

**THINK RETAIL THINK VERDICT**

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## **Global Luxury Retailing 2009**

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# About Verdict Research

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## Authorative analysis...

Verdict's analysts and consultants work closely with retailers, suppliers, consultancies, investment banks and property companies to identify the key issues, sector and company data and strategies driving the changing retail market.

Our research identifies how retailers can enhance product, store and brand performance as well as the factors that determine future retail success. Our specialist in-store auditing team continuously collects price and product data across locations, brands, fascias, ranges and retail sectors.

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In addition Verdict regularly appears in the international media. News sources quoting Verdict analysts and data include CNN, the International Herald Tribune, The Australian, Los Angeles Times, and New York Times.



**"Verdict are the company of choice for any research analysis and insight into retailing"**

**Sir Stuart Rose**  
Executive Chairman  
Marks & Spencer

# Global Luxury Retailing 2009

## The global downturn has caught up with the rich and famous and luxury retailers are starting to suffer...

As dramatic repercussions from the financial crisis are impacting the real economy, it has become clear that the luxury sector is not immune to the downturn. Judging by trading updates for Q4 2008 and Q1 2009 demand for certain segments of the luxury goods sector (watches especially) has declined.

**Global Luxury Retailing 2009** is a new report published by Verdict Research that provides unique data on the value of consumer expenditure on luxury products globally 2003-08 by region and by four product sectors. This report also includes a comprehensive strategic section advising luxury retailers how to negotiate the downturn, a new series of mini profiles of relevant players in the sector and a detailed analysis of regional sales trends.

### Detailed Company Profiles

Bulgari

Hermès

Burberry

LVMH

Christian Dior

Polo Ralph Lauren

Giorgio Armani

Richemont

Gucci Group

Valentino

## Assess market potential and threats by analyzing sector size data and seeing how consumers and retailers have reacted to recent economic turbulence with this new report...

Luxury brands regional sales split (%) 2008



Source: Global Luxury Retailing 2009

“While the majority of the luxury retailers Verdict have profiled in this report are of European origin, a large number of them have extended their presence beyond Europe to become true global luxury players. Most of the leading European luxury retailers now generate 50-60% of their turnover outside Europe illustrating the extent of geographical diversification that has been going on in the industry...”

- **Benchmark your competitive strategies against key operators** using the company profiles contained in this report for Bulgari, Burberry, Christian Dior, Giorgio Armani Group, Gucci Group (PPR), Hermès, LVMH, Polo Ralph Lauren, Richemont and Valentino Fashion Group.
- **Quantify key retail trends and accurately predict future opportunities** using this report’s company profiles detailing market growth and share of ten profiled operators; key operation analysis, with regional and product share of revenue, store development and consumer expenditure.
- **Assess the growth potential and the challenges facing the world’s key luxury retailers** with this report’s in-depth analysis of market drivers, key issues and market outlook.
- **Understand the key issues in the global luxury market** using Verdict’s analysis of geographical regions, major operators’ performance, strategic developments and expansion plans.

# Global Luxury Retailing 2009

## This report answers key questions including...

- What are the typical profit margins in luxury retailing?
- How are luxury brands controlling brand identity?
- Who are the market leaders in luxury retailing?
- What impact has the economic slowdown had on luxury market strategies?
- How are brands tackling the effects of counterfeiting on the market?

### Key Market Data 2003-08

Global luxury consumer expenditure

Luxury clothing, accessories, jewellery, watches, fragrance & cosmetics sector sizes & growth rates

Market sizes for five key regions – EU, Americas, Japan, Asia & MEA

Key retailers profiles & metrics

## Key issues examined in this report...



“The data show Bulgari’s reduced dependency on watches which accounted for 39.0% of turnover in 2001 but this has now gone down to 24.0%. As the global watch market is on a further downward trajectory, the move away from watches seems to have been right in strategic terms. The fall of 10.9% in sales of watches by Bulgari in 2008 mainly happened in Q4, but it was partly the result of earlier decisions to reposition products at the higher end of price ranges and to discontinue some entry price lines...”

- **An era of consumer frugality has set in and has left its mark on the luxury sector.** Bling, which characterised the noughties is out. In sales terms luxury has lost some of its lustre.
- **While new challenges such as cash flow management and debt refinancing have moved to the forefront during recession,** other underlying issues affecting the luxury goods industry remain. Luxury retailers need to address questions of how to retain and increase brand appeal and cachet, the importance of staying true to brand identity and problems with counterfeiting.
- **Arguably this is the worst economic environment in decades, forcing retailers to innovate.** Luxury retailers, like any other, should be cutting costs and focusing on quality, but innovation is still a growth opportunity open to retailers. Luxury goods retailers should be introducing sub brands; going for expansion via the cheaper alternative of licensing; diversifying away from a narrow luxury goods focus into other sectors such as tourism; and trying out new routes to market such as the internet or shopping centres.

# Global Luxury Retailing 2009

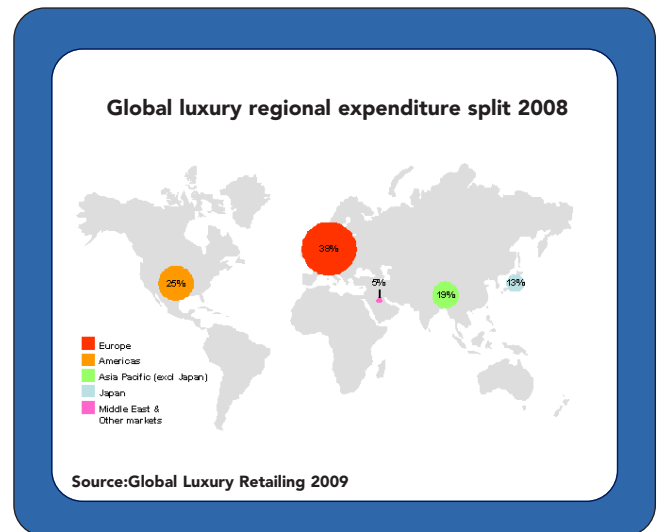
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- Though primarily embedded in Europe, where the majority of luxury brands originate, especially in Italy and France, the luxury goods sector has become increasingly more globalised in recent years.
- Over the five year period Europe and the US saw some good growth, while the performance of Japan is still impacted by the country's lost decade, when deflation took a hold of the economy and brought an end to the era of Nippon INC. After emerging from its decade long deflation, Japan's economy recovered in recent years (broadly between 2003 and 2007) only to be thrust headlong into the global recession.
- Besides own label stores, department stores have been the main distribution channel for luxury product, but low growth and consolidation globally has made this route to market much less attractive to luxury brands. This has led to many of the larger luxury players expanding their own company-owned store networks – at the same time taking greater control of their brands by cutting out many franchising and licensing deals. This has led to better margin management by these players and greater influence over how, when and where their products are sold – to communicate brand authority effectively.
- In Q4 2008 many department stores started to discount as a reaction to high inventories and falling sales, which has led to consternation among the luxury players. Discounts, they argue, ruin exclusivity and brand image, and can damage a brand's lustre beyond repair.
- Another key channel is duty free – particularly airport retailing – but as it is dependent on business travel and tourism levels it could suffer acutely during recession from disruption. Verdict expects the swine flu scare to have an added disruptive influence on travel, which is heavily impacted by the global downturn already. This will lead to reduced footfall and ultimately to lower sales through airports.
- Europe is the strongest regional luxury market accounting for 38.3% of global spend in 2008. Italy and France are home to the majority of luxury brands and sell not only to their local consumers but also to the many tourists who include buying luxury products as part of their trip to Europe.
- The fall out from the drop in tourism always hurts retailing during a recession – as was evident in slow growth or lower sales in 2003 and 2004. Furthermore Europe has one of the largest and most mature department store markets, but this channel has been experiencing difficulties since the millennium in the face of the rise of discounters and price-led retailers. The two biggest department store markets, Germany and the UK, have underperformed in recent years. The German department store sector in particular has seen a sharp contraction in sales with many retail casualties. The UK market has held up slightly better but is not a buoyant sector by any means. As a major distribution channel for luxury brands this has had an impact on performance, and is a factor behind the trend of manufacturers opening company-owned stores.



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