Global Powers of Luxury Goods 2015

Engaging the future luxury consumer

Contents

Deloitte Touche Tohmatsu Limited (DTTL) is pleased to present the 2nd annual *Global Powers of Luxury Goods*. This report identifies the 100 largest luxury goods companies around the world based on publicly available data for the fiscal year 2013 (encompassing companies' fiscal years ended through June 2014).

The report also provides an outlook on the global economy; an analysis of market capitalization in the luxury goods industry; a look at merger & acquisition activity in the industry; and a discussion on engaging the future luxury consumer.

Global economic outlook

The global economy in early 2015 offers luxury purveyors both cause for celebration and concern. On the celebratory side, some key markets are showing signs of greater strength. The US economy is clearly performing better than in recent years, with employment growth up considerably and asset prices having strengthened substantially. In Europe and Japan, more aggressive monetary policies are boosting growth as well as asset prices. On the other hand, China's economy continues to decelerate, even as the government takes steps to boost credit market activity. In two of the three other BRICs, Russia and Brazil, circumstances have conspired to create a weak economic environment. In addition, the uncertainty of currency volatility is making it difficult for companies to plan for the future. What follows is a look at the global economy and the potential impact on luxury goods companies.

Currencies

US dollar

One of the big stories in 2014 and early 2015 has been the sharp rise in the value of the U.S. dollar against most other major currencies. There were several reasons for this. Among them were the decline in the price of oil; faster economic growth in the U.S.; expectations of higher U.S. interest rates; and weak growth combined with more aggressive monetary policy in Europe, China, and Japan. The rising dollar has many effects. First, it is disinflationary in the U.S. by reducing import prices. This will provide the Federal Reserve with more time before it must raise short term interest rates. Second, a rising dollar is inflationary for everyone else. That will be good for Europe and Japan, where inflation is way too low. It will be a problem in many emerging markets. Indeed several have raised short term interest rates in order to stabilize their currencies and fight inflation, leading to slower growth. Third, a rising dollar could be problematic for companies in emerging countries that have dollar-denominated debts. The volume of such debt has quadrupled in the last seven years. Going forward, while it is nearly impossible to accurately predict exchange rates, it does seem likely that the dollar will continue to face upward pressures, at least in 2015.

Euro

The introduction of a far more aggressive monetary policy by the European Central Bank (ECB) has put downward pressure on the euro. Bond yields in Europe have been suppressed and investors, seeking yield, have sold euros and purchased U.S. dollars. The effect of a declining euro has been to boost the competitiveness of European exports. This, in turn, has caused investors to push up equity prices of European companies. Moreover, the cheaper euro, by raising import prices, is helping the ECB to fight deflation.

Swiss franc

It is rare that Switzerland tops the world's economic news, but that was certainly the case at the start of 2015. First, a little background: Three years ago the Swiss National Bank (SNB), which is Switzerland's central bank, imposed a cap on the value of the Swiss franc in order to prevent a sharp rise that would kill Swiss exports. Prior to that, there had been considerable upward pressure on the franc with global investors seeing it as a safe-haven asset at a time of turmoil in Europe. The cap, at 1.2 francs per euro, required that the SNB continually sell francs (purchase euros) in order prevent a rise in the value of the franc. Yet the problem with doing so is that it can ultimately lead either to consumer price inflation or asset price inflation by increasing the supply of francs. While neither of these happened, the SNB worried that the situation would become unsustainable when the ECB started to implement quantitative easing (QE), which it did in March 2015. The SNB surmised that such action would probably mean more downward pressure on the euro, thereby necessitating more euro purchases by the SNB and more Swiss money supply growth. Therefore, in anticipation of QE, the SNB in January removed the cap on the value of the franc, stunning global financial markets. Immediately, the value of the franc soared as much as 40 percent against the euro before settling in at a gain of roughly 15 percent. To ease the pain, the SNB cut its benchmark interest rates. Moreover, the safe haven nature of Switzerland has rendered bond yields negative.

For Switzerland, the rise in the value of the franc means less competitiveness for Swiss export-oriented companies. It will mean higher prices paid by customers and/or lower profit margins for Swiss companies. The result will be slower economic growth than would otherwise have been the case. It will also boost the competitiveness of companies based in the Eurozone that compete with Swiss companies. For Swiss consumers, the rise in the value of their currency means greater purchasing power as imports become cheaper.

When it comes to luxury goods, the situation is a bit less clear. Consumers of luxury products are not necessarily price sensitive. Theoretically, it could be the case that a Swiss product with strong brand equity will not see a decline in sales volume even if prices paid by foreigners rise. On the other hand, we don't live in a theoretical world. Price sensitivity varies depending on whether a product is high end or aspirational, whether or not its brand is considered unique, and the nature of markets in which it is sold. Moreover, it is difficult to identify the impact of exchange rate movements on price when other factors play a significant role. These can include the competitive situation and the economic strength of export markets. For example, the corruption crackdown in China has reduced demand for high end luxury products, thus causing a drop in prices.

Oil prices

As of this writing, the global price of oil has declined more than 50 percent from where it was in the first half of 2014. Oil has fallen due to weak global demand combined with a considerable increase in oil production in the U.S., Canada, Iraq, and Libya. Yet the U.S. is the main story, with oil production through "fracking" in North Dakota and Texas having transformed the global industry. The other big part of the story is the decision by Saudi Arabia not to cut production in order to boost prices. Rather, the Saudis are content to allow the price to sink in the hope that they will gain market share at the expense of frackers.

The drop in the price of oil is having a considerable impact on the global economy. It is creating disinflationary pressures, especially in developed markets such as the U.S., Europe, and Japan; it is boosting consumer purchasing power in oil consuming nations such as Japan, India, the U.S., and much of Europe and contributing to faster economic growth than would otherwise be the case; and it is wreaking havoc for oil exporters such as Russia, Iran, Venezuela, and Nigeria. Most importantly it has contributed to the stunning rise in the value of the U.S. dollar. Oil exporters are paid in dollars and then re-cycle those dollars by purchasing goods or assets from the rest of the world. With a lower oil price, the supply of dollars available for such purchases has declined. This paucity of dollars has caused the price of dollars to rise.

What can we expect going forward? In the short term, it is likely that the price of oil will either stabilize or fall further—all in the context of increased volatility. There is a considerable amount of new oil production already in the pipeline in the U.S. that is expected to come on line in 2015, and crude inventories continue to pile up. Longer term, however, a low price is likely to retard investment in fracking. Indeed we're already seeing a cutback in drilling permits and a drop in oil company capital expenditures. A reduction in U.S. production could, therefore, happen right when global demand starts to pick up speed. If this happens, the price will surely rebound, perhaps in the next one to two years. A rising price will be inflationary for consuming nations, will put pressure on external debt service for consuming nations, and will probably force tighter monetary policy at least in the U.S. For oil exporters, it would be beneficial—especially for such countries as Russia, Iran, Venezuela, and Mexico.

Major markets

China

China's economy has slowed down and continues to show considerable signs of weakness despite government efforts to reverse the slowdown. The Chinese economy grew 7.4 percent in 2014, the slowest rate since 1990. The government expects growth of only 7.0 percent in 2015. Lower growth could mean an inability to absorb workers migrating from rural to urban areas. The result would be high unemployment and social unrest. And, if the workers didn't migrate, China wouldn't grow since there would be zero productivity gains that come from switching workers from farms to factories. Thus, China can ill afford to grow much more slowly.

Why is China decelerating? First, export markets such as Europe have been dormant. Even the U.S. market isn't what it used to be for China. Plus, China's wages and currency have increased in recent years, thereby reducing the competitiveness of Chinese exports. Indeed with the renminbi relatively steady lately against the U.S. dollar, it has thus risen considerably against the euro and yen. Consequently, Chinese exports to Europe and Japan have been weakened. Indeed some manufacturing capacity has moved outside of China. Companies are looking elsewhere to produce goods for export. Basic assembly is moving from China to Vietnam, Indonesia, and elsewhere.

Second, the government has attempted to limit the growth of the shadow banking system. Lending outside traditional banking channels has resulted in excess investment in property, infrastructure, and heavy industry. The result is a growing volume of non-performing assets which threatens the stability of the financial system. Indeed the government has recently estimated that, in the past five years, $6.8 trillion in investment has been wasted. Yet efforts to limit this activity have contributed to the slowdown in growth. The government is torn between a desire to limit financial risk and a desire to avoid a sharp slowdown. It has taken measures to limit the growth of shadow banking while, at the same time, attempted to stimulate more traditional forms of credit through repeated easing of monetary policy. Indeed interest rates have been cut and the required reserve ratio of banks has been reduced. The problem is that, with considerable excess capacity in property and industry, it is not clear that easier monetary policy will necessarily lead to more credit market activity. Moreover, it is not clear if such an increase would be beneficial. It could exacerbate the problem of excess capacity, exacerbate wholesale price deflation, and ultimately lead to financial losses.

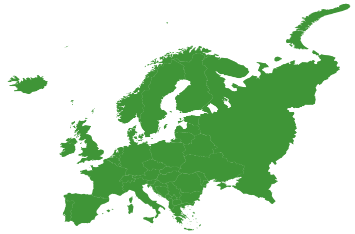
One side effect of the slowdown in economic growth has been deceleration of retail spending. Moreover, the government's crackdown on corruption has caused a drop in the traditional giving of luxury gifts, thus exacerbating the slowdown in retail sales growth. In addition, China has lately seen considerable outflows of capital. Wealthy individuals have been moving money out of the country, often into high end property markets in such cities as Sydney, London, New York, Vancouver, and Los Angeles to name a few. This has put downward pressure on the Chinese currency, compelling the central bank to sell foreign currency reserves in order to prevent a sharper decline.

USA

The U.S. economy has accelerated and will likely grow faster in 2015 than at any time since 2005. While there are signs of strength, there have also been signs of weakness in early 2015. In part this may reflect bad weather in much of the country. But it may also reflect the impact of a weak overseas economy as well as the negative effect of a high valued dollar. The most important positive sign, however, is a very strong job market. Also, there are indications that a pickup in business investment is imminent. The major weak component of the U.S. economy is housing. Data have bounced around in the past year due to higher mortgage interest rates, higher house prices, and the fact that first-time buyers are often plagued by student debt. However, the medium-term outlook for housing is good given that prices appear to be stabilizing, mortgage rates are down, job growth is strong, and there is considerable pent-up demand. A disproportionate share of the activity is now in multi-unit housing rather than single family housing. And, in some big cities, prices at the upper end have been boosted by inflows of Chinese money.

Due in part to the dramatic decline in oil prices, inflation remains well below the Federal Reserve's target of 2.0 percent. As such, it is likely that the Fed will wait at least until the end of 2015 before raising short term interest rates for the first time in eight years. Plus, low inflation and lower energy prices are helping to boost consumer purchasing power. In addition, unlike in the recent past, there is no fiscal consolidation taking place. Due to a strong economy, the budget deficit has fallen dramatically, thereby nearly eliminating the political pressure to do something about the deficit. The absence of spending cuts and tax increases removes a factor that held back growth in 2012-13.

Europe



After a prolonged period of disappointing economic performance, the Eurozone economy is starting to show some early signs of improvement. These include stronger job growth, rising retail sales, improved manufacturing performance, and some improvement in credit market conditions. Still, more is needed and, in some parts of Europe, growth remains weak. Moreover, while deflation has been avoided, inflation remains too low. The principal problem has been weakness in credit markets resulting in a paucity of business investment. The end result, until recently, has been weak hiring and high unemployment. Credit market weakness stems from several factors. These include weak banks that are struggling to recapitalize by selling risky assets and avoiding new ones, high risk spreads in Europe's periphery due to fears about sovereign risk, and the fear of deflation. Despite a moderately aggressive monetary policy, which has led to growth of the broad money supply, bank credit to the private sector continues to decline, especially in Europe's peripheral countries.

To counter the problems in credit markets, the ECB has lately engaged in a far more aggressive monetary policy. This entails very low interest rates, direct low-interest loans to banks on the condition that the money is then loaned to the private sector, and most importantly, purchases of government bonds—better known as quantitative easing. The early signs are good. Yet quantitative easing alone may not be sufficient to restore strong growth. Europe still needs an easier fiscal policy, more economic restructuring within key countries, and more financial integration within the Eurozone.

Japan

Japan went into recession in 2014 following a big tax increase, with declining consumer spending and business investment. This was not meant to be. When Shinzo Abe took office roughly two years ago, he offered a radical departure in policy characterized by the three "arrows" of "Abenomics." These were fiscal stimulus, aggressive monetary policy, and structural reform (basically deregulation and free trade). Of the three arrows, only one was implemented. This was monetary policy in which the Bank of Japan engaged in unlimited quantitative easing with the goal of ultimately achieving 2.0 percent inflation. The effect of this policy was to suppress the yen, boost equity prices, boost inflation, and suppress real interest rates. Initially it had a positive impact on growth. Then, things changed. Wages failed to respond and real consumer purchasing power declined—having a negative impact on consumer spending. The rest of the world failed to cooperate and weak external demand hurt exports. But the worst problem was implementation of a massive tax increase in April 2014, a policy that had already been in the pipeline when Abe took office. This had a devastating impact and led to the recent recession.

The good news is that, by early 2015, the Japanese economy was out of recession and growth was starting to accelerate. Unemployment was down, business sentiment was up, and asset prices were rising, largely a result of the aggressive monetary policy of the central bank. On the other hand, consumer spending remains weak and, despite the much lower value of the yen, the industrial side of the Japanese economy has yet to experience a significant rebound. Going forward, it appears likely that Japan will experience modest growth. Yet the major uncertainty is the degree to which the government will embark on significant reforms, as originally promised. Meanwhile Japan negotiates with the U.S. over the Trans-Pacific Partnership (TPP), an agreement aimed at liberalizing cross-border flows of goods and capital in the Pacific Rim region. If an agreement is reached, it could play a major role in compelling the government to liberalize various domestic industries, thus helping to boost productivity and spur faster growth.

Brazil

As of early 2015, Brazil's economy is in recession. This is due to a sharp drop in commodity prices (due to China's slowdown); a central bank policy of high interest rates to fight inflation and to stabilize the currency; and business lack of confidence due to a government policy of high regulation and protectionism. In addition, Brazil has suffered from the rise in the U.S. dollar, which is one of the reasons that the central bank has been compelled to tighten monetary policy. The election in late 2014 resulted in a second term for President Dilma Rousseff. Although she has since appointed a very market-oriented Finance Minister, there remains uncertainty as to whether she will gain legislative approval to implement the fiscal austerity and economic reforms she promises. Among the policies that investors want are a reduction in government social spending and subsidies (in order to cut the deficit and free up resources for investment in infrastructure); deregulation of labor and product markets; and freer trade. As for trade, Brazil remains a relatively protectionist economy. Trade is a much smaller share of GDP than is the case in China or India. The range of reform ideas is meant to boost productivity and improve Brazil's competitiveness. This is important as domestic demand is not likely to be a major source of growth in the near future. Consumer debt is already quite high, so consumer spending will necessarily be constrained. Until now, Rousseff's major platform has been an effort to boost the spending power of the poor through government transfers.

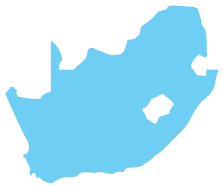
India

India had a highly significant election in 2014, resulting in the election of Narendra Modi as Prime Minister. For the first time in more than 30 years, a Prime Minister's party has a majority in the Parliament, thus boosting prospects for enacting reform legislation. Yet in his first six months in office, not much reform legislation was proposed, thus disappointing supporters who were euphoric following Modi's victory. They are hoping he will deregulate industry and labor markets, reduce costly subsidies, boost infrastructure investment, negotiate freer trade, and ease restrictions on foreign investment. If he does these things, India's growth outlook will likely improve dramatically. Meanwhile, growth is recovering from its doldrums but remains below potential. The central bank has managed to reduce inflationary expectations, which should have a positive impact on growth. Plus, lower oil prices are having a positive impact both on inflation and growth.

Russia

Russia's economy is in bad shape. Following the crisis in Ukraine and the implementation of sanctions, there was massive capital flight from Russia resulting in a sharp drop in the currency. This, in turn, led the central bank to severely raise interest rates several times. The result was that investment dried up, including foreign investment. Moreover, the declining global price of oil also contributed to downward pressure on the currency and concerns about the ability of Russian debtors to service their external debts. The sanctions that have been imposed mean that some big Russian companies will have trouble rolling over foreign debts due to limited access to foreign financial markets. Already risk spreads have increased dramatically. Some energy companies will lack access to technologies that are needed to tap into Arctic reserves. This means that oil production is likely to decline absent an end to sanctions. By early 2015, the central bank had stopped intervening in currency markets and had started to cut interest rates. With oil prices stabilizing, the ruble has rebounded somewhat, but inflation remains high and investment is very weak. When oil ultimately rebounds, this will help Russia. Yet in the absence of an easing of sanctions, it will be difficult for Russia to return to strong economic growth.

South Africa



Economic growth has decelerated steadily over the last few years and is now only slightly above 1 percent per year. Inflation has been high, but has come down due to lower energy prices. The country has been hurt by labor unrest, declining commodity prices, shortages of electricity, and under-investment. On the other hand, the decline in the price of oil should boost consumer spending power in 2015. Still, the currency (rand) has been under pressure, thus contributing to inflation and limiting the flexibility of the central bank. While growth is expected to pick up in 2015 and beyond, most analysts see South Africa as having limited potential. Growth is expected to recover to a level of 3 to 4 percent, far below that of many other African economies. However, due to South Africa's sophisticated business environment, it is expected to remain a major center of business and finance for the continent.

Conclusion

The economic climate for luxury goods companies is, on balance, positive, but there are risks and problems nonetheless. On the positive side, the economies of the U.S., Europe, and Japan all appear to be on the rebound. Asset prices, including property prices, have done well, thus boosting the purchasing power of upscale consumers. On the negative side, economic growth in three of the four BRIC economies has either stalled or decelerated, the exception being India. Moreover, currency market volatility has thrown a monkey wrench into the best laid plans of many companies. Among the risks going forward are the possibility of a rise in energy prices, a drop in asset prices, and potential geopolitical shocks in such places as the Middle East and the South China Sea. Overall, however, luxury goods companies should be pleased that, after many years of stagnant growth, the global economy is mostly on a positive path.

Engaging the future luxury consumer

The ever-sophisticated luxury consumer is increasingly digitally-savvy, time-sensitive, and socially aware. To engage such a consumer the luxury industry has three significant challenges. The first is technology: 2015 so far has very much been a "smart" year in the luxury sector, and the sector needs to continue to forge a strong relationship with an ever-increasing array of technologies. Second, the rapidly evolving consumer profile makes it critical for companies to understand the changing desires, buying behaviors and channels of luxury consumers. Underpinning both of these factors is the luxury brand's commitment to its history, provenance, and community. Supporting a shared history by giving back to the community can strengthen brand equity and create long-term strategic and financial reward for the business.

Why technology matters in luxury

The relationship between digital and luxury can no longer be ignored. Technology will continue to influence the entire value chain within the sector.

Evaluation

The luxury industry as a digital "latecomer": It is a popular—but in many ways unfair—criticism to suggest that luxury brands have been too slow to include digital, and specifically e-commerce, in their business. This slower adaptation has its basis in the need for luxury brands to first and foremost protect brand heritage. This legitimate concern about diluting the brand's uniqueness and exclusivity in the broadly accessible online world requires brands to move cautiously to ensure sustainable, long-term value creation. According to Deloitte's 2014 Swiss Watch report,[1] executives from that industry identified reputational risk from social media as one of the highest risks in online marketing and distribution.

In spite of these challenges, however, many brands are showing great innovation and are embracing the potential for digital technology to reach new audiences, enhance brand awareness, and establish a broader geographic reach.

No longer just about digital marketing: For technology to be most effective in the luxury space, companies must integrate it throughout the entire value chain and not just limit it to the marketing function. This is particularly relevant given that today's multi-faceted luxury consumer can offer multiple opportunities for engagement. He or she is younger, healthier, driven, sophisticated, exacting, digitally-savvy, experience-driven, service-focused, time-pressed, prudent, and environmentally aware. Well-placed technology investments at three main value chain touch-points are likeliest to positively affect return on investment and long-term value creation.

1. **Product development:** Innovation in product development enhances existing products and creates new ways to fuse craftsmanship with modernity. Kering's Materials Innovation Lab[2] and Biocouture[3] are just two examples of firms investing heavily in R&D with regards to raw materials and fabric manufacturing processes. Grace Choi's 3D make-up printer[4] unveiled earlier this year and Ralph Lauren's "Polo Tech" shirt[5] are exciting examples of luxury brands incorporating technology into product development.
2. **CRM systems:** Effectively managing the way in which detailed consumer information is captured and then turning it to a brand's advantage will enhance the competitive positioning of luxury groups and brands. According to research conducted by Exane BNP and ContactLab, Burberry excels in their e-commerce Strategic Reach (number of countries, languages, product categories offered online), and digital customer experience (website navigation and the online purchasing process).[6] By using smart analytics, Burberry collects information on its customers' shopping habits and tailors their in-store and online experiences.[7]
3. **Enhanced customer experience:** Luxury brands that use technology to make their consumers' lives easier and make interactions more engaging will rapidly build stronger brand value and broaden their market footprint. Moreover, given the increasing number of devices used by consumers, all content must be seamlessly available across multiple platforms. Beyond convenience, however, brands must keep the customer engaged before, during, and after the actual purchase, continuing the relationship and enriching it through valuable and entertaining digital content. Gucci has been very highly ranked in digital customer experience and Coach has been recognized for their capabilities in both e-commerce reach and digital customer experience.[8]

Looking forward

Pushing boundaries: Brands that can integrate technology into brand and product experience are well placed to engage future luxury consumers. Consumer experience will be inextricably linked with innovative use of digital platforms to connect with the growing number of internet and smart phone users in leading luxury markets. A number of companies are drawing on their artistic and innovative traditions, creating highly polished, visually enchanting online content. Recent examples include Chanel's short film "Behind the Scenes" by Karl Lagerfeld,[9] which accompanied the brand's 2014/15 Métiers d'Art show; Gucci's "Making Of" films for some of their iconic products such as the "Lillian" boot[10] and the "Jackie" handbag;[11] Zegna's "Rose Reborn" film that dramatically showcases the brand's style, elegance, and sophistication[12]; and Louis Vuitton's "Spirit of Travel" campaign launched via social media in February

2015 which highlights the brand's strong travel heritage.[13] Some companies have created entertaining apps, such as Hermès's "Tie Break,"[14] a game that immerses users in the brand experience.

Luxury brands that choose to push boundaries when it comes to creating visually enticing and experiential digital platforms via short films, apps, microsites, and "#events" such as Burberry's "Art of the Trench"[15] are likeliest to succeed with consumers both on and offline. The emergence of smartwatches and wearables are two examples where brands have pushed technology boundaries, not just at point of marketing but also at the product development level. However, there is a fine line between when technology improves the functional element of luxury brands and when it begins to undermine the brand by edging it toward commodification.

Technology as a competitive advantage: Navigating the uncertainty of the "wearable dimension"

Luxury brands need to adopt new technologies and refine their products. But they must do so without detracting from their unique core product offering and expertise.

Evaluation

When it comes to wearable technology, the smartwatch has been receiving the lion's share of coverage, thanks primarily to the launch of Apple's smartwatch. Indeed, findings from Deloitte's 2014 Swiss watch industry survey found that 44% of Swiss watch executives see smartwatches as the "next big thing."[16] However, the luxury sector is warming up to the wearables concept more broadly, with a number of high-profile partnerships between leading technology firms and fashion designers showing an innovative blend of functionality and craftsmanship. This fusion is critical, as the key challenge for luxury companies is incorporating functionality in an aesthetically pleasing design that reflects the user's discernment. Tag Heuer's partnership with Google and Intel to build an Android Wear powered smartwatch is but one example of such collaboration.[17] Others include:

- The MICA (My Intelligent Communication Accessory), launched through collaboration between Intel and Opening Ceremony,[18] incorporates semi-precious gems with advanced technology that includes the capability of receiving SMS messages and meeting alerts.
- The Ralph Lauren 'Ricky "smart bag"[19] enables wearers to fully charge their phones; lifting one of the flaps activates an internal light. The bag embodies a classic luxury leather handbag while simultaneously integrating craftsmanship and technology.
- In 2014 Luxottica and Intel announced a joint partnership to investigate the future of smart technology in eyewear.[20]
- Kovert Designs[21] has developed a range of designer jewelry that integrates microelectronics such as sensors, a rechargeable battery, and Bluetooth with their stones. Through such functional jewelry, wearers receive a subtle vibrating alert when their phones receive predefined texts, emails, or calls.
- Swarovski's "Activity Tracking Crystal,"[22] designed in collaboration with Misfit Wearables, crystal can count a wearer's steps, track sleep patterns, measure distance traveled, and show calories burned.
- Tory Burch's collaboration with the Fitbit Flex® tracker[23] has resulted in an exclusive collection combining fashion with wearable technology.

Luxury retail is also entering this territory. A Prada store in New York has Interactive dressing rooms with smart mirrors through which customers can connect to social media[24] and Nordstrom is currently testing smart fitting rooms in which full-length mirrors become interactive screens when a customer taps them.[25] Customers at Thomas Pink's store at Heathrow Airport can design their own shirts through a large interactive tablet using the Personally Pink service or watch clips on Pink TV, a channel dedicated to showing the latest brand videos.[26]

Positioning for a new luxury consumer: No less important than the product is its positioning as a luxury item—something unique, with limited availability, and often aspirational. Apple's launch of its smartwatch positioned the product as a combination of technological innovation and a luxury accessory. The launch campaign itself has used many elements of the most successful ones in traditional luxury such as high-profile and exclusive editorial spreads (in various editions of Vogue), limited retail distribution, partnerships with the world's trendiest retailers (Colette in Paris and Opening Ceremony in London), individual sales appointments in stores, and celebrity endorsements. All of this has created enormous buzz and surrounded the product with an aura of luxury.

Looking forward

Fostering and encouraging development: On the whole, Apple's entry into the smartwatch category should be a positive development, fostering technological advancement in the wearable category. Going forward, manufacturers of wearables will most likely need to embed some form of health monitoring function in order to appeal to this digitally connected and health-conscious consumer. The challenge will continue to be providing optimal functionality while emphasizing the history, artistry, and uniqueness that define the brand. In the case of Apple, it will also be interesting to see how the marketing strategy will play out, given that the product will be updated on a regular basis.

The changing dynamic of where and how you sell

How the shifting channels and buying behaviors of luxury consumers will force change.

Evaluation

The global make up of luxury demand is changing: Being able to identify the right channel for marketing, understand purchasing motivations of luxury consumers, and address the differences in benefits between shopping in-store vs. online will be a key focus for luxury brands going forward. These factors are strongly aligned with the increasing importance of digital within the luxury space. Results from Deloitte's 2014 survey of 1,000 HIEs[27] (£/€100k+; CHF150k+) across Europe illustrates that while traditional marketing channels such as magazines and store browsing continue to be relevant for consumers gathering information on new luxury brands, 45% of participants indicated that they search online for information (Fig.1).

Capturing Millennial Spend: The growth of the online channel is intrinsically linked to the emergence of the millennial consumer. In the United States, the millennial group is the biggest in history with 92 million individuals categorized as Millennials.[28] This group of individuals came of age during the technological boom and therefore demonstrate a different set of behaviors to their luxury predecessors. In order to capture this important segment, luxury brands need to fully understand their buying habits and influencers. Deloitte's 2014 HIE survey found that 58% of participants under the age of 34 go online to search for information (Fig. 1) and 31% use social media for gathering information around discounts and promotions, compared with 10% for older luxury consumers.

Fig. 1 Where do you hear about new brands?

Source: Q.6 HIE survey: All respondents (n=1228)

In order to capture this digitally-driven generation, brands are continuing to innovate through retail channels. Making the online experience as unique and innovative as possible will help luxury brands attract the millennial generation. Digital pop-ups such as Marc Jacobs' "Tweet shop",[29] where consumers exchange tweets for merchandise, will become more prevalent. However, luxury brands need to carefully curate their digital message in order to avoid the ubiquity that can dilute the uniqueness of the brand.

Understanding impulse purchasers: Deloitte's HIE Survey also highlighted the importance of "impulse" purchasing, particularly relevant within the Fashion and Leather Goods categories (Fig. 2). The spontaneity of luxury consumers – notably in emerging markets – will grow as these consumer societies become more self-assured and confident in their purchasing decisions, buying what they like as opposed to buying 'on societal expectation' or peer comparison. Addressing this change will require more market understanding and improved CRM systems enhanced by technological developments among luxury players.

Fig. 2 "Impulse" as the main reason for purchasing new luxury items

Source: Q.19 HIE survey: All respondents for clothes (n=810), fashion accessories (n=264), handbags/leather goods (n=686)

Looking forward

Improving the retail experience across channels: As digital engagement by brands rises, online sales will also increase. However, traditional brick and mortar luxury stores remain extremely important to the luxury industry. 75% of respondents within Deloitte's HIE Survey stated that the ability to see and touch goods was the most important benefit to buying luxury goods in-store. This was followed by the ability to take goods away immediately (49% of respondents). Convenience (51%) and getting a better price (51%) were cited by respondents as the main advantages to shopping online. Focusing on the most appealing characteristics of both channels will enable luxury firms to tailor their products and services to meet demand and create a bespoke consumer experience in-store and online.

Experience goes hand in hand with service: An additional benefit to shopping in-store cited by nearly half the respondents in Deloitte's survey was the level of service received from staff. Being able to build a relationship with knowledgeable store staff and receive advice about products will remain an advantage to selling luxury in-store. While online, nearly 50% of HIEs browse for fashion and leather goods (Fig.3). The process of converting these online browsers to paying consumers can be addressed through a high level of service and brand education, which is particularly important for new entrants to the luxury category.

Fig. 3 Which categories do you browse online for?

Gadgets/technology	76%
Clothes	53%
Shoes	48%
Handbags/ leather goods	47%

Source: Q7. HIE: All respondents for clothes (n=819), shoes (n=730), handbags/leather goods (n=697), gadgets/technology (n=155)

Seeking experience through foreign travel continues: Going forward, there is not likely to be a slowdown in foreign travel, particularly from China. As countries around the world begin to ease visa restrictions, the Chinese consumer is becoming a presence in a variety of different countries. Chinese tourist spending in Europe overall grew by 18% in 2014, with a spike of nearly 50% year-on-year in the month of December.[30] Not only does travel provide the experience of seeing a new culture, it also offers the ability to buy "unique" and one-of-a-kind luxury items. Travelers can return home with both an invaluable story about their trip and status through their purchase of products unavailable in home markets. This desire for unique/niche products and brand over heavily logoed luxury items is growing in popularity. For example, in Europe, 56% of 18-34 year olds indicated that they like to buy products other people haven't heard of before (Deloitte, HIE Survey, 2014).

Travel creates new opportunities to capture spend: Luxury spend by travelers accounted for 37% of the market in 2013.[31] Capturing this spend at tourist locations and during transit will present luxury brands with a valuable opportunity. However, this requires a flexible approach. By understanding the different services required by the various nationalities, brands will be able to create bespoke experiences, an ongoing requirement for capturing a greater share of luxury spending. Domestic travel inside China also offers the opportunity for retailers to reach the Chinese consumer. Value Retail, the European developer of luxury shopping destinations, opened their first outlet village in the popular tourist destination of Suzhou in the Jiangsu Province in 2014[32] and is planning further openings in the country. Not only does the outlet at Suzhou offer a wide variety of high-end luxury brands at a discounted price, it is also positioning itself as a "destination" with restaurants and entertainment options in order to appeal to the increasingly sophisticated Chinese consumer's desire for experiential luxury shopping. This sophistication also means that Chinese consumers are more discerning, and more frequently buy products because they "like" them or are attracted by the quality of the garment, instead of simply because of a specific logo. Growing awareness of the price differentials between China and the rest of the world for luxury goods and more muted macro-economic growth have also combined to create a more prudent luxury consumer. The trend for luxury outlet shopping and second hand websites such as InstantLuxe, which recently launched a Chinese language version,[33] will most likely support growth of the luxury industry, not detract from it, as the selling of used goods frees up more disposable income to spend on newer luxury items. Similarly, access to lower-priced items at outlets appeals to the more price conscious luxury consumer and will encourage domestic Chinese spending.

The place of luxury in the broader world

How luxury brands can create shared value by aligning social and cultural investment with corporate strategy.

Evaluation

The new norm: The traditional approach to corporate social responsibility has evolved; there is now an expectation that societal and environmental investments should positively reinforce the corporate brand strategy. This concept of shared value will continue to be of utmost importance in 2015 and the luxury industry has a unique role to play in its development. The luxury space can create powerful experiences that will help to positively influence societies and cultures by nurturing talent, celebrating history and culture, and supporting brand ethos though charitable change—and in doing so support long-term growth of the luxury value chain.

Fostering long-term talent creation: At the heart of a luxury brand's unique selling point (USP) are the craftsmen and the skilled artisans needed to create and master the intricate manufacturing techniques such as Bottega Veneta's "Intrecciata" hand weaving technique. With master craftsmen becoming increasingly sought after, luxury brands must take measures to support local artisanal traditions in order to remain sustainable and profitable themselves.

LVMH, through their *Institut des Metiers d'Excellence (IME),*[34] has been developing specific programs to develop new professional talent in order to promote the longevity of brands. This professional training program will allow the LVMH Group to build the skills of a new generation, thus ensuring the transmission of its luxury DNA through younger craftsmen. The company also hosts the Young Fashion Designers' competition to nurture and support winning designers during a 12-month period[35] and supports the Hyeres Festival to promote young creative talent in the fields of fashion and photography.[36]

Brunello Cucinelli's *Scuola dei Mestieri* (School of Craftsmanship)[37] is another example of a leading luxury brand working with local communities not only to create employment but also to maintain their legacy of craftsmanship. The school has four curricula: Mending and Linking; Cutting and Assembly; Horticulture and Gardening; and Masonry. These subject areas support the brand's core business activity of creating luxury clothing and accessories while promoting and supporting the company's home village of Solomeo.

Celebrating history and culture: The promotion of history and culture supports the general ethos of what luxury means by connecting it with artistic inspiration and heritage. One of the more visible ways in which luxury brands look to "give back" to the cities that nurtured their creation is through the preservation of prominent cultural monuments and art collections. Fendi, Bulgari, and Tod's have all donated to Italian architectural icons such as roman fountains, the Spanish Steps, and the Colosseum, respectively. Similarly, as the lead sponsor of the *Prince of Dreams: The Medici's Joseph Tapestries by Pontormo and Bronzino* at the 2015 Expo Milano[38], Gucci is able to showcase both their brand and their desire to protect and restore important cultural entities.

Fondazione Prada, Prada's foundation to support the arts, architecture, film, and "philosophy projects" is opening its newly expanded Milan complex to the public. The buildings themselves were part of a century-old distillery and have been transformed by architect Rem Koolhaas. The first exhibition in the new space, "Serial Classic," examines the way Roman artists copied their Greek forebears.[39]

To highlight its involvement with space exploration since the early 1960s, OMEGA commemorated the 45th anniversary of the lunar landing by launching their Speedmaster Professional "Apollo 11 45th Anniversary Limited Edition." The brand also announced a five-year partnership with a new section of Milan's Leonardo da Vinci Museum of Science and Technology devoted exclusively to space and astronomy.[40]

Supporting brand ethos through charitable change: By giving to charity through the sale of dedicated products, brands can raise awareness while creating value for the company. To gain more support and awareness for breast cancer, brands from The Estée Lauder Group including Bobbi Brown, Aveda, and Bumble and Bumble launched a range of "Pink Ribbon Products," which each contribute a proportion of sales to The Breast Cancer Research Foundation®.[41] Similarly, to celebrate the first anniversary of its "Chime for Change" initiative, Gucci donated 10% of sales from its Fifth Avenue Flagship store during a specific period in June 2014 to raise additional support for girls and women around the world.[42]

Looking Forward

Environmental Profit and Loss: The focus on delivering social value to generate monetary return will continue to grow in importance for the luxury industry. Publicly available environmental profit and loss accounting statements, such as Kering's[43], measure a firm's environmental footprint throughout its supply chain and calculate its monetary value. Not only does this accounting methodology provide transparency to stakeholders it can help to shape future business strategies with an eye to creating long-term value. It is likely that leading luxury players will increasingly adopt this platform as they seek to promote their products while exerting a positive influence on communities and the environment.

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Global Powers of Luxury Goods Top 100

Top 100 luxury goods companies

Luxury goods sales rank FY13	Company name	Selection of luxury brands	Country of origin	FY13 luxury goods sales (US$mil)	FY13 total revenue (US$mil)	FY13 luxury goods sales growth	FY13 net profit margin[1]	FY11-13 luxury goods sales CAGR[2]
1	LVMH Moët Hennessy-Louis Vuitton SA	Louis Vuitton, Fendi, Bulgari, Loro Piana, Emilio Pucci, Acqua di Parma, Donna Karan, Loewe, Marc Jacobs, TAG Heuer, Benefit Cosmetics	France	21,761	38,717	0.0%	13.5%	**8.7%**
2	Compagnie Financiere Richemont SA	Cartier, Van Cleef & Arpels, Montblanc, Jaeger-LeCoultre, Vacheron Constantin, IWC, Piaget, Chloé	Switzerland	13,429	14,275	4.2%	19.4%	8.9%
3	The Estée Lauder Companies Inc.	Estée Lauder, M.A.C., Aramis, Clinique, Aveda, Jo Malone; Licensed fragrance brands	United States	10,969	10,969	7.7%	11.0%	6.3%
4	Chow Tai Fook Jewellery Group Limited 周大福珠宝集团有限公司	Chow Tai Fook	Hong Kong	9,979	9,979	34.8%	9.6%	17.0%
5	Luxottica Group SpA	Ray-Ban, Oakley, Vogue Eyewear, Persol, Oliver Peoples; Licensed eyewear brands	Italy	9,713	9,713	3.2%	7.5%	8.4%
6	The Swatch Group Ltd.	Breguet, Harry Winston, Blancpain, Longines, Omega, Rado; Licensed watch brands	Switzerland	8,822	9,128	8.8%	22.8%	9.9%
7	Kering SA	Gucci, Bottega Veneta, Saint Laurent, Balenciaga, Brioni, Sergio Rossi, Pomellato, Girard-Perregaux	France	8,594	12,948	4.2%	0.4% e	14.7%
8	L'Oréal Luxe	Lancôme, Biotherm, Helena Rubinstein, Urban Decay, Kiehl's; Licensed brands	France	7,791	7,791	5.3%	14.7%	10.5%
9	Ralph Lauren Corporation	Ralph Lauren, Polo Ralph Lauren, Purple Label, Blue Label, Black Label, RLX Ralph Lauren	United States	7,450	7,450	7.3%	10.4%	4.2%
10	PVH Corp.	Calvin Klein, Tommy Hilfiger	United States	6,200	8,186	42.0%	1.8%	22.7%
11	Shiseido Company, Limited	SHISEIDO, clé de peau BEAUTÉ, bareMinerals, NARS, ISSEY MIYAKE, ELIXIR, Benefique	Japan	5,404 e	7,659 e	17.8% e	3.8%	8.2% e
12	Rolex SA	Rolex, Tudor	Switzerland	5,398	5,398	2.0%	n/a	3.1%
13	Hermès International SCA	Hermès, John Lobb	France	4,975	4,975	7.5%	21.3%	14.8%
14	Coach, Inc.	Coach	United States	4,806	4,806	-5.3%	16.3%	0.5%
15	Prada Group	Prada, Church's, Car Shoe	Italy	4,776	4,776	8.8%	17.8%	18.5%

[1] Net Profit Margin based on Total Consolidated Revenue and Net Income
[2] Compound annual growth rate
n/a = not available
e = estimate

Source: Published company data and industry estimates

Luxury goods sales rank FY13	Company name	Selection of luxury brands	Country of origin	FY13 luxury goods sales (US$mil)	FY13 total revenue (US$mil)	FY13 luxury goods sales growth	FY13 net profit margin[1]	FY11-13 luxury goods sales CAGR[2]
16	Lao Feng Xiang Co., Ltd. 老凤祥股份有限公司	Lao Feng Xiang	China	4,175	5,329	17.6%	2.7%	15.1%
17	Tiffany & Co.	Tiffany & Co., Tiffany	United States	4,031	4,031	6.2%	4.5%	5.2%
18	Burberry Group plc	Burberry, Burberry Brit, Burberry London, Burberry Prorsum	United Kingdom	3,704	3,704	16.6%	14.3%	12.0%
19	Michael Kors Holdings Limited 迈克高仕控股有限公司	Michael Kors, MICHAEL Michael Kors	Hong Kong	3,311	3,311	51.8%	20.0%	59.4%
20	Hugo Boss AG	BOSS, HUGO, BOSS Green, BOSS Orange	Germany	3,231	3,231	3.7%	13.7%	8.7%
21	Coty Inc.	Lancaster, Calvin Klein fragrance; Licensed fragrance brands: Marc Jacobs, Chloé	United States	3,186	4,552	0.2%	-1.4%	0.1%
22	Swarovski Crystal Business	Swarovski	Austria	3,095	3,894	-2.1%	n/a	2.4%
23	Giorgio Armani SpA	Giorgio Armani, Emporio Armani, Armani,A/X Armani Exchange	Italy	2,904	2,904	4.5%	1.1%	10.1%
24	Chow Sang Sang Holdings International Limited 周生生集团国际有限公司	Chow Sang Sang	Hong Kong	2,571	3,242	34.2%	4.9%	25.6%
25	Luk Fook Holdings (International) Limited 六福集团(国际)有限公司	Luk Fook	Hong Kong	2,420	2,477	46.6%	9.7%	29.6%
26	OTB SpA (formerly Only The Brave SrL)	Diesel, Maison Martin Margiela, Viktor&Rolf, Marni	Italy	2,061[e]	2,061[e]	4.8%[e]	0.1%	7.2%[e]
27	Christian Dior Couture	Christian Dior	France	2,042	2,042	5.8%	7.3%	16.3%
28	Puig, S.L.	Carolina Herrera, Nina Ricci, Paco Rabanne, Jean Paul Gaultier; Licensed fragrance brands	Spain	1,991	1,995	0.7%	11.7%	5.6%
29	Clarins SA	Clarins, My Blend, Thierry Mugler, Azzaro	France	1,979	1,979	2.8%	n/a	7.9%
30	Fossil Group, Inc.	Fossil, Michele, Relic, Skagen, Zodiac; Licensed brands	United States	1,757	3,260	22.9%	11.9%	19.6%
31	Titan Company Limited (formerly TITAN INDUSTRIES LIMITED)	Tanishq, Titan, Zoya, Nebula, Xylys	India	1,733	1,838	7.4%	6.7%	10.6%
32	Max Mara Fashion Group Srl	MaxMara, SportMax, Marina Rinaldi, Max & Co, PennyBlack	Italy	1,712	1,712	-0.4%	5.0%	0.9%
33	Ermenegildo Zegna Holditalia SpA	Ermenegildo Zegna, Z Zegna, Zegna Sport	Italy	1,687	1,687	0.7%	9.2%	6.2%
34	Salvatore Ferragamo SpA	Salvatore Ferragamo	Italy	1,657	1,671	9.0%	12.7%	12.6%
35	Pandora A/S	Pandora	Denmark	1,605	1,605	35.4%	24.6%	16.3%
36	Safilo Group SpA	Safilo, Carrera, Oxydo, Smith Optics; Licensed eyewear brands	Italy	1,490	1,490	-4.6%	1.4%	0.9%
37	Zhejiang Ming Jewelry Co., Ltd. 浙江明牌珠宝股份有限公司	MINGR	China	1,382[e]	1,383[e]	28.6%[e]	1.0%	20.6%[e]

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38	TOD'S SpA	Tod's, Hogan, Fay	Italy	1,306	1,306	-0.2%	13.6%	4.0%
39	Dolce & Gabbana Srl	Dolce&Gabbana	Italy	1,273	1,273	0.5%	6.0%	-6.6%
40	Patek Philippe SA	Patek Philippe	Switzerland	1,187	1,187	2.8%	n/a	3.8%
41	Elizabeth Arden, Inc.	Elizabeth Arden; Licensed fragrance brands	United States	1,164	1,164	-13.4%	-12.6%	-3.0%
42	Gitanjali Gems Ltd.	Nakshatra, Gili, asmi, D'damas, Maya, Passion Stone	India	1,097	2,069	-35.4%	0.3%	-3.3%
43	Tory Burch LLC	Tory Burch	United States	900 e	900 e	18.4% e	n/a	35.5% e
44	PC Jeweller Ltd.	PC Jeweller	India	886	898	32.5%	6.6%	32.3%
45	Le Petit-Fils de L.-U. Chopard & Cie SA	Chopard	Switzerland	864 e	864 e	6.7% e	n/a	10.9% e
46	CFEB Sisley SA	Sisley, Hubert, Isabelle d'Ornano	France	809 e	809 e	5.0% e	n/a	5.1% e
47	Moncler SpA	Moncler	Italy	771	771	18.7%	13.5%	6.4%
48	Renown Incorporated	C'est Privee, D'Urban, Intermezzo	Japan	762	762	-0.4%	-0.2%	0.8%
49	Kate Spade & Company (formerly Kate Spade LLC)	Kate Spade, Kate Spade Saturday, Jack Spade; Licensed brands	United States	743	743	60.9%	n/a	54.1%
50	Valentino Fashion Group SpA	Valentino, RedValentino	Italy	733	733	26.0%	3.2%	3.0%
51	Audemars Piguet & Cie	Audemars Piguet	Switzerland	691 e	691 e	6.7% e	n/a	7.9% e
52	Gianni Versace SpA	Versace Collection, Versus, Palazzo Versace	Italy	636	636	17.2%	2.3%	18.7%
53	Graff Diamonds International Limited	Graff	United Kingdom	631	631	-1.2%	14.1%	-0.7%
54	Longchamp SAS	Longchamp, Le Pliage	France	614	614	1.8%	n/a	8.8%
55	Christian Louboutin SA	Christian Louboutin	France	611 e	611 e	15.0% e	n/a	23.8% e
56	Cole Haan LLC	Cole Haan	United States	610 e	610 e	n/a	n/a	6.8% e
57	Gerhard D. Wempe KG	Wempe, By Kim	Germany	601 e	601 e	2.7% e	n/a	11.2% e
58	Movado Group, Inc.	Concord, EBEL, Movado; Licensed watch brands	United States	570	570	12.8%	9.0%	10.4%
59	Inter Parfums, Inc.	Lanvin, Intimate, Aziza; Licensed fragrance brands	United States	564	564	-13.8%	9.0%	-4.3%
60	Aurum Group Limited (formerly Aurum Holdings Limited)	Mappin & Webb, Watches of Switzerland, Goldsmiths	United Kingdom	516 e	516 e	2.3%	0.7% e	3.9% e

[1] Net Profit Margin based on Total Consolidated Revenue and Net Income
[2] Compound annual growth rate
n/a = not available
e = estimate

Source: Published company data and industry estimates

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61	True Religion Apparel, Inc.	True Religion	United States	490 e	490 e	4.9%e	n/a	**8.0%e**
62	De Rigo SpA	Police, Lozza, Sting; Licensed eyewear brands	Italy	477	477	-2.5%	-0.1%	-1.3%
63	Tumi Holdings, Inc.	Tumi	United States	467	467	17.3%	11.7%	19.0%
64	Jimmy Choo plc	Jimmy Choo	United Kingdom	441	441	15.9%	7.5%	15.6%
65	Brunello Cucinelli SpA	Brunello Cucinelli	Italy	428	428	14.6%	9.2%	15.3%
66	Sungjoo D&D Inc (formerly Sungjoo Group)	MCM	South Korea	405	405e	21.5%e	14.2%	14.6%e
67	Gefin SpA (formerly Etro SpA)	Etro	Italy	402	402	-3.2%	1.4%	2.7%
68	Bally International AG	Bally	Switzerland	398 e	398 e	n/a	n/a	n/a
69	Sociedad Textil Lonia SA	Purificación Garcia; Licensed brand : CH Carolina Herrera	Spain	389	389	3.9%	9.6%	7.6%
70	Liu.Jo SpA	Liu.Jo, Rebel Queen by Liu.Jo	Italy	369 e	369 e	1.9%e	9.3%	3.4%e
71	Trinity Limited (replaces owned co. Cerruti 1881 SA) 利邦控股有限公司	Cerruti 1881, Kent & Curwen, Gieves & Hawkes	Hong Kong	348	348	-3.7%	11.4%	1.7%
72	Aeffe SpA	Moschino, Moschino Cheap and Chic, Love Moschino, Alberta Ferretti, Philosophy	Italy	333	333	-1.2%	-0.8%	1.0%
73	Paul Smith Group Holdings Limited	Paul Smith	United Kingdom	330	330	0.1%	8.0%	0.2%
74	Joyeria Tous SA	Tous	Spain	324 e	324 e	-1.3%e	11.5%e	6.5%e
75	Willy Bogner GmbH & Co. KGaA	Bogner, Sônia Bogner, Bogner Fire + Ice	Germany	317	317	3.2%	n/a	6.3%
76	Euroitalia Srl	Licensed Fragrance brands: Naj-Oleari, Moschino, Versace	Italy	303	303	20.7%	5.7%	9.1%
77	Furla SpA	Furla	Italy	303	303	7.0%	6.6%	14.5%
78	Falke KGaA	Falke, Burlington	Germany	300	300	18.4%	n/a	7.0%
79	Frédérique Constant SA	Fredérique Constant, Alpina, Ateliers deMonaco	Switzerland	291 e	291 e	8.0%e	n/a	9.1%e
80	Marcolin SpA	Marcolin; Licensed eyewear brands	Italy	282	282	-0.8%	-5.7%	-2.7%
81	Festina Lotus SA	Festina, Jaguar, Calypso, Candino, Lotus	Spain	272	274	-6.2%	1.3%	**-6.3%**
82	Fashion Box SpA	Replay	Italy	271 e	271 e	-6.6%e	-3.0%	-5.1%e
83	Roberto Cavalli SpA	Roberto Cavalli, Just Cavalli, Cavalli Class	Italy	267	267	9.3%	-0.3%	6.3%
84	K.Mikimoto & Co., Ltd.	Mikimoto	Japan	262	262	16.6%	n/a	8.3%
85	Mulberry Group plc	Mulberry	United Kingdom	260	261	-1.0%	5.2%	-1.5%
86	Ulysse Nardin SA	Ulysse Nardin	Switzerland	259 e	259 e	14.3%e	n/a	9.5%e

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87	Canali SpA	Canali	Italy	256	256	-0.6%	6.6%	7.1%
88	Jeanne Lanvin SA	Lanvin	France	247	247	-6.3%	3.0%	1.1%
89	TWIN SET—Simona Barbieri SpA	Twin Set, SCEE, Le Coeur	Italy	236	257	22.8%	1.7%	22.7%
90	Laboratoire Nuxe SA	Nuxe, BIO-BEAUTÉ by Nuxe	France	226	226	16.1%	n/a	18.1%
91	Raymond Weil SA	Raymond Weil	Switzerland	216 e	216 e	11.1% e	n/a	11.8% e
92	Wolford AG	Wolford	Austria	210	210	-0.4%	-1.8%	0.5%
93	San Patrick S.L.	Pronovias, St Patrick, La Sposa	Spain	210 e	210 e	-2.0% e	n/a	-2.6% e
94	H. Stern Comercio e Indústria SA	H. Stern	Brazil	210 e	210 e	0.0% e	n/a	0.0% e
95	DAMA SpA	Paul & Shark	Italy	208	210	-3.0% e	19.4%	-1.3% e
96	Finos SpA	Trussardi	Italy	205	211	-8.7% e	-4.2%	-4.6% e
97	Damiani SpA	Damiani, Salvini, Alfieri & St. John, bliss, Calderoni	Italy	193	193	4.8%	-5.9%	-2.4%
98	Forall Confezioni SpA	Pal Zileri	Italy	177	177	-11.6%	-2.6%	-5.0%
99	Tasaki & Co Ltd	Tasaki	Japan	177	177	10.7%	2.6%	7.7%
100	Richard Mille SA	Richard Mille	Switzerland	142	142	17.9%	n/a	19.1% e

[1] Net Profit Margin based on Total Consolidated Revenue and Net Income
[2] Compound annual growth rate
n/a = not available
e = estimate

Source: Published company data and industry estimates

Impact of exchange rates on ranking

The Top 100 Global Powers of Luxury Goods have been ranked according to their fiscal 2013 luxury goods sales in U.S. dollars. Changes in the overall ranking from year-to-year are generally driven by increases or decreases in companies' sales. However, a stronger currency vis-à-vis the dollar in 2013 means 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. The big mover against the U.S. dollar in 2013 was the Japanese Yen, which weakened by 18 percent. The Brazilian Real and Indian Rupee also weakened by 9 percent and 8 percent, respectively. Other major currencies for companies in the report saw less than 5 percent change vs U.S. dollar in 2013: Euro strengthened 3 percent; Chinese Yen and Swiss Franc both strengthened 2 percent; Hong Kong Dollar no change; British Pound weakened by 1 percent.

Impact of improved data on ranking

Improved data allowed the ranking of the Global Powers of Luxury Goods to be extended from the Top 75 to the Top 100 companies this year, with new entrants throughout the ranking. For more information, see the **Luxury Goods Newcomers** section. The key growth and profitability ratios are very similar for the Top 75 and the Top 100 in 2013, allowing meaningful, unbiased comparisons with 2012 Top 75 ratios. A small number of companies do not disclose financial information, and thus could not be included in our rankings. Other companies do not formally report financial information, but estimates are made from information sources such as press interviews and industry analysts.

Top 100 luxury goods companies alphabetical listing

Aeffe SpA	72
Audemars Piguet & Cie	51
Aurum Group Limited	60
Bally International AG	68
Brunello Cucinelli SpA	65
Burberry Group plc	18
Canali SpA	87
CFEB Sisley SA	46
Chow Sang Sang Holdings International Limited	24
Chow Tai Fook Jewellery Group Limited	4
Christian Dior Couture	27
Christian Louboutin SA	55
Clarins SA	29
Coach, Inc.	14
Cole Haan LLC	56
Compagnie Financiere Richemont SA	2
Coty Inc.	21
DAMA SpA	95
Damiani SpA	97
De Rigo SpA	62
Dolce & Gabbana Srl	39
Elizabeth Arden, Inc.	41
Ermenegildo Zegna Holditalia SpA	33
Estée Lauder Companies Inc., The	3
Euroitalia Srl	76
Falke KGaA	78
Fashion Box SpA	82
Festina Lotus SA	81
Finos SpA	96
Forall Confezioni SpA	98
Fossil Group, Inc.	30
Frédérique Constant SA	79
Furla SpA	77
Gefin SpA	67
Gerhard D. Wempe KG	57
Gianni Versace SpA	52
Giorgio Armani SpA	23
Gitanjali Gems Ltd.	42
Graff Diamonds International Limited	53
H. Stern Comercio e Indústria SA	94
Hermès International SCA	13
Hugo Boss AG	20
Inter Parfums, Inc.	59
Jeanne Lanvin SA	88
Jimmy Choo PLC	64
Joyeria Tous SA	74
K.Mikimoto & Co., Ltd.	84
Kate Spade & Company	49
Kering SA	7
Laboratoire Nuxe SA	90
Lao Feng Xiang Co., Ltd.	16
Le Petit-Fils de L.-U. Chopard & Cie SA	45
Liu.Jo SpA	70
Longchamp SAS	54
L'Oréal Luxe	8
Luk Fook Holdings (International) Limited	25
Luxottica Group SPA	5
LVMH Moët Hennessy-Louis Vuitton SA	1
Marcolin SpA	80
Max Mara Fashion Group Srl	32
Michael Kors Holdings Limited	19
Moncler SpA	47
Movado Group, Inc.	58
Mulberry Group plc	85
OTB SpA	26
Pandora A/S	35
Patek Philippe SA	40
Paul Smith Group Holdings Limited	73
PC Jeweller Ltd.	44
Prada Group	15
Puig, S.L.	28
PVH Corp.	10
Ralph Lauren Corporation	9
Raymond Weil SA	91
Renown Incorporated	48
Richard Mille SA	100
Roberto Cavalli SpA	83
Rolex SA	12
Safilo Group SpA	36
Salvatore Ferragamo SpA	34
San Patrick S.L.	93
Shiseido Company, Limited	11
Sociedad Textil Lonia SA	69
Sungjoo D&D Inc	66
Swarovski Crystal Business	22
Swatch Group Ltd., The	6
Tasaki & Co Ltd.	99
Tiffany & Co.	17
Titan Company Limited	31
TOD'S s.p.a.	38
Tory Burch LLC	43
Trinity Limited	71
True Religion Apparel, Inc.	61
Tumi Holdings, Inc.	63
TWIN SET—Simona Barbieri SpA	89
Ulysse Nardin SA	86
Valentino Fashion Group SpA	50
Willy Bogner GmbH & Co. KGaA	75
Wolford AG	92
Zhejiang Ming Jewelry Co., Ltd.	37

Top 100 highlights

Demand for luxury goods remained resilient despite disappointing growth in the global economy in 2013

The global economy struggled to gain momentum in 2013 and the first half of 2014. The U.S. and U.K. saw some growth, but any recovery in both Europe and Japan was weak and fragile, while major emerging markets such as China and Brazil continued to face slower growth. Luxury goods companies' sales growth also slowed, but still performed better than the overall economy and the leading consumer products companies.

Composite, currency-adjusted luxury goods sales growth for the world's 100 largest luxury goods companies was 8.2 percent in 2013, compared with 5.6 percent growth achieved in 2013 by the world's top 250 consumer products companies, as detailed in Deloitte's recently published 8th annual Global Powers of Consumer Products report. However, this was a significant slowdown from the 12.6 percent growth of the top luxury goods companies in 2012. For the 98 luxury goods companies of the Top 100 that reported 2012 and 2013 luxury goods sales, 72 percent reported an increase in 2013, with a widespread deceleration in the rate of growth - nearly two thirds (sixty-three Top 100 companies) reported slower growth in 2013 compared with 2012.

Profitability in luxury goods companies (based on total consolidated revenue and net income) continued to be superior to consumer products companies, but again was lower than in 2012. The composite net profit margin for the 100 luxury goods companies that disclosed their bottom-line net profits slipped slightly to 10.3% in 2013. This was a stronger performance than the leading consumer products companies' 2013 profitability of 9.6%. Only just over a third of reporting companies improved their net profit margin over the previous year.

For the 63 reporting companies, asset turnover was stable at 0.8 times, resulting in a composite return on assets of 8.6 percent in 2013 versus 9.3 percent in 2012. This compares with asset turnover of 0.84 times and a composite return on assets of 8.2 percent for consumer products companies.

The world's 100 largest luxury goods companies generated luxury goods sales of $214.2 billion in 2013. This resulted in an average company size of $2.1 billion. The threshold sales level to join the Top 100 Global Powers of Luxury Goods was $142 million in 2013.

Top 100 quick stats

composite year-over-year luxury goods sales growth
8.2%

$214.2 billion
aggregate net luxury goods sales of Top 100 in US$

8.6%
composite return on assets

$2.1 billion
average luxury goods sales of Top 100 luxury goods companies

compound annual growth rate in luxury goods sales, 2011-2013
9.8%

economic concentration of top 10
48.9%

composite net profit margin
10.3%

minimum sales required to be on Top 100 list
$142 million

composite asset turnover
0.8x

Top 10

Top 10 luxury goods companies

Luxury goods sales rank FY13	Company name	Country of origin	FY13 luxury goods sales (US$mil)	FY13 total revenue (US$mil)	FY13 luxury goods sales growth*	FY13 net profit margin**	FY13 return on assets*	FY11-13 luxury goods sales CAGR* ***
1	LVMH Moët Hennessy-Louis Vuitton SA	France	21,761	38,717	0.0%	13.5%	7.1%	8.7%
2	Compagnie Financiere Richemont SA	Switzerland	13,429	14,275	4.2%	19.4%	13.0%	8.9%
3	The Estée Lauder Companies Inc.	United States	10,969	10,969	7.7%	11.0%	15.4%	6.3%
4	Chow Tai Fook Jewellery Group Limited	Hong Kong	9,979	9,979	34.8%	9.6%	12.1%	17.0%
5	Luxottica Group SpA	Italy	9,713	9,713	3.2%	7.5%	6.8%	8.4%
6	The Swatch Group Ltd.	Switzerland	8,822	9,128	8.8%	22.8%	16.6%	9.9%
7	Kering SA	France	8,594	12,948	4.2%	0.4%	0.2%	14.7%
8	L'Oréal Luxe	France	7,791	7,791	5.3%	14.7%	19.6%[e]	10.5%
9	Ralph Lauren Corporation	United States	7,450	7,450	7.3%	10.4%	12.7%	4.2%
10	PVH Corp.	United States	6,200	8,186	42.0%	1.8%	1.2%	22.7%
Top 10			**104,707**	**129,157**	**8.4%**	**11.7%**	**8.0%**	**10.2%**
Top 100			**214,231**	**247,624**	**8.2%**	**10.3%**	**8.6%**	**9.8%**
Economic Concentration of Top 10			**48.9%**	**29.5%**				

* Top 10 and Top 100 sales growth figures are sales-weighted, currency-adjusted composites
** Top 10 and Top 100 figures are sales-weighted composites
*** Compound annual growth rate
e = estimate

Source: Published company data and industry estimates

Luxury goods conglomerates and mono-brand companies make Top 10

The growth of luxury goods sales for the Top 10 luxury companies was only marginally superior to the Top 100 in 2013 with composite sales for the Top 10 growing at 8.4 percent versus 8.2 percent for the Top 100. This growth was driven by the two new entrants to the Top 10 - U.S.-based PVH Corp, with a 42.0 percent increase, primarily due to its acquisition of Warnaco, the largest licensee for Calvin Klein products; and Hong Kong-based jeweller Chow Tai Fook (sometimes called "Asia's Tiffany & Co"), with a 34.8 per cent increase, attributable to improved market sentiment and consumer confidence as a result of the "gold rush" effect driven by the slump in the international gold price. Last year's ninth and tenth ranking companies, Rolex and Shiseido, were pushed out of the Top 10 by these high performers. All of the remaining eight companies achieved less than 10 percent growth, with only Swatch Group beating the Top 100 average, with growth of 8.8%.

Over the two-year period 2011-2013, the compound annual growth rate in luxury goods sales for both groups was stronger at 10.2 percent for the Top 10 and 9.8 percent for the Top 100.

Although profitability declined for both groups compared with 2012, the Top 10 was also stronger on the bottom line, outperforming the Top 100 by 1.4 percentage points (11.7 percent vs. 10.3 percent). Six 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 for the second year running with a 2013 net margin of 22.8 percent, up from 20.6 percent. All of the Top 10 were profitable, although Kering had the lowest net profit margin at 0.4 percent, primarily resulting from restructuring costs as it completed its transformation (losses from discontinued operations Groupe Fnac and Redcats, and asset impairment expenses).

Three of the Top 10 companies are luxury conglomerates participating in multiple luxury categories with multiple luxury brands; two are cosmetics and fragrance companies; two are jewelry and watch companies; two are apparel companies; while Luxottica is the only accessories company. The top three companies, LVMH, Richemont and Estée Lauder, kept their positions from last year. 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). The U.S. and France are each headquarters to three of the Top 10, Switzerland has two, and Italy and Hong Kong, one each.

Geographic analysis

Given the high concentration of luxury goods companies headquartered in Europe, the U.S. and China/Hong Kong, this geographical analysis focuses on individual countries. Companies are assigned to a country based on their headquarters' location, which may not always 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 seven countries analyzed are:

- China/Hong Kong
- France
- Italy
- Spain
- Switzerland
- UK
- U.S.

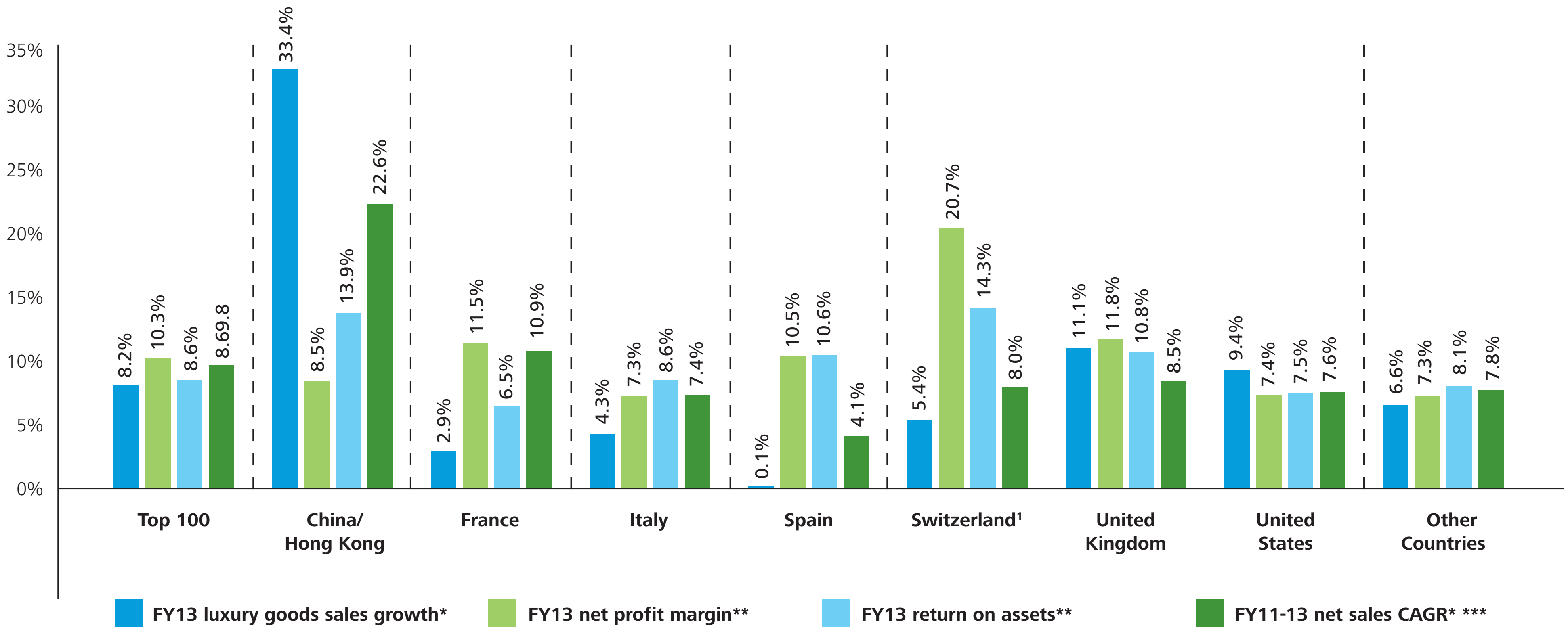
Country profiles

	Number of companies	Average luxury goods size (US$mil)	Share of top 100 companies	Share of top 100 luxury goods sales
China/Hong Kong	7	$3,455	7.0%	11.3%
France	11	$4,513	11.0%	23.2%
Italy	29	$1,222	29.0%	16.5%
Spain	5	$637	5.0%	1.5%
Switzerland	11	$2,882	11.0%	14.8%
United Kingdom	6	$980	6.0%	2.7%
United States	15	$2,927	15.0%	20.5%
Other countries	16	$1,268	16.0%	9.5%
Top 100	100	$2,142	100.0%	100.0%

Results reflect Top 100 retailers headquartered in each country

Source: Deloitte analysis of published company data and industry estimates

Performance by country



Results reflect Top 100 retailers headquartered in each country
* Sales-weighted, currency-adjusted composite growth rates
** Sales-weighted composites
*** Compound annual growth rate
[1] FY2013 net profits and 2013 ROA based on data from two companies

Source: Deloitte analysis of published company data and industry estimates

China/Hong Kong leads with a 33.4% gain in luxury goods sales

These seven countries represented 84 percent of the Top 100 luxury goods companies and accounted for 90.5 percent of global luxury goods sales in 2013. China/Hong Kong was the runaway leader in composite luxury sales growth in 2013, with 33.4 percent growth. The U.K. and the U.S. both outpaced the Top 100's 8.2 percent growth, with 11.1 percent and 9.4 percent, respectively. Switzerland and Italy trailed the Top 100 with growth at 5.4 percent and 4.3 percent. Growth in French companies dropped significantly from last year to 2.9 percent, while Spain just managed to stay in positive growth, at 0.1 percent.

In 2013, **China/Hong Kong** companies' composite luxury sales growth, at 33.4 percent, was three times the growth rate of the second best performing country, the U.S. The seven companies in this group represented 11.3 percent of the Top 100 2013 luxury goods sales. This outstanding performance is driven by the five newcomers - all vertically integrated luxury and "accessible luxury" jewellers, who have strongly developed their own branded jewelry designs sold through their own retail chains, as well as through other distribution channels. The largest of these companies, Chow Tai Fook, took the number four spot in the Top 10, with Lao Feng Xiang, Chow Sang Sang and Luk Fook gaining Top 25 positions, joining last year's fastest-growing company, Michael Kors. The jewellers took advantage of improved market sentiment and consumer confidence as a result of the "gold rush" effect driven by the slump in the international gold price early in 2013, as well as continuing the rapid expansion of their store networks and e-commerce. Their composite compound annual growth from 2011 to 2013 was a more modest 22.6 percent - still more than twice the growth of any other country.

In contrast, profitability at China/Hong Kong companies, at 8.5 percent, is slightly below the Top 100's 10.3 percent. They do achieve the highest Asset Turnover Ratio at 1.6, more than twice the Top 100 ATR of 0.8. This leading asset utilisation is reflected to a lesser extent by their above average 13.9 percent return on assets.

France has the largest average company size, at $4.5 billion. The performance of the eleven French-based companies is dominated by the top three, LVMH, Kering and L'Oréal Luxe, who represent 77 percent of the country's luxury goods sales in the Top 100. They also feature in the Top 10 group, with LVMH retaining the number one position. France lost last year's growth leadership position, with growth in luxury goods sales slumping from 19.4 percent down to 2.9 percent. LVMH saw very low luxury goods sales growth, due primarily to weakness in the European economy and currency, with growth coming from other regions, notably China and Japan. Their growth contributor in 2013 was outside luxury goods, in their Selective Retailing business group. Their Q4 acquisition of last year's #38 luxury goods company Loro Piana and British luxury footwear company Nicholas Kirkwood should boost 2014 luxury goods sales. Kering continued to restructure their business with the final disposal of Groupe Fnac and Redcats, and the acquisition of majority stakes in jewelry groups Qeelin (Chinese fine jewelry brand) and Pomellato (Italy), as well as the luxury fashion designer brand Christopher Kane.

New entrants Laboratoire Nuxe and Christian Louboutin led French luxury goods company growth in 2013, with 16.1 percent and 15.0 percent sales gains, respectively. All other companies achieved single digit growth, except for Jeanne Lanvin, which lost sales. Composite two year compound annual growth dropped from 18.9 percent to 10.9 percent, but was still ahead of the 9.8 percent recorded for the Top 100.

French luxury goods firms delivered solid profitability - the third highest after Switzerland and the U.K. The composite net profit margin for the six French companies that reported their 2013 net profits was 11.5 per cent, down from 13.8 percent last year, but 1.2 percentage points higher than the Top 100. Return on assets, however, was the lowest of all the countries analyzed, at 6.5 percent; the result of low asset turnover.

Italy is the leading luxury goods country in terms of number of companies, with twenty nine companies in the Top 100—nearly double the number of companies from the U.S., the #2 country —but only accounts for 16.5 percent of 2013 luxury goods sales. Italian luxury goods companies are smaller on average than the Top 100, at $1,222 million, with only one company, Luxottica Group, making it into 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. This luxury brand reputation is strongest in the fashion sector, as demonstrated by the fact that over 70 percent of Italian companies in the Top 100 operate in the Apparel & Footwear sector. It is driven by strong family guardianship of their brand design values, with the vast majority of these companies being owned and/or operated by their founding families, often with their own name on their brand. Iconic fashion brands such as Prada (the second largest Italian company) are licensed to other luxury goods companies in the Top 100, extending their brand range into fragrance, eyewear and watches. However, these business models have delivered more measured growth rates in 2013 - Italian companies achieved composite top-line growth of only 4.3 percent, just over half of the rate achieved by the Top 100 overall. From 2011 through 2013, the compound annual growth rate for the Italian companies was 7.4 percent.

Italian companies also trailed their peers on the bottom line, with a 7.3 percent composite net profit margin. Eight of the twenty-nine Italian luxury goods companies analyzed here reported net losses, while five reported double-digit net profit margins. The most profitable company, newcomer DAMA, achieved a 19.4 percent net margin in 2013, beating last year's leader, Prada, whose profit margin dropped slightly from19.2 percent to 17.8 percent in 2013. Return on assets for the fourteen Italian companies reporting this metric was in line with the Top 100, at 8.6 percent. The overall performance of the Italian companies is strongly influenced by the results of the top three players, Luxottica, Prada and Giorgio Armani, who account for nearly half of Top 100 Italian luxury goods sales in 2013, despite being only 10 percent of the number of Italian companies.

Spain was represented by five luxury goods companies among 2013's Top 100. The four companies reporting profits achieved an above average 10.5 percent composite net profit margin, slightly down on 12.0 percent last year. This profitability, combined with robust asset turnover, produced an above average 10.6 percent return on assets. Compared with the other countries analyzed, Spanish companies were the smallest, on average, at $637 million. With luxury goods sales only just in growth at 0.1 percent in 2013, down from 9.1 percent last year, these companies generated both the weakest annual growth, and the weakest compound annual growth rate of 4.1 percent. The two largest companies, Puig and Textil Lonia, increased sales, but the two newcomers to the ranking, Festina Lotus and San Patrick (Pronovias), both lost sales.

Switzerland's luxury good sales are dominated by their top three players—Richemont, Swatch, and Rolex—who together took an 86.3 percent share of the sales of the eleven Swiss companies in the Top 100. All three were in the Top 10 last year—Richemont retained its number 2 position, Swatch was pushed down one place to sixth, while Rolex dropped to number 12. Five smaller companies were new entrants to the Top 100, in positions from 68 down to 100. The Swiss companies are polarized, with the top three each having sales in excess of $5 billion, while the next largest company, Patek Philippe, has sales just over $1 billion. Slowing growth in the leading companies dragged luxury goods sales growth down to 5.4 percent, from 14.5 per cent last year, while compound annual sales growth nearly halved, to 8.0 percent. The 2014 Deloitte Swiss Watch Industry Study of senior executive views confirms that, while many remain optimistic for growth over the next 12 months, weakening foreign demand is perceived as a significant risk, notably in China. The three companies achieving double digit growth in 2013 were all newcomers: Richard Mille, Ulysse Nardin and Raymond Weil.

Just as Italy is the global leader in fashion, Switzerland is second to none in luxury watch-making - indeed, the watch industry is one of Switzerland's top export sectors. Ten out of the eleven Swiss companies in the Top 100 are watchmakers, and the strength of their brands can be seen in their presence in jewellers and other luxury distribution channels around the world, as well as in their own growing store networks. Whereas jewellers have been able to develop their own luxury jewelry brands, the barriers to entry raised by the brand heritage and technical and design excellence of the Swiss luxury watchmakers are proving very hard to penetrate. This has led to acquisition activity, with LVMH, Ralph Lauren and Kering all having well known Swiss watch brands in their respective portfolios. Kering's acquisition discussions with #100 company Richard Mille collapsed in 2013, but they successfully acquired #86 player Ulysse Nardin in September 2014. Swatch Group looked outside Switzerland, acquiring US company Harry Winston (#55 last year) in March 2013.

Richemont and Swatch, the only public companies in this group, are the only Swiss companies to report net profit and assets. The two companies' composite net profit margin of 20.7 percent is considerably higher than the other countries, and even higher than last year's 20.1 percent, despite subpar luxury goods sales growth, at 5.4 percent. Their impressive profit performance was also reflected in their leading composite return on assets of 14.3 percent, a slight improvement on the 14.0 percent achieved in 2012.

The **U.K.**, home to six of the Top 100 luxury goods companies, turned in above-average sales growth in 2013 of 11.1 percent, up from 6.8 percent in 2012. However, its 2011-2013 compound annual growth rate was slightly below average at 8.5 percent, weighed down by 2012's tepid sales growth. The country's luxury goods companies averaged $980 million in luxury goods sales, significantly smaller than the average size of the Top 100, as five of the U.K. companies reported less than $1 billion in 2013 sales. The leading luxury goods company, Burberry, had sales of $3.7 billion, representing more than 60 percent of all the U.K. companies' luxury goods sales. The U.K. growth was largely driven by Burberry's strong 16.6 percent sales growth, mainly due to strong brand growth in their expanding retail network, and their decision to take their beauty operations in house, buying out the license rights for Burberry products from Inter Parfums end 2012. One other company also achieved double digit sales growth - newcomer Jimmy Choo (another of the JAB

Luxury-owned stable of luxury goods companies, which completed an IPO in October 2014), with 15.9 percent. The remaining four either had very low growth, or lost sales. With a composite net profit margin of 11.8 percent, profitability for the U.K. companies was second only to Switzerland. Again, this was mainly thanks to Burberry's 14.3 percent profit margin, although all other companies were profitable, and Graff Diamonds International also achieved a similar profit margin. Burberry's 16.9 percent return on assets also helped the U.K. companies achieve second place on composite return on assets, with10.8 percent, supported by higher-than-average asset turnover.

The **U.S.** had 15 companies in the Top 100 in 2013, including three in the Top 10 - Estée Lauder, Ralph Lauren & PVH Corp. The U.S.-based companies accounted for 20.5 percent of the Top 100's combined luxury goods sales. The U.S. was the only country with no new entrants to the Top 100, and lost last year's #55 company Harry Winston following its acquisition by Swatch Group. Like the U.K., the U.S. companies recovered growth in 2013, achieving above-average luxury goods sales growth of 9.4 percent, while the 2011-2013 compound annual growth rate was below average at 7.6 percent. Cosmetics and fragrance companies struggled, with three out of the four U.S. companies reporting revenue declines.

Two growth standouts are worth noting: Kate Spade - repeating last year's stellar performance, with growth of 60.9 percent, and PVH Corp, with 42.0 percent growth. Both increased growth and control over their brand by acquiring licensees/joint ventures - Kate Spade included Kate Spade Japan Co. (KSJ) net sales in their results for the full year in 2013, and PVH's growth was predominantly driven by the acquisition of its largest licensee for its Calvin Klein brand products, Warnaco. The worst performer, Inter Parfums, Inc., was also affected by a licensing issue. Burberry's decision to buy out the license rights for Burberry products from Inter Parfums at the end of 2012 was the main contributor to their 13.8 percent sales decline.

The composite net profit margin of 7.4 percent (reflecting 11 U.S. companies that reported 2013 net profits) again trailed the Top 100's 12.0 percent result, and was behind last year's level of 10.8 percent. Cosmetics and fragrance groups Coty and Elizabeth Arden saw losses in both revenue and profits in 2013, mainly due to the challenging U.S. market conditions, with market contraction, trade de-stocking and increased promotional and competitive pressure. No other U.S. companies reported a loss in 2013, with nearly half (5 companies) achieving double digit profit margins. Coach led with 16.3 percent, despite declining sales. Return on assets was a similar story, U.S. luxury goods companies underperformed the Top 100, yielding 7.5 percent versus 8.6 percent. This was due to the poorer profit performance, as US company composite asset turnover was second only to China/Hong Kong, at 1.1 percent. U.S. companies were larger than the average company in the Top 100, with luxury goods sales of $2,927 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 2013, 84 percent of Michael Kors' sales occurred in North America, and the company achieved a 43 percent revenue increase in the region. Its capture of U.S. market share in the premium handbag business was again a significant factor in the slowing growth at several luxury companies in the U.S. during 2013.

Product sector analysis

The Global Powers of Luxury Goods analyzes performance by luxury goods product sector as well as by geography. Five luxury goods product sectors are used for analysis:

- Apparel & Footwear
- Bags & Accessories
- Cosmetics & Fragrances
- Jewelry & Watches
- Multiple Luxury Goods

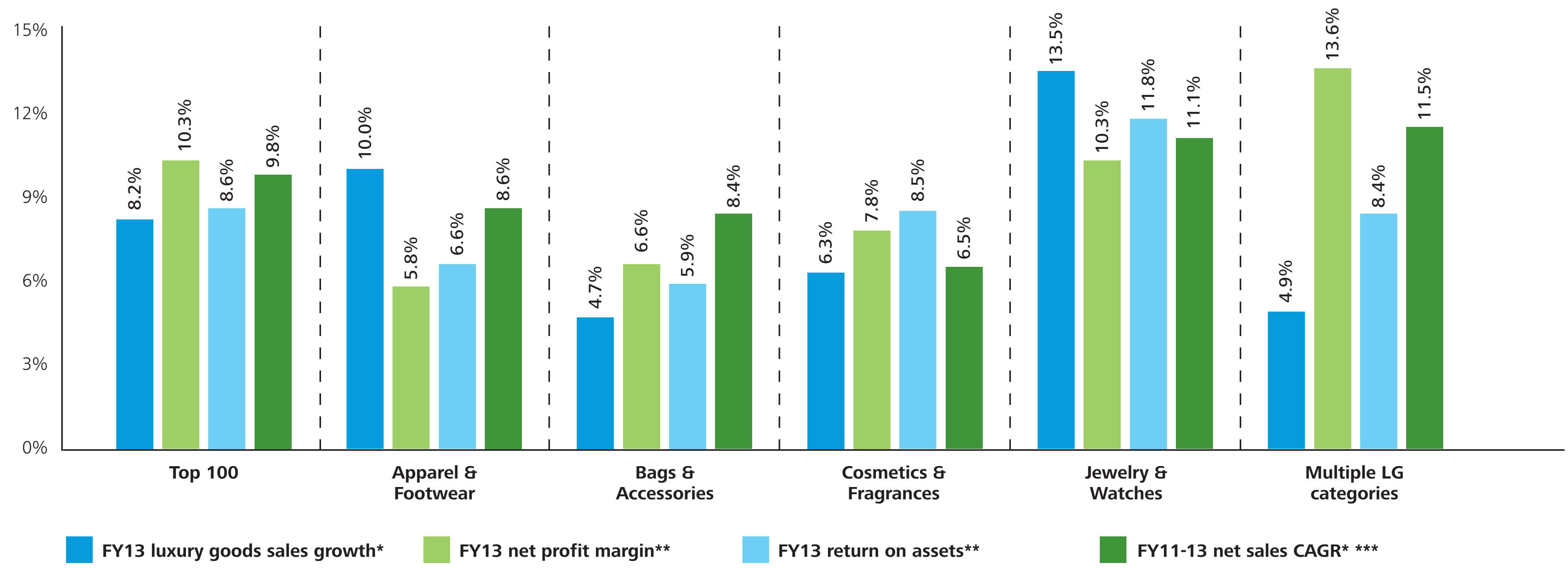
A company is assigned to one of the four specific product sectors if a high percentage of its luxury goods sales are derived from that product sector. Multiple luxury goods (LG) companies are those with substantial sales in more than one of the luxury goods product sectors.

Product sector profiles

	Number of companies	Average luxury goods size (US$mil)	Share of top 100 companies	Share of top 100 luxury goods sales
Apparel & footwear	36	$1,095	36.0%	18.4%
Bags & accessories	12	$1,311	12.0%	7.3%
Cosmetics & fragrances	11	$3,126	11.0%	16.1%
Jewelry & watches	31	$1,818	31.0%	26.3%
Multiple LG categories	10	$6,832	10.0%	31.9%
Top 100	100	$2,142	100.0%	100.0%

Source: Deloitte analysis of published company data and industry estimates

Performance by product sector



* Sales-weighted, currency-adjusted composite growth rates
** Sales-weighted composites
*** Compound annual growth rate

Source: Deloitte analysis of published company data and industry estimates

Jewelry and watch companies sparkle all round; Multiple LG companies deliver profit over growth

The sales of manufacturers of luxury **apparel and footwear** strengthened in 2013, delivering above average composite sales growth of 10.0 percent. This product sector had the largest number of companies in the Top 100 at 36 percent, but the smallest average size, resulting in only half the share of luxury goods sales, at 18.4 percent. The top three companies, Ralph Lauren, PVH Corp. and Hugo Boss, accounted for 42.8 percent of this group's 2013 luxury goods sales. Half of the apparel and footwear companies were based in Italy, with the remainder spread across nine other countries. Europe still dominates the fashion industry, with only six companies based in other regions, predominantly in the U.S.

One of these US-based companies, PVH Corp, saw the fastest growth in this sector in 2013. Its growth increased significantly to 42.0 percent, predominantly driven by the acquisition of its largest licensee for its Calvin Klein brand products, Warnaco. Apparel and footwear companies as a group had very mixed fortunes. Nine other companies also saw strong double digit growth, including footwear brand icons Christian Louboutin and Jimmy Choo, both new entrants to the Top 100. One third of the apparel and footwear companies had single digit growth, but another thirteen companies had declining sales in 2013 - most of these were smaller companies, in the bottom third of the Top 100.

Composite profitability for the twenty-nine reporting companies in the sector was the lowest of all the product sectors, at 5.8 percent, with over 60 percent of companies reporting a lower profit margin than in 2012. New entrant DAMA SpA's Paul & Shark brand delivered the highest profit margin, at 19.4 percent. Moncler is also notable as the only apparel and footwear company reporting both double digit sales growth (18.7 percent) and profit margin (13.5 percent) in 2013. Three more companies had double digit profit margins in 2013, including Ralph Lauren (10.4 percent) and Hugo Boss (13.7 percent). The majority of the group, seventeen companies, had single digit profit margins, while seven companies reported losses.

Bags and accessories (including eyewear) companies had subpar year on year sales growth, at 4.7 percent, against 8.2 percent for the Top 100. The twelve companies in this sector are dominated by the top three, Luxottica Group, Safilo Group and Kate Spade, who contributed 70.3 percent of their 2013 luxury goods sales. Indeed, Luxottica had more luxury goods sales than all the other companies put together. These companies are also geographically concentrated, with six based in Italy, three in the U.S., and only one based in each of South Korea and the U.K.

2013 growth was very variable, with the three of the eleven reporting companies delivering double digit growth, four companies saw single digit growth, while the remaining four lost sales. The best performer, Kate Spade, was the fastest growing company in the whole of the Top 100 (see **Fastest 20** section for details) in 2013, with 60.9 percent growth. Luxottica's drop in sales growth from 13.9 percent in 2012 to 3.2 percent in 2013 was partly due to exchange rate effects (7.5 percent growth at constant exchange rates), and they achieved double digit growth at constant exchange rates in emerging markets (+20%) and Europe (11%) and in their wholesale division (12%).

Composite net profit margin for the nine bags and accessories companies reporting this measure was below average, at 6.6 percent, against 10.3 percent for the Top 100. The two companies with double digit profit margins were overall high performers also achieving double digit sales growth - South Korea's Sungjoo D&D, and U.S.-based Tumi Holdings. Five companies had single digit profit margins, including Luxottica at 7.5 percent. The remaining two made losses.

Cosmetics and fragrances companies are larger than the Top 100 on average, at $3,126 million, with seven of the eleven companies in the group having luxury goods sales greater than $1billion. The top three, Estée Lauder, L'Oréal Luxe and Shiseido all have luxury goods sales in excess of $5 billion, and a 70 percent share of this group's 2013 sales. There are four companies based in each of France and the U.S., with one company in each of Italy, Japan, and Spain.

2013 luxury goods sales growth varied significantly between companies. The group of six companies reporting single digit growth was flanked by three high performers (Euroitalia, 20.7 percent; Shiseido, 17.8 percent; Laboratoire Nuxe, 16.1 percent) and two companies losing over 13 percent of sales - Elizabeth Arden and Inter Parfums. Shiseido's domestic growth was partly due to the surge in retail sales ahead of the April 2014 increase in Japan's consumption tax from 5% to 8%, while their overseas sales growth was mainly due to the depreciation of the Japanese yen, and accounted for more than half of their net sales for the first time. Inter Parfums' loss was due to the termination of their 20-year license agreement with Burberry with a transition agreement effective end 2012. With net sales of Burberry products representing 46% and 23% of Inter Parfums' net sales in 2012 and 2013 respectively, this was a major blow to their business. Excluding Burberry brand sales, Inter Parfums actually achieved a net sales increase of 22.8 percent. Cosmetics and fragrances companies' composite luxury goods sales growth was lower than the Top 100 average, at 6.3 percent.

The three most profitable cosmetics and fragrances companies were L'Oréal Luxe (14.7 percent), Puig (11.7 percent) and Estée Lauder (11.0 percent), whose above average profitability contributed nearly all of this group's profit (95 percent). The three companies with single digit profit margins were counterbalanced by Elizabeth Arden's 12.6 percent loss, and Coty's loss of 1.4 percent. Composite net profit margin for the eight reporting companies in this group was 2.5 percentage points below the Top 100 average, at 7.8 percent.

Jewelry and watch companies turned in a sparkling performance in 2013, with above par or par performance on all measures. This group's leading composite luxury sales growth of 13.5 percent was a full 5.3 percentage points above the average for the Top 100. The product sector had the second largest number of companies in the Top 100, at 31 percent, with a slightly smaller than average size of $1.8 billion, giving them the second largest share of the Top 100's luxury goods sales, at 26.3 percent. There are three companies with luxury goods sales in excess of $5 billion - Chow Tai Fook, Swatch Group and Rolex - who together have a 42.9 percent share of this group's sales. Seventeen companies have luxury goods sales below $1 billion.

The specialist luxury jewelry and watch companies can be loosely split into three sub-sectors:

- Nine Swiss-based luxury watchmakers with iconic global brands
- Eight vertically integrated luxury jewelry groups with extensive retail networks based in China/Hong Kong and India
- Others—fourteen predominantly jewelry companies from all regions, ranging from Graff Diamonds' specialist position claim as "the pinnacle of luxury jewelry", and Mikimoto's global pearl brand, to the "aspirational" luxury of companies such as Denmark's Pandora and Spain's Joyeria Tous

Seventeen of the thirty-one jewelry and watch companies are newcomers to the Top 100, as the scope of this study has been extended with improved data this year, particularly for luxury jewellers. All of the nine top 50 new entrants are jewellers, mainly from China/Hong Kong and India. The leading new company, Hong Kong-based Chow Tai Fook (sometimes called "Asia's Tiffany & Co."), is the fourth largest luxury goods company in 2013.

Fourteen jewelry and watch companies achieved double digit luxury goods sales growth in 2013 - half of them with growth in excess of 20%. The top six performers were all jewelry groups, four of them China/Hong Kong-based, led by Luk Fook with 46.6 percent, and Denmark's Pandora with 35.4 percent. India's PC Jeweller was the most consistent high performer, with the highest CAGR growth from 2011-13, at 32.3 percent. Twelve companies reported single digit growth, while five lost sales. The weakest performer in 2013 was also an Indian jewelry group, Gitanjali Gems, whose finished luxury goods sales slumped by 35.4 percent, mainly due to an increase in customs duty and restrictions on gold imports imposed by the Indian government, which led to significant shortages in the supply of gold, and weakening of the Indian Rupee against the US Dollar.

Nineteen jewelry and watch companies reported net profits in 2013, resulting in a composite net profit margin exactly in line with the Top 100 average, at 10.3 percent. Pandora was the overall high performer, with the highest net profit margin of 24.3 percent, as well as the second highest sales growth. Fossil Group also delivered double digit profit margin (11.9 percent) and sales growth (22.9 percent) in 2013. Most companies were profitable, with five companies in total showing double digit profit margins (including Swatch Group at 22.8 percent), thirteen single digits, and only one, Italy's Damiani SpA, making a loss.

The ten **multiple luxury goods categories** companies have by far the largest average size, $6.8 billion, and have a 31.9 percent share of the Top 100 luxury goods sales. They include three Top 10 companies, LVMH, Richemont and Kering (whose sales represent nearly two-thirds of this group's sales), and eight Top 20 companies. This is because most of the largest companies have achieved their luxury goods scale by expanding into a range of luxury goods categories. This is a group made up predominantly of European multinationals, with three companies each based in France (LVMH, Kering and Hermès) and Italy (Prada, Salvatore Ferragamo and TOD'S), and one in each of Hong Kong (Michael Kors – although the majority of their sales are in the U.S.), Switzerland (Richemont), U.K. (Burberry), and U.S. (Coach).

The multiple luxury goods group's profit margin of 13.6 percent was the highest of all the product sectors, 3.3 percentage points above the average for the Top 100. With the exception of Kering, all companies achieved double digit profit margins, ranging from Hermès' leading 21.3 percent, Michael Kors' second place 20.0 percent and Richemont's 19.4 percent, down to Salvatore Ferragamo's very creditable 12.7 percent. Three companies increased their profit margin in 2013 – Michael Kors, Burberry and Salvatore Ferragamo. Kering only just stayed in profit, with a margin of 0.4 percent. This big drop from its 11.1 percent profit margin in 2012 was primarily due to restructuring costs as Kering completed its transformation (losses from discontinued operations Groupe Fnac and Redcats, and asset impairment expenses).

2013 composite luxury sales growth of 4.9 percent was much weaker than the outstanding growth (18.6 percent) achieved by this group in 2012, and 3.3 percentage points below the average for the Top 100. Michael Kors was the second fastest growing company in the whole of the Top 100 (see **Fastest 20** section for details) in 2013, with 51.8 percent growth. Burberry also achieved double digit sales growth in 2013, at 16.6 percent. Prada Group (8.8 percent) and Hermès International (7.5 percent) were the next best performers, with Richemont, Kering and LVMH all delivering lower single digit luxury goods sales growth. TOD'S just failed to match last year's sales, while Coach declined by 5.3 percent.

Newcomers

The scope of the Global Powers of Luxury Goods study has been extended from the Top 75 to the Top 100 companies this year, with new entrants throughout the ranking. The data was improved across all sectors and regions, particularly for luxury jewellers.

There were fourteen new entrants in the Top 75, compared to last year. The nine new companies which entered the top 50 were all jewelry and watch companies, with Hong Kong-based Chow Tai Fook taking the number four spot. Sometimes called "Asia's Tiffany & Co.", Chow Tai Fook is a household name in China, but is relatively unknown in the global market, despite its position as the leading global jewelry retailer. Four major China/Hong Kong-based jewellers (Lao Feng Xiang, Chow Sang Sang, Luk Fook and Zhejiang Ming) joined their compatriot, as well as leading branded luxury Indian jewellers Gitanjali Gems and PC Jeweller, and Denmark's Pandora. These companies have all benefited from the fact that the biggest US and European luxury brands have not traditionally focused on jewellery.

The five new entrants in positions 50 to 75 were all European fashion-related companies - iconic footwear brands Christian Louboutin, Jimmy Choo and Bally joined Italian bags & fashion brand Liu.Jo and German sports fashion brand Bogner.

The companies in new positions 76 to 100 include ten companies from last year's Top 75, plus eight new jewelry and watch companies, six new apparel and footwear companies, and one cosmetics and fragrances company.

Top 75 newcomers

Luxury goods sales rank FY13	Company name	Country of origin	Product sector	FY13 luxury goods sales (US$mil)	FY13 luxury goods sales growth
4	Chow Tai Fook Jewellery Group Limited	China/Hong Kong	Jewelry & Watches	9,979	34.8%
16	Lao Feng Xiang Co., Ltd.	China/ Hong Kong	Jewelry & Watches	4,175	17.6%
24	Chow Sang Sang Holdings International Limited	China/Hong Kong	Jewelry & Watches	2,571	34.2%
25	Luk Fook Holdings (International) Limited	China/ Hong Kong	Jewelry & Watches	2,420	46.6%
31	Titan Company Limited (formerly TITAN INDUSTRIES LIMITED)	India	Jewelry & Watches	1,733	7.4%
35	Pandora A/S	Denmark	Jewelry & Watches	1,605	35.4%
37	Zhejiang Ming Jewelry Co., Ltd.	China/Hong Kong	Jewelry & Watches	1,382	28.6%
42	Gitanjali Gems Ltd.	India	Jewelry & Watches	1,097	-35.4%
44	PC Jeweller Ltd.	India	Jewelry & Watches	886	32.5%
55	Christian Louboutin SA	France	Apparel & Footwear	611[e]	15.0%
64	Jimmy Choo plc	United Kingdom	Apparel & Footwear	441	15.9%
68	Bally International AG	Switzerland	Apparel & Footwear	398[e]	n/a
70	Liu.Jo SpA	Italy	Bags & Accessories	369[e]	1.9%
75	Willy Bogner GmbH & Co. KGaA	Germany	Apparel & Footwear	317	3.2%

e = estimate

Source: Published company data and industry estimates

Fastest 20

The fastest 20 is based on compound annual sales growth over a two-year period. Between 2011 and 2013, composite luxury goods sales increased at a compound annual rate of 23.1 percent for the 20 fastest-growing luxury companies—more than twice the pace of the Top 100 as a whole. Over half of these companies maintained or increased their aggressive growth in 2013, achieving 30.2 percent year-over-year growth. Michael Kors Holdings heads the list for the second year running, as a result of its continued global expansion and a 26.2 percent increase in comparable store sales. Looking just at last year's growth, however, it was beaten by Kate Spade's industry-leading 60.9 percent, reflecting organic growth and the inclusion of Kate Spade Japan Co. (KSJ) net sales in their results for the full year in 2013, following their October 2012 acquisition of the remaining 51 percent of this business.

On average the Fastest 20 were similar in size to the Top 100, at $2,067 million versus $2,142 million. However, half of the Fastest 20 had 2013 luxury goods sales less than $1 billion and only two, Chow Tai Fook and PVH Corp, exceeded $5 billion. Superior profitability accompanied superior growth for the 15 companies out of the Fastest 20 who reported net profits, with a 10.6 percent net profit margin versus 10.3 percent for the Top 100. Pandora, a Danish "affordable luxury" jeweller and new entrant, was the most profitable of the Fastest 20, with a 24.6 percent net profit margin. Michael Kors combined industry-leading growth metrics (both in 2013 and in the 2011-2013 CAGR) with superior profitability, with the second highest profit margin, at 20.0 percent.

Acquisitions have served as a driver of growth for many luxury goods companies over the years. There were three deals valued at $1 billion or more in fiscal 2013:

- LVMH—acquisition of an 80 percent stake of Loro Piana SpA, the Italian textile brand known for its high quality cashmere and woollens
- 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.

PVH was the only member of the 20 fastest-growing luxury goods companies to make a significant acquisition in fiscal 2013 (i.e., with a deal value of $100 million or more and where the company acquired a controlling interest), but the re-integration of businesses back into the brand owning companies continued to be a trend. Kate Spade followed its 2012 acquisition of KSJ with the re-acquisition of the existing Kate Spade businesses in S E Asia, Ralph Lauren continued the acquisition of its licensing operations with Ralph Lauren Australia/New Zealand and Chaps Menswear, while Coach acquired its domestic retail businesses in Malaysia and South East Asia. Kering continued its strategy of acquiring small- to medium-sized companies with strong luxury brands that meet strict criteria in 2013, taking majority stakes in fine jewelry groups Qeelin (China) and Pomellato (Italy), as well as the luxury fashion designer brand Christopher Kane (U.K.). In 2014 it acquired Swiss haute horlogerie brand Ulysse Nardin - the number 86 company in this year's Top 100.

U.S.-based and China/Hong Kong luxury goods companies accounted for half of the Fastest 20 in 2013 (five companies each), followed by Italy and France, each with three companies. Denmark, India, Switzerland, and the U.K. all had one company in the group. The strongest product sector in the Fastest 20 was jewelry and watches, with eight companies—all new entrants to the Top 100—closely followed by apparel and footwear, with seven companies. The bags and accessories and multiple luxury goods product sectors were each represented by two companies, while there was just one cosmetics and fragrances company. Seven companies repeated last year's appearance in the fastest-growing 15 luxury goods companies list, but the majority—eleven companies—were new entrants to the Top 100 this year, as the coverage of luxury goods companies was improved.

20 fastest-growing luxury goods companies, FY2011-2013 CAGR[1]

CAGR rank	Top 100 rank	Company name	Country of origin	FY13 luxury goods sales (US$mil)	FY11-13 luxury goods sales CAGR[1]	FY13 luxury goods sales growth	FY13 net profit margin
1	19	**Michael Kors Holdings Limited**	Hong Kong	3,311	59.4%	51.8%	20.0%
2	49	**Kate Spade & Company (formerly Kate Spade LLC)**	United States	743	54.1%	60.9%	n/a
3	43	**Tory Burch LLC**	United States	900[e]	35.5%[e]	18.4%[e]	n/a
4	44	PC Jeweller Ltd.	India	886	32.3%	32.5%	6.6%
5	25	**Luk Fook Holdings (International) Limited**	Hong Kong	2,420	29.6%	46.6%	9.7%
6	24	**Chow Sang Sang Holdings International Limited**	Hong Kong	2,571	25.6%	34.2%	4.9%
7	55	Christian Louboutin SA	France	611[e]	23.8%[e]	15.0%[e]	n/a
8	10	**PVH Corp.**	United States	6,200	22.7%	42.0%	1.8%
9	89	TWIN SET—Simona Barbieri SpA	Italy	236	22.7%	22.8%	1.7%
10	37	Zhejiang Ming Jewelry Co., Ltd.	China	1,382	20.6%	28.6%	1.0%
11	30	**Fossil Group, Inc.**	United States	1,757	19.6%	22.9%	11.9%
12	100	Richard Mille SA	Switzerland	142	19.1%	17.9%	n/a
13	63	**Tumi Holdings, Inc.**	United States	467	19.0%	17.3%	11.7%
14	52	Gianni Versace SpA	Italy	636	18.7%	17.2%	2.3%
15	15	**Prada Group**	Italy	4,776	18.5%	8.8%	17.8%
16	90	Laboratoire Nuxe SA	France	226	18.1%	16.1%	n/a
17	4	**Chow Tai Fook Jewellery Group Limited**	Hong Kong	9,979	17.0%	34.8%	9.6%
18	35	Pandora A/S	Denmark	1,605	16.3%	35.4%	24.6%
19	27	**Christian Dior Couture**	France	2,042	16.3%	5.8%	7.3%
20	64	Jimmy Choo plc	United Kingdom	441	15.6%	15.9%	7.5%
**Fastest 20* ** **				**41,331**	**23.1%**	**30.2%**	**10.6%**
**Top 100* ** **				**214,231**	**9.8%**	**8.2%**	**10.3%**

Companies in bold type are also among the 20 fastest-growing luxury goods companies in 2012, based on 2010-12 CAGR

*Fastest 20 and Top 100 growth rates are sales-weighted, currency-adjusted composites
**Fastest 20 and Top 100 net profit margins are sales-weighted composites
[1]Compound annual growth rate
e = estimate
Source: Published company data and industry estimates

M&A activity

Vertical and horizontal acquisitions drive M&A activity

M&A activity in the luxury and premium goods sectors was relatively subdued in 2014 compared with the year before. There were no mega deals completed during the year. Instead, the big luxury goods companies continued to expand horizontally, snapping up innovative niche brands and acquiring stakes in promising young designers, thereby gaining access to additional—and potentially newer—segments of the market.

Private equity and other financial investor groups also remained active buyers of luxury and premium brands with global potential, providing resources to fund their expansion and business acumen to grow more strategically and efficiently. The trend toward vertical acquisitions also continued to advance in 2014 as luxury goods companies seek greater control of the entire value chain from raw materials to retail.

Despite the continuation of these trends in 2014, only four deals were completed in the luxury and premium sectors with a disclosed value of at least $100 million and where a controlling interest in the acquired company was transferred to the acquiring company. The largest deal was the $235 million acquisition of Costa, a producer of premium sport sunglasses, by Essilor International, a leading maker of ophthalmic products. In 2013, 12 large deals were completed. So far in 2015, M&A activity appears to be picking up. Seven deals of $100+ million have already closed in 2015 or were pending as of mid-April.

However, the number of large disclosed-value deals where control changes hands is only one measure of the level of M&A activity in the luxury and premium sectors. Many acquisitions are private transactions where the deal value is not reported. In addition, there are sizeable transactions involving the acquisition of minority stakes in companies, not to mention numerous smaller deals. Of the Top 100 Global Powers of Luxury Goods, 15 made an acquisition in the luxury or premium space in 2013, while 14 of these companies did so in 2014.

Expanding horizontally: seeking scalable brands

A review of the deal activity over the past two years and into 2015 shows that premium and luxury goods companies are expanding horizontally, bringing up-and-coming designers into the fold to build their brand portfolios. They are also reinforcing their positions in key prestige categories such as cosmetics, fragrances, and footwear through targeted acquisitions of niche brands.

Kering continues to restructure its business, having sold La Redoute and Relais Colis in June 2014 in a management-led buyout. Meanwhile, it acquired internationally renowned Swiss watchmaker Ulysse Nardin for an undisclosed amount in November 2014. The acquisition strengthens Kering's luxury watch and jewelry division, complementing its other brands. It follows the 2013 acquisitions of a minority stake in the New York-based Altuzarra women's ready-to-wear brand and a majority stake in British fashion designer Christopher Kane. These and other recent acquisitions have increased Kering's portfolio of luxury brands while fulfilling its mission to nurture new creative talent.

LVMH, as part of its strategy to support young designers and potentially fast-growing fashion labels, announced an agreement in February 2014 with Italian designer Marco de Vincenzo for the development of his brand through a joint venture in which LVMH will have a 45 percent stake. Vincenzo has been working with Fendi, one of LVMH's fashion brands, for more than 13 years. In September 2013, LVMH acquired a majority stake in British shoe designer Nicholas Kirkwood and a minority stake in J.W. Anderson, appointing Jonathan Anderson, the brand's London-based designer, as the creative director of Loewe, the LVMH-owned Spanish leather brand.

Puig, the family-owned fashion and fragrance business based in Barcelona, is committed to expanding and reinforcing its presence in the high-end perfume industry. In January 2015, the company acquired the prestigious British fragrance house Penhaligon's and French perfumery L'Artisan Parfumeur from Fox Paine & Company, a U.S.-based private equity firm.

Premium handbag and accessories manufacturer Coach, well-known for its classic style, is in the midst of a multiyear transformation plan to realign its business, raise its brand profile, and improve its global development. The company is augmenting its brand portfolio, having announced in January 2015 that it will buy women's luxury footwear maker Stuart Weitzman from private-equity firm Sycamore Partners. Sycamore Partners acquired the footwear company in 2014 as part of its purchase of The Jones Group (now Nine West Holdings). Coach is looking to expand its high-end offerings to better compete with fast-growing and trendier rivals such as Michael Kors, Kate Spade, and Tory Burch. The acquisition will also give the company greater access to European markets. The transaction, which is anticipated to close by May 2015, is Coach's first-ever acquisition.

Top acquisitions in luxury & premium goods sectors completed in 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	**The 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 SA**	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

Company names in bold are 2013 Global Powers of Luxury Goods Top 100 companies

*Includes only acquisitions with a deal value of $100+ million 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.

Source: mergermarket.com and company reports

Cosmetics giant Estée Lauder has been on a shopping spree, buying up niche, high-end beauty brands to add to its portfolio of prestige products. Since October 2014, the beauty conglomerate has acquired luxury skin care specialist RODIN olio lusso, high-end fragrance brand Le Labo, French luxury perfume group Editions de Parfums Frédéric Malle, and most recently the Hollywood skin care brand GLAMGLOW.

In March 2015, Inter Parfums, Inc. announced that its Paris-based subsidiary, Interparfums SA, entered into an agreement with P&G to acquire the Rochas fashion and fragrance brand. This transaction is expected to be completed within the first half of 2015. In December 2013, Inter Parfums USA, the company's U.S.-based subsidiary, acquired certain assets of the fragrance division of Oscar de la Renta. Inter Parfums took over production and distribution of the company's existing fragrance collections, which had been operated in-house at Oscar de la Renta since 2009, following the termination of its license agreement with L'Oréal.

Financial investors: seeking new opportunities in the high-end market

Financial investors' interest in the relatively high-margin, high-growth, high-end sector continues unabated as luxury has become a truly global market. Private equity and other investor groups continue to invest in—and cash in on—luxury and premium brands, helping numerous companies transition from small, family-owned and run businesses to professionally managed companies that can grow to the next level. Many recent transactions involve management buyouts with investor-supplied equity capital.

The management of Alberto Moretti, an Italian luxury shoemaker, acquired the company in a management buyout transaction backed by French private equity firm EMCap Partners and Italian private equity firm GenCap Advisory in December 2013 for an undisclosed consideration. Post acquisition, the founding Moretti family retained a 60 percent stake in the company.

In December 2013, SMS Finance, a Luxembourg-based investment company owned by businessman Silvio Scaglia, acquired Italian lingerie and fashion group La Perla from JH Partners, a U.S. private equity firm for €69 million.

Bruno Magli, the Italian manufacturer of luxury footwear, was acquired by Da Vinci Invest, a Swiss asset management company, in January 2014 from UK private equity firm Fortelus Capital

Top acquisitions in luxury & premium goods sectors completed in 2014*

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	Essilor International SA	France	Eyewear	Costa Inc.	United States	Premium sports sunglasses	$235	03/02/2014
2	**Chow Tai Fook Jewellery Group Limited**	Hong Kong	Jewelry	Hearts On Fire Company LLC / Glenn Rothman, Hearts On Fire Holdings Trust, HOF Executive LLC, HOF Employee LLC, and Fine Diamonds SA	United States	Jewelry	$150	01/09/2014
3	Guangdong CHJ Industry Co., Ltd.	China	Jewelry	FION Limited (87.3% stake) / Hunters Worldwide Group Limited	Hong Kong	Handbags	$114	15/03/2014
4	Catterton Partners	United States	Private equity firm	John Hardy Limited / 3i Group plc	Hong Kong	Jewelry	$100	31/07/2014

Company names in bold are 2013 Global Powers of Luxury Goods Top 100 companies

*Includes only acquisitions with a deal value of $100+ million 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.
Source: mergermarket.com and company reports

Management for an undisclosed consideration. The transaction will enable the company to accelerate its strategic plans of expanding its product range and developing its wholesale network worldwide.

In January 2014, NXMH, the Belgium-based global investment arm of South Korean holding company NXC, won the auction to acquire family-owned Stokke, a Norwegian manufacturer of premium children's furniture and equipment. The deal is estimated to be valued at NOK 3 billion ($491 million).

Mayhoola for Investments, the Qatar-based investment vehicle of the Qatar royal family, acquired a 65 percent stake in Italian fashion house Forall Confezioni, known for its Pal Zileri menswear brand, from the founders' families and other existing shareholders. The deal was completed in February 2014 with a value estimated to be €60 million.

In April 2014, American private equity firm Blackstone Group completed the acquisition of a 20 percent stake in Italian fashion house Gianni Versace. Blackstone invested a total of €210 million euros through a combination of €150 million in cash and the purchase of €60 million euros in shares from GIVI, a holding company controlled by the Versace family. The transaction enables Versace to further expand its business in international markets, to invest in its retail store network in existing markets, and further develop its portfolio of brands and its e-commerce business.

BREE Collection, a German manufacturer and retailer of premium leather bags, was acquired by a group of investors led by entrepreneurs Dr. Klaus Schmidt and Peter Wolf from brothers Axel and Philipp Bree in April 2014. Philipp Bree sold all his shares to concentrate on his own brand, PB 0110. Axel Bree remains a minority shareholder and sole manager. The purchase price was not disclosed.

U.S. private equity firm Catterton Partners, along with the management of John Hardy Limited, acquired the company in a management buyout transaction from 3i Group, a UK-based private equity firm. John Hardy, based in Hong Kong, offers handmade designer jewelry. Damien Dernoncourt, CEO of John Hardy, retained a majority stake in the company. Catterton will provide support and resources to John Hardy to expand and enhance the brand and accelerate its growth on an international scale. The deal, completed in July 2014, was valued at $100 million.

In July 2014, Change Capital Partners, a UK-based private equity firm, acquired a majority stake in Frette, the Italian manufacturer of luxury linens, from JH Partners, a U.S.-based private equity firm, for an undisclosed consideration. Post acquisition, JH Partners retained a minority stake in the company.

Castanea Partners, a U.S.-based private equity firm, along with the management of Aurora Brands, acquired the company in a management buyout transaction in September 2014 for an undisclosed consideration. The transaction will accelerate the growth of Aurora Brands' wholly owned subsidiaries MacKenzie-Childs and Jay Strongwater, two American luxury home and lifestyle brands.

In October 2014, U.S. private equity firm Tengram Capital Partners bought a majority stake in Italian luxury apparel brand Luciano Barbera from the Barbera family. The acquisition, estimated to be valued at $32 million, is in line with Luciano Barbera's strategy of expanding its reach.

Lion Capital Fund III, a UK private equity firm, and IVEST Consumer Partners, a Canadian private equity firm, along with the management of Spence Diamonds Ltd., acquired the vertically integrated Canadian retailer of diamond jewelry in April 2015 in a management buyout transaction. The deal is estimated to be valued at $125 million.

In December 2014, Italian private equity fund Clessidra announced it was in exclusive negotiations to acquire Florentine fashion firm Roberto Cavalli in a management buyout transaction. On completion of the acquisition, Clessidra will be the majority owner, and the remaining stake will be held by the founder. The transaction is expected to complete by April 2015.

L Capital (Europe) and L Capital Asia, private equity funds sponsored by LVMH, continue to acquire stakes in premium lifestyle brands at key stages of the companies' development. The following are among the funds' most recent transactions in the premium sector:

- 30 percent stake in Vicini SpA, owner of the Giuseppe Zanotti Italian footwear brand (April 2014; estimated deal value €300 million).
- 50 percent of French women's ready-to-wear brand Ba&sh for an undisclosed amount; company founders Barbara Boccara and Sharon Krief will retain the other 50 percent stake alongside Groupe VOG, which invests in fashion brands (announced February 2015; deal value not disclosed).
- Undisclosed minority stake in Bateel, a Saudi Arabian gourmet food company renowned for its premium quality dates and date confectionery (January 2015).
- Undisclosed majority stake in Seafolly, Australia's iconic swimwear brand, from the Halas founding family for an undisclosed consideration. L Capital Asia plans to tap into the brand equity of Seafolly to develop it as a full lifestyle brand into other product categories as well as support growth globally across new markets (December 2014).
- 20 percent stake in DR.WU Skincare, Taiwan's leading clinical skincare brand, for TWD 750 million, or approximately $25 million (March 2014).

Expanding vertically: seeking greater control

LVMH, Kering, Richemont, and Chanel, among others, have used vertical as well as horizontal acquisitions to become the largest luxury groups in the world. In recent years, the acquisition of specialty parts suppliers and craftspeople, at one end of the value chain, and distribution companies, at the other end, has been the focus of much M&A activity in the luxury sector. Increasingly, companies are seeking to control and safeguard every stage of the process in order to ensure the appropriate levels of quality and service that are needed for luxury products.

In a bid to protect artisan skills, jobs, and competitive advantage, luxury goods companies are bringing craftsmanship, expertise, and production in-house

In May 2014, Chanel, through its subsidiary Maison Lesage, acquired a 70 percent stake in Jean-François Lesage, owner of the India-based embroidery atelier Vastrakala. Founded in 1999, Vastrakala has lent its artisanal work and expert craftsmanship to ready-to-wear and accessory lines made by Maison Lesage for many top couture houses, including Chanel, which bought Lesage in 2002. Over the years, Chanel has been quietly purchasing traditional specialty handcraft ateliers including Desrues (buttons), Lemarié (feathers and fabric flowers), Goosens (goldsmith), Guillet (artificial flowers), and Montex (embroidery), among others, saving skills and the institutional knowledge of their artisans whose loss could decimate couture.

In mid-2014, Valentino Fashion Group—owned by Mayhoola for Investments since 2012—acquired two suppliers for its accessories division: a 51 percent stake in Pelletterie Sant'Agostino, a manufacturer of leather bags (since renamed Valentino Bags Lab), and a 40 percent stake in Figli de Enio Pescini, a maker of brass components for Valentino bags and other luxury brands, for an undisclosed consideration.

Italian fashion house Prada is securing the future of its leather goods while preserving valuable artisanal know-how and jobs. The company joined a growing list of leather goods manufacturers that have purchased tanners to secure a steady supply. In October 2014, the luxury group acquired French tannery Tannerie Mégisserie Hervy, which had closed its doors in July 2013 after a buyer could not be found for the business. The acquisition was made as a joint venture with Conceria Superior, Prada's long-time industrial partner. Controlled by Prada, the company is now called Tannerie Limoges.

China's Chow Tai Fook jewelry group is considering acquiring stakes in diamond mines to secure long-term supply as demand for the gemstone in China grows. In an interview with Bloomberg in November 2014, the company's executive director Adrian Cheng indicated that the Hong Kong-based company had been approached as a potential investor by a number international diamond mines and that it had looked at some located in Canada. To date, the jeweler has diamond processing and cutting factories, but it does not own any mines.

As luxury and premium brand companies tighten their grip on supply networks, they are also seeking greater control over their retail distribution channels.

In May 2014, Giorgio Armani gained full ownership of Presidio International (doing business as A/X Armani Exchange), a joint venture company established in 2005 with Como Holdings, a UK company that held the production and distribution license for A/X Armani Exchange in the United States, Canada, Central and South America, and Asia-Pacific. The acquisition of Como's 50 percent stake gives Armani complete control over the youth-oriented, fashion-forward collection, which is available in more than 250 stores worldwide.

HUGO BOSS took full control of its store network in China and Macau in June 2014, acquiring the 40 percent stake in a joint venture held by its longstanding franchise partner Rainbow Group. In 2013, HUGO BOSS generated around 9 percent of its sales in China, the group's single biggest market in Asia and fourth-largest market worldwide. At the end of 2013, the company operated 126 freestanding stores and shop-in-shops in the country, establishing HUGO BOSS as a highly recognized premium and luxury apparel brand in China.

To accelerate its distribution in Japan, Pandora, the Denmark-based company best known for its modern charm bracelets, has joined forces with its Japanese partner Bluebell Japan Ltd. On January 1, 2015, Pandora purchased the majority of the Pandora-related assets from Bluebell and will take over full distribution of its jewelry line in Japan in five years. In April 2014, Pandora acquired 100 percent of Pan ME A/S, its Middle East distributor, which held distribution rights to the brand in United Arab Emirates, Bahrain, Qatar, and Oman. In October 2013, Pandora bought the distribution rights to it jewelry in Brazil from City Time S.L., a Spanish jewelry supplier that has been a Pandora distribution partner since 2005. City Time will continue to be the distributor of Pandora jewelry in Spain and Israel. The agreements are in line with the company's strategy to expand geographically while maintaining control over its brand.

In summary

As the luxury goods players look for sustainable growth, acquisitions—both horizontal and vertical—will continue to play a major role in the sector. Strategic acquirers as well as financial investors will continue to scour the market for brands with global potential, helping them broaden their product offers, strengthen their operational management, expand their distribution networks, and pursue international development opportunities—thereby creating fresh momentum for these brands and enabling them to enter into new phases of dynamic growth.

At the same time, the sector's major players will continue to acquire the companies that provide them with high-quality component parts or expert craftsmanship to ensure availability and quality of raw materials. At the other end of the value chain, companies will continue to take greater control at the point of sale, acquiring joint venture partnerships or other distributors once a brand's presence has been established in a foreign market. However, the opportunity to drive down cost or reduce supply risk is not the primary motivator for these vertical acquisitions. By controlling more of the value chain, companies will be better able to protect and manage their carefully crafted brand heritage into the future.

Top acquisitions in luxury & premium goods sectors completed or announced through mid-April 2015*

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	**Coach, Inc.**	United States	Bags & accessories	Stuart Weitzman Holdings LLC/Sycamore Partners	United States	Footwear	$530	Pending
2	**Coty Inc.**	United States	Cosmetics & fragrances	Bourjois cosmetics brand/Chanel SA	France	Cosmetics & fragrances	$239[e]	01/04/2015
3	The Longreach Group Inc.	Japan	Private equity firm	Primo Japan Inc./Ruby Holdings Co., Ltd.	Japan	Jewelry & watches	$170[e]	30/01/2015
4	IVEST Consumer Partners, Lion Capital Fund III LP, and management	Canada and UK	Private equity firms	Spence Diamonds Ltd.	Canada	Jewelry & watches	$125[e]	08/04/2015
5	**Puig, S.L.**	Spain	Cosmetics & fragrances	Penhaligon's Ltd. and L'Artisan Parfumeur SA/Fox Paine & Company, LLC	UK and France	Cosmetics & fragrances	$112[e]	23/01/2015
6	Interparfums SA/**Inter Parfums, Inc.**	France	Cosmetics & fragrances	Rochas brand/The Procter & Gamble Company	France	Cosmetics & fragrances	$108	Pending
7	**The Estée Lauder Companies Inc.**	United States	Cosmetics & fragrances	GlamGlow, Inc.	United States	Cosmetics & fragrances	$100-$125[e]	16/01/2015

Company names in bold are 2013 Global Powers of Luxury Goods Top 100 companies

*Includes only acquisitions with a deal value of $100+ million 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.
Source: mergermarket.com, company reports, and Deloitte research

Q ratio analysis

In this report, we rank the world's largest luxury goods companies by revenue. While the size of a company is interesting, it does not necessarily tell us anything about the prospects for future performance. Large size simply demonstrates that a company performed well in the past and has, consequently, achieved scale. Moreover, the market capitalization of a publicly traded consumer products 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 possible future performance. With that goal in mind, we analyze 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 critical 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. It indicates that the company may, in fact, be destroying brand equity. Indeed, it also 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 all consumer oriented companies has been the squeezing of margins due to commoditization. That is, consumers often view the brands produced by these companies as 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. In addition, the ubiquitous use of social networks has enabled consumers to obtain information about products from one another rather than from the marketing messages proffered by companies. This has driven down prices and, therefore, margins. In such an environment, 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. This is, of course, critically important for luxury goods companies. Their ability to manage brands and create the impression of exclusivity is their main currency. Consequently, a high Q ratio suggests that the financial markets believe a company is doing the right things to succeed in a business environment in which brand equity is critical. As such, one would expect a luxury goods company to have a relatively high Q ratio.

What do the numbers show?

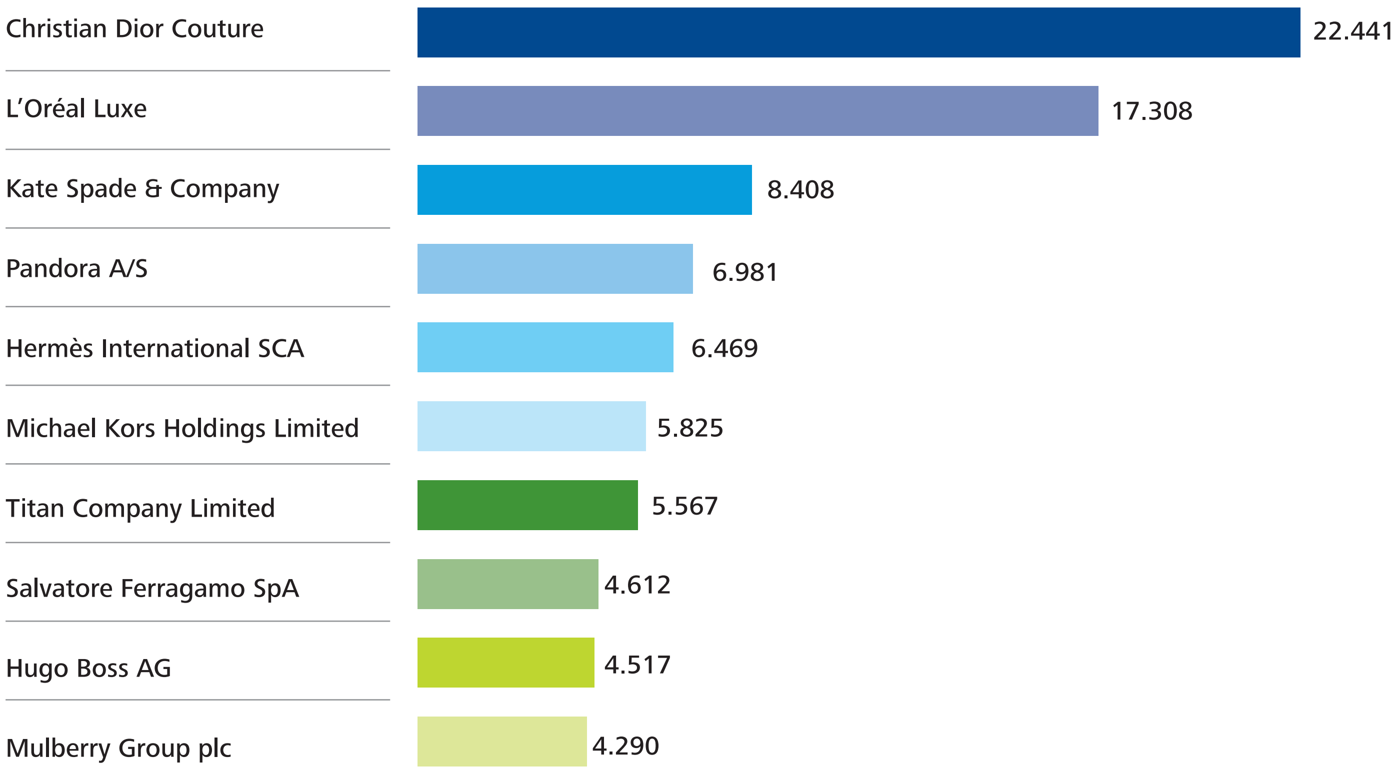
This year we calculated the Q ratio for 47 publicly traded luxury goods companies. The composite Q ratio (calculated by taking the sum of all companies' market capitalization and dividing by the sum of all companies' asset values) is 2.244 versus a composite Q ratio of 2.131 last year. Of the 47 companies analyzed, 34 have a Q ratio above 1.0 and 21 have a Q ratio above 2.0. For those companies, it means that more than half of their value comes from non-tangible assets such as brand.

Here are some of the highlights of our analysis:

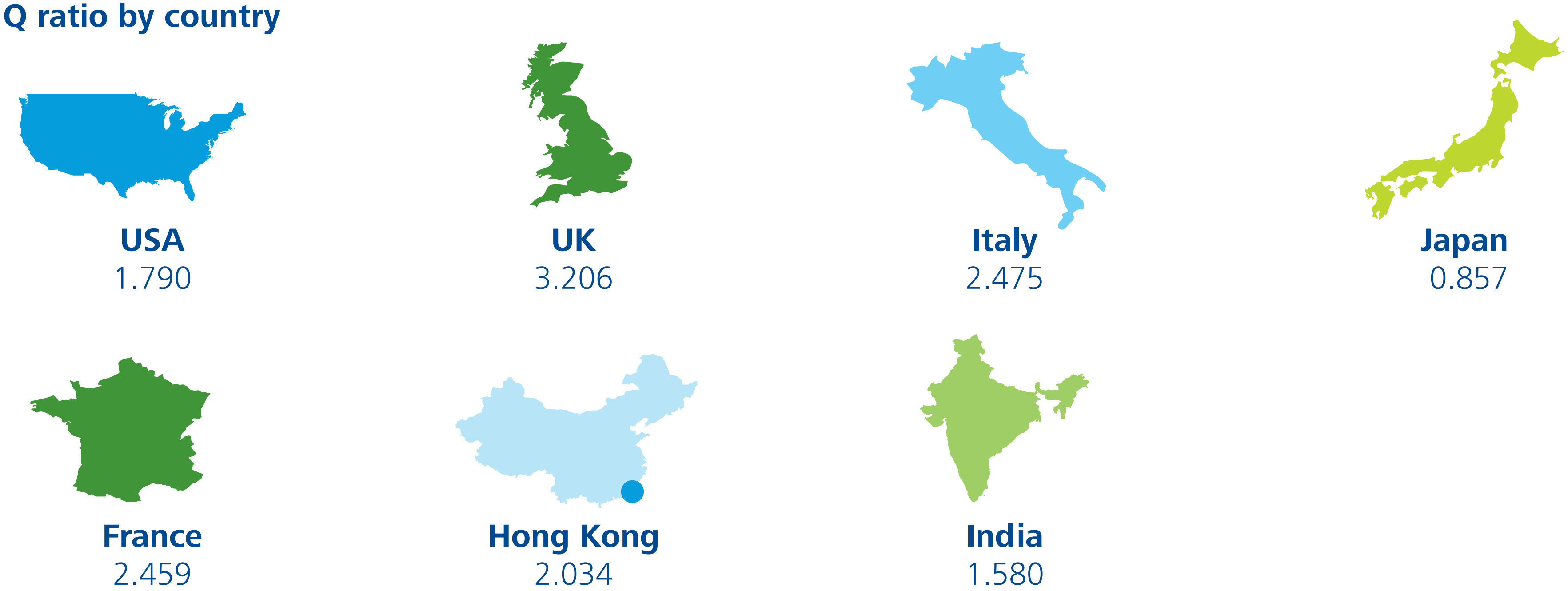
- The company with the highest Q ratio is Christian Dior Couture followed by L'Oreal Luxe, which is also the company on the list with the highest market capitalization. These companies reflect the strength of French luxury goods companies. Indeed of the top 10 companies on the Q ratio list, three are French and seven are European. Two are from Asia and only one is from North America.

- We examined the composite Q ratio for those countries from which there are three or more companies on our list. The highest composite Q ratio is in the UK followed by Italy and then France. The lowest Q ratio is in Japan followed by India and then the United States. On a regional basis, the highest Q ratio goes to Europe followed by North America and then Asia. It is notable that the combined market capitalization of the European companies on the list is ten times that of the combined Asian companies.
- We also examined the composite Q ratio based on product sector. The highest Q ratio by product sector goes to companies specializing in cosmetics and fragrances, followed by bags and accessories and then apparel and footwear. The lowest composite Q ratio goes to companies that are in multiple luxury goods categories; that is, those companies for which there is no dominant product sector. These diversified companies, which combined have the highest market capitalization by category, as a group have evidently not convinced investors that they have created relatively strong brands.

Top 10 luxury goods companies by Q ratio



Q ratio by country



Q ratio by region

Q ratio by primary product sector

Apparel & footwear
2.222

Bags & accessories
1.901

Multiple LG categories
1.663

Cosmetics & fragrances
0.871

Jewelry & watches
1.189

Study methodology and data sources

To be considered for the Top 100 Global Powers of Luxury Goods, a company must first be designated as a luxury goods company according to the definition of luxury categories included in this report.

Luxury goods in this report focuses on luxury for personal use, and is the aggregation of designer apparel and footwear (ready-to-wear), luxury bags and accessories (including eyewear), luxury jewelry and watches and premium cosmetics and fragrances.

It excludes the following luxury categories: automobiles; travel and leisure services; boating and yachts; fine art and collectibles; fine housewares; and fine wines and spirits. Retailers who are mainly resellers of other companies' luxury brands are also excluded.

Companies considered cover a spectrum of luxury positioning from traditional ultra-luxury, through super premium and aspirational luxury, down to affordable/mass luxury—a relatively new luxury category of products at prices more affordable for middle class consumers but available at the higher end of retail. They all have strong consumer brands. Factors affecting companies' position on the luxury spectrum include:

- price premium
- quality/rarity of raw materials
- quality of craftsmanship
- product exclusivity
- service and personalisation
- quality and exclusivity of points of sale

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. Some companies do 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 100 based on their fiscal 2013 luxury goods consolidated sales. Our fiscal 2013 definition encompasses companies' fiscal years ended through June 2014.

A number of sources were consulted to develop the Top 100 list. The principal data sources for financial information were annual reports, SEC filings, and information found in companies' press releases, fact sheets, or websites. 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 Ledbury Research for assistance with luxury definitions and trends.

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 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 the 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.

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