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Managing Organization of Chanel S.A.

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Abstract

Chanel S.A. is an independent and unlisted company. If there are plural shareholders they always interfere in the business and it becomes difficult for the company to foster the business with a long-term vision. Furthermore, there are many cases in which the company loses its originality, brand identity, and corporate identity and becomes stalled. Chanel S.A. can avoid this situation because it is an independent and unlisted company and the funds available to the owner are sufficient. It is often the case that the strength of the Chanel brand is due to the progressive approach to creativity by the founder Coco Chanel and the talent of the designer Karl Lagerfeld and they are often focused on. However, the authors consider that its form as an independent and unlisted company should be more emphasized as a strength of Chanel.

Keywords

Chanel S.A., Coco Chanel, luxury brand, brand management, Technology Management.

1. Introduction: Outline of Chanel S.A.

Before unveiling the unknown facts of the company Chanel, which is the main theme of this paper, let us go over the company outline.

It is rather difficult to describe the company Chanel even in fairly simple terms. This is because many fashion-related books and magazines offer commentaries on Coco Chanel and the brand itself but do not delve into detail about the company. However,

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upon going through a collection of documents in order to write this paper, we did find material that revealed some interesting facts. The author wants to introduce the material.

The judicial precedent of the company Chanel was provided in the court document of “Chanel vs. Snack Chanel,” a case in which Chanel sued bars in Japan named “Snack Chanel.” The details of the case are omitted but according to the rulings of the “Snack Chanel case (Yokosuka case)” of the Tokyo District Court and the “Snack Chanel case (Matsudo case)” of the Supreme Court of Japan, the company Chanel is defined as in the following:

Chanel is an international group corporation consisting of the original French-based company Les Parfums Chanel founded by Gabrielle “Coco” Chanel and others, the current fashion house Chanel S.A. (*Société Anonyme*, “company listed” in French) and a few other companies dealing with the manufacturing and sales of Chanel products, such as high-end ladies clothing, perfume and cosmetics, shoes, accessories, watches etc. bearing the Chanel name. Needless to say, Chanel Group is known worldwide as being well-established in haute couture in Paris and the products are associated with luxury even in Japan.

As its name indicates, the French company Les Parfums Chanel produces perfume, it makes perfect sense to the author. Though it may be surprising to know that this is the predecessor to the central organization. We will go into further detail in the section “History of Chanel S.A.”

2. Corporate Organization of Chanel S.A.

We state again that the reports and information disclosed are fairly limited since Chanel is a privately held independent company. The information presented here was collected through various websites, comments from interviews and on-the-ground research in order to reveal the truth about the organization as much as possible.

Whenever the term “Chanel” is used in various contexts, it could mean any of the following:

- (1) The “Chanel” brand
- (2) “Chanel” products
- (3) Chanel S.A. (headquartered in France and owned by the Wertheimers)
- (4) Chanel Group (which consists of Chanel S.A. and other companies in the world with the name Chanel)
- (5) Chanel K.K. (Chanel’s subsidiary in Japan headed by President Richard Collasse)
- (6) Karl Lagerfeld (Chanel’s chief designer)

(7) Coco Chanel (Chanel's founding designer/entrepreneur)

While Chanel is without a doubt a group company, it has never been seen any discussion to pinpoint one company that represents the whole group.

Based on the rulings of the Tokyo District Court, however, it makes sense to consider the French-based Chanel S.A. founded by Coco Chanel herself as the main entity for convenience sake. This paper also briefly mentions Chanel K.K., which is the company's business base in Japan.

The outline of Chanel S.A. is shown in the table below Table 1. Interestingly, its

Table 1. The outline of Chanel S.A.

Company	Chanel S.A.
Type	Privately held
Founded	1909 / 1910
Founder(s)	Gabrielle "Coco" Chanel
Headquarters	135, Avenue Charles de Gaulle 92521 Neuilly-sur-Seine Cedex Paris, France
Owners	Alain Wertheimer, co-owner Gérald Wertheimer, co-owner
Chairman	Alain Wertheimer
Global CEO	Maureen Chiquet
President	Véronique Morali
Number of locations	Worldwide 100 boutiques
Area served	Worldwide (Europe, North America, Middle and South America, Asia, Oceania)
Affiliated companies	Chanel Inc. (U.S.), Chanel K.K. (Japan), Chanel Hong Kong, Eres, Paraffection, etc.
Revenue	Undisclosed
Industry	Fashion
Products	Luxury goods (Ladies wear, handbags, shoes, accessories, perfume, cosmetics, watches, jewelry, eye wear, etc.
Global vision	The Ultimate House of Luxury, defining style and creating desire, now and forever.
Website	www.chanel.com

Source: <http://en.wikipedia.org/wiki/Chanel>
<http://biz.yahoo.com/ic/93/93472.html>
<http://www.answers.com/topic/chanel-s-a>
<http://www.chanel.com>

website provides information on its products and boutiques, but not the company profile.

The following partly supplements the items in the table.

2.1 Headquarters

The headquarters of Chanel S.A. is located not in the vicinity of where the boutique is on Rue Cambon, but in Neuilly-sur-Seine in the Île-de-France region just outside of Paris. Served by the Pont de Neuilly station on Paris Métro Line and located right between the Arc de Triomphe and Arche de la Défense, Neuilly is practically within Paris.

Here is Photo 1 of the Chanel S.A. headquarters.

There are no signs indicating as such, so it is not very obvious that the building is that of the Chanel S.A. headquarters. However, its architectural design such as the black curtain walls with white beams is reminiscent of Chanel stores and the “No. 5” package. Also, when the staff step outside for a cigarette, you can see that they work for Chanel S.A. because they are wearing black-and-white dressy clothes that correspond to Chanel’s style. Whenever the door opens for people coming and going, we could see the sophisticated interior based on Coco Chanel’s favorite color beige. At the far end, there was a Japanese-style small garden with a stone lantern. Coincidentally, when snapping some pictures, one of the authors spotted Richard Collasse, the President of Chanel’s Japanese subsidiary, who seems to be there on a business trip, entering into the building.

The corporate headquarters in New York actually houses many of the business functions to support the entire Chanel Group consisting of Chanel S.A. and other



Photo 1. Façade of the Chanel S.A. headquarters in Neuilly-sur-Seine (taken by the author in July, 2009)

companies in the world with the name Chanel (according to the FAQ section on the U.S. Chanel website [1]). Even one of the owners, Alain Wertheimer, who was based in Europe, has moved to Manhattan. In addition, Maureen Chiquet, who was named in 2007 the Global CEO, a position reporting to the owners, is also based in New York (*Forbes*, 1989 [2]).

Therefore, the office in New York is technically the strategic base for the management of the entire group. All functions such as merchandising, marketing, advertising, public relations, store design, sales, finance, legal and human resources are performed by the New York headquarters. The offices of U.S. company (Chanel, Inc.) located in Piscataway, New Jersey manage the functions in information technology, distribution, accounting, human resources, research and development and customer service. The creative base is located in France and is headed by Karl Lagerfeld.

In other words, we may understand all three business divisions of fashion (ladies wear, handbags, shoes and accessories), watches/jewelry and perfume/cosmetics are based in France to develop the products, and the coordination of the entire group is carried out in the U.S. This may be compared to the textile company in Osaka Prefecture or automobile manufacturer in Aichi Prefecture having an office in Tokyo where the president resides and the main functions are performed by the Tokyo headquarters.

The board members of Chanel Group are comprised of the managers of the three business divisions, heads of each region (Europe, North America, Central/South America, Asia and Oceania) and the Global CEO Maureen Chiquet. Richard Collasse, President of Chanel Japan is also one of the board members that oversees the operation in Asia and is a key figure in Chanel's management [according to an interview with Simon Nyeck, Associate Professor and academic director of International Luxury Management MBA at ESSEC Business School].

From hereinafter, Chanel Group that oversees the entire group management is referred to as "Chanel Company."

2.2 Owners and the Chairman

At the top of the organization, there are the Wertheimer brothers, who take 100% ownership of the company, one of which, Alain Wertheimer, is the Chairman. The management comes next, which is followed by the creative team led by Karl Lagerfeld and the site staff. Products for the three business divisions are developed in line with the collection presented seasonally by Karl and its central theme. The operation is firmly based on the style and philosophy of the founder Coco Chanel and never deviates.

The French luxury brand Hermès is also not part of a brand conglomerate, but a family business, and one that the business has been passed on from one generation to another. On the other hand, the difference with Chanel is that Chanel is owned by the Wertheimer brothers who are the descendents of Coco's early partners that had no kinship with her, physical or even social for that matter because of circumstances.

Among the many dissimilarities between Chanel and other brands, the fact that Chanel is entirely owned by a family that has no blood relations with the founder is the most prominent. More on how this distinctive ownership feature impacts the management will be explained in detail in the section "Independent and Unlisted Strategy of Chanel S.A."

2.3 Global CEO and the President

It may appear strange that there is the Global CEO in addition to the President. However, as mentioned earlier, the Global CEO is the chief operating officer of the Chanel Group consisting of multiple companies and is based in New York. The President is the person in charge of Chanel S.A., which is the operational company, and is based in Paris.

More on the Global CEO Maureen Chiquet will be discussed in "Managers of Recent Years" in the forthcoming paper.

The former Global CEO precedent to Chiquet, Arie Kopelman, is now the Vice Chairman of the board of Chanel.

Véronique Morali, who was named President of Chanel S.A. in 2007, was the general director of a French financial group Fimalac.

Morali's predecessor Françoise Montenay is now the Chairperson at Comité Colbert, which is an association founded in 1954 by the initiative of Jean-Jacques Guerlain of the Guerlain family famous for its perfume. In addition to Louis Vuitton, Hermès and other luxury brands, the members include companies not just in the fashion and jewelry industry but also food businesses, restaurants and hotels. The objective is to collectively promote and support the strengths of the members. Acting as France's major driving force for competitive advantage in the industry, the association is said to also have an impact on the political and bureaucratic world.

It is quite interesting to note that all these four key figures, Global CEO Chiquet and her predecessor Kopelman, and current President Morali, and her predecessor Montenay, whether past or present, have been women. This may indicate the fact that Chanel places more emphasis on women who are the main target customers. It could also

be because the Wertheimer brothers, who prefer to remain reclusive, are making a conscious effort to promote women to responsible positions.

2.4 Affiliated Companies

Among the many local subsidiaries located in different countries and areas of the world, Chanel K.K. based in Japan is one of the most powerful companies.

In 2002, Chanel founded a company named Paraffection S.A. to house independent French artisans. A special collection designed by bringing together each artisan's craftsmanship was named "satellite labs" and has been launched in Japan since the fall of 2003. Some of the couture ateliers involved will be introduced later. Chanel has entered into partnership agreements with others in various forms including equity participation and technical collaboration. Examples will be provided separately in another section.

2.5 Sales

The financials of the company are not disclosed.

However, although the data is a bit old, according to an article published in WWD, estimated sales for cosmetics in 2003 was 1.6 billion U.S. dollars [3] and the total sales of fragrance was 2.2 billion U.S. dollars [4].

The numbers above are a rough estimate just for the perfume/cosmetics division and are fairly outdated. The latest sales figure that includes the fashion/accessories division as well as the growing watches/jewelry division is not disclosed as the company is privately owned.

According to President Collasse, the total sales for Japan-based Chanel K.K. exceeded 70 billion yen (approximately 9 billion U.S. dollars) in 2005 in the country and the company is aiming at 100 billion yen in 2008 [5].

2.6 Scope of Business

In a broad sense, the company is engaged in the "fashion" industry and, as mentioned earlier, its business goes beyond clothing. The scope of business can be divided into the following three categories.

(1) Fashion (Luxury ladies wear, handbags, shoes and accessories)

Luxury ladies wear offered by Chanel includes haute couture (made-to-wear clothing) and *prêt-à-porter* (ready-to-wear clothing). The iconic Chanel Suit and the signature little black dress (LBD), which revolutionized the fashion world and was referred to as "Chanel's Ford," are both available in the haute couture and *prêt-à-porter*

lines. Handbags and shoes also belong to this division as do accessories, which include purses and other leather items, as well as typical items, which people would expect, such as necklaces, earrings, bracelets and belts.

Since the Chanel brand originated out of Coco Chanel's own desire for clothing, it generally only offers fashion items for adult women. Items for men or children (Coco Chanel had no offspring) are not officially produced nor sold. However, according to the store staff and the article [6], Chanel does carry ties for men for women that want to give them as gifts.

Chanel announces a new collection six times a year. There are Spring-Summer and Fall-Winter as part of the ready-to-wear collection, Cruise and High Summer as part of the Cruise collection and Spring-Summer and Fall-Winter as part of the haute couture collection (The "FAQ" of the Chanel website [7]).

(2) Fragrance/Cosmetics

The fragrance division includes perfume, eau du parfum, eau de toilette, body creams and toiletries such as soap. Although Chanel is primarily a brand for women, the line also offers fragrance for men. The cosmetics division is comprised of the skincare line, which includes lotions and serums, and the cosmetics line, which includes eye shadows and lipsticks. Products for the former line are developed after extensive research over time at Chanel's own laboratory and those for the latter line is developed at the makeup creation department in France at a relatively short cycle of four times a year. Many of the new products are available in limited quantities and are offered until they completely sell out [8].

(3) Watches/Jewelry

In addition to company-owned retail stores, Chanel watches are also sold through independent outlets such as upscale department stores and authorized dealers together with those of other luxury brands. While accessories use synthetic stones, only authentic gems such as diamonds are used for fine jewelry. Large-scale fashion boutiques also handle watches and jewelry by Chanel as do boutiques specializing in fine watches and jewelry.

The distribution is tightly controlled for both watches and jewelry items. Watches are also carried by authorized dealers (stores specializing in high-end watches) but jewelry is available only through Chanel retail stores and shop-in-shop boutiques in department stores. Some of the fragrance, makeup and skincare products are available online directly through the Chanel website in certain regions. With the exception of eyewear, Chanel does not license out its name. Even after signing the licensing agreement for the production of eyewear, Chanel does not neglect to oversee the operation of the licensee.

As for the distribution, although it is not easy with the advent of the Internet, necessary measures are taken to prevent the sales through auction sites and circulation of counterfeit items as much as possible.

Unlike Louis Vuitton and Hermès that later added the apparel division to their original offering of luggage items and Cartier that started to sell perfume and leather goods in addition to its lines of luxury watches and jewelry, Chanel is a comprehensive luxury fashion house that extended its business to clothing, fragrance, leather goods and cosmetics fairly early on. Although the product lines are quite extensive, the scope of business has not been expanded without reason. The business has spread out, more so compared to its competitors, as a result of zooming in on the products that are in line with the Chanel philosophy and strategy. Chanel's strategy is to specialize only in the market for which the company possesses the know-how and deems the entry necessary. Chanel must be the only company in the world whose business is so extensive but remains privately held and unlisted. The style of its existence itself is one-of-a-kind. That is what makes Chanel so special as a corporation.

Japan-based Chanel K.K. also has three divisions: fashion, watches/jewelry and fragrance/cosmetics. For example, at Takashimaya Tokyo Store, fragrance and cosmetics are sold on the first floor while ladies wear, handbags, shoes and accessories are sold on the second floor. There is also a shop-in-shop boutique that sells watches and jewelry on the second floor in the same area. These stores are managed separately by each corresponding division. On the other hand, at the flagship store in Ginza shopping district and the boutique in Omote-sando in Tokyo, the primary focus is on ladies wear, handbags, shoes and accessories with a small section for fragrance, cosmetics, watches and jewelry. These stores are controlled solely by the fashion division.

2.7 Chanel's Global Vision

Chanel employees all share Chanel's global vision in mind. According to sources, not every year, Chanel presents a vision whenever the company aims at achieving a big change. The vision announced at the beginning of 2008 was to be "The Ultimate House of Luxury, defining style and creating desire, now and forever."

The expression "now and forever" suggests the timelessness of the brand. Reflected in the word "style" is the founder Coco Chanel's philosophy to stress her belief that fashion changes but style endures. The phrase "The Ultimate House of Luxury" shows Chanel's commitment to producing luxurious and high-quality products as a label being at the opposite end of mass production and the company's dedication to skilled

craftsmanship.

At the foundation of Chanel's global vision is Coco Chanel's philosophy and values that have been passed on to the workers. The vision compels workers to constantly change with the times and the environment, which was another value stressed by Coco Chanel. The mission and vision are implemented throughout the operation.

As President Richard Collasse of Chanel Japan puts it, "Chanel itself is the world's top brand of absolute luxury." The first-class market is and will always be the market in which Chanel strives to be the best.

Having said that, Chanel is not a brand for elitists. This is another distinct attribute of Chanel. Although it belongs to the category of luxury brands, unlike others such as Hermès and Louis Vuitton, Chanel did not emerge as a result of the needs of royals and aristocrats. Chanel was a brand that underprivileged Coco Chanel developed out of nothing.

Although Chanel ended up being well-received by affluent consumers, it was never the intention of the founder to be positioned as a luxury brand. Growing up poor, Coco Chanel was anything but a professional designer, seamstress or an entrepreneur when she started the business. The brand celebrated its 100th anniversary in 2010 but the weight of its history is quite significant in comparison to that of Hermès and Louis Vuitton, a well-established label that had been favored by the aristocrats in the 19th century.

The following sections will touch on how the vision is engrained in the operation of the company.

2.8 Extent of Operation

Currently, Chanel operates its business in five regions, each of which is led by regional heads. All regional heads report directly to the Global CEO. Compared to LVMH and Gucci Group and other giant brand conglomerates that are more centrally controlled, Chanel takes more of a local approach that allows greater freedom and autonomy in the management.

"It tightens the consistency and speed of decision-making." Arie L. Kopelman, the former CEO and current Vice Chairman of Chanel, praises the company's organizational structure. "When you factor in a far more competitive world, this is the only way to go [9]."

The Japanese subsidiary Chanel K.K. has eight company-owned retail boutiques (five of which are in central Tokyo) such as the Chanel flagship store in Ginza, 30 shop-in-shop boutiques (eight of which are in central Tokyo), such as those in Takashimaya

Tokyo Store and Mitsukoshi Nihombashi Main Store and 13 boutiques that specialize in Chanel watches and jewelry (five of which are in central Tokyo) including the main store inside the Imperial Hotel Plaza in Tokyo. Let's compare these numbers to the boutiques in Paris, where Chanel was founded. There are five company-owned retail boutiques (one of which specializes in shoes), seven shop-in-shop boutiques (three of which specialize in shoes) and four boutiques specializing in Chanel watches and jewelry. The concentration of Chanel boutiques in Tokyo is undeniably remarkable.

Chanel employees all share Chanel's global vision in mind. According to sources, Chanel presents a vision whenever the company aims at achieving a big change. The vision announced at the beginning of 2008 was to be "The Ultimate House of Luxury, defining style and creating desire, now and forever."

President Richard Collasse heading Chanel K.K. is also in charge of the Asia region. Collasse is the key figure in Asia as he is the one that oversees the operations in the growing markets in China and India on top of the already flourishing Japanese market.

3. History of Chanel S.A.

The timeline of Chanel S.A. is shown in Table 2.

Following the death of Coco Chanel, who was never married and had no children, Wertheimer family took over the full ownership of the company. It is not a well-known fact but the brand created by Coco Chanel is run by millionaire brothers that have no blood relations to her. It was in 1922 (or 1921, depending on the source you refer to) when Pierre Wertheimer, the grandfather of the current owners, met Coco for the first time. They officially became business partners in 1924 [10].

The following sections explain the history of Chanel in terms of five defining time periods.

Table 2. Timeline of Chanel S.A.

1922	Pierre Wertheimer meets Coco Chanel through Théophile Bader.
1924	Pierre Wertheimer agrees to back up Coco with her newly developed perfume. Les Parfums Chanel is founded.
1939	Coco closes all boutiques except for the one dealing in perfume and accessories and retires temporarily.
1954	After living in exile in Switzerland after World War II, Coco comes back to Paris.
1971	Coco passes away.
1974	Alain Wertheimer takes control over the company.
1983	Karl Lagerfeld is hired as the chief designer of Chanel.
1996	Chanel acquires Holland & Holland.
1997	Chanel acquires Eres, a high-end swimwear label.
2001	Chanel acquires Bell & Ross, a luxury watchmaker.
2002	Chanel acquires milliner A. Michel et Cie and embroidery house Lesage.

Source: <http://www.fundinguniverse.com/company-histories/Chanel-SA-Company-History.html>
<http://biz.yahoo.com/ic/93/93472.html>

3.1 Period between Establishment of Business and Temporary Closure (1939) — Small Private Shop to Big Business

The origin of Chanel dates back to 1910 when Coco Chanel started a millinery shop in Paris. Business boomed after the release of a new perfume “No. 5” in 1921. The pristine perfume was actually developed by Ernest Beaux, who later was hired as the first chief perfumer of Les Parfums Chanel. Since Coco Chanel did not have the facility nor the know-how for producing perfume, the operation was quite manual, with the products being created at Beaux’s perfume house and sold at Coco’s shop. More details will be discussed later.

It was Pierre Wertheimer that helped Coco shift the rather manual operation to a professional perfume business. Coco partnered with Pierre for his strong capital, business connections for distribution and know-how in manufacturing.

In 1922, Théophile Bader, founder of the successful department store Galeries Lafayette, introduced Coco to Pierre. A friend of Bader, Pierre owned France’s largest cosmetics and fragrance manufacturer called Bourjois and had the infrastructure and

know-how for both production and distribution. In 1924, Les Parfums Chanel was founded and a factory was set up in Neuilly, France. Coco owned 10% of the perfume company as the original chair while Pierre Wertheimer owned 70% and Théophile Bader owned the remaining 20%.

Chanel's approach in which a couture house partnered up with a sound perfume company to expand its perfume business and fund its original venture has set a standard in the perfume industry [11, 12, 13, 14].

By 1934, the relationship between Pierre Wertheimer and Coco Chanel had started to deteriorate. Coco resigned from her position as the chairperson to show her resentment toward the company's decision to sell cosmetics under the Chanel name. She thought it would destroy the brand image [15]. It is said that the friction stemmed from her dissatisfaction did not get resolved until 1947.

While the business had a number of issues as mentioned above, Coco Chanel built her fame and reputation by coming up with iconic products and the signature style of Chanel such as the Chanel suit as well as the little black dress (LBD) often compared to "Chanel's Ford" in addition to her perfume products.

3.2 Hiatus during Coco's Exile

In 1939, due to the workers' strike and the outbreak of World War II, Coco closed all the boutiques in Paris except for the one carrying accessories and perfume. The Wertheimers fled the country and landed in the U.S. where they continued to manufacture and sell perfume under the Chanel brand. On the other hand, Coco was manufacturing her own line of Chanel perfume in Europe, which was another factor that further soured their relationship.

Coco remained in Paris after the Germany's occupation of France to continue to fight so she could take control of Les Parfums Chanel. But the Wertheimers smartly protected their rights by making a proxy run the business in France [16]. After all, the two parties reached a provisional settlement in 1947. Apparently, there were some financial terms and boundaries redefined. While Coco received dividends and royalty from the Chanel products, she was to step away from the management of the perfume company and immerse herself in haute couture. By 1947, with the shares they bought back from Bader, the Wertheimers became to own 80% of Chanel.

It is true that the Wertheimers and Coco had had a lot of conflict but it was not necessarily all destructive. This is because if it were not for what the Wertheimers did during the war, there probably would have been no Chanel today. It was Pierre

Wertheimer that protected Chanel's supplies of jasmine and *rose de mai* essence, the key ingredients grown in the Grasse region for the "No. 5" formula.

Pierre fled from Paris to New York in 1940 but sent someone to Grasse to obtain the vital flower extracts and the formula for "No. 5" [17]. This is why he was able to increase the market share of "No. 5" in the U.S. during the war. After the liberation of Paris, Coco fled from France to Lausanne, Switzerland due to rumors of her collaborating with the Nazis. When Coco made a comeback in 1954, her collection was applauded first by Americans. In addition to the design and style that appealed to them, the popularity of the perfume "No. 5" definitely helped to build the foundation for the success for the fashion line.

3.3 Coco's Comeback and Her Death

When Coco approached Pierre for business advice and financial backing to reopen her boutiques in Paris in 1954, Pierre agreed to help her despite their battles in the past. This is probably attributable to the following two reasons: (1) Pierre had deep respect for Coco's talent and energy [18] and (2) he thought the return of the prestigious Chanel couture was the only way to boost the perfume's image and increase its sales [19].

With Pierre's backing, Coco Chanel made a comeback in 1954 with her collection. It was not received well by the Parisians but gained tremendous support from Americans, many of whom worshiped her style as the "Chanel look."

Coco Chanel and the company Chanel made a triumphant return to the fashion world. There was some undeniable boost resulting from free publicity through high-profile celebrities, such as Marilyn Monroe declaring that the only thing she wore to bed was "No. 5" and Jacqueline Kennedy wearing a pink Chanel suit, which ended up being splattered with blood, at the time of JFK assassination.

Around the same time, the company made an important pledge that it has maintained to this day. It was to never go into licensing its products.

Acknowledging the huge popularity of the Chanel look in the U.S., Coco Chanel sold her original creations and patterns to fine clothing shops and tailors and let them freely copy her work but she never allowed them to use the *griffe*, the sign of the house which guarantees authenticity. While other couture brands were getting into the licensing business by selling the original pieces, patterns and the *griffe* at extremely high prices, Chanel did not follow [20]. It has actually maintained a strict licensing policy to this day. This must be one of the pillars that support Chanel as the "ultimate luxury brand."

Following her miraculous comeback and successful positioning of herself at Chanel,

Coco entered into a final agreement with Pierre Wertheimer. The new arrangement allowed Pierre to secure the rights to the Chanel name for all products that bore it, including clothing and perfume. In return, Pierre agreed to pay for all of Coco's personal expenses, including the rent and taxes for the Rue Cambon studio for as long as she lived.

After her return to the fashion world, Coco continued to create many icons, styles and products, such as the chain-strapped handbags and bicolor shoes, which have provided the basis for the Chanel style today. Coco Chanel passed away in 1971 at the age of 87. Since Coco was never married and had no heirs, the Wertheimers took sole ownership of Chanel following her death. The family members remain owners to this day [21].

3.4 Blank Era after Coco's Death

After Coco's passing, Chanel remained in the couture business with the help of the staff members that had been working with Coco. Based on her will, Coco's inheritance was donated to Coga Foundation in Switzerland to pay her employees' pension and endow gifted young artists [22]. Just like Coco's first lover Balsan, Pierre Wertheimer bred horses and participated in races. He was actually known for establishing one of the finest racing stables in the world [23]. When Pierre passed away six years before Coco did, his son Jacques took control of the Chanel operation in 1965. Jacques was known for his interest in the family's racing stables and horse breeding operations but unfortunately he did not direct as much attention on the operation of the luxury brand Chanel.

Repeated mismanagement by Jacques was blamed upon for lowering the image of the perfume "No. 5" among the Americans to one that was passé and mediocre [24]. Frustrated with the business's poor performance, Jacques's 25-year-old son, Alain Wertheimer, took over in 1974. Alain did not have much business experience aside from his internship at Moët & Chandon, but it is now obvious that he was very fit for running the fashion house. Currently, he owns the controlling interest of Chanel together with his younger brother Gérard.

At the time Alain took over the operation, "No. 5" was still the leading brand in the global perfume industry. It had 4% of the share in the U.S. perfume market, which was valued at a total of 875 million dollars. The sales of "No. 5" started to lag, however. Alain made efforts to revamp the brand, starting with improving the image of "No. 5" in the U.S. market. (Details on his methods and the results will be explained later in a separate section.) Also, he started selling cosmetics and launched Chanel's first *prêt-à-porter* line, which Coco refused to offer until she died. This was an important period during which workers that later became the key persons of Chanel joined the company. One of the

most noteworthy of them was Kitty D'Alessio, who was hired in 1980. It is not an exaggeration to say that she was the person that let Karl Lagerfeld exert his talent to give the brand Chanel a total face-lift [25, 26].

3.5 The Era of Karl Lagerfeld

Alain hired Kitty to take charge of the fashion operation and she in turn employed Karl Lagerfeld, the German designer for Chloé, to take Coco's place as the creative director in 1983. He has become the late Mademoiselle Coco's replacement and he himself has become an icon in the fashion world.

Starting off as the chief designer (artistic director, to be exact) for the haute couture collection, Karl became in charge of designing the *prêt-à-porter* line and accessories in the following year. His beautifully tailored Chanel suits that costed more than 15,000 dollars (which was the price in the 1980s, if we may add) were adored by fashion icons such as Princess Caroline of Monaco, Ivana Trump and Queen Noor of Jordan [27].

The haute couture line was not a cash cow per se, but the fame and reputation it generated revamped the entire brand image and positively impacted the sales of fragrance, leather goods, accessories, jewelry and other products. Alain's grandfather Pierre knew for sure that this approach would work when he first became partners with Coco. His strategy of winning recognition with fashion to finance other operations was truly right on the mark [28].

Thanks to the efforts of Alain Wertheimer in the 1980s and 1990s, Chanel's performance improved remarkably. Not only was Chanel the global leader in the fragrance industry, it was also considered the top innovator in fragrance advertising and marketing in the 1990s. Chanel continued to invest more money on advertising than any other perfume company and attained the highest profit margins in the industry. Such success helped further develop the product lines that included watches, shoes, high-end clothing, cosmetics and accessories.

In the documentary film "Lagerfeld Confidential," Karl mentioned that when he started his career at Chanel, the brand was a Sleeping Beauty. "Not even a beautiful one. She snored. The owners knew that. That's why they called me," he said [authors' abstract from "Lagerfeld Confidential"].

Instead of breathing an entirely new life into the brand Chanel, Karl's tactic was to resurrect the style invented by Coco Chanel. However, not many knew about what it took to revive a brand, let alone shared such concept in 1983 and apparently people around him were skeptical of his approach. They criticized that he was taking Chanel

back to her grave. Karl took that as a good sign. He thought that people being unresponsive would have meant total death, but any kind of reaction, even a negative one, indicated that there was still some life left in Chanel.

An article written by Dana Thomas describes Karl's strong trusting relationship with Alain Wertheimer. The interview with Karl reveals the true reason for his 30-plus years of dedication to Chanel. "If it weren't for him, it would never work," Karl explained. The "pact" between the two has given Karl the sense of security that Alain will always be 100 percent behind him and he could do whatever he thinks is best for Chanel, even if the political or commercial idea is against it. Based on the relationship of mutual trust, he knows that Alain will let Karl's opinion come first [29].

Such trustworthy relationship is only possible because Chanel is privately owned by the Wertheimer family exclusively, who do not have the obligation to reveal any sales figures. This means they can invest in the long term even if the undertaking appears inefficient and does not bring in immediate profits. More will be discussed in the next section "Independent and Unlisted Strategy of Chanel S.A."

As an aside, rumor has it that Karl took the job as Chanel's chief designer for an annual salary of 1 million dollars. This estimated figure was reported in the fashion magazine WWD based on Karl's comment that he would never take a job that was less than 1 million. After 20 some years of being in the position, how much he is making now remains a mystery. Generally the details of the contract between brand labels and their chief designers, creative directors and artistic directors are not disclosed and very few publications dare to estimate. But it is probably safe to assume that the financial arrangement negotiated between Chanel and Karl involves money on a scale several times that of other brands.

Chanel's history can be divided mainly into two parts: the time period when Coco was alive and that after she died. This paper has attempted to refer to as many post-Coco stories as possible to uncover the history of Chanel. There are already many excellent studies done with regards to the period when Coco was alive and when Coco's work was pretty much synonymous with what was going on in the company. However, not much has been revealed about the post-Coco era during which the company has made the effort to grow while carrying on her spirit as the core value of the brand [30, 31].

4. Independent and Unlisted Strategy of Chanel S.A.

Chanel S.A. is an independent and unlisted company, which enables it to foster its technologies and businesses with a long-term vision.

Chanel S.A. has not been listed at all since it was founded and has been managed without belonging to a conglomerate such as LVMH, Richemont, or PPR (Gucci Group). Considering the reputation and popularity of the company, it is not surprising that speculations that Chanel would be taken over by another company has been rife.

Mergers and acquisitions are generally done between companies in the similar trade so they can complement each other in their operations. However, there is a different type of corporate strategy to grow by merging repeatedly with or acquiring companies engaged in entirely different businesses and operate under one corporate structure. This is called a conglomerate or a multi-industry company. The term originates from the Latin word, *conglomerare*, which means “to wind into a ball” and has a connotation where heterogeneous elements are gathered into a mass. Since the company’s resources do not focus on just one aspect of the business, not only does it allow it to diversify the risks, but it also produces synergistic effects that empower the entire group by maximizing the brand value and sharing the distribution channels. Belonging to a conglomerate can greatly benefit the company in all aspects of the value chain, including the production, distribution and marketing. Also, if the group is publicly traded, it becomes possible to gain competitive advantage from the funds and capital raised through stocks.

The growth and operation of a luxury brand, especially one with a haute couture line, involve a great deal of capital. Therefore, it makes more sense to go public in order to obtain necessary funds. Then, why is it that Chanel stays independent and unlisted?

The reason is probably because Chanel’s operational flexibility, which is heavily dependent on the fact that they are unburdened by shareholder liabilities, is exactly what helps maintain and develop the value of the brand and the company.

The management style of the owner Alain Wertheimer, which focuses on the long-term investment aiming at growth and not at quick returns by selling off businesses [32], reflects Chanel’s commitment to remaining private.

If there are plural shareholders they always interfere in the business and it becomes difficult for the company to foster the business with a long-term vision. Furthermore, there are many cases in which the company loses its originality, brand identity, and corporate identity and becomes stalled, although the authors will not reveal anything else, since it is not appropriate to hurt someone’s feelings. In addition, the shareholders have sometimes forced the brand to expand into diffused lines or to adopt a licensing business arrangement and the brand then lost its brand value. It is rare for a company to regain brand value that has been lost. If the brand belongs to a brand conglomerate there is a risk that it will suffer from incompetent management of the other brands. If everything is

running well there is no problem. If something is wrong with one brand, an adverse impact on the whole group is unavoidable.

Chanel S.A. can avoid this situation because it is an independent and unlisted company and the funds available to the owner are sufficient. It is often the case that the strength of the Chanel brand is due to the progressive approach to creativity by the founder Coco Chanel and the talent of the designer Karl Lagerfeld and they are often focused on. However, the authors consider that its form as an independent and unlisted company should be more emphasized as a strength of Chanel.

The French cosmetics company Clarins announced its intention to go private in June 2008. Taking Chanel as its model example of a privately owned business, the company indicated that going back to the private sector would allow Clarins to expand its operation in a more realistic and reliable manner. Clarins had been publicly traded in the Paris Stock Exchange for 24 years. With the delisting, the ownership of the company returned again to the founding Courtin-Clarins family. The move was as the result of the company's desire to be able to allocate its resources based on its own discretion, not on the interest of the shareholders just like Chanel. The idea behind it was that not having to worry about the criticisms by the shareholders, even in the event of hardships, would help the company achieve its full potential [33].

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