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The Value of Luxury Brand Names in the Fashion Industry

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Abstract:

Brand names in the Fashion industry are often times perceived as overpriced and unreasonable. Nevertheless, the success of well-known luxury brands in the industry has been growing domestically and internationally at a breakneck pace. Forbes publishes an annual list on the top 100 most valuable brands annually using a formula of their own making. 8 out of these 100 brands are luxury fashion brands. Why are luxury fashion brands so coveted? It can’t only be because of humans’ desires to own superior goods or even for the sake of their egos. In this paper I will delve into the hidden aspects of brand marketing, product quality, and brand imaging that factor into a brand’s success.

Table of Contents

Introduction

Brands form an integral part of the image we wish to portray of ourselves to the outside world. “In 13 years, the price of a Hermès Kelly bag has jumped from $4.800 to $7.600. And in ten years, Carrie Bradshaw’s famous Manolo Blahniks have risen in price from $485 to $755. The cost of luxury goods has risen over 60 percent in a decade, according to the U.S Bureau of Labor Statistics. “Some state that the rising costs of these goods are due to the use of rare animal skins, while most say that rising prices have a positive impact on the appeal of the goods. (Daily Mail Reporter)

Hedonic pricing is the belief that many goods are high priced not only because of the quality of the goods but also due to the perceived exclusivity of the product. Scarcity provides additional value to the brand, but it is difficult to accurately quantify characteristics such as scarcity, perceived quality, and customer satisfaction.

Why is it that the increase in price doesn’t lead to lower demand, as the commonly known supply and demand curve has shown us? In fact, it seems that the higher the price, the more sales will increase. This theory is based off of the Veblen goods concept, a phenomenon that sees price increases result in more sales rather than fewer sales. Are high prices what truly drive sales? (Dee, 2014)

In this thesis, I will be talking about the valuation of luxury brand names in the fashion industry. Both the quantitative and the qualitative elements that compose brand equity. The first chapter will be an introduction the meaning of a brand and a company’s brand equity, which is the value of the company's brand itself. Chapter 2 will be an introduction the fashion industry, including a history of how luxury fashion was created and the current market for luxury goods.

The general supply chain of the fashion industry will also be included for better understanding of where the value is added during the production process and beyond. Coach and Hermès are often times compared to each other due to their close luxury rankings in the Forbes Top 100 Brand compilation list. They have very different marketing and selling strategies that will be compared in Chapter 4.

Chapter 5 will be focused on the Forbes calculation for the rankings of the annual top 100 brands listing and the logical fallacies of the usage of their model. This thesis will be wrapped up in Chapter 6 with a conclusion regarding branding valuation and increasing brand value.

Chapter 1: What is a Brand?

1.1 Introduction to Brands

Brand- “The perception customers have about that product or service.” -Forbes

A brand is an image associated with a product that a particular company produces. It could also be seen as the image associated with the entire company. There is also the existence of a brand personality, “A set of human characteristics that are attributed to a brand name. A brand personality is something to which the consumer can relate, and an effective brand will increase its brand equity by having a consistent set of traits.” (Investopedia)

There are certain brands that when you think about, have certain characteristics that you have assigned to it. This is mostly achieved through heavy amounts of marketing and exposure to the brand. (Baker, 1986)

The Zajonc’s Mere Exposure study has shown that just by repeated imprinting of a brand image, positive results will show in the sales. A brand that someone will instantly recognize will have the preferable product. This is definitely only to a certain extent, because there are also exists negative brand associations. For example American Apparel has had its fair share of bad publicity and the company has suffered major losses from the negative brand image in result. The company is known for its degrading advertisements of young women and has been losing market cap ever since. (Daum, 2014)

1.2 Brand Equity

Brand equity is how much the brand itself is worth quantitatively. The value of the brand equity is not placed in the financial statements because there is no equation to evaluate it; it is an estimation based off of both quantitative and qualitative elements.

According to David A. Aaker's Managing Brand Equity, the different categories that create brand equity are the following: Brand Loyalty, Name Awareness, Perceived Quality, Brand Associations, and Other Proprietary Brand Assets. (David A. Aaker, Managing Brand Equity)

Brand loyalty is more psychological. People tend to purchase products that they have developed a sense of familiarity towards. This especially applies to industries such as the automobile industry, the fashion industry and the technological industry. "Emotions play a really big role in brand loyalty. We associate brands with an emotion at a subconscious level."(Shaw, 2014) Brands, namely Proctor and Gamble, attempt to appeal to the audience by appealing to their emotions. Then when an emotional connection is created, brand loyalty occurs.

Name awareness is created through extensive marketing. An example would be Uggs branded sheepskin boots, whereby they spent a large amount of capital advertising their new product through various media, and thus imprinting the product's name in everyone's' minds. Despite the notoriety of Uggs products, the brand is widely recognized even among those who are uninformed about fashion trends. Widespread name awareness increases the chances that someone will purchase the product when unsure of what to buy. In the article "Why Ugg Boots Will Never Go Away" the author discusses how Uggs became a commonly recognized brand and has become a "fashion staple" in the closets of young women in our society. In fact the article states that over 1 in 4 American women own at least one pair of these boots. (Bhasin, 2014)

Perceived Quality is the quality of products consumers associate with the brand. Note that consumers' perception of high quality may not necessarily be true and could be the result of skillful marketing. Tommy Hilfiger is well known for their thick cotton based polo's, which are known for their durability and quality. They created an image of a high quality good through use of expensive materials and extensive marketing. (Tommy Hilfiger)

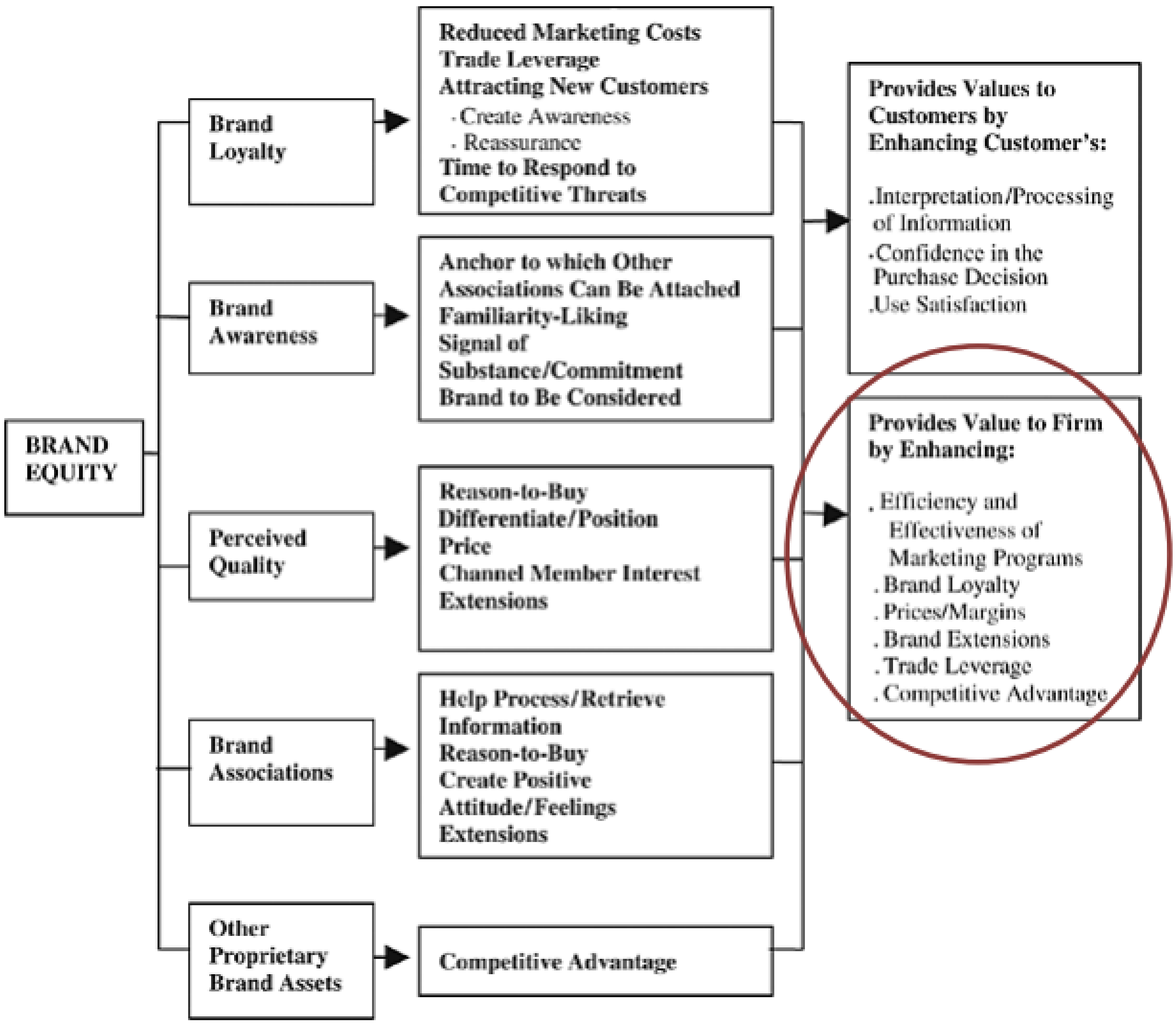
Brand Associations are particular images consumers associate your brand with. Hermès is well known for their high priced silk scarves and their even more famous Birkin bags, Apple for their excellent customer service, and American Apparel for their demeaning pictures of women in their advertisements. (Dockterman, 2014) Brand associations can be negative and positive and either improve or destroy your brand image and thereby your brand value. Brand representatives are also important for establishing a positive brand image. After Tiger Woods was ousted for his infidelity, his perfect image was stained and three of his top brands dropped him as their brand representative. Tagheur, Accenture, and Gatorade could not afford to have him as their brand ambassador; it would hurt their brand image. On the other hand Burberry chose Emma Watson as their brand ambassador because of her rising fame and establishment as a fashion icon. "Having known and admired the lovely Emma Watson for some time, she was the obvious choice for this campaign. Emma has a classic beauty, a great character and a modern edge." - Burberry's creative director, the Yorkshireman Christopher Bailey (Bergin, 2009) Companies seek celebrities that represent their brand in a positive manner in order to increase the value of their brand image.

Lastly is the Proprietary Assets of the Firm. These could be patents, trademarks, consumer relationships, or even company relationships. (David A. Aaker, Managing Brand

Equity). These add value and create a point of differentiation because by definition, these are exclusive assets of the firm and not easily replicable. For example, if a particular leather goods company had a patented method of treating their leather that is superior to the traditional method commonly used by other competitors; this would add value to their brand by making their product stand out in a positive manner.

From these five broad categories, it can be seen that the valuation of the brand can be relatively subjective. It is possible to provide a general estimation of a brand's value, but because there are so many different qualitative factors, it is impossible to create an equation that accurately values the brand.

Figure 1: 5 Main Factors of Brand Equity from Aaker's (1995) Brand equity model



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1.3 Accounting for Brands in the US

According to U.S GAAP, “Under paragraph 63 of IAS 38, some internally generated intangible assets, such as brands, mastheads, publishing titles, and customer lists, are not recognized as intangible assets unless they are purchased externally or acquired in a business combination.” Essentially any internally generated brand value is not allowed to be put on the asset section of the financial statements. They can only include externally generated brand value and that is to be put under goodwill.

Chapter 2: Introduction to the Fashion Industry and Luxury Goods

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2.1 History of the Fashion Industry

The Merriam Webster definition of the word fashion is "A popular way of dressing during a particular time or among a particular group of people." (Miriam Webster). Fashion can also be seen as a form of timeless art where designers are the artists. It can be documented back to the days of European monarchy where nobles of the court desperately attempted to replicate the intricate designs owned by those in the royal family. Marie Antoinette was well known for her sky high powdered wigs as well as her extravagant petticoat gowns. Louis XVI's regime was even rumored to have been cut short due to the extravagant spending on these luxuries. *(Queen of Fashion: What Marie Antoinette Wore to the Revolution)*

Humans have always appreciated fashion but many times in different times and manners until the rise of the haute couture fashion age. Haute couture is runway fashion, only a few similar pieces are produced to create a "couture line". They are then displayed at runway shows and bid on for a high price. Later, if successful, the fashion company will use the designs to create a mass produced line of products. Haute couture was said to have been started by a man named Charles Frederick Worth and his House of Worth during the early 19th century. (Krick, 2004)

The French at the time were under the rule of Napoleon the III who was married to the well-known Empress Eugénie. The Empress helped Worth revolutionize the fashion of the French court at the time, which to no one's surprise also influenced the commoners and foreigners heavily. Worth had entrenched in peoples' minds the idea of high quality goods (laces, gowns, etc) that looked different than the rest and set the wearers on a higher level of the bourgeois. This further spurred society into a frenzy for these so called “luxury brand goods”.

2.2 Supply Chain of the Fashion Industry

To get a better understanding of where the value is added during the process of creating the fashion products, we must also understand the supply chain of the fashion industry. The supply chain of the fashion industry is similar to that of many other household commodities. The supply chain entails the work put into the creation of the product, even after the products are distributed.

The first part of the supply chain is the inspiration for the designs as well as the research and development. The correct cuts of fabric as well as different blends of materials need to be found. There are often multiple test rounds with different designs and colors before a test product is made. The next step depends on whether or not it is haute couture or mass produced fashion. If it is haute couture, the line will be shown on a runway to determine the preferences of the general fashion leaning population. Then, if approved, the line will be changed slightly in various different manners then produced in limited quantities. If it is mass produced fashion, after approval, the factories will manufacture the lines in mass quantities. In most cases the production will be outsourced to countries where the labor and materials are cheaper. It is either outsourced to a different manufacturing company or one of their own manufacturing plants in a different country,

Then the third step is the same, the companies will advertise their new line of attire. Generally speaking, the new line will be given a theme and marketed towards a certain audience. For example, cruise vacation lines, back to school attire, evening wear, business casual wear, etc.

Then after marketing their products, the company will secure clients to work with. The clients will help to distribute their products. Very few luxury fashion brand companies will not work with an outside distributer to help sell their products. Even brands such as Dolce and Gabbana, Marc Jacobs, Coach, and Armani use distributors such as Nordstrom's and Macy's to sell their products. Generally luxury brand fashion companies do not own that many shop subsidiaries of their own. But luxury brands do face the additional task of carefully choosing their distribution channels as for any brand the aspired to maintain an aura of exclusivity around its name by maintaining a tightly controlled distribution channel. Both Gucci and Burberry were able to buy back their distribution licenses. (WSJ) This "led to the increase of both the brand's strength and appropriate positioning." (WSJ) Their brand equity is definitely valued more than their property and other assets, so they focus more on the value of their brand than their shops.

The last part of the supply chain is the customer service. Fashion companies rely heavily on the quality of their customer service, especially when their goods cost more than the average household can afford. If there is a rip or defection on the garment, they usually have return or replacing policies for their higher end goods. They also have excellent customer service in the few shops that they own. They not only like to supply buyers with high quality goods, they also make the customers feel like they are receiving high end service when they are shopping at their stores.

2.3 What are Luxury Goods?

The fashion industry is divided up into three different sections: couture, ready to wear, and mass produced. Couture is the garments and accessories seen on runways. These are usually one of a kind or produced in limited quantities. This is because of the most important features of luxury brands and any brand that wishes to maintain a level of exclusivity needs to limit and control their distribution. Ready to wear are also produced in limited quantities and are now less prevalent in the fashion industry. Mass produced fashion is also separated into more commonplace brands and luxury brands. The focus of this thesis will be on the luxury brands of the mass-production sector of the fashion industry.

Luxury goods not only generally have a superior quality; they also indicate status and wealth. The concept of luxury goods traces back as long as semi-modern civilization. It is almost human nature to covet goods that can "raise their social standing".

Luxury goods are often times also closely tied with couture goods. Designers will showcase their concepts for a particular line of goods on the runway and after the ratings and critics' feedback; they will look to mass-produce items with that particular concept. If for example animal prints are in season, a fashion show line will focus on different types of animal prints for clothing, shoes, handbags, scarves, and even makeup trends. Then, if well received, different companies may run with it and produce similar products that will contribute to the creation of a "fashion trend".

2.4 The Current Market for Luxury Goods

"During the last five years, an expanding global middle class in emerging markets has supported growth in the luxury sector and is projected to continue fueling growth through 2018. There was a 19 % growth in the luxury market in 2013 and this figure is projected to grow to 25% in 2025, driven by the combined forces of urbanization and economic development and the love of luxury. " (WSJ)

Thus it is important for us to understand this fast growing area of our economy. It is a dilemma for companies, whether they should maintain their tightly controlled distribution channels or lower their prices and appeal to the growing middle class population.

Luxury good companies are now re-purchasing their licenses from third party distributors in order to maintain the exclusivity of their brands.

Fashion designers had once handmade each different piece but with the growth of the population and the economy, that has become inefficient. The luxury brand industry now also uses mass production and advertisements through mass media. Fashion brands can now be known, through extensive marketing, not only by their quality, but the image that their brand seeks to project. Tiffany and Co markets their patented "Tiffany Blue" as their image color. Coach is well known for their high quality handbags. Vera Wang became well known through her wedding dresses and more recently her department store brand, Simply Vera. Well known fashion brands now have their own niche where they appeal to a certain audience that they mass produce for.

Now luxury brand companies have partnered up with department store companies as well as warehouse distributors to sell out of season or slightly damaged items for a lower price. Stores such as Nordstrom rack, Marshalls, and the now bankrupt Loehmanns would acquire these goods from branded companies and sell them at a discounted price. That way price conscious customers can also acquire brand named goods. Branded companies also own “factory outlet stores” where they can sell their off season goods as well as discontinued goods for a fraction of the in store or online price. Often times these goods are of a lower quality, but the brand still has the same allure. With these stores, luxury brand stores can renew their stock often with fresh and fashionable products that can help them to maintain their image.

Luxuries branded goods are now commodities that the common people can acquire at a relatively steep price, but it is no longer unattainable. It is a symbol of class and taste that many men and women still hope to own. Later in the paper, it will be discussed how the increase in sale units actually lowers the value of a product and the brand itself.

Chapter 3- The Valuation of Brands

3.1 Value Chain

Generally before, during and after the production of a product, the company uses different methods to add value to the product and thereby the firm. They may put in extra effort in research and development and advertisements for a superior product. They may even differentiate the pricing, distribution quantity and the perception of the brand image in an attempt to raise the value of the brand. The following are more in depth descriptions of how the company adds value to the firm.

Pricing

Price differentiation is one of the largest parts of increasing/decreasing value. Too high of a price will lower demand, but too low of a price will lower the value of the luxury brand name. “Pricing in an important aspect of the marketing and branding strategy as it is one of the first indicators of a brand’s positioning to consumers.” and “The luxury target audience is less price sensitive and actually expects goods to be premium-priced rather than economically priced. “ [pg 140, Luxury Fashion Branding: Trends, Tactics Techniques] The manipulation of the pricing occurs generally before the product releases and it remains the same throughout the life of the product. Generally luxury goods are rarely offered at a discounted price.

Scarcity

The lack of availability of a product creates more desire for the product. This is just human nature. Hermès has done well in limiting the number of products they produce and release to the public each year. Many of their Grace Kelly themed bags were released in miniscule quantities or even one of a kind. Companies that wish to maintain an air of luxury must maintain a tight distribution system and limit the amount of goods that go into their individual stores or their intermediate distributors.

Advertisements

As previously mentioned the amount spent on advertising is an obvious factor that contributes to a brand's value and a product's success. The advertising occurs throughout the production process. Once the product is created, advertising begins until the product eventually becomes phased out of popularity. Advertising exposes the product to the consumer repetitively as well as reveals the image of the product/brand to the consumer. Advertising is vital in creating brand familiarity and brand images.

Brand images

The image of the brand is the image of the company itself. If a good brand image is developed, the value of the brand increases. If there is a poor brand image, the value of the brand decreases as consumers will cease the consumption of said product. For a while Nike's sales fell significantly when their sweatshops utilizing child labor in third world countries. The brand image of Nike was associated with a negative image and customers no longer wished to purchase the products. (Nike)

Research and development

The research and development that goes into a luxury fashion product is also important to the value of the brand. Much value is added when proper research is done on the current fashion trends and the potential success of a particular product. They must be ahead of competition by not only keeping up with recent trends, but creating new ones.

Quality of Goods (Raw material costs that go into individual items)

The success of the firm can be very much dependent on the quality of goods they deliver to their consumers. The raw materials cost can be a good indicator of the quality of their goods. Superior goods will add value to the firm because the image of high class / high quality products will be given to the company.

3.2 Other factors that may Influence Brand Valuation

Besides the previous factors that contribute to the value of a brand, there are also a few (not main) factors that may also affect the value of a product/brand.

Different Sized Audience

Many different companies can also vary in the different sizes of audiences that they appeal to. Some brands such as Limited Too appeal to a younger female audience, while the Gap appeals to a wide age range of both males and females. This could also potentially add value to the firm. On the flip side, Armani became known for their suits for men, but as they established their foothold in the market, they were able to expand their brand to incorporate different products. Audience size may play a large role in the valuation of firms, but a fashion company with a broader audience definitely has more target consumers that can potentially help add value to the firm.

Size of Company (Globally)

A company that is well known globally has more value added. Brands such as Louis Vuitton and Hermès were able to achieve such high levels of growth because of their popularity in foreign countries. A company's ability to flourish in a foreign market gives the company more potential and adds more value to the brand.

Years in the business

The longer a company is in the fashion industry, the longer they have to establish a firm place in the market. Companies that are able to boast hundreds of years of history are much more valuable. This is because they have had years to advertise and develop the recognition of their brand. Brands such as Colgate (1806) have been around for so long that almost any domestic consumer could tell you what their main products are and what their brand image is.

Customer Satisfaction/Customer Service

Early in the paper, customer loyalty was discussed. The better the customer service and customer satisfaction, the more likely the consumer will be loyal to your brand. It is just as important if not important that the old customers are kept as opposed to just working on securing new consumers.

Chapter 4: Differences between Coach and Hermès

4.1 Why compare Coach and Hermès?

Coach and Hermès are very similar products, not only because their logos have uncanny similarities to each other. They are both producers of luxury fashion brand goods with a focus on bags, scarves and jewelry. They are both well known for their leather purses, wallets, and bags. Despite their similarities they have slightly differing market caps and extremely different individual product costs. A Coach bag's cost lies in the range of the hundreds to two thousand USD. On the other hand and Hermès "Birkin" bag could cost up to the ten thousand to twenty thousand range. The purpose of this chapter is to analyze the differences in their financials as well as marketing strategies and whether or not they helped to create this different in brand value. The pricing strategy will also be compared and the reasoning behind the differing prices will be questioned.

4.2 Differences in Marketing Strategy.

Hermès sells their bags in infamously low quantities. Their mission statement is to maintain their exclusivity of their brand. Their goal is to make it a product that "not just anyone can have". This makes their company less prone to the rises and falls of the economy, because their always will be the extremely affluent who seek to buy a product that sets them apart from others. Hermès artisans must be trained for three years before they are allowed to handcraft any of their products and each bag takes over forty eight hours to craft and bags are warranted for around forty years. This ensured quality is what has helped Hermès grow in revenue over the past few years. Hermès CEO has said in an interview once that if they just slapped an H on any bag they hastily made and made millions of them, they would be just like any other mass production company. They will never do that because that wouldn't set them apart from the rest as Hermès. (Shea, 2013)

On the other hand, in the past few years Coach had attempted to reach of to a less affluent audience by discounting their goods and making them more affordable for the general population. Unfortunately as a luxury brand good, it did not seem to be a victorious move. "Coach's products are available at prices 25% lower than at its full-price stores. By offering these discounts, Coach was available to pull non-luxury buyers into its market space but ended up alienating its core audience, which in turn has migrated to competitors like Michael Kors and Kate Spade. The upshot of this strategy was a decline in market share, despite increasing unit sales."(Trefis) This quote refers to the numerous outlet stores that Coach had opened up in the past couple years. Although they were able to increase sales volume, their brand began losing value and thereby Coach began losing its core customers.

So here are two very different marketing and production strategies. Hermès does not mass produce or even offer discounts in order to maintain the status of their brand. "Hermès, in our view, maintains the enviable position of growing sales by raising prices and often has waiting lists for some key sought-after products, and using supply just below demand to ensure the exclusivity of its brand." (Morning Star)

Coach is attempting to become a more commonplace brand, which lowered their brand equity but was theoretically supposed to raise their sales. At this skin deep analysis it would seem that maintaining a high brand value while limiting sales seems to be the better and more profitable decision. A further look at the financial statements should make that theory more solidified.

4.3. Differences in the Financial Statements:

A further look at certain sections of the financial statements and financial ratios can give a better comparison in the differences in operations between Coach and Hermès.

PPE Coach 694,771,000 Hermès 1,2764,903,985 (In USD)

(Taken from their 2013 10-K Balance Sheet)

Hermès also owns significantly more **property, plants and equipment** than that of Coach. But in actuality, they have few stores than Coach and they focus on keeping the store counts to only a couple in large metropolitan cities. Hermès has 315 stores worldwide as of 2013. Coach has 320 retail stores and 190 factory stores as of 2013 as well. (Statista) This helps create an aura of exclusivity, while Coach brand goods are too obtainable, which lowers the value of the brand. The brand value is especially lowered with the existence of factory outlet stores. Coach bags are sold at an extremely discounted price to people who would normally not be able to afford their goods. Another factor is the quality of the stores itself. Coach is more similar to a smaller department store while Hermès's stores have sitting rooms, personal assistants, and other special amenities that make the customers feel valued. This explains the higher PPE asset value despite having fewer stores. Hermès seems to focus more on giving the customers the feeling of exclusivity while Coach focuses on distributing a high amount of goods to customers. (Vault)

Net Sales:

Coach 5,075,390,000 Hermès 4,673,730,978 (in USD)

(Taken from their 2013 10-K Income Statements)

Net sales are a good indicator of how well the products are selling, but not a good indicator of the value of the brand. Initially when Coach increased its amount of discounted goods, the Net Sales shot up, but that doesn't necessarily indicate increases in brand value.

Advertisements:

Coach 236,713,000 Hermès 262,799,445 (in USD)

Net Sales:

Coach 5,075,390,000 Hermès 4,673,730,978 (Euros)

(Taken from their 2013 10-K Income Statements)

The amount of capital spent on advertising should be a good indicator of the value of a brand. The more exposure to the brand through positive marketing, the more the brand should be valued. Hermès has spent significantly more on advertising and marketing in the fiscal year of 2013 compared to Coach. On the other hand, Hermès's advertising expense is **5.6** percent of their sales, while Coach's advertising is **4.7** percent of their sales. This may indicate that Hermès puts more weight on advertising in order to increase their brand exposure.

Inventory

Ending Inventory Coach 524,706,000 Hermès 1,013,085,633 (In USD)

Beginning Inventory: Coach: 504,490,000 Hermès 905,350,315 (In USD)

COGS: Coach 1,377,242,000 Hermès 1,456,713,370 (In USD)

(Taken from their 2013 10-K)

The following data was pulled from the 10-K's of Coach and Hermès for the fiscal year ending December 31st 2013.

Days' Sales in Inventory Ratio

Days' Sales in Inventory= Ending Inventory/COGS X365 (Coach) 139.058 Days

(Hermès) 253.69 days

The days' sales in inventory is how many days it takes for the company to sell out their entire inventory. Theoretically the higher it is, the longer it takes for the company sells out its inventory. This would indicate a more controlled and limited distribution level, which would increase the value of the brand due to scarcity. On the other hand, it also may just be that Hermès has high levels of inventory, while Coach has lower inventory levels, making it easier to clear out.

4.4 Additional Financial Analysis

Market cap Coach: 9.71 billion Hermès 34.07 billions

Enterprise Value: Coach 9.37 billion Hermès 41.18 billion for Nov. 26, 2014

(In USD)

(From Yahoo Finance)

Although the numbers are relatively similar, market capitalization is not as accurate of a valuation metric due to potential differences in capital structures that could skew the ratio, so enterprise value is used to compare the size of the companies. A comparison of the relative difference in enterprise value serves as a reminder that Hermès is a much larger firm than Coach and has a significantly stronger hold on the luxury goods market. As an approximately 3.5 times larger company, Hermès benefits from lower costs due to greater negotiating power with suppliers and distributors. In addition, its larger size enables Hermès to spend a greater absolute dollar amount on marketing the brand without cutting into its margins as much as a similar sized marketing budget for Coach would do to its margins.

Chapter 5: Valuation Models

5.1 Forbes's Top Fashion Brands Ranking

Annually Forbes will publish a list of brands that they have calculated to have the most value. The list is predominantly composed of technological firms, retail firms etc., but of the top 100, 8 of them are from the luxury industry. The following are the top 8 luxury fashion brands and their rank in the top 100.

Forbes Top 8 Fashion Brands-(Top to bottom):

Louis Vuitton (10), Gucci (39), Hermès (47), Coach (58), Cartier (63), Prada (69), Rolex (72), Chanel (79), Burberry (94).

In the book Luxury Fashion Branding by Uche Okonkwo they also have a list, but only with a focus on the top luxury fashion brands. They determined this list through purely qualitative means and their effects on the history of fashion.

Luxury Fashion Branding (Okonkwo) Top 8 brands (and the year they were founded) : Guerlain (1828), Hermès (1837), Loewe (1846), Cartier (1847), Bally (1851), Louis Vuitton (1854), La Maison Worth (1858), Burberry (1856).

5.2 Forbes Model for Brand Evaluation

Forbes calculated the value of the brand using the following steps.

They first found the EBIT (earnings before interest and tax) for each company. Then they took the EBIT and averaged them over the previous three years and from that, they subtracted 8 percent of the brand's capital in use. Under the assumption that a brand should at least be able to earn 8 percent on its capital in use, the maximum corporate tax rate is then applied to the amount previously determined. Then they sectioned off a portion of the earnings to the brand based off of how large of an effect the brand has on that particular market. Then to that figure, they applied the average price to earnings multiple for the previous three years to create the official brand value figure. (Forbes)

5.3 Why the Forbes Equation is Faulty

Forbes is attempting to quantify something that is mostly qualitative. Different factors such as customer satisfaction, perceived quality and brand image are not things than can be put into numbers. In the Forbes model, they use earnings as the main factor in calculating the value of the brand when in fact, earnings is just the tip of the iceberg of brand valuation. The argument is that earnings are a reflection of how much the customers trust in the brand. On the other hand, if Hermès were to lower their prices by 50% and sold at a discount, their inventories would probably sell out instantaneously. Their profits would increase significantly, but the value of the brand would fall because society would be supersaturated with Hermès's goods. A company could be earning more due to lowered prices and increased production like in the case of Coach, but the value of the brand itself would be decreasing. Thus Forbes calculation of brands is not the best model.

On the other hand Okonkwo also does not have the most accurate ranking of brand values either. In Luxury fashion branding, she measured brand value by the effects the brand had on the history of fashion. That is a purely qualitative estimation which ends up creating value based off of the age of the brand. The older the brand, the more valuable it is, which is generally the case, but not the main reason. They do not take into account advertising expenses, or sales.

Additional Model:

One of the most promising methods prevalent today in determining brand value is the 'Q ratio' developed by Deloitte. This ratio is a ratio of a publicly traded company's market capitalization to the value of its tangible assets.

Figure 2: Luxury Goods Ranking by Deloitte

Luxury goods rank FY12	Company name	Selection of luxury brands	Country of origin	Region	Market cap* (US$mil)	FY12 total assets (US$mil)	Q ratio
20	Michael Kors Holdings Limited	Michael Kors	Hong Kong	Asia/ Pacific	17658	1290	**13.69**
53	Kate Spade LLC	Kate Spade, Jack Spade	United States	North America	4128	388	**10.65**
12	Hermès International SCA	Hermès, John Lobb, Shang Xia, Puiforcat	France	Europe	35252	4380	**8.05**
56	Brunello Cucinelli SpA	Brunello Cucinelli	Italy	Europe	1862	322	**5.79**
28	Salvatore Ferragamo SpA	Salvatore Ferragamo	Italy	Europe	4884	981	**4.98**
18	Hugo Boss AG	Boss, Boss Green, Boss Orange, Hugo	Germany	Europe	9208	2038	**4.52**
13	Prada SpA	Car Shoe, Church's, Miu Miu, Prada	Italy	Europe	18954	4365	**4.34**
38	Moncler Spa	Moncler, Gamme Rouge, Gamme Bleu, Grenoble	Italy	Europe	4249	1077	**3.95**
64	Mulberry Group Plc	Mulberry	United Kingdom	Europe	687	176	**3.90**
10	Coach Inc.	Coach	United States	North America	13568	3532	**3.84**
16	Burberry Group plc	Burberry Prorsum, Burberry London, Burberry Brit	United Kingdom	Europe	10359	2761	**3.75**
3	Estée Lauder Companies Inc.	Estée Lauder, Aramis, La Mer, Aveda, Jo Malone	United States	North America	26109	7145	**3.65**
29	Fossil Group, Inc.	Michele, Skagen, Zodiac. Licensed watch brands	United States	North America	5903	1842	**3.20**
55	Tumi Holdings, Inc.	Tumi	United States	North America	1487	469	**3.17**
31	Tod's SPA	Tod's, Hogan, Fay	Italy	Europe	4077	1380	**2.95**
2	Compagnie Financiere Richemont SA	Cartier, Lancel, Van Cleef, Chloe, Baume & Mercier, IWC, Jaeger-LeCoultre, Montblanc	Switzerland	Europe	54926	18679	**2.94**
5	Swatch Group Ltd.	Blancpain, Breguet, Longines, Omega, Rado	Switzerland	Europe	33422	11975	**2.79**
7	Ralph Lauren Corporation	Ralph Lauren Collection, Blue Label, Black Label, RLX, Purple Label	United States	North America	14055	5418	**2.59**
4	Luxottica Group SpA	Alain Mikli, Arnette, Ray-Ban, Persol, Oliver Peoples. Licensed eyewear brands	Italy	Europe	27222	10857	**2.51**

https://nrf.com/news/global/q-ratio-analysis-global-powers

"If this ratio is greater than one, it means that financial market participants believe that a company's non-tangible assets have value. These include such things as brand equity, differentiation, innovation, customer experience, market dominance, innovation and skillful execution. The higher the Q ratio, the greater share of a company's value stems from such intangibles.” (NRF)

Conclusion:

The fashion industry is an ever popular, ever growing industry and the way of measuring brand value has come into question. Quantifying a company's brand equity help its managers decide how they should spend their resources, whether it is on marketing to develop their brand name, developing their current product line, or expanding operations. A quantifiable brand value also helps shareholders and future investors accurately price the company and predict future return on equity.

There also isn't a particularly correct plan for deciding strategies such as pricing and distribution quantities. A higher brand value would mean a less price sensitive audience while a lower brand value could potentially turn into a more accessible brand by the general masses. A more affordable product could make the company boom, but it could also potentially lose market cap as a semi-luxury good. Also staying below the demand of the consumers helps lower the risk and increases the value of the brand. This is the risk and benefits associated with this change.

There are many different types of models that attempt to quantify the value of a company's brand, but there has yet to be a universally accepted model. Due to the vast size and fickle nature of the fashion industry, it is difficult to create an all-inclusive equation to determine brand value. Even more so it is difficult to determine correlation vs causation in the explanatory variables of such an intricate industry.

The models used all focus on different factors such as historical value, earnings, and market capitalization. It is mostly impossible to create an all-inclusive equation due to the qualitative nature of brand value. Instead of focusing on finding the exact value of a brand, it is more realistic to focus on the factors that help to increase the value of a brand.

There are the five main factors that contribute to a brand's value, but as the luxury fashion industry grows with technological changes and differences in taste, other factors become more important.

In recent years, producers have begun using technology in the differentiation of customer service, product delivery/availability and releasing information into social media as a form of marketing. In the past few years, due to shift of consumers from in-store purchases to online purchases, consumers are able to compare prices and products on a much larger scale. Also because of commoditization, consumers have access to products with a similar design and product quality from variety of vendors. Therefore the only ways brands can differentiate themselves is by providing exceptional customer service, releasing new products with the advent of fast fashion, and have a larger audience base. The best way to get the word out about the previously mentioned qualities is good brand management. One other way to reach new consumers is via social media. This displays the use of technology in creating brand value in a new age of luxury brands. Utilizing different methods in order to increase the brand equity is vital because of the importance of the brand equity itself.

"Positive brand equity can help a company in a variety of ways. The most common is the financial benefit which enables a company to charge a price premium for that brand. For example, the Tiffany's brand has enough equity that a price premium isn't just accepted, it's expected." (Gunelius, 2014) Once a brand has developed a successful brand image as well as engaged in successful marketing, they will have ingrained a positive image in the consumers' minds. This positive image will help them create price insensitive consumers, brand loyalty and even more forgiving consumers for whatever mishaps may occur later on.

Although building brand value is essential for the longevity of a company, maintaining brand value is just as important. “The secret of a long- lasting strong brand is the firm’s ability to renew and revitalize the brand according to current lifestyle trends in order to keep the brand fresh in the eyes of consumers and investors.” (Vesanan, 2011) Improper brand management has been partly responsible for some of the biggest failures such as Nokia and Kodak. Therefore the only way brands can maintain and expand their customer base is through a strong and renewable brand value.

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