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Traditional markets benefit as China slows

Growth is still focused on Asia-Pacific but sales in developed nations, particularly in the US, have picked up, writes *Rachel Sanderson*

After five years of rapid growth driven by voracious Chinese demand, the luxury industry is experiencing a cold blast of reality.

"The bad news is that easy growth on the back of opening stores in China is over for most luxury brands," says Luca Solca, head of luxury goods research at Exane BNP Paribas.

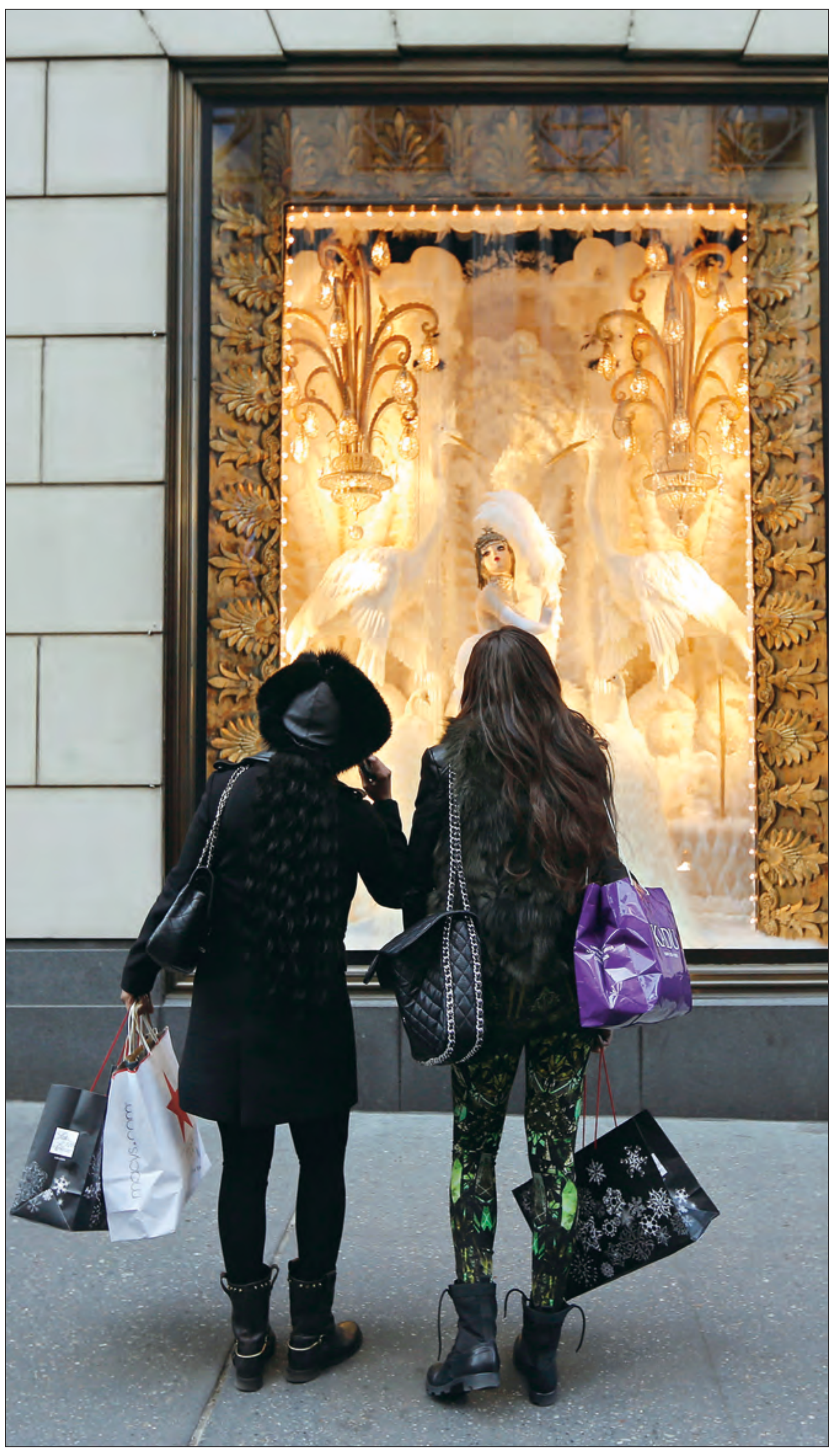
China's lower economic growth, anti-corruption crackdown, pollution in the big shopping cities and a maturing consumer turned off by logos have all been blamed by luxury executives for lacklustre sales in 2013, which for many have extended into the first quarter of this year.

Nonetheless, bright spots are emerging as a result of macroeconomic and social change. For example, the focus is swinging back to developed countries where half of luxury's total global sales are made to consumers in their traditional markets.

The US is considered the biggest growth opportunity for the luxury market over the next decade because of spending by locals as well as tourists, according to Boston Consulting Group (BCG).

Accessible luxury brands led by US group Michael Kors, which doubled its European sales at the end of last year, are also changing the face of the luxury industry.

Scilla Huang Sun, who runs the Julius Baer Luxury Brands Fund, points out that it is crucial to differentiate between the moderation of luxury sales in mainland China compared with the solid demand from Chinese tourists, especially in the US.



Not just window shopping: sales in developed markets have started to rise Reuters

The Chinese are the world's biggest tourist spenders and increased their spending by 28 per cent in 2013, according to the World Tourism Organisation. This underpins belief in "the growing purchasing power of Chinese consumers and their appetite for western luxury brands", Ms Huang Sun says.

It is also driving the opening of luxury outlets for brands from Ferragamo to accessible fashion bagmaker Furla in airports around the world, even in Europe where local demand remains subdued.

Another new focus for luxury goods brands, such as Milan's Prada, is converting concessions in department stores into directly operated shops, and driving online sales.

Hard luxury brands – with Swatch at the vanguard – are expected to open more stores selling directly to shoppers.

More than half of total luxury purchases are influenced by online marketing, according to a BCG survey of more than 10,000 customers in 10 countries.

Social media and the rise of smartphones and wearable technology are also opening a new business frontier – as well as a potential threat.

The fallout has extended to creative directors and management at leading fashion and luxury conglomerates, LVMH, Kering and Richemont, all of which have moved to shake up at least some of their business.

Louis Vuitton and Gucci, the leather goods brands of LVMH and Kering, respectively, are considered by analysts to have only just emerged from intensive care after their logo-heavy styles hit saturation in China, prompting a repositioning.

At Gucci, which accounts for half of Kering's revenues but where sales remained sluggish in the first quarter, analysts say bolder creative choices may be needed, especially since the hiring of young designers by other Kering brands Balenciaga and Saint Laurent led to sharp sales rises.

Meanwhile, Richemont's decision not to sell its underperforming soft luxury brands, including Montblanc and Lancel, means that

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Kering man has the billion-euro touch

Interview
Marco Bizzarri
Chief executive, luxury couture and leather goods, Kering

Talk of a China slowdown fails to ruffle rising star, writes *Rachel Sanderson*

In April, Francois Henri Pinault, head of French luxury group Kering, confirmed months of rumours about a shake up in the management ranks and promoted Marco Bizzarri, president and chief executive of Bottega Veneta, to a new role as head of couture and leather goods for the luxury division.

The move underlined Mr Bizzarri's emergence as a rising star of the luxury industry. At a time when executives are sweating about the slowdown in China and the disruptive effect of technology on consumption in mature markets, Mr Bizzarri has turned Bottega Veneta into a billion-euro brand with some of the strongest growth in the sector.

In his new role, the 51-year-old Italian former management consultant will oversee some of the world's best-known luxury brands, including Bottega Veneta, Saint Laurent, Alexander McQueen, Stella McCartney, Brioni and Tomas Maier.

Kering's global mega-brand Gucci, which accounts for more than half of the company's luxury sales, will remain under the aegis of longtime chief executive Patrizio di Marco.

Speaking to the FT before he takes on his new job, Mr Bizzarri shrugs off concerns about a slowdown in China and the impact of technology on consumer spending. Instead, he says, the brands that will thrive will be those that manage to sell themselves to consumers as unique and exclusive, even if they are being sold in the millions.

"The winners are those able to offer a better shopping experience with a product that is more exclusive than in the past," he says.

As for China, Mr Bizzarri believes it will remain a strong growth market for Bottega Veneta, even as other brands flounder.

"The market is approaching maturity and when you reach maturity, consumers stop buying everything. As far as Bottega is concerned, we don't see any slowdown. I will continue to grow double digit in China. Many brands are complaining because they were used to selling everything. But that was going to change," he says.

Moving up: in his new role at Kering, Marco Bizzarri will oversee some of the world's best-known luxury brands Reuters

Curriculum vitae

2014 Kering, chief executive, luxury couture and leather goods
2012 Kering, non-voting director,
2009 Bottega Veneta, president and chief executive
2005 Stella McCartney, president and chief executive
1993-2004 Mandarina Duck Group, general manager
Pre-1993 Accenture, strategy consultant

Mr Bizzarri, former chief executive of Stella McCartney, started at Bottega Veneta – taking over from Mr di Marco, Gucci's current president and chief executive – at the height of the financial crisis in 2009. But Mr Bizzarri maintained – and was subsequently proved right – that luxury shoppers in Asia would trade up to Bottega's style of discreet but pricey, no logo handbags as they became more sophisticated shoppers.

The company's sales in the first quarter rose 14.6 per cent at constant currency rates to €250.8m, compared with the previous year, which was also a slight increase on the last quarter of 2013.

Under the direction of its creative director, Tomas Maier, and Mr Bizzarri, Bottega has become a successful lifestyle brand for one of luxury's priciest houses. One of its signature Cabat handbags in woven leather intrecciato infilato has a starting price of about €4,800.

Alongside other big brands, such as bigger rival Louis Vuitton, Bottega has also focused on highlighting the manufacturing of its luxury goods.

In Bottega's case, the focus is on its woven intrecciato – a traditional technique from the Veneto region where the company is based. The brand has expanded from bags into shoes, clothes and homeware, but its signature criss-cross design has remained constant, patterned on shoes and even on the bottoms of drinking glasses.

"Craftsmanship is becoming more and more successful. But for me, what is even more important is that you need to be consistent. The world outside is too crowded; consumers need to know what to look for when they enter certain shops," he says.

Bottega Veneta has expanded in the past five years, opening a vast flagship store in Milan last year to give it a total of 226 directly operated stores worldwide – far fewer, however, than Louis Vuitton or Gucci. Mr Bizzarri also plans to open fewer stores this year than last.

"Exclusivity will remain the added value. We will slow down the openings in the coming year," he says. Instead, Bottega will increase the size of its smallest stores.

Three years ago, Mr Bizzarri decided to limit openings in China and raise investment in Bottega's stores in Europe's shopping capitals.

"That longer-term approach paid off, as the tourist flows have increased in the past five years. Many more Japanese and Chinese are coming to Europe than they did in the past," he says.

Does he see anywhere else taking over from China? "Frankly no. We are present in India, in Brazil, but these markets are far short of the potential of China. The decision-making process in China is far quicker," he says.

Mr Bizzarri believes the tensions are typical "of an industry that is going to undergo consolidation sooner or later". He believes that luxury goods companies need to be global in order to spread their risk and have a footprint large enough to catch tourist shoppers wherever they are in the world.

Another issue arising for the industry is the suggestion that luxury is starting to mean more than just clothes and bags for consumers in traditional markets such as the US, Japan and Europe.

Analysts suggest that technology is disrupting the market, with hankering after the latest smartphone overshadowing a desire for the latest handbag.

It might amount to as big a problem for the industry as a slowdown of sales in China.

Mr Bizzarri believes technology is less relevant for Bottega, where the manual craft that goes into its bags has become a selling point. The company has invested heavily in the past couple of years in the men and women who make its handbags.

"We wanted to create a cocoon for our employees and our artisans. We realised that the safer creative people and craftsman feel, the better the collection they produce. If they do a better collection, my revenues grow. It is not easy to attach figures, but it is what happens," he says.

As for advice for up-and-coming luxury executives, Mr Bizzarri is clear.

"You always need to be curious and study," he says. "The market is moving so fast, there is nothing set into the wall. You need to be very, very flexible."

Return to traditional markets

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they now need to be turned round.

But while the mega-brands stutter, the anti-corruption drive in China and return to form of US consumers are benefiting high-end niche players.

Loro Piana, bought by LVMH last year, and Brunello Cucinelli and Hermès, which do not rely excessively on fashion and focus on high-quality goods in casualwear, are in better shape in China where they have avoided the anti-logo backlash. The brands are gaining traction in the US, where consumers prefer a casualwear look.

Sales at Cucinelli rose 50 per cent in China in 2013 and 20 per cent in the US. Bottega Veneta, the ultra-luxe brand owned by Kering, saw first quarter sales up 15 per cent on the end of 2013.

Meanwhile, valuations of independent Italian brands Moncler, Tod's and Ferragamo remain high amid expectations that they, like Giorgio Armani, will be takeover targets, as the

28%

Chinese tourist spending growth, 2013

Chinese slowdown drives consolidation. Mirroring the extent to which the global economy moves into a sustained recovery, luxury will grow too, according to Deloitte Touche Tohmatsu, the professional services firm, in an upcoming report.

Not unexpectedly, notwithstanding the slowdown in China, growth is still disproportionately focused on the Asia-Pacific region. Although economic growth has slowed lately in much of Asia, this is to some extent offset by the rise in income inequality.

Income available to upper-income households is therefore growing faster than overall income, Deloitte maintains.

The near-term future of the luxury market will depend, in part, on how the global economy evolves.

Deloitte considers the more promising markets to include Colombia, Mexico, Philippines, and much of sub-Saharan Africa – where Ermenegildo Zegna, Hugo Boss and MAC have been at the vanguard of opening stores.

High-profile hires face increasingly intense battle

C-suite Brand executives face problems in Asia, volatile exchange rates and a tough fight to win in emerging markets, writes *Elizabeth Paton*

The once stellar growth enjoyed by leading luxury groups has slowed considerably in the past 12 months, hampered by waning enthusiasm from Asian customers, volatile exchange rates and a bitter battle for the attention of emerging market consumers.

This has led to a stream of C-suite appointments, as brands look for additional sources of growth, continue to flirt with initial public offerings or buyouts, and take high-risk experiments with pricing, licensing and costly product rollouts.

Here are the 10 latest – and highest-profile – hires.

Jean-Frédéric Dufour
Chief executive, Rolex

Rolex has experienced a high executive turnover in recent years.

Its latest chief executive, Mr Dufour, will be its fourth since 2008 and was appointed in April.

Mr Dufour, who replaces Gian Riccardo Marin, hails from LVMH-owned Zenith, where he executed a much-admired turnround, including refocusing product lines, implementing shrewd marketing strategies and returning to classic models to rejuvenate sales.

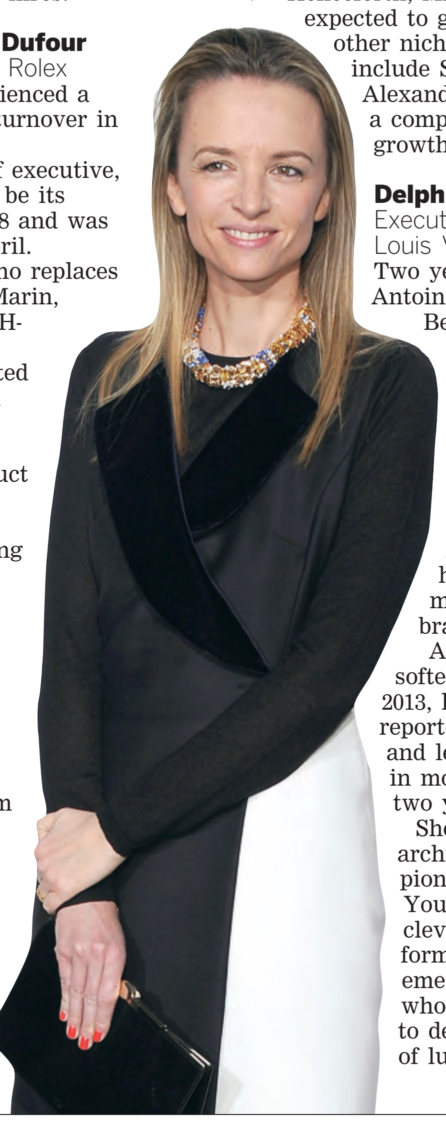
With China's corruption crackdown and increasing competition from Swatch and Richemont continuing to weigh on Swiss watch exports, many industry observers will be watching Rolex closely to see what this young, charismatic moderniser will do.

Marco Bizzarri
Chief executive, couture and leather goods, Kering

In April, Kering announced that it would be restructuring its luxury department into two divisions: couture and leather goods; and watches and jewellery.

Taking the helm at the former is Mr Bizzarri, the much-lauded chief executive of Bottega Veneta – and currently the star performer in Kering's brand portfolio.

Henceforth, Mr Bizzarri will be expected to guide the group's other niche brands – these include Stella McCartney and Alexander McQueen – along a comparable path to growth.



Delphine Arnault
Executive vice-president, Louis Vuitton

Two years after her brother Antoine took the reins at Berluti, Ms Arnault was installed last June at Louis Vuitton after stints at McKinsey and Christian Dior.

Overseeing all product-related activities, Bernard Arnault's daughter has been quick to make her mark on the brand.

After suffering softening sales in 2013, last month the house reported its best fashion and leather goods growth in more than two years.

She has been the architect behind the pioneering LVMH Young Designer Prize, a clever means of forming ties with emerging talents who will be needed to define the future of luxury.

Christopher Bailey
Chief executive, Burberry

Following the high-profile defection of Angela Ahrendts to Apple last year, the luxury world will be watching closely to see whether new chief executive Mr Bailey is cut out for taking on both creative and commercial control. The affable and digital-focused Yorkshireman was the driving force behind Burberry's rebranding success.

Sales momentum has been steady since the announcement in October of the appointment of Mr Bailey, who will retain his present responsibilities as chief creative officer, but shareholders will be watching closely to ensure he has the financial and managerial wherewithal to sustain these levels at the British luxury giant.

Marigay McKee
President, Saks Fifth Avenue

The former chief merchant of Harrods, Ms McKee transformed the Knightsbridge store into one of the most profitable luxury shopping meccas in the world.

She was hired by Hudson's Bay, a Canadian retail conglomerate, in September to oversee an overhaul of Saks Fifth Avenue, which it has bought for $2.4bn.

Capital expenditure of $1bn has been earmarked to take the US chain upmarket, as department stores seek to counter market share erosion by ecommerce and own-brand luxury flagships.

> Rolex's latest chief executive, Jean-Frédéric Dufour, will be its fourth since 2008

On the move: from left to right, Delphine Arnault, Louis Vuitton; Marigay McKee, Saks Fifth Avenue; Christopher Bailey, Burberry

Stacey Cartwright
Chief executive, Harvey Nichols

Ms Cartwright's arrival at Harvey Nichols in January prompted headlines that the recent flat figures of this prestigious British chain might enjoy a boost, after it has been largely eclipsed by rivals.

Much-touted by City financiers, the appointment of the former chief financial officer of Burberry also led to rumours of a possible sale. No sign has emerged of any deal yet, but a spot of window dressing is clearly in train.

Ms Cartwright's revamp includes a fresh brand assortment, a Harvey Nichols in-house label, and an expansionist drive overseas.

Steve Shiffman
Chief executive, Calvin Klein

Following the announced retirement of longtime chief executive Tom Murry in March, parent group PVH promptly turned to Mr Shiffman, who has worked across the company for more than two decades.

Most recently chief commercial officer, Mr Shiffman will be given the responsibility of shoring up the brand's position in mature markets at the same time as developing its footprint in newer regions.

He hopes to take the label – best known for its jeans and underwear business – further upmarket, in keeping with a broader industry trend.

Mr Murry, meanwhile, will maintain a position as adviser until the end of the financial year.

Nicolas Ghesquière
Creative director, Louis Vuitton

Following Marc Jacobs' exit from the brand last year to focus on the imminent initial public offering of his eponymous label, Mr Ghesquiere joined LVMH's flagship in November.

After an unceremonious exit from Balenciaga – and bitter public fallout with its parent group Kering – the French designer received rave reviews for his first Louis Vuitton collection in February.

Its "strong creative momentum" was praised by LVMH in its latest set of earnings in April. Mr Ghesquiere will be pivotal in taking the brand further upmarket.

Francesca Amfitheatrof
Design director, Tiffany & Co

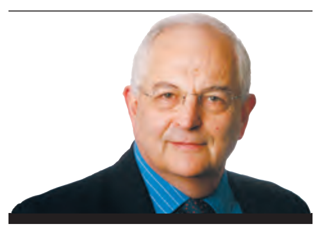
The US jeweller appointed its first design director last October. Ms Amfitheatrof is known to industry insiders for her previous collections for luxury fashion labels including Chanel, Fendi and Marni.

Stuart Vevers
Creative director, Coach

Following Reed Krakoff's exit last summer to launch his own womenswear line, Mr Vevers arrived at Coach in September after being poached from the LVMH-owned leather accessories brand Loewe.

Mr Vevers takes on the task of breathing new life into the US powerhouse amid stagnant sales and superior competition from the likes of Michael Kors and Kate Spade.

Experts broadly positive on global recovery but warn risks remain



Economists' Q&A
MARTIN WOLF

What does the world economy hold in store? Looking into their crystal balls at today's Business of Luxury Summit in Mexico City are Willem Buiter, chief economist of Citigroup, and Guillermo Ortiz Martinez, former governor of the Mexican central bank. I asked both of them three questions.

The IMF forecasts continued recovery in the world economy over the next two years, particularly in the high-income countries. Do you agree that this is the most likely outcome?

Willem Buiter Yes, I do.

Guillermo Ortiz Martínez Over the past year, analysts have turned more bullish on developed economies – and rightly so.

In the US, waning fiscal drag, continued household balance sheet repair, and uptrending corporate earnings have set the stage for a long-awaited return to above-trend growth in coming quarters.

In Europe, the UK's and eurozone's recoveries seem less well balanced. However, as they overcome different challenges, they are likely to feed off each other, to positive effect.

In the UK, concerns have been raised about the sustainability of consumption growth and bubbly real estate prices. But broader improvement in fundamentals reveals a robust recovery.

The eurozone continues to exhibit an uneven recovery between its "core" and "periphery."

While Germany and other northern members are performing well, peripheral economies must rely on "internal devaluations" to close the region's competitiveness gap – raising the risk of deflation. In this regard, the ECB's hints at targeted additional stimulus down the road are a welcome development.

In Japan, the signals regarding the success of Abenomics have been mixed. The reform programme still has some way to go. But the Bank of Japan seems more than willing to support activity in the meantime.

Emerging markets, on the other hand, show a less rosy picture, but not one so pallid as to reverse their expansion.

During the "taper tantrum" of 2013, several economies did seem on the brink of crisis, but the vulnerabilities proved less drastic than feared.

Acceleration in demand from developed economies should support export growth, while further adjustment – tight fiscal and monetary policy coupled with structural reforms – should improve prospects for the medium term.

The wild card is China's economy, to which the performance of several emerging economies is tied. In the base case, Chinese policy makers pursue economic rebalancing and liberalisation efforts, while financial excesses are curbed and growth settles at close to 7 per cent.

What do you see as the downside risks?

WB First, an unfudgeable Russian invasion of eastern Ukraine followed by stringent sanctions against Russia, a cut-off of gas shipments from Russia to Europe and a recession in Europe. Second, a recession in China triggered by the bursting of its credit bubble and the end of the construction boom. Third, unsustainable public debt dynamics in the eurozone's periphery and an honest asset quality review and stress test of banks by the European Central Bank, leading to a credit crunch in the eurozone.

GOM First, half a decade of zero policy rates in developed economies might have engendered financial risks that are not yet on officials' radar. In the US, growth might challenge the Fed's commitment to a gradual normalisation in interest rates. Policy could then tighten more quickly than expected.

Emerging economies are better prepared than before. But one cannot rule out balance-of-payments or financial crises. A potentially disruptive development has been the massive expansion of corporate debt in emerging economies, some of it denominated in foreign currencies.

A second risk to the global economy is a sharp growth slowdown in the Chinese economy. A crisis in China could have severely negative effect for the global recovery.

Third, we might observe a "jobless recovery", particularly as robots and automated processes replace human labour.

This should be a positive development in the long run. But, in the short run, it might cause high unemployment, higher corporate profits and weaker demand.

Finally, geopolitical tensions between the west and Russia might raise uncertainty and risk aversion in global markets.

What are the short- to medium-term prospects for Mexico and also for the rest of Latin America?

WB Mexico: good and even great, if it can raise domestic capital formation to at least 25 per cent of gross domestic product. Chile, Peru and Columbia: good; Ecuador, Paraguay and Bolivia: reasonable; Brazil: mediocre; Argentina: poor; and Venezuela: disastrous.

GOM For the first time in several decades, the prospects for the Mexican economy are strongly positive. This year, the US recovery will spill over into Mexico through trade and remittances, and growth will also start to benefit from some of the structural reforms approved in 2013, particularly in finance and energy.

Given the current output gap (output that is well under potential), the pick-up in growth is unlikely to generate inflationary pressures. This will allow monetary policy to remain accommodative.

As demand accelerates, structural reforms will expand the economy's productive capacity.

Mexico is also less exposed to global risks than other emerging economies. Orthodox macroeconomic policies still in place serve to distinguish Mexico from most other emerging economies. Sound financial regulation and a free-floating exchange rate have kept maturity and currency mismatches at bay. China risk poses relatively little threat. The next presidential elections are a comfortable five years away, while current trends in polls for the midterm elections signal continued progress on structural reform.

The country still faces many challenges. But, if officials can implement the approved reforms, Mexico would be at the start of a virtuous circle of economic development with nearly unlimited potential.

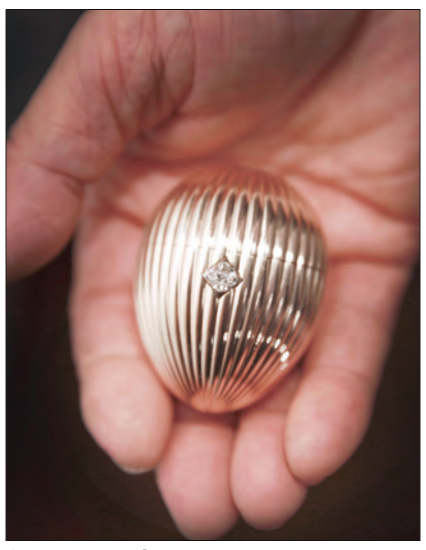
The rest of Latin America is generally more closely linked to China and has displayed less resolve on structural adjustment.

Even though there is space for expansionary fiscal or monetary policies in certain economies, the best days of growth and reform might be behind many countries.

There is, however, a sharp contrast between countries favouring market-oriented policy frameworks and those of a more interventionist bent. The outlook for the former is significantly better than for the latter.

Mayfair gem holds a trove of eccentric curios

Wartski Fabergé discovery has put spotlight on venerable antique dealer, writes *Helen Barrett*



Sold: Fabergé's imperial Easter egg

Jewellery buyers head to London's Bond Street for international superbrands such as Chanel of Paris or Tiffany of New York. But if they turn into Grafton Street, they find an incongruous alternative: Wartski of Llandudno.

The antique dealer, founded nearly 150 years ago by Morris Wartski, a Russian émigré and jeweller, was until the 1970s run from the Welsh seaside town. A London branch was added in 1911. Mr Wartski's descendants own the business today.

Modern Wartski does not advertise, nor does it pay attention to public relations. But it made headlines this year with its discovery and sale of the lost "third imperial Easter egg" – one of 50 created by Carl Fabergé in the late 19th and early 20th centuries for the Russian tsars Alexander III and Nicholas II.

The third was among eight thought to be lost after they were sold by the Bolsheviks in the 1920s and 1930s, until it turned up recently in the hands of a US antiques dealer. He had tried – and failed – to sell it for scrap, before realising his acquisition might be worth more. A Google search led to Wartski's experts in London.

In April, the imperial egg was exhibited at the shop for four days – the first time it had been seen in public for 112 years. To the surprise of staff, more than 2,000 people showed up.

"You can sit here for days and not much will happen, we are so slow and Edwardian," says Kieran McCarthy, a director of Wartski and an expert on Fabergé. "Then all of a sudden, we had queues stretching towards Bond Street. People from St Petersburg and people from Tunbridge Wells, pulling up in Bentleys and getting off the bus." By the time it was exhibited, the egg had a buyer in a deal brokered by Wartski for an undisclosed sum, reported in the Daily Telegraph to be £20m. Wartski did not confirm the sale price, but Mr McCarthy says the deal was worth "many millions".

What makes buyers part with vast sums for such rarities? The answer, Mr McCarthy says, lies in the urge wealthy people have to mark their triumphs.

"Life is very short, and the more powerful and rich you are, if your presence and ego are going to be recorded, you do it through works of art. You live forever by your ownership of these objects."

Collectors view and handle those objects in Wartski's shop. Grade II listed and with a bronze exterior, it stands out among Mayfair's glass-and-steel retail outlets. "It may [be] out of fashion, but it has credibility that transcends. And we like it," says Mr McCarthy.

"Often shop owners see [listed status] as a burden," says Catherine Croft, director of the Twentieth Century Society, an architectural conservation group. "But Wartski are genuinely interested . . . They [also] seem really interested in the stories behind the things they sell. I went round there to look at the architecture and ended up trying on tiaras.

"So many [Mayfair shops] are retro, would-be Regency or 'historic-inspired' façades," she adds. "But Wartski's shop is determinedly not-flash." That reticence is reflected in a window display that shuns vast diamonds in favour of curios such as a jewelled stickpin featuring a devil's face and a gold brooch in the shape of a kitten's head.

> He had tried – and failed – to sell it for scrap . . . A Google search led him to Wartski in London

Inside, 300 items of jewellery, goldsmiths' work and glassware are displayed. As well as imperial Russian treasures, the business specialises in Saxon jewellery.

In the 20th century, Wartski was a cult destination for international collectors. The British royal family, Jacqueline Kennedy and Hollywood actors were among its customers.

Today, it sells to collectors, dealers and museums, including the British Museum in London and the Metropolitan Museum in New York. The shop, says Mr McCarthy, is a place for customers to learn about the items – few make spontaneous purchases. "Perhaps one every year; it's very rare."

Its clientele is international – "industrialists, royals, film stars, musicians" – and includes wealthy Russians. "We get historically minded [Russians] who are focused on [their country's] past," Mr McCarthy says.

Tensions in Ukraine are causing worry among international auction houses about this summer's sales, amid concern that the fallout will deter Russian collectors. "So far, our communications with Russia haven't [changed], although maybe we won't notice until the summer, because that's when Russians descend," says Mr McCarthy.

Will Wartski ditch its association with Llandudno, where the shop doors closed more than 40 years ago? Morris Wartski's nomenclature made sense when the then-wealthy resort was a holiday destination known as 'the Naples of the north'. But is the faded town relevant today?

The Wartski business believes it is. "We are very proud of being from Llandudno," says Mr McCarthy. "It's an eccentricity . . . that allows the business to thrive."

Foreign forays go hand in hand with focus on home market

Interview
William Lauder
Exec chairman, Estée Lauder

Global travellers help counterbalance market volatility, says *Elizabeth Paton*

Nigeria has 16,000 millionaires – and counting. The hefty spending power of this ever growing demographic has caught the attention of the luxury goods industry, but to date, most brands have remained wary of entering the country.

Last year, however, one group took the plunge. US beauty giant Estée Lauder opened a boutique in Lagos for MAC, its 29-year-old cosmetics line, becoming the first western prestige beauty brand to open there.

That gamble has clearly paid off. MAC has soared past rivals to become the country's number one high-end cosmetics brand, an accolade it also holds in other emerging markets, including India and Brazil.

So, what did the team at Estée Lauder see that others did not?

William Lauder, executive chairman, says: "It's been embedded in our DNA to enter new markets right from the start, from 1946 when my grandmother came to the US from postwar Europe and founded our beauty business."

The affable 54-year-old served as Estée Lauder's chief executive for five years until Fabrizio Freda took over in 2009.

He believes that this pioneering spirit is fuelling the company's rapid development across China, echoing his father Leonard's rollout across the US in the 1960s.

Now, Estée Lauder has 30 brands in 150 countries and about 500m consumers. Net global sales hit the $10bn dollar mark last year.

The trick to achieving that level of success, says Mr Lauder, is recognising the "core client".

"She is often a middle-class consumer with newly higher disposable income, and we strive to offer her products and awareness that enhance her confidence in her own beauty.

"The beauty of beauty – excuse the pun – is that it is the approachable entry point and first step into luxury spending for millions of women."

He adds that adapting to new environments and tastes is essential, as when for example the company created lighter foundations for Asia to combat hot and humid weather.

"We are constantly mining new markets for opportunities and have been early to market on numerous occasions, especially in and beyond the Brics," says Mr Lauder.

Results for the first quarter of this year showed that combined sales in the company's 12 emerging markets outside China exceeded that of China alone – although the latter remains the company's "largest emerging priority".

Brazil is also showing particular promise. Estée Lauder introduced MAC to the market in 2002, taking over distribution in 2011 and has since been rapidly opening stores to keep up with demand. Yet again, MAC is the company's jewel in the regional crown as Brazil's best-selling prestige cosmetics brand.

Mr Lauder says he is keen not to overlook the group's US birthplace

Its recent performance there has counterbalanced a softening of sales from double-digit to single-digit growth in some of China, South Korea and Thailand.

Mr Lauder believes the key to balancing volatile market dynamics is focusing on today's most powerful beauty consumer: the global traveller.

He says 42m Chinese consumers who buy beauty products at home also buy products abroad and "50 per cent of visitors to our MAC store in Times Square hail from Brazil".

"The shops with the best sales growth in Sydney have Mandarin-speaking assistants. The facts and figures speak for themselves and we need to continue adapting accordingly," he says.

After studying the favourite destinations of Chinese citizens, the company created the concept of "travel corridors" for product-launch decisions after noting they were most likely to pass through – and shop in – airports in Hong Kong, the Republic of Korea, Paris and New York. Inventory was then shaped according to their product tastes.

About 12 per cent of 2013 sales derived from the travel retail channel.

Yet despite huge growth potential in newer markets, Mr Lauder believes some of Estée Lauder's biggest growth could occur closer to home. "Our evolution abroad remains incredibly exciting, but it's also important not to overlook North America and our loyal consumers here, given that this is where our story began," he says.

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