



Times are tough for luxury brands

Several of Europe's top luxury fashion brands have blamed a drop in tourists visiting the region for a slowdown in their revenues. World Leather examines if the statistics back up this theory.

There can be no doubt that Western Europe is in a daze following the terror attacks which have shaken the region in the past 18 months. Events in major cities in France, Belgium and Germany have provoked a sense of unease and worry among residents and visitors alike. Tourism in particular has been hit, with a drop in overseas visitors to cities such as London, Paris and Milan in the immediate aftermath of the events.

These cities are home to some of Europe's most successful luxury fashion houses, for whom tourists (more specifically the money they spend on luxury goods) are vital to boosting revenues. As these brands began revealing disappointing financial results in the first half of 2016, *World Leather* noticed a common thread appearing.

Salvatore Ferragamo blamed "lower tourist flows" for a 1.8% drop in sales in the first quarter of the year, Bottega Veneta, owned by Kering, said a "slowdown in tourism flows" caused an 8.3% drop in its revenues for the same period and LVMH attributed the flat performance of its fashion and leathergoods division to "lower tourist flows" in France. Even Hermès, who reported growth of 6.2% in the first three months, said increased revenue in Europe came "despite the negative impacts of recent events".

The statistics

According to Eurostat, which is responsible for statistical information concerning the European Union, March saw a 15.5% rise in the number of nights spent in hotels within EU member states by non-residents of that country. Across the three countries that *World Leather* has examined in depth, this translated to a 10% rise in France, a 10% increase in Italy and a 17% jump in the UK. This may not be entirely representative of the health of tourism in the region, however, given the early date of the Easter weekend this year. Nevertheless, both Italy and the UK also saw increases in January and February. France's visitor numbers have dipped in every month except March. Italy's official data on tourism for the first half of 2016 is not yet available but there was steady, if unspectacular, growth towards the end of 2015.

Of the three countries, France has been the most affected by recent events. According to Insee, the country's national statistics organisation, the number of foreign visitors was down 8.7% in the last quarter of 2015. The decline continued in the first three months of 2016, when tourist numbers were down 2.7% on the same period last year. Paris was hit especially hard. After strong figures for hotel occupation in the Ile-de-France region, of which France's capital is a part, in the first ten

Tourist spending plays an important part in boosting the revenue of luxury fashion houses.

CREDIT: ALEX SEGRE / SHUTTERSTOCK.COM





months of 2015, there was then a sharp drop off in November and December. The number of Chinese tourists, who often spend big when they visit Western Europe, decreased considerably in Paris. Having risen 46% over the first 10 months of 2015, the number of Chinese travellers staying in the French capital dropped by 3.1% in December, according to the city's Convention and Visitors Bureau.

The UK's Office of National Statistics (ONS) reported a similar trend. Its provisional data showed that despite an 8% increase in visits from overseas in the first three months of 2016, there was a 2.5% drop in those coming from countries outside of Europe and North America. Tourists from China, other Asian countries and from areas in the Middle East such as the United Arab Emirates, all of whom typically spend more when on holiday, visited the UK less in the early part of this year.

Spending down

The ONS data suggests that it is lower spending by tourists, rather than smaller volumes of visitors, that is causing the slowdown in the revenues of luxury brands. It shows that earnings from visitors to London dropped 2.2% in the first quarter. More notable was the 16% dip in spending by residents of "other countries" (those from outside Europe and North America), which suggests that Asian and Middle Eastern travellers are simply spending less during their holidays.

Burberry and Hugo Boss, two of the luxury brands that have recently reported their financial results, seem to have realised that it is lower spending rather than fewer tourists that is to blame for their financial difficulties. Burberry blamed a 3% drop in like-for-like sales from April to June on "double-digit declines in sales to travelling luxury customers". Hugo Boss said that "weaker demand from Asian tourists" was a key reason for a 2% decrease in European sales.

A recent report from Global Blue, a retail tax-refund services company, said that visitors to Europe spent 16.8% less in June 2016 compared with the same month last year. Its report showed drops in tourist spending in France (-17.6%), Italy (-18.9%) and the UK (-17.1%). The luxury goods industry has not escaped this slump. Global Blue said earlier this year that overall tourist spending on luxury items, including branded leathersgoods, fell 14% in March.

The drop was most pronounced among Chinese tourists, who spent 24% less year-on-year on all travel overseas. In Europe, their spending decreased by 35%. This was the first recorded decrease in spending by Chinese tourists since records began in 2010. Estimates suggest that consumers from China represent nearly a third of the global luxury goods market (including spending at home and overseas), well ahead of consumers from North America and Europe. This means that their spending habits have a significant impact on the financial results of luxury brands. It is predicted that they could make up as much as 35% of the global total by 2020.

Challenges

As well as worries over terrorism, global economic uncertainty has likely contributed to a drop in tourism and lower spending on luxury goods. China's sluggish economy is a concern for those in the country and the Asia-Pacific region as a whole, so it is not a surprise that people from those countries are being more frugal. The decision by the UK to leave the European Union has created uncertainty in that area of the world (although trips to the UK from China for example spiked shortly after the decision as a drop in the value of sterling created an "incentive to buy" for



The Kering group, which includes Louis Vuitton amongst its brands has seen an 8.3% drop in revenues in the first month of 2016.

Sales of luxury items, such as Louis Vuitton handbags, understandably fall during times of economic uncertainty.

CREDIT: SORBIS / SHUTTERSTOCK.COM

overseas tourists). In times of economic uncertainty consumer confidence typically falls and this could also be a contributing factor in the decline in sales of luxury goods.

Luxury brands are having to contend with the growing problem of counterfeiting. A recent report from the Organization for Economic Co-operation and Development (OECD) and the EU's Intellectual Property Office estimated that counterfeit goods make up 2.5% of all international trade. The most popular items that are counterfeited are branded shoes, clothes and leathersgoods, according to the report.

The increasing power of online retail platforms are making the fight against counterfeiting even more difficult. American companies Amazon and eBay have both been accused of not doing enough to combat it but Chinese e-commerce giant Alibaba is most frequently criticised by luxury brands. Its reputation was not helped by comments from its founder Jack Ma, who said in June that some counterfeit goods are of better quality than the genuine article.

Luxury brands are also faced with the changing fashion habits of Chinese consumers, who are a key generator of revenue in the luxury goods industry. There has been a noticeable shift in recent months away from high-end luxury brands towards Western sports labels, in line with the trend of athleisure – sportswear worn in non-athletic settings. This trend has so far only been observed in the domestic market but it is possible that it could be expanding to influence purchases made by Chinese people overseas.

Projections from analysts about the short-term future of the luxury goods industry are far from positive. A report in May from managing consulting firm Bain and Company predicted only 1% growth in the sales of luxury items during the rest of 2016, an outlook supported by analysts at Deutsche Bank, who said the second quarter of 2016 was on course to be the worst for the luxury goods sector in nearly a decade. 🌐