

LUXURY GOODS WORLDWIDE MARKET STUDY, SPRING 2019

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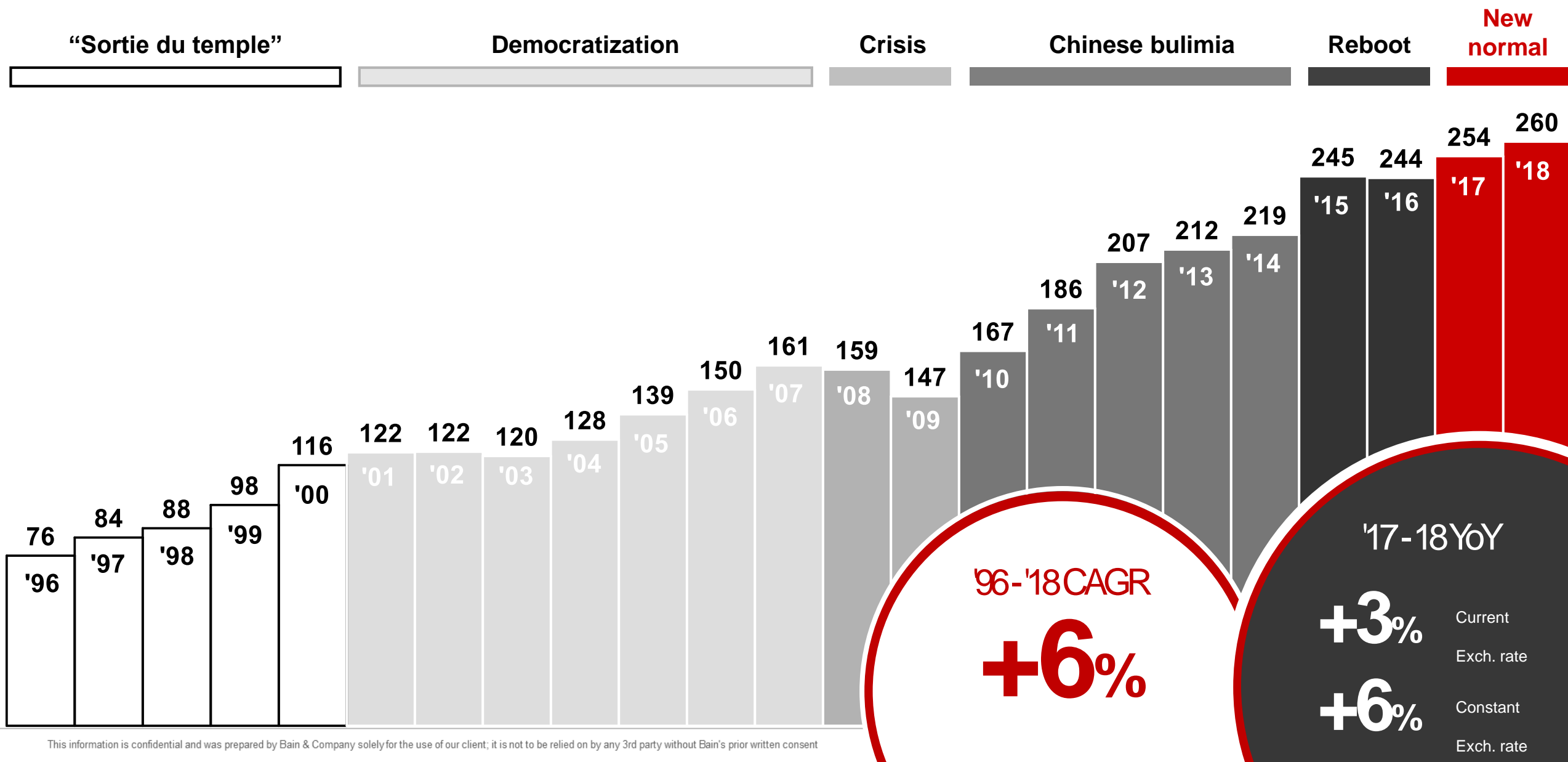
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CREATIVITÀ E CULTURA ITALIANA



PERSONAL LUXURY GOODS MARKET IN 2018 **CONFIRMED THE “NEW NORMAL”** STARTED IN 2017



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STRONG 2018 HOLIDAY SEASON ALMOST EVERYWHERE ACROSS THE WORLD



CHINESE CONSUMERS CONFIRMED AS KEY MARKET ENGINE

- **Chinese consumers driving market growth:** accelerations in domestic spending, at the expense of its neighbors, Hong Kong and Macau
- **Uncertainties on US – China trade war** causing continuing decline in Asian travel to the US



TOURISM ACCELERATION FUELING POSITIVE GROWTH FOR EUROPE

- **Weakening of the Euro** against all major currencies causing increased tourist inflows to **Continental Europe**
- **Positive final quarter for the region**, although with differences across **countries:** Brexit in UK and continuous socio-political protests in France represent potential **risks for the future of the region**



TEMPORARY WEAKENING OF AMERICAN CONSUMERS' SPENDING

- Ongoing **changes in US tax plan** creating **temporal uncertainties**, negatively impacting **consumer spending** on personal luxury goods
- **Malls** and **department stores underperforming** as traffic continues to decline, while **monobrand** stores maintain a **positive growth trend**

POSITIVE Q1 2019 PERFORMANCE, WITH CHINESE SPENDING DYNAMICS FUELING GLOBAL LUXURY SCENE



Q1 2019

+8% *at current exchange rates*

+5% *at constant exchange rates*

EUROPE

~/+

Fragmented performances across EU, with impact of socio-political turmoil in UK and France partially offsetting higher tourism spending in the Eurozone

AMERICAS

+

Promising rise in domestic consumption on full-price stores, despite a declining flow of Chinese tourists

JAPAN

+

Mild growth, still fueled by Chinese consumers

ASIA

+++

China dominating the luxury scene, with **Hong Kong** and **Macau** losing ground

ROW

-

Mixed performances in Middle East: soft but positive **re-awakening of Dubai**, with **Qatar** and **Saudi** showing **weak** tourism luxury spending

Leather and Jewelry maintaining a sustained pace of growth, with positive momentum for **handbags** as well
Beauty confirming positive **2018 trend**, with **solid** growth in **skin-care** and **make-up** partially **offset by mild performance** in fragrances
Apparel still **sluggish**, with **menswear** segment showing **signs of a re-start**
Watches on **hesitant recovery**, with mixed trends across regions: **Hong Kong** still suffering, while **Europe** (and UK) on a positive trend

+++

ACCESSORIES & JEWELRY

++

BEAUTY

~

APPAREL

~/+

WATCHES

2019 FULL-YEAR OUTLOOK BY REGION (1/2)

AMERICAS



US maintaining its positive growth, fueled by **full-price channels** with **strong domestic consumption** in the retail and online segments, plus revamped tourist flows from Mexico and Brazil; **off-price channel suffering** from lower footfall, sign of an **uncertain aspirational customer**

On the radar: evolving **US – China trade agreements** pose potential risk to **luxury consumers' confidence** in the coming months

Mexico on the rise; **Canada** still on a positive trend, thanks to favorable exchange rate **boosting local consumption** and offsetting reduction in **tourist purchases**

Differences across countries in **domestic consumptions**; regional performance **increasingly stimulated** by tourists **inflows** and **spending** due to **weakening currency**

Weakening macro-economic outlook, political evolution following recent elections and unclear development on **Brexit agreement** potentially **damaging overall confidence of local consumers** towards luxury spending

EUROPE



Price harmonization, consumer-centered strategies and **governmental initiatives** continuing to **favor local purchases**: cross-border luxury shopping still on a declining trend, yet relevant in Europe due to **exchange rate effect**

Solid consumer confidence and willingness to buy, especially among **young generations**, sustaining luxury purchases; **digital channel** providing an **extra boost**

MAINLAND CHINA



Price harmonization, consumer-centered strategies and **governmental initiatives** continuing to **favor local purchases**: cross-border luxury shopping still on a declining trend, yet relevant in Europe due to **exchange rate effect**

Solid consumer confidence and willingness to buy, especially among **young generations**, sustaining luxury purchases; **digital channel** providing an **extra boost**

2019 FULL-YEAR OUTLOOK BY REGION (2/2)

REST OF ASIA



Positive growth trend across the entire region, except in **Hong Kong** and **Macau**, impacted by **reduced tourist spending** (mainly from Chinese)

Expanding middle class's disposable income fueling growth in SEA countries: **Indonesia, Philippines** and **Vietnam in the spotlight**

Sustained growth in **S. Korea**, particularly in **downtown locations**, primarily fueled by **local consumers**, with a **mild** but **encouraging** rebound of tourist flows

Japan maintaining its exclusivity: boost in travel retail favored by the 2020 Tokyo Olympic games, with **Chinese tourists** confirming their **interests in the region**

Increasing average ticket as 'new rich' from SEA still prefer splurging in Japan due to more product choice: **creation of new routes for grey market**

'Ikina-rich' on the rise: young tech entrepreneurs **less** interested in **ostentatious luxury** and **more** in **experiences**

JAPAN



REST OF WORLD

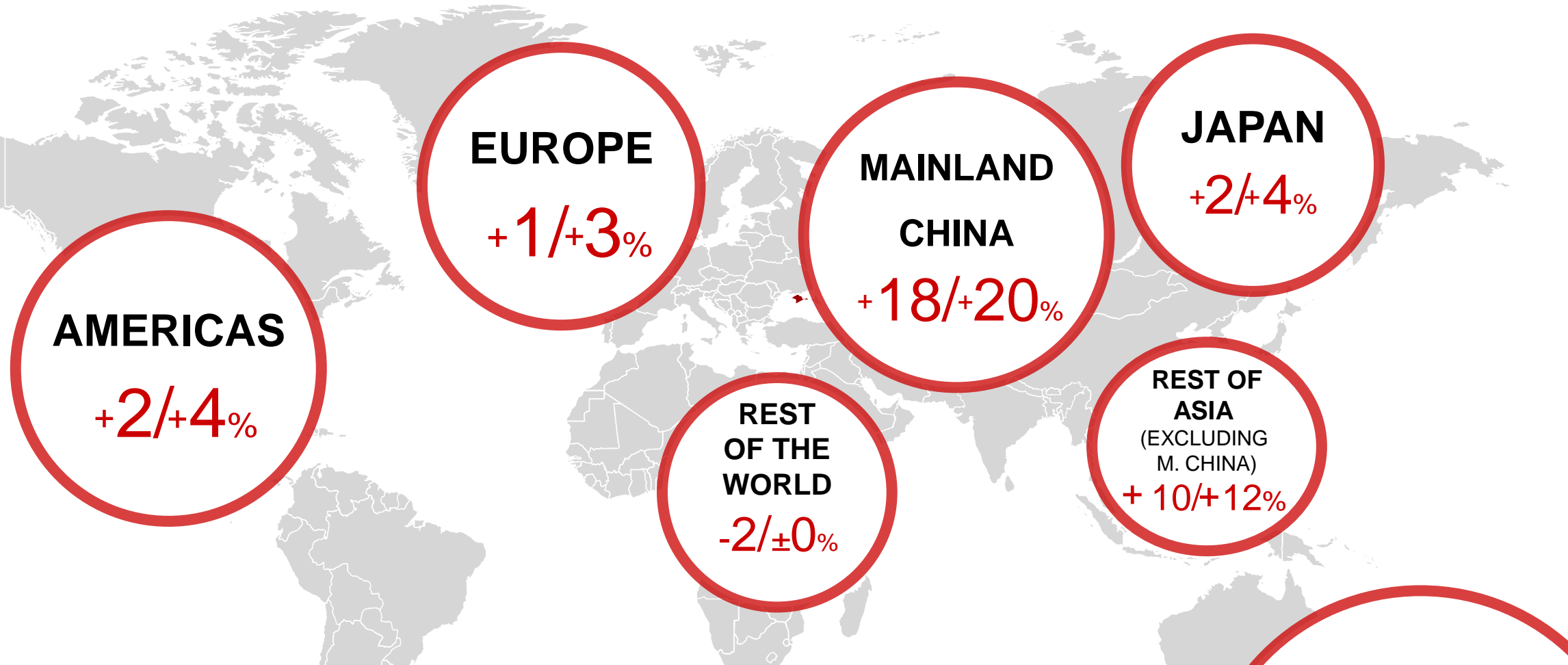


Confirmed uncertainties across **Middle East:** domestic consumer spending flowing outside region as currency appreciates; **e-commerce** and **soft luxury** registering positive acceleration

Growth in Australia slowing down as **foreign purchase restrictions** and **capital controls** raise in China

Newly emerging economies still timid in showing their potential, mainly due to **infrastructural gaps**

GLOBAL LUXURY GOODS GROWTH IN 2019 EXPECTED **STEADY**, CONFIRMING THE RESPECTIVE GROWTH CONTRIBUTION OF THE VARIOUS REGIONS



2019F GLOBAL PERSONAL LUXURY GOODS MARKET

Note: Figures refer to growth ranges at constant exchange rate

+4/+6% AT CONSTANT EXCHANGE RATES

SOLID MID-TERM GROWTH TO 2025, DRIVEN BY POSITIVE FUNDAMENTALS, WITH SOME POSSIBLE BUMPS ALONG THE ROAD

2025 Personal luxury goods market trends



- **Chinese customers** will account for **45%+** of the global market, with half of their luxury purchases **happening in Mainland China**



- **Online channel** representing **25% of global market value**, with **100% of luxury purchases** digitally enabled



- **New generations (Y+Z)** delivering **130%** of future **market growth**

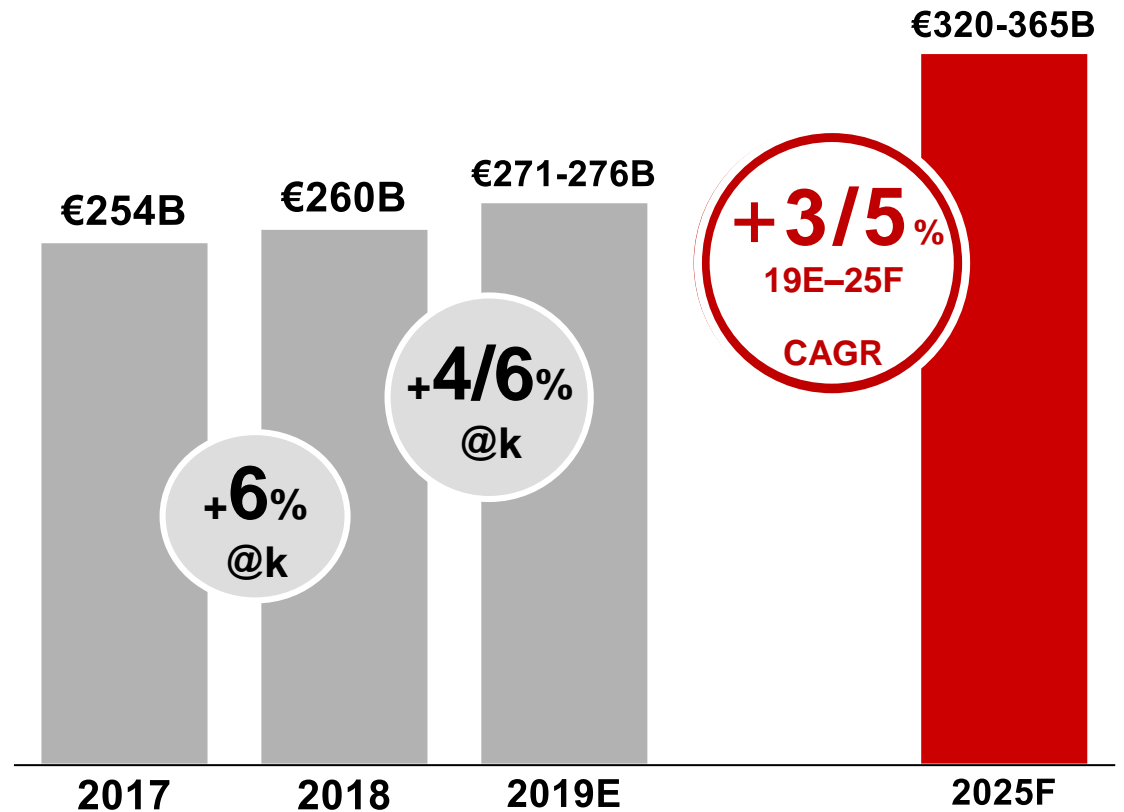


- **Digital penetration** fostering store network consolidation and leading to a radical change in **physical stores' role**



- **Cultures/sub-cultures** and new **consumption trends** will arise

Personal luxury goods market forecast | €B



@K: growth at constant exchange rates

UNDER THE SURFACE OF A NEW NORMAL PHASE OF MARKET GROWTH: NEXT GEN LUXURY IS ARISING



NEW-GENERATION

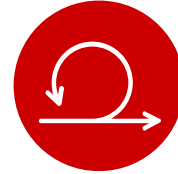
Chinese Gen Z - the “**segment to watch**”: significant **spending force, impulse buyers, proud and empowered**



POST-OWNERSHIP

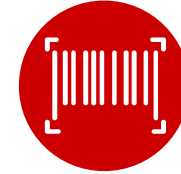
Paradigm shift in consumption favoring **access over ownership** (e.g. Rental)

Accelerating 2nd hand market favored by digital players with global scale



AFTER-LIFE

Sustainability, Social responsibility and Circular fashion as a new mantra: new vision for the **environment**, for **human labor and animal welfare**



BEYOND-PHYSICAL

Digital disrupting the entire luxury **value chain** and asking for a holistic redesign of the entire **technology eco-system**

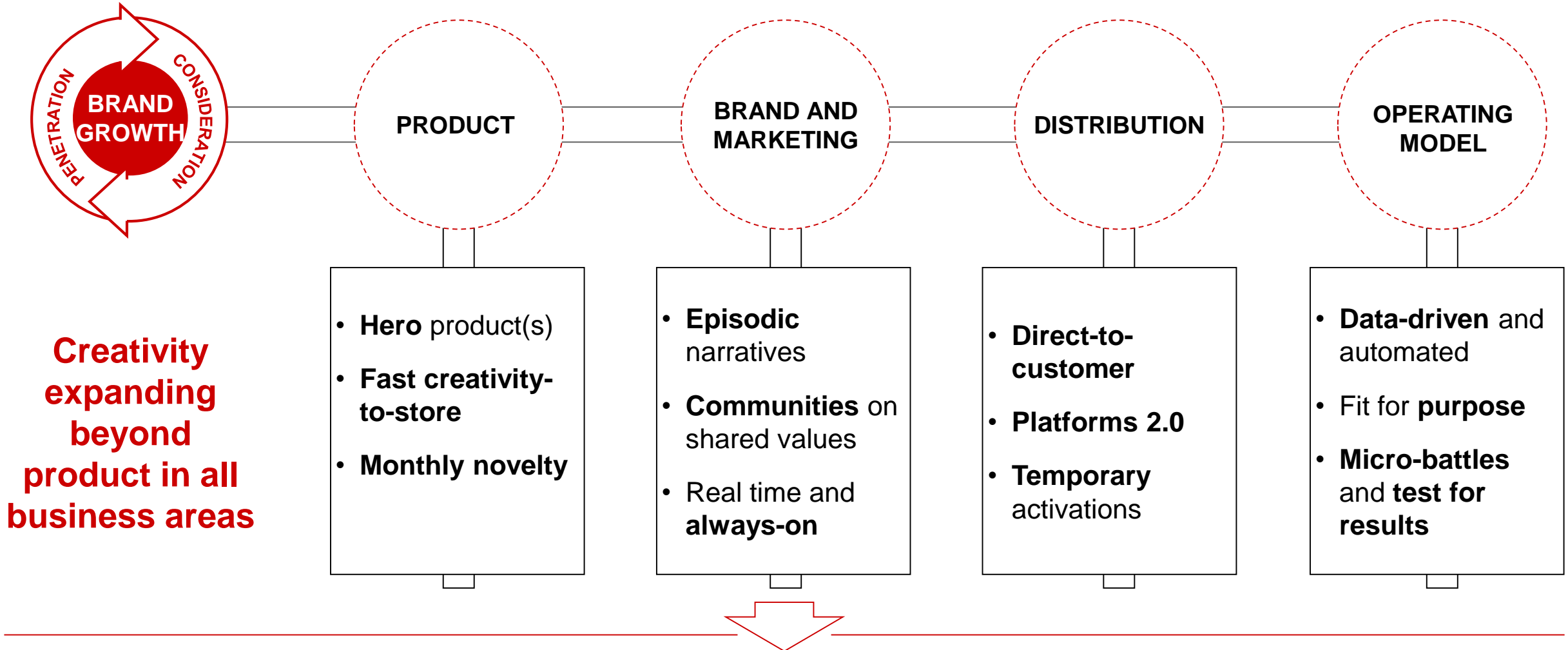
Experience and eco-system over product



ABOVE-VOLUME/PRICE

Customer networks as the new and exponential measure of value, beyond product and brand

INSURGENT BRANDS AND BUSINESS MODELS ARE CHALLENGING THE RULES OF THE GAME, ASKING ESTABLISHED BRANDS FOR A FULL TRANSFORMATION



Creativity-led transformation needed for established luxury giants

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PEOPLE PASSION RESULTS!

Claudia D'Arpizio, Partner

Bain & Company Luxury goods vertical



Claudia has spent 25 years advising multinational luxury and fashion clients on everything from strategy and new product development to innovation and organizational change.

She is the lead author of the Bain Luxury Study, one of the most cited sources of market information in the luxury industry.

In 2009, Claudia was also recognized as one of the 'Top 25 Consultants in the World' by Consulting Magazine.

Federica Levato, Partner

Bain & Company Luxury goods vertical



Over the last 15 years, Federica has led more than 300 assignments in the fashion and luxury industry on issues relating to corporate and brand strategy, portfolio management, merchandising, retail and wholesale excellence, digital acceleration, millennial strategies, marketing and communication, and more.

Alongside Claudia D'Arpizio, Federica is the co-author of the Bain Luxury Study, one of the most cited sources of market information in the luxury industry.

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METHODOLOGY OF THE STUDY

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:

$$\frac{\text{Retail} + \text{Wholesale} + \text{Licenses}}{\text{PLAYER CONSOLIDATED SALES}}$$

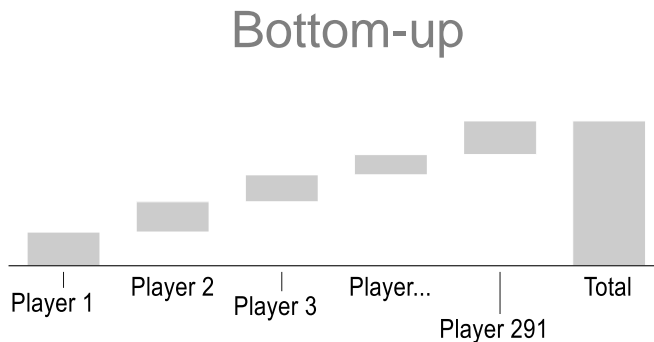


$$\frac{\text{Retail} + \text{Wholesale at retail value} + \text{Licenses at retail value}}{\text{PLAYER SALES AT RETAIL VALUE}}$$

Application of **estimated mark ups** by geography and category

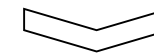
Application of **estimated royalty rates and mark ups** by geography and product category

Bottom-up and top-down estimates



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, distributors, department stores, ...)
- Consistency check on the data and fine tuning



...we cross check results

- We add brands individual retail values...

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