Luxury Daily®

The News and Intelligence You Need on Luxury

RESEARCH

Michael Kors ranked most promising luxury company: report

May 14, 2014

Michael Kors at Jet Set event in Shanghai

By JOE MCCARTHY

U.S. fashion label Michael Kors received the highest Q ratio, a measure of how valuable intangible assets such as brand equity and innovation are, in the first annual Global Powers of Luxury Goods report by Deloitte.

The report explores trends affecting the overall luxury market such as globalization and how individual markets are faring. Deloitte also breaks down the factors that differentiate successful luxury brands from those that have failed to adapt to changing consumer demands.

"After a few years of growth in the luxury sector driven by emerging markets, we are seeing growth again strong in the mature markets such as the U.S. and Europe," said Antoine de Riedmatten, global industry leader of consumer business at Deloitte, Paris.

"This is due to a pick-up in local consumption but also tourism-related retail," he said. "Although many luxury brands are readily available worldwide, many consumers will travel to see, among other things, their favorite luxury brands in their home markets.

"Increasingly, we are seeing that this is more than the retail experience, but really the total brand experience which includes being able to see the artisans at work creating the products at headquarters."

Deloitte's "Global Powers of Luxury Goods 2014" report examines 75 luxury companies that sell designer apparel, handbags and accessories, fine jewelry and watches and cosmetics and fragrances.

The intangibles

Past sales are not always an indication of future growth. Deloitte devised the Q ratio to better identify the growth potential of companies.

While LVMH tallied the highest revenue by a significant margin between 2010-2012 and clocked strong sales growth, the conglomerate received a Q ratio of 1.45.

Michael Kors received a Q ratio of 13.69, Hermès received 8.05 and almost every other brand examined received a score below five.

Michael Kors at Coachella

According to Deloitte, "the higher the Q ratio for a luxury goods company, the greater the share of its market value is attributable to brand management."

The report asserts that the Q ratio matters because of the epidemic of commoditization.

Consumers often view brands as interchangeable and the Internet exacerbates this tendency by enabling showrooming and providing far greater research potential.

Brands differentiate themselves through innovation, customer experience, brand equity, skillful execution and other factors.

Hermes Monde d'Hermes video still

Some trends that are affecting the luxury sector include a loss of exclusivity, globalization, tourism, fast fashion and improvements in bespoke offerings.

Another important trend is industry consolidation. Large luxury conglomerates such as LVMH and Kering operate in multiple subsectors and are able to leverage expertise in luxury to more quickly scale up smaller brands.

"In the 'Global Powers of Luxury Goods 2014' we attempt to define luxury at the company rather than the brand level," Mr. de Riedmatten said.

"So our analysis of the top 75 companies will provide some interesting benchmarks for luxury companies to use in terms of strategy, brand portfolio, geographic reach, owned stores and profitability," he said.

Market outlook

Much of the world is still recovering from the global recession. Some markets have made strides forward, while others remain mired in unemployment and tepid investment.

The U.S., the number one market for luxury goods, seems to be recovering due to falling unemployment, a rebounding housing market and generous fiscal policy from the Federal Reserve. However, luxury consumers were never hit that hard during the recession, so brands still posted strong numbers.

China's growth is tapering and the chief questions that remain concern just how long and severely the contraction will be. That being said, China is poised to become the second-largest luxury market by 2018.

Burberry Shanghai flagship

European countries that will likely grow at a faster pace include the United Kingdom, Germany and Spain. France, the third largest luxury market, is pegged as the "weakest link in the Eurozone."

India saw the most explosive growth in the luxury sector in 2012, but this will likely slow down as the economy looks to overcome dead ends.

The takeover of Crimea has hamstrung the Russian economy.

Meanwhile, Brazil struggles through some thorny issues such as inflation, currency depreciation and business pessimism, but the overall outlook for the country seems positive.

"Growth in the luxury sector in 2012 was still very strong according to our findings," Mr. de Riedmatten said.

"The industry is still very U.S-. and European-focused in terms of company headquarters, but we are expecting this to change in the very near future as a result of changing demographics, tourism with its impact on retail and the continuing development of emerging markets," he said.

Final Take
Joe McCarthy, editorial assistant on Luxury Daily, New York

Embedded Video: //www.youtube.com/embed/g7_r9YyvKOk