



MEISTERKREIS

Roland Berger
Strategy Consultants

The German high-end sector – 2013 Industry Monitor

Consumer Goods & Retail Competence Center

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Key findings

- > The high-end sector in Germany generated **total value added** in excess of **EUR 55 billion** in 2012 – total value add rose by **EUR 6 billion** since 2011
- > **EUR 23 billion** related to the **German domestic market** which means a **14% growth** compared to 2011
- > **Double digit growth rate for the fourth consecutive year**
- > **German firms exported** high-end goods worth more than **EUR 32 billion** – they are the global market leaders in areas such as cars and super yachts
- > **Exports** by German companies **grew by 12%** – the high-end sector acts as an **ambassador** for German industry
- > Key **success factors** for German exports are their **world-renowned craftsmanship** ("Made in Germany") combined with a constant stream of **technical innovations** and **modern, timeless design**
- > In terms of value added, the **automotive sector** was by far the **biggest** of the 14 sectors investigated in this study, followed by **fashion/accessories** and **watches/jewelry**
- > The high-end sector accounted directly for **147,000 jobs in industry and retail** – many more jobs are indirectly dependent on the sector, e.g. at specialist suppliers and service providers
- > German high-end firms invest systematically in **training** new workers to a **high level**, particularly in traditional craftsmanship and technical skills – this ensures Germany's long-term success
- > The German domestic market is expected to be further fuelled by the increasing interest of German consumers in high-end brands and products, the growing number of high-end stores and the constantly rising number of affluent tourists – **by 2020**, the **German market** could almost double in size to around **EUR 40 billion**
- > Demand remains strong in international markets such as China or the US, so growth is likely to continue in coming years – exports could hit **EUR 55 billion by 2020** and **total value added EUR 95 billion**
- > Ongoing growth in the German high-end sector means more **new jobs** – the number of high qualified people working in the sector could exceed **200,000** by 2020

I. Introduction

A. Aims of the study

In countries such as France or Italy with their many high-end companies and famous brands, the importance of the high-end sector for the economy is not in doubt. But what about Germany? How big is the domestic market there? How many German high-end goods are exported? How many jobs does the sector account for? And what does the future hold for the sector?

According to the annual study of the German high-end market, produced by Roland Berger and the MEISTERKREIS, all key categories in the German domestic market have shown significant growth. In this report, we focus instead on the total value added by the German high-end sector.

B. The high-end sector

What segments and companies make up the high-end sector? Here, we follow the definition used by the European Culture and Creative Industries Alliance (ECCIA), an umbrella organization covering the five European high-end associations. According to the ECCIA, high-end companies share the following characteristics:

- > **Aura:** Imbuing the product or brand with a fascination that generates consumer enthusiasm differentiates high-end products from the mass market
- > **Craftsmanship and creativity:** Top quality, achieved particularly by using workers trained to a very high level
- > **Industrial property:** Substantial investment in design, innovation and brand development
- > **Selective distribution:** Strict control of distribution channels so as to protect the image of the brand and prevent undesirable proliferation in sales
- > **Developing new markets:** Significant share of exports in the high-end sector requires free and fair access to developing markets as a source of future growth

Additional criteria have been used to distinguish the high-end segment more clearly from the rest of the market. This gives us the sectors listed on the following page, which together make up what is known as the "core high-end" segment.

- > **Automotive:** Average price per model in excess of EUR 80,000
- > **Fashion and accessories:** High-fashion items, price ranges well above those of mainstream brands, selective distribution channels
- > **Watches and jewelry:** Watches priced over EUR 2,500, genuine jewelry priced over EUR 1,500
- > **Perfume and cosmetics:** Brands in the high price segment, selective distribution
- > **Art:** Original works of art sold in exclusive galleries or auction houses
- > **Interiors:** Price ranges in each category (furniture and furnishings, kitchen and bathroom, tableware) well above average-priced brands, selective distribution via specialist retailers
- > **Audio and video:** TVs priced over EUR 1,500, cameras in top price categories sold via specialist retailers, premium audio equipment sold via specialist retailers
- > **Yachts:** High-quality motor and sailing yachts over 15 meters long
- > **Hotels:** Five-star and high-end boutique hotels
- > **Wine, champagne and spirits:** Retail prices in excess of EUR 20 per bottle for wine, place of origin for champagne, high price level for spirits
- > **First-class and private aviation:** First-class seats, use of jets and turboprops in private aviation
- > **Writing instruments:** Writing instruments priced above EUR 100
- > **Restaurants:** Restaurants with at least one Michelin star
- > **Musical instruments:** Top-quality handcrafted musical instruments

C. Approach

The total value created by the high-end industry in Germany has been calculated by adding the market volume of each high-end segment in Germany (in consumer prices) to the value of exports by relevant German companies (in sales prices). The number of jobs includes people working in the industry in Germany as well as people working in the relevant retail channels.

It is difficult to calculate the indirect employment effect in the high-end sector, for instance in upstream industries. We have therefore chosen to exclude this factor for the purposes of this study.

This study draws on a variety of sources. For the German domestic market, we have used figures from the study "MEISTERKREIS-Index 2013" produced by Roland Berger and MEISTERKREIS and published in February 2013.

We have also looked at the data produced by relevant companies and carried out a number of interviews with managers. This is backed up with information from existing market studies published by independent institutions and industry associations.

The job figures for each segment are calculated on the basis of company data, statistics published by the German Federal Labor Office and Federal Statistical Office, plus data from relevant industry associations.

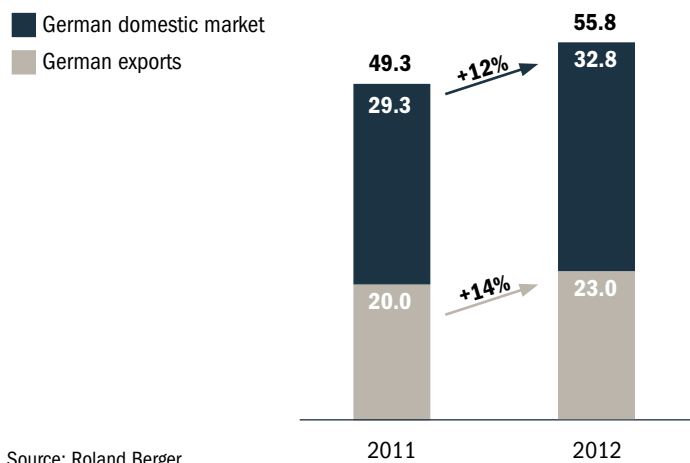
II. Findings of the Industry Monitor

A. Overall performance

The high-end sector in Germany generated **total value added** of **EUR 55.8 billion in 2012**. Of this, **EUR 23.0 billion** was due to domestic consumption and **EUR 32.8 billion** to German exports. Overall the total value added rose by more than EUR 6 billion or 13% compared to 2011.

The industry thus represents an important factor in both domestic and foreign trade for Germany.

FIGURE 1: VALUE ADDED OF HIGH-END GOODS IN GERMANY, 2012 VS. 2011
[EUR BILLION]



The high-end industry directly employs around **147,000 people in Germany** in the industrial and retail sectors. In the industrial sector these individuals are mainly engineers, technical workers and craftspeople – areas where Germany has particularly strengths compared to other countries. Companies in this sector are not interested in moving production to low-wage countries. By employing people in highly qualified roles, the high-end sector makes an important contribution to preserving German jobs with a high level of value added.

FIGURE 2: HIGH-END GOODS IN GERMANY BY SEGMENT, 2012

	German domestic market [EUR bn]	German exports [EUR bn]	Value added [EUR bn]	Jobs
Automotive	5.7	24.9	30.6	30,500
Fashion and accessories	2.3	2.9	5.2	12,700
Watches and jewelry	3.1	0.4	3.5	6,200
Perfume and cosmetics	2.9	0.1	3.0	21,500
Art	1.7	0.7	2.4	8,000
Interiors	1.2	1.0	2.1	15,900
Audio and video	1.5	0.5	2.0	4,700
Yachts	0.1	1.5	1.6	9,000
Hotels	1.4	-	1.4	17,800
Wine, champagne and spirits	1.2	0.1	1.3	4,500
First-class and private aviation	1.0	-	1.0	4,200
Writing instruments	0.1	0.7	0.8	3,900
Restaurants	0.7	-	0.7	6,100
Musical instruments	0.1	0.1	0.2	1,800
TOTAL	23.0	32.8	55.8	146,800

Note: Discrepancies can occur due to rounding differences.

B. Individual sectors

1. Automotive

The automotive sector is by far the **biggest segment** in the German high-end sector. Its total value added is in excess of **EUR 30 billion**.

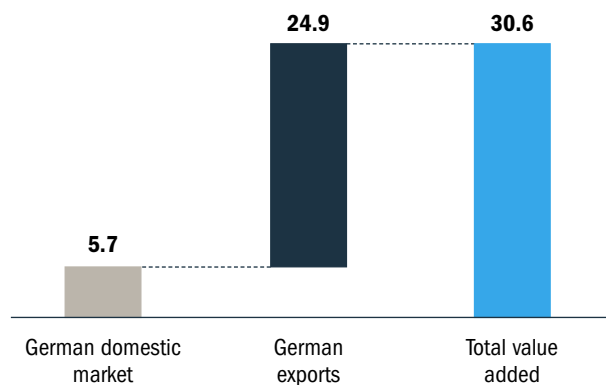
Germans spent **EUR 5.7 billion** on high-end vehicles in 2012. The years 2008 and 2009 were somewhat difficult as a result of the financial crisis, with domestic consumption characterized by a new, more modest approach. This resulted in a "downsizing" of company cars, for instance. In 2012, however, **both domestic and foreign luxury brands** experienced significant growth in Germany, with sales of high-end vehicles up 12% on 2011.

Exports by German automakers¹⁾ are a much more important factor than domestic consumption when it comes to the **high-end segment**, however. German companies lead the world market in segments such as sports cars (the Porsche 911) and high-end sedans (Mercedes-Benz S-Class, BMW 7 Series, Audi A8), **in some cases exporting more than 90%** of vehicles. The Mercedes-Benz S-Class has led the market for total high-end sedans for many years now, with a global market share of around 25%. Niche producers such as Wiesmann have also won many fans in international markets with their handcrafted, small-series vehicles.



Image: Porsche AG

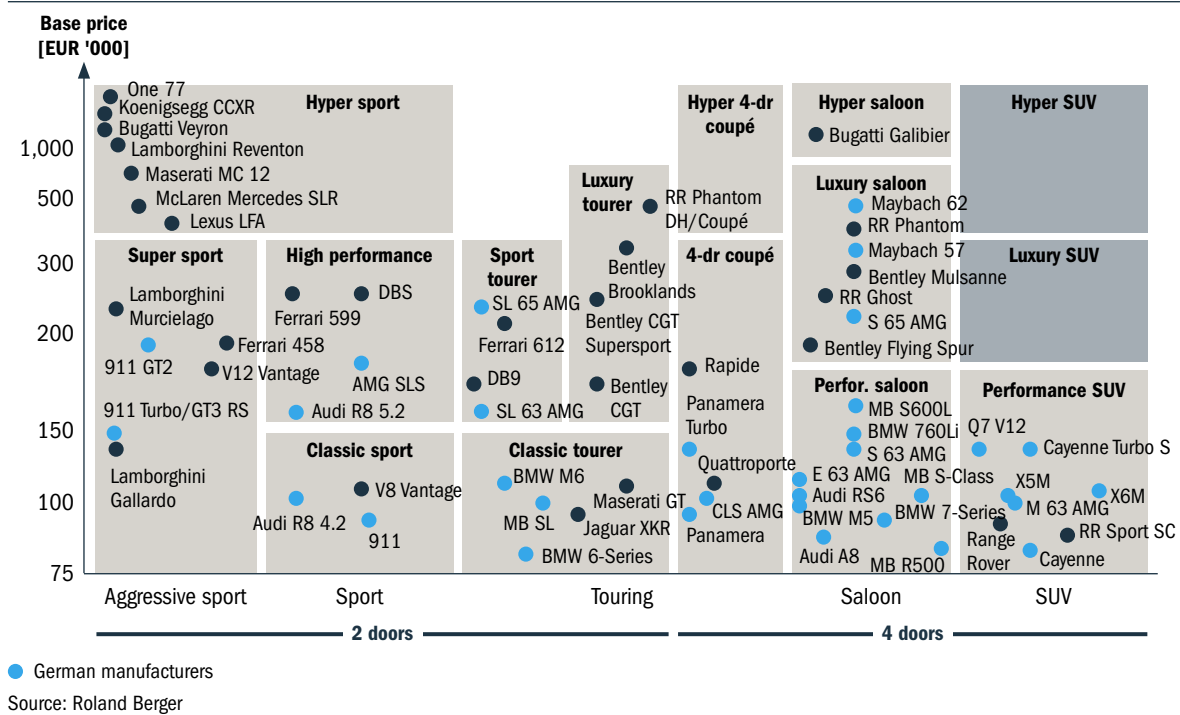
FIGURE 3: VALUE ADDED OF AUTOMOTIVE, 2012 [EUR BILLION]



Source: Company reports, KBA, press clippings, J.D.Power, Roland Berger

1) Excluding foreign subsidiaries of German companies such as Lamborghini, Bentley and Rolls-Royce.

FIGURE 4: MARKET SEGMENTATION OF HIGH-END VEHICLES



Exports of high-end vehicles from Germany generated around **EUR 25 billion** in 2012. This represented a further improvement on the already strong position of German automotive design and engineering, a leader in the global market. High-end vehicle exports also have the effect of making German brands in other segments more attractive. Moreover, demand in China for German high-end vehicles is growing continuously, which will spur exports by German manufacturers in the coming years.

Thanks to their longstanding tradition and pedigree, coupled with an extremely high rate of innovation, German manufacturers dominate the global market for high-end vehicles. They will doubtless build on this position in the future.

The automotive sector is an important employer, with around **30,500 German jobs** depending directly on German high-end vehicle brands. Germany's workforce also represents a competitive advantage. Indeed, some German brands exploit the fact that they are made in Germany by highly skilled workers in their marketing strategy. For example, Volkswagen advertises the Phaeton as being "handmade in Germany" in its Transparent Factory in Dresden. Likewise, Audi boasts of the fact that the R8 is built by "SilverLiners" – particularly experienced specialists working at the company.

2. Fashion and accessories

More than perhaps any other segment of the high-end sector, fashion and accessories represent what we think of as "luxury". Big designer names and iconic products embody the idea of exclusivity. They are particularly closely associated with countries such as France and Italy.

For many years, German consumers were somewhat hesitant when it came to buying expensive items of clothing and accessories. Things have changed noticeably in recent years. In 2012, Germans spent somewhere around **EUR 2.3 billion on high-end fashion items and matching accessories**, up more than 20% on the previous year.

This development is reflected in the growing number of single-label boutiques popping up in cities across Germany. The "Maison Louis Vuitton" flagship store in Munich has recently opened and more projects are planned for the near future.

Brands such as Prada are well aware of the potential for growth in Germany. Thus former COO Sebastian Suhl said that "of all the European markets, Germany has the greatest potential for us."

French and Italian brands continue to dominate global markets. But **German companies** are gaining ground here, too. In 2012, they **exported** products worth around **EUR 2.9 billion**. German brands such as Hugo Boss and Escada have long been active on international markets. They are firmly established in key markets such as the United States and China and now generate more than 80% of their sales abroad. Hugo Boss is by far the biggest German exporter in the fashion and accessories segment.

Smaller brands are also gaining a foothold overseas. Munich-based designer label Talbot & Runhof is making its presence known with its evening gowns on red carpets in many of the world's leading cities. High-end handbag manufacturer Comtesse – famous for its horsehair purses – enjoys particular success in Asia.

Numerous young, innovative fashion labels – many of them, like Lala Berlin and Achtland, based in and around Berlin – are rapidly gaining an international reputation despite their relatively small sales figures at present. Their designer items are available from leading retailers in cities such as New York, Tokyo and London and they attract a great deal of attention from the international specialist media.

Individual initiatives include the twice-yearly "salon" organized by Christiane Arp, Editor-in-Chief of Vogue Germany, bringing young, ambitious designers into contact with leading retailers. Initiatives such as this provide German fashion labels with extra support.



Image: Tomasz Poslada

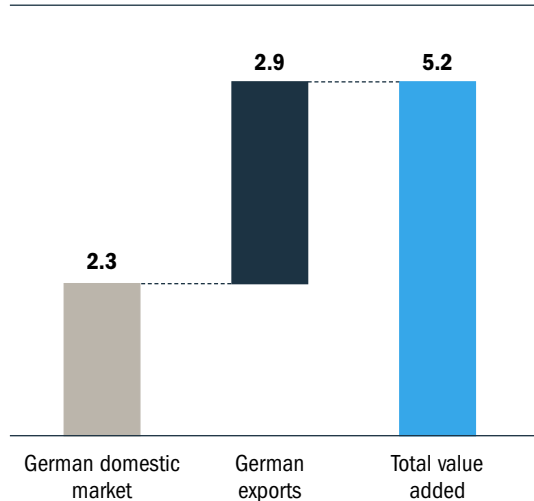
The fashion and accessories segment generates value added of around **EUR 5.2 billion**, making it the second-largest segment of the high-end sector in Germany (after the automotive segment). If the growth seen in recent years continues and current forecasts prove correct, value added will continue to grow strongly on the back of domestic consumption and exports. Efforts in recent years to establish Berlin, with its many trade fairs and fashion events, as an internationally recognized city of fashion have already borne fruit. These efforts have also provided German brands with an opportunity to present themselves to international clients.

Some **12,700 people** work in Germany in the fashion and accessories segment of the high-end sector. Around **4,600** of them are employed in **industry** (primarily in the areas of design, marketing, administration and sales – production takes place largely overseas). Some **8,100 work in related retail**. Market growth in Germany and the large number of single- and multi-label stores opening up or extending their premises across the country mean that the number of people working in retail in the coming years will continue to grow strongly.



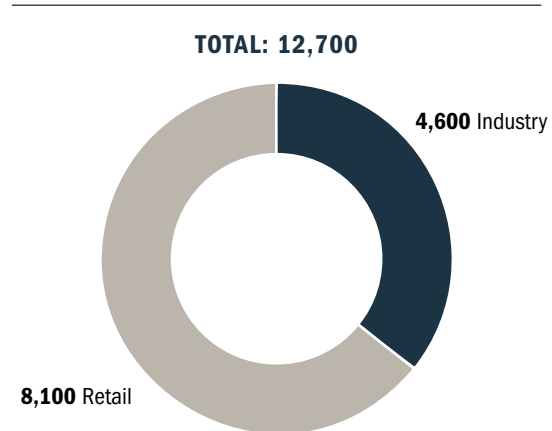
Image: Contesse

FIGURE 5: VALUE ADDED OF FASHION AND ACCESSORIES, 2012 [EUR BILLION]



Source: Company reports, press clippings, interviews, Roland Berger

FIGURE 6: JOBS IN FASHION AND ACCESSORIES, 2012



Source: Company reports, BfA, Destatis, Roland Berger

3. Watches and jewelry

High-end watches and high-quality genuine (as opposed to costume) jewelry enjoy great popularity with German consumers. Exquisite, handcrafted items using high-quality materials such as precious metals and gemstones create lasting value and are viewed by many as an alternative to other investment options. The segment saw revenues of around **EUR 3.1 billion** in 2012, up more than 18% on 2011.

Quality Swiss brands have the largest market share in high-end watches. However, since reunification, Germany has also developed a fine watch industry that is held in high regard internationally. This industry is based predominantly in and around the town of Glashütte in Saxony. A. Lange & Söhne, Glashütte Original and many other, smaller brands combine traditional craftsmanship, innovative technology and timeless design with the outstanding quality traditionally associated with German products. The words "Glashütte in Sachsen" on a watch's face act as a seal of quality – Wempe, for example, has also established a production site for its high-quality mechanical watches in the Saxon town.

FIGURE 7: HIGH-END WATCH MANUFACTURERS IN GLASHÜTTE, SAXONY

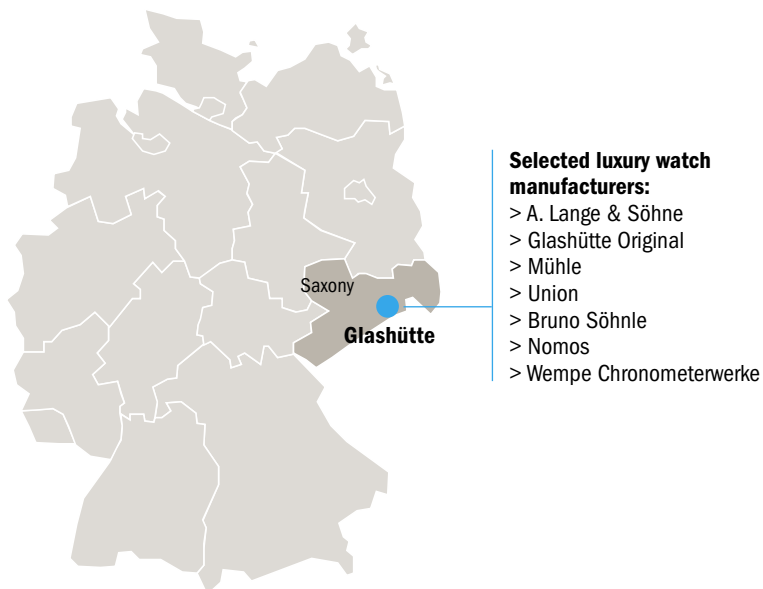


Image: Hemmerle

Germany's Haute Joaillerie, Hemmerle and Hornemann are global stars in their field. Montblanc (which produces watches and jewelry as well as writing instruments and leather goods), jewelers such as Wellendorff from Pforzheim (a town well known for its jewelry), Wempe, and other small, high-quality brands such as Tamara Comolli enjoy success both at home and abroad. There are also a large number of independent jewelers and goldsmiths in Germany

producing high-end individual items in their workshops. In total, German high-end firms exported watches and jewelry worth about **EUR 0.4 billion** in 2012. Many German brands are produced using traditional craftsmanship and aim for quality rather than quantity. They cannot be scaled up to industrial production and the companies behind them are not in a position to increase production volumes at short notice – nor, indeed, would they want to. As they cannot fully meet the growing demand from abroad, export volumes are limited.

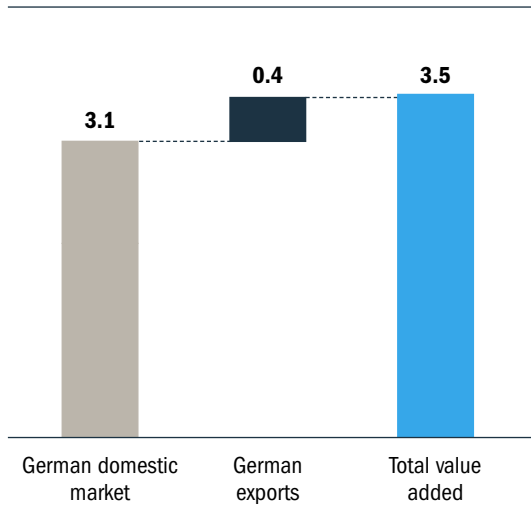


Image: Glashütte Original

Watches and jewelry generate **total value added of approximately EUR 3.5 billion**, taking both domestic demand and exports into account. Some **2,200 people work in the industry**, with a further **4,000** or so working in related **retail**.

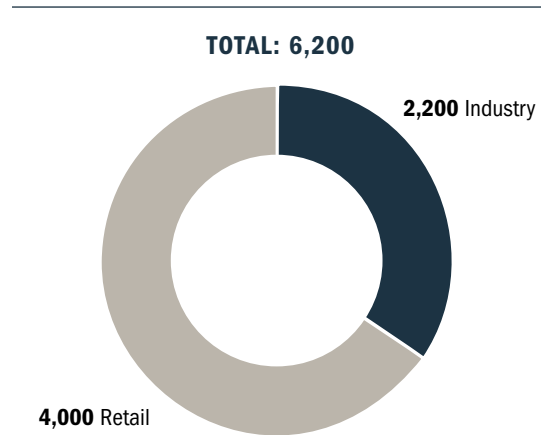
To maintain the high level of craftsmanship needed for production, many brands invest heavily in training their employees. A. Lange & Söhne, for example, has set up its own watchmaking school where it trains young people to become master watchmakers.

FIGURE 8: VALUE ADDED OF WATCHES AND JEWELRY, 2012 [EUR BILLION]



Source: Company reports, German Federal Gazette, press clippings, interviews, Daphne, Roland Berger

FIGURE 9: JOBS IN WATCHES AND JEWELRY, 2012



Source: Company reports, BV Uhren und Schmuck, BfA, Roland Berger

4. Perfume and cosmetics

Quality perfumes and cosmetics are one of the most important high-end categories globally, alongside fashion and accessories. The German market was worth around **EUR 2.9 billion in 2012**, making it one of the biggest in the world. Yet the high-end share of the total market in Germany is rather small compared to countries such as France and Italy.

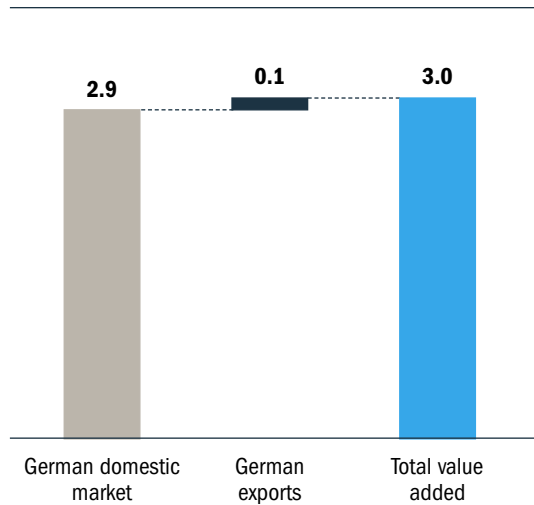
Drugstore chains and discounters account for a large share of the market in Germany, reflecting the importance of the mass market segment. Compared to other parts of the high-end market, perfume and cosmetics grew rather weakly between 2011 and 2012 – just 3%.

The top slots in the perfume rankings are held mainly by fragrances from the major international fashion brands. In cosmetics, apart from the fashion-label brands (produced under license by companies such as P&G, L'Oréal and Coty), there are many specialist producers. These are based primarily in France and Japan.

German companies play a minor role in the high-end segment. Products from big labels such as Escada and Boss are produced under license by foreign companies and so generate value added in Germany only in the form of license fees.

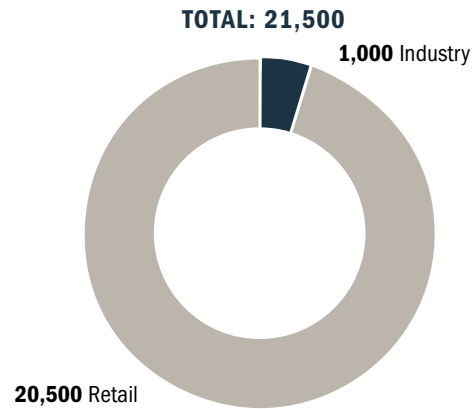
Only high-quality "institute" brands such as Maria Galland (distributed via cosmetics institutes, spas and some pharmacies) are based in Germany. Consequently, **export volumes** are on the low side, at around **EUR 0.1 billion**. **Total value added** by the perfume and cosmetics segments is approximately **EUR 3.0 billion**.

FIGURE 10: VALUE ADDED OF PERFUME AND COSMETICS, 2012 [EUR BILLION]



Source: Company reports, interviews, Euromonitor, press clippings, Roland Berger

FIGURE 11: JOBS IN PERFUME AND COSMETICS, 2012



Source: Company reports, Statista, BfA, Destatis

The relatively small scale of the German industry is reflected in the number of jobs it provides. Most "institute" brands are produced by small or medium-sized enterprises with few employees. The total number of people working in the high-end **perfume and cosmetics segment** in Germany is around just **1,000**.

By contrast, **20,500 people** work in associated retail – the large number reflects the fact that customers receive extensive support and advice during the purchase process.

5. Art

Galleries, auction houses and direct sales by artists generated around **EUR 1.7 billion** in revenues in Germany in 2012. The segment benefited from the boom in the international art market in the wake of the financial crisis. Yet the German market still lags far behind that of the United States or the United Kingdom.

The major auction houses are still mainly to be found in English-speaking countries. The most expensive works of art are auctioned by the likes of Christie's, Sotheby's and Phillips de Pury in New York or London, with prices for individual pieces sometimes going into nine figures. Most international auction houses also have branches in Germany, but their auctions are relatively minor affairs. Indeed, average hammer prices are four times higher in the United States and almost seven times higher in the United Kingdom than in Germany.

German gallery owners and collectors have an excellent reputation internationally, as do German museums. Berlin, in particular, is home to a large number of quality galleries that attract an international clientele – Neugerriemschneider (Olafur Eliasson's gallery) and Sprüth Magers, for example. These galleries with their German and overseas customers will make a major contribution to the future growth of the German art market. The most important exhibition of contemporary art in Germany, documenta, saw a new record of 860.000 visitors in 2012.

Germany has for many years played a leading role in producing the artists themselves. Painters such as Gerhard Richter and Sigmar Polke and photographers such as Andreas Gursky enjoy high international acclaim and their works fetch top prices at auction. Six German artists feature in the top 15 of the Kunstkompass ranking published in manager magazin, a German monthly publication. In May and November 2012 several pieces by Gerhard Richter achieved record prices in auctions. His work "Abstraktes Bild" has been sold for EUR 26.5 million. However, in May 2013 his oil painting "Domplatz, Mailand" has even been sold for USD 37 million at Sotheby's. The 1968 painting set a record for the highest price paid at an auction for a work by a living artist. The photo-painting technique is widely considered a masterpiece and one of the best examples of the German artist's work. It bypasses the record formerly held by Francis Bacon's work.

German artists **exported** works worth approximately **EUR 0.7 billion** in 2012. Additional revenue was generated by the resale abroad of works by German artists, but this figure is hard to quantify exactly. **Total value added** by domestic sales and exports in 2012 was roughly **EUR 2.4 billion**.

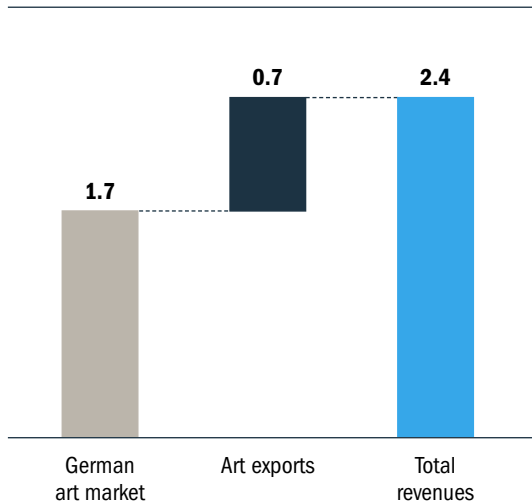
FIGURE 12: KUNSTKOMPASS TOP 20 (2012)

	Name	Country	Price [EUR '000]		Name	Country	Price [EUR '000]
1	Richter, Gerhard	D	1,000-1,500	11	West, Franz	A	50-70
2	Nauman, Bruce	USA	900-1,000	12	Gursky, Andreas	D	150-400
3	Baselitz, Georg	D	400-500	13	Kentridge, William	ZA	40-60
4	Trockel, Rosemarie	D	80-200	14	Boltanski, Christian	F	40-60
5	Sherman, Cindy	USA	75-190	15	Ruff, Thomas	D	40-90
6	Kiefer, Anselm	D	350-600	16	Koons, Jeff	USA	500-800
7	Serra, Richard	USA	900-1,500	17	Baldessare, John	USA	110-190
8	Kelley, Mike	USA	180-300	18	Christo&Jeanne-Claude	USA	280-600
9	Eliason, Olafur	DK	125-350	19	Johns, Jasper	USA	800-4,000
10	Rist, Pipilotti	CH	90-130	20	Gordon, Douglas	GB	125-300

Source: manager magazin

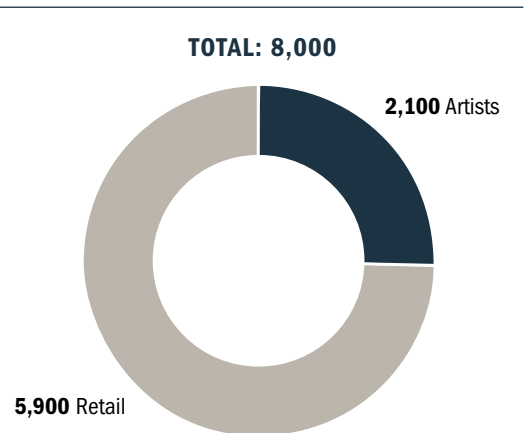
In 2012, around 5,900 people worked in **art retail** (in the high-end segment, this means primarily exclusive galleries and auction houses). Around 2,100 artists were classified in the high-end segment.

FIGURE 13: REVENUES FROM ART, 2012 [EUR BILLION]



Source: TEFAF, Arts Economics, Büro für Kulturwirtschaftsforschung, press clippings, Roland Berger

FIGURE 14: JOBS IN ART, 2012



Source: Destatis, BMWi, TEFAF, Roland Berger

6. Interiors

The **interiors market** consists of three sub-segments: **furniture and furnishings, kitchen and bathroom, and tableware** (china, silverware, glasses). The German high-end segment generates value added of approximately **EUR 2.1 billion**.

German consumers spent around **EUR 1.2 billion** on high-end interior products produced by German and foreign manufacturers in 2012. Furniture and furnishings was the biggest sub-segment in the market, accounting for around EUR 0.6 billion. It was followed by kitchen and bathroom at EUR 0.5 billion and tableware at EUR 0.1 billion.

The combination of outstanding technical skills, fine workmanship and excellent design – in many cases inspired by the clean lines of the Bauhaus style – is what gives German furniture and furnishings companies their strength. Brands such as COR and Knoll, and the outstanding lighting designer Ingo Maurer, enjoy success both at home and abroad. The JAB Anstoetz Group produces top-quality textiles such as home fabrics and carpets as well as handmade furniture using traditional production techniques in its workshops in Bielefeld.

Germany has some highly successful brands in the kitchen segment, too. Gaggenau, Poggenpohl and Bulthaup enjoy a leading position both nationally and internationally. These brands are represented in as many as 50 countries and more than 70% of their products go to export. Likewise, the bathroom and kitchen fittings specialist Dornbracht has a strong reputation internationally; its products combine first-rate design with technical innovation and outstanding user-friendliness.

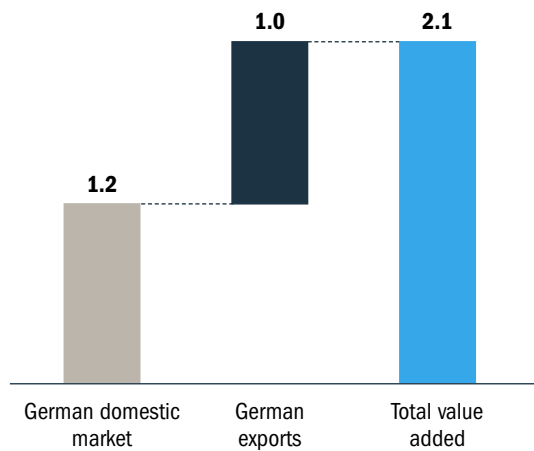
In tableware, Germany is home to high-end companies with some of the richest traditions in the world: porcelain manufacturers Meissen (which originally supplied the Saxon court) and Nymphenburg (which supplied the Bavarian court), to name but two. For centuries, these companies have been producing items of the highest artistic quality and levels of craftsmanship. They still employ traditional methods of manufacture today, largely eschewing industrial production techniques. They also train their specialists themselves – porcelain painters, for example. Their handcrafted porcelain items rank among the most valuable in the world. The companies are increasingly turning themselves into "lifestyle brands" for the home.



Image: Königliche Porzellan-Manufaktur Nymphenburg A. Bäuml GmbH & Co. KG

Export is an important factor for German highend companies in the **interiors segment**. In 2012, they exported items worth in excess of **EUR 1.0 billion** in total.

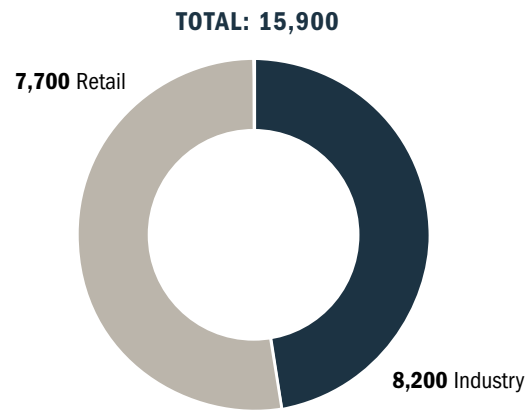
FIGURE 15: VALUE ADDED OF INTERIORS, GERMANY 2012 [EUR BILLION]



Note: Discrepancies can occur due to rounding differences.

Source: Company reports, interviews, German Federal Gazette, press clippings, BVDM, Roland Berger

FIGURE 16: JOBS IN INTERIORS, 2012



Source: Destatis, company reports, BVDM, BfA, Roland Berger

This sector employs some **15,900 people** in Germany. Around **8,200** of these work in the German high-end furniture, kitchen and tableware industry and **7,700** in related **specialist retail**.

7. Audio and video

The audio and video segment of the high-end market encompasses high-quality cameras, TVs and audio equipment. **Germans** spent approximately **EUR 1.5 billion** on such items in 2012.

The market for cameras has changed dramatically in recent years. Cheap compact digital cameras, mainly from Asia, have swept the market. At the same time, we have seen "convergence", with ever more powerful cameras being incorporated into cell phones. Nevertheless, in addition to professional photographers with their specific requirements, there are still a certain number of enthusiasts for whom exclusiveness, innovation and top quality are the most important factor.

This market is served by German companies with rich traditions, such as Zeiss (lenses) and Leica (cameras). Leica is clearly positioned at the high end of the market, meeting top quality standards while offering modern designs. It distributes its products through innovative sale channels: the Leica stores and boutiques. The company doubled its sales between 2010 and 2011 and continued to grow by almost 20% in 2012. Almost 90% of Leica's products go to export – indeed, most of the company's 40 or so stores and boutiques are to be found in major cities outside Germany, from New York to Shanghai. Once again, it is the combination of technical skills and the "made in Germany" label that attracts customers worldwide.



Image: Leica Camera AG

The market for TVs has also undergone a major transformation. Asian producers now dominate the global market.

Nevertheless, German brands have managed to hold on in the area of high-end televisions. Along with the Danish brand Bang & Olufsen, Loewe and Metz rank among the most important producers of designer televisions and sound systems. Both are small or medium-sized companies with production based in Germany. With their "Metz Manufaktur" line, Metz even allows customers to configure their own products in terms of size, design and technical features.

These two brands struggle to a certain extent on the fiercely competitive and advertising-intensive international markets. Their core market remains Germany, with around 40% of their products going to export. The audio market, like the market for cameras, has also changed dramatically: The digitalization of music and the resulting shift to electronic devices like MP3 players means the market for traditional hi-fi equipment is shrinking.

True music enthusiasts – people who are prepared to pay five- or even six-figure sums for audio equipment and who also want top-quality sound systems in their vehicles – form the exception here. German brands such as Burmester and T+A serve this small but high-value market segment. Burmester sound systems can be fitted to new Porsches on demand, for example.

Overall, this market segment is highly fragmented and made up of lots of small, specialist companies. Loewe and Metz, for example, both have small workforces consisting of highly experienced specialists. Consequently, total export volumes are low in absolute terms.

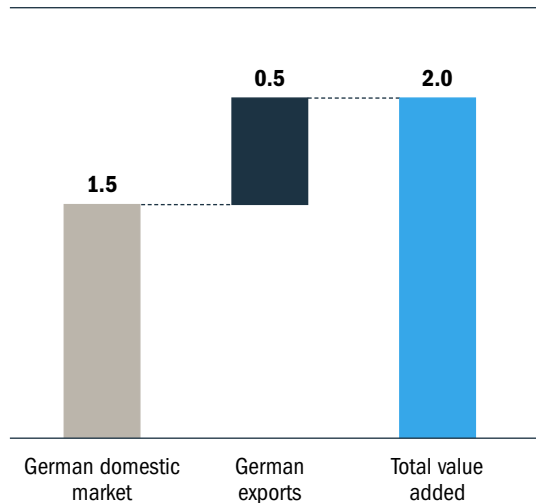
Taken together, the high-end audio and video segments **exported goods worth approximately EUR 0.5 billion** in 2012. **Total value added was EUR 2.0 billion.**

Some **4,700 German jobs** depend directly on the high-end audio and video segment. German manufacturers employ approximately **3,500 people** in the high-end segment, many of them highly qualified specialists. The related **specialist retail** segment accounts for a further **1,200 jobs**.



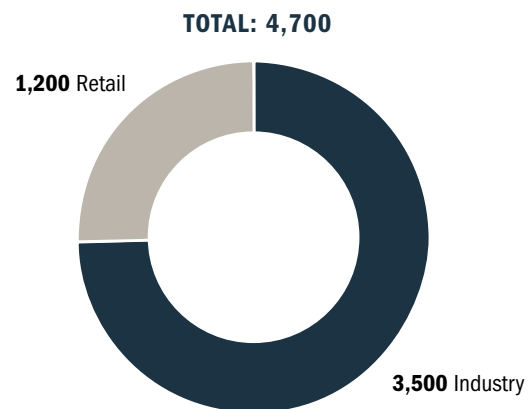
Image: Burmester Audiosysteme GmbH

FIGURE 17: VALUE ADDED OF AUDIO AND VIDEO, GERMANY 2012 [EUR BILLION]



Source: Company reports, press clippings, Euromonitor, GfK, Roland Berger

FIGURE 18: JOBS IN AUDIO AND VIDEO, 2012



Source: Roland Berger

8. Yachts

As with high-end cars, Germany is one of the leading producers of luxury yachts. A significant share of the world's biggest motor yachts were built in Germany.

Shipbuilders such as Blohm & Voss – the company behind the Eclipse, the so far longest yacht in the world – and Lürssen Yachts appeared several times on the list; indeed, Lürssen built 7 of the 20 biggest yachts. Lürssen is currently finishing the production of the longest yacht to-be for a billionaire from the middle east. The yacht is called "Azzam" and has a length of more than 181 meters.

In terms of the number of superyachts produced, Germany ranks fourth globally, behind Italy, the Netherlands and Turkey. However, due to the size of the yachts built and the focus on motor yachts – and hence the disproportionately high value per vessel – Germany leads the world market in terms of revenue.

In the sailing superyacht category, German producers still have unexploited potential, although the longest vessel here, too, the EOS, was also built by Lürssen. Having said that, German manufacturers such as Bavaria and Hanse Yachts (particularly the Moody brand) enjoy leading positions in world markets with the top products in their portfolio in classes below superyachts.

German shipyards such as Blohm & Voss, Lürssen, Nobiskrug and Abeking & Rasmussen exported products worth **about EUR 1.5 billion** in 2012. They employed around **9,000 people directly**.

In addition, a large number of specialists such as interior designers and carpenters are involved in fitting out the vessels. In many shipyards, up to three such specialists for every permanent member of staff are used for specific jobs on a project-by-project basis.



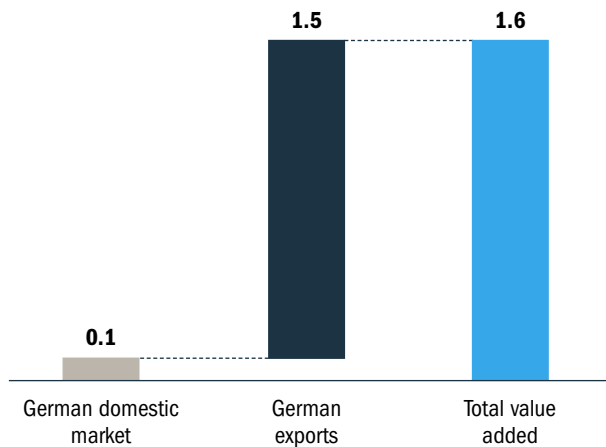
Image: ddp images/dapd

German consumers play a minor role in the market for superyachts. There are two reasons for this: one, the lack of suitable, attractive mooring areas in Germany and, two, the historical restraint shown by German consumers when it comes to purchasing high-end goods.

However, some German yacht owners have bought vessels via foreign companies and sail them under foreign flags. This makes it difficult to classify the yachts accurately.

In the next price segment below superyachts, **German consumers** spent somewhere around **EUR 0.1 billion** on motor and sailing yachts in 2012.

FIGURE 19: VALUE ADDED OF YACHTS, 2012 [EUR BILLION]



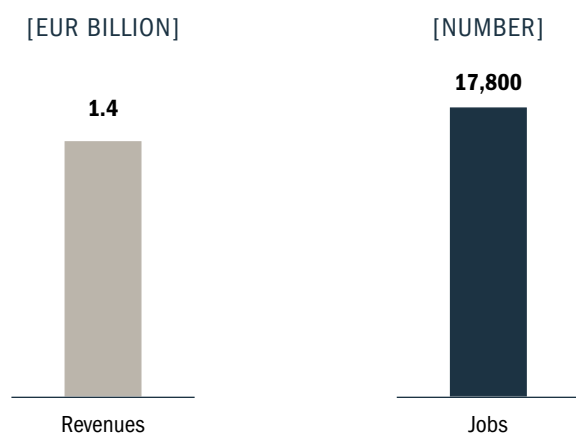
Source: Interviews, Superyachting Report, press clippings, DBSV, Destatis, BVWW, Roland Berger

9. Hotels

The market for high-end hotels in Germany is showing very positive development. Germany currently has **215 five-star and high-end boutique hotels**, and that number is expected to grow by around 20% by 2015. Of these 43 new hotels, which represent an investment sum of EUR 2 billion, 8 will be located in Berlin. Germany has more than 36,000 rooms in five-star hotels in total, generating **revenues of approximately EUR 1.4 billion** in 2012 and providing employment to **more than 17,800 people**.

Following a clear downturn during the crisis, **occupancy rates and average prices** picked up since in 2011. This had a negative impact on some hotels in lower categories. Despite the recovery, some locations still suffer from **over-capacity** – Berlin being a prime example of this – which can lead to cutthroat competition among hotels.

FIGURE 20: FIVE-STAR HOTELS IN GERMANY: REVENUES AND JOBS, 2012



Source: IHA, STR Global, Small Luxury Hotels of the World, press clippings, Roland Berger

A key success factor for hotels is their ability to adapt to changing customer needs. For most guests, staying the night in a five-star hotel is no longer a status symbol but simply part of a desire to enjoy authentic luxury experiences in their day-to-day life.

Traditional factors such as the architecture of the building and the luxury of the rooms are still important. However, personal attention and outstanding service are increasingly the clinchers when it comes to choosing a five-star hotel. In some cases, this puts owner-managed hotels at an advantage, as it is easier for them to create a personal atmosphere than for the big hotel chains.

Another growth lever for five-star hotels is the increasing number of high-end tourists coming to Germany from the Gulf States, Russia, China and so on. For these individuals, staying in a five-star hotel is often standard, even on personal (rather than business) trips.

Berlin, Munich and Hamburg attract the most tourists. Hotels in these cities benefit greatly from the increasing number of high-end-minded visitors. For example, Munich is seeing more and more affluent Arab visitors in the summer months, many of them staying for several weeks and perhaps combining their vacation with some course of medical treatment in the city. Such visitors often rent rooms in the city's best hotels for extended periods of time.



Image: Excelsior Hotel Ernst, Cologne

10. Wine, champagne and spirits

Quality wines, champagne and spirits epitomize indulgence and fine living. German **consumers** spent some **EUR 1.2 billion** on such products in 2012. Champagne and other high-quality sparkling wines accounted for around EUR 0.5 billion of this, followed by other wines and spirits at EUR 0.3 billion respectively.

Sales of champagne in Germany have been on the rise for years. In spirits, alongside classic drinks such as whiskey and cognac, vodka has established itself in the high-end segment with prices sometimes hitting four figures.

A few decades ago, German wine was perceived as high quality, with prices around 30% higher than its competitors from Bordeaux. Today, German wines are winning back some of their lost reputation internationally. Star winemakers receive top marks from well-known critics.

Riesling in particular – very much the flagship German white wine – has established itself in high-class restaurants around the world, changing perceptions of German wines for the better.

Wines produced by leading winemakers such as Egon Müller, Paul Fürst and Robert Weil are increasingly completely sold out. This is particularly the case for top-quality sweet and "Erstes Gewächs" (first growth) wines.

Compared to the major wine nations France and Italy, German high-end wine **exports** are still relatively small – around **EUR 0.1 billion**. However, the forecasts are positive, with the American and Chinese markets particularly driving growth.

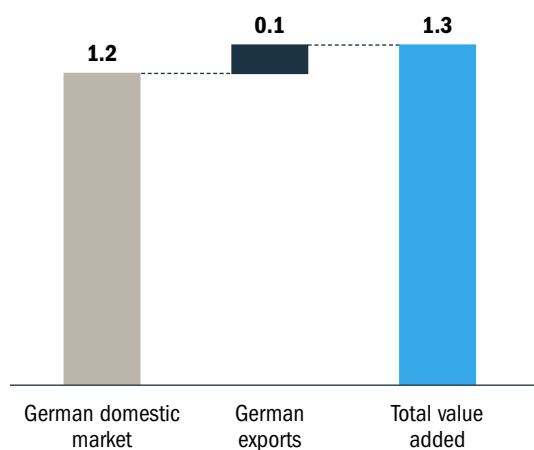
Looking at domestic consumption and exports together, the high-end wine and spirits segment generated **value added** of approximately **EUR 1.3 billion** for Germany in 2012.



Image: Schloss Johannisberg

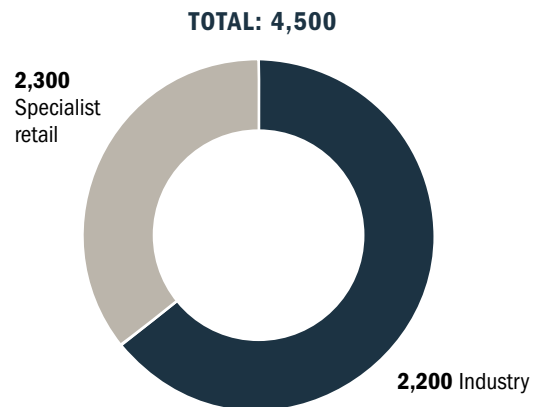
Around **2,200 people** worked in the **production** of quality wines and spirits in Germany in 2012, 1,900 of them directly in the business of winegrowing. A further **2,300 people** worked in **related retail**.

FIGURE 21: VALUE ADDED OF WINE, CHAMPAGNE & SPIRITS, 2012 [EUR BILLION]



Source: Euromonitor, VDN, press clippings, Roland Berger

FIGURE 22: JOBS IN WINE, CHAMPAGNE & SPIRITS, 2012



Source: Interviews, BfA, company reports, Roland Berger

11. First-class and private aviation

Flights in first class or a private jet are the epitome of a luxurious lifestyle, combining the utmost exclusivity with individualized service. Germans spent approximately **EUR 1.0 billion** on this form of travel in 2012.

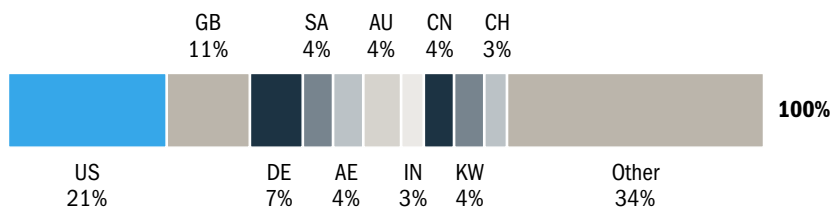
Airlines strive to create a high-end experience for their first-class customers, with all that this traditionally entails – from a glass of champagne before take-off to caviar and fine wines with the meals during the flight. A similar service level is offered on the ground in exclusive first-class lounges. To ensure the proper standards are met on board, Lufthansa has specially trained more than 3,000 "qualified first-class" cabin crew, who work in first class on a rotating basis.

First-class seats are available only on certain long-haul routes. The number of seats is also generally limited to 10 or fewer. Consequently, the total **revenue** generated by first-class ticket sales is relatively low – **EUR 0.2 billion** – compared to total passenger revenue. Nevertheless, 2012 saw an 8% growth. The German market is strong in international terms, selling the most first-class seats after the United States and UK.



Image: Deutsche Lufthansa AG

FIGURE 23: FIRST-CLASS TICKETS BY COUNTRY OF PURCHASE, 2011



Source: MIDT

A step beyond flying first class is booking a private jet. No tiresome security checks, a personalized menu, preferred drinks and on-board office facilities – these are standard on most private jets.

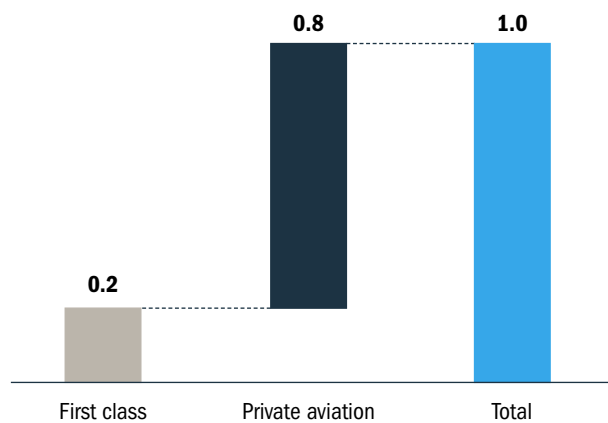
More important for customers, however, is being able to decide when the flight leaves and the option of flying directly to smaller or more remote airports. Plus, of course, the absolute privacy.

Airplanes of various sizes are available for private flights, from small jet planes for short hops to regular long-haul Airbus or Boeing aircraft, often with a special "VIP configuration" such as fewer seats to ensure greater comfort levels.

Customers include both private individuals and the top managers of major corporations. A number of established companies offer individual flights or packages consisting of a set number of flight hours per year. Companies and individuals are increasingly doing without their own private jets with their high fixed costs and turning to the likes of Germany's DC Aviation or the German offshoot of US-based NetJets. NetJets also took over the operation of the Lufthansa subsidiary "Lufthansa Private" in 2011.

The private aviation segment in Germany generated revenues of around **EUR 0.8 billion** in 2012. Some **4,200 people** work for companies in this segment – as pilots, cabin crew, technicians and administrative workers.

FIGURE 24: REVENUES FROM FIRST-CLASS AND PRIVATE AVIATION, 2012
[EUR BILLION]



Source: Interviews, MIDT, company reports, press clippings, Roland Berger

12. Writing instruments

Germans spent about **EUR 0.1 billion** on high-end writing instruments in 2012. As with watches and jewelry, high-end writing instruments combine design, craftsmanship and top-quality materials. Germany's Montblanc is the most important brand in the world in this sector. Faber-Castell, a company with long traditions based in the German region of Franconia, has also established itself firmly in the high-end segment with its Graf Faber-Castell line, which accounts for an increasing share of the sector's total sales.

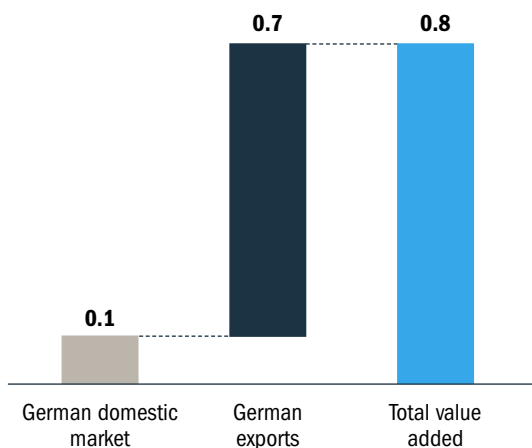
Since the introduction of the Masterpiece collection in 1924, Montblanc pens have epitomized luxurious, timeless, classic writing instruments. They are still made by hand in the firm's Hamburg workshop. They exemplify the great tradition of German master craftsmanship, recognized around the globe.



Image: Montblanc International GmbH

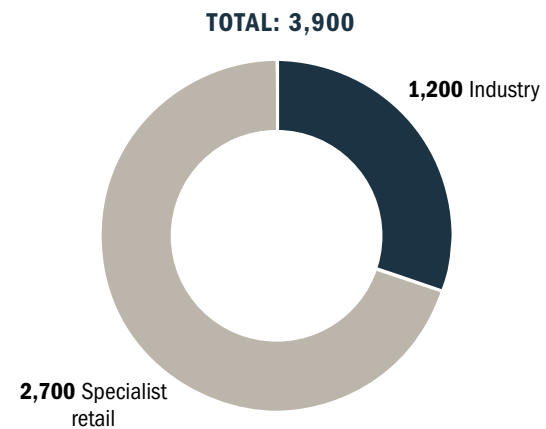
The international reputation of German brands is reflected in the size of the **export market**: At around **EUR 0.7 billion**, this is many times larger than the domestic market. **Total value added** by the sector was **EUR 0.8 billion** in 2012. German companies employed in the region of **1,200 people** in the high-end segment, including many highly qualified craftspeople. A further **2,800 people** worked in related **specialist retail**.

FIGURE 25: VALUE ADDED OF WRITING INSTRUMENTS, 2012 [EUR BILLION]



Source: Company reports, GfK, IHB, Euromonitor, Roland Berger

FIGURE 26: JOBS IN WRITING INSTRUMENTS, 2012



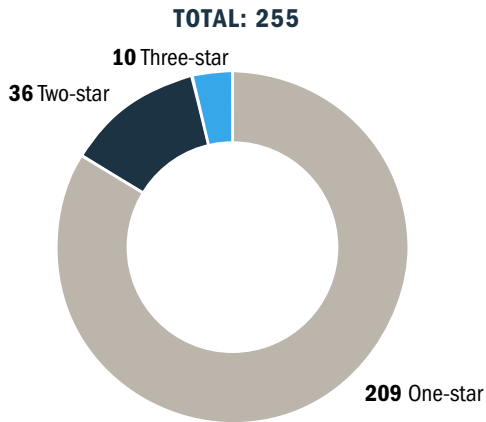
Source: BBE, IHB, Destatis, company reports, Roland Berger

13. Restaurants

Germans are showing increased interest in haute cuisine. TV cooking programs enjoy great popularity, star chefs such as Heinz Winkler from the Residenz in Aschau and Joachim Wissler from Restaurant Vendôme in Schloss Bensberg are enormously popular, and enrollments at top cooking schools are higher than ever. The number of Michelin-starred restaurants in Germany is also on the rise: There were **255 restaurants** with at least one Michelin star in 2012, 6 more than in the previous year. A total of 209 restaurants had one star, 36 had two stars and 10 had three stars.

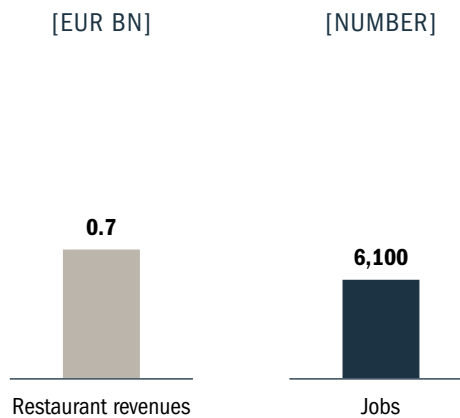
This puts Germany in the number three position behind France and Japan, the industry leader. German Michelin-starred restaurants generated revenues of approximately **EUR 0.7 billion** from sales of **food and drink** in 2012. They provided employment to around **6,100 people** (kitchen and service staff).

FIGURE 27: MICHELIN-STARRED RESTAURANTS IN GERMANY, 2012



Source: Michelin Guide

FIGURE 28: MICHELIN-STARRED RESTAURANTS IN GERMANY: REVENUE AND JOBS, 2012



Source: Interviews, press clippings, Roland Berger

Besides the Michelin-starred restaurants, there are at least as many establishments that are on a comparable level waiting for official recognition. They include traditional quality restaurants, steakhouses (offering a wide range of meats accompanied by excellent wines) and top "lifestyle restaurants" such as the Paris Bar in Berlin. It is likely that the number of Michelin-starred restaurants in Germany will continue to rise rapidly in the coming years and top restaurants will continue to experience strong revenue growth.

14. Musical instruments

Germans spent almost **EUR 0.1 billion** on high-quality musical instruments in 2012. The rose by 14% compared to the previous year.

German manufacturers of musical instruments play an important role both in Germany and abroad. Wurlitzer clarinets, Klais organs and C. Bechstein pianos are highly regarded by professional musicians and accomplished amateurs. Famous musicians play an important role as living testimonials to the quality of specific brands and are often bound to them under long-term contracts.

German companies specialize in handcrafted production. Their instruments are visibly and audibly superior to those of their competitors, which are mainly from Asia.

To ensure top-quality sales and service levels, Bechstein has built a network of C. Bechstein Centers in Germany and abroad, working on its own or with high-quality partners. Specially trained staff at C. Bechstein Centers look after customers, qualified technicians carry out any necessary repairs to instruments and the products can be experienced live at special concerts.

German musical instrument makers in the premium segment **exported** around 70% of their products in 2012, with a value of **EUR 0.1 billion**. The main countries exported to were France, Austria and the United States.

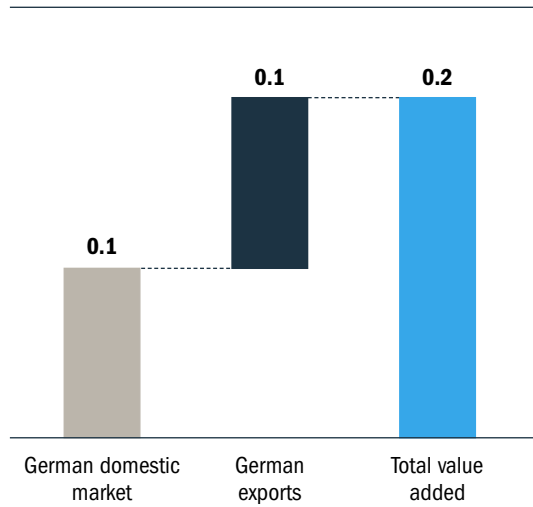
Significant demand is also coming from emerging markets such as China and Russia, where income levels are rising. These countries are showing increasing interest in cultural high-end goods. **Total value added** by musical instruments was about **EUR 0.2 billion**.



Image: C. Bechstein Pianofortefabrik AG

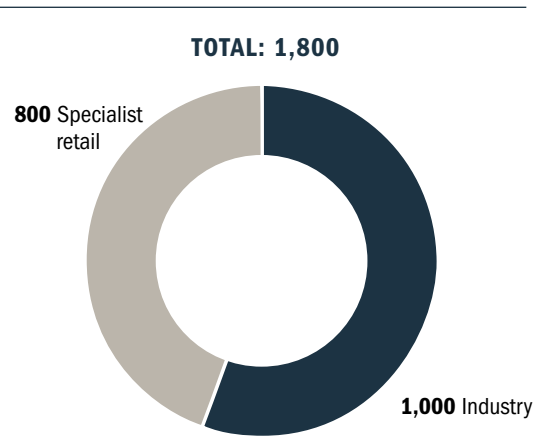
German manufacturers of top-quality musical instruments employed some 1,000 people in 2012 in skilled production and administrative roles. Specialist retail accounted for a further 800 jobs.

FIGURE 29: VALUE ADDED OF MUSICAL INSTRUMENTS, 2012 [EUR BILLION]



Source: IHB, Verband der Musikinstrumentenhersteller, company reports, press clippings, Roland Berger

FIGURE 30: JOBS IN MUSICAL INSTRUMENTS, 2012



Source: BBE, IHB, Destatis, company reports, Roland Berger

III. Summary and outlook

The high-end sector has many facets. Total revenues for the 14 segments described above are in excess of EUR 55 billion. The sector also provides employment to more than 147,000 people. It thus makes an important contribution to the German economy – and is set to enjoy strong, long-term growth in the future.

The strength of German high-end companies lies in their quality requirements, technical skills and innovative power. This is reflected in the large number of highly skilled individuals in their employ, demonstrating to the world the impressive tradition of German master craftsmanship. This gives Germany a competitive edge that is difficult for other countries to beat.

To maintain this international advantage, many German firms invest heavily in training their people, even to the extent of setting up their own training institutions to teach young craftsmen the requisite skills. This means that the high-end industry has a constant stream of new, highly qualified workers at its disposal.

High-end brands and the individuals that work for them are ambassadors for German and European values. They stand for tradition and knowledge built up over a long period of time. They also stand for creativity and inventiveness.

The future looks bright for the high-end segment in Germany. The majority of high-end firms represented in Germany are very confident about market growth and revenue levels in 2013 and beyond. Many of them are expanding their workforce on both the production and sales fronts in response.

Germany's high-end sector has grown strongly in recent years and this growth looks set to continue. However, compared to the size of the country's overall economy, Germany's high-end markets lag far behind those of Italy, France, United Kingdom or Japan, say – especially in the area of personal luxury, i.e. fashion/accessories and perfume/cosmetics.

Growth prospects for the domestic market in 2013 and beyond are very strong. Average annual growth of around 9% is possible in the period to 2020, representing a doubling of market volume. With growth on this scale, the gap between Germany and the countries traditionally associated with high-end will grow smaller and smaller.

The global high-end market also has enormous potential. Booming countries such as China are driving growth worldwide, forecast at around 7% a year. German high-end firms stand to benefit from this development in terms of increasing their exports and further strengthening their position in the international competitive landscape.

All in all, the value added by the high-end sector in Germany is set to reach around EUR 95 billion by 2020 – EUR 55 billion from exports and EUR 40 billion from domestic consumption. The number of people working in the segment may surpass 200,000 by the same date.

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The MEISTERKREIS brings together individuals, companies and institutions that represent culture, creativity and the highest levels of quality in Germany. It promotes a greater awareness of the uniqueness and the variety of the high-end segment in Germany, the recognition of valuable traditions and illustrates the economic and cultural importance of the sector.

The MEISTERKREIS members are cultural and creative entrepreneurs. Based on art, culture and creativity, our successful business model is underpinned by continuous innovation, a relentless focus on quality, highly skilled employment and strong export abroad. Our members strive for the highest quality in all they do, from products and services all the way to the experience offered to consumers.



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