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MARKETING

Luxury groups with diverse portfolios most resilient in 2020: Deloitte

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A Louis Vuitton luggage castle fit for a queen or king. Image courtesy of Louis Vuitton

By SARAH RAMIREZ

Leading luxury groups continue to dominate the sector, as 15 companies with sales of more than $5 billion accounted for more than 60 percent of luxury goods sales in 2020.

According to Deloitte's Global Powers of Luxury Goods 2021 report, the world's top 100 luxury goods companies generated more than $252 billion in sales revenues in fiscal year 2020. While this was down from 2019's revenues of $281 billion, more than half of the top 100 were profitable despite the challenges of the COVID-19 pandemic.

Companies considered for inclusion in Deloitte's rankings range from traditional ultra luxury to super premium to affordable luxury across four primary categories: ready-to-wear; handbags and accessories; fine jewelry and watches and prestige cosmetics and fragrances.

The rankings are based on companies' consolidated sales of luxury goods in FY 2020, defined as financial years ending within the 12 months of Jan. 1 to Dec. 31, 2021. Companies that do not disclose any financial information are excluded.

Luxury volatility

Even with unprecedented challenges in 2020, 13 companies were able to report double-digit net profit margins.

The top 10 companies represented more than half of the top 100 luxury good sales. While $182 million was the minimum in luxury goods sales to land on the list, the average sales were $2.5 billion.

With more than $33.9 billion in luxury goods sales during FY 2021, French conglomerate LVMH Mot Hennessy Louis Vuitton topped the rankings. While LVMH's sales growth fell 11 percent from FY 2019, its compound annual growth rate from FY 2017 to FY 2020 is 6.3 percent higher than the 5.4 percent CAGR for the top 10 companies during the same period.

French luxury conglomerate Kering followed with $14.9 billion in sales, down 17.5 percent year-over-year but with a 5.7 percent CAGR from FY 2017 to FY 2020.

Rounding out the top five, which remained unchanged from 2019, were U.S. beauty group The Este Lauder Companies, Swiss luxury group Richemont and France's L'Oral Luxe.

Although U.S.-based fashion group PVH Corp. was the only top 10 company to see sales growth, the cohort remained profitable in 2020.

Meanwhile, many smaller luxury companies reported losses for the fiscal year with the overall rankings seeing sales growth fall by more than 20 percent year-over-year.

2020 saw fewer mergers and acquisitions than 2019, but M&A activity reaccelerated this year.

Significant moves include the completion of LVMH's acquisition of U.S. jeweler Tiffany & Co. and Moncler's acquisition of Stone Island. LVMH-affiliated private equity firm L Catterton also acquired a majority share of Italy's Etro (see story).

The evolution of the COVID-19 pandemic and its global spread impacted luxury companies in various and uneven ways.

Lockdowns began in Asia in the first weeks of 2020, before reaching most Western countries by late March. Companies whose 2020 fiscal years ended in early 2020 only experienced the pandemic's effects in their fourth quarter, while those who report at the end of the calendar year saw an impact throughout the financial period.

Beyond fiscal year dates, COVID-19's overwhelming nature influenced luxury goods sales in several ways.

Companies with more casualwear offerings and strong ecommerce and digital marketing capabilities fared better than those dealing with sustained factory closures, limited ecommerce infrastructure or reliance on travel retail, occasion dressing and makeup.

Showing the strength of large conglomerates and high-awareness luxury brands particularly during a volatile year the multiple luxury goods sector accounted for more than a third of the ranking's luxury good sales, despite falling 12.7 percent from 2019.

Cosmetic and fragrances companies saw the smallest drop, with a fall of 9.6 percent y-o-y. Companies specializing in handbags and accessories such as eyewear saw the biggest fall in sales, while clothing and footwear companies contributed the smallest share in sales.

Looking ahead

The pandemic has also hastened luxury's once-gradual shift towards ecommerce and sustainability.

Traditionally, luxury brands have been cautious about entering ecommerce because it did not fit into what they thought consumers expected from high-end shopping experiences. Most reluctance has dissipated due to the pandemic.

Luxury brands who were hesitant to dive into ecommerce were caught off guard at the start of the coronavirus pandemic, which has accelerated online shopping to unprecedented levels. Social media has also helped luxury brands better communicate with consumers through storytelling and problem solving (see story).