LVMH or Richemont, J.-N. Kapferer underlined the profile of several main luxury families in Italy: “People like Diego Della Valle, Francesco Trapani or Domenico De Solo (by Gucci) are immensely talented to develop their brand on foreign markets, but not to manage groups rich with several brands and sectors”,<sup>80</sup> as it would require to tackle with the art of finding out efficient financial tool-boxes to pick up capital. And J.-N. Kapferer seized on the issue here debated: “The necessary support of financial markets”<sup>81</sup>: they asserted themselves as the main source to finance the international and commercial strategy of development. “If Bulgari had been listed since 1995, its constant needs of financings put brakes on its expansion” and big groups get a more easy access to investors. Another Italian company, **Versace**, had to marry Michael Kors group in 2018, even if stylist Donatella Versace remained on charge: it could not finance by itself the extension of the international shops network.

But J.-N. Kapferer complemented his development by reminding that the issue of capital has to be balance by the issue of brand-image. Indeed, for a luxury brand, it is one thing to receive money from an investment fund, but it is another thing to receive money from LVMH or another luxury group. The latter includes the principles of a true luxury strategy, which is not the case of an investment fund. These groups are not only sources of funding and cash; they also bring skills, expertise, synergies, talents, institutional support and, above all, are generous in terms of time. No financial fund can give the time it takes to build prestigious brands [...]. B. Arnault gave ten years to *Christian Lacroix* to take off. On the contrary, the Swedish fund EQT Partners, which bought Vertu in 2012, resold it in 2016 to another fund, based in Hong Kong, Godin Holding. »<sup>82</sup>

## 5. Investment banking to build luxury groups

Case studies and overall analysis will help to cover a range of issues about the building, diversification, and growth of luxury groups from the 1970s till today. The financing of this trend will draw attention, thanks to the scrutinising of balance sheets and the banking involvement. The design of strong brands, competitive edges, and capital of reputation enticed luxury firms to build internationalised groups, for instance in Italy, France, the UK or the US. Strategies were engineered either at the name of economic patriotism, to resist competition, or to dispose of leverage forces to develop internationalisation through mutualised commercial and financial tool-boxes. Then the move towards the transnationalisation of luxury items pushed companies into a trend of cross-border amalgamation, were there family-owned, broadly open to financial markets, or controlled by finance investors. “Their practices became those of financial capitalism”,<sup>83</sup> mainly because of the move towards “the industrial production of luxury”.<sup>84</sup> The development of assets demanded sources of

<sup>78</sup> Jean-Noël Kapferer & Olivier Tabatoni, “The LVMH-Bulgari agreement: Changes in the luxury market that lead family companies to sell up”, *Journal of Brand Strategy*, 2012, 1, n° 4, p. 389-402.

<sup>79</sup> “L’acquisition de Bulgari : un modèle pour les entreprises familiales ?”, in Jean-Noël Kapferer, *Luxe. Nouveaux challenges, nouveaux challengers*, Paris, Eyrolles, 2016, p. 219-221; 225.

<sup>80</sup> *Ibidem*, p. 220.

<sup>81</sup> *Ibidem*, p. 236-238.

<sup>82</sup> Jean-Noël Kapferer, *Luxe. Nouveaux challenges*, op. cit., p. 229.

<sup>83</sup> Yves Michaud, *Le nouveau luxe*, op. cit., p. 72.

<sup>84</sup> *Ibidem*, p. 63.

permanent funds and treasuries thanks to processes of some kinds of financialisation, which required frequent and large calls to financial markets. A balance between money supplying and the preservation of the control over property had to be empirically found, sometimes source of fragility. Moreover, some companies were weakened by bad strategies, commercial failures or crisis of trust.

Whatever the causes, opportunities were therefore offered to heads of finance and bankers to organise offensive or negotiated operations to weave diversified and reinforced groups, rich with brands and multinational offshoots. Battles on stock exchanges also occurred, with success or not. Despite the high-range positioning of luxury groups, they had to join somewhat the fray of “commoditisation” like commonplace industrial or services groups, and to be involved in huge operations on financial markets. They could anyway rely on bunches of banks able to help them through the specialists at departments of commercial and investment banking. The building of national luxury groups demanded financial infightings to impose amalgamation required by the strategies of diversification and international development, in order to mutualise expenses and balance assets. For instance, Michel Dyens & C° specialised on luxury operations from New York and Paris (Boucheron sold to Gucci in 2000, jeweller Harry Winston to Aber Diamond Corporation in 2004, Hublot to LVMH in 2008, etc.), as did Vendôme Global Partners, from New York, a boutique “which is specialized in mergers, acquisitions and sales in the luxury sector”.<sup>85</sup>

Big banks entertain specialised teams of investment bankers, as “lead financial advisers”, whose names appear then in the business community or *Dealogic* review, as experts of tailor-made operations<sup>86</sup> (personal advising, business valuation, strategic consulting services, etc.). They have a deep understanding of the evolution and challenges of the industry and are able to conduct a strategic dialogue with their clients and to propose an advisory and financing offering adapted to their specific needs. Goldman Sachs and JP Morgan advised Michel Kors in 2017 on the acquisition of the UK shoemaker Jimmy Choo, itself working with Bank of American-Merrill Lynch and Citigroup, which reaffirms the status of US banks (like Morgan Stanley) as the go-to advisers for consumer companies looking to carry out capital markets and M&A deals in Europe. Big operations fostered active communities of engineering contracts.

From the turn of the 2010s, beyond the support of investment funds, bankers were mobilised to complete negotiations about middle-sized companies,<sup>87</sup> aimed by bigwigs or investors,<sup>88</sup> or wishing to preserve their independence. Ancient companies (Tiffany, Chopard, Fabergé), “young turks” or upstarts are ever gauged as targets by investors and bankers,<sup>89</sup> igniting markets.<sup>90</sup> The upsurge of new holdings (US Michael Kors, Paris Renaissance Luxury Group, Chinese ones, etc.) also opened doors to a new cycle of operations.

Even peaceful moves relied on financial advice by bankers and lawyers. The fate of **Cartier** revealed for instance as a fully negotiated process. Owned by French industrialist Robert Hocq and financier Joseph Kanoui since 1972, “the development of Cartier required more capital. Their new owners turned to Anton Rupert, a major entrepreneur and investor in South Africa, who wanted to diversify

<sup>85</sup> Jean-Luc Adam, “The background to China Haidian’s acquisition of Corum”, *Europa Star*, 3 May 2013.

<sup>86</sup> “Richard Morgan: Accompagner les acteurs du luxe sur leur marché est une mission sur-mesure”, *Le Journal de l’économie*, 27 June 2016 [he was financial adviser by BNP Paribas].

<sup>87</sup> Mimosa Spencer, “Smaller deals seen fuelling luxury M&A”, *Vendôme Global Partners*, 8 August 2017.

<sup>88</sup> See the case of Richemont: Imrad Ahmed, “The secret deal to merge Net-a-Porter with Yoox”, *The Business of Fashion*, 19 January 2016.

<sup>89</sup> Lauren Sherman, “Top 10 M&A targets in jewellery”, *Vendôme Global Partners*, 7 December 2017.

<sup>90</sup> Miles Socha & Joelle Diderich, “M&A players ogling contemporary brands”, *Vendôme Global Partners*, 3 January 2014.

his assets. He took over Cartier in 1988<sup>91</sup> (first operation). Then, Rupert set up the holding firm Richemont which was listed in Zurich, Switzerland (second operation), the family keeping special voting rights and the overall control. Richemont got divested of its media and tobacco sectors (three operations in 2000-2008); and it focused then onward on luxury (through Vendôme Luxury Group in 1993) thanks to a strategy of purchasing renowned brands (Cartier, Piaget, etc.).<sup>92</sup> P.-Y. Donzé recounted nine operations in 1988-2000, then seven one in 2006-2015, with luxury assets jumping from €5.2b in 2004 to 20b in 2016. Each operation is supposed to involve investment bankers to engineer them relevantly on both sides of partners.

## 6. The building of the Arnault group

Two men have symbolized the role of stock exchange battles as a lever for the federative restructuring of parts of a changing economy towards the third industrial revolution and what has been called the “post-industrial revolution”. Bernard Arnault and François Pinault were at the same time businessmen, financial creators and industrial captains. They have sometimes been perceived as formidable financiers, in the negative sense of the term, business brewers ready for anything, as Robber Barons worthy of the United States at the turn of the 20th century. Today, despite their financial and relational omnipotence, their entrepreneurial spirit, their contribution to the remodelling of French capitalism, the competitiveness of a country shaken by the crisis of restructuring and transition from the second to the third industrial revolutions and the sectoral repositioning of the European economy.

Just before the 1989 law forcing any investor wishing to raise more than one third of the capital of a target company to a public offer, the Arnault group, supported by outstanding legal advice and the business bankers of Lazard, succeeded in triumphing over one of the most beautiful stock battles of this end of century. Called as a “white knight” to help the boss of Moët-Hennessy achieve the merger with Louis Vuitton, he ended up mobilizing several “trundle companies” (a chain of holding companies mobilizing co-investors) to take control of Moët-Hennessy-Louis-Vuitton (LVMH)<sup>93</sup> in 1988-89.

### A. Moët-Hennessy-Louis Vuitton: from triumph to target

B. Arnault became the key player in magnificent stock market operations that lead to the creation of a high-end giant and French-style luxury,<sup>94</sup> Moët-Hennessy was logically constituted within the concentration movement of a part of the French wine and liquor industry, facing the competition of European groups (Bacardi, etc.) and transatlantic whose construction had accelerated. Marketing, the management of a portfolio of brands and the animation of mutualised commercial networks allowed to attract and conquer consumers of middle and upper classes attracted by high-end and luxury,<sup>95</sup> in the context of a relative massification of these famous and even historical brands, such as

<sup>91</sup> Pierre-Yves Donzé, “The birth of luxury big business”, *op. cit.*, p. 26-27.

<sup>92</sup> Corinne Tissier, “Richemont : la boîte à bijoux”, *La Lettre de L'Expansion*, 24 December 2018.

<sup>93</sup> See: Claude Vincent & Philippe Monnin, *Guerre du luxe, l'affaire LVMH*, Paris, Éditions François Bourin, 1990.

<sup>94</sup> To oversee the issues, see: Alain Chatriot, “La construction récente des groupes de luxe français: Mythes, discours et pratiques”, *Entreprises & Histoire*, 2007, n° 46, p. 143-156. Pierre-Yves Donzé & Ben Wubs, “LVMH : Storytelling and organizing creativity in luxury and fashion”, in Regina Lee Blaszczyk & Véronique Pouillard-Maliks (eds.), *European Fashion: The creation of a global industry*, Manchester, Manchester University Press, “Studies in Design & Material Culture”, 2018. Patrick Eveno, “La construction d'un groupe international, LVMH”, in Jacques Marseille (ed.), *Le luxe en France, du siècle des Lumières à nos jours*, Paris, Association pour le développement de l'histoire économique, 1999, p. 291-321.

<sup>95</sup> See: Stéphane Marchand, *Les Guerres du luxe*, Paris, Fayard, 2001.

Hennessy (since 1765). In a first stage, the champagne producer Moët & Chandon and the cognac manufacturer Hennessy had gotten closer in 1971, and their boss, Alain Chevalier, therefore appeared to be a kind of leader in this concentration movement in France.<sup>96</sup>

For his part, Henry Racamier had begun in 1977, at the age of 65, at his retirement as a high manager, a new life: indeed, his wife, Odile Vuitton, one of the great-granddaughters of the founder, was shareholder of Louis Vuitton, with five cousins. At the time, “the business employed 70 people and had a total of two stores. Its turnover does not exceed the equivalent of ten million euros [...]. To awaken the sleepy beauty, the new boss started from one observation: it was in the retail sale that he could earn money. To the turnover of the factories he intended therefore to add the margins of the distribution, selling the homemade productions in his own stores. Over a decade, Vuitton had built a network of more than 100 stores, especially in Japan and the United States. It remained to make Vuitton a great international luxury brand, to transform its monogram canvas a little sad into an emblem recognized worldwide [...]. This was achieved by Racamier, helped by his son-in-law, the publicist Jean-François Bentz. Together, they endowed Vuitton with a powerful image, notably by sponsoring the America’s Cup. Result: in 1989, Vuitton had a turnover of [equivalent] €690 million [...], enough to satisfy the stock exchange, where the company has been listed since 1984 [...]. Racamier launched Vuitton on the path of diversification. In 1986, he made his first steps in champagnes and perfumes by buying Veuve Clicquot and its subsidiary Givenchy”.<sup>97</sup> Then, on June 3, 1987, at the Paris hotel *Plazza-Athénée*, Chevalier and Racamier announced the creation of LVMH: to alcohols were added ranges of leather products that had become illustrious among the rich travellers.<sup>98</sup>

## B. The financial ambitions of strategist Bernard Arnault

However, a crisis erupted quickly: beyond the misunderstanding between the two co-bosses, hence recurrent personal tensions, the overall leadership was at stake, as well as the future of the families that had accompanied the growth of brands for decades. In his fifties, Chevalier represented a new generation facing a seventy-year-old Racamier. A careful and subtle observer could therefore note how fragile was the balance established in the management and ownership of LVMH.

Relying on his own successes, entrepreneur B. Arnault asked Chevalier to combine LVMH and his own brands to reach a diversified firm (alcohols, fashion, leather, perfumes). Himself dreamed of adding the subsidiary *Parfums Christian Dior* to the homonymous sewing brand *Christian Dior Couture* that he owned since the purchase of textile group *Boussac-Saint frères*. Such a move would be a powerful lever in the race for internationalization and profitability. Faced with Chevalier’s refusal, B. Arnault planned an offensive. On the one hand, he partnered with the British liquor group Guinness, solid in beer and already co-manager of the international distribution of LVMH, which provided it an effective striking force. On the other hand, he managed to put Racamier on his side, in a double tactic of circumvention to oust Chevalier and to seduce family shareholders. It set up a tool company, called a “shell company”, to buy back LVMH shares. Within a few months, it managed to raise more than 40% of the shares, at a relatively low price, of the luxury group, purchased for a modest price.

<sup>96</sup> See: Nicole Vulser, “La mort d’Alain Chevalier, cofondateur du groupe LVMH”, *Le Monde*, 8 November 2018. Laurence N’Kaoua, “Alain Chevalier, un des deux fondateurs de LVMH, est mort”, *Les Échos*, 4 November 2018.

<sup>97</sup> Denis Cosnard, “Disparition d’Henry Racamier, l’un des fondateurs de LVMH”, *Les Échos*, 1<sup>er</sup> avril 2003. See: EuroRSCG, *Louis Vuitton. L’art de traverser le temps*, commissioned booklet, Paris, Louis Vuitton, 1996; Historical archives of Crédit agricole, HEN268.

<sup>98</sup> Valérie Leboucq, “1987 : dès le berceau, LVMH s’entoure de marques prestigieuses”, *Les Échos*, 8 July 2014.

“When the stock market crash of October 1987 caused its stock exchange rate to fall, LVMH became quite fragile, especially since capital was not locked. A man understood it well: B. Arnault. At the end of 1987, this impatient financier, the buyer of Boussac and Dior, began to secretly collect LVMH shares. A few months later, when Racamier began to look for an ally to counter the rise of Guinness, Arnault seemed to be the ideal candidate [...]. Without knowing it, Vuitton’s boss actually introduced the wolf into the fold. In a few months, B. Arnault, associated with Guinness, will take power at LVMH. He alternately joined with one another, played disagreements between Knight and Racamier, and eventually ousted both. Chevalier, who was not a shareholder, gave up the first.”<sup>99</sup>

“In the summer of 1988, B. Arnault, which meanwhile joined forces with Guinness [in order to guarantee the joint management of the international distribution network], bought 24% of LVMH’s capital, with the support of Lazard and *Crédit Lyonnais*. The businessman also collected bonds convertible into shares (OBSA) issued by Moët just before its merger with Vuitton. With these hybrid securities, Arnault and Guinness actually held 43.5 percent of LVMH. In September, B. Arnault announced his position as first shareholder. The Moët and Hennessy families rallied to him; Chevalier was to cede to him the presidency of the executive board on 11 January 1989. On the other side, the Vuittons with 24 percent of the capital, but 30 percent of the votes thanks to double votes, would fight for two years to try to get the questioned OBSA cancelled.”<sup>100</sup> “Racamier continued the battle in court. For a year, the war was bloody. Gun passes in public, private algarades, newspaper attacks, investigation by the Stock Exchange supervisor [...]. Some internal meetings could only be held in the presence of a bailiff. To get information about Racamier, B. Arnault even used the detectives of the Kroll agency. Racamier claimed to defend a certain business ethic. In April 1990, however, the Court of Appeal confirmed the validity of the titles by which B. Arnault took control of LVMH. Racamier had to bow down.”<sup>101</sup>

After many legal adventures, B. Arnault officially became the head of LVMH in April 1990.<sup>102</sup> “Hated by some for his “attacks as a hussard”, his “pathology of acquisition” and/or of “deceit”; respected by others for his “brilliant intelligence”, “insatiable requirement”, “virtuosity in business”,<sup>103</sup> he achieved a splendid art of handling secrecy, cunning and alliances in one of the greatest and most arid stock exchange battles of the late 1980s. B. Arnault was consecrated as a “predator”<sup>104</sup> in the line of the famous North American Robber Barons of the turn of the 20th century,<sup>105</sup> or also “exterminator angel” of luxury.<sup>106</sup> Anyway he relied on investment bankers, treasury reserves, and

<sup>99</sup> Valérie Leboucq, “1987 : dès le berceau, LVMH s’entoure de marques prestigieuses”, *Les Échos*, 8 July 2014.

<sup>100</sup> *Ibidem*.

<sup>101</sup> Denis Cosnard, “Disparition d’Henry Racamier, l’un des fondateurs de LVMH”, *Les Échos*, 1st April 2003.

<sup>102</sup> Jean-Jacques Chiquelin, “L’adieu au manager. Alain Chevalier, président de Louis Vuitton-Moët-Hennessy, passe la main à Bernard Arnault, qui devient maître absolu du numéro un mondial du luxe”, *L’Obs-Économie*, 19 January 1989.

<sup>103</sup> Colombe Pringle, “Portrait intime d’un homme secret”, *L’Express*, 24 June 1999.

<sup>104</sup> Michel Villette & Catherine Vuillermot, *Portrait de l’homme d’affaires en prédateur*, Paris, La Découverte, 2005.

<sup>105</sup> Hal Bridges, “The Robber Baron concept in American history”, *Business History Review*, Spring 1958, volume 32/1, p. 1-13. Matthew Josephson, *The Robber Barons: The Great American Capitalists, 1861-1901*, New York, Harcourt, Brace, Jovanovich, 1934. John Tipple, “Anatomy of prejudice: Origins of the Robber Baron legend”, *Business History Review*, 1959, volume 33, n° 4, p. 510-523. Burton Folsom, *The Myth of the Robber Barons: A New Look at the Rise of Big Business in America*, Hemdon (Virginia), Young’s American Foundation, 6th edition, 2010 (first edition in 1987).

<sup>106</sup> Airy Routier, *L’ange exterminateur : la vraie vie de Bernard Arnault*, Paris, Albin Michel, 2003. Also see: Nadège Forestier & Nazanine Ravai, *Bernard Arnault ou le goût du pouvoir*, Paris, Olivier Orban, 1990. *Bernard Arnault, la passion créative*, interviews with Yves Messarovitch, Paris, Plon, 2000. Jean-Claude Daumas, “Bernard Arnault”, in *Dictionnaire historique des patrons français*, Paris, Flammarion, 2012, p. 42-34.

financial tricks on the Stock Exchange, which confirms that banking and finance are intrinsically married with the history of luxury houses.

### C. The financial methods of strategist Bernard Arnault

Before succeeding in reaching the control of LVMH, B. Arnault had commenced grappling with luxury from scratch when he purchased *Boussac-Saint-Frères*. He dismantled this big but declining textile group because he targeted the small affiliate *Christian Dior Couture*. After closing plants and selling the real estate assets, he kept only the high-end “nuggets”. He set out to build a luxury group around *Christian Dior*, *Céline* and *Christian Lacroix* brands. Finance and banking played a key role in such a momentum. B. Arnault relied on his bankers,<sup>107</sup> like *Crédit Lyonnais*, to get loans, but first of all Lazard as the advisor for the internal reorganization, as he asserted himself as an expert of “financial Meccano”, splitting and shifting assets from one society to another in 1995 mainly. Affiliates in production *Christian Dior Couture* and *Céline* were taken off financial sub-holdings and climbed under the umbrella of the Christian Dior Holding.

Upwards acted the overall holding *Montaigne Participations & Gestion*, then MPG/ex-Arnault & associés since June 1995. It relied on a team of experts in finance and law (lawyer Pierre Godé, Jean Dromer, Robert Léon, Daniel Piette or Patrick Hoël, the head of finance). The issue was cash: against a debt of FRF 11 billion, and a ratio debt/permanent funds of only 17 percent, they could use a FRF 4b treasury in December 1994. It was used to purchase the packages of securities held by minor shareholders in several companies bought by sub-holding *Financière Agache* (of which Lazard held some part) for an amount of FRF 3.25b, before selling them to LVMH itself. All in all, five listed societies (*Arnault & associés*, *Financière Agache*, *Au Bon Marché*, *Christian Dior*, LVMH) gathered a total capitalisation of FRF 103.1b in October 1994. Exchanges of securities between these actors were completed to resettle the group.

### D. Bernard Arnault and François Pinault facing themselves in 1999

In parallel, the ambitions of strategist François Pinault were confirmed: the businessman had undertaken since the 1980s the construction of a diversified distribution group, renamed PPR, itself controlled by its parent company Artemis,<sup>108</sup> the holding company head the equity and family asset management group. F. Pinault also became much active on the market-place through several corporate buying operations, mainly on the field of mass or specialised distribution, in 1990-92. But F. Pinault’s strategy changed thoroughly, as if it has become aware of the modesty of margins in a consumer goods sector subject to intense competition and the need for a complete remodelling of the management method. Luxury became his new priority. The two strategic entrepreneurs ended up confronting each other: when, in February 1999, LVMH recovered on the market a third of the luxury firm Gucci, Italian but Dutch law (for FRF 8.4b), a counter-offensive by PPR was carried out in March through a “reserved capital increase” (of CHF 18b), which gave it 40 percent of the capital and diluted the weight of LVMH to 20.6 percent, while a Dutch foundation brought together Gucci employees who wanted to invest in their firm, thanks to a loan from it.

B. Arnault then entered the capital of the public works company Bouygues (for 6.3%), just to conquer a lever of pressure within a PPR ally (which held 16% of that firm, as a strategic partner of the Bouygues family). This offensive unfolded at the borderline of law—with successive court decisions to “border” every aspect of the process, but also legalize it. The struggle ended up being undone by the

<sup>107</sup> Dossiers de presse “Groupe Bernard Arnault”, Historical archives of *Crédit agricole SA*, Fund *Crédit Lyonnais*, DEEF 200AH013.

<sup>108</sup> Cf. Renaud Belleville, “Artémis, un puissant holding familial aux actifs très divers”, *Les Échos*, 1<sup>st</sup> December 1998.



success of PPR and the withdrawal of the “Arnault galaxy” from both Gucci and Bouygues. B. Arnault failed to take control of Gucci, of which he finally held 20 percent whilst the Italian company preferred to unite with the group of F. Pinault. Last, on September 10, 2001, LVMH settled its dispute with PPR by giving it its stake in Gucci. Luxurious investment bankers and lawyers therefore reinforced their stake on the field of building luxury groups. Engineering high-end tricky operations on the Paris or Milan stock exchanges, or elsewhere, they got thick revenues in commissions. Once more, cash, banking and finance got associated through this stage of the history of luxury in the 1990s.

### E. Key bankers holding the helm

The expansion of LVMH favoured intimacy with its investment bankers as advisers and engineers of operations: its legal and financial managers worked intensively. First, *Crédit lyonnais*' team accompanied B. Arnault when he jumped from property management to luxury, in association with his head of finance at *Financière Agache*, Pierre Dehen, who had been the director of the *Crédit lyonnais* branch in Cognac. “These were credits of notoriety, because we didn’t have strong security catches. But the teams believed in them. There were meetings every two months, led by Jean Peyrelevade, the president of *Crédit lyonnais*. A second highlight was the Gucci case, played by the two industrial captains B. Arnault and F. Pinault: J. Peyrelevade provided the financial means, while Lazard did the engineering of the case. He convinced B. Arnault to monetize his share of Gucci: he made a monstrous surplus, thanks to the assistance of *Crédit lyonnais* and Indosuez; it was a win-win for everyone.”<sup>109</sup>

“I recovered B. Arnault after the merger between *Crédit lyonnais* and *Crédit agricole*, within Calyon. I was the head of *lyonnais* corporate banking for the Eastern region, including champagne. I was used to have lunch with the chief financial officer, Jean-Jacques Guiony, a former banker from Lazard in 1990-2003. We discussed the group’s activities, how to develop such and such an activity, as well as help at best. But Antoine Bernheim, managing partner at Lazard (1967-1999), was the *deus ex-machina* to whom B. Arnault owes everything. He had previously restructured Boussac-Saint-Frères; he turned to B. Arnault to take over the rubble of the Agache-Williot group [heir to Boussac]. Several years later, he helped B. Arnault carry out the Racamier business [to take over LVMH]. Lazard did not make any financing: it was therefore necessary both the support of an investment bank and the financing by a commercial bank. *Crédit lyonnais* intervened at the time: assets were taken as collateral for a fairly long period of three-four years, such as champagne stocks or, for the Gucci operation, securities.

We need a relationship of trust with the client because, unlike syndicated credits, these loans are purely bilateral, for reasons of secrecy and speed, without the constraints of going to syndicate with dozens of banks through retrocessions. The banker must know the luxury, wine and spirits sectors, the contents of brands and assets. You have to spend time with customers, show interest in your business. We spend a lot of time there; we have to see the stakeholders at their headquarters, especially those in charge of the financial management. Our team has been involved in the creation by B. Arnault of a private equity fund, L Capital, in order to take stakes in emerging companies in luxury.”<sup>110</sup>

“Within *Crédit agricole* (Calyon, then CACIB), the team of business bankers remains close to the Arnault group, while working with F. Pinault’s group, but without conflicts of interest, thanks to tight barriers (‘China walls’). In the Bulgari operation, *Crédit agricole* was the only banker-adviser of LVMH

<sup>109</sup> Interview between H. Bonin and investment bankers Stéphane Publie & Philippe Moquin at CACIB, 19 March 2019.

<sup>110</sup> Interview between H. Bonin and CACIB investment bankers Stéphane Publie & Philippe Moquin.

in 2010, without an alliance with an Italian bank, in order to avoid the risk of leaks and reduce delays, because what counts is confidentiality. In 2017, when Christian Dior, which was listed, and various sub-holdings were attached to the LVMH holding company live, Lazard advised LVMH, Rothschild the sub-holdings and *Crédit agricole* provided the financing. It was financial engineering within the LVMH group. Today, the paradox is that *Crédit agricole* is the French leading banker-adviser of luxury, and not BNP Paribas, nor *Société générale*.”<sup>111</sup>

## 7. Luxury and assets management: seizing on opportunities of valuation

A last study will enhance the role played by the securities of mining and luxury groups in the strategy of assets managers for the account of institutional investors and of wealth managers active in private banking.<sup>112</sup> So many analysts are pondering the evolution of their values,<sup>113</sup> taking into account opportunities of restructurings, the quality of management, the perspectives of consuming markets, and the purchasing strategies of upper classes. They bet on less volatility and more return on investment, and on over-performance.<sup>114</sup> They fill baskets of data about brand value, stock performance, the quality of management, revenue and earnings per share, dividend and payout ratios, dividend yields, price to earnings, return on equity, on asset and on investment, etc.<sup>115</sup> They grapple with algorithms to assess the promised of future values on middle or long term, factors of resistance, evolution of “bullish canals” and of the “comfort zone”. They have to ponder the eventuality of M&A prospects<sup>116</sup> and their contribution to “wealth creation”.<sup>117</sup>

An example could be the Oppenheimer Funds, created in New York in 1959 as an asset management company and a subsidiary of MassMutual insurer: Bearing an illustrious name in gold mining history, it epitomized some kind of the legacy, through its Gold & Special Minerals Fund, set up in 1983: “The strategy typically invests in stocks of mining companies that provide diversified exposure to gold and other precious metals. Class A shares rated 4 stars overall by *Morningstar* among 66 equity precious metals funds for the 3-, 5-, and ten year period ended February 28, 2019 based on risk-adjusted performance.”<sup>118</sup>

First of all, there is a recurring debate about mining values (gold and silver)<sup>119</sup> as investors struggle to play upswings in prices or valuable mines. Dedicated investment funds were set up in the 1980s and 1990s by banks and mutual funds (such as *Orvalor*, by *Société générale*, *Groupama Or*, *Aurecic*, by CIC Paris, *Investilion Minergior*, by *Crédit Lyonnais*, *Oraction*, by *Crédit agricole*, and *Premior*, by *Crédit du Nord*. They promised their customers attractive returns on investment. But fluctuating demand, opportunities and prices can hamper these prospects for dark years. So the values of luxury

<sup>111</sup> *Ibidem*.

<sup>112</sup> See: Brooke Harrington, *Capital Without Borders. Wealth Managers and the One Percent*, Cambridge MA, Harvard University Press, 2016.

<sup>113</sup> See: Yacine Ait-Sahalia, Jonathan Parker & Motohiro Yogo, “Luxury goods and the equity premium”, *The Journal of Finance*, 2004, n° 59, p. 2959-3004.

<sup>114</sup> See: Misha Pinkhasov & Rachna Nair, *Real Luxury. How Luxury Brands Can Create Value for the Long Term*, Basingstoke, Palgrave Macmillan, 2014.

<sup>115</sup> See: Sanja Heininen, *Investing in Luxury Fashion Shares*, Degree thesis, International Business, Arcada, 2016 [on line].

<sup>116</sup> See: Ludovica Sant’Elia, *The M&As in the Luxury Industry: A Study of the Phenomenon and of its Main Consequences on Companies’ Ownership within the Sector*, PhD thesis, 2017, Roma, LUISS-Libera Università Internazionale degli Studi Sociali, Department of Business & Management [on line].

<sup>117</sup> See: Anke Königs & Dirk Schiereck, “Wealth creation by M&A activities in the luxury goods industry”, European Business School, department of Finance, “working paper series”, January 2006, n° 7-2006.

<sup>118</sup> [<https://www.oppenheimerfunds.com/advisors/fund/gold-&-special-minerals-fund/00410>].

<sup>119</sup> See: Andrew Bari, “Why gold mining stocks are an unalloyed bargain”, *Barron’s*, 18 January 2019.

companies seem even more attractive, because they are less volatile. The luxury goods index often surpassed the *MSCI World Index* active in two dozen global markets. This explains why *Société générale* created two funds: *SGAM Invest Secteur Luxe* (2002) and *SGAM Fund Equities Luxury & Lifestyle* (2006): just before the 2007-2008 crisis, the former increased by 68 percent between 2005 and 2007. One might think that the profits of firms can only grow faster than inflation: for example, from 1980 to 2007, the *CLEWI* index, which measures the evolution of a basket of luxury products and services, was multiplied by seven to the *American Consumer Price Index*, which only tripled.<sup>120</sup>

The current of specialization continues today, as with Pictet-Premium Brands, created in 2005, at *Crédit suisse's* Global Prestige, or at *Compagnie Benjamin de Rothschild Conseil*, which directs its clients to corporate titles that own real estate managed by groups of luxury hotels. But wealth or assets managers had to include more and more the Asian market in their portfolios, either because of the outlets found there by luxury brands, or because of a growing number of Asian investors there, as drivers of change.<sup>121</sup>

A commonplace objective is to anticipate the fluctuations in the profits of the luxury groups: is it worthwhile to invest in their stocks which have become expensive, at the risk of reducing their annual income (price earning ratio), in return for the promise of sustainable capitalization? “Are luxury brands really a financial dream?”<sup>122</sup> Managers can also bet on M&A operations as much competition intensified between European groups, Chinese investors (like Haidian), investment funds (Starwood Capital, set up in 1991, DGC Frank Muller Luxury Fund, in 2014, etc.) and private equity managers (Change Capital or Catterton Partners, Swiss Notz Stucki, Genthod Global Wealth Management-Frank Muller group, etc.).<sup>123</sup>

“Private equity is a natural investor in luxury, given the industry’s relative resistance to economic cycles compared to other sectors, making it possible to borrow against a business. The proportion of deals in the sector involving private equity has steadily increased over the past several years, rising from 36 percent in 2013 to 51% in 2017.”<sup>124</sup> And big cabinets like Deloitte<sup>125</sup> (since 2014), Bain,<sup>126</sup> Aranca,<sup>127</sup> Roland Berger or The Boston Consulting Group<sup>128</sup> didn’t lose time to supply their own overview about private equity and venture capital (55 percent of the financial bidders in 2017), market trends, lasting changes in consumer behaviour, expectations on M&A activity, the sector attractiveness, the resilience of luxury goods, the growth performance, and the changing global landscape, pending further contractual missions.

Everyone seems willing to put the price on getting hold of promising companies, as indicated LVMH’s July 2014 acquisition of Loro Piana for 19 times earnings. Fung Brands, backed by Hong Kong billionaires Victor and William Fund purchased the Sonia Rykiel and Cerruti brands. The Qatar Luxury

<sup>120</sup> David Pellecier, “Le luxe se porte bien en Bourse”, *Le Figaro*, 27 décembre 2007.

<sup>121</sup> See: PWC, *Assets & Wealth Management 2025. The Asian Awakening*, January 2019.

<sup>122</sup> Jean-Noël Kapferer & Olivier Tabatoni, “Are luxury brands really a financial dream?”, *Journal of Strategic Management Education*, 2011, 7/4, Senate Hall Academic Publishing.

<sup>123</sup> See: Astrid Wendlant, “High-priced M&A still in vogue in slowing luxury industry”, *Reuters*, 31 January 2014.

<sup>124</sup> Mimosa Spencer, “Smaller deals seen fuelling luxury M&A”, *Vendôme Global Partners*, 8 August 2017. Data from E&Y report.

<sup>125</sup> Deloitte, *Global Powers of Luxury Goods 2014. In the Hands of the Consumer*, global report. Deloitte, *Fashion & Luxury Private Equity and Investors Survey 2018*, global report.

<sup>126</sup> Bain, *China’s Luxury Market Shrinks in 2014 as Luxury Brands Adapt to a Shifting Consumer Preferences. Priming Brands for Redistribution*, January 2015. Bain, *2017 China Luxury Market Study*, 2018.

<sup>127</sup> Tanuja Shrite, *China’s Luxury Market. Losing Sheen?*, Aranca report, February 2016.

<sup>128</sup> Jean-Marc Bellaïche, Antonella Mei-Pochtler & Dorit Hanisch, *The New World of Luxury. Caught Between Growing Momentum and Lasting Change*, BCG, December 2010.

Group and the Qatari Mayhoola fund joined the fray too from the 2010s. Targets can appear in a few months which explains the analysts' watch and selection of securities on the "hunting ground". But Chinese insurance group Anbang and private equity Primavera Capital had to renounce on their bid over the Starwood luxury hotels group in 2016. Spin offs add opportunities if groups decide to float some high-end affiliates: that was the case about Ferrari IPO in 2015 and its divestment by Fiat-Chrysler. On its side, Italian equity fund Investindustrial listed Aston Martin in 2018, being advised by Lazard and using three banks for completing the operation.

## Conclusion

Leaving aside the internal life of diversified groups which manage internally a luxury subdivision—as it is the case by L'Oréal<sup>129</sup> or Pernod-Ricard<sup>130</sup>—and focused on a few case-studies of high-end companies, this text followed three paths. The first one led to an overview of day to day operations fuelled by the management of worldwide connections and of networks of suppliers and customers, through commonplace banking operations (a range of credits, FOREX, management of means of payment). The second one raised the issue of the durability of (family or not) companies against competition and recessions, thanks to a relevant management of profits during booming years in favour of permanent funds, reserves, anticipation of risks, etc. The third path jumped over financial battles, bids, even bad practices, to reach fields of triumphal big capitalism, sometimes still family-owned, generally fostering active moves on stock exchanges and attracting returns to assets management. Luxury might therefore be perceived as a "gold mine" in itself, but only when the anticipation of risks has been assumed efficiently and durably.

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<sup>129</sup> François Dalle, *L'Aventure L'Oréal*, Paris, Odile Jacob, 2001. Béatrice Collin & Daniel Rouach, *Le modèle L'Oréal. Les stratégies clés d'une multinationale française*, Paris, Pearson, 2009. Jacques Marseille (with Félix Torres), *L'Oréal, 1909-2009*, Paris, Perrin, 2009.

<sup>130</sup> *Pernod-Ricard. D'un siècle à l'autre en 25 marques*, Paris, Textuel, 1999.

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