



Rolls-Royce's Ghost model is sold out until September. The leather for each interior requires nine hides from the same batch and each car contains 55 square-metres of soft full-grain leather. CREDIT: ROLLS-ROYCE MOTOR CARS



Positive outlook for Europe's luxury brands

The economic downturn has had a much greater impact on the manufacturing sector than governments across the globe would care to admit. However, while many economies in Europe are still struggling, or have hit new stumbling blocks, it seems European leather and leathergoods manufacturers are experiencing something of a reprieve. Top-quality items are attracting very strong demand, with luxury automotive leather, shoe and leathergoods manufacturers leading the way. Many brands within these sectors have reported double-digit growth in recent months and many are positive in terms of outlook for the rest of the year.

Driving demand for leather

While many automotive leather manufacturers struggled towards the end of 2008 and throughout 2009, it seems 2010 has brought about a turnaround in the

fortunes of many judging by the results published by some of Europe's biggest car makers so far this year. Demand for luxury cars has risen sharply in the US, Europe and China and many manufacturers, including Mercedes-Benz, Audi and BMW, have had to hire extra temporary workers and schedule additional shifts to meet increased demand.

Audi has experienced particularly high demand for its A8 and R8 models and is expecting its premium A7 to sell well when it launches. Meanwhile, the BMW 5 Series is sold out in markets across the globe and Mercedes-Benz has launched the SLS AMG E-CELL, a new emission-free sports car, which is expected to meet with very high demand. The company has chosen high-quality nappa leather in a black-and-white colour combination for the new model. The leather appears on the seats, the steering wheel, the door linings, and on a broad "centre tunnel"

that runs towards the back of the vehicle between the seats.

Each of the three German brands has reported double-digit sales growth for May, while BMW posted profits of almost €450 million during the first quarter of 2010, exceeding the amount it made for the whole of 2009. Back in 2007, when demand for luxury cars was really high, BMW said it needed to acquire 11,000 hides a day to produce the leather interiors. Having sold 315,614 cars during the three-month period, chief executive, Norbert Reithofer, said he believed the global economic crisis was coming to an end. He explained that, while global demand had increased, the company had particularly benefited from higher sales in China, where its sales had doubled. One in every five cars of its cars is now sold in Asia and the company says it plans to spend €60 million on a new factory in Shenyang in north-east China.



Selling out

And it isn't only Germany-based car manufacturers that are experiencing higher demand. Rolls-Royce Motor Cars claims that continuing strong customer demand for all of its models has resulted in record production at the company's manufacturing plant at Goodwood in England. The company is currently building 15 cars a day, including Phantom and Ghost models, with over 300 cars built in June. These are both record numbers since the company launched under its current owners (BMW) in January 2003. All of its models are sold out until at least September, with Phantom saloons sold out until October.

The leather for each interior requires nine hides from the same batch, and the company insists its tannery suppliers prepare very carefully to ensure consistency of colour throughout. Each car contains 55 square-metres of soft full-grain leather and Rolls-Royce says every millimetre is inspected by eye to make sure there are no imperfections.

Sales of the cars in June increased more than fourfold worldwide and in the first half of the year were up by almost 200% compared with the same period in 2009. Substantial growth was seen in all regions, with a particularly strong performance in the Asia Pacific region, especially China. Chief executive, Torsten Müller-Ötvös, said: "This is an excellent interim result and we are well on our way to meeting our target of at least doubling our 2009 sales result."

Handbags, shoes and gladrags

Demand for European luxury leathers and footwear has also seen an upsurge since the start of the year. Similarly to the situation in the automotive sector, China and other emerging markets appear to be playing an increasingly important role in determining the success levels of European shoe and leathers goods manufacturers.

Luxury goods and retail group PPR, which owns a range of brands including Moët Hennessy-Louis Vuitton (LVMH), Hermès and Gucci, announced positive results for the first half of 2010. Group sales for the first half of the year surpassed €4 billion, with its luxury brands segment registering growth of 11% compared with the first six months of last year. Gucci's growth figure was 9.4%, while those for Hermès and LVMH were 20% and 14%, respectively.

Both Louis Vuitton and Hermès have recently opened stores in Beirut,

Lebanon. Vuitton's first store in Lebanon opened its doors to shoppers on July 17 and is on the city's Rue Allenby, a few blocks from the seafront. It is offering a tailored product selection for the Lebanese market including its Neverfull, Speedy and Keepall bags and a selection of elegant, heeled shoes as, according to company president, Yves Carcelle, "women here do not wear sports shoes".

Hermès has opened its outlet in the fashionable Bab Idriss area of the city. The brand is selling its full range of handbags and luggage, diaries and small leather goods, saddles, belts, gloves and shoes at the new store, although it is bag sales that have mainly driven recent growth for the brand. The brand's sales doubled during the second quarter and recent reports suggest Hermès is planning to launch a new Chinese brand called Shang Xia some time in the future.

Italian luxury leathers goods and footwear company Tod's posted growth of 5.2% for the first half of the year. It recorded sales of €77.5 million for the six-month period

and said it had experienced a particularly strong acceleration during the second quarter. Of the group's main brands, Tod's achieved the biggest proportion of sales with €95.5 million, followed by Hogan with €31.9 million, Fay with €8.5 million and Roger Vivier with €7.4 million.

However, in terms of growth, Roger Vivier had the best result, with an increase of 28.3% compared with the first half of 2009. Tod's achieved growth of 8.4% and Hogan of 4.2%. Fay suffered a decrease of 11%, but the company said the brand had been affected by a change in timing of its spring-summer deliveries.

During the first six months of 2010, footwear sales totalled €82.4 million, up 8.3% year-on-year. Leather goods and accessories revenues totalled €7.8 million, down 9.9% compared to the same period last year, although the company said this was in line with management expectations and that growth in the second quarter had been stronger. In a recent statement the company said it expects "positive" results for the full year.



Recent financial results suggest there is good news for the European leather and leathers goods industry. CREDIT: RENE TILLMANN/MESSE DÜSSELDORF



New opportunities

UK-based luxury brand Burberry has also reported a strong start to its current financial year with underlying first quarter revenue up 24% and retail sales up 16%. The company had predicted that its "large leathersgoods" (principally handbags) would be one of its "key product categories" in 2010-11, having been its fastest-growing category during the previous financial year. The company said it would also carry out further product development in shoes.

Chief executive, Angela Ahrendts, revealed in July that the company was acquiring retail operations in China for the first time. "It's been a long-term part of the strategy since I joined the company over four years ago," she explains. Ms Ahrendts explains that the company launched a Burberry Middle East joint venture in 2008 and another in India in November 2009, where the brand now has four stores. Shortly after this it opened a store in Brazil, with plans to open a second before the end of 2010. "China is just the natural next extension of purchasing back the Burberry brand and integrating it so that we have one, pure global brand strategy



London-based Oliver Sweeney's spring-summer 2010 range experienced 40% like-for-like growth at retail and an increase of more than 200% in online sales.

CREDIT: OLIVER SWEENEY

worldwide," she said.

According to Ms Ahrendts, the market dynamic is still very strong in China and the Burberry "brand momentum" is too. She describes China as the "largest luxury growth market in the world today" and believes its consumers are looking for heritage, authenticity and originality, specifically when it comes from the UK and other parts of Europe. The China expansion is expected to add around £20 million to group operating profit in 2011-12 as the country's luxury sector is set to experience mid-teen digit growth.

However, while each of these emerging markets offers the company an opportunity to accelerate overseas growth, Ms Ahrendts believes it would be a mistake to underestimate the brand's opportunities in its existing core markets. Its latest figures show wholesale revenues in the US are experiencing double-digit growth and she believes there are still excellent opportunities within its established US and Asian markets. The brand also has high hopes for its European markets, particularly in the UK with the 2012 London Olympics approaching. ©

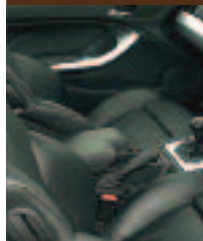
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