BAIN & COMPANY

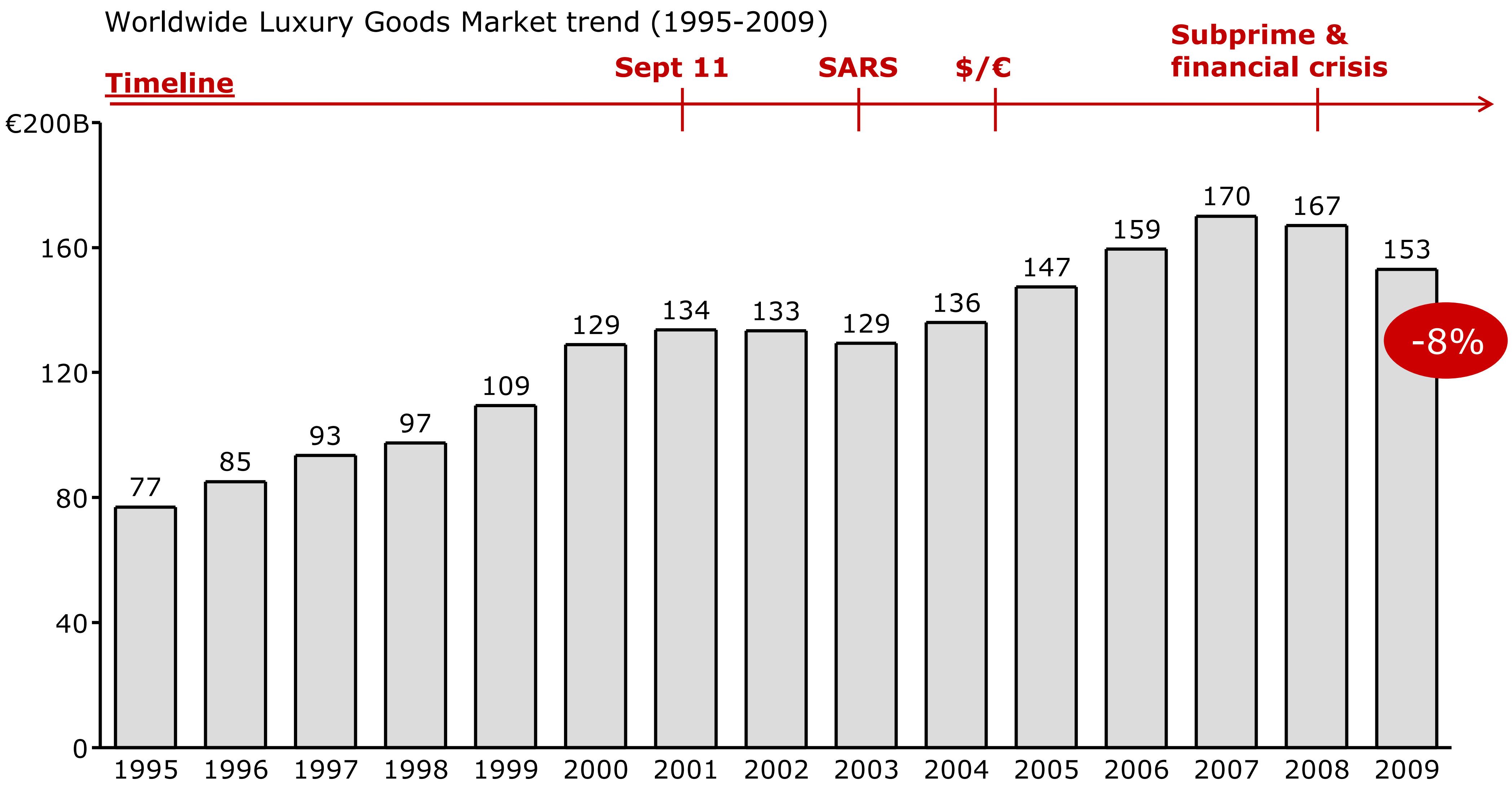
Fondazione Altagamma

Global Luxury Goods Worldwide Market Study

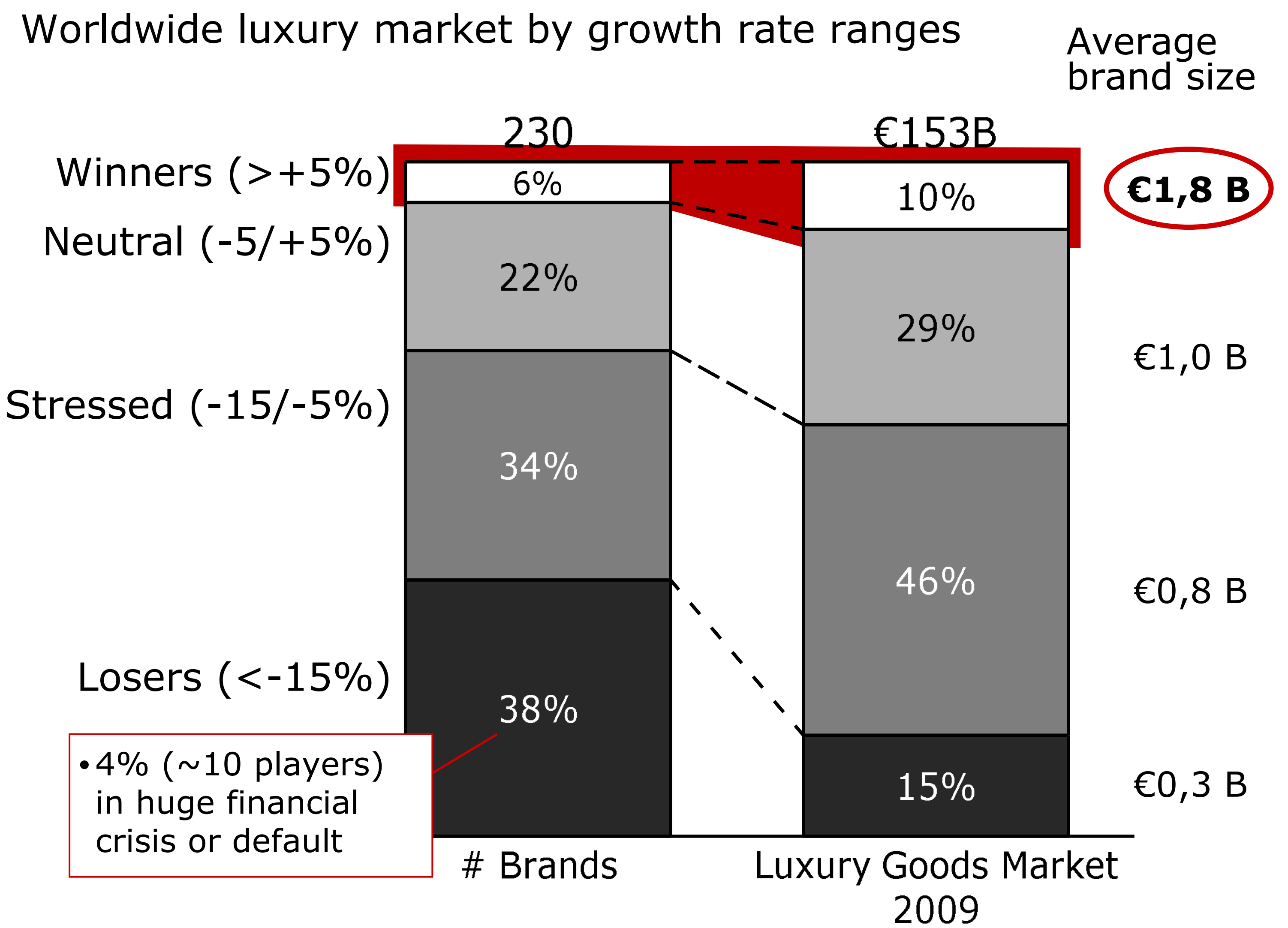
9th Edition

October 2010

2009: "annus horribilis" for personal luxury goods

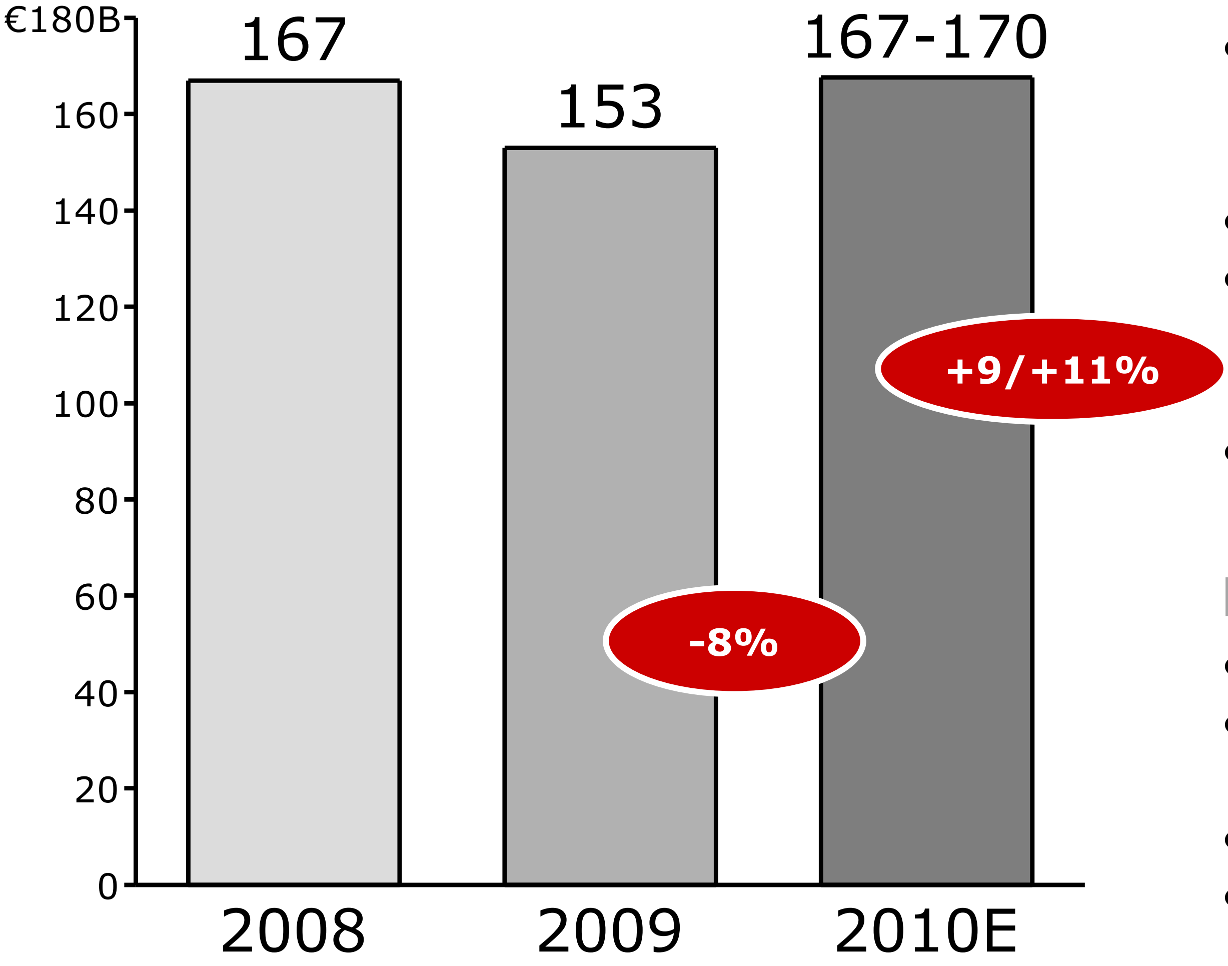


The crisis confirmed that big is better!



2010: glimpses of a new dawn

Worldwide Luxury Goods Market trend (2008-2010)



CRISIS

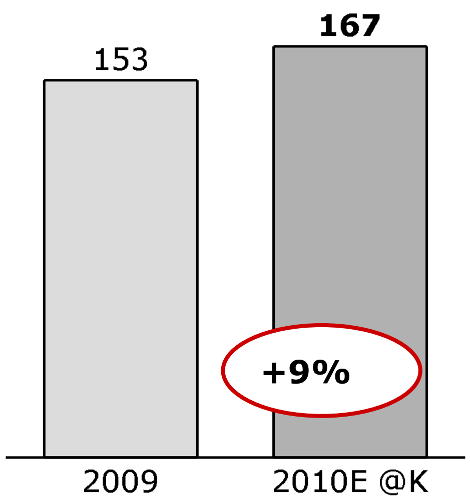
- Economic downturn strongly affected consumers' income and personal wealth
- Lowest consumer confidence ever
- Strong consumption decline, especially in mature markets (US and Europe)
- Emerging markets slowing down growth rate (except China)

RECOVERY

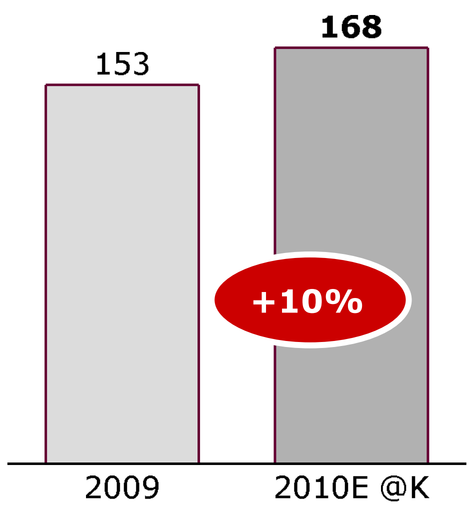
- First signs of economic recovery
- Strong rebound in consumer confidence
- Channel & wardrobe restocking
- Chinese consumers driving growth

The 2010 holiday season will be critical for consolidating this year's growth

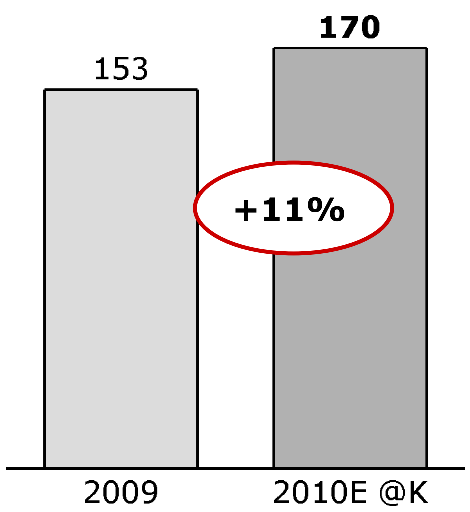
Worst case



Base case



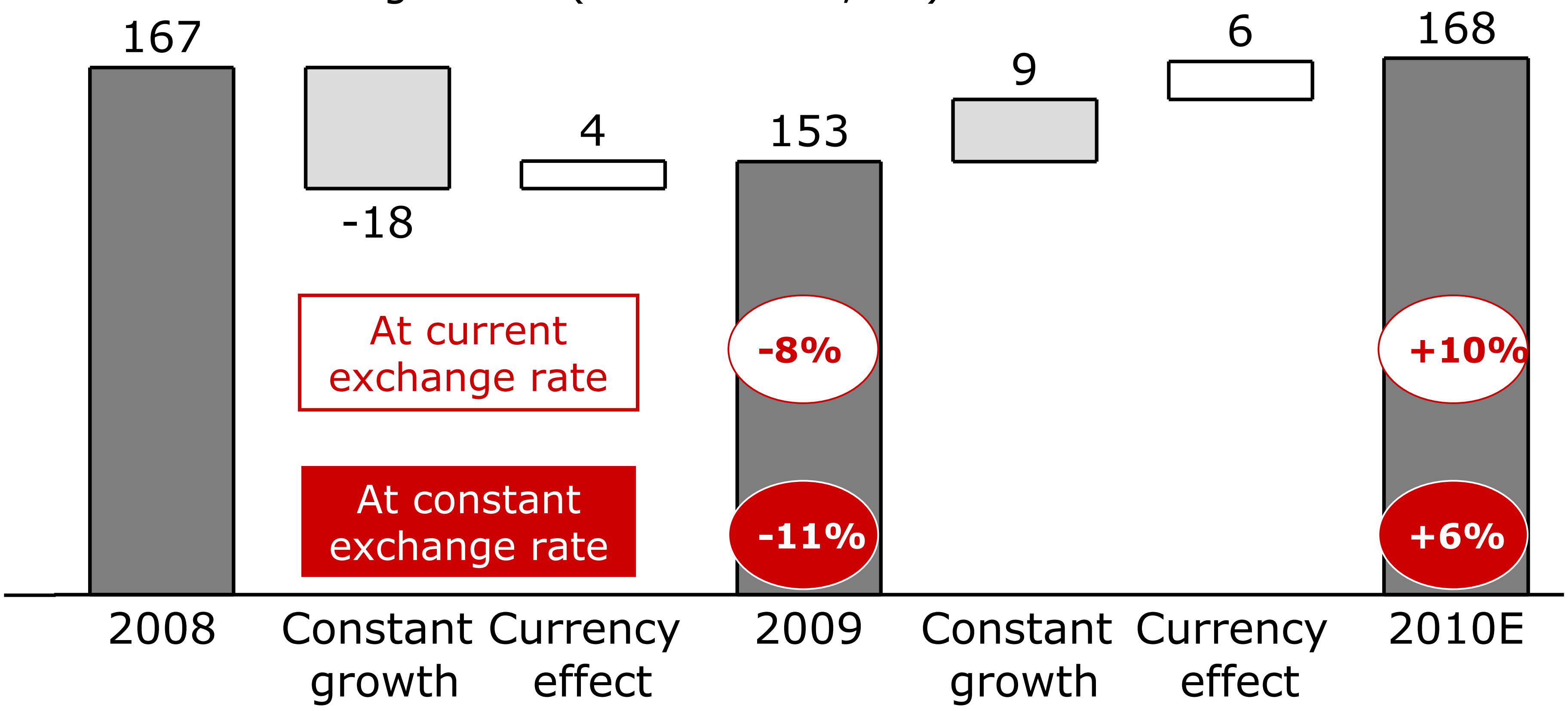
Best case



	Worst case	Base case	Best case
Main assumption	• **Holiday season in line with 2009** ***(+2% vs last year)***	• **Holiday season growing vs. 2009** ***(+5% vs last year)***	• **Holiday season outperforming 2009** ***(+10% vs last year)***
Assumed Probability	**20%**	**70%**	**10%**

Exchange rate effects have strongly contributed to 2010 market rebound

Worldwide luxury goods market trend in current and constant exchange rates (2008-2010E, €B)



€/$	1.46	5% US dollar appreciation	1.39	4% US dollar appreciation	1.31
€/Y	150.6	16% Yen appreciation	130.0	10% Yen appreciation	117.9

What's happening in the Personal luxury market? "5 W's" for analyzing 2009-2010

When
Trends by quarter

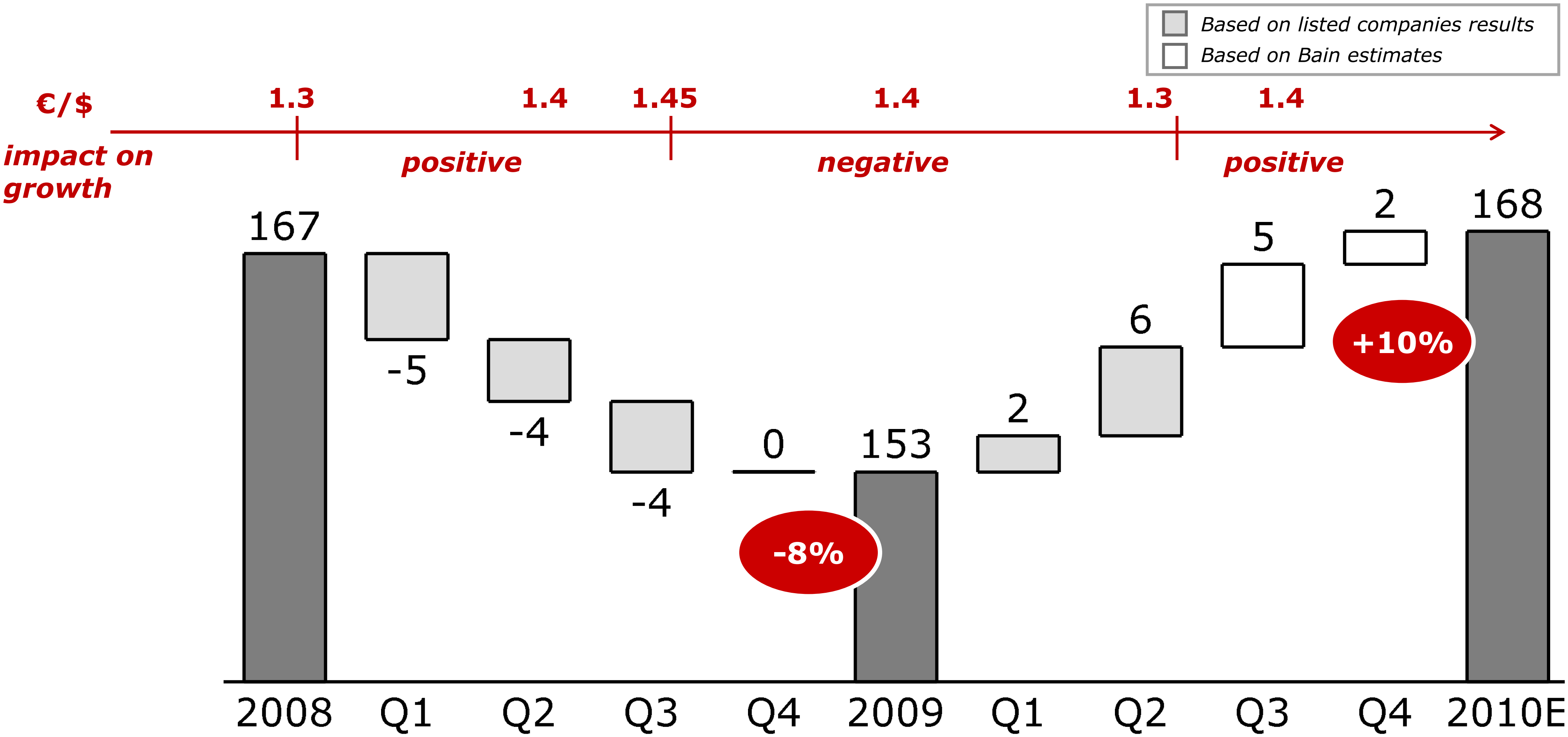
Where
Trends by channel and geographic area

What
Trends by product category

Who
Trends by consumer segment

Why

Q4 2009 marked a turning point for strong 2010 performance



QoQ growth	-13%	-10%	-10%	0%		6%	16%	13%	5%

What’s happening in the Personal luxury market? “5 W’s” for analyzing 2009-2010

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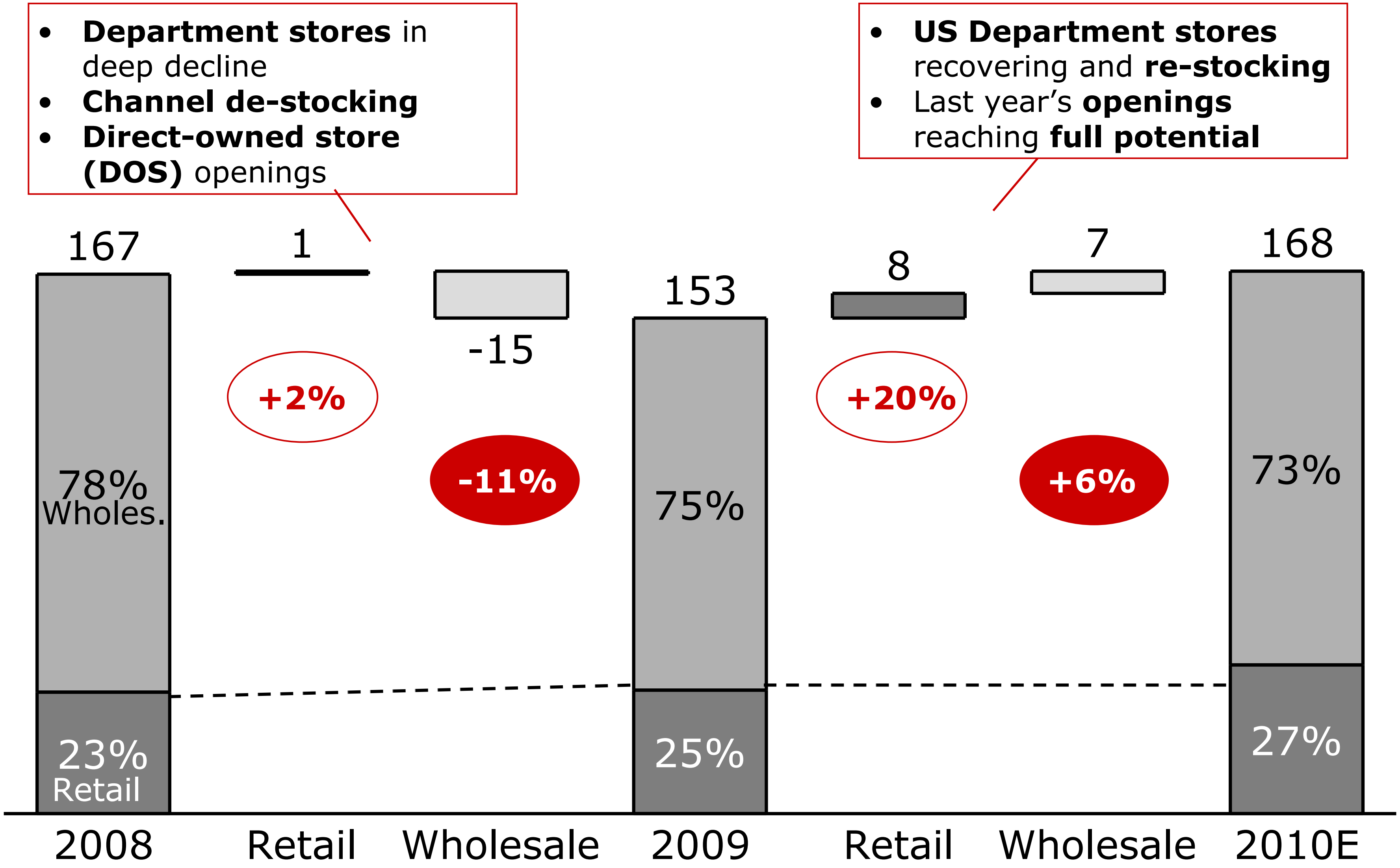
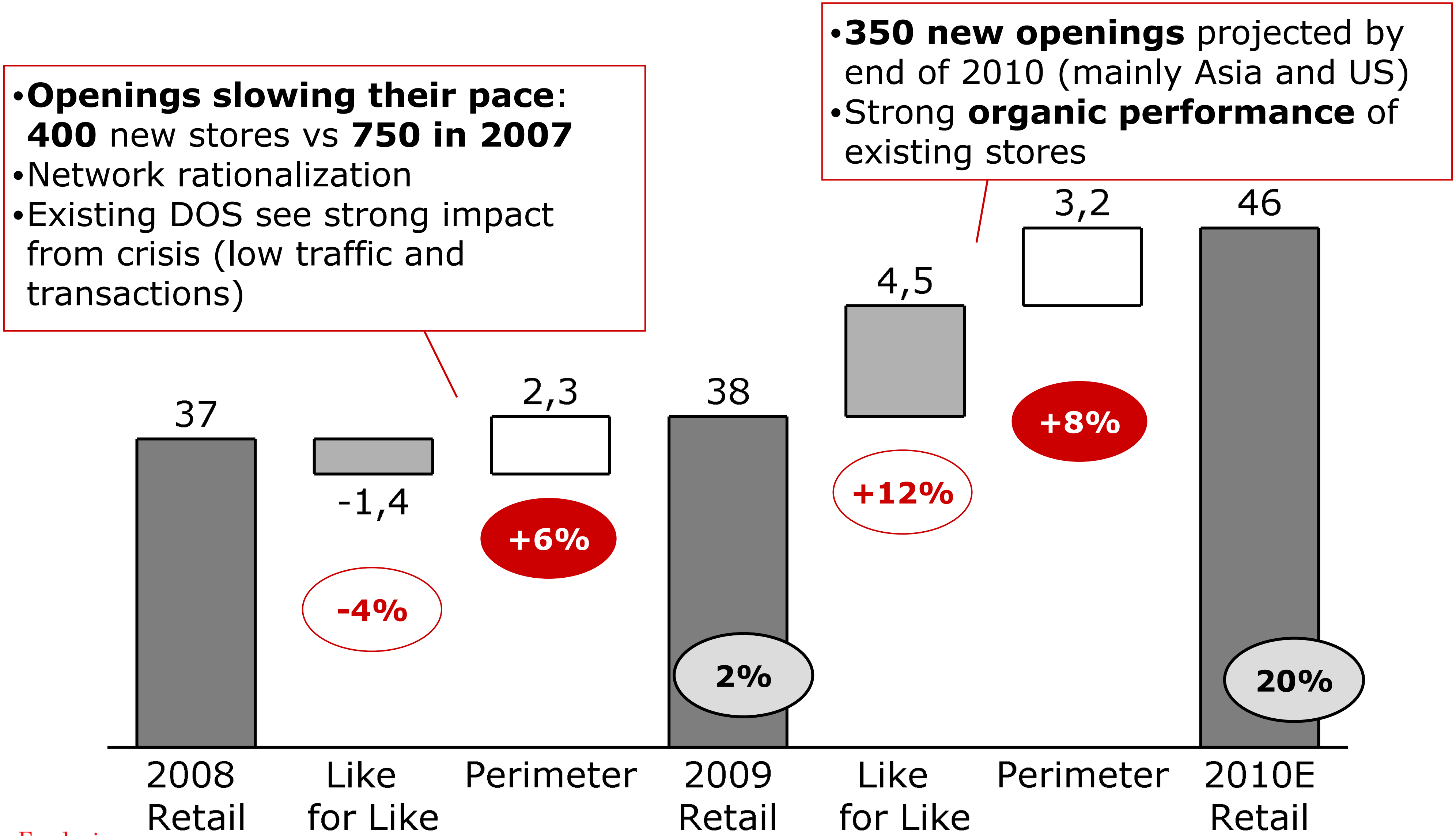
Why

Retail is still over-performing wholesale: a mega-trend for the future



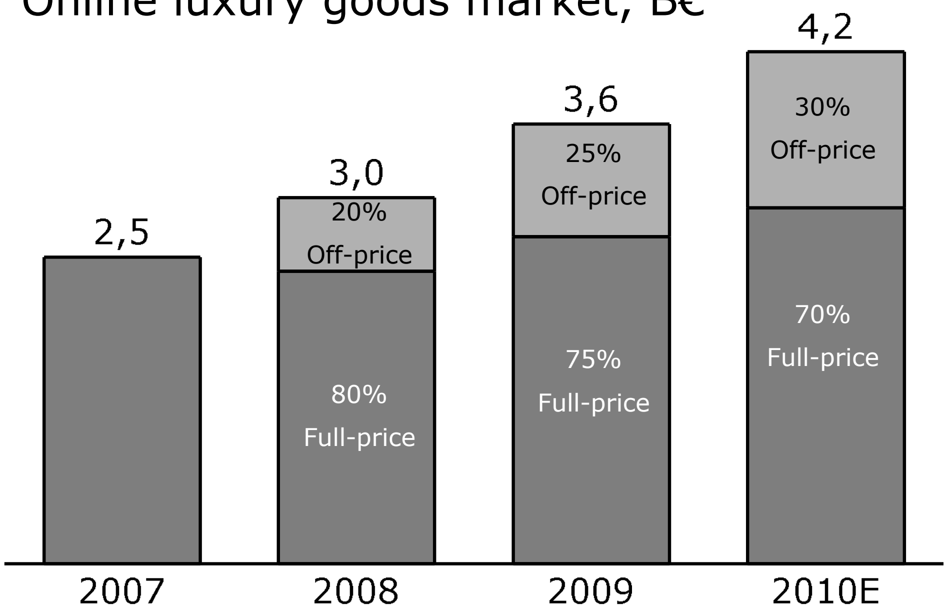
Retail growth driven by new openings in 2009; re-start of organic growth in 2010

When | **Where** | What | Who | Why



Online is becoming an increasingly important channel

Online luxury goods market, B€

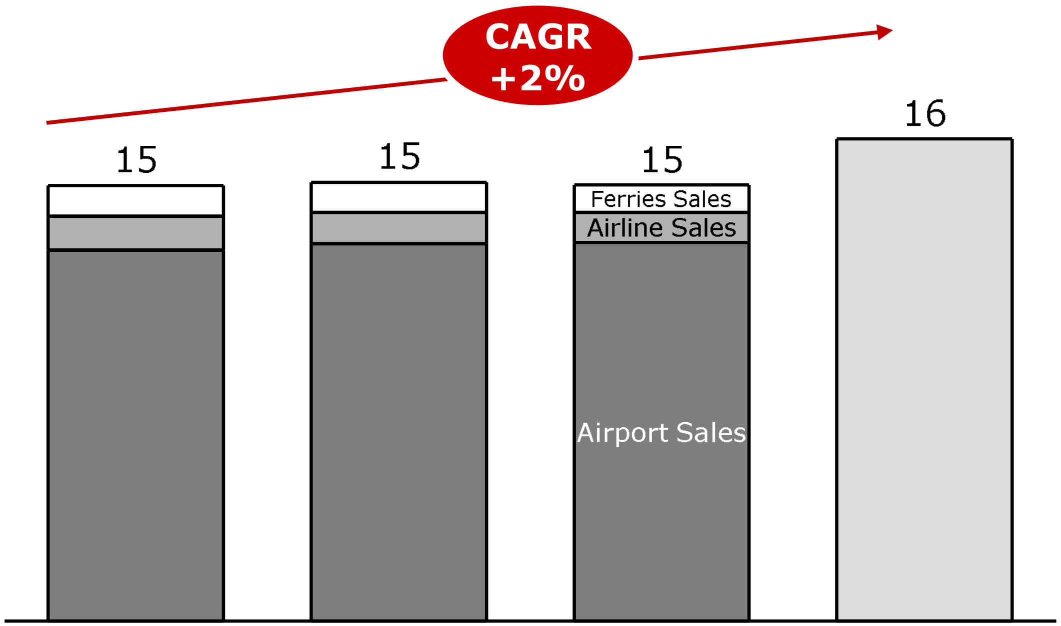


	2007	2008	2009	2010E
YoY Growth	**65%**	**20%**	**20%**	**20%**

- Online luxury shopping **over-performing overall web sales** (+20% vs 8%)
- **Off-price segment increases** driven by "private sales" websites
- **E-coupons and discounts** were a strong sale driver for big players
- **Mobile/tablet internet sales** more than **doubled** versus last year

Travel retail, accounting for 10% of the market, was more resilient due to Chinese touristic flows

Travel retail luxury goods market, B€

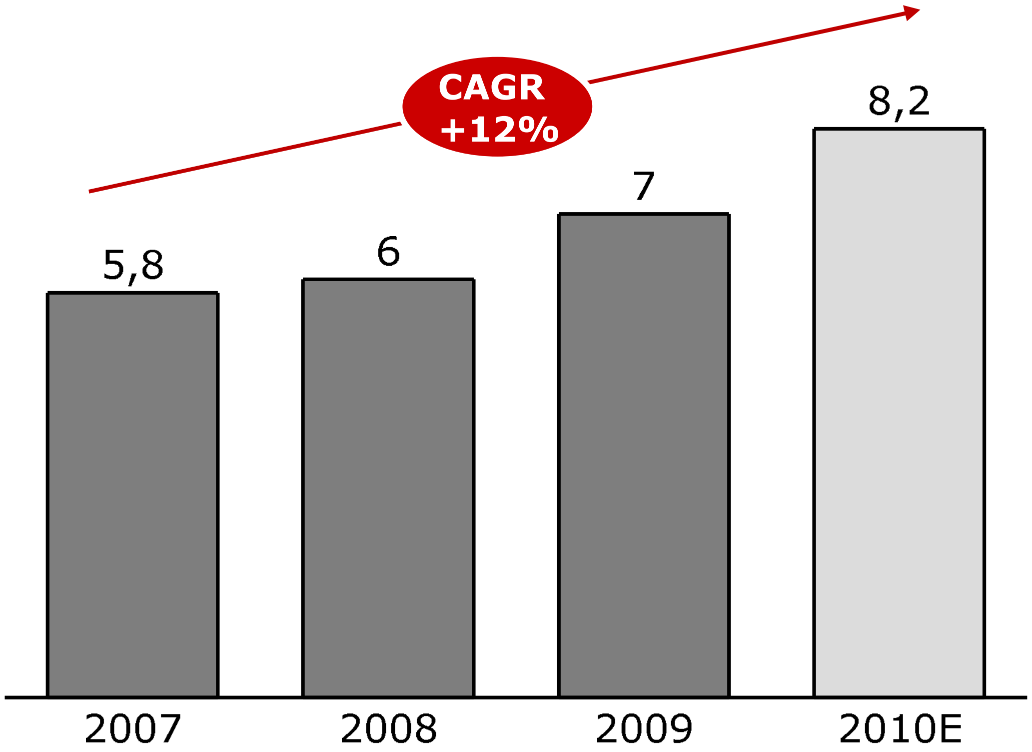


	2007	2008	2009	2010
Δ Traffic Arrivals	6%	1%	-6%	1%
YoY Growth	**7%**	**1%**	**-1%**	**11%**

- **Luxury** segment accounts for **more than 50%** of overall travel retail channel
- Travel retail **more resilient to downturn**. Strong impact of "**new tourists**" from **China**
- **Fragrance and cosmetics top category** with 30% market share
- **Europe** is the biggest market, followed by **Asia-Pacific**

Value-for-money remains a fundamental driver of luxury goods consumption in 2010

Outlets luxury goods market, B€



YoY Growth	N.A.	3%	16%	18%

- **Outlet channel** accounts for ~5% of overall market
- Outlets no longer just for bargain hunters, but often a new **entertainment experience**
- Outlets are mushrooming, especially in **Europe**
- **Asian market getting ready** for luxury outlets – Asian consumers buying in European and American outlets
- **Full price sell-through** still below 2007 levels

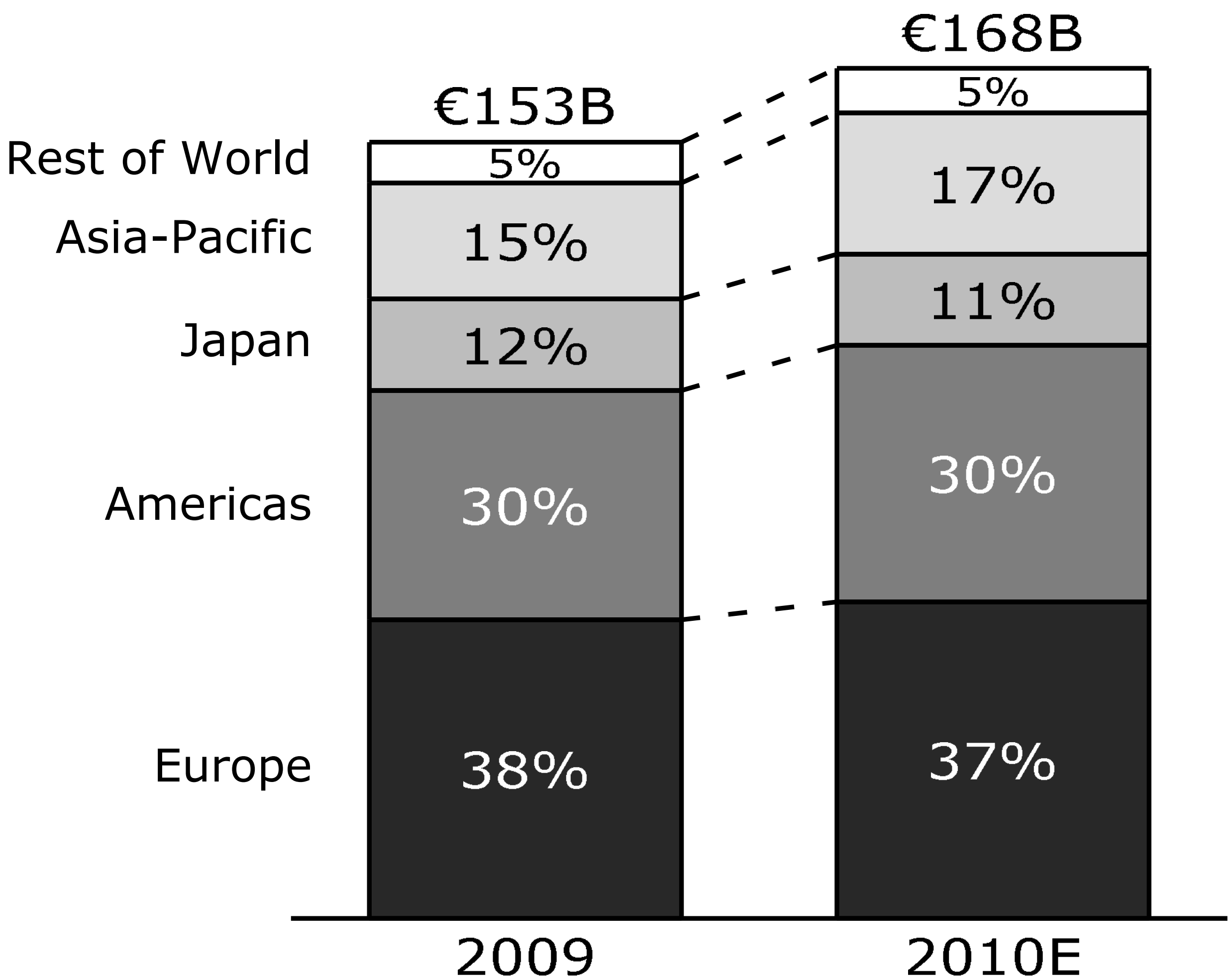
And the winner is…

China!

Asia over-performing, US spend jumping ahead of real recovery, and Japan still sluggish

When | **Where** | What | Who | Why

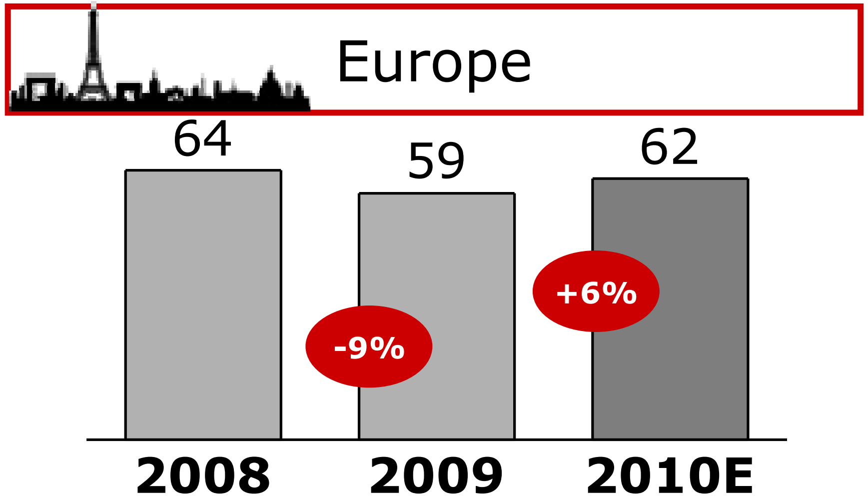
Worldwide Luxury Goods Market by Area

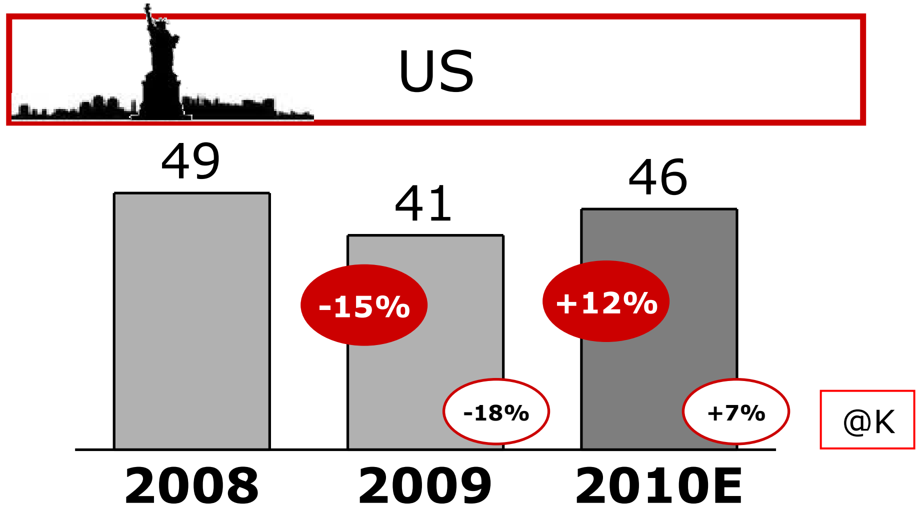


	YoY '09 vs '08	@K	YoY '10E vs '09	@K
Total	-8%	-11%	+10%	+6%
Rest of World	-2%	-4%	+8%	+5%
Asia-Pacific	+10%	+9%	+22%	+19%
Japan	-12%	-18%	-1%	-8%
Americas	-14%	-18%	+12%	+7%
Europe	-9%	-9%	+6%	+4%

@K = at constant exchange rates

Mature markets: Strong organic rebound after crisis



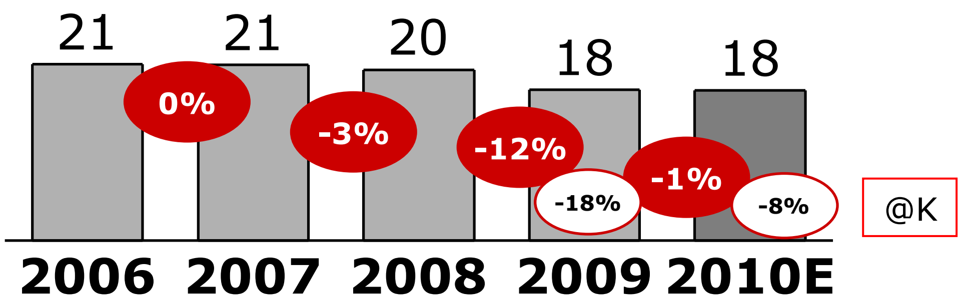


- **2009**:
  - **UK less affected;** many tourists thanks to low exchange rate
  - **Leather winning** category
  - **Aspirational brands hit** the hardest
- **2010**:
  - **Russia and Eastern Europe recovering** quickly
  - **Low €** encourages **touristic** flows, especially **from Asia and China**

- **2009**:
  - **Worst year** ever in **real** terms: **-18%**
  - **Holiday season** better than expected, creating a **turning point**
  - **Hard luxury: worst** performance (-23%)
- **2010**:
  - **Luxury consumer** regaining **confidence**, encouraged by better than expected **macroeconomic** results
  - **Boom of women's categories**: leather, shoes, but also apparel

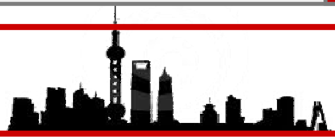
Japan, in a structural crisis since 2007, does not show any signs of recovery

Japan



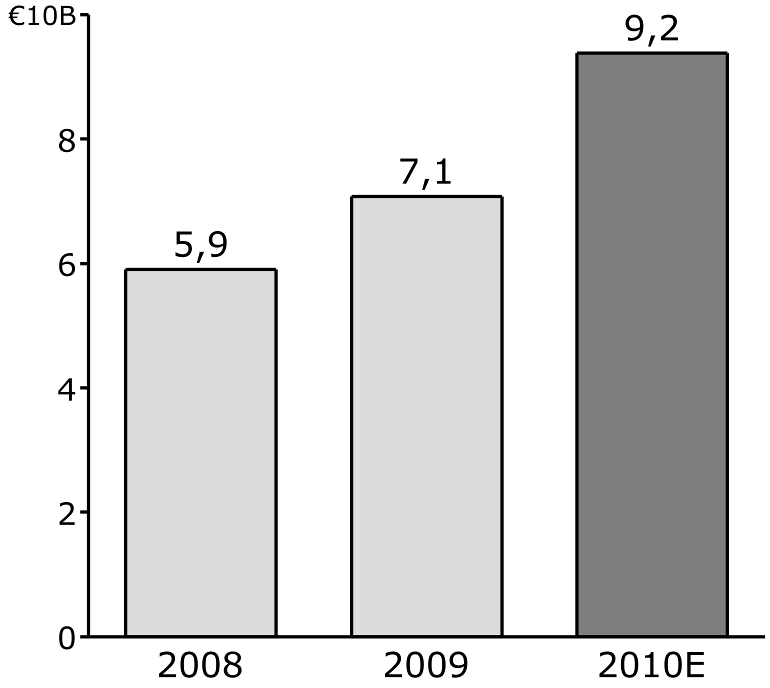
- Japan in **negative trend** since **2007** (-3% vs +6% of total luxury market)
- **Department stores**, core Japanese distribution channel, losing market share
- **Generational shift** is one of the basics of the crisis in this market:
  - Mature 90's luxury consumers are retiring
  - Young 90's luxury consumers are marrying
  - ...**reducing their spending** in luxury goods (**fewer items and lower average price**)
- **Young Japanese generation** is more keen on **setting trends** than on following them; many **creative talents**, designing their own fashion
- As a result, **smaller luxury players in 2008-2009 exited the market**

China China China! Market champion in 2009-2010!



Mainland China

Chinese Luxury goods market trend (2008-2010E, €B)



YoY growth	30%	20%	30%

- Confirming **super-performance** during crisis and in 2010
- It should become the **third largest luxury market globally in 5 years**
- Very **concentrated market**: top 5 players make up 50% of value
- Growth fuelled by new openings, but also by **organic growth, for the first time ever**
- **More experienced consumers**: in-store experience and after-sales service will become a key success factor

Emerging markets got over the crisis quickly, and show strong growth prospects for 2010

When | **Where** | What | Who | Why

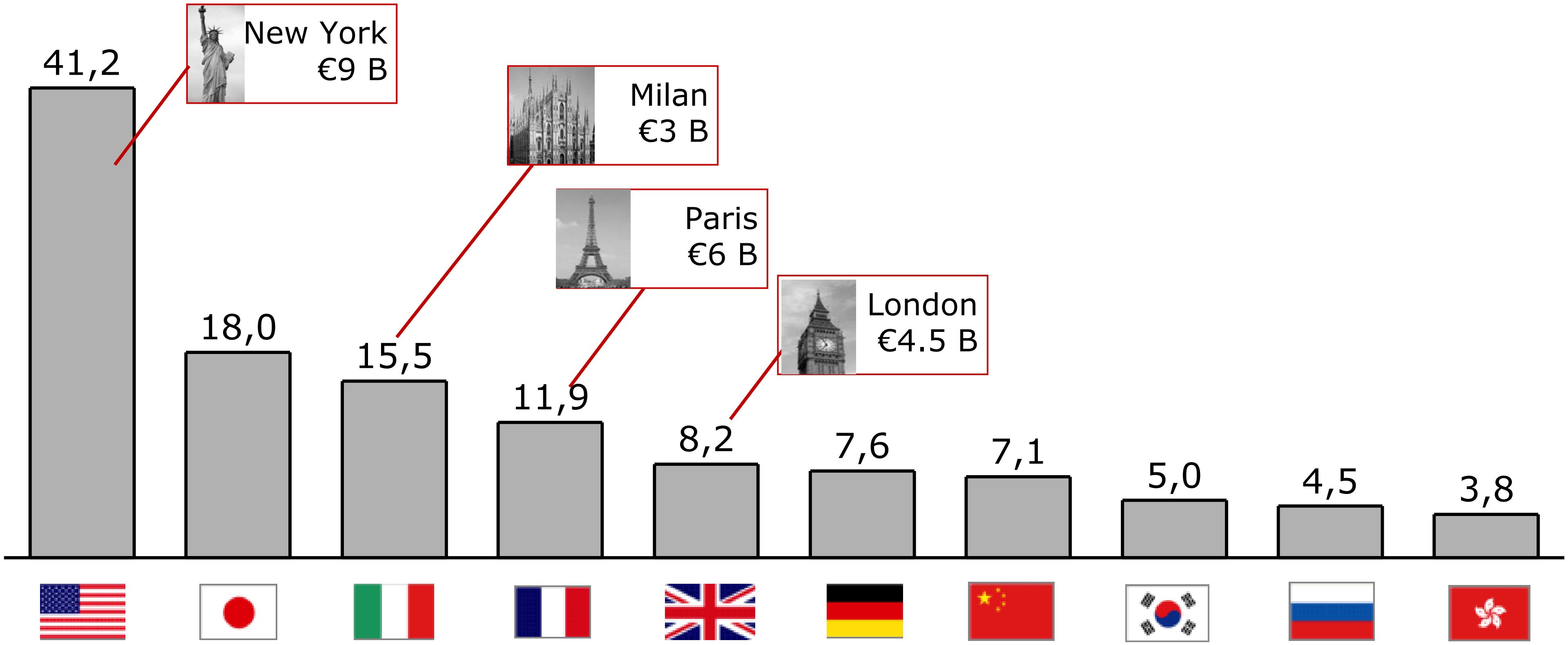
Brazil	Russia	India	M.East




	Brazil	Russia	India	M.East
2009 market size	**1,5 €B**	**4,5 €B**	**0,8 €B**	**4,0 €B**
Key luxury cities	Sao Paolo	Moscow St. Petersburg	Mumbai Delhi	Dubai Abu Dhabi Doha
2008-2009	**+20%**	**-5%**	**±0%**	**-4%**
2009-2010E	**+15-20%**	**+5-10%**	**+4-5%**	**+5-8%**

Ranking by country: US and NYC difficult to beat

Luxury Goods Ranking by Country (2009, B€)



Growth 08-09	-15%	-12%	-9%	-7%	-8%	-8%	20%	4%	-5%	4%

Greater China is already number 3 (not including Chinese customers purchasing abroad)

When | *Where* | What | Who | Why

Asia Luxury Market by country (2010, B€)

What happens in the Personal luxury market?
"5 W's" for analyzing 2009-2010

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Trends by consumer segment

Why

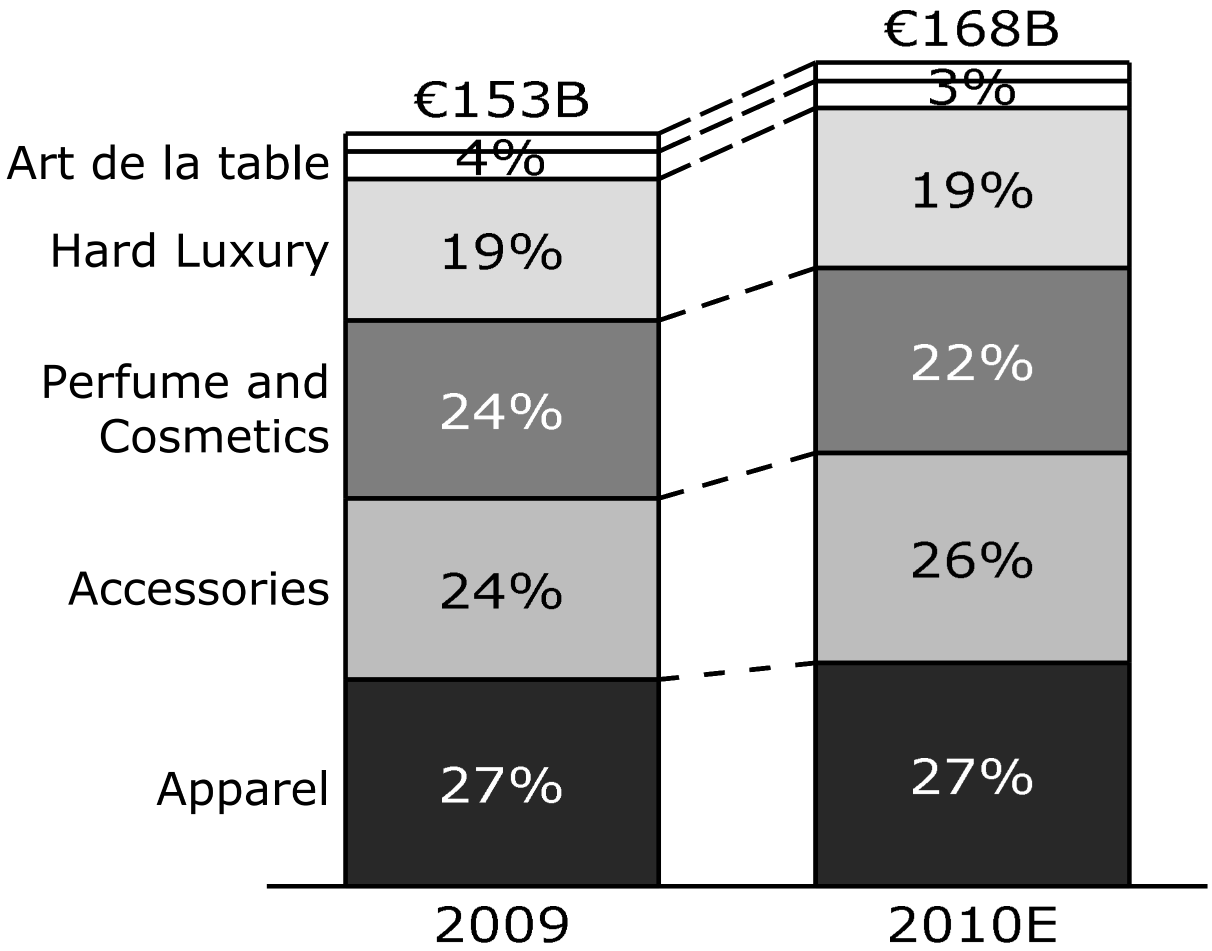
And the winner is…

Leather Goods!

Growth across the board; retail focused categories show slightly less volatility

When | Where | **What** | Who | Why

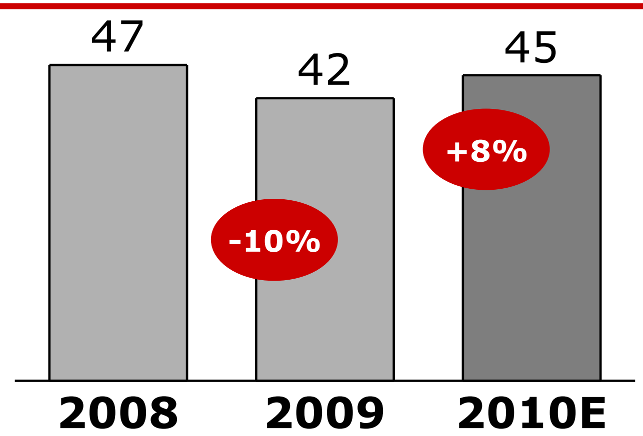
Worldwide Luxury Market by Category



	YoY '09 vs '08	YoY '10E vs '09
Total	-8%	+10%
Art de la table	-14%	-1%
Hard Luxury	-14%	+13%
Perfume and Cosmetics	-6%	+4%
Accessories	-1%	+16%
Apparel	-10%	+8%

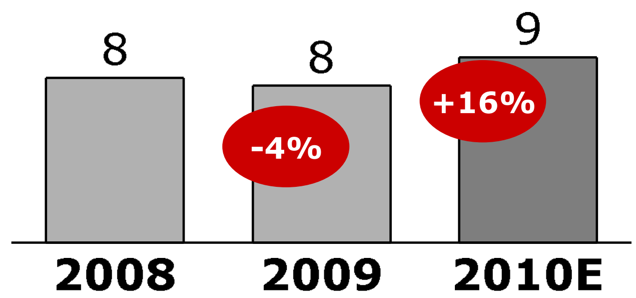
Soft luxury goods, hit hardest in 2009, show a very positive rebound in 2010

Apparel



- **2009**:
  - **Menswear hit hardest**: during crisis, men **delaying purchase of formalwear**
  - **Women's 1st lines** affected most, due to **luxury shame**
- **2010**:
  - **Strong positive rebound** both for menswear and womenswear
  - Overperformance of **menswear** (driven by 2nd and 3rd lines) mainly due to "**casualization**"

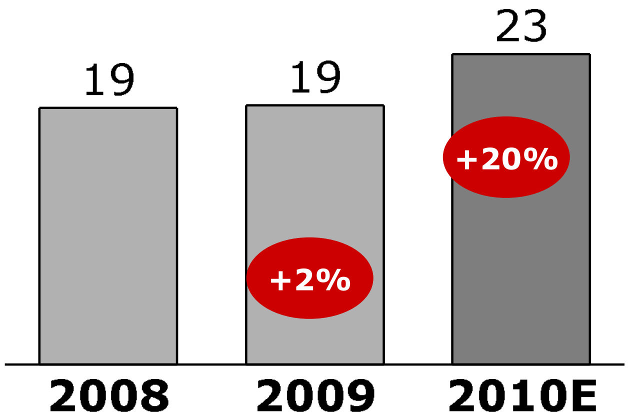
Shoes



- **2009**:
  - **Men shoes** following the same trend as menswear (**delaying purchase**)
  - **Women shoes** in slight decrease (**-3%**), driven by **absolute brands**
  - This category was growing fast before 2009
- **2010**:
  - **Double-digit growth** driven by absolute luxury (women) and "**sneakerization**" (men)
  - Positive trends in **all geographic areas**, with preference for a **fashion-forward** style

Leather accessories: champion category!

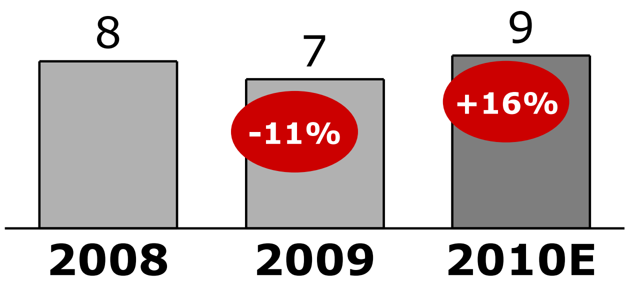
Leather goods



- **2009**:
  - The only category with **positive growth**
  - **Strong performance** of **entry price** products
  - **US shrinking** (-7%), **Asia booming** (+25%) with perimeter growth
  - Shift towards **timeless** style and **quality-driven** purchases
- **2010**:
  - Fast positive **rebound of US (+22%)**
  - Category boom driven by **re-launch and modernization of icons**
  - "**Niche-seeking**" trend: many small brands popping up
  - **Men** showing **same spending as women** in this category (bags, luggage and small leather goods and belts)

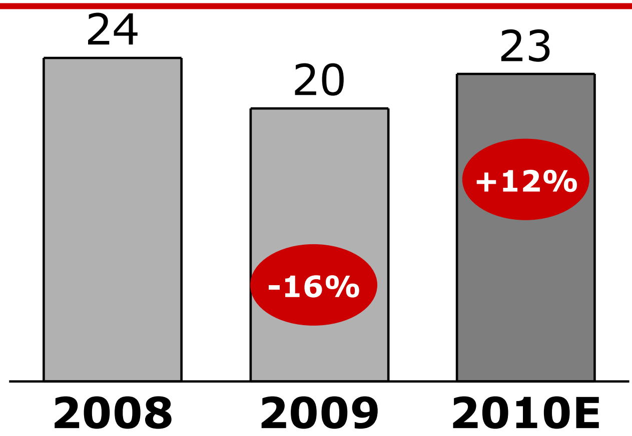
Volatility in Hard Luxury over the past 2 years due to importance of wholesale

Jewelry



- **2009**:
  - **Asian countries** boomed with double digit growth
  - **Americas and Japan** saw severe impact from the crisis
  - **Absolute** luxury brands **hit** the hardest
- **2010**:
  - **Serious rebound** pushed **by holiday season re-stock**
  - **Sparkling accessible segment!**

Watches

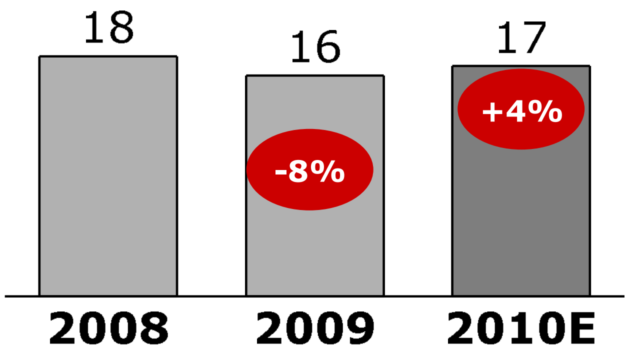


- **2009**:
  - **Market polarization** towards **large manufacturers**
  - **Greater China overtakes US** in worldwide exports
  - **Absolute luxury brands** best performers
- **2010**:
  - **Positive growth** again, with **Asia** as **growth driver**
  - **Mechanical movement** watches show **strong performance**

Fragrances and Cosmetics less resilient than expected

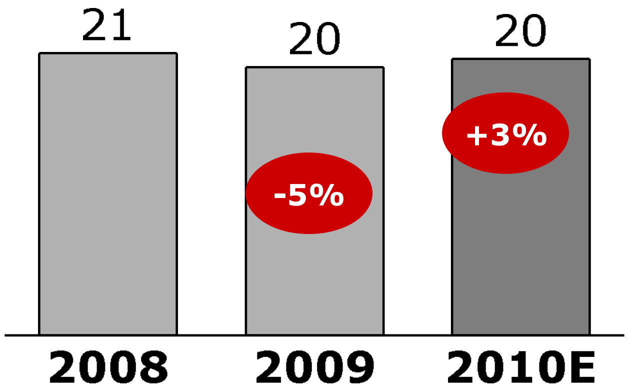
When | Where | **What** | Who | Why

Fragrances



- **2009**:
  - **US market** in deep **crisis** (-10%)
  - Lower productivity of **launches** (~ -30%)
  - Decrease of fragrances under the 60-70€ price point, **luxury fragrances less affected**
  - **Emerging countries underdeveloped**
- **2010**:
  - **Boom of launches** in 2H: all brands preparing for a strong holiday season
  - **Channel re-stocking**
  - Strong **investments in communication**

Cosmetics



- **2009**:
  - Consumers are re-evaluating the relevance of beauty: **first thing to cut!**
  - Positive results for "**value packs**"
  - **Anti-aging products decreasing for the first time**: switch to non-premium brands
- **2010**:
  - **New luxury brands** entering
  - **Growth in emerging countries**, especially **Latin America**

What happens in the Personal luxury market? "5 W's" for analyzing 2009-2010

When
Trends by quarter

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Who
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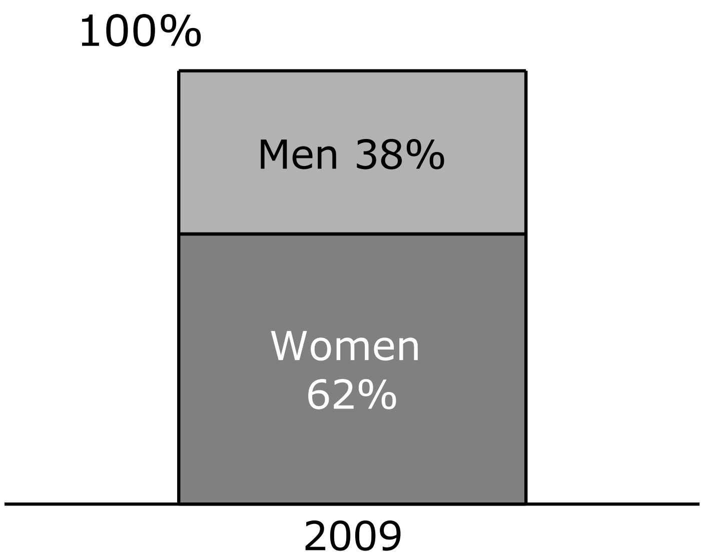
Why

All luxury brands are heavily investing in men

Luxury goods market by gender



Players are focusing on men, through:

- **Male collections**: many "female brands" entering the male luxury market
- **New store formats** dedicated to men
- **Dedicated store-in-store displays** within department stores
- **Targeted communication** campaigns

...even if women are still the core consumer of luxury

Luxury goods market by gender, B€

Trend	CAGR ('95-'07)	CAGR ('07-'09)	Δ ('07-'09)
Men	**8%**	**-5%**	**6%**
Women	**7%**	**-3%**	**4%**

- **1995 – 2007**: Men's categories have gained market share over women – **Masculinization of the market, feminization of men**
- **2007 – 2009**: Men **hit strongly by downturn**, especially due to postponed purchases of watches and formalwear
- **2009 – 2010**: **Traditional** men's categories **recovering** (watches,...) , **new** categories **booming** (leather, etc.)

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Trends by consumer segment

Why

So...what's happening?

When | Where | What | Who | **Why**

- **The market survived** its worst crisis ever and now "seems to be" in good shape
- **Clear winners and losers**:
  - **Big brands** (strong heritage, category leaders, global brand awareness and appeal, excellent execution skills) **becoming bigger**
  - Many brands just surviving, **some kicked out of the market** (especially from more competitive markets like Japan)
- **Consumers:** increasingly **sophisticated** across the board; **cherry-picking** across categories, brands and channels; looking for quality, style or value depending on mood and usage occasions
  - Creates the need to upgrade consumer intelligence capabilities
- **Direct channel** (retail, online,...) success is proving that engaging consumers in a bi-directional and entertaining relationship is the key to organic growth
  - Luxury can *still* learn a lot from champions in other industries
- **Increasing complexity** demands **excellence** in all levers of the value chain and an upgrade of **marketing capabilities**

An additional “W” is fundamental

When
Trends by quarter

Where
Trends by channel and geographic area

What
Trends by product category

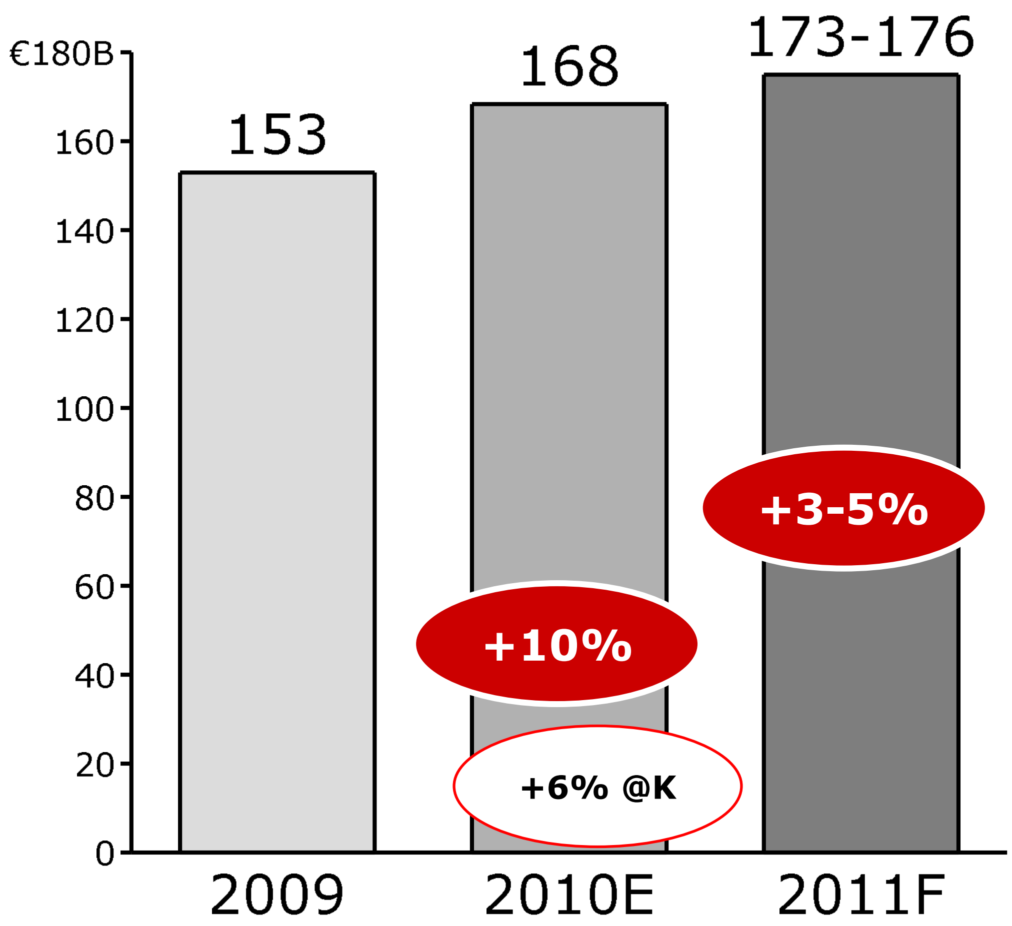
Who
Trends by consumer segment

Why

What’s next?

The market outlook, at constant exchange rates, is still positive for 2011

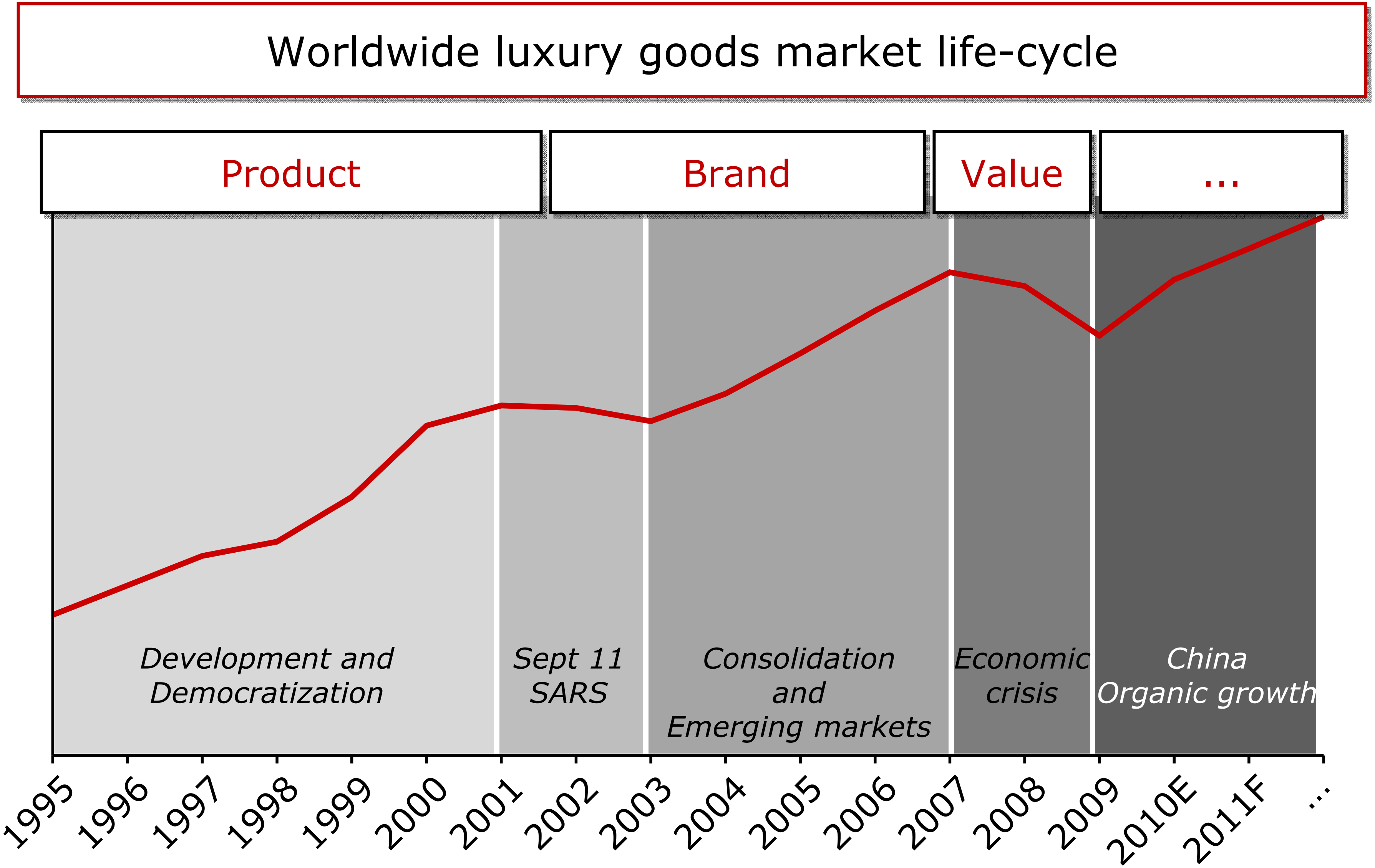
Worldwide Luxury Goods Market trend (2009-2011F)



Important:

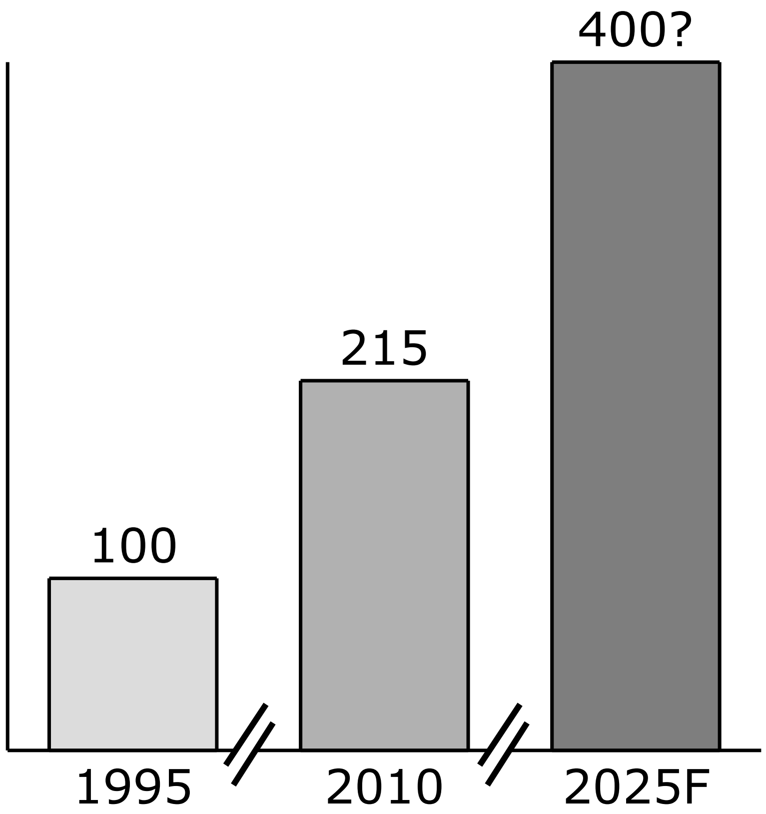
2011 Forecast is at constant exchange rates and should be compared to 6% growth at constant exchange rates in 2010

In the wake of the crisis, a new luxury era is emerging



Great job to date…but how to succeed in the next 15 years?

Worldwide Luxury Goods Market trend
(indexed 1995)



What you have to get right

- **China (as a symbol for all emerging markets)**
  - Penetration
  - Route to market
  - Tailored value proposition
- **Generational shift**
  - Baby-boomer retirement
  - Japanese teenagers
  - Generation Z: always connected
- **Enhanced customer experience**
  - Low loyalty and satisfaction
  - Integrated online and offline experience
  - Service

Choose your own formula... but get it right!

Store staff excellence

Category management

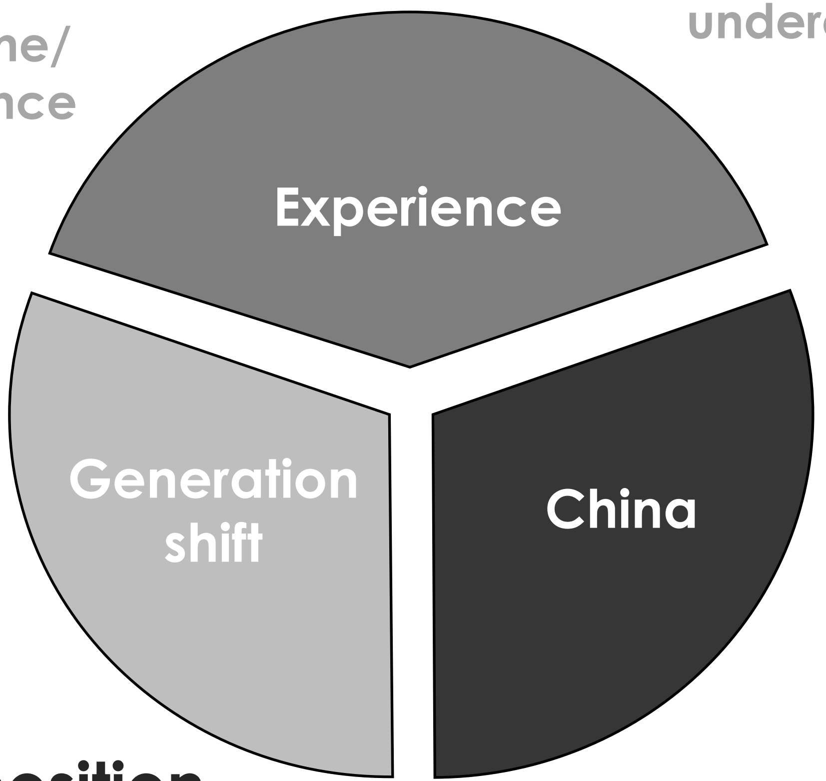
In-store entertainment

Service 2.0

Exploitation of underexposed senses

Integrated offline/ online experience

4 walls management



E-commerce and mobile commerce

Customer insight

Flexible sourcing

Viral marketing

Digital value proposition

Flawless supply chain

Social network

Organization

Right locations

Targeted collections

Communities

Lead Author: Claudia D'Arpizio, Partner
Head of Bain's Fashion & Luxury Practice

Fashion and Luxury Goods Practice

Bain & Company

Claudia D'Arpizio is a partner in Bain's Milan office. She is a leader in the firm's Global Consumer Products and Retail Practices; in particular, she specializes in Luxury Goods and Fashion.

For over 15 years, Claudia has advised multinational clients, mainly in the consumer products, retail and luxury goods industries. She has helped companies with business unit strategy, sales and marketing, product and service adjacency, multi-channel distribution strategies, new product development and innovation, acquisitions and divestitures, performance improvement, organizational changes.

In addition, Claudia has developed an extensive worldwide industry database in cooperation with Altagamma, the trade association for the Italian luxury industry. This survey, known as the "Luxury Goods Worldwide Market Observatory", is periodically updated and has become one of the most valued and studied market sources in the international luxury goods industry.

Claudia has become a worldwide-recognized expert in luxury goods and in 2009 she **has been awarded by Consulting Magazine as one of the "Top 25 Consultants in the World"**

Claudia is extensively quoted in Italian media, such as Il sole 24 ore, La Repubblica, Il Corriere della Sera and in International media, as *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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