SYNERGY IN LUXURY SECTOR

How to evaluate performance of a company and how this parameter will influence management?

1 – Introduction and problematic

After a difficult period, luxury sector obtains good results again. The state of this industry goes with the state of the general economy. The luxury sector is extremely competitive. There are few but rich clients and they ask for a complete satisfaction. Because of the attractive activity that represents luxury sector, “standard” companies try to enter in this market. Consequence is an increasing of the concurrence with constant potential shareholders and customers.

Measurement of performance is essential for every actor of the sector. The company needs it to evaluate and (if necessary) modify its own strategy to increase benefits. Shareholders want these informations to decide in which company they will invest and finally customers sometimes use it as a parameter before choosing a product (non-financial informations).

As mentioned before, there are several different ways to evaluate performances. Basically we could separate them into two categories: financial and non-financial evaluation. For the first one, accounting and finance are used. The aim of each company is to achieve objectives fixed at the beginning of the year. During this period, depending on the sales and expenses, managers need these informations to adjust his strategy. Accounting is extremely important and helps to take good decision. Should we buy or drop a brand? Should we re-evaluate selling price, decrease or increase production? All these questions have to be answered by manager permanently and he will have to justify his choices. External people will evaluate the company by looking at the results. Since few years, customers and shareholders impose others parameter to consider: the non-financial evaluation. Ethics, ecology, image, customers’ satisfactions are some of them.

In the following paragraphs, we will review some techniques and some important parameters to take into account when performances have to be measured. We will also be interested in the difference of performance measurement for companies owning one or several brands.
2 - Concretely, how to evaluate companies?

We classified performance measurement of a company in two categories: analysis made by internal people and analysis made by external people. Aims are different. The first one wants to quote issues and optimize benefits by any possible ways. The approach is based on concrete numbers and previsions. Opposite to that, the second one will need to estimate the state of the company and to judge and compare their results with others (to chose in which he will invest for example).

In the following paragraphs, we will briefly explain how to proceed and what to compare to achieve these goals.

*Internal analysis* has for main goal to evaluate the financial situation and if necessary to apply strategic changes to decrease expenses. This study will help managers to take appropriate decisions.

Multiple brands and mono-brand companies are evaluated by the same way. Benefits of each of these can be quite easily quantified with balance sheet and budget. It is also possible to predict future results. Considering that, the aim would be to anticipate problems.

What are the possible alternatives when benefits obtained do not correspond to prediction or if there are not satisfying?

For single-brand companies a simple analysis should show where the problem appeared. Has some expenses been under-evaluated? Is the selling price adapted to the market? Internal analysis is quite basic.

For multiple-brands companies, the evaluation has to be made for each of them separately before making a general valuation. The reason is quite obvious: by considering only the average results, it is impossible to determine where the problem is or which of the brand are less rentable.

For example, a company owns 3 brands: A, B and C. Average benefits of this company is about 10 millions dollars. However, we do not know anything about the contribution of A, B or C in this benefit. Maybe the brand B makes deficit that is compensated by A and C. That is why a detailed analysis is needed. With complete informations, a manager is able to take appropriate decisions like dropping this brand or re-organized its strategy.

As mentioned above, there are also some non-financial informations to take into account. Ethically we have to remember that dropping a brand could induce dismissals. This is also problematic for the image of the group.
External analysis is generally made by independent society to ensure objectivity. Contrarily to the internal one, the purpose here is to help potential shareholders to decide in which company they will invest. Different methods exist and different criteria can be taken into account. The financial one is obviously the main one, but there are others like ethic or environmental issue.

To be competitive and attractive for shareholders, a company needs to obtain interesting results or has to be growing. Generally shareholder look at risks before investing and bad results or bad prevision are negative points for a company. It is commonly admitted that luxury sector is closely linked to the geo-politic situation, as observed after New York City 9.11 events. Companies encountered a lot of difficulties because of new security’s laws concerning importation for example. The supply chain was affected. Nowadays, the situation is better and luxury sector is growing again.

Considering these issues, what is the difference in solving them between multi-brands or single-brand industries?

The ways to achieve goals are the same. However, multi-brands companies have generally more suppliers than single-brand companies. This observation implies that the first will be maybe more affected by suppliers’ problems XXXX. Taking an other point of view, moins de supplier → haut risque si un ne vient pas... pas de compensation de résultat entre les gars..