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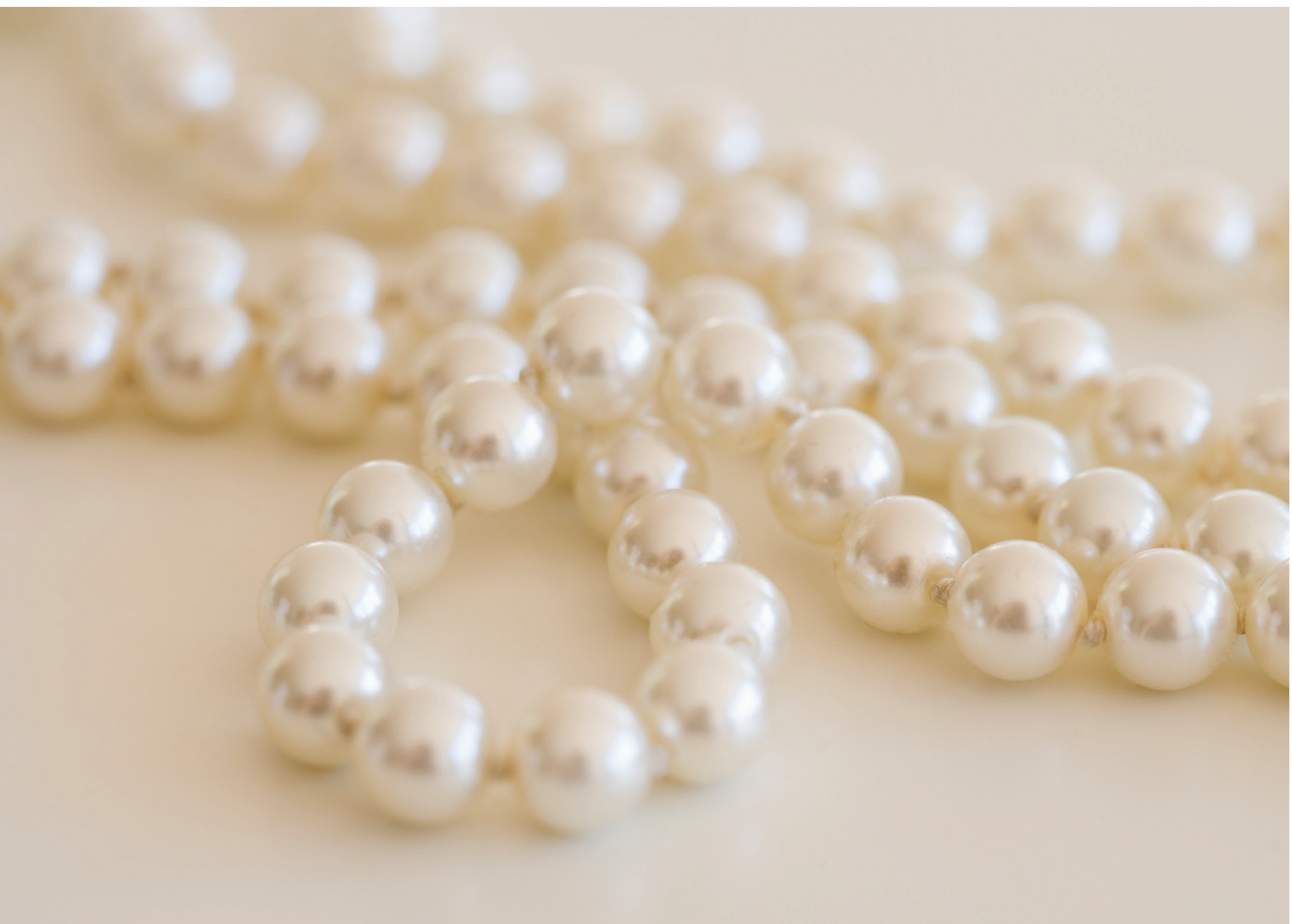
Global Powers of Luxury Goods 2014

In the hands of the consumer

Fashion & Luxury
Inspired insights, crafted results



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Deloitte Touche Tohmatsu Limited (DTTL) is pleased to present the 1st annual *Global Powers of Luxury Goods*. This report identifies the 75 largest luxury goods companies around the world based on publicly available data for the fiscal year 2012 (encompassing companies' fiscal years ended through June 2013).

What is luxury?

While we all recognize luxury, definitions are hard to agree on. Some define luxury by a list of attributes, others by price, and still others by exclusivity of distribution. The issue has become more complex as corporations took ownership of many luxury brands, and as lower price points and broader distribution put ownership of many luxury items into the hands of the masses.

This report frames its discussion around Euromonitor's definition of luxury goods products, which includes aspirational or premium brands as well as traditional ultra-luxury. (Please refer to the "Study methodology" section for more details). It focuses on four broad categories of luxury goods: designer apparel (ready-to-wear), handbags and accessories, fine jewelry and watches, and cosmetics and fragrances. It excludes the luxury categories of automobiles, travel and leisure services, boating and yachts, fine art and collectables, and fine wines and spirits.

The report also provides an outlook for the global economy, an analysis of market capitalization in the industry, an overview of M&A activity in the luxury goods sector, a discussion of major trends affecting luxury goods companies, and a look at the retail and e-commerce operations of the largest 75 luxury goods companies.

Global economic outlook

As the global economy recovers, the global luxury industry is growing accordingly. Not unexpectedly, growth is disproportionately focused on the Asia Pacific region. Although economic growth has lately slowed in much of Asia, this is to some extent offset by the rise in income inequality. Thus, income available to upper income households is growing faster than overall income. The near term future of the luxury market will depend, in part, on how the global economy evolves. In the pages that follow, we offer our view on the economic outlook for the major markets and the potential impact on purveyors of luxury products. Ours is a baseline view. Yet it should be noted that unexpected political decisions, by leaders or voters, could relegate our predictions to the rubbish bin. Still, we hope that what follows offers a useful road map.

China

China is the world's fifth largest luxury market according to Euromonitor and, sadly for luxury producers, the Chinese economy has slowed considerably. The critical manufacturing sector has been stung by slow overseas growth, a rising value of the yuan, and rapidly rising wages, all of which have hurt export growth. Instead, the economy has relied heavily on domestic demand, especially investment in fixed assets. This has been fueled by massive borrowing by local governments, corporations, and individuals investing in the frothy property market. Unfortunately, the growth of debt, mostly off the balance sheets of banks (in the so-called shadow banking system) has created a sizable risk to the Chinese economy. This threatens to either derail economic growth or cause further problems in an economy already suffering from serious imbalances. Although the massive investment in fixed assets has maintained employment, it has often generated negative returns. It has not contributed to the ability of the economy to grow. The government will likely have to bail out troubled financial institutions, force them to reduce lending, and thereby cause a drop in economic growth. The best way to avoid a serious crisis would be to implement significant reforms of the financial system as soon as possible. As such, the government recently announced a range of reforms intended to create a more normal economy.

The reform program proposed by the Chinese government is radical yet cautious at the same time. On the one hand it proposes increased competition for state-owned enterprises (SOEs). On the other hand, it fails to propose privatization of SOEs. On the one hand it proposes to protect private property rights, but on the other hand it fails to give up state ownership of land. On the one hand it does much to decentralize economic power by empowering the private sector. Yet on the other hand, it pulls more power into the hands of the central government, often at the expense of local and regional governments. As such, it is a mixed bag of reforms.

Despite a bit of ambiguity, it is clear what the government generally hopes to achieve. The reforms, if implemented successfully, should lead to faster economic growth, less financial risk to the economy, and a shift in growth away from investment in fixed assets. In addition, the reforms tackle a variety of social issues. The reforms will lead to greater fairness by promoting more income equality as well as a more powerful and less corrupt judiciary. Finally, the reforms are somewhat conservative in that they should help to stabilize the economy and society by engendering greater predictability. There should be more transparency of financial markets and SOE finances, more professional management of SOEs, less reliance on the decisions of fickle local officials, and more reliance on market forces to determine allocation of resources.

As for the luxury market, it depends on a robust consumer market and continued growth of the upper income cohort. On the one hand, the reform agenda proposed by the government should shift growth away from investment and toward consumer spending. On the other hand, efforts to reduce income inequality could lead to disproportionate growth of lower to middle income cohorts—although it will probably take a few years before this is manifested. In addition, the government's recent crackdown on corruption has resulted in a sharp drop in official gift giving. Going forward, this could have a negative impact on the luxury market.

Japan

Japan is the world's second largest luxury market after the United States, according to Euromonitor. Yet, during the past five years, luxury sales have grown more slowly in Japan than in any other Asian market. The problem was stagnant growth for much of that time. However, things started to change last year following the implementation of a new economic policy known as Abenomics. Having grown rapidly in the first half of 2013, Japan's economy slowed in the second half. Still, economic performance in 2013 was the best in years. This was largely a result of the monetary policy component of Abenomics (the other components are fiscal stimulus and deregulation). The monetary policy has involved sizable asset purchases by the central bank designed to suppress bond yields, create inflation, suppress the value of the yen, and boost consumer and business willingness to spend. So far it has been a modest success. Inflation is finally returning to Japan, albeit modestly. Bond yields remain low, thereby creating an environment of low capital costs which encourage investment. The yen has significantly depreciated, thereby helping export competitiveness and helping to revive Japan's manufacturing sector. A sizable increase in wealth, due to higher equity prices, has boosted consumer spending.

Despite the positive news from Abenomics, there are reasons for concern. First, Japan experienced a large increase in the national sales tax in April. This was already in the pipeline prior to Prime Minister Abe's accession to office. It is designed to improve the sustainability of Japan's pension system in the future. Yet the increase is expected to hurt consumer spending for the remainder of 2014. Moreover, earlier strength of consumer spending was partially due to consumers purchasing big ticket items before the tax increase takes place. Although the government intends to implement a sizable fiscal stimulus to offset the impact of the tax increase, it is possible that the economy will slow down considerably in the second half of 2014.

Second, sustained growth of consumer spending will require increases in wages. Yet while prices have risen, wages have not. This means declining real purchasing power for many consumers. The government has encouraged businesses to boost wages, and a leading business lobby has recommended that its members take action. Whether wages will rise in 2014 remains uncertain. If wages continue to stagnate, economic growth will suffer.

Third, one of the positive effects of Abenomics has been a sizable boost in asset prices due to the flood of liquidity from the new monetary policy. A rise in asset prices is especially helpful to upper income households and could contribute to a rise in luxury spending.

Finally, the longer term benefit of Abenomics will require radical deregulation of the economy. The details of what the government intends remain unknown, and the government has delayed implementation of some aspects of deregulation. Absent significant reform, Abenomics will not have a lasting impact on productivity growth and economic growth.

Eurozone

According to Euromonitor, the Eurozone includes four of the top 10 luxury markets in the world. These are Italy, France, Germany, and Spain. They are, respectively, the 3rd, 4th, 7th, and 9th largest luxury markets in the world. The UK, which is not part of the Eurozone, is the 6th largest luxury market. The Eurozone is now recovering from a prolonged recession, itself the result of the sovereign debt crisis. Prior to the crisis, the creation of a common currency had led to interest rate harmonization and relatively low borrowing costs across Europe. With the crisis came a loss of confidence in the durability of the euro and the ability of some countries to service their debts. Consequently, borrowing costs for Southern European countries increased dramatically leading to a severe drop in credit market activity. In addition, most European countries adopted tight fiscal policies in order to convince financial markets of their commitment to fiscal consolidation. The result was a recession which is only now ending.

The recovery came about for three main reasons. First, the ECB promised to "do whatever it takes" to save the euro. That meant that the ECB would not allow sovereign debtors to default. As a result, bond yields declined, leading to lower borrowing costs. Moreover, this caused an improvement in the ability of governments to service their debts. That, in turn, led to the second reason, which is a loosening of fiscal policy. Today, government finances in Europe are in much better shape than a few years ago. This means that countries can take a more relaxed attitude toward fiscal discipline—at least in the short run. Finally, the decline in the value of the euro, combined with wage restraint and productivity gains, caused exports to grow once again.

In 2014, the Eurozone is expected to experience modest growth. Inflation, which is very low, will remain so, thereby providing the ECB with plenty of wiggle room should it choose to engage in a more aggressive monetary policy. The ECB is studying the possibility of employing unusual policy tools to boost credit market activity. This could include something akin to quantitative easing (already in use in the US, UK, and Japan) or using fees to compel banks to lend. At the national level, several countries are increasingly committed to labor market reforms designed to reduce the cost of hiring and, therefore, reduce unemployment.

Yet perhaps the biggest obstacle to better economic performance in Europe is the absence of financial market integration. European banks are primarily supervised by their national governments. When they get in trouble, the national governments have been forced to assume bank liabilities. Banks holding Greek sovereign debt have been forced to take haircuts and banks in Cyprus have been forced to confiscate deposits. There is no Europe-wide deposit insurance and no Europe-wide system for resolving troubled banks. Negotiations have taken place aimed at creating a banking union, but the outlines agreed upon so far fall far short of true financial market integration. The countries have agreed to a modest fund for bank resolution, a requirement that national governments get involved if the fund is exhausted, and a requirement for unanimity among Eurozone members to approve using bailout funds to support banks. In other words, there will not be a strong central authority with the resources to support and resolve troubled banks. As such, this reform fails to do what is needed to harmonize credit market activity. Absent a more integrated approach, it is hard to see how credit market activity will heal quickly. It is also hard to see how the Eurozone can succeed in the long-term. It is increasingly evident that a successful currency union requires a different architecture than now exists. It requires integration of the financial system in which all banks are supervised and supported by a central authority with considerable resources and independent decision-making. This is not going to be the case under the plan now being discussed.

There remain considerable risks to the Eurozone. These include potential problems of sovereign debtors such as Greece; possible election of anti-European governments in key countries; failure of countries to enact major economic reforms that would boost productivity; and failure of Germany to boost domestic demand, thereby helping its European compatriots. Indeed much of the failure to reform the architecture of the Eurozone stems from disagreements between Germany and the other countries. Germany is worried that any joint liability involving financial institutions would effectively be a German liability. As such, it is reluctant to endorse a more integrated approach to financial reform.

The outlook across Europe varies by country. Here are some highlights:

United Kingdom

The UK is now being talked of as the fastest growing economy in Europe. Many analysts have been surprised by the pace of the recovery. Last August, the Bank of England expected the unemployment rate to stay above 7.0% until the second half of 2016. Since then unemployment has dropped sharply; it seems almost certain to fall below 7.0% in the coming months, two-and-a-half years ahead of the Bank forecast just eight months ago.

In its latest report the Bank forecasts that UK growth will accelerate to 3.4% this year, a very strong rate of growth for the UK. It would be the fastest rate in seven years and above the average rates seen in the decade before the financial crisis. Not only would it make the UK the fastest growing major economy in the industrialised world, it would mean that the UK outpaces a number of developing world economies, including Brazil and Russia.

A host of indicators suggest that we are at a turning point on investment. Firms do not seem to have very much spare capacity. A worn out capital stock and growing demand means that, at today's low borrowing costs, returns to corporate investment are likely to be attractive. Moreover, corporations have the wherewithal to invest. Corporate cash levels are high, albeit heavily concentrated in larger firms. More importantly, firms are finding it easier to raise funds from banks and from capital markets. Banks report that demand for credit to fund capital spending is at the highest level in six years.

The other factor behind the likely economic rebound is a continued recovery in consumer spending. After a four-year squeeze on earnings 2014 will be the year in which consumer spending power recovers. It is likely that the rate of growth of average earnings will accelerate significantly. Inflation is likely to drift lower, delivering a boost to consumer spending power.

Germany

Growth in Europe's largest economy is expected to accelerate in 2014, driven by a combination of rising consumer spending, business investment, and exports. The implementation of a minimum wage will boost consumer incomes, but will also cause a modest increase in unemployment.

Other aspects of the agreement of the governing coalition will have a negative impact on competitiveness. Germany remains highly dependent on exports of capital goods. A deceleration in investment in China could have a negative impact on Germany's economy. The revival of growth in the rest of Europe, however, will be helpful.

France

France has become the weakest link in the Eurozone. The economy is barely growing and 2014 is expected to be a weak year. Poor business confidence, engendered by a failure of the government to enact significant labor market reforms, will suppress investment. A partial reversal of the government's plans for very high tax rates has not convinced businesses to invest. France has lost competitiveness as productivity has lagged. Consequently, it is not experiencing the export revival seen in other Eurozone economies.

Spain

Spain is finally recovering from a long recession and growth in 2014 is expected to be modest. Spain's financial situation has improved, with bond yields now at relatively low levels. Fiscal austerity has been eased and the export sector is performing well following an improvement in competitiveness. On the other hand, the financial sector remains weak, with bank lending continuing to decline. The economy remains fragile.

Italy

Italy's longest post-war recession is finally ending, which is good news for the world's third largest luxury market. Moreover, the ascension of a new reform minded Prime Minister could lead to new efforts to reform the economy. The government is shifting away from fiscal austerity and towards more labor market reforms. In addition, Italy is gradually becoming more competitive, thereby boding well for export performance. The result is likely to be modest growth in 2014. On the other hand, Italy faces a number of problems. These include continued high government debt, poor demographics, high unemployment, and continued weakness in credit market activity.

United States

The United States is the largest luxury market in the world, with luxury spending more than twice that of second place Japan. Luxury sales in the US account for roughly one quarter of global sales of luxury goods. During the post-recession period, the US economy has actually grown faster than the economies of Western Europe and Japan. Despite this, there has been considerable disappointment in the US with the pace of growth, especially given the continued high rate of unemployment.

As 2014 begins, the US economy is recovering nicely after a prolonged period of modest growth. During the last two years, there were factors that held back growth. In 2012, the recession in Europe hurt the US recovery. In 2013, a severe tightening of fiscal policy in the US probably reduced economic growth by 1.5 percentage points. Yet in 2014, these factors will not play a role. Rather, Europe will be in recovery and US fiscal policy will have a modest positive impact on growth—especially now that the Congress has agreed to scale back the sequestration. In addition, there are a number of positive factors. These include rising overseas demand, increasing investment in energy production, pent up demand for household formation, and improvements in the functioning of credit markets. Indeed the economy has shown signs of strength. This has included continued growth of consumer spending, especially spending on automobiles. Significantly, it has also included a sizable rebound in the US housing market. Home prices have risen, sales of new and existing homes are up, and construction of residential property has risen. The strength of housing reflects low mortgage interest rates, declining unemployment, improved credit conditions, and the fact that private equity firms have invested heavily in foreclosed properties. The latter has contributed to the rise in property prices which, in turn, has enabled millions of homeowners to return to the market.

On the other hand, the US Federal Reserve has begun to taper its program of quantitative easing. This will entail reducing the pace of asset purchases. In the coming months, depending on economic conditions, the Fed will continue to cut back on asset purchases. Meanwhile, it will maintain a relatively loose monetary policy, keeping interest rates historically low for a longer period than previously planned. It will also take actions to boost credit market activity. Still, the tapering has already led to higher bond yields and mortgage interest rates. These can be expected to continue rising, putting some downward pressure on housing market activity. In addition, the Fed's policy is putting upward pressure on the value of the dollar. This could hurt export competitiveness. In the short term, it is creating some turmoil in emerging markets where currency values have been under pressure.

Perhaps most important from a luxury perspective has been the fact that a very disproportionate share of income growth in the US in recent years has accrued to the highest income households. This, combined with a very healthy equity market in recent years, is positive news for luxury purveyors. And, although tax rates on upper income households were increased last year, after tax earnings for upper income cohorts continue to grow faster than overall income.

Emerging markets

Russia

Russian economic growth has slowed in the last two years. During the past two decades, Russia's economic performance was usually correlated with the price of oil. However, that relationship has shifted with consumption taking a lead role. Today, the price of oil is relatively high but economic growth is slowing. The population is declining, thus creating a labor shortage which has resulted in higher wages and low unemployment. The central bank has focused on restraining inflation rather than easing monetary policy. Consumer spending growth slowed somewhat in 2013 but now appears stable. While household debt has increased, it is relatively low, still far behind the European and U.S. average; meanwhile, the percentage of income that Russians spend on servicing debt is less than some other emerging markets. Altogether this points to modest economic growth for the country, with Russian consumer business appearing to enter a lower growth mode.

Then there was the Russian takeover of Crimea which was followed by new economic sanctions imposed by the US and the EU—with threats of greater sanctions should conditions on the ground change. The result was a quick drop in the value of the ruble, which contributed to a rise in inflation. In addition, Russian equity prices dropped sharply, causing a substantial loss of wealth for Russia's wealthiest families. Capital flowed out of Russia, boding very poorly for any boost to investment in fixed assets. As of this writing, the economic outlook is poor and most forecasts suggest economic growth in 2014 below 1.0 percent with a strong possibility of a recession. Longer term, the outlook will depend, in part, on the geopolitical situation. Absent any change, it seems likely that growth will be modest. Thus prospects for consumer spending at the high end are not strong.

Brazil

Economic growth in Brazil has decelerated considerably. The country has been beset with inflation, currency depreciation, some social unrest, and business pessimism. The central bank has tightened monetary policy in order to slow inflation and resist currency depreciation. The outlook for the short term is, consequently, not very good. In the longer term, Brazil has many favorable attributes including good demographics, a likely dramatic increase in energy production, increased foreign interest in the manufacturing sector, and increased exports of services. On the other hand, Brazil continues to have a variety of challenges which require legislation. These include overregulated labor markets, inadequate infrastructure investment, and trade restrictions.

India

Interestingly, in 2012 (the most recent year for which data is available), India had the fastest growing luxury market in the Asia Pacific region—even faster than China. Indeed, India had a few years of astronomical growth in recent years. However, this turned out to be unsustainable. It led to bottlenecks that created inflation. Plus, the growth was financed by an accumulation of external debt that cannot be sustained. The central bank has significantly tightened monetary policy in order to quell inflation and stabilize the currency. Meanwhile, the government has failed to implement many of the reforms that would boost productivity and unleash more investment and faster growth. Rather, such changes must await the next election which takes place in May 2014. For now, therefore, India appears to be on a lower growth trajectory.

Other markets

Many emerging markets have seen a deceleration of growth in the past year. This follows a period of very rapid growth that was driven by several factors. These included plenty of inbound investment fueled by low returns in developed markets, excessive accumulation of external debt—especially given the cheap cost of borrowing, and the commodity boom that was fueled by China's massive investment spending. Now, things have changed. Further accumulation of debt is not feasible. In addition, capital flows have reversed now that bond yields have increased in the US. Moreover, this has caused a decline in the value of emerging market currencies, thus forcing central banks to tighten monetary policy in order to stabilize exchange rates. Such action has a dampening effect on growth. In addition, the very rapid growth of recent years caused bottlenecks leading to inflation. That is another reason for central bank tightening. Finally, the commodity boom is over, thus dampening growth for commodity exporting countries.

Going forward, the emerging world is likely to have a year or two of disappointing growth while imbalances are unwound. However, the longer term outlook remains positive. Indeed for those emerging markets that did not accumulate too much debt, the outlook is quite good. Among the more promising markets are Colombia, Mexico, Philippines, and much of Sub-Saharan Africa among others. These countries have improved governance, competitive industries, and favorable demographics. They should experience strong economic growth in the coming decade. As business develops in these countries, the number of upper income households will rise quickly, thus contributing to growth of the luxury market.

Global trends affecting the luxury industry
In the hands of the consumer

Controlling all aspects of business has been the hallmark of luxury brands. From product design to sourcing of raw materials, to distribution and marketing, luxury brands have kept tight control, thus guaranteeing brand-appropriate quality and service levels. While companies serving the mass channel took to outsourcing manufacturing and sourcing of materials to support more rapid growth, purveyors of luxury goods continued to do it the old-fashioned way, satisfied with their healthy profit margins, although perhaps with muted revenue growth.

The internet has changed all that, forcing executives to rethink the tight control typical of luxury brands. The internet leveled the playing field, putting more power in the hands of the consumer with a platform that enables them to shop on their terms, when and where they want, while providing price transparency. Consumer expectations regarding price, value, and brands have all been elevated by increased information and access, and this ubiquitous access undermines one of luxury's core tenets—exclusivity. The lack of intimacy in the virtual world can diminish brand loyalty, and the ease of comparison shopping and the fluidity of pricing further exacerbate the control issue. What follows is a closer look at the challenges and opportunities that this digital revolution presents to luxury brands.

Ubiquity versus exclusivity

E-commerce is the fastest growing retail channel, accounting for up to 20 percent of a retailer's or brand's total volume. According to WWD (December 16, 2013) industry sources estimate Amazon's fashion business at $95 billion in global revenues in 2013; it is considered one of Amazon's fastest-growing businesses, with an expanding portfolio of aspirational brands. Luxury brands, however, were late to e-commerce, with many assuming that the aesthetics of their selling experience in the designer's atelier or the flagship 'maison' would be difficult, if not impossible, to replicate on the internet.

The potential loss of exclusivity and the prestige associated with luxury brands' bricks and mortar locations are hurdles that can be difficult for luxury brands to overcome, but they are surmountable, and some brands have clearly embraced the technology—one can shop Louis Vuitton's website for selected handbags, accessories, and shoes and its social media tab connects the user with Louis Vuitton on Facebook, YouTube, Google+, Twitter, Instagram, Pinterest, and Foursquare.

Ultimately, luxury brands, like most consumer-facing brands, need to deliver an interactive, exciting and efficient shopping experience to all their customers regardless of channel, from flagship to mobile and everything in between. Many luxury brands reluctant to sell online have begun to use their websites to house brand stories, fashion shows, celebrity product sightings, and the like.

Social media

With the advent of social media, consumers had a new voice, increasing their individual and collective power, and communities of both brand advocates and critics sprang up. While this erodes message control for luxury brands, the internet, along with mobility and e-commerce, is one of the most effective means to introduce new products globally and provide instant gratification to shoppers in any part of the world. Moreover, social media can be used effectively as a vibrant storytelling medium for luxury brands, communicating brand heritage and iconography to a new audience of potential clients.

The visual nature of Instagram, the social photo and video sharing app purchased by Facebook in 2012, makes it a natural platform for luxury and fashion brands. Users have been known to spend hours tracking their favorite brands, looking for a particular fashion silhouette, or posting pictures. With 150 million monthly users, Instagram is a powerful new social media platform: according to Pew Research, most of its users are between the ages of 18 and 29, and about 17 percent have incomes of $75,000[1] and above.

Michael Kors ran the first company sponsored advertisement on Instagram on November 1, 2013 and, according to Nitrogram, which ranks the most popular brands on Instagram, the brand's increase in followers was 16 times more than it would have been following a non-sponsored post. Nike, Gucci, and Louis Vuitton all have official Instagram presences and each company has millions of followers on the platform.

Omnichannel

As retailers and mass brands have adopted omnichannel or channel agnostic distribution strategies to keep pace with consumer expectations, luxury brands would be wise to acknowledge that the internet has radically altered the path to purchase with shoppers nimbly navigating from cyberspace to store visits in pursuit of their desires. The virtual world is vital in the discovery and path to purchase. According to a recent Deloitte U.S. study, during the 2013 holiday season, omnichannel shoppers—defined as consumers who shopped online, on their smartphones, and in-store—spent 76 percent more than store-only shoppers in total[2].

Consumers are spending increasingly greater portions of their day online and are connected with smart phones and tablets. As uncomfortable as this change may be, for luxury players, it is participate or perish. While an entire brand's assortment needn't be available for sale on the internet, a luxury brand can offer, for example, a select group of accessories that help promote its brand story and keep the customer happy.

To remain relevant, luxury brands have to go where their consumer and new consuming audiences are—social communities. Consumers have extremely high expectations for luxury brand sites, from design layout, functionality and ease of navigation, to brand iconography, and strength of overall brand presence. A brand strategy that encompasses the internet holistically can be successful generating interest, brand affiliation, and, ultimately, evangelism, where a customer feels compelled to share 'brand good news' with others through social media or word of mouth. Aspirational or premium brands such as Coach, Kate Spade, Michael Kors, and Tory Burch have been quick to adapt to the internet, as well as to social media and omnichannel strategies, and increasingly we see the most exclusive luxury brands joining the ranks.

Globalization

During the last five years, an expanding global middle class in emerging markets has supported growth in the luxury sector and is projected to continue fueling growth through 2018. According to Euromonitor, the emerging markets of Asia Pacific, Latin America, and the Middle East and Africa accounted for a combined 9 percent of the luxury market in 2008[3]. This figure leaped to 19 percent in 2013 and is projected to grow to 25 percent in 2025, driven by the combined forces of urbanization, economic development and the love of luxury. By 2018, China is expected to be the second-largest market for luxury goods, following the U.S. and surpassing Japan due to the increasing numbers of households with annual gross income greater than US $150,000 to 3.5 million. Following China, Brazil is a promising growth market for luxury goods with its surging middle class. Euromonitor projects the Brazilian population of annual gross income greater than US $150,000 to expand 46 percent by 2018 to 1.4 million people.

Africa provides a longer-term growth opportunity for luxury brands. Sub-Saharan Africa is second only to Asia Pacific in growth of consumer markets according to the Euromonitor report, albeit from a very low base. While the region is still considered 'frontier' and isn't likely to supersede the BRICs soon, it is worth noting that Nigeria is one of the fastest growing markets for French champagne and digital televisions[4].

The developed economies of the U.S. and Europe stand to benefit from the emerging markets' expanding middle classes, who are traveling to the world's capitals and boosting sales of luxury products. For such tourists, developed markets offer superior product selection and availability, as well as advantageous price comparisons due to high import taxes in the home countries. In 2012, according to Euromonitor, the U.S. was the top country in terms of incoming tourism shopping receipts with approximately $15 billion. Fifth-ranked France, at about $8 billion, was a favorite destination for luxury shopping, especially for BRIC travelers. Over the 2012-2017 period, Euromonitor projects China to lead in outbound tourism expenditure growth, exhibiting a 15 percent CAGR. India, Vietnam, and Taiwan are expected to show significant increases as well.

Tourism's support of sales

While much of the developed world struggled with weak domestic economies as consumers dealt with relatively high unemployment rates and tepid income growth, luxury goods companies benefited from favorable global tourism trends. Indeed, according to Euromonitor, France's luxury industry depends on tourists from all over the world for more than half of its €16 billion in revenues across all luxury sectors. According to the shopping tourism company Global Blue, since 2009 tax free shopping has increased at an average annual rate of 26 percent. The Chinese global shopper was the highest spending nationality, averaging $1,083 per transaction in 2013. London's high-end retailer Harrods has seen significant rewards since it installed Chinese credit-card readers a few years ago[5]. Russians were the next highest, spending less per transaction at $473 but registering the most transactions and accounting for 24 percent of Global Blue's total tax free shopping transactions.

Paris is the top destination, chosen by four of the top ten global shopper nationalities, which include Chinese and U.S. citizens. It is followed by London, the preferred city for three of the top ten global shopper nationalities. Singapore is favored by two and Milan is favored by Russian travelers.

Demand for luxury goods is beginning to show promise in Sub-Saharan Africa as affluence grows in multiple countries. According to Euromonitor data, sales of luxury goods in that region grew 35 percent in the 2008-2013 period and are projected to increase another 33 percent in the next five years. Euromonitor counts South Africa and Nigeria as the region's emerging markets, and given their large and diverse population, should provide strong prospects for purveyors of luxury goods longer term. Based on data from Global Blue (which processes 80 percent of all tax free shopping in the U.K.), Nigerians are among the top global spenders in the U.K., following only Middle Easterners and the Chinese. Not surprisingly, luxury brands such as Zegna and Hugo Boss are beginning to locate shops in several African countries to meet these new luxury shoppers in their home markets. While global tourism is always at the mercy of currency fluctuations and regional unrest, these developments suggest that tourism is likely to continue benefiting luxury brand portfolios in the near future.

Democratization

Just as globalization and information have combined to create what Thomas Friedman aptly described as a flat world, these transformational forces are driving the democratization of luxury, whereby exclusivity is replaced with nearly mass availability, anywhere at any time, increasing access to new markets and new customers. Instant information is closely followed by the expectation of instant gratification and reduced loyalty as consumers jump brands to satiate their desires. At the other end of the product spectrum, products developed for the mass market are garnering new caché as they adopt the marketing/branding and retail techniques of luxury brands, borrow luxury designers for capsule collections (Karl Lagerfeld at H&M, Inès de la Fressange at Uniglo, Missoni at Target) and sit adjacent to luxury labels in magazines and shopping venues (consider 5th Avenue and Champs Elysées with their H&Ms, Zaras, and Massimo Duttis alongside Louis Vuitton and Cartier). While mass fashion brands have benefited from these co-branding and co-habitating trends in terms of brand elevation and attracting new consumers, when luxury brands have promoted to a mass audience this has often come with some diminution of brand status. This conflict was perhaps best dramatized in Chanel's fall 2014 fashion show at the Grand Palais, Paris, where Karl Lagerfeld took the idea of democratized luxury to the extreme, outfitting the interior of the Grand Palais into a Grand Chanel Super Marché, replete with Chanel corn flakes and dishwashing detergent. Models adorned with Chanel's iconic pearls and tweeds wore the most democratic of footwear, sneakers, with all prices kept at a very exclusive level.

Fast fashion

Inditex's phenomenal ability to translate Paris and Milan designs and bring them to market faster than the originators (six to eight weeks instead of six to eight months) and at a fraction of the cost rapidly expanded the market for fashion merchandise. This had an impact on both the high end, where the luxury shopper can trade down occasionally and purchase a Roberto Cavalli-inspired dress for $89 rather than the original for $2,100 and still have change for a Prada bag and Christian Louboutin shoes; and the low end, where casual lines have lost sales to Zara's more fashionable and often cheaper alternatives. Forever 21, H&M and Target, have had a similar impact. Fashion is about newness, and the rapidity of change at the mass fashion channel is driving a proclivity towards disposable fashion, while increasing demand for higher-priced accessories to accompany today's fast fashion design.

The internet has created new distribution channels for luxury fashion brands to keep up with consumer demand for the latest fashion at a value price. In addition to ebay.com, where individuals and businesses bid on used and never-worn fashion items, flash sites such as Gilt.com provide discounts up to 60 percent off original prices, while Rent the Runway allows for temporary ownership of designer apparel and accessories, and TheRealReal.com is an online consignment shop of designer and luxury products.

Custom and bespoke initiatives

Luxury brands can retain exclusivity while still broadening their client base with the expanding market for luxury goods with custom made products, limited editions, and exclusive assortments for the internet, wholesale and flagship locations. These efforts create demand, drive store/site traffic, and elevate exclusivity while sustaining the distance between a luxury brand and a mass fashion brand. Moreover, client involvement in product design, from Van's and Nike's $100 sneakers to a Louis Vuitton bag for $60,000, creates an emotional attachment with the brand, driving loyalty and brand advocacy.

From communication to conversion

According to Elizabeth Canon, founder and president of Fashion's Collective, luxury brands have spent the last few years exploring the risks and opportunities that existed for them on social media and e-commerce: "should a luxury brand have a Facebook page? How should they collaborate with bloggers? How should brands translate their offline store experience to an immersive web store?" It is likely that going forward such brands will increase their focus on how big data can increase conversion and on tracking global consumers, with return on investment and data metrics supporting branding and marketing decisions.

Global Powers of Luxury Goods
Top 75 highlights

Demand for luxury goods remained vibrant despite a weakened global economy in 2012

Once again in 2012 and halfway through 2013, the global economy remained mired in a slow growth/no growth environment. By midyear 2013 Europe continued in a recession that began in 2011, U.S. growth was subpar, and the major emerging markets such as China and Brazil were facing slower growth. Despite this troubled economic backdrop, luxury goods companies fared better in the aggregate than consumer products companies and economies generally. Composite, currency-adjusted luxury goods sales growth for the world's 75 largest luxury goods companies was 12.6 percent in 2012, compared with 5.1 percent growth achieved in 2012 by the world's top 250 consumers products companies, as detailed in Deloitte's recently published 7th annual *Global Powers of Consumer Products* report. For the 63 luxury goods companies of the Top 75 that reported 2011 and 2012 luxury goods sales, 84 percent (53 companies) reported an increase in 2012, 13 percent (eight companies) reported a decline, and two companies reported no year-over-year change in 2012 luxury goods sales.

Profitability at luxury goods companies (based on total consolidated revenue and net income) was superior to consumer products companies as well. Of the 58 luxury goods companies that disclosed their bottom-line net profits, only five operated at a loss in 2012. The composite net profit margin for the reporting companies was a robust 12.0 percent compared with 8.2 percent for the consumer products companies. Asset turnover of 0.8 times resulted in a composite return on assets of 9.3 percent in 2012 for the luxury goods companies. This compares with asset turnover of 0.9 times and a composite return on assets of 7.3 percent for consumer products companies.

The world's 75 largest luxury goods companies generated luxury goods sales of $171.8 billion 2012. This resulted in an average company size of $2.3 billion. The threshold sales level to join the Top 75 Global Powers of Luxury Goods was $188 million in 2012.

Top 75 quick stats, 2012

- $171.8 billion—aggregate net luxury goods sales of Top 75 in US$
- $2.3 billion—average luxury goods sales of Top 75 luxury goods companies
- $188 million—minimum sales required to be on Top 75 list
- 12.6 percent—composite year-over-year luxury goods sales growth
- 12.0 percent—composite net profit margin
- 0.8x—composite asset turnover
- 9.3 percent—composite return on assets
- 54.6 percent—economic concentration of top 10
- 14.3 percent—compound annual growth rate in luxury goods sales, 2010-2012

Top 75 luxury goods companies, 2012

Luxury goods rank FY12	Company name	Selection of luxury brands	Country of origin	FY12 luxury goods sales (US$mil)	FY12 total revenue (US$mil)	FY12 luxury goods sales growth	FY12 net profit margin[1]	FY10-12 luxury goods sales CAGR[2]
1	LVMH Moët Hennessy Louis Vuitton SA	Louis Vuitton, Fendi, Donna Karan, Loewe, Marc Jacobs, Céline	France	21,060	36,143	18.2%	13.9%	18.6%
2	Compagnie Financiere Richemont SA	Cartier, Lancel, Van Cleef, Chloe, Baume & Mercier, IWC, Jaeger-LeCoultre, Montblanc	Switzerland	12,391 e	13,078	13.9%	19.8%	20.4%
3	Estée Lauder Companies Inc.	Estée Lauder, Aramis, La Mer, Aveda, Jo Malone	United States	10,182	10,182	4.8%	10.1%	7.5%
4	Luxottica Group SpA	Alain Mikli, Arnette, Ray-Ban, Persol, Oliver Peoples. Licensed eyewear brands	Italy	9,113	9,113	13.9%	7.7%	10.6%
5	Swatch Group Ltd.	Blancpain, Breguet, Longines, Omega, Rado	Switzerland	8,319	8,319	15.3%	20.6%	13.0%
6	Kering S.A.	Gucci, Bottega Veneta, Saint Laurent	France	7,990	12,522	26.3%	11.1%	24.5%
7	L'Oréal Luxe	Biotherm, Clarisonic, Kiehl, Lancôme	France	7,161	7,161	16.0%	14.2% e	11.2%
8	Ralph Lauren Corporation	Ralph Lauren Collection, Blue Label, Black Label, RLX, Purple Label	United States	6,945	6,945	1.2%	10.8%	10.8%
9	Shiseido Company, Limited	Shiseido, clé de peau Beaute, bareMinerals, Benefique	Japan	5,522	8,200	-0.7%	-1.9%	1.5%
10	Rolex SA	Rolex, Tudor	Switzerland	5,122 e	5,122 e	n/a	n/a	n/a
11	Coach Inc.	Coach	United States	5,075	5,075	6.6%	20.4%	10.5%
12	Hermès International SCA	Hermès, John Lobb, Shang Xia, Puiforcat	France	4,481	4,481	22.6%	21.5%	20.5%
13	PVH Corp.	Calvin Klein, Tommy Hilfiger	United States	4,367	6,043	6.1%	7.2%	23.2%
14	Prada SpA	Car Shoe, Church's, Miu Miu, Prada	Italy	4,251	4,251	29.0%	19.2%	26.9%
15	Tiffany Inc.	Tiffany	United States	3,794	3,794	4.2%	11.0%	10.9%
16	Coty Inc.	Lancaster; Calvin Klein fragrance: licensed fragrance brands: Marc Jacobs and Chloé	United States	3,181 e	4,649	0.0%	4.3%	4.0%
17	Burberry Group plc	Burberry Prorsum, Burberry London, Burberry Brit	United Kingdom	3,160	3,160	7.6%	13.0%	15.4%
18	D. Swarovski & Co.	Swarovski	Austria	3,061	3,061	n/a	n/a	n/a
19	Hugo Boss AG	Boss, Boss Green, Boss Orange, Hugo	Germany	3,017	3,017	13.9%	13.3%	16.5%
20	Giorgio Armani SpA	Armani, A/X, Emporio Armani	Italy	2,689	2,689	15.8%	9.3%	14.9%
21	Michael Kors Holdings Limited	Michael Kors	Hong Kong	2,182	2,182	67.5%	18.2%	64.8%
22	Puig, S.L.	Fragrances: Carolina Herrera, Nina Ricci, Paco Rabanne and Jean Paul Gaultier,	Spain	1,914	1,914	10.8%	11.6%	n/a
23	Only the Brave S.R.L.	Diesel, Maison Martin Margiela, Viktor & Rolf, Marni	Italy	1,904	1,904	9.6%	4.5%	6.3%
24	Clarins SA	Clarins; Fragrances: Azzaro, Thierry Mugler	France	1,863 e	1,863 e	13.2%	n/a	n/a
25	Christian Dior Couture	Christian Dior	France	1,840	1,840	27.8%	10.1% e	31.2%
26	Max Mara Fashion Group	MaxMara. SportsMax, Marina Rinaldi, Max & Co, PennyBlack	Italy	1,665	1,665	2.1%	5.1%	3.2%
27	Ermenegildo Zegna Holditalia SpA	Ermenegildo Zegna	Italy	1,621	1,621	11.9%	10.3%	14.4%

[1] Net Profit Margin based on Total Consolidated Revenue and Net Income
[2] Compound annual growth rate

n/a = not available
e = estimate
e* = estimate of 2011 Luxury Goods sales
e** = estimate of 2010 Luxury Goods sales

Source: Published company data and industry estimates

Top 75 luxury goods companies, 2012

Luxury goods rank FY12	Company name	Selection of luxury brands	Country of origin	FY12 luxury goods sales (US$mil)	FY12 total revenue (US$mil)	FY12 luxury goods sales growth	FY12 net profit margin[1]	FY10-12 luxury goods sales CAGR[2]
28	Safilo Group SpA	Safilo, Oxydo, Blue Bay, Carrera, Smith Optics, Licensed eyewear brands	Italy	1,512	1,512	6.7%	2.3%	4.3%
29	Salvatore Ferragamo SpA	Salvatore Ferragamo	Italy	1,483	1,483	17.1%	10.9%	21.5%
30	Fossil Group, Inc.	Michele, Skagen, Zodiac. Licensed watch brands	United States	1,430 [e]	2,858	16.4%	12.4%	27.0%
31	Elizabeth Arden Inc.	Elizabeth Arden, Giorgio Beverly Hills. Licensed fragrance brands	United States	1,345	1,345	8.6%	3.0%	6.9%
32	Tod's SPA	Tod's, Hogan, Fay	Italy	1,267	1,267	8.3%	14.8%	10.5%
33	Dolce & Gabbana S.r.l.	Dolce & Gabbana	Italy	1,216	1,216	-13.3%	7.3%	-7.7%
34	Renown Inc.	Anya Hindmarch, Aquascrutum, Arnold Palmer, C'est Privee, Dunhill, Intermezzo	Japan	933	933	2.1%	0.7%	2.0%
35	Patek Philippe SA	Aquanaut, Calatrava, Complications, Golden Ellipse, Gondolo, Grand Complications, Nautilus	Switzerland	907 [e]	907 [e]	n/a	n/a	n/a
36	Chopard & Cie	Chopard	France	849 [e*]	n/a	n/a	n/a	n/a
37	David Yurman Enterprises LLC	David Yurman	United States	836 [e*]	n/a	n/a	n/a	n/a
38	Loro Piana SpA	Loro Piana	Italy	806	806	13.0%	10.5%	14.4%
39	Moncler Spa	Moncler, Gamme Rouge, Gamme Bleu, Grenoble	Italy	802	802	21.5%	5.0%	20.6%
40	Tory Burch LLC	Tory Burch	United States	760 [e]	760 [e]	55.1%	n/a	55.8%
41	CFEB Sisley SA	Sisley, Hubert, Isabelle d'Ornano	France	746 [e]	746 [e]	5.2%	n/a	n/a
42	Graff Diamonds Limited	Graff	United Kingdom	689 [e]	689 [e]	11.5%	11.2% [e]	25.5%
43	Inter Parfums Inc.	Owned fragrance brands: Agent Provocateur, Alfred Dunhill, Anna Sui, Lanvin, Shanghai Tang	United States	654	654	6.3%	27.0%	19.2%
44	H. Stern Comercio e Indústria S.A.	H. Stern	Brazil	627 [e*]	n/a	n/a	n/a	n/a
45	Valentino Fashion Group SpA[3]	Valentino, RedValentino	Italy	590	590	15.9%	-13.3%	-3.4%
46	Longchamp S.A.S.	Longchamp, Le Pliage	France	584	584	16.1%	n/a	n/a
47	Audemars Piguet & Cie	Audemars Piguet, Royal Oak	Switzerland	572 [e]	572 [e]	n/a	n/a	n/a
48	Cole Haan LLC	Cole Haan	United States	535 [e*]	n/a	n/a	n/a	n/a
49	Gianni Versace SpA	Versace Collection, Versus, Palazzo Versace	Italy	526	526	20.1%	2.3%	18.2%
50	Aurum Holdings Limited	Watches of Switzerland, Mappin & Webb, Goldsmiths	United Kingdom	506 [e]	506 [e]	4.9%	3.8%	8.1%
51	Movado Group, Inc.	Concord, Ebel, ESQ, Movado	United States	506	506	8.0%	11.5%	15.0%
52	De Rigo SpA	Police, Lozza	Italy	473	473	-0.2%	2.5%	3.6%
53	True Religion Apparel, Inc.	True Religion	United States	467	467	11.3%	10.0%	13.4%

[1] Net Profit Margin based on Total Consolidated Revenue and Net Income
[2] Compound annual growth rate
[3] Valentino's compound annual growth rate and net profit margin have been heavily influenced by the MCS Marlboro Classics discontinued operations; 90% of the company's net loss in 2012 was related to discontinued operations

n/a = not available
e = estimate
e* = estimate of 2011 Luxury Goods sales
e** = estimate of 2010 Luxury Goods sales

Source: Published company data and industry estimates

Top 75 luxury goods companies, 2012

Luxury goods rank FY12	Company name	Selection of luxury brands	Country of origin	FY12 luxury goods sales (US$mil)	FY12 total revenue (US$mil)	FY12 luxury goods sales growth	FY12 net profit margin[1]	FY10-12 luxury goods sales CAGR[2]
54	Kate Spade LLC	Kate Spade, Jack Spade	United States	462	462	47.6%	20.6%	n/a
55	Harry Winston, Inc.	Harry Winston	United States	428 e	428 e	4.0%	n/a	11.5%
56	Tumi Holdings, Inc.	Tumi	United States	399	399	20.8%	9.2%	25.6%
57	Brunello Cucinelli SpA	Brunello Cucinelli	Italy	359	359	15.1%	7.9%	17.1%
58	Breitling SA	Chronomat, Superocean, Transocean, Galactic, Superocean Héritage,	Switzerland	338 e*	n/a	n/a	n/a	n/a
59	Aeffe SpA	Alberta Ferretti, Philosophy, Moschino, Moschino Cheap and Chic, Love Moschino	Italy	327	327	3.3%	-1.3%	6.6%
60	Sungjoo Group	MCM, Marks & Spencer	South Korea	321 e	321 e	n/a	0.01%	n/a
61	Paul Smith Ltd.	Paul Smith	United Kingdom	320	320	0.0%	6.6%	8.5%
62	Sociedad Textil Lonia SA	Carolina Herrera, Purificación Garcia	Spain	297 e	314 e	17.1%	15.4%	12.3%
63	Gerhard D. Wempe KG	Wempe	Germany	286 e	286 e	n/a	n/a	n/a
64	Marcolin SpA	Licensed eyewear brands	Italy	275	275	-4.5%	2.8%	2.0%
65	Mulberry Group Plc	Mulberry	United Kingdom	261	261	-2.0%	11.3%	16.5%
66	Jeanne Lanvin S.A.	Lanvin	France	255 e	270 e	9.0%	6.2%	14.4%
67	Canali SpA	Canali	Italy	249	249	15.5%	7.9%	11.4%
68	Falke KGaA	Falke, Burlington	Germany	246	246	-3.3%	n/a	-0.5%
69	Euroitalia S.r.l.	Fragrance brands: Naj-Oleari, Moschino, Versace	Italy	243	243	-1.4%	6.0%	0.6%
70	Roberto Cavalli SpA	Roberto Cavalli, Just Cavalli, Cavalli Class	Italy	237	237	3.3%	0.1%	3.2%
71	Wolford AG	Wolford	Austria	202	202	1.5%	-1.8%	1.4%
72	Cerruti 1881 S.A.	Cerruti, Cerruti 1881	France	199 e**	n/a	n/a	n/a	n/a
73	Festina Lotus SA	Jaguar, Calypso, Candino, Lotus	Spain	195 e	195 e	-9.9%	4.6%	-1.7%
74	Forall Confezioni SpA	Pal Zileri, Lab	Italy	194	194	2.2%	-2.4%	6.8%
75	Pomellato SpA	Pomellato	Italy	188	188	6.0%	4.2%	13.9%

[1] Net Profit Margin based on Total Consolidated Revenue and Net Income
[2] Compound annual growth rate

n/a = not available
e = estimate
e* = estimate of 2011 Luxury Goods sales
e** = estimate of 2010 Luxury Goods sales

Source: Published company data and industry estimates

Impact of exchange rates on ranking

The Top 75 Global Powers of Luxury Goods have been ranked according to their fiscal 2012 luxury goods sales in U.S. dollars. Exchange rates have an impact on the results. Going forward, changes in the overall ranking from year-to-year are likely to be driven by increases or decreases in companies' sales, however fluctuations in exchange rates can also result in changes in the ranking. For example, a stronger currency vis-à-vis the dollar in 2013 will mean that companies reporting in that currency may rank higher in 2013 than they did in 2012, all other things being equal. Conversely, companies reporting in a weaker currency may rank lower.

Top 75 luxury goods companies alphabetical listing

Luxury goods conglomerates and mono-brand companies make Top 10

The growth of luxury goods sales for the Top 10 luxury companies was modestly superior to the Top 75 in 2012 with composite sales for the Top 10 growing at 13.1 percent versus 12.6 percent for the Top 75. Kering led the group with a 26.3 percent increase, and five other Top 10 companies contributed to the group's strong top-line result as well: LVMH, Richemont, Luxottica, Swatch, and L'Oréal Luxe.

Over the three-year period 2010-2012, the compound annual growth rate in luxury goods sales for both groups was even stronger at 14.1 percent for the Top 10 and 14.3 percent for the Top 75.

Profitability for the Top 10 was superior to the Top 75 by 60 basis points (12.6 percent versus 12.0 percent), based on the nine Top 10 companies that reported 2012 net income.

Seven of the Top 10 companies shared in the group's strong bottom-line performance with double-digit net profit margins. Swatch led the Top 10 in profitability with a 2012 net margin of 20.6 percent. Shiseido was the only company to report a net loss, reflecting the $346 million pre-tax asset impairment charge related to Bare Escentuals.

Three of the Top 10 companies are luxury conglomerates participating in multiple luxury categories with multiple luxury brands; three are cosmetic and fragrance companies; two are watch companies; one is an accessories company; and one is an apparel company. LVMH, in the top spot, has more than 30 luxury brands spanning the portfolio of luxury goods categories covered in this report, and more than 60 prestigious brands in its entire portfolio (including wines and spirits, retailing and media). Switzerland and France are each headquarters to three of the Top 10, the U.S. has two, and Italy and Japan, one each.

Global top 10 luxury goods companies, FY2012

FY12 luxury goods sales rank	Company name	Country of origin	FY12 luxury goods sales (US$mil)	FY12 total revenue (US$mil)	FY12 luxury goods sales growth*	FY12 net profit margin**	FY12 return on assets**	FY10-12 luxury goods sales CAGR* ***
1	LVMH Moët Hennessy Louis Vuitton SA	France	21,060	36,143	18.2%	13.9%	7.8%	18.6%
2	Compagnie Financiere Richemont SA	Switzerland	12,391 e	13,078	13.9%	19.8%	13.8%	20.4%
3	The Estée Lauder Companies Inc.	United States	10,182	10,182	4.8%	10.1%	14.3%	7.5%
4	Luxottica Group SpA	Italy	9,113	9,113	13.9%	7.7%	6.5%	10.6%
5	The Swatch Group Ltd.	Switzerland	8,319	8,319	15.3%	20.6%	14.3%	13.0%
6	Kering S.A.	France	7,990	12,522	26.3%	11.1%	4.3%	24.5%
7	L'Oréal Luxe	France	7,161	7,161	16.0%	14.2%	17.2%	11.2%
8	Ralph Lauren Corporation	United States	6,945	6,945	1.2%	10.8%	13.8%	10.8%
9	Shiseido Company, Ltd	Japan	5,522	8,200	-0.7%	-1.9%	-1.8%	1.5%
10	Rolex SA	Switzerland	5,122 e	5,122 e	n/a	n/a	n/a	n/a
Top 10			**$93,804**	**$116,785**	**13.1%**	**12.6%**	**8.5%**	**14.1%**
Top 75			**$171,768**	**$195,968**	**12.6%**	**12.0%**	**9.3%**	**14.3%**
Economic Concentration of Top 10			**54.6%**					

* Top 10 and Top 75 sales growth figures are sales-weighted, currency-adjusted composites
** Top 10 and Top 75 figures are sales-weighted composites
*** Compound annual growth rate
e = estimate
Source: Published company data and industry estimates

Global Powers of Luxury Goods geographic analysis

Given the high concentration of luxury goods companies headquartered in Europe and the U.S., this geographical analysis focuses on individual countries. Companies are assigned to a country based on their headquarter's location, which may not coincide with where they derive the majority of their sales. Although many companies derive sales from outside their country, 100 percent of each company's sales are accounted for in that company's domicile country. The six countries analyzed are:

- France
- UK
- Switzerland
- Spain
- Italy
- U.S.

Country profiles, FY2012

	Number of companies	Average luxury goods size (US$mil)	Share of Top 75 companies	Share of Top 75 luxury goods sales
France	11	$4,275	14.7%	27.4%
Italy	23	$1,391	30.7%	18.6%
Spain	3	$802	4.0%	1.4%
Switzerland	6	$4,608	8.0%	16.1%
UK	5	$987	6.7%	2.9%
US	17	$2,433	22.7%	24.1%
Country Subtotal	65	$2,416	86.7%	90.4%
Top 75	**75**	**$2,290**	**100.0%**	**100.0%**

Source: Deloitte analysis of published company data and industry estimates

Performance by country, FY2012

	FY12 luxury goods sales growth*	FY12 net profit margin**	FY12 return on assets**	FY10-12 luxury goods sales CAGR* ***
Top 75	12.6%	12.0%	9.3%	14.3%
France	19.4%	13.8%	7.9%	18.9%
Italy	12.4%	8.5%	7.4%	11.2%
Spain	9.5%	11.5%	14.8%	6.2%
Switzerland[1]	14.5%	20.1%	14.0%	17.5%
UK	6.8%	11.3%	12.0%	15.4%
US	5.8%	10.8%	11.5%	11.6%

* Sales-weighted, currency-adjusted composite growth rates
** Sales-weighted composites
*** Compound annual growth rate
[1] FY2012 net profits, 2012 ROA and 2010-2012 total revenue CAGR based on data from two companies
Source: Deloitte analysis of published company data and industry estimates

In 2012 France leads with a 19.4 percent gain in luxury goods sales

These six countries represented 86.7 percent of the Top 75 luxury goods companies and accounted for 90.4 percent of global luxury goods sales in 2012. France, Italy, and Switzerland achieved robust composite luxury sales growth in 2012, with France and Switzerland outpacing growth for the Top 75 at 19.4 percent and 14.5 percent, respectively. Italian luxury goods companies grew in tandem with the Top 75 at 12.4 percent. Countries trailing the Top 75 were Spain, the U.K. and the U.S., with the U.S. the laggard at 5.8 percent sales growth.

France is the leading luxury goods country with 11 companies in the Top 75 accounting for 27.4 percent of 2012 luxury goods sales. French luxury goods companies are in second place in terms of average size at $4,275 million. Three French companies are in the Top 10, and LVMH holds the number one spot. Christian Dior Couture led French luxury goods companies in 2012 with a 27.8 percent sales gain, followed closely by Kering at 26.3 percent. Overall, luxury goods sales growth for the French companies, at 19.4 percent, outpaced the other countries in 2012, the result of both acquisitions and organic growth. The six French companies for which luxury goods sales were available for the 2010 to 2012 period generated composite compound annual growth of 18.9 percent, nearly one-third faster than the 14.3 percent recorded for the Top 75.

Profitability at French luxury goods firms is second only to Switzerland. The composite net profit margin for the six French companies that reported their 2012 net profits was 13.8 percent, 1.8 percentage points higher than the Top 75. Return on assets, however, was subpar at 7.9 percent, the result of low asset turnover.

Italy accounted for 18.6 percent of Top 75 luxury goods sales and is home to 23 of the Top 75 luxury goods companies, thus holding the largest share at 30.7 percent. One Italian company, Luxottica, is in the Top 10. Italy's prolific design talent and its reputation for tradition, heritage and quality underpin the cachet of "Made in Italy" as a powerful branding tool around the world for Italian luxury goods companies. The average size of the Italian luxury goods companies was $1,391 million in 2012, less than one-third the size of their Swiss and French counterparts. Italian companies achieved composite top-line growth in 2012 of 12.4 percent, in line with the Top 75 overall. From 2010 through 2012, the compound annual growth rate for the Italian companies was 11.2 percent.

Italian companies trailed their peers on the bottom line with an 8.5 percent composite net profit margin. Three of the Italian luxury goods companies analyzed here reported net losses, while five reported double-digit net profit margins. The most profitable, Prada, produced a 19.2 percent net margin in 2012. Return on assets was another weak metric for the Italian companies, at 7.4 percent, reflecting the lower profit margin.

Spain was represented by just three luxury goods companies among 2012's Top 75. Compared with the other countries analyzed, Spanish companies were the smallest, on average, at $802 million. With luxury goods sales growth of 9.5 percent in 2012, these companies underperformed the Top 75. Over the three-year period from 2010 to 2012, Spanish companies generated the weakest compound annual growth rate, 6.2 percent, as the region suffered a contraction in GDP in 2010 and 2012 along with high unemployment. However, an 11.5 percent composite net profit margin combined with strong asset turnover produced a 14.8 percent return on assets, the highest among the six countries.

Switzerland outperformed the Top 75 on both the top and bottom line. However, this reflects only two Swiss companies (of six total companies) that reported sales, net profits and total assets for the 2010 to 2012 period. These two companies, Richemont and Swatch, accounted for a combined 74.9 percent of Switzerland's Top 75 luxury goods sales. The two companies' composite net profit margin of 20.1 percent is considerably higher than the other countries, while 2012 sales growth of 14.5 percent and compound annual sales growth of 17.5 percent are second only to France. Despite the industry-leading profit margin, slightly lower-than-average asset turnover (reflecting the nature of the jewelry business) produced a composite return on assets of 14.0 percent. Note: Due to the small sample size, the results for Switzerland should be interpreted with caution. Of the six Swiss companies, three had 2012 luxury goods sales in excess of $5 billion and are represented among the Top 10. Luxury goods sales at the other three companies were less than $1 billion. In sum, the six companies accounted for a significant 16.1 percent share of total Top 75 luxury goods sales in 2012. The Swiss companies were the largest, on average, at $4,608 million—more than double the Top 75 average size of $2,290 million.

The **U.K.**, home to five of the Top 75 luxury goods companies, turned in below-average sales growth in 2012 of 6.8 percent; however, its 2010-2012 compound annual growth rate was an above-average 15.4 percent. 2012's tepid sales growth paralleled the stalled growth in the U.K. economy. The country's luxury goods companies averaged $987 million in luxury goods sales, significantly smaller than the average size of the Top 75, as four of the U.K. companies reported less than $1 billion in 2012 sales. Only Burberry, at $3.2 billion, surpassed the $1 billion mark. With a composite net profit margin of 11.3 percent, profitability for the U.K. companies was in line with the Top 75. However, the U.K. companies achieved superior return on assets of 12.0 percent, supported by higher-than-average asset turnover.

The **U.S.** had 17 companies in the Top 75 in 2012, including two in the Top 10. These companies accounted for 24.1 percent of the Top 75's combined luxury goods sales. Despite subpar 2012 sales growth of just 5.8 percent, two standouts are worth noting: Tory Burch and Kate Spade, with growth of 55.1 percent and 47.6 percent, respectively. Over the three-year period from 2010 through 2012, the U.S. companies enjoyed considerably better sales growth with a compound annual growth rate of 11.6 percent, although still below average compared with the Top 75 as a whole. The composite net profit margin of 10.8 percent (reflecting 13 U.S. companies that reported 2012 net profits) trailed the Top 75's 12.0 percent result. While the highly promotional U.S. retail market adversely impacted sales and margins of U.S. premium brands, none of the U.S. companies reported a loss in 2012. Looking at return on assets, U.S. luxury goods companies outperformed the Top 75, 11.5 percent versus 9.3 percent, as a result of higher asset turnover. On average, the U.S. companies were slightly larger than the average company in the Top 75, with luxury goods sales of $2,433 million.

This report does not include Michael Kors Holdings in the U.S. composites because it is headquartered in Hong Kong. It is important to note, however, that in 2012, 89 percent of Michael Kors' sales occurred in North America, and the company achieved a 68 percent revenue increase. Its capture of U.S. market share in the premium handbag business was a significant factor in the slowing growth at several luxury companies in the U.S. during 2012.

The Fastest 15

Based on compound annual sales growth over a three-year period

Between 2010 and 2012, composite luxury goods sales increased at a compound annual rate of 22.6 percent for the 15 fastest-growing luxury companies—more than 1.5 times the pace of the Top 75 as a whole. Most of these companies maintained their aggressive growth in 2012, achieving 19.9 percent year-over-year growth. Michael Kors Holdings heads the list as a result of its global expansion and a 40 percent increase in comparable store sales. On average the Fastest 15 were nearly twice the size of the Top 75, at $4,318 million versus $2,290 million. However, five of the Fastest 15 had 2012 luxury goods sales less than $1 billion and only two, LVMH and Richemont, exceeded $10 billion. Superior profitability accompanied superior growth for the Fastest 15, with a 14.5 percent net profit margin versus 12.0 percent for the Top 75, 2.5 percentage points wider. Inter Parfums is the most profitable of the Fastest 15. Prada and Hermès each combine industry-leading growth metrics (both in 2012 and in the 2010-2012 CAGR) along with superior profitability.

Acquisitions have served as a driver of growth for many luxury goods companies over the years. There were no real blockbuster deals in 2012—only one of the 15 fastest-growing luxury goods companies made a significant acquisition in fiscal 2012 (i.e., with a deal value of $100 million or more and where the company acquired a controlling interest): Fossil's April 2012 purchase of Skagen Designs for $247 million, that contributed $93.8 million to fiscal 2012 total revenues. Three deals were valued at $1 billion or more, but as these occurred in fiscal 2013 they will influence next year's version of this report:

- LVMH—acquisition of an 80 percent stake of Loro Piana SpA, the Italian textile brand known for its high quality cashmere and woolens
- PVH—acquisition of The Warnaco Group, the intimate apparel company, reuniting the Calvin Klein apparel businesses from collection to underwear in one firm
- The Swatch Group—acquisition of jewelry and watch brand Harry Winston Inc.

U.S.-based luxury goods companies accounted for one-third of the Fastest 15 in 2012 (five companies), followed by France with four companies and Italy with three. Hong Kong, Switzerland, and the U.K. had one company each.

15 fastest-growing luxury goods companies, FY2010-2012 CAGR[1]

Fastest 15 growth rank	FY12 Top 75 luxury goods rank	Company name	Country of origin	FY12 luxury goods sales (US $mil)	FY10-12 luxury goods sales CAGR[1]	FY12 luxury goods sales growth	FY12 net profit margin
1	21	Michael Kors Holdings Limited	Hong Kong	2,182	64.8%	67.5%	18.2%
2	40	Tory Burch LLC	United States	760 e	55.8%	55.1%	n/a
3	25	Christian Dior Couture	France	1,840	31.2%	27.8%	10.1% e
4	30	Fossil Group, Inc.	United States	1,430 e	27.0%	16.4%	12.4%
5	14	Prada SpA	Italy	4,251	26.9%	29.0%	19.2%
6	56	Tumi Holdings, Inc.	United States	399	25.6%	20.8%	9.2%
7	42	Graff Diamonds Limited	United Kingdom	689 e	25.5%	11.5%	11.2% e
8	6	Kering S.A.	France	7,990	24.5%	26.3%	11.1%
9	13	PVH Corp.	United States	4,367	23.2%	6.1%	7.2%
10	29	Salvatore Ferragamo SpA	Italy	1,483	21.5%	17.1%	10.9%
11	39	Moncler Spa	Italy	802	20.6%	21.5%	5.0%
12	12	Hermès International SCA	France	4,481	20.5%	22.6%	21.5%
13	2	Compagnie Financiere Richemont SA	Switzerland	12,391 e	20.4%	13.9%	19.8%
14	43	Inter Parfums Inc.	United States	654	19.2%	6.3%	27.0%
15	1	LVMH Moët Hennessy Louis Vuitton SA	France	21,060	18.6%	18.2%	13.9%
		Fastest 15* **		**4,318**	**22.6%**	**19.9%**	**14.5%**
		Top 75* **		**2,290**	**14.3%**	**12.6%**	**12.0%**

*Fastest 15 and Top 75 growth rates are sales-weighted, currency-adjusted composites
**Fastest 15 and Top 75 net profit margins are sales-weighted composites
[1]Compound annual growth rate
e = estimate

Source: Published company data and industry estimates

The Top 75 luxury goods companies: retail space and E-commerce

The retail store as image builder

A flagship or concept store is the ultimate communication vehicle for a brand, where product, quality, heritage, and service combine in the manifestation of a brand's DNA. A store is where the brand can orchestrate a multisensory, immersive experience that enables the consumer to identify and aspire to various brand attributes. This experiential factor is one reason brick and mortar stores will continue to exist, in spite of the convenience of online shopping. This is valid for mass consumer brands, and it is especially so for luxury brands.

Flagship stores are found in fashion markets such as New York, Paris and Milan and can serve a marketing and communications function as well as a retail function. For newer relatively unknown luxury brands, store adjacencies in exclusive high-status shopping districts, such as the 'Triangle d'Or' of Paris, can provide prestige by association. For more established luxury labels such locations act to reinforce core luxury values of quality and exclusivity. In 2012, 62 of The Top 75 luxury brands operated their own retail locations, from as few as three to as many as 6,417; the average number of company-owned stores was 495.

Many premium and luxury brands operate outlet stores in addition to flagship and full price retail venues. For some, such as Coach, the store is integral to the company's growth strategy; for others, outlets provide a channel to profitably selling last season's goods while keeping the latest fashion merchandise in full-price locations. Designer outlet locations, such as Value Retail's Bicester outside of London and McArthur Glen's Noventa di Piave, located near Venice, are shopping villages, home to 100 or so premium brands, attracting value-seeking luxury shoppers and tourists alike. Even here luxury brands must maintain high levels of service and brand personality, as an outlet may be a shopper's first impression of the brand.

E-commerce sites

According to Euromonitor, e-commerce sales of luxury goods represented 5.3 percent of total luxury goods sales in 2013, and exhibited a five year CAGR of 23% in the 2008—2013 period. E-commerce is most developed in the UK, where online represented 13.6 percent of luxury goods sales. 58 of the Top 75 luxury brands have one or more e-commerce sites (reflecting multiple brands and multiple countries). For example, Tiffany operates a Tiffany e-commerce site in 13 countries. Broadly speaking, companies least likely to have e-commerce sites were fine jewelry and watch companies, as well as fragrance houses that license multiple luxury brands and manufacture and distribute fine fragrances to various retail channels.

For many aspirational or "affordable" luxury brands the online store generates more sales volume than any brick and mortar location. While luxury brands were originally averse to the internet given their concern for exclusivity and prestige, luxury brand shoppers expect to shop their favorite brands on their terms online. In response, many companies have evolved their websites from brand-enhancing and information-gathering sites into a retail channel, albeit with a highly limited product range. Many have found the internet useful for selling off their previous year's merchandise without undermining the exclusivity of their brands, often by forming a joint venture with internet retailer Yoox.

M&A activity strong as resilience of luxury goods sector attracts investors

Compared with the rest of the consumer products industry, luxury goods have been relatively insulated from recent economic distress. Accordingly, the luxury sector has outperformed the consumer goods M&A market as a whole. Both trade players and financial investors are seeking opportunities that support their growth objectives, provide greater control over the value chain for their products, and deliver cost and revenue synergies.

Three main trends are driving dealmaking in the luxury and premium goods sector:

- Globalization
- Integration
- Consolidation

The globalization of luxury

The expanding population of wealthy and upper middle class consumers in emerging markets is perhaps the biggest driver of M&A activity in the luxury and premium goods space in recent years. The appetite for European and American brands in these underpenetrated markets is strong and growing, prompting many luxury goods companies to expand their international presence, particularly in Asia and the Middle East. At the same time, emerging market buyers and investment groups are seeking to acquire Western brands—raising the profile of those already in high demand and facilitating the growth of underexposed brands.

Private equity firms have been among the most active buyers of luxury and premium brands. They play a crucial role in providing capital to the luxury goods industry, often with the objective of helping young brands to grow. Private equity has been particularly active in helping brands with the complex and expensive process of international growth.

Recent examples include New York-based Blackstone Group, which has acquired a 20 percent stake in Gianni Versace. The first injection of capital took place in April 2014. The transaction will enable Versace to further expand its business in international markets and to invest in its retail store network in existing markets. It also will allow Versace to further develop its portfolio of brands and product offerings, focusing on accessories, and enhance its e-commerce business.

In March 2013, French private equity firm PAI Partners acquired Marcolin, an Italian producer and distributor of designer eyeglass frames and sunglasses. PAI sees excellent potential to develop the business not only in Europe and the United States, but particularly in emerging markets where demand for these products is rapidly increasing.

In December 2012, BDT Capital Partners, a U.S.-based boutique investment bank, and General Atlantic, a U.S.-based private equity and venture capital firm, acquired a minority stake in Tory Burch LLC, an American designer and manufacturer of women's sportswear and accessories, from Christopher Burch. Through this acquisition, Tory Burch will be able to build and expand its brand globally.

In March 2012, Lion Capital purchased a majority interest in U.S. menswear lifestyle brand John Varvatos with the aim of pursuing aggressive expansion of company-owned retail stores both domestically and on a global basis. Menswear has become a high-growth category with more fashion brands pursuing development of men's-only stores.

L Capital Asia is the Asian private equity business sponsored by the LVMH Group, Groupe Arnault, and YTL. It was set up in 2009 to focus on businesses that will benefit from the growing discretionary consumption in emerging Asian markets, leveraging LVMH's unique experience and resources in the region. With offices in Mauritius, Singapore, Mumbai, and Shanghai, the fund focuses on investing in aspirational Asian brands, including China and India.

L Capital Asia typically takes minority stakes in portfolio companies and has a pre-defined exit objective following an investment horizon of approximately four to five years. On the other hand, LVMH typically takes majority stakes in companies in the luxury end of the market, with a longer-term view.

Portfolio companies include, among others, Trendy International Group, a designer and retailer of casual wear for women (China); Genesis Luxury Fashion (India); Ming Fung Jewellery Group (China); R.M. Williams footwear, apparel and accessories (Australia); Charles & Keith fashion footwear (Singapore); and Xin Hee fashion apparel (China).

Value chain integration

Luxury goods companies keep tight control over all aspects of business—from product design and sourcing of raw materials to manufacturing, marketing, and distribution. Ownership of successive stages of the value chain for the company's product(s) helps ensure that brand-appropriate levels of quality and service can be maintained, thus protecting brand heritage. As a result, vertical integration has become another important driver of M&A activity in the luxury goods sector.

Activity is occurring at both ends of the value chain. On the production end, access to top suppliers and their technical expertise is critical to the competitive positioning and reputation of luxury brands—especially artisan brands. The acquisition of major suppliers ensures control of key raw materials that are becoming increasingly scarce as the market for luxury goods grows and prices increase.

In March 2013, Kering acquired a majority stake in France Croco, a company engaged in the sourcing, tanning, and processing of crocodile skins. The transaction will enable Kering to continue to secure the high-quality skins and specialized know-how that its leather and footwear brands need to make their high-margin products.

Richemont acquired Varin-Etampage and Varinor (VVSA in October 2012. Based in Switzerland, VVSA is a high-end manufacturer of stamped exterior components for watches, a gold refiner, and a producer of semi-finished precious metal products destined for the watch and jewelry industry. With its established technical expertise and state-of-the-art equipment, VVSA will reinforce Richemont's industrial capabilities.

In May 2012, LVMH acquired the French tannery Les Tanneries Roux. The company specializes in smooth and supple calfskin leathers suitable for high-end leather goods products such as shoes, belts, and handbags. The deal—the second tannery acquired by LVMH in two years—reinforced the group's intentions to consolidate control of key supply chains allowing proprietary access to the very best materials. In yet other bids to secure its supply chain, LVMH also bought Swiss watch dial makers Leman Cadran in 2012 and ArteCad in 2011.

Hermès International has a long history of securing key sources of supply, buying its first tannery in 1996. More recently, it has acquired French calf leather specialist Tannerie d'Annonay; Nateber, a company engaged in designing and manufacturing dials for watches; and a minority interest in watch case maker Joseph Erard.

At the other end of the value chain, companies are also seeking greater control at the point of sale. As a result, direct retail and e-commerce operations are becoming more prominent features of the distribution model for luxury goods. To establish a presence in foreign countries, many luxury goods companies initially set up joint ventures or enter into partnerships with distributors. However, once their presence has been successfully established, some companies are opting to buy out their local partners and assume direct control. This helps to ensure the integrity of the brand and realize increased margins.

Coach, a leading American designer and maker of premium handbags and accessories, has been acquiring ownership of its various operations worldwide since 2005 when it bought out its joint venture partner's 50 percent interest in Coach Japan. In fiscal 2009, the company acquired the Coach domestic retail businesses in Hong Kong, Macau, and mainland China from a former distributor. This provided for greater control over the brand in China, enabling Coach to raise brand awareness and aggressively grow market share with the Chinese consumer. In fiscal 2012, it purchased the Coach domestic retail businesses in Singapore, Taiwan, Malaysia, and Korea, positioning the company to more thoroughly penetrate these international markets.

Burberry, Ferragamo, and Kate Spade are among other brands taking control of their joint venture, franchised, or licensed retail operations in high-growth markets.

In January 2013, Gemfields Resources, a London-based gemstone company engaged in the mining, importing, processing, and selling of precious and semiprecious stones, acquired Faberge, one of the jewelry industry's most storied brands. The merged company will capture a large part of the value chain from mine to market, positioning Gemfields as the world's leading colored gemstone company operating in the two most profitable segments within the gemstone value chain.

While taking greater control of bricks-and-mortar retailing has sparked considerable M&A activity in recent years, targeting a global audience for luxury goods through e-commerce has also fueled deal activity in the industry, as both multinationals and smaller brands vie to reach a greater number of customers through the web.

In August 2012, Kering announced a new joint venture with the online retail specialist YOOX Group to administer the e-commerce operations of most of its luxury brands. The online stores of Alexander McQueen, Balenciaga, Bottega Veneta, Saint Laurent, Sergio Rossi, and Stella McCartney were launched by 30 June 2013, marking the first important milestone of the joint venture. Each brand remains in full control of its online store and is in charge of product assortment, editorial content, art direction, and digital communication.

Consolidation as a growth strategy

Another factor underpinning M&A activity in the luxury goods sector is continued industry consolidation, with the consolidators taking a number of different forms. The big luxury conglomerates like LVMH and Kering operate in a diverse array of subsectors, the common denominator being a broad expertise in luxury including an intimate understanding of the luxury consumer. More specialized groups include Richemont and Swatch (watches and jewelry) and Labelux (leather goods and footwear). Seasoned investment firms are also contributing to the greater consolidation of luxury brands into a smaller number of holding companies or groups.

Each of these consolidators brings its own expertise and scale to enhance and build the individual businesses, leveraging everything from production facilities to operating systems to real estate in order to achieve greater market share and cost efficiencies. All of these consolidators are seeking scalable brands, including distressed or underperforming businesses that simply do not have the experience, knowledge, or resources to manage ever-expanding operations. In all likelihood, there are some important brands that would not exist today had they not become part of a luxury group.

Among the many deals by consolidators in the past few years is Kering's April 2013 acquisition of Italian jeweler Pomellato. This transaction enables Kering to extend and reinforce its portfolio of luxury brands in the high-growth jewelry market. With access to Kering's expertise, Pomellato will be able to step up its pace of growth and expand its geographic footprint while preserving the values that underpin its Italian identity. This is but one of many acquisitions in the past few years that have repositioned Kering as a luxury company.

Fung Brands Limited is the Hong Kong-based luxury investment fund of Fung Capital Europe, the investment arm of the families of Victor Fung and William Fung who separately control the Li & Fung Group. Since its founding in 2011, Fung Brands has acquired majority stakes in Sonia Rykiel, the French family-owned fashion house, Belgian luxury leather company Delvaux Createur, and renowned French shoemaker Robert Clergerie. Fung Brands' expertise and strong distribution network will give these brands the opportunity to become better known in the world's fastest growing luxury markets.

In November 2012, Mayhoola for Investments, an investment vehicle backed by a major private investor group from Qatar, acquired Italy's Valentino Fashion Group from UK private equity firm Permira. Mayhoola has also acquired a majority stake in Forall Confezioni, an Italian menswear house, and a minority interest in Anya Hindmarch Limited, a UK-based handbag manufacturer. These transactions increase Mayhoola's presence in the European luxury goods market. They also enable the acquired companies to tap the full potential of their brands by enhancing their relevance in the global fashion market.

Top acquisitions driven by big names and financial investors

A review of the largest transactions during the past two years reinforces the three key drivers of dealmaking in the luxury and premium goods market discussed above. In 2013, 12 deals were completed with a deal value of at least $100 million. In 2012, there were nine deals of $100+ million. (It should be noted that many, if not most, acquisitions in the luxury sector are private transactions where the deal value is not disclosed.)

Top acquisitions in the luxury goods sector, 2012*

Deal rank	Buyer	Buyer location	Buyer product sector	Acquired business/Parent company	Acquired business location	Acquired business product sector	Deal value** (US$mil)	Completion date
1	Mannai Corporation Q.S.C.	Qatar	Trading & service conglomerate	Damas International Limited	UAE	Jewelry & watches	$991	26/04/2012
2	Mayhoola for Investments S.P.C	Qatar	Investment group	***Valentino Fashion Group SpA***/Permira	Italy	Apparel & accessories	$889	10/11/2012
3	***Kering S.A.***	France	Manufacturer & retailer of luxury goods	BRIONI Spa	Italy	Apparel & accessories	$415	11/01/2012
4	EQT Partners AB	Sweden	Private equity firm	Vertu Limited/Nokia Oyj	UK	Mobile phones	$252	15/10/2012
5	***Fossil Group, Inc.***	United States	Manufacturer & retailer of fashion accessories	Skagen Designs, Ltd./Henrik Jorst and Charlotte Jorst (private individuals)	United States	Watches, jewelry and sunglasses	$237	02/04/2012
6	***Luxottica Group SpA***	Italy	Manufacturer & retailer of eyewear	Group Tecnol SA (80% stake)	Brazil	Eyewear	$148	25/01/2012
7	Investcorp	Bahrain	Investment group	Georg Jensen AS/ Axcel Industriinvestor A/S	Denmark	Jewelry, watches, fine silverware & homeware	$140	14/12/2012
8	Pollyanna Chu Yuet Wah	Hong Kong	Private investor	Sincere Watch (Hong Kong) Limited (75% stake)/Sincere Watch Limited	Hong Kong	Watches & accessories	$133	21/05/2012
9	G-III Apparel Group Ltd.	United States	Apparel manufacturer	Vilebrequin International SA	Switzerland	Swimwear, accessories & resort wear	$106	07/08/2012

*Includes only acquisitions where a controlling interest in the acquired company is transferred to the acquiring company.
**Deal value is the sum of the consideration paid by the acquirer for the equity stake in the target plus the value of the net debt in the target, where applicable (i.e., where debt will be consolidated as a result of the purchase). Net debt is defined as short-term and long-term debt minus cash and cash equivalents.
Company names in bold are 2012 Global Powers of Luxury Goods Top 75 companies.
Source: mergermarket.com and company reports.

Among the buyers are some of the sector's biggest names including luxury groups LVMH and Kering. All 12 top deals in 2013 involved U.S. or European buyers—specifically the UK, France, and Italy—acquiring other U.S. or European businesses. For six of these transactions, the buyers were private equity firms. In 2012, private equity or other investment groups accounted for four of the nine largest transactions. Across both years, the predominant product sectors of the acquired companies were jewelry and watches (9 deals), apparel and footwear (7), and eyewear (3).

The largest transaction in 2013 was LVMH's $2.83 billion acquisition of Loro Piana, a vertically integrated Italian supplier and retailer of cashmere products and other high-quality textiles. The deal represents the luxury goods giant's biggest acquisition since the 2011 purchase of Bulgari. Loro Piana offers significant growth potential in retail expansion and brings LVMH specific expertise in textiles.

A close second was apparel company PVH's acquisition of The Warnaco Group for $2.79 billion. The Warnaco deal follows PVH's transformational acquisitions of iconic lifestyle apparel brands Calvin Klein in 2003 and Tommy Hilfiger in 2010. Warnaco controlled the Calvin Klein jeans and underwear licenses. The deal now brings the various Calvin Klein categories under one corporate umbrella.

The Swatch Group's acquisition of Harry Winston was the only other billion dollar deal in 2013. The Harry Winston brand complements Swatch's prestige and luxury range, which also includes Breguet, Blancpain, Glashütte Original, Jaquet Droz, Léon Hatot and Omega.

In 2012, none of the deals reached the billion-dollar mark, although two came close. In both cases, the buyers were Qatar-based companies. Mannai Corporation, a trading and service conglomerate, acquired Damas International, a designer and retailer of jewelry and watches based in the United Arab Emirates, for $991 million.

Top acquisitions in the luxury goods sector, 2013*

Deal rank	Buyer	Buyer location	Buyer product sector	Acquired business/ Parent company	Acquired business location	Acquired business product sector	Deal value** (US$mil)	Completion date
1	***LVMH Moet Hennessy Louis Vuitton SA***	France	Manufacturer & retailer of luxury goods	***Loro Piana SpA*** (80% stake)	Italy	Cashmere & other high-quality textiles, apparel & accessories	$2,831	05/12/2013
2	***PVH Corp.***	United States	Manufacturer of apparel & accessories	The Warnaco Group Inc.	United States	Intimate apparel, sportswear & swimwear	$2,787	13/02/2013
3	***Swatch Group Ltd.***	Switzerland	Manufacturer of watches, jewelry & accessories.	***Harry Winston Inc.***/ Harry Winston Diamond Corporation (renamed Dominion Diamond Corporation)	United States	Jewelry & watches	$1,000	26/03/2013
4	TowerBrook Capital Partners L.P.	United States	Private equity firm	***True Religion Apparel, Inc.***	United States	Fashion jeans & sportswear	$750	30/07/2013
5	Apax Partners LLP	UK	Private equity firm	***Cole Haan LLC***/Nike Inc.	United States	Footwear & handbags	$570	04/02/2013
6	Apollo Global Management, LLC	United States	Private equity firm	***Aurum Holdings Limited***/ Landsbankinn hf.	UK	Retailer of jewelry & watches	$455	20/03/2013
7	***Kering S.A.***	France	Manufacturer & retailer of luxury goods	***Pomellato SpA*** (81% stake)/RA.MO SpA	Italy	Jewelry & watches	$390	25/04/2013
8	PAI Partners	France	Private equity firm	***Marcolin SpA***	Italy	Eyewear	$347	01/03/2013
9	Brentwood Associates, Inc.	United States	Private equity firm	Allen-Edmonds Shoe Corporation/Goldner Hawn Johnson & Morrison Inc.	United States	Footwear	$200	04/11/2013
10	Gemfields Resources plc	UK	Gemstone company	Fabergé Limited/ Pallinghurst Resources LLP	Switzerland	Jewels, accessories & other luxury goods	$133	30/01/2013
11	***Luxottica Group SpA***	Italy	Manufacturer & retailer of eyewear	Alain Mikli International SA/NEO Capital Private Equity LLP	France	Eyewear	$117	23/01/2013
12	Clessidra SGR SpA	Italy	Private equity firm	Gianmaria Buccellati srl (70% stake)/Buccellati family and Simest SpA	Italy	Jewelry & watches	$103	28/03/2013

*Includes only acquisitions where a controlling interest in the acquired company is transferred to the acquiring company.
**Deal value is the sum of the consideration paid by the acquirer for the equity stake in the target plus the value of the net debt in the target, where applicable (i.e., where debt will be consolidated as a result of the purchase). Net debt is defined as short-term and long-term debt minus cash and cash equivalents.
Company names in bold are 2012 Global Powers of Luxury Goods Top 75 companies.
Source: mergermarket.com and company reports

The second largest transaction in 2012 was Qatari investment group Mayhoola for Investments' acquisition of Italy's Valentino Fashion Group in a deal valued at $889 million.

M&A Outlook

As 2014 unfolds, the powerful combination of deal drivers in the luxury market will continue to fuel M&A activity. There remains a strong appetite among buyers for historic luxury brands with a strong brand heritage and legacy. The increasing wealth of emerging market consumers will continue to draw investors—both traditional players from Europe and the United States as well as increasing competition from cash-rich buyers from Asia-Pacific and the Middle East.

Both groups will be motivated by the desire to cater to the growing consumer demand for luxury goods by bringing well-known and newer brands to a larger international customer base. Private equity involvement in luxury goods will also remain key to the industry's development.

At the same time, as global demand for luxury goods increases, access to top resources on the supply side becomes more difficult. Therefore, another factor fueling luxury M&A activity in the years ahead will continue to be the desire by major brands to manage supply risk, minimize price volatility, protect brand identity, and improve margins by controlling more of the value chain. Finally, deal flow is likely to continue as the growing number of luxury goods conglomerates seek to boost growth and market share through further consolidation.

Q ratio analysis

In this report, we rank the world's largest luxury companies by revenue. While the size of a company is interesting, it does not necessarily tell us anything about future performance. Large size merely shows that a company performed well in the past and has, consequently, achieved scale. Moreover, the market capitalization of a publicly traded luxury company, examined alone, says something about past performance—even if only recently—but not necessarily about the future.

However, we can examine financial information in order to learn something about future performance. With that goal in mind, we are introducing to this report the Q ratio of luxury goods companies. Our goal is to learn how financial markets are evaluating the future prospects of the world's largest publicly traded luxury goods companies. The Q ratio enables us to infer whether companies are strong in such areas as brand, differentiation, and innovation.

What is the Q ratio?

The Q ratio is the ratio of a publicly traded company's market capitalization to the value of its tangible assets. If this ratio is greater than one, it means that financial market participants believe that a company's non-tangible assets have value. These include such things as brand equity, differentiation, innovation, customer experience, market dominance, customer loyalty, and skillful execution. The higher the Q ratio, the greater share of a company's value that stems from such intangibles. A Q ratio of less than one, on the other hand, indicates failure to generate value on the basis of even tangible assets. It indicates that the financial markets view a luxury goods company's strategy as unable to generate a sufficient return on physical assets. Indeed, it suggests an arbitrage opportunity. That is, if a company's Q ratio is less than one, a company could, theoretically, be purchased through equity markets and the tangible assets could then be sold at a profit.

Why do we care about the Q ratio?

In recent years, one of the biggest challenges facing many consumer-facing companies has been the squeezing of margins due to commoditization. That is, consumers sometimes view brands in the market as relatively undifferentiated from one another except on the basis of price. This trend has been exacerbated by the ability of consumers to use the Internet, and especially mobile devices, to compare prices and products. Commoditization causes intense price competition and tends to drive down prices and, therefore, margins. Only the lowest cost leaders in any product segment can compete primarily on the basis of price. All others must do something else. The antidote to commoditization, of course, is to differentiate through better customer experience and innovation, and to communicate this differentiation to consumers through good brand management. Consequently, a high Q ratio suggests that the financial markets believe a company is doing the right things to succeed in a business environment characterized by commoditization. A Q ratio less than one may indicate that the financial markets believe a company is failing to use its physical assets in a profitable manner. Naturally, unlike other types of consumer facing companies, we would expect luxury goods companies to have Q ratios above one. After all, these are not companies that compete on the basis of price, but on the basis of brand identity. The higher the Q ratio for a luxury goods company the greater the share of its market value attributable to brand management.

What do the numbers show?

This year we have calculated the Q ratio for 32 publicly traded luxury companies. The composite Q ratio (calculated by taking the sum of all companies' market capitalization as of April 7, 2014 and dividing by the sum of all companies' asset values) is 2.13. Only 8 companies have Q ratios below one, and all but 2 of the U.S. companies have Q ratios above one. The highest Q ratio goes to Michael Kors at 13.69 followed by Kate Spade and Hermès. Interestingly, the composite Q ratio for companies based in Europe is roughly similar to the composite ratio for companies based in the United States.

Luxury goods rank FY12	Company name	Selection of luxury brands	Country of origin	Region	Market cap* (US$mil)	FY12 total assets (US$mil)	Q ratio
20	Michael Kors Holdings Limited	Michael Kors	Hong Kong	Asia/ Pacific	17658	1290	**13.69**
53	Kate Spade LLC	Kate Spade, Jack Spade	United States	North America	4128	388	**10.65**
12	Hermès International SCA	Hermès, John Lobb, Shang Xia, Puiforcat	France	Europe	35252	4380	**8.05**
56	Brunello Cucinelli SpA	Brunello Cucinelli	Italy	Europe	1862	322	**5.79**
28	Salvatore Ferragamo SpA	Salvatore Ferragamo	Italy	Europe	4884	981	**4.98**
18	Hugo Boss AG	Boss, Boss Green, Boss Orange, Hugo	Germany	Europe	9208	2038	**4.52**
13	Prada SpA	Car Shoe, Church’s, Miu Miu, Prada	Italy	Europe	18954	4365	**4.34**
38	Moncler Spa	Moncler, Gamme Rouge, Gamme Bleu, Grenoble	Italy	Europe	4249	1077	**3.95**
64	Mulberry Group Plc	Mulberry	United Kingdom	Europe	687	176	**3.90**
10	Coach Inc.	Coach	United States	North America	13568	3532	**3.84**
16	Burberry Group plc	Burberry Prorsum, Burberry London, Burberry Brit	United Kingdom	Europe	10359	2761	**3.75**
3	Estée Lauder Companies Inc.	Estée Lauder, Aramis, La Mer, Aveda, Jo Malone	United States	North America	26109	7145	**3.65**
29	Fossil Group, Inc.	Michele, Skagen, Zodiac. Licensed watch brands	United States	North America	5903	1842	**3.20**
55	Tumi Holdings, Inc.	Tumi	United States	North America	1487	469	**3.17**
31	Tod’s SPA	Tod’s, Hogan, Fay	Italy	Europe	4077	1380	**2.95**
2	Compagnie Financiere Richemont SA	Cartier, Lancel, Van Cleef, Chloe, Baume & Mercier, IWC, Jaeger-LeCoultre, Montblanc	Switzerland	Europe	54926	18679	**2.94**
5	Swatch Group Ltd.	Blancpain, Breguet, Longines, Omega, Rado	Switzerland	Europe	33422	11975	**2.79**
7	Ralph Lauren Corporation	Ralph Lauren Collection, Blue Label, Black Label, RLX, Purple Label	United States	North America	14055	5418	**2.59**
4	Luxottica Group SpA	Alain Mikli, Arnette, Ray-Ban, Persol, Oliver Peoples. Licensed eyewear brands	Italy	Europe	27222	10857	**2.51**
14	Tiffany Inc.	Tiffany	United States	North America	11010	4631	**2.38**
50	Movado Group, Inc.	Concord, Ebel, ESQ, Movado	United States	North America	1056	526	**2.01**
1	LVMH Moët Hennessy Louis Vuitton SA	Louis Vuitton, Fendi, Donna Karan, Loewe, Marc Jacobs, Céline	France	Europe	93080	64214	**1.45**
42	Inter Parfums Inc.	Owned fragrance brands: Agent Provocateur, Alfred Dunhill, Anna Sui, Lanvin, Shanghai Tang	United States	North America	1075	760	**1.41**
11	PVH Corp.	Calvin Klein, Tommy Hilfiger	United States	North America	10076	7782	**1.29**
15	Coty Inc.	Lancaster; Calvin Klein fragrance: licensed fragrance brands: Marc Jacobs and Chloé	United States	North America	5903	6470	**0.91**
8	Shiseido Company, Limited	Shiseido, clé de peau Beaute, bareMinerals, Benefique	Japan	Asia/ Pacific	6954	8656	**0.80**
6	Kering S.A.	Gucci, Bottega Veneta, Saint Laurent	France	Europe	25259	32482	**0.78**
30	Elizabeth Arden Inc.	Elizabeth Arden, Giorgio Beverly Hills. Licensed fragrance brands	United States	North America	813	1104	**0.74**
70	Wolford AG	Wolford	Austria	Europe	129	183	**0.70**
27	Safilo Group SpA	Safilo, Oxydo, Blue Bay, Carrera, Smith Optics, Licensed eyewear brands	Italy	Europe	1264	1918	**0.66**
58	Aeffe SpA	Alberta Ferretti, Philosophy, Moschino, Moschino Cheap and Chic, Love Moschino	Italy	Europe	126	479	**0.26**
33	Renown Inc.	Anya Hindmarch, Aquascrutum, Arnold Palmer, C’est Privee, Dunhill, Intermezzo	Japan	Asia/ Pacific	120	464	**0.26**
	COMPOSITE				444872	208742	**2.13**
	AVERAGE						**3.28**
				Europe	324958	158266	**2.05**
				United States	95182	40067	**2.38**
				Japan	7074	9120	**0.78**

* As of 7 April 2014

Study methodology and data sources

To be considered for the Top 75 Global Powers of Luxury Goods, a company must first be designated as a luxury goods company according to Euromonitor's definition of luxury goods:

Luxury goods is the aggregation of designer apparel (ready-to-wear), luxury accessories, luxury electronic gadgets, luxury jewelry and timepieces, luxury travel goods, luxury writing instruments and stationery, and super premium beauty and personal care.

Luxury goods include luxury/designer brands that are located at the top end of the price range. Designer/luxury brands are mostly sold through high end department stores or high fashion boutiques.

Luxury goods will usually have higher unit prices and/or distributed through selective channels and/or carry a designer brand name and/or produced from high quality/priced or rare ingredients/materials along with premium packaging.

Companies considered include those categorized as traditional ultra-luxury as well as aspirational or premium luxury, a relatively new luxury category of products at prices more affordable for middle class consumers but available at the higher end of retail.

Each company is analyzed in an attempt to determine if the majority of its sales (a 50 percent hurdle) are derived from luxury goods products in the four broad categories of luxury goods: designer apparel (ready-to-wear); handbags and accessories; fine jewelry and watches; and cosmetics and fragrances. Broadly defined, these are products produced for and purchased by the ultimate consumer and generally marketed under well-known luxury brands. Chanel does not disclose financial information and thus could not be included in our rankings.

Companies whose primary business was the sale of luxury goods products were included among the Top 75 based on their fiscal 2012 luxury goods consolidated sales. Our fiscal 2012 definition encompasses companies' fiscal years ended through June 2013.

A number of sources were consulted to develop the Top 75 list. The principal data sources for financial information were annual reports, SEC filings, and information found in companies' press releases, fact sheets, or websites. Sources also included Euromonitor International, a leading global provider of strategic research for consumer markets.

If company-issued information was not available, other public-domain sources were used, including trade journal estimates, industry analyst reports, and various business information databases. Special thanks to Marie Driscoll of Driscoll Advisors, a financial and strategy consultancy specializing in apparel brands, apparel retailers, and luxury goods for academia, investors, industry, and non-profits.

In order to provide a common base from which to rank the companies, net sales for non-U.S. companies were converted to U.S. dollars. Exchange rates, therefore, have an impact on the results. OANDA.com was the source used for the exchange rates. The average daily exchange rate corresponding to each company's fiscal year was used to convert that company's results to U.S. dollars. However, the growth rates and profit margin reported for individual companies are calculated in each company's local currency.

Group financial results

Sales-weighted, currency-adjusted composites are used to report the financial results of groups of companies. This means the results of larger companies contribute more to the composite than do results of smaller companies. To calculate results for groups of companies that may report in a variety of currencies, and to facilitate comparison among groups, it also means that data must first be converted to U.S. dollars. In order to eliminate the impact of fluctuations in exchange rates over time, composite growth rates also are adjusted to correct for currency movement.

Composites and averages for each group were based only on companies with data. Not all data elements were available for all companies.

It should also be noted that the financial information used for each company in a given year is as originally reported. Although a company may have restated prior-year results to reflect a change in its operations (e.g., the divestiture of a business unit), such restatements are not reflected in this data. This study is intended to provide a snapshot of the luxury goods industry at a point in time. It is also intended to reflect market dynamics and their impact on the structure of the industry over a period of time. As a result of these factors, the growth rates reported for individual companies may not correspond to other published results.

Endnotes

1. Demographics of key social networking platforms, Pew Research, 30 December 2013. http://www.pewinternet.org/2013/12/30/demographics-of-key-social-networking-platforms/

2. 2013 Annual Holiday Survey: Naughty or nice? How will retail sales fare this holiday season?, Deloitte LLP, October 2013.

3. Luxury Goods 2014: New Insights, Euromonitor.

4. Welcome to Nigeria: Land of Contrasts and Luxury Ambition, Euromonitor, 14 September 2013. http://blog.euromonitor.com/2013/09/welcome-to-nigeria-land-of-contrasts-and-luxury-ambition.html

5. London Evening Standard, 24 April 2014

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