

# [Minicase luxury wars](https://assignbuster.com/minicase-luxury-wars/)

United States, France, Germany, and Western Europe. Hermes International is a multi-billion dollar French business owned and controlled by the Hermesfamily. The business makes and sells luxury goods across numerous product categories. After being passed down through several generations the company decided to list its share on the public market for the reasons listed below: To provide family members with a means to value their stake in the company To allow partial 'cash-outs' if dividends alone were insufficient, knowing that some family members were known to maintain lavish lifestyles

To raise capital while still being able to influence important decisions (like electing the CEO or Chairman), and still controlling the strategic and operational decisions of the firm To obtain financing that would support the long term development of the company and to accommodate ease of trading for shareholders in transfer of ownership. B. What risks comes from a public listing? Amidst the several advantages of going public there are equally associated risks for a company to consider when making such decisions.

The list below, while not exhaustive, identifies some of the risks associated with a company ongoing public: The agency problem. When a company goes public it runs the risk of minimal interest. The potential for this conflict comes along as the objective of management and owners may not be aligned. Note that in the case of Hermes International for the first time ever the current CEO is not a family member. Without adequate controls going public can distort long-term vs.. Short-term value minimization. Privately held firms usually have long-term value minimization while publicly held firms tend to focus on quarterly earnings.

Earnings now have to satisfy shareholders and not just support the Emily. Focus on profitable growth may change as decisions taken may be consistent with impatient capitalism. Things happen in the company and owners are unaware. Note the Renault and Elvis's share acquisition. Loss of control of the company (limited control as to when shareholders go to the secondary market and no control over equity swaps on some amount of the company's shares) Loss of confidentiality and flexibility due to regulations of the security and exchange commission.

Vulnerability to take over should the stock price decline significantly. Increased capital can allow Coo's adequate opacity to take on additional projects that are not aligned with the interest of shareholders. With the long list of risks to which company IIS are exposed after going public, there are measures can be taken to minimize the impact of the risks to shareholders, These controls can come in the form of stock options (restricted or open), management compensation packages, or an instituted holding company to represent and manage shareholders.