Luxury Daily®
The News and Intelligence You Need on Luxury

RESEARCH

Valentino speeds ahead as fastest-growing luxury house: report

October 13, 2015

Handbag on Louis Vuitton fall/winter 2015 runway

By FORREST CARDAMENIS

The median price of a brand's products is strongly correlated with its profits and growth, but acceleration is not as easy as hiking prices, says a new report by ContactLab.

Earnings before interest, taxes, depreciation and amortization are strongly correlated with median price for premium and mega-brands, while compound annual growth rate has a positive correlation with price amongst all brands. This does not necessarily mean price itself is the root factor of growth; considerations such as place of production and positioning that impact the way consumers see the brand are also correlated with price, meaning that providing the goods that command high prices is the ultimate goal.

"Clearly we were a bit surprised to see this correlation," said Marco Pozzi, senior advisor of ContactLab, Milan, Italy. "Given the economy we were expecting a different pattern. In reality it's what you find, for example, in luxury cars, where the high-priced brands are growing faster and the middle-level brands are growing slower.

"Even in a period of crisis for the economy the higher priced, more valuable brands are growing faster," he said.

"Digital Luxury: Online Pricing Landscape SS15" looks at 30 brands, determining their growth and profits based on price generally but also the range of prices of products each brand offers online and the range of prices for each particular type of product and comparing entry, median and maximum prices for different types of products among brands. Brands are divided into high-end (Loro Piana, Saint Laurent, Bottega Veneta, Herms and Valentino), mega-brand (Louis Vuitton, Prada, Gucci, Zegna and Burberry), runner-up (Dolce & Gabbana, Balenciaga, Gerragamo, Tod's and Givenchy) and premium (Moncler, Ralph Lauren, Coach, Hugo Boss, Armani, Tory Burch and Michael Kors) and jewelers (Cartier, Bulgari and Tiffany & Co.) which are compared within and amongst one another.

Locally made

Of the 16 brands whose median price is charted against revenue CAGR, the three fastest growers Valentino, Saint Laurent and Bottega Veneta rank first, third and fourth in median price.

On the other end, Ralph Lauren, Coach and Zegna are among the bottom five in both growth and price. Similarly, brands with the highest entry price, defined as the average price among the brand's least-expensive 20 percent of products, also tend to have the highest growth.

Ralph Lauren Stirrup watch

Of course, this does not mean that raising prices will result in increased growth; consumers will not simply be okay with a jump in price without understandable reasons. Even stronger than the correlation between growth and median or entry price (R^2 values of 0.46 and 0.4, respectively) are the correlations between prices and the percentage of production in heritage countries such as France and Italy.

As expected, throughout all categories, high-end brands tend to have the most expensive products, while premium brands have the least expensive.

Among the surprises: Ralph Lauren's median and maximum price for a watch is the highest of any brand, including Cartier and Bulgari, and Louis Vuitton ranks eighth in the median price of bags.

However, Louis Vuitton and Cartier are among a small number of brands to withhold their most expensive items from online sale.

Louis Vuitton offers 367 bags online, more then any other brand and between three and 30 times that of each brand ranked above it. Items the brand withholds from online sale almost half for Louis Vuitton are on average 70 percent more expensive than those available online.

Cartier ID One

For Cartier, Bulgari and Tiffany, the distinction is even stronger. Cartier withholds over half its merchandise, on average eight times as expensive, and Bulgari and Tiffany offer products in store that are 30 times the price of what is online.

Across all categories of product, the study shows, offering more goods online leads to lower median prices. This is because if brands choose not to position themselves with high prices, offering a larger number of goods to potential consumers will increase a chance of a purchase.

This is especially true of shoes and bags. Bags are the item most used to differentiate entry prices among brands, with the top brands having the entry price of bag's quintuple and even 10 times the entry price of other goods.

Herms victoria bag

"Handbags are always the key products in companies," Mr. Pozzi said. "When you talk to brands one of the topics they talk about is that bags are a very important part of their revenue and also is a very recognizable product, a status symbol for the customers.

"It's also a product where it's very important to keep the quality. There's a strong correlation between production in heritage countries and price levels. For bags this correlation is very very high," he said.

Not always online
Withholding high-end products for in-store purchases may be one way to capitalize on consumers' increased tendency to shop online without pilfering offline sales.

Online fashion retail is poised for rapid growth, but that does not mean that in-store retail will falter or become less important, according to a report by Fashionbi.

Although less than 5 percent of luxury goods are sold online, that number is expected to skyrocket to 20 percent by 2020, thanks in part to dependably large growth in the Asia-Pacific region. As this rapid growth takes place, brands must enable omnichannel interactions that provide consumers with one, smooth, inter-linked brand experience rather than thinking of them as separate digital, mobile and in-store platforms (see story).

As online sales continue to grow, brands will have to maximize surface in addition to positioning themselves properly to stay ahead.

In the first half of 2015 luxury brands achieved a 4 percent rise in digital performance, but there is still room to grow, according to a September report from ContactLab and Exane BNP Paribas.

Brands are boosting their ecommerce efforts, creating a better shopping experience for consumers or expanding their consumer base online through initiatives that court an international customer base. While in general the luxury industry is making improvements online, the growth is uneven, with some players moving ahead while others remain "immature" as a result of where they focus their resources (see story).

"For sure we know that all the brands are trying to evolve," Mr. Pozzi said. "Some brands are trying to position themselves higher, and one example Dolce & Gabbana, probably the most impressive repositioning over the past three or four years.

"They decided to not sell anymore entry-level and to focus only on the high-end, and as you can see in the data, we found Dolce & Gabbana in the top 10 of each category as far as prices," he said.

"Are they doing right or wrong? What we know is that for two years they lost revenue and last year they the grew 10 percent. We will see for 2015."

Final Take
Forrest Cardamenis, editorial assistant on Luxury Daily, New York