

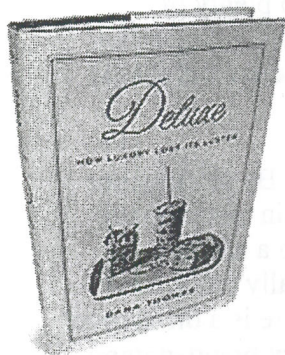
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BOOKS

Big Changes at the High End
 By RICHARD NALLEY
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"Luxury lies not in richness and ornateness but in the absence of vulgarity." This dictum comes courtesy of Coco Chanel, a woman who knew plenty about vulgarity but who also, as Dana Thomas makes clear in "**Deluxe**," maintained standards of craftsmanship, discretion and -- it must be said -- snobbery that look as quaint in today's supercharged fashion business as a bustle skirt.

Ms. Thomas, a Paris correspondent for Newsweek, reminds us that not so long ago -- right into the 1980s -- Louis Vuitton, Gucci, Chanel and the rest were more or less what they had always been: modest-sized, family-run enterprises crafting European handmade clothing, leather goods and perfumés. The salespeople at their boutiques knew their customers; their customers knew what they were paying for. Then came the deluge.




Rising disposable incomes (including those of women in the work force) and, not least, new Asian consumer markets -- Japanese customers account for an astonishing 50% of world-wide luxury fashion sales -- created an irresistible business opportunity. In retrospect it seems simple enough. Luxury goods, as Bernard Arnault of LVMH succinctly put it, are "the only area in which it is possible to make luxury margins." And he's not kidding. The markups in high-end fashion -- up to 13 times cost for some Vuitton products -- generate the kind of profits that in other industries might cause bread riots or congressional investigations.

Over the past generation, Arnault and his competitors, like François Pinault of PPR (Gucci, Yves St. Laurent) and Johann Rupert of Richemont (Cartier, Dunhill), have been gobbling up the independent houses. Nearly everybody else in the luxury field has begun huddling with others for warmth -- there is now the Bulgari Group, the Ferragamo Group, the Valentino Fashion Group. It is true that some closely held independents -- Hermès, Giorgio Armani, Prada -- are major fashion players. But the luxury conglomerates, in Ms. Thomas's view, have permanently altered the business, and not for the better.

Her bill of indictment begins with the charge that, to maintain profit margins, luxury brands have cut corners by using inferior materials. More important, "many have quietly outsourced production to developing nations," thereby replacing "individual handcraftsmanship with assembly line production, mostly on machines." The luxury brands are not especially honest about this momentous shift, either, Ms. Thomas notes. They justify their price increases "by falsely claiming that their goods are made in Western Europe, where labor is vastly more expensive." Without naming names, Ms. Thomas says that many luxury fashion companies go to great lengths

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to finagle a "Made in Italy" or "Made in the UK" label for goods that might honestly be tagged "Made in Mauritius" or "Made in Korea."

Casualties in this movement include the perfume flower growers of Grasse, the craft ateliers of France and Italy, the silk weavers of Lyons and Como. As such fabled artisans lose their place in the making of luxury fashion products, the originating magic of high fashion's glamour is lost as well, making it ever more imperative for purveyors to foster a new aura, using huge advertising budgets and celebrity endorsements.

DETAILS

DELUXE

By Dana Thomas
(The Penguin Press, 375 pages, \$27.95)



Still, the realities of the marketplace compel such sleights of hand. Haute couture as Coco Chanel knew it, with its private showings and multiple fittings, is essentially dead. The province of some 200,000 well-dressed women in the 1950s, haute couture today -- with suits starting at \$25,000 and gowns at \$100,000 --

caters to a universe of about 200 customers. And in the ready-to-wear business, it makes overwhelming financial sense for Valentino to outsource production of its \$1,300 suits: In Italy, textile workers make \$18.63 an hour; in Cairo, 88 cents. In many cases such profit-motivated switches do not appear to lower quality. According to Morgan Stanley, the perceived worth of Coach products, for instance, actually rose after the company shifted manufacture from the U.S. to China.

A more appalling sleight of hand has to do with illicit competition -- the counterfeiters who affix a famous label to knockoffs and send their goods out into a shadowy street market. It is a multibillion-dollar industry, and Ms. Thomas gives a vivid portrait of it. Often thought to be a "victimless crime" by the middle-class shoppers who pick up a fake Rolex or Gucci bag on Santee Alley in Los Angeles or Canal Street in New York, counterfeiting is connected to plenty of misery. Terrorist organizations, including Hezbollah in the Middle East and FARC in Colombia, have been implicated in the illegal trade, and brand pirates notoriously abuse children and illegal immigrants as captive labor in sweatshops from Guangzhou to Brooklyn.

Legitimate manufacturers share part of the blame for a competitive black market. By shifting our attention away from the time-honored claims of luxury goods -- their rarity, skill in manufacture and kinship with national traditions -- the companies have left themselves open to a kind of Emperor's New Clothes exposure. "Luxury" has always conferred status, but usually with a claim to superior quality; such a claim is more and more tenuous. "We don't believe there is a difference between real and fake anymore," Ms. Thomas notes, because "we don't buy luxury branded items for what they are but for what they represent." She makes a convincing case that the most effective knock-off artists are the luxury tycoons themselves.

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