

LUXURY GOODS

Measuring Brand Exclusivity and Desirability – China

2 NOVEMBER 2015

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We have joined forces with Promise Consulting to bring investors a fact-based quantitative assessment of the perceived exclusivity and desirability of luxury brands. We think this is very important. Luxury goods brands exist on the promise of exclusivity. Brand trivialisation can be the "kiss of death" for a luxury business (and its shareholders). After our maiden edition on France ([Measuring Brand Exclusivity and Desirability - France](#)), we extend our study to Greater China (ML China + HK).

First level analysis of exclusivity and desirability yields no revolutionary insight

Unsurprisingly, high-end brands Hermès, Chanel and Dior rank highest – as do mega-brands LV, Gucci, Burberry and Prada. The Chinese love affair with Chanel is confirmed – #1 in notoriety and desirability.

We believe the brand awareness vs desirability gap is most revealing

We compare the difference in brand awareness and desirability rankings, and calculate a desirability surplus (+) / deficit (-) = notoriety ranking – desirability ranking. This analysis provides the following insights: a) Both **Gucci** and **Burberry** suffer a desirability deficit from (-3 to -5); b) Unexpectedly, **Prada** enjoys a significant desirability surplus (+4); c) The fortune of a "growth relay" manoeuvre seems to depend on the Chinese. **Saint Laurent** (+1 / +7), **BV** (+9 / +6), **Moschino** (+8) each enjoy a very material desirability surplus. By contrast, **Fendi** (-4) has yet to find its sweet spot, as has **DKNY** (-4); d) **Ferragamo** (+6) once again comes across as very strong. e) Several brands are in equilibrium or have a slightly positive desirability surplus, including Chanel (0), LV (+1), Hermes (+2) and Tod's (+2 / 0).

The Chinese are all-important in shaping the fortunes of luxury players

Prada and **Ferragamo** seem better positioned than market consensus and mainstream wisdom would acknowledge. **Gucci** and **Burberry** confirm relative weakness with the Chinese in comparison to other mega-brands. The positive for Gucci vs our benign view ([KERING: Fixing Gucci is Possible](#)) is that Gucci is in front of a significant brand overhaul effort (while Burberry has gone through the bulk of a brand requalification effort in China already).

Key valuation metrics

	Rating	Mkt cap (EURm)	Price (LC)	TP (LC)	Upside	P/E (x)		EV/EBITA (x)	
						15e	16e	15e	16e
Burberry	(=)	8,136	13.3	15	13%	18.2	17.3	12.2	11.2
Hermès Int.	(=)	36,530	350.4	304	-13%	36.0	32.9	22.7	20.4
Hugo Boss	(+)	6,459	93.6	112	20%	17.5	16.9	13.4	13.0
Kering	(+)	21,224	168.6	191	13%	17.3	15.0	14.8	12.7
Luxottica	(=)	30,342	63.8	59	-7%	31.8	29.3	19.8	18.2
LVMH	(=)	85,022	169.6	185	9%	21.9	19.5	14.4	12.7
Prada	(=)	9,440	31.5	34	8%	19.8	19.1	13.2	12.6
Richemont	(+)	43,847	84.8	95	12%	20.3	18.8	14.7	13.3
Swatch Group B	(=)	19,274	386.9	455	18%	15.9	14.6	11.9	10.4

* Prices at 30 October 2015

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First level analysis of exclusivity and desirability yields no revolutionary insight. Unsurprisingly, high-end brands Hermes, Chanel and Dior rank highest – as do mega-brands Louis Vuitton, Gucci, Burberry and Prada. The Chinese love affair with Chanel is confirmed – #1 in all rankings, except “grand luxe” perception.

We believe the brand awareness vs. desirability gap is most revealing. We compare the difference in brand awareness and desirability rankings, and calculate a desirability surplus (+) / deficit (-) = brand awareness ranking – desirability ranking. This analysis provides the following insights:

- a) **Both Gucci and Burberry suffer a desirability deficit** from (-3 to -5) – Burberry is better off in Hong Kong and worse off in mainland China – Gucci is the mirror image of that.
- b) **Unexpectedly, Prada enjoys a desirability surplus of some significance** (+4). This seems an encouraging indicator on the prospect of shoring up Prada with the Chinese.
- c) **The fortune of a “growth relay” manoeuvre seems to depend on the Chinese.** Saint Laurent (+1 / +7), BV (+9 / +6), Moschino (+8) enjoy very material desirability surplus – by contrast, Fendi (-4) does not seem to be at the sweet spot yet, and neither is DKNY (-4).
- d) **Salvatore Ferragamo (+6) once again comes across as very strong – as in our recent research in France.** This could suggest a more positive stance on growth expectations / the stock.
- e) **Several brands are in equilibrium or have a slightly positive desirability surplus**, including high-end and mega-brands like Chanel (0), Louis Vuitton (+1), Hermes (+2) – as well as Tod’s.

Desirability analysis highlights Prada and Ferragamo. The Chinese are all important in shaping the fortunes of luxury players.

- a) **Prada and Ferragamo seem better positioned than market consensus and mainstream wisdom would acknowledge.** With all the limitations of our research, this suggests more focus and further research effort on these names.
- b) **Gucci and Burberry confirm relative weakness with the Chinese in comparison to other mega-brands.** The positive for Gucci vs our benign view ([KERING: Fixing Gucci is Possible](#)) is that Gucci is in front of a significant brand overhaul effort (while Burberry has gone through the bulk of a brand requalification effort in China already).

Figure 1: We believe the awareness vs desirability gap is the most revealing insight upon our analysis

Awareness and Desirability analysis

Brand	Awareness Ranking		Desirability Ranking		Desirability Surplus / Deficit	
	Mainland China + Hong Kong	Mainland China	Mainland China + Hong Kong	Mainland China	Mainland China + Hong Kong	Mainland China
<i>Roberto Cavalli</i>		26		9	17	
<i>Lanvin</i>	24	23	11	14	13	9
Bottega Veneta	17	15	8	9	9	6
<i>Moschino</i>		25		17	8	
<i>Armani</i>		16		10	6	
S.Ferragamo	20		14		6	
Saint Laurent	19		18	12	1	7
Prada	7		3		4	
<i>Max Mara</i>	23	24	21	20	2	4
Hermes		4		2	2	
Louis Vuitton		5		4	1	
Tod's		22	20	22	2	0
Dior		6		5	1	
<i>Chanel</i>		1		1	0	
<i>Versace</i>	10	10	12	8	-2	2
<i>Ralph Lauren</i>		14		15	-1	
<i>Dolce & Gabbana</i>		18		19	-1	
DKNY		21		25	-4	
Burberry	3	2	6	7	-3	-5
<i>Diesel</i>	13	12	16	17	-3	-5
Fendi		9		13	-4	
Gucci	2	3	7	6	-5	-3
Miu Miu		15		24	-9	
<i>Bally</i>		12		22	-10	
<i>Calvin Klein</i>	11	13	23	23	-12	-10
<i>Valentino</i>		8		26	-18	

Note: Survey conducted in mainland China and Hong Kong during September 2015. Sample includes 607 Chinese women (18-54 years old) whose household's monthly income is superior to CNY20,000.

Source: Promise Consulting

Figure 2: We define “brand traction” as the difference between awareness and desirability multiplied by the desirability index

Brand Traction analysis

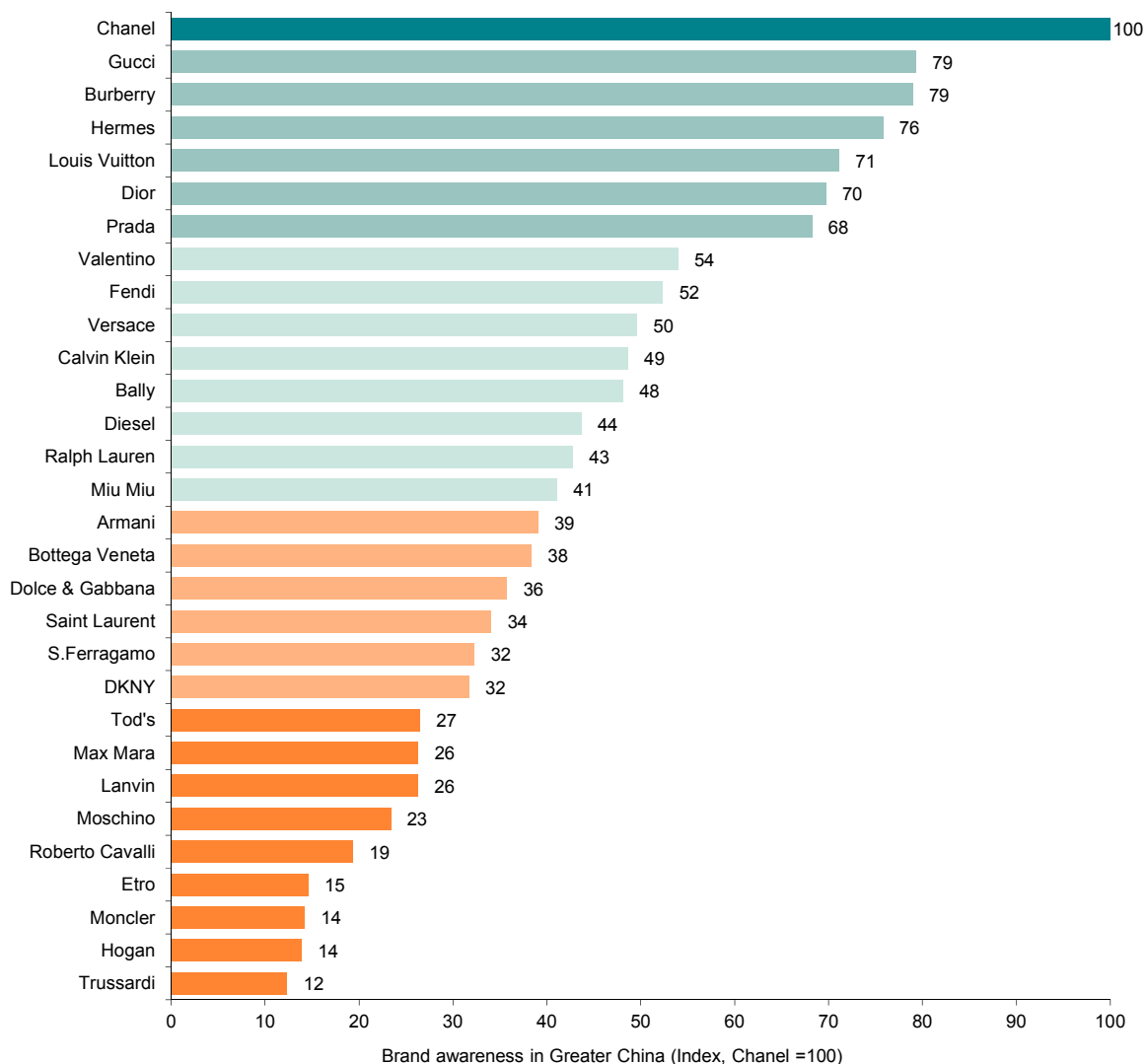
Brand	Desirability Surplus / Deficit		Desirability (Index, Chanel = 100)		Brand Traction	
	Mainland China + Hong Kong	Mainland China	Mainland China + Hong Kong	Mainland China	Mainland China + Hong Kong	Mainland China
<i>Roberto Cavalli</i>		17		80		14
<i>Lanvin</i>	13	9	75	72	10	7
Bottega Veneta	9	6	80	78	7	5
<i>Moschino</i>		8		66		5
<i>Armani</i>		6		77		5
S.Ferragamo		6		69		4
Prada		4		90		4
Saint Laurent	1	7	65	73	1	5
<i>Max Mara</i>	2	4	61	66	1	3
Hermes		2		95		2
Louis Vuitton		1		89		1
Dior		1		85		1
Tod's	2	0	62	62	1	0
<i>Versace</i>	-2	2	73	79	-1	2
<i>Chanel</i>		0		100		0
<i>Dolce & Gabbana</i>		-1		64		-1
<i>Ralph Lauren</i>		-1		67		-1
DKNY		-4		56		-2
<i>Diesel</i>	-3	-5	67	70	-2	-3
Fendi		-4		70		-3
Gucci	-5	-3	81	84	-4	-3
Burberry	-3	-5	83	80	-2	-4
Miu Miu		-9		57		-5
<i>Bally</i>		-10		61		-6
<i>Calvin Klein</i>	-12	-10	58	61	-7	-6
<i>Valentino</i>		-18		54		-10

Note: Survey conducted in mainland China and Hong Kong during September 2015. Sample includes 607 Chinese women (18-54 years old) whose household's monthly income is superior to CNY20.000.

Source: Promise Consulting

Figure 3: Chanel leads on brand awareness in Greater China, followed by Gucci, Burberry, Hermes and Louis Vuitton

Luxury brands awareness in Greater China (Index, Chanel = 100)

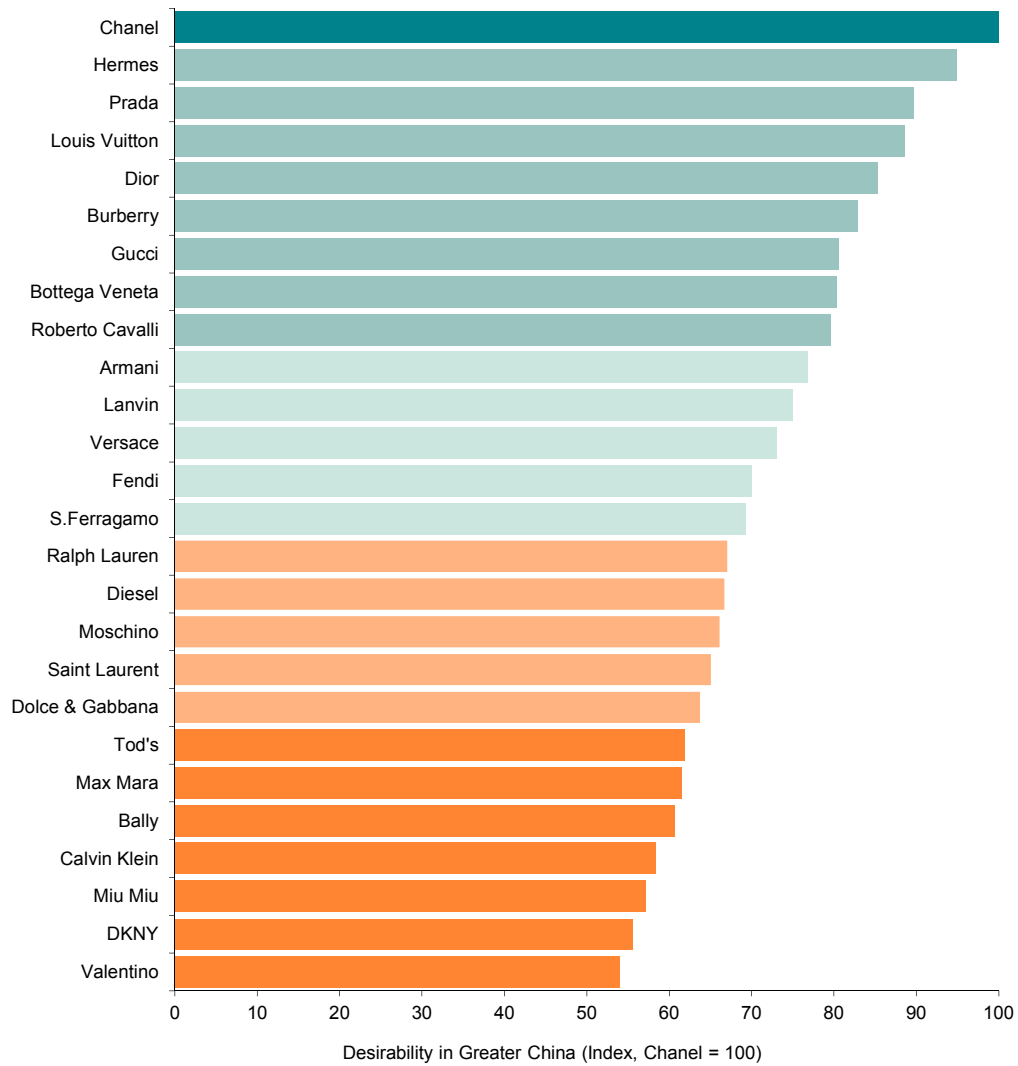


Note: Survey conducted in mainland China and Hong Kong during September 2015. Sample includes 607 Chinese women (18-54 years old) whose household's monthly income is superior to CNY20,000.

Source: Promise Consulting

Figure 4: Chanel tops the ranking on perceived desirability in Greater China, followed by Hermes, Prada, Louis Vuitton and Dior

Luxury brands desirability in Greater China (Index, Chanel = 100)

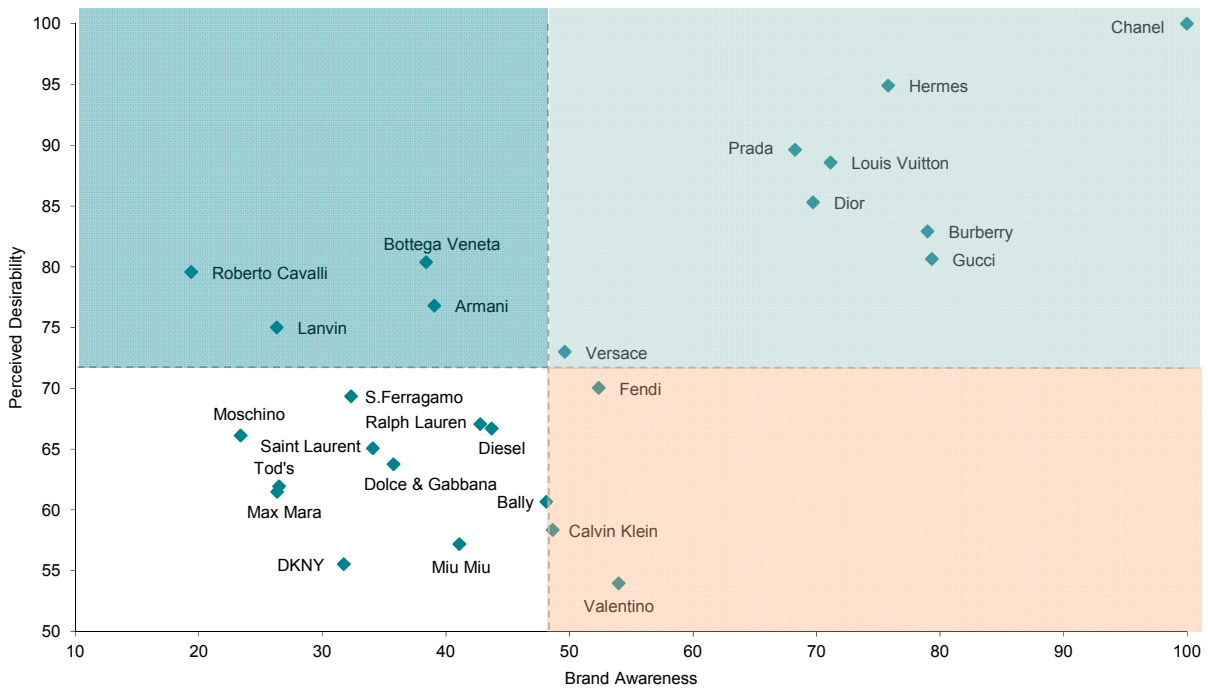


Note: Survey conducted in mainland China and Hong Kong during September 2015. Sample includes 607 Chinese women (18-54 years old) whose household's monthly income is superior to CNY20.000.

Source: Promise Consulting

Figure 5: High-end brands Chanel, Hermes, Dior and Mega brands LV, Gucci, Burberry and Prada lead in brand awareness and desirability in Greater China

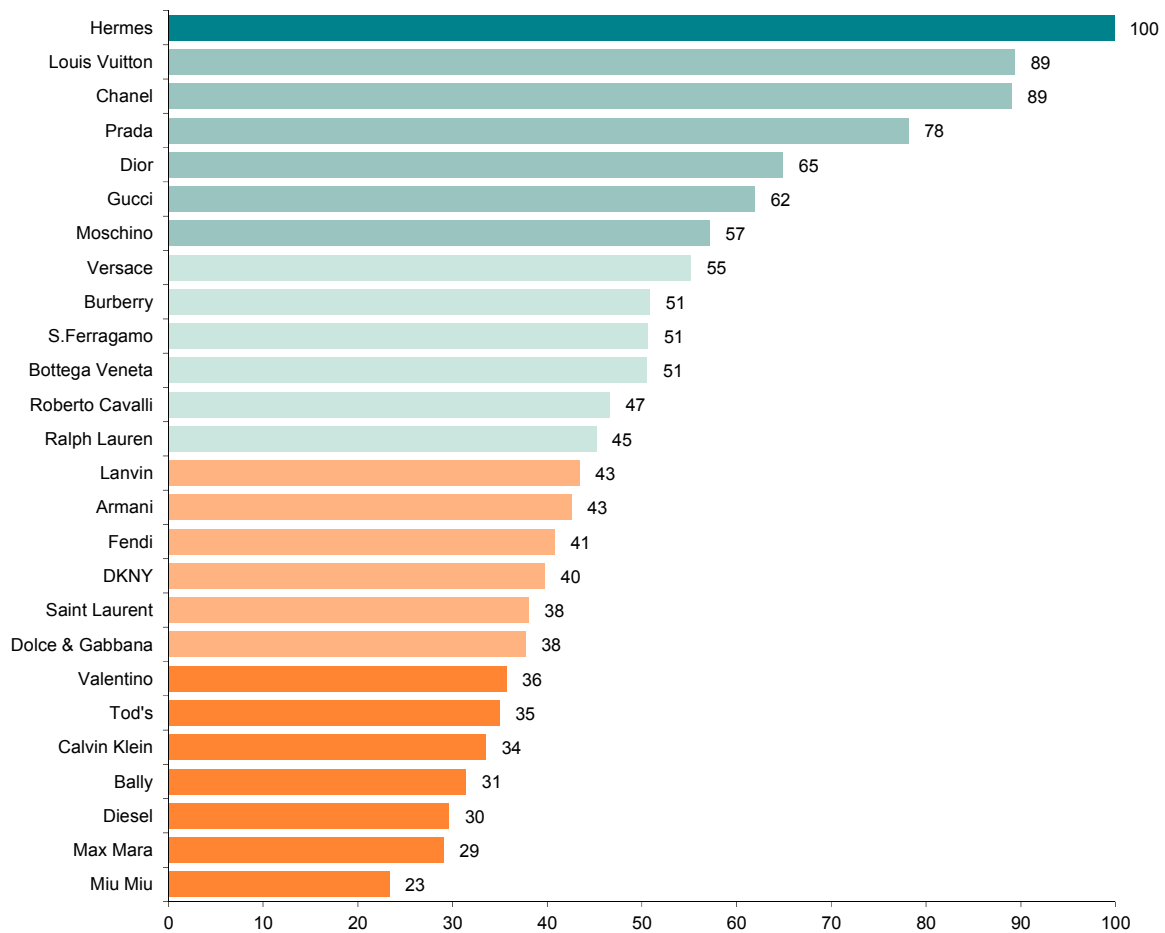
Brand awareness vs. Desirability



Note: Survey conducted in mainland China and Hong Kong during September 2015. Sample includes 607 Chinese women (18-54 years old) whose household's monthly income is superior to CNY20,000.

Source: Promise Consulting

Figure 6: Hermes, Louis Vuitton, Chanel, Prada and Dior are perceived as exclusive in Greater China
 Brand perceived as exclusive in Greater China (Index, Hermes =100)



Perceived as exclusive in Greater China (Index, Hermes = 100)

Note: Survey conducted in ML China and Hong Kong during September 2015. Sample includes 607 Chinese women (18-54 years old) whose household's monthly income is superior to CNY20,000.

Grading : Premium, Premium Luxury, Luxury, Very Luxury, Top Luxury

Source: Promise Consulting

Philippe Jourdan, CEO of Promise Consulting: *“Hermes is comfortably ranked 1st on exclusivity. This leading position seems to justify the permanent investments that the brand made in China in 2015. The luxury saddler thinks that “for now, it is too early to draw conclusions concerning the impact of the devaluation of the yuan and the crash on the Chinese Stock Market on its activities.”*

2014 saw Hermes register a remarkable performance in the whole Asian zone (except Japan), with turnover growth reaching +13%. In 2014, the brand opened its fifth flagship in the world, deliberately choosing to locate its new three-storeyed flagship in the heart of Shanghai’s former French concession, a symbolic district, away from the modern buildings of the new business districts. Here, the brand’s positioning, i.e. to propose to its clients a “discreet and refined luxury”, is placed on a very contemporary space that represents more than 1,100 square meters.

Hermes’ brand image and the conception of its products echo the evolving attitude of Chinese clients, who are searching for products that are less visible, branded more discreetly, reflect an authentic savoir-faire and upper quality. Shang Xia, the Chinese brand that Hermes launched with a lot of advertising communication, has so far won critical rather than popular acclaim but is nevertheless pursuing its objective of demonstrating to the world China’s creativity in luxury.

Louis Vuitton ranks second (ex-aequo) on the exclusivity criterion (while the brand was ranked third in France, behind Christian Dior). Here, the brand equals Chanel, which allegedly exerts a strong attractiveness to the wealthiest Chinese customers. An honourable second-place ranking ex-aequo for Louis Vuitton, which belies the assertion that the brand has ensured its “democratization” too quickly in China.

At the same time, the brand has successfully got back to the fundamentals of luxury, thanks in particular to the strong commitment of its Artistic Director of Women’s Collections, Nicolas Ghesquière, who describes the new Louis Vuitton woman as an individual who “appreciates the quality of the products, loves innovation and value the functional aspect of the clothing”.

Still, we will mostly insist on the brand’s repositioning towards more luxury and more expensive leather goods. This strategy favours quality vs. quantity, value vs. volume, and has led to the launch of new handbag ranges, Vivienne, W and Capucines – the price for the latter being six times higher than that of the monogrammed coated canvas handbag.

Chanel is very close to Louis Vuitton on the exclusivity criterion. Finally, our “Exclusivity & Desirability” ranking shows that the brand with the two interlaced Cs confirms its wonderful vitality on the Chinese feminine luxury market: the brand is ranked second ex aequo on exclusivity and first on desirability. To counteract the gap on exchange rates between the euro and the yuan, and the gap on taxes between Europe and China, which both feed a parallel market on the Internet (and increase Chinese people’s share of purchases made abroad), the group decided in 2015 to harmonize its rates between Europe and China, so that the prices in China do not exceed +5% of the prices in euro. For now, this decision, coupled with an increase in the prices for the three emblematic handbags “Boy”, “11-12” and “2.55” (and finally a decrease on the Chinese market), does not seem to have had a negative impact on the brand’s exclusivity or desirability.

Ranked fourth and fifth, Prada and then Dior get 127 and 105, respectively, on the exclusivity index. The Italian brand, listed on the Hong Kong Stock exchange until 2013, announced sharply rising profits before facing, like its competitors, a slowdown in sales in the Asia-Pacific zone in 2014 (-6.5%). The 2014 decrease is attributed to the company's efforts to go upmarket (and increase prices) that, for now, has had no impact on margin but has penalized turnover, and to the costs engendered by the opening of new boutiques. Still, the group, run by Patrizio Bertelli, can capitalize on an undeniably exclusive luxury image in China.

Dior is ranked fifth: since 2013, the emblematic brand, settled in Avenue Montaigne, has been organizing popular events in Shanghai (the "Esprit Dior" exposition, Dior Haute couture Fashion show in China, opening of its first boutique that brings together the fragrance, the skincare and the makeup, Christian Dior Fragrance and Beauty, etc.) and in Guangzhou in 2015 (Opening Night & Day Dreaming Men Fashion show). Such events should, on medium term, allow the brand to strengthen its position in the upper part of our ranking."

Survey Methodology

The survey – carried out by Promise Consulting – was conducted during September 2015 in Great China (Mainland China + Hong Kong) using an online questionnaire. The survey was conducted among 607 Chinese women (aged 18–54 years) whose household monthly income is superior to CNY20.000. Starting from a list of the top 30 brands in terms of communication spending, the questionnaire was designed to ascertain:

- **The perceived exclusivity and degree of each brand's 'premiumness' in the eyes of consumers.** When thinking of the universe of luxury goods brands, we all have our own personal hierarchy. The survey aimed to classify brands on a 'luxury scale' of one (most accessible) to five (most exclusive / high-end). The results were indexed to 100.
- **The desirability of a brand in the eyes of consumers.** When thinking of the universe of luxury goods brands, there are brands we desire more than others: their products, services, image, values are closer to our personal ideal of a luxury brand. The survey attempted to classify brands on a 'desirability scale' from one (less desirable) to seven (most desirable). The results were indexed to 100.

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