Luxury giants increase their grip on sector, growth continues but landscape shifts

By Sandra Halliday - 24 November 2020

The luxury goods industry was expanding healthily before the pandemic hit, but while sales were strong, a select group of luxury giants dominated the sector overall.

The 2020 edition of the annual Deloitte Global Powers of Luxury Goods report showed a concentration of power in the sector. The top 10 companies were the same for the third year running and, at $144 billion, accounted for more than half (51.2%) of all revenues generated by the leading 100 companies for the very first time. The top three also accounted for a quarter of all sales.
The net profits of nine of the 10 companies that release their figures made up 71.7% of the total profits of the top 100.

The leader was LVMH ($37.5 billion), its seventh year in top spot, followed by Kering some way behind it ($17.8 billion) and Estée Lauder Cos ($14.9 billion). In fourth place was Richemont, while L'Oréal Luxe took fifth place as Chanel dropped to number six, ahead of EssilorLuxottica, Chow Tai Fook Jewelry Group, PVH Corp, and Swatch Group, down two places at number 10.

Overall, the top 100 luxury companies generated $281 billion in revenues last year, and while they saw 8.5% growth, that was slower than 2018’s 9.6% as trade wars and increasing protectionism took their toll. Cosmetics recorded the best growth (8.5%), followed by jewellery and watches (6.1%), clothing and footwear (5.8%) and bags and accessories (4%). While the clothing and footwear sector continued to account for the highest number of companies in the top 100, they had the smallest average company size of just $1.2 billion.

And the minimum revenue threshold to enter the top 100 list of luxury goods companies was $238 million, up $20 million from 2018, while the average size of a luxury business was $2.8 billion.

Italy hosted the largest number of luxury companies at 22, with a strong weighting towards bags and accessories, and a growth rate of 4.7% that beat the flat performance in 2018. EssilorLuxottica, Prada Group and Giorgio Armani dominated the Italian list and accounted for around half of all sales for that country’s luxury companies. But, in total, many of its companies were among the smaller luxury players with Italian headquartered firms’ total sales adding up to only 12.4% of the overall figure.

France, the US and Switzerland took top spots in terms of sales, which is no surprise given the list of top 10 companies shown above. The ongoing power of France, accounting for over 28% of total revenues and with growth approaching 16%, was clearly illustrated.

When looking at the fastest growth, Moncler, Ermenegildo Zegna and Euroitalia all saw double-digits sales increases, while Italian groups Armani, OTB, Dolce & Gabbana, Ferragamo, Ermenegildo Zegna and Twinset saw a welcome return to growth.

**PANDEMIC SHIFTS**

That was last year. But 2020 has changed everything and this time next year, the report could be very different. These companies have had to change the way they behave as they respond to consumer behaviour that has shifted fast.

The pandemic has hurt luxury in so many ways, from the collapse of tourism that has devastated sales and luxury flagships in destination cities, to the impact on duty-free stores in near-deserted airports. While China’s appetite for luxury remains massive, the Chinese consumer can’t be accessed via the usual methods (in key European tourist cities’ flagship, for instance) and luxury companies are having to think of new ways to target them in the domestic market.
Luxury has also lost its key marketing channel with the cancellation of runway shows and major events and is having to respond more virtually.

Patrizia Arienti, Deloitte EMEA fashion and luxury leader, said the financial impact of the pandemic is not known, nor is it clear whether the sector's concentration in a small number of big companies will continue. But "profound changes in consumer behaviour and how companies are responding to these changes" are being seen.

On one front that means digital, which had been increasing steadily in recent years, but has accelerated in 2020 and reached a point that the luxury sector might previously have taken several years to arrive at.

The sector had the luxury of being able to respond slowly to digital earlier in the century, but that's no longer the situation. And, as well as selling online, it also needs to embrace other technologies such as artificial intelligence and augmented reality, while data is key for understanding the customer and increasing brand loyalty. The report said the crisis this year has speeded up the adoption of tech.

But while physical stores and key city centre destinations are currently reeling from the ongoing effects of the pandemic, they remain crucial as a way for luxury to offer an experience to its customers that digital still can't recreate.

Also higher up the agenda this year is sustainability and Arienti said this will continue to be important in the near future. Global brands have been investing more heavily in sustainability, as the number of companies recently trumpeting their appearance in the latest Dow Jones Sustainability Index shows. But consumer expectations are increasing all the time and brands still need to work hard to match those expectations.

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