

WORLDWIDE LUXURY MARKET MONITOR

2016 SPRING UPDATE

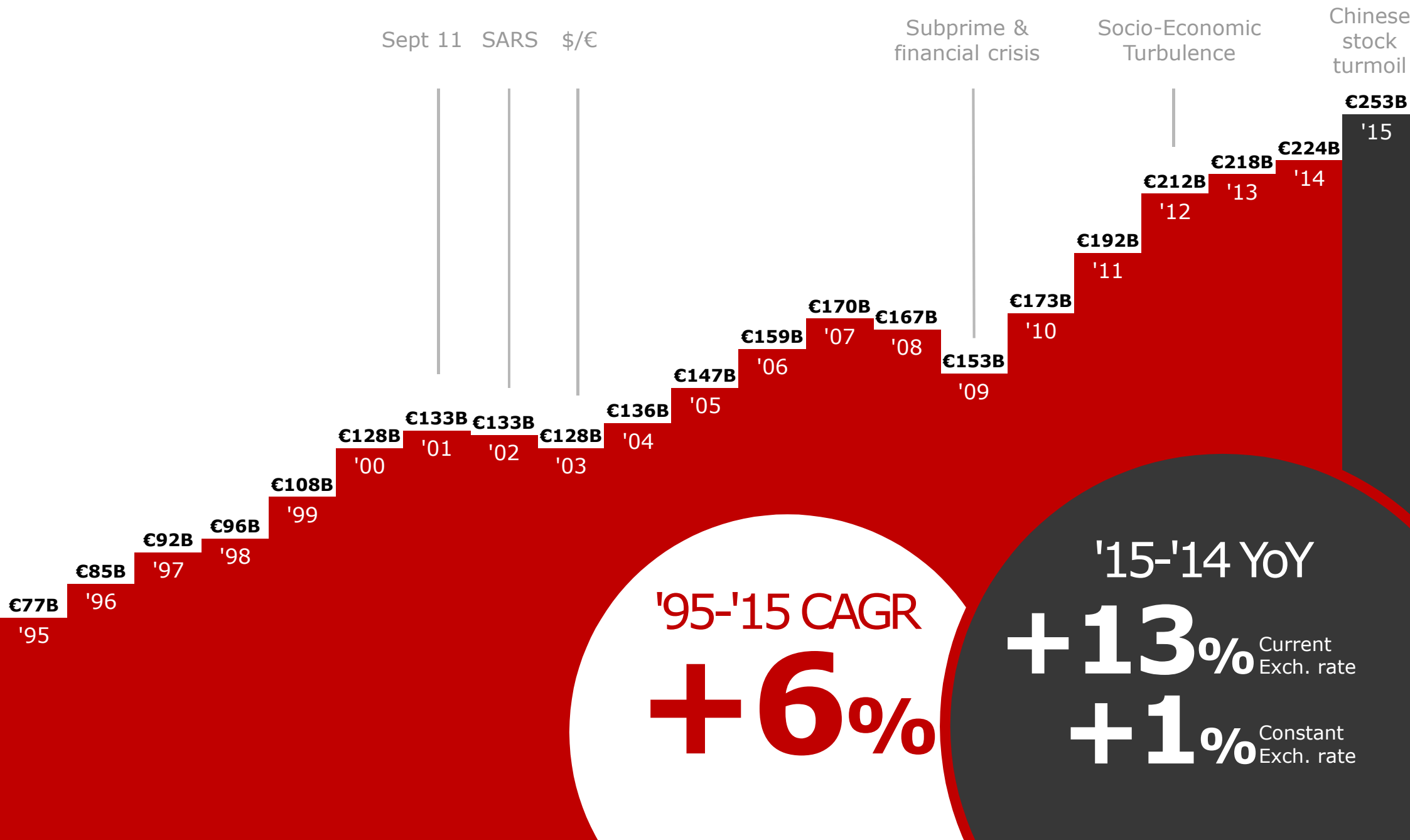


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PERSONAL LUXURY GOOD MARKET 2015E: THE BEGINNING OF A NEW ERA



FOUR CAUSES OF A PARTICULARLY CHALLENGING Q4 2015



WORSENING TREND IN US

- **Lowering consumption** from September to **holiday season**
- **Heavy discounting of department stores** impacting sales trend despite volume uplift and jeopardizing brands' direct distribution (both bricks and mortar and online)



LOWERING TOURISTIC FLOWS IN EUROPE

- The **Paris terroristic attacks** strongly affected the holiday season in the city and **hampered touristic flows** in Europe
- **Other European luxury capitals** only partially **recovering the lost sales**



HK AND MACAU DRAGGING DOWN ASIA

- **Mainland China improving** in the last weeks of the year
- **HK and Macau** confirmed **high double digit contraction**
- **South East Asia improving throughout the year**
- **Japan confirmed a very positive performance**



MIDDLE EAST MARKED BY INSTABILITY

- **Middle East weak trend** further impacted by socio-political tensions (i.e. Beirut terroristic attack)

1Q2016

+1%

Low single digit growth amidst consumers' changing purchasing patterns: intercontinental tourism slowdown and recovery of European local spending

++ *Accessories & Jewelry*

+ *Beauty*

~ *Apparel*

-- *Watches*

Accessories and Jewelry confirming 2015 outperforming trends

Apparel trend impacted by struggling *Accessible* giants

Watches far from recovery

++ *Japan & S. Korea*

+ *Europe, M. China & SEA*

~ *RoW*

- *Americas*

-- *HK & Macau*

Japan and Korea magnets for Chinese tourists

Mainland China back to growth

Europe counting on resurgence of local customers

US continuing Q4 2015 trend

Hong Kong and Macau far from inverting the decline

AMERICAS

Struggling to deliver

US MARKET IN DECLINE WITH
NO SUPPORT OF TOURISTS
AND UNEVEN LOCAL DEMAND

SLIGHT RECOVERY IN LATAM
FOSTERED BY A REPATRIATION
OF LOCAL DEMAND

CANADA IN GOOD SHAPE



EUROPE

**Losing tourists, yet
standing on locals
recovery**

TERRORISTIC ATTACKS, NEW
BIOMETRIC VISA DRIVING
THE DECLINE OF TOURISTIC
CONSUMPTION

LOCALS RE-APPROCHING
LUXURY ACROSS CATEGORIES
AND COUNTRIES



**2016
FULL YEAR
OUTLOOK**

GREATER CHINA

**A big comeback amidst
long-term challenges**

POSITIVE TREND OF
MAINLAND CHINA BREAKING
LAST THREE YEARS DECLINE

HONG KONG AND MACAU
STILL HIGHLY NEGATIVE

TAIWAN STEADY GOOD TREND



REST OF ASIA

Positive momentum

SEA PERFORMING WELL ON
INTRA-REGIONAL TOURIST
AND LOCAL SHOPPERS,
SINGAPORE LAGGING BEHIND

SOUTH KOREA MAINTAINING
MOMENTUM BOTH ON LOCALS
AND ON CHINESE FLOWS



ROW

**Tough present, yet big
(?) bets for the future**

MIDDLE EAST STILL RATHER
DEPRESSED WITH STRONG
INTEREST ON THE IRAN
OPPORTUNITY

AUSTRALIA MAINTAINING
POSITIVE TREND

ALL EYES ON AFRICA



**2016
FULL YEAR
OUTLOOK**

JAPAN

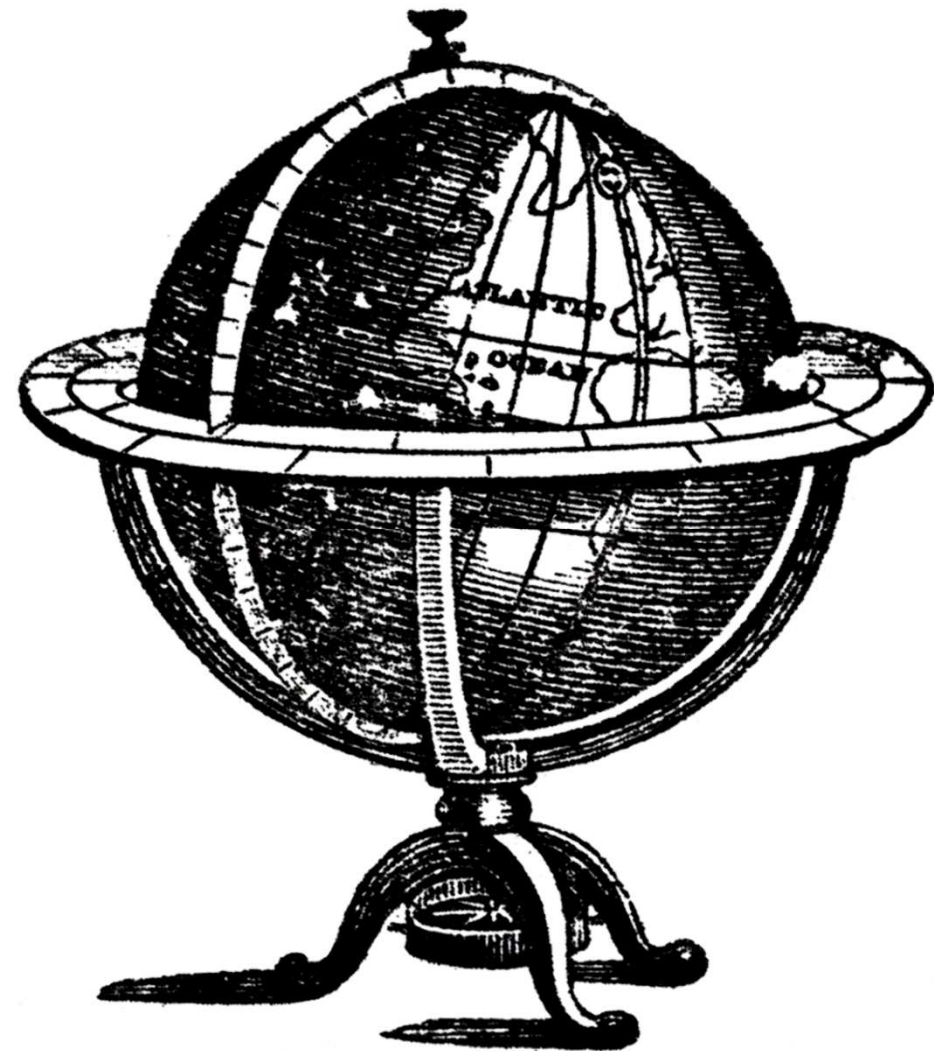
**Sustainable
(out)performance?**

CONFIRMED TOP MARKET FOR
GROWTH, YET DECELERATING
VS. 2015 DUE TO A
STRONGER YEN

LACKLUSTER TREND ON
LOCALS CASTING SHADOWS
ON THE MARKET IN CASE
CHINESES WOULD REDUCE



GLOBAL LUXURY MARKET EXPECTED TO REPLICATE 2015 PERFORMANCE IN 2016



Europe + 1/+3%

Americas - 2/±0%

Mainland China + 2/+4%

Asia
Excl. Mainland China - 1/+1%

Japan + 5/+7%

ROW ± 0/+2%

TOTAL ± 0/+2% Constant
Exch. rate

WITH A LONGER PERSPECTIVE, THE **MARKET** IS EXPECTED TO GROW AT A **MILD PACE TO 2020F**



RISING CHINESE MIDDLE CLASS AND RECOVERY OF MATURE MARKETS CONSUMERS WILL DRIVE MOST OF THE GROWTH



GEN Y & X TO BECOME EVER MORE RELEVANT AS LUXURY CONSUMERS



A HEALTHIER MARK-DOWN MARKET WILL REDUCE SALES CANNIBALIZATION

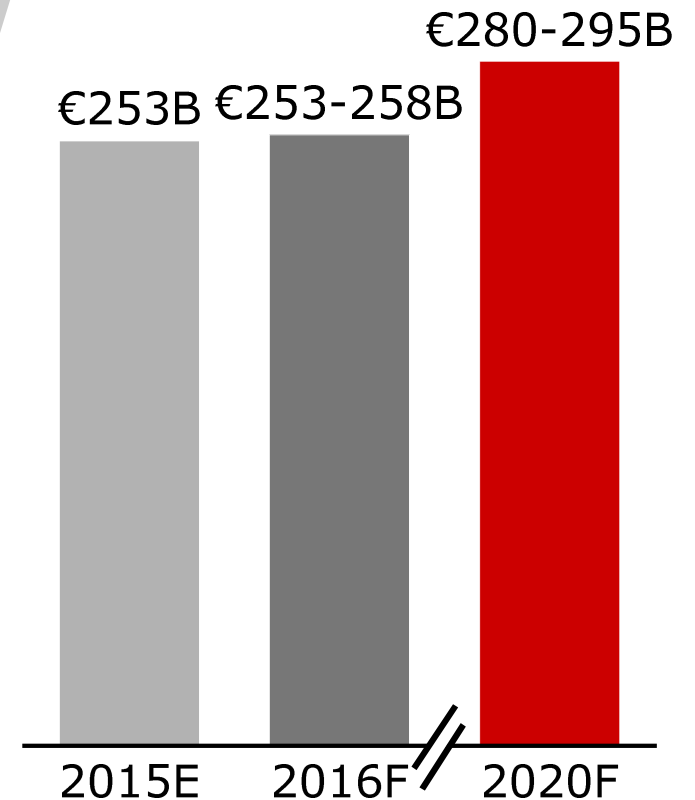


ON-LINE TO REMAIN THE "CHAMPION" FORMAT GROWING AT DOUBLE DIGITS

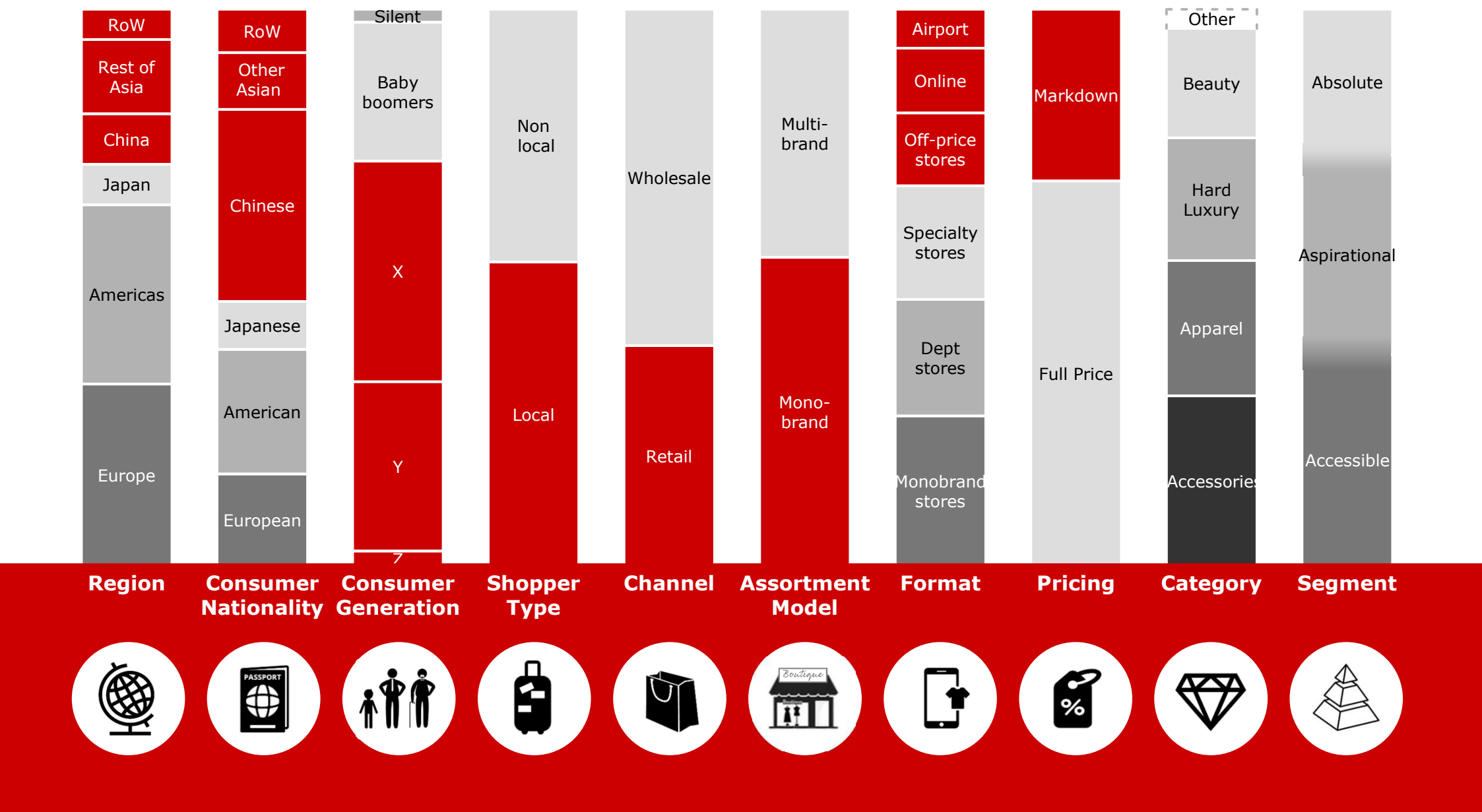


THE MARKET WON'T RELY ON A CLEAR "CHAMPION" CATEGORY NOR SEGMENT TO PROPEL GROWTH

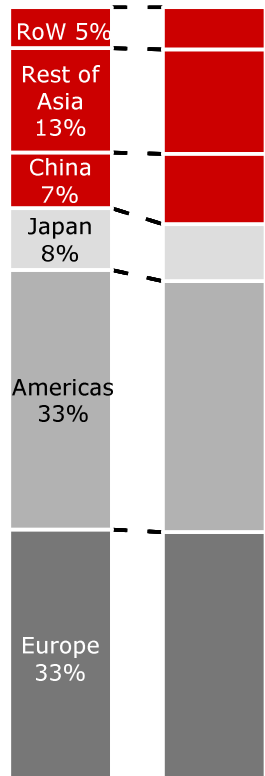
2-3%
CAGR



HOW WILL THE **GLOBAL PERSONAL LUXURY GOODS** MARKET LOOK LIKE IN **2020**



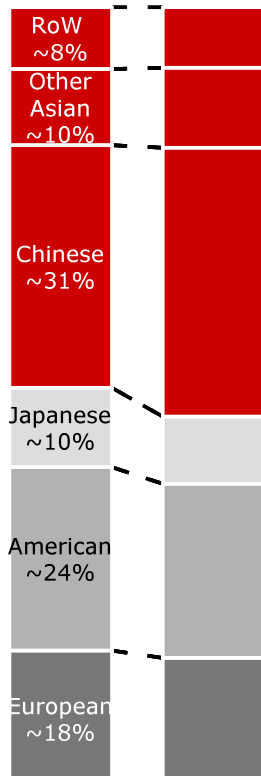
MARKET DRIVEN BY **CONTINUOUS GROWTH OF CHINESE** AND **RECOVERY** OF MATURE MARKETS CONSUMERS



2015 2020



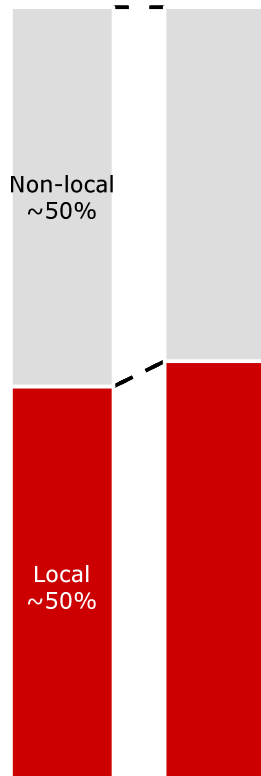
Region



2015 2020



Consumer
Nationality



2015 2020



Shopper
Type

ca. **34%**
Chinese consumers

Recovery of **mature market consumers** spending, expected to be **gradually regained** thanks to **integrated strategies** implemented by luxury brands to **recover consensus and trust**

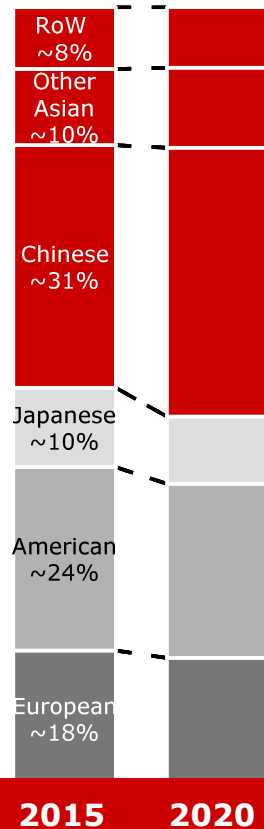
Chinese consumers still **driving the growth**, strongly driven by the **boost** of the **rising middle class**

>1/2
Local consumption

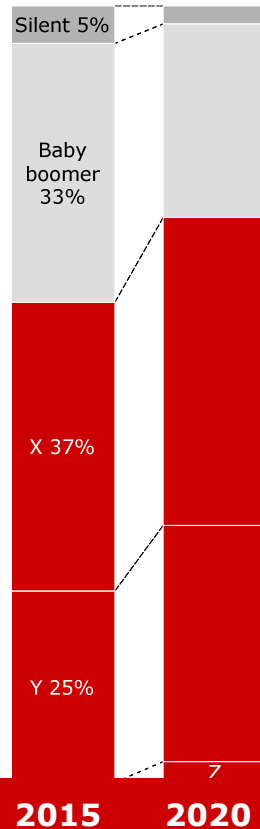
A **more strategic management** of **international pricing**, **reducing differentials** expected to **re-patriate touristic (i.e. Chinese) spending**

WHERE

GENERATION X (GROWING IN SPENDING) AND Y (GROWING IN NUMBERS) DRIVING THE PERSONAL LUXURY MARKET



Consumer
Nationality



Consumer
Generation

50M+
New consumers

ca. $\frac{3}{4}$ of total
Generations X Y Z

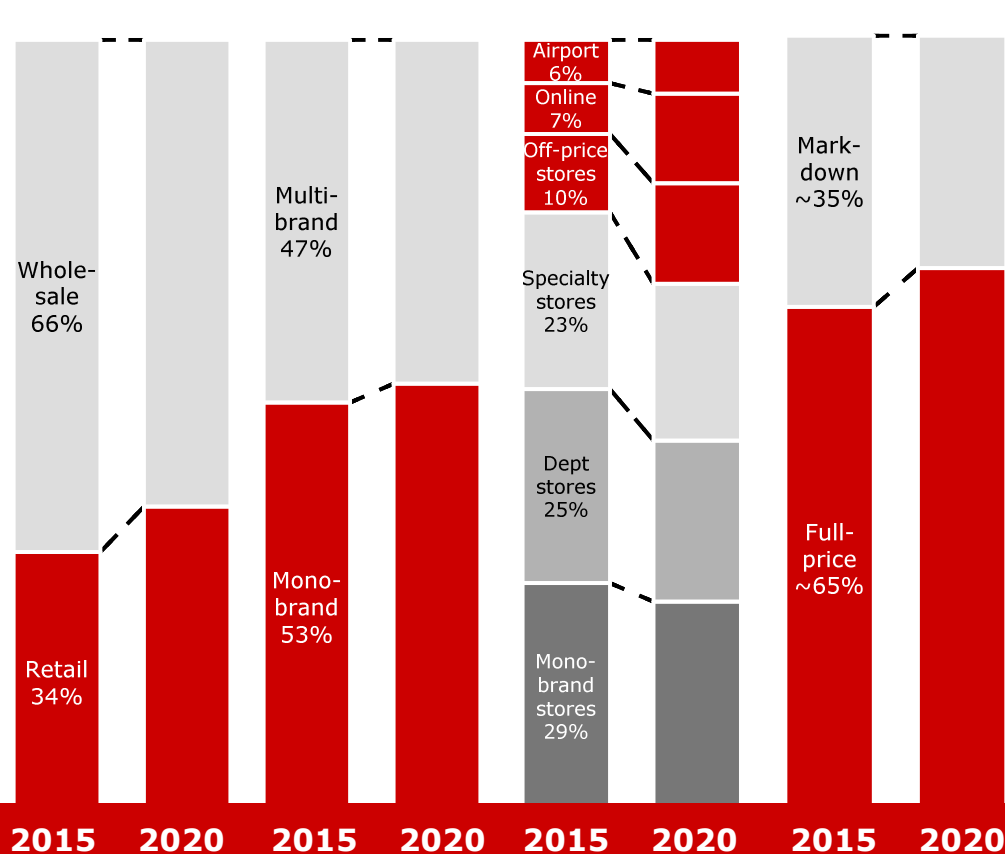
Luxury market **mainly boosted** by
Generation Y and **Generation X**

Generation Y market value almost
entirely **driven** by the **Chinese**
middle class

Generation X benefitting from a
higher luxury spending due to
changing consumption habits across
regions

Generation Z approaching the
market, although still representing a
very small share in 2020

RETAILIZATION MAINTAINING MOMENTUM AMIDST RATIONALIZATION, OFF-PRICE/AIRPORT/ONLINE OUTPACING



ca. **40%**
Retail Channel

ca. **15%**
Online Channel CAGR

Retailization keeping momentum despite **more cautious approach** (network rationalization and focus on organic growth)

Healthier markdown market resulting from a **controlled growth of off-price format** (customer segmentation) and **contraction of markdown sales in mono-brand and multi-brand stores**

E-commerce gaining ground across formats and models with new ones emerging

More strategic management of airport and outlet supporting **dynamism globally** (7 and 8 % CAGR respectively)



Channel



Assortment model



Format

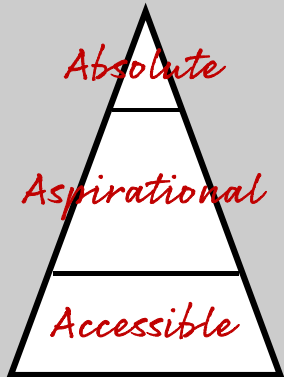


Pricing

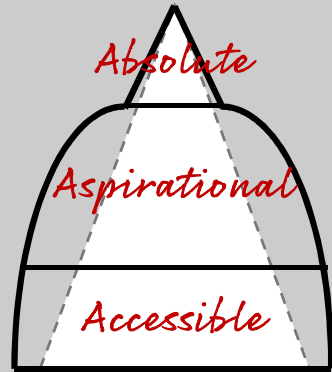
HOW

FROM A CLEAR POSITIONING TO **A MORE BLURRED SEGMENTATION**, ALSO WITHIN THE SAME BRAND

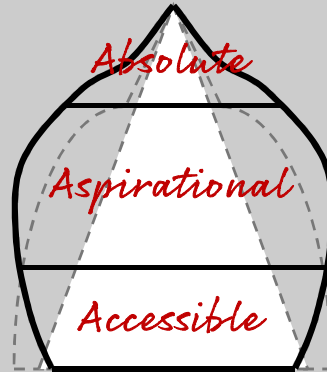
1980s



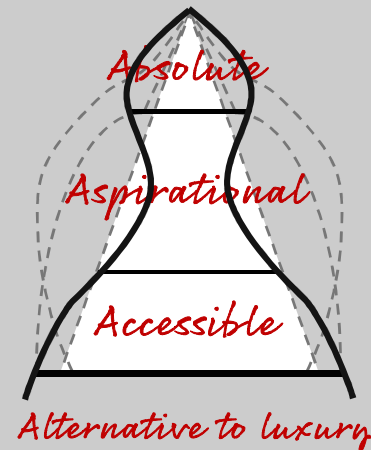
1990s



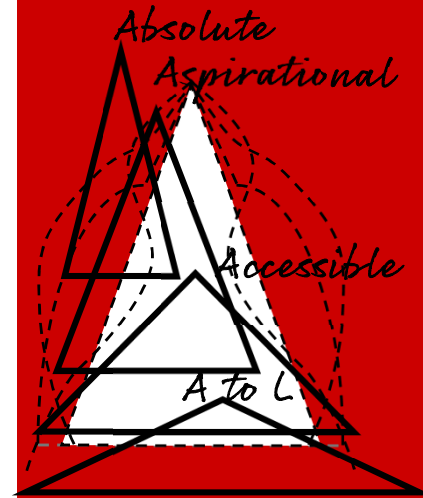
2000s



TODAY



2020



Verticalization of product and price offer

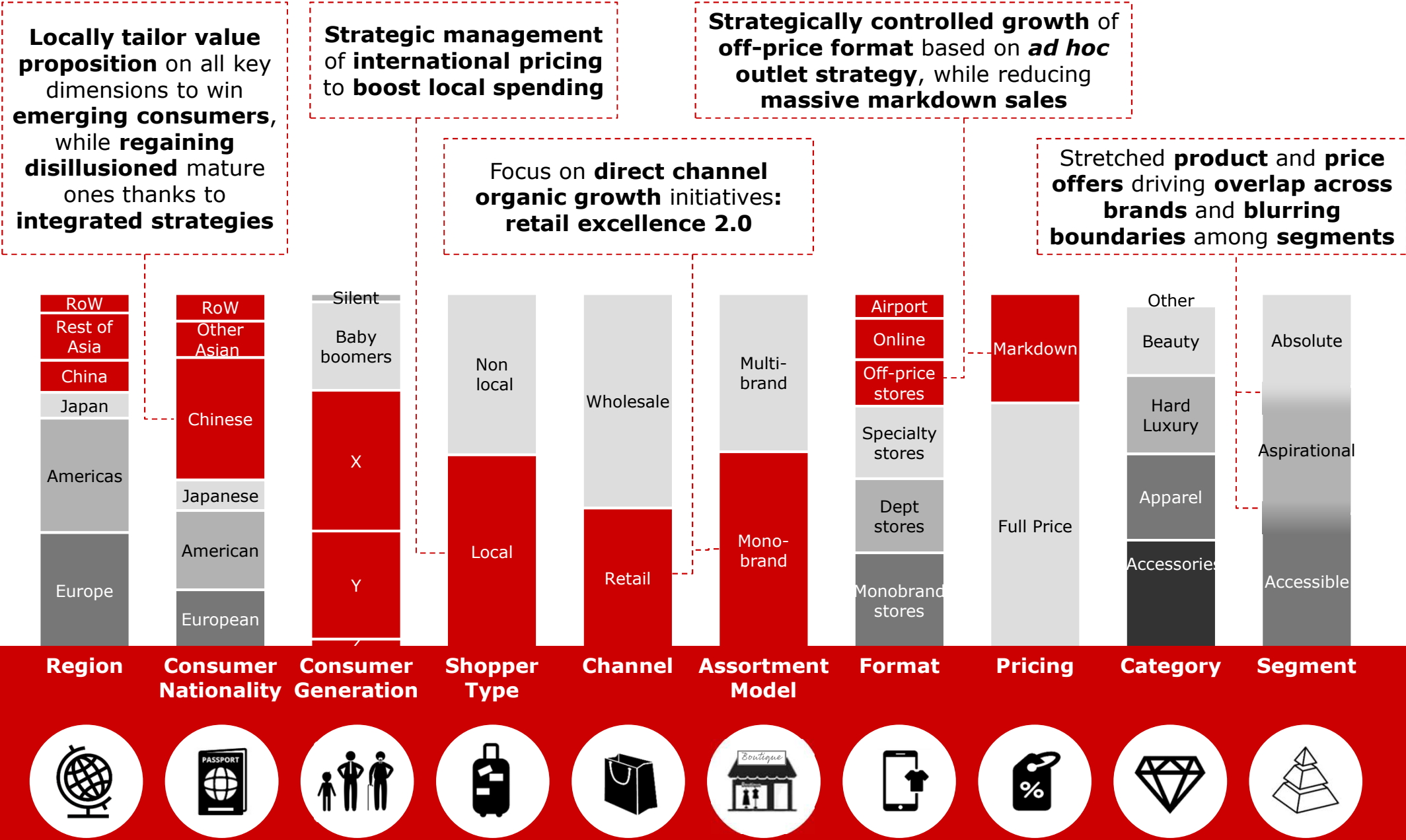
- Entry-price offer strategic to serve lower budget consumers (mature markets & emerging middle class) with specific items (e.g. simpler/smaller and less expensive materials/models) and product categories (e.g. traffic builders)
- More expensive image-building products to remain key to spur *aspirationality*

New **Juxtapositions**

- Digital revolution in communication and e-commerce, together with an overall more selective approach to distribution leading to fading differences among differently positioned brands

**ACCESSIBLE AND ALTERNATIVE TO LUXURY SEGMENTS TO REMAIN
BEST POSITIONED TO INTERCEPT EMERGING MIDDLE CLASS**

FUTURE MARKET SCENARIO WILL BE INEVITABLY SHAPED BY BRANDS STRATEGIC DECISIONS ON DIFFERENT LEVERS



KEY STRATEGIC ISSUES IN LUXURY CEO'S **MONDAY MORNING AGENDA**

MARKETS AND CONSUMERS

Design a *'locally global' pricing* and execution

Enhance
personalized
customer
experience
in-store

Locally tailor
value proposition:
assortment, buying,
marketing

Develop, grow and retain best-in-class talents

ROUTE TO MARKET

Re-focus
distribution strategy
& footprint in a real
omnichannel way

Evolve model into a
Value-driven
"Fast luxury"

Push *consumer engagement* holistically
through all touch points

VALUE PROPOSITION

Master brand *content* and
story-telling

BAIN & COMPANY 
People, Passion, Results!

CLAUDIA D'ARPIZIO, PARTNER BAIN & COMPANY 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 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.

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INTERNATIONAL PRESS

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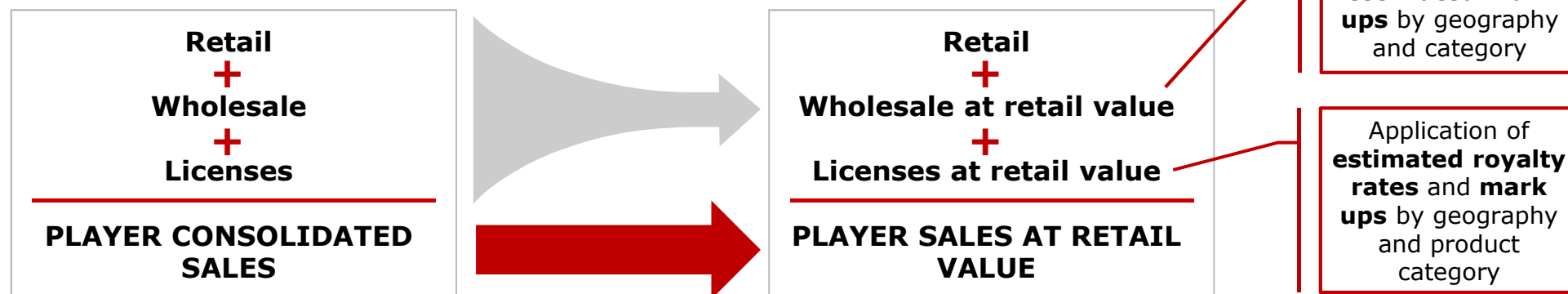
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METHODOLOGY

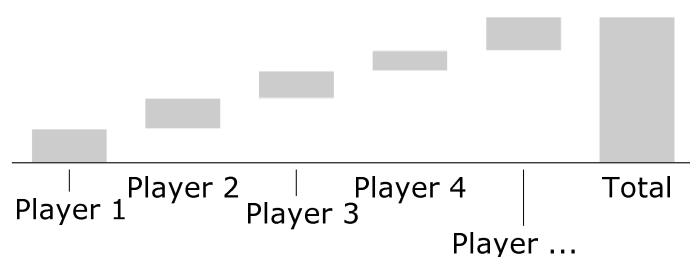
1 Revenues at retail equivalent value

- 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



We add brands individual retail values...

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