INTELLIGENCE

For American Fashion, A Changing of the Guard

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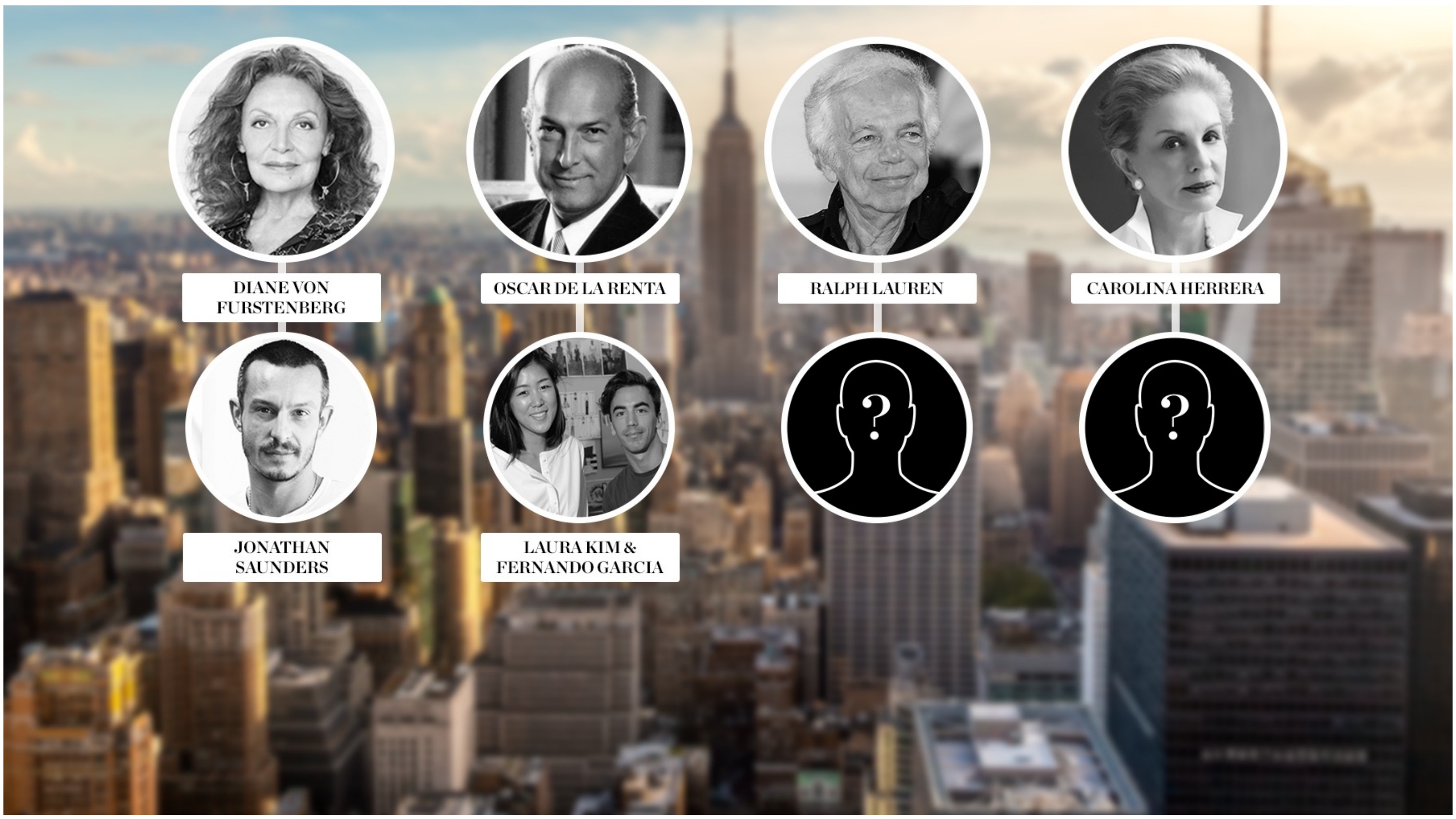
Many of the country's most influential founder-led fashion brands are navigating their first attempts at succession planning.



NEW YORK, United States— Perhaps no designer is as closely associated with her brand as Diane von Furstenberg, whose wrap dress helped to define 1970s fashion and is now considered a classic. But about five years ago, von Furstenberg, who turns 71 this year, decided that she wanted to focus more of her day-to-day on philanthropy. "My third act," as she calls it. In May 2016, Scottish designer Jonathan Saunders, whose aptitude for print and colour aligned well with von Furstenberg's vision, joined the brand as chief creative officer, taking over the creative direction of the company.

“I really have been thinking about it for a long time,” von Furstenberg says. “I remember when Jonathan appeared on the scene [in the early 2000s] and I immediately loved his work; I thought it was so fresh. I loved his eye, his patterns and his sense of colour. When I found out last year that he was available, I immediately contacted him.”

A year into Saunders’ tenure, the company is facing widespread market challenges — from a waning wholesale model to the rise of new brands popularised on social media — by turning out exuberant, original designs that communicate the label’s joie de vivre. “He changed the logo, changed the look of the store — he did a lot in less than a year — and yet, somehow, it’s very DvF,” she says. “It’s like a marriage. You’ve got to be lucky.”

But like many marriages, it has not always been smooth sailing. In November 2016, chief executive Paolo Riva — who von Furstenberg previously called an “heir” who could steer the company “for the next decades” — resigned, along with other senior members of the team.

Saunders’ arrival at DvF has also underscored a particularly tough challenge many well-known brands face: After years in the spotlight, a founder’s big personality often outshines the product. In response, Saunders has been adamant about separating his creative vision from von Furstenberg, insisting that she not attend his first presentation.

“He pushed me aside, and I wanted him to. But nevertheless, it’s always a little strange,” she says, reflecting on the transition. “It was the right thing to do. Of course, it’s very risky and difficult with the founders of brands. The brand is so entwined with the person and the life.”

In years to come, DvF may, in fact, serve as one of the best examples of how a founder-led fashion brand can elegantly and respectfully negotiate the inherent turbulence of bringing in new leadership without irrevocably damaging its DNA, something with which several of von Furstenberg’s peers are currently wrestling.

Many of America’s top fashion houses — from Ralph Lauren to Carolina Herrera — are currently grappling with the reality that their founders will not remain at the helm forever. While there are several European houses facing succession scenarios in the not-so-distant future — including Versace and Chanel – few, other than Armani, remain founder-led.

And unlike decades-old European houses, many of which were small financial entities when they were acquired by the luxury conglomerates over the past 30 years, most of these American brands are multi-billion-dollar businesses, relying financially on things that no longer resonate with consumers, such as down-market licensing or mass mid-market distribution. They also tend to be more focused on wholesale, while the European conglomerates have made easier-to-control direct retail — and real estate — a larger part of the business.

“In some cases in Europe, it’s already the sixth generation of designers,” says Lewis Alexander, who consults on executive search and organisation structure for luxury brands. “American houses have allowed the businesses to lead. At many companies, the merchants have more power than the creative. Now, they need to evolve or crumble.”

This inevitable wave of successions comes at a challenging time for the American fashion business, as the way clothes and accessories are made, marketed and distributed is changing dramatically. Many of the sectors largest brands are struggling to evolve.

Calvin Klein retired from his company shortly after selling it to PVH Corp. in 2003, but the majority of his contemporaries are still leading their brands. Ralph Lauren, for one, has long managed both the creative and financial sides of the business, which generated $7.4 billion in net revenues in the 2016 fiscal year, a massive-but-declining number (down 3 percent on a reported basis from the year previous).

In November 2015, Ralph Lauren hired Gap Inc. and H&M veteran Stefan Larsson as chief executive in an effort to reverse the trend of declining sales and shrinking profits. Parts of Larsson’s “Way Forward” turnaround plan — including closing underperforming stores and peeling away unnecessary layers of management — have been implemented. However, the executive exited the company in May 2017 less than a year on the job after disagreements with the founder (who is also the executive chairman) over the company’s strategic direction.

“Stefan and I share a love and respect for the DNA of this great brand, and we both recognise the need to evolve,” Lauren stated at the time of the announcement. “However, we have found that we have different views on how to evolve the creative and consumer-facing parts of the business. After many conversations with one another, and our board of directors, we have agreed to part ways.”

Just weeks after Larsson's official departure, the company announced that Procter & Gamble veteran Patrice Louvet would join in July 2017 as its new president and chief executive. "[Louvet] is an enormously skilled business leader with a deep passion for the consumer and a sophisticated understanding of building global brands," Lauren said in a statement. "This, combined with his collaborative working style, transformation experience and intense focus on results, will put us in a stronger position as we move toward the future." (The company declined to participate in this story.)

In the coming years, younger brands including Marc Jacobs, Tommy Hilfiger and Michael Kors — all major American fashion players — will have to begin thinking seriously about succession. It's likely that not every one of these brands will survive, at least not in their current iteration. Donna Karan's namesake house closed its doors after a restructuring by then-owner LVMH, although she continues to design under the Urban Zen moniker. (In December 2016, apparel group G-III closed a deal to acquire Donna Karan International, Inc. from LVMH $650 million. The women's segment of its diffusion line, DKNY, will now be sold exclusively at Macy's, but the namesake brand remains dormant.) Halston and Bill Blass, contemporaries of Oscar de la Renta, now operate in less prestigious corners of the market.

Failed successions — whether they are on the executive or consumer-facing side of the business — are failures for many reasons, but the biggest is a lack of planning.

"Many companies treat the CEO succession as a one-off event triggered by the abrupt departure of the old CEO rather than a structured process. The succession is therefore often reactive, divorced from the wider system of leadership development and talent management," McKinsey's Åsa Björnberg and Claudio Feser wrote in a 2015 report. "This approach has significant risks: potentially good candidates may not have sufficient time or encouragement to work on areas for improvement, unpolished talent could be overlooked and companies may gain a damaging reputation for not developing their management ranks."

When the person being replaced is also the creative visionary and founder of the company, emotions are even more heightened. "Whenever you have founders involved, it's about finding the right people that strike the balance between being respectful of the heritage and helping bring the company into the new era," explains Caroline Pill, vice president of global executive search at Kirk Palmer Associates. "If it's a failure, it's a failure for everyone."

The solution, then, is to face the scenario head on, and well in advance. “Ideally, succession planning should be a multiyear structured process tied to leadership development,” Björnberg and Fesser wrote.

For Oscar de la Renta, succession planning began years before the passing of its namesake designer in October 2014. Mr. de la Renta’s chosen successor, Peter Copping, joined the company that same month.

But less than two years after Copping’s appointment, he departed, soon to be replaced by Laura Kim and Fernando Garcia, two longtime employees of the house who had launched their own well-received collection, Monse, and consulted for Carolina Herrera in the interim.

“It was a complicated process that was so personal to Oscar. He built this house, he built this brand,” says Alex Bolen, the company’s chief executive since 2004. (He is also the designer’s son-in-law.) “To balance business with family… did we do a perfect job with it? No, we did not, but we are in a great place and Oscar would be very happy.” Whether or not Kim and Garcia’s vision for the house will result in a stronger business remains to be seen. But they are known for their commercial success, having worked on a best-selling collection at Carolina Herrera.

Disagreements around Kim’s contract at Carolina Herrera resulted in a much-ballyhooed lawsuit, which also revealed tensions between Herrera and her potential successor. While the lawsuit was resolved earlier this year, it underscored the house of Herrera’s own need to find a successor for its namesake, whose business generates well over $1 billion in retail sales annually — driven, in large part, by a robust fragrance offering and apparel licensing.

Herrera’s New York atelier, where it creates ready-to-wear and wedding gowns, needs a creative leader to support the namesake’s vision and dream for the house, which helps to sell more affordable product. The difficulty is finding the right match.

While newly appointed Carolina Herrera president Emilie Rubinfeld would not comment on a succession plan for Herrera specifically, she did emphasise the importance of recruiting talent for the label’s New York City atelier, which requires attracting a small pool of high-level sewers, pattern makers and designers. “Carolina Herrera is so synonymous with a specific set of codes, and that’s a unique strength,” she says. “We are investing in talent on the design team and the atelier team to continue building and growing this business and sustaining the mission that we believe in so much.”

Some American houses have looked abroad for new talent, from Stuart Vevers at Coach to Raf Simons at Calvin Klein, as European designers have a better track record when it comes to creative refreshes. However, this approach, as illustrated by Copping's turn at Oscar de la Renta, is not always successful.

"American education doesn't focus on creativity, it focuses on business. Americans can stand up for themselves, they have bigger personalities, versus the Europeans who are a little bit more inclined to have the artistic temperament," Alexander says. "There are some who buck the trend — such as Jonathan Saunders, [Joseph's] Louise Trotter, Hedi Slimane or Raf Simons, who are incredible at the left brain and right brain. They'll have their voice heard."

"The couture training is in Europe," notes Rubinfeld. "That being said, there is lots of talent in New York in particular. We also offer apprenticing programs so young talent in our atelier and studio can learn."

And for companies like Herrera and Oscar de la Renta, which are private, there is the luxury of restructuring behind closed doors. "They may be able to take a longer view on measuring success because they don't have pressure of external voices and financial markets," Pill says. At least a little bit longer.

"I own my brand, so for me to make that decision, in a way it's easier and in a way it's harder," von Furstenberg concludes. "Jonathan has proven to be such a good idea.... He's a true leader. My role is to support him, [hire] the right people around him, and provide the proper financing. Of course I'm superstitious, and a little [apprehensive] to say it aloud, but I really think he is my heir."

"Private companies have time," adds Pill. "That's really the massive difference."

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