Luxury Daily®

The News and Intelligence You Need on Luxury

COMMERCE

PPR second quarter representative of brand management, not economy: expert

August 1, 2011

By KAYLA HUTZLER

Luxury retail conglomerate PPR announced a 7 percent revenue increase for the first half of 2011 that was mainly driven by emerging Asian markets and Internet shoppers, but luxury spending may soon be easing up.

While PPR expects to see these trends continue, many experts warn that emerging markets will not be the saving-grace that luxury brands are expecting. The full report was released by PPR July 29.

“PPR’s results are consistent with the increasing success of other global luxury brands,” said Chris Ramey, founder of Affluent Insights, Miami.

“The increases are due primarily to growth in Asia, but there are few reasons not to believe that the growth in Asia will continue for the foreseeable future,” he said. "Only parts of the world have recovered.

“Growth of luxury brands in the United States is due, in large part, to new merchandising and marketing strategies that are not traditional luxury strategies, such as lower opening price points, sales and outlet stores.”

Mr. Ramey is not affiliated with PPR, but agreed to comment as a third-party expert.

PPR did not respond by press deadline.

PPR is a luxury conglomerate that owns brands such as Gucci, Bottega Veneta, Yves Saint Laurent, Balenciaga and Stella McCartney.

Fantasia

PPR stated that most of the growth was due to its luxury goods and sport and lifestyle brands which saw a combined 26.5 percent increase in revenue.

The luxury goods and sport and lifestyle brands accounted for 37.2 percent of the company's total revenue.

In addition, Gucci revenues were up 23 percent compared to the first quarter of 2011.

PPR combined its PPR teams and Gucci Group teams in February 2011 to better support brand growth and cross-functional integration, per the company.

In terms of location, PPR saw the largest growth in the Asia-Pacific region -- excluding Japan -- which accounted for 24.7 percent of the brand's revenues.

Overall, revenue from emerging markets increased 24.4 percent year-over-year.

Revenue in mature markets rose only 3.5 percent and more than half of PPR's revenue came from outside of Europe.

The company also saw an increase in revenues from online shoppers, which was up 10.9 percent year over year.

Indeed, ecommerce was responsible for 16.3 percent of the company's revenue.

CPR

PPR's profit revenue follows the trend of many luxury brands that have posted increased revenues for the second quarter of 2011.

For example, luxury giant LVMH announced considerable growth in the first half of 2011, recording revenue of nearly $14.8 billion, an increase of 13 percent, which it attributed to the success of recently-acquired Italian jeweler Bulgari (see story).

Also, independently-owned Hermes reported a 17.9 percent revenue increase in the second quarter.

However, some experts are concerned that debt-ceiling politics in Washington will undo this progress (see story).

In terms of PPR's first-half revenue, experts believe that this is largely due in part to the company's management efforts rather than an insight into the retail luxury world.

"[PPR] manages its brand portfolio for customer-centricity and profitability," said Milton Pedraza, CEO of the Luxury Institute, New York. "They have very solid standards for profitability and that inspires management to be innovative and creative.

“I think you can look at [the results] as an indicator of what the best-managed companies are getting in, but you cannot look at it as an example of the full industry because PPR is exceptional in the way they manage the company,” he said.

Not only do experts think that it is wrong to assume PPR and LVMH can represent the comeback of the luxury industry, one observer said that to infer a trend is dangerous.

“The PPR news tells us only about PPR and how PPR is managing its business in the current market,” said Pam Danziger, president of Unity Marketing, Stephens, PA.

“Clearly PPR is doing great in the markets where it operates, but from that it is dangerous to infer that it means the luxury market overall is booming,” she said.

Unity Marketing released a study last week showing that affluent consumer confidence is back down (see story).

However, brands need not prepare for a full recession or complete drop in sales, per the Luxury Institute’s Mr. Pedraza.

“China is slowing down, Europe is closing down and the U.S. is not fully recovered, so we will see the numbers get more conservative unless there is some engine,” Mr. Pedraza said.

“The engine was China, but it’s slowing down," he said. "So unless India kicks n, we will start to see more tempered growth."

Final Take

Kayla Hutzler, editorial assistant on Luxury Daily, New York