Aalto University
School of Business

The effect of recession on the operational performance of luxury goods companies - Empirical evidence from the global luxury market between 2007 and 2010

Accounting

Master's thesis

Hanna Salakari

2013

Department of Accounting
Aalto University
School of Business

Aalto University
School of Economics

Aalto University, P.O. BOX 11000, 00076 AALTO
www.aalto.fi

Abstract of master's thesis

Author Hanna Salakari

Title of thesis The effect of recession on the operational performance of luxury goods companies – Empirical evidence from the global luxury market between 2007-2010

Degree Master's degree (MSc)

Degree programme Accounting

Thesis advisor Juha Kinnunen

Year of approval 2013 **Number of pages** 106 **Language** English

Abstract

The purpose of the study was to examine the operational performance of luxury goods companies during the financial crisis of 2008 and the following recession. In addition, the study aims to provide insights on the relatively unstudied industry of luxury goods. The operational performance of luxury goods companies is further evaluated by comparing their key financial performance indicators against a benchmark group consisting of premium goods companies in order to find whether the luxury goods companies show outperformance during the recession. A regression analysis is conducted to gain further insight on the factors that potentially affect the results.

The sample consists of a hand-collected data set of 20 publicly traded global luxury goods companies and a peer group of 20 public premium goods companies also operating globally. For the purposes of this study, the luxury goods industry is limited to the so-called personal luxury goods or luxury consumer goods. The financial data is gathered from Thomson One Banker and the companies financial statements, covering a time period from year-end 2007 to year-end 2010, covering the full economic down cycle: slowdown, recession and rebound.

The main findings of this study support the set hypotheses regarding luxury goods companies' performance during the financial crisis and the following economic downturn. While luxury goods companies were not found to be immune to the recession, their performance was on aggregate positive despite the hostile operating environment. In addition, the positive performance was significantly better when compared to the peer group, which suggests that luxury goods companies indeed outperform their premium peers. Finally, the variables contributing to this performance were measured with sales growth, financial flexibility and initial profitability and were controlled for size. The findings of the multivariate analysis suggest that initial profitability and size are negatively associated with the performance while other variables suggest a positive association with the outperformance.

Keywords Luxury goods, Premium Goods, Financial crisis, Recession, Operational performance

Aalto-yliopisto
Kauppakorkeakoulu

Aalto-yliopisto, PL 11000, 00076 AALTO
www.aalto.fi

Maisterintutkinnon tutkielman tiivistelmä

Tekijä Hanna Salakari

Työn nimi Taantuman vaikutus luksustuotteita valmistavien yritysten operatiiviseen suoriutumiseen

Tutkinto Kauppatieteiden maisterin tutkinto (KTM)

Koulutusohjelma Laskentatoimi

Työn ohjaaja Juha Kinnunen

Hyväksymisvuosi 2013 **Sivumäärä** 106 **Kieli** Englanti

Tiivistelmä

Tutkielman tavoitteena on tarkastella luksustuotteita valmistavien yritysten liiketoiminnan kehittymistä vuoden 2008 talouskriisin sekä sitä seuranneen taantuman aikana. Lisäksi tutkielma pyrkii lisäämään tietoisuutta suhteellisen vähän tutkitusta luksustoimialasta. Luksustuoteyritysten operatiivista suoriutumista arvioidaan vertaamalla näiden keskeisiä tunnuslukuja premium-yrityksistä koostuvan verrokkiryhmän suoriutumiseen, jotta voidaan selvittää ovatko luksus-yritykset suoriutuneet taantumassa paremmin kuin verrokkiryhmä. Regressio-analyysillä pyritään selittämään yritysten suoriutumisen takana olevien tekijöiden syy-seuraus suhteita.

Tutkimusaineisto käsittää 20 globaalisti toimivaa julkisesti noteerattua luksustuotteiden valmistajaa sekä 20 globaalin verrokkiyrityksen ryhmän joka koostuu ns. premium tuotteiden valmistajista. Tutkimusta varten luksustoimiala on rajattu ns. kulutustavaroiksi luokiteltaviin luksustuotteisiin. Data on kerätty Thomson One Banker:sta sekä tutkimuksen kohteena olevien yritysten tilinpäätöksistä, kattaen koko talouden syklin vuodesta 2007 vuoden 2010 loppuun.

Tutkielman tulokset osoittavat, että vaikka luksustuotteita valmistavat yritykset eivät ole immuuneja taloudellisille sykleille, niiden liiketoiminta ja kannattavuus ovat kehittyneet positiivisesti taantumasta huolimatta. Lisäksi verrattuna verrokkiryhmään, luksustuotteita valmistavat yritykset suoriutuvat taloudellisten tunnuslukujen valossa selvästi premium-luokan kilpailijoitaan paremmin. Tarkastelussa liiketoiminnan kehitykseen vaikuttavista syistä tulosten mukaan korkeampi kannattavuus ennen kriisiä vaikuttaa negatiivisesti taantuman aikaiseen kehitykseen. Taloudellinen liikkumatila ja liikevaihdon kasvu vaikuttavat molemmat positiivisesti suoriutumiseen. Lopuksi yrityskoolla näyttää olevan negatiivinen vaikutus kannattavuuden kehitykseen taantumassa.

Avainsanat Luksustuotteet, Premiumtuotteet, Talouskriisi, Taantuma, Operatiivinen suoriutuminen

TABLE OF CONTENTS

1 INTRODUCTION ... 1
1.1 Background and motivation ... 1
1.2 The relevance of existing research ... 4
1.3 Objectives of the study ... 6
1.4 Limitations of the study ... 7
1.5 Structure of the study ... 8

2 LUXURY MARKET OVERVIEW ... 9
2.1 Luxury goods industry ... 9
2.1.1 The size and growth prospects of the market ... 11
2.1.2 The global market of luxury ... 14
2.1.3 Sector drivers ... 17
2.2 Defining luxury ... 18
2.2.1 The relationship between luxury products and brands ... 19
2.2.2 Distinguishing luxury product and brands from similar concepts ... 23
2.2.3 Utility generated by scarcity ... 26
2.3 Luxury goods spending patterns ... 28
2.3.1 The Veblen effects and conspicuous consumption ... 28
2.3.2 Changing world of luxury ... 29
2.4 Luxury brands in times of economic downturn ... 33

3 CORPORATE PERFORMANCE DURING ECONOMIC CRISES ... 35
3.1 Growth ... 37
3.2 Operating Performance ... 41
3.3 Financial flexibility, leverage and risk during crises ... 46
3.4 Hypotheses ... 51

4 DATA AND METHODOLOGY ... 53
4.1 Description of the data ... 53
4.2 Sample Selection ... 54
4.2.1 Study Period ... 54
4.2.2 Luxury goods companies group and selection criteria ... 55
4.2.3 Peer group and selection criteria ... 59
4.3 Descriptive statistics ... 61
4.4 Discussion on measuring operating performance ... 64
4.5 Variables ... 66
4.5.1 Dependent variable: Abnormal performance between luxury and premium goods companies ... 66
4.5.1 Independent variables ... 67
4.6 Statistical Methods ... 69

5 EMPIRICAL RESULTS AND ANALYSIS ... 72
5.1 Main Results ... 72
5.1.1 Statistical Models Used ... 72
5.1.2 Results Related to Luxury Goods Companies Performance during the Downturn ... 76
5.1.3 Results Related to the Components of the Abnormal Performance (Regression Results) ... 79
5.2 Reliability and Validity Analyses ... 82
5.2.1 Reliability and Validity Discussion ... 82
5.2.2 Internal Validity ... 83
5.2.3 Generalizability ... 84

6 CONCLUSIONS ... 85
6.1 Overview of the results ... 86
6.2 Proposals for further research ... 87

7 REFERENCES ... 89

8 APPENDICES ... 98

LIST OF FIGURES

FIGURE 1 - *Worldwide Traditional Luxury Goods Market trend 1995-2011 (€Bn) (Bain & Co., 2011)*.................... 12

FIGURE 2 - *The estimated size of the global market for luxury goods and services (broader definition) (Bellaiche et al, 2010)*... 13

FIGURE 3 - *Geographical distribution and evolution of the global luxury goods market sales (Verdict, 2011)* 15

FIGURE 4 - *The definition of luxury goods by Dubois, Laurent and Czellar (2001)* 22

FIGURE 5 - *Different types of luxury brands vs medium level brands (Heine, 2012).* 24

FIGURE 6 - *Changes in utility following a reduction (increase) in price (quantity) (Petrova & Pruzhansky, 2011)*.. 27

FIGURE 7 - *Luxury spending consumer segments (Bellaiche et al, 2010)* 30

FIGURE 8 - *Luxury spending across consumer segments (Bellaiche et al, 2010)*.. 31

FIGURE 9 - *Components of firm level performance during crises* 36

FIGURE 10 - *Real Global GDP change 2007-2011 (OECD, 2012)*... 54

FIGURE 11 - *Sample distribution by geography and main product line (Luxury goods group)* 58

FIGURE 12 – *Sample distribution by geography and main product line (Peer Group)*... 60

LIST OF TABLES

TABLE 1 – *Previous research on business growth during recessions and economic crises* 37

TABLE 2 – *Previous research on firm performance during recession and economic crises* 42

TABLE 3 – *Previous research on financial flexibility and leverage during recessions*.. 46

TABLE 4 – *Geographical and product line distribution of the luxury goods companies* 61

TABLE 5 – *Sample characteristics of the luxury goods companies* 62

TABLE 6 – *Sample characteristics of the peer group* 63

TABLE 7 – *Unadjusted performances of the luxury goods companies 2007-2010* 73

TABLE 8 – *Adjusted Performance of the luxury goods companies vs. the peer group 2007-2010* 74

TABLE 9 – *Regression Results*.. 74

TABLE 10 – *Comparison of the Hypotheses and Results*.. 75

1 INTRODUCTION

1.1 Background and motivation

The financial crisis of 2008 might be over but the subsequent downturn and recession in the world economy have shaken corporate results and consumer behaviour globally. While the downturn has negatively affected a large number of businesses worldwide, there has been a lot of discussion concerning the luxury goods industry and its reaction to the recession (see e.g. The Economist, 2009; Carreon, 2011; Clifford, 2011; Neate, 2013; Masidlover & Passariello, 2013). Some claim that the crisis had not much impact on the sector, while others say there was definitely a slump in the sales of luxury goods after the crisis, but that the impact was only short term. In fact, the sector seems to get a high share of attention on a regular basis not only from the media but also from the financial community, business analysts, investment banks, and even consultancies despite the quite small size of the industry (See e.g. Bellaiche et al.2010; 2012; Belge et al., 2012, EIU et al., 2007). Furthermore, the sector is closely followed by the world economic press with emphasis on the industry and its main actors, the multi-brand groups such as LVMH, Richemont and PPR, or independent companies such as Hermès and Burberry. (Kapferer & Tabatoni, 2010, pp.4-5).

While the world economy remains in a low growth mode with many people pulling back on spending, the sales of luxury goods, however, have not shown clear signs of faltering. In fact some luxury goods retailers can barely keep up with consumer demand and not only are many products sold out but also there are waiting lists for these items (Clifford, 2011; Colchester, 2009). Indeed, according to Brand Finance (2012) report, instead of reducing their spending, consumers are shifting their consumption by turning their backs on traditional household favourites and lower end products and rather embrace the luxury lifestyle and indulgent brands despite the bleak economic outlook. Furthermore, the paper goes on stating that high-end fashion continued to grow during the global economic downturn and appears to be largely unaffected by the current economic climate. For instance, brands as Hermès and Christian Dior have clearly increased their brand value during the recession. The former, valued at $3.4 billion in 2012, grown by

33% since 2007 and the latter by 25%, now valued at $2.5 billion. (Brand Finance, 2008; 2012). In addition, some luxury goods companies have shown robust sales growth on their quarterly reports during the recession, despite the challenging market situation and steeply dropped consumer confidence (Paton, 2012; Roberts, 2011). The consulting firm Bain & Co reports similar findings as well. They assert in their 10th annual Worldwide Luxury Goods Market Study that the luxury goods sales continued to grow with an increase of over 10% in 2011. As a result, global luxury goods sales were expected to exceed €200 billion in 2012. (Bain & Co, 2011). However, when compared to other sectors, the luxury goods industry seems to be actually quite small. For instance, the giant retailer Wal-Mart (2012) with net sales around €300 billion, has more revenue than the estimated global sales of the whole luxury industry altogether. All this interest around quite a small industry manufacturing and selling products that no one really needs, might seem irrational. In addition, how can luxury goods companies be reporting booming sales, when many traditional retailers are going to the wall and unemployment is rising around the world affecting consumer spending across different industries (Neate, 2013; Dethier & Morrill, 2012; Verick & Islam, 2010). This sort of resilience seems very interesting and requires examination on what makes the luxury goods industry different from traditional retail industries.

To begin with, the sales of luxury goods are driven by substantial brand power and its ability to evoke a dream factor. These products are bought rather by desire than need, and they can be characterized with a low functionality to price ratio and with a high intangible and situational utility to price ratio. (Königs & Schiereck, 2006; Nueno & Quelch, 1998, pp.61). Basically, luxury goods are items no one really needs yet millions desire them. These are items that serve little purpose in the lives of consumers except to fulfil dreams. And these dreams do not come cheap, for instance a record selling handbag named the “Birkin” manufactured by the French luxury goods company Hermès International comes with price tags starting from $10.000 and yet the waiting lists for these bags can stretch for years. (Wetlaufer, 2001; Roberts, 2013). One of the main concerns of luxury goods companies consists of the establishment and protection of an impeccable reputation (Königs & Schiereck, 2006, pp.3). Whereas different elements of business may seem to guide the brand in other sectors, the brand is the engine of a leading luxury goods company’s entire business model. The brand is the ultimate reason

why consumers choose these goods and services (Danet et al., 2008, pp.6, Okonkwo, 2007).

Secondly, due to the high-end status of the luxury goods manufacturers, the brand also determines the pricing power. Hence luxury goods also have 'luxurious' margins, some brands consistently yielding profit margins around 40-45%. (Kapferer & Tabatoni, 2010, pp.6; The Economist, 2009). Consequently, luxury brands are extremely profitable and the industry can be characterized with high operating margins and strong cash generation (Belge et al, 2012). In general, entry barriers have historically been high and demand relatively stable (Ganter & Freihofer, 2008). Due to this inelastic demand, some luxury goods companies, e.g. Hermès, can control their production and price accordingly to generate revenues (Roberts, 2013). In fact, luxury brands do not really compete on price but rather on design and desirability. During downturns, prices are generally held up as reducing prices to increase top line growth, the same way as traditional retailers could do, is out of question. By decreasing prices, the luxury goods companies would also let go of the "dream aspect" of the products and the glamorous image of the brand. Consumers' preference for buying luxury goods decreases as price falls. Consequently, an increase in price may, by corollary, increase perception of exclusivity, thus making the goods even more preferable. (Bagwell & Bernheim, 1996; Belge et al, 2012). In fact, many high-end businesses proved to be able to mark-up, rather than discount their prices during recession, attracting customers who equate quality with price (Clifford, 2011).

Moreover, luxury goods attract customers through a combination of quality, emotion and rarity. However, many luxury goods companies are no longer selling rare and exclusive products but they are adept at pretending to do so by offering an illusion of scarcity through branding, pricing and distribution strategies. (Catry, 2003, pp.10). Luxury goods provide means to a lifestyle that is triggered by psychological and emotional needs and luxury brands provide a complete package of significant benefits to consumers through the emotional value of acquiring seemingly rare, high quality objects. Thus it could be quite challenging to find another sector apart from luxury goods, that can claim an emotional connection with their consumers to such extent that the desire for a product increases with the increase of the products price tag. (Okonkwo, 2007; Catry, 2003).

1.2 The relevance of existing research

Previous academic attempts to provide an explanation to the controversy of luxury goods have failed to produce universal results. In fact, the financial performance of luxury goods companies seems to remain a fairly unstudied area from an accounting or finance point of view. Marketing literature and studies on brands and branding exist but examination on the operational performance of luxury goods companies is limited mostly to research materials often provided by research institutions or global consultancy companies.

In addition, as a somewhat new and constantly evolving industry, luxury goods and the brands operating within the market have been generally studied in the context of healthier economies, not much during recessionary times. Furthermore, existing previous academic literature on luxury goods during recessions also concentrates on less dramatic downturns, unlike the global recession of 2008-2009, making comparison between different research results more difficult. This creates a clear gap in the research as to how these brands perform and what strategies luxury goods companies employ during economic downturns. Moreover, general studies on the impact of the recent global financial crisis on corporate profits appear to be either still in the making or the academic interest is concerning mainly financial institutions or broader economic consequences such as employment and effect on sovereigns.

In addition, the luxury goods industry is continuously developing and has recently undergone an important evolution and several management shifts. Consolidation activities and private equity financing have contributed to the development of the industry considerably. Furthermore, other aspects of luxury are also changing. These include the expansion of the luxury consumer market to include a broader mass market and the reinterpretation of the luxury concept by the consumer society. (Bellaiche et al, 2010; Okonkwo, 2007). In developed countries middle-class households with growing incomes have begun to shop for brands that were previously seen as out of reach. The luxury goods industry has been tempted to meet this new demand. Furthermore, due to the M&A activities within the industry, many small luxury goods producers are now part of conglomerates such as LVMH and Richemont, which must chase sales to amortise

their investments and ever-growing marketing and distribution costs. Thus, luxury goods have become more available for the masses and a new concept of mass luxury has evolved. (Catry, 2003, pp.11).

Finally, the geographical scope of the luxury goods market has also changed substantially. From its European origins, luxury goods companies have become increasingly global players following the emergence of new luxury markets like China, Russia and India. The increase in wealth and mobility of luxury consumers is also fuelling the sector's expansion. (Bellaiche et al, 2010; Cohen, 2007; Okonkwo, 2007). Though potential customers may come from different parts of the world, their tastes are increasingly similar (Catry, 2003, pp.11). Consequently, the global footprint diversifies the market and is expected to reduce the geographical risk of change in the economic environment in any single market.

These changes within the luxury goods sector suggest for a need for new research to increase the understanding of the changing luxury market and its financial performance as well as operational excellence. Therefore, on the above-mentioned basis, this study adds to the limited existing research on the industry. In addition, the current recessionary conditions offer a unique opportunity to study the implications of recession to the operational performance of luxury goods companies. Some of the companies within this industry may have been hit particularly hard by the downturn while others could have emerged not only unscratched but even strengthened. In this regard, while the crisis was dramatic and unfortunate, it provides an opportunity to study how financial constraints impact corporate behaviour in the luxury goods industry.

1.3 Objectives of the study

The purpose of this thesis is to examine the operational performance of luxury goods companies during recessionary times, including the financial crisis of 2008 and the following recession. Firstly, studying the performance of luxury goods companies offers the opportunity to analyse the evolution of their key financial performance indicators during the recession and comparing the performance against a benchmark group consisting of companies manufacturing and selling so-called premium goods. These are further described in Chapter 2. Secondly, in order to gain further insight on the factors that potentially affect the operational performance of the sample companies during the recession, a regression analysis is conducted to measure the effect of several variables suggested by the existing literature.

The research questions can be specified as:

1. Are luxury goods companies more resilient to economic downturns than companies providing premium goods?

2. What company level factors explain potential difference in the operational performance between these groups during the downturn?

In addition, this study aims to contribute to the existing literature by describing further the luxury goods market and the operating environment of luxury goods companies in general in addition to providing insight into the different market segments as well as the key operating issues that the luxury goods companies are faced with. Moreover, a large part of the previous academic research regarding the luxury goods industry has taken a marketing or management approach. Thus adding to the previous studies, this thesis contributes by addressing the industry from an accounting and finance viewpoint. Furthermore, as the existing literature on corporate operational performance during recessionary economic conditions remains clearly fairly limited, this thesis studies the impact of the adverse operating conditions to the company level performance.

1.4 Limitations of the study

A major challenge in defining luxury brands is that the word “luxury” and the related terms are especially vague and subjective. Due to the fact that consumers perceive goods as being luxurious for different reasons and characteristics, their meaning depends very much on the user’s perspective (Kapferer, 2008, pp.96). In addition, the existing definitions regarding the luxury goods and the industry relate mainly to product and brand characteristics. Hence, there is no universally valid definition or an accurate list of companies operating within the luxury goods industry, which is why the sample companies for this research had to be hand collected. Due to the nature of the studied data, some limitations are inevitable as it is practically impossible to study the financials of all luxury brands for two main reasons.

The first limitation relates to private ownership. Many important players in the luxury goods industry, such as Chanel SA, Versace and Giorgio Armani Spa, remain privately owned and hence are not required to publish financial data the same way as public companies. (Kapferer & Tabatoni, 2010). This aspect limits the potential study sample, as private companies could not be included in the study and by corollary, the data was gathered only from publicly listed companies. Thus, the study does not cover the whole universe of luxury brands but a very large population nevertheless.

Secondly, many of the luxury brands, such as Louis Vuitton or Tag Heuer, operating within the industry, may be perceived as independent companies but are in fact owned by the same parent company. Indeed, the market is highly dominated by four luxury conglomerates: LVMH, PPR, Richemont and the Swatch Group. In their annual reports, the financials may be presented only at group level and information can be hidden behind the aggregated group level data. (Königs &Schiereck, 2006; Kapferer & Tabatoni, 2010). Thus the universe of luxury goods companies is limited to some extent for the purposes of this study.

An additional challenge regarding the luxury goods industry is provided by the fact that it covers a very large range of underlying industries and product ranges; from cars to hotel resorts. Due to various consumer behaviour patterns, these sectors behave quite differently if compared to consumer goods and may create biases when measuring the operational performance. Thus, for the purposes of this study, the definition of the luxury goods industry is limited to the so-called personal luxury goods or luxury consumer goods. Hence, the data sample constitutes of companies operating mainly in apparel, accessories and cosmetics, which are universally similar. These can also be categorized as the traditional categories of luxury goods.

1.5 Structure of the study

The remainder of this thesis is structured as follows. After the introduction, Chapter 2 begins with an overlook of the luxury goods industry and the operating environment, including the key operating issues that luxury goods companies face today as well as the different market segments and consumer spending patterns regarding luxury goods. Chapter 3 describes the theoretical framework of operational performance measurement during recessions and presents the hypotheses, while Chapter 4 discusses the methodology and data used in this study. Chapter 5 presents the empirical results and finally, Chapter 6 summarizes and presents conclusions.

2 LUXURY MARKET OVERVIEW

2.1 Luxury goods industry

The luxury goods industry can be considered as a collective term for companies selling - besides high-quality products - principally status, exclusivity and emotional benefit as well as the dream of separation from the ordinary (Königs & Schiereck, 2006, pp.2). Luxury goods correspond to the micro-economic understanding and the middle scope of luxury, comprising all goods exceeding what is necessary and ordinary, and are suitable for exchange on the market (Heine, 2012, pp.47). This type of products and services are bought rather by desire than need, and luxury goods companies primarily tend to arouse wishes and desires among their clientele. One of their main concerns consists in the establishment and protection of an impeccable reputation (Königs & Schiereck, 2006, pp.3). True luxury means different things to different people, but for most consumers the term represents quality, rarity and refinement. These characteristics apply not only to the traditional categories of luxury, the luxury consumer goods, but also to experiences. In the eyes of most consumers, luxury also extends to alcohol and food, as well as to travel, hotels, spas, technology and cars. (Bellaiche at al, 2010, pp.1). Hence, luxury goods can be classified into three categories: *luxury consumer goods*, also called personal luxury goods, *experiential luxury*, meaning for example luxury travel and other luxury services, and finally *luxury investment goods*, such as cars, private jets and yachts. Personal luxury goods can further be categorized into *soft luxury*, such as clothing and accessories, and *hard luxury*, such as watches and jewelry. (Königs & Schiereck, 2006, pp.5; Belge et al, 2012, Bellaiche et al, 2010).

The global luxury goods sector has recently undergone an important evolution and several management shifts (Okonkwo, 2007, pp.3-4). The industry was for a long time defined by stable environmental conditions and luxury brands were managed through traditional business methods where decisions were made based on intuition and sometimes on a trial basis. However, since the 1990's the rapidly changing competitive environment has forced organizations to move towards greater flexibility (Djelic & Ainamo, 1999; Okonkwo, 2007, pp3). The mid 80s was a phase of several luxury

company formations and repositionings. In the early 1990's market actors became aware of the tougher competitive situation inside the industry segment and this awareness marked the beginning of consolidation activities increasingly intensifying until the year 2000 when the number of transactions climaxed. (Königs & Schiereck, 2006, pp.2).

The M&A activity has been fundamentally dominated by four giant luxury conglomerates in Europe: LVMH, PPR, Richemont and The Swatch Group. These all emerged from the consolidation period of the 90's with large, highly diversified product and brand portfolios as well as a strengthened market position. The French company LVMH, parent company to brands such as Louis Vuitton, Tag Heuer and Givenchy, is the largest group within the industry and has today more than 60 luxury brands in five different product categories: fashion and leather goods, fragrances and cosmetics, wines and spirits, watches and jewelry, as well as selective distribution. PPR, owner of brands as Gucci, Yves Saint Laurent and Balenciaga, is more a conglomerate than a diversified luxury group, since it holds retail assets and a luxury portfolio including 13 luxury brands. Richemont, parent company to brands as Cartier and Van Cleef & Arpels, as well as the Swatch Group, owner of brands as Omega and Breguet, also have diversified portfolios, although they focus on the so-called hard luxury, as watches and jewelry. (Königs & Schiereck, 2006; Belge et al., 2012; LVMH, 2013; Richemont, 2013; PPR, 2013; Swatch Group, 2013). Some specific features of the industry imply already inherent merger motives: gross margins are high and operational costs partially display substantial differences. Hence, the exploitation of common distribution and manufacturing networks, economies of scale and scope as well as attempts of market power enhancement appear to be fundamental stimuli of these consolidation activities during the last two decades. (Königs & Schiereck, 2006, pp. 2).

In addition, other aspects regarding the luxury market are also changing. These include the expansion of the luxury consumer market to include a broader mass market, competition from mass fashion brands, the reinterpretation of the luxury concept by the consumer society, the emergence of new luxury markets like China, Russia and India with new opportunities and outlook as well as the increase in the number of the world's wealthy and changing attitudes in their spending patterns. (Okonkwo, 2007, pp.3-4).

2.1.1 The size and growth prospects of the market

Since the 1980's the luxury market has grown on average ten percent per year, a much higher rate than the world economy, making the industry a relevant economic factor (Heine, 2012, pp.10). In Britain consumer expenditure on luxury goods increased by 50% between 1994 and 2004 compared to a 7% increase for non-luxuries (Keane & McMillan, 2004). The sector is one of the few industrial segments that have remained a constant economy contributor and in addition the industry has made noteworthy contributions to national economies. For instance, in France the luxury fashion sector alone is the fourth largest revenue generator and one of the most prominent sectors in Italy, Spain, the USA and the emerging markets of China and India. The sector is also one of the highest employers in France and Italy. (Okonkwo, 2007, pp.1).

Luxury is a very elastic term lacking a universal, generally valid definition (Königs & Schiereck, 2006, pp.5) and due to the subjectivity of the term, the estimates of the size of the market vary quite a lot. The traditional luxury market, consisting of the so-called personal luxury goods, have been estimated to range from about €150 billion to €200 billion in 2010 (Bain & Co, 2011, pp.2; Bellaiche at al., 2010, pp.2; Klimczak et al., 2010, pp.15). However, the global luxury market is estimated to approach €1 trillion, if luxury services, such as hotels and travel, and luxury cars are also taken into consideration when defining the industry (Bellaiche et al, 2010, pp.1). Despite the economic uncertainties, the consulting group Bain & Company forecasts the global luxury market to grow in the next few years by about five to six percent annually, and the Asian market by even more than ten percent (Bain & Co, 2011). The Boston Consulting Group estimates even higher growth rate at 7 percent annually for the global sales of personal luxury goods during 2012-2014, and a 12 percent growth rate for experiential luxury. In addition, their research has shown that the latter has grown about 50 percent faster than the sales traditional luxury goods (Bellaiche et al, 2012).

As illustrated in Figure 1, the global traditional luxury goods market has nearly tripled in size since 1995. This represents an average annual growth rate (CAGR) of 7%. In addition, the global luxury market research company Verdict, forecasted even higher growth for the mid term future. Indeed, the growth expectations for the five-year period

from 2010 to 2015 stand at almost 65 percent, representing even higher growth than the already significant one experienced historically. By 2015 the global market for designer clothing and footwear is forecasted to generate around $11 billion of new retail business, of which the emerging markets will account for 30 percent. Developed markets will continue to dictate value performance of luxury writing and stationary as well as beauty and personal care, when the global market for luxury jewelry and timepieces are expected to outstrip the historical performance. (Bain & Co, 2011; Verdict, 2011).

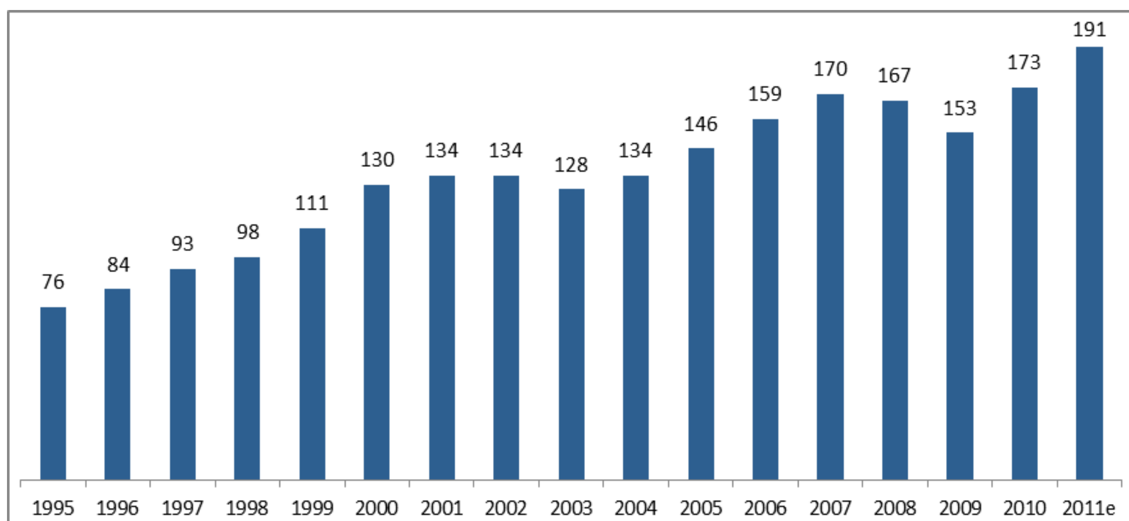

FIGURE 1 - *Worldwide Traditional Luxury Goods Market trend 1995-2011 (€Bn) (Bain & Co., 2011)*

However, this estimate of the industry includes only personal luxury goods, which have been categorized as luxury traditionally. Yet the definition of the luxury market continues to evolve and there has been a significant area of change in the market as consumers are shifting in preference from owning a luxury to experiencing a luxury (Bellaiche et al, 2012, pp.3-4). Some luxury goods companies are also involved in other premium-priced categories, such as LVHM with its wines and spirits (Belge et al., 2012) and are also adding experience and services to current offerings (Bellaiche et al, 2012, pp.6). For instance, the champagne brand Moët & Chandon successfully launched its Mini-Moët rosé 25cl champagne bottle in the UK through an association with BMW around its Mini-Cooper model. The car was painted with Moët colors and featured a trunk fridge. This communicated the Moët & Chandon originality when driven around London and exhibited in the high-end department store Selfridge’s and at fashion shows. (Catry, 2003, pp.14). BMW was also the first high-end car manufacturer turning the

experience of waiting for delivery of a new car from frustrating ordeal into a fun-filled activity. The buyers of the Mini-Cooper-brand vehicles receive new owner updates about the assembly of their car and its journey from the factory. (Bellaiche et al, 2012).

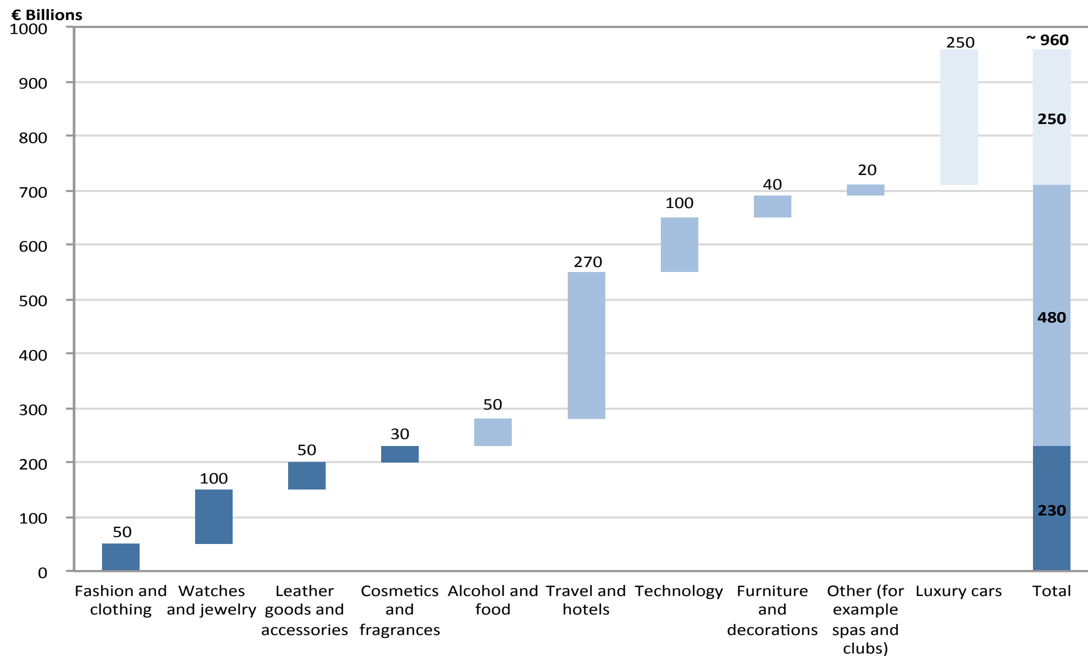

FIGURE 2 - *The estimated size of the global market for luxury goods and services (broader definition) (Bellaiche et al, 2010)*

As shown in Figure 2, depending on the definition of the industry, the global market for luxury was actually close to €1trillion in 2010 and the personal luxury goods categories represent in fact only a small part of the overall market. Experiential luxury represents on average half of the market according to this estimate, and luxury cars on average a quarter. Other luxury investment goods are excluded from the estimate. It has been claimed that consumers want something genuine and have become more willing to pay for services or experiences, such as food or travel, that make them happy. This shift has a lot to do with demographics. For instance, consumers who drove the luxury boom in the 1990's have reached retirement age. They have had decades to enjoy materialistic luxury and will be more interested in experience-based luxury. (Bellaiche et al, 2010; Bellaiche et al, 2012).

Due to the amorphous and constantly evolving nature of the luxury goods industry (Kapferer 2008, p.96), this broader categorization of the market is not expected to remain stable for long and this also prevents any concept of luxury from remaining valid for an

extended period of time. More and more new luxury product industries are emerging over time and there are changes in the luxuriousness of resources, which are based on their availability and desirability. The main drivers for these changes are technological progress and societal trends. The former is also the main reason for the decreasing relevance of the regional relativity of luxury goods. For instance, modern production methods have enabled the development of many products previously considered as luxury goods into mass-market commodities. This transformation is especially fast for the technical products, as has been seen in the case of mobile phones and televisions. However, this process can also run in the opposite direction, as is the case with some historically ordinary resources, such as clean air, silence and space, which have become increasingly rare, at least in some regions (Heine, 2012, pp.40-43).

2.1.2 The global market of luxury

The international market for luxury goods and services is remarkably large and seems to grow significantly in the future when the increasing number of affluent consumers in emerging markets is taken into consideration (Cohen, 2007). Luxury has always been closely associated with rich deposits of demand in London, New York, Paris, Milan and Tokyo (Bellaiche et al., 2010, pp.2), but new metropolitan areas are rapidly emerging as recognized centers of luxury consumption and cities such as Dubai or Shanghai are already known for their high-end shopping (Bellaiche et al, 2012, pp.10). Thus, fashion retailers have become to be part of the most international companies (Moore et al., 2010). Historically France has dominated the luxury goods market since the early nineteenth century when the first luxury brands were created, and still today the French brands represent on average a quarter of the global luxury market. Several of today's largest and most valuable brands like Louis Vuitton, Hermès and Guerlain originated in France in the nineteenth and early twentieth centuries and therefore have a long history. (Okonkwo, 2007, pp.15). French brands have maintained their position due to the historical heritage and reputation of the brands. However, since the late 1990's, the level of international competition has increased and the French leading position will be more and more challenged in the future. American, Italian and Swiss brands also enjoy considerable importance in the market. (Roux, 2010). The twentieth century also produced several

American brands such as Ralph Lauren and in addition, other respectable global luxury brands such as Burberry of Britain have a strong historical legacy surrounding their creation. These brands and their countries of origin have played a key role in the development of the global luxury goods industry. (Okonkwo, 2007, pp. 15).

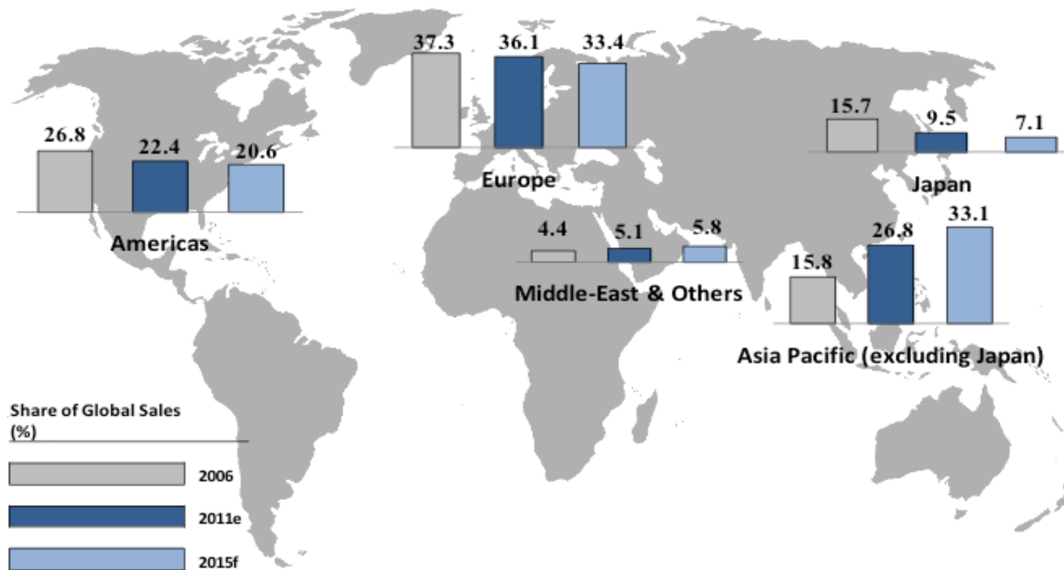

FIGURE 3 - *Geographical distribution and evolution of the global luxury goods market sales (Verdict, 2011)*

As Figure 3 demonstrates, Europe accounts as the largest market share in global luxury goods sales. Although Europe together with the US still dominates the market, as has been the case for a long time, the Asia-Pacific region and the Middle East are expected to experience stronger growth in the future (Verdict, 2011). While the mature markets still account for the majority of sales, there has been a shift towards nontraditional markets, notably China (Bellaiche et al., 2010, pp.2). The emerging economies are becoming more and more important driver of the luxury goods industry growth also going forward due to the increasing purchasing power (Verdict, 2011; Bellaiche et al., 2010; Klimczak et al., 2010). According to a Boston Consulting Group evaluation of eight major luxury goods companies shows a 42 percent increase in the number of stores in Asia from 2008 through 2011, a 28 percent rise in Europe during that time, a 31 percent increase in the rest of the world during those years, but only a 5 percent rise in North America during the same period (Bellaiche et al, 2012, pp.10).

The different evolutionary stages of the luxury market in several parts of the world also create a challenge for luxury brand management. For instance, The European luxury scene is in its mature stage and consumers in this market approach luxury as a concept that can be adapted to their lifestyles. This contrasts with US consumers who view luxury as a means to a lifestyle as the US luxury market is still in its growth phase. In the Middle East, where luxury is in its full-bloom growth phase, consumers acquire these goods to make a statement of their wealth and Western know-how. Japanese consumers also have a similar attitude to luxury goods, albeit with a twist of affinity to specific French brands. In the rest of Asia, the luxury scene is in its introductory phase while in Africa the concept of luxury is in its early introductory phase. Hence, luxury brands face the challenge of finding a balance in the requirements of each of these markets through their products and service offerings and business strategies. (Okonkwo, 2007, pp. 3-4).

2.1.3 Sector drivers

Most investors consider luxury goods demand to be directly linked to GDP growth. To a certain extent, that has been the case in some countries, but consumption of luxury is driven by social, cultural and psychological factors, as well as financial issues. The growth in the sales of luxury goods has been driven by emerging-market exposure, both within developing countries and through customers from those countries buying goods in Europe. Many European luxury goods manufacturers produce in Euros (France and Italy) or Swiss francs, and sell throughout the world. They have important exposure to the US dollar and dollar-linked currencies, such as the Hong Kong dollar, and to the yen. A weakening of the Euro or the Swiss franc has a positive impact on earnings for the French, Italian and Swiss luxury companies, which may have time lag depending on hedging strategies. (Bellaiche et al, 2010; Belge et al, 2012; Okonkwo, 2007).

M&A has been a driver in the past and today the market is highly dominated by the four luxury conglomerates LVMH, PPR, Richemont and the Swatch Group. The targets for acquisitions are becoming scarce as many of the privately held companies, such as Chanel for example, have no pressure to sell. However, there are still deals occurring periodically, as the LVMH's acquisition of Bvlgari in 2011 and the Swatch Group's acquisition of the jewelry and watch brand Harry Winston in early 2013. (Königs & Schiereck, 2006; Belge et al, 2012; Swatch Group, 2013).

The driving force behind the exponential growth of the luxury industry since the 1990's was the so-called democratization of luxury, in which goods formerly reserved to a restricted elite are now consumed by a large public even if only occasionally (Dubois et al, 2001). However, this concept of giving everyone access to luxury branded goods is a paradox because it abandons the exclusivity that formed the original basis of the luxury industry in the hands of skilled designers and craftsmen (Degen, 2009). The consumers of luxury goods are increasing in numbers, and the age group has become younger and younger (Jian, 2009). Due to the increasing number of target customers of luxury goods, more and more people are willing to spend more also from an emotional perspective. In other words, the luxury goods industry is indeed of great potential that cannot be ignored.

2.2 Defining luxury

The major challenge for the definition of luxury goods or brands is that the word "luxury" and the related terms are especially vague and subjective, as consumers perceive goods as luxurious for different reasons and characteristics, their meaning depends very much on the user's perspective (Kapferer, 2008, pp.96; Heine 2012, pp.16). The concepts of luxury differ as they depend on each person's social position and personal consumption experiences, it is a relative term that could refer to almost anything or nothing depending on whom you ask (Csaba, 2008). This makes it difficult to give luxury goods a universal, globally valid definition.

Historically the word luxury, derived from the Latin word *Luxus* meaning indulgence of senses regardless of cost, has been defined as anything that extends beyond the bare necessities, it is more than a person needs. Nueno and Quelch (1998) stated that a luxury product is a work of art designed for an exclusive market. Kemp (1998) thought the concept of luxury goods would change because of different social and economic backgrounds. Dubois and Duquesne (1993) used ambiguous phrases to define luxury goods as "the dream value", while Aaker and Keller (1990) proposed the reason that, consumers buy luxury goods more for what they mean than for what they are.

According to Kapferer and Bastien (2009), today many producers want their product to be luxury and the word has become an inflationary used and worn out label for almost anything. Many mass consumption brands name their products "deluxe" or qualify the experience of consuming these as luxurious. On the contrary, most luxury brands refrain form explicitly declaring their products as luxury, while at the same time actually selling more and more non-luxury products (Heine, 2012, pp.9). In addition, there are an increasing number of non-luxury brands selling luxury products or so called masstige, or mass luxury, products with at least some feeling of luxury (Silverstein & Fiske, 2005, pp.50; Heine, 2012, pp.9). As a result, defining what constitutes a luxury product or service today has become somewhat of a challenge (Vigneron & Johnson, 1999).

2.2.1 The relationship between luxury products and brands

The branding aspect is an integral part of a luxury goods company's definition. The brand is the reason why consumers associate themselves with a luxury company. It is what creates and sustains the attraction and desire for these products. (Okonkwo, 2007, pp.4). Thus, by definition, luxury brands need to offer luxury products and without a product portfolio that includes luxury goods, it is impossible to achieve a luxury brand image (Heine, 2012, pp.61). Conversely, the product range of a luxury brand does not necessarily consist only of luxury products (Kapferer & Bastien, 2009, pp-312). Accordingly, all products of a luxury brand can be referred to as luxury-branded products (Heine, 2012, pp. 61). Luxury brands are highly associated with their core products, as for instance Louis Vuitton with travel goods and accessories and Hermès with leather goods and silk scarves. (Kapferer, 2008, pp.193) Consequently, as luxury brands are obviously characterized by selling luxury products, they are usually defined by product related characteristics.

According to Okonkwo (2007) a true luxury brand exhibits 10 core characteristics as indicated below:

1. Innovative, creative, unique and appealing products
2. Consistent delivery of premium quality
3. Exclusivity in goods production
4. Tightly controlled distribution
5. A heritage of craftsmanship
6. A distinct brand identity
7. A global reputation
8. Emotional appeal
9. Premium pricing
10. High visibility

Luxury products on the other hand can be identified by their features or by their consequences, such as purchasing motives and consumer values. However, the description of their consequences is not enough to distinguish luxury goods from non-luxury products, the characteristics-based approach has become widely accepted in the literature (Heine, 2012, pp.27).

One of the features all luxury goods have in common is a *high price*, which comes in an inter-categorical comparison excluding the so-called affordable indulgences. Luxury products belong to the most expensive category when compared to similar products. This requires a considerable price premium to products with comparable functional characteristics. (Heine, 2012, pp.73). The production of luxury goods has traditionally been limited in order to obtain high price and exclusivity. However, defining luxury goods in terms of price raises some questions since highly priced products are not necessarily considered as luxury goods (Dubois & Czellar, 2002; Prendergast et al., 2000). Luxury brands, like Louis Vuitton or Hermès, have a heightened status and due to this high profile these kinds of companies can charge premium prices in comparison to products or services with similar functions (Moore and Birtwistle, 2005, pp.258, Ward & Chiari, 2008). These goods are bought rather through desire than need, it can be said that they are in effect two-thirds brand and one-third product or two-thirds emotion and one-third function. Further, Luxury goods are said to have a low functional utility to price ratio while their ratio of intangible and situational utility to price is high (Nueno & Quelch, 1998, Königs & Schiereck, 2006).

Another very important characteristic for luxury goods is *high quality*, meaning an inherent, unique know-how, which may concern either a specific feature or the overall quality and performance of the good (Dubois and Czellar, 2002). Premium quality must be obtained in all product lines from the most to the least expensive items (Nueno & Quelch, 1998). Superior quality may relate to the manufacturing characteristics or product attributes. Manufacturing characteristics can relate to the expertise of the manufacturer as well as technical or stylistic competences. (Heine, 2012, pp.74). In the luxury goods industry craftsmanship is more valued and appreciated than mass production. Many luxury brands have a heritage of craftsmanship centuries stemming from the original designer and it can be said that these brands are driven on tradition and their brand heritage. (Nueno & Quelch, 1998). The manufacturing of a luxury product also requires considerable effort, often including handcraft and a substantial amount of time. The materials used in the production of luxury goods can also be considered as a key characteristics and most important criteria when evaluating the value of a luxury good (Heine, 2012, pp. 74-5).

Furthermore, luxury products are by definition not ordinary, but rather a *rarity*. Luxury companies ensure rarity through limiting production and the individualization of their products. (Heine, 2012, pp.60-61). Initially, rarity stemmed from the limited availability of raw materials, components or production capacity. For instance, in the wine and spirit business customers recognize that products may be in limited supply due to the lack or excess of rain or sunshine. The luxury industry has always been familiar with natural shortages and capitalizing on these to express rarity may lead to a durable competitive advantage if the company can secure its supplies. However, there are some drawbacks regarding this fact. Firstly, natural scarcity is a clear impediment to the sales ambitions stimulated by the emergence of increasing number of potential customers. For instance, it is difficult to find enough diamonds at an appropriate price to satisfy demand while maintaining quality levels. In addition, if quality fails, it may jeopardize the brand image. Thus, a luxury product component must always be perceived are rare by the market, even though they may actually be such only seemingly. Furthermore, human expertise may also be perceived as scarce, although this constraint could be to some extent eased through training. Hence, the traditional emphasis on the hand-made aspect of luxury goods. Thus, if not self evident or well perceived, the level of availability of natural luxury components should clearly be part of any marketing policy. (Catry, 2003, pp. 11-12).

Finally, the *aesthetic products design* is also one of the most important strategies for luxury goods companies in order to differentiate themselves from mass-market manufacturers. Luxury goods also generate numerous non-functional, abstract associations and hence, it has been said that there exists no other product category with a similar relevance of symbolic benefits, which often even exceeds its functional benefits. The *symbolism* of luxury products and brands is covered to a large extent by the concept of brand personality. The five major dimensions of the luxury brand personality include modernity, prestige, sensuality, understatement and eccentricity. Luxury goods companies can convey the symbolic meaning of the brand through product design or with specific product information. (Heine, 2012, pp. 77-80). Luxury brands often have a global reputation and are strongly associated to a country of origin that has a strong reputation as a source of excellence in the relevant product category (Nueno & Quelch, 1998; Heine, 2012, Okonkwo, 2007).

Dubois, Laurent and Czellar (2001) provide an interesting summary of the features luxury goods usually have in common and should posses in order to be classified as luxury products:

EXCELLENT QUALITY	• Consistent delivery of premium quality • Perceived exceptional nature of the materials used in the elaboration process • Perceived delicacy and expertise involved in manufacturing products or delivering services • Considerable craftsmanship, every detail important. Often inherited from original designer
VERY HIGH PRICE	• Perception established by absolute value of price or • by comparison with non-luxury alternatives
SCARCITY AND UNIQUENESS	• The uncommon skills essential to the manufacturing and delivery process • Limited nature of the offering, availability and usage • True luxury products cannot be mass-produced and are restricted in distribution • Element of uniqueness to each product
AESTHETICS AND POLYSENSUALITY	• Luxury products as pieces of art • Aesthetic dimension not only expected from the goods themselves but also from the context in which they are presented as well as from the people who consume these goods • Luxury goods not only look beautiful but should be pleasant to hear, smell, taste or touch
ANCESTRAL HERITAGE AND PERSONAL HISTORY	• Long history and their elaboration processes as well as consumption respecting tradition • Luxury goods need to have a story/legend to tell • Personality and values of its creator • Association with a country of origin with a strong reputation
SUPERFLUOUSNESS	• Luxury products are not felt to be necessary for survival • In order to be regarded as luxurious, products or services must not derive their value from functional characteristics but from additional benefits of a different nature

FIGURE 4 - *The definition of luxury goods by Dubois, Laurent and Czellar (2001)*

Moreover, luxury goods attract customers through a combination of quality, emotion and rarity. However, there is a trade-off between rarity and volume. When rarity is based on the supply and production sides of the product value chain such as the rare components and materials, this trade-off is influenced by physical constraints and sales are naturally limited. More virtual rarity drivers, such as company marketing and distribution policies or the information transmitted to customers, are less of a sales impediment, as they do not imply a physical product shortage. They help to push the trade-off curve towards more volume while not sacrificing the differentiation aspect of luxury goods. Thus, given the volume temptations stimulated by the emergence of new demand and the sales requirements of luxury conglomerates, a clear tendency towards more virtual exclusivity drivers can be perceived. The product is not objectively limited in supply, but luxury goods companies give their customers an illusion of rarity through the information they deliver. (Catry, 2003, pp. 15-17).

2.2.2 Distinguishing luxury product and brands from similar concepts

Vigneron and Johnson (1999) use prestige as a benchmark to measure the component of luxury in a brand. Prestige can be defined as a sign of status and material success and normally something that impresses people (Catalani & Comboni, 2002). Vigneron and Johnson (1999) assert that the prestige inherent in a brand consists of five elements: perceived conspicuous value, perceived unique value, perceived social value, perceived hedonic value and perceived quality value. Two types of brands are categorized as prestigious, firstly upmarket brands, also referred to as *premium brands*, and secondly *luxury brands*. In short, a luxury brand is perceived to be the extreme end of the prestige-brand category (Phau & Prendergast, 2000). Luxury brands can further be categorized into two types, *masstige* and *prestige brands*. The former can also be referred to as *new luxury* and the latter as *old luxury*.

Nueno and Quelch (1998) have also identified three types of brands in the luxury goods category. Firstly, *limited awareness brands*, often managed by family businesses and focused on the delivery of a narrow product line to an exclusive niche market. These are also known as *old luxury goods* or *prestige brands* as above. These products are often handcrafted and available only through selected specialty stores. The second type is *well-known brands that are inaccessible to a broad market* as a result of premium price and the fact that they cannot be sampled. These can also be referred to as *masstige brands* as above. Lastly, the third type *is well-known brands in categories that permit affordable accessory items to be available to a broader audience*. This type represents *premium brands.*

Figure 5 demonstrates the differences concerning the product and brand characteristics between different types of luxury brands and premium brands compared to the so-called medium-level brands meaning brands outside the premium and luxury goods group. (Heine, 2012, pp. 67).

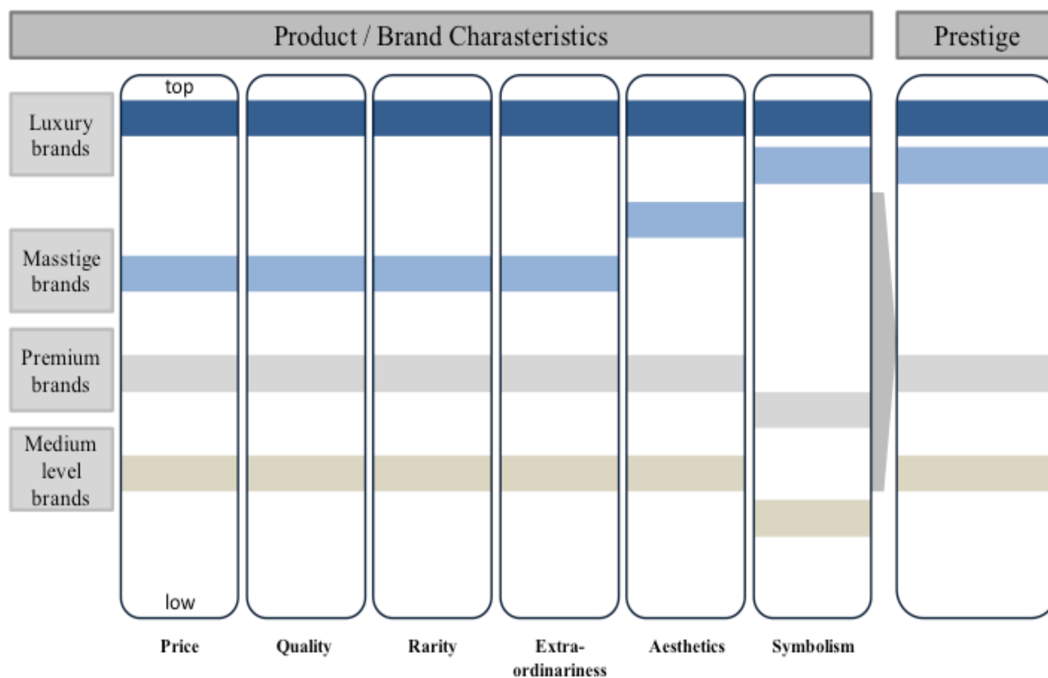

FIGURE 5 - *Different types of luxury brands vs. medium level brands (Heine, 2012).*

2.2.2.1 Premium goods and brands

Luxury products and brands can be distinguished from the *premium segment* by their constitutive product and brand characteristics as presented in the previous section of this Chapter. The differentiation between luxury and premium brands is mainly a matter of degree, which makes it difficult to draw a clear line, especially between top premium brands and entry-level luxury brands. However, there is an essential difference between these two types of brands as premium brands focus especially on functional characteristics while luxury brands put much more effort into creating symbolic meaning. (Heine, 2012, pp. 66).

As demonstrated in Figure 5, premium brands rate higher on the product and brand characteristic dimension than medium-level brands, but still well below luxury brands. While premium brands still remain down to earth and cannot lose sight of the value-for-money ratio, luxury brands are reaching exceedingly reasonable levels in the major luxury dimensions. (Heine, 2012, pp.66).

2.2.2.2 Different types of luxury

Silverstein and Fiske (2005) have distinguished the concepts of *new luxury* from *old luxury*. According to the authors, new luxury describes a class of goods that have very distinct characteristics, when old luxury is about exclusivity. New luxury goods are far more accessible than old luxury goods, but their accessibility is more limited than conventional middle-market products. The new luxury concept can be further divided into three types. *Accessible superpremium products* are priced at or near the top end of the category, and at a considerable premium to conventional offerings. However, they are still affordable for the middle-market consumer as they are relatively low priced. *Old luxury brand extensions* are lower-priced versions of products created by companies whose brands have traditionally been affordable only for the rich households earning $200.000 and above. The third type, *masstige goods* are neither at the top of their category in price nor related to other iterations of the brand. They occupy an area in the market between the other types of luxury while commanding a premium over conventional products, but priced well below superpremium or old luxury goods. (Silverstein & Fiske, 2005, pp. 4-5). The term masstige conveys their main idea: offering prestige to the masses (Heine, 2012, pp.67-68).

However, there is a problem considering new luxury. The challenge for new luxury manufacturers is to determine an optimal unit volume. If the goods become too available, they lose their sense of being limited in nature, and they will be unable to command a premium price. Old luxury goods are priced to ensure that only the top-earning 1 to 2 percent of consumers can afford them and to provide a large enough margin so their makers can be profitable at very low unit volumes. New luxury goods are always priced at a premium to conventional middle-market products- often as a tenfold premium-but are still priced within the financial reach of 40 percent of American households and not out of the question for 60 percent of them. (Silverstein & Fiske, 2005, pp. 55-56). Brands often follow opposing trajectories: mass market brands repeatedly attempt to gain prestige, differentiation and margins by “trading up” (Almadoss & Jain, 2008; Goldman, 1975), while luxury brands marketers frequently endeavor to grow by broadening their offering portfolios, or “trading down”, sometimes with dire consequences (Reddy & Terblanche, 2005).

2.2.3 Utility generated by scarcity

Luxury goods companies provide a complete package of significant benefits to consumers, the social environment and the global economy. Luxury brands are also among the most valuable and influential brands in the world. When people purchase luxury goods, they don't just buy the product but a complete parcel that comprises the product and a set of intangible benefits that appeal to the emotional, social and psychological levels of their being. In fact, it might be quite challenging to find another sector, that can claim an emotional connection with their consumers to such an extent that the desire for a product increases along with the increase of the price tag. (Okonkwo, 2007, pp.2-3).

Luxury brands have traditionally adopted the premium pricing strategy to emphasize the brand strength, high quality and exclusivity associated with luxury goods, and also to differentiate them from the mass-market brands. The luxury target audience is less price-sensitive and actually expects luxury goods to be premium-priced rather than economically priced. Pricing forms a part of the branding process as consumers often judge the position of a brand and the value of a product in terms of price. (Okonkwo, 2007, pp.140). Utility theory in microeconomics formulates that a customer will make judgment on a goods utility and compare it to the utility of money, namely the price of this good and if the latter one is bigger than the former one, the customer will feel it is a good deal and make the purchase decision. (Du, 2009, pp.23). An intriguing phenomenon is that when a luxury good is available in several different brands, people tend to prefer the most expensive one, even if they understand that the quality differences among these are too small to match their substantial price difference. Because of this kind of eccentric consumer behaviour, many counterfeit producers have become millionaires by selling fake products at extremely high prices. (Yao & Li, 2005, pp.529).

Petrova and Pruzhansky (2011) have proposed a model describing consumer demand for a luxury good, in which the perceived quality of the good is related to its exclusivity that in return depends on the number of consumers buying it. They have used the model to analyse the optimal production and price setting decisions of a luxury goods manufacturer and contrast them with decisions that would be made by a social planner.

They show that irrespective of the way social welfare is defined, a monopoly producer of the luxury good may select socially optimal prices and quantity. Thus the incentives of the monopolist producer and the social planner may to some extent be aligned. In the study, decision making of a representative consumer is considered for just one luxury good, the existence of 'ordinary' goods is disregarded. In addition, it is assumed that the luxury good is produced by a monopolist.

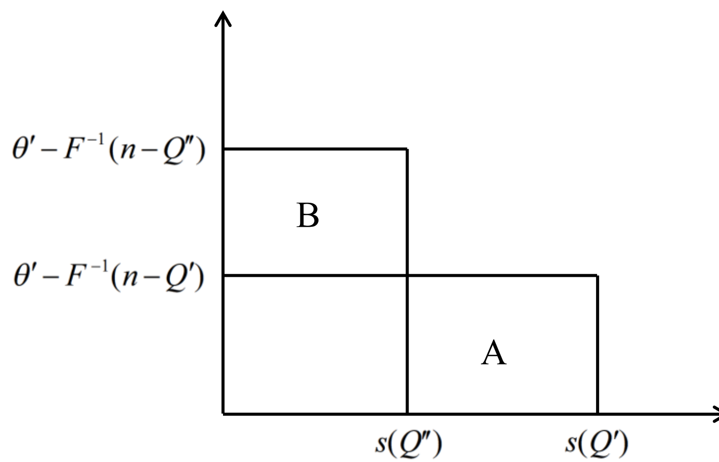

FIGURE 6 - *Changes in utility following a reduction (increase) in price (quantity) (Petrova & Pruzhansky, 2011)*

This model is based on the scarcity and exclusivity components of the luxury good, and is justified by the statements of some key luxury goods manufacturers who believe that the chief value of a luxury good lies in that it is not too common, and that the widespread sales may destroy the high end image of the products, which mainly determines the consumers' utility and willingness to pay. In this model the consumer utility, or more specifically the perceived quality, of a luxury good negatively depends on the number of consumers who buy it, i.e. its exclusivity or scarcity. The more common the good, the less is its perceived value. This specification leads to the negative network externality effect, whereby an increase in consumption by new customers reduces the utility of those who already consume the good. (Petrova & Pruzhansky, 2011)

2.3 Luxury goods spending patterns

2.3.1 The Veblen effects and conspicuous consumption

The economic literature on luxury goods originates from the work of Thorstein Veblen in the nineteenth century (Veblen, 1899/2008). In economic theory, luxury goods are generally defined as goods for which the demand increases more than proportionally as income rises, contrary to necessity goods. This is also known as the Veblen effect or the prestige effect (Klimczak et al, 2010). Veblen coined the term conspicuous consumption to refer to people's desire to provide prominent visible evidence of their ability to afford luxury goods (Solomon, 1999, pp.427). Conspicuous consumption plays a significant part in shaping preferences for many products that are purchased or consumed in public contexts. Consuming luxury goods is a form of conspicuous consumption and makes an excellent example of Veblen goods (Phau & Prendergast, 2000). Micro-economic consumer theory suggests that conspicuous consumption patterns can be identified at the individual consumer level in terms of conformism and snobbism. Conformism behavior occurs when consumer demand for the product increases just because other people are also purchasing it. Snobbish behavior is exactly the opposite: an individual tends to buy less of the product if other people are buying the same. These two types of conspicuous consumer behavior correspond to the desire not to be identified with the poor and to be identified with the rich. (Dubois et al, 2001, pp.5).

Conspicuous consumption was in full swing in the late 1990's and the early 2000's. Many consumers thought of luxury goods largely in superficial terms, brand image sometimes mattered more than quality (Bellaiche et al, 2010, pp.1). It is said that luxury goods have high-income elasticity of demand, as people become wealthier they tend to buy more and more luxury goods (Ward & Chiari, 2008; Ward & Secondi, 2005, pp.7-8). In addition, luxury goods have an at least partially upward-sloping demand curve and may possess no real intrinsic utility (Dubois et al, 2001, pp.5). Consumers' preference for buying luxury goods decreases as price falls and consequently an increase in price may increase perception of exclusivity and thus make the good even more preferable (Bagwell & Bernheim, 1996; Okonkwo, 2007).

People who buy luxury goods do not want to pay less if they seek to signal high levels of wealth. If companies would decrease the prices of luxury goods, demand for those products would decrease, as they would no longer be considered as exclusive or high status products. Decreasing their prices would damage the products and brands glamorous image, which is why true prestige brands don't sell their products on sale. The gains would first rise, but after a while sales would drop substantially as the brand would lose its value. (Bagwell & Bernheim, 1996, pp.349-352; Okonkwo, 2007, pp.140). In fact, luxury brands do not really compete on price but rather on design and desirability. During the downturn, prices are generally held up. In recovery phases, brands tend to launch higher-priced, higher-margin products, and raise prices again. (Belge et al, 2012). Thus, unlike other companies, luxury brands cannot improve their sales in a recession by decreasing prices.

2.3.2 Changing world of luxury

In the past it was considered that only wealthy people could own luxury goods and many producers of luxury products believed that their clientele came from upper income classes and thus the managerial practices of luxury goods companies were based on this assumption (Dubois & Duquesne, 1993). The demand was driven by wealthy consumers for whom luxury was an irreplaceable source of self-indulgence and distinction. (Bellaiche et al, 2010, pp.1). However, the luxury goods industry has undergone a considerable development during the two elapsed decades and two major factors have changed the industry considerably: the democratization of luxury and changes in tastes and buying behaviors. Due to the so-called democratization of luxury, luxury goods have become accessible for a broader mass market worldwide. It is no longer the case that only the wealthy can afford certain luxury products, as the number of aspiring consumers has boomed (Okonkwo, 2007, pp.3-4; Bellaiche et al, 2010, pp.1-5). Luxury goods companies aim product categories at a much larger market, the middle class. New luxury products are perceived as high quality and stylish, without being overly expensive and hence making them more accessible. New luxury consumers are willing to spend an amount of money disproportionate to their income for products they consider highly important. For instance, some people consider a daily €4 coffee from their local coffee

shop as luxury, others like to spend on expensive home renovations, high-end cars or expensive dinners. (Silverstein & Fiske, 2005).

Indeed, as of today, on average half of total luxury sales have been estimated to come from regular consumers with average to well-paying jobs. Furthermore, when studied for buyer behavior, the six mature and developing markets (EU, US, China, Japan, Russia and Brazil) that together account for 90% of global luxury spending in 2010, show interesting findings. Based on their wealth and how much they spend on luxury items annually, the 150 million households in the region can be segmented into 5 segments as shown in Figure 7 below. (Bellaiche et al, 2010, pp.4-7)

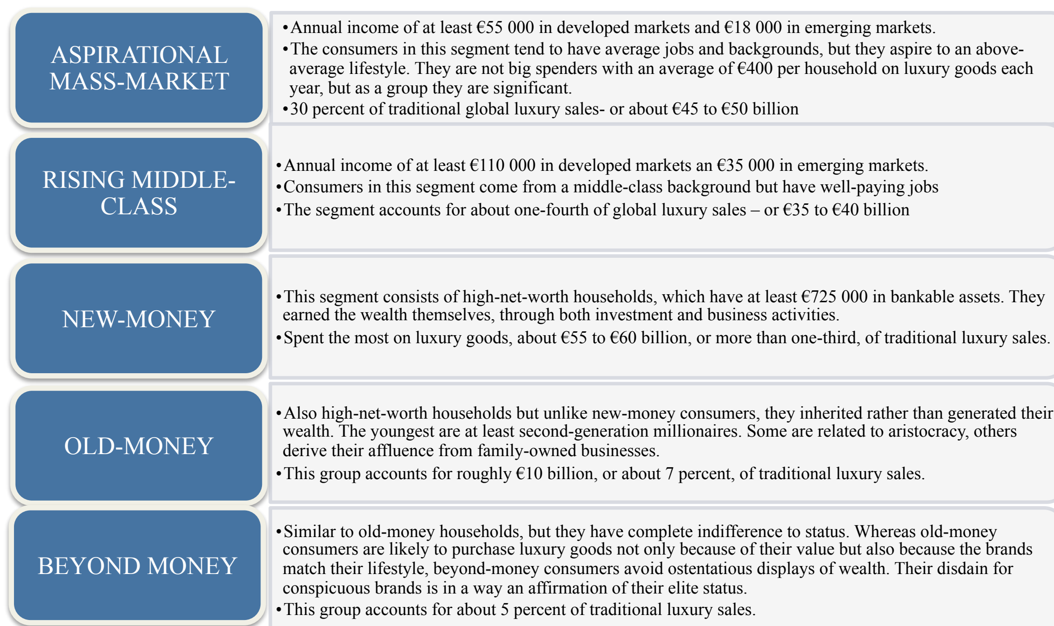

FIGURE 7 - *Luxury spending consumer segments (Bellaiche et al, 2010)*

As presented in figure 8, spending and preferences on different categories of luxury goods vary between consumer segments. Aspirational consumers spend about 60 percent of their luxury budget on cosmetics and fragrances. Among other consumer segments, this category accounts for between 10 and 30 percent of luxury spending. Their second largest category is leather goods and accessories, where they spend 20 percent of their luxury budget on. Beyond money consumers on the other hand spend 35 percent of their luxury budget on watches and jewelry and 35 percent on furniture and decorations, while the first two consumer segments only spend a maximum of 15 percent of their total

luxury budget on these types of goods. Fashion and clothing is a sizeable category for rising middle-class, new-money and old-money consumers as it accounts for 30 percent of their luxury spending. Hence, it can be concluded that regular consumers prefer soft luxury, and the high-net-worth consumers have a preference in hard luxury.

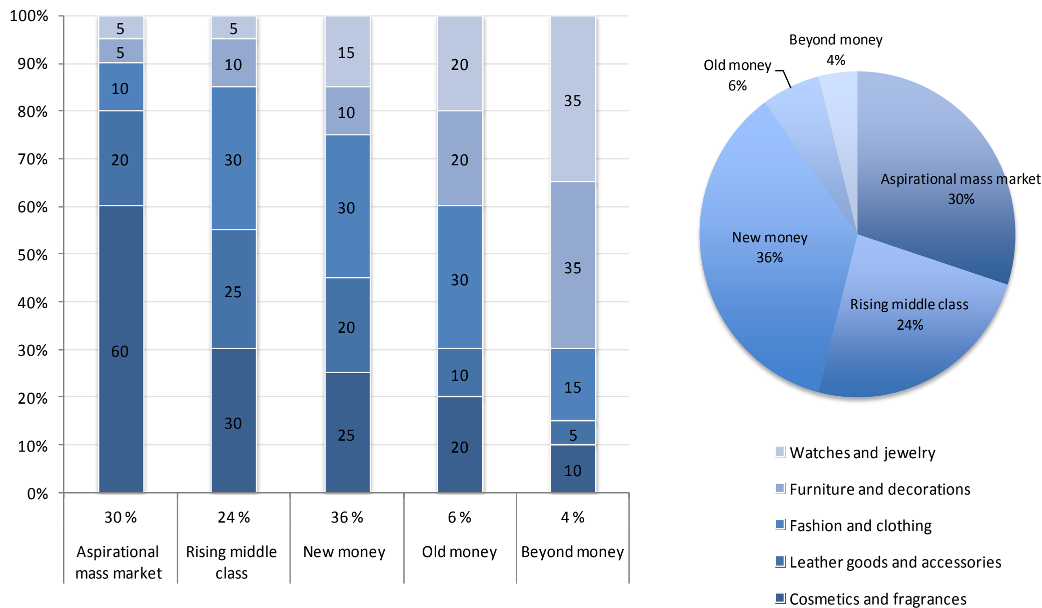

FIGURE 8 - *Luxury spending across consumer segments (Bellaiche et al, 2010)*

The spending habits of the three least established segments, the aspirational mass-market, the rising middle-class and the new-money households, have undergone a profound change. Until recently, consumers in these segments viewed luxury items as status symbols. Today however, many of these consumers especially in mature markets have began to question why they buy luxury goods, and choose rather products that have true value. This trend has been less evident among old-money and beyond money consumers, as they have never felt the urge to telegraph their status. They tend to buy luxury goods because of their intrinsic value and may even view these as investments. They prefer authentic brands, ones enriched by a combination of heritage and quality, and they generally buy products on the basis of their personal interests. (Bellaiche et al, 2010, pp.5).

This new demand that luxury goods companies face from the middle-class and emerging markets has become increasingly relevant for luxury goods companies management. While the new demand brings new opportunities, all companies within the luxury sector face the question whether exclusivity, so central to the luxury appeal, is inevitably diluted by the increased market share, thus balancing growth with exclusivity is clearly one of the biggest challenges for luxury goods companies today. (Catry, 2003, pp.11; EIU et al., 2007, pp. 16). This new demand and the pressure to meet it, makes luxury goods companies confronted with a dilemma. They can either ignore it, by pursuing their traditional differentiation strategy and risk being isolated in an elitist niche market, or they can launch new, more accessible lines that embrace the potential sales volumes but also can potentially endanger their exclusive image. (Catry, 2003, pp. 11).

Indeed, many luxury brands have diluted their exclusivity by bringing out new and more accessible lines to drive profits. The wealthy have responded to this by demanding ever-increasing levels of exclusivity from the brands they buy. This desire for exclusivity is especially important for very wealthy consumers, with 35% demanding it from their luxury purchases compared to just 18% for mass affluent consumers. (EIU et al., 2007). A growing fatigue with mass luxury products means that consumers are looking for products that provide them with lasting value, the return they will get from the experience of owning or wearing, fewer, better things. This shift from conspicuous consumption to more discerning consumption will be even more in evidence as economic conditions worsen and brand value comes under greater scrutiny. (Silverstein & Fiske, 2005).

In fact, today the competitors of luxury brands come more and more from the mid-range and premium fashion categories. Where historically the luxury goods companies competed mainly with each other, today the consumers have learned a tendency to combine luxury goods with low-end retail and thus no longer purchase only luxury goods. Moreover, the consumers have changed over time and have become more critical and the luxury goods companies have learned that to please today’s consumers they need to contribute more. This holds particularly well for the products at the high end of the price range as the consumers paying a higher price have also higher expectations that are harder to meet. (Roux, 2010).

2.4 Luxury brands in times of economic downturn

As a somewhat new and constantly evolving industry, luxury goods and the brands operating within the market have been generally studied in the context of healthier economies, which creates a gap in the knowledge as to how these brands perform and what strategies luxury brand managers employ in times of economic downturn. Academic studies regarding the impact of the recent global financial crisis on luxury goods companies appear to be either still in the making or the academic interest is concerning mainly financial institutions or broader economic consequences.

Some of the previous research starts by suggesting that the sales of luxury goods should be more sensitive to economic fluctuations, especially recessions. The logic behind this thinking assumes that rich households, who have traditionally been considered as the main consumers of luxury goods, hold most equity, which loses in value during recessions and thus decreases available incomes for the wealthy households. Hence, according to this research line, the consumption of luxury goods covaries significantly more with stock returns than basic consumption. (Aït-Sahalia et al., 2004). Bils and Klenow (1998) found that luxuries and durables are more susceptible to business cycles than necessities and nondurables. Accordingly spending on non-essential items declines during economic recession and one would expect that luxury brands would therefore be significantly affected in such economic conditions (Reyneke, 2011). Although, continuous research has shown that consumer buying of the mass luxury is not much affected by economic conditions and that the performance of companies providing these goods remains strong even in a downturn (Silverstein and Fiske, 2005). An important question therefore rises if different types of luxury offerings are differentially affected.

One report that follows the thought of rich households losing available income during recession is the 2009 World Wealth Report, compiled by Capgemini and Merrill Lynch who focused especially on individuals classified as high- or ultra-high net worth individuals (HNWIs or Ultra-HNWIs). The report stated that by the end of 2008, the world's population of HNWIs was down 14.9%, and that their wealth value had declined 19.5% over the previous year. Ultra-HNWI's had been affected even more: their numbers had shrunk by 24.6%, and their wealth had declined by 23.9%. Similarly, Forbes (2010)

list of the world's billionaires reported that the number of billionaires in the world had fallen from 1,125 to 793. Thus, it would be fair to assume that wealthy consumers have also been affected significantly by the current recession. Whether this has had an effect on their spending on luxury goods and services is less certain.

However, on the contrary, other commentators have argued that luxury goods companies have often had the ability to maintain a position for their brands at the top end of their particular markets for decades, and have successfully fended of the effects of wars, scandals and even economic recession (Koehn, 2000; Brook, 2001). Luxury brands have also said to be remarkably resilient (Bevelander, 2004). Some brands have shown that even after years of mismanagement or misguidance, a quick and successful recovery can be made (Reyneke, 2011). Thus, this may be an indication that luxury brands operate within a unique market niche (Twitchell, 2002; Stanley, 1988). The luxury goods industry is exceptional as it relies strictly on marketing and promotion to sell products to a specified group of people. In order to keep their marketing strategies unique the companies disclose very little information, other than regulated, on their businesses. As a result, a countless repertoire of marketing strategies, though targeted to a select few afford to buy luxury goods, the vast majority of people who are exposed to advertisements for these products in general have aspirations of being able to own these products in the future. (Nguyen, 2004). Furthermore, while at first the links that these statistics imply might seem obvious, in reality there is no substantiation to suggest that all luxury brands have been adversely affected by economic cycles. (Reyneke, 2011).

3 CORPORATE PERFORMANCE DURING ECONOMIC CRISES

Economic crises tend to have a significant impact on corporate performance, both when measured in share price as well as accounting data. Surprisingly however, in general, the existing academic literature on firm level performance during financial crises or economic recessions is quite limited (see e.g. Latham & Braun, 2011, pp. 111).

While economic crises tend to be fruitful subjects for academics the subject is discussed more regarding a broader economic context such as implications to employment, gross national product etc. In addition, given that the recent crisis was initiated by the global financial turmoil the subject has created notable amount of interest towards the effect it has had on financial institutions. In this light, luxury goods industry is not an outlier. While several headlines have claimed that luxury seems to defy the economic crises, academic literature on luxury goods industry performance during downturns is limited to a handful of studies.

Indeed, from accounting's and business management's point of view, the literature seems to be still in the making or focused on certain academic interest points e.g. to managerial reactions to survive during harsh economic conditions. In addition, a topic that seems to be more studied is the reactions of small and family owned companies while strategic accounting and planning has also been studied to some extent. Unfortunately, firm level operating performance has seemingly not been the most discussed subject in view of the existing literature for this thesis. It is however interesting to extend the points raised in these papers to see whether similarities can be found within the luxury goods industry.

Although the existing literature is not extensive yet the elements of the firm level performance measurement can be specified as illustrated in the following figure:

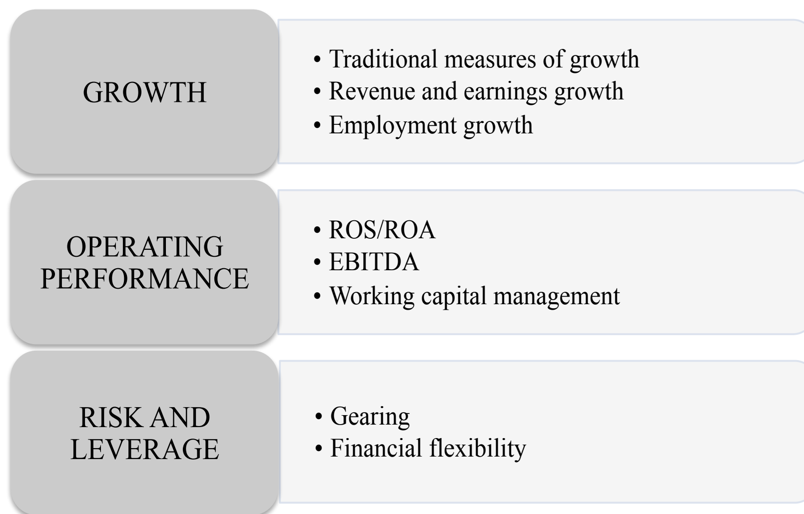

FIGURE 9 - *Components of firm level performance during crises*

In the light of previous literature, the firm level performance during a crisis can be split in three parts. Firstly, growth is a fairly traditional and easy indicator of performance. This can be measured e.g. by the change in revenues and earnings but also as the change in the staff indicating employment growth. Secondly, for the measurement of the operating performance previous studies suggest several financial ratios including return on sales, return on assets, earnings before interest, amortizations and depreciations as well as working capital management. Finally, the third suggested component consists of risk and leverage. An interesting topic in this category is the role of financial flexibility before and during economic downturns, which has received attention from the academics.

3.1 Growth

Growth during recessions and economic crises is most often measured as the percentage change in top line revenues or the impact on firm's employment. In this regard, the following table presents recent academic literature concentrating on growth and growth initiatives during economic slowdowns:

Author / Year of study	**Country / Period**	**Sample**	**Findings**
Kapferer & Tabatoni (2010)	Global / 2008-2009	10 (Largest Luxury Co's)	The top global luxury brands continue to grow and operate profitably with "luxurious" gross margins but no defining specificity in terms of operational performance can be identified.
Varum & Rocha (2011)	Portugal / 1988-2007	> 100.000	By examining the link between foreign ownership and firm employment and turnover growth during economic downturns the authors find no differences in employment growth but results suggest that foreign ownership may affect positively to sales growth during a recession.
Fukao (2001)	ASEAN/ 1997-1999	1.101	While overall FDIs and exports from the South-East Asian countries dropped significantly during the late 90's currency crisis, Japanese subsidiaries operating in the area were able to grow sales by 17 percent and retained employment.
Filipetti & Archibugi (2011)	Europe / 2009	5.238	European companies react differently to innovation during economic slowdowns. In order to boost sales in a recession, Northern European companies have created stronger innovative capacity and emerge relatively stronger after the crisis.
MacFarland et al. (2010)	US / 2007-2009	109	Growth of small companies is dependent of local policies and to some extent of the size of the business. Micro-size companies grow faster during the studied period that SMEs.

TABLE 1 – *Previous research on business growth during recessions and economic crises*

The most obvious measure of growth is the effect on revenues. In hindsight it is easy to argue that most companies face pressure in demand for their products during a crisis,

which is reflected in decreasing revenues. Consequently, when companies are growing they tend to increase employment, which can be seen as another measure of growth. Overall revenue growth depends however on the operating environment so that within each sector, whether during a crisis or not, some companies may find market niches that continue to grow. Other companies may have invested significantly in innovation and thus have a growing offering due to product advantages. On the other hand, market leaders may be subject to declining revenues due to their relative market size, which is harder to defend. Finally, top line growth can be found from other geographical markets that can compensate for loss in home markets. (Kitching et al., 2009; Filippetti & Archibugi, 2011; Varum & Rocha, 2011)

One market niche is the subject of this study, luxury goods. According to Kapferer & Tabatoni (2010) the sector reported solid sales growth figures going to the recession in 2008 and once the US stopped to buy luxury items in 2009 the sector continued to post healthy growth despite the global recession as sales in Asia continued to boom. As many recent reports and earning guidance of luxury goods companies show, the growth has been continuing at double-digit rates since 2009. In fact as the annual reports for 2011 are being released, they are confirming that 2011 has been again a stellar year for leading luxury labels (Paton, 2012). Driven by the increased sales the companies have also grown when measured with employment, thus suggesting that a global niche strategy diversifies growth opportunities and enables profitable growth despite the economic cycle.

Varum and Rocha (2011) add to the debate on the role of multinational enterprises (MNEs) in face of a crisis and the respective impact in host economies. Prior studies have been related mostly to Asian financial crisis in late 1990's (see e.g. Fukao, 2001) so the authors use the recent financial crisis to measure effects in Europe, namely in Portugal. After controlling for firms' and industries' characteristics and foreign ownerships the results do not suggest any significant difference in employment growth at the host nation compared to local enterprises. This suggests that growth would be an outcome of firm and industry characteristics rather than ownership features.

Fukao (2001) reports somewhat different findings from Japanese subsidiaries operating in the South-East Asian countries during the financial crises that they faced late 90's. According to Fukao, the Japanese subsidiaries kept the same levels or increased the number of employees despite the radical drop in exports during the crisis. Different to Varum and Rocha (2011), Fukao argues that the reason may lie in the manufacturing nature of these subsidiaries, i.e. that the sales are headed from the headquarters and are thus not directly linked to host country performance during the crisis. In addition, during that time many subsidiaries were somewhat recent investments so the role of sunk costs regarding the establishment of manufacturing units, which may have played a role in the management's decisions not to reduce employment.

Varum and Rocha (2011) report of a clear downturn effect on revenues during a downturn but the effect has been found to be significantly different regarding the firms' age, and size. Larger firms tend to have better sales' performance and turnover growth seems to lower during firms' infancy, growing faster only after firms attain a minimum age. Finally, while the authors acknowledge that there is a significant downturn effect on the firms' turnover growth rate for all companies, the foreign companies seem to fare better. Indeed, foreign firms post some 5 percent higher growth rates during recessions than their domestic competitors. This effect also seems to be more significant for SMEs than large companies during recessionary times. In terms of revenue growth, Fukao (2001) reports similar findings to Varum and Rocha (2011). The studied Japanese subsidiaries increased sales on aggregate by 17 percent despite the drop in FDIs and overall exports. This suggests that they were benefiting from their foreign ownership and that they could rely on support from their owner where as the local enterprises were struggling without financial backing during the difficult period.

In an attempt to boost sales growth during recessionary times companies may turn to innovations as a source of additional revenues. Filippetti and Acrchibugi (2011) studied how European companies reacted to the downturn in terms of innovation and research and development costs. Their findings are in line with initial expectations that innovation expenditures tend to decrease during difficult times but the change is surprisingly low. In fact over half of the sample retained the level of innovation expenditures although only some ten percent increased the expenditures from pre-crisis levels. Filippetti and

Archibugi (2011) also argued that geographies that remained relatively less affected are those with higher innovation expenditures. This holds particularly well for e.g. countries like Germany, Sweden, Austria, Switzerland and Finland which all have indeed come out of the crisis stronger than their Southern-European counterparts. This suggests that during crises one possible mean to react to declining revenues is to ensure that innovation remains important within organizations.

Finally, MacFarland et al. (2010) studied the growth of small businesses' during the crisis and in respect of local policies. For their sample the authors report of a relatively high mean growth rate of about 11 percent. The figure can be further split into self-employed and very small companies, which experienced even higher growth while SMEs with 30-99 employees faced slightly declining growth during the studies period. The authors further argue that the difference in the growth rates is dependent on different local policies towards small businesses as well as other controlling factors such as population growth and density. Interestingly however, the smaller companies seem to find growing niches or underserved sectors despite of the recession.

3.2 Operating Performance

Most academic literature measuring operating performance use simple ratios such as return on sales (ROS), return on assets (ROA) and return on equity (ROE), although the latter is admittedly more a measure of financial data (Hart and Ahuja, 1996). According to Fairfield and Yohn (2001), ROA measures the firm's ability to generate revenues from its assets while return on sales or profit margin measures the firm's ability to control the costs incurred to generate revenues. Thus the level of asset turnover reflects the firm's asset utilization and the profit margin reflects operating efficiency. The authors argue that both measures are products of the firms' strategies as for instance luxury or specialty stores tend to have lower asset turnovers and higher operating margins than e.g. discount retailers.

However, other operating performance measures are proposed e.g. by Long (1998) by applying eleven different ratios from the income statement and balance sheet data. Firstly, three profitability related variables are defined as operating income per sales, income tax per sales and net income per sales. The rationale for using operational income relies in the fact that it does not take into account depreciations, which may vary greatly between different firms. Net income on the other hand omits extraordinary expenses. Another point suggested by Long (1998), which fits well also in the case of luxury goods companies, is the potential effect of goodwill in total assets. This holds particularly with luxury goods companies, as they have historically been very acquisitive in their growth strategies. Thus as the purchase prices for other companies include generally large premiums above the target's book value of assets by using sales instead of assets in the denominator provides an alternative approach. This has its flipside though as return on sales is not comparable over industries but as in this study the companies operate within the same industry the critic on return on sales is not relevant.

Depending on the subject of the study, some academics have also argued to measure operating performance by earnings before interests, amortizations and depreciations (EBITDA) and its variations (EBITDA/Sales or EBITDA-margins). This is due to

EBITDA’s role as a quite accurate measure of cash flows in cases where the real cash flows are not measurable or available (see e.g. Guo et al., 2011; Wilson et al., 2012).

The following table presents the most relevant literature for the purposes of this study:

Author / Year of study	Country / Period	Sample	Findings
Wilson & Eilertsen (2010)	US / 2007-2009	190	Most of the sample companies implemented reactions to the crisis, the ones with higher level of strategic planning and accounting were better prepared and fared the crisis better.
Wilson et al. (2012)	UK / 1995-2009	15.000	Revenue growth and profitability is positive for private equity backed companies during recessionary times. In addition, the performance is better than with non-private equity backed companies.
Lopez et al. (2011)	Spain / 2008-2009	796	Over 67% of the sample companies studied had very high impact on EBIT level. Consequently, the impact on the EBT level was perceived as higher.
Kane (1997)	US / 1968-1990	NYSE	Accounting ratios were found to contain conditional information on performance during a recession. The association was found to be stronger in recessions than during expansion.
Marques et al. (2011)	Portugal / 1993-2005	1357	Downsizing during recessionary times does not improve long term operational performance when measured with ROA or profit margins.

TABLE 2 – *Previous research on firm performance during recession and economic crises*

For one thing, all studies above conclude that the economic downturn has clear effects on the top line revenues due to reduced consumer and corporate spending. The effect on profitability however is depending on several aspects, including e.g. ownerships, company size and financial slack going to the crisis, managerial efficiency and level of strategic accounting. In addition, growth initiatives and niche market positions may have a protecting effect during crises as described in the previous sub chapter.

Wilson and Eilertsen (2010) performed a survey study on how strategic planning affected the company performance during the economic crisis of 2007-2009. The authors surveyed 190 practitioners about how planning practices have served in the respective organizations during the 18 months from the start of the crisis in 2007. The survey

revealed that the sample reacted very differently as 49% of the companies took defensive actions while 51% actually continued to invest in growth. The different reactions affected profitability differently, but in general the decline in profitability ratios were not as steep as in revenues suggesting that the reactions taken improved profitability relative to sales. Although strategic accounting was important also in terms of financial results the variable relationship was not statistically significant. The main contribution of strategic accounting was noted in the companies' abilities to respond proactively either in defensive or growth oriented manner to maintain or enhance operational profitability despite of the economic environment (Wilson & Eilertsen, 2011).

Wilson et al. (2012) studied the operating performance of private equity backed companies during recessionary times. Analyzing a large sample of companies over several recessionary cycles and comparing against both public and private non-private equity backed companies the authors find significant differences in terms of profitability during crises. In terms of operating efficiency and profitability the private equity acquired companies showed clearly better working capital management during the studied period, suggesting that the active owners were able to create further flexibility than their public peers. In addition, profitability of these companies – both when measured with ROA and profit margins – remained clearly higher than the peer groups' during the studied period. The authors suggest that this is due to a selection bias as the financial investors target usually more solid companies in the first place but also due the owners' ability to increase efficiency and add to the operational performance during their ownerships (Wilson et al., 2012).

Finally when measuring the earnings before interest, taxes, depreciation of tangible assets and amortizations of intangible assets (EBITDA) per sales, or EBITDA-margin one should be able to compare profitability and operating efficiency. Wilson et al. argue that for the private equity backed companies the owners actions are also reflected in the EBITDA level which on aggregate remain more positive than the peer group. For performance measurement, the benefit of using EBITDA is that it is unaffected by depreciation and amortization policies which may differ significantly in each company. Moreover, EBITDA-margin is also a measure of operating income i.e. it is not affected by the capital structure of the companies. Thus if one company generates less net profits

but has high leveraging the EBITDA-margin might actually be higher than its peer generating higher net profits. (Barber & Lyon, 1996; Guo et al. 2011).

Lopez et al. (2011) studied the performance of several hundred SMEs during the worst stages of the financial crisis during 2008-2009. The authors report of a significant decline in profitability as a result of a sharp decrease in top line revenues. The main negative consequence of worsening profit margins is recorded on gross operating profit and EBITDA. Consequently the authors noted that as a counter measure to the negative impact of falling demand, the companies typically increase asset turnover as a result of decrease of the overall investment in the businesses. However, this reaction has not been sufficient to offset the falling demand on the turnover and the final effect on return on assets has been negative over the studied period. Furthermore, Lopez et al. (2011) argue that the fall in profitability is also higher in terms of return on equity as prior to the crisis a large proportion of the sample had levered their balance sheets. Thus despite the gradual reductions in the interest rates going through the crisis the increase in financial costs explains part of the decline in ROE.

Regardless of the company type, falling profitability most often triggers retrenchment strategies. These strategies aim to downsize the operations in search for enhanced productivity and efficiency in response to organizational decline. As such the relationship between downsizing and future financial performance is linked so that downsizing can be used as a rational and to some extent predictable tool for manipulating operational performance. According to the existing academic literature, this is done by diminishing personnel cost which is most often enhanced by reducing the number of staff on the company's payroll. Thus, the increased operational performance emerges from lowered cost of running operations or by achieving competitive advantages due to the consequent reduction of pricing (McKinley et al., 2000; Cascio et al., 1997).

Marques et al. (2011) argue that the effects of the downsizing are not bearing fruits as expected as they do not find evidence of improved performance after downsizing by using measures of ROA and profit margins. On the contrary, the authors argue that downsizing is most often used as a reactive tool and as such the companies launching broad downsizing campaigns are probably poorly run in the first place. Furthermore,

Marques et al. (2011) suggest that while in a distressed turnaround situation downsizing might be the only way out as a reaction to suddenly changed operating environment it may not be the best solution unless the environment has changed permanently. Their findings suggest that during a steep crisis such as the recent one downsizing does not add to the companies' long-term profitability rates.

3.3 Financial flexibility, leverage and risk during crises

Risks associated to the operational performance during a crisis can be viewed from the market perspective as described before, e.g. the weight of one single market or a single client. As this is a company specific feature a more generic approach can be found in the use of leverage or how the business is financed. In this regard the following table presents relevant existing literature for this thesis regarding financial flexibility and leverage during recessions:

Author / Year of study	**Country / Period**	**Sample**	**Findings**
Bancel & Mittoo (2011)	France / 2008-2009	34	The authors measured the impact of the global financial crisis depending on the financial flexibility of underlying companies. As expected the companies with more flexibility fared the downturn better.
Ang & Smedema (2011)	US / 1980-2008	>35.000	By analyzing how firms manage their financial flexibility conditional on the expected probability of a recession the authors find that in the aggregate firms do not appear to prepare for downturns. This is due to company characteristics, cash rich firms prepare while constrained ones cannot do so.
Marchica & Mura (2010)	UK / 1965-2008	4.290	The authors demonstrate that financial flexibility is higher amongst the companies that show lower overall leverage. Consequently, this sample increased its capex and r&d spending after a period of lower leverage. Finally, the companies with higher financial flexibility outperformed the market for a longer period of time.
Wilson et al. (2012)	UK/ 1995-2009	15.000	Despite the historically high levels of leverage applied in private equity backed buyout transactions, the underlying companies remained on average more profitable than their public counterparts and thus were able to add to their financial flexibility. Furthermore, private equity backed companies invested more than their peers during the downturn.

TABLE 3 – *Previous research on financial flexibility and leverage during recessions*

From the existing literature, a clear interest can be found towards the financial flexibility and corporate liquidity. Financial flexibility refers to the ability of a firm to respond timely and in a value-maximizing manner to unexpected changes in the firm's cash flows or in the investment opportunity set. While the concept of financial flexibility is not new it has not seen a first-order determinant of financial policies. Until recently, most corporate finance textbooks have emphasized the perfect capital market case presented by Miller and Modigliani (1958) where firms always invest at the first-best level. The perfect capital market case however assumes a frictionless environment which recessions and crises most definitively do not make part (Denis, 2011).

Hence, the concept of financial flexibility becomes interesting in the presence of such financing frictions. With financing frictions there can be some states of the world in which firms are constrained from undertaking valuable projects. Furthermore, in the presence of financial frictions it can be valuable for firms to choose financial policies that preserve the flexibility to respond to unexpected periods of insufficient resources by emphasizing the role of cash and other liquid assets in the balance sheets. (Denis, 2011). In their paper, Ang and Smedema (2011) analyze how firms manage their financial flexibility going into recessions or downturns. The authors use ex-ante measures of future recessions and find that in the aggregate the firms seem not to prepare to difficult times ahead. Further to Denis (2011) the authors argue that the importance of financial flexibility during recessionary times is that active monitoring of cash position and a flexible structure prevents the firms to run short of cash, which is a particular risk in a recession.

Ang and Smedema (2011) choose the variables measuring financial flexibility mainly by scaling the cash and cash equivalents to create meaningful comparisons over a lengthy sample period of several decades. Furthermore, the authors measure the impact of non-cash sources by constructing an alternative measure, available funds, i.e. levels of unused debt capacities. The target financial flexibility is then controlled by size, growth proxies and current cash flow volatility before including leverage measured as total debt scaled by net assets. Going to recessions the value of financial flexibility should increase which is why the authors expect firms to prepare by accumulating flexibility before economic frictions. According to the models presented in the paper it seems that while the

probability of a friction increases in aggregate the firms do not prepare but also they appear to decrease flexibility as the prospect of a recession increases. Digging deeper to the statistics however, the authors note that some 60 percent of the sample is to some extent financially constraint when measured by cash-to-net-assets. Thus by splitting the sample to constrained and unconstrained firms, the authors note that once the probability of a recession increases the unconstrained firms have a positive correlation to their net cash position. For the constrained ones the relation is negative. (Ang & Smedema, 2011).

Bancel and Mittoo (2011) introduce a more qualitative approach to measure financial flexibility. Their paper aims to gain insights into how managers perceive and achieve financial flexibility and its value in coping with the global financial crisis. This is done by a questionnaire survey and interviews with the sample company chief financial officers (CFOs). According to the authors, more than two thirds of the studied managers report a strong or very strong effect of the financial crisis and identify banks' reluctance to lend as a major problem during the crisis adding to the constrained financing. While the interviewed managers agree that low leverage is beneficial during the crisis they also use several other sources to enhance financial flexibility. These include e.g. internal funding, high cash holdings and availability of banking lines and credit. Finally, the authors find that firms with greater internal funding during the crisis, low short term debt and high cash ratios have lower impact from the crisis although each of these firms caption some effect from the global financial crisis. (Bancel & Mittoo, 2011).

Marchica and Mura (2010) study the interaction between financial flexibility and firms' investment ability. While maintaining the arguments based on Modigliani and Miller (1958) they argue that through conservative leverage policy companies maintain a degree of financial flexibility that allows them to have better access to external market when faced with positive shocks to their investment set. This is in line with e.g. Bancel and Mittoo (2011) where the CFOs report financial flexibility amongst the most important factors in their decision-making. Furthermore, financially flexible companies that report a period of spare debt capacity, i.e. reasonably leveraged companies are able to invest significantly more than financially constrained companies. Marchica and Mura (2010) report of an average increase of 37 percent in financially flexible firms. This result provides rationale for many firms' apparent conservative leverage behavior.

Additionally, the authors argue that the firms' ex-ante optimum debt level reflects the value of the option using debt capacity to borrow in tighter times and move away from target debt levels to meet imperfectly anticipated funding needs.

While Marchica and Mura argue that low ex-ante debt levels provide protection against downturns, Wilson et al. (2012) provide an opposite example from leveraged buyouts. By definition, leveraged buyouts are corporate acquisitions that are most often financed with external debt financing. Thus the balance sheet structures are often more aggressive than in what financial flexibility theories would suggest as optimal. At the early stages of the recession, some commentators had fairly pessimistic views of private equity backed companies outlooks. They argued that such companies would be highly vulnerable given their high multiples and historically high levels of leverage. Against this, private equity backed companies were able to invest more than their public peers and managed to repay debt giving further flexibility during the crisis. (Wilson et al, 2012). In this regard, it seems that both low and high leverage structures may be financially flexible despite recessionary times.

Based on the literature discussed above, it is clear that leverage should be included for the purposes of this study as well. In previous academic literature, two ratios point out as the most common ones to measure leverage. Firstly, by measuring the net debt divided by total assets has been somewhat typical ratio in previous academic studies (see e.g. Axelsson et al. 2012) as it provides a picture how the company is financed. In other words, how much of the company's balance sheet is financed with equity and what is the proportion of external financing. Although external financing is more inexpensive for the company, it is also riskier as described above. Secondly, an other useful ratio is to measure the leverage against earnings before interests, taxes, depreciations and appreciations (EBITDA), often referred to as debt coverage ratio. This measure provides information on the company's ability to generate cash flows to serve debt.

Finally, in addition to the risk of financial constraints and high leverage, Kapferer and Tabatoni (2010) discuss the luxury industry in a classic textbook example of risk, market beta. Given that beta measures the systematic part of the risk, i.e. how sensitive the stock

in question is in relation to overall market, the timeframe of 2008-2009 provides an interesting setting to see how luxury industry has fared in comparison to overall market.

Kapferer and Tabatoni (2010) find that in line with earlier studies the luxury sector is characterized by a relatively low market risk. Although global luxury market is not immune to overall market shocks they do not experience as fierce drops as other sectors of retail. The authors continue that although luxury goods companies tend to have betas less than one (e.g. Richemont 0.7 or Hermès 0.9), they still have higher betas than the most-known discount retailers such as Wal-Mart, indicating that luxury industry is not the most low-risk sector. While beta measures a company’s systematic risk, what is interesting is the risk that is dependent on any given company due to its properties.

3.4 Hypotheses

Based on the literature review discussed in the previous sub chapters, the following hypotheses can be applied. The purpose of this study is to examine the operational performance of luxury goods companies during the financial crisis of 2008 and the subsequent recession. In addition, by comparing the performance of luxury goods companies to a benchmark group consisting of premium goods companies, the study aims to analyze whether the performance of luxury goods companies differs from the one of their premium peers. Furthermore, in order to gain more insight on the factors that potentially affect the performance of the two groups during the recession, the effects of several variables that potentially could have an effect on the results are measured as presented in the hypotheses.

> ***H1****: The luxury goods companies are not immune to an economic downturn*

The first hypothesis is based on the literature presented in this chapter, according to which growth during the downturn is a function of several aspects. While some luxury goods companies have grown despite the economic downturn, the overall industry consists of different companies with different size, strategies and core markets and thus, it is expected that the downturn has its effects on the industry as a whole.

> ***H2****: The impact of recession is greater on premium goods companies than on luxury goods companies*

The second hypothesis is derived from the discussion presented in Chapter 2, where the premium goods companies are argued to have a product offering covering needs that are above the consumers' basic needs. Consequently, during downturns their demand should decrease as spending is reduced from unnecessary products. However true prestige or luxury brands are seen to benefit from their superior brand power and increasingly global wealthy clientele thus it has been argued that the demand for the luxury goods companies' products would not be affected as much by economic downturns.

> ***H3****: The luxury goods companies show increased operational performance despite the recession*

As the luxury goods companies have higher operating margins than their premium

counterparts, they are expected to continue doing so despite the economic environment because alongside higher profitability they have more flexibility to choose among growth options. Furthermore, as the luxury goods companies operate globally, they are expected to be able to leverage the diversification brought by several markets and thus even out the negative effects.

> ***H4****: If the luxury goods companies show increased operational performance, sales growth contributes positively to the performance*

The fourth hypothesis relies on Kapferer's (2010) findings that some luxury goods companies have recorded high sales growth rates during the crisis. Thus, if the operating performance has increased at the same time, it is expected to be positively associated with the sales growth suggesting that the high margins are not solely due to better management skills but also due to attractive products.

> ***H5****: If H3 holds, financial flexibility is contributing positively to operational performance*

As discussed in this chapter, financial flexibility remains very important during tough economic times. If most of the cash flows are used to serve financial liabilities the company is left with limited resources to invest in growth opportunities or to take other measures to improve efficiency as a counter measure to the recession. In addition, the initial financial position going to the crisis dictates to some extent the companies' abilities to cope with worsened economic conditions.

> ***H6****: Larger companies have more room for maneuver during the recession and are thus less impacted by the downturn*

As argued by Marques et al. (2011) and MacFarland et al. (2010) company size is also a factor in a company's performance during the recession. While the smaller companies may be more agile in finding new growing niches and adjusting their strategies accordingly, during a downturn larger companies are expected to be better positioned to keep higher operating performance due to their ability to cut costs from a larger cost base. In contrast, smaller companies often have a larger proportion of costs that are necessary to run the business and thus making it harder to adjust rapidly to worsened conditions.

4 DATA AND METHODOLOGY

4.1 Description of the data

The data used for this study consists of twenty publicly traded global luxury goods companies and a peer group consisting of twenty premium goods companies also operating globally. The timeframe selected for this study begins in 2007, which is considered as the starting point for the global financial crisis. This is also the year when the U.S housing market started to show early signs of cracking and consequently led to a full-blown economic crisis. The end point of the timeframe is 2010 as this is when the underlying economies came out of the crisis, technically measured as two consecutive quarters of GDP growth. (OECD, 2012).

Thus, the sample data includes the financial statements of the 40 companies during this period and accordingly, the time frame of this study covers the whole global economic crisis of 2007-2009. The sample companies are carefully selected in order to monitor for the possible changes in the luxury goods industry during the crisis as well as for the peer group. In addition, by having the peer group included in the sample allows for measuring for differences between the luxury and premium goods companies. The databases used to gather data for the sample are Thomson One and Bloomberg while the financial reports are collected from the companies' respective websites. Both commercial databases also allow for comparing the financial statements by providing additional information on financial performance of the selected sample companies.

For the purposes of this study, the luxury goods industry is limited to the so-called *personal luxury goods* or *luxury consumer goods*. The selection criteria and data elimination process shall be further described in the following sub-chapter.

4.2 Sample Selection

4.2.1 Study Period

In most of the previous studies on firm performance during recessionary times the samples are selected ex-post to include recessions and economic crises defined simply as a decline in the regions' GDP growth rates over two subsequent quarters. Ang and Smedema (2011) provide several other perceptions of recession but as these are ex-ante measures to forecast recession they are not relevant for the purposes of this study. It is worth to note that the definition of the event window is dependent on the purpose of the study and availability of data. As the purpose of this study is to measure the performance of luxury companies during the crisis, the pre-crisis levels should be controlled in the event window. Secondly, as the studied companies are publicly traded their quarterly reports are also publicly available conveniently matching the quarterly measures for the operating environment or GDP growth in this study.

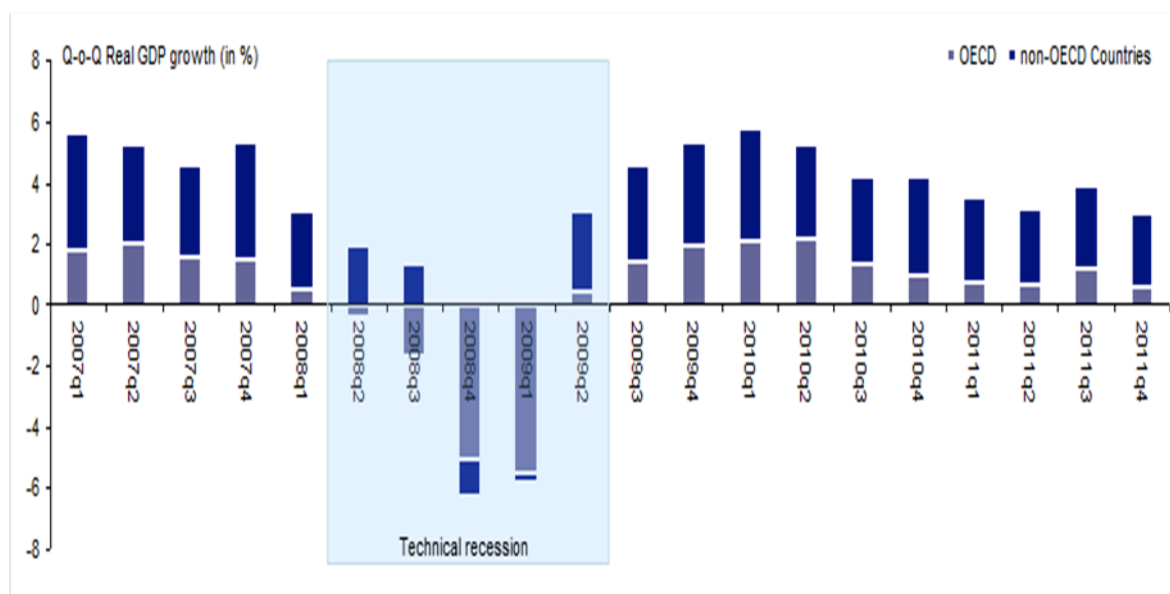

FIGURE 10 - *Real Global GDP change 2007-2011 (OECD, 2012)*

In hindsight it has been well documented that the global economy entered a period of slow to negative growth in the late 2008. In the OECD countries, the decline in aggregate growth rates started already in mid-2007 and continued until the second quarter of 2009. Furthermore, OECD Composite Leading Indicators signals also that the economy started

cooling down during the second half of 2007. The above is further illustrated in the Figure 10 showing the aggregate indicators for global economy. (OECD, 2012).

The period 2007-2010 was thus chosen as the main period of study for it covers all three parts of the economic cycle: slowdown, recession and rebound. Although one could argue that 2007 was still a record breaking year in terms of corporate revenues, it should have been affected by the slowing markets during the second half of the year and thus qualifies in the sample. Furthermore, 2010 is included to have a confirmation of non-recessionary full year performance where as 2009 included two quarters of recession and thus would not qualify.

4.2.2 Luxury goods companies group and selection criteria

As discussed already in the limitations part of Chapter 1 and in Chapter 2, the luxury goods industry covers a very large range of underlying industries and product ranges depending on the definition of the industry. For the purposes of this study, the definition of the luxury goods industry is limited to the so-called *personal luxury goods* or *luxury consumer goods*. In addition, for the purposes of this thesis, the luxury brands are defined as presented by Okonkwo (2007). All the companies selected to the luxury goods group must possess the following ten characteristics:

1. Innovative, creative, unique and appealing products
2. Consistent delivery of premium quality
3. Exclusivity in goods production
4. Tightly controlled distribution
5. Heritage of craftsmanship
6. High visibility
7. Distinct brand identity
8. Global reputation
9. Emotional appeal
10. Premium pricing

Due to the lack of a universally valid definition of the luxury goods industry and its constantly evolving nature, there is no accurate list of companies operating within this industry. Hence, the companies for this research had to be hand collected. As presented in Chapter 2, existing definitions regarding the luxury goods industry relate mainly to product and brand characteristics. Some rankings concerning luxury brands exist, for instance, Interbrand has a luxury sector in their 100 most valuable brands ranking (See e.g. Appendix 4 & 5), but these rankings cannot be used as such due to the fact that many luxury brands remain privately held and due to the conglomeration activities reining the industry, many luxury brands presented on the rankings are in fact owned by same companies.

The S&P Global Luxury Index provides an interesting starting point for the sample selection process as the index consists of 80 of the world's largest publicly traded companies engaged in the production or distribution of luxury goods, or the provision of luxury goods services that meet specific investment requirements. (S&P, 2012). However, while the index components are easily available, it needs to be treated in order to verify the comparability amongst the sample. The index constituents cannot be used for this study per se due to the fact that the determination of the luxury status of the luxury goods companies is subjective and the determination of the companies qualified for the S&P index differs from the definition of luxury goods industry used in this thesis. The universe from which the S&P Global Luxury Index constituents are drawn consists of industries ranging from Casinos & Gaming to Specialty stores. As mentioned, the index also includes companies that are engaged only in the production or distribution of luxury goods and hence, cannot be classified as luxury goods companies only on those terms.

Hence, the first limitation is that companies that do not share the industry classifications and operate mainly in other sectors than luxury consumer goods are eliminated from the sample. Companies operating mainly in other sectors than apparel, accessories or cosmetics are excluded for the purposes of comparability. Other sectors include several industries that are subject to different industry dynamics (e.g. automobiles, yachts, publishing or gastronomy) and could thus create outliers in the sample and consequently bias the results.

Furthermore, from the economic point of view the companies selected to the sample need to have a global reputation in order to have global sales reach. However, despite the global reach their association with the country of origin is also noted in this study. Thus the financial data of companies that belong to the S&P Global Luxury Index is adjusted by eliminating the constituents that do not operate globally. For example, companies that operate only in Asia are eliminated as they might represent an outlier in the otherwise global data due to higher relative growth in Asia compared to the rest of the world. Finally, all companies must also be public since 2007 or have their financial results public starting from full year 2007.

As the definition of Luxury goods used for the S&P Luxury Index seems to be quite wide and basically companies are identified to the index only based on the level of involvement with luxury goods and services (S&P, 2012), the universe of the index constituents also includes companies that can be considered as premium goods companies. As discussed in Chapter 2, the differentiation between luxury and premium brands is mainly a matter of degree, which makes it difficult to draw a clear line, especially between top premium brands and entry-level luxury brands. Thus, the index constituents are further adjusted by the definition of luxury brands provided by Okonkwo (2007). The S&P Luxury goods index data and eliminations made for this study can be found in Appendix 4, I and II. In addition, the sample is further adjusted so that it contains the companies owning the most valuable brands ranked by Interbrand and The World Luxury Association (see Appendix 4-5).

As a result after the adjustments the final sample of the luxury goods companies consists of 20 globally operating publicly traded luxury goods companies. Due to the conglomeration activities within the industry, the sample represents a total of 223 luxury brands. The final list of the companies used in the sample is presented in Appendix 1, I, II and III. The sample characteristics are presented further in Figure 11.

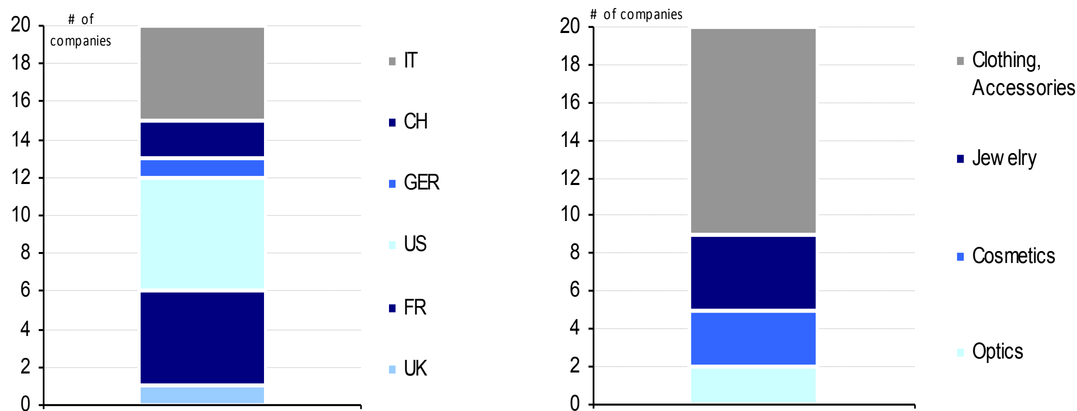

FIGURE 11 - *Sample distribution by geography and main product line (Luxury goods group)*

The figures above illustrate the distribution of the selected luxury goods companies sample by geography and by the main product lines. In terms of geography, the companies are sorted by the location of their global headquarters and the main stock exchange. The sample is relatively evenly split between US and the largest European luxury producing countries. Thus, as expected France and Italy account for 50 percent of the sample while the US counts for 25%. The lack of Asian companies is explained by the fact that as of today, no Asian (or Hong Kong listed) luxury companies have established position in the European or US markets.

In terms of main product line, it should be noted that the judgment is highly subjective in some sectors as most of the sample companies have very complimentary product ranges. Perhaps the clearest call is between jewels and watches and cosmetics. These two categories account for some 40 percent of the sample, optics for five while the remaining 55 percent comes from clothing and accessories.

After having obtained the initial sample of luxury goods companies, the relevant data is collected from Thomson One Banker and the companies’ financial statements.

4.2.3 Peer group and selection criteria

As the purpose of this thesis is to measure the operational performance of luxury goods companies, it is necessary to determine and construct a peer group in order to measure the performance benchmarked against the luxury goods companies' performance. The usual academic approach is to use industry codes to include companies operating within similar industries.

As discussed in Chapter 2, luxury products and brands can be distinguished from premium brands by their constitutive product and brand characteristics. The essential difference between these two types of brands is the fact that premium brands focus especially on functional characteristics while luxury brands put much more effort into creating a symbolic meaning. (Heine, 2012, pp. 66). However, the products offered by these two types of companies are functionally the same. Thus, in the light of previous literature, for the purposes of this thesis, an appropriate peer group for the luxury goods companies group should consist of premium brands. That translates into companies operating in the same industry as luxury goods companies but with generally lower pricing but to some extent these can be seen as luxury companies competitors.

As mentioned in the previous section, the universe of the S&P Global Luxury Index constituents also includes companies that can be considered as premium goods companies (See Appendix 3, I and II). After the industry and geographical eliminations to the index, 9 premium goods companies are gathered. As the peer group sample should be the same size as the luxury goods companies group the additional companies are gathered by applying similar industry classifications. Thus the peer group is relatively straightforward to construct given the focused primary sample of this thesis by applying similar industry classification codes for the peer group. Previous literature suggests to use SIC-industry codes or NACE codes for European samples, but as the sample is within a specific sector the same classification in terms of CGIS in the Thomson database but for companies that do not fill the criteria for luxury goods companies.

In addition, the peer group is matched in size defined by total assets as well as operating footprint, again excluding potential peers that do not share global market positioning. For further peer group matching, Barber and Lyon (1996) propose that a peer group matched to past-performance could yield better results for companies that have done particularly well (or poorly) in the past, such as luxury goods companies. However, given that this study expects that there should be differences in the operating performance between the sample and the peer group, the past-performance criteria has been relaxed for the peer group selection. The final composition of the 20 peer group companies is presented in detail in Appendix 2, I and II. Again, due to conglomeration, this sample represents 138 premium brands.

The Figure 12 illustrates the distribution of the selected sample by geography and by main product lines. The initial peer group is relatively precise in terms of product ranges but is slightly more biased towards the US by headquarters. However the location should not be any issue for the study as the peer group companies also generate their sales globally instead of just home markets. Furthermore, as both the sample and peer group are reporting under similar disclosure requirements due to their public company status, the financial reports are directly comparable which avoids several potential problems that peer group selection may have in regard of consolidated and unconsolidated accounts.

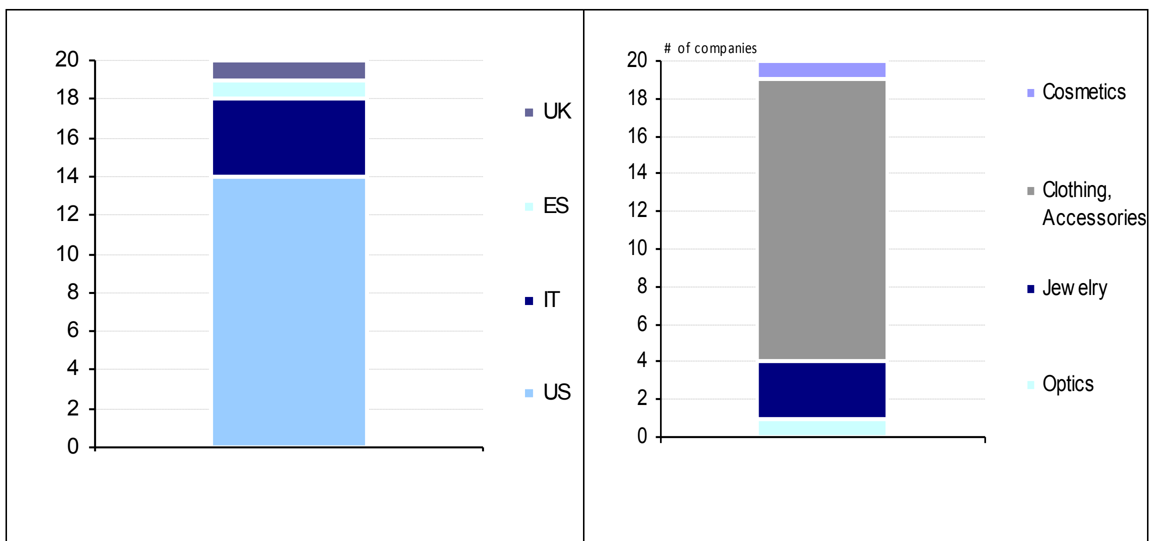

FIGURE 12 – *Sample distribution by geography and main product line (Peer Group)*

4.3 Descriptive statistics

Table 4 below presents the luxury goods companies sample, split into geography and main product lines. The sample consists of 20 globally operating public luxury goods companies, for which the financial data is freely available.

The table presents the distribution of the sample companies by geographic location as well as by main product type (number as a percentage of the full sample).

	France	U.K.	U.S.	Germany	Switzerland	Italy	**Total**
Fashion, Leather Goords, Apparel	4 20%	1 5%	2 10%	1 5%	0 0%	3 15%	**11 55%**
Watches and Jewelry	0 0%	0 0%	2 10%	0 0%	2 10%	0 0%	**4 20%**
Eyewear	0 0%	0 0%	0 0%	0 0%	0 0%	2 10%	**2 10%**
Cosmetics	1 5%	0 0%	2 10%	0 0%	0 0%	0 0%	**3 15%**
Total	**5 25%**	**1 5%**	**6 30%**	**1 5%**	**2 10%**	**5 25%**	**20 100%**

TABLE 4 – *Geographical and product line distribution of the luxury goods companies*

Although the split between geographical locations is somewhat artificial due to global nature of the companies included in the sample, France and Italy account for half of the sample both with a 25 percent share. U.S. headquartered businesses are the largest single contributor, accounting for 30 percent while the remaining 20 percent is split between Switzerland and Germany, with shares of 10 percent and 15 percent respectively.

In terms of main business line fashion, leather goods and accessories account for a majority of the companies in the sample with some 55 percent. Watches and jewelry account for 20 percent and eyewear and cosmetics share the final 25 percent.

The initial characteristics for the sample companies are presented on Tables 5 and 6. For the luxury goods companies, the sales range of the sample varies from some €150 million to one outlier with sales closed to €20 billion with typical sample company with sales of €2.2 billion. Interestingly the EBITDA margins are high for the whole sample with mean and median EBITDA margins at over 20 percent. The most profitable company in the initial sample posts margins of over 40 percent.

The table reports sample charasteristics as of 2007. Sales, total assets, sales / employee, enterprise value (EV) and net debt are reported in million Euros, profitability ratios and net debt / EBITDA in percentage points.

	# of obs	Median	Mean	Max	Min
Sales (m€)	20	2165.5	4826.3	19098.2	143.6
EBITDA (m€)	20	603.8	978.9	4090.0	14.8
Total Assets (m€)	20	2257.3	7120.5	34240.0	125.8
Net Debt (m€)	20	255.0	1411.1	8163.0	3.1
Net Debt / EBITDA	20	1.01	1.34	4.66	0.00
EBITDA / Sales	20	0.22	0.21	0.41	0.06
EBITDA / Total Assets	20	0.27	0.14	0.12	0.12
Entreprise Value (EV, m€)	20	6629.8	10263.2	43346.9	202.0
# Employees	20	8401.0	22160.6	88915.0	248.0
Sales / Employee (m€)	20	0.26	0.22	0.21	0.58

TABLE 5 – *Sample characteristics of the luxury goods companies*

In terms of leverage, the sample has a somewhat conservative balance sheet structure. The mean net debt to EBITDA multiple is just over 1.3x while median is slightly lower at 1x. This suggests that the sample should be relatively well prepared for the downturn when measured in financial flexibility. When measuring the company size of the sample the mean and median sizes are 6.6 billion Euros and 10.2 billion Euros, with largest one at 43.3 billion Euros and smallest at 202 million Euros. The size is measured as the enterprise value or equity value plus net debt. Another way to account for size would be to look at number of employees. In this way the differences are slightly larger with mean at 22 thousand employees but median only at 8.4 thousand employees.

For the peer group, the sample is clearly more uneven with sales range between 70 million Euros and 37 billion Euros with a median of 2.2 billion Euros, i.e. quite close to one of the luxury goods companies. In terms of EBITDA margins the peer group shows lower profitability with a median EBITDA margin of 15 percent and the most profitable one at 26 percent. Interestingly, while the peer group shows a median net debt to EBITDA multiple of 1.15x the sample is affected by one clear outlier with negative net debt to EBITDA ratio. Overall the highest multiple shows a high gearing and the sample is clearly less concentrated than the luxury goods companies.

In terms of company size, the peer group posts mean and median sized of 2.6 billion Euros and 8.6 billion Euros respectively, with largest company at 94 billion Euros. Alternatively, the size can be expressed by the number of employees showing again large differences with median of slightly less than 7 thousand employees and a mean of 18 thousand employees.

The table below reports sample charasteristics as of 2007 for the peer group. Sales, total assets, sales / employee, enterprise value (EV) and net debt are reported in million Euros, profitability ratios and net debt / EBITDA in percentage points.

	# of obs	Median	Mean	Max	Min
Sales (m€)	20	2240,9	5375,6	37227,0	68,8
EBITDA (m€)	20	245,7	895,5	8476,0	-26,5
Total Assets (m€)	20	1889,4	3542,4	21892,0	45,0
Net Debt (m€)	20	56,7	520,3	2912,0	0,0
Net Debt / EBITDA	20	1,15	-0,51	7,47	-33,46
EBITDA / Sales	20	0,15	0,14	0,26	-0,01
EBITDA / Total Assets	20	0,13	0,25	0,39	-0,59
Enterprise value (EV, m€)	20	2594,8	8617,8	94242,7	0,0
# Employees	19	6899,0	18521,6	141000,0	170,0
Sales / Employee (m€)	19	0,32	0,29	0,26	0,40

TABLE 6 – *Sample characteristics of the peer group*

4.4 Discussion on measuring operating performance

As the key attribution of this thesis is to measure the performance of the sample during the financial crisis, it is of importance to select carefully the performance measures and with regard to the research question.

Firstly, as noted in Chapter 3, usually during economic downturns, the first impact is seen on declining turnover. Furthermore, in accordance with prior literature, operational measures should be scaled in order to provide with more comparability. As other measures can be scaled by companies' sales, the change in sales is selected as the first indicator. While sales may be the first indicator of changed environment, the focus of this study is on the operational performance of the sample. As described earlier, many of the recent studies use operating income as the main proxy for operational performance instead of EPS or ROE. The benefits of using operating income include e.g. exclusion of company specific special items, and taxation and thus offer a cleaner and more comparable measure than ROE for example. Furthermore, as the operating income takes an indifferent view on how the companies are financed – by not accounting for interest expenses and debt repayments – it provides a more accurate picture of the real operating efficiency. (Barber and Lyon, 1996)

For the purposes of this thesis, EBITDA is selected as the main proxy for operating income. It is selected as it offers a close measure to firms' cash flows, which in essence are forming the value of also listed companies. In addition, traditional measures, such as ROA, are often criticized of being recorded at historic costs while operating income is measured in current Dollars/Euros. Especially during a crisis this can be seen as a real drawback of the measures. However, alongside with EBITDA, the operating performance is also measured by ROS to get a more profound picture of the profitability. ROS has the advantage over ROA that it can be measured constantly at any point of time, but compared to EBITDA it accounts for company specific items that may bias the results if used as a sole measure. Finally, ROA is also included in this thesis, as despite of its drawbacks it is often used in the previous academic literature and thus also allows further comparison.

To include financial performance during the difficult times as well, financial flexibility is also measured. As described in Chapter 3, during economic crises financial flexibility is very important feature as, by definition, it allows for greater range of options. Firstly this is measured, by accounting for a ratio of free cash flows scaled to EBITDA. Free cash flows (FCF) are defined as operating income less capital expenditure, a figure that shows the capability to meet financial obligations. Second measure is the debt coverage ratio or a common measure of indebtedness where net debt is divided by EBITDA. In other words this ratio implies how many years of operating income is required to repay current amount of external interest bearing debt. Thirdly, gearing, or net debt divided by total assets, is used to add depth to the analysis. The drawback of gearing is the scaling against assets, which gives a rather static measure, which is not the most reliable during a crisis. The two former measures are more current and thus can be seen as relevant figures for measuring financial flexibility.

Many scholars have also analyzed performance by comparing the percentage changes in performance measures. While such approach can be preferred over measuring absolute changes the method has its flipsides. The first problem comes when dealing with negative values. In cases of negative values the approach where percentage change is calculated the results are not meaningful. This reduces the sample size as non-meaningful measures have to be disregarded for the study in order not to bias the overall results. The second problem is the proportional role of the pre-event levels. By this is meant that a similar absolute change in performance measures fairly differently in percentages depending on the starting levels.

Finally, percentage changes in all variables are measured in this study while also testing for possible negative values. Given the fact that this study focuses on recessionary times, some values are expected to have negative changes due to expected losses in profitability and overall revenues. This could have a positive bias in cases where the negative values may be dropped from the sample. (See e.g. Barber and Lyon, 1996; Guo et al., 2011).

4.5 Variables

4.5.1 Dependent variable: Abnormal performance between luxury and premium goods companies

First, as the aim is to follow the firm level performance over the selected time period, the change in the measures is calculated. Furthermore, as the study utilizes two sets of data, the luxury and premium goods companies, the statistical tests for difference are done for accounting to unadjusted and peer-group adjusted changes. For profitability related ratios that can also have negative values percentage point changes are applied to avoid potential biases stemming from negative values. Thus the first unadjusted change in the measures is calculated as follows:

(1)

$$\Delta P_{i,t} = P_{i,t}\text{-}P_{i,t-1}$$

Where $P_{i,t}$ is the performance measure of the company i in period t.

In order to account for the difference in performance between the luxury goods companies and the peer-group, the abnormal performance ΔP is measured as the realized performance for luxury companies subtracted by the performance of the peers. Thus the abnormal performance is calculated with the following equation:

(2)

$$AP_{i,t}= P_{i,t}\text{-}\mathrm{E}(P_{i,t}) = P_{i,t}\text{-}(P_{i,t-1}+(PG_{i,t}\text{-}PG_{i,t-1})) = \Delta P_{i,t}\text{-}\Delta PG_{i,t}$$

Where the abnormal performance of the luxury goods companies $\Delta P_{i,t}$ is defined as the difference to the change of peer group $PG_{i,t}$ median. The reasoning behind using the median is that individual performance measures can be outliers, which are eliminated when using peer group median.

4.5.1 Independent variables

4.5.1.1 Initial profitability

As the crisis is expected to affect the performance of all sample companies, the initial profitability going to the crisis is an important factor. With higher profitability a company has more cash flows to use as a reserve against possible bleaker years. For the purposes of this thesis, the profitability is measured as the EBITDA-margin, i.e. earnings before interests, taxes, depreciations and amortizations of intangible assets divided by total sales. EBITDA-margin is selected for the measure due to its nature that is unaffected by the financial structures or amortization policies which may differ significantly between the companies. Thus, the EBITDA-margin provides with a more comparable indicator. The initial profitability is calculated as follows:

(3)

$$Initial\ profitability = \frac{EBITDA_{i,t}}{Sales_{i,t}}$$

Should the crisis have an effect on the company level it should be reflected in the operating performance i.e. EBITDA-margin.

4.5.1.2 Sales Growth

In addition to profitability, changes in revenues are also of interest. During a crisis, spending is usually cut, which is first reflected in declining corporate revenues. If luxury goods companies are indeed immunes to a downturn as claimed in some articles, sales growth should show positive changes. Should the opposite hold the change would be noted as a negative one. The change in sales during the crisis is measured by the sales growth ratio as follows:

(4)

$$\Delta Sales\ Growth_i = \frac{Sales_{i(t+4)}}{Sales_{i,t}} - 1$$

4.5.1.3 Initial debt

Initial leverage refers to the debt position at the beginning of the studied period and is measured as net debt as a multiple of EBITDA, which is also often referred to as debt coverage ratio. As indicated in the previous chapter, lesser the debt burden going into a downturn, more financial flexibility is available, as the operative cash flows do not have to be used towards servicing debt. Thus, the initial leverage is measured as follows:

(5)

$$Initial\ Debt_i = \frac{Net\ Debt_{i(t)}}{EBITDA_{i(t)}}$$

Regarding the measure above, particular attention is required as in cases where the EBITDA has a value of zero or below zero the debt coverage ratio has no meaningful interpretation. Indeed, where EBITDA values are zero, debt coverage is not defined and the ratio shows a point of discontinuity.

4.5.1.4 Size

As described in the sample description, the size range of the sample varies to some extent. In light of previous research, it has been argued that smaller companies may be more agile to react to changing operating environments where as larger companies may struggle to adapt to new situations. Thus for the purposes of this study, it is also of interest to control for the size of the companies. Size is measured as the enterprise value of the companies as follows:

(6)

$$Size_i = Enterprise\ Value_i = Market\ Cap_i + Net\ Debt_i$$

4.6 Statistical Methods

Firstly, when comparing the luxury goods companies to their peer group of premium brands, this study follows Barber & Lyon (1996) who argue that non-parametric test statistics are uniformly more powerful than parametric t-tests when measuring changes in operating measures. Their reasoning is that t-tests assume homoscedastic and normally distributed error terms, which are likely to be violated when dealing with financial measures such as operating measures. Thus in this thesis Wilcoxon-rank-sum-test is applied to test the hypotheses.

The calculation of the statistic, here denominated as *U*, is done by ranking all observations into one ranked series where the ranks from observations in the sample 1 are added-up. Then the ranks for observations in the second sample can be calculated. All calculations are performed with a statistical program, namely R. The statistic *U* is calculated as:

(7)

$$U_1 = R_1 - \frac{n_1(n_1+1)}{2}$$

and

$$U_2 = R_2 - \frac{n_2(n_2+1)}{2}$$

Where n_1 and n_2 are the sample sizes 1 and 2; R_1 and R_2 are the sum of the ranks of samples 1 and 2. From these the smaller of U_1 and U_2 is then used and the standardized value is computed as:

(8)

$$z = \frac{U - m_u}{\partial_u}$$

Where m_u and δ_u are representing the mean and standard deviation of *U* calculated as follows:

(9)

$$m_u = \frac{n_1 n_2}{2}$$

and

$$n_1 = \sqrt{\frac{n_1 n_2 (n_1 + n_2 + 1}{12}}$$

Secondly, in order to test the sample quantitatively to measure which factors affect the potential abnormal performance regression analysis will be used. For this purpose linear regression analysis provides a central quantitative research method with extensive existing literature. In this analysis, one takes independent variables to explain one depending variable of interest. For the purposes of this study, it is of interest to measure the factors behind expected outperformance of luxury goods companies. For this purpose one selects ex-ante factors such as initial profitability or debt. In other words, the regression analysis is used not only to explain the past but it is used also to predict the future. The mathematical presentation of linear regression is as follows:

(10)

$$y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \cdots + \beta_n x_n + \varepsilon$$

In the equation above, y is the dependent variable and $x_1 ... x_n$ are the independent variables, the amount of which is n. What differs the linear regression analysis from non-linear one is the fact that there are no higher powers of the independent variables. The coefficients are market with $\beta_0 ... \beta_n$ so that β_0 is the constant of the equation. Last term of the equation, epsilon, is the error term.

With the exception of the constant the signs of the coefficients show whether the dependent variable increases (positive sign) or decreases (negative sign) with the independent variable. The values of the coefficients, including the constant, depend on the unit of the independent variable in question and thus cannot be compared. Finally, the

error term ε indicates measurement error as well as the possible effect of other independent variables that may affect the dependent variable but that are not taken into account in the model.

The purpose of the regression analysis is to estimate the values of the coefficients and their significance levels. The method used is the ordinary least square (OLS) regression where the sum of the squares of residuals is minimized. The sum of he squares is also defined as the difference between an observation and the value, which the regression predicts for it. The regression can be run on a statistical program, or as in this study with Microsoft Excel.

With regards to the significance levels of the coefficients, they indicate the probability of rejecting the null hypothesis when in reality the null hypothesis is true. As an example, for instance concluding that high initial profitability is associated with higher abnormal performance when in fact this would not be the case. The used significance levels are typically 10%, 5% and 1%.

Regression analysis has five important assumptions under which the coefficients given are the best unbiased estimators. These assumptions are also known as the Gauss-Markov assumptions. First assumption takes that the expected value of error terms are zero and thus on average the error terms should balance each other out. Second and third assumptions are related to the independent variables that are assumed non-random and to be linearly independent of each other. If not, a multicollinearity problem may occur. Fourth, the error terms are assumed to be homoscedastic meaning that their variance is constant. Finally, the error terms are assumed to be uncorrelated with each other.

5 EMPIRICAL RESULTS AND ANALYSIS

5.1 Main Results

5.1.1 Statistical Models Used

In order to measure differences in operating performances between luxury goods companies and the selected peer group a Wilcoxon rank sum test is used as follows:

(11)

$$AP_{i,t} = P_{i,t} - E(P_{i,t}) = P_{i,t} - \left(P_{i,t-1} - \left(PG_{i,t} - PG_{i,t-1}\right)\right) = \Delta P_{i,t} - \Delta PG_{i,t}$$

Where $AP_{i,t}$ refers to the abnormal difference between the change in EBITDA margins for the luxury goods companies $\Delta P_{i,t}$ and its peer group $\Delta PG_{i,t}$. For further verifying for a difference the same model is applied also on return on sales where $AP_{i,t}$ refers to the difference in the change of ROS for both samples.

Secondly, in order to study which company level factors contribute to the expected different performance between luxury goods companies and its peer group the following OLS-regression model is used:

(12)

$$AP_{i,t} = \beta_0 + \beta_1 * Initial\ profitability_i + \beta_2 * \Delta Sales_i + \beta_3 * Initial\ Debt_i + \beta_4 * Size_i + \varepsilon$$

The dependent variable is the abnormal performance, measured both as the change in EBITDA-margins and the change in ROS during the selected study period. Of the independent variables, $Initial\ profitability_i$ refers to the EBITDA-margin at the beginning of the period; $\Delta Sales_i$ refers to the change in total revenues during the time period and $Initial\ Debt_i$ refers to the initial debt coverage (net debt divided by EBITDA). The control variable $Size_i$ is calculated as the enterprise value (market cap + net debt) at the beginning of the studied time period.

The results of the Wilcoxon tests are presented in the tables 7 and 8 while table 9 presents the results of the OLS-regression. All results are further discussed in the following sections of this chapter.

The table reports changes in unadjusted performance. Changes in profitablity and financial flexibility measures are reported in percentage points, all other are percentage changes. Number of observations is 20 for all ratios. Significance levels are based on two tailed Wilcoxon signed-rank test. *, **, and *** denote levels that are significantly different from zero at 10%, 5% and 1%, respectively.

	Luxury			
	2007-2008	2008-2009	2009-2010	2007-2010
A) Growth				
Sales Growth	2.91%	-3.26%*	12.73%***	13.68%**
B) Profitability				
EBITDA-margin	0.218***	0.189***	0.173***	0.194*
ROA	0.096***	0.075**	0.062***	0.078***
ROS	0.088***	0.060**	0.012***	0.053***
C) Financial flexibility				
FCF / EBITDA	0.035	0.317	0.424***	0.259**
Debt Coverage	1.005***	1.216***	1.251***	1.158***
Gearing	0.176***	0.200***	0.197***	0.191***
D) Size				
EV	-36.03%***	24.72%*	46.69%***	39.58%**
# Employees	-33.91%***	24.39%***	49.26%***	38.58%**

TABLE 7 – *Unadjusted performances of the luxury goods companies 2007-2010*

Table 7 reports the changes in performance measures during the period of 2007 – 2010 before adjusting the performance to the peer group. The first column reports change from 2007 to 2008, second column from 2008 to 2009 and the third column from 2009 to 2010. The last column on the right hand side reports the change over the whole period from 2007 to 2010.

The table reports changes in adjusted operating performance. Changes in profitablity and financial flexibility measures are reported in percentage points and substracted by peer group median change, all other are percentage changes less the change in peer group median. Number of observations is 40 for all ratios. Significance levels are based on two tailed Wilcoxon signed-rank test. *, **, and *** denote levels that are significantly different from zero at 10%, 5% and 1%, respectively.

	Difference / Adjusted			
	2007-2008	2008-2009	2009-2010	2007-2010
A) Growth				
Sales Growth	7.50%	-0.59%**	2.90%***	12.11%*
B) Profitability				
EBITDA-margin	7.14%**	9.68%	4.81%**	7.21%
ROA	-0.36%***	1.22%**	0.62%**	0.49%***
ROS	4.44%*	4.33%**	-4.28%***	1.50%***
C) Financial flexibility				
FCF / EBITDA	-17.74%**	-11.41%*	32.09%***	0.98%***
Debt Coverage	-14.59%***	-21.60%***	53.58%***	5.80%***
Gearing	3.90%	9.10%	9.49%***	7.50%***
D) Size				
EV	15.59%***	76.34%***	-23.78%***	28.01%***
# Employees	-32.36%***	25.94%***	53.28%***	35.92%***

TABLE 8 – *Adjusted Performance of the luxury goods companies vs. the peer group 2007-2010*

The table 8 above adjusts the changes in performance measures by deducting the median change in the peer group from the gains in the luxury goods companies group.

The table below reports the multivariate regression results for change in operational performance measures. The models (1) and (2) use unadjusted pct change as dependent variable while in (3) and (4) the dependent variable is adjusted against the peer group. Independent variables are unadjusted. P-values are in the brackets. All regressions are OLS with heteroskedasticity-robust standard errors. *, ** and *** indicate significance at 10%, 5% and 1% levels, respectively.

	(1) Change in unadjusted EBITDA-margin	(2) Change in unadjusted ROS	(3) Change in adjusted EBITDA-margin	(4) Change in adjusted ROS
Initial EBITDA-margin	-2.012	-9.069	-1.001	-1.971
	(0.001)***	(0.936)	(0.055)*	(0.084)*
Sales growth	0.720	56.000	5.447	13.701
	(0.006)***	(0.277)	(0.476)	(0.030)**
Initial Debt Coverage	-0.018	2.841	0.697	1.034
	(0.616)	(0.722)	(0.563)	(0.353)
Size (EV)	-0.018	0.001	-0.001	-0.002
	(0.540)	(0.503)	(0.069)*	(0.707)
Constant	0.306	-1.345	4.932	-0.251
	(0.042)**	(0.965)	(2.999)	(0.931)
# of obs	20	20	20	18
R^2	0.805	0.382	0.328	0.701

TABLE 9 – *Regression Results*

Table 9 on the previous page presents the results from the OLS-regression. Of the independent variables initial profitability and sales growth receive statistically significant results but initial debt variable does not show statistically significant results. For the control variable, one statistically significant result is found.

Finally in order to compare the hypotheses and the results, the following table presents the hypotheses of this study with the findings:

Hypothesis		**Support**
H1	The luxury goods companies are not immune to an economic downturn	Yes
H2	The impact of recession is greater on premium goods companies than on luxury goods companies	Yes
H3	The luxury goods companies show increased operational performance despite recession	Yes
H4	If H3 holds, sales growth contributes positively to the performance	Mixed
H5	If H3 holds, financial flexibility is contributing positively to operational performance	No
H6	Larger companies have more room for maneuver during the recession and are thus less impacted by the downturn	No

TABLE 10 – *Comparison of the Hypotheses and Results*

5.1.2 Results Related to Luxury Goods Companies Performance during the Downturn

As suggested by the previous research on recessionary times firm performance, and as expected in the first hypothesis, luxury goods companies are also feeling the economic downturn. Amongst the findings of this study are the operational figures showing that on average luxury goods companies also face declining profits during the downturn. Interestingly, however, the revenues show only a slight decrease during one year of the crisis before rebounding very strongly. The unadjusted figures reported on the table above show sales growth for the luxury group of 13.68% over the studied period. The annual growth rates fluctuate however from modestly negative growth at the bottom of the economic downturn (statistically different from zero at 10% confidence level) before rebounding significantly after the crisis. The last double-digit sales growth figures are statistically significant at 1% and 5% levels respectively.

Profitability, when measured with EBITDA-margin, descends by 200 basis points during the downturn (significant at 1% level). The drop in profitability is however again less dramatic than what other industries have faced and is recouped mostly by the end of 2010. Post-crisis profitability remains still lower than going to the crisis (significant at 5% level). Return on assets and sales decline slightly more going to the end of 2009 (both significant at 1% level) suggesting that the companies have some operational leverage that adds to the downturn. Again both measures show significant increase coming out of the recession but as with EBITDA-margin remain lower than the performance before recession.

As expected in hypothesis two, the impact of a recession is greater on premium brands than on luxury brands. As found in the results, the luxury goods companies do indeed outperform their premium peers in almost all measures, most notably on overall sales growth and EBITDA-margins. As far as the author is aware, this is the first time such findings are reported. While the results are in line with the existing literature on firm level performance during recessions, no industry specific studies have been undertaken regarding the luxury goods industry.

In terms of sales growth the luxury sector has clearly outperformed the peer group every year of the downturn except 2008-2009 when the peer group has been marginally ahead. However, over the whole studied period, luxury goods companies' have outperformed the peer group by over 12% (statistically significant at 10% level). In terms of profitability, the results are two-folded. When looking at the two bottom-line profitability measures, ROA and ROS, the abnormal operating performance of the luxury goods companies has been limited but in terms of EBITDA-margin, luxury goods companies have outperformed the peer group quite clearly. These results are statistically significant at 5% level.

While the luxury goods companies do not show consistently increased operating performance over the crisis, overall the operating performance for luxury goods companies is positive over the full cycle of the downturn. While this finding is statistically significant, it cannot be confirmed by all measures. In addition, although the unadjusted operating performance is positive by all measures, the adjusted performance is negative if measured by return on sales at a specific point of time in during the downturn. In general however the findings support the hypothesis of outperformance over the peer group of premium brands.

Financial flexibility remains somewhat stable over the studied period regardless the measure applied. All measures, cash conversion (FCF/EBITDA), debt coverage and gearing remain rather flat suggesting that the companies had enough room and flexibility in the structures to cope with a crisis. Furthermore, all but three figures are also significant at 1% level. While EBITDA margin has decreased during the downturn, cash conversion rate actually increases during the crisis. This suggests that the luxury goods companies have managed cash flows well and indeed increased their financial flexibility. The same can be seen in debt coverage (Net Debt / EBITDA), which increases only marginally during the crisis while the underlying denominator actually decreases. This suggests again that efficient cash management – as net debt accounts for short-term assets and cash – has played a critical role during the downturn. Finally, gearing has also remained seemingly flat, suggesting that luxury goods companies have fared through the worst financially flexible.

Comparing the ratios measuring financial flexibility to the peer group shows somewhat twofold picture. During the two first years of the downturn, the peer group seems to have a slightly more limited negative effect on the change in free cash flows and consequently in debt coverage. Going towards the end of downturn, however, the luxury goods median beats the peer group and eventually the ratio over the whole period suggests that luxury goods companies have actually performed better for the whole study period. This finding is also statistically significant at 1% confidence level.

When measuring the changes in the companies' size it seems that the luxury goods companies have reacted quite rapidly to the changes in the operating environment as the median change in the number of employees has decreased clearly from 2007 to 2008. At the same time, the median enterprise value has decreased clearly in the midst of global equity market turmoil of 2008-2009 and a third of the median enterprise value was lost during the first studied year. The findings regarding changes in size are also statistically significant.

How the luxury goods companies came out of the crisis is however very interesting. Both measures of firm size, number of employees and enterprise value, have increased significantly since 2009. What comes to enterprise value, this might be due to equity market overreaction and the markets correct their pricing according the fairly limited negative change in profitability. However, the growth in employment suggests that the companies reacted perhaps slightly too strongly in the beginning of the crisis and had to cover their payroll since. Over the period, the median enterprise values for the luxury goods companies outperform its peer group by closer to 30%. It has simultaneously created 36% more employment over their peer group during the downturn.

5.1.3 Results Related to the Components of the Abnormal Performance (Regression Results)

5.1.3.1 Results Related to the Initial Profitability

In order to estimate the factors that contribute to the adjusted performance of the luxury goods companies during the downturn, a regression analysis was run. The first independent variable used is the initial EBITDA-margin, or the profitability prior to the crisis. According to previous literature, higher margins going to the crisis should protect from the adverse environment due to e.g. higher cash flows. However, the regression results regarding the change in unadjusted EBITDA margin shows that the initial EBITDA-margin has actually a negative effect on the profitability during crisis. In addition, the result is significant at 1% level. The results are similar for changes in unadjusted ROS as well as adjusted EBITDA-margin and adjusted ROS. The findings are also significant at 10 percent level for the adjusted independent variables.

The potential explication for the unexpected results could be that if the EBITDA margin was high prior to the crisis, there may be more to lose in margins once the economic uncertainty takes place. In addition, one with very comfortable margins might not monitor the performance as diligently as someone with limited buffer in his/hers margins. For all regressions, the effect of initial profitability is inverse to the expected, suggesting that the negative effect of higher profitability going to a crisis holds when extending the regression.

5.1.3.2 Results Related to the Sales Growth

As expected both in the light of previous literature on firm performance during economic downturns and the hypothesis, sales growth contributes positively to operating performance during the crisis. Increased sales are quite directly reflected in EBITDA levels and in contrast declining sales usually puts pressure on profitability margins as well. Indeed, sales growth shows a positive effect on unadjusted EBITDA margins (significant at 1% level). The finding also holds for unadjusted ROS as well as for the adjusted variables, adjusted EBITDA and ROS.

The results suggest that sales growth is positively associated with profitability also during recessionary times, applicable on all independent variables, is in line with existing literature on recessionary time firm performance and also holds for the luxury goods companies. The effect of sales growth is the highest on unadjusted EBITDA-margin and adjusted return on sales with statistical significance at 1% level and 5% level, respectively. This finding is not really surprising given the fact that adding one dollar/euro to top line revenues should in any reasonably operating company add also to the earnings at least to some extent.

5.1.3.3 Results Related to the Initial Debt levels

Where the luxury goods companies have increased their performance, financial flexibility has in general been contributing to the enhancement. As described in the literature review, financial flexibility adds to its value during difficult times when corporations feel the pressure on liquidity. Thus it was hypotheses that companies with less leverage and more financial flexibility should experience a more positive performance in the crisis.

Interestingly, however, leverage and financial flexibility show a two-fold picture and the findings were not unambiguous, as three regressions did not support the hypothesis where less initial leverage would contribute positively to operating performance. On

unadjusted EBITDA-margin, initial debt coverage has a negative impact although the finding is not statistically significant. This is in line with previous literature, as exceed leverage leave limited flexibility allocating capital and liquidity within a company, as most cash flows will be needed for debt servicing. However, all three other regressions show support of positive association between initial leverage and operating performance during the crisis but again these results are not statistically significant. Following Ang & Smedema (2011) this could suggest that the firms have had the possibility and means to prepare to the crisis by creating a more flexible position to meet the crisis for example by drawing existing debt facilities to improve cash positions.

5.1.3.4 Discussion on the Control Variable

As part of the regression analysis, the abnormal change in operating performance between the luxury goods companies and their premium brand peers are controlled by size, i.e. the enterprise value of the companies. The existing literature suggested that larger companies should have more buffers when a crisis hits as they can dispose of assets to free cash if needed. On the other hand, previous literature also suggested that smaller companies might be more agile to respond to changed environment.

This hypothesis assuming that larger size protects companies from downturn did not find support from the regression models results. On the contrary, the results suggested that larger companies actually fare worse than their smaller counterparts. This finding, although statistically significant on only one result, suggest that the smaller companies are indeed more flexible in adjusting to changes. The results could also be due to the possible slack and inefficiencies in larger companies that come to play during a crisis where overhead costs are rapidly reflected in the bottom-line results.

5.2 Reliability and Validity Analyses

5.2.1 Reliability and Validity Discussion

As indicated in the earlier chapters of this thesis, the aim of the study is to analyze how luxury goods companies perform during the economic downturn of 2007-2009 and whether the industry outperforms premium goods companies. Furthermore, the aim is to identify components of this outperformance, which should reflect the existence of such factors. Although several studies exist on corporate level operational performance during economic downturns, most of the authors have found different findings. These might be due to the robustness, sample selection, the selected time frame for the studies or geographic issues.

One topic that requires attention in studies applying a regression analyses is the potential issue arising from multicollinearity. Another point that could have effect on the results is potentially influential variables that could be due to e.g. sample including outliers. Multicollinearity, by definition, refers to a situation where two or more of the independent variables are linearly correlated which could make it hard to evaluate the effect of each of the variables on the dependent variable. Ott & Longnecker (2004) propose several ways to identify multicollinearity. To start with, should one observe a high R2 value for the regression but only little significant t-values this could be a sign of multicolliearity. For the regression used in this study, this does not pose a problem with R2 values being moderate (ranging between 0.32 and 0.8) and there are eight significant t-values. Another suggestion is to measure for VIF value, or how much the variance of a regression coefficient is due to multicollinearity. With a value above 5 the VIF-test indicates of a high multicollinearity. For the results obtained, the average VIF value of 2.2 does not suggest issues with multicollinearity.

Some biases may have occurred due to the data selection. As the data is hand-constructed from several indices, the elimination of luxury companies on industry related factors, luxury goods companies that do not operate globally or the ones for which there was not enough publicly available data for the whole period had to be excluded. However, the

sample is very universal in the sense that all companies show similar features and thus covers the universe well. Consequently, the data should not be biased.

5.2.2 Internal Validity

In general, the validity of any study refers to the degree it accurately measures the concept that is aimed to be measured. This is extended with the concept of reliability, which refers to the accuracy of the instruments or procedures used. Consequently, a study could be reliable but invalid. For the purposes of this thesis, one should verify that the results actually indicate what factors affect the outperformance of luxury goods companies during the economic downturn of 2007-2009. This can be done by assessing the measurements, or variables, used in the study.

The dependent variable of this thesis, the abnormal profitability of luxury goods companies versus the premium companies, is measured as the EBITDA-margin or return on sales. As discussed in Chapter 3, both of these measures have their shortcomings, ROS in the sense that it is a static measure that does not account for differences in financial structures, and EBITDA in the sense that it does not take into account the assets used to generate the earnings. However, by using both of the variables in the study, the results should be more comprehensive than by just using one.

For the independent variables, the question could be whether for instance the debt levels used for the study are precise methods of theoretical concept. For very accurate measures one would need to apply accounting diligence by questioning e.g. what are all the items included in interest bearing debt. However, for the purposes of this study, the added value from such operation would not add value. Also as the figures are reported and cross checked from several industry sources, the independent variable can be considered fairly reliable.

5.2.3 Generalizability

Generalizability, also known as external validity, indicates the extent to which the results of the study can be generalized. For the purposes of this thesis, this question would refer whether the luxury goods companies selected in the sample represent the full universe of global luxury goods companies. As discussed in Chapter 2, the definition of luxury is very wide and subjective, and the industry also covers a very large range of underlying industries and product ranges. Also when the results are generalized to cover all global luxury goods companies, it should be kept in mind that the companies may have different features depending on their jurisdiction or main product offering.

While the sample covers well the traditional luxury goods industry, it is worth to note that specific luxury concepts such as investable luxury as luxury cars or experiential luxury such as travelling and leisure is excluded on purpose. These companies might have different features and behave contrarily than the ones included in the sample. In addition, it is important to note that many important players within the luxury industry remain privately held and thus this aspect limited the study sample.

Another aspect of generalizability is the time dimension of the results or whether the results can be generalized to apply in future downturns as well as the one of 2007-2009. Given that the financial crisis led to an unprecedented global downturn, the time frame of this study may not be replicated in the future. From the companies point of view, such drastic changes in demand and the speed of the changes will (hopefully) not be replicated in the future, but at least the companies may be better prepared having undergone this crisis.

For this thesis, given the hand-collected sample, the generalizability is relatively good as the sample is limited to the selected luxury goods companies showing very similar features.

6 CONCLUSIONS

The luxury goods industry has undergone major changes during the past few decades. For once, the geographical scope of the luxury market has shifted considerably from the western world to increasingly global markets benefiting from the growth in the emerging markets. Secondly, the luxury goods consumer market has expanded to include a broader mass market. Consequently, goods formerly reserved to a restricted elite of wealthy people, are now consumed by a large public even if only occasionally. As of today, on average half of the luxury goods sales have been estimated to come from the mass-market consumers. Another important development of the luxury market is the consolidation phase it has undergone since 1980's. As luxury goods companies post very high – even luxurious- profit margins, they continue to be highly attractive acquisition targets and the continuous M&A activities fuel the growth of the industry. In fact, the market has nearly tripled in size since 1995 and is expected to post healthy growth rates also going forward. With all this growth, it is interesting to understand how this industry has evolved during the financial crisis and the following downturn.

Thus, the purpose of this thesis was to analyze the operational performance of luxury goods companies during the financial crisis of 2008 and the subsequent recession. The study used a unique hand built data set with several firm characteristics. For the purposes of this study, the definition of the luxury goods industry was limited to the so-called personal luxury goods or luxury consumer goods. The sample consisted of twenty publicly traded global luxury goods companies and a peer group of twenty premium goods companies also operating globally. The timeframe selected for this study was from 2007 to 2010, thus covering the whole global economic downturn of 2008-2009. The existing literature regarding both the luxury goods industry and corporate performance during recessionary times has been found to be surprisingly limited. In this regard, this study contributes by providing a combining literature review on both the industry and corporate performance during recessionary times, by providing evidence and insights on the operational performance of luxury goods companies during the recession of 2008-2009.

6.1 Overview of the results

In line with previous research on operational performance during recessions, luxury goods companies have been found to be feeling the economic downturn as well. Amongst the findings of this study are the operational figures showing that on average luxury goods companies also face declining profits during the downturns. However, as expected in the set hypothesis, the impact of the recession of 2008-2009 was found to be greater on premium goods companies than on luxury goods companies. As found in the results, the luxury goods companies indeed outperform their premium peers in almost all measures, most notably on overall sales growth and EBITDA-margins. As far as the author is aware, this is the first time such findings are reported. While the results are in line with the existing literature on firm performance during recession, no industry specific studies have been undertaken regarding the luxury goods industry.

Overall the operational performance of luxury goods companies has been found to be positive over the full cycle of the downturn. However, while this finding is statistically significant, it cannot be confirmed by all measures. Indeed, although the unadjusted performance is positive by all measures, the peer-group adjusted performance is negative if measured by return on sales at a specific point of time in during the downturn. In general however the findings support this hypothesis.

When accounting for factors affecting the performance, sales growth was also found to contribute positively to the operational performance during the downturn. This finding is in line with existing literature on corporate performance during recessionary times and also holds for the luxury goods companies. The effect of sales growth is the highest on the unadjusted EBITDA-margin and peer-group adjusted return on sales with statistical significance. This finding is however not really surprising given the fact that adding one dollar/euro to top line revenues should in any reasonably operating company add also to the earnings at least to some extent.

In addition, where the luxury goods companies have increased their performance, financial flexibility has in general been contributing to the enhancement. As described in Chapter 3, financial flexibility adds to its value during difficult times when corporations

feel the pressure on liquidity. Thus the hypothesis expected that companies with less leverage and more financial flexibility should experience a more positive performance during the crisis. The findings were however not unambiguous, as three regressions did not support the hypothesis where lower initial levels of leverage would contribute positively to operational performance. On the opposite, initial net debt to EBITDA ratio contributed negatively only to the unadjusted EBITDA while all three other regressions show support of positive association of leverage and operational performance during the crisis. However, the findings were not statistically significant. This finding suggests that the use of leverage per se may not be negative if the company continues to service debt. For the luxury goods companies, with high operating profits this is seemingly not an issue.

Finally the findings were also controlled by size, as the existing literature suggested that larger companies should have more buffers when a recession hits. This set hypothesis did not find support from the models applied, which on the contrary suggested that larger companies actually fare worse than their smaller counterparts. In fact, this finding seems quite interesting taken the fact that the market is highly dominated by large conglomerates and the fact that many luxury goods companies have grown exponentially by offering affordable luxury to the mass market.

6.2 Proposals for further research

While this thesis provides insights to the luxury goods industry and its operational performance during a crisis, going forward there is still plenty of room for further research. For once, this thesis confirms the “luxurious” margins that the industry is able to post despite the recession, but whether this is due to pricing, branding, global demand or just efficient organizations could well be subject of further research.

Additionally, another interesting area for further studies would be the size factor of the luxury goods companies. As suggested by the results of this thesis, the smaller companies seem to fare better during the downturn. Whether this fact is due to inefficiencies within the larger companies management or other factors is less certain. However, this could mean to some extent that smaller niche brands may have defended

the economic recession by pursuing their traditional differentiation strategies and by relying on the very top end of the market, offering exclusive products to the wealthy who have not been as significantly affected by the recession as mass market consumers. On the other hand, larger companies may also have larger cost structures, and thus the smaller companies possibly could react to the crisis more rapidly than the larger companies. One other factor that could explain this result is the fact that the large luxury groups have large brand portfolios exhibiting a wide variance of results. Some of the brands could be performing well, while other are in pain. Thus, further research is at place regarding this issue. In addition, it would be interesting to study, whether the smaller companies could gain even more by expanding towards the mass market of luxury or whether that is something that affects negatively the performance.

Finally, as this study described the luxury goods industry is quite various, the research also confirmed that there indeed exists differences between luxury goods companies and how economic cycles affect these. Especially, as the luxury market has grown exponentially through the emergence of new potential customers, there is space for further research regarding the impact this new demand has on the wealthy consumers who still account for a large part of the global luxury market sales. Whether these consumers have shifted their consumption towards authentic luxury brands and thus, whether companies who have kept their traditional differentiation strategies and have not embrace the potential sales volumes from the mass market are among these smaller companies that have outperformed larger companies is yet to be further investigated. Indeed, these companies could be true prestige brands that can outperform other brands and still continue to grow. Thus, future research could dive further into the various types of luxury brands and distinguish the differences in performance within the luxury goods companies as well as within the different luxury sub-segments.

7 REFERENCES

Aaker, D.A. & Keller, K.L. (1990). Consumer evaluations of brand extensions, *Journal of Marketing,* Vol: 54, pp. 27-41.

Aït-Sahalia, Y, Parker, J.A. & Yogo, M. (2004). Luxury Goods and the Equity Premium, *Journal of Finance,* Vol: 59, No. 6, pp. 2959-3004.

Almadoss, W & Jain, S. (2008). Joint bidding in the name-your-own-price channel: a strategic analysis, *Management Science,* Vol: 54, pp. 1685-1699.

Ang, J. & Smedema, A. (2011). Financial Flexibility: Do Firms Prepare for Recession?, *Journal of Corporate Finance*, Vol: 17, pp. 774-787.

Axelsson, U., Jenkinson, T., Strömberg, P., Weisbach, M. (2012). Borrow Cheap, Buy High? The determinants of leverage and pricing in buyouts. *Journal of Finance, forthcoming*. Available at: http://www.sifr.org/PDFs/AJSW(WP2012).pdf

Bagwell, L.S. & Bernheim, B.D. (1996). The Veblen Effects in a Theory of Conspicuous Consumption, *The American Economic Review,* Vol: 86, No. 3, pp. 349-373.

Bain & Company (2011). Luxury Goods Worldwide Market Study, 10th edition, *Bain & Company press release,* October 2011. Available at: http://www.bain.de/Images/Bainbrief_Luxury_Goods_Study_10thEdition.pdf

Bancel, F. & Mittoo, U. (2011). Financial Flexibility and the Impact of the Global Financial Crisis - Evidence from France. *International Journal of Managerial Finance*, Vol: 7 (2), pp. 179-216.

Barber, B. & Lyon, J. (1996). Detecting abnormal operating performance: The empirical power and specification of test statistics. *Journal of Financial Economics*, July 1996, Vol: 41 (3), pp. 359-399.

Belge, A., Rambourg, E. & Dargnies, S. (2012). Luxury goods. *HSBC, EMEA Equity Research,* July 2012.

Bellaiche, J.-M., Eirinberg Kluz, M., Mei-Pochtler, A. & Wiederin, E. (2012). Luxe Redux: Raising the Bar for Selling of Luxuries, *The Boston Consulting Group report,* June 2012.

Bellaiche, J.-M., Mei-Pochtler, A. & Hanisch, D. (2010). The New World of Luxury: Caught Between Growing Momentum and Lasting Chance, *The Boston Consulting Group report,* December 2010.

Bevelander, M. (2004). Uncovering "theories-in-use": Building Luxury wine brands, *European Journal of Marketing,* Vol: 38 (3/4), pp. 446-466.

Bils, M. & Klenov, P. (1998). Using consumer theory to test competing business models, *Journal of Political Economy,* Vol: 106(2), pp. 233-261.

Brand Finance (2008). Brand Finance Global 500, The annual report on the world's most valuable global brands, *Brand Finance report,* May 2008, Available at: http://brandfinance.com/images/upload/6.pdf

Brand Finance (2012). Brand Finance Global 500, The annual report on the world's most valuable global brands, *Brand Finance Report,* March 2012, Available at: http://brandfinance.com/images/upload/bf_g500_2012_web_dp.pdf.

Brook, S. (2001*). Bordeaux: people, power and politics.* Mitchell-Beazley. London.

Capgemini & Merrill Lynch Global Wealth Management (2009). World wealth report 2009, *Capgemini company report,* Available at:
http://www.capgemini.com/sites/default/files/resource/pdf/World_Wealth_Report_2009.pdf

Carreon, B. (2011). How the Uncertain Economy Is Changing The Definition of Luxury, *Forbes*, November 15 2011, Available at:
http://www.forbes.com/sites/bluecarreon/2011/11/15/how-the-uncertain-economy-is-changing-the-definition-of-luxury/

Cascio, W., Young, C. & Morris, R. (1997). Financial Consequences of Employment Change Decisions in Major US Corporations. *Academy of Management Journal,* Vol: 40 (5), pp. 1175-1189.

Catalani, A. & Comboni, G. (2002). A traditional Management Model in the Prestige Goods industry, *Die Research Division, Working paper No. 02-65.*

Catry, B. (2003). The great pretenders: The magic of luxury goods, *Business Strategy Review,* Vol: 14, Issue 3, pp. 10-17.

Clifford, S. (2011). Even marked up, Luxury Goods fly of shelves, *The New York Times,* August 3 2011, Available at: http://www.nytimes.com/2011/08/04/business/sales-of-luxury-goods-are-recovering-strongly.html?_r=0.

Cohen, M.J. (2007). Consumer credit, household financial management and sustainable consumption, *International Journal of Consumer studies*. Vol: 31, pp. 57-64.

Colchester, M. (2009). Hermès seduces the elite by selling luxury slowly, *The Wall Street Journal,* May 8 2009,
Available at: http://online.wsj.com/article/SB124172264754197157.html

Csaba, F.F. (2008). Redefining luxury: A review essay, *Creative encounters Working Paper #15, Copenhagen Business School*

Danet, J.-B, Feldmeth, J. Ricca, M, Stucky, N. & Hales, G. (2008). The Leading Luxury Brands 2008, *Interbrand Press release.* Available at:
http://www.interbrand.com/Libraries/Branding_Studies/The_Leading_Luxury_Brands_2008.sflb.ashx

Degen, R.J. (2009). The Success of luxury brands in Japan and their uncertain future, *Working Paper, International School of Management Paris*.

Denis, J. (2011). Financial Flexibility and Corporate Liquidity. *Journal of Corporate Finance,* Vol. 17, pp. 667-674.

Dethier, J.-J. & Morrill, C. (2012). The Great Recession and the Future of Cities, *World Bank Policy Research Working Paper,* No. 6256.

Djelic, M.-L.& Ainamo, A. (1999). The Coevolution of New Organizational Forms in the Fashion Industry: A Historical and Comparative Study of France, Italy, and the United Sates, *Organization Science,* Vol. 10, No. 5, pp. 622-637.

Du, Q. (2009). The pricing of luxury goods: A BPM Approach, *International Journal of Business and Management,* Vol. 4, No. 4, pp. 22-28.

Dubois, B. & Czellar, S. (2002). Prestige Brands or Luxury Brands? An Explotary Inquiry on Consumer Perceptions, *European Marketing Academy 31st Conference Proceedings*, Braga, Portugal.

Dubois, B. & Duquesne, P. (1993). The Market for Luxury Goods: Income versus Culture, *European Journal of Marketing,* Vol. 27, No. 1, pp. 35-44.

Dubois, B., Laurent, G. & Czellar, S. (2001). Consumer Rapport to Luxury: Analyzing Complex and Ambivalent Attitudes, *HEC Paris, Cahiers de Recherche,* Vol: 33(1), pp. 1-56.

Economist Intelligence Unit (EIU) & Barclays Wealth (2007). The true value of Wealth, Barclays Wealth Insights, Vol: 4, Available at:
http://www.barclayswealth.com/insights/assets/pdf/insights4-value-of-wealth-uk.pdf

Fairfield, P.M. & Yohn, T.L. (2001). Using Asset Turnover and Profit Margin to Forecast Changes in Profitability, *Review of Accounting Studies, Georgetown University,* Vol: 6, pp. 371-385.

Filippetti, A. & Archibugi, D. (2011). Innovation in Times of Crisis: the Uneven Effects of the Economic Downturn across Europe. *Italian National Research Council (CNR) Working Paper*, October 2011.

Forbes (2010). The world's billionaires, *Forbes Special report,* November 3, 2009, Available at: http://www.forbes.com/2009/03/11/worlds-richest-people-billionaires-2009-billionaires_land.html

Fukao, K. (2001). How Japanese Subsidiaries in Asia Responded to the Regional Crisis?, *NBER Working Paper*, NBER-EASE Vol: 10, pp. 267-310.

Ganter, R. & Freihofer, A. (2008). Investment theme Luxury Goods, *UBS Wealth Management Research,* November 12 2008.

Goldman, A., (1975). The role of trading-up in the development of the retailing system. *Journal of Marketing,* Vol: 39(1), pp. 54-62.

Guo, S., Hotchkiss, E.S., & Song, W. (2011). Do buyouts (still) create value?, *The journal of finance,* Vol: 66(2), pp. 479-517.

Hart, S.L. & Ahuja, G. (1996). Does it pay to be Green? An empirical examination of the relationship between emission reduction and firm performance, *Business Strategy and the Environment,* Vol: 5, Issue 1, pp. 30-37.

Heine, K. (2012). *The Concept of Luxury Brands*, Technische Universität Berlin, Department of Marketing, Edition 2, available at: www.conceptofluxurybrands.com

Interbrand (2012). Best Global Brands, *Interbrand company report,* Available at: http://www.interbrand.com/en/best-global-brands/2012/Best-Global-Brands-2012.aspx
Jian, J.M. (2009). Investigation of Luxury Goods Business Models, *Working Paper, National Central University Taiwan.*

Kane, G.D. (1997). The effect of recession on ratio analysis, *The Mid-Atlantic Journal of Business,* Vol: 33 (1), pp. 19-36.

Kapferer, J.-N. (2008). *The New Strategic Brand Management*, 4th Edition, Kogan Page.

Kapferer, J.-N. & Bastien, V. (2009). *The Luxury Strategy*, London: Kogan Page.

Kapferer, J.-N. & Tabatoni, O. (2010). Is the luxury industry really a financier's dream?, *HEC Paris Working Paper,* June 29, 2010.

Keane, M.J. & McMillan, Z. (2004). Above and beyond, *Brand Strategy*, 30 November, pp. 30-40.

Kemp, S. (1998). Perceiving luxury and necessity, *Journal of Economic Psychology,* Vol: 19(5), pp. 591-606.

Kitching, J., Smallbone, D. & Xheneti, M. (2009). Have Small Businesses Beaten the Recession?, *Paper presented at the 32nd ISBE 2009 Annual conference.*

Klimczak, D., Gawron, A., Marczak, A., Sadowski, J., Strojny, M., Wisniewski, T. & Kaczynska, J. (2010). The Luxury Goods Market in Poland, *KPMG report.* Available at:http://www.kpmg.com/CEE/en/IssuesAndInsights/ArticlesPublications/Documents/The-Luxury-Goods-Market-in-Poland.pdf.

Koehn, N.F., (2000). Brand new: how entrepreneurs earned consumers' trust from Wedgwood to Dell., *Harvard Business School Press.*

Königs, A. & Schiereck, D. (2006). Wealth creation by M&A activities in the luxury goods industry, *Working paper series, European Business School, Department of Finance,* No 7-2006.

Latham, S. & Braun, M. (2011). Economic Recessions, Strategy and Performance, *Journal of Strategy and Management,* Vol: 4 (2), pp. 96-115.

Long, W.F. (1998). *The Financial Performance of Whole company LBOs*, Ravencraft, U.S.

Lopez, A., Monroy, A. & Cervino, E. (2011). The impact of financial crisis on profitability, asset turnover and state aid in SMEs, *African Journal of Business Management,* Vol: 5 (33), pp. 12749-12753.

LVMH (2013). *LVMH Moët Hennessy Louis Vuitton Group homepage*, available at: http://www.lvmh.com

MacFarland, C., McConnell, K. & Geary, C. (2010). Small Business Growth During a Recession; Local Policy Implications. *Conference of the Federal Bank of Atlanta*, October 26-27, 2010. Atlanta, U.S.

Marchica, M.-T. & Mura, R. (2010). Financial Flexibility, Investment Ability and Firm Value: Evidence from Firms with Spare Debt Capacity. *Journal of Financial Management*, Winter 2010, pp. 1339-1365.

Marques, T., Gonzales, I., Cruz, P. & Ferreira, M. (2011). Downsizing and Profitability: An Emprirical Study of Portuguese Firms in 1993-2005. *International Journal of Business and Economics,* Vol: 10 (1), pp. 13-26.

Masidlover, N. & Passariello, C. (2013). What recession? Americans regain a Craving for Luxury, *Wall Street Journal,* December 13 2013. Available at: http://online.wsj.com/article/SB10001424127887324880504578300291357105904.html

McKinley, W., Zhao, J. & Rust, K. (2000). A Sociocognitive Interpretation of Organizational Downsizing, *Academy of Management Review*, Vol: 25 (1), pp. 227-243.

Modigliani, F. & Miller, M. (1958). The Cost of Capital, Corporation Finance and the Theory of Investment, *American Economic Review,* Vol: 48(3), pp. 261-297.

Moore, C.M. & Birtwistle, G. (2005). The nature of parenting advantage in luxury fashion retailing – the case of Gucci Group NV, *International Journal of Retail & Distribution management,* Vol: 33, No. 4, pp. 256-270.

Moore, C.M, Doherty, A.M & Doyle, S.A. (2010). Flagship stores as a market entry method: the perspective of luxury fashion retailing, *European Journal of Marketing,* Vol: 44 No. 1/2, pp. 139-161.

Nguyen, V. (2004). Analysis of the Luxury Goods &Apparel and Footwear Industries, *Journal of Undergraduate Research of the University of Wisconsin-La crosse, VII,* pp. 1-23.

Neate, R. (2013). Recession bypasses market for luxury goods, *The Guardian,* February 15 2013. Available at: http://www.guardian.co.uk/business/2013/feb/15/recession-bypasses-luxury-goods-market

Nueno, J.L. & Quelch, J.A. (1998). The mass marketing of luxury. *Business Horizons,* Vol: 41(6), pp. 61-68.

OECD (2012). Economic outlook, analysis and forecasts, *OECD Statistics,* Available at: http://www.oecd.org/statistics/

Okonkwo, U. (2007). *Luxury Fashion Branding: Trends, Tactics, Techniques*, Palgrave Macmillan.

Ott, R. & Longnecker, M.T. (2004). *A First Course in Statistical Methods*, Brooks/Cole, Stamford, CT, US.

Paton, E. (2012). Double-digit growth for top luxury accessories labels, *Financial Times,* January 27, 2012 Available at: http://www.ft.com/intl/cms/s/0/69107e24-486d-11e1-941c-00144feabdc0.html#axzz2Py22pF9d

Petrova, S & Pruzhansky, V. (2011). The Economics of Luxury Goods: Utility based on Exclusivity, *Working paper series, University of Antwerp & RBB Economics.* Available at: http://ssrn.com/abstract=1930361.

Phau, I. & Prendergast, G. (2000). Consuming luxury brands: The relevance of the 'Rarity principle', *Journal of brand management,* Vol: 8(2), pp. 122-138.

PPR (2013). *PPR Group webpage,* Available at: http://www.pprfinance.com

Prendergast, G., Phau, I. & Wong, C. (2000). An explotary study of the purchase of luxury brands on infant apparel, *Visionary Marketing for the 21st Century: Facing the challenge, ANZMAC 2000 Conference,* pp. 1005-8.

Reddy, M. & Ternblanche, N. (2005). How not to extend your luxury brand, *Harvard Business Review,* Vol: 83(1), pp. 20-24.

Reyneke, M. (2011). Luxury as the Opposite of Vulgarity: A Trio of Perspectives on Luxury Brands, *Doctoral Thesis, Luleå University of Technology.*

Richemont (2013). *Compagnie Financière Richemont SA Corporate webpage,* available at: http://www.richemont.com/about-richemont/organisation.html

Roberts, A. (2011). Lxury stocks get richer as LVMH, Burberry seen immune to age of austerity, *Bloomberg News*, January 14, 2011, Available at: http://www.bloomberg.com/news/2011-01-13/luxury-stocks-get-richer-as-lvmh-burberry-seen-immune-to-age-of-austerity.html

Roberts, A. (2013). Hermès $10,000 Birkin Purse seen leading to record sales, *Bloomberg News,* February 11, 2013, *Available at: http://www.bloomberg.com/news/2013-02-10/hermes-10-000-birkin-purse-seen-leading-to-record-sales-retail.html*

Roux, E. (2010). Industrie du luxe: Le temps des marques, *Problèmes économiques, dossier: Le luxe ne connait pas la crise, La documentation francaise,* No. 3(008), pp. 7-15.

Silverstein, M.J & Fiske, N. (2005). *Trading up, Why Consumers Want New Luxury Goods – and How Companies Create Them*, Penguin Books ltd.

Solomon, M.R. (1999). *Consumer behavior: Buying, Having, And Being*, Fourth edition, Prentice-Hall International, Inc, US.

S&P (2012). *S&P Global Luxury Index*, Available at: http://www.standardandpoors.com/indices/sp-global-luxury-index/en/us/?indexId=spgbthlux-usdw---p-rgl---

Stanley, T.J. (1988). *Marketing to the Affluent,* McGraw-Hill.

Swatch Group (2013). *Swatch Group corporate webpage*. Available at: http://www.swatchgroup.com

Swatch Group (2013). Swatch Group acquires the jewelry and watch brand Harry Winston Inc, *Swatch Group press release,* January 14, 2003. Available at: http://www.swatchgroup.com/en/services/archive/2013/swatch_group_acquires_the_jewelry_and_watch_brand_harry_winston_inc

The Economist (2009). LVMH in the recession, The substance of style. *The Economist,* September 17 2009, Available at : http://www.economist.com/node/14447276 Accessed: 5.7.2012

Twitchell, J.B. (2002). Living it up: our love affair with luxury, *New York: Columbia University Press*.

Varum, C. & Rocha, V. (2011). Do Foreign and Domestic Firms Behave Any Different During Economic Slowdowns?, *International Business Review*, Vol: 20(8), pp. 48-59.

Veblen, T. (1899/2008). *The Theory of the Leisure Class,* Forgotten books, US.

Verdict Research Company (2007). Global Luxury retailing 2007. *Verdict Reseach ltd.*

Verick, S. & Islam, I. (2010). The Great Recession of 2008-2009: Causes, Consequences and Policy Responses, *IZA Discussion Paper,* No. 4934.

Vigneron, F. & Johnson, L.W. (1999). A review and a conceptual framework of prestige-seeking consumer behaviour, *Academy of Marketing Science Review,* Vol. 91 (1).

Walmart (2012). *Walmart annual report 2012*,
Available at: http://www.walmartstores.com/sites/annual-report/2012/

Ward, D. & Chiari, C. (2008). Keeping Luxury Inaccessible*, Munich Personal RePec Archieve, European School of Economics,* MPRA Paper No. 11373.

Ward, D. & Secondi, D. (2005). Virtual branding turning a stone into a jewel, *Economic working papers*, pp. 7-8.

Wetlaufer, S. (2001). The Perfect Paradox of Star Brands: An Interview with Bernard Arnault of LVMH, *Harvard Business Review,* October 2001.

Wilson, J. & Eilertsen, S. (2010). How Did Strategic Planning Help During the Economic Crisis?, *Strategy and Leadership*, March 2010.

Wilson, N., Wright, M., Siegel, D.S. & Scholes, L. (2012). Private equity portfolio company performance during the global recession, *Journal of corporate finance,* Vol: 18, pp. 193-205.

World Luxury Association (2012). World's Top 100 Most Valuable Luxury Brands, *World Luxury Association Official Releace.*

Yao, S. & Li, K. (2005). Pricing Superior Goods: Utility generated by Scarcity, *Pacific Economic Review,* Vol: 10:4, pp. 529-538.

8 APPENDICES

Appendix 1, I: Luxury Goods Companies used in sample

Luxury Goods Companies

	Company	Main Business Segments	Country of origin	Other Brands included
Fashion & leather				
1	**Burberry Group Plc**	Clothing & accessories	gb	-
2	**Christian Dior SA**		fr	
3	**Coach Inc**	Accessories & gifts	us	-
4	**Hermès Intl Sca**	Clothing & leather goods Accessories, Fragrances	fr	Hermès John Lobb
5	**Hugo Boss AG**	clothing & accessories	de	-
6	**LVMH Moet Hennessy Louis Vuitton SA**	Fashion & leather Perfumes & cosmetics Wines & spirits Watches & jewellery Selective retailing	fr	60 luxury brands See Appendix 1, III
7	**PPR SA**	Fashion & leather	fr	gucci bottega veneta YSL Balenciaga Stella McCartney Alexander McQueen Boucheron
8	**Ralph Lauren Corp**	Fashion, accessories, fragrances, home furnishings	us	-
9	**Tod's Spa**	Shoers, Leather goods Accessories clothing	it	Tods Hogan Fay Roger Vivier
Watches & Jewellery				
10	**Baccarat**	Jewellery Home and decoration products	fr	
11	**Bulgari Spa**	Watches & Jewellery	it	Bulgari, Daniel Roth et Gérald Genta Haute Horlogerie SA
12	**Companie Financiere Richemont SA**	Watches & Jewellery	fr	Cartier Van Cleef & Arpels IWC Jaeger-LeCoultre Piaget Vacheron Constantin Officine Panerai Baume&Mercier A.Lange & Söhne Roger Dubuis RL Watch& Jewellery Montblanc Dunhill Shanghai Tang Chloé Alaïa Paris Lancel Purdey Net-A-Porter.com

Appendix 1,II: Luxury Goods Companies used in sample

	Company	Main Business Segments	Country of origin	Other Brands included
	Luxury Goods Companies			
13	**Harry Winston Diamond Corp**	Wathes & Jewellery Diamond mining	us	-
14	**The Swatch Group SA**	Watches & Jewellery	ch	Breguet Blancpain Glashütte Original Jaquet Drotz Léon Hatot Tiffany&Co Omega
15	**Tiffany & Co.**	Watches & Jewellery Home and decoration products	us	-
	Eyewear			
16	**Luxottica Group Spa**	Luxury Eyewear	it	Luxury eyewear: 12 house brands 24 licensed brands
17	**Safilo Group Spa**	Luxury Eyewear	it	Luxury eyewear: 5 house brands 26 licensed
	Perfumes & Cosmetics			
18	**Elizabeth Arden Inc**	Perfumes & cosmetics	us	-
19	**Estee lauder companies Inc**	Perfumes & cosmetics	us	Estée Lauder Aramis Clinique Presciptives Lab Series Skincare For Men Origins Tommy Hilfiger MAC Kiton La Mer Bobbi Brown DonnaKaran Aveda Jo Malone Bumble and Bumble Michael Kors Darphin American Beauty Flirt! GoodSkin Labs Grassroots Research Labs Sean John Missoni Tom Ford Coach Ojon Smashbox Ermenegildo Zegna
20	**Inter Parfums Inc**	Perfumes	us	9 licenced pretige brands: Boucheron, Burberry Jimmy Choo, Lanvin Van Cleef & Arpels 7 other licenced brands

Appendix 1, III: Luxury Goods Companies used in sample, LVMH Brands

LVMH Brands

Fashion&Leather	**Perfumes&Cosmetics**	**Wines & Spirits**
Louis Vuitton	Parfums Christian Dior	Moët & Chandon
Céline	Guerlain	Dom Pérignon
Loewe	Parfums Givenchy	Veuve Clicquot
Berluti	Kenzo Parfums	Krug
Kenzo	BeneFit Cosmetics	Mercier
Givenchy	Fresh	Ruinart
Marc Jacobs	Make up For ever	Château d’Yquem
Fendi	Acqua di Parma	Hennessy
Emilio Pucci	Perfumes Loewe	The Glenmorangie Company
Thomas Pink	Emilio Pucci Parfums	Belvedere
Donna Karan	Fendi Perfumes	Domaine Chandon California Inc.
Nowness		Bodegas Chandon
	Watches & Jewelry	Domaine Chandon Australia
Selective Retailing	Tag Heuer	Cloudy Bay
DFS	Zenith	Cape Mentelle
Miami Cruiseline Services	Hublot	Newton
Sephora	Dior Montres	Terrazas de los Andes
Le Bon Marché Rive Gauche	Chaumet	Cheval des Andes
Samaritaine	Bulgari	10 Cane Rum
	De Beers	
	FRED	

Appendix 2, I: Premium goods companies used in sample

Premium Companies

	Company	Main Business Segments	Country of origin	Brands included
1	**Abercrombie & Fitch Co.**	Apparel, Accessories Personal care products	us	Abercrombie & Fitch Hollister Gilly Hicks
2	**Ann Inc**	Apparel, shoes accessories	us	Ann Taylor LOFT
3	**Benetton Group Spa**	Fashion apparel Leisurewear	it	United Colors of Benetton Sisley Playlife
4	**Esprit Holdings ltd**	Fashion & Lifestyle products	hk	
5	**Fossil Inc**	Clothing accessories Watches Eyewear	us	Fossil Licenced brands Michele Relic Zodiac Adidas burberry Diesel DKNY Emporio Armani Marc By Marc Jacobs MICHAEL Michael Kors
6	**The Gap Inc**	Apparel, Accessories Personal care products	us	-
7	**GEOX Spa**	Footwear & apparel Accessories	it	-
8	**Guess ?, Inc**	Apparel, Accessories	us	-
9	**Jones Group Inc**	Apparel, footwear jewelry, accessories	us	35 brands ex: Anne Klein Jones New York Nine West Kurt Geiger Jessica Simpson
10	**Kenneth Cole Productions Inc**	Footwear & apparel Accessories	us	Kenneth Cole Unlisted Le tigre
11	**Limited Brands Inc**	Apparel Personal Care products	us	Victoria's Secret Bath and Body Works Pink La Senza Henri Bendel
12	**Liz Clairborne Inc**	Apparel 6 Accessories	us	Juicy Couture Kate Spade Lucky Brand MEXX DKNY Jeans DKNY Active
13	**Nordstrom, Inc.**	Apparel, Accessories Footwear Cosmetics	us	

Appendix 2, II: Premium Goods Companies used in sample

	Premium Companies			
	Company	**Main Business Segments**	**Country of origin**	**Brands included**
14	**PVH corp.**	apparel accessories	us	Calvin Klein Van Heusen Izod Arrow G.H. Bass & Co Licenced: MICHAEL Michael Kors Tommy Hilfiger Nautica DKNY Ted Baker U.S. POLO ASSN Jones New York Timberland Michael Kors Collection Axcess Clairborne
15	**Ted Baker Plc**	Clothing & Accessories	gb	-
16	**The Talbots, Inc**	Apparel, Shoes Accessories	us	-
17	**VF Corp**	Clothing, Footwear Accessories Sportswear	us	7 for all mankind Ella Moss Lee Rustler Bulwark Majestic Nautica JanSport Wrangler Europe Eagle Creek The North Face SmartWool Riders by the Makers of Lee Reef Kipling Red Kap John Varatos Splendid Timberland Lucy Napapijri Wrangler Western Wear Eastpak Vans Wrangler
18	**The Warnaco Group, Inc**	Apparel Accessories	us	Calvin Klein Jeans Calvin Klein Swimwear Calvin Klein Underwear Chaps, Speedo + 4 other brands
19	**Wolverine World Wide**	Foowear	us	Hush Puppies Harley-Davidson Footwear Sebago + 9 other brands
20	**Yoox Spa**	Apparel, Accessories	it	

Appendix 3, I: S&P Global Luxury Index constituents with eliminations (S&P, 2012)

S&P Global Luxury index Data 27-Jan-2012

			Eliminations	
	Luxury Goods Companies	**Premium goods companies**	**Industry related**	**Not operating globally**
1		**ANN Inc.**		
2		**Abercrombie & Fitch Company A**		
3			Adidas AG	
4				Accordia Golf Co Ltd
5			Bang & Olufsen A/S	
6			Bayer Motoren Werke AG (BMW)	
7			Beneteau	
8				Blue Nile Inc
9			Brown-Forman Corp B	
10	Burberry Group			
11			Callaway Golf Co	
12			Carnival Corp	
13				Chow Sang Sang Holdings International Ltd.
14	Christian Dior			
15	Coach Inc			
16			Daimler AG	
17			Deckers Outdoor	
18			Diageo Plc	
19			Dufry AG	
20	Elizabeth Arden Inc			
21				Emperor Watch & Jewellery Ltd
22	Estee Lauder Cos.			
23		Fossil Inc		
24				Galaxy Entertainment Group Ltd.
25			Harley-Davidson Inc	
26			Harman Intl Industries Inc	
27				Hengdeli Holdings Ltd.
28	Hermes Intl			
29	Hugo Boss AG Prf			
30			Hyatt Hotels Corp	
31				I.T Ltd.
32	Inter Parfums Inc			
33	LVMH-Moet Vuitton			
34			Las Vegas Sands	
35				Luk Fook Holdings (International) Ltd.
36	Luxottica Group SpA			
37			MGM Resorts International	
38			Melco Crown Entertainment Ltd ADR	
39			Millennium & Copthorne Hotels	
40		Movado Group Inc		
41			NIKE Inc B	
42		Nordstrom Inc		

Appendix 3, II: S&P Global Luxury Index constituents with eliminations (S&P, 2012)

	Luxury Goods Companies	Premium goods companies	Eliminations	
			Industry related	Not operating globally
43			Orient Express Hotels Ltd	
44			Overseas Union Enterprises	
45		Oxford Industries Inc		
46				PCD Stores (Group) Ltd.
47				PGM Holdings K.K
48	PPR SA			
49		PVH Corp		
50			Pernod-Ricard	
51			Polaris Inds Inc	
52	Prada SpA			
53			Porsche Automobil Holding SE	
54				Ports Design Ltd.
55	Ralph Lauren Corp			
56			Remy Cointreau SA	
57				Resorttrust
58	Richemont, Cie Financiere A Br			
59			Royal Caribbean Cruises Ltd	
60				SJM Holdings Ltd.
61				Saks Inc
62			Shangri-La Asia Ltd.	
63				Shiseido Co
64				Signet Jewelers Ltd
65			Sotheby's	
66				Sparkle Roll Group Ltd.
67			Starwood Hotel & Resort World	
68	Swatch Group AG-B			
69		The Jones Group Inc.		
70	Tiffany & Co			
71	Tod's SpA			
72			Toll Brothers Inc	
73				Trinity Ltd.
74		True Religion Apparel Inc		
75			Under Armour Inc A	
76		VF Corp		
77			Williams-Sonoma Inc	
78		Wolverine World Wide Inc		
79			Wynn Resorts Ltd	
80		Yoox SpA		

Appendix 4: Interbrand ranking of the Top 100 brands/Luxury sector (Interbrand, 2012)

Luxury Brands Ranked 2006-2010		**Ranked**				
Brand	**Company**	**2006**	**2007**	**2008**	**2009**	**2010**
Armani	Private	-	.	94	89	95
Burberry	Burberry Group Plc	95	95	-	-	100
Cartier	Compagnie Financiere Richemont SA	83	83	79	77	77
Chanel	Private	58	58	60	59	-
Gucci	PPR/Gucci Group	46	46	45	41	44
Hermès	Hermès Intl SCA	73	73	76	70	69
Louis Vuitton	LVMH	17	17	16	16	16
Prada	Prada Group	94	94	91	87	-
Polo Ralph Lauren	Ralph Lauren Corp	99	99	-	-	-
Rolex	Private	71	71	71	68	-
Tiffany&Co	Tiffany&Co	79	79	80	76	76

Appendix 5: World Luxury Association (2012) ranking of the 100 most valuable luxury brands

Top Fashion Brands	Type/Owner	Top Jewelry Brands	Type/Owner
Burberry	Burberry Group Plc	Boucheron	PPR
Chanel	Private	Bvlgari	Bvlgari Spa
Christian Dior	Christian Dior SA	Buccellati	Private
Ermenegildo Zegna	Private	Cartier	Richemont
Fendi	LVMH	Chaumet	LVMH
Ferragamo	Salvatore Ferragamo Spa	Faberge	Private
Giorgio Armani Spa	Private	Graff Diamonds	Private
Gucci	PPR	Harry Winston	Harry Winston Diamond Corp
Hermès	Hermès Intl	Kloybateri	Private
Louis Vuitton	LVMH	Mikimoto	Private
Prada	Prada Group	Tiffany&Co	Tiffany&Co
Versace	Private	Van Cleef & Arpels	Richemont

Top Watch Brands	Type/Owner	Top Cosmetics Brands	Type/Owner
Audemars Piguet	Private	Biotherm	L'Oreal
Breguet	Private	Chanel	Private
Blancpain	Swatch group Ag	Christian Dior	Christian Dior SA
Chopard	Private	Estée Lauder	Estee lauder companies
Frank Muller	Private	Givenchy	LVMH
Girard-Perregaux	Sowind Group(since 2011)	Guerlain	LVMH
Jaeger- Le-Coultre	Richemont	Helena Rubinstein	L'Oreal
Parmigiani	Private	Lancome	L'Oreal
Patek Philippe	Private	La Mer	Estee lauder companies
Piaget	Richemont	La Prairie	Private
Rolex	Private	Shiseido	Shiseido Co Ltd
Vacheron Constantin	Richemont	Sisley	Private

Top Luxury Alcohol brands	Top Luxury Car Brands	Top Luxury yacht brands
Dom Perignon	Aston Martin	Aicon
Chateau Petrus	Bentley	Azimut
Hennessy	Bugatti	Beneteau
Jean Martell	Ferrari	Feadship
Lafite	Koenigsegg	Ferretti
Macallan Whisky	Lamborghini	Itama
Meritage	Maserati	Jeanneau
Moet & Chandon	Maybach-Motorenbau Gmb	Pershing
Perrier Jouet	Pagani	Princess
Remy Martin	Porsche	Riva
Remy Martin Louis XIII	Rolls-Royce	Sunrunner
Zacapa	Spyker Cars	Sunseeker
		Wally

Top Luxury Resorts	Top Customized service	Top Aviation
Amanyara	Aurora	Agusta Westland
Armani Hotel Dubai	Blüthner	BellHelicopter
Burg Al-Arb	Bose	Bombardier
Conral Sanya Haitang Bay	Callaway Golf	Cessna
Fregate Island Private	Cohiba	Cirrus Design Corp
Hotel Le Toiny	Goldvish	Dassault
Hotel Turtle Island	Harley Davidson	Diamond Aircraft
Le Sirenuse	Lotos	Embracer
North Island	MontBlanc	Eurocopter
Peninsula Hotel	Segway PT	Gulfstream
W-Hotels	Steinway & Sons	Hawker Beechcraft
Wakaya Club	Vertu	McDonnell Douglas