



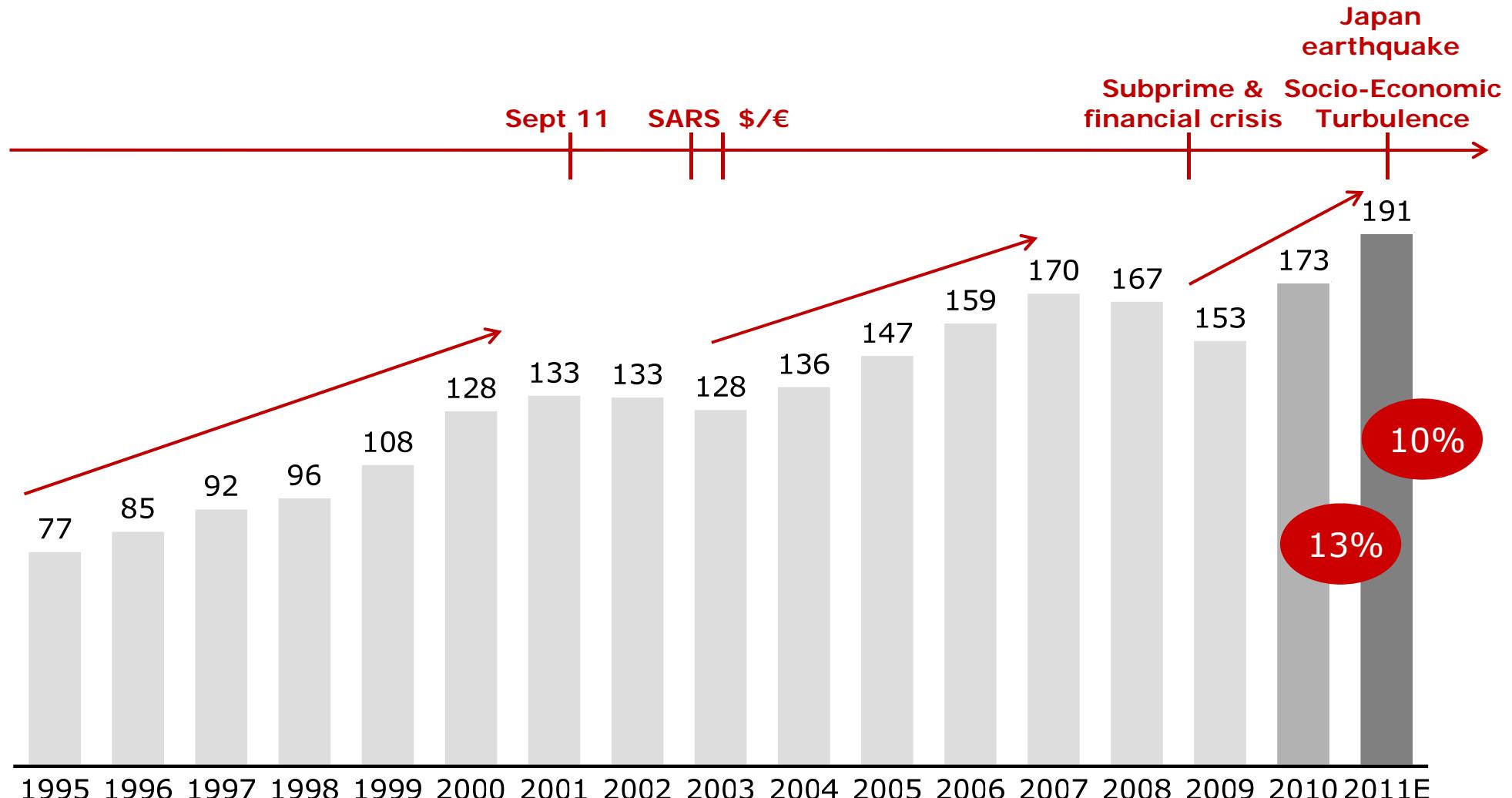
Fondazione  
Altagamma

# Luxury Goods Worldwide Market Study, 2011

10th Edition, October 2011

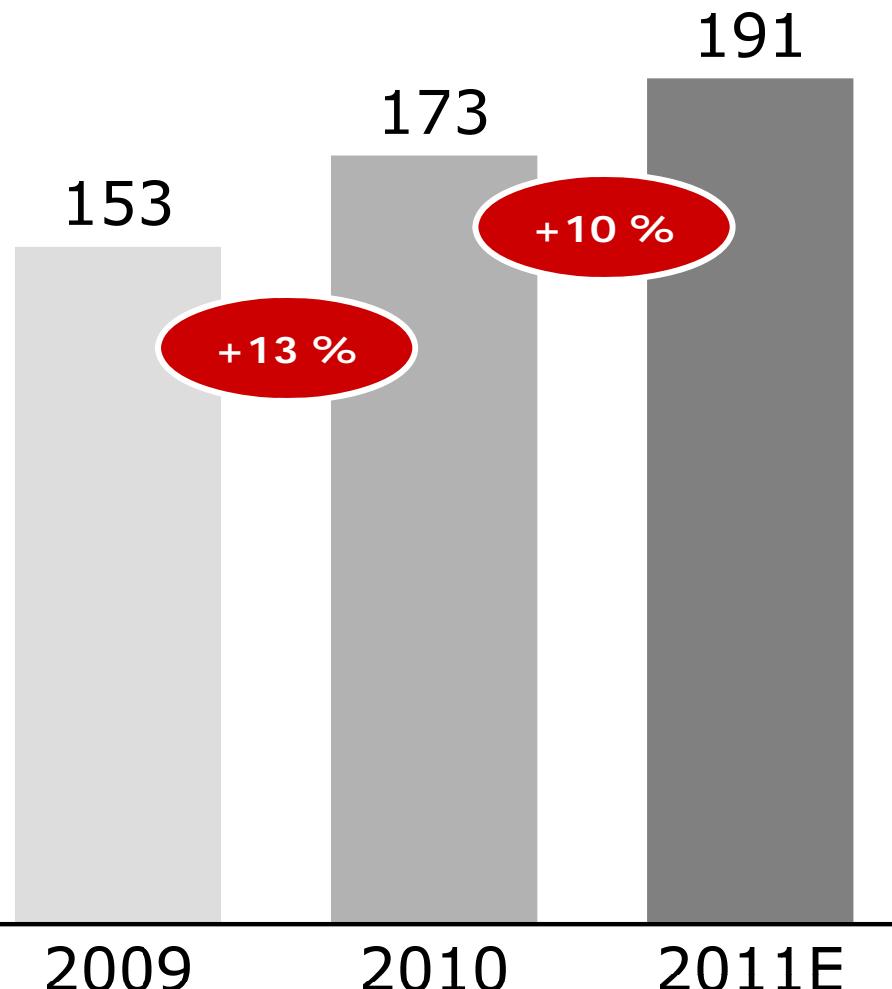
# 2010-2011: two phenomenal years for personal luxury goods despite global events

Worldwide Personal Luxury Goods Market trend (1995-2011E, €B)



# 2011: yet another peak in personal luxury goods

Worldwide Personal Luxury Goods Market Trend (2009-2011E, €B)



## 2009: CRISIS

- Economic downturn
- Lowest consumer confidence ever
- Strong consumption reduction in mature markets, only China growing

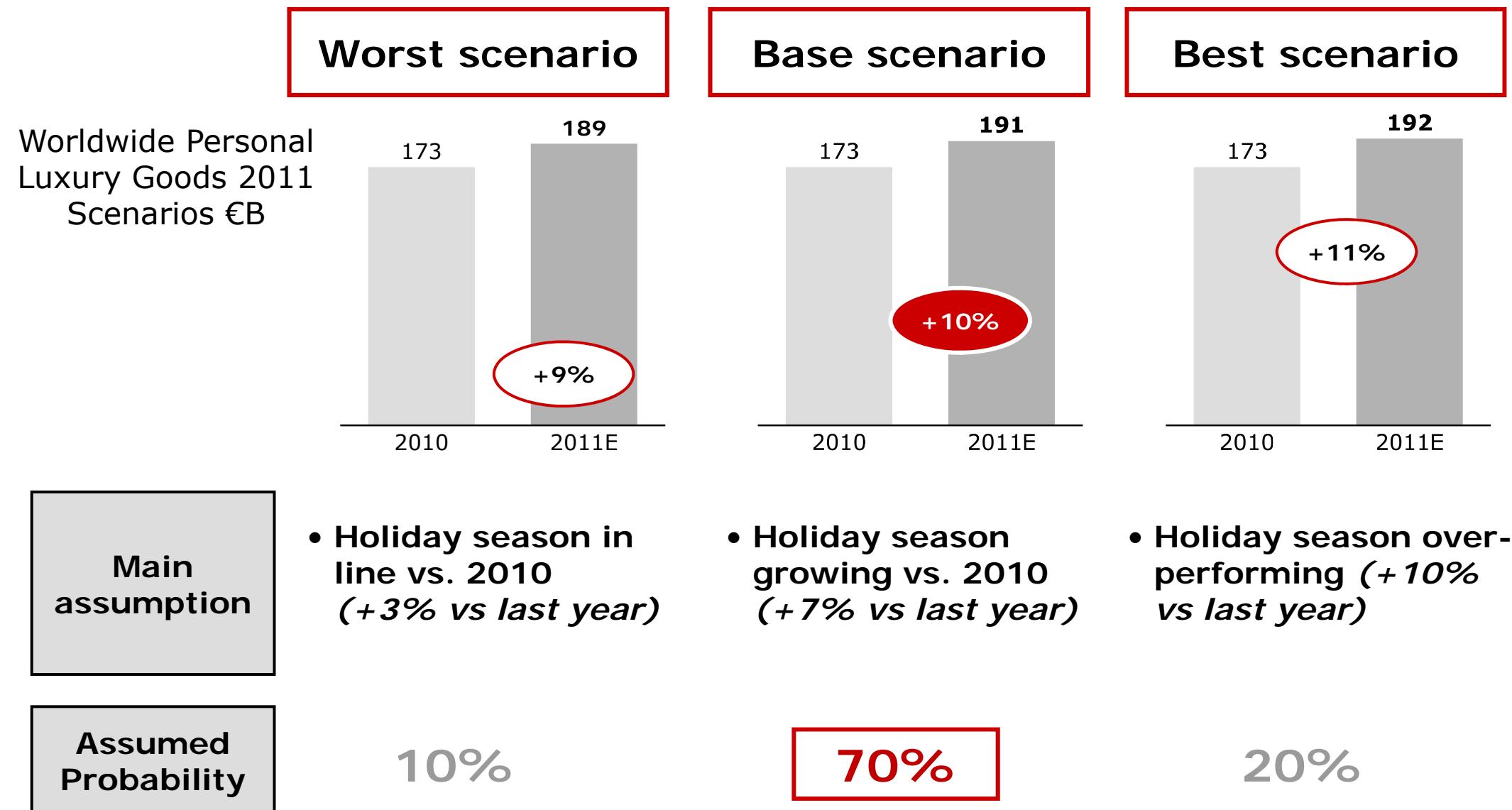
## 2010: REBOUND

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

## 2011: NEW DEAL

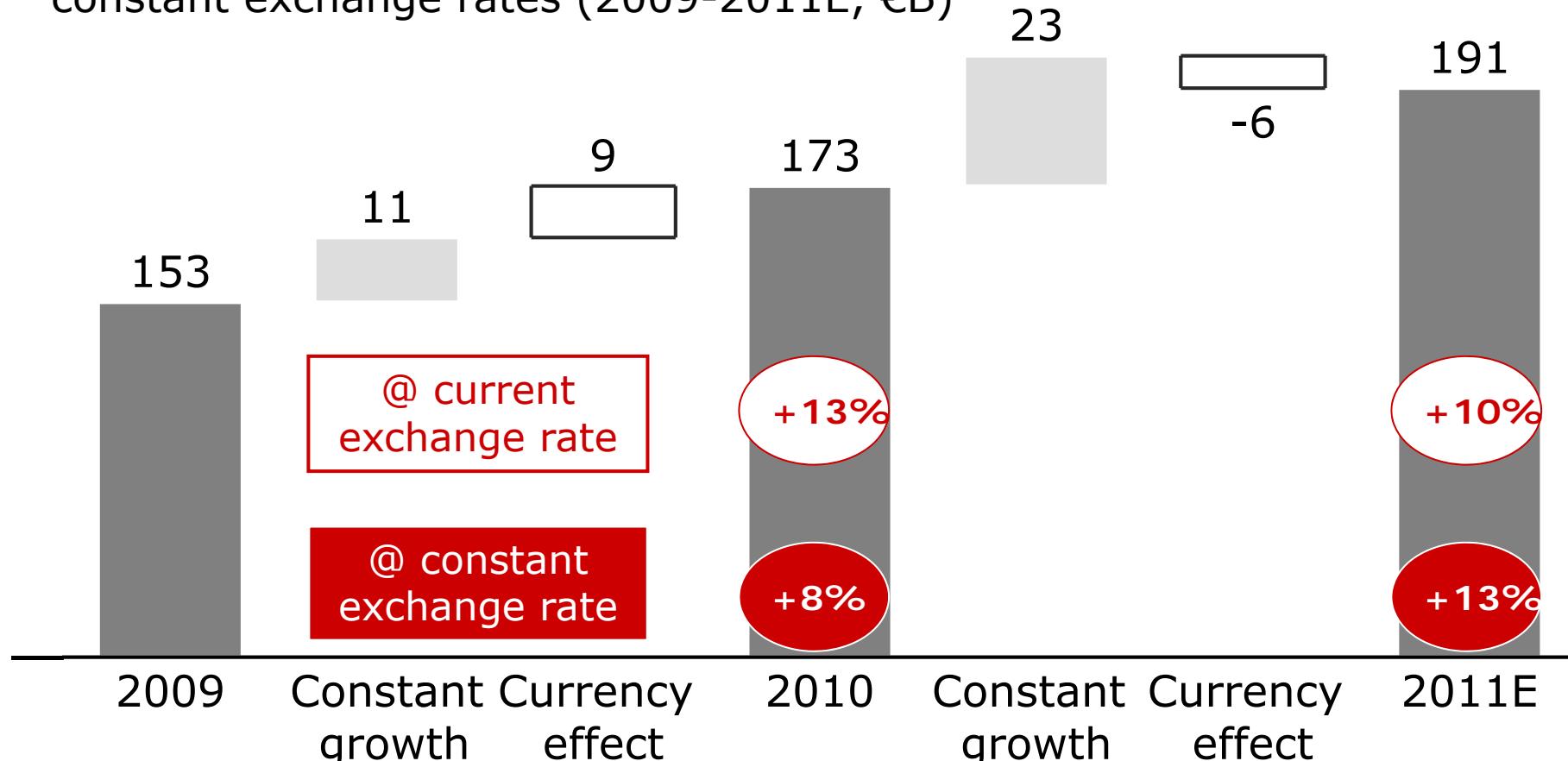
- New growth phase for local consumption in mature markets
- China, again, surging
- Japan earthquake effect milder than expected

# No slow down expected for the 2011 holiday season



# In real terms, the market is growing consistently at a double-digit rate

Worldwide Personal Luxury Goods Market trend @ current and constant exchange rates (2009-2011E, €B)

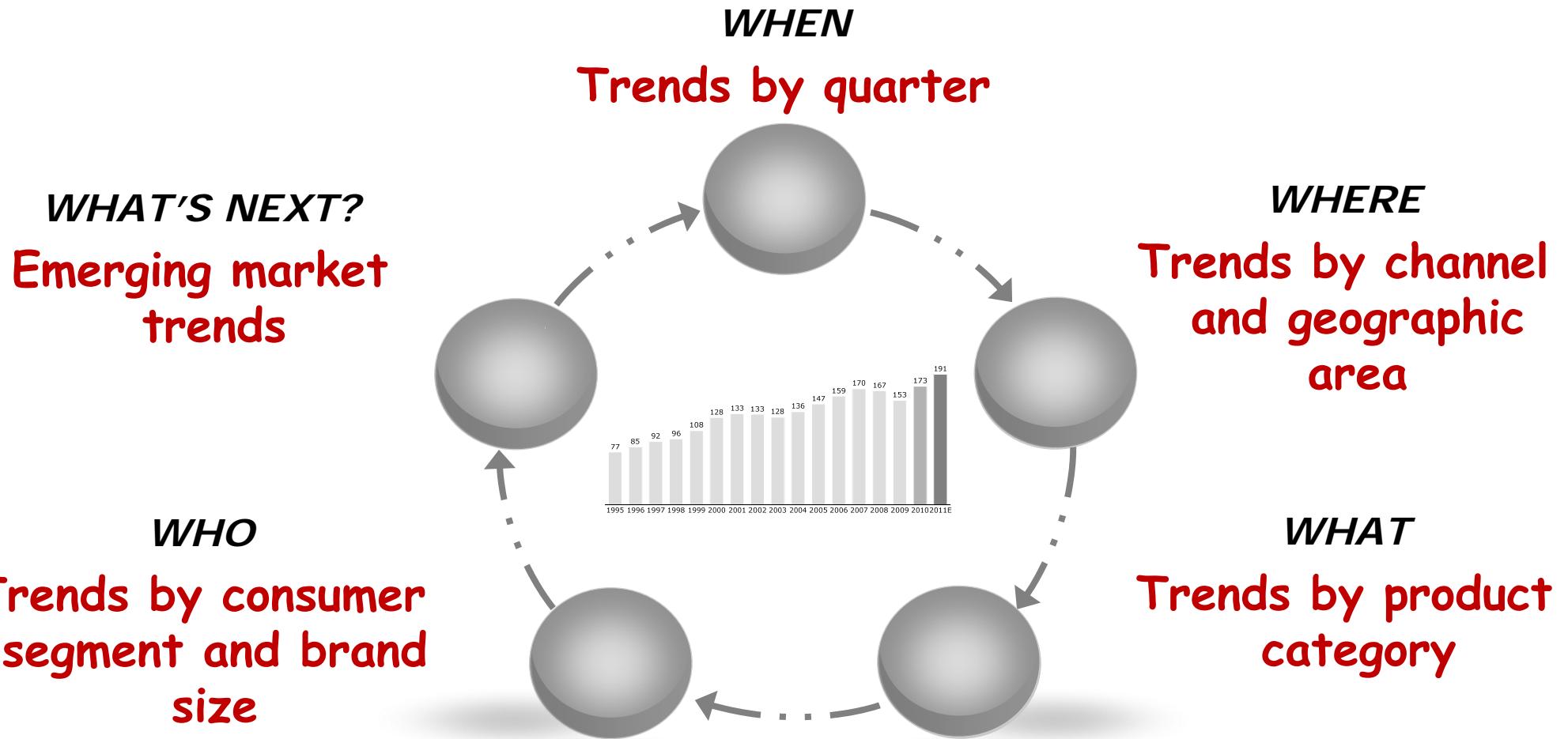


€/\$	1.4	5% US dollar appreciation
€/Y	130.0	12% Yen appreciation

1.3	-5% US dollar depreciation
116.1	3% Yen appreciation

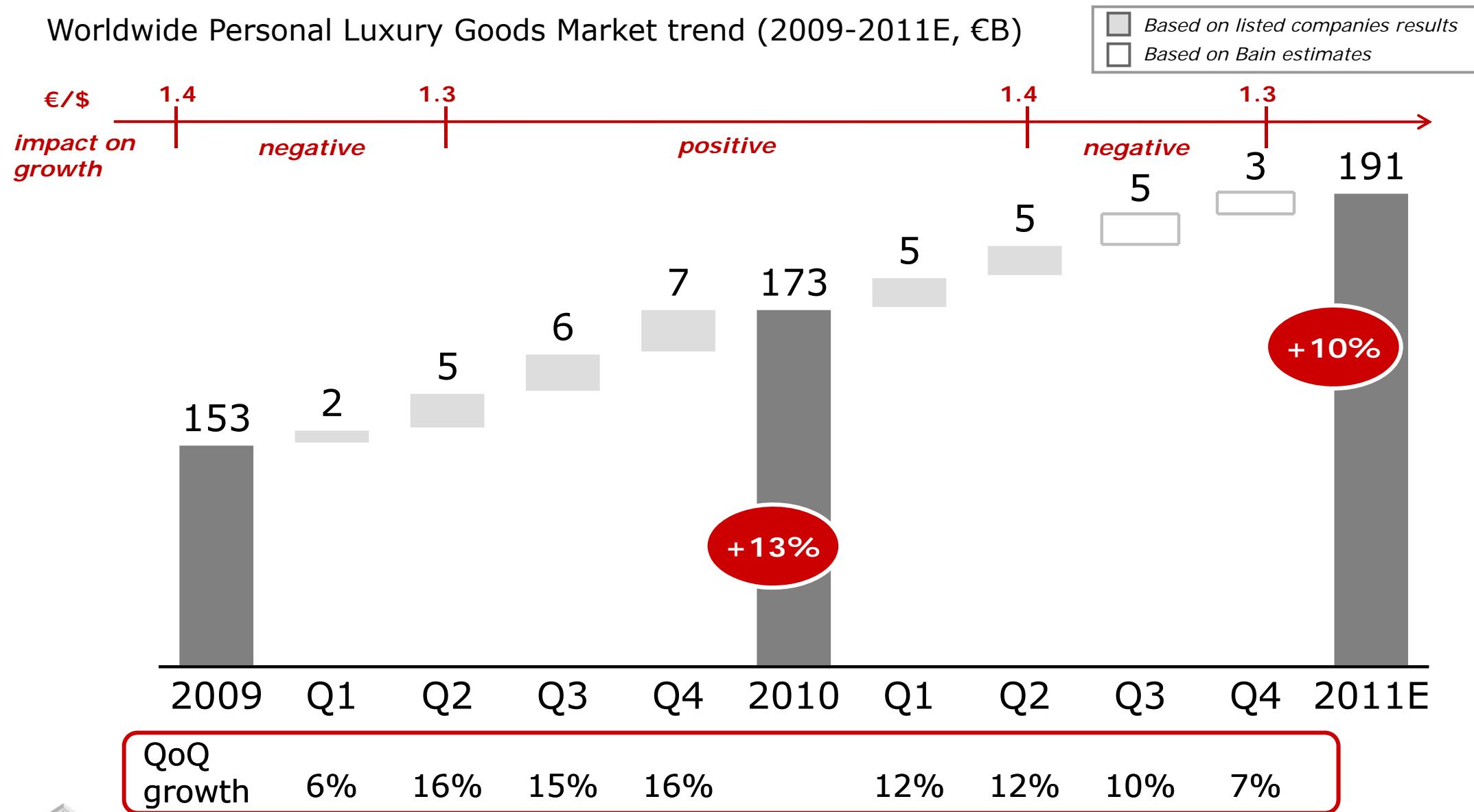
1.4
112.7

# “5 W’s” for analyzing 2010-2011 Personal Luxury Goods Market performance



# The positive effect of exchange rates on revenue shifted to negative in the second half of 2011

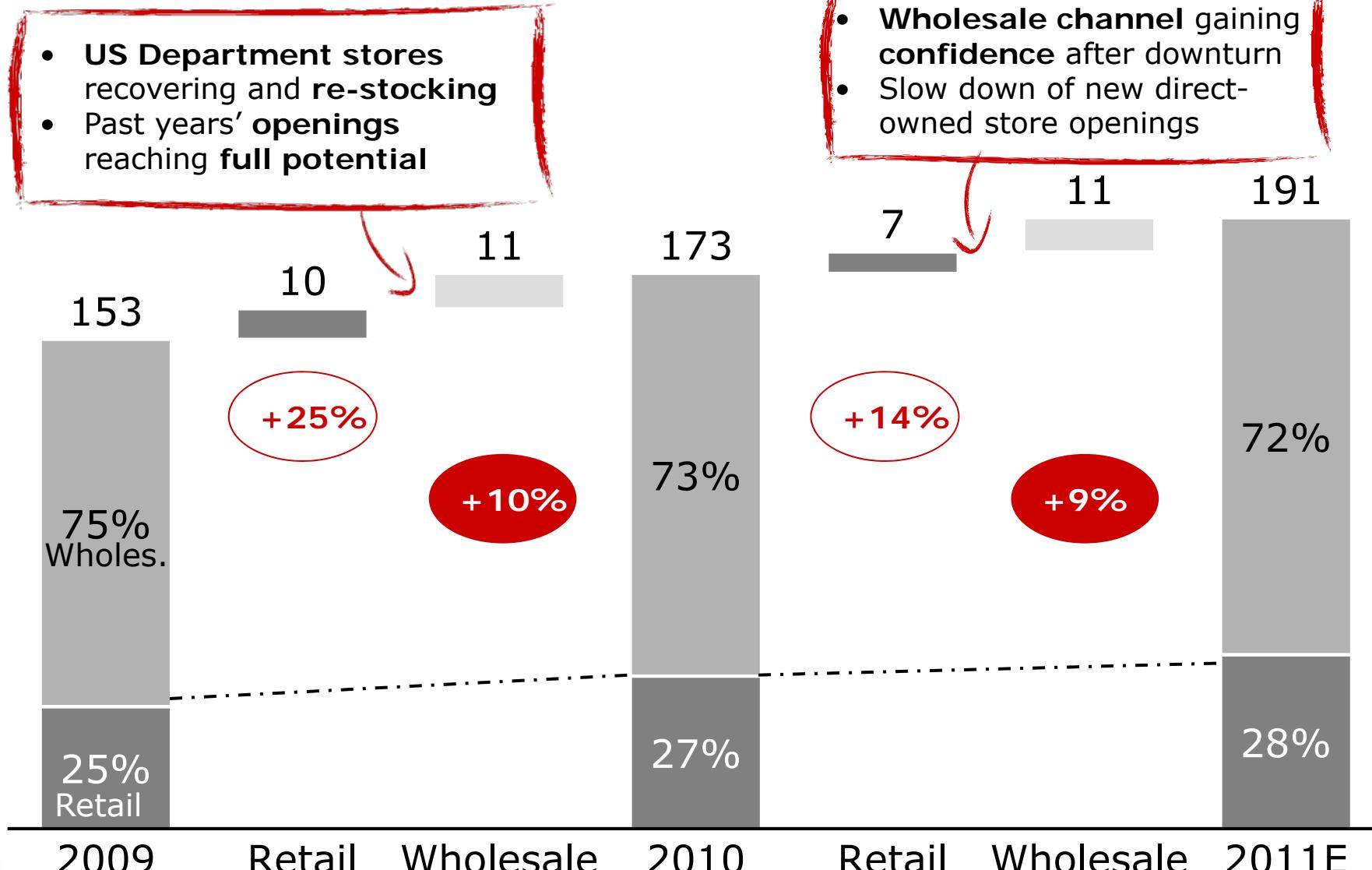
Worldwide Personal Luxury Goods Market trend (2009-2011E, €B)



# Retail is still over-performing wholesale, but the gap is narrowing



Worldwide Personal Luxury Goods Market trend by channel (2009-2011E, €B)



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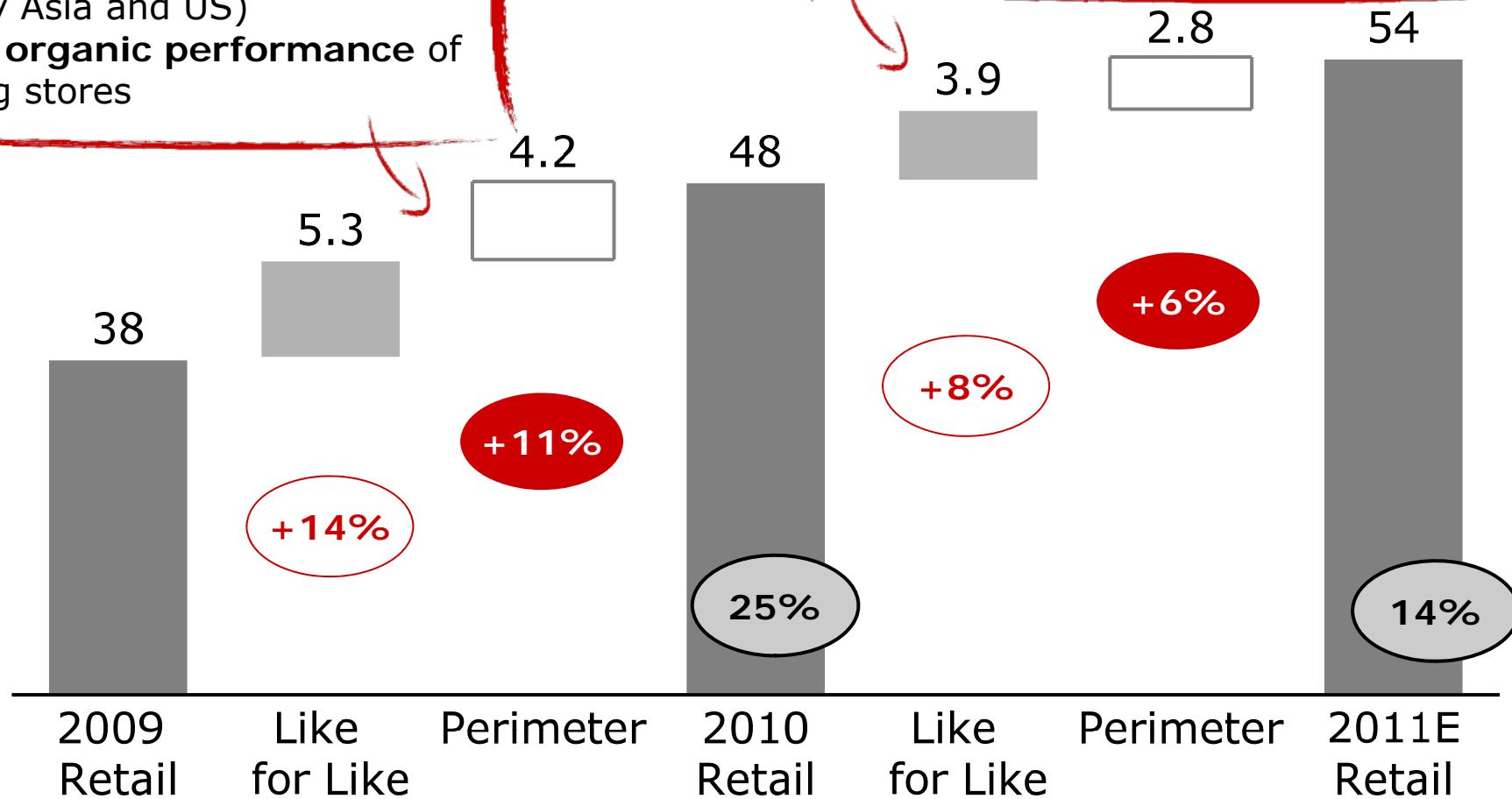
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# Perimeter growth slowing down in 2011: players are reducing the pace of new openings



Worldwide Personal Luxury Goods Market trend – Retail channel (2009-2011E, €B)

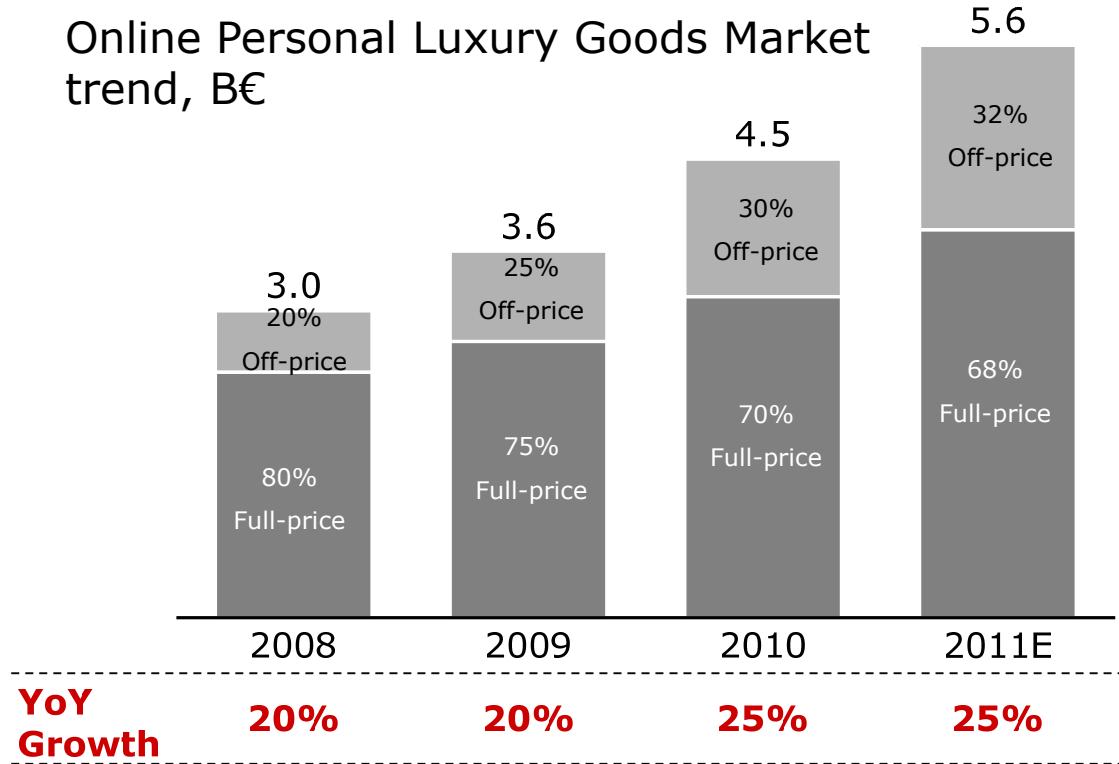
- 500 new openings in 2010 (mainly Asia and US)
- Strong organic performance of existing stores



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BAIN & COMPANY

# Online is becoming a more relevant channel each year

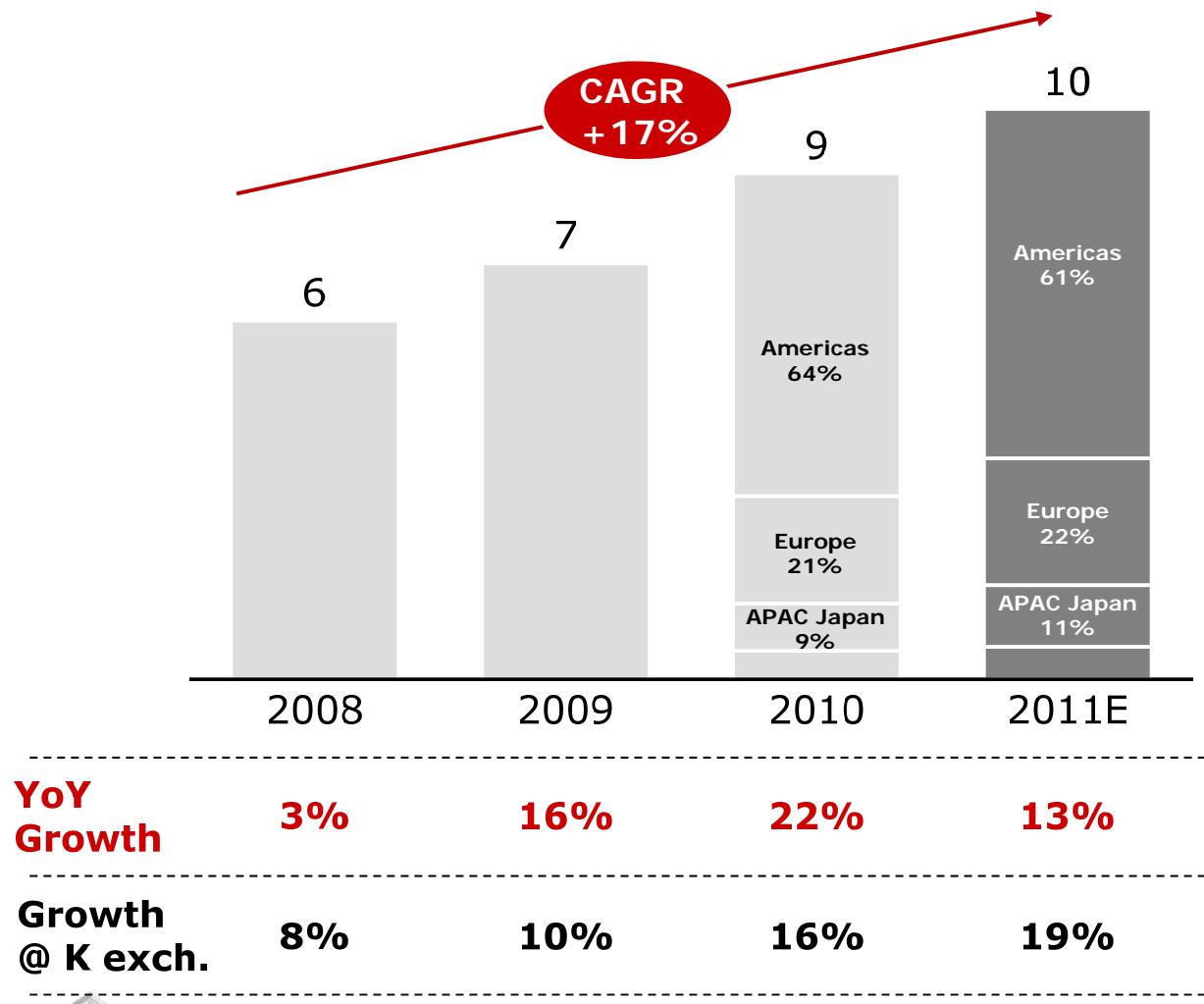


- **Online** luxury shopping accounts for **3% of total sales**
- **Increasing influence of social media and digital marketing activities** improve customer experience and positively affect online sales of luxury goods
- Not only mono-brand websites, **but especially very powerful multi-brand sites**: convenience, strong editorial content and excellent service level are enhancing loyalty
- **Private sale websites** gaining share within off-price segment

# Off-price channel still growing in 2011 despite higher sell-through and fewer remainders in the system



Off-price Personal Luxury Goods Market, B€

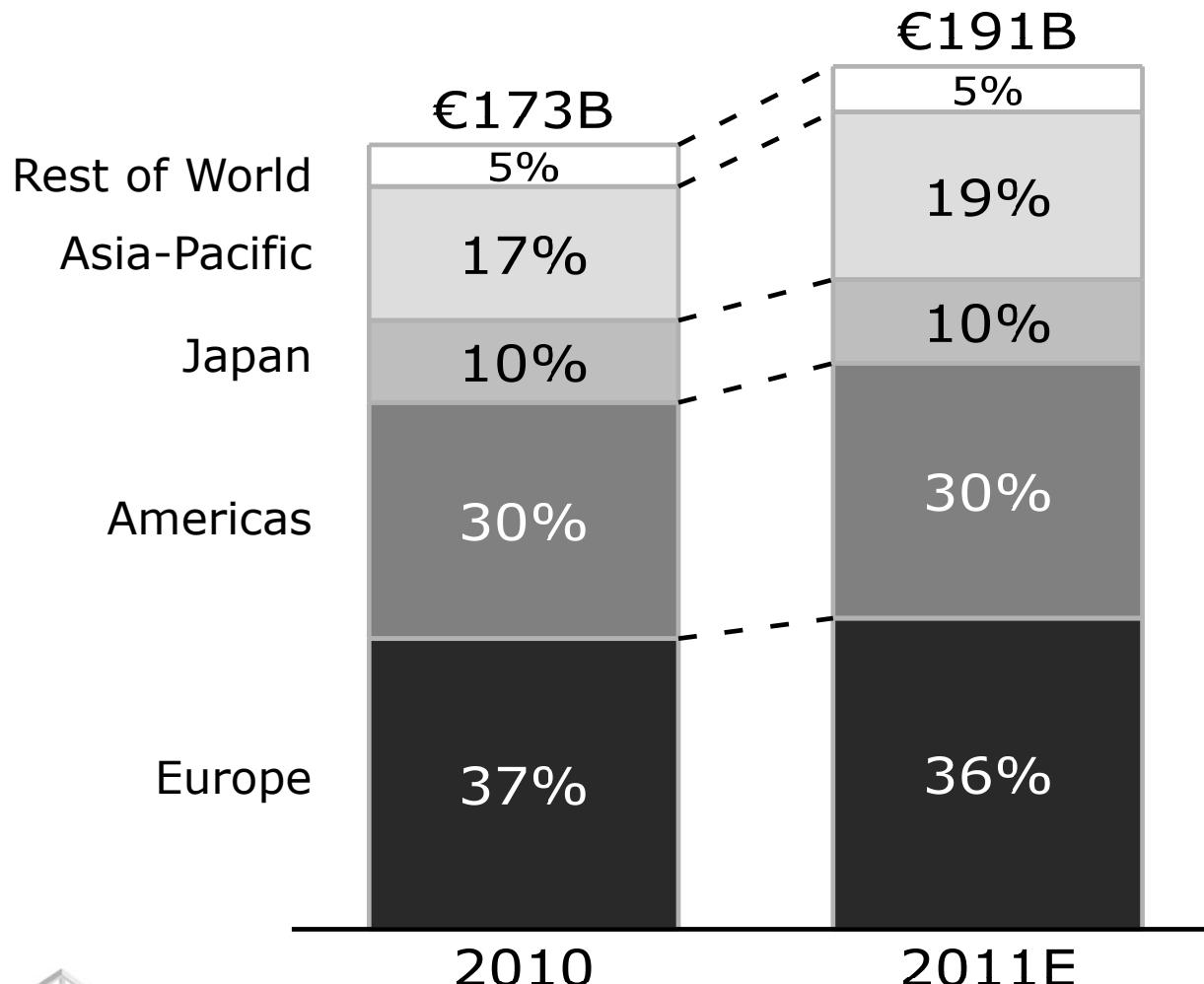


- **Off-price channel** now accounts for ~5% of overall market
- **Different stages of development** for the various regions:
  - North America & Japan:** mature and **consolidated market** with limited growth perspectives
  - Europe:** **highly fragmented** market with **new developments** in pipeline
  - APAC (ex. Japan) & Latin America:** Emerging and **fast growing** phenomenon, in search of the most suitable format

# No signs of slow down for the booming Asian market, but mature markets show real strength



Worldwide Luxury Goods Market by area



YoY '10 vs '09

@K

+13%      +8%

+16%      +9%

+28%      +21%

±0%      -6%

+16%      +10%

+10%      +4%

YoY '11E vs '10

@K

+10%      +13%

+10%      +12%

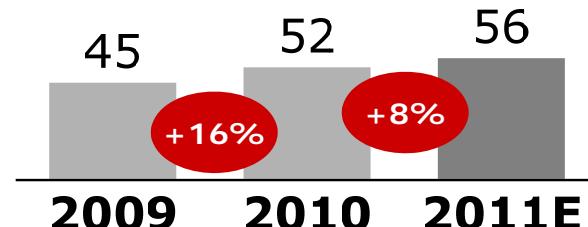
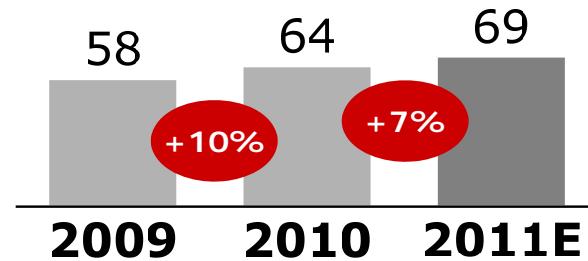
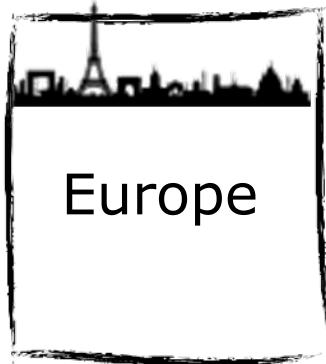
+25%      +27%

+2%      +5%

+8%      +12%

+7%      +10%

# Mature markets: two years of strong organic growth after the crisis



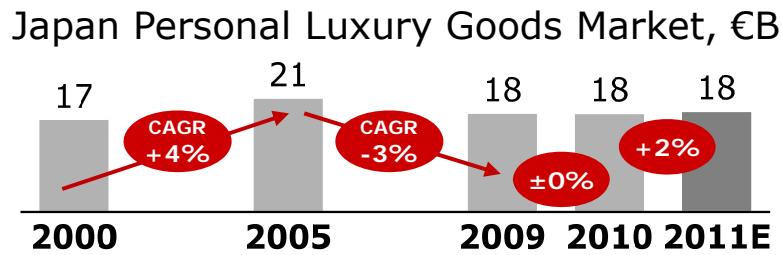
- **2010** recovery guided by **tourism**, encouraged by **weaker €** and **hard luxury's** growth
- **In key cities** (e.g. Milan, Paris), sales to **Chinese tourists** are estimated to account up to **50% of total**
- **Eastern Europe slowed down** its growth (Russia accounting for 4.7 €B in 2010, +4% vs. 2009)
- Fast-growing **Turkey** and **Central Europe** are gaining momentum

- **2010** growth driven by **women categories** and **full recovery** of **jewelry** and **watches**
- **New openings** in **2<sup>nd</sup> and 3<sup>rd</sup> tier cities** and locations
- General trend of **turning department stores into concessions** in order to gain control over a strategic channel
- **Growing Chinese tourists' consumption** in **NYC** and **Hawaii**
- **Brazil** driving South American growth

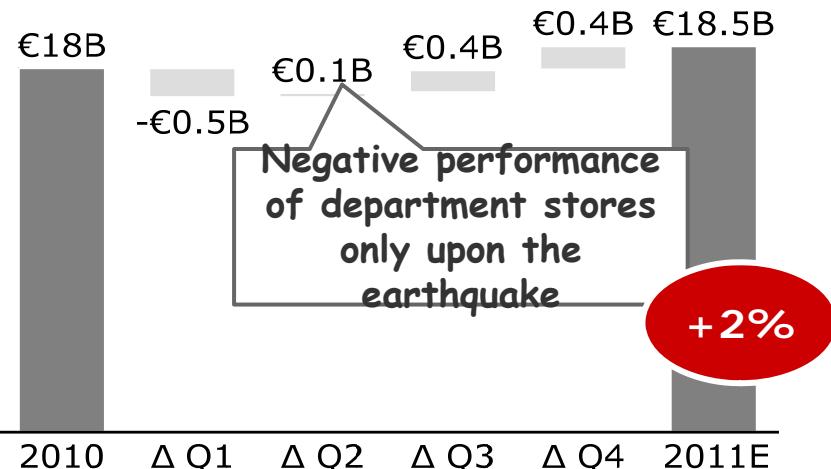
# Japan: is the dark period over?



## Japan



Japan Luxury by quarter (2010 -2011E, €B)

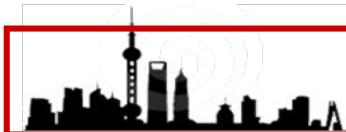


QoQ growth -12% 2% 8% 8%

- Japan finally **reverses a negative trend** ongoing since 2007, with a **flat market in 2010** and **timid growth in 2011**
- In **2010**, **positive effect of exchange rate** (+12% JPY appreciation vs. euro) has counterbalanced stagnating organic growth of stores
- In **2011**, Japan was impacted by **the earthquake** on 11 March, but effects on luxury consumption were milder than expected
  - Nuclear risks made luxury brands **close Tokyo stores for almost 2 weeks**, but consumption in other areas (e.g., **Osaka**) maintained good performance
- **Brands and department stores** started **posting growth in second half of the year** (starting June/July)

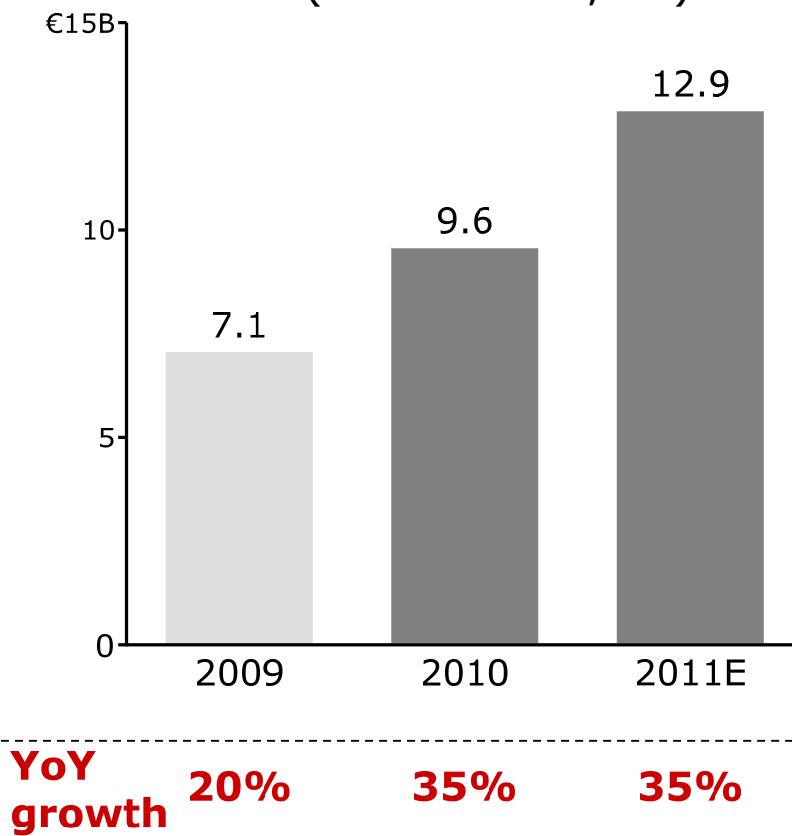


# Impressive and healthy growth in China



## Mainland China

Chinese Personal Luxury Goods  
Market trend (2009-2011E, €B)



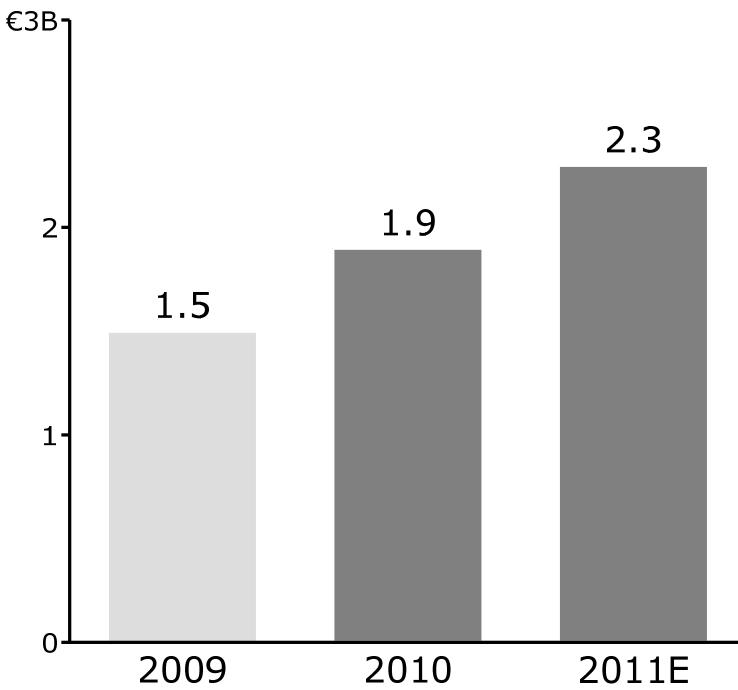
- **2010 growth fuelled by new openings** (China alone had almost as many new openings as all of the Americas or Europe)
- In **2011, organic growth** finally becomes a relevant phenomenon while **perimeter expansion** focuses more on **tier 2 and 3 cities**
- **Many players buying back their distribution and licenses** to regain control
- Ongoing **real estate development** turns shopping destinations into entertainment spots

# Brazil: a small but fast-growing market



## Brazil

Brazilian Personal Luxury Goods  
Market trend (2009-2011E, €B)



YoY  
growth 20%

25%

20%

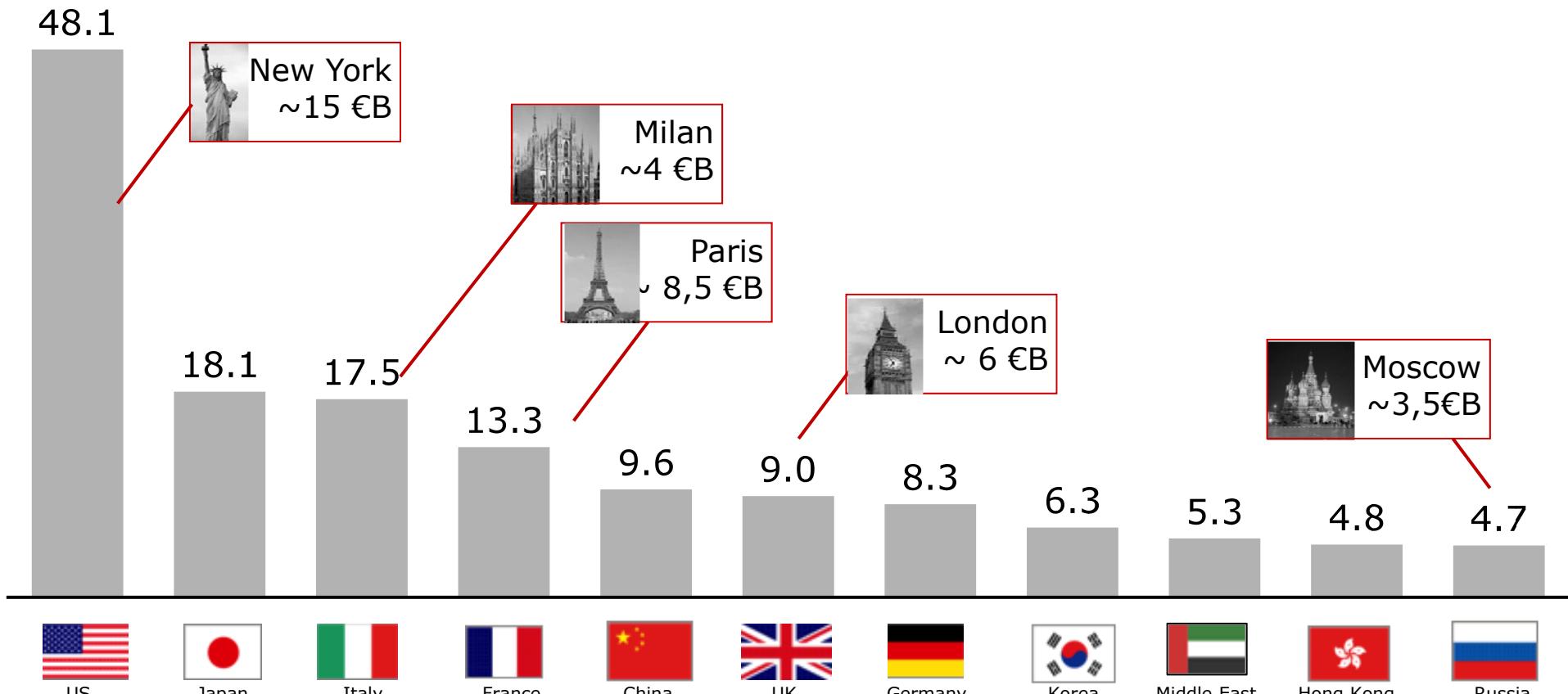
- **Luxury players** are focusing more and more **in Brazil**
- **“Retailization”**: new openings and also **buy-back of distribution and franchising** agreements
- Fragrances and Cosmetics are the main luxury categories, but are growing at a lower pace
- **Hot spots** for luxury in Brazil are definitely **Sao Paulo** and **Rio de Janeiro**; other cities still lagging behind
- **Very high duties** are still a strong obstacle to customer base enlargement



# Ranking by country: Mainland China has overcome the U.K.; Hong Kong is bigger than Russia



Personal Luxury Goods - Ranking by Country (2010, B€)



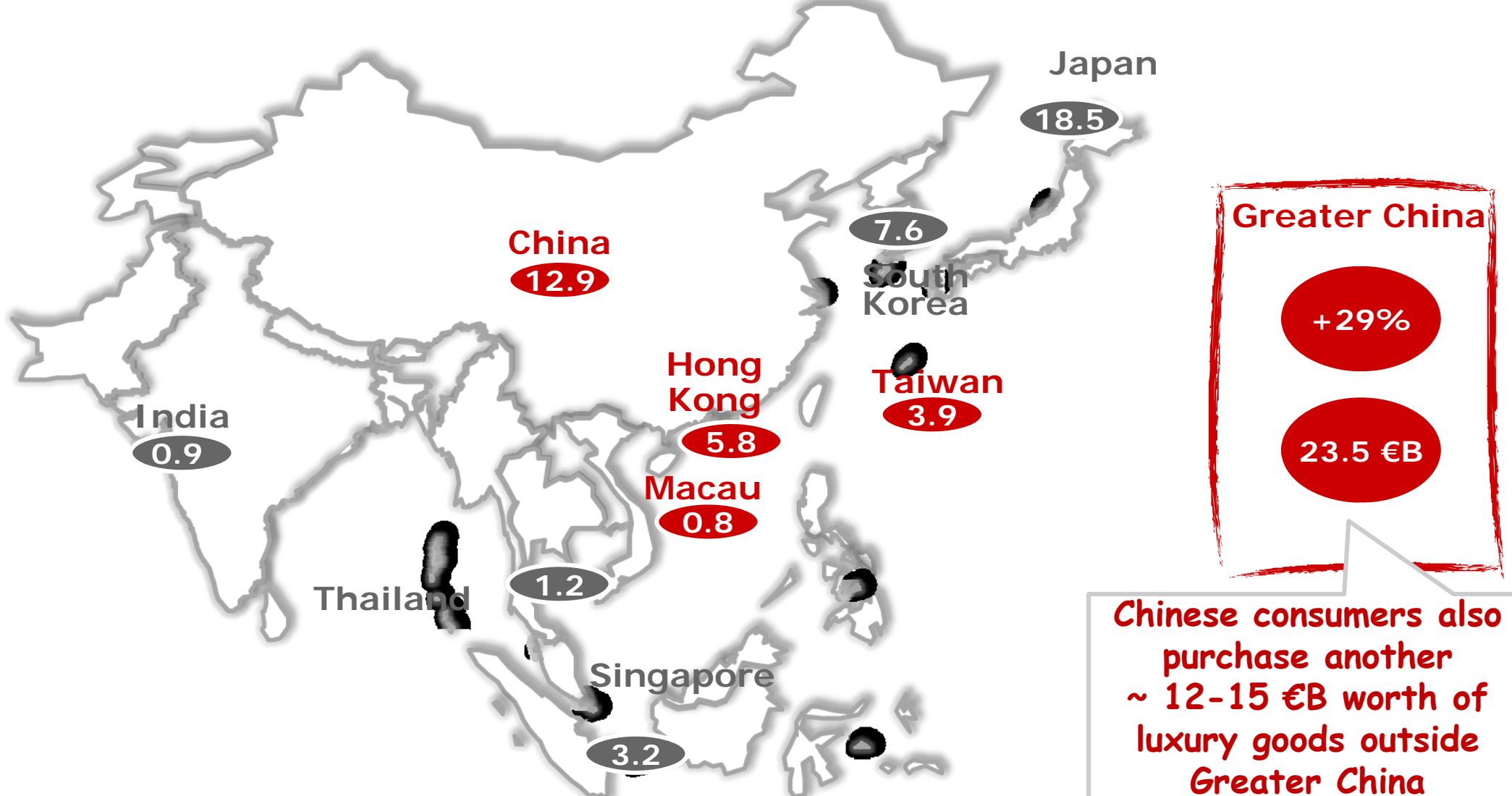
**Growth 09-10** 15% 0% 13% 12% 35% 9% 9% 25% 12% 30% 4%



# Chinese customers, at home and abroad, account for more than 20% of global luxury consumption



## Asia Personal Luxury Goods Market by Country (2011, B€)



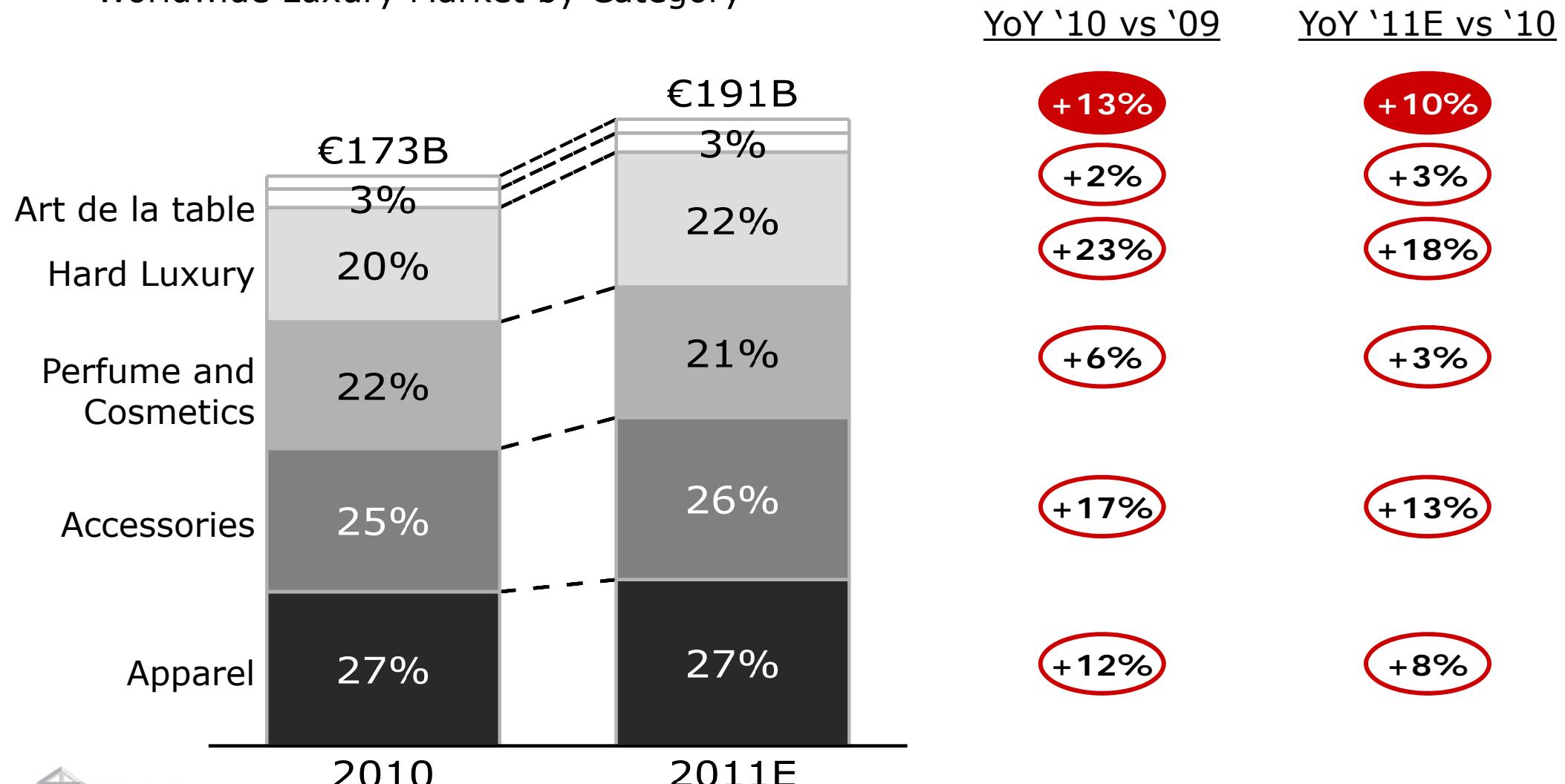
# Watches: an old yet very contemporary category, leading the wave of growth



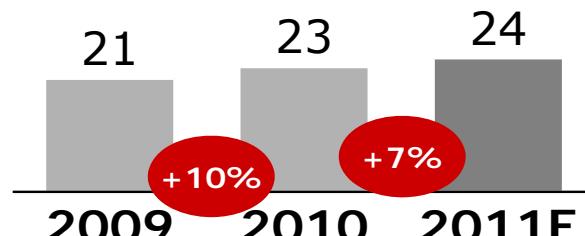
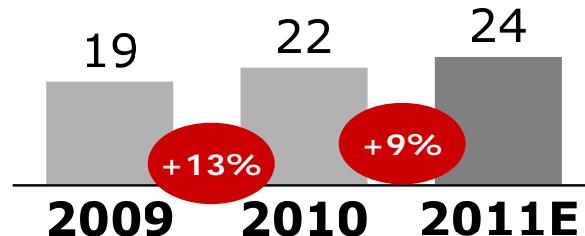
# Hard luxury's rebound is a key contributor to growth in 2011



Worldwide Luxury Market by Category



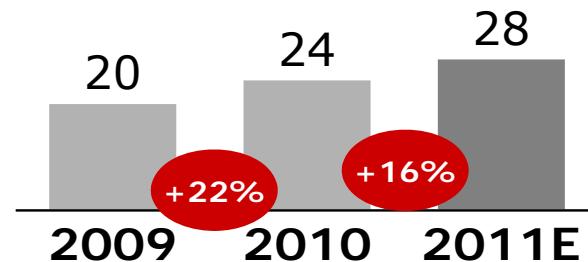
# New interpretations of formalwear and overall “casualization” drive growth in apparel



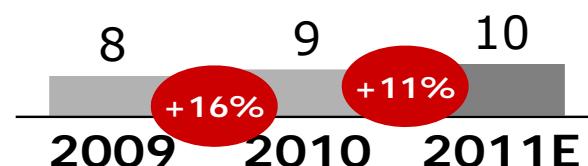
- Menswear **outperforming** the **overall apparel market**, mainly driven by “new formal” (mature markets) and “upper casual” (China)
- Many lifestyle brands investing in **men's-only stores** in key locations
- **Increasing polarization in 2010**
  - Accessible brands +17%
  - Aspirational brands +6%
  - Absolute brands +13%
- Big opportunity for **luxury branded denim in China**

- **Rebound** of products and brands with **high fashion content** for special occasions in the high-end segment
- Progressive “casualization” of everyday dressing
- Strong competition from “premium champions” and fast-fashion retailers makes luxury womenswear **underperform** the market

# Leather accessories maintain high growth rates in 2011 after a booming 2010



- **Strong growth across all geographies**
- **Increasing men's spending**, especially in Asia, with China having the largest share of male consumers
- **Consumer consciousness** at all price levels
  - Clear positioning of top-ranked brands in the mindset of consumers
  - No compromise on **quality, craftsmanship, and durability**



- **Big brands heavily investing** in this category, driving **growth** in the **aspirational segment**
- **Men shoes outperforming the market**
- 2011 confirms the **trend** towards the **launch of products with lower price points** (e.g. tubular) already anticipated in 2010 by the boom of **sneakers**

# Brilliant performance of jewelry and watches fueled by channel restocking and “retailization”

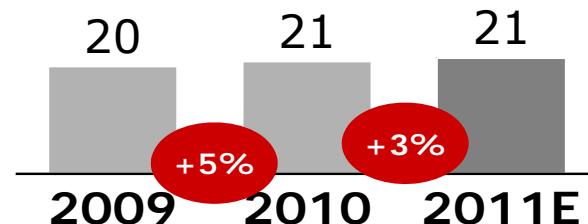
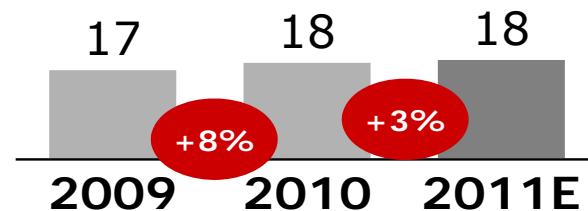


- Very good performance of **accessible segment** in 2010 (silver jewelry)
- Benefits from “**brandization**” of the entire industry
- Ongoing **expansion** of directly-operated stores in 2011
- New entries of **lifestyle brands**



- In 2010, **Swiss watch exports** finally recovered after financial turmoil
- **Growth** spread across **geographies** and **price segments**
- Watches segment, traditionally wholesale driven, is starting to invest heavily in retail, especially in Asia
- **Growing female consumption** (jewel-watches) also in emerging markets

# Prudent growth for fragrances after restocking; in skincare innovation is driving growth



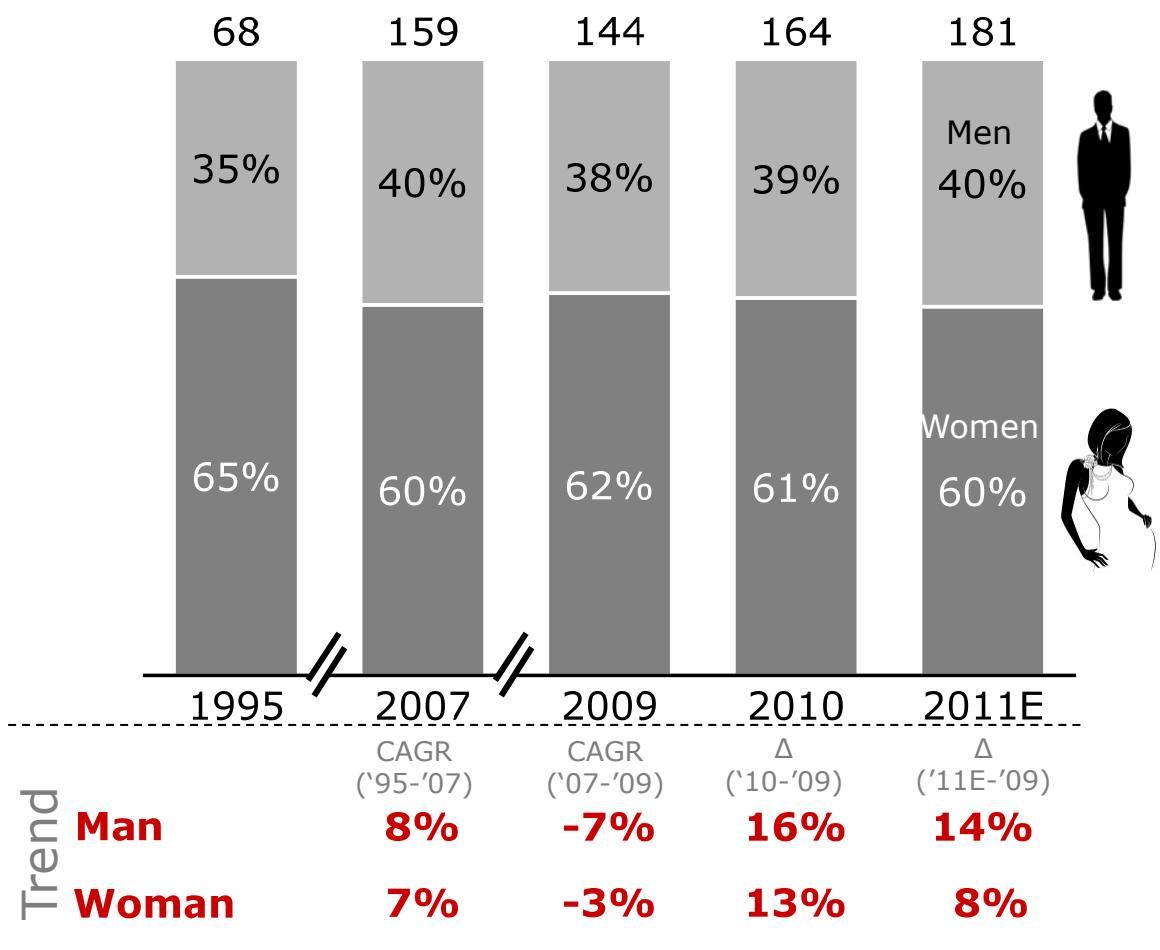
- **Channel restocking and new launches, and advertising budgets postponed to 2010** drove the **rebound**
- 2010 and 2011 launches following a prudent **franchise strategy** (line extensions): **successful products** are **enlarged in breadth** instead of launching truly new products
- **Lifestyle brands** outperforming specialist ones

- **Innovation** reshaping category, with new products (e.g., *serums*) a large segment of anti-aging in **skincare**
- Different trends across regions: **China and Latin America growing at double digit**, whereas **mature markets stay rather flat**
- **Large international players** confirming their **dominance in makeup** worldwide, even though lifestyle brands are increasingly diversifying into this category

# Men's market is over-performing women's in all categories



Luxury goods market by gender, B€



- In 2009, men hit strongly by the downturn especially due to postponed purchases, high-ticket items, and formalwear
- In 2010-2011, new wave of **Masculinization of the market**, pushed by male consumers' purchases in emerging markets, especially Asia
- All luxury players are focusing more and more on men's categories, with ad hoc formats and targeted Asian product offers

# Strong market momentum: 80% of brands grew and the number of stars is the highest ever

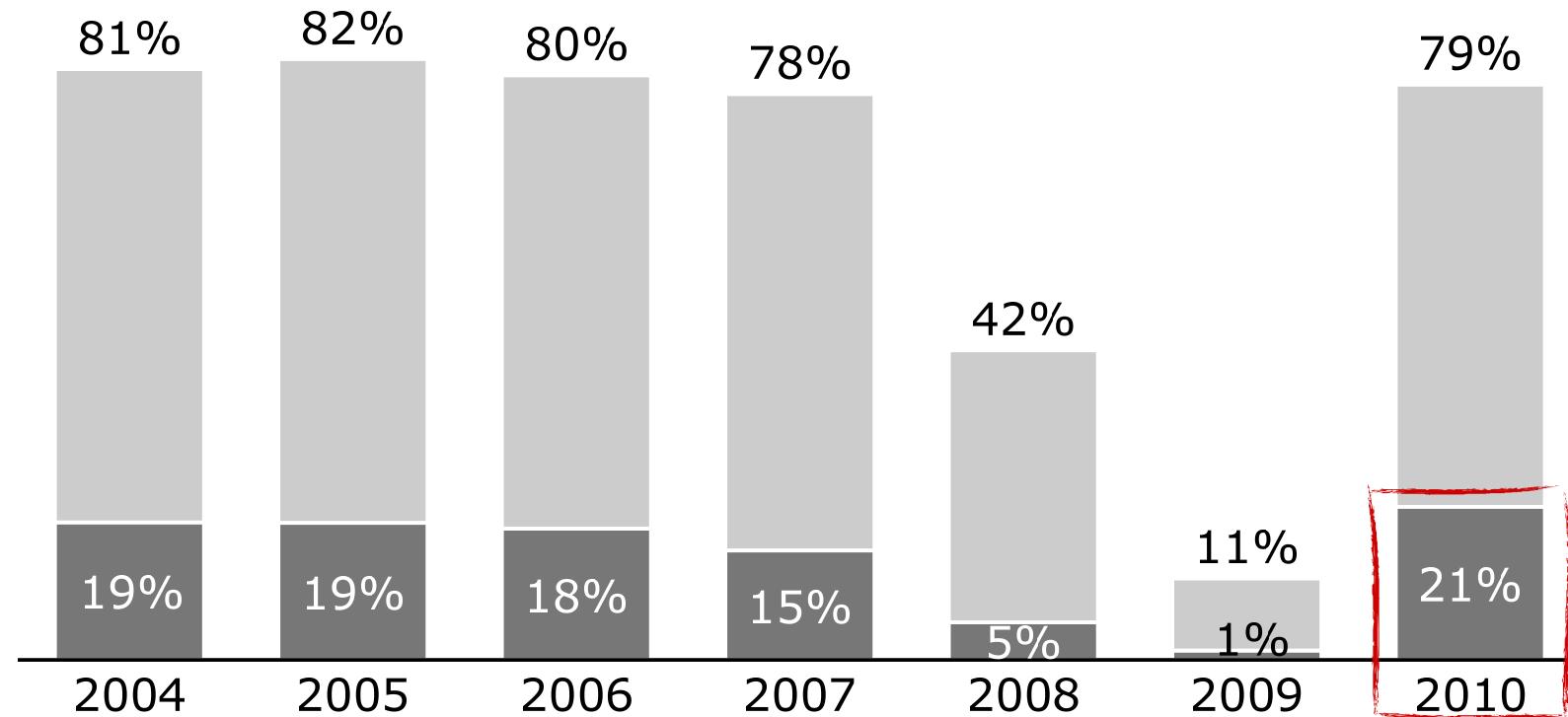


## MARKET GROWTH QUALITY INDEX

*Analysis @ 1995 fixed rates*

Weight of "stars"  
(players with growth  
rates above 20%):

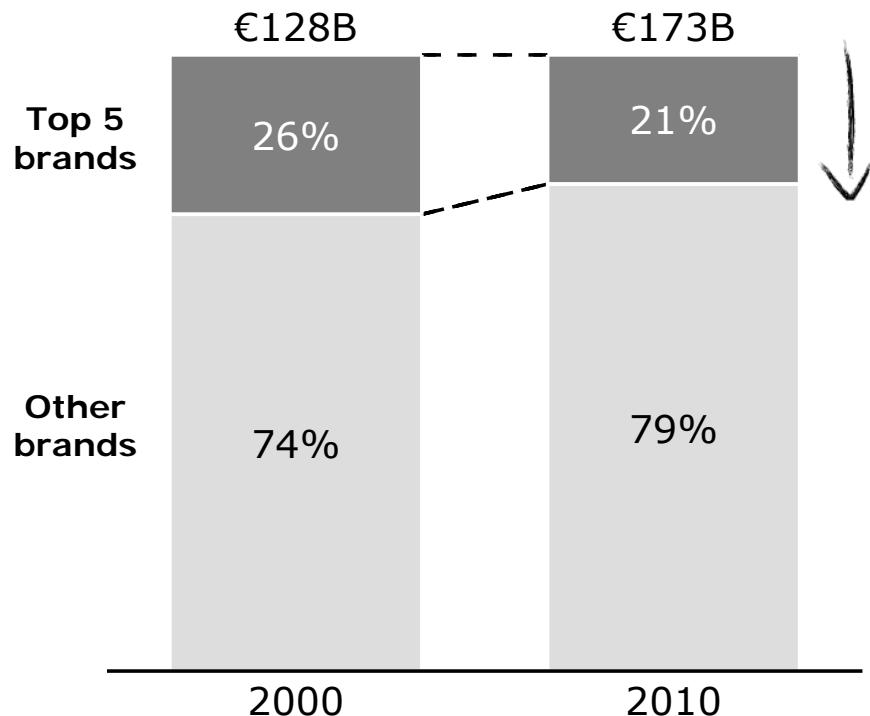
% players with positive year-on-year growth



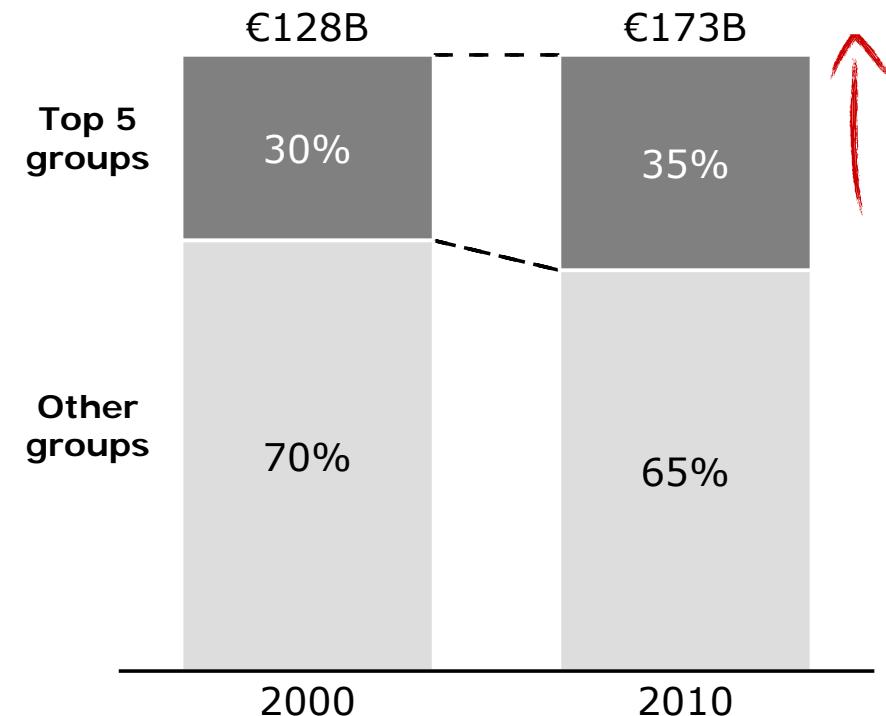
# Strong competition at the brand level drives increasing concentration at the group level



Trend of Top-5 Luxury Brands' Share



Trend of Top-5 Luxury Groups' Share



Increasing competition at brand ... super-power of luxury groups level...

# The market outlook is still positive in 2012 notwithstanding socio-economic turmoil



## Trend by Region

Europe

+



Americas

++



Japan

+



Asia Pacific  
ex China

++



China

+++



ROW

++



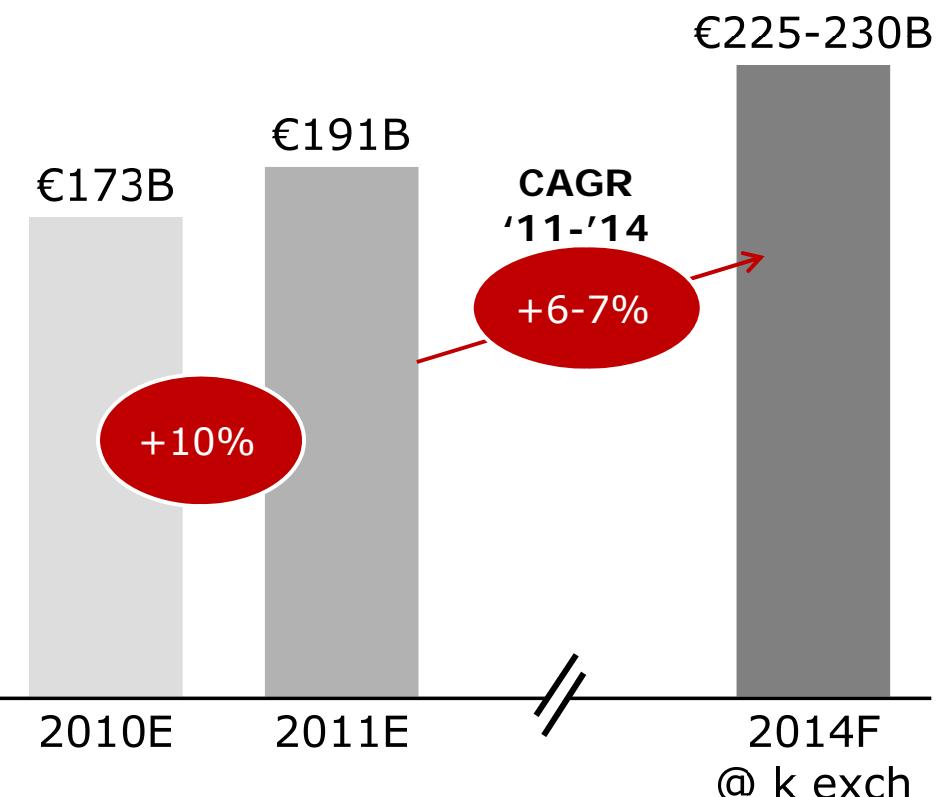
## Worldwide Luxury Market

- **In 2012, market will continue to grow, driven by emerging markets**
- **Not only China but also, Latin America, especially Brazil and Mexico**
- **Question mark on European local consumption**
- **Retail remains key, although perimeter growth will slow down**
- **Hard Luxury and Accessories outperforming other categories**



# Luxury fundamentals will remain strong in the medium term

## Worldwide Luxury goods market trend

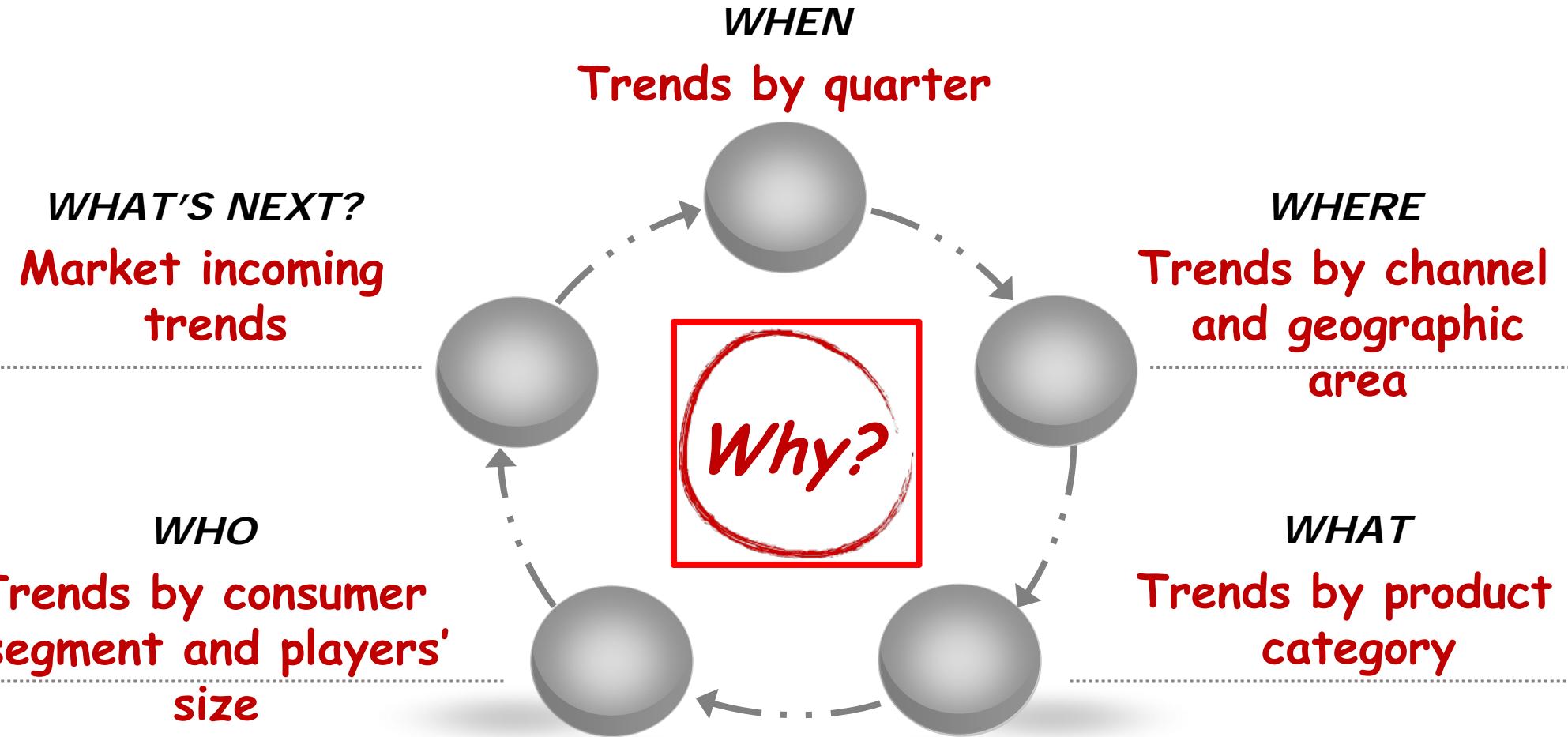


Note that growth from 2011 and 2014 is at constant exchange rates

## Key trends

- Asia-Pacific growth, and especially **China's booming economy and demographics**, will drive luxury goods consumption
  - Mainland and Greater China
  - **Touristic destinations** in Asia and worldwide (Europe)
  - Continuous investment in **luxury stores in 3<sup>rd</sup> and 4<sup>th</sup> tier locations**
- Consolidation of mature markets (US and Europe) which still hold the majority of personal wealth
  - **"Retailization" of the wholesale channel**
  - Penetration into **2<sup>nd</sup> tier cities**
- New emerging markets becoming significant: **Central Europe, Brazil and Middle East (Saudi Arabia)**
- **Japanese market recovering**

# An final “W” is fundamental for the future: Why?

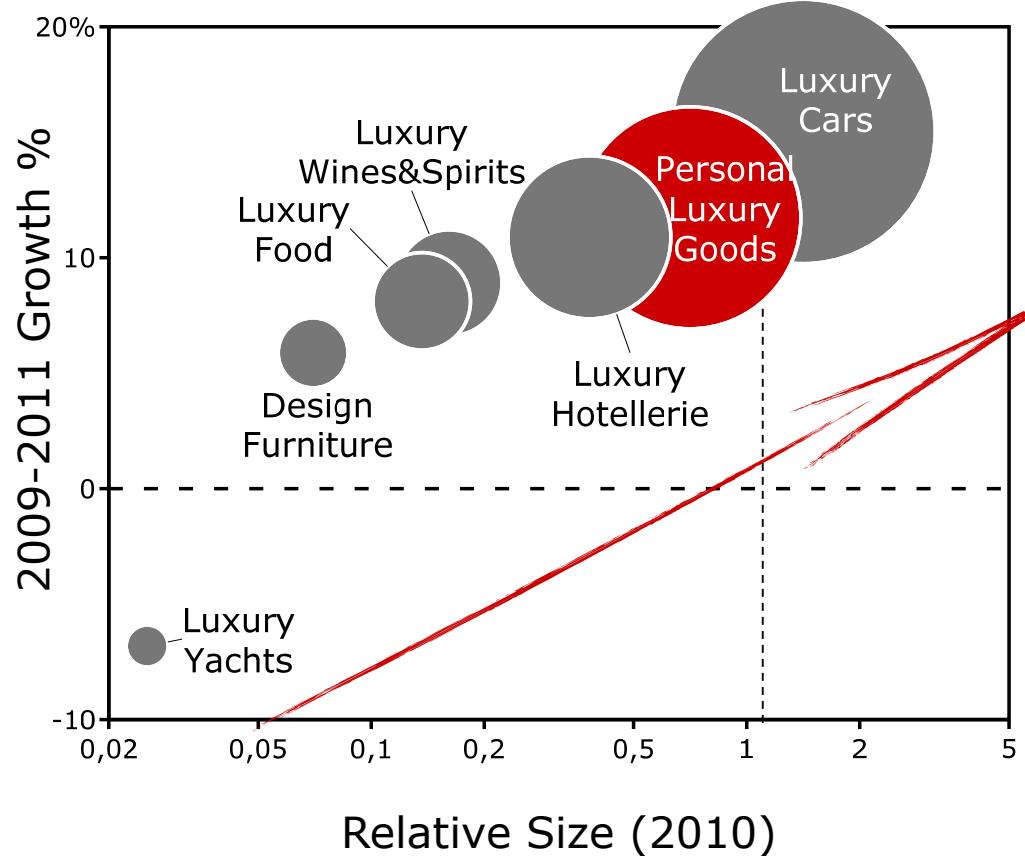


# Polarization megatrend impacts markets differently at different stages of maturity/democratization

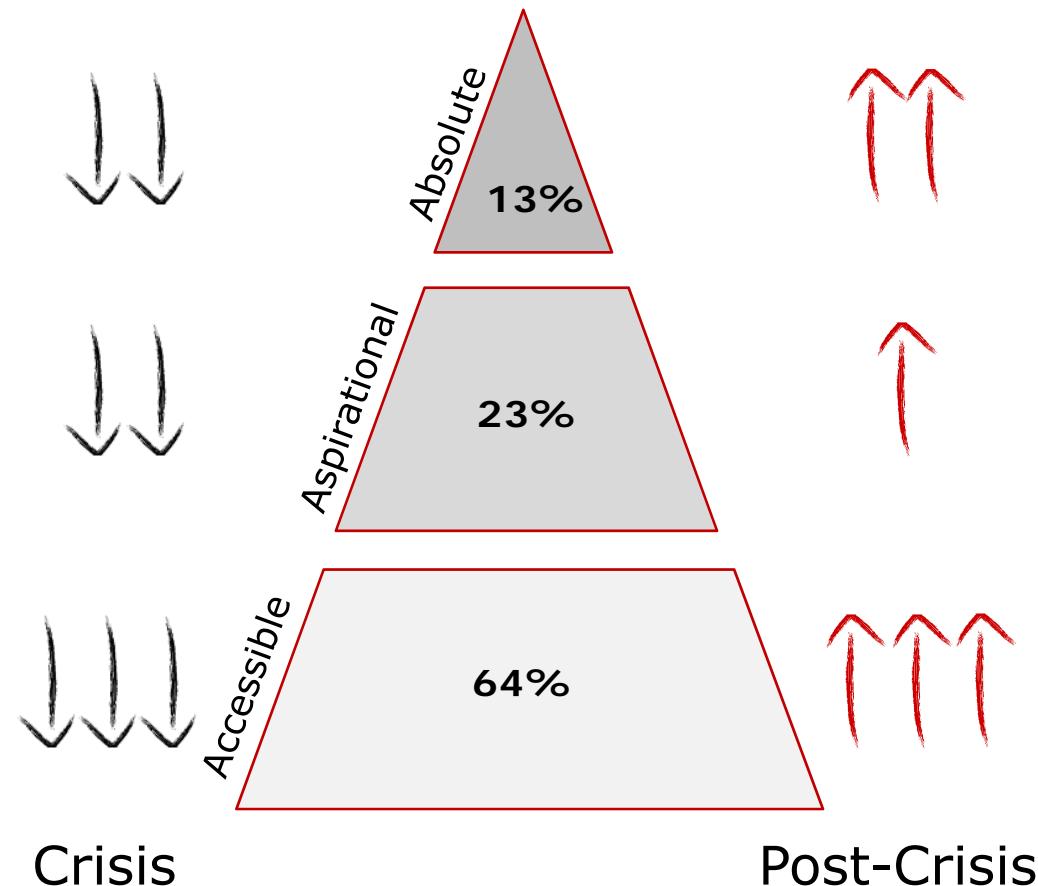


## Worldwide Luxury "Market of the Markets" trend by segment and positioning

Trends by market (2009-2011, €B)



Trends by segment (crisis and post-crisis)



# So...what's happening?

- **Luxury**, in all its different segments, is a **huge and growing** market
- **Emerging markets** are playing a fundamental role
- **Convergence in female and male luxury** consumptions:
  - **Fashionization** of men, becoming compulsive luxury buyers
  - **Feminization of luxury toys**: power-women approaching super luxury cars and spirits
- **Some megatrends span all markets, categories and segments**:
  - **Retailization** and **brandization** of all market segments
  - **Technology** is driving innovation and enhancing customer experience at all levels
  - Strong demand for **eco-health** savvy products (when authentic and innovative)
  - **Self-indulgence** always relevant despite economic environment
  - **Younger generations** are more conscious, more impatient and more likely to cherry-pick



**Increasing complexity** demands **excellence** in execution, to create a **luxury experience**

Talent, Technology and Trust will drive excellence in Luxury

# *Experience*

Social

Retail Omnichannel

Stores

Digital

24/7

Both-brain organization

Talent management

Creativity 360°

Customer  
centric

Strategic talent sourcing

Innovation

Delight

Customer Intimacy

Relationship

Loyalty

Segmentation

Insight

Y Generation

Attract

Retain



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