François-Henri Pinault highlights key elements in Kering's financial performance

By Olivier Guyot - 19 February 2022

In 2021 all Kering-owned brands saw their sales surpass those of 2019. This comes as excellent news for François-Henri Pinault (CEO of the French group that owns Gucci, Saint Laurent, Bottega Veneta, Balenciaga, Alexander McQueen and Boucheron) who expressed his satisfaction during the presentation of the annual results and during an in-person press conference at the group's Parisian headquarters in 40 Rue de Sèvres.

Jean-Marc Duplaix, CFO of the luxury giant, explained the progression of the group's assets, such as how online sales tripled between 2019 and 2020 and represented more than €2 billion of the €17.6 billion in total sales, the 32% growth of Bottega Veneta compared to 2019 to more than €1.5 billion in two years, and the "profitable and sustainable growth" of its other houses (Balenciaga, Alexander McQueen, Qeelin, etc.), which achieved an additional €1 billion in sales compared to 2020. Management also hinted that it had the investment capacity to make acquisitions if opportunities presented themselves. François-Henri Pinault discussed his views on several different points. Here is a brief summary of his analysis.

An increase in prices

“Our different brands are currently rebalancing their product portfolio. What we are satisfied with is the average growth rate. Over the last five years, Kering has achieved an average annual growth rate of 18%. This is very significant. Even in an atypical period, we have very sustained growth, well above the market, which is very satisfying. All of the group's fashion houses are increasingly desirable and have the ability to attract new customers, particularly in the higher-end product categories. We have structurally expanded the offering at Gucci, with an emphasis on higher-end products. This is also the case at Saint Laurent and at Balenciaga, which participated in Haute Couture shows and recently collaborated with the Simpsons. The houses have this ability to play with two components: creativity and authenticity."
"As for the metabolism of our brands, we reviewed all the price matrices in all categories. There has been a very high rate of inflation in transportation and a bit in raw materials for some time now, and exchange rate differences can lead to disproportions. We are very vigilant in maintaining consistent prices in the different markets, but we make sure to review prices every season. These are structural events. The advantage of luxury houses is that every season we work on exclusivity and desirability. The way to achieve that in this industry is to work on product sophistication. We keep bringing an increasingly luxurious product to the market. The average selling price is rising structurally, but mainly due to this phenomenon. It is very strong since we have only recently moved upmarket. The emphasis we place on our more luxurious products has resulted in a higher average price, which affects all product categories. We don't publish this growth figure, but it's comparable to the other players in the market. The new Aria collection, for instance, is set at a very, very high price. The danger of luxury is the trivialization of products."

Creating brand value

"Luxury is an economic equation between the volume sold and the value of the products. Volumes are restricted in certain categories and are compensated by increases in value. We never allow ourselves to increase volume by more than 20%. If one day we lower prices and increase volumes, we would have an explosion of volume turnover, but there is a risk of damaging the brand. It is a question of finding a balance that is compatible with the development of the brand. In the group's model developed since 2012-13, which emphasizes creativity in ready-to-wear, we have been able to attract a fairly young clientele and have helped the luxury industry spread among generations that were previously less interested in luxury goods. But luxury houses are a balance between the creative component and the more sophisticated and timeless component and have the ability to be both creative and authentic. You have to be legitimate in order to appeal to this very high-end clientele. It's not enough to say that we want to reach these clients who are attracted to a very sophisticated offering. This is done gradually but we have been able to move upmarket significantly.

"We see Millennials who were interested in luxury about five to seven years ago who continue to buy and whose consumption habits are changing a bit, and that's promising for a group like ours, whose brands are present and legitimatized in the young segment. If we manage to accomplish the smart job of retaining these customers as they age, we will have a truly exceptional foothold in this customer segment over the next five to ten years."

Menswear as a growth opportunity

Without providing the sales volume for the menswear collections' within the group's brands, the CEO of Kering affirmed his new intentions of expanding the men's lines in the various houses.

"In terms of absolute value, it's always been very important, but the men's fashion market has grown significantly in the last few years. We think that at Gucci and at Saint-Laurent, there is a very large potential for expanding the menswear offering. We had focused more on womenswear during the maturity stages of the different houses. This was our priority, and it went extremely well. But given what the men's market has become, we think we have a very good growth potential to go after. Balenciaga has benefited from this market in recent years, an experience we've had within the group. I believe that in Gucci and Saint Laurent we can significantly rebalance the menswear and womenswear offerings."

The future of wholesale

Direct sales now represent 81% of the group's total sales, and even 91% at Gucci. François-Henri Pinault affirmed the group's ambitions in this area.

"We have a very important long-term vision. We take measures that sometimes hurt in the short term, but that are necessary for modern luxury brands. We did it at Gucci, but have also begun to reduce wholesale at Saint-Laurent, Bottega, and Balenciaga. All this aims to ensure the exclusivity and desirability of the houses in the long term. This
Bottega, and Balenciaga. All this aims to ensure the exclusivity and desirability of the houses in the long term. This creates frustration, but it is necessary, and the fruits will come this year to Gucci and a little later to the other brands. In wholesale, you have department stores, multi-brands and franchises, but e-commerce has changed our distribution strategy. We used to have mid-quality multi-brand retailers in areas we couldn’t reach but we have stopped doing this. We deal with those areas with our own stores if they have grown, or with e-commerce. One very particular element was online wholesale. The problem we all have with selling online is that we don’t have control over our products. In Europe we have built relationships with select retailer, but this is not possible in the United States. The rule we have decided to adopt is to stop online wholesaling in order to control prices. We only keep partners who bring us additional customers than the ones we can reach through our own online sites and stores. We then do a retail concession with them in order to control our brand perception, prices, and inventory.

The group plans to expand its direct distribution networks into new areas, particularly in mid-sized cities in the United States. “In the past, catchment areas that were not large enough to open stores were handled by wholesale. We are taking back this business directly and opening stores in these cities. We will not hesitate to cease working with multi-brand retailers that do not provide the necessary representation for our brands. The houses are in the process of reaching very large sizes, and these will eventually represent 5% to 7% of sales.”

Web3 and the Metaverse

“In terms of Web3 and the Metaverse, we want to be very responsive. We built an innovation lab within the group, creating a dedicated team that is part of Gregory Boutté’s division and is led by Amélie Lemoine. We have an innovation team at Gucci dedicated to Web3-Metaverse, and we have just created one at Balenciaga as well. All of these are networked. It’s an early introduction to these topics and there is nothing definitive about them; perhaps they disappear overnight. But the philosophy of the group is: rather than to “wait & see”, which is often the stance taken in the luxury industry, it is better to “test & learn”. We move very fast on emerging trends. In the Metaverse there are several stages. Today we are in the stage of communicating our brands in a virtual space. But there is a more disruptive development which is on the e-commerce side. One of the consequences of web3 is that the data will belong to the users and no longer to the operators. This will disrupt all CRM and therefore all e-commerce. Augmented reality technologies will also transform page design. In the short term, should we accept cryptocurrency payments on our websites? We have hired a specialist to guide us since this implies significant legal and tax considerations.”

“Digital opportunities are also comprised of three stages. The first stage is an extension of what we do in the physical world, such as having NFTs linked to physical assets. The next stage is a dimension of new products that are exclusively virtual, attached to concepts of rarity and virtual ownership that open new fields. It could be clothing or shoes, but it could also be something else entirely. And the third is smart contracts: services that will be created to offer something different. Lifetime annuity on a virtual product, for instance, is a completely new concept. Tomorrow, brands could be able to earn a percentage from the resale of a virtual product. This creates a radically different economic equation. We are currently exploring all of this. It's too early to know if this will succeed. In the more advanced countries like the U.S., we are already generating 23% of sales digitally, over 26% in Europe, and less than 10% in China, but there is no reason for it to stay that way. There is going to be a lot of change in these regions. Globally, we could reach 30-35% of sales generated online, and even much more with web3 if virtual products and services are further developed.

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