French Battle

ference to clients in stores.

"It's like 'Dallas.' At best, if consumers pay any attention to this, it's because they are witnessing the kind of soap opera they usually see on television, and nothing more. It does not affect the image of the brand in the slightest," she said.

For one, the two sides are fighting on unequal terms, Veillé said.

Hermès is a brand name with a distinct identity, while LVMH designates the luxury group that owns more than 60 brands, ranging from Louis Vuitton to Moët Chandon to Guerlain. At the same time, while the concept of LVMH may be more abstract in image terms, the group has a distinct figurehead in Arnault, something Hermès is lacking.

"There is no emotional link to any founder. The emotional link is with the product: the horse, the saddle and leather," Veillé said of Hermès.

And most luxury specialists believe that an LVMH takeover would not fundamentally threaten the Hermès brand's DNA.

Benoit Garbe, a vice president of global brand strategy and financial consultancy Millward Brown Optimor, said LVMH's track record suggests it is committed to preserving the specificity of the brands it acquires, even if that means forgoing some cost savings and synergies.

"So it's not like suddenly you go to the evil LVMH and you become a chemical company with no soul. I don't think that is a fair argument, and I don't think the culture and the magic of the brand would be destroyed. I think it's really looking at what the future could look like," Garbe added, noting that LVMH could provide valuable resources and know-how for accessing emerging markets where Hermès has yet to open stores.

His colleague Pierre Dupreelle, also a vice president at Millward Brown Optimor, had a more nuanced view.

"I think it would make sense as a brand portfolio to have both Hermès and Vuitton, if you keep them at the positioning that they are both today," he said. "A great example on how to include the Hermès brand into the LVMH portfolio would be the example of Bottega Veneta in the Gucci Group portfolio."

However, it was more likely that LVMH would try to introduce the Hermès brand to a much larger client base.

"That has an impact in terms of price points, where price points are lower than they used to be to address that new marketplace, and the communication is also very different, because you need to raise awareness in a much broader way than what Hermès is doing today," Dupreelle said. "That would definitely have an impact on the brand DNA."

— With contributions from Miles Socha

Dissecting the LVMH Strategy

By WWD Staff

PARIS — As with customers in search of a Birkin bag, it appears to be a waiting game regarding the next chapter in the LVMH-Hermès saga.

Analysts, academics and executives say it may take a few years to determine if LVMH Moët Hennessy Louis Vuitton will be able to win control of Hermès International after amassing, via equity swaps, a surprise 17.1 percent stake in the French luxury goods firm.

"What matters is not so much what [LVMH chairman] Bernard Arnault's intentions are, but whether the members of the Dumas, Guerrand and Puech families would envisage to reduce their ownership and collaborate with LVMH," said Thomas Chauvet, luxury analyst at Citigroup in London, referring to the three main families that control 73.4 percent of the share capital and have trumpeted their will to remain independent. "This is the current family view. It might change in five, 10 years' time, who knows? [LVMH] is here for the long term and will probably act on an opportunistic basis."

Pierre Mallevays, managing partner of Savigny Partners, a London-based boutique investment bank specializing in luxury goods, said LVMH has put itself in pole position as the unity of the Hermès family will surely be tested by the sheer multiplication of its members.

"You simply have more and more people that are less involved in the business, and who might prefer to have cash rather than illiquid shares," Mallevays said. "The real danger is the danger from within."

While there were only three descendents in the fourth generation of Thierry Hermès, there are about 20 in the sixth. These include Pierre Alexis-Dumas, creative director at Hermès; Guillaume de Seynes, executive vice president, and Pascale Mussard, who designs a new collection of objects known as "little h" that are made with leftover pieces of leather and damaged goods.

If history is any indication, the market should know within two to three years if LVMH will achieve a controlling stake in Hermès, according to Richard Morgan, managing partner of his investment firm in Paris. That's roughly how long it took for Arnault to win control of Louis Vuitton in the late Eighties, and for a resolution to be found in the war for Gucci that erupted in 1999, he explained.

The latter episode ended with PPR swooping in as a white knight, diluting the stake Arnault had accumulated. Ultimately, a deal was struck on Sept. 10, 2001 — a day ahead of the terrorist attacks in America — that put the Italian luxury group in the hands of PPR's François Pinault. Buying full control of Gucci Group eventually would cost PPR close to $9 billion.

Citigroup's Chauvet noted the Hermès situation differs from the Gucci case, since the Italian firm's ownership was widely dispersed in the Nineties and the company's registration in the Netherlands meant its capital ownership was more vulnerable to a takeover.

"PPR and LVMH became two serious contenders for the same asset at a time of industry consolidation, and this resulted in a bidding war for Gucci," he noted. "In the case of Hermès, the limited partnership structure means it is unlikely to lose control except if they decide to do so. A change in capital structure or control of Hermès can only be a friendly transaction with the consent of the family."

Observers agreed the odds seem stacked against LVMH, given that Hermès gives decision-making authority only to descendents of the company's founder, who started out as a maker of harnesses in 1837.

To be sure, Hermès shares — which spiked on news of the deal — are trading at such an elevated level that LVMH is unlikely to try to increase its holding anytime soon. Shares in Hermès rose 2.8 percent Tuesday to close at 146 euros, or $192.60, on the Paris Bourse.

"It's trading at more than twice the multiple of anyone else," Luca Solca, luxury analyst at Bernstein Research in London, noted of Hermès shares.

LVMH, which purchased its stakes for about 80 euros per share via the cash-settled swaps, makes it a "rational" investment, according to Solca. "LVMH is not paying any price for it," he said. Instead, the French group is "likely to sit tight and behave" for the foreseeable future.

Shares of LVMH have also been buoyed in the wake of the transaction. They closed at 116.85 euros, or $154.14, on Tuesday, slipping 0.2 percent.

LVMH, parent of Fendi, Dom Pérignon, Givenchy and about 60 other brands, told the French market authority, or AMF, it has no intention of taking control of Hermès International or making a public offer in the next six months — but it didn't rule out buying more shares. The AMF said it would investigate the share purchases, which LVMH said it welcomed. The probe may take several months.

But no one views Arnault as a passive investor, pointing to his financial genius and track record as a formidable corporate raider.

Henry Racamier, the late leader of the Vuitton family, found himself at the center of Arnault's most famous corporate conquest. In 1988, Racamier, then 76, enlisted Arnault's help to ward off raiders of the LVMH leather goods, Champagne, cognac and perfume group, which was publicly traded but controlled by a jumble of bickering families.

At Racamier's behest, Arnault took a minority stake. But when Racamier added new conditions to the terms of their deal, Arnault turned on him and pitted family member against family member, launching what became one of the nastiest hostile-takeover bids in French history. The battle even prompted François Mitterrand, then France's president, to chide both sides in a nationally televised speech and urge the French stock market regulator to investigate.

When asked about LVMH's Hermès stake, André Sacau, who was managing director of Louis Vuitton under Racamier, replied: "I have, of course, been following the news. There are similarities between this operation and the previous one."

Alain Chevalier, who was chairman of Moët Hennessy Louis Vuitton at the time of the takeover by Arnault in 1989, agreed.

"The technique is always pretty much the same, attempting to take over companies from their family owners at times of difficulty, in this instance the death of Jean-Louis Dumas earlier this year. Mr. Arnault is very good at that," said Chevalier, currently a professor of

economics at Paris business school ESCP Europe. "It seems to me the takeover is off to a good start."

Dumas, who piloted Hermès' expansion into a global luxury powerhouse, was a charismatic business and creative figure for almost three decades. He relinquished the chief executive title in 2005 and Patrick Thomas, a nonfamily member, succeeded him at the management helm.

"Independence is the key word," Dumas told WWD in 2002. "We are surrounded by big groups. They have their achievements and they have their problems. We try to stay at a distance. Independence has always been the legacy of my family."

Indeed, the key hurdle for Arnault seems to be the will of the expanding Hermès family — and even its works committees — to keep the company independently owned.

One market source, who spoke on condition of anonymity, found it striking that "only the older generations" of the families — most notably Bertrand Puech, part of the fifth generation — have "spoken out" against the LVMH maneuver.

The source noted Hermès' future management remains another issue, as Thomas, 63, nears retirement age. "Who will be the next leader? There is no obvious answer, and there could be some tension within the family," the source said. "LVMH can wait; they're in no hurry. But clearly they expect more than just a stake."

Late last month, Thomas and Puech noted the Hermès clan had not yet decided whether to take additional measures to protect themselves from their unwelcome suitor. The family is said to be mulling whether to group their shares into a nonlisted holding and has hired several banks to explore avenues to fortify its position. Other possible measures include raising the dividend, or a capital increase for its staff, which would dilute LVMH's stake.

"If, at a certain point, some family members will decide to sell their shares, it is difficult to stop such a momentum once it has started. It may take months, or it may take three or four years," said Chevalier. "It would seem very strange if Mr. Arnault, in the long term, did not try to take control, even if it does take longer than he might have hoped."