



SAAB'S BIG PUSH

ELIE SAAB IS AMONG A WAVE OF LEBANESE DESIGNERS RAISING THEIR PROFILES IN THE U.S. AND ABROAD. PAGE 8



THE BATTLE FOR DOWNTOWN

WESTFIELD WORLD TRADE CENTER UNVEILS ITS FIRST LIST OF TENANTS AT LAST. PAGE 3

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LUXURY

By MILES SOCHA and SAMANTHA CONTI

AMERICA THE BEAUTIFUL

That seems to be the song luxury brands are singing these days. With the Chinese market cooling and Europe in the doldrums, the U.S. is looking more like the luxury El Dorado it used to be. Simply scanning the third-quarter, or nine-month, results of leading luxury brands is proof of the market's buoyancy: Saint Laurent's North American sales leaped 47 percent in the third quarter; Moncler's were up 32 percent; Brunello Cucinelli's rose

16 percent; Hermès' jumped 16.9 percent at constant exchange, and Gucci's increased 8 percent at its own stores.

The data are unequivocal: In the third quarter, the U.S. notched 3.5 percent growth in gross domestic product, demonstrating broad-based improvement across the economy.

The most recent study by Bain & Co. and Fondazione Altagamma, the Italian luxury goods association, confirmed the Americas as a key growth driver, accounting for 32 percent of a global market for personal luxury goods estimated at 223 billion

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euros, or \$277.8 billion at current exchange. It was the best-performing region year-to-date, up 3 percent, followed by Europe and Japan, each logging 2 percent growth, putting mature markets back playing their key roles in a global industry.

The Asia-Pacific area is expected to post 1 percent growth, impacted by extraordinary circumstances and a negative currency effect. China posted a negative performance — down 2 percent — for the first time in recent history, impacted by the government clampdown on luxury spending and the evolution of shopping patterns.

Bain also noted that the lion's share of luxury shopping by Americans is done locally, in contrast to the Chinese, who spend more than three times abroad what they spend at home. And the U.S. could become an even more important shopping destination for Chinese tourists following last week's agreement between President Obama and Chinese President Xi Jinping to increase the number of tourist visas for Chinese visitors. The issue had been a priority for years for American retailers, who long envied the busloads of Chinese shoppers who flooded stores in London and Paris.

"I think the key point to understanding why U.S. luxury sales are developing the way they are is the consumer feel-good factor," said Luca Solca, managing director at Exane BNP Paribas. "This has been supported for a couple of years by rebounding real estate prices."



LUXURY

stores, down 2.7 percent, while automotive was up 1.6 percent and grocery up 1.8 percent.

Spending on luxury accessories and apparel closely echoed stock market fluctuations over the past year, rising 3.8 percent in September. Their high-water mark in the past year was a 10.2 percent increase in May, and their poorest performance was a 2.4 percent decline in February.

MasterCard's projection for holiday spending calls for a 5.4 percent uptick in luxury, excluding jewelry, which is expected to post a 7.4 percent gain. This compares to the 3.5 percent increase expected in total U.S. retail sales, excluding automotive.

As for future drivers of luxury in the U.S., Brand named two in particular: Brazil and online.

"For Brazilians, who have heavy import duties in their country, the U.S. remains the most accessible market for high-value products. Online, U.S. department stores are the leaders. If brands want to access pockets of wealth in the U.S., they don't have to build brick-and-mortar stores, they just have to have a better online presence."

She pointed to Richemont's Web sites for Cartier and Montblanc in the U.S., which launched last year, and to Net-a-porter.com's headquarters in New York and distribution

domestic, and in many cases, will experience a brand for the first time through digital or wholesale channels," according to a spokesman. Burberry, however, speaks to an even broader audience in the U.S. "Our strategy to invest in key flagship locations, such as the newly opened one on Rodeo Drive, allows us to engage with both the domestic and traveling luxury consumer in some of the top global cities for luxury shopping." Recent U.S. store openings include Oakbrook, Ill.; San Francisco; Washington; Chicago, the Beverly Center in Los Angeles, the Miami Design District and one in New York's SoHo that's

our hard luxury business," Palus said, highlighting the resilience of the watch business in the U.S., and an underpenetration by Kering's watch and jewelry brands, which include Boucheron, Pomellato, Dodo, Qeelin, Girard-Perregaux and JeanRichard.

"Even a brand like Gucci has some capacity to open some new stores, or to relocate other stores," he added. "A significant proportion of openings will still be in the U.S. next year. The U.S. market is the number-one market for luxury in the world. It attracts most of our attention."

In the third quarter, luxury sales at Kering gained 12 percent in North America, versus 7 percent in Japan, 5 percent in Western Europe and 3 percent in Asia-Pacific.

Ralph Toledano, president of fashion at Puig, agreed the American market shows more promise than other regions, and has historically been very receptive to European brands and sensitive to newness and quality.

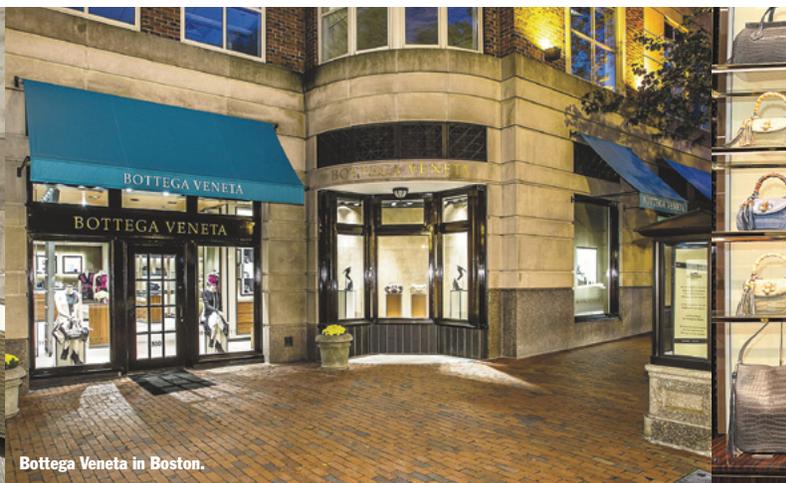
"When you come with real fashion, people buy it," he said. "It's important for us to have a very segmented price offer to address the needs of people who want to access the brand. But you still have room for very high quality and very high-end products in America — much, much more than in Europe."

He noted that America is a crucial market for Nina Ricci, Carolina Herrera and Jean Paul Gaultier, now concentrated on couture.

Gucci chief executive officer Patrizio di Marco pointed out during the opening of the



Dior's newest Manhattan store in SoHo.



Bottega Veneta in Boston.

Solca explained that homeowners feel richer, making them feel freer to spend.

"Parallel to rebounding house prices, stock market appreciation has also been supporting feel-good," he adds. "In Asia and in China, you have growth moderation, asset price declines — both in property and stocks. This obviously damages feel-good and consumer sentiment."

According to data compiled by MasterCard SpendingPulse and disclosed at the recent WWD CEO Summit, luxury excluding jewelry generated the largest increase in U.S. sales in September 2014, growing 8.9 percent over the same month a year ago. Electronics and appliances grew 8.7 percent and lodging was up 6 percent. The weakest performances within the sectors were department

"The U.S. macroeconomic climate is better than the European one, and the stock market performance has helped over the last few years," said Helen Brand, a director in the equity research team at Barclays in London.

Brand also sees upside growth potential, noting, "There is a lower penetration of European luxury companies in the U.S. compared with Europe. For Richemont last year, the U.S. represented 15 percent of overall sales, while for Swatch, the U.S. was 8 percent of sales. The watch industry in particular is the least penetrated in the U.S. market, and Rolex remains a big Swiss watch name there."

Brand noted that jewelry remains a "key category" in the U.S. market, something that has helped Richemont in the past.

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— HELEN BRAND, BARCLAYS

center in New Jersey. "And if there is anyone in a position to take advantage of digital, it's Burberry — they are the digital leaders. The company has also recently refurbished its stores in Chicago and San Francisco," Brand said.

Burberry has said the U.S. is a market with a lot of opportunity. "This market is unique in that it's defined by a shopper who is nearly 90 percent do-

set for the summer.

Jean-François Palus, group managing director at Kering, called the luxury market in the U.S. "very sound" and dynamic, underscored by local consumption and tourists flows, with a significant increase in Chinese inflows offsetting dips in Japanese and Brazilian tourists.

"We have opportunities particularly for our leather goods business and even more for

brand's revamped flagship in Beverly Hills that the U.S. was the first overseas market the brand entered after it was founded 60 years ago. In his view, America has always been a great market for luxury. "Sometimes we tend to overemphasize the latest phenomenon, say 20 years ago it was Japan, five years ago China, before that Russia...so depending upon the date, I would say the fashion of the moment is the States," he said. "For the past 15 years, there has been a constant luxury market within the U.S., especially now because a number of factors — the economy moving forward, the population being so young, the rise of so-called minorities with higher disposable income."

Allyson Stewart-Allen, international marketing expert and ceo at the business consul-

tancy International Marketing Partners, cited a strong appetite for luxury in the U.S., especially of the personalized variety. She said customers are increasingly looking to make special purchases. "They want to be apart from the crowd, to say 'I spec'd this, it's mine' — even if it's a Birkin bag," she said.

In addition, Stewart-Allen noted luxury stores are becoming ever more elaborate, bigger and more luxurious, with brands trying to make a statement. As for online, she said it's an easier sell for luxury goods companies compared to high-street firms because customers know what they're getting with luxury. "You know what these brands stand for, you know about the quality, so you have no qualms about buying from them."

Tourists, added Stewart-Allen, will tend to seek out the sort of stores in America they cannot find elsewhere, or where they know the goods are cheaper. "Tory Burch, Coach and

Michael Kors are all cheaper in America so tourists will tend to [take advantage of] the prices." She said the luxury proposition from brands selling in the U.S. will be about exclusivity. "Something the customer knows is hard to get, something worn by the royals or a famous celebrity or a Monaco-based magnate."

Meanwhile, the world next door — Canada — also offers enticing growth prospects, with Nordstrom and Saks Fifth Avenue among a multitude of retailers set to plant their flags north of the border.

According to Ledbury Research, citing WealthInsight data, Canada's number of high-net-worth individuals is expected to grow by 9 percent until the end of 2018, reaching 473,426 by the end of the year. Their combined wealth will increase by 22 percent to \$2.1 trillion by then.

"The reality is that Canada is a new market for luxury," Kering's Palus said. "We plan to really push our business in Canada."

Outer Limits

By LAURE GUILBAULT

WHEN WILL THE consumer cry "uncle!" with regard to luxury prices?

With the richest 1 percent of the world's population getting wealthier, luxury products still sell out at ever-higher prices. And yet there are signs — increased competition from labels offering a lower entry price point; European consumers no longer being able to afford luxury brands, and Japanese customers turning their back on luxury products — that brands should be cautious.

Is luxury killing the goose that laid the golden egg? Not necessarily.

Roger Vivier's Rendez Vous special-edition shoes for this fall retailed at \$2,000, versus \$600 for the simple flats. "They barely made it to the stores because they were sold out to VIP clients," said Victoria de la Fuente, Holt Renfrew account executive at the buying office Lambert & Associates.

In October, Vertu launched its new Aster mobile phone, which retails at up to 5,900 pounds, or \$9,437 at current exchange, for the version that features more-exotic materials, such as ostrich leather. The maker of luxury smartphones wouldn't put the product on the market if it didn't think the product would sell. And last season, there was a waiting list for Fendi's Karlito bag charm that costs \$1,685.

"If there is any trend, it is to buy up, buy more special, buy higher quality," said de la Fuente. For spring, she bought pieces from Givenchy's pricy ready-to-wear collection; Céline's summer coats, which retail at around \$3,000, and Saint Laurent's stage jackets, selling at around \$5,000. "They usually do very well for us."

The 1 percent's global wealth has grown to a new record, rising by 8.3 percent to \$263 trillion — or a \$20.1 trillion hike — between mid-2013 and mid-2014, according to a Credit Suisse report on global wealth published in October. The richest 1 percent of the world's population owns more than 48 percent of global wealth, according to the report, which warned that growing inequality could be a trigger for recession.

"The average price for a designer handbag rose from \$1,500 at retail in 2007 to over \$2,000 now," observed de la Fuente. She also cited designer sunglasses doubling from an average \$200 in 2007 to \$450 now. "Carrie Bradshaw's Manolo Blahnik stilettos were around \$500 in 2000. Designer shoes are now more like \$1,000."

"The industry has been very smug about its pricing power. Historical analyses show that luxury products have experienced price infla-



Fendi's Karlito bag charm, \$1,685.

tion above general consumer price index," according to a report issued on Oct. 31 by Exane BNP Paribas.

The report, prepared by Luca Solca, Paola Bertini and Hui Fan for institutional investors, cautions that, going forward, this could pose a few significant problems. One risk for luxury players is to create a "price umbrella" for entry-price competitors that offers a greater value proposition, according to the report.

"Accessible luxury brands like Michael Kors are creating a more competitive environment for luxury incumbents, including Gucci and Louis Vuitton," explained Madeline Ollivier, luxury analyst at Ledbury Research.

Consumers are getting more price-savvy, pointed out Ollivier, noting that the brands that add the best experience in the custom-made area will stand out. She praised Bottega Veneta, which took its artisans from Italy to New York for three days to offer customers an experience of the company's customized service, with a focus on adding hand-stitched crocodile-skin initials to select bags. Customers were invited to watch the craftsmanship involved.

Consumers from emerging markets buy European luxury brands as a way to capture European flair, and brands that embrace price inflation risk pricing their products out of the reach of their historic European consumer constituencies and altering their identities, the Exane BNP report warns.

"The entry price point of luxury goods is the most important decision that houses need to make nowadays," said Pierre-François Le Louët, president of French trends agency NellyRodi. "Even if there is a slowdown in China's growth, the Chinese are buying the European lifestyle, excellence, a vision of France, of creation and tradition. Europeans can no longer afford these products."

Exane BNP Paribas' report highlights the fact that leading brands are out of sync with major socio-demographic trends. This holds particularly true for the Japanese market, according to Le Louët. "Cheap is chic in Japan," he deadpanned, adding that, since the Fukushima nuclear reactor disaster, there is a shift to more necessary spending. "This is disconcerting to the luxury brands."

Luxury prices haven't reached their limit yet, he said, with markets such as Indonesia, the Philippines, the Arab world and the U.S. seeing growth. "The other very important decision that brands need to make is where to put their focus, where to expand and where to shut down [doors]," he advised.



Akris in Miami.



Gucci in Los Angeles.

Size of Personal Luxury Goods Market

2014 Estimate, in billions of dollars.

