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RESEARCH

Europe's luxury market supported by Italian fashion demand

February 24, 2016

Ferragamo spring/summer 2016 ad campaign

By JEN KING

As the historical home of the majority of luxury houses, Europe's market accounts for nearly $83 billion of the personal luxury goods sector, according to a report by R&S Mediobanca.

The annual "Italian Fashion Sector" survey looks at Italy's key industry, with a focus on the top 15 fashion houses that call the country home. Italy's successes in the luxury category have assisted the Italian economy during its stagnant economic situation and have propelled all of Europe to a hub for tourism-based purchasing, making the continent the number one market in the world.

R&S Mediobanca's survey looked at 143 top fashion companies based in Italy. To qualify, the brands must have recorded a turnover of at least $110 million in 2014. The financial statements of each company from 2010 to 2014 as well as the first nine months of 2015 were reviewed for the survey.

Made in Italy

The results from the survey position Europe as central to the luxury marketplace in comparison to the rest of the world. Compared to other markets, Europe wins out in terms of exports and attractiveness for foreigners to visit and to shop while visiting.

For Europe, the positives of tourism shopping have balanced the luxury sector as compared to its large-scale manufacturing industries, given the continent's difficult macro economic context. The survey also connects Europe's strong financial structure to the fashion industry, all of which has been thrusted forward by the growth of Italian luxury.

Per the survey's findings, the personal luxury goods sector generates $264 billion in revenue, a 2 percent increase from 2013. At the heart of the industry is Europe, with $83 billion, and the Americans with $79 billion.

Giorgio Armani's New Normal, spring/summer 2016

Although many in the luxury space spend ample time positioning their brands in Asia-Pacific, the market places third with only $51 billion. Likewise, Japan spends $19 billion on luxury goods. This difference in market revenue when compared to Europe and the Americas is connected to consumers from these regions preferring to shop abroad to escape import taxes and higher prices within their home country (see story).

For the European market, travel retail represents 58 percent of total consumption, totaling approximately $52 billion. Seventy-four percent is distributed among France, Germany, the United Kingdom and Italy.

Tax-free travel retail is expected to increase by 26 percent and 19 percent in Europe and Italy, respectively.

Similarly, ecommerce is continuing to grow, with online sales increasing 40 percent in 2015. In regards to luxury, the industry is estimated to grow by two percentage points over its current value of 5 percent.

In Italy, fashion's margins are also rising. For instance, the report found that Italian large-scale manufacturing declined .8 percent in 2014, while the country's fashion companies saw a rise of 5.8 percent.

The top 15 fashion groups boasted similar rises with a turnover increase of 5.6 percent. Brands and groups seen in the top 15 include Luxottica, Prada, Giorgio Armani, OTB, Salvatore Ferragamo, Ermenegildo Zegna, Safilo Group, Dolce & Gabbana and Tod's, among others.

Dolce & Gabbana summer 2016

Brands within the top 15 saw a 12.3 percent increase in their earnings before interest and tax (EBIT) margin compared to mass fashion companies based in Italy. Likewise, the top 15 have a return on equity (ROE) that is greater than their mass peers.

Additionally, the survey found that the top 15 brands saw the most substantial growth. Progress was marked by a 30.8 percent increase from $23.4 billion in 2010 to $30.6 billion in 2014.

R&S Mediobanca cites Prada as a case study, as the apparel and accessories house saw the fastest growth of the top 15 with a 73.5 percent increase since 2010.

R&S Mediobanca found that Prada saw the fastest growth of the top 15 brands with a 73.5 percent increase since 2010. Prada was followed by Ferragamo, which grew 70.8 percent in the same time frame.

Prada's Real Fantasies campaign

Eyewear manufacturer Luxottica came out above its top 15 peers with $8.428 million in revenue for 2014. Luxottica's earnings puts it above Prada with $3.911 million and Armani at $2.791 million.

As such, the foreign market accounted for 60.1 percent of the Italian fashion sector's total turnover in 2014. This was further accentuated by the brands found in the top 15 grouping, mainly those dealing in eyewear and leather goods. The eyewear and leather goods category accounted for 90.2 percent and 70.1 percent of turnover, respectively.

Trade trends

Luxury brands have struggled lately to cull talent that is qualified to work in its workshops, as the traditional jobs associated with high-end goods creation, from watches to leather goods, is no longer appealing to the younger generations (see story).

While talent retention has become a problem within the industry, luxury houses remain an attractive employer for many within in Italy.

The report found that Italy's fashion workforce is growing with employment increasing by 22.7 percent, or 58,000 jobs. By 2014, the number of employees in the Italian fashion workforce totaled 316,000.

Italian brands hired 24.2 percent more workers compared to 16.1 percent of foreign-owned companies. Within the top 15, the leading brands hired an additional 45,000 employees, an increase of 34.2 percent compared to 2010.

Brands with the largest hirings, accounting for 81 percent of all hires among the top 15, include Luxottica with more than 14,000 new employees, Prada with 4,763 and Armani with 2,845.

Between positive earnings and stable corporate structures, it is clear that the Italian fashion industry is a strong and healthy sector. Overall, the sector has outpaced fellow Italian companies in the large-scale manufacturing industry in growth, profitability and financial solidity.