Luxury industry in sparkling form, beats multiple records

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The luxury sector was in excellent health in 2021, and leading groups are keen to maintain their margins in 2022, despite rising costs and inflationary pressures, which are expected to lead to price increases.

Global luxury giants have reported financial results for 2021 that exceeded, in some cases significantly, those recorded before the pandemic, thanks in particular to outstanding performances in Asia and the USA.

LVMH, the world's top luxury group, broke all records with a revenue of €64 billion, €10 billion more than in 2019, and by generating a net income of €12 billion, well up from €7.8 billion in 2019.

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Kering (owner of Gucci, Yves Saint Laurent and Bottega Veneta) surpassed its pre-pandemic results by generating a revenue of €17.6 billion in 2021, with a net income of €3.17 billion. Hermès generated close to €9 billion in sales, with a net income that was nearly €1 billion higher than before the pandemic, at €2.44 billion.

Swiss group Richemont, owner of Cartier, whose fiscal year is staggered compared to others, published its Q3 results in mid-January, with sales of €5.6 billion, up by 38% compared to the same quarter of 2019.

Such rude financial health did not surprise analysts. In its annual study published in November, Bain and Company predicted that “the market for personal luxury goods could be worth between €360 billion and €380 billion by 2025, posting regular 6% to 8% growth each year.”

Restrictions to business caused by the pandemic and inflationary risks will not be dampening the enthusiasm of luxury groups, which are approaching 2022 in confident mood.

“We have an advantage over quite a few other companies and groups, in that we are able to have a certain flexibility in our pricing, so that we have the means to react to inflationary pressures,” said LVMH’s CEO Bernard Arnault, speaking at the group’s results presentation.

“Labels are working on their appeal”

Price flexibility “is one of the luxury industry’s main features,” said Swiss bank UBS in a communiqué in early February, indicating that “in the last 20 years, leading labels like Louis Vuitton (LVMH) have raised their prices on average 2.5 times more than the inflation rate.”

“Every new season, we create a new collection, and we review our entire pricing matrix,” said François-Henri Pinault, CEO of Kering, speaking at the group’s results presentation. And while Pinault has for some time been lamenting “massive rises in transport costs,” he also attributed retail price increases to the fact that “labels are working on their appeal,” by means of “product sophistication” and by “going upmarket” with “products whose prices are increasing.”

“In some cases, demand is exceeding supply, which means that consumers will both keep on buying and agree to pay higher prices,” indicated HSBC in a January note. Rolex, “which has largely refrained from raising its prices over the last two years, started 2022 with average price increases of more than 3% and, for some models, of up to 12%,” said HSBC.

Hermès, faced with “very high” demand for its products, usually raises its prices once a year, according to its boss Axel Dumas. Asked about pricing at the presentation of the group’s annual results, Dumas said that “all our products have the same margins (...) we do not play games with our prices.” He added that “[prices] are related to [the products’] manufacturing costs and not to their appeal,” and predicted an increase of about 3.5%.

The fact that handbags are hand-crafted means that they “may be less subject to energy and raw material costs than other products,” he added.

Price increases should be handled with care however: Arnaud Cadart, portfolio manager at Flornoy, said that “[price rises] might hinder consumption,” adding that “there are limits. When the price of a €1,000 handbag climbs to €1,200 overnight, it can slow down demand.”

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