

Brands of the Future: The ascent of the brand to be driven by digital

Competitive positioning on Brands of the Future

Identifying the Brands of the Future

In this note, we lay out the opportunities for the global discretionary consumer brands sector, which ranges from sporting goods to apparel, handbags to jewelry – a sector that can support high growth and returns. We introduce our GS Competitive Positioning (CP) framework to rank the 77 companies in our coverage universe, with \$408bn of revenue and \$893bn of market cap. In an industry characterized by intangible values and one that is traditionally complex to analyze, we provide a structure to measure access to growth, pricing power, market structure and brand momentum.

Brands have attractive business models

Well-managed brands can deliver strong fundamentals, reflecting (1) multiple growth drivers (global consumer reach, volume and price led growth and brand extensions); (2) pricing power (driving high gross and operating profitability, up to 70% and 30%, respectively); and (3) relatively capital-light business models. The sector has grown 13% pa over 10 years and generates a 16% return on capital (vs. Stoxx 600 at 3% and 9%).

Brands enjoy a trio of opportunities: structural, transformative and cyclical

(1) A long-run structural rise in brand share (now at 31%, from 24% 10 years ago); (2) the transformative impact of digital on the consumer experience; and (3) a cyclical tailwind as global GDP growth returns to trend, with consumption leading.

We examine the digital opportunity in detail, an area where brands have been slow to adopt (direct e-commerce stands at just 5% of brand sales). We analyze the potential of 5 digital enablers for brands in this report: (1) e-commerce drives exponential reach; (2) digital marketing builds immersive relationships with consumers; (3) Big data deepens customer insight; (4) customization speeds supply chains, adds price premiums; and (5) wider brand extensions add growth and experiences.

Our best-positioned global brands

We rank 77 global companies in our coverage based on (1) strong Competitive Positioning, (2) high return on capital, and (3) valuation. Our top global picks are Buy-rated Michael Kors, Nike, Richemont, Burberry, Samsonite and Arezzo; Sell-rated Coach.

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