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Hermes Birkin Luxury Handbag: Is it worth investing?

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Objective

This research paper aims to answer whether Hermes Birkin handbag is worth investing in terms of benefit return to investors, by finding the reliable scientific evidence and providing mathematically supported.

Adstract

This paper will first explore the roots of handbag luxury market, Hermes history, and Birkin handbag history. The economic theory will be applied for explanation of pricing strategy.

The return to investors comes into two types: cash benefit and using benefit. Due to many constraints, this paper focus only in cash benefits return and new-condition handbags.

This paper use appreciation rate calculation together with trend analysis to determine the possible return to investors, using 7- year period data from 2011 to 2017.

First and secondary market

For the first case, assuming that investors buy the handbags from the first market and resell it in secondary market, the result of appreciation rate analysis and real interest rate calculation shows the positive value.

For the second case, assuming that investors buy and sell the handbags in the secondary market, the appreciation rate analysis is mixed with both positive and negative values.

How paper collected the price

- Hermes Company did not publicly announce the price in the first market. Therefore, the price will be collected from reliable and well known sources for brand name's communities, e.g. Purse Forum4 and Brag my bag websites.

- Additionally, as to confirm the investment, this paper will provide comparison to other investment assets, which are gold price, stock index and land property index.

Trend analysis

Table 2: Hermes Birkin handbag price 2011 to 2017

	2011o	2012p	2013q	2014r	2015t	2016x	2017a
	฿498,000	฿475,000	฿460,000	฿440,000	฿550,000	฿585,000	฿589,000
	฿490,000	฿560,000	฿380,000	฿490,999	฿600,000	฿549,000	฿599,000
	฿466,000	฿499,000	฿388,000	฿579,000	฿450,000	฿490,000	฿539,000
	฿440,000	฿430,000	฿570,000	฿580,000	฿560,000	฿560,000	฿589,000
	฿450,000	฿479,000	฿470,900	฿450,000	฿580,000	฿550,000	฿509,000
	฿399,999	฿449,999	฿490,000	฿490,000	฿470,000	฿630,000	฿545,000
	฿470,000	฿399,000	฿499,000	฿480,000	฿630,000	฿640,000	฿571,389
	฿444,000	฿550,000	฿600,000	฿377,000	฿430,000	฿550,000	฿650,000
	฿380,000	฿480,000	฿490,000	฿490,000	฿500,000	฿590,000	฿630,000
	฿500,000	฿460,000	฿530,000	฿390,000	฿550,000	฿460,000	฿590,000
	฿470,900	฿450,999	฿560,000	฿430,000	฿620,000	฿600,000	฿550,000
	฿455,555		฿520,000	฿400,999	฿590,000	฿530,000	฿540,999
				฿430,000	฿599,000	฿611,000	฿600,000
average	฿455,371	฿475,727	฿496,492	฿463,692	฿548,385	฿565,000	฿577,107
max	฿500,000	฿560,000	฿600,000	฿580,000	฿630,000	฿640,000	฿650,000
min	฿380,000	฿399,000	฿380,000	฿377,000	฿430,000	฿460,000	฿509,000

Return Analysis

Net return	= Price when the investor selling the Birkin bag - Price when the investor get the Birkin bag			
	=	Selling price	-	Purchase price
	=	FV	-	PV

There are many ways for return calculation: net return, average return, **return on investment (ROI), rate of return (ROR), interest rate return,** and etc.

Appreciation Rate Analysis

$$I = (FV/PV)^{(1/n)} - 1$$

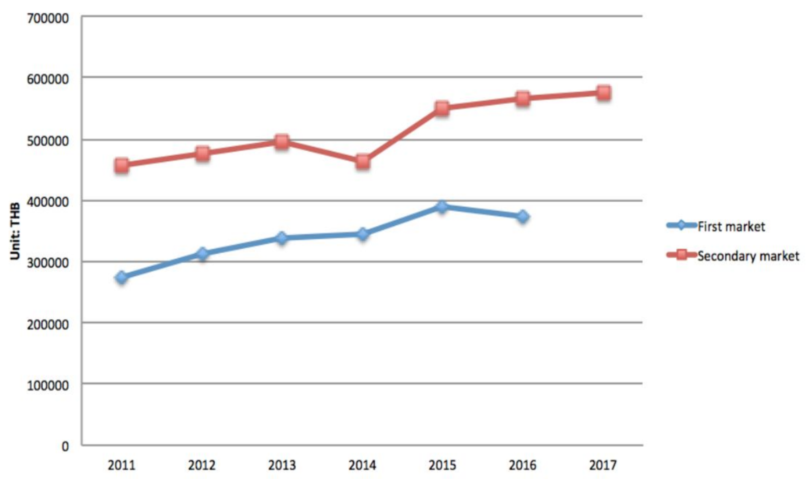
Denote

I	=	Interest rate, implied appreciation value
FV	=	Future value, implied the value at the end of holding period
PV	=	Present value, implied the value at the beginning of holding period
N	=	Number of holding periods

Results

Birkin price trend shows that the price in secondary market always higher than the price in the first market. The gap between the red and blue line can referred to the profit amount to investors when there are transaction in this case. It means that there are always ‘**profits**’ gap for people that buy handbags from first market and sell it in secondary market.

Figure 2: Price of Hermes in first market and secondary market from 2011 to 2017



Conclusion

- The price of Birkin handbag in secondary market is always higher than the price in the first market.
- The result from appreciation rate analysis can be conclude that the investors should trade the Birkin handbag as soon as possible within one-year holding period
- The Birkin handbag is worth investing and also provide the return in terms of both cash and benefit of using. When comparing the return of Birkin with those gold, stock, and land property.

Comments

- **Difficulty of getting Hermas Birkin bag**: The author did not collect all of the investment on Birkin bag. This is because investors need to wait for the bag and also need to buy some staffs before getting Hermas Birginbag. On top of that, the investor needs to make friends and spend a lot of money with sale association to impress them into calling you.
- Hard to find the **exact price** for the Birkin bag in the primary market as the shop disclose the price.
- The investor need to keep it **clean or in perfect condition** especially if investors want to sell it in order to get the return on investment. So, it is risk that the author did not include.
- **Selling this investment can be challenging:** to prove the authenticity of Birkin bag which means investors need to have kept all your paperwork intact.
- A reputable store of reselling a handbag service will **charge investors a fee** for the resell anywhere from 5% to 10% of the sales price of your Birkin.

- The return from investing in Birkin bag outstand among those other investments, it possibly because this paper study only in the short-term investment. Investment in gold, stock and land property can be categorized as long-term investment that give the high return to the investors if they hold it for a long period of time.

Thank you