

The Leading Luxury Brands 2008

Creating and managing
brand value™

Interbrand



The top 15 luxury
leaders in 2008

Lessons from the
leading luxury brands

What is the future for
luxury brands?

The Leading Luxury Brands 2008

Introduction



Jez Frampton is Interbrand's Group Chief Executive. Jez leads the Interbrand network, shaping strategy and growth for its 36 worldwide offices and enhancing its brand value generating services to a prestigious roster of clients.

In marketing folklore, luxury brands were said to be immune to economic downturns. Their audience of über-wealthy loyalists meant they remained protected during tough economic times. Furthermore, as the global economy prospered, luxury brands attracted new segments of customers who were suddenly able to afford a wealthier lifestyle. It should be no surprise then, that we saw so many luxury brands – Tiffany & Co. as an example – rush to make themselves more accessible to a broader audience over the last ten years. And it is luxury's reliance on this extended market that now creates risk and makes them vulnerable to the downturn.

As we move forward into an uncertain global future, it is clear that no brand is insulated from this the current financial crisis. The turmoil of managing a luxury brand in such times is evident. Bulgari's agonized response to cut costs in areas where it hopes customers won't notice – leaving the backside of watchbands unpolished and introducing lower-cost boxes and bottles for

its perfume line – proves that cutting back appears unavoidable even for a leading luxury brand. But at what long-term cost? While only twenty years ago, such measures may have slipped by unnoticed, the information age makes such moves too newsworthy, introducing new risks to luxury brands' long-term value.

Despite the difficulties of these times, the Leading Luxury Brands of 2008 must continue to stand strong. They need to remember what has made them endure over the years and they must continue to demonstrate the same degrees of determination, conviction, and creativity.

The brands that do are likely to weather the storm better than most – and luxury brands everywhere would be wise to carefully consider the long-term implications of short-term compromise.

A handwritten signature in black ink, appearing to be 'JF', written in a cursive style.

Ranking the Leading Luxury Brands

Criteria

Defining luxury

Because the concept of “luxury” is commonly used with different and often contradicting meanings, Interbrand first sought to provide an ultimate, in-depth definition of a luxury brand.

In order to meet our definition of a luxury brand, a brand must:

1. Sit within a tier of a consumer-facing category that seemingly demonstrates price insensitivity.
2. Show that being expensive is of neutral or even positive impact to their image.
3. Demonstrate that perceived price has a low role among drivers of purchase.

Selecting the Leading Luxury Brands

Our criteria for selecting the 15 Leading Luxury Brands identified three core characteristics:

Authenticity and conviction

A leading luxury brand must possess an authenticity and sustained conviction to qualities such as excellence, precision, craftsmanship, taste, and innovation that makes choice of brand exceptionally important for purchase.

Iconic status

Leading luxury brands must be desired at a level that effectively precludes substitutes during the purchase decision.

Global

Finally, to meet the criteria of a leading luxury brand, it must be global with at least 30 percent of sales volume being derived from markets beyond its home country and a presence in all the core markets of the Americas, Europe and Asia.

Interbrand's method for valuing brands

Methodology

The Interbrand method for valuing brands is a proven, straightforward, and profound formula that examines brands through the lens of financial strength, importance in driving consumer selection, and the likelihood of ongoing branded revenue. Our method evaluates brands much like analysts would value any other asset: on the basis of how much they're likely to earn in the future. There are three core components to our method:

Financial Analysis

Our approach to valuation starts by forecasting the current and future revenue specifically attributable to the branded products. We subtract operating costs from revenue to calculate branded operating profit. We then apply a charge to the branded profit for capital employed. This gives us economic earnings.

All financial analysis is based on publicly available company information. Interbrand culls from a range of analysts' reports to build a consensus estimate for financial reporting.

Role of Brand Analysis

A measure of how the brand influences customer demand at the point of purchase is applied to the economic earnings to arrive at Branded Earnings.

For this study, industry benchmark analysis for the role the brand plays in driving customer demand is derived from Interbrand's database of more than 5,000 prior valuations conducted over the course of 20 years. In-house market research is used to establish individual brand scores against our industry benchmarks.

Brand Strength Score

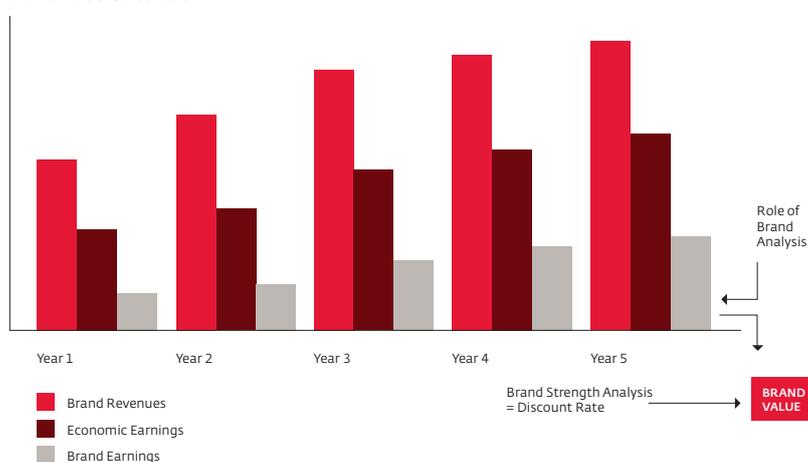
This is a benchmark of the brand's ability to secure ongoing customer demand (loyalty, repurchase and retention) and thus sustain future earnings, translating branded earning into net present value. This assessment is a structured way of determining the specific risk to the strength of the brand. We compare the brand against common factors of brand strength, such as: market position, customer franchise, image, and support.

Financial Analysis
Forecasted current and future revenue specifically attributable to the brand

Role of Brand Analysis
A measure of how the brand influences customer demand at the point of purchase

Brand Strength
A benchmark of the brand's ability to secure ongoing customer demand (loyalty, repurchase, retention).

Brand Value Calculation



The Leading Luxury Brands 2008

Rank	Brand	2008 Brand Value in USD (\$m)	2008 Brand Value in Euro (€m)	Country of Origin
1	Louis Vuitton	21,602	16,718	France
2	Gucci	8,254	6,388	Italy
3	Chanel	6,355	4,918	France
4	Rolex	4,956	3,836	Switzerland
5	Hermès	4,575	3,541	France
6	Cartier	4,236	3,278	France
7	Tiffany & Co	4,208	3,257	United States
8	Prada	3,585	2,775	Italy
9	Ferrari	3,527	2,730	Italy
10	Bulgari	3,330	2,577	Italy
11	Burberry	3,285	2,542	United Kingdom
12	Dior	2,038	1,578	France
13	Patek Philippe	1,105	855	Switzerland
14	Zegna	818	633	Italy
15	Ferragamo	722	559	Italy

Source: Interbrand, 2008 Leading Luxury Brands

Lessons from the Leading Luxury Brands 2008

by Interbrand's leaders in luxury markets

Jean-Baptiste Danet, Josh Feldmeth, Manfredi Ricca, Nik Stucky, and Graham Hales share their perspective on the lessons we can learn from this year's Leading Luxury Brands.

The brand is the master of the business

What makes a leading luxury brand different from other brands? One reason is this: Whereas business may seem to dominate the brand in other sectors, the brand is the engine of a leading luxury brand's entire business model. The brand – not the business – is inarguably the reason why consumers choose these goods and services. Likewise, it is the brand that influences behavior more than factors like distribution, functionality, and even price. Ultimately, the brand is responsible for most of the value created by the business.

Second, while businesses typically seek to maximize their profits within the shortest time frame to satisfy investors, leading luxury brands play a long-term game that considers the brand's relationship across generations. Rolex, for instance, is a family heirloom that increases its emotional and financial value as it is passed down from generation to generation. Its recent investments follow this strategy, with enhanced after-sale services to extend the life of the product. Whereas this may seem counterintuitive to new sales, Rolex understands that the greater value comes from keeping their watches working across generations.

Leading luxury brands like Rolex are managed with a sense of determined conservatism, minimizing risk and above all, avoiding damage to the brand's value. They accept that this may sacrifice short-term profitability, and perhaps even limit the absolute size of the brand. But by making this decision, they generate value over the long-term. As such, the heritage created through longevity is often an accepted and intentionally desired delivery mechanism for brand value. The business is custodian of the brand, preserving it for generations rather than exploiting it for short-term gain.

And yet, when profits are in decline, it becomes increasingly difficult for luxury brands to continue to justify their unwavering commitment to

continuous high costs and quality. It is important that luxury brands remember that they function differently than other brands – especially when investors, marketers, and managers, showing the first signs of angst and panic, urge these luxury brands to take dramatic and quick action. While cost cuts may prove helpful for other businesses in tough times, the same measures may carry a significant risk to a luxury brand's value.

Extensions are always a matter of "why," never "why not"

A leading luxury brand understands that it is an icon. It stands beyond its competitors and transcends categories by creating a clear space around itself that makes substitution an unacceptable compromise. For instance, if a Hermès Birkin Bag is not available, consumers will often feel it is better to delay the purchase or make a completely alternative purchase, than compromise on brand. While this shows the strength of the brand, it may prove to be an uncomfortable strength in 2009 if purchases prove to be easy to postpone.

Managing the architecture of a luxury brand requires discipline and precision. There is always the temptation to extend the brand, providing access to broader market segments to maximize revenues. But when luxury brands move in this direction, they run the risk of compromising their long-term value. Take the case of Mont Blanc. In an attempt to be a "lifestyle" brand, Mont Blanc entered into watches and jewelry – categories where it had less expertise, heritage, or history of craftsmanship. The diversification was a stretch. Although Mont Blanc makes a good pen, one needs to consider more carefully if its craftsmanship means it could make a watch on par with the established leaders.

Similarly, when Dolce & Gabbana, Versace, and Armani attempted to reach a broad market segment by creating less expensive sub-brands,

Ultimately, any move to expand needs careful management.

they sacrificed their high-end brands' long-term value. With every other person on the street clad in D&G, Versace Jeans Couture, and Armani Exchange t-shirts, the brands risk no longer appealing to their affluent audience, and may lose appeal among the broader segment as well. No longer dictating the trends, they have to cater to the consumers' whims. If they lose the interest of the affluent consumer, these brands are on a continuous spiral, forced to target an increasingly down-market audience.

However, some extensions into new market segments can enhance long-term brand value. Chanel and Louis Vuitton's move into watches are two examples that work because their products display the same quality and exclusivity as their brands. Chanel's creation of the J12 watch brand has been successful because it is entirely separate from the Chanel line, though just as distinct.

Likewise, when Karl Lagerfeld, designer for The House of Chanel, paired with H&M on a clothing line targeting a fast market audience, the product was so distinct and different from the premium Chanel brand that the bold move worked. Not only did the decision display the brand's characteristic confidence and certainty, but the designs also became iconic in their own right and created demand among a younger, untapped market.

Another example is when luxury brands expand geographically. In contrast to catering to a broader audience, this expansion targets a new cultural elite. Louis Vuitton, in particular, has seen success in its expansion to Japan, where 44 percent of Japanese women own a Louis Vuitton bag. As the first luxury brand to consider Japan an important market, Louis Vuitton has ensured its success in the country and set a trend among other luxury brands. Still, such expansion comes with its own risks. The popularity of the Vuitton bag in Japan has sacrificed

some of the brand's desirability. Its success risks becoming its own undoing.

Ultimately, any move to expand needs careful management. Spread the brand too overtly, and the brand risks devaluing itself. Meanwhile, spread the brand too conservatively, and it goes unnoticed, delivering no incremental value.

Total supply chain control

Leading luxury brands display uncompromising control throughout the supply chain. They recognize the importance of every step in the purchase journey as being a statement about the brand. More often than not, this means total dictatorship and complete single supplier ownership in order to ensure that stringent quality standards are never compromised. In fact, this relationship is so valuable to suppliers, that it ensures that both parties have vested interests in guaranteeing ultimate quality of supply.

Indeed, many luxury brands have taken the step of moving into retail in order to control the environments in which they sell. This guarantees that the retail brand experience is a seamless extension of the brand's fulfillment. Store structure and environments can be controlled to ensure that price segments are kept discretely apart. Through the "selling ceremony," consumers exclude each other – with one buying status on the top floor of Gucci, while another consumer in the same store is purchasing the least expensive product on the bottom floor. It's total control – from the source of raw materials to the final consumer moment.

This total supply chain control translates to an obsession with details. Products are never "made." Rather, they are created.

Sometimes the riskiest customers are a brand's most zealous and noticed endorsers.

Knowing when to say "no"

While they thrive on feeding and satisfying their customers' desires, leading luxury brand owners recognize that they must stay in firm control of the brand. This often leads to a paradoxical relationship with customers.

While modern mass media brand building techniques are designed to cut through the noise, leading luxury brands tend to speak in tones that are self-assured and sophisticated. Modern marketing invites viral contributions that challenge the control luxury brands need to exert. Even customers can present risks to the brand if they misuse the brand or confer the wrong associations upon it. This can lead to the ultimate paradox: that sometimes the riskiest customers are a brand's most zealous and noticed endorsers.

In this sense, excluding market segments rather than including them can actually drive luxury brand value. While luxury products may feed desire, the mantra of luxury brand management is one of restraint – resisting the temptation to change or even possibly grow. Leading luxury brands are steeped in disciplined conviction, bordering on a form of brand chastity. For example, leading luxury brands like Rolex, Ferragamo, and Prada don't advertise on television (with the exception of licenses), often feature fairly austere print campaigns, and seldom sell products directly on their websites.

To preserve an aura of conviction and exclusivity, leading luxury brands even go so far as to edit and advise their purchasers. They conduct business on their terms. Even if there is a deviation in customer demand or if customers ask for alternatives, the brand must remain resolute and in control. This can be at odds with shareholders who may come from a business background and don't understand the subtleties involved

with managing a luxury brand or appreciate luxury brand's legendary heritage.

Knowing when to say "no" – remaining the seducer not the seduced – requires a confidence and discipline that can be interpreted as bordering on arrogance. So collection lines are kept short to ensure they are scarce. Lead times are antagonizingly long to ensure craftsmanship isn't sacrificed.

Additionally, winning customers isn't the issue, as leading luxury brands often want to sell less to maintain their exclusivity. As one leading luxury car supplier recently commented, their issue was how to sell fewer cars, not more!

Although a few prosperous years may result in brand growth, broad appeal can potentially undermine a brand. The Mont Blanc ballpoint, for example, may have opened the brand up to a wider audience, and generated impressive sales, but has the cachet of the brand maintained its levels of desire in the face of such accessibility?

Similarly, while Gucci's ubiquity benefited the house in the 1960s and 1970s, overexposure, brand monotony, and lack of innovation left the house struggling until Tom Ford's arrival in the 1990s. Ford revamped the brand, restoring its glamorous and exclusive image. Even today, after he has departed, the brand still thrives, proving that the brand outlives the designer.

Cultural, not just commercial

Leading luxury brands are often born from a philosophy that evolves to become a business. Their origins are not in a clever business plan that re-imagines a historical brand story. While many of these brands have sustained successful businesses for centuries, they never appear to

Luxury brands may be an endangered species.

have been motivated by profit alone. More often than not, the brand originally embarked on a mission to bring unadulterated excellence to the market. The creators of these brands were artisans, not MBAs.

Considering the centuries of change that they've witnessed, it is not surprising that today's leading luxury brands feel as though they have a cultural mandate. In a modern and fractured world, leading luxury brands stand out not only because of their product quality, but also because of the standards they have retained. They are paragons of style, devotees to detail, and keepers of the craftsman tradition. Their magic is not in their history. Rather, it lies in their ability to drive demand by continuously innovating through these legacy qualities – indulging customers, delighting them, inspiring them, and keeping them in a state of sustained desire.

Is new luxury possible?

Luxury brands may be an endangered species. While the brands' values show that many are in a state of good health, it is questionable that today's modern business environment could ever again create a luxury brand.

Luxury brands are the equivalent of aristocracy. As we have seen, they achieve their status by being practically untouchable. They take time to create. Louis Vuitton, Burberry, Bulgari, and Cartier did not just appear out of thin air. They began more than 150 years ago and took years to build, only achieving iconic status over time.

Considering the time and cost of capital that this would require today, modern investors wouldn't dare indulge in the creation

of a new luxury brand. Luxury brands are expensive. They seek limited, elusive customers who are difficult to communicate with and even more difficult to find. And their creation requires the mindset of a higher purpose, verging on the genius – one that transcends the commercial realities of the quarterly earnings call. It is difficult to imagine that the investor psyche of 2008, especially considering the current environment, would tolerate the start-up costs of a luxury brand.

What is the future for luxury brands?

Leading luxury brands come with a history – that is the point. They have been through wars, plagues, deaths, famines and every range of economic climate from despair to jubilation. So what will happen to them in the challenging market of 2009?

Well, to a degree, the consistency with which they have managed themselves to date would indicate that "business as usual" will be their attitude. Rather than attempt to broaden their customer segments, some brands may decide to focus on their loyal, elite audience – perhaps becoming even less compromising, producing goods that are even more over-the-top, exclusive, and expensive. Some leading luxury brands may even go out of their way to offer wealthy customers an even more superior and uncompromising experience, becoming more innovative and creative about their techniques than ever before. Or maybe they'll be tempted to compromise their quality and vision, adjusting to stay in business and to satisfy shareholders. But what level of compromise is the step too far: the step that allows the legend to be questioned in customer's eyes?

How comfortably do the most luxurious of brands sit within the social contradictions of our times?

Whereas a status quo strategy may have been successful during the last economic downturns, the social implications of the economic upheaval of 2008 and beyond have consequences for even the most luxurious of brands. While the über-wealthy may have the means to comfortably weather the current storm, how comfortable will they feel conspicuously flaunting their wealth while the rest of society is forced into a “make do and mend” mentality?

Indeed, as the excesses of the nineties disappear from view, a more responsible and accountable consumer is emerging. They are now responding to the obligations of privilege to sponsor goodness through their philanthropy. So, how comfortably do the most luxurious of brands sit within the social contradictions of such times?

The answer hasn't been very reassuring so far. Already, luxury brands are beginning to feel the effects of this new, socially conscious consumer. With the luxury brand sector now entrenched in its first recession in nearly 20 years, even leading luxury brands have been forced to make cut backs. And while they weathered a difficult market 20 years ago, the management that helped see these luxury brands through the last downturn is no longer in place, and these new managers may respond to the pressures of the market with more flexibility than their predecessors.

Take Bulgari, which despite remaining true to its message over the last ten years, has plunged 44 percent in the most recent quarter. Its growth from five stores in 1985 to 259 to accommodate an increased demand among the rapidly growing

global elite has left it with new costs that it cannot afford. As a result, it has had no choice but to cut costs in areas where it feels customers won't notice, in hopes that the cost-efficient measures won't compromise its exclusivity. Its money-saving measures include leaving the backside of watchbands unpolished, introducing lower-cost boxes and bottles for Bulgari's perfume line, negotiating better deals with suppliers on diamonds, sapphires, and other precious stones, and eliminating its over-time expense. And Bulgari is not alone – reports of Burberry and Cartier's decline in sales are sure to provoke similar measures.

But despite the dispiriting news – and new unavoidable cost cuts – leading luxury brands need to stand strong. They need to remember what has made them last all these years and they must continue to demonstrate the same constant determination, conviction, and creativity to ride out this storm. They – and all luxury brands – would be wise to heed the words of Bruno Pavlovsky, Head of Chanel Fashion division: “...It is in these difficult periods, that we need to show our difference and keep pushing on creatively.”

Authors



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Nik Stucky

is the Global Practice Leader of Interbrand's Brand Valuation offering. Nik's expertise is essential for integrating a quantitative understanding of brands as business assets into the overall process of creating and managing brand value. In addition to being entrusted with numerous client valuation engagements, Nik leads the effort behind Interbrand's annual study of the Best Global Brands.



Josh Feldmeth

is Interbrand's European Practice Leader for Analytics. He has worked with some of the most renowned retail and manufacturing brands in the United States and around the world. Josh is now helping to advance Interbrand's analytics capability in Europe, offering clients the insights to make the right value-creating brand investments.



Graham Hales

is Interbrand's Group Chief Communications Officer. His work on behalf of the Interbrand brand follows many successful years of consulting for some of the leading brands around the world. Graham's experience has taken him across a diverse range of business challenges, geographies and industries.



Manfredi Ricca

is Managing Director of Interbrand in Milan. In a decade with Interbrand, he has gained significant expertise in the unique issues of branding for the luxury sector. Manfredi is a frequent commentator on brands, lecturing at universities and appearing often in Italy's mainstream and business media.

About Interbrand

Interbrand began in 1974 when the world still thought of brands as just another word for logo. We have changed the dialogue, defined the meaning of brand management and continue to lead the debate on understanding brands as valuable business assets.

We now have nearly 40 offices and are the world's largest brand consultancy. Our practice brings together a diverse range of insightful right- and left-brain thinkers making our business both rigorously analytical and highly creative. Our work creates and manages brand value for clients by making the brand central to the business's strategic goals.

We're not interested in simply being the world's biggest brand consultancy. We want to be the most valued.

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