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SPENDING ON LUXURY GOODS SLOWS

Consumers turn critics and creators, dictating when and where they engage with brands

By WANG ZHUOQIONG

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Both the Chinese mainland and Hong Kong continue to experience a slowdown in spending on luxury goods, with a slowing economy dampening consumer confidence, said David Lung, managing partner, consumer products and retail sectors, Deloitte China.

He made the remarks after reviewing the third annual Global Powers of Luxury Goods report published by Deloitte Global on June 7.

The report found that the average sales of each of the top 100 luxury goods companies reached \$2.2 billion in 2015.

Salvatore Ferragamo SpA earned 321 million euros (\$358 million) in revenue for the January-March quarter of this year, down 1.8 percent year-onyear, according to its interim financial results for 2015-16 fiscal year ending March 31.

The Asia-Pacific region, its top market in terms of revenues, saw revenues fall by 3 percent year-on-year in the January-March quarter, mainly due to deterioration of the business in Hong Kong and Macao. The retail channel's revenue recorded a fall of 6 percent.

Prada Spa, which is traded on the Hong Kong Stock Exchange, saw its profit for the full year to Jan 31 fall 26.6 percent to 3.3 billion euros from 4.5 billion euros.

Clearly, the economic environment became tougher for luxury goods players in 2015 and the first quarter of this

Difficult times in Asia had a significant impact on sales throughout the region, especially in Hong Kong and Macao where a decline in local consumption and tourism hurt harder than elsewhere, said the report.

The Asia Pacific market's net sales fell 4.4 percent year-onyear to 1.08 billion euros in 2015, despite being Prada's leading market, due to the downturn in Hong Kong and Macao

The Chinese market ended the year with net sales of 705.8 million euros, down by 8.3 percent, for Prada.

The Deloitte report examined and listed the 100 largest luxury goods companies globally for 2015, based on sales.

China is still driving much of the volume growth in luxury travel products, and this will continue as the next generation of potential luxury shoppers come into the workforce and start accumulating wealth.

Overall, Chinese consumers are the travel sector's biggest spenders and they remain strategically important for luxury brands. There are currently over 400 million millennials in China, which is more than the working populations of the US and Europe combined.

Prices are no longer their priority or a concern; instead, they are more keen on buying brands and products with high quality and character, the report said.

Many wealthy Chinese tourists are staying away from the said. The middle class consumers who used to visit Hong Kong mainly for shopping are now turning to overseas markets or cross-border e-retailers for better prices.

On the Chinese mainland, the slowing economy has resulted in lower spending; the government measures against luxury gifts in the corporate sector have also had an impact.

"There is a shift in the luxury path-to-purchase. Empowered by social networks and digital devices, luxury goods consumers are dictating increasingly when, where and how they engage with luxury brands," said Patrizia Arienti. fashion and luxury sector leader, EMEA region, for Deloitte Global.

"They have become both critics and creators, demanding a more personalized luxury experience, and expect to be given the opportunity to shape the products and services they consume."

Ira Kalish, chief economist, Deloitte Global, said, "The global luxury goods sector is expected to grow more slowly this year, at a rate many retailers may find disappointing."

"The growth rate is slowing in important markets such as China and Russia, although some markets continue to perform well and there are pockets of opportunity across the globe. India and Mexico, for example, are growing quickly, and the Middle East offers further growth potential."

The key findings of the report also includes luxury's new normal — that the luxury goods sector has now passed the mid-point of the "decade

Hong Kong market, the report of change". The first half was characterized by the Chinese consumer and the explosion in the use of digital technology. The second half of the decade is expected to be characterized by discipline.

The external environment is likely to change in crucial areas, including an evolution in consumer buying behaviors, the merging of channels and business model complexity, an increase in international travel, the growing importance of the millennial consumer, and the continued impact of the global economy, according to the report.

To be sure, demand for luxury goods is growing. Sales for the world's 100 largest luxury goods companies continued to grow despite economic challenges, although the rate of growth was less than that in previous years.

Profit margins were higher than the previous year and the polarization of company performances was greater, with more high performers achieving double-digit sales growth and profit margins, while others experienced double-digit sales decline.

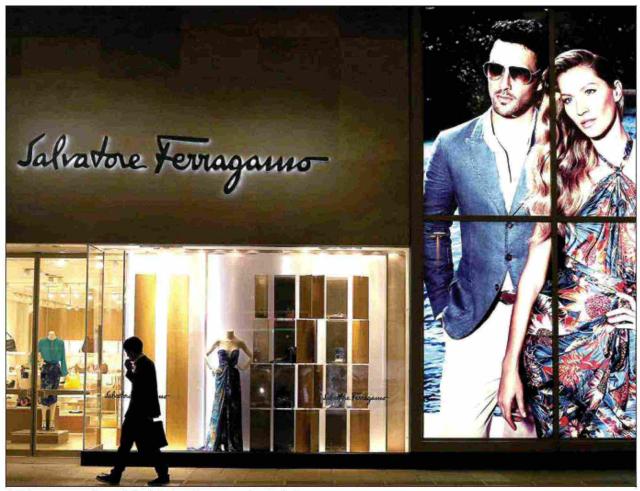
Italy is once again the leading luxury goods country in terms of number of companies. With 29 companies in the top 100, it has more than double the number based in the US, which has the second-largest number.

However, Italian companies account for only 17 percent of luxury goods sales among the top 100 - these predominantly family-owned Italian companies are much smaller, with average luxury goods size of \$1.3 billion, compared to \$3.1 billion for US companies, the report said.



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A Chinese man walks past the Salvatore Ferragamo store in Beijing. GETTY IMAGES

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WHERE LUXURY GOODS MAJORS COME FROM

China

France

Italy

Spain

Switzerland

United Kingdom

United States

Other countries

Results reflect Top 100 companies headquartered in each country Source: Deloitte analysis of published company data and industry estimates

Top 100



\$2,220



100.0%

CHINA DAILY

5120 (50411)	School Brown	laxary goods sales
\$2,963	-6.8%	10.7%
\$5,209	6.7%	23.5%
\$1,301	6.9%	17.0%
\$688	8.2%	1.5%
\$2,972	3.6%	14.7%
\$958	11.1%	3.0%
\$3,096	0.1%	19.5%
\$1,391	8.3%	10.0%

66

The global luxury goods sector is expected to grow more slowly this year."

Ira Kalish, chief economist, Deloitte Global

\$2.2

the average sales of each of the top 100 luxury goods companies in 2015

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3.6%