

WORLDWIDE LUXURY MARKET MONITOR

2017 SPRING UPDATE

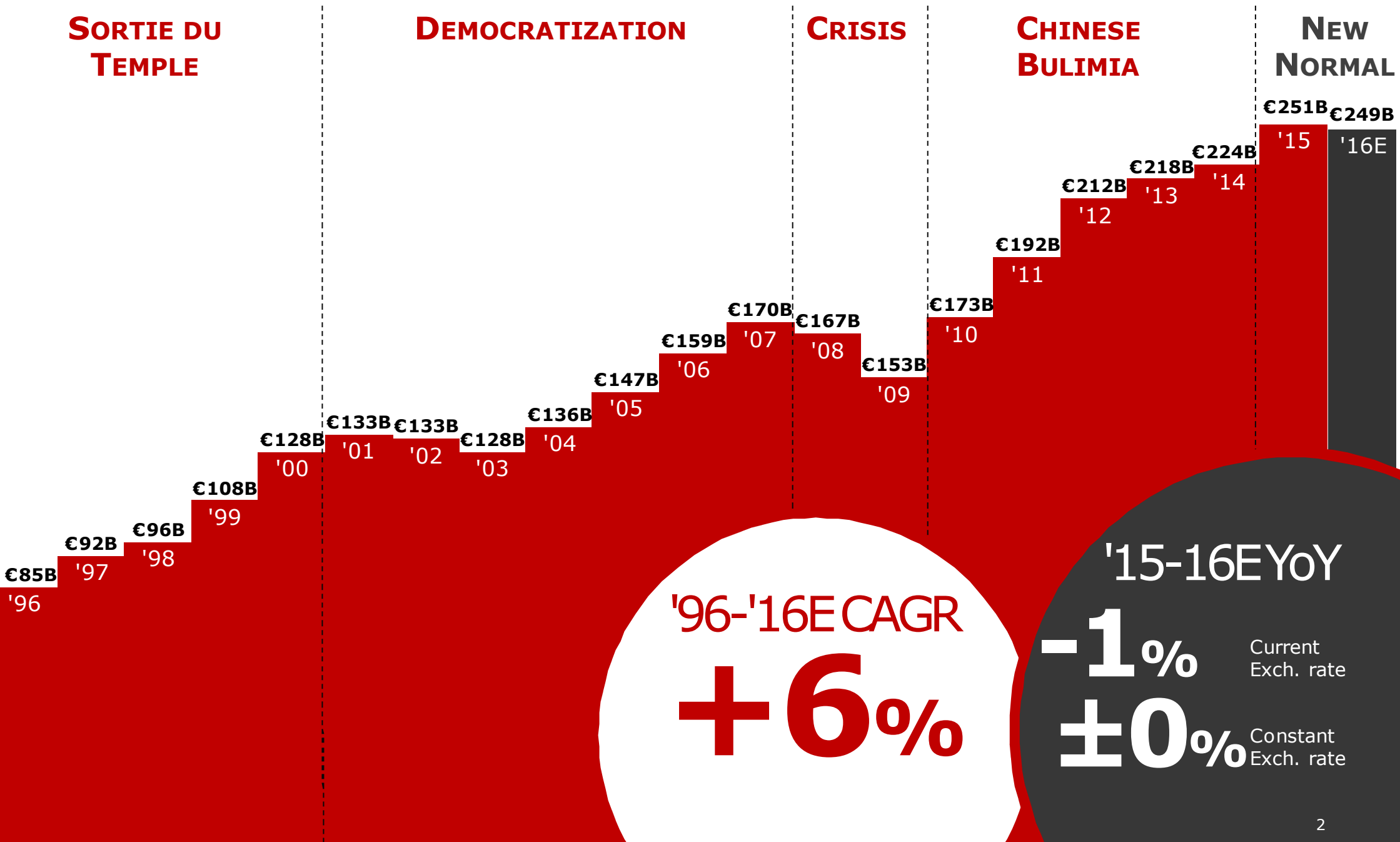


29 MAY 2017

BAIN & COMPANY 

 **ALTAGAMMA**
CREATIVITÀ E CULTURA ITALIANA

PERSONAL LUXURY GOODS MARKET 2016E: CONSOLIDATING IN THE NEW ERA

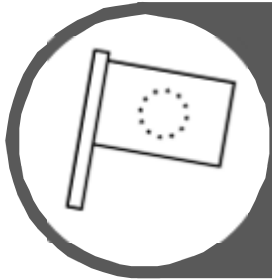


FOUR REASONS BEHIND AN ENCOURAGING Q4 2016



CHINESE
CONSUMERS ARE
BACK... AT HOME
AND ABROAD

- **Resurgence of Chinese consumers fueling consumption** from October to holiday season
- **More solid purchases in home market** mostly driven by **lower price differentials**



EUROPE
RECOVERING

- **European market buoyant** and recovering from impact of terroristic attacks, once again attracting both **local and tourist spending in key cities (incl. Paris)**
- **Growing flows of all nationalities** among which **Russians** and Americans favored by strong dollar



STOP OF
BLEEDING
IN HK AND MACAU

- **Hong Kong and Macau on the mend**
- Contraction is still ongoing but **big losses** of recent years have **stopped** across the board



SOLID
HOLIDAY SEASON

- **Widespread enthusiasm in Christmas season** fueling spending with rising **relevance of gifting**
- **Luxury experiences grasping further value** over products

Q1 2017

+ 4 %

Solid single digit growth with regained confidence in Europe and China's rebound more than offsetting static US market; low 2016 comparison base affected by terrorism

++ *Accessories & Jewelry*

+ *Beauty*

~ *Apparel*

-/~ *Watches*

Accessories and Jewelry maintaining momentum

Beauty gaining traction

Apparel hampered by fatiguing Accessible giants

Watches negative yet closer to recovery

++ *Europe*

+ *M. China*

~ *SEA & RoW*

-/~ *Japan & S. Korea*

- *Americas, HK & Macau*

Europe accelerating on tourists and locals

Mainland China in good shape

Japan stagnating, local turbulence limiting S. Korea

US hindered by a challenging environment for department stores

AMERICAS

Continuing to underperform with unclear outlook

US FACING STRONG DOLLAR, UNCLEAR POLITICS AND WEAK DEPARTMENT STORES

LATAM FUELED BY LOCALS ALSO DUE TO US LIMITATIONS

CANADA DYNAMIC YET SLIGHTLY SLOWING DOWN



EUROPE

Shining, progressively overcoming 'terrorism shock'

INCREASINGLY ATTRACTIVE FOR TOURISTS OF ALL NATIONALITIES. SPAIN PERCEIVED TO BE SAFER, POST-BREXIT UK OVERPERFORMS

LOCALS REGAINING CONFIDENCE IN ALL COUNTRIES



MAINLAND CHINA

Firm rebound with healthier local consumption

CHINESE PROVIDING ROBUST IMPULSE TO MAINLAND CHINA

LOCALS INCREASINGLY PREFERRING TO BUY LUXURY AT HOME; STILL TRAVELLING BUT BUYING LESS ABROAD



2017 FULL YEAR OUTLOOK

REST OF ASIA

excl. M. China

Undermined by repatriation of Chinese consumption

HK & MACAU NEGATIVE YET 'LIVIDS ARE GONE'

TAIWAN & SEA SUFFERING FROM CHINESE DROP, SINGAPORE ON RECOVERY TRAJECTORY, SOUTH KOREA WEAKENED BY LOCAL POLITICAL TENSIONS



ROW

Quiet, waiting for the next hot spot to emerge

MIDDLE EAST FLAT, FACING A SLOWDOWN OF LOCALS WITH THE EXCEPTION OF DUBAI

AUSTRALIA DILUTED BY REDUCED CHINESE TOURISM

AFRICA NOT YET RELEASING ITS VALUE



2017 FULL YEAR OUTLOOK

JAPAN

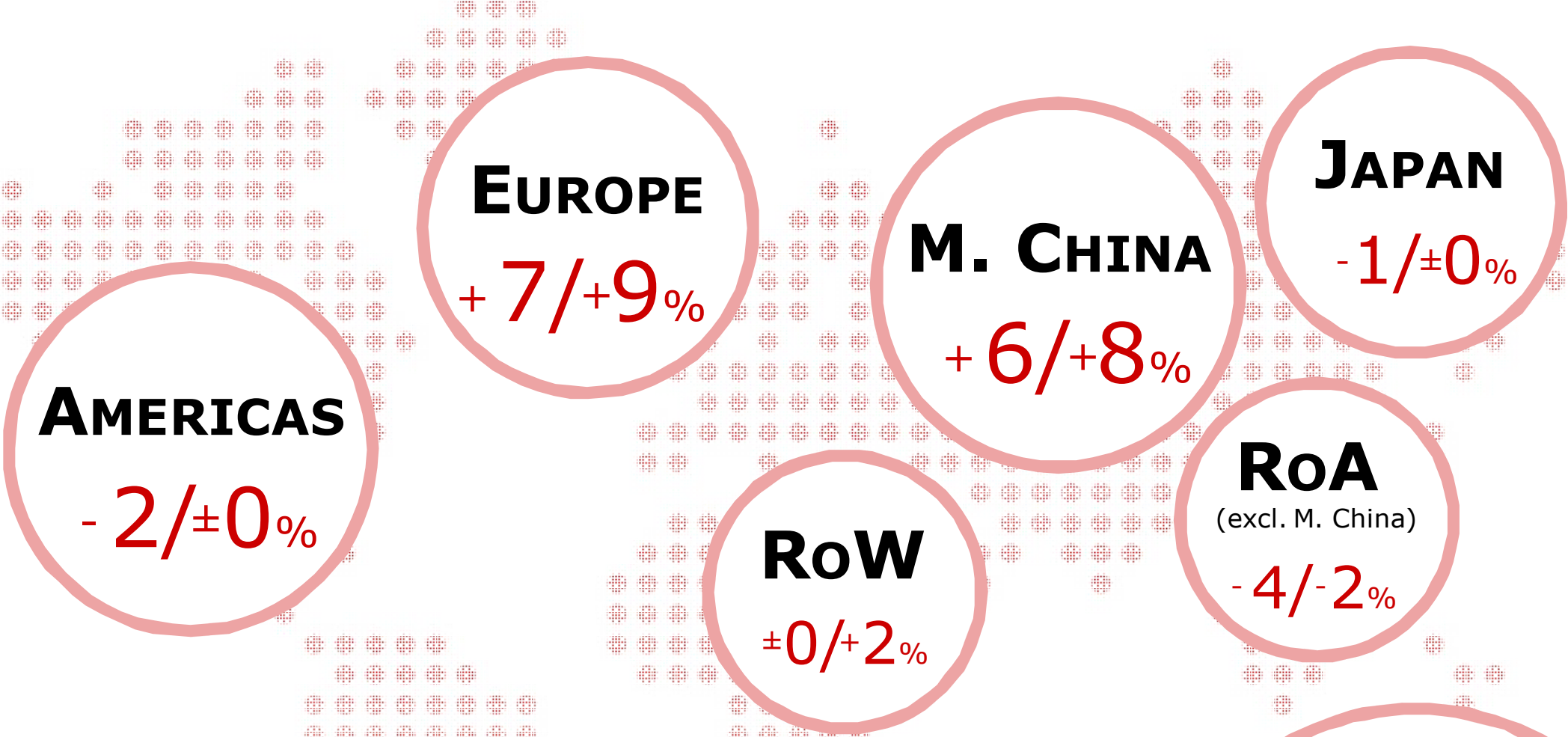
Sluggish but 'safe harbor'

MATURE AND SLOW-MOVING BUT STILL A SAFE MARKET FOR LUXURY BRANDS

HIT BY DROP IN TOURISM, ESPECIALLY FROM CHINA, BUT STILL SUPPORTED BY LOCAL SPENDING



WHILE Q1 EXUBERANCE WILL TEMPER, GLOBAL PERSONAL LUXURY GOODS MARKET WILL RETURN TO GROWTH IN 2017



2017F GLOBAL PERSONAL LUXURY GOODS MARKET

+ 2/+4% Constant Exch. rate

Note: figures refer to growth rate ranges at constant exchange rate

5 KEY TOPICS TO FOCUS ON IN 2017



GEOGRAPHIES

US

NATIONALITIES

CHINESE

CHANNELS

DIGITAL

COMPETITION

**WINNERS
AND LOSERS**

CUSTOMERS

MILLENNIALS?

US MARKET STRUGGLES AMID UNCERTAINTY. FOR BRANDS, A CONSUMER-CENTRIC VALUE PROPOSITION IS KEY



UNCLEAR GEOPOLITICAL PANORAMA...

...REQUIRING AN IMPECCABLE RECIPE FOR OUTPERFORMANCE

TOURISM DOWNTURN

SUPERDOLLAR AND "**TRUMP SLUMP**" EFFECT HAMPERING TRAVELS



SLUGGISH DEPARTMENT STORES

LACK OF BUSINESS MODEL EVOLUTION TO A **DIRECT-TO-CONSUMER** APPROACH



POLITICAL UNCERTAINTY

POTENTIAL INCREASE IN **IMPORT DUTIES** UNDERMINING **CONFIDENCE**



360° REVIEW OF BRANDS VALUE PROPOSITION

CLIENTELLING INITIATIVES & EXPERIENCE-DRIVEN OFFERING

AD HOC LOCAL CONSUMER STRATEGIES

CHINESE CONSUMPTION IS HEALTHIER AND MORE ROBUST BOTH AT HOME AND IN EUROPE

Nationalities



STRONG DOLLAR DISCOURAGING CHINESE SHOPPING ALTHOUGH THE US REMAINS AN ATTRACTIVE **TRAVEL DESTINATION**



RECOVERED **CONFIDENCE** FOR **EUROPEAN SAFETY** **STIMULATING** CHINESE FLOWS AND PURCHASES



LOWER PRICE DIFFERENTIALS IN CHINA **ENCOURAGING** LOCAL CONSUMPTION

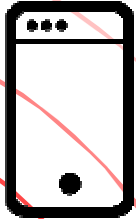


CHINESE REPATRIATION DRAGGING DOWN REST OF **ASIA** AS MORE PURCHASES TAKE PLACE IN CHINA

DIGITAL AND OFF-PRICE STILL WINNING, WHILE MONOBRAND REMAINS BRANDS' TRUE PLAYGROUND

Channels

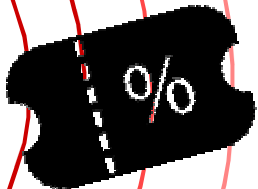
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DIGITAL

E-COMMERCE **GAINING GROUND**, ALSO THROUGH DIFFERENT **CO-EXISTING BUSINESS MODELS**

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OFF-PRICE

OFF-PRICE FORMAT **MAINTAINING MOMENTUM**

+



MONOBRAND

(FULL-PRICE)

RETAIL PUSH, SUPPORTING GROWTH IN THE PAST, REACHING **ITS LIMIT**

CONTINUING DRAMATIC POLARIZATION TREND: BIG WINNERS VS. STRONG LOSERS



● Global personal luxury goods market CAGR

REVENUE CAGR OF SELECTED SOFT LUXURY BRANDS BY ERA

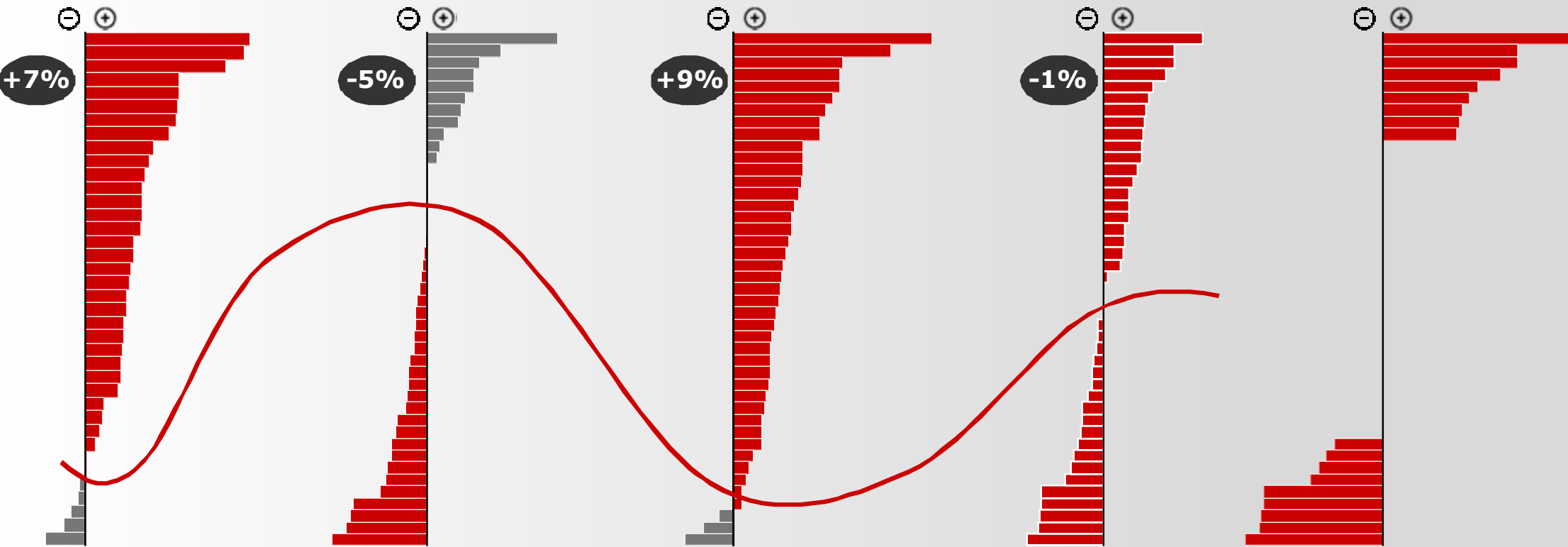
SORTIE DU TEMPLE & DEMOCRATIZATION
(1994-2007)

CRISIS
(2007-2009)

CHINESE BULIMIA
(2009-2015)

NEW NORMAL
(2015-2016E)

Q1 2017



% OF BRANDS WITH...

CAGR >0%	87%	37%	93%	49%
CAGR >10%	50%	12%	56%	14%

ILLUSTRATIVE

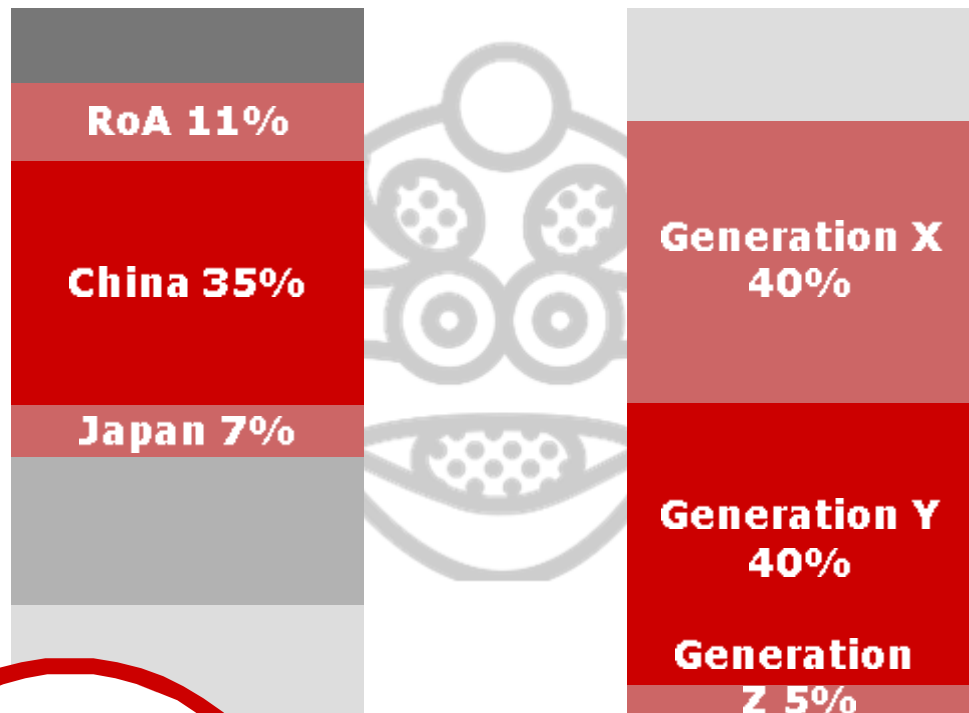
TO UNLOCK THE POTENTIAL, BRANDS MUST **RESPOND** TO **FUTURE CONSUMERS' NEEDS...**



2025 GLOBAL PERSONAL LUXURY GOODS MARKET

THERE WILL **NOT** BE A **New CHINA** APPROACHING SOON

IN THE NEXT 10 YEARS
MILLENNIALS AND **GEN Z** WILL
CONTROL **45%** OF THE MARKET,
WITH **ASIAN** CONSUMERS
ACCOUNTING FOR
MORE THAN HALF



BY
NATIONALITY

BY
GENERATION

... AND TO HOW **TODAY'S CONSUMERS ARE ALREADY EVOLVING**

MILLENNIAL IS A STATE OF MIND

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



RIISING CHINESE MIDDLE CLASS & RECOVERY OF MATURE-MARKET CONSUMERS DRIVING MOST OF THE GROWTH



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



A HEALTHIER MARKDOWN MARKET WILL REDUCE SALES CANNIBALIZATION



ONLINE TO REMAIN THE "CHAMPION" FORMAT GROWING AT DOUBLE DIGITS



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

€249B

+2/4%

€254-259B

+3/4%
CAGR

€280-290B

'16E

'17F
@K

'20F
@K

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

GEOGRAPHIES

US
(...& GLOBALLY)

DEVELOP **1:1**
RELATIONSHIPS
TO **NURTURE**
LOCAL
CUSTOMER

NATIONALITIES

CHINESE

UPGRADE
PERSONALIZATION
OF **PRODUCT,**
SERVICE AND
MESSAGE

CHANNELS

DIGITAL

DEVELOP A
HOLISTIC
DISTRIBUTION
APPROACH,
REDESIGNING
CUSTOMER
JOURNEY

COMPETITION

WINNERS & LOSERS

BUILD
STORY-LIVING
THROUGH
INSPIRATIONAL
CONVERSATIONS
AND **EXPERIENCES**

CUSTOMERS

MILLENNIAL MINDED

BE **CUSTOMER OBSESSED** AND
MILLENNIAL MINDED:
MASTER ALL THE **TOUCHPOINTS** WITH
CUSTOMERS ALONG THEIR LIFETIME AND CREATE
AN ALWAYS ON **360° ENGAGEMENT PLAN**

BAIN & COMPANY 
People, Passion, Results!

CLAUDIA D'ARPIZIO, PARTNER BAIN & COMPANY LUXURY GOODS VERTICAL



Claudia has spent 23 years advising multinational luxury and fashion clients on everything from strategy and new product development to innovation and organizational change.

She is also the lead author of Bain's annual 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 12 years, Federica has led more than 200 assignments in the fashion and luxury industry on issues relating to corporate and brand strategy, portfolio management, marketing and communication, and more.

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

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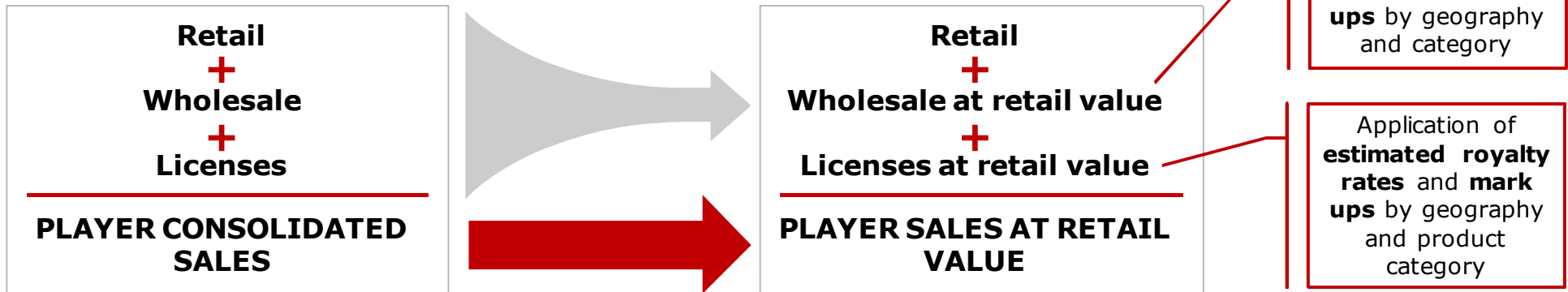
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METHODOLOGY

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

