Global Powers of Luxury Goods
Shaping the future of the luxury industry

Highlights
While the global economy is currently enjoying a period of relatively strong growth and favorable conditions, we cannot avoid taking into account a number of clearly visible risks, both economic and political.

The luxury market recovered 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 quite positive, although volatility could threaten market expansion.
Global economic outlook

United States
- Growth in 2017 has been modest but positive
- US luxury market remains the world’s largest
- Strong growth in online sales

United Kingdom
- High level of uncertainty surrounding Brexit
- Tourism and domestic consumption are important drivers due to the weak currency
- Becoming the most affordable market in the west

United States
- Growth in 2017 has been modest but positive
- US luxury market remains the world’s largest
- Strong growth in online sales

Europe
- Confidence indicator is improving
- Western Europe is one of the top areas
- Eastern Europe is one of the fastest growing regions
- Luxury goods market is expected to grow steadily over the coming few months

Russia
- Russia’s economy is recovering
- Demand from the domestic market and tourism is increasing
- Growth is expected to continue in 2018

China & Hong Kong
- China’s economy is expected to grow steadily
- Still one of the fastest-growing countries for luxury
- Chinese tourists are still key consumers all over the world
- 2017 showed the fastest growth in online sales

Latin America
- Political uncertainty affected economic stability
- Growth forecasts are positive for 2018
- Mexican economy is expected to accelerate whilst Brazil is now expected to grow slowly in 2018

Middle East
- Growth almost flat due to the high level of economic uncertainty and geopolitical tensions
- Dubai is still top luxury destination
- Luxury spending boosted by rich millennials

Rest of Asia
- Strong increase in sales in 2017
- India presents many opportunities for luxury brands
- In Japan, growth in the economy seems to be accelerating
Global Powers of Luxury Goods

The world's 100 biggest luxury goods companies continued to grow in terms of luxury goods sales. Profit margins were resilient under pressure and M&A activity improved.
Top 100 quick statistics
FY2016

3.9%
FY2014-2016 luxury goods revenue CAGR

US$2.2 billion
Average size of Top 100

US$217 billion
Aggregate net luxury goods sales of Top 100

8.8%
Composite net profit margin

1.0%
Composite YOY luxury goods sales growth

0.8x
Composite Asset turnover

47.2%
Economic concentration of Top10

6.9%
Composite return on assets

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# Top 10 luxury goods companies

## Working through the luxury goods downturn

<table>
<thead>
<tr>
<th>#1</th>
<th>LVMH Moët Hennessy-Louis Vuitton SE - France</th>
<th>$23.4</th>
<th>5.0</th>
<th>11.6</th>
</tr>
</thead>
<tbody>
<tr>
<td>#2</td>
<td>The Estée Lauder Companies Inc. - US</td>
<td>$11.8</td>
<td>5.0</td>
<td>10.6</td>
</tr>
<tr>
<td>#3</td>
<td>Compagnie Financière Richemont SA - Switzerland</td>
<td>$11.7</td>
<td>-3.9</td>
<td>11.4</td>
</tr>
<tr>
<td>#4</td>
<td>Luxottica Group SpA - Italy</td>
<td>$10.1</td>
<td>2.8</td>
<td>9.4</td>
</tr>
<tr>
<td>#5</td>
<td>Kering SA - France</td>
<td>$9.4</td>
<td>7.7</td>
<td>7.0</td>
</tr>
<tr>
<td>#6</td>
<td>L’Oréal Luxe - France</td>
<td>$8.5</td>
<td>6.0</td>
<td>n/a</td>
</tr>
<tr>
<td>#7</td>
<td>The Swatch Group Ltd. - Switzerland</td>
<td>$7.4</td>
<td>-10.7</td>
<td>7.9</td>
</tr>
<tr>
<td>#8</td>
<td>Ralph Lauren Corporation - US</td>
<td>$6.7</td>
<td>-10.2</td>
<td>-1.5</td>
</tr>
<tr>
<td>#9</td>
<td>PVH Corp. - US</td>
<td>$6.6</td>
<td>5.6</td>
<td>6.7</td>
</tr>
<tr>
<td>#10</td>
<td>Chow Tai Fook Jewellery Group Limited - Hong Kong</td>
<td>$6.6</td>
<td>-9.4</td>
<td>6.1</td>
</tr>
</tbody>
</table>

| Top 10 | $102.2 | 0.6 | 6.7 |
| Top 100 | $216.6 | 1.0 | 6.9 |

### Key highlights

- Top 10 luxury goods companies accounted for 47% of the Top 100 sales.
- No new entrants to the Top 10 list. Six companies swapped places.
- The top three luxury goods companies have reported double-digit profits for the past five years.
Fastest 20
The newcomer Canada Goose took the #1 position thanks to impressive organic growth in their premium outwear brand

<table>
<thead>
<tr>
<th>CAGR ranking</th>
<th>Company Name and Location</th>
<th>FY 2014-16 CAGR</th>
<th>FY2016 growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>#1</td>
<td>Canada Goose Holdings - Canada</td>
<td>36.0</td>
<td>38.8</td>
</tr>
<tr>
<td>#2</td>
<td>Pandora A/S - Denmark</td>
<td>30.3</td>
<td>21.2</td>
</tr>
<tr>
<td>#3</td>
<td>Valentino Fashion Group SpA - Italy</td>
<td>26.9</td>
<td>11.7</td>
</tr>
<tr>
<td>#4</td>
<td>Furla Spa - Italy</td>
<td>25.8</td>
<td>24.5</td>
</tr>
<tr>
<td>#5</td>
<td>SMCP SAS - France</td>
<td>24.3</td>
<td>16.4</td>
</tr>
<tr>
<td>#6</td>
<td>Acne Studios Holding AB - Sweden</td>
<td>23.0</td>
<td>22.2</td>
</tr>
<tr>
<td>#7</td>
<td>Moncler SpA - Italy</td>
<td>22.4</td>
<td>18.2</td>
</tr>
<tr>
<td>#8</td>
<td>Richard Mille SA - Switzerland</td>
<td>21.7</td>
<td>21.6</td>
</tr>
<tr>
<td>#9</td>
<td>Restoque Comércio e Confecções de Roupas S.A. - Brazil</td>
<td>21.3</td>
<td>-5.3</td>
</tr>
<tr>
<td>#10</td>
<td>Eastern Gold Jade Co., Ltd - China</td>
<td>20.5</td>
<td>-25.6</td>
</tr>
<tr>
<td>#11</td>
<td>Finos Spa - Italy</td>
<td>19.3</td>
<td>36.6</td>
</tr>
<tr>
<td>#12</td>
<td>Ted Baker plc - UK</td>
<td>17.0</td>
<td>16.4</td>
</tr>
<tr>
<td>#13</td>
<td>PC Jeweller Ltd. - India</td>
<td>15.5</td>
<td>15.7</td>
</tr>
<tr>
<td>#14</td>
<td>Coty Luxury - US</td>
<td>15.1</td>
<td>39.7</td>
</tr>
<tr>
<td>#15</td>
<td>Dolce e Gabbana - Italy</td>
<td>13.9</td>
<td>14.3</td>
</tr>
<tr>
<td>#16</td>
<td>Joyalukkas India Pvt. Limited - India</td>
<td>13.9</td>
<td>16.2</td>
</tr>
<tr>
<td>#17</td>
<td>Brunello Cucinelli SpA - Italy</td>
<td>13.1</td>
<td>10.1</td>
</tr>
<tr>
<td>#18</td>
<td>Hermès International SCA - France</td>
<td>12.4</td>
<td>7.5</td>
</tr>
<tr>
<td>#19</td>
<td>Kering SA - France</td>
<td>11.9</td>
<td>7.7</td>
</tr>
<tr>
<td>#20</td>
<td>L’Oreal Luxe – France</td>
<td>11.2</td>
<td>6.0</td>
</tr>
</tbody>
</table>

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Product sector analysis
Clothing and footwear sector had the largest number of companies in the Top 100

Key highlights

- Despite an overall decrease in sales growth rates and net profit margin falling for the second year in succession, many of the smaller clothing and footwear companies posted very good results.

- Bags and accessories (including eyewear) companies recorded the highest FY2014-16 CAGR, and the second highest composite FY2016 sales growth among all the luxury goods product sectors, at 3.4 percent.

- Cosmetics and fragrances companies are larger on the whole than other companies in the Top 100 and the top-performing sector with sales growth of 7.6 percent.

- Jewellery and watch companies had the lowest growth rate of all product sectors losing 4% of sales.

- Multiple luxury goods companies have the largest size among the Top 100 and the highest net profit margin.
Geographic analysis
Asian markets increased their representation in the Top100

<table>
<thead>
<tr>
<th>No. of companies</th>
<th>Average size of company by luxury goods sales (US$M)</th>
<th>Share of Top 100 luxury goods sales</th>
<th>FY2016 luxury goods sales growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>China/Hong Kong</td>
<td>9</td>
<td>1,928</td>
<td>8.0%</td>
</tr>
<tr>
<td>France</td>
<td>9</td>
<td>5,843</td>
<td>24.3%</td>
</tr>
<tr>
<td>Germany</td>
<td>5</td>
<td>886</td>
<td>2.0%</td>
</tr>
<tr>
<td>Italy</td>
<td>24</td>
<td>1,409</td>
<td>15.6%</td>
</tr>
<tr>
<td>Spain</td>
<td>4</td>
<td>741</td>
<td>1.4%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>9</td>
<td>3,138</td>
<td>13.0%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>10</td>
<td>1,126</td>
<td>5.2%</td>
</tr>
<tr>
<td>United States</td>
<td>13</td>
<td>3,351</td>
<td>20.1%</td>
</tr>
<tr>
<td>Other countries</td>
<td>17</td>
<td>1,315</td>
<td>10.3%</td>
</tr>
</tbody>
</table>

Key highlights

- **Spain** and **France** reported the highest rate of growth in luxury goods sales in FY2016.
- Growth in the **US** and the **UK** increased mainly due to currency effects.
- Companies based in **China/Hong Kong**, **Switzerland** and **Germany** experienced falls in sales of around 4%.
- **France** had the highest share of luxury good sales.
- **Italy** once again the leading country in terms of the number of companies.
- **China/Hong Kong** saw falling sales for the third year in a row.
- Companies in other countries showed continued sales growth.
Shaping the future of the luxury industry

The luxury goods industry is now playing in a *new competitive landscape* where traditional corporate strategies are under threat.

Even if *growth in the luxury goods industry will continue*, to return to a steady and solid rate of sales growth, luxury players have to face up to *new challenges*. 
The global luxury market is changing quickly...

Global luxury challenges

- Will Europe, the US, China and Japan continue to dominate the luxury goods industry?
- Will digital techniques such as AR and AI help independent luxury brands compete with large groups?
- How does the millennial state of mind and loyalty towards personal luxury goods affect the industry and communications and sales strategies of luxury brands?
- Are digital and off-price strategies still the best way forward?
- How does the need to operate in an omnichannel world affect operations?

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Will Europe, the US, China and Japan continue to dominate the luxury goods industry?

**Key highlights**

- Although historically the industry has operated on a "West versus the rest" basis, recent trends underline the **growing importance of Asia, the Middle East, Latin America and Africa**.

- Most industry observers attribute this development not just to growing sales in emerging markets, but also to **innovative retail concepts and business models** adopted in these regions.

- The growing importance of non-western markets for the luxury goods industry has been **supported by supply chain leadership, technological innovation and international investment**. These factors will help maintain further strong growth in these geographical markets.

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Will digital techniques such as AR and AI help independent luxury brands compete with large groups?

Key highlights

- Younger shoppers seek a personalized shopping experience that seamlessly integrates both online and offline platforms.
- This shift has motivated demand for connective technologies such as Augmented Reality (AR) and Artificial Intelligence (AI).
- Luxury brands positioned as reliable sources of AI-driven recommendations are improving how they engage with consumers.
- So far, relatively few personal luxury brands have used AR apps, with the most widespread use taking place in the makeup sector.
How does the millennial state of mind and loyalty towards personal luxury goods affect the industry and communications and sales strategies of luxury brands?

Make optimum use of social media without compromising brand values
Converting "likes" into an interactive and engaging experience for customers

### Key highlights

- Collectively **millennials and generation Z will represent >40%** of the overall luxury goods market by 2025, compared with ~30% (2016).
- Many millennial consumers expect to interact with brands across a range of digital platforms, rather than only through traditional channels. Luxury goods marketers should increasingly **change their business models to meet such demand**.
- Luxury brands are **supplementing traditional attributes** such as quality and scarcity with lifestyle values including sustainability **to attract millennial consumers**.

<table>
<thead>
<tr>
<th>Brand</th>
<th>Engagement Rate</th>
<th>Social Influence</th>
<th>Trustworthiness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Louis Vuitton</td>
<td>22.4</td>
<td>20.7</td>
<td>7.3</td>
</tr>
<tr>
<td>Gucci</td>
<td>22.3</td>
<td>16.7</td>
<td>5.5</td>
</tr>
<tr>
<td>Dior</td>
<td>18.8</td>
<td>16.1</td>
<td>8.3</td>
</tr>
<tr>
<td>D&amp;G</td>
<td>16.2</td>
<td>11.1</td>
<td>5.3</td>
</tr>
<tr>
<td>Prada</td>
<td>14.9</td>
<td>6.3</td>
<td>1.0</td>
</tr>
<tr>
<td>Calvin Klein</td>
<td>11.9</td>
<td>12.2</td>
<td>3.6</td>
</tr>
<tr>
<td>Versace</td>
<td>11.7</td>
<td>5.0</td>
<td>4.5</td>
</tr>
<tr>
<td>Burberry</td>
<td>11.2</td>
<td>17.0</td>
<td>8.6</td>
</tr>
<tr>
<td>Ralph Lauren</td>
<td>7.6</td>
<td>8.9</td>
<td>2.3</td>
</tr>
<tr>
<td>Estée Lauder</td>
<td>2.4</td>
<td>2.3</td>
<td>0.4</td>
</tr>
</tbody>
</table>
Are digital and off-price strategies still the best way forward?

Key highlights

- As luxury consumers began spending more online, brands were left with no choice but to adapt to their customers' new purchasing patterns.
- With so much availability, mass reach and lower prices, brands are now concerned they may be compromising their exclusivity.
- Luxury brands have begun to focus on changing their portfolio structure to increase scarcity, helping maintain their aura of prestige.

Revisit digital and off-price strategies in a well-balanced way to remain “luxury”.
How does the need to operate in an omnichannel world affect operations?

**Key highlights**

- A true omnichannel global market environment would require **luxury brands to close gaps in customer experiences** across channels.
- An **Order Management System** delivers operationally what the omnichannel promises.
- Merchandise plan, assortment, in season planning, ecommerce investments can be **planned seamlessly across channels**, leveraging stock mutualization, increasing assortment commonalities, and reducing complexity.
- Most companies still do not have the capability to bring demand-driven approaches to the production of seasonal items.

**ONE place for requests**
- Full order portfolio visibility
- Wholesale and Third Parties requests
- Fulfillment requests among channels

**ONE place for inventory**
- Full stock visibility
- Stock availability among channels
- Production incoming
- Available to promise

Switch seamlessly among different channels