

THE LUXE LIST

The top five countries that shined in luxury goods sales growth

The luxury goods industry has faced a number of changes over the past two decades. Currently, varying economic trends, rapid digital transformation and evolving consumer preferences and tastes are creating a new competitive landscape where traditional corporate strategies are under threat.

The luxury market has bounced back from economic uncertainty and geopolitical crises, edging closer to annual sales of US \$1 trillion at the end of 2017.

Total global market growth will depend on many factors, including larger geopolitical factors and their impact on tourism. To return to a steady and solid rate of sales growth, luxury players have to face new challenges and deal with them in a decisive way.

The 'Deloitte - Global Powers of Luxury Goods 2018' report examines and lists the 100 largest luxury goods companies globally, based on the consolidated sales of luxury goods in FY 2016. It also discusses the key trends shaping the luxury market and provides a global economic outlook.

The report analyses performance



by luxury goods product sectors, as well as by geography. Five luxury goods product sectors are used for analysis:

- ◆ Clothing and footwear
- ◆ Bags and accessories
- ◆ Cosmetics and fragrances
- ◆ Jewellery and watches
- ◆ Multiple luxury goods

The top five countries by luxury goods sales growth are-

1. SPAIN

Spain is represented in the Top 100 by four family-owned luxury goods companies: Puig, Tous, Sociedad Textil Lonia, and Festina Lotus.

Compared with the other countries in this geographic analysis, Spanish companies were

the smallest, with average annual luxury goods sales of US\$741 million. They reported the highest composite FY2016 sales growth, of 6.2 per cent, 5.2 percentage points above the composite average for the Top 100.

2. FRANCE

France had the highest FY2014-16 CAGR and second highest year-on-year growth in luxury good sales, at 10.3 and 5.8 per cent, respectively. The four largest French luxury goods powerhouses, LVMH, Kering, L'Oréal Luxe and Hermès, all with more than US\$5 billion in luxury goods sales, represent nearly 90 per cent of sales for Top 100 companies based in France, French companies also reported the highest composite net profit margin in FY2016, at 11.1 per

Country profiles	Number of companies	Average size of companies by luxury goods sales (US\$m)	FY2016 Luxury goods sales growth	Share of top 100 luxury goods sales
 China	3	\$1,328	-4%	3.0%
 France	9	\$5,543	8.3%	24.3%
 Germany	6	\$888	-4.3%	3.0%
 Italy	24	\$1,409	1.0%	16.8%
 Spain	4	\$743	6.0%	3.4%
 Switzerland	9	\$3,188	-4.1%	10.0%
 United Kingdom	10	\$1,126	3.2%	8.2%
 United States	13	\$3,351	1.7%	20.1%
Other countries	17	\$1,351	6.8%	10.2%

► **Geographic Analysis: Results reflect Top 100 companies headquartered in each country**

cent, almost the same as in FY2015. As a result, France has by far the largest average size of luxury goods company, US\$5.8 billion, and the highest share (24.3 per cent) of Top 100 luxury goods sales in FY2016. At 6.9 per cent, their composite return on assets was the same as the composite average for the Top 100 companies.

3. UNITED KINGDOM

The same ten UK-based luxury goods companies featured in the Top 100 as in FY2016. Michael Kors, Burberry, Ted Baker, Graff, Jimmy Choo, Kurt Geiger, Paul Smith, Charles Tyrwhitt, Barbour, Mulberry.

Sales averaged US\$1,126 million per company, significantly less than the average for the Top 100. The group's results are dominated by Michael Kors and Burberry, with over 70 per cent of total sales. The

other eight UK companies reported luxury goods sales of less than US\$700 million in FY2016.

Composite luxury goods sales growth improved 0.8 percentage points, to 3.2 per cent.

The UK companies had the second-highest net profit margin (9.8 per cent) in FY2016 among the Top 100. UK companies had the highest composite return on assets, at 11.8 per cent.



4. UNITED STATES

The US had 13 companies in the Top 100 in FY2016, including three in the Top 10: Estée Lauder, Ralph Lauren and PVH Corp. The US companies are larger than the average among the Top 100, with average luxury goods sales of US\$3,351 million, and the second-largest share of total luxury goods sales (20.1 per cent) among the Top 100.

US composite luxury goods sales grew by 1.7 per cent in FY2016, 2 percentage points better than the currency-affected decline of the previous year. Growth was driven primarily by higher sales in North America, Europe and Japan.

Struggling US department stores have been trying to entice shoppers by selling luxury brands at deep discounts. To avoid damage to their brands' exclusive reputations, many luxury companies have been reducing wholesale sales and attempting to limit their participation in promotional markdowns.

5. ITALY

Italy was the leading luxury goods country in terms of number of

INDIAN SCENARIO

The luxury goods sector in India is still in the early stages of development, with a slow but constant growth and presenting many opportunities for investing companies. Demand for luxury goods is expected to remain strong over the next year, although there will be challenges, one of which is to gain the government's support. Also problematic are the high import duties on luxury goods. Further, demonetisation and the introduction of GST dampened the luxury goods segment. The positive economic prospects for the country seem sufficient for a rise in aspirations among urban consumers with higher disposable income to invest in luxury products.

India and China are the largest markets in the world for precious jewellery. India claims that it is the hub of the global jewellery market, exporting around three-quarters of the world's polished diamonds.

The report featured five Indian brands in the top 100 luxury goods companies by sales. Titan Company Ltd. (#28), Kalyan Jewellers (#37), PC Jeweller (#43), Joyalukkas India (#49), and Tribhovan-das Bhimji Zaveri Ltd. (#89). Two of these brands are also in the company's top 20 fastest growing companies list as per Compound Annual Growth Rate, which ranked PC Jeweller at rank 13 and Joyalukkas India Pvt Ltd. at rank 16.

India is among the nine newcomers who entered the Top 100 as a result of improved data coverage and availability. The number of Indian/Chinese jewellery companies included in the Top 100 increased this year, reflecting improved data and the importance of these two countries within the global precious jewellery market, both in terms of domestic consumption and exports. Indian jewel-lers PC Jeweller, Joyalukkas and Titan all reported year-over-year FY2016 growth of more than 15 per cent.

The precious jewellery sector in India has historically been very fragmented and commoditised, but a number of organised verti-cally integrated jewellery chains with luxury brands are growing rapidly in this very large market, as well as internationally.

companies, with 24 companies in the Top 100. Luxury goods sales grew by 1 per cent in FY2016, down 5.7 percentage points from the currency-boosted growth in the previous year. The overall performance of the Italian companies is strongly influenced by the results of the top three players, Luxottica, Prada and Giorgio Armani, which represented nearly half of the country's FY2016 sales of luxury goods among the Top 100 companies.

Italy's predominantly family-owned luxury goods companies are smaller on average than the Top 100, with average sales of US\$1.4 billion. Only one Italian company, Luxottica Group, appears in the Top 10.

CONCLUSION

The global economy is currently enjoying a period of relatively strong growth and favourable conditions. There are indicators of stronger growth in Japan and in the Euro area. Growth has finally stabilised in China and the US, and revived in many emerging markets. Conditions are so good that talk about uncertainty has lessened, and the fear of a new crisis seems far behind.

The luxury market has bounced back from economic uncertainty and geopolitical crises, edging closer to annual sales of US \$1 trillion at the end of 2017. The outlook for 2018 is positive, although volatility could threaten market expansion. 😊

Excerpted from the report 'Global Powers of Luxury Goods 2018' by Deloitte.