LUXURY SOCIETY MONTHLY

INDUSTRY NEWS YOU NEED TO KNOW

JANUARY 2015

20 PREDICTIONS FOR THE LUXURY GOODS INDUSTRY IN 2015

A DIGITAL LUXURY GROUP PUBLICATION

INSIDE THIS ISSUE

WHY DIGITAL MATTERS MORE THANEVER BEFORE

The digital revolution will be televised. It will be broadcast on YouTube, Netflix and AppleTV, and replayed on any number of media consumption platforms that didn't exist before 1995.

It will be retweeted, liked, filtered and published across the world's megalith social networks, before being shared on Pinterest and adapted for Snapchat.

Sometimes it will be emailed. Above all, it will be Googled.

The luxury industry is living in tremendous times, to quote our very own manifesto. This industry has undergone radical transformation at the hands of technological change, permanently augmenting the way that luxury brands do business.

There was a point where digital integration was an optional buy-in, today it is compulsory. Few businesses in 2015 can survive and prosper without some kind of integrated digital strategy.

Least of all global luxury brands, faced with the most connected, informed and demanding consumers seen thus far.

This is just one of the reasons that we have decided to focus our 2015 Luxury Society Keynote event series on digital innovation and disruption.

We will also seek to bolster the amount of digital research and analysis we can share with you on Luxury Society, including interviews with digital leaders in our community.

We also look forward to sharing updates to our online platform, in the hope of delivering a more comprehensive user experience to our valued members.

We very much look forward to connecting, informing and inspiring the world's leading luxury professionals in 2015. And continuing to build the world's #1 business resource for the luxury industry.

Sophie Doran
Editor in Chief

Prada is said to be overexposed in Asia

20 PREDICTIONS FOR THE LUXURY GOODS INDUSTRY IN 2015

BY FFLUR ROBERTS
She manages the research programme for the global Luxury Goods industry since June 2001.

THIS ARTICLE IS POWERED BY:
EUROMONITOR INTERNATIONAL

2015 will be another challenging year for the luxury goods industry, explains Fflur Roberts of Euromonitor

“ The venture capitalists were quiet in 2014, reflecting uncertainty ”

In particular, the economic instability, social unrest and armed conflict buffeting formerly fast-growing emerging markets will further drive up the strategic importance of the developed markets.

This will create new risks, but opportunities too. Here are our predictions of the brands, markets and trends that will grab the headlines as the year takes shape.

THE MOVERS AND SHAKERS

PRIVATE EQUITY WILL INVEST IN ONE OR MORE OF THE FOLLOWING BRANDS: SALVATORE FERRAGAMO, BRUNELLO CUCINELLI, TOD’S, ERMENEGILDO ZEGNA, DOLCE & GABBANA

The venture capitalists were quiet in 2014, reflecting uncertainty over the global outlook for luxury goods. We believe they will come back stronger in 2015, despite the tricky operating conditions. Minority, not just majority stakes, will be on their agenda.

MULBERRY WILL REPORT ITS BEST FINANCIAL RESULTS IN MORE THAN THREE YEARS

The company is getting back to what it does best: affordable luxury. This will drive a significant sales uptick in the UK, its core market. We also believe that Emma Hill, the company’s former Creative Director, will be in the running to become its next CEO.

TORY BURCH WILL INITIATE AN IPO

The company has said it wants to grow on its own terms, but momentum towards an IPO seems unstoppable. It could trigger a luxury goods investment frenzy of the like not seen since Michael Kors went public. Tory Burch could be worth in excess of US$3 bn.

AFFORDABLE LUXURY SPECIALIST COACH WILL BE AN ACQUISITION TARGET

Over recent years, Coach has been outmanoeuvred strategically in its home US market by Michael Kors. But, Coach still has plenty to offer and could benefit from new ownership and direction. The obvious suitors would be LVMH or Kering.

BURBERRY’S PROFITS WILL WEAKEN AS THE VALUE OF THE BRITISH POUND STRENGTHENS

The company’s fixed costs are in pounds, but its revenue is exposed to a wide range of volatile currencies. If UK interest rates rise in 2015, as is likely, the pound will climb higher still. The resultant squeeze on margins will pressurise Burberry to hike its prices.

THERE WILL BE A BIG SHAREHOLDER CHANGE AT HUGO BOSS

The brand’s shift from a wholesale to a retail model is paying off, but we believe key shareholder Permira is losing patience. This could trigger a high-profile takeover.

PRADA WILL POST ITS WORST FINANCIAL PERFORMANCE SINCE GOING PUBLIC IN 2011

The brand is over-exposed in Asia Pacific, where luxury demand is under strong downward pressure. The company will open proportionately more stores in developed markets in 2015, but this will not be enough to offset a global sales slowdown.

MICHAEL KORS WILL ISSUE A PROFIT WARNING AND ITS STOCK PRICE WILL DROP MARKEDLY

The darling of luxury goods investors of recent years is about to drive up investment in Western Europe, but related costs will weigh heavily on gross margins. On top of that, the brand will face stiffer competition in its core US market.

YOUNG FASHION DESIGNERS WILL CONTINUE TO BE NICHE INVESTMENT TARGETS FOR THE BIG GLOBAL BRANDS

We believe the ones to watch are Simone Rocha, Craig Green, Dean Quinn, Emilia Wickstead, Maia Norman, Marta Marques and Paulo Almedia. Their common thread is youthfulness, creative flair and big scale-up opportunity. And all that for a comparatively low price tag.

THERE WILL BE ONE MAJOR ACQUISITION IN HARD LUXURY

We predict that a deal will be reached to buy one of the following high-profile hard luxury brands: Chopard, Patek Philippe, Audemars Piguet, Buccellati or Damiani. The most likely suitors are LVMH, Kering and Richemont.

THE MARKETS

THE PENDULUM SHIFT FROM EMERGING TO DEVELOPED MARKETS WILL BECOME MORE PRONOUNCED

Social unrest in Asia Pacific, economic slowdown in Latin America and conflict in Eastern Europe will conspire to restrain growth in key emerging markets, tipping the growth scales towards the developed markets.

THE US WILL BE THE BIGGEST GROWTH MARKET IN ABSOLUTE TERMS

Total luxury goods spending in the US will grow by around US$4 billion, fuelled by burgeoning demand for affordable (and mid-market) designer apparel, luxury accessories and jewellery.

THE FASTEST GROWTH MARKET IN PERCENTAGE TERMS WILL BE INDIA

Spurred on by rising prosperity in the major cities and a power shift from the black market to the formal market, India's appetite for luxury goods will continue to see fast growth.

CHINA WILL HAVE ITS BEST YEAR SINCE 2012

Growth in China will hit double digits (at fixed US dollar rates) for the first time since the government came down hard on conspicuous consumption. Slower luxury spending in Hong Kong (due to social unrest) will help drive up demand on the Chinese mainland.

THE WEAKEST GROWTH MARKETS IN ABSOLUTE TERMS WILL BE ITALY AND ARGENTINA

Both have a strong luxury goods retail tradition, but struggling economies and an increasingly subdued middle class will take their toll on demand.

THE TRENDS

LUXURY ELECTRONIC GADGETS WILL BE THE INDUSTRY'S FASTEST-GROWING CATEGORY

This will be driven by an insatiable global appetite for smart phones. Even in markets where disposable income is falling, aspirational consumers will still want to get their hands on the latest luxury gadgets. They will downtrade instead in consumer goods categories where "status" credentials are low.

THERE WILL BE A NEW SURGE IN DIGITAL INNOVATION IN LUXURY GOODS

From virtual stores to live streaming of fashion shows, luxury brands will drive up investment in digital technology. The e-commerce functionality of social media platforms such as Twitter and Facebook will become much higher profile.

THERE WILL BE STRONG NEW INVESTMENT IN HIGH-END "SMART FASHION"

Innovative wearable technology is a good way to get people talking about a brand, and is trendy to boot. We expect to see a lot more of it in the luxury goods market in 2015.

THE GLOBAL RENAISSANCE IN WHISKY WILL CONTINUE, DRIVING UP SALES OF LUXURY SPIRITS

US period dramas Mad Men and Boardwalk Empire have made whisky "cool" among the millennials (Generation Y). It is not all about Scotch, though. The big innovators have been American, Irish and Japanese whiskies. For them, the next key phase will be growth of super-premium formats.

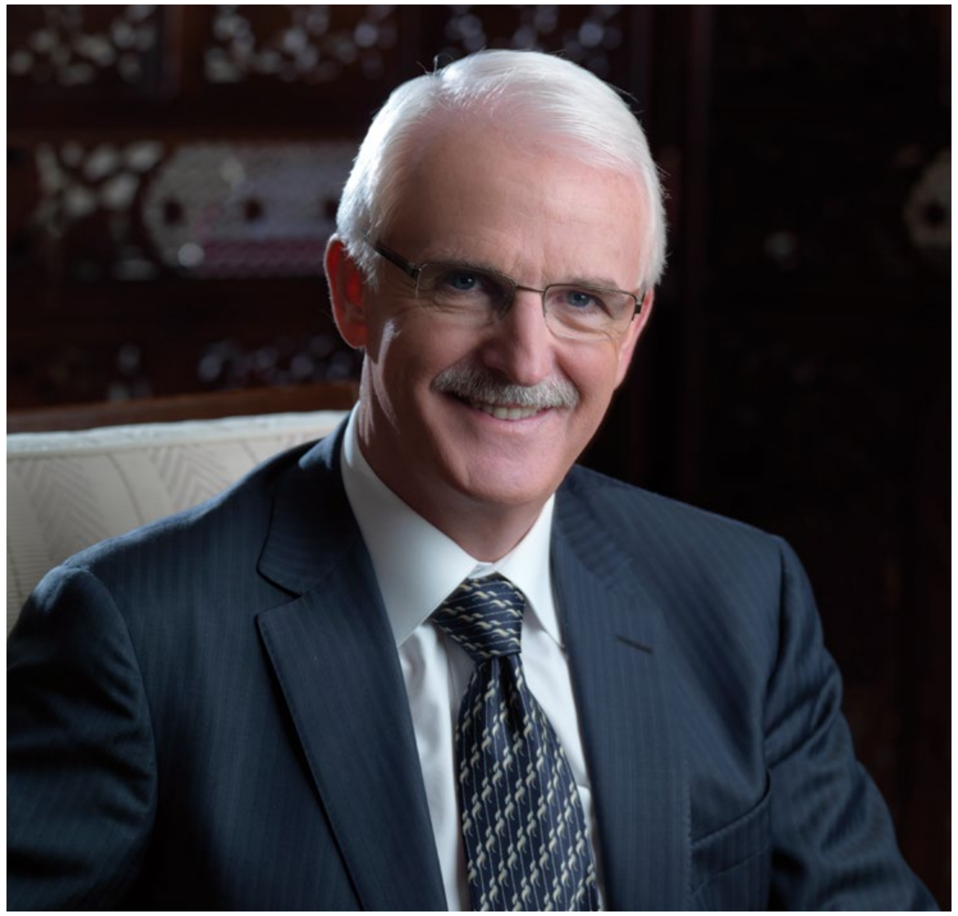
INTERNET SALES OF LUXURY GOODS WILL GENERATE THEIR STRONGEST ANNUAL GROWTH EVER (IN ABSOLUTE TERMS)

The number of people shopping online is soaring by the month, and affordable luxury goods will be increasingly on their radar. The over-60s are the fastest-growing demographic for internet connectivity, and will be a key target of online marketing.

TRAVEL RETAIL WILL BE A HOTBED OF NEW LUXURY GOODS INVESTMENT

Luxury brand owners are cottoning on that airports are places where affluent tourists have time on their hands (between clearing security and boarding planes). As a result, we will see a big increase in airport retail investment, especially in the designer apparel and luxury accessories categories.

IN CONVERSATION WITH GERALD LAWLESS, PRESIDENT, JUMEIRAH GROUP



BY SOPHIE DORAN

Gerald Lawless, President & Group CEO of Jumeirah Group, explains why it's a lucrative time to be working in the global luxury hospitality industry

It's somewhat startling to realise that Jumeirah Group was launched as recently as 1997. In just under one decade the group has grown to operate 22 hotels in 10 countries, with no less than 14 hotels and resorts in the development pipeline, including properties in Marrakech, Moscow, Mumbai and Macau.

The brand attracted global headlines in 1999 with the launch of the Burj Al Arab, frequently referred to as the world's only 7-star hotel, situated on an artificial island 280m offshore from Jumeirah beach. The launch heralded a new understanding of luxury in hospitality, rarely seen in other parts of the world.

"We have seen a strong recovery in Dubai. Visitor numbers continue to grow."

From the underwater dining room accessed by a simulated submarine voyage to the top-of-the-range suite spanning 780sqm, billed at nearly $20,000 per night. Indeed, Jumeirah's motto is to Stay Different, and the relatively young group continues to forge its own unique path, with developments in Oman, Kuwait, Thailand and Jordan.

At the helm of the dynamic Dubai-based business is Gerald Lawless, who has driven the establishment of Jumeirah as a significant global luxury hotel player. He joined the company in 1997 after a 23-year career with Forte Hotels, which culminated in him setting up and growing Forte's operations in the Middle East. We sat down with Gerald to learn more about Jumeirah's journey into one of luxury's most competitive markets.

How has 2014 been for business? What are some of the highlights for Jumeirah?

I think business has been very good perhaps because so much of our business is Dubai based. It has been particularly strong to see the recovery in Dubai and how visitor numbers continue to grow into our main market here. From that perspective, we've been very pleased.

When we look at the highlights, it is the fact that we now have a number of more matured operations in different locations such as in Rome and Istanbul, in Frankfurt and in Shanghai. It's really been very good for us.

I would say one of the really interesting performers as well for us has been the Maldives, which has done very well with both properties, Vittaveli and Dhevanafushi. I guess that over the last 12 months, the big, big highlight certainly would have been the fact that Dubai has won the bid to become the host city for the World Expo 2020, which is very good for the future of our company.

How does Jumeirah's Middle Eastern heritage help differentiate its value proposition in a saturated luxury hotel marketplace?

Our line is «Jumeirah Stay Different». I think that in the luxury segment, being different is really important. Each hotel must be a compelling new discovery for every guest. Each hotel has to have its own unique identity. This works very well for us.

Madinat Jumeirah, Dubai

We have the golden thread of the Jumeirah brand going through all of our hotels, but it's a different experience always at a luxury level within Jumeirah.

We place a lot of importance on the foundations of the group. Just as Mandarin Oriental and Shangri-La are of China, we are very much of Dubai. We trade a lot on the whole principal of Arabic hospitality.

This is something that is ingrained in the Arab psyche, how travellers, how guests are looked after and guests are welcomed, it does play very positively to the guest experience and what they want to get from visiting an Arab country. And we are very much focused on taking these cues and creating experiences that are authentic and real.

A great example is our Madinat Jumeirah resort, spread over 60 acres with three hotel components. When we gave the brief to the architects back in 2001, we asked them to take their inspiration from the old centre of Dubai, which is the creek side, which is like a seawater river that flows up through the middle of Dubai.

There you still have the old Arab dhows, which sail throughout the Gulf and over to East Africa and India, moored alongside the street. All the bazaars and souks and water taxis are still used very much like they've been used for generations. We told them to take their inspiration from this part of Dubai so we didn't end up with some kind of cliché Arabic Disney World.

Tell us some more about your customer base. Have economic headwinds in developing markets impacted your traffic?

Because we're at the top end of the market, I think we've been in many cases protected from some of the difficulties that have been going on, particularly with regards to the collapse of the Rouble and the Russian market generally. We have not experienced that in Jumeirah. Our Russian market has performed very well.

I also feel that Dubai and the Middle East have some sort of mysticism about them. People like to see what we have to offer. Abu Dhabi is also is very strong now. Because of the incredible airlift we've had through Emirates Airlines into Dubai, we really are in the fortunate position that many new destinations are coming both outbound from Dubai and inbound to Dubai. That helps us as a growing group.

Also we now have hotels Shanghai and the Maldives and with these kind of locations comes much more traffic. Furthermore there's such a high awareness of Dubai for incoming travel thanks to the airlift that we've been protected quite a lot from any potential slowing down in the market.

"I think that in the luxury segment, being different is really important."

I don't yet feel that the luxury market is saturated. I think a lot more people are getting more and more wealthy, especially when you look at places like China.

We see the Chinese visitors continuing to grow. At the same time, their required level of luxury from a hotel is changing as well. They're becoming much more individual travellers as opposed to group travellers, which again is really good for the luxury segment.

What about your home market of the Middle East? And all the wealth we find in this part of the world?

Dubai has become a universal aviation hub, which gives us tremendous opportunity, but it's strange in many ways that our core market really hasn't changed. We will say in the top 5, not necessarily in this order, you will have the GCC, which is the Gulf Cooperation Council ... They're the countries around the Arabian Gulf. We have the United Kingdom, which has just traditionally trading entity with Dubai for so long.

We have Russia, which is really important. The Russian market is important for two reasons: 1 for volume due to the lot of Russians who come here, but also the Russian market spend per head that we experience is very high. That helps us a lot. The fifth market would be very much Central European, Germany in particular.

Jumeirah Himalayas Hotel, Shanghai

Outside that, two fast growing markets that we have, into Dubai this is, would be China for the reasons we all know and, interestingly enough, the United States. These are country of residence statistics of the people who come and stay with us. They might not necessarily be American national, but they are people living in the United States. This is very good for us.

When you look at Jumeirah hotels in Frankfurt, in Rome, in London, in Shanghai, you will find a higher concentration of our high-end Middle East visitors staying in those hotels, particularly in the summertime and particularly in London and in Rome.

How are you working to build brand awareness and attract travellers from countries where you don't yet have hotels?

In the Americas we don't yet have a hotel, but we do have a number of sales offices, which promote the brand with strength, particularly in Europe. In fact, US outbound business to Jumeirah in the year to date (December 2014) is up 36%, which is amazing.

That business is going very much into London and Dubai. Rome would be the next significant recipient of Jumeirah business from the United States. Indeed the American airlines are also flying nonstop to Dubai now and to a lesser extent, but also importantly, Abu Dhabi. They're both looked upon as really not just hubs, but destinations as well in themselves, particularly Dubai.

And then in China we have our one hotel in Shanghai. We have a number of GSOs in China from Hong Kong to Shanghai. We have our own sales office in Shanghai and we have worked hard alongside the Dubai tourism industry to promote Dubai in China. Again, with our friends in Emirates and their China and their airlift is really helping us. The awareness of Dubai in China is very high.

" Our two fastest growing markets into Dubai are China and the U.S. "

There was a lot of effort made from the Dubai government, from the Dubai tourism industry to really promote the destination in China. It has paid huge dividends. There's a large number of Chinese nationals actually living in Dubai and working here. The awareness is growing all the time and the desirability of Chinese people to travel as they become wealthier ... They really do want to travel. They're so, so brand conscious. They really do want to stay at the best, which we're very happy about that. As I said earlier, they're becoming less group and more individual in terms of their travel at our end of the market, which is very good for us as well. Obviously that's the way we like to accommodate them.

And in terms of marketing, what are your current aims?

For the moment we feel that the brand awareness is of prime importance to us. Therefore we are looking to continue to evolve and develop our brand awareness. Brand awareness is so important in the luxury segment. You have to be front of mind at the right level with the right people.

In addition to that, we also decided that we would launch a new branding, a contemporary lifestyle brand called Venu. We're hoping to announce a few management contracts here in Dubai to start within the next several weeks. This is a major opportunity for us, having more than just one brand, but still in the upper upscale market.

We market very, very powerfully, I believe, through our own online services, particularly our own website and indeed our call centre. We're very pleased that from our own systems, we're now up to nearly 27% in terms of our production. For a small company, to have this level of awareness online is quite something. We're well ahead of our target in relation to our own systems production. We continue to reinvest in our brand awareness.

" I don't yet feel that the luxury market is saturated "

We have seen a lot of international brands developing in China, less so in India, South America and Russia. Why are these particularly challenging markets for luxury hoteliers?

We're certainly focusing where we can get a lot of traction and where things will happen, so we are very focused on development within the Middle East and within Asia and Africa. China, yes, we have Asian hotels coming up on operation already into Bali. We're still very keen to get more penetration into South East Asia.

These are areas where we are very knowledgeable. We're comfortable in operating in these areas. In terms of other locations, I would still say even in the Middle East, we're not big enough in Saudi Arabia. We need to get more presence there. We're working on that at the moment. Also Russia, you're absolutely right. Russia is vital for us. We have one project coming up in Saint Petersburg. We are very active in discussions, but nothing to report at this stage. We're very active as well within Moscow. We would like, as soon as possible, to be operational in Saint Petersburg, which hopefully will come by the end of 2016. In the meantime, we'll continue to really push hard for more presence in Russia.

We have quite a lot of opportunities in Europe, but we are not necessarily going hunting, as they say. We receive quite a number of inquiries, so we're following those up at the moment, there is some good potential. With regards to South America, I think yes, but not for at least another 2 to 3 years because we've just got so much going on where we are at the moment.

How does Jumeirah specifically decide when an 'emerging' market is ready for a luxury hotel?

Just from our own knowledge and from how we look at where we're going within a region. Particularly within the Asian and South East Asian region, we look at opportunities. We have 2 hotels coming up in India, one in Mumbai and one in Goa. That's important for us.

Myanmar is also important. I think that there's great benefit to be had, even as a luxury group to consider going into a destination that you know instinctively will definitely attract a high-end traveller.

I think Myanmar is absolutely one of these destinations. I think you have to be careful where you go. Yangon would certainly be our first preference to start there. We also looked at Vietnam and Cambodia. We know that the market is there. It's there for a luxury hotel. People are interested in Jumeirah coming there.

In terms of other interesting destinations, I went to have a look in Tehran in Iran in early May. We are interested there as well. I was in conversation with a manager in one of the hotels who claimed that their branch in Isfahan is absolutely full with European tourists.

It's really interesting, travellers are already going to Iran. It has such a wealth of history and tradition. It's amazing. It's actually quite surprising. I would also see there would be benefit in being first to market in a place like Tehran and Isfahan. If we had an opportunity there and we didn't have restrictions on sanctions, we would certainly be very interested.

" Brand awareness is so important in the luxury segment. You have to be front of mind. "

Jumeirah Messilah Beach Hotel and Spa - Kuwait Hotel and Resort

In the many years you have worked in the hotel industry, what is the single biggest change you have witnessed from consumers? And how has this impacted how you run your business?

I think the biggest change is how consumers book hotels. It is now so easy to do it in comparison to what it was like before people had the power of the Internet at their fingertips. They have more information about our hotels than we have. They can research it. It interests me greatly.

People talk about 5-star, 4-star, 3-star, which is quite an old-school way of thinking. Ratings started back in the day so that people would have some comfort about where they were going to stay. They would know, «Okay, if it's a 5-star hotel in Hong Kong, it's probably a good hotel.»

Then after the standardised ratings came after the brands. The brands gave people the comfort to know the kind of hotel they were going to stay in. That moved on from the companies like Hilton, Intercontinental, Sheraton and how they were very much the pioneers. Then the brands became more and more powerful.

Now we're living in a time where really people are less concerned about whether or not something is 5-star or 4-star. They know they have access to all the information they need to choose the right property for them. They can go on Expedia and compare prices and see pictures of rooms and almost experience the hotel before they arrive.

So the process of attraction has become far deeper and sharing information is key. As we develop our mobile apps, our guests will be able to get their room number before they arrive at the hotel. They'll be able to check in by touching their phone when they arrive on the property. Technology has definitely driven the biggest change in the last 40 years that I've worked in the industry.

And do you think that this is a positive change for brands?

It's fantastic. It really puts us in a position where as hotel, we can get direct to market. We can talk to our customers directly. They can talk to us directly. It's not that the hotel brand avoids having to pay commission to agents, we still deal extensively with travel agents and tour operators.

What's great about it is that we can have direct access to our guests. We can promise them the best rate available on the day, but they might choose for different reasons to try to go to a consolidator or a travel agent, and that's also fine.

I think that this freeing up of information to our guests has really provided them with amazing knowledge to be able to access our properties. Once they have the resource to understand themselves, then we know that we've a much better chance to actually get their reservation.

What is the next opportunity you would like your company to seize?

That's a good question because I think that we've set ourselves on a very positive course, a very logical course in terms of developing our luxury brand of Jumeirah. Jumeirah Stay Different, different on an international basis.

What I would really like to see is that we deliver on our strategy for having at least 75 hotels. It's not just about numbers, but it's having the right hotels in the right locations that will really ensure the longevity of the brand.

This brand will become a world famous top 100 known brand, not just for hotels, but also in the luxury sphere. This is how Jumeirah is beginning to be known and will continue to be known. To keep Jumeirah up there very much as the top end of brands and very much not just in hotels, but also in the whole universe of brands.

What is the biggest challenge the brand will face in the coming years?

I think we have a good challenge actually because our biggest challenge is to continue to be able to find suitable talent and human capital, as we now like to call it, but actually people. The right people in our business is critical because we deal directly with our customers. As employees in the hotel business, we have a great opportunity really to represent our brand and represent our product day in day out.

We're always looking for highly talented people, highly motivated people with the right attitude. Because of our expansion, our greatest challenge ... As I say, it's a positive challenge to have that we're out there looking for the best people in hospitality to come and work for us. It's a great time to be graduating from l'Ecole Hotelier de Lausanne or the Emirates Academy of Hospitality and Management.

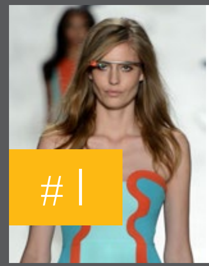
Jumeirah Emirates Towers, Dubai

Jumeirah Hotels & Resorts was founded in 1997 with the aim to become a hospitality industry leader through establishing a world class portfolio of luxury properties.

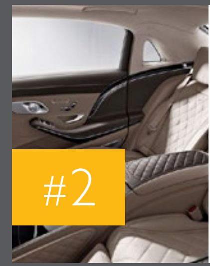
http://www.jumeirah.com

THE 10 MOST READ NEWS ITEMS IN 2014

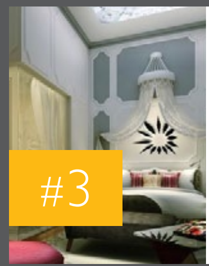
MOST CLICKED BY LUXURY SOCIETY READERS



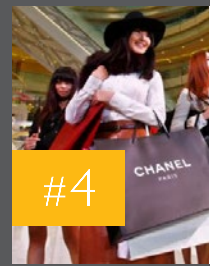
#1 DIANE VON FURSTENBERG COLLABORATES WITH GOOGLE GLASS
Luxury Insider - 04 Jun 2014



#2 THE ULTRA-LUXURY LIMOUSINE MAYBACH BY MERCEDES TO MAKE A COMEBACK
Daily Bhaskar - 21 Jan 2014

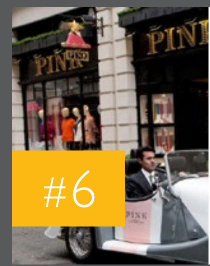


#3 FIRST KARL LAGERFELD HOTEL TO OPEN IN MACAU
CPP Luxury - 04 Jun 2014

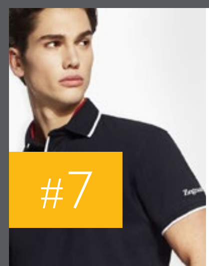


#4 9 WAYS CHINESE CONSUMER HABITS ARE RAPIDLY CHANGING
Jing Daily - 21 Apr 2014

#5 WHERE (AND WHY) THE SUPER-RICH ARE INVESTING IN REAL ESTATE
Luxury Insider - 04 Jun 2014



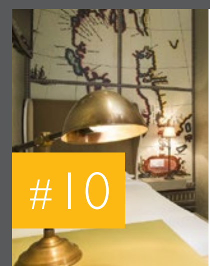
#6 LUXURY HOTELS TAKE COLLABORATIONS WITH FASHION DESIGNERS TO ANOTHER LEVEL
SCMP - 10 Feb 2014



#7 ZEGNA SPORT & MASERATI CAPSULE COLLECTION FOR SPRING/SUMMER 2014
Just Luxe - 12 Feb 2014

#8 A NEW PRIVATE MUSEUM MARKS A CHANGE FOR FRANCE
The Economist - 27 Oct 2014

#9 WHY E-COMMERCE IS GROWING FASTEST IN CHINA
Red Luxury - 13 Mar 2014



#10 NEW PARIS HOTEL DESIGNED BY CHRISTIAN LACROIX
Luxuo - 27 Jun 2014

A. Lange & Söhne at SIHH 2015

SIHH 2015: NEW HEIGHTS FOR HAUTE HORLOGERIE

BY SOPHIE DORAN

According to Digital Luxury Group's WorldWatchReport™, overall online interest in Haute Horlogerie watches advanced by 16% in Q3 2014

It feels like there is a bit of a craftsmanship renaissance going on in the world of luxury. One reaching far beyond the post-crisis brand-driven marketing campaigns, one firmly led by a new group of sharper, savvier luxury consumers.

According to Digital Luxury Group's WorldWatchReport™, overall online interest in luxury watches advanced by 4% in Q3 2014, when compared to the same period in 2013.

Definitively leading this increase was the Haute Horlogerie category, where interest surged by 16% year on year. The 18 brands tracked in this particular category now capture 16% of global online searches for luxury watches.

"We have witnessed an explosion in terms of interest and awareness on five continents," Aurel Bacs recently confirmed to Luxury Society, discussing the overall health of the Haute Horlogerie sector. "Today, awareness of fine watches has grown beyond our wildest expectations."

GEOGRAPHICAL MARKETS

Despite many of the financial barriers associated with becoming a serious collector of Haute Horlogerie, interest in the category and its 'star' brands continues to grow around the world at a rapid rate. Most interestingly, search volume increased at the fastest rate in Brazil in Q3 2014, advancing by 32% in just twelve months.

The lion's share of searches related to Haute Horlogerie originated in China, which commanded a whopping 45% of all such queries. Despite whispers of a sales slowdown on the Mainland, linked to nationwide anti graft measures, online consumer interest increased by 21% in Q3 2014 compared with Q3 2013.

" The star performer of Q3 2014 was undoubtedly Parmigiani"

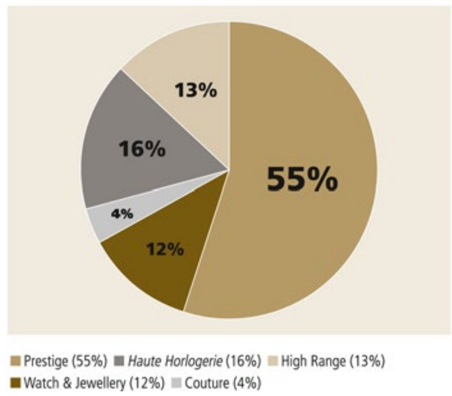
Searches for Haute Horlogerie brands originating in Hong Kong were down 23%, suggesting a potential cooling of one of the world's most important markets. The decrease in search volume cannot be categorically linked with the Occupy Central protests, but as the movement has severely impacted luxury sales in the territory and restricted inbound tourist traffic, it is possible that it is influencing interest in high-end luxury goods.

Online interest also dropped in Thailand to roughly the same degree (-24%) as Singapore, which also experienced a decline of 19%. Across the board in countries such as Mexico, Qatar, Taiwan, Saudi Arabia and the United Arab Emirates, online interest in Haute Horlogerie remained reasonably stable, increasing or decreasing by no more than 3%.

Despite a relatively flat outlook for European economies, searches in Italy increased by a respectable 28%, followed by the United Kingdom (20%) and France (18%), ahead of Germany (+13%). In line with more optimistic forecasts for the North American and Japanese luxury markets in 2014, search interest increased by 15% and 20% in each country respectively.

HAUTE HORLOGERIE VS LUXURY WATCHES

SHARE OF INTEREST BY CATEGORY



Ironically, the only market to register a decline in search volumes for the Haute Horlogerie category was Switzerland (-6% on Q3 2013). Despite this dip in interest on home soil, Haute Horlogerie is globally on the move. And its 16% leap in interest shines even brighter when compared to a decline in search volume within two key categories.

First, interest in Couture watches – those made by brands with their original roots in fashion or fine jewellery – dropped by a significant 10% (compared to the same period in 2013). Second, searches for brands in the High Range category – below Haute Horlogerie, above Prestige – experienced a 7% drop.

Depending on how sensational one wishes to be, these simultaneous declines in online consumer interest could reflect two greater industry trends. One is that luxury consumers are increasingly looking for pure players, fatigued by brands trying to be everything to everyone. Another is that the 'middle' market for luxury is indeed in danger, as consumers increasingly refuse to spend their money on anything less than exceptional.

As we can see by the 6% increase in the Prestige category – which already accounts for 55% of all online interest – the world is still intrigued by the idea of 'luxury' but is equally as concerned by the notion of 'value'. Today, consumers will buy either the exceptional or the functional, with less and less interest in the products that constitute the middle.

Consumers will no longer be fooled into thinking that a product is indeed a luxury item because it has the name of a big scale brand sprawled across it. This is not to say that the market will reject the category expansions of fashion branded watches, or car branded homewares, but at the very least there must be a logical and authentic reason as to why these products exist.

" Searches for Haute Horlogerie brands originating in Hong Kong were down 23% "

In the information age, luxury has become much more about understanding and knowing, than it has about status or showing. Luxury can be found in knowing the history of the brand you choose to wear on your wrist and understanding what makes it special. It can be in the understanding of complicated mechanical timepieces, or in the joy of knowing that brands such as Voutilainen even exist.

THE MOST SEARCHED FOR HAUTE HORLOGERIE BRANDS

Overall, the category is incredibly well positioned to thrive in the shift from owning to experiencing luxury. Of the 18 brands tracked in the Haute Horlogerie category in the WorldWatchReport, almost every single one is a pure player in the watchmaking space. Many have histories spanning decades and both protecting and communicating their savoir-faire.

Perhaps it is without surprise that the WorldWatchReport confirms that Patek Philippe is the most-searched-for Haute Horlogerie brand on a global scale, capturing 29% of searches within the category in Q3 2014. Vacheron Constantin ranked #2 with 18% share-of-search, as Audemars Piguet came in third, commanding 12%. Jaeger-LeCoultre and Franck Muller rounded out the Top 5.

Interest in the top three brands remained robust if not impressive, as they all placed in the Top 10 again when ranked by growth in online search interest. Vacheron Constantin ranked #3 across all Haute Horlogerie brands, as searches increased by 34% in Q3 2014 compared to the same period in the previous year. Audemars Piguet ranked #5 registering a 21% increase, slightly ahead of Patek Philippe (#8) which increased by 18%.

This continued interest in these particular brands is no doubt a combination of both new models and record-breaking sales at auction. It is also importanat to remember that Patek Philippe celebrated its 175th anniversary in 2014, with campaigns likely to spark significant online buzz.

What is exciting to see is an increase in the acceleration of newer brands such as Richard Mille (#2) and Greubel Forsey (#4), where search volume surged by 35% and 32% respectively in just one year – almost on par with that of Vacheron Constantin.

Granted they are starting from a comparatively miniscule base, accounting for a much smaller share of search, but given the number of pieces produced by Greubel Forsey each year (approximately 100) such an increase remains significant. The brand has perhaps also benefited from additional interest surrounding its 10th anniversary. Building interest in Richard Mille could also be attributed to a mix of models and column inches, as rumours continued to circulate throughout 2014 that Kering would take a majority stake, as the French conglomerate continued to restructure and bolster its Watch and Jewellery Division.

(TOP 10) MOST SEARCHED FOR *HAUTE HORLOGERIE* BRANDS

BRAND	SHARE	Y/Y
Patek Philippe	29%	18%
Vacheron Constantin	18%	34%
Audemars Piguet	12%	21%
Jaeger-LeCoultre	11%	6%
Franck Muller	5%	-2%
Blancpain	17%	
Breguet	-1%	
Ulysse Nardin	4%	12%
Richard Mille	4%	35%
Girard-Perregaux	2%	-1%

The brand was involved in several golf, car racing and film industry events over the European summer. It also opened its first UK boutique on Mount Street in September.

FAST MOVERS

Despite progress from many brands, the star performer of Q3 2014 was undoubtedly Parmigiani, despite the fact it captures less than 1% of all Haute Horlogerie searches. Search intentions on a global level increased by 65% when compared to Q3 2013, fuelled by massive surges in online interest originating in the United Kingdom (295%), Brazil (70%) and Germany (+77%).

Though it is difficult to pinpoint the exact catalyst for such dramatic increases, one cannot ignore a global increase in brand publicity in mid-September, related to a scandal surrounding Parmigiani's involvement in the 2014 FIFA World Cup.

Parmigiani watches were distributed in gift bags from the Brazilian football federation in June to the 28 members of FIFA's executive committee during the summer's tournament. FIFA's ethics committee eventually decided that was a breach of the organisation's code of ethics and asked officials to return the watches.

This incident could help to explain such huge shifts from 'football mad' nations such as the U.K., Brazil, Germany and France. Football controversy aside, online interest in the brand is still largely derived from China, which accounted for 23% of all searches, followed by the United States (18%) and the aforementioned United Kingdom.

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" Building interest in Richard Mille could also be attributed to a mix of models and column inches "

A spotlight on Richard Mille's online desirability paints a different picture, where exactly one quarter of all search intentions in Q3 2014 originated in the United States. France (13%) and the United Kingdom (12%) account for the second and third-largest search volumes respectively, trailed by China (11%) and Japan (14%).

Somewhat surprisingly, the biggest increases in interest came from Italy (120%) and once again from Brazil (92%), which generally appears to be a country increasingly fascinated by Haute Horlogerie.

Greubel Forsey GMT Black

THE MOST SEARCHED FOR MODELS

The story changes yet again when we dice the DemandTracker data by searches for specific models. Here we find no mention of Vacheron Constantin, nor Richard Mille or Greubel Forsey.

When evaluating the Q3 2014 search volumes, it is the Audemars Piguet Royal Oak that registers the most queries globally, followed by the Royal Oak Offshore and Patek Philippe's Nautilus.

Indeed Patek Philippe is the most represented brand in the Top 10, with the Nautilus at #3, the Calatrava at #6 and the Sky Moon Tourbillon entering for the first time (#10). Jaeger-LeCoultre's Master (#4) and Reverso (#5) both dropped one place each compared to Q3 2013, making way for the increase of Patek Phillippe's Nautilus.

Looking exclusively at the Top 5 most-searched-for Haute Horlogerie models, the results suggest that consumers are still looking for trusted products from trusted brands: authentic pure-play brands with longstanding watchmaking legacies and a reputation for excellence in product, service and after-sale value appreciation.

This is by no means to say there is no room for new Haute Horlogerie brands, nor that Couture watch brands will not be successful. In both these categories it is a case of building legacy and legitimacy in the field, as opposed to crafting a marketing message.

MOST SEARCHED FOR MODELS (HAUTE HORLOGERIE)

RANK	BRAND	MODEL	VS 2013
1	Audemars Piguet	**Royal Oak**	=
2	Audemars Piguet	**Royal Oak Offshore**	=
3	Patek Philippe	**Nautilus**	+2
4	Jaeger-LeCoultre	**Master**	–1
5	Jaeger-LeCoultre	**Reverso**	–1
6	Patek Philippe	**Calatrava**	=
7	Blancpain	**Fifty Fathoms**	=
8	Ulysse Nardin	**Marine Collection**	=
9	Breguet	**Type XX / Type XXI**	+1
10	Patek Philippe	**Sky Moon Tourbillon**	NEW

The nomination of Louis Vuitton in 2014's Grand Prix d'Horlogerie de Geneve, in the category of Women's complications, is a sign that this can be achieved.

But what is applicable to all brands trying their hand at Haute Horlogerie is that consumers will continue to demand the best; the best quality, innovation, experiences and service. To compete in an increasingly saturated marketplace across all levels, brands must have crystal clear identities and a razor sharp value proposition for consumers.

Lucky for some, the majority of Haute Horlogerie brands are sitting pretty in this position.

" Patek Philippe is the most represented brand in the Top 10 "

This feature appeared in the December – January (International) edition of Europastar

A REVIEW OF THE LUXURY GOODS INDUSTRY IN 2014

Mulberry CEO Bruno Grillon exited in 2014

BY FFLUR ROBERTS

Global Head of Luxury Goods Research at

EUROMONITOR INTERNATIONAL

As the luxury industry farewells another eventful year, Euromonitior International reviews its 2014 luxury goods predictions to see what really happened.

Of the twenty predictions made by Euromonitor International in January 2014, twelve of them came true. Despite the accuracy of more than half of our predictions, it proved difficult to find a cohesive message within our findings other than the industry continues to rapidly change.

What these findings did highlight is the different ways in which luxury brands are managed and the impact this has on their sales, consumers and ubiquity. In 2014 we saw luxury brands actively chase the middle-market with affordable mass products and succeed beyond our wildest dreams.

Then we saw a number of iconic historic luxury houses take their product offering further upscale to little short-term gain. Many revenue figures were disappointing and executives were moved along, as the industry proves that there is no one science to managing a luxury brand.

Where we saw less than expected activity was in the M&A sector, as many big name independent luxury brands remained independent, despite rumors of conglomerate takeovers, private equity investment or big IPO's.

Based on previous years of rampant purchasing and currently overflowing cash reserves, we expected to see conglomerates look into new industries and geographical regions for their next big-buy.

> *" The industry continually proves that there is no one science to managing a luxury brand "*

But aside from minority investment in a handful of up-and-coming designers, the M&A space was relatively quiet in comparison to previous years.

We invite you to discover our review below and look forward to sharing our 2015 predictions in the coming weeks.

THE HITS

A CHANGE IN LEADERSHIP AT MULBERRY

Bruno Guillon quit in March after two years as Chief Executive. His strategy was flawed, we believe, from the start. His biggest mistake was in pushing Mulberry too upmarket and then refusing to change tack despite oodles of market pressure.

LUXURY GOODS SPENDING IN CHINA ACCELERATED

China's total luxury goods market is on course to grow 7% this year (at fixed US dollar prices), double the rate of last year. Gift-giving categories are still under downward pressure, but designer apparel and luxury accessories are resurgent.

THE U.S. WAS THE LARGEST GROWTH MARKET

In absolute terms. There has been a pivotal shift in geographical growth this year, from Asia Pacific to the US. It has been a recurring theme in the quarterly financial results of the leading global players.

WORLD CUP TOURISM DROVE UP LUXURY SPENDING IN BRAZIL DESPITE THE COOLING ECONOMY

Affluent Brazilians largely stayed at home in June and July rather than travel abroad. Additionally, there was a big influx of international visitors, fuelling a spike in shopping mall footfall. Brazil's luxury goods market is on course to grow 10% in 2014 (at fixed US dollar prices), its strongest performance in three years.

LEADING LUXURY GOODS PLAYERS INVESTED IN YOUNG FASHION DESIGNERS

LVMH took a minority stake in Italian designer Marco de Vincenzo, for example. Niche investments have not been all about young fashion designers, though. Kering teamed up with Kelly Slater, a professional surfer, to bring a new line of surf apparel to the market.

SPAIN, ITALY AND FRANCE GREW AT THE WEAKEST RATES

They constitute three of the five weakest-performing luxury goods markets of 2014. It has not been all bad news, though. Luxury accessories, for example, have shown a high level of resilience.

HERMÈS ROSE FROM STRENGTH TO STRENGTH

Hermès, in particular, has shown great skill in navigating the tricky operating conditions in China. Discreet branding and an untarnished reputation for exclusivity go to the heart of its competitive edge.

LUXURY COSMETICS WAS ONE OF THE FASTEST GROWTH CATEGORIES

Designer labels, in particular, have built strong new positions in super-premium cosmetics (the likes of Burberry, Marc Jacobs, Jason Wu and Tory Burch). Beauty care is now Burberry's fastest-growing business segment, for example.

LUXURY BRANDS BEGAN TO ENGAGE PROACTIVELY WITH SOCIAL MEDIA PLATFORMS

High-profile digital innovations include the "buy now" button, piloted by Burberry in a tie-up with Twitter, and Michael Kors' efforts to unlock the sales potential of Instagram. Most global brands have forged a stronger social media presence this year.

ONLINE DISCOUNT ACTIVITY GREW FOR LUXURY BRANDS

Discounting is widespread in the online channel and reflects a glut of supply in some categories. It poses a potential image problem for some of the mid-market brands that are looking to push their portfolios upmarket.

MICHAEL KORS SPEARHEADED DYNAMIC GROWTH IN AFFORDABLE LUXURY

In the US, especially, Michael Kors has taken affordable luxury to new heights. But, growth rates on a comparable stores basis have slowed in the second half of the year. Is this a sign, perhaps, that the "Kors bubble" is about to burst?

INDIA WAS THE FASTEST GROWTH MARKET

In percentage terms and based on markets with an annual retail value of more than US$ 1 billion. Rising prosperity in tier 1 cities coupled with a big shift from the black market to the formal retail market has turned India into one of the world's most attractive markets for new luxury goods investment.

THE MISSES

LUXURY JEWELLERY WAS NOT THE TARGET OF A MAJOR M&A DEAL

There was more interest in vertical over horizontal acquisitions. Leading jewellers want greater control over the whole route-to-market process, from raw materials to retail. A current example is Chow Tai Fook, which is sizing up stakes in diamond mines.

THERE WAS NO SURPRISE OR OFF-THE-RADAR MEGA DEAL

Big M&A activity was quiet in 2014. The focus was on organic growth and niche investments. Asian buyers, in particular, seemed ready to pounce at the start of the year, but a cocktail of unfavourable external pressures held things back.

PRIVATE EQUITY DID NOT ACQUIRE ONE OR MORE OF THE FOLLOWING BRANDS: SALVATORE FERRAGAMO, BRUNELLO CUCINELLI, TOD'S, ERMENEGILDO ZEGNA

In fact Tod's has latterly been eyeing up its own acquisitions, notably of footwear brand Roger Vivier. Private equity was still a mover and shaker in the industry, though. Blackstone bought a 20% stake in Versace and Russia's VTB Capital came close to a 70% stake in Roberto Cavalli. The latter deal fizzled out in November due (mainly) to economic instability in Russia.

LUXURY WINES AND SPIRITS WERE NOT THE WEAKEST LUXURY CATEGORIES AS EXPECTED

Global sales recovered quite well in 2014 despite a continued slowdown in China (due mainly to the clampdown on gift-giving). Demand was notably upbeat in Brazil, Japan (first quarter of the year), Russia (first half of the year) and the US.

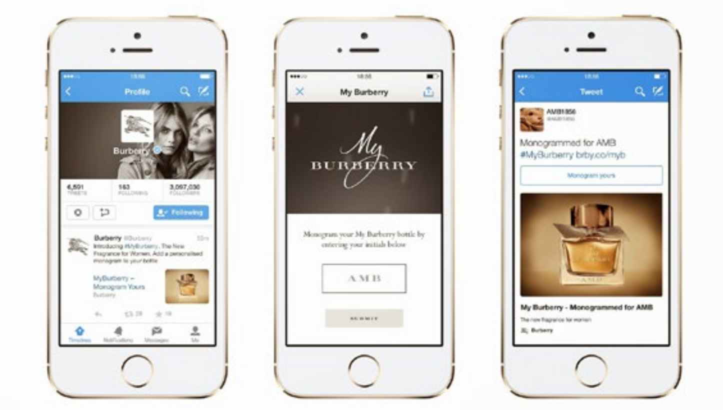
THE BOOM IN REAL FUR DID NOT FIZZLE OUT

Fur was still high profile on the winter catwalks, especially in London and New York. The fur industry has sought to rebrand itself as ethical as well as luxurious, and consumers – young women especially – are buying in.

THE JURY'S OUT

MEXICO WILL BE THE FOCUS OF SOME OF THE STRONGEST EMERGING MARKET INVESTMENT

Yes and no. Mexico has the biggest luxury goods market in Latin America, and there has been significant new investment in Mexico City and a host of mid-size cities. However, the economy has struggled in 2014, which has tempered some industry initiatives.



Burberry's continued to lead innovation on social media

THE OVER-65S WILL BE THE TARGET OF HIGH-PROFILE ADVERTISING AND MARKETING CAMPAIGNS

Yes and no. This is the fastest-growing demographic for internet connectivity and e-commerce, and widely recognised as a key market for luxury goods. However, most advertising and marketing this year has been age neutral rather than age specific.

GLOBAL LUXURY BRANDS WILL BUILD NEW POSITIONS IN SUB-SAHARAN AFRICA

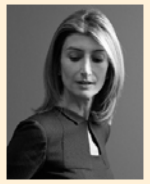
Yes and no. The region continues to generate huge investment interest, fuelled by its burgeoning wealth and highly favourable demographics. However, global luxury brands have been reticent about building stronger positions – in part because they are concerned about the legitimacy of Africa's new wealth and how this might impact on brand image.

LATEST APPOINTMENTS

APPOINTED

Jorge Puentes
Brand President, Roger Dubuis

Jorge Puentes has been named brand president of Roger Dubuis North America and Mexico. Puentes has 30 years' experience in the watchmaking industry and was most recently the CEO and president of Montblanc in Japan.



Sarah Rutson
VP Global Buying, Net-a-Porter

Sarah Rutson, former fashion director at Lane Crawford in Hong Kong, has been appointed as Vice President of Global Buying. Rutson will be based in New York, reporting directly to group president, Alison Loehnis.

S. Kirk Kinsell
President & CEO, Loews Hotels & Resorts

Loews Hotels & Resorts has named S. Kirk Kinsell as President and Chief Executive Officer, effective March 2, 2015. Kinsell joins Loews Hotels after 19 years in senior positions with InterContinentalHotels Group.

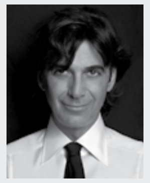
Giovanni Giunchedi
CEO, Sergio Rossi

Kering has appointed Giovanni Giunchedi as chief executive officer of shoemaker Sergio Rossi, having recently served as deputy general manager at the brand. Previously, Giunchedi was sustainability director at Bottega Veneta.

Glenn McMahon
CEO, Escada

Following a year-long stint as CEO at Tamara Mellon, Glenn McMahon has been appointed CEO of Escada. McMahon replaces Bruno Sälzer, who left after his contract expired in November 2014 to take over Bench.

DEPARTED



Patrizio di Marco
CEO, Gucci

Kering has confirmed that CEO Patrizio di Marco has left Gucci. Marco Bizzarri, head of Kering's couture & leather goods division, took over CEO duties on January 1st, in yet another management change at the conglomerate.

Frida Giannini
Creative Director, Gucci

Kering has also confirmed that Creative Director Frida Giannini will depart from her role at the end of February, after showing her fall-winter collection. Giannini had led Gucci's creative team since 2006.

Stephane Linder
CEO, Tag Heuer

Stephane Linder has resigned from his role of President & CEO of TAG Heuer to pursue other professional endeavors. Jean-Claude Biver, head of LVMH's Watch business will serve as interim CEO until a successor is found.

Stephen Murphy
CEO, Christie's

Christie's chief executive Steven Murphy has stepped down. Patricia Barbizet become chief executive officer of the auctioneer, privately owned by François Pinault, as well as continuing in her role as chairman.

Jennifer de Winter
EVP, Saks Fifth Avenue

Saks Fifth Avenue has confirmed that Jennifer de Winter, executive vice president and chief merchandising officer, will shortly exit the American retailer for another position. De Winter has served with Saks for 20 years.

10 MOST READ ARTICLES OF 2014

2014 LUXURY INDUSTRY PREDICTIONS FROM THE EXPERTS - *20 Jan 2014*

Luxury Society spoke with a panel of industry experts to find out what's in store for luxury in the coming twelve months.

TRAVEL RETAIL: A SIXTH CONTINENT WITH 1 BILLION CONSUMERS - *24 Jun 2014*

1.087 billion people travelled internationally in 2013, spending $1159 billion, prompting luxury brand executives to name travel retail as the 'sixth continent'

RECORD SALES FOR LUXURY CAR BRANDS IN 2013 - *30 Jan 2014*

Jaguar Land Rover, Mercedes-Benz, Maserati, Rolls-Royce, BMW, Porsche and Lexus deliver a host of record results in 2013

5 TRENDS THAT DEFINED THE LUXURY INDUSTRY IN 2013 - *8 Jan 2014*

Luxury Society presents five key trends that shaped the luxury industry in 2013...

IS ZARA THE NEWEST LUXURY FASHION COMPETITOR? - *19 Jun 2014*

Call me crazy, but I think luxury fashion brands should be concerned about the increasingly sophisticated activities of Zara.

HOW BURBERRY DOES DIGITAL - *10 Jan 2014*

Burberry, under the direction of (now-departing) CEO Angela Ahrendts and chief creative officer Christopher Bailey, has earned itself a reputation within the luxury industry as a digital pioneer and leader in integration, creativity and experimentation.

MEXICO IS LATIN AMERICA'S BIGGEST LUXURY GOODS MARKET - *28 Mar 2014*

Latin America's second-biggest economy is experiencing a luxury boom, at the hands of a young, affluent middle-class ready to spend.

2013'S BEST GLOBAL LUXURY BRANDS - *9 Jan 2014*

For the second year running, nearly 15% of Interbrand's 2012 Best Global Brands were luxury brands. We spoke with Rebecca Robins to better understand why.

INSIDE FRANCE'S €16.8 BILLION LUXURY GOODS MARKET - *13 Feb 2014*

Despite economic pessimism and a controversial political situation, the outlook for France's luxury economy remains strong.

5 MUST-KNOW FACTS ABOUT CHINA'S LUXURY ECOMMERCE SHOPPERS - *6 Mar 2014*

Liz Flora of Jing Daily shares five key highlights from KPMG's recent investigation of 10,000+ Chinese luxury eCommerce shoppers.