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MARKETING

Luxury's black cloud may finally be lifting, says Savigny Partners

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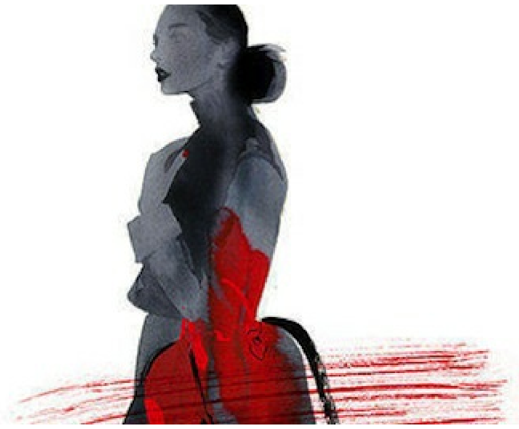
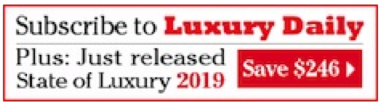


Photo courtesy of LVMH

By JEN KING

Recent positive financial results from the world's leading luxury houses has reinstated sector optimism for the first time in years, according to London's Savigny Partners.



In January, for the fourth consecutive month, Savigny Partner's Savigny Luxury Index (SLI) gained by nearly 4 percent, while the MSCI World Index (MSCI), a global equity benchmark, remained flat. After a challenging 2016, forecasts are being corrected thanks to a bounceback in China, President Trump's campaign promise of lower taxes for the wealthy and higher oil prices, among other factors.

The SLI indexes brands such as LVMH, Hermes, Richemont, Estee Lauder, Kering, Luxottica, Swatch, Prada, Coach, Tiffany & Co., Burberry, Ralph Lauren, Michael Kors, Moncler, Salvatore Ferragamo, Tod's, Brunello Cucinelli, Mulberry and Safilo.

On the rebound

Per Savigny Partners, luxury is expected to have a positive 2017 after a 3.8 percent increase recorded for January 2017. This welcome news comes after a period of struggles for many due to slowdown in China, lower tourism numbers and waning interest in hard luxury goods such as fine timepieces.

In December 2016, global tourism consumption increased for the first time in a year. France, an epicenter of dwindling tourist spending, saw a "strong rebound" while the United Kingdom and Japan noted continued and increased growth.

Although Swiss watch exports have had month after month of poor results, the sector has expressed optimism in China, one of its primary markets (see story), and in the United States.

The optimism is a byproduct of publicly traded luxury houses announcing financial results that were for the most part positive.

LVMH, the parent of brands including Louis Vuitton and Fendi, had a stellar year ending fiscal 2016 with recorded revenue of $40.2 billion, for an increase of 5 percent over the prior financial year.

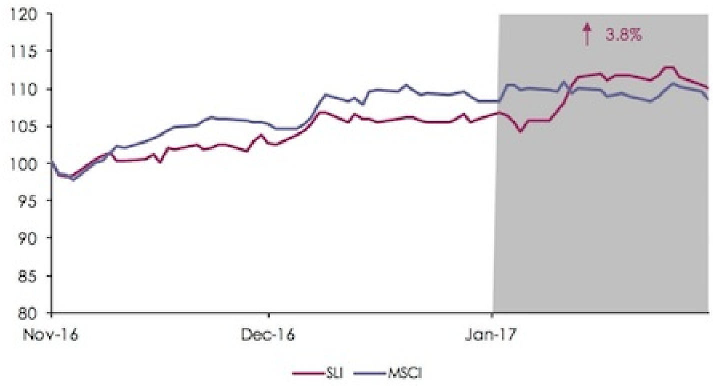


Chart courtesy of Savigny Partners' Savigny Luxury Index

The French conglomerate's record-breaking revenue and profits were attributed to strong performance in the American and European markets, while Asia, with the exception of Japan, saw good momentum (see story).

Past trading results for Richemont, a conglomerate built primarily on watch and jewelry brands, have shown the effects of a turbulent selling market. But, Richemont ended Q3 2016 with a 5 percent sales increase.

In Asia Pacific, in particular, Richemont saw strong performance for its brands with a 10 percent sales growth in Mainland China and South Korea. In addition to Asia's improvements, Richemont's jewelry brands -- Cartier and Van Cleef & Arpels are both within its stable -- recorded an 8 percent sales increase (see story).

Elsewhere in the sector, Prada saw "positive newsflow" from China, and Burberry saw share prices jump by 10 percent due to retail sales in Q3 2016 (see story).

New here

Although the industry appears to be shaping up, there is still a level of uncertainty due to creative and executive level shifts.

Richemont, for example, has four brand chiefs to replaced in the year ahead. In addition to filling these roles at dunhill, Vacheron Constantin, Jaeger-LeCoultre and Piaget, the conglomerate has also decided to abolish the role of CEO.

Speaking with Reuters about the decision to nix the CEO position, Richemont's chairman Johann Rupert said, "One individual cannot be held responsible, it's unfair. We will never have a similar CEO again. Now it's time for us to start looking at another generation" (see story).

Creative shifts have become increasingly common as well.

In the last few years, Kering, for instance, has appointed new creative directors at Gucci, Saint Laurent and Brioni and LVMH will soon be selecting a new design lead at Givenchy after Riccardo Tisci, rumored to be headed to Versace, stepped down from a 12-year tenure at the French house (see story).