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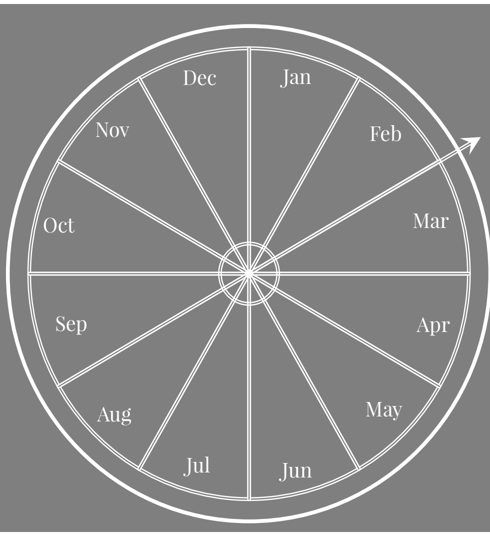

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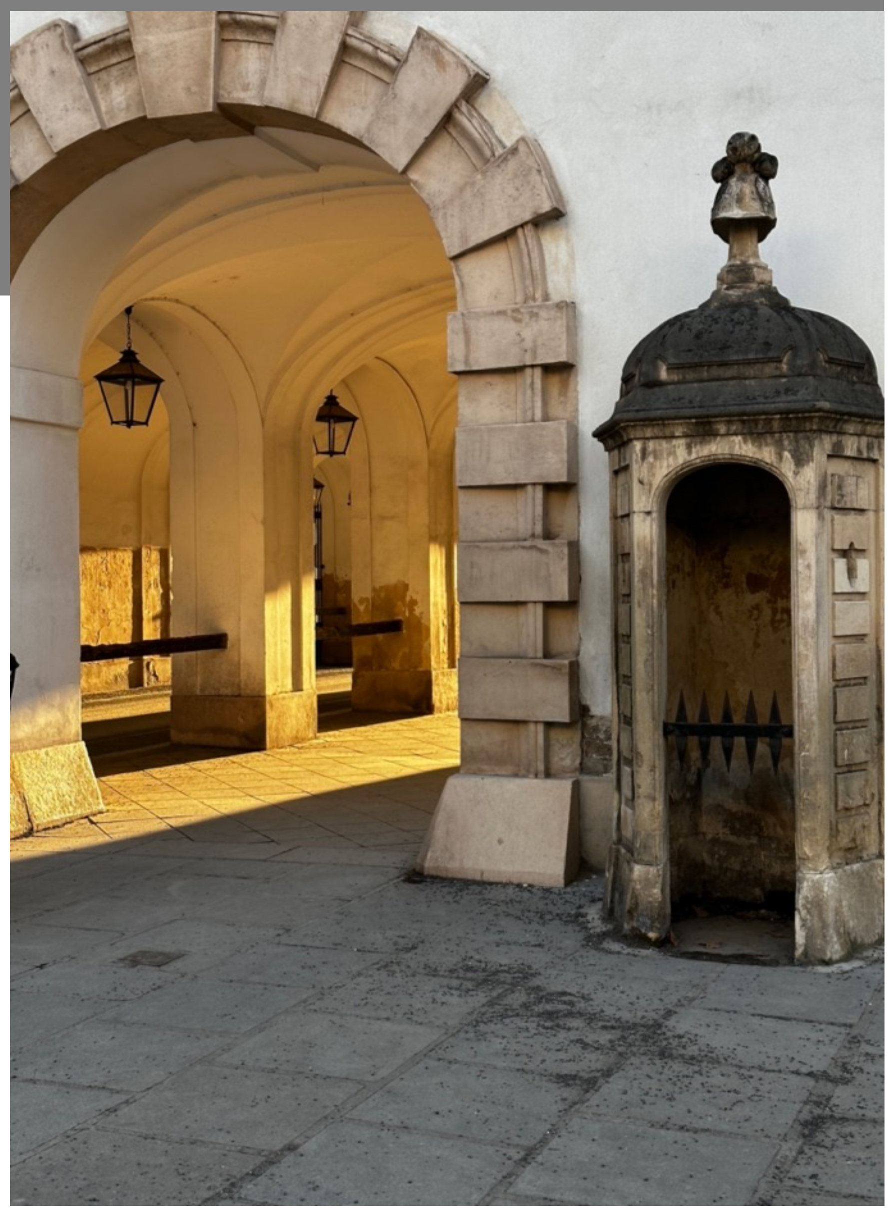

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Knowledge.
Perspective.
Passion.
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BEAR PROOF

Late this month on an investor earnings call, Michael Kliger, the CEO of multi-brand luxury fashion e-tailer Mytheresa, made a statement that has been, to any business in high-end luxury focused on the wealthy, pretty clear for many years: during periods of inflation or economic downturn, the wealthiest keep on spending.

Kliger noted that global inflation, the war in Europe, and COVID in China had contributed to a tougher selling environment for luxury e-commerce overall in the last two quarters. However, Mytheresa, he claimed, was able to distance itself from these challenges due to a focus on the high-end *"wardrobe building customer."*

In other words, the kind of people who don't even know what their energy bills are but do know what the must-have skirt is.

Kliger was clear that this cohort did not represent all of Mytheresa's clients. He acknowledged the other *"aspirational luxury customer"* of the business, who *is* greatly impacted by the current challenges. Reviewing the recent quarterly earnings in detail, Kliger and his CFO Martin Beer said they could see evidence of the lower end "aspirational" consumer shopping less, as key categories for "investment pieces" such as bags and sneakers showed slower sales growth, whereas women's luxury fashion, kids' luxury fashion and the home and lifestyle products – which are much more likely to be bought by the genuinely wealthy – had better growth. Mytheresa managed to grow its base of elite wealthy customers by over 25%.

One of Forbes contributors – one who, it must be said, often leaves us scratching our heads in bewilderment – sees it differently.

"Conventional wisdom holds" they write *"that when the economy flounders, the well-heeled don't skip a beat and keep spending while everyone else cuts corners and pulls back."*

As has been shown, there's probably a reason it is conventional wisdom. Mytheresa's own quarterly numbers prove it is true.

"But" they continue *"early indications are that when, rather than if, the economy falters, the high-earning affluent will share in their pain. And their pain will roll over onto the luxury brands that depend upon their spending largesse."*

They then referred to the concept of the 'richcession' coined by a Wall Street Journal staff member, which they defined as when *"the affluent few feel more disruption than the mass-market many who will be shielded by a robust job market."* But this not only directly conflicts with Mytheresa's own data, it also contradicts everything we know about wealth and its impact on the need hierarchy: on what planet are mass-market consumers more wealthy and more confident in luxury spend than an Ultra-High Net Worth individual?

But here we come to the crux of these comparisons: exactly how are these groups being defined? There is a frustrating tendency on

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the part of many people working in journalism, and even research and data analysis to refer to "the rich" (vulgar) or "the wealthy" as one group.

Whilst they may be a small crowd relative to the wider population, the homogenisation of the affluent – 'one-tier-wealth' we call it – is a dangerously misleading practice. It is probable that the free spending Mytheresa clientele that have grown in importance for the business by 25% in the last quarter are very wealthy indeed.

The kind of wealthy who are happy to buy their growing children £520 Gucci ballet flats or a £291 Balmain swimsuit. Children's luxury clothing is famously a preserve of the truly flush: the sticker shock of paying the same amount for kids' items as you would for your own puts off even the very, very affluent highest earners in some of the wealthiest cities on earth. Particularly when there's a big mortgage to pay with nanny fees and ballet classes.

Similarly, women's and men's fashion – which are far less 'investment grade' than watches or leather goods due to their transience - are rarely bought by the average professional, double-income, smart uptown mums and dads that would pass for 'affluent.' For special one-off pieces, of course, but even in good times – big bull markets with fat bonuses and high confidence – they don't tend to buy more than normal.

This is because their adopted lifestyle long ago refocused their priorities. They don't live the life of a trust funder or a successful investor who has bought and sold countless businesses, or a member of Middle Eastern royalty. They are undoubtedly affluent, arguably wealthy, but they are a separate group.

This matters because analysis of groups and sub-groups needs to be precise. The Forbes contributor never defines "the affluent" in the article, but we think it is imperative that you do so. Given that they were drawing specific attention to single digit sales growth as the sign of the wealthy feeling the pinch, they never once described exactly what they meant by that term.

Brands should never be happy with research or insight that refers so generically to a target consumer group. A person with $5m in the bank lives a very different life to one with $50m who lives a different life to one with $500m. With such gargantuan differences in their expectations, we cannot be grouping these together and lazily referring to them as "the 1%" or "the affluent."

There is always data that shows that luxury brands suffer during recessions; nearly every business does. What that doesn't prove though is that the very wealthiest will suffer more and not spend as freely compared to the mass-affluent, which without evidence is an absurdly difficult claim to make. In reality, the dips in luxury brands growth during recessions are often nothing to do with the very wealthy. They are instead - as Kliger found from Mytheresa's data – the halt in growth of the aspirational consumer, who cannot justify discretionary spend on even core luxury investment pieces when bills are rising and it means the difference in whether or not they have family holidays or regular dinners out.

The aspirational consumer is a vitally important consumer to luxury brand growth. To them, luxury shows a sense of achievement, is an irregular, special thing that is cherished. Many of them use their desire for luxury to fire their ambition for career advancement. There's just one thing: they aren't "the wealthy." At least, not yet.

Sector updates

Image: Reuters

In fashion, it's very abnormal to pick a lead designer who has minimal design experience. But then, **Louis Vuitton** is hardly a normal fashion brand. The appointment of the singer-songwriter Pharrell Williams – he of the infectious rattle 'Happy' from *Despicable Me* – raised many tired eyebrows. He fills the role held by high-profile designer Virgil Abloh, who died in 2021. Pharrell's experience is not only in the impishly named 'Billionaire Boys Club', which sells pricey (but hardly luxury) streetwear, but also in collaborations with LV over the last two decades. However, Barton did note that these collaborations with LV were way back in 2004 and 2008 – when Pharrell and his music were, ah, more popular. Williams, now 49, is known for an irreverence in his personal style: ten-gallon Mountie hats, diamond-studded sunglasses, women's Chanel jackets. His eye for style is certainly more interesting than many of his musical contemporaries who tend to slob around in branded streetwear, and he is deft at combining sportswear brands with tailoring. Maybe, just maybe, Louis Vuitton knows.

Lotus is a British sportscar manufacturer with a strong racing pedigree – after all Team Lotus won the Formula One World Championship seven times. However, it dropped out of top-tier racing in the 1990s having struggled financially as a brand and business throughout the late 1980s. In 2017, a Chinese multinational, Geely (which also has stakes in Volvo Polestar and Daimler-Benz), acquired a 51% stake in the business. Early this month, it was announced that Geely was spinning off the electric side of the business – Lotus Tech – in a SPAC-style merger with L Catterton Asia Acquisition Corp, a "blank cheque" investment firm connected with LVMH founder, Bernard Arnault. The market has been salivating over the prospect of the world's richest man – and undefeated luxury brand reviver – building an electric vehicle empire with the Lotus brand, in direct competition with Tesla's Elon Musk, the world's second richest man. Having already launched a 2-seater sports car, the Evija, the next step is to launch the 'hyper SUV', the Eletre, which, Barton notes, looks suspiciously similar to the Lamborghini Urus.

Image: Lotus

Image: Hermes

2022 was an excellent year for French luxury. **Hermes**, probably the most respected large luxury label in the world, posted record annual profits and sales this month, following on from LVMH's announcement of its own records achieved in 2022. Hermes said net profit for 2022 was 38% higher than in previous years - €3.4bn from sales of €11.6bn (a rise of 29%). LVMH had announced sales of €79bn and €14bn in profit. This despite the war in Ukraine and the knock-on global economic uncertainty and inflation. Such a performance ennobled LVMH as Europe's most valuable company, with a market capitalisation of €400bn. However, even LVMH and rival group Kering suffered in China with its prolonged lockdowns, as sales fell in the fourth quarter. Hermes suffered no such fate and grew its sales in Asia-Pacific (excluding Japan) by 30.7%. This accompanied strong growth in the Americas (46%) and Europe (21.5%). The warm family touch of the Dumas, Barton notes, is present in how it shares success amongst its staff. Every Hermes employee – all 19,700 of them - received a €4,000 bonus at the end of this month.