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Synergies versus Autonomy: Management of Luxury Brands at Richemont

Case study

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This case was written by Günter Müller-Stewens (University of St. Gallen), Matthias Schuler (Richemont, CEO RLGE Europe), and Thomas Lindemann (Richemont, Director Group HR). It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation. No part of this publication may be copied, stored, transmitted, reproduced or distributed in any form or medium whatsoever without the permission of the copyright owner. All information was taken either from official company sources (mainly the Richemont website and annual reports), or from other external sources. These other sources have not been verified by Richemont and cannot be used as share-price-relevant information.

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This case study illustrates the development of Richemont, a global and diversified company operating in the cyclical luxury goods business. This case study focuses specifically on the strategic concept/ rationale (corporate business model), according to which the company was developed, as well as on how synergies are realized between the subsidiaries, given each brand's strong need for autonomy. Consequently, the case study takes a corporate perspective by examining the logic used to develop Richemont over the last decades and the direction of its future development. In addition, the case study is presented from the perspective of IWC – a Richemont subsidiary since its acquisition in 2000 – and examines the changes, challenges, and opportunities associated with its autonomy.[1]

Compagnie Financière Richemont SA celebrated its 25th anniversary in 2013. It is a Swiss company, headquartered in Geneva since 2002 that the South African Johann Rupert founded in 1988. As the stock market development shows in figure 1, this luxury goods company has experienced an astonishing development. Its stock price starting at CHF 2.20[2] on October 12, 1988 and climbed to CHF 74.50 at the end of March 2013. Its market capitalization increased from the initial CHF 2.90 billion to CHF 40 billion.

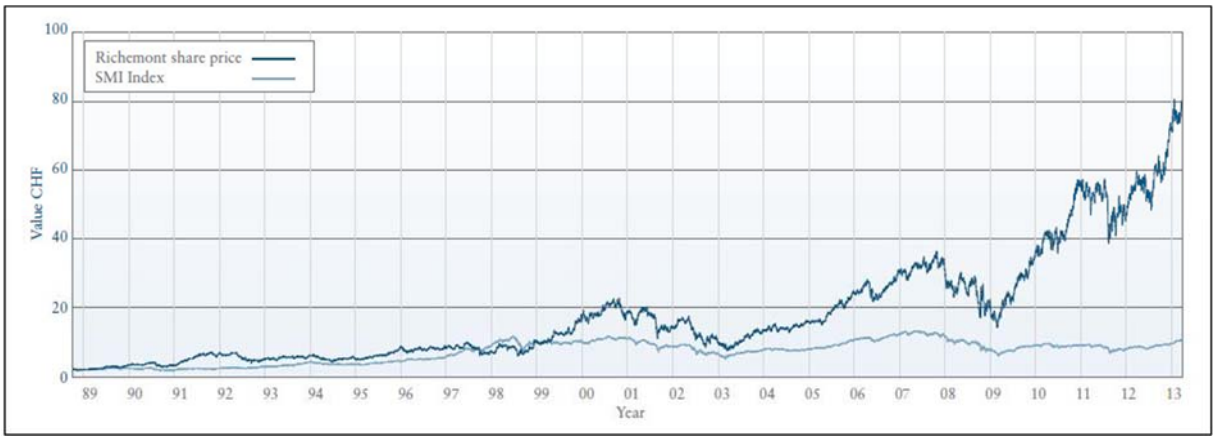


Figure 1: The stock market price of Richemont 1988-2013 (Source: Richemont Annual Report and Accounts 2013)

At the end of 2012, there was an unexpected announcement that Johann Rupert (63), the majority shareholder and executive chairman of the Swiss luxury goods company, would resign his mandate as CEO in April 2013. Richard Lepeu (61) and Bernard Fornas (66) would take over the CEO position as co-CEOs. Richard Lepeu had been the deputy CEO since the beginning of April 2010 and from 1995 to 2001 he had been CEO of Cartier, then CFO of Richemont, and would now be responsible for the centralized functions within Richemont. Bernard Fornas had been CEO of Cartier for 10 years by the end of 2012.

From their time at Cartier, the co-CEOs knew how important it is for Richemont to preserve its 19 Maisons' autonomy as far as possible in order to prevent the highly valuable and well-established brands from being diluted. Furthermore, in a consolidating industry, the co-CEOs also felt the pressure to exploit the existing synergy potentials across the Maisons as far as possible. In this industry, Richemont faces competition from other companies, such as the French industry leader LVMH, which already embraces about 60 brands; Kering (known as PPR – Pinault-Printemps-Redoute until 2013), which is increasingly developing as a purely luxury goods company; but also the Swiss Swatch group, which is primarily focused on watches. The question arises: which part of a company that is built on the autonomy of its subsidiaries can be centralized and to what degree can this be done to benefit it without damaging it in the long term?

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1. Die Compagnie Financière Richemont

Richemont is a luxury goods company that primarily manufactures its products in Switzerland, France, and Germany, but sells them globally. With its broad brand portfolio and its large geographical reach, Richemont is the current world market leader in the areas of branded jewelry and haute horlogery.

In the 2012/13 financial year[3], Richemont realized a turnover of EUR 10.15 billion with a growth of 14% compared to the previous year, and a 2003-13 compounded annual growth rate (CAGR) of 9%. About half of the turnover is realized by travelers. Compared to the previous fiscal year, the operating profit of EUR 2,426 billion showed an increase of 18% and the operating profit margin reached 23%. The company employs 27,666 employees, of whom two-thirds work in Europe and the majority in Switzerland.

LVMH, the largest company in the luxury goods industry, which embraces about 60 brands, realized a turnover of EUR 28.1 billion with a growth of 18.6% in the 2012 fiscal year. Excluding the effects of currency and acquisitions, the organic growth was about 9%. The operating profit was EUR 5.92 billion, with an operating profit margin of 21%.

The Rupert family's investment vehicle, Compagnie Financière Rupert, controls 9.1% of the capital and 50.1% of the voting rights (522 million B shares) and is the only key shareholder with a more than 3% capital share. Furthermore, there are about 522 million A shares that have been traded on the Swiss stock exchange since 2000. About 38% of the capital is in free float. Based on the closing price of CHF 74.50 per A share on 30 March, 2013, Richemont's market capitalization is CHF 38,889 billion and the company value is CHF 42,778 billion if the B shares are included. Thus, the company is a heavyweight on the Swiss Market Index (approximately 4%) and is listed as one of Europe's top 50 companies in the Euro Stoxx 50. At the end of the 2012/13 financial year, the equity amounted to a comfortable 71% and true to its "cash is king" motto, Richemont's net cash flow increased by EUR 1,944 billion, despite high CAPEX investments of EUR 612 billion in its businesses and production sites.

1.1 From Rothmans to Richemont: A brief history of the company

First investments in luxury goods: In 1941, Anton Rupert founded a dry-cleaning company in South Africa that was strategically reoriented in the 1940s to become a tobacco company. In the 1970s, the company was one of the five largest tobacco companies in the world. The money earned from tobacco was invested in other businesses, such as telecommunication, wine and liquors, and gold and diamond mining, which were all run within the broadly diversified Remgro holding (Rembrandt[4] Group Limited of South Africa). In this vein, the holding company acquired, for example, the well-known tobacco brand Alfred Dunhill. While searching for businesses that would endure over time, the Rupert family made its first investments in the luxury goods industry, specifically in Cartier (1964), Montblanc (1977), and Chloé (1985). The key markets were in the US and later also in Europe. In the 1980s, Japan also became an important luxury goods market.

Breakup 1988: In 1988, the international activities of Remgro, with its headquarters in South Africa, were spun off with Johann Rupert as CEO. This spin-off was merged with Rothmans International resulting in a new company: Compagnie Financière Richemont.

The entrepreneur Johann Rupert
The South African Johann Rupert (60) is the son of Anton Rupert, who built one of the leading tobacco companies in the world from nothing and died in 2006. He studied economy and law at the University of Stellenbosch. After following a career in investment banking, Johann Rupert, together with his father, founded Richemont in 1988 and became Richemont's first CEO. From October 2003 to September 2004, he was the interim CEO, before Nobert Platt became the CEO of Richemont from October 2004 to March 2010. Today, Johann Rupert leads a broadly diversified consortium of companies that comprises banks, hospitals (e.g. Hirslanden), nutrition, engines, and luxury goods (Richemont). He leads these companies through three investment companies, Richemont, Remgro, and Reinet, which he controls with voting shares. At Richemont, Johann Rupert holds 9.1% of the capital and 50.1% of the voting rights through the Compagnie Financière Rupert.

The new company with its headquarters in Zug (Switzerland) was listed in Switzerland, as well as in South Africa.

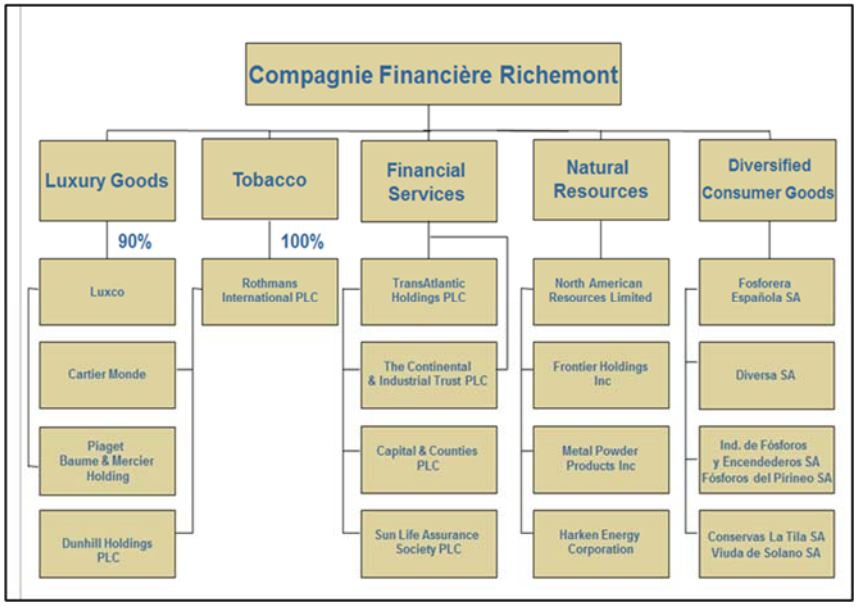


Figure 2: Structure of the new company founded in 1989

To obtain full control over Rothmans International, the Rupert family bought the 30% shares that Philip Morris still held. In 1996, Richemont's tobacco business was merged with the tobacco business that the Rembrant Group Limited in South Africa holds and of which Richemont now holds 67%. In 1997, 15% of the TV broadcaster Canal+ was acquired. In 1998, the joint venture with North American Resources ended and Richemont took over the remaining 49% of the shares from Hanover Direct, a US postal service provider.

In 1993, the luxury goods businesses were united – some of which were spun off from Rothmans International's additional luxury goods investments – in the newly founded *Vendôme Luxury Group*, which was listed in London and Luxembourg. At the beginning, Richemont held only 70% of the new company. The Vendôme's business portfolio comprised 14 brands such as *Cartier, Chloé, Karl Lagerfeld, Sulka, Montblanc, Baume & Mercier, Piaget, Alfred Dunhill,* and *Hacket* (sold in 2005). Vendôme took advantage of the Asian markets' enormous growth and increased its turnover to CHF 1.7 billion, also making several acquisitions. In 1994, the rifle producer *Purdey* was acquired and in 1996, *Vacheron Constantin*, a company that became a watch manufacturer through its acquisition of *Haut de Gamme* in 1998. In 1997, the watch manufacturer *Officine Panerai*, as well as the leather producer *Lancel*, were acquired.

However, the collapse of the Asian markets in 1997 led to Vendôme's stock price falling by more than 40%. Rupert took advantage of this drop to gain the full control of Vendôme through

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a GBP 1,036 million (about CHF 1.5 billion or USD 1.6 billion) buyout of the minority shareholders in March 1998.[5]

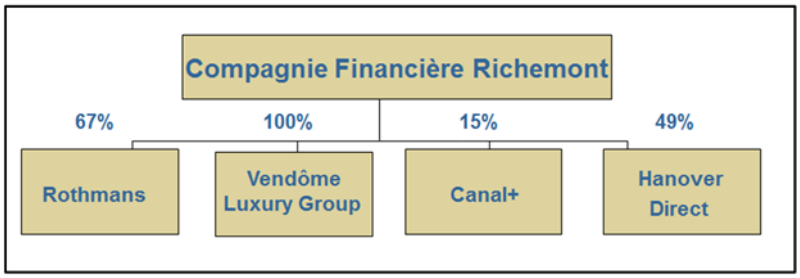


Figure. 3: The group structure in 1998

Fundamental change towards luxury goods in 1999:

In June 1999, Rothmans International was merged with *British American Tobacco* (BAT) to become the second largest tobacco company in the world. This constituted a further concentration on luxury goods. At the end of the 1999/2000 fiscal year, Richemont's business portfolio included 16 luxury goods companies. Vendôme and its associated brands – with a turnover of CHF 3.4 billion –, as well as two associated companies, BAT (Richemont is the largest shareholder, owning 23.3%) and Hanover Direct (49%; retailing and E-commerce), had been merged with the Richemont group. In keeping with this concentration on luxury goods, Richemont sold its 15% investment in the media company Canal+ to Vivendi SA in 1999. In the same year, Richemont acquired 60% of Van Cleef & Arpels. This holding was increased in 2001 and 2003 to 100%. In order to strengthen the luxury watch business, three watch producers – *Jaeger-LeCoultre*, *IWC*, and *A. Lange & Söhne* – were acquired in 2000. In 2007, a new form of investment was arranged with Polo Ralph Lauren (the Ralph Lauren Watch and Jewelry Company) when it and Richemont started a 50/50 joint venture. In this year Richemont also invested in the Parisian fashion boutique Azzedine Alaia.

Nikolaus Senn, a former chairman of Richemont, believed that this focus on luxury goods should be driven further. In the 1999/2000 annual report, he mentioned: "*Richemont is committed to maintaining and indeed developing its position as one of the world's leading luxury goods companies.*" The CEO Johann Rupert echoed this statement: "*This has been a year of fundamental change for Richemont. Whilst the Group's interest in the tobacco industry will continue to be an important contributor to the Group profit for some time, the focus within Richemont has shifted as a consequence of the merger. The core operating area within the Group is now its luxury goods businesses, these having formerly been held through the Group's wholly-owned subsidiary Vendôme Luxury Group SA. A key element of this change of focus was the decision, in November 1999, to integrate fully the management teams of Richemont and Vendôme Luxury Group SA. In consequence, senior members of the Vendôme executive team have been appointed to the board of Richemont SA, the Group's Management Board.*"

During this period, Richemont often highlighted the strong autonomy of its brands: "The Group adopted a strict policy – still followed today – to ensure the luxury Maisons each maintain their separate, vertical autonomy and product integrity"[6]. However, Rupert already indicated that the advantages of this group memberships would be increasingly used: "*The strength of Richemont lies in the ability to develop its existing brands successfully with an emphasis on each brand's unique strengths, whilst taking advantage of group-wide expertise in areas such as procurement and distribution. The process of integrating local operating companies and shared service functions that had already begun within Vendôme is being given further priority within the new*

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management structure." Moreover, Richemont was increasingly considering the role that the internet could play in Richemont's business model. Rupert stated: "*The Group is also actively investigating how to use the Internet more effectively as an information medium for consumers and for business-to-business relationships. … In this respect, the Group's investment in Hanover Direct serves as a window on the use of the Internet as a retail tool in the American market,* …" However, already in 2002, Richemont started to write off the investment in Hanover Direct.

Richemont's initial investment in BAT was reduced to 18.2% in 2005 by selling the shares to the joint venture partner Remgro Limited. This investment, however, comprised almost half of Richemont's EUR 33 billion market capitalization in 2007. Rothmans' remaining investment in BAT was transferred to the Luxemburger holding Richemont SA, two-thirds of which belonged to Richemont and one-third to Remgro.

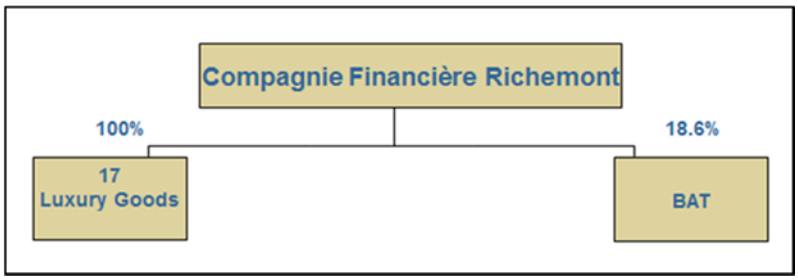


Abb. 4: The group structure in 2006

Strong focus on luxury goods in 2008: In Luxemburg, certain companies were exempt from dividend taxation. This also applied to Richemont SA's BAT dividend, and in the 2007/08 fiscal year the BAT cash dividend amounted to EUR 325 billion. However, the government of Luxemburg revoked this benefit as from the end of 2010. At the end of 2007, Richemont announced that the company would be split into two companies: The luxury goods businesses, Richemont, which would be quoted as an independent Swiss company on the Swiss stock exchange SWX, and a Luxembourger holding company that, as an investment fund, would include the investment in BAT, as well as in several other investments the family Rupert wanted to hold. The split was completed at the end of 2008. Consequently, the shareholders received 90% of Richemont's 19.4% investment in BAT (a market capitalization of approximately CHF 15 billion in August 2008). The remaining 10% remained in the new holding company Reinet Investments SCA, which was quoted in Luxemburg.

One goal of this spin-off was also to avoid a conglomerate discount, which, due to the broad diversification of Richemont's businesses into luxury goods and tobacco, resulted in the organization receiving a lower evaluation than its competitors such as LVMH and Swatch. This goal was achieved on October 21, 2008 when Richemont's shares were traded the day after the spin-off of the non-luxury businesses: The stock price increased by 38% to CHF 25.90.

In 2007, Richemont acquired 60% of the Geneva watch manufacturer Roger Dubuis SA. In the following years, Richemont also acquired several suppliers to the watch industry to secure the intermediate products. Examples of these suppliers are: Fabrique d'Horlogerie Minerav in 2006, Donzé-Baume SA in 2007, and Varin-Etampage & Varinor SA (VVSA) in 2012. It is noteworthy that, on obtaining a majority shareholding in NET-A-Porter.com in 2010, Richemont entered the online luxury goods commerce.

The CEO retires in 2009

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In November 2009 – in the midst of the economic crisis – Norbert Platt, CEO of Richemont since October 2004, announced that, due to health reasons, he would resign as CEO in March 2010. The executive chairman Johan Rupert once again became the CEO. After this announcement, the share price rose by 5.6%.
To confront the problem of his dual mandate, Lord Renwick of Clifton, a non-executive director, was appointed in November 2009 to the lead the independent directors. Moreover, in order to relieve the CEO of his operative leadership function, the Group Finance Director, Richard Lepeu, was appointed the deputy CEO at the beginning of April 2010. Gary Saage followed as CFO and was appointed a board member in September 2010.

While Richemont became more focused, the company simultaneously became more cyclical, since BAT was no longer there to absorb the luxury goods business's recessive phases. Moreover, Richemont was still a relatively complex company largely controlled by the Rupert family's long-term interests.

1.2 Richemont today: A global und focused-diversified luxury goods company

To absorb the cyclicality of the luxury goods industry, the aim of the corporate strategy is to establish a balanced and diversified business portfolio of brands, products, regions, and distribution channels (own boutiques, franchises, and third-parties).

Currently, Richemont operates in approximately 30 regions with about 130 companies and has one of the strongest portfolios in the luxury goods industry worldwide. Richemont is a group company with 19 companies (Maisons), almost all of which Richemont fully owns. These companies have been divided into four personal luxury goods sectors for reporting reasons. The division is based on operative segments with similar economic characteristics, such as their type of product, their distribution channel, and their long-term margins. A top management team, together with a CEO, leads each segment.

The following business segments are distinguished in the reporting. The Maisons are assigned to the business segment in which they make the highest turnover, or to which they historically belong:[7]

1. **Jewelry** (2012/13: 51% of the turnover; CAGR 02-13: 8%; EBIT margin: 34,9%): Cartier (founded 1847), Van Cleef & Arpels (1896)
2. **Watches** (2012/13: 26,6% of the turnover; CAGR 02-13: 12%; EBIT margin: 16,3%): A. Lange & Söhne (1845), Baume & Mercier (1830), IWC (1868), Jaeger-LeCoultre (1833), Officine Panerai (1860), Piaget (1874), Roger Dubuis (1985), Vacheron Constantin (1755), as well as a joint venture with Ralph Lauren (2007);
3. **Montblanc Maison (writing utensils)** (2012/13: 8% of the turnover; CAGR 02-13: 7%; EBIT-Marge: 15,7%): Montblanc (1906);
4. **Other businesses** (leather, fashion, pipes, accessories, online platform, etc.) (2012/13: 14% of the turnover; CAGR 02-13: 10%; EBIT margin: -2,7%): Alaia (1983), Chloé (1952), Dunhill (1893), James Purdey & Sons (1814), Lancel (1876), NET-A-PORTER.COM (2000), Shanghai Tang (1994).

These four business segments are not reflected in the organizational structure highlighting the autonomy of the individual Maisons.[8] Currently, Richemont has a regional structure. The regional split of the group turnover for the 2011/12 fiscal year was:

1. **Europe** 36% (CAGR 02-13: 7%),
2. **Asia-Pacific** 41% (CAGR 02-13: 17%)
3. **Japan** 9% (CAGR 02-13: 2%)
4. **Americas** 15% (CAGR 02-13: 7%)

The group's growth in emerging markets is exceptional. While the 2001/02 turnover in Asia-Pacific constituted 18% of the group turnover, it was 41% in 2012/13. In China, the points of sales increased from 24 in 2000 to 266 in 2012.

Richemont has given each region its own responsibilities. For example, the CEO of Europe is responsible for the distribution platforms, as well as the legal and operative management of the businesses in this region (the internal shared group service). The CEO's operative tasks include, among others, ensuring legal compliance, the logistics, the finance/ controlling, customer services, the HR, the IT of the entire platform of the respective brands, and Richemont functions. The country heads thereby report to their respective regional heads. However, the responsibility for marketing and sales remain with the Maisons. Richemont only controls coordinative tasks with respect to multi-channel distribution topics. Thus, Richemont's management structure is a matrix of brands and regions.

In the 2011/12 fiscal year, 54% of the turnover (compared to 41% in 2001/02) was due to retailing (EUR 5,440 billion, including NET-A-PORTER.COM) and 46% due to wholesale (EUR 4,710 billion).

Richemont directly owns and runs 1,014 single-brand boutiques worldwide. In the wholesale business, franchising partners run more than 500 additional own boutiques. The high margin, single-brand stores in retailing grew by 17% in respect of the previous year; in wholesale the growth was 12%. To control cost-intensive and investment-intensive distribution, it is important to close unprofitable points of sales, except if they are flagship stores and, thus, primarily have a marketing function. Globally, Richemont has eight supra-regional distribution platforms in Europe, Russia, Japan, Asia-Pacific (which two local distribution centers support), the Middle East, South Africa, Latin America including the Caribbean (which two local distribution platforms support), and North America.

The total net operating expenses for the 2012/13 fiscal year amounted to EUR 4,093 billion (40% of turnover), including 55% sales and distribution expenses, 24% communication expenses, and 21% administration expenses.

Richemont's corporate level focuses on a few central global functions that provide the overall framework for the group, in order to allow the companies within the group the highest possible degree of freedom to conduct their businesses. The homepage of the company explains: "*The Group is managed with the objective of growing value for shareholders over the long-term, recognising that the most important assets of the Group - its Maisons - have almost all been in existence for over a century. Each of the Maisons has its own distinct identity that stems from its heritage and culture and it is critical that each Maison has the correct strategies and resources to be able to enhance that identity. The independence of the Maisons within the Group is fundamental to the Group's strategy for future growth.*"[9] The Maisons' high degree of autonomy is seen as a crucial factor to preserve each brand's innovative strength and perceived independence – two essential drivers of competitive strength in this industry. These drivers assume that decentralization fosters creativity. This high degree of autonomy is the key difference between Richemont's Maisons and competitors such as the luxury goods group LVMH.[10]

In principle, the interaction between the corporate level, the distribution platforms, and the Maisons is as follows: Richemont's corporate level provides the general framework and benchmark data top-down, while the rest comes from the Maisons and distribution platforms bottom-up. To date, *synergies* are only pursued step-by-step by, for example, simultaneously purchasing similar watch components, or coordinating the market positioning and market entrance across

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the Maisons. High efficiency gains are made through the joint control and management of all the brands' distribution platforms.

Richemont wants to represent *values* such as craftsmanship (no mass production), creativity (surprising ideas), customer orientation, a learning culture, and entrepreneurship. Each decision is reflected against these values.

With its *self-concept*, Richemont sells its customers a lifestyle, a sense of well-being, and an orientation that is generated by the brand; thus, purchasers of their brands find themselves in a "business of good faith", an area that is hard to prove or measure, or in the words of Georges Kern, the CEO of IWC since 2002: "*An IWC is not bought to read the time off. Neither would one drive an Aston Martin to go from A to B. Who wears our watches makes a statement and experiences quality of life*".[11] In this business, emotions are sold; the own boutiques are therefore becoming increasingly important for the following reasons: first, Richemont can make a shopping experience perfect and, second, Richemont can react fast to changing customer needs.[12] In the wholesale industry, relying solely on cooperation with partners runs the risk of these brands not being accurately positioned in the long run.

Since a sense of luxury builds on scarcity, companies run the risk of their brands being considered less luxurious when they increase their market penetration. In this respect, Richemont prioritizes organic growth. This starts with the "trading up" of each brand. Moreover, the existing brands have scope for more international diversification. Given the good profit situation of the last years, Richemont can grow their "house of brands" internally, but also by acquiring other brands. Since customers are very brand loyal, the organization could also, for example, grow by extending individual brands to other lifestyle segments. However, to date Richemont does not operate outside the personal luxury industry, which is contrary to, for example, LVMH and Bulgari, which both expanded into the hotel business.

Richemont invests in the Internet luxury retailer NET-A-PORTER.COM

An important question for Richemont's management was whether luxury goods could be sold online. This concept was somehow contrary to the well-known importance of the direct points of sales' quality. Richemont concluded, however, that this additional sales channel was promising. Consequently, Richemont bought an additional 62.5% of the British company NET-A-PORTER.COM in April 2010 to strengthen Richemont's internet presence. The organization already owned 30.5% of this company and had a preemption right. The value of this internet retailer of luxury goods, which was founded in 2000, was estimated at about GBP 350 million (about EUR 395 million). The net investment in this transaction was about EUR 245 million. In the 2010/11 fiscal year, the company made an operating loss of EUR 23 million, despite a turnover of about EUR 281 million (according to the company statements). In the fiscal year 2011/12, the company was still in the red. However, the cash flow was positive. The company was founded by the American Natalie Massanet (46), who has also acted as its chairman. She started the company in 2000 as a hybrid of online magazines and web shops. The homepage (www.net-a-porter.com) has more than 4 million visitors each month. The website offers more than 500 designer collections (cloth, shoes, bags, etc.) for customers in more than 170 countries. Moreover, there is a shopping app for mobile devices (e.g. a weekly magazine for iPad users that 116,000 people currently read). New boutiques (e.g. the Bridal Boutique and the Party Boutique) are constantly launched on the website. The gift finder provides references to specific occasions. The internet platform provides the customer with a multitude of opportunities to interact, for example, to watch videos on trends, to live stream on twitter, and to participate in blogs. Furthermore, "Fashion Fix" notes companies' social activities for discussion. In the US, there is also the possibility for t-Commerce through Google TV. Finally, people organizing special events are invited to visit the website, while the return services in respect of goods bought are free of charge.

In 2009, Natalie Massanet launched an additional website "The Outnet" that sells reduced designer wear, and, in 2011, "Mr Porter," a website for men.

1.3 The Governance of the Company Group

The management organization of the Compagnie Financière Richemont SA consists of (1) a *board of directors*, as well as (2) the *group management committee*.[13] To coordinate the group and to control and support the Maisons, which a CEO and his or her management team run,

Richemont established (3) *centralized functions* (finance, HR, etc.), as well as *regionally shared service platforms* on the corporate level.

1. *Board of Directors*: The most recent board of directors plays a supervisory role in the group, and encompasses 20 board members; more precisely, 14 non-executive directors and 7 executive directors (the chairman, deputy chairman, 2 co-chief executive officers, the chief financial officer, the chief legal counsel, and the CEO of the Group's fashion and accessories businesses). The entire board meets at least five times per year for a half or full day. Besides discussing the group strategy, the board of directors meets for two days with selected Maisons' management teams to conduct a review process of their strategy, marketing plans, and new products. Selected people from the group management committee, such as the chief legal counsel, the chief financial officer, and the director of corporate affairs, also attend the board meetings. Other members of the senior management team and external consultants may be involved if this is believed necessary. Johann Rupert has been the executive chairman of the board since 2002.

   The board is responsible for (a) the group's strategic orientation, (b) the election of senior management members, (c) the establishment of suitable financial control and risk management instruments, and (d) for the control of the entire group.

   Four board committees have been established to apply the board's management functions. Besides the typical board committees (audit committee, compensation committee, nomination committee) Richemont established a strategic security committee, consisting of three persons, in 2013. The task of this committee, which consists of non-executive directors, is to advise the company on security issues.

   Besides the board committees, there are several management committees dedicated to topics such as corporate social responsibility, finance, taxes, etc. Of particular interest is the "chairman's committee," which is dedicated to the solving of issues related to the group's implementation of strategic policies.

2. *Group Management Committee (GMC):* Currently, the former board of directors of Richemont SA (Luxemburg; was fully held by the group until October 20, 2008) constitutes the management board of the group's subsidiaries and consists of 15 persons. The management committee consists of (a) 6 executive directors of the board of directors (the chairman, 2 co-CEOs, the CFO, the general counsel, the CEO of the group's fashion and accessories businesses), (b) the heads of some functional areas (the group operations director, the general counsel, the group human resource director, the group public relations director), as well as (c) the CEOs of Cartier, IWC, Jaeger-LeCoultre, Montblanc, and Piaget. The nomination committee appoints the members of the GMC. In the 2012/13 fiscal year, the GMC did not meet as a whole, but the members participated in diverse meetings of other committees. The GMC is responsible for implementing the strategic policies in the day-to-day business that the board of directors has approved. It is responsible for the group's businesses and investments and had to regularly report on these developments.

3. *Central support service and shared service platforms*: The increasingly diversified and global company experienced an increasing need for coordination that resulted in the establishment of central support services and shared service centers (formerly, regional support platforms) in June 2001. Richemont collaborated with an external consultancy to realize this change in the management organization.

a. *Central support services (CSS):* These services largely include the different corporate functions such as the finance, IT, HR, and legal affairs. Richemont needs, for example, a large number of specialized lawyers to support the Maisons in disputes on trademark rights. The aim of the centralization of specific functional tasks was to achieve a certain degree of standardization, efficiency, and harmonization of the processes and systems applied within the group. The CSS employ specialists who perform services for the Maisons. These specialized departments are usually located at the corporate headquarter in Geneva and currently employ about 350 specialists. Each Maison employs a counterpart of each group function. The Maisons have to pay for most of the CSS, as long as they are assignable. The remaining, CSS costs that are not assignable to a particular Maison, are summarized under the corporate costs. Since the 2004/05 fiscal year, these corporate costs have increased from EUR 132 million (about 3.6% of the turnover) to EUR 188 million (about 1.9% of the turnover) in the 2012/13 fiscal year (2005-2013 CAGR: 4.6%).

b. *Shared services platforms (SSP)*: In order to improve the quality and efficiency of the local services for the Maisons, Richemont established regional SSP. Today, there are four such SSP around the world with about 3,000 employees in total: Europe, which includes the Middle East and Africa, Asia-Pacific, the Americas, and Japan. Each of these regional group companies embraces a number of countries. The country representatives report to the regional CEO of the SSP, who, in turn, reports to the group CEO.

Figure 5 shows a simplified version of Richemont's management organization.

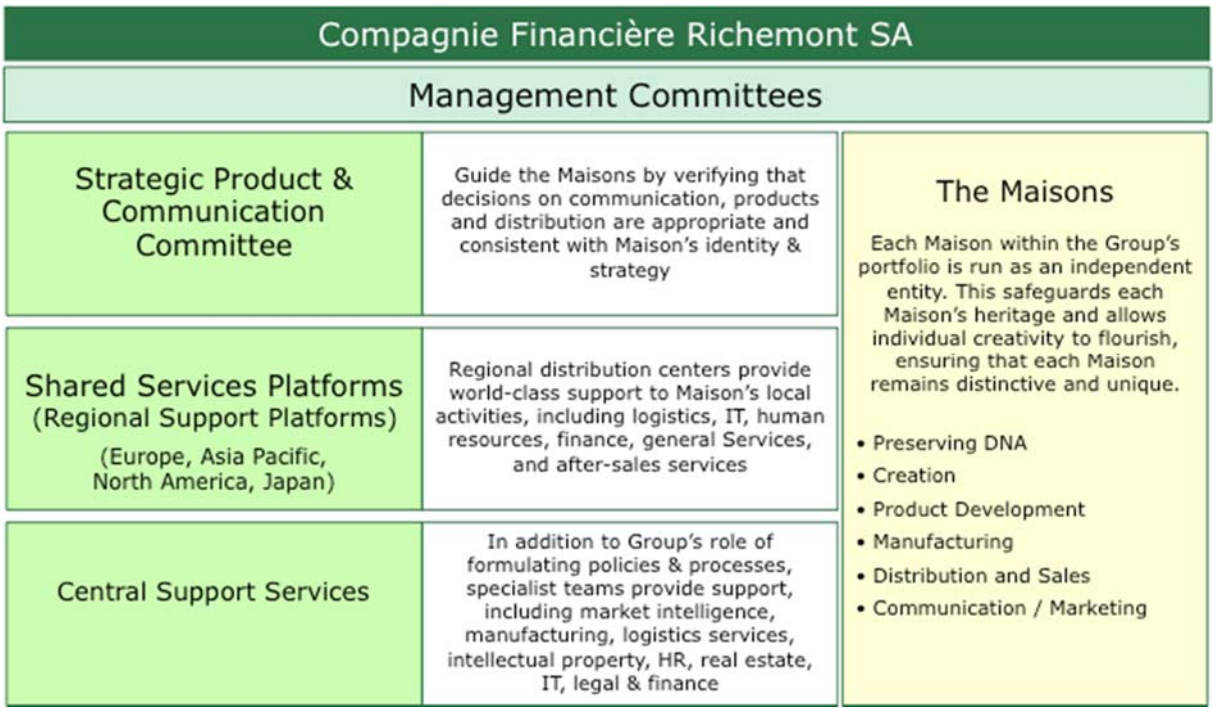


Figure 5: The Richemont management organization (source: Richemont annual report 2007)

To fulfill its responsibility towards society as a whole, Richemont developed a general framework – the *code of business ethics* – that aims at orienting its stakeholders. To complement this general framework, Richemont established more detailed *corporate social responsibility guidelines*, which are aimed at steering its employees' conduct in respect of their interactions with important stakeholders in their day-to-day business. These guidelines include the *supplier code*

of conduct and the *environmental code of conduct*. The corporate social responsibility committee, which the director of corporate affairs chairs, coordinate and control these CSR activities. Richemont aims to actively influence its suppliers, particularly through its supplier code of conduct. To achieve this goal, Richemont also collaborates with other companies in the industry, for example, through the Responsible Jewelry Council, which develops and drives common industry standards. This initiative is also aimed at helping to promote indispensable traditional handcrafts and to develop new markets (e.g. for services in new markets).

2. The cyclical business of luxury goods

A rough estimation of the global market volume of the luxury goods industry is about EUR 1.3 trillion. That which is more traditionally understood as luxury goods falls under the personal luxury category, which constitutes about one-fifth of the total market volume (about EUR 212 billion). This is also the category in which Richemont operates. Furthermore, there is a category for luxury goods with a high and long-lasting material value, such as cars, yachts, pieces of furniture, etc., as well as luxury foods and beverages. This category has a market volume of about EUR 419 billion.

The sales volume of the global market for personal luxury grew from EUR 77 billion in 1995 to EUR 212 billion in 2012, resulting in an average annual growth rate (CAGR 95-12) of 6.1% (CAGR 00-12: 4.3%; CAGR 03-12: 5.8%; CAGR 05-12: 5.4%). Although there is a belief that the luxury goods industry experiences a continuous boom, the market is not completely resistant to cycles and risks. In boom periods, such as in 2010, the sale volume grew by 13.4%, but in crisis periods, such as in 2008-09, it dropped by 8.4% from EUR 165 to EUR 153 billion. There are only a few, very expensive famous brand luxury goods ("star brands"), such as Cartier, Dior, Hermès, and Van Cleef & Arpels products, which are relatively stable across business cycles. Less expensive luxury goods, such as Montblanc writing utensils, react to recessive periods in the economy. The 2008-09 financial crisis, for example, significantly affected the US retail business. Moreover, currency fluctuations can also have a significant effect on annual results, since Richemont, for example, primarily produces in the Eurozone and Switzerland, but the main growth and sales occur outside the Eurozone. In addition, raw material prices (e.g. platinum, gold, diamonds) can significantly affect luxury goods companies' profitability. To reduce theses cyclical effects on the company's profitability, policies such as the diversification of the brand portfolio, currency hedges, and the global diversification of the sales regions are important.

After its recovery from the bursting of the Internet bubble at the end of 1999, the market for luxury goods experienced a unique boom period that lasted until September 2008. Given luxury goods companies' high free cash flow in this period, several acquisitions were undertaken. LVMH, for example, bought Hublot for CHF 480 million in April 2008, while PPR secured a majority shareholding in Puma, as well as 23% of the Sowind Group (which owns the brands Girard-Perregaux and Jean Richard). Richemont acquired 60% of the Geneva watch maker Roger Dubuis SA in August 2008. This company was founded by Carlos Dias and the watch maker Roger Dubuis in 1995. Dubuis specialized in mechanical watches with sales prices starting at CHF 15,000. Companies in the industry also acquired component suppliers to reduce supply shortages. All these acquisitions indicate a light consolidation of the industry. Small brands, however, are usually only willing to sell if they do not have the money for the necessary long-term investment programs. In this case, belonging to a group company, which is financially stronger, is advantageous.

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In October 2008, the financial and economic crisis affected the luxury goods industry significantly; however, the industry recovered surprisingly fast and achieved record sales in some segments in 2011. From of the Swiss export business's point of view, however, the strong Swiss franc meant that the situation in 2011 was less good than it could have been. However, the establishment of the Euro's lower limit against the Swiss franc in September 2011, once again somewhat ensured planning security. In the clothing industry, for example, there was a nominal decrease of 17.8% compared to the previous year. In order to retain their customers, some export companies had to make enormous price concessions. The only exception was the watch industry, which experienced a nominal increase of 22.2%.

Richemont was also hit hard by the financial and economic crisis. Between April and September 2009, the company experienced a sales drop of 15% and a decrease in operating profit of almost 40%. Its watch segment was particularly hard hit in this period, experiencing a decrease of 17%. To confront the crisis, Richemont optimized its network of external sales points (closing down boutiques, etc.), reduced its investments, and focused them on strong growth markets (establishing an own distribution and service organization in China), on limited production and inventory, and increased its cost control, etc. The second half of the fiscal year already showed that sales had stabilized to such a degree that the overall fiscal year resulted in a drop of only 5%. Owing to the focused investments, the 2009-10 cash flow was even higher than in the previous year. As so many other global luxury goods companies, Richemont managed to overcome the crisis relatively quickly. In the 2010-11 fiscal year, the company had a sales growth of 33% and its stocks became some of the most popular on the Swiss stock exchange at an added value of about 50% in 2012.

2.1 Personal luxury goods market segments and regions

One can differentiate between five important segments in the personal luxury goods market:[14] clothing (26%), watches & jewelry (16% & 6%), accessories (27%), perfumes & cosmetics (20%), and tableware (3%). With about 12% growth, accessories achieved the strongest average annual growth (CAGR) between 2008 and 2012, followed by watches & jewelry with 7%, clothing with 4%, perfumes & cosmetics with 2.5%, and tableware with -1%.

Europe has the largest market share with about 35%, followed by the Americas with 31%, and Asia-Pacific with 20%. In 1995, Asia-Pacific only had a market share of 8%. The current market growth stems primarily from the emerging markets reflected in Asia-Pacific's largest average annual growth (CAGR[15]) of 18% between 2008 and 2012. The Americas follow with 5%, Europe with 4% and Japan with -1%. The other regions lost market share again Asia-Pacific, particularly due to the enormous economic activity in China, which is particularly relevant in respect of the classical buyers of luxury brands in Japan. However, it should be kept in mind that in 2012, 40% of the global sales were made to "luxury tourists," meaning that luxury consuming and tourism are becoming increasingly interwoven.

Several trends reinforce the current market situation regarding luxury goods: (1) people's willingness to reward themselves for their increasing workload. (2) Luxury goods are still status symbols and facilitate their owners' positioning in society, even though there are significant differences across countries. (3) The strong increase in high net-worth individuals (HNWI). These are people who have net assets of more than USD 1 million (excluding owner-occupied properties). At the end of 2006, there had been almost 10 million HNWI in the world. This number increased, particularly in emerging markets such as Singapore, India, China, Indonesia,

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the United Arabic Emirates, and Russia. Since the fall of 2012, however, the Asian region has experienced a leveling off.

2.2 The watch industry differs somewhat

After the start of the new millennium, the watch industry experienced a unique growth period. For example, Richemont's watch segment sales grew from EUR 0.8 billion to EUR 2.8 billion between the 2001/02 and 2012/13 fiscal years, reflecting a CAGR 02-13 of 12%. In the same period, the EBIT margin increased from 15.8% to 26.6%. With 27% of the total turnover, the watch segment is the second largest segment within Richemont, only beaten by the jewelry segment, which makes up 51% of Richemont's total turnover.

At its peak in 2008, the world market for watches reached a volume of EUR 33 billion (in retail value). About 300,000 watches were produced in the upper segment (watches whose retail price start at CHF 18,000) each year. IWC had a share of about 10,000 watches.

However, the watch industry also recorded significant drops in sales during the financial and economic crisis. The Swiss watch industry's exports dropped by 22%, which was equal to an export value of CHF 13 billion (a retail value of approx. CHF 39 billion) in 2009. But also the sales in Switzerland decreased, since fewer tourists visited Switzerland and they are usually responsible for 30-50% of the sales. In the upper segment, the decrease was up to 30% in some month. The stock prices dropped by up to 50%. Short-time work, dismissals, factory shutdowns, and withdrawals were some of the consequences. For example, Patric Heiniger, the CEO of Rolex for about 16 years, resigned from his position. About a dozen of the 500 Swiss-made watch brands did not survive the crisis (e.g. Wyler, Leonard and Montres Villemont) and were sold, "put on ice" (e.g. Léon Hatot in the Swatch Group), or merged within the company (e.g. Concord and Ebel within the MGI Luxury Group).

In February 2010, most firms had hit their lowest point and in mid-2010, most companies were back at their 2007-08 fiscal year level. Between 2000 and 2004, Swiss watch exports were valued at about CHF 10 billion, which increased continuously to about CHF 17 billion in 2008. The drop in 2009 to CHF 13 billion was more than offset in 2010 when the export volume reached CHF 16 billion. Many companies experienced a record year in 2011, with exports reaching CHF 19 billion. China was by far the most important growth driver in the luxury goods industry.[16]

In 2012, the watches & jewelry segment reached a global sales volume of about EUR 47 billion (watches amounting to about EUR 32 billion), which reflects a market share in personal luxury goods of about 14%. Thus, Richemont had an approximate 14% market share in the global luxury goods business. The CAGR 08-12 amounted to 8.7%. Since the fall of 2012, however, a slowdown has been experienced, particularly in the upper segment in China.

In 2011, the watch industry was the third largest Swiss export industry, comprising about 10% of the country's overall exports. Only the pharmaceutical/ chemical industry and engineering/ electronics industry had larger export volumes. Between 2002 and 2011, the Swiss watch industry almost doubled its export turnover from CHF 10 billion to almost CHF 20 billion. In terms of value, the Swiss watch industry had a global market share of 53%; however, when the quantities are examined, the share was only 2%. About 40% of the exports went to the Asia-Pacific region, 30% to Europe, and 20% to the USA.

The Swatch Group, which has an approximate 15% market share, is by far the largest producer of watches today (net turnover 2012: CHF 8.1 billion), followed by Rolex (turnover 2010:

CHF 4.4 billion), and Richemont (its 2012/13 watch segment:[17] 2.8 billion.). Patek Philippe, Audemars Piguet, and Chopard follow further down. Outside Switzerland, LVMH/ Bulgari, Citizen, Fossil, Casio, and Seiko follow with market shares of about 3-6%. Old traditional brands dominate the competition in the upper segment. However, there are also successful new market entries, such as the Franck Muller brand, which was founded in 1992 and developed into a prestigious watch brand representing classic, timeless watch artwork within ten years.

The slight consolidation of the industry seems to continue. On the one hand, watch producers want to ensure that they have suppliers. In the watch industry, Bieler Montres Hermès, which has with an annual turnover of € 140 million is a good example for ensuring the supply through acquisitions. The company acquired 30% of the watchcase producer Louis Erard, as well as acquiring the watch face manufacturer Natéber from La Chaux-de-Fonds in April 2012. Another example is the Japanese Citizen Watch, which acquired the clockwork producer and finisher La Joux-Perret in March 2012, and has an investment in the clockwork manufacturer Vaucher located in the town Fleurier. Further acquisitions of suppliers seem set to follow. On the other hand, independent companies have also changed their ownership structure. The trading house DKSH, for example, acquired the watchmaker Maurice Lacroix.

Expansion into new growth markets through own distribution platforms and the increasingly important distribution through own boutiques constitute a challenge for the smaller watch companies. Distribution platforms allow faster market access and a closer proximity to the customer. Furthermore, smaller watch companies have to rely on niche market strategies, since they are unlikely to be able to compete for the best locations for their boutiques against the large luxury goods company groups. Besides offering higher margins, the advantage of own distribution channels is the optimization of the brand appearance for the final customer, as well as the closer proximity to the market to detect changes in customer preferences faster. However, running own boutiques constitutes a significant financial investment. Another challenge is the online presence of brands.

2.3 IWC: An eventful history

The watch company IWC is currently one of the key players within the Richemont group. IWC was founded in 1868 and can look back on an eventful history as it came close to bankruptcy more than once.

Florentine Aristo Jones (from Boston) founded the IWC (International Watch Company) in Schaffhausen. In 1978, IWC was close to bankruptcy. Very cheap quartz watches from Japan seemed to have taken over the market. IWC thus tried to change to quartz watches quickly, but failed. Nobody wanted to invest in IWC at that point. Private contact with the owners of the German automobile supplier VDO, enabled this company to acquire IWC for only CHF 4.5 million. In the following years, VDO invested heavily in IWC's future. In 1991, VDO was acquired by Mannesmann.

The stock market crash at the end of the 1990s led to a temporary decline in the mass luxury business. At this time, Richemont focused stronger on the less cyclical upper market segment. In the watch industry, the mechanical watch mechanism made a comeback, which contradicted the rapid change that had previously prevailed. People wanted to see their watch hands moving again.

In a bidding process, Richemont therefore acquired the three watch brands (Jaeger-LeCoultre, Lange & Söhne, and IWC) in the VDO portfolio for CHF 3.1 billion. LVMH and the Swatch

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group were also among the bidders. Vodafone's 2000 takeover of Mannesmann (steel tubes, automobile supplier, mobile communication) and its focus on the mobile communication business allowed Richemont to acquire these companies. All three brands were known manufacturers and had strong technical competences in producing watchcases and clockworks. This acquisition increased Richemont's watch producer know-how significantly and simultaneously positioned it as world market leader in the "haute horlogery" segment.

Georges Kern, who joined Richemont in 2000, was specifically involved in integrating the three watch brands into the group. In 2002, he became the CEO of IWC. While IWC was an own legal entity at first, it was integrated into Richemont's legal entity in 2003.

In contrast to Richemont, IWC was less internationally diversified and had a strong focus on Europe. About 70% of its sales were completed in the German-speaking area of Europe. Today, this is less than 20%. Richemont therefore first drove the internationalization of the IWC brand, which included a repositioning of the brand. The watch was transformed from a specialized measuring instrument into a piece of jewelry and lifestyle. The goal was a fusion of technical precision and fashion. In a second stage, Richemont wanted to strengthen the brand through the verticalization of its manufacturer character. Formerly, only 5% of IWC's value creation was provided by its production, today this is 60%. Consequently, another goal was to increase IWC's technical competence significantly. In a third stage, Richemont differentiated between the watch models and linked them to different themes. For instance, the "Portofino collection," which was launched in 2011, was closely linked to the world of movies. IWC also started a new engineer collection in partnership with Mercedes AMG Petronas Formula One in 2012. New materials from the automobile industry, such as carbon, platinum, and titan, were integrated into the new watches and an international race night, featuring Nico Rosberg as a special guest, was organized for 800 guest and media representatives.

IWC had previously been strongly focused on watch collectors, but today IWC attracts new customer through its novel model and thematic focuses. It produces about 70,000 watches per year and the average price has increased over the last few years. In the future, a fourth stage could be to position the IWC brand closer to its reference brands in the watch industry, such as Patek Philippe. The launch of its most exclusive watch, Portuguese Sidérale Scafusia, was a step in this direction.

As already discussed above, the economic crisis in the fall of 2008 affected the watch industry, including IWC, strongly and recovery only started in the spring of 2010. IWC signed a new partnership with the Charles Darwin Foundation, which is dedicated to protecting the Galapagos Islands. In 2009, a new generation of aquatimer watches, inspired by this partnership, was launched. IWC also demonstrates its technical innovativeness with its Da Vinci collection, which displays the day, month, and year in large figures. The number of exclusive IWC boutiques has increased to about 30. In 2012, the first global flagship store was opened in Hong Kong – a spacious boutique with showrooms and smart lounges representing the different IWC theme worlds: underwater, aviation, outdoor, and the open sea. In 2012, 17 new IWC boutiques were opened in cities such as New York, Beijing, Paris, and Zurich. At its headquarters in Schaffhausen, its component production moved to a new building to lay the foundation for further growth.

Today, IWC has about 550 employees and about CHF 0.5 billion in turnover. About 20-30% of the turnover is due to the innovations discussed above. IWC is believed to surpass the watch industry's 26.6% EBIT margin. About 25% of its employees work outside the headquarters in Schaffhausen. The regional split in turnover is about 38% in Europe & the Middle East, 35% in Asia, 15% in the Americas, and 7% in Japan. Until 2003, agents were primarily responsible

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for distribution outside Europe, but they have been steadily replaced due to IWC's integration into Richemont's distribution platforms and its own local marketing and distribution teams.

Problem definition A: General questions

1. How do you assess Richemont's development since 2001 compared to the general development of the personal luxury sector? Which businesses and regions represent Richemont's strongest growth areas?

2. When and how has the Richemont's strategic concept (corporate business model) changed over the decades since its establishment? What was the rationale for this?

3. What favored this development towards an integrated corporate group since the start of the new millennium? What are the risks?

Problem definition B: Richemont's perspective

4. Supposing that you are part of the top management team. On the one hand you sense a pressure to consolidate from the branch; on the other hand, you do not want or cannot interfere too strongly in the entrepreneurial autonomy of the Maison. What types of synergies within the group would you attempt to realize, given the existing framework conditions? Organize your suggested synergies into a matrix containing the dimensions of potential and feasibility.

Problem definition C: IWC's perspective

5. On what basis of owner-logic is IWC part of the VDO portfolio? In contrast, what logic is followed in the case of the acquisition by Richemont? Is Richemont, in the sense of the "best owner" concept, thereby the better owner than VDO?

6. What added value did Richemont provide IWC after its acquisition in the year 2000?

7. What problems and challenges were encountered in realizing these synergies at IWC?

8. From the viewpoint of IWC, which synergies with Richemont should primarily and sensibly be pursued at present?







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APPENDIX

Table 1: Financial development of Richemont 2001/02 – 2012/13

Richemont Consolidated Income Statement	2012/13	2011/12	2010/11	2009/10	2008/09	2007/08	2006/07	2005/06	2004/05	2003/04	2002/03	2001/02	CAGR 02-13	CAGR 05-13	CAGR 06-13
Sales (Mio. €) (March 31)	10150	8868	6892	5176	5418	5290	4827	4308	3671	3375	3651	3860	9.2%	13.6%	13.0%
> Retail	5440	4656	3469	2385	2304	2414	2009	1762	1509	1392	1496	1590	11.8%	17.4%	17.5%
> Retail as % of sales	54%	53%	50%	46%	43%	46%	42%	41%	41%	41%	41%	41%			
> Wholesale	4710	4212	3423	2791	3114	3076	2918	2546	2162	1983	2155	2270	6.9%	10.2%	9.2%
Cost of sales	-3631	-3217	-2498	-1985	-2001	-1875	-1753	-1588	-1415	-1283	-1367	-1382	9.2%	12.5%	12.5%
> Cost of sales as % of sales	36%	36%	36%	38%	37%	35%	36%	37%	39%	38%	37%	36%			
Gross Profit	6519	5651	4394	3191	3417	3415	3074	2720	2256	2092	2284	2478	9.2%	14.2%	13.3%
Gross Margin	64.2%	63.7%	63.8%	61.6%	63.1%	64.6%	63.7%	63.1%	61.5%	62.0%	62.6%	64.2%			
Net operating expenses	-4093	-3603	-3039	-2361	-2449	-2297	-2158	-1979	-1771	-1796	-2025	-1996	6.7%	11.0%	10.9%
Net operating expenses as % of sales	40%	41%	44%	46%	45%	43%	45%	46%	48%	53%	55%	52%	-2.2%	-2.2%	-1.8%
Operating Profit	2426	2048	1355	830	968	1118	916	741	485	296	259	482	15.8%	22.3%	18.5%
Operating Profit Margin	23.9%	23.1%	19.7%	16.0%	17.9%	21.1%	19.0%	17.2%	13.2%	8.8%	7.1%	12.5%			
> Net finance costs/income	-47	-235	-181	-137	-101	47	31	5	-48	6	-56	-46	0.2%	-0.3%	-237.7%
> Share of post-tax profit of assoc. untertakings	-4	-9	101	4	3	1	1	0	0	0	0	0			
Profit before taxation	2375	1804	1275	697	870	1166	948	746	437	302	203	436	16.7%	23.6%	18.0%
Taxation	-370	-264	-196	-94	-133	-194	-158	-136	-97	-64	-50	-107	11.9%	18.2%	15.4%
Profit from continuing operations	2005	1540	1079	603	737	972	790	610	340	238	153	329	17.9%	24.8%	18.5%
Profit/loss from discontinued operations (1)	0	0	0	-3	339	592	539	486	472	422	489			-100.0%	-100.0%
Profit for the year	2005	1540	1079	600	1076	1564	1329	1096	812	660	642			12.0%	9.0%
Diluted earnings per share (€)	3.595	2.756	1.925	1.071	1.916	2.75	2.331	1.951	2.185	0.578	1.307			6.4%	9.1%
Cash generated from operations	1944	1798	1696	1464	819	968	970	774	481	561	556	286	19.0%	19.1%	14.1%
Corporate costs	207	93	161	186	140	158	144	169	145	170	178	200	0.3%	4.6%	2.9%
> Central supportservices (CSS)	188	170	159	147	139	146	137	154	132					4.5%	2.9%
> CSS as % of sales	1.9	1.9	2.3	2.8	2.6	2.8	2.8	3.6	3.6						

(1) Discontinued operations: The share of results from BAT to 20.10.08 and certain immaterial operations were included in continuing operations up to and including 31.03.07 under IFRS, but are presented above within discontinued operations for all periods for comparative purposes on (2) Reporting changed in 2004/05 from SWISS GAAP ARR to IFRS

Sources: Richemont Annual Reports 2002-2013

million € (March, 31st)

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Table 2: The development of Richemont's turnover from 2001/02 to 2013/13

Business Segments End of business year: March 31		Jewellery Maisons	Specialist Watchmakers	Montblanc Maison	Other	Sum	YoY
Sales (Mio. €)	CAGR 06-13	13%	15%	6%	15%	13%	
	CAGR 05-13	13%	15%	8%	16%	14%	
	CAGR 02-13	8%	12%	7%	10%	9%	
	2012/13	5'206	2'752	766	1426	10'150	14%
	2011/12	4'590	2'323	723	1232	8'868	29%
	2010/11	3'479	1'774	672	967	6'892	33%
	2009/10	2'688	1'353	551	584	5'176	-4%
	2008/09	2'762	1'437	587	632	5'418	2%
	2007/08	2'657	1'378	625	630	5'290	10%
	2006/07	2'435	1'203	585	604	4'827	12%
	2005/06	2'227	1'063	497	521	4'308	17%
	2004/05	1'938	870	424	439	3'671	9%
	2003/04	1'808	780	389	398	3'375	-8%
	2002/03	1'994	808	394	455	3'651	-5%
	2001/02	2'179	806	380	495	3'860	
% of Sales	2012/13	51%	27%	8%	14%	100%	
	2011/12	52%	26%	8%	14%	100%	
	2010/11	50%	26%	10%	14%	100%	
	2009/10	52%	26%	11%	11%	100%	
	2008/09	51%	27%	11%	12%	100%	
	2007/08	50%	26%	12%	12%	100%	
	2006/07	50%	25%	12%	13%	100%	
	2005/06	52%	25%	12%	12%	100%	
	2004/05	53%	24%	12%	12%	100%	
	2003/04	54%	23%	12%	12%	100%	
	2002/03	55%	22%	11%	12%	100%	
	2001/02	56%	21%	10%	13%	100%	

Reporting changed in 2005 from SWISS GAAP ARR to IFRS

Sources: Richemont Annual Reports 2002-2013

Geographic Regions End of business year: March 31		Europe	Asia-Pacific	Japan	Americas	Sum	YoY
Sales (Mio. €)	CAGR 06-13	10%	24%	3%	8%	13%	
	CAGR 05-13	11%	24%	4%	10%	14%	
	CAGR 02-13	7%	17%	2%	7%	9%	
	2012/13	3'611	4'162	904	1473	10'150	14%
	2011/12	3'098	3'684	833	1253	8'868	29%
	2010/11	2'588	2'569	737	998	6'892	33%
	2009/10	2'099	1'740	625	712	5'176	-4%
	2008/09	2'363	1'474	692	889	5'418	2%
	2007/08	2'284	1'295	699	1012	5'290	10%
	2006/07	2'042	1'070	731	984	4'827	12%
	2005/06	1'811	899	723	875	4'308	17%
	2004/05	1'580	755	639	697	3'671	9%
	2003/04	1'458	637	625	655	3'375	-8%
	2002/03	1'558	695	705	693	3'651	-5%
	2001/02	1'710	710	744	696	3'860	
% of Sales	2012/13	36%	41%	9%	15%	100%	
	2011/12	35%	42%	9%	14%	100%	
	2010/11	38%	37%	11%	14%	100%	
	2009/10	41%	34%	12%	14%	100%	
	2008/09	44%	27%	13%	16%	100%	
	2007/08	43%	24%	13%	19%	100%	
	2006/07	42%	22%	15%	20%	100%	
	2005/06	42%	21%	17%	20%	100%	
	2004/05	43%	21%	17%	19%	100%	
	2003/04	43%	19%	19%	19%	100%	
	2002/03	43%	19%	19%	19%	100%	
	2001/02	44%	18%	19%	18%	100%	

Reporting changed in 2005 from SWISS GAAP ARR to IFRS

Sources: Richemont Annual Reports 2002-2013

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Table 3: Profit developments of Richemont's business areas from 2001/02 to 2012/13

Richemont End of business year: March 31		Jewellery Maisons	Specialist Watchmakers	Montblanc Maison	Other	Operating contribution	Unallocated corp.costs	Operating profit	YoY
Operating Results (Mio. €)	CAGR 06-13	17%	18%	5%	13%	16%	3%	18%	
	CAGR 05-13	19%	22%	9%	0%	20%	5%	22%	
	CAGR 02-13	11%	17%	5%	-5%	13%	0%	16%	
	2012/13	1'818	733	120	-38	2'633	207	2'426	18%
	2011/12	1'510	539	119	-27	2'141	93	2'048	51%
	2010/11	1'062	379	109	-34	1'516	161	1'355	63%
	2009/10	742	231	79	-36	1'016	186	830	-14%
	2008/09	777	301	69	-39	1'108	140	968	-13%
	2007/08	765	374	126	11	1'276	158	1'118	22%
	2006/07	667	274	110	9	1'060	144	916	24%
	2005/06	616	227	83	-16	910	169	741	53%
	2004/05	460	148	59	-37	630	145	485	64%
	2003/04	367	95	55	-51	466	170	296	14%
	2002/03	421	80	68	-132	437	178	259	-46%
	2001/02	551	127	71	-67	682	200	482	
Operating Margin (%)	2012/13	34.9%	26.6%	15.7%	-2.7%	25.9%		23.9%	3%
	2011/12	32.9%	23.2%	16.5%	-2.2%	24.1%		23.1%	17%
	2010/11	30.5%	21.4%	16.2%	-3.5%	22.0%		19.7%	23%
	2009/10	27.6%	17.1%	14.3%	-6.2%	19.6%		16.0%	-10%
	2008/09	28.1%	20.9%	11.8%	-6.2%	20.5%		17.9%	-15%
	2007/08	28.8%	27.1%	20.2%	1.7%	24.1%		21.1%	11%
	2006/07	27.4%	22.8%	18.8%	1.5%	22.0%		19.0%	10%
	2005/06	27.7%	21.4%	16.7%	-3.1%	21.1%		17.2%	30%
	2004/05	23.7%	17.0%	13.9%	-8.4%	17.2%		13.2%	51%
	2003/04	20.3%	12.2%	14.1%	-12.8%	13.8%		8.8%	24%
	2002/03	21.1%	9.9%	17.3%	-29.0%	12.0%		7.1%	-43%
	2001/02	25.3%	15.8%	18.7%	-13.5%	17.7%		12.5%	
Reporting changed in 2005 from SWISS GAAP ARR to IFRS									
Sources: Richemont Annual Reports 2002-2013									

Table 4: Regional turnover in the personal luxury goods 2006-2012

Personal Luxury		Europe	Asia-Pacific	Japan	Americas	Rest of the World	Sum	YoY
Sales	CAGR 06-12	3.9%	15.9%	-1.3%	2.8%	8.9%	4.9%	
(m. €)	2012	74.20	42.40	19.08	65.72	10.60	212.00	10%
	2011	71.04	36.48	17.28	57.60	9.60	192.00	11%
	2010	64.01	29.41	19.03	51.90	8.65	173.00	13%
	2009	58.14	22.95	18.36	45.90	7.65	153.00	-8%
	2008	63.46	21.71	20.04	53.44	8.35	167.00	-2%
	2007	64.60	18.70	22.10	57.80	6.80	170.00	7%
	2006	58.83	17.49	20.67	55.65	6.36	159.00	
% of Sales	2012	35.0%	20.0%	9.0%	31.0%	5.0%	100%	
	2011	37.0%	19.0%	9.0%	30.0%	5.0%	100%	
	2010	37.0%	17.0%	11.0%	30.0%	5.0%	100%	
	2009	38.0%	15.0%	12.0%	30.0%	5.0%	100%	
	2008	38.0%	13.0%	12.0%	32.0%	5.0%	100%	
	2007	38.0%	11.0%	13.0%	34.0%	4.0%	100%	
	2006	37.0%	11.0%	13.0%	35.0%	4.0%	100%	

Source: Following Altagamma/Bain & Company

Table 5: Sectorial turnovers in the personal luxury goods 2006-2012

Personal Luxury		Apparel	Watches & Jewellery	Accessoires	Parfuns & Cosmetics	Table-ware	Sum	YoY
Sales	CAGR 06-12	3.5%	5.6%	8.4%	2.3%	4.2%	4.9%	
(m. €)	2012	56.23	47.58	58.39	43.25	6.55	212.00	10%
	2011	51.46	41.57	51.46	41.57	5.94	192.00	11%
	2010	47.68	35.32	44.15	38.85	6.99	173.00	13%
	2009	42.15	29.66	37.47	37.47	6.24	153.00	-8%
	2008	47.69	35.77	37.47	39.18	6.88	167.00	-2%
	2007	50.85	35.07	36.82	40.33	6.94	170.00	7%
	2006	45.84	34.38	36.01	37.65	5.12	159.00	
% of Sales	2012	26.5%	22.4%	27.5%	20.4%	3.1%	100.0%	
	2011	26.8%	21.6%	26.8%	21.6%	3.1%	100.0%	
	2010	27.6%	20.4%	25.5%	22.5%	4.0%	100.0%	
	2009	27.6%	19.4%	24.5%	24.5%	4.1%	100.0%	
	2008	28.6%	21.4%	22.4%	23.5%	4.1%	100.0%	
	2007	29.9%	20.6%	21.7%	23.7%	4.1%	100.0%	
	2006	28.8%	21.6%	22.7%	23.7%	3.2%	100.0%	

Source: Following Altagamma/Bain & Company

Table 6: Turnover in the personal luxury goods 1995-2012

	bn. €	% p.a.	Events
CAGR 95-12	6.1%		
CAGR 00-12	4.3%		
CAGR 01-12	4.3%		
CAGR 03-12	5.8%		
CAGR 04-12	5.7%		
CAGR 05-12	3.9%		
2012	212	10.4%	
2011	192	11.0%	Fukuschima earthquake 11.3.11
2010	173	13.1%	
2009	153	-8.4%	
2008	167	-1.8%	Financial and economic crisis
2007	170	6.9%	
2006	159	8.2%	
2005	147	8.1%	
2004	136	6.3%	
2003	128	-3.8%	
2002	133	0.0%	SARS pandemic 2002/2003
2001	133	3.9%	Terror attacks Sept 11, 2001
2000	128	18.5%	The bursting of the dot-com bubbles
1999	108	12.5%	
1998	96	4.3%	
1997	92	8.2%	Asian crisis 1997/98
1996	85	10.4%	
1995	77		

Source: Bain & Company

Endnotes

[1] If you are interested in more detailed information about the luxury goods industry please see: Müller-Stewens, G. (2013): Das Geschäft mit Luxusgütern. Geschichte, Märkte, Management, Universität St. Gallen. You can order this publication from: guenter.mueller-stewens@unisg.ch.

[2] Taking into account the share split and re-organization in 2008.

[3] Richemont's fiscal year ends at the end of March.

[4] Rembrandt was the name of the tobacco company's first cigarette.

[5] http://www.richemont.com/press-centre/company-announcements.html?view=article&id=210.

[6] Richemont Annual Report and Accounts 2013, p. 5.

[7] It is important to note that individual brands can offer products in several business segments. The brands are assigned to the segment with its highest turnover.

[8] Similar to the strategic re-orientation in 2000, there have been attempts to appoint heads of the segments. This structure has also been replicated in the regional segments. However, this did not pay off as the individual brands did not want the head of the segment to represent them.

[9] http://www.richemont.com/strategy.html (20.8.10).

[10] The CEO's of LVMH have less responsibility in these areas. This is reflected in the distribution: LVMH rents, for example, an entire sales area in a shopping center and distributes it among its Maisons. A brand that does not deliver the expected turnover is taken off the sales area. In contrast, Richemont has not undertaken any bundling to date, as this would threaten the group's performance if a brand were not to succeed.

[11] Think!, 3/2009, p. 15.

[12] Francois-Henri Pinault, CEO of PPR, speaks about a new understanding of luxury, a socially rooted, sustainable luxury. An endeavor is made to unite opposites: On the one hand, the luxury industry is associated with extravagance and selfishness and, on the other hand, the luxury industry has to preserve natural resources and support the social structures in society in order to ensure a supply of highly qualified craftsmen. Customer want their purchasing decision to be in accordance with their values.

[13] Richemont has pledged to comply with the *Swiss Code of Best Practice for Corporate Governance* (published by "Economiesuisse"), as well as with the *Directive on Information Relating to Corporate Governance* (the SIX Swiss Exchange). Moreover, Richemont complies with the rules for companies listed on the Swiss stock exchange and on the Johannesburg stock exchange. An audit committee regularly checked compliance with these rules. The corporate governance principles are embedded in the company statutes, as well as in the corporate governance regulations.

[14] See Bain & Company (2011), Luxury Goods Worldwide Market Study, 10th Edition.

[15] Compound Annual Growth Rate (*CAGR).*

[16] In the US, private consumption returned to a slight growth in the fall of 2009. However, the mass markets remained at a low growth rate until at least mid-2010, while the higher end segment increased its growth significantly. Companies such as Tiffany and Neiman Marcus announced an increase of 9% for the second quarter of 2010, which was an increase of 7.6% compared to the same quarter in 2009.

[17] This is jewelry turnover and excludes the turnovers from watches. Consequently, Richemont should be the market leader in the area of watches with a starting retail price of CHF 3,000 (or a wholesale price of CHF 1,500).