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Coach's Hit Handbag Shows How Less-Expensive Luxury Is Gaining Ground

(Bloomberg) -- Ultra-luxury is losing its luster — and mid-tier competitors are capitalizing.

Industry bellwether LVMH Moët Hennessy Louis Vuitton SE, which reported weaker-than-expected sales in the latest quarter, was accused of selling a Dior bag that costs about $60 to make for $2,800. Meanwhile, Tapestry Inc.'s Coach is cashing in on cool with its $495 Tabby bag — a viral hit that costs a fraction of a similar shoulder bag from Dior or Chanel.

That's just one example of how mid-tier luxury brands are weathering the current economic uncertainty better than their ultra-luxury and fast-fashion counterparts, as consumers seek quality and value without the sky-high prices amid a weaker global economy.

"There's a bit of a backlash going on," said Fflur Roberts, head of luxury goods at Euromonitor International. Consumers are questioning the true value behind the price, including how items are made and the cost versus what they're really worth, she said.

As wealthy consumers trade down, mid-tier brands are performing increasingly well. Tapestry, which also owns the Kate Spade and Stuart Weitzman brands, recently raised its forecast for the year after reporting quarterly results ahead of analyst estimates.

Amer Sports Inc., which owns premium sportswear brands Salomon and Arc'teryx, also increased its projections for the full year, while Michael Kors owner Capri Holdings Ltd. and Hugo Boss AG both outperformed market expectations.

Ralph Lauren Corp. is another winner, offering a broad price range and maintaining appeal through its classic design, according to Bloomberg Intelligence senior retail analyst Mary Ross Gilbert. Same-store sales rose 13% in the three months through March 29, nearly double what analysts expected.

Meanwhile, luxury giants Hermès International SCA and Gucci owner Kering SA joined LVMH in disappointing investors in the most recent earnings season, while privately-held Chanel Ltd.'s profit plunged.

On the other end of the spectrum, fast fashion also struggling. "We've seen a more difficult environment," said BI senior analyst Charles Allen. Higher Zara prices and fewer H&M promotions are deterring shoppers, he added.

Zara owner Inditex SA, Hennes & Mauritz AB and Primark, owned by Associated British Foods Plc, all reported slower growth or missed targets, while JD Sports Fashion Plc's same-store sales fell 2% in the first quarter and are expected to drop again.

Tariffs — a key reason for the luxury slowdown — leave retailers targeting value shoppers little wiggle room. Uniqlo owner Fast Retailing Co. already warned these could hurt future earnings, while H&M said it may raise prices to offset the impact, which could push shoppers further away.

Still, some consumers may be returning to stores. Primark US sales grew in April — partly due to the Easter holiday shifting to the month — after shrinking the previous two months, according to observed sales data collected by Bloomberg.

Meanwhile, US wages continued to grow in April, and the country is still at a full employment level with the unemployment rate at 4.2%. US spending in April, however, ground to a halt.

“If people have money and see something tempting, they’ll spend,” Allen said. “People don’t always behave how they say they will.”

--With assistance from Jeannette Neumann.

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