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Altagamma

# **Altagamma 2015 Worldwide Markets Monitor**

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Milan, 29<sup>th</sup> October 2015

*#AltagammaMonitor*  
*#BainLuxuryStudy2015*

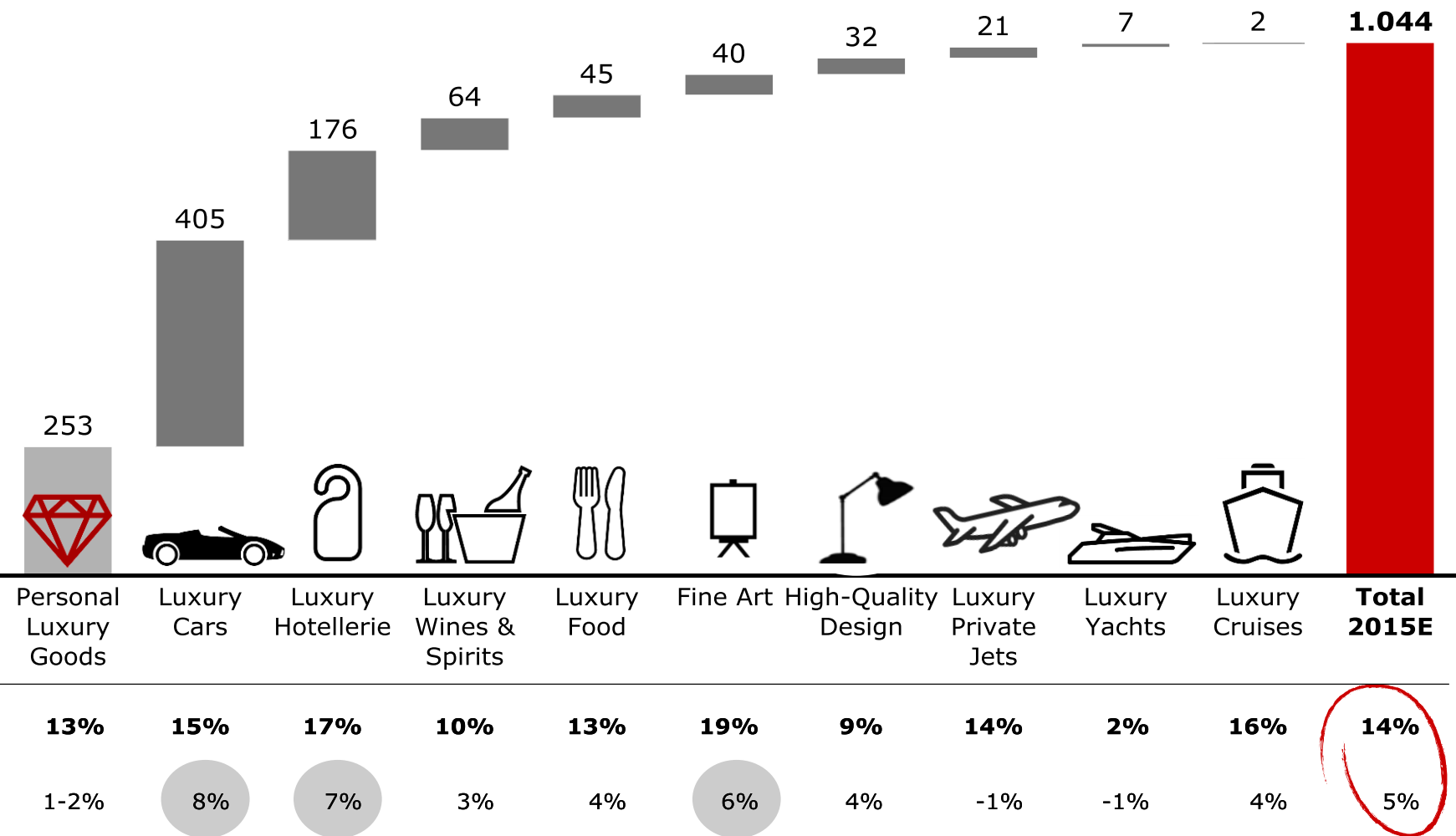
1.

# Luxury Markets Overview



# Worldwide luxury markets collectively surpassing **one trillion** in 2015

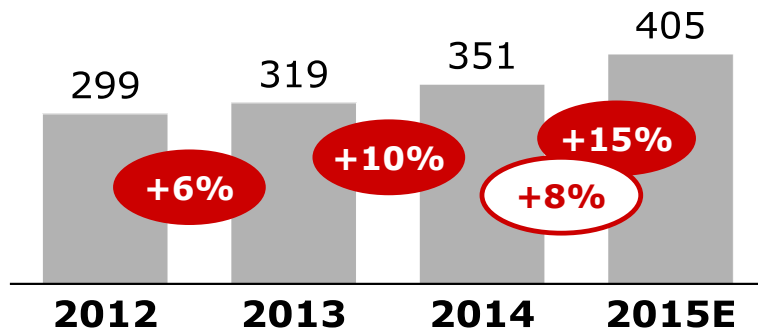
**WORLDWIDE LUXURY “MARKET OF THE MARKETS” (2015E|€B)**



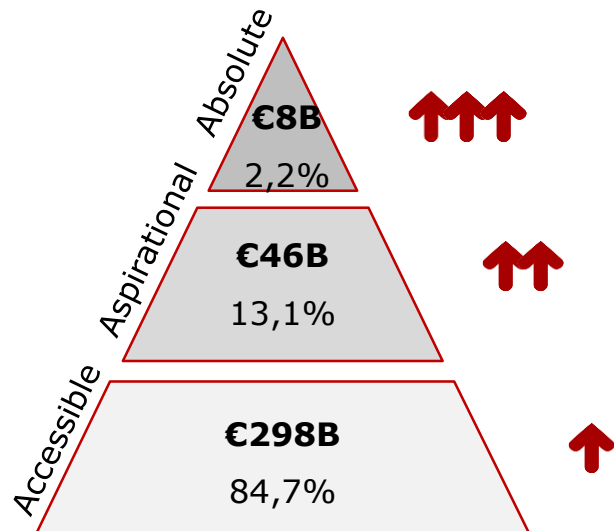
# Luxury cars **accelerating** in 2015



## Luxury Cars Market Trend (€B)



## Trends by Segment (2014)



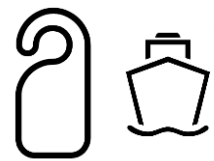
## Key Industry Macro-Trends

- In 2015 **luxury cars market growing steadily**
  - All segments are **benefitting from the sound trend** of the **US market**
  - **Positive trend in Western Europe** offsetting the **deterioration of the Russian market**
- **Uncertain scenario in China**
  - **Parallel imports altering the market**
  - **Delay of purchases due to the decrease of consumer confidence** also because of the **stock market turmoil**
- **Absolute luxury automakers widening their offer**, introducing **new entry-price models**
  - **SUVs as "bridge" category**
  - Push of **entry-level vehicles** while struggling to maintain **exclusivity**
  - A **360° customized service** leveraged to enhance **price segmentation**

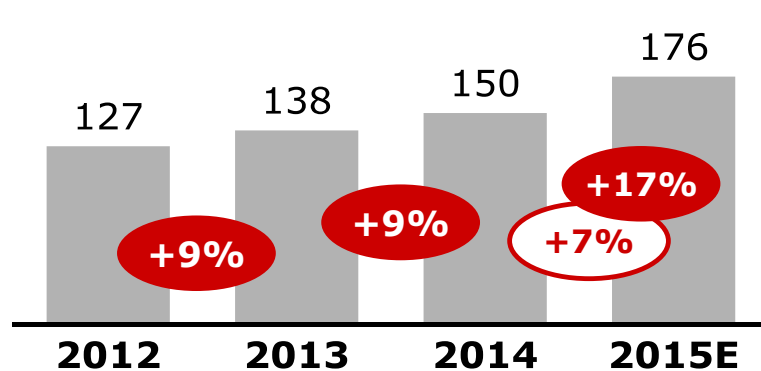


# Big success of luxury Hotels in Europe

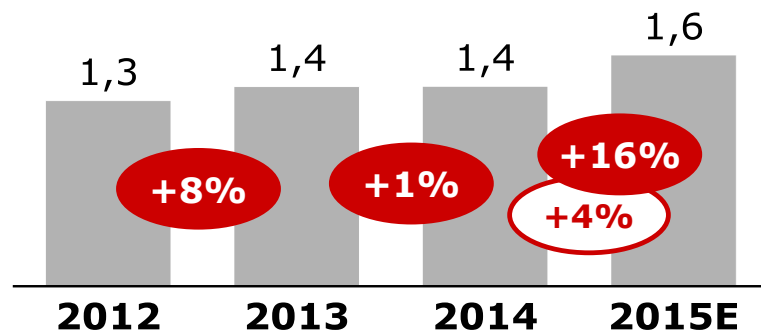
## Luxury cruises fueled by favorable demographics



Luxury Hotels Market Trend (€B)



Luxury Cruises Market Trend (€B)



Key Industry Macro-Trends

- **Slight slowdown** in **organic performance** driven by **uneven geographic trends**
  - **Rebound of European cities**
  - **US luxury chains** progressively **decelerating**
  - **China struggling** to deliver organic growth
- **New challenges in the industry**
  - **"Facebooking"** of the hospitality industry
  - **Pressure** from **new players/platforms**
  - **Multi-cultural generational** proposition

Key Industry Macro-Trends

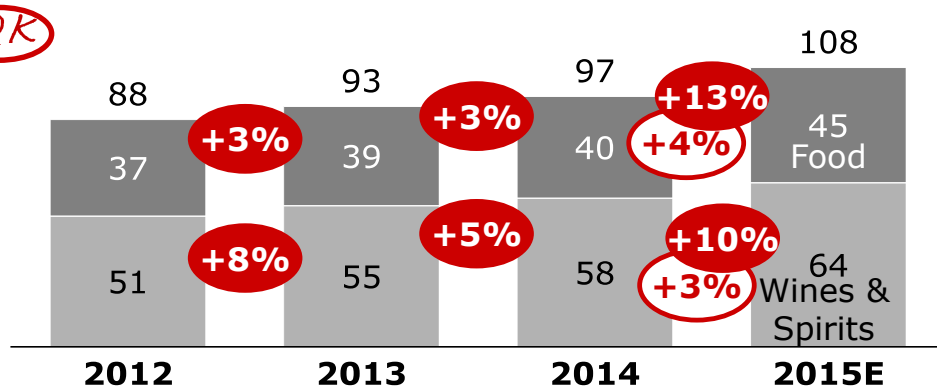
- **2015E acceleration** enhanced by currency effect
  - Reduction in capacity **limiting 2015 organic growth**
  - **New additional ships** available from 2016
- **Age and income evolution** is favorable to the luxury cruising industry
- **"Slow cruising"** emerging trend with smaller ships to **unusual destinations**



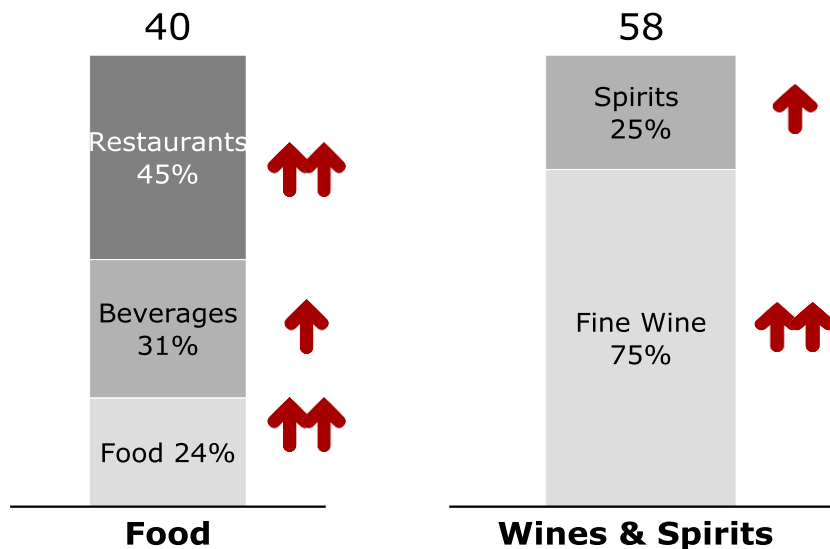
# Food the new frontier for luxury, especially if Italian



Luxury Food and Wines & Spirits Market Trend (€B)



Trends by Segment (2014)



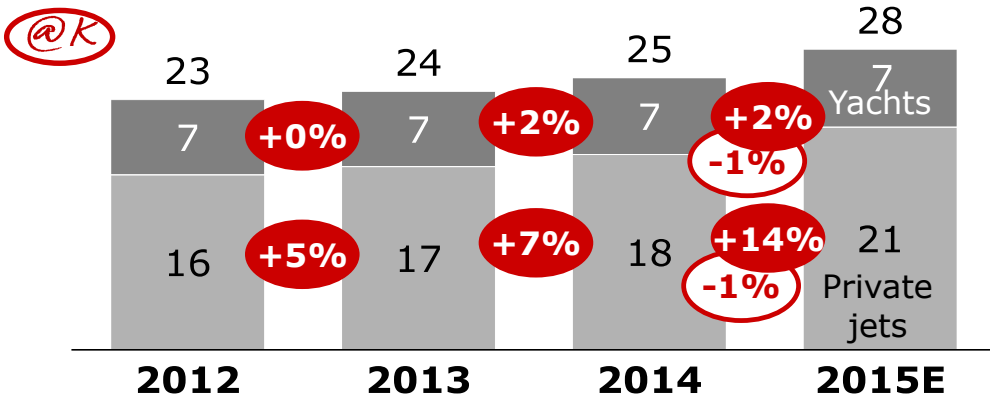
Key Industry Macro-Trends

- **Luxury wines** posting **sound organic growth across regions**
- **Spirits market** impacted by the **destocking trend in China**
  - **First signs of recovery in H2 2015**
- **Bright expectations** from **travel retail** as a **key channel** especially for **spirits**
  - **Lack of competent personnel** limiting **wines sales** in the channel
- **Record year for food**
  - **Expo effect in Italy**, driving demand for **excellence in food**
- **Strong performance of waters**, driven by increasingly **educated consumers**
- **Asian market** growing **appetite for chocolate**
- Increasing role of **multi-format restaurants**

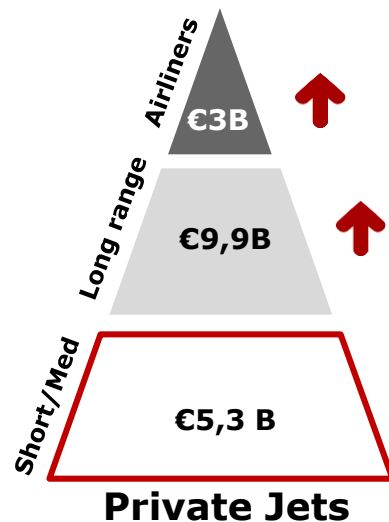
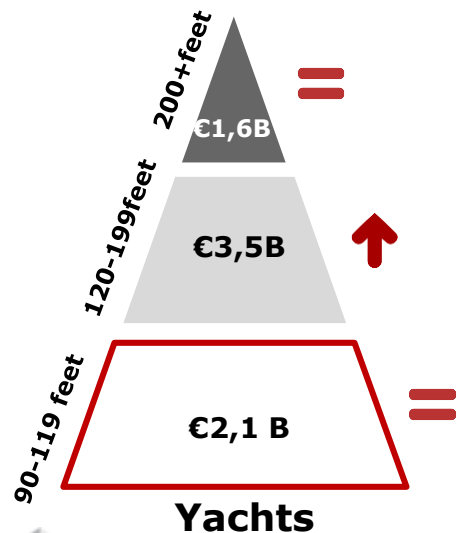
# Yachts and Private jets markets stagnant



Luxury Yachts and Private Jets Trend (€B)



Trends by Segment (2014)

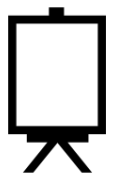


Key Industry Macro-Trends

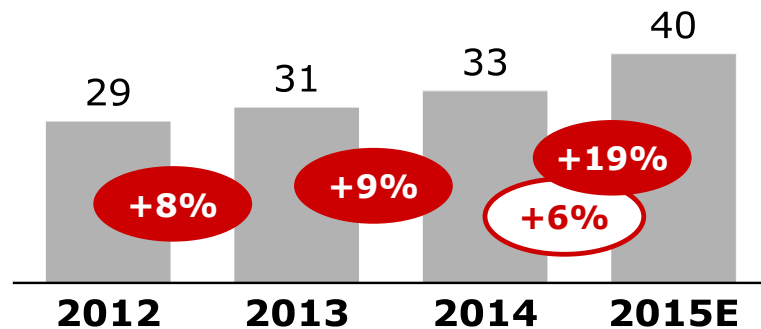
- **Yachts market stagnant** both at current and constant exchange rates
  - **EMEA region** is **recovering** while **BRICs** are **slowing down**
- **Some emerging trends in the industry**
  - **Increasing request for semi-custom production** from **China** and **UK**
  - **Growing demand in the expedition yachts** segment
- **The aviation business is struggling** to **perform in real terms**, due to a **reduction in airlines deliveries** only partially offset by **healthy growth of the other segments**
  - **North America** the best performing market
- Demand remains polarized with the **large jets segment driving growth** in terms of both **revenues and profit**

# Growing art market led by US

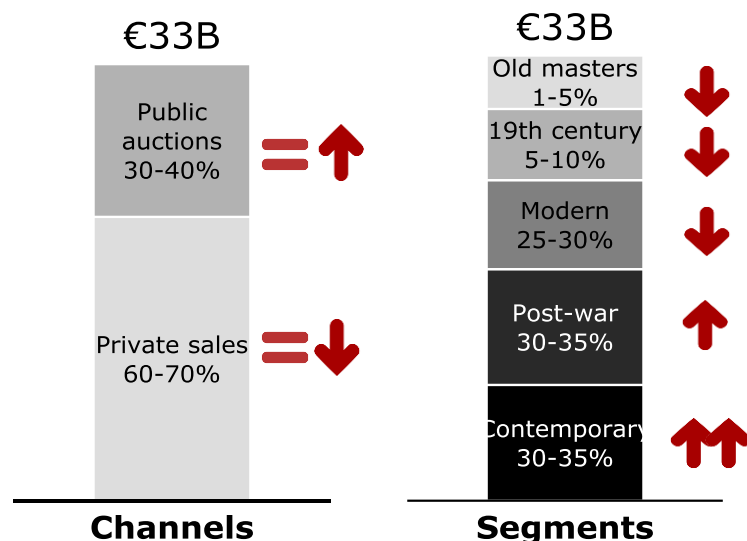
## Post-war & contemporary fastest segments



Fine Art Market Trend (€B)



Trends by Channels and Segments (2014)



Key Industry Macro-Trends

- **Fine art accounts for ~70% of the total art market** (including decorative arts and antiques)
- **Quickly developing online channel not cannibalizing the offline one** but fostering a new cluster of "**emerging collectors**"
- **US the main market** (mostly driven by NY), followed by UK/London and China:
  - **China** is entering a **maturity phase** driven by collectors' **greater pricing-awareness** and increasing relevance of **late/non payments**
- Sales from **public auctions more than doubled in the last 10 years**:
  - **Very concentrated sector**, top 3 players accounting for ~50% of total sales
- **Post-war and contemporary art segments** are continuing their speedy growth, with **US** being the **main destination** for the **ultra-high-end segment**

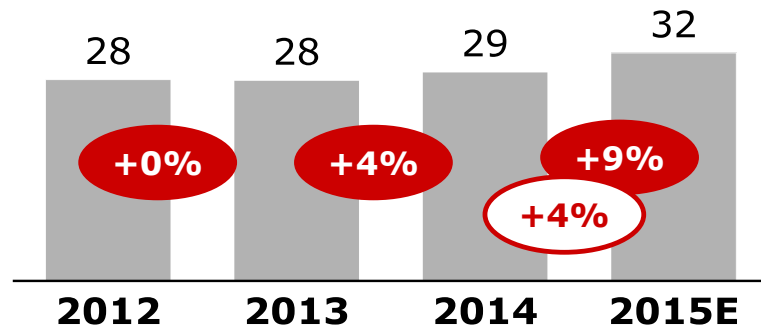




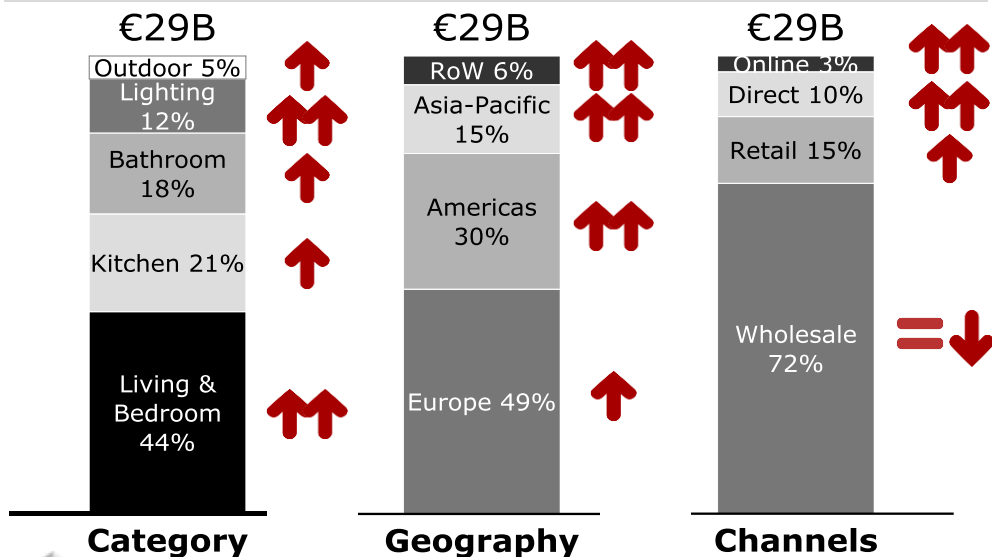
# Second year in a row of **solid growth** for the **high-quality design** market



High-Quality Design Market Trend (€B)



Trends by Segment (2014)



Key Industry Macro-Trends

- **Positive trend** boosted by favourable currency movements
- **Living & bedroom** and **lighting** best performing segments; kitchen **recovering**
- **Europe main market** thanks to historical role of Italian & German players
- **Americas** favoured by positive exchange rate dynamics
- **Despite high growth** in **Asia** and **Middle East**, still **untapped** potential in emerging markets
  - **Consumer evolution** & luxury **contract developments**/large private projects
- **Wholesale still the largest channel**, particularly in Europe, but **retail** and **direct channel** constantly **increasing** role and share
- **Online small** but growing strongly

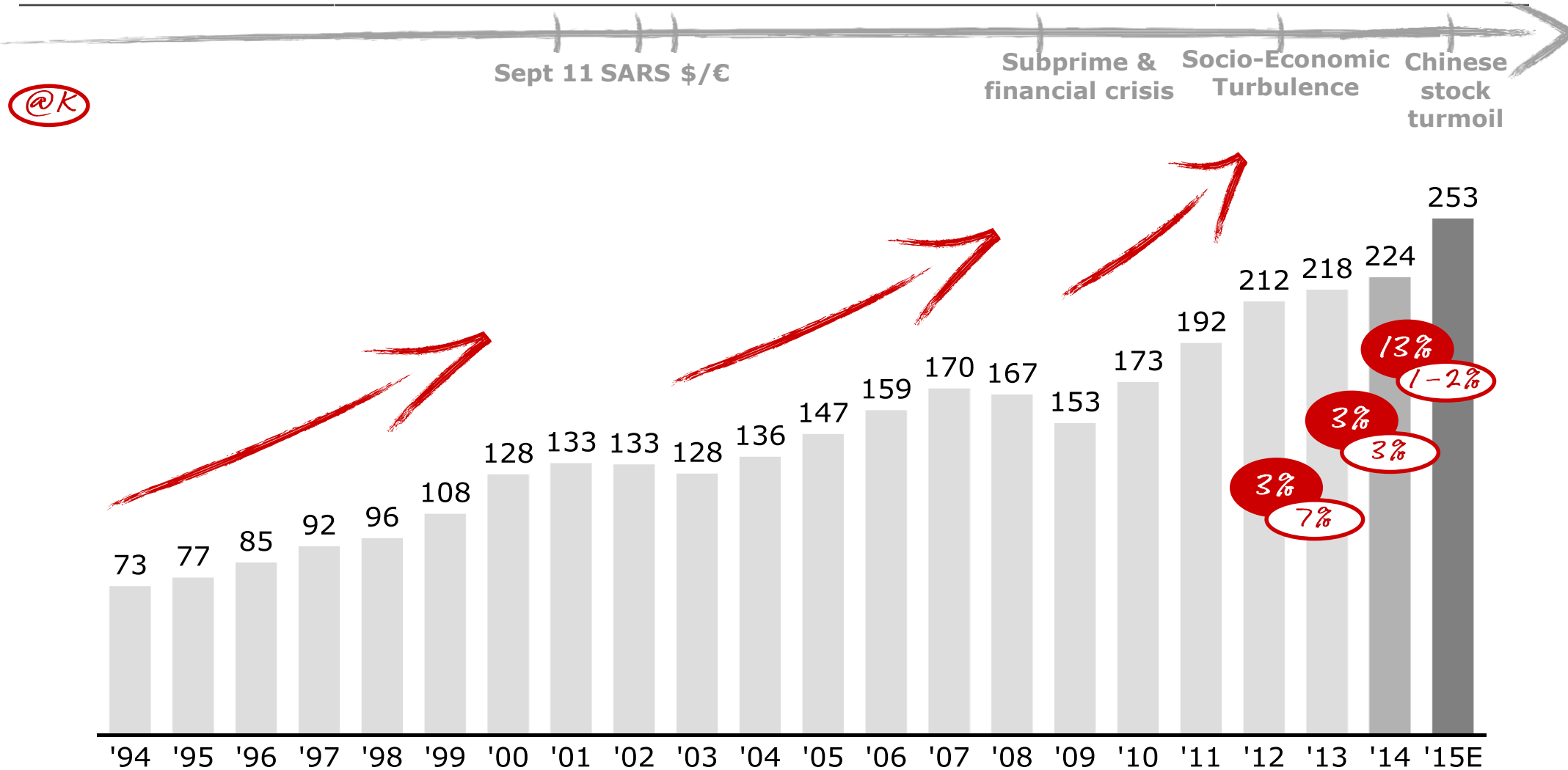
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## Personal Luxury Goods



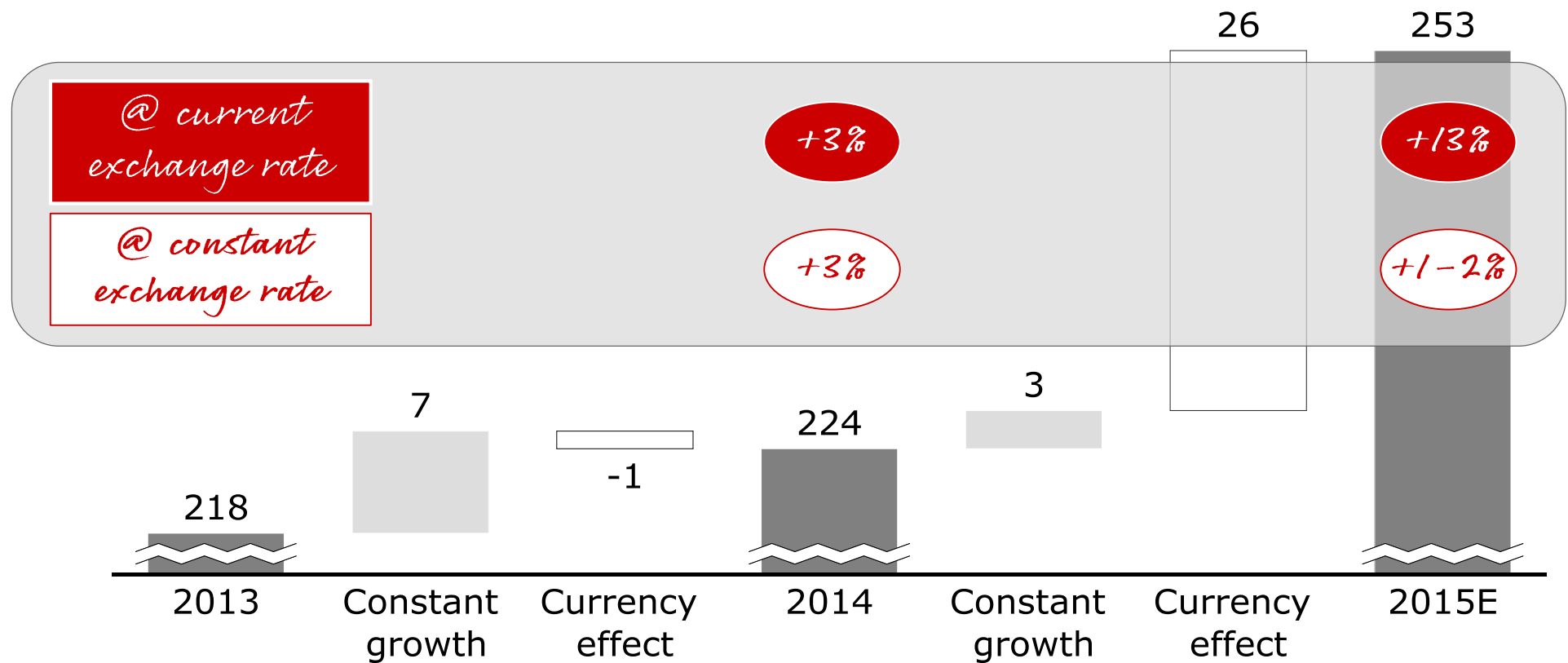
**Hectic currencies** inflate the market to **over a quarter trillion** while real growth is significantly slowing down

## GLOBAL PERSONAL LUXURY GOODS MARKET TREND (1994-2015E|€B)



# Double-digit positive impact of exchange rates fluctuations

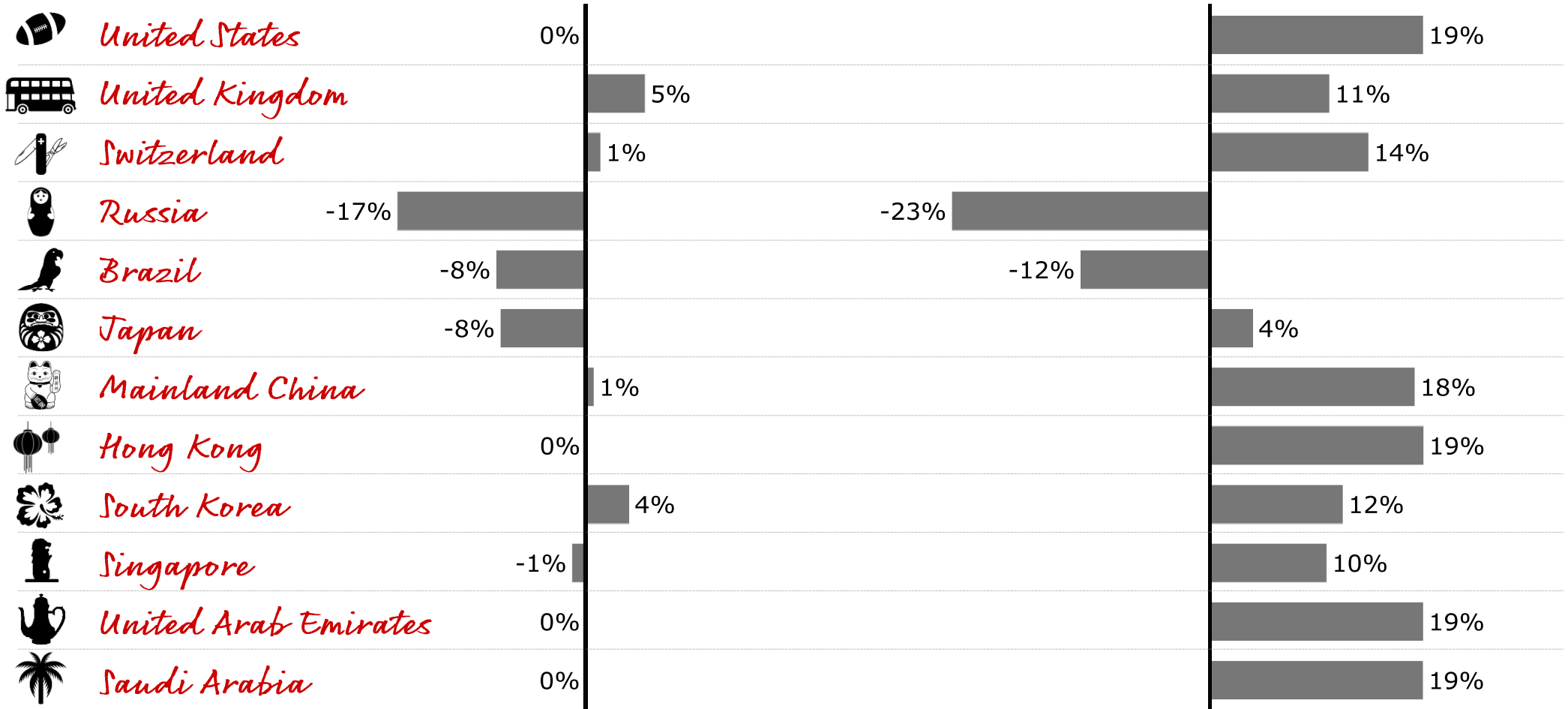
## GLOBAL PERSONAL LUXURY GOODS MARKET TREND @ CURRENT AND CONSTANT EXCHANGE RATES (2013-2015E|€B)



...mainly driven by **Euro depreciation** vis à vis most of the currencies globally

## 2014 VS 2013 KEY CURRENCIES EVOLUTION VS. EURO

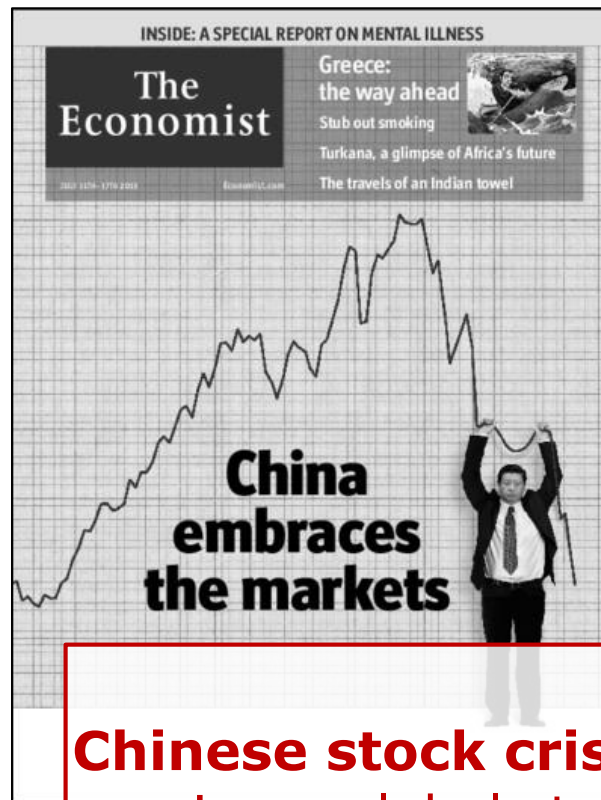
## 2015 VS 2014 KEY CURRENCIES EVOLUTION VS. EURO



# In 2015 also other **macro-economic events** hampering growth potential



**Super-dollar**  
off-putting tourists from visiting US and driving American to buy in Europe



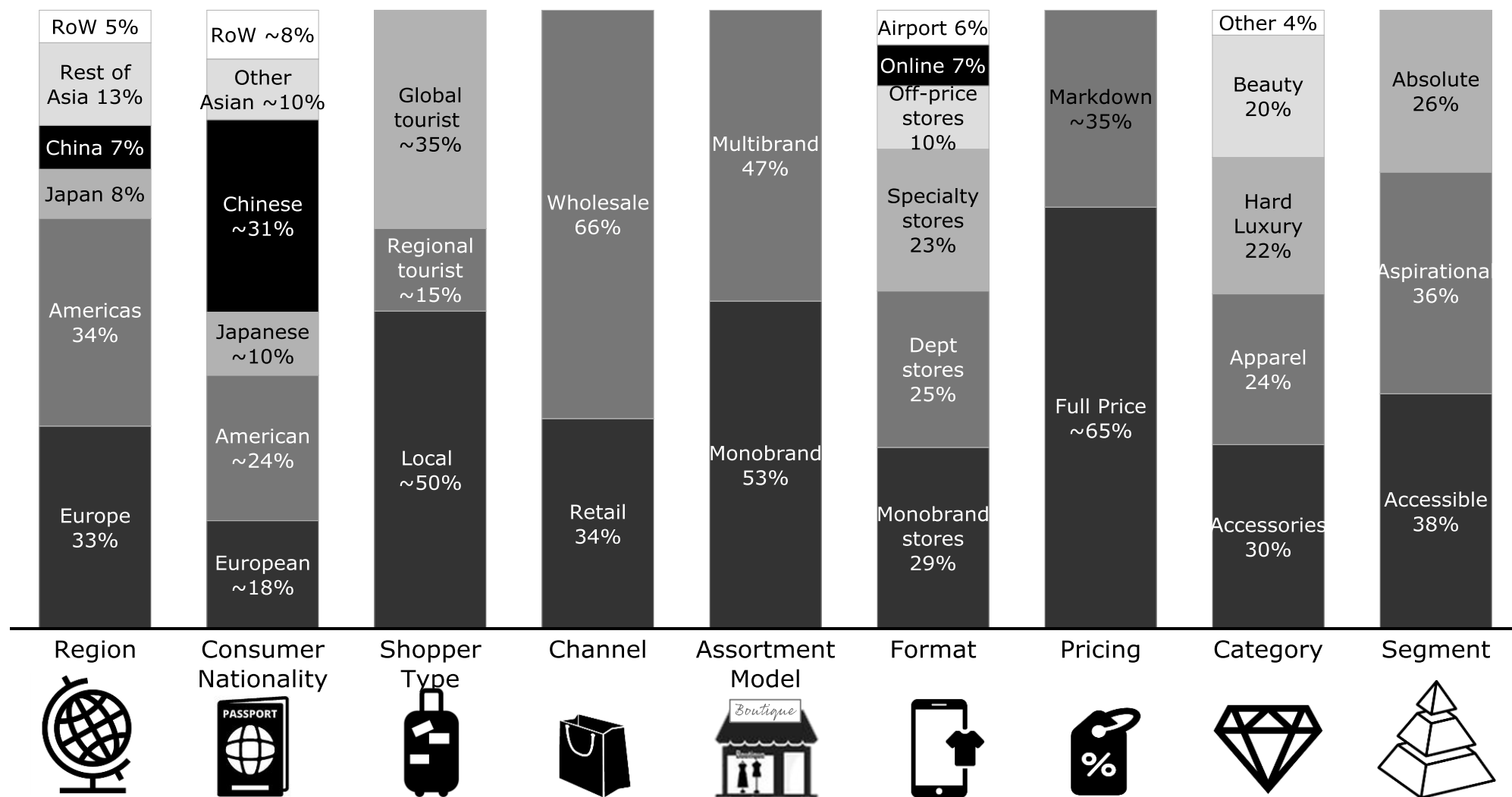
**Chinese stock crisis** causing a global stock exchange turmoil and impacting **consumer confidence in US** more than in China



**Oil** (and other commodities) **price drop** reducing wealth of most exposed economies and of their **key luxury consumers**

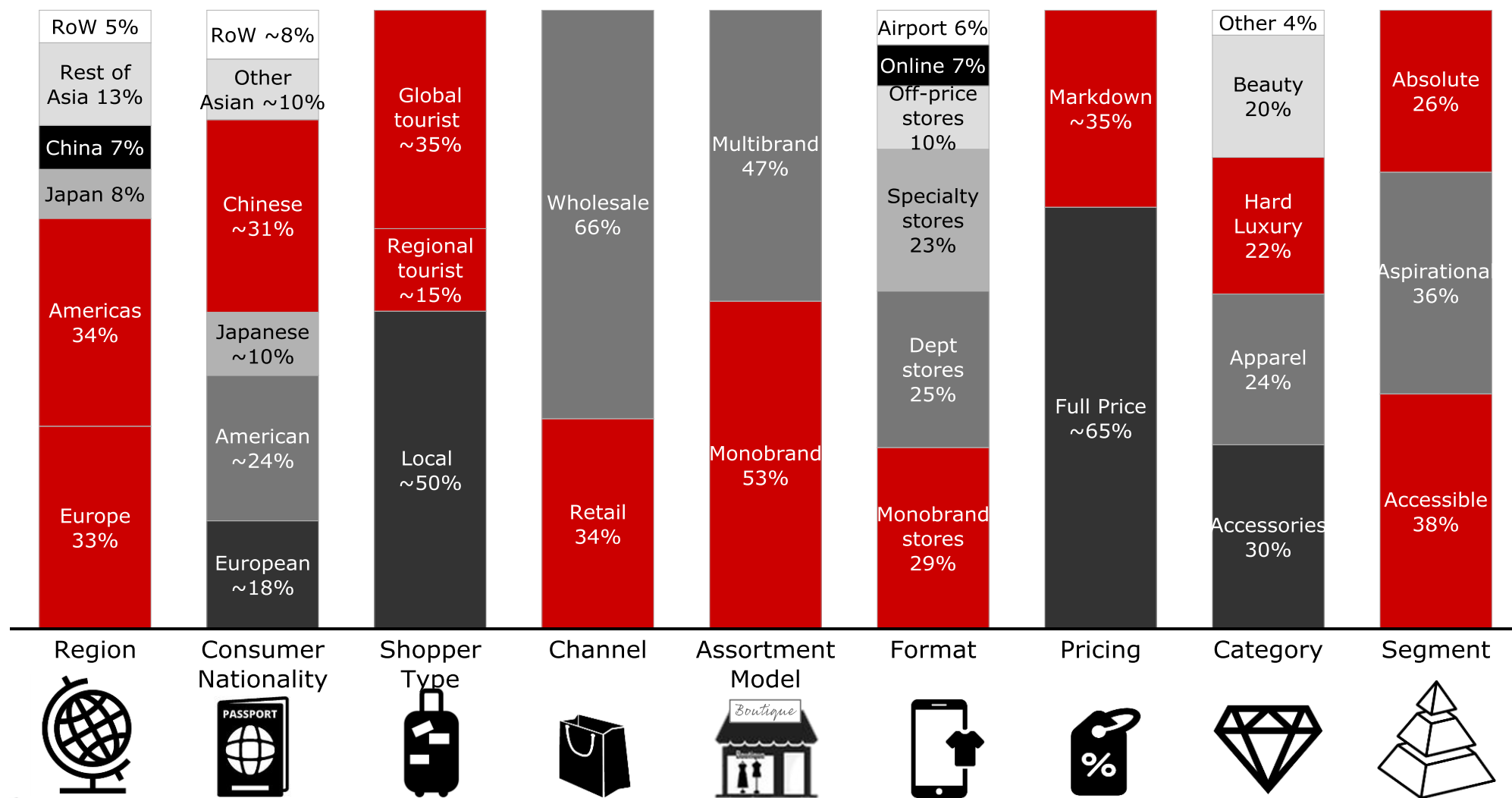
# The 2015 personal luxury goods market at a glance

## GLOBAL PERSONAL LUXURY GOODS MARKET (2015E|€B)



# The 2015 personal luxury goods market at a glance

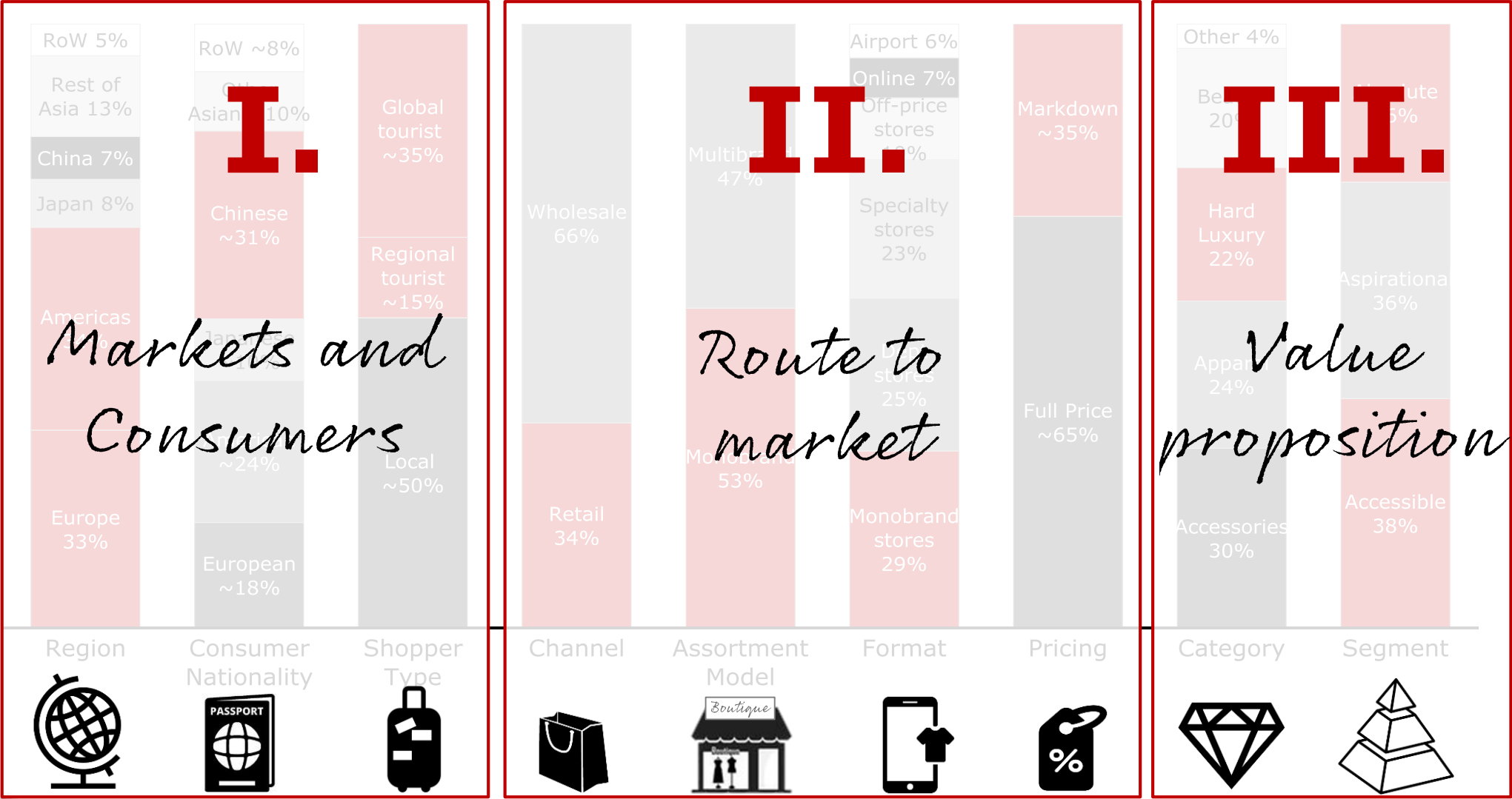
## GLOBAL PERSONAL LUXURY GOODS MARKET (2015E|€B)

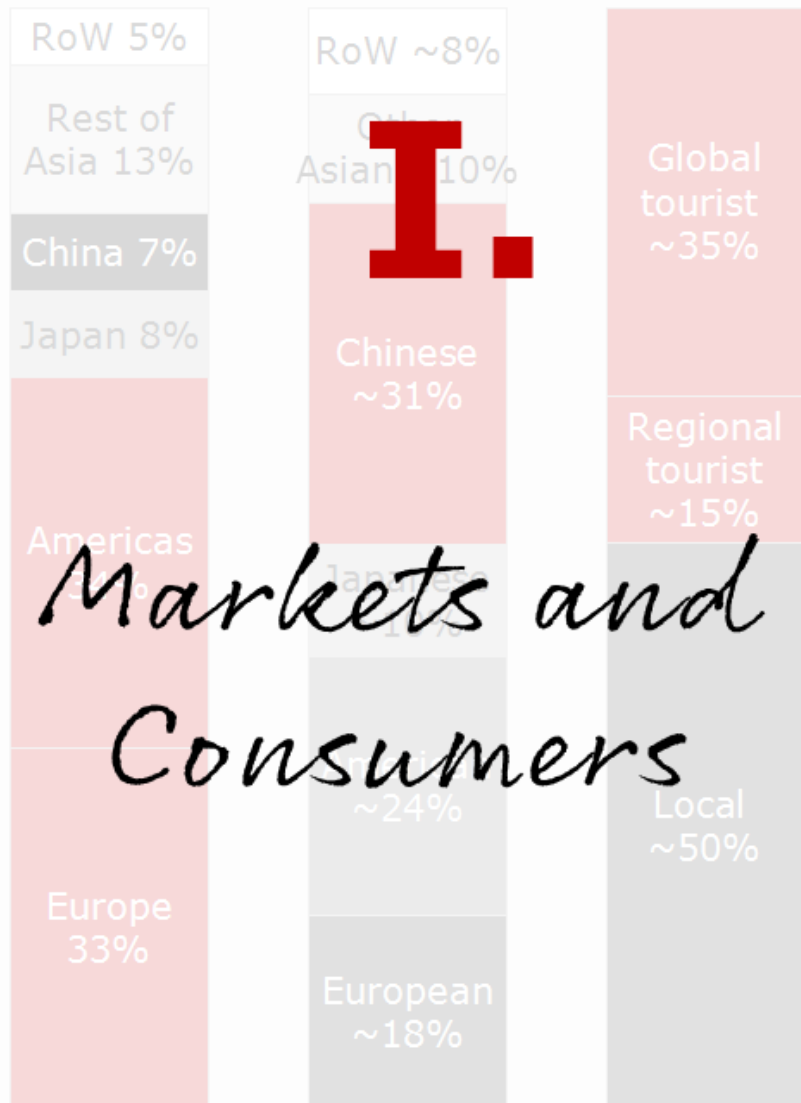




# Framework of the study

## GLOBAL PERSONAL LUXURY GOODS MARKET (2015E|€B)





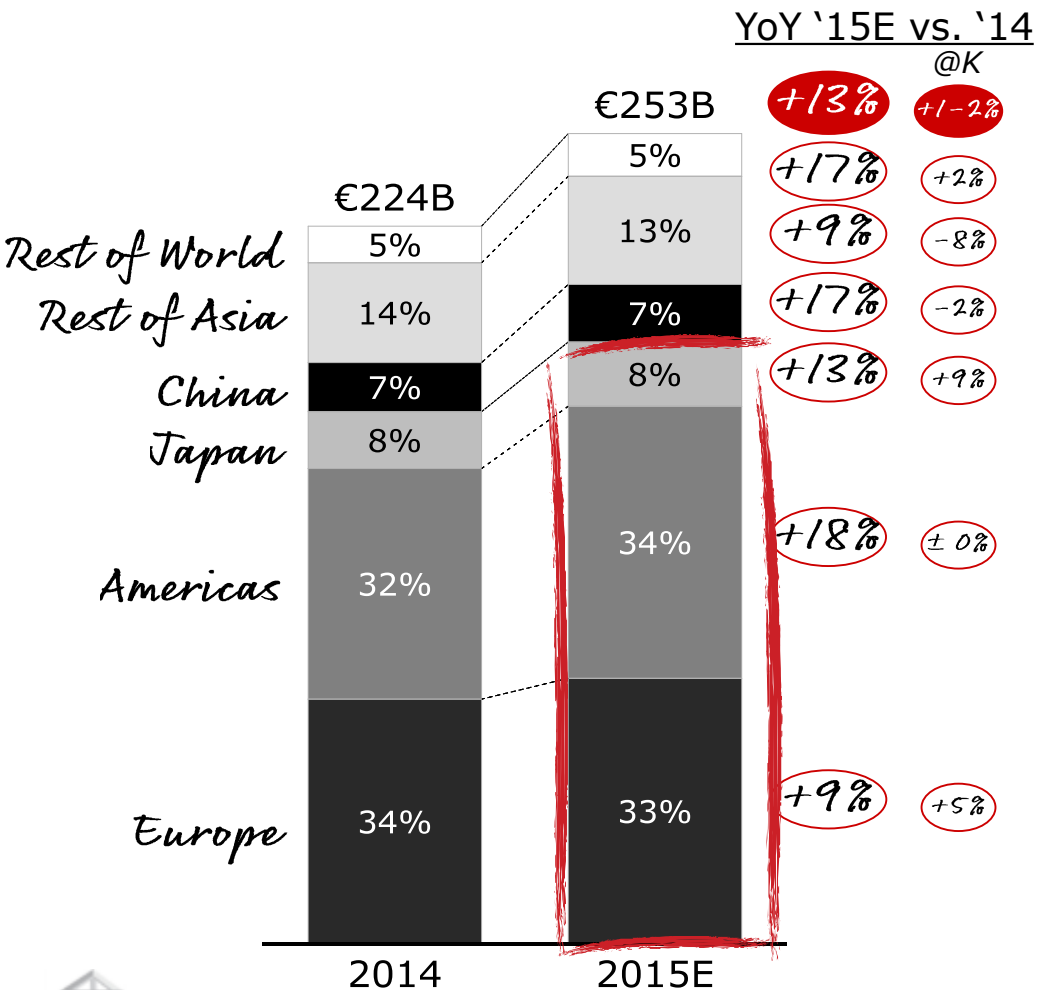
# Markets and Consumers



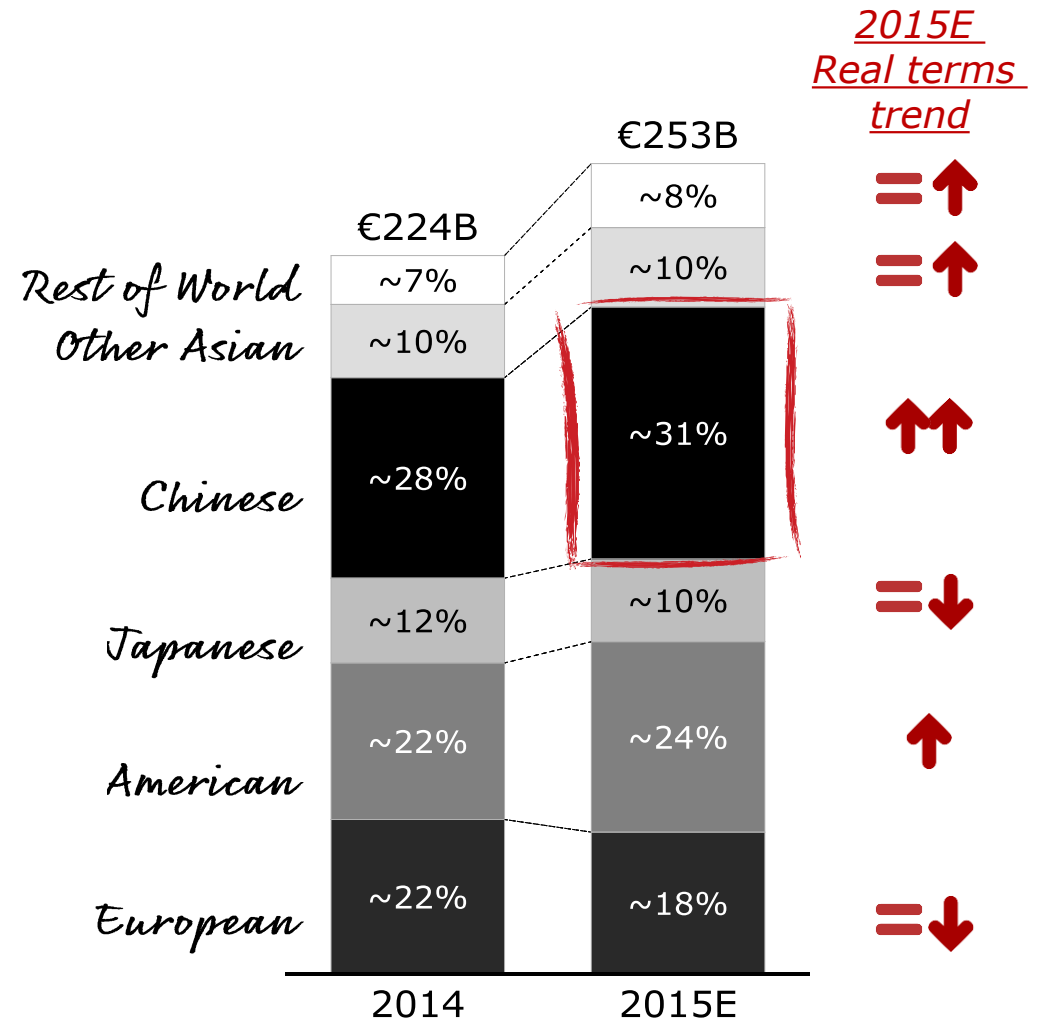
# "The great mall of China": mature markets becoming luxury shopping destinations mainly for Chinese consumers

## GLOBAL PERSONAL LUXURY GOODS MARKET (2014-2015E|€B)

### BY REGION



### BY CONSUMER NATIONALITY

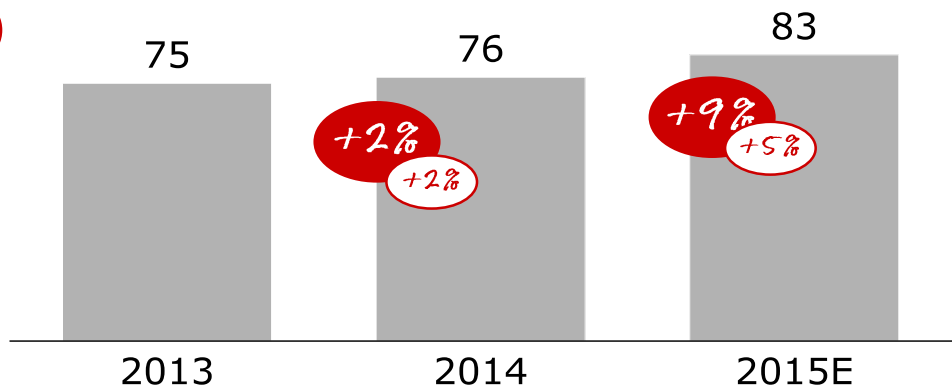


# Sound European growth led by **price-driven tourists**: the old continent as the **largest in-season outlet**

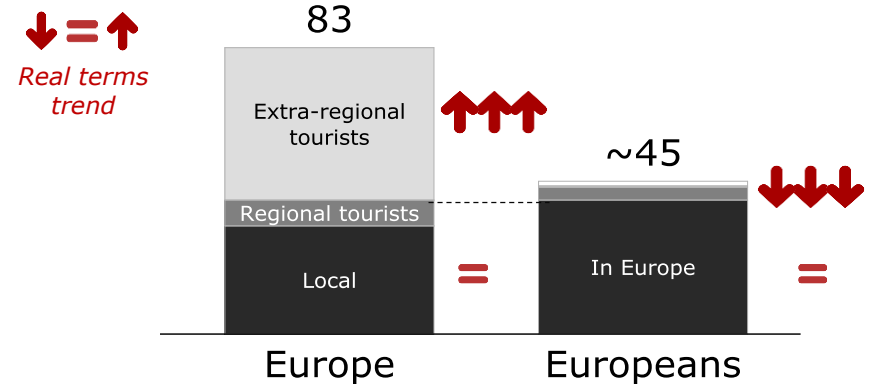


**EUROPE PERSONAL LUXURY GOODS MARKET  
(2013-2015E|€B)**

@K



**...BY CONSUMER ORIGIN VS. EUROPEANS  
GLOBAL SPENDING (2015E|€B)**



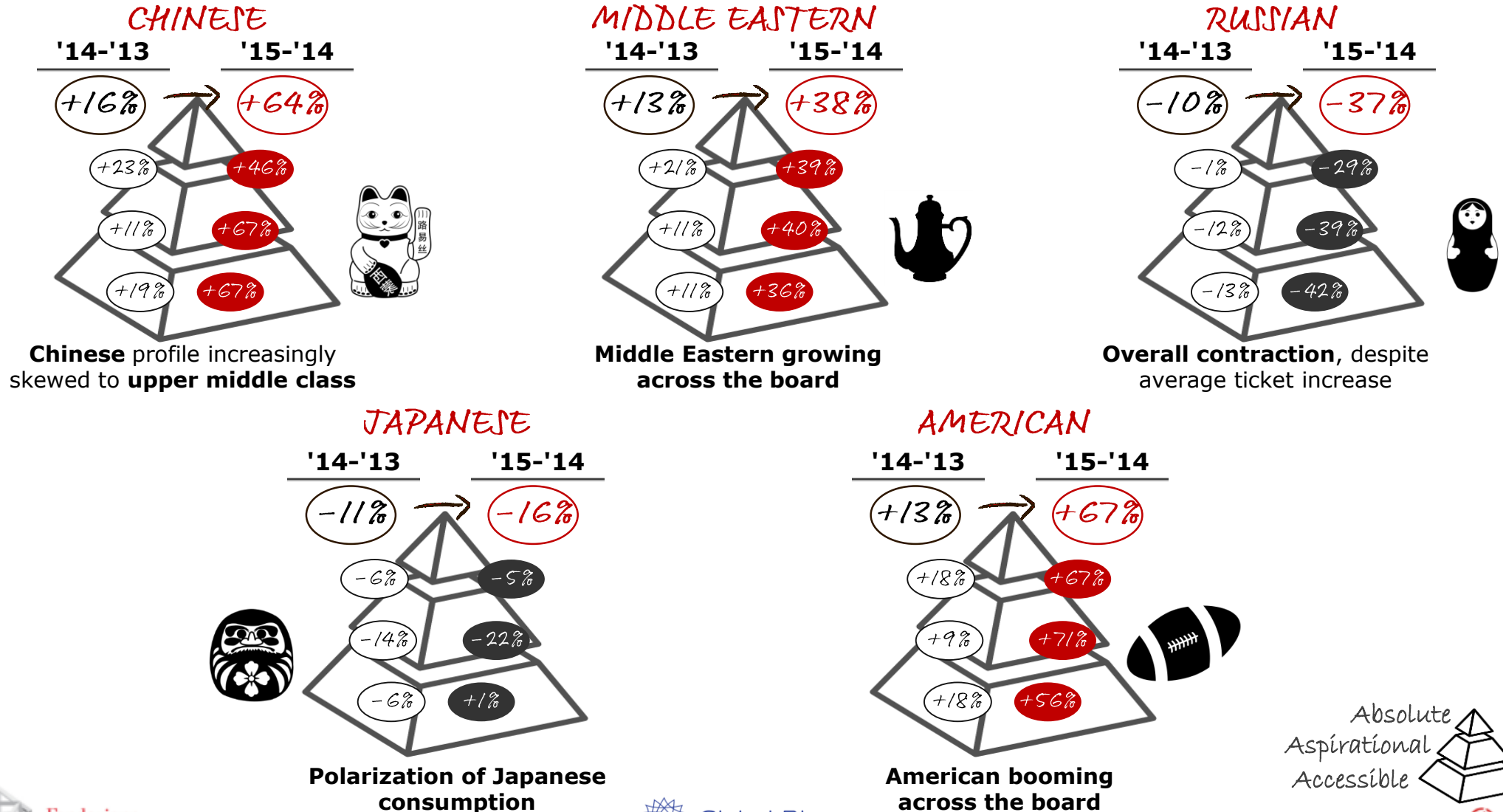
- **Strong performance of the Eurozone: weak euro driving strong growth of inbound tourism**
  - **Chinese** travelling around driving sales also in 2<sup>nd</sup> tier cities/small centers
  - Return of **US shoppers** providing extra stimulus on top of consistent Middle Eastern shopping
  - **Russian** presence **contracting sharply** while also Japanese struggling to rebound
  - **New biometric requirements for Chinese visa** casting shadows in the next months inbound flows
- **Uneven performance** across markets in Western Europe with **local demand slightly recovering**
  - **Germany** confirming its role as the most **sound market** for both retail and wholesale, locals and tourists
  - **France and Italy performing well in retail**, still soft on the wholesale in less touristic areas
  - **Spain** strongly **rebounding** thanks to tourists
  - **UK solid yet less buoyant** (strong GBP), **Switzerland weak** for the strong CHF with the exception of watches
- **Eastern Europe remains weak** despite **improving situation in Russia**
  - **Moscow stabilizing** (flattening/low single digit growth in RUB) also thanks to unexpected Chinese flows
  - Outside Moscow the situation remaining tough for the specialty distribution around the country



# Strongest contribution of **Chinese and American** in Europe; Russian disappearing from luxury maps



## EUROPEAN TAX FREE SHOPPING TREND BY NATIONALITY ('15 vs. '14)

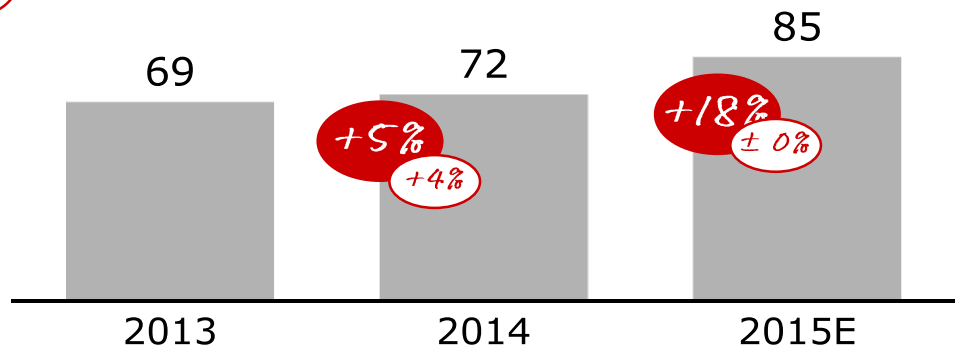


# Super-dollar weakening Americas consumption: drop of touristic spending



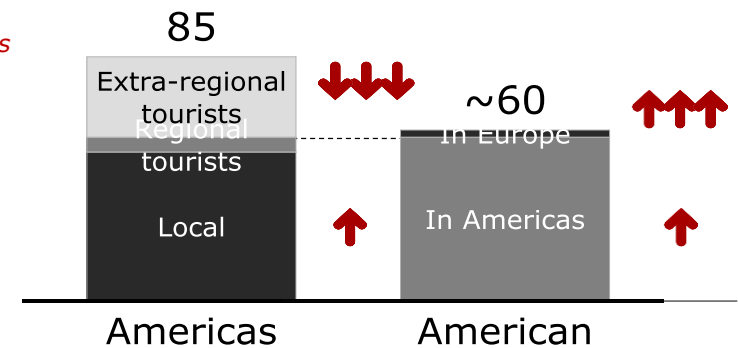
## AMERICAS PERSONAL LUXURY GOODS MARKET (2013-2015E|€B)

@K



## ...BY CONSUMER ORIGIN VS. AMERICAN GLOBAL SPENDING (2015E|€B)

↓ = ↑  
Real terms trend



- **Strong dollar hampering US market performance**

- **Tourists** slowing **down** significantly counterbalanced by **decent** consumption **of locals**
- **Slight price adjustments** (discounts in some areas, e.g. Hawaii) hardly off-setting the negative trend of tourists
- **Department stores suffering** (regardless of **lower exposure to tourists**) and playing on **promotions** (e.g. triple points)
- **Off-price channel top performer: organized tours driving** (the few) **tourists** to **premium outlet centers** while still drawing **locals looking for bargain** also when **shopping online**
- **Positive momentum of shoes and ready to wear** while on **leather goods top brands** are suffering. **Men's categories outperforming women's**

- **Canada improving performance** with **lower competition from US** (strong USD)

- **LATAM outperforming** but with **different drivers** across countries

- **Mexico maintaining momentum** on locals and tourists
- **Brazil enjoying positive trend** due to **repatriation of Brazilian spending** for the weakening BRL

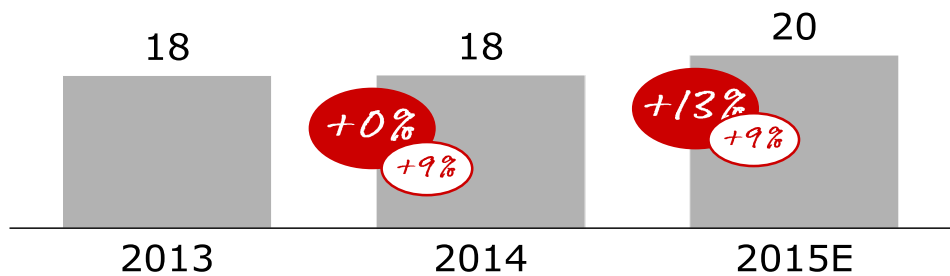


# Japan: China's next door cultural and shopping destination



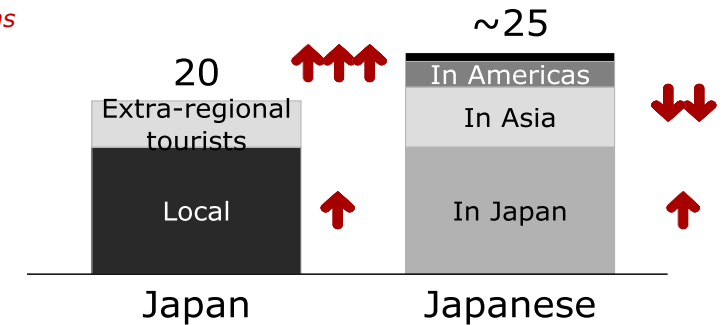
## JAPAN PERSONAL LUXURY GOODS MARKET (2013-2015E|€B)

@K



## ...BY CONSUMER ORIGIN VS. JAPANESE GLOBAL SPENDING (2015E|€B)

↓ = ↑  
Real terms  
trend



- Japan consistent champion in real terms for three years in a row. In 2015 **booming Chinese flows** and **sound local demand**
  - **Japan first foreign destination for Chinese** throughout the year and during Golden Week
  - **Chinese tourist flows** (more mature consumer profile compared to the one travelling to South Korea) visit first **Tokyo** (Ginza, Shinjuku, Aoyama and Omotesando) then **Osaka** and finally **Kyoto** (for cultural sight-seeing)
  - **Tourists** (mainly Chinese) **representing up to 40% of total sales** for **most exposed brands**
- With **Chinese boom** and **first steps** on the **development** of the **downtown duty-free format** the **consolidated Japanese route to market** may **migrate to something closer to South Korea** with **potential cannibalization** of **duty-paid format** and **consequent rationalization** of the latter
  - **Local department stores** already **opening duty-free floors** in **Ginza** and **South Korean players** expected to **join soon** in the **same area**
- **2020 Olympic games** expected to **further improve retail infrastructure**





# High variety of performance across Asia: **South Korea** the **shining star**, **Hong Kong** the **fading lantern**

## ASIA LUXURY GOODS MARKET BY COUNTRY (2015E, €B)

○ @Local currencies

HONG KONG

7€B

-11%  
-25%

INDIA

1€B

+13%  
-1%

THAILAND

1€B

+18%  
+3%

TAIWAN

6€B

+19%  
+4%

S. KOREA

11€B

+16%  
+4%

MACAU

1€B

-10%  
-25%

M. CHINA

18€B

+17%  
-1%

SINGAPORE

3€B

+14%  
+3%



Negative real terms trend

Positive real terms trend



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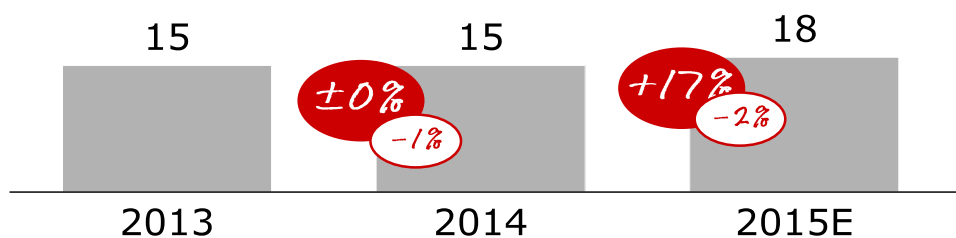


# Only ~20% of Chinese spending is made at home



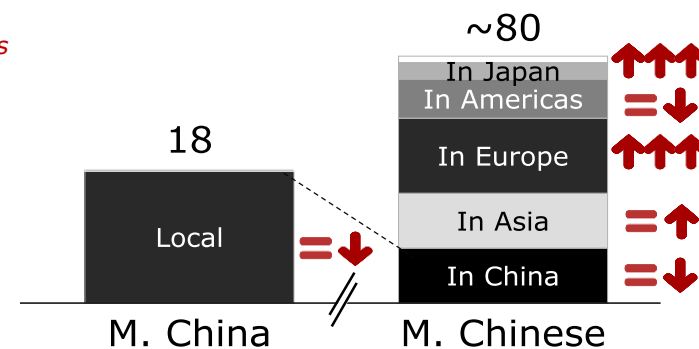
## MAINLAND CHINA PERSONAL LUXURY GOODS MARKET (2013-2015E|€B)

@K



## ...BY CONSUMER ORIGIN VS. M. CHINESE GLOBAL SPENDING (2015E|€B)

↓ = ↑  
Real terms trend



- **Mainland China still shrinking** but **some brands are improving their performance**
  - **Beijing** better than **Shanghai** where there is an **over proliferation of malls** with mixed and volatile performance
  - **Watches suffering** but not as much as in Hong Kong - Key retailers highly stocked and rationalizing stores
  - **Jewelry performing well**, retailers opening small jewelry stores - focus shifting towards high-end range
  - **Menswear still in contraction**, yet not for all brands while **womenswear is performing well**
  - **Leather goods** registering **mixed performance by brand** while **shoe segment** generally **very healthy**
- **Government attempting to foster domestic consumption**: grey market fight through visa restriction to HK and stricter custom controls, import tariff cuts, currency devaluation while anti-*daigou* regulations are under discussion
- **Price differentials** with **Mainland China** becoming the **key issue** for the industry **globally**; **long term potential confirmed** with **high expectations** especially of **upper middle class**



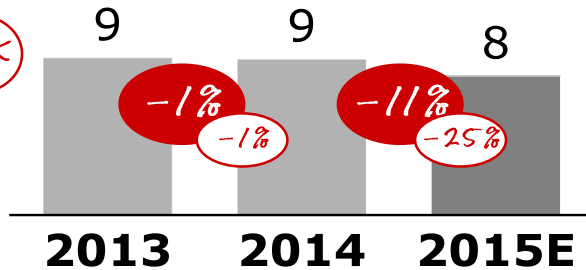
# Asian performance undermined by the **strong contraction in real terms of Hong Kong and Macau**

## Hong Kong & Macau



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Hong Kong & Macau Personal Luxury Goods Market Trend (2013-2015E|€B)



- **Hong Kong and Macau worst performers** losing **Chinese support: government anti-graft and anti-grey market actions, currency fluctuations, decreasing popularity**

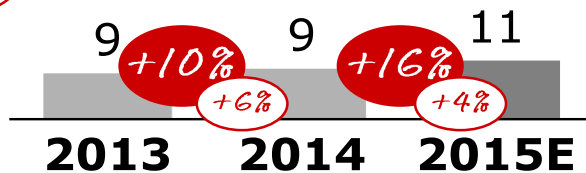
- **Strategic rethinking** expected for **Hong Kong: focus on locals and network rationalization**
- **Positive long-term expectations on Macau: new developments** turning the city in an **entertainment hub** with **better connections with China**

## South Korea



@KRW

South Korean Personal Luxury Goods Market Trend (2013-2015E|€B)



- **South Korea performing very well in H1** thanks to **Mainland Chinese flows...**

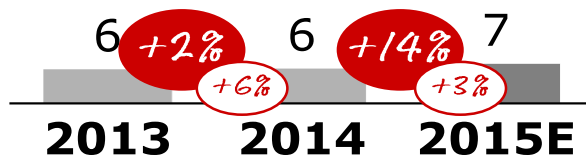
- ...impacted by the **MERS** and the **North Korean political tensions** in Q3...
- ...recovering in Q4 with **direct (duty-paid) stores outperforming duty-free** also with tourists thanks to a **certain price alignment** due to **currency fluctuations**

## South-East Asia



@K

South East Asian Personal Luxury Goods Market Trend (2013-2015E|€B)



- **SEA relatively well performing**

- **Singapore and Malaysia recovering** from a **tough 2014**, with **Singapore** also **stealing some gamblers from Macau**
- **Thailand top performer** thanks to **Chinese flows** with **strong potential going forward**
- **Indonesia disappointing** after a **good start of the year** and increasingly seeing its **role limited to just a local window to serve Indonesian abroad**



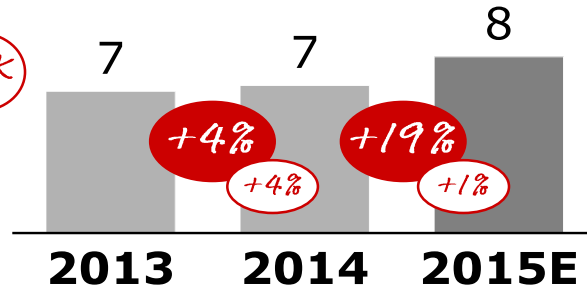
# Middle East suffers due to Russians, Australia shines thanks to Chinese. Africa?

## Middle East



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Middle Eastern Personal Luxury Goods Market Trend (2013-2015E|€B)



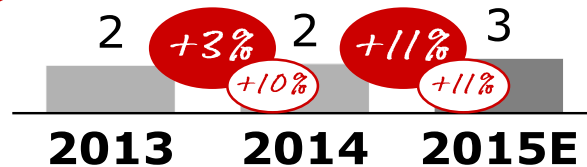
- Middle East suffering for the **contraction** of **Russians** only marginally offset by Chinese
- **Local UHNWI** consumers showing sound trend with **Saudi** top performing. More cautious upper-middle class
- Important luxury **mall development plans** in KSA and Qatar may jeopardize Dubai's market
- **Iran next big bet** although still severe problems due to sanctions and poor infrastructures

## Australia



@AUD

Australian Personal Luxury Goods Market Trend (2013-2015E|€B)



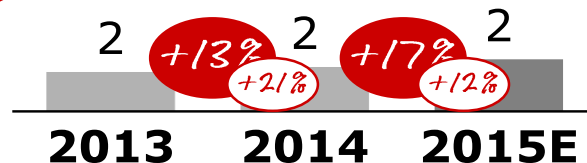
- Australia maintaining momentum as **key destination for Chinese** tourists, and even becoming a secondary residency for wealthy Chinese expats and students
  - **Melbourne** first destination
- Brands assessing **new opening opportunities** due to high expectations for 2016 and 2017

## Africa



@K

African Personal Luxury Goods Market Trend (2013-2015E|€B)



- African growing economy and increasing UHNW individuals create **potential for luxury market** development...
- ... but **still far from being the new Asia**
  - Concerns on countries political stability and high volatility due to reliance on oil and commodities
  - Chinese tourists flows dropping in 1H due to unfavorable new visa regulation

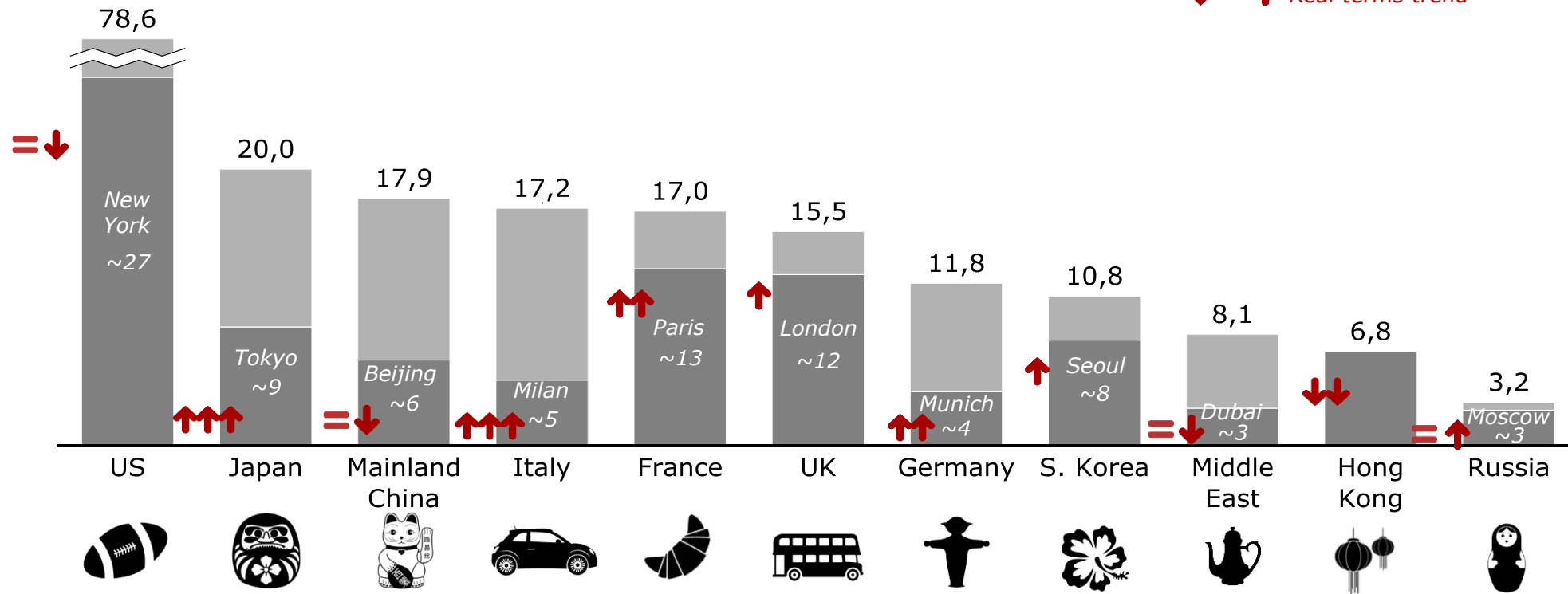


# China joins the luxury podium; Italy back to **positive** with **Milan** that shines for **growth**

## PERSONAL LUXURY GOODS MARKET – TOP COUNTRIES (2015E|B€)

■ Top city in the country

↓ = ↑ Real terms trend



€ Growth 14-15E	20%	13%	17%	6%	10%	16%	14%	16%	19%	-11%	-25%
Local currency growth 14-15E	0%	9%	-1%	6%	10%	5%	14%	4%	0%	-25%	-2%

# II.

Route to market

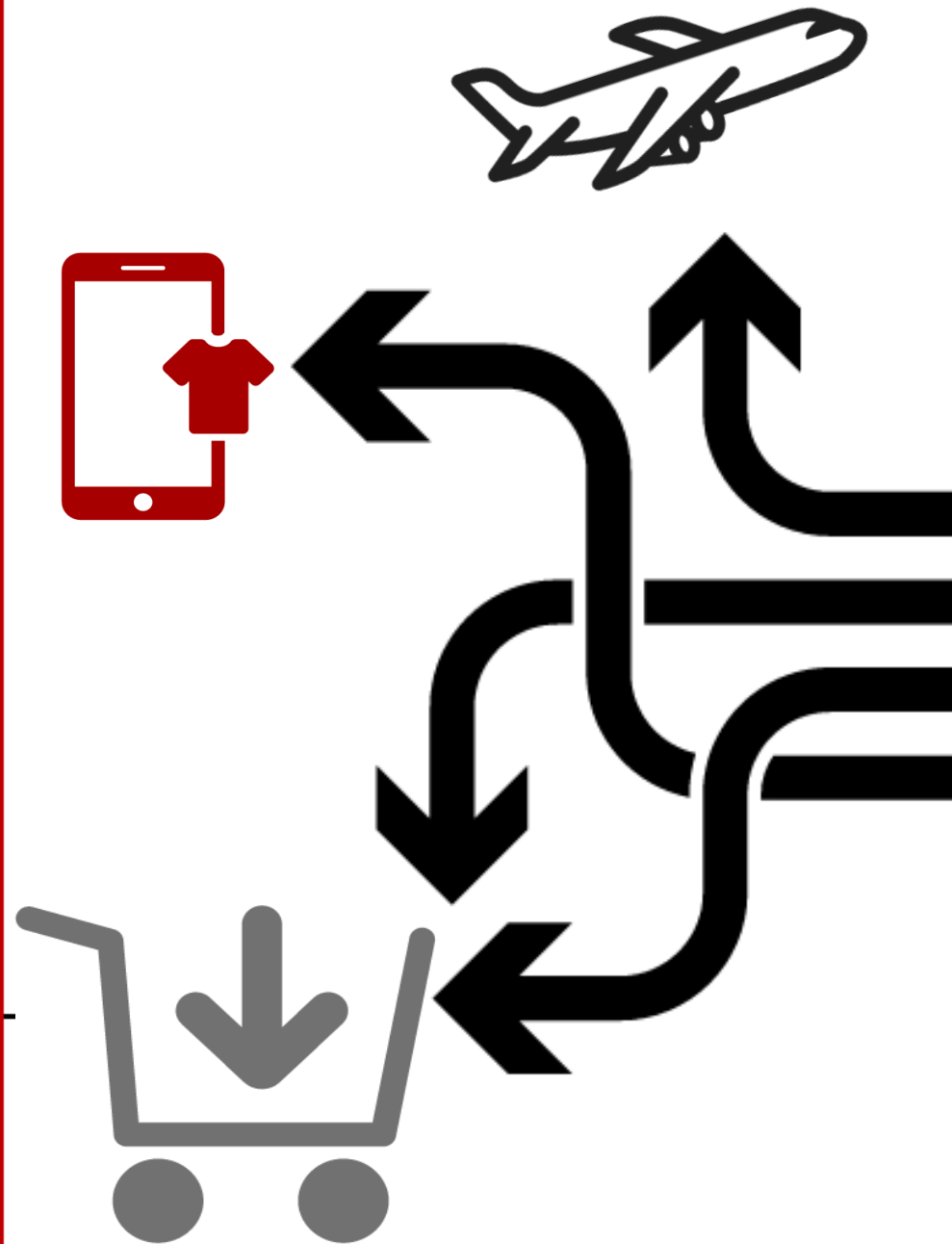


Channel

Assortment  
Model

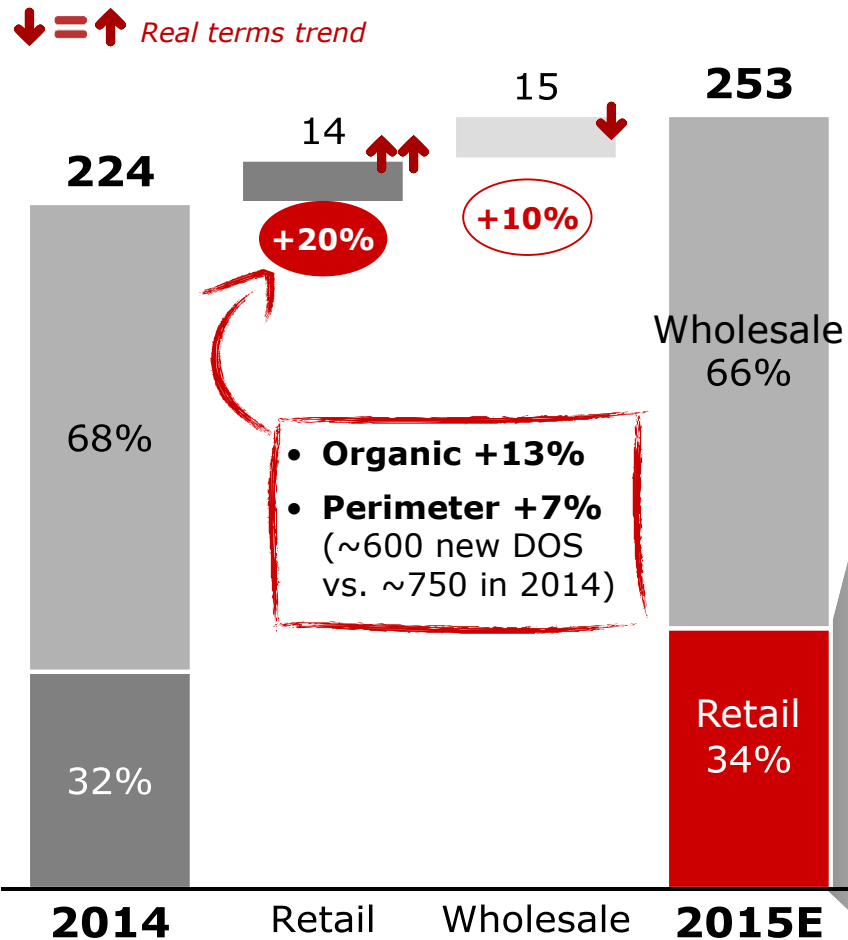
Format

Pricing



# Retail channel keeps **gaining share** with **uneven** organic and perimeter **trends** across geographies

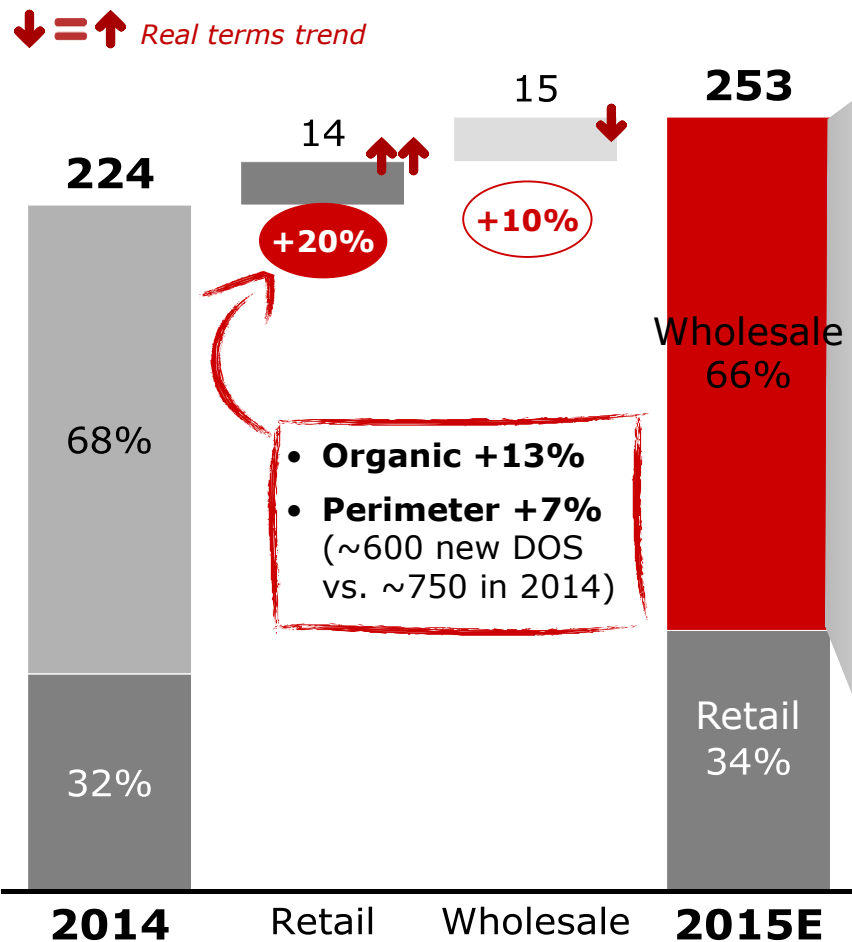
## GLOBAL PERSONAL LUXURY GOODS MARKET TREND BY CHANNEL (2014-2015E|€B)



- **Retail channel outpacing wholesale 2:1** at current exchange rates **gaining 2pp share**
- **Low single digit organic growth in real terms** inflated by currency effect
  - **Double digit performance** in **Europe** and **Japan** driven by **tourists**, flattening in **US** (deteriorating in H2)
  - **Negative in Asia** due to **Macau** and **Hong Kong** where **locals alone cannot support the large luxury footprint**
- **Slowdown in store openings** for the 2<sup>nd</sup> consecutive year, with **part of the openings** driven by **buy-back of distribution in Asia** (i.e. South Korea and Greater China)
  - **Most established brands** focused on **network maintenance** with stable overall footprint
  - **Smaller and fast growing brands** still **expanding their network** and **rebalancing geographic coverage**

# Wholesale channel **under pressure** with specialty stores in a renewed trend

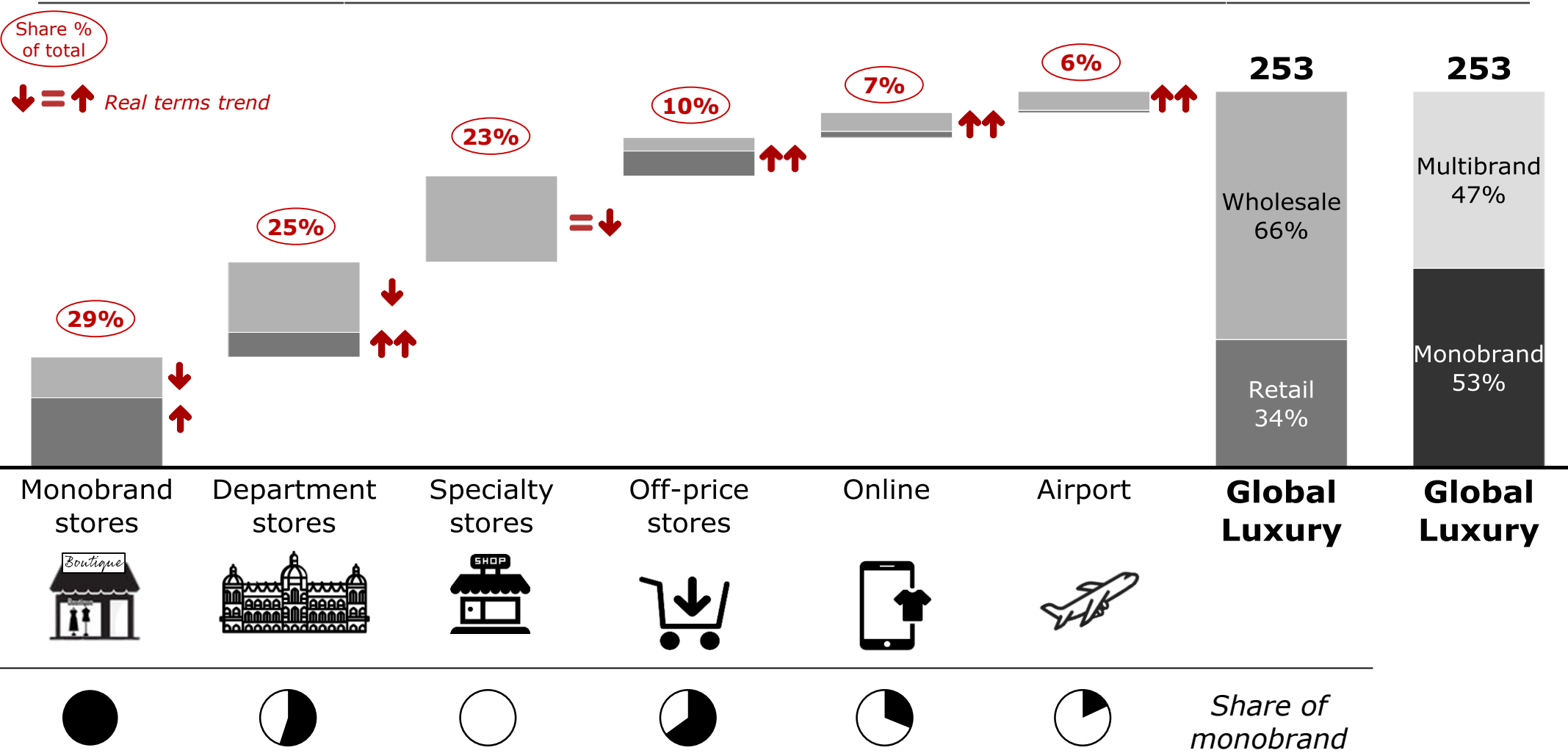
## GLOBAL PERSONAL LUXURY GOODS MARKET TREND BY CHANNEL (2014-2015E|€B)



- Wholesale channel low single digit negative trend in real terms mainly due to:
  - Ongoing **retailization** trend turning **franchise** into **directly operated operations** or **JVs**
  - **US department stores struggling across product categories** but especially in **leather goods** (better performance in shoes and RTW)
  - **Asian watch retailers** coping with **channel over-stock** with **decreasing sales** and **network rationalization**
  - **Europe specialty stores recovering**, although at different pace across countries
  - **South Korean travel retail** impacted by **decreasing flows in H2** due to the **MERS** and **renovations at Incheon airport**
- Overall **travel retail** and **online** (especially e-tailers) **outperforming wholesale formats** while **specialty stores** are **gaining relevance** in **Asia** (i.e. China) and **US**

# Retail and mono-brand distribution continue to be the winning formats

## GLOBAL PERSONAL LUXURY GOODS MARKET BY CHANNEL & FORMAT (2015E|€B)

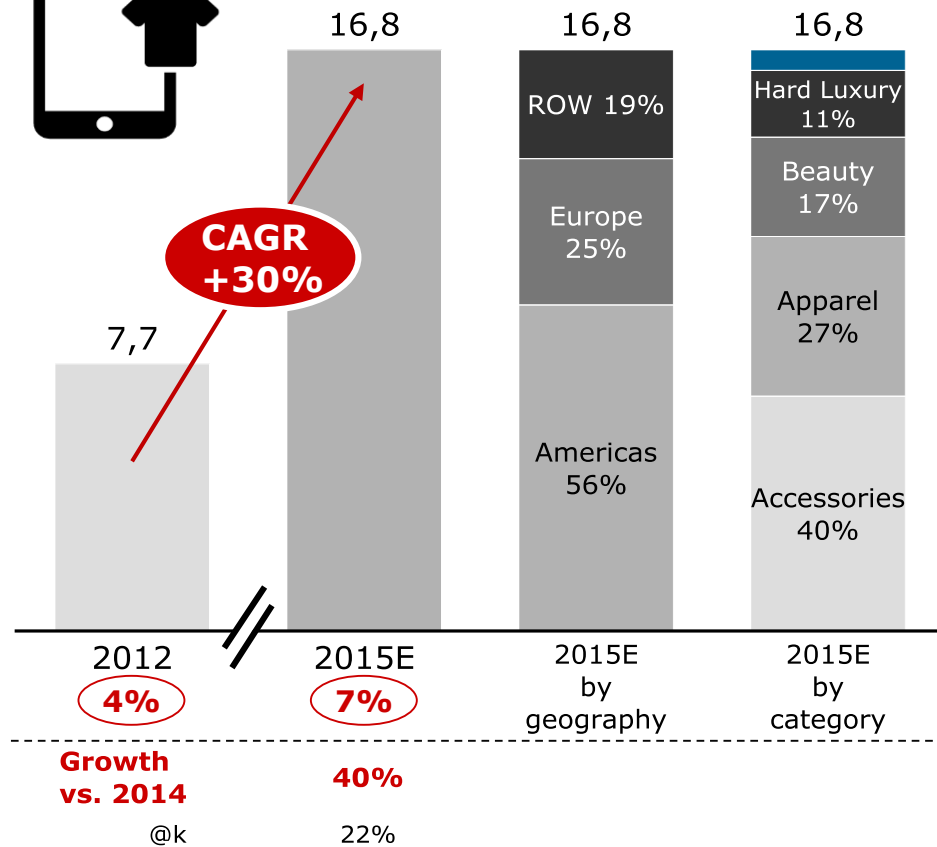
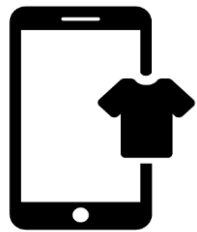




# E-commerce **penetration** nearly **doubled** since 2012. **E-tailers win** customers while **brands.com lag behind**

## ONLINE PERSONAL LUXURY GOODS MARKET TREND (2012-2015E|€B)

Online  
penetration



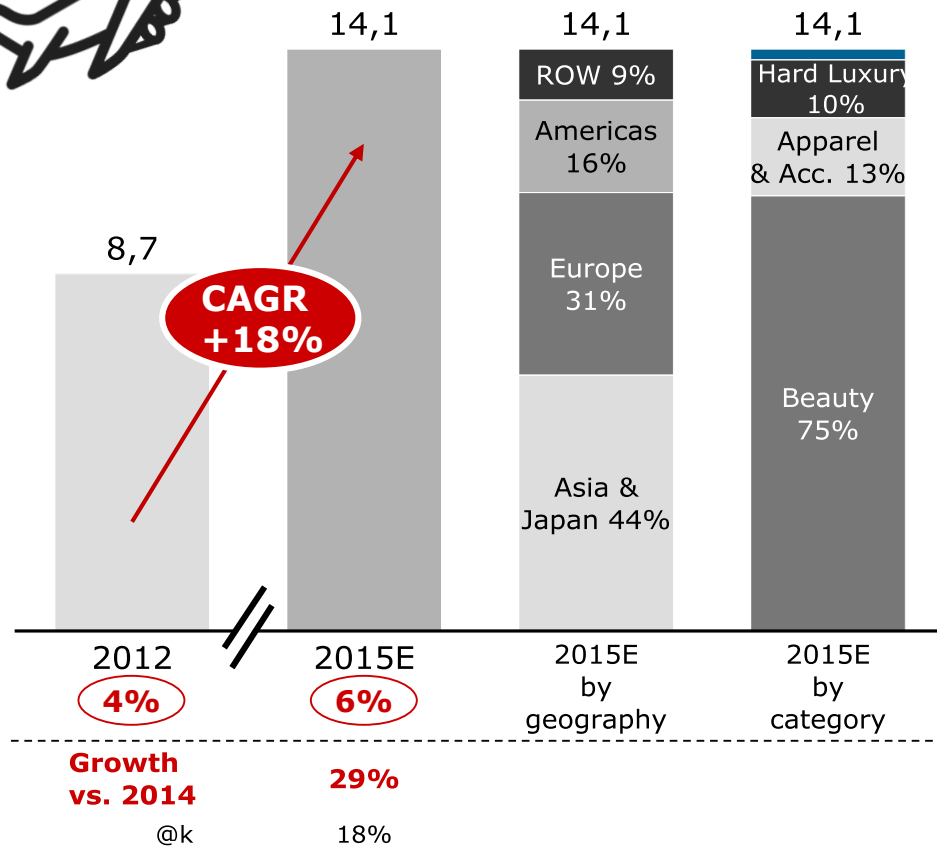
- **E-tailers** outperforming the market globally
  - Chinese players extending **geographic boundaries**, gaining share on a **global basis**
- **European and American retailers** continue to grow, **actively responding** to customer request of an **omnichannel experience**
- **Luxury brands losing share** overall with **uneven and polarized performance**
  - **Largest brands** with **established direct online** (and omnichannel) platforms **outperforming**
  - Majority still **lagging behind** (especially European)
- **Magazines approaching the channel**
- **Social commerce** beginning to **pick up steam**
  - **"Buy button"** is changing the role of social networks from **pure referral** to e-/retailers websites to **direct shopping** on the social platforms
- **M-commerce** becoming a **central touch-point** and a **growing channel** especially in **Asia**
  - **Wearables** potentially becoming the **new frontier of mobile**



# Airport retail **fully grasping** the value of **luxury globe trotters**

## AIRPORT PERSONAL LUXURY GOODS MARKET TREND (2012-2015E|€B)

Airport  
penetration

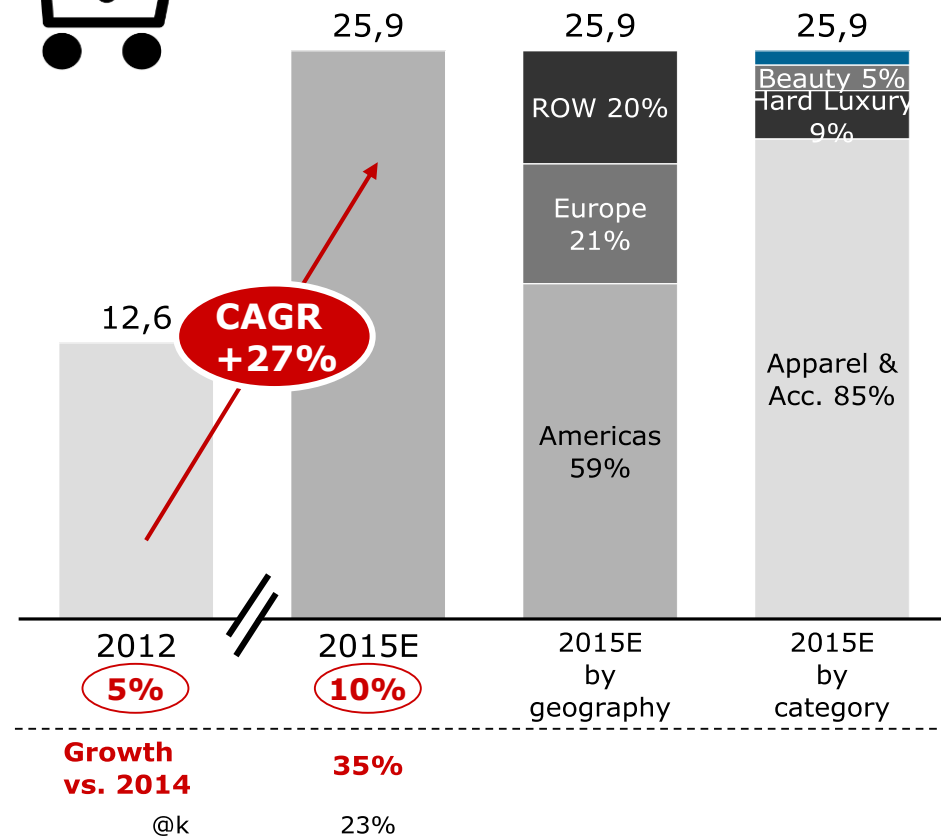


- Airport channel **high growth** driven by **increasing passengers flows**
  - **Relaxation of visas rules fostering Asian flows:** many government are working to attract these customers through **extended validity periods** or **fast-track visa** application process
  - European new biometric requirements for Chinese visas expected to impact flows in the short term
- **Beauty products** confirm **market-leading position** at airports, encouraging higher spending also thanks to **product innovation**
- **Asia & Japan** still main engine for growth driven by the increase in **number of airports** in the region, also in Tier 3 cities
  - Seoul Incheon airport (one of major Asian hubs) impacted by major renovations
- **US market** still **lagging behind**
- Ongoing **infrastructural improvements** in key airports to increase **retail spaces** and **enhance travelers shopping experience**

# Off-price channel **more than doubled in 3 years**, becoming a key lever to segment target consumers

## OFF-PRICE PERSONAL LUXURY GOODS MARKET TREND (2012-2015E|€B)

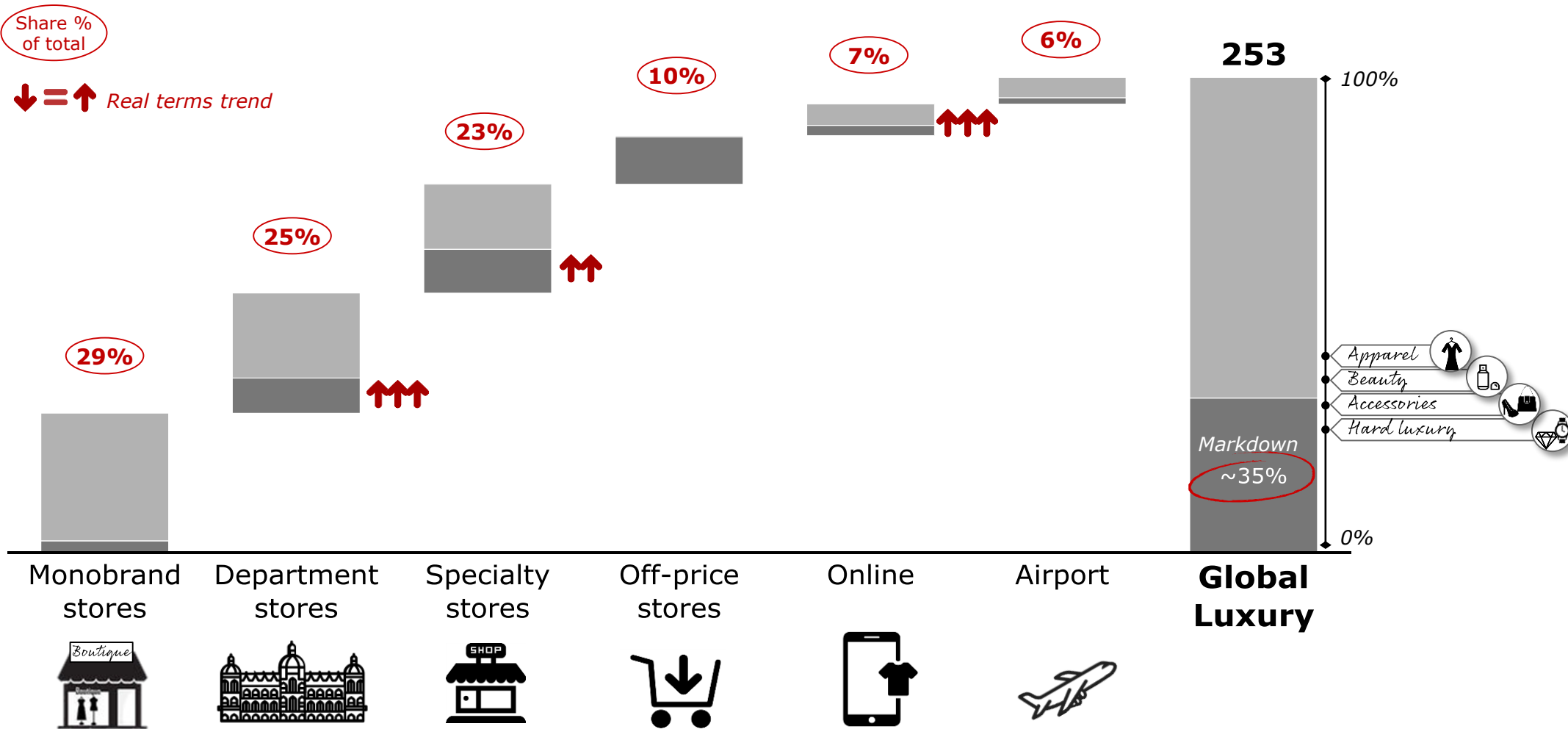
Off-price penetration

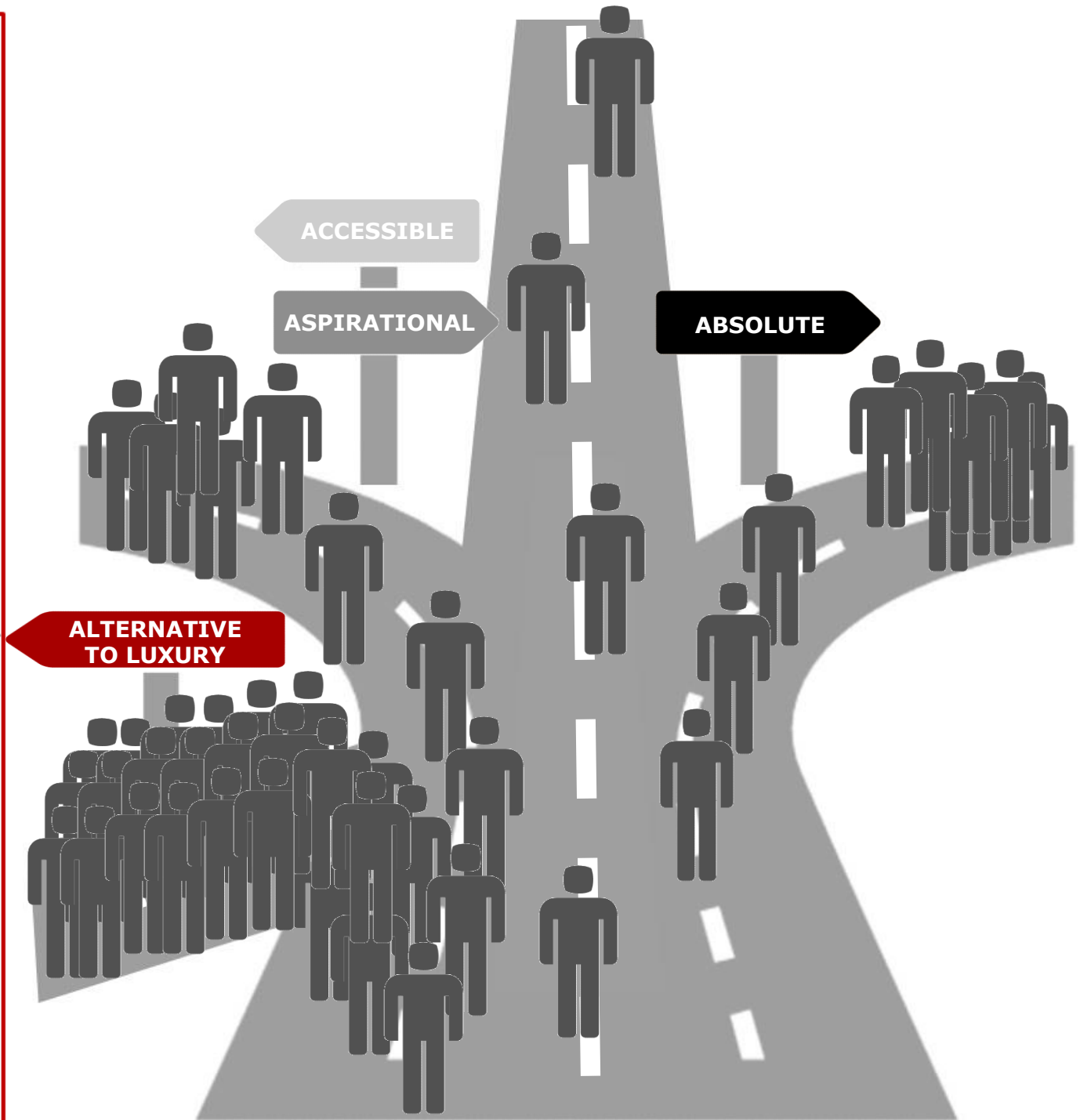
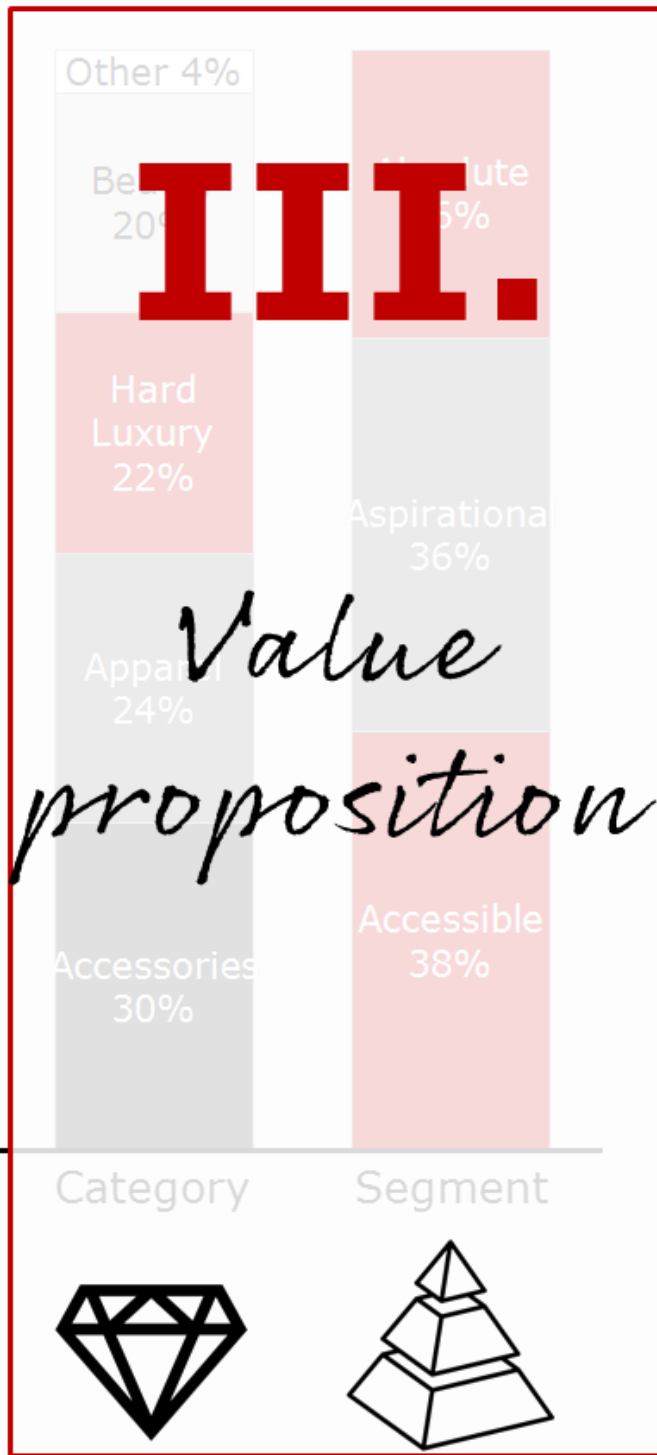


- **US, Europe and Japan** most penetrated geographies, and **increasing importance** of off-price channel in **China**
  - Growth sustained by **raising Chinese middle-class consumers**, increasingly looking for **good quality at good price** and **overall growing price consciousness**
  - International developers planning **openings in China** focusing also on **tier 2/3 cities**
- Luxury brands currently **reconsidering their strategic approach** to the channel
  - Focus on dedicated **made-to-outlet production** and **supply chain, tailored assortment, store format** and **shopping experience**
  - **Some brands reducing mark-down exposure** in **regular stores** while **leveraging more off-price ones** for **de-stocking**
  - Overall the **channel becoming a key lever to segment consumers**, more effectively than the typical multi-line approach leveraged in the 90s and 00s: **best practices** able to ensure **consumer overlap** (with full price) **below 5%**

# Markdown market extending far beyond off-price stores and reaching 35% of the market on a fast trajectory

## GLOBAL PERSONAL LUXURY GOODS MARKET – MARKDOWN MARKET BY FORMAT (2015E|€B)





# Polarized performance in Hard Luxury Accessories still leading the trend

## GLOBAL PERSONAL LUXURY GOODS MARKET BY CATEGORY (2014-2015E|€B)

YoY '15E vs. '14

2014

2015E

+13% @K  
+1-2%



36

+7%  
-6%

38

+10%  
+1%



14

+18%  
+6%

16

+10%  
-3%



14

+16%  
+4%

16

+13%  
+2%



38

+14%  
+2%

43

+15%  
+3%

€253B

€224B

Other

Beauty

Hard Luxury

Apparel

Accessories

2014

2015E



Fondazione  
Altagamma

BAIN & COMPANY

# Jewels and shoes over-performing; Watches strongly hit by channel overstocking in Asia

## GLOBAL LUXURY GOODS MARKET BY CATEGORY (2012-2015E|€B)

### Leather goods on a consolidation path

Price up-trade lowering volumes, with new smaller models and lower ticket items inverting the trend but unable overall to drive the same growth in volumes of the past years

### Jewelry and shoes clear market winners

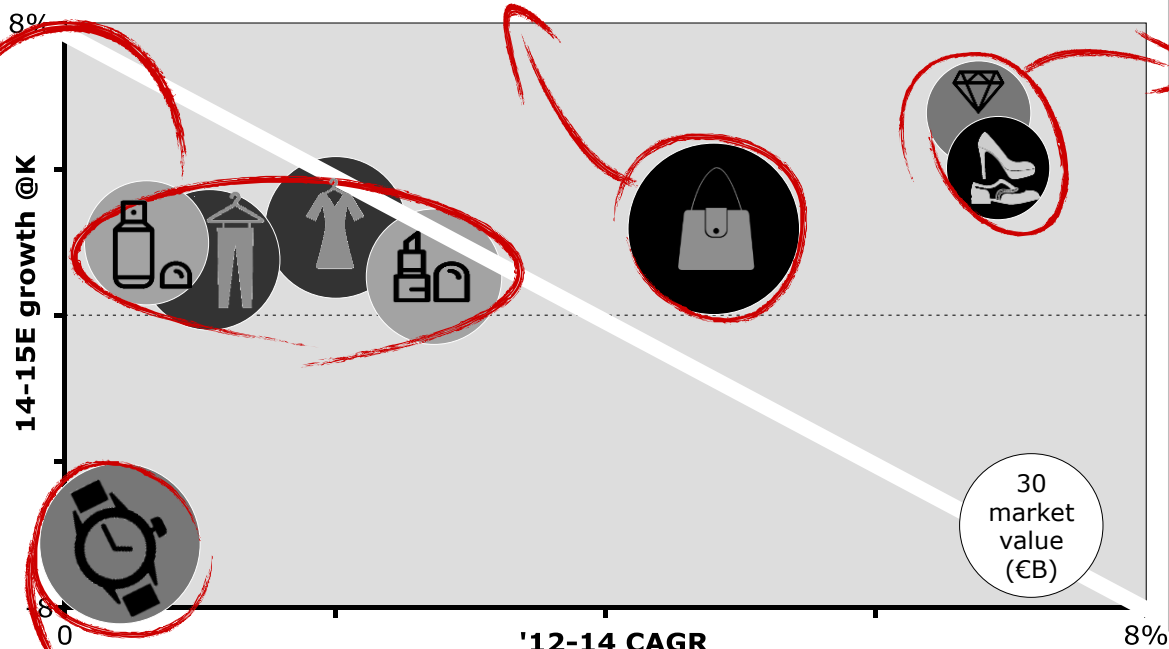
Jewels ever more perceived as a **safe investment** in an uncertain economic and financial environment

Shoes confirming a positive trend started in 2013 outpacing leather goods as the **status symbol** thanks to **sweet-spot price positioning**

### Apparel and beauty on a steady low single digit trend

Categories strongly under the attack by premium players aggressively playing with luxury codes

Women's RTW consistent trend leading to a **growth parity with LG** for the first time in 2015

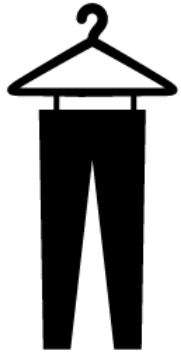


### Watches: the perfect storm

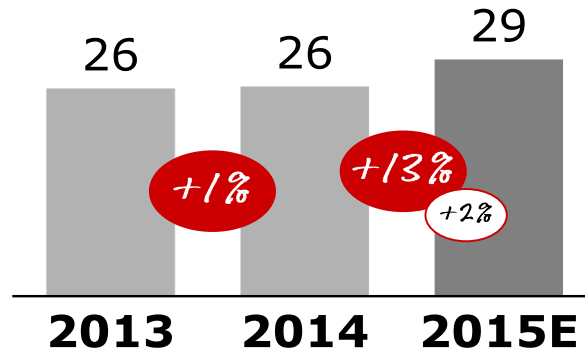
The Asian situation impacting watches trend since 2013, further deteriorating in 2015 (worst Swiss watch export figures since 2009 crisis) with CHF sudden appreciation driving pricing disequilibrium

# Soft positive trend of RTW with uneven results among men's segments and ongoing polarization in women's

## Men's RTW



Luxury men's RTW Market Trend  
(2013-2015E|€B)



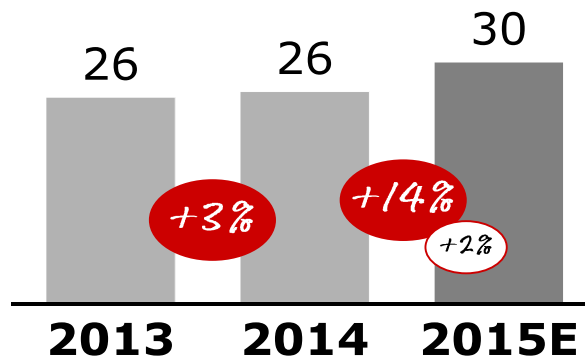
- **Casualwear** posting a **low single digit growth** while **formalwear** continuing to **suffer**
  - **Mixed performance within both segments**, with **Absolute** brands showing very **sound trend** offset by **negative Aspirational** and **lackluster Accessible**
- **Outerwear, denim and cashmere** categories **outperforming**, in line with 2014
  - Growing success of **fur** and **shearling**
  - **Denim** maintaining momentum also driven by a **new fashion twist** and the success of **customization services**

@K

## Women's RTW



Luxury women's RTW Market Trend  
(2013-2015E|€B)



- *Blurring boundaries between genders providing a **strong dynamism** to the **unisex style***
- Overall positive trend for women's RTW, with **high resilience** across **markets** and **categories**
  - **Brisk growth** of **denim** and **outerwear** across the board
  - At the extremes of the spectrum, **activewear** and **haute couture** showing a buoyant **dynamism**
  - **Daywear** positive trend **driven** both by **Absolute** brands and **first lines** and **Accessible** segment
  - **Formalwear lagging behind** in terms of growth due to the **underperformance** of the **Aspirational**
- Increasing **brandization** of **patterns** and **creative motives** as **new icons** of the category

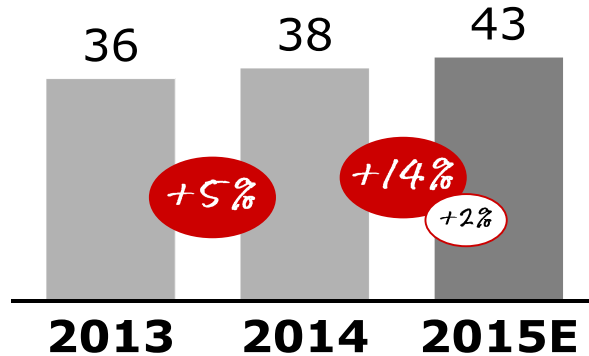




# Shoes continuing to **outstrip leather goods** which are struggling to turn the new offer's structures into growth

## Leather goods

Luxury leather goods Market Trend  
(2013-2015E|€B)

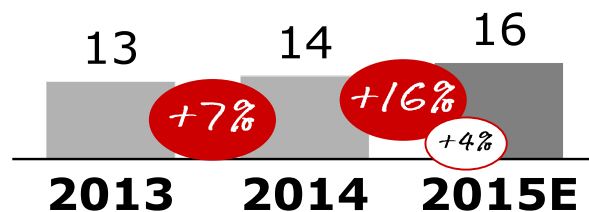


- Overall **trend undermined** by continuous **price increase** (excluding *Accessible* brands)
  - Brands attempt to preserve the entry-price range by offering a **wider selection of lower priced items** (e.g. smaller) was **effective** from a **volume standpoint** only, causing the **price mix** to **fall**
  - **Surging success** of the **off-price channel** and increasing **promotional activity** by full-price stores
- **Ongoing polarization** among segments
  - **Absolute outstripping** the overall trend, while **Aspirational** showing **mixed performance**, with ongoing turnaround of key brands
  - Highly **volatile consumer loyalty** affecting **brands success** in the **Accessible** segment

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## Shoes

Luxury shoes Market Trend  
(2013-2015E|€B)



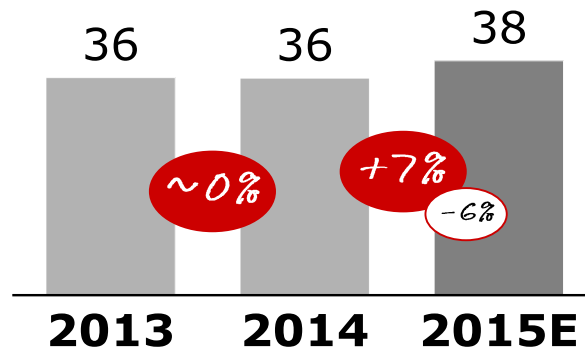
- **Consistent positive performance of shoes**, the **status symbol** at the **price sweet spot**
  - **Outperformance** of the **Absolute** segment
- Men's segment continuing on its positive growth trajectory, **women's** showing an **increased dynamism**
  - **Ongoing sneaker phenomenon** now **influencing** also **other stylistic segments** (e.g. formal shoes with thick rubber sole, ...)
- **Lifestyle brands** registering **slightly brisker** growth than shoes specialists

# Jewels continue growing although at a slower pace, while watches still impacted by Asian negative trend

## Watches



Luxury watches Market Trend  
(2013-2015E|€B)



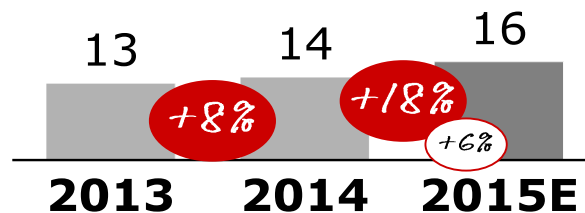
- Luxury watches **still impacted by Asian uncertainty**
  - **Asian retailers** overstocked with **declining sales** and **shrinking stores network**
- Category exposure to **Swiss watch makers** impacting the trend with **CHF appreciation** vs. Euro and consequent price adjustments
- **Absolute** better performing; buoyant Europe thanks to **touristic** purchases in brands' direct stores
- **Smartwatches** impact **limited to premium segment** and not competing with **high-end time pieces** playing on **different value dimensions**
  - **Luxury brands launching** their own smart watches and smart accessories for watches with **still limited volumes**

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## Jewelry



Luxury jewels Market Trend  
(2013-2015E|€B)



- **Luxury branded jewelry continue** to outperform the overall market
- Good performance of **Absolute** and **high-ticket** items
- Jewels remain among **top preferred investments** thanks to intrinsic value of raw materials
- Global demand for **diamonds still growing** but at a **more modest pace**, particularly in Asia as a consequence of the slowdown started last year and the protests in Hong Kong
- **Asian retailers** re-balancing **product offer of new stores openings** towards **jewelry** vs. **watches**

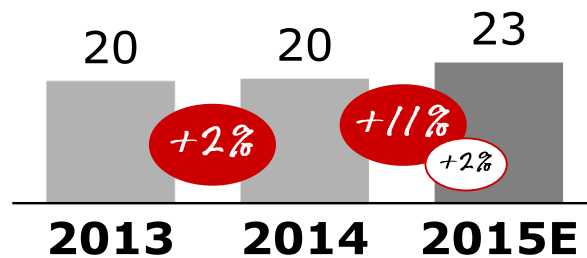


# Positive trend of fragrances driven by the **very top of the luxury spectrum**, lackluster skincare

## Fragrances



Luxury fragrances Market Trend  
(2013-2015E|€B)



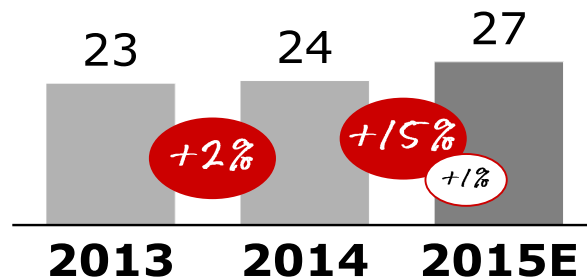
- **Mature markets** posting **mixed performances**, with **Chinese** and **Middle Eastern** demand continuing to **rise**
  - Market growth in mature markets mainly driven by price increases, despite an increasing weight of promotions
- **Outperformance of top-end, exclusive lines and essences** as well as **artisanal niche brands**
  - Growing interest for **customized** products
  - Brands **refocusing** the **story-telling** on scents, ingredients and nose
- **Travel sizes** showing **sound trend**

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## Cosmetics



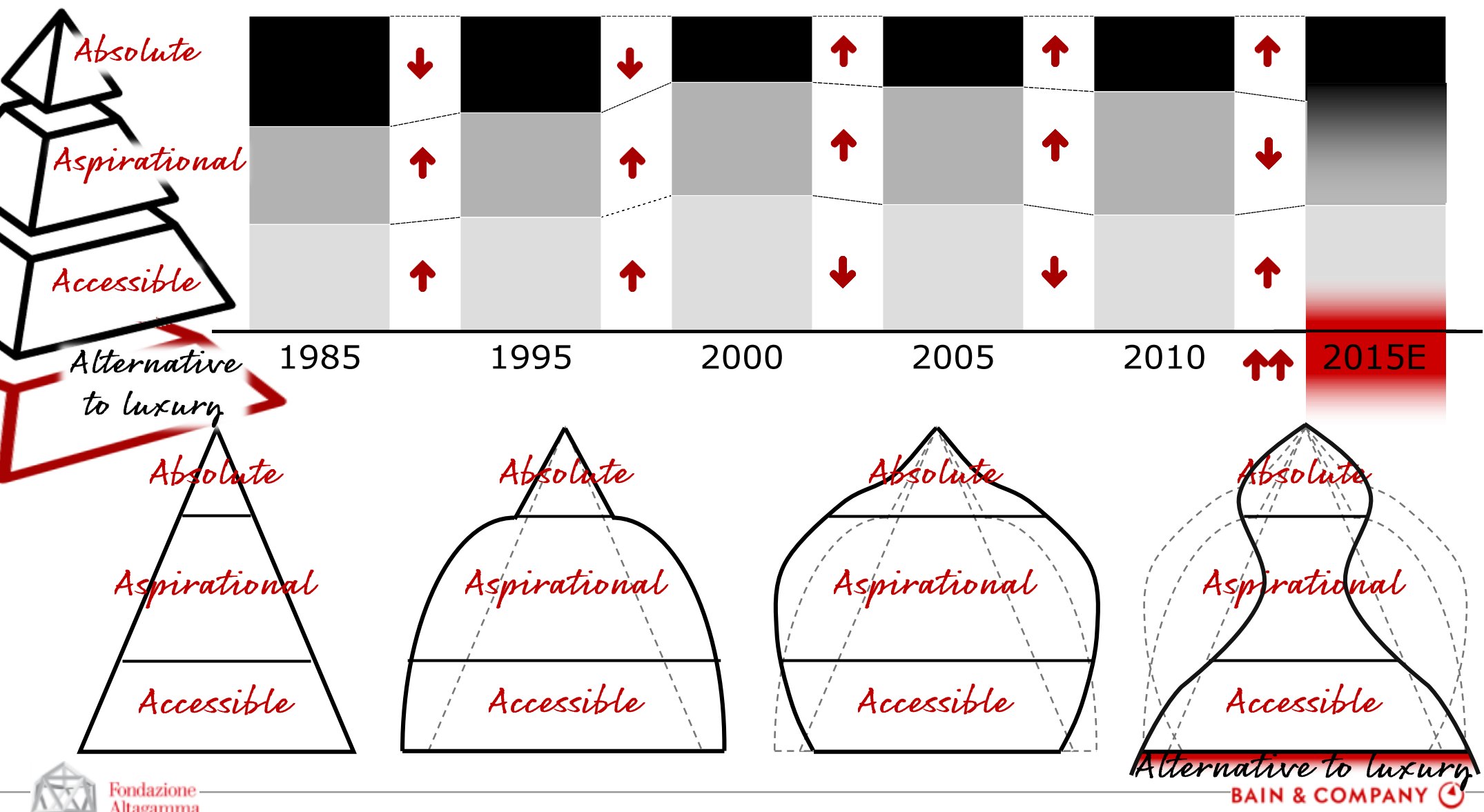
Luxury cosmetics Market Trend  
(2013-2015E|€B)



- **Make-up** the main **growth engine**, offsetting **uneven performance** within **skincare**
  - **Sound trend** of make-up across **sub-categories**
  - **Devices** showing a strong **dynamism** within **skincare**, while other sub-categories are suffering
- **Increasing competition** from **premium Korean brands** ever **more popular** among **Asian** consumers
  - **Western players** looking for **potential acquisitions**

# Boundaries among segments are blurring: **mix & match** is *the new black* for opinionated consumers

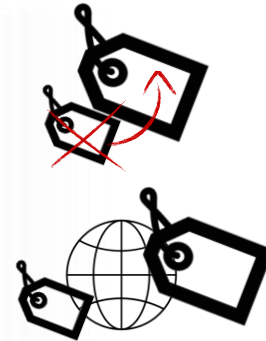
WORLDWIDE LUXURY MARKET EVOLUTION BY SEGMENT



# Strategic international pricing becoming the #1 issue to be tackled in the industry

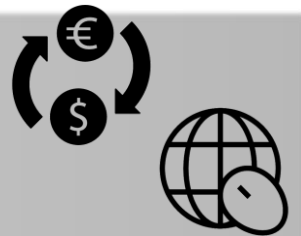
*Until recently...*

- **Relentless price increase over the last 5-10 years**
  - Brands raising prices to gain a more exclusive positioning and sell to emerging consumers with high disposable income
- **High price differentials kept across regions**
  - Brands maintaining high price differentials to maximize touristic flows and local consumption (e.g. Japan)



*...then...*

- **Exogenous effects exacerbating price differentials globally** (i.e. currency fluctuations, import tariff cuts)
- **Internet allowing full price transparency**



*...now*

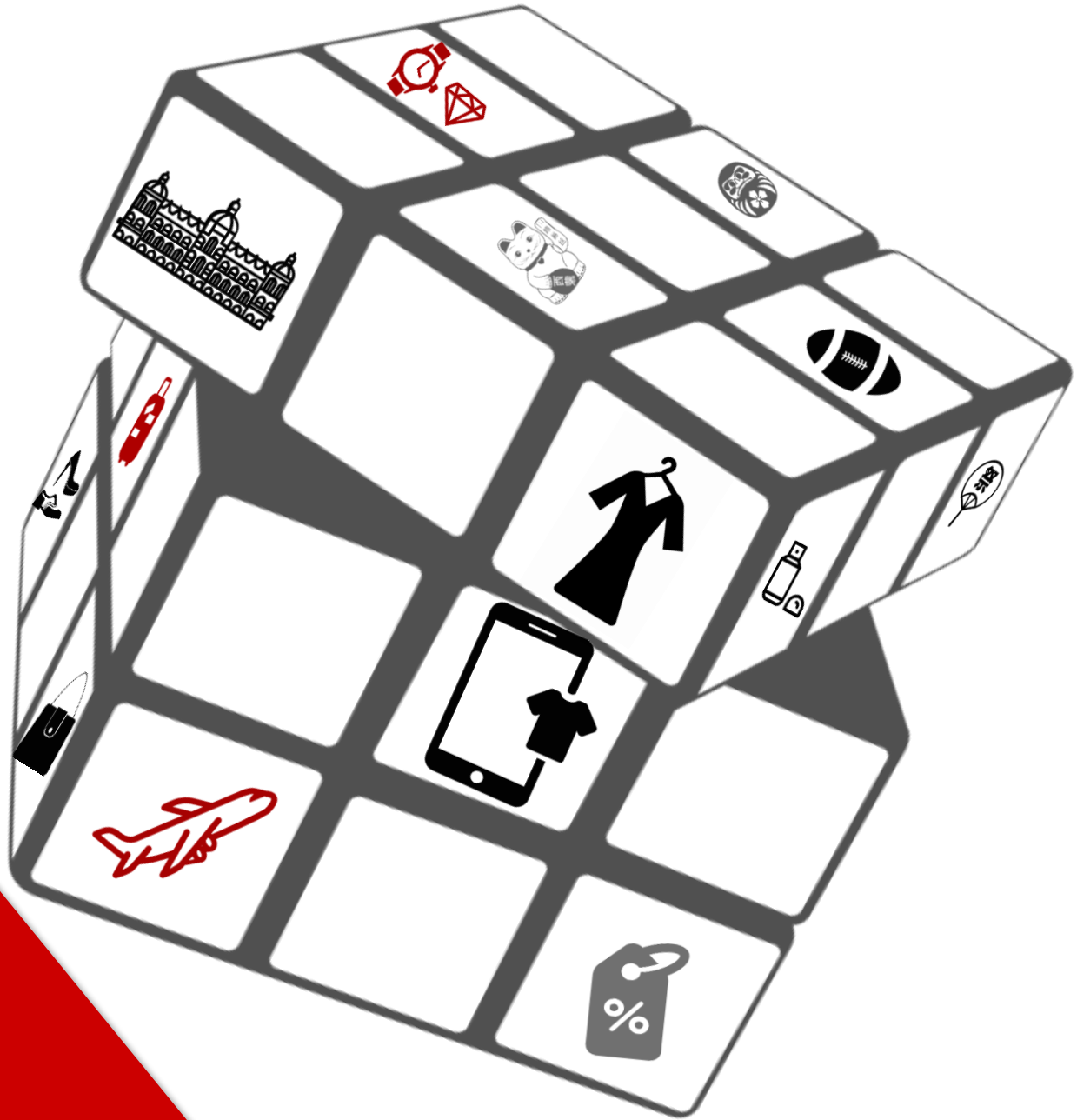
- **Increasingly price conscious luxury consumers looking for international bargain** thus **changing market equilibrium...**
- ...while **brands tactically adjusting international pricing** sometimes with **shortsighted approaches**



**Mature consumers cut off from an industry they can't fully afford anymore and whose real value is strongly questioned, while emerging consumers struggle in truly matching price and value of these products**

# 3.

What to do

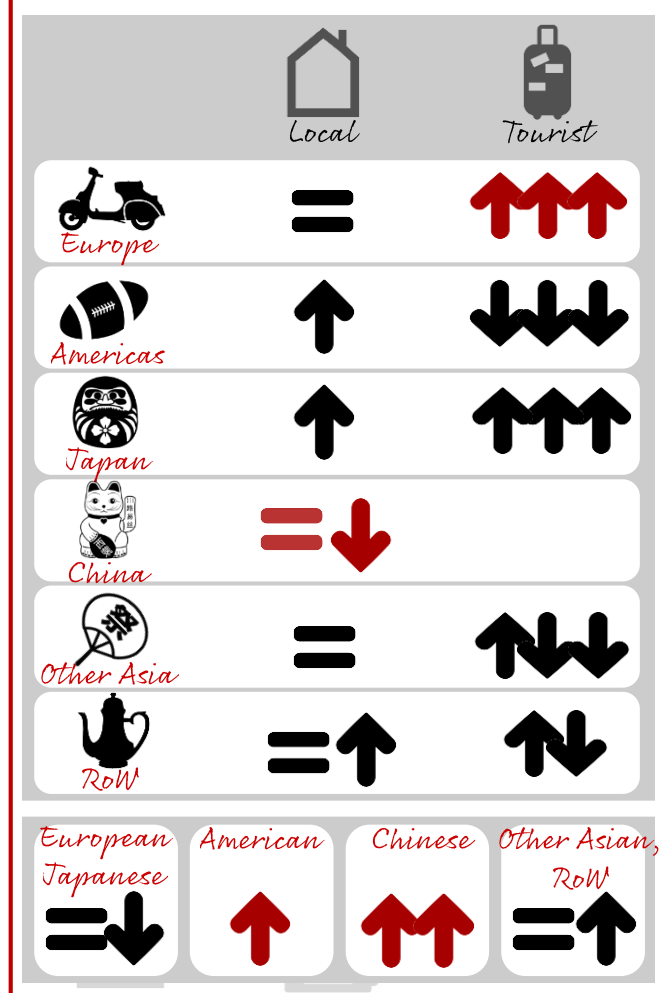


# About the 2015 Personal Luxury Goods Market

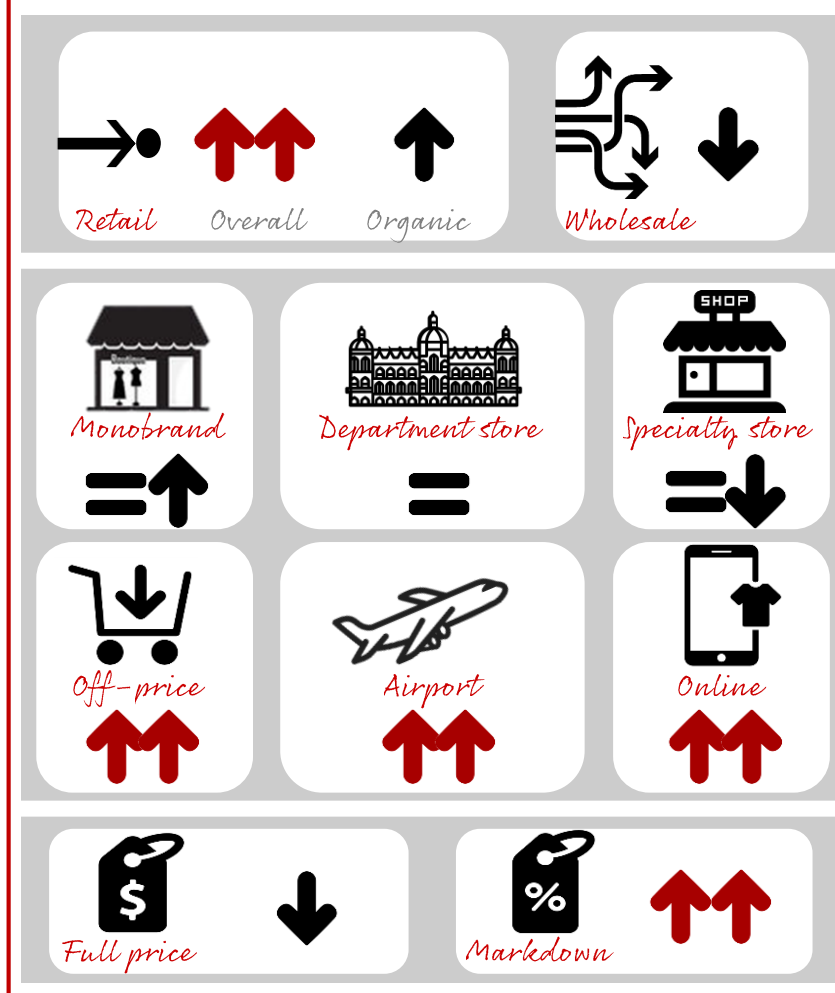
## Recap of key real term trends

### GLOBAL PERSONAL LUXURY GOODS MARKET (2015E|TREND)

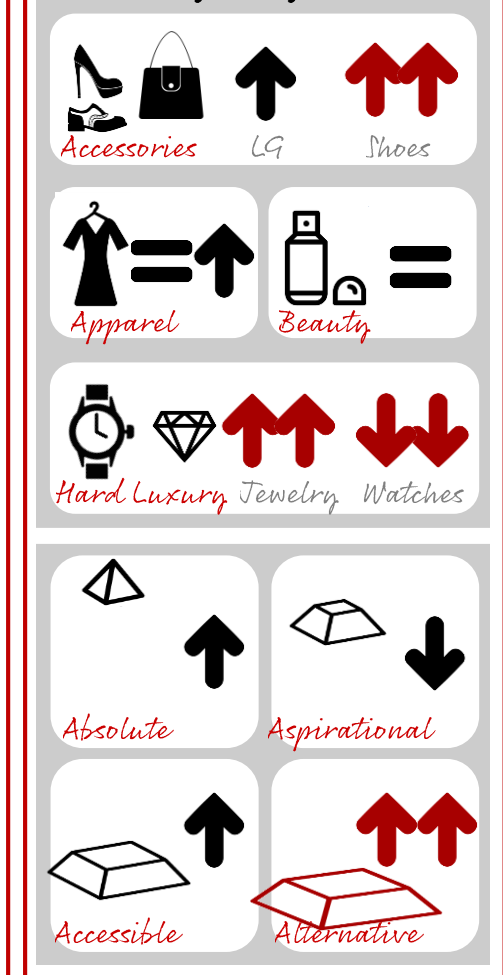
#### Markets and consumers



#### Route to market



#### Value proposition





# About the 2015 Personal Luxury Goods Market

## 10 key takeaways

- A **mature market** strongly impacted by **macro-economic** and socio-political events

### Markets and consumers

● Still a **western** market but driven by masses of **borderless consumers**

●● **Chinese top** nationality increasingly relevant across regions

●●● Consumers from mature markets more **demanding and detached**

### Route to market

●●●●● **Retail** and mono-brand still the favorite format to invest in

●●●●● ...but current **retail footprint under scrutiny** in some locations

●●●●●● **E-commerce** starting to become **disruptive yet brands still struggling with it**

●●●●●●● Wholesale formats **holding** position while trying **to change their skin**

●●●●●●●● Tactic channels as **off-price and airports** becoming more and more **strategic**

### Value proposition

●●●●●●●●● Consumers shopping **across categories and price points**, guided by a **clear point of view** on players strategies

●●●●●●●●● Growing **value awareness** and blurred **pricing strategies** are questioning luxury **value proposition**



...that translate into **key strategic questions** for luxury players going forward

How to reduce **brands performance** volatility at global and local level?

### *Markets and consumers*

How to manage the **globe trotter** consumers?

...while keeping a **strategic focus on local customer** base?

How to **re-engage disillusioned mature** markets?

### *Route to market*

How to **rethink retail role, footprint and format** going forward?

How to **maximize effectiveness** of all **distribution in an omni-channel** world?

How to **strategically manage full price and markdown** sales in all channels?

How to **turn online into a competitive advantage** besides e-commerce?

### *Value proposition*

How to **(re)build aspiration, credibility and trust** for luxury products?

How to **enhance brand territory and platform** to bond with **tomorrow's consumer**?



# Key strategic issues in luxury CEO's **Monday morning agenda**

## Markets and consumers

## Route to market

## Value proposition

Design a *'locally global' pricing* strategy and execution

Enhance  
*personalized*  
customer *experience*  
in-store

*Locally tailor*  
*value proposition:*  
assortment, buying,  
marketing

*Re-focus distribution*  
strategy and footprint with a  
look ahead

Evolve model into a  
*value-driven*  
*"Fast luxury"*

Push *consumer engagement* holistically  
through all touch points

Master brand  
*content* and  
*story-*  
*telling*

*Develop, grow and retain* best-in-class talents



**BAIN & COMPANY**   
*People, Passion, Results!*

# Claudia D'Arpizio, Partner Bain's Luxury Goods Vertical



**Claudia D'Arpizio**

Claudia D'Arpizio is a **Partner at Bain & Company Milan office**. She is a leading member of the firm's Global Consumer Products and Retail Practices, and leads **Bain's Luxury Goods Vertical**.

For over 20 years, Claudia has advised multinational clients, mainly in luxury and fashion goods. She has extensively worked on issues relating to corporate and business unit strategy, sales and marketing, product and service adjacencies, channel and omni-channel strategy, new product development, innovation, acquisitions and divestitures, performance improvement and organizational changes.

**Claudia is the lead author of the Bain's Yearly Luxury Study**, developed since 1999 in cooperation with Altagamma, the trade association of the Italian luxury brands. This study, based on the analysis of an extensive panel of worldwide luxury brands, is periodically updated and has become one of the most valued and cited sources of market information in the luxury industry.

Claudia is a globally recognized expert in luxury and in 2009 **was named by the Consulting Magazine one of the "Top 25 Consultants in the World"**.

Claudia is frequent speaker and writer on luxury goods strategy and she is extensively quoted in Italian and international media: Il sole 24 ore, La Repubblica, Il Corriere della Sera, The Wall Street Journal, US, Europe and Asia editions, Financial Times, New York Times, The Economist, Newsweek, Reuters, Bloomberg, Associated Press, WWD, Fortune, Washington Post, International Herald Tribune, National Post Business Magazine, Boston Globe, The Time and Dow Jones Newswire.

# Bain contacts

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# Methodology

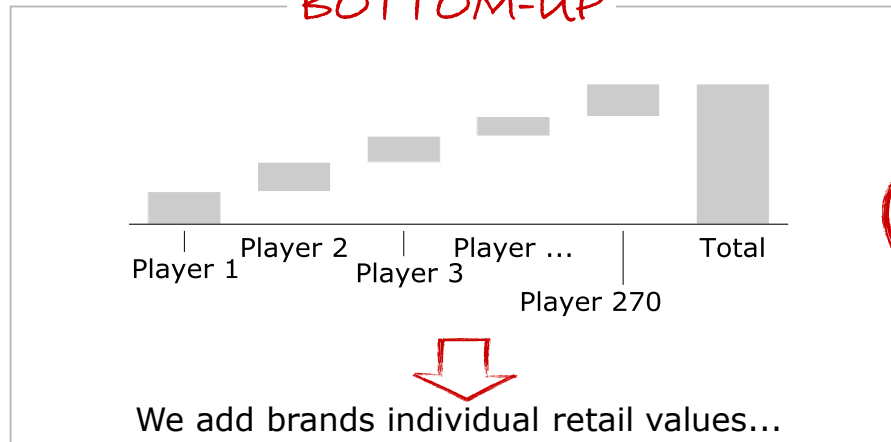
## 1 Revenues at retail equivalent value

- Revenues at retail value represent total sales valued at retail price.
- Each player consolidated sales are *retailized* through the following methodology:



## 2 Bottom-up and Top-down estimates

### BOTTOM-UP



### TOP-DOWN

- Industry-specific (e.g. watches vs. beauty) data in the main geographical markets
- Comparison between market breakdown and turnover breakdown for key players
- Tens of industry experts interviews (top management of brands, distributor, department stores, ...)
- Consistency check on the data and fine tuning

...we cross check results

