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2012 Luxury Goods Worldwide Market Study

(11th Edition)

Milan, 15th October 2012

Executive Summary



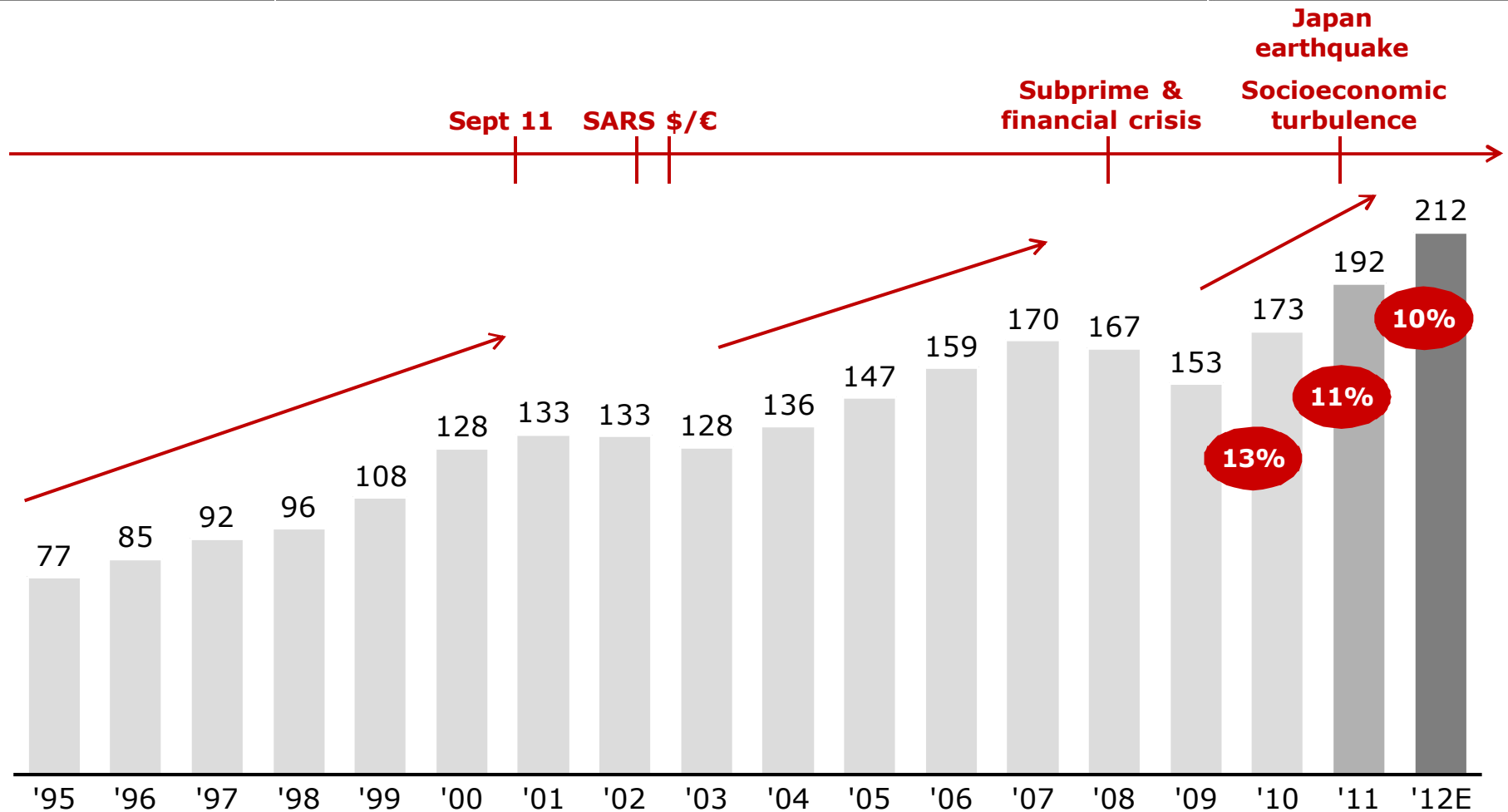
- The global luxury goods sector has continued to soar to post-crisis heights in 2012, with its third year of double-digit growth
 - Globally, luxury goods sales are expected to reach an estimated €212 billion, with 10 percent growth versus 2011 (5 percent at constant exchange rates)
 - Accessories are the champion category for 2012. Sales of leather goods and shoes combined are up by 14 percent
 - Overall luxury, in categories including luxury cars, wine and spirits, hotels, in-home and out-of-home food, home furnishings, and yachts are up nine percent over 2011, to an estimated €750 billion
- Chinese consumers have enormous impact at home and abroad
 - One-in-four global luxury consumers are now Chinese
 - At €27 billion, Greater China (Mainland, Hong Kong, and Macau) has bypassed Japan as the luxury sector's second market, behind the United States
 - Chinese consumers now make half of the luxury purchases in all of Asia, and nearly one third of those in Europe
- The luxury formula is changing more quickly than ever
 - New channels are gaining ground. Ecommerce is growing at 25 percent and off-price (i.e., discount) outlets at 30 percent
 - Luxury is shifting away from apparel. For the first time this year, leather goods and shoes are the largest piece of the market
 - Tourism and luxury spending have become tightly intertwined. Tourists now account for 40 percent of global luxury spending
 - Men are steadily gaining share globally. They now make 41 percent of luxury purchases, up from 35 percent in 1995

Luxury consumption spans several categories



Third year in a row of double-digit growth for the personal luxury goods market: over the 200€B threshold!

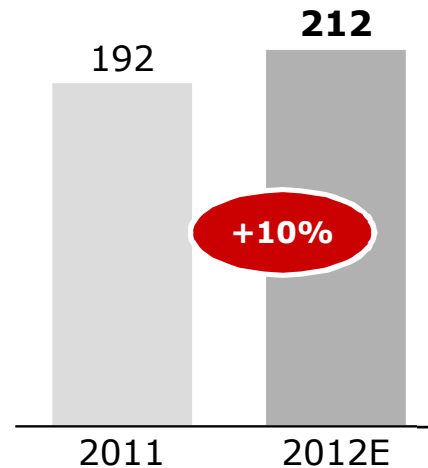
WORLDWIDE PERSONAL LUXURY GOODS MARKET TREND (1995-2012E, €B)



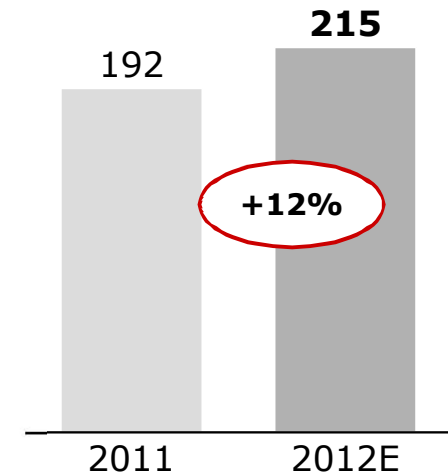
No slowdown expected for the upcoming holiday season

Worldwide
Personal Luxury
Goods 2012
Scenarios €B

BASE SCENARIO



BEST SCENARIO



Main assumption

- Holiday season aligned with 3rd quarter 2012 (+7% vs. last year)

- Strong holiday season in line with 2011 growth (+12-13% vs. last year)

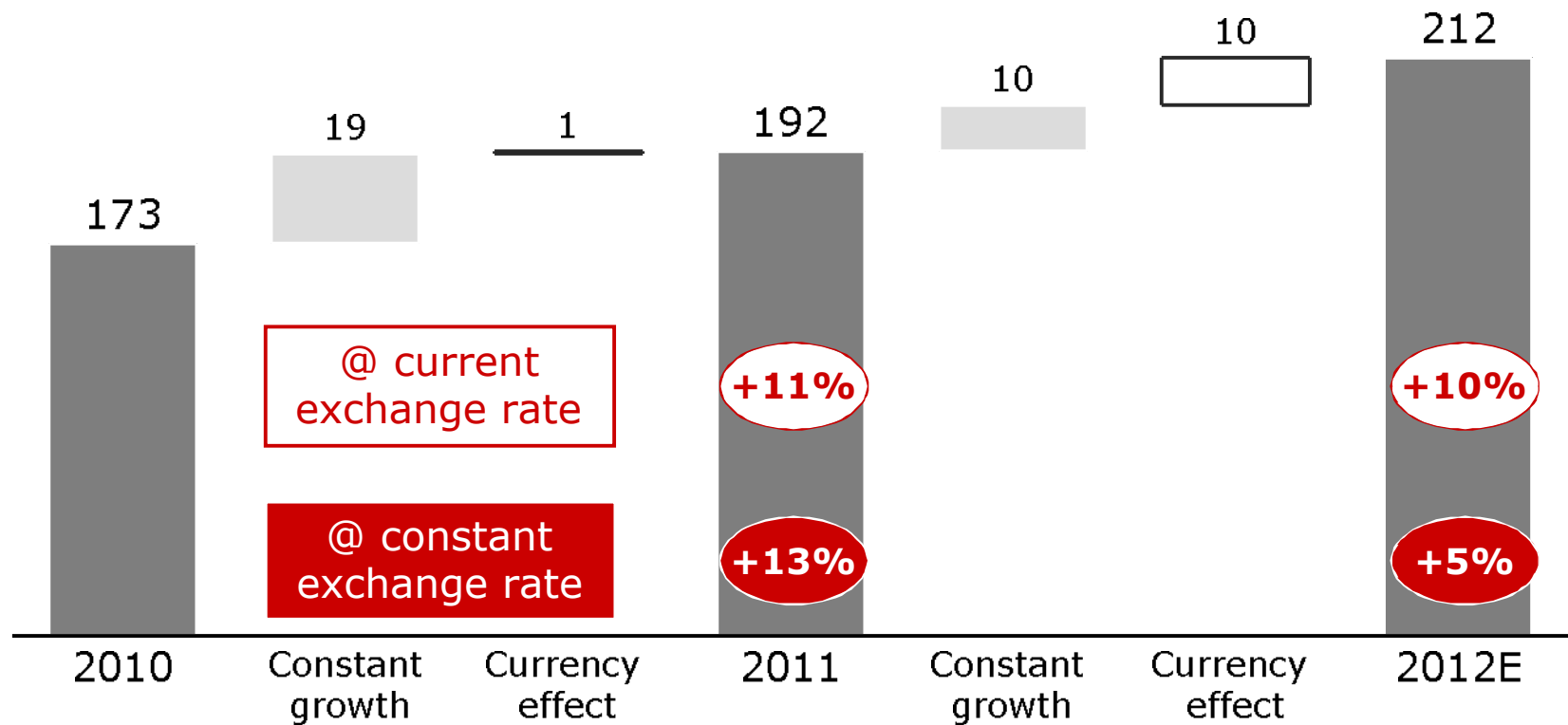
Assumed Probability

80%

20%

Euro inflating market growth in 2012: growth in real terms more than halved vs. 2011

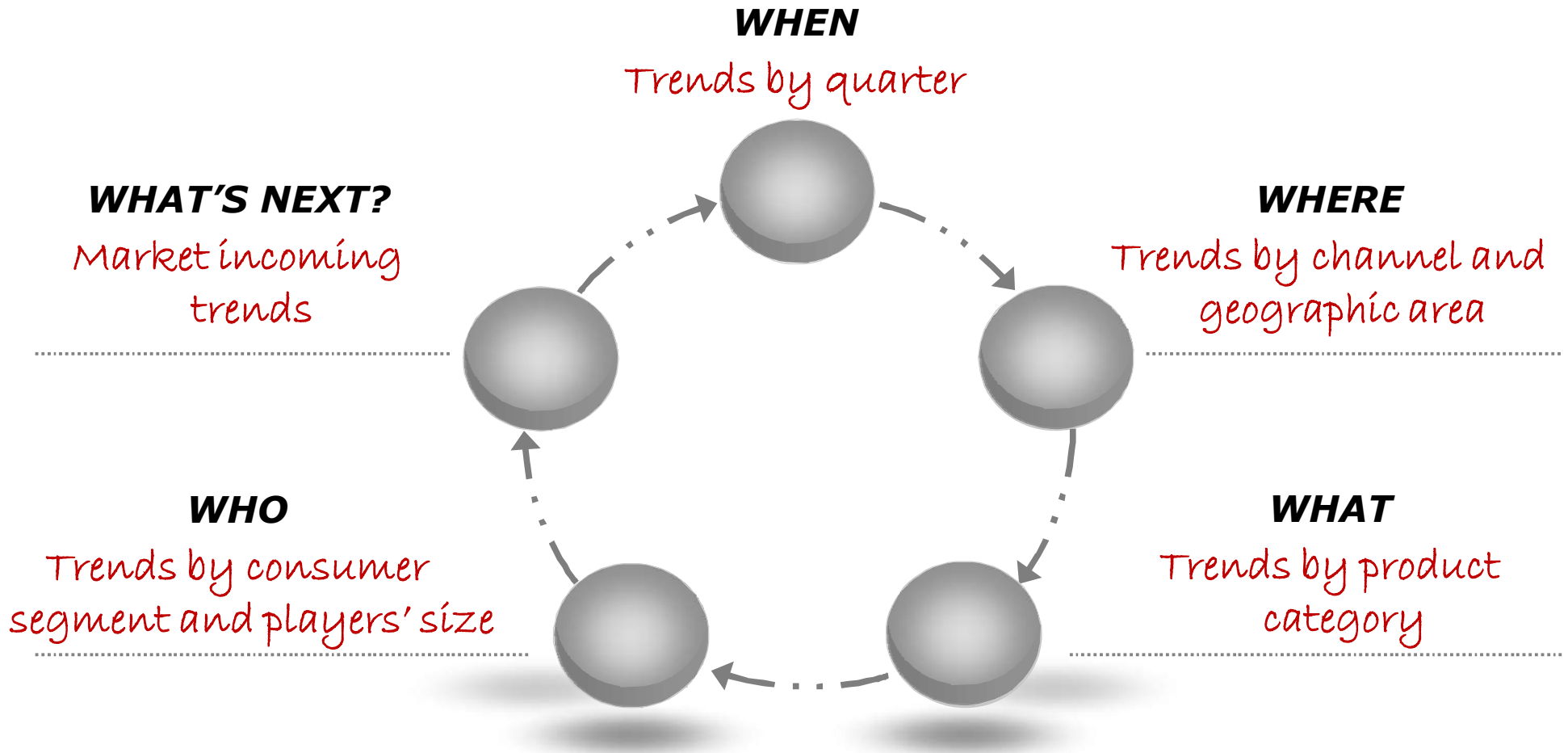
WORLDWIDE PERSONAL LUXURY GOODS MARKET TREND @ CURRENT AND CONSTANT EXCHANGE RATES (2010-2012E, €B)



€/\$	1.3	5% US dollar depreciation	1.4	9% US dollar appreciation	1.3
€/Y	116.1	5% Yen appreciation	110.7	9% Yen appreciation	101.6

What is happening in the Personal Luxury Goods Market?

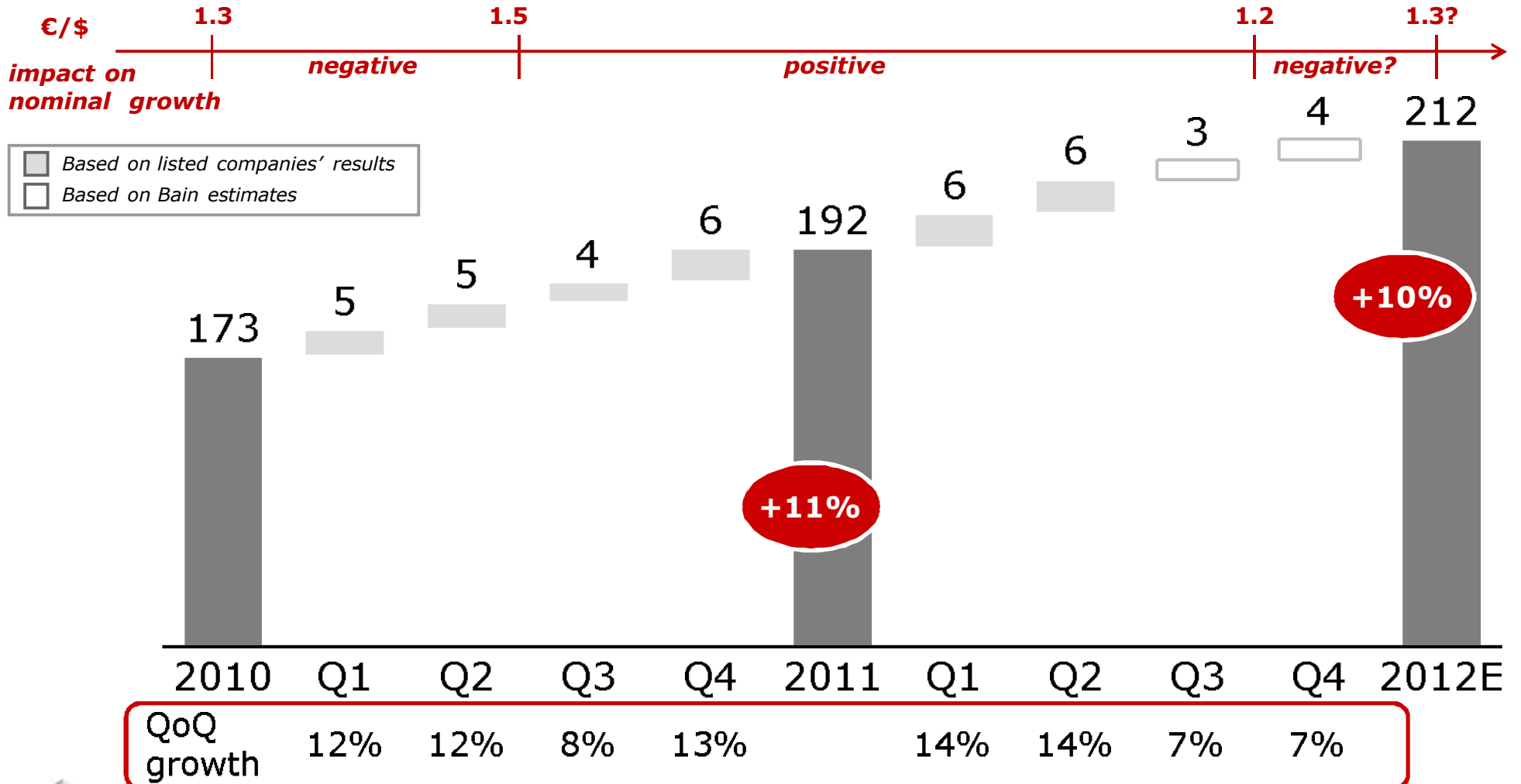
"5 W's" for analyzing 2011-2012 performance



The impact of exchange rate fluctuations has shifted from negative to positive in 2012



WORLDWIDE PERSONAL LUXURY GOODS MARKET TREND (2010-2012E, €B)



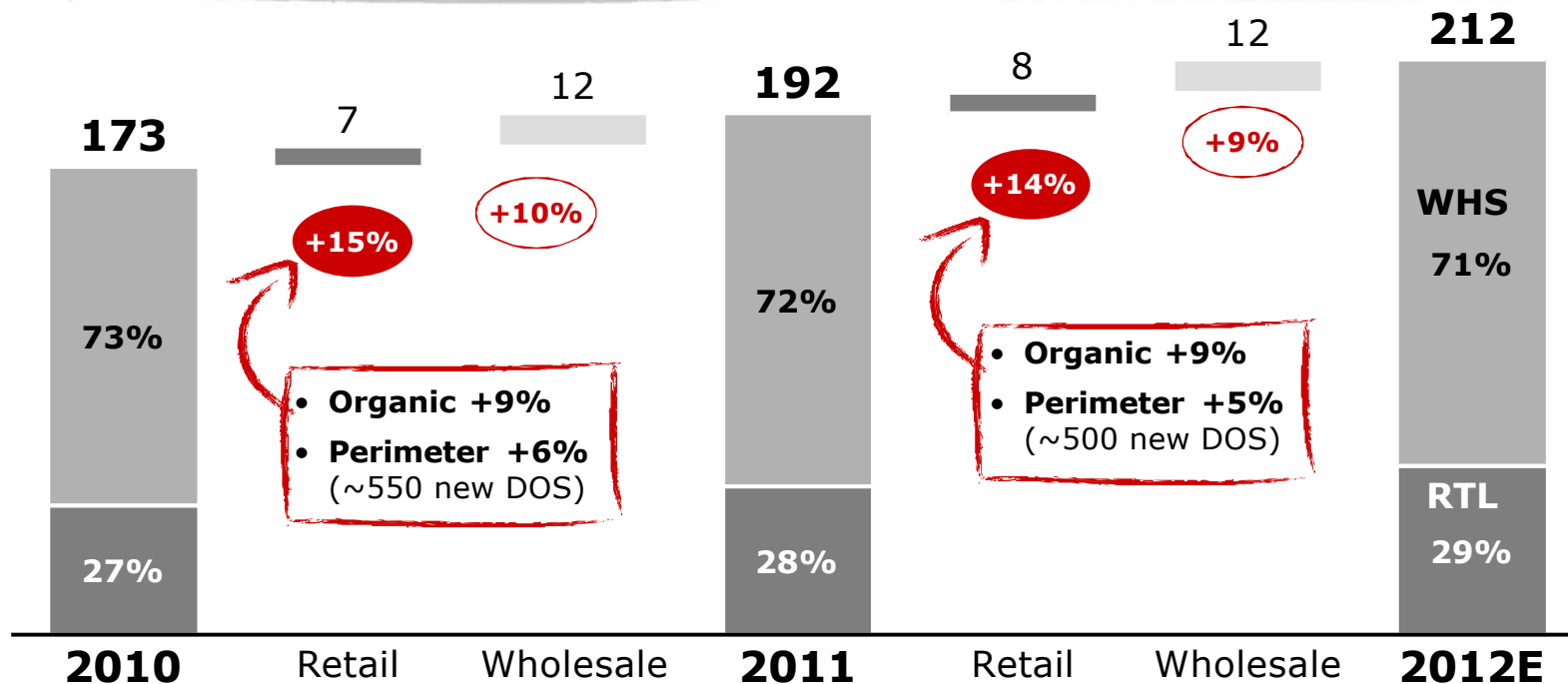
Retail still the key growth driver, together with branded wholesale: having a brand does make a difference



WORLDWIDE PERSONAL LUXURY GOODS MARKET TREND BY CHANNEL (2010-2012E, €B)

- **Distribution buy-back** mega-trend
- **Good performance of franchisees and department stores**

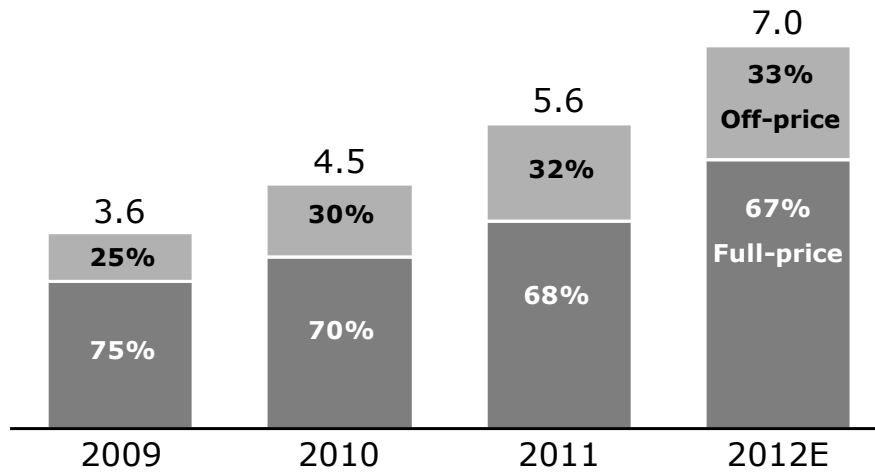
- **Slight slow down in new DOS openings**, especially in emerging markets
- Store **renovation / relocation / expansion** in **mature markets**



Monobrand, department stores and online specialists: the e-commerce battleground is getting crowded



ONLINE PERSONAL LUXURY GOODS MARKET TREND (2009-2012E, €B)



YoY Growth

20%

25%

25%

25%

+30% @K

+13% @K

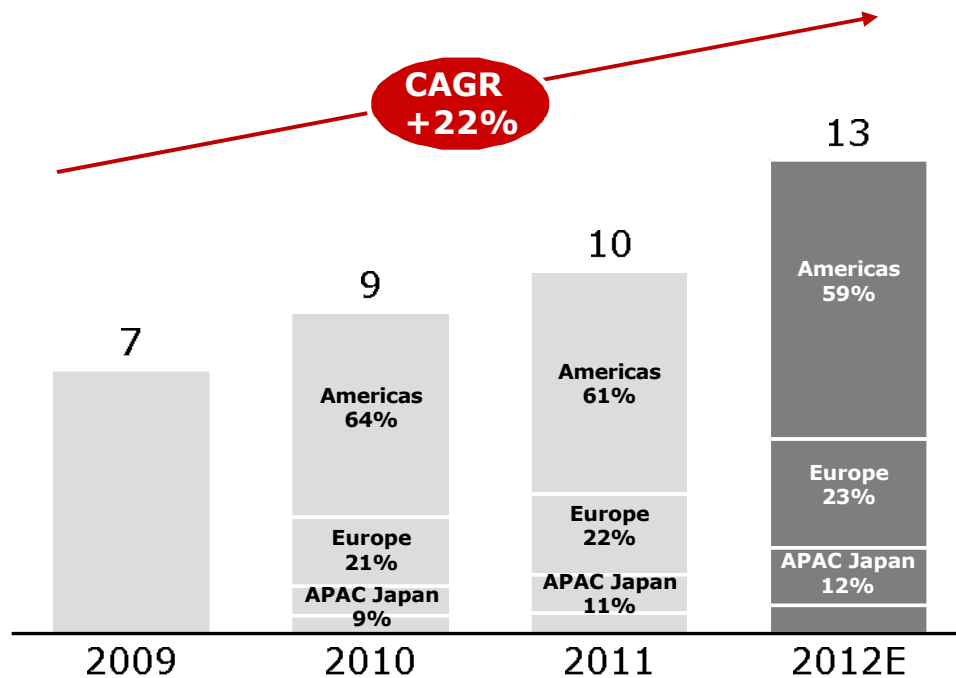


- **Increasing** share of **men shopping online**, boosted by the mushrooming of **dedicated sites**
- **Department stores increasingly relevant in US**, while still marginal in **Europe**, where 'online specialists' are the **fastest growing players**
- **Private sale websites** gaining share within off-price segment, especially in Europe
- **Players investing** to feed the growing **Asian online market**

Outlets over-performing in Europe (low full price sell-through) and Asia (fast-developing retail networks)



OFF-PRICE PERSONAL LUXURY GOODS MARKET (2009-2012E, €B)



- **Stable growth in 2012**, with **economic uncertainty** helping make **consumers thriftier**
- **Americas** retaining **relevant growth**, although **outpaced** by **Europe** and **Asia**
 - **Europe** sustained by **tourists**, especially **Chinese** (up to triple-digit growth rates) and **local bargain-oriented** customers
 - In **Asia** (**China** in particular), **local** and **international developers** are focusing on **new outlet centers**

YoY Growth	16%	22%	13%	30%
Growth @ K exch.	10%	16%	19%	20%



China China China (?)



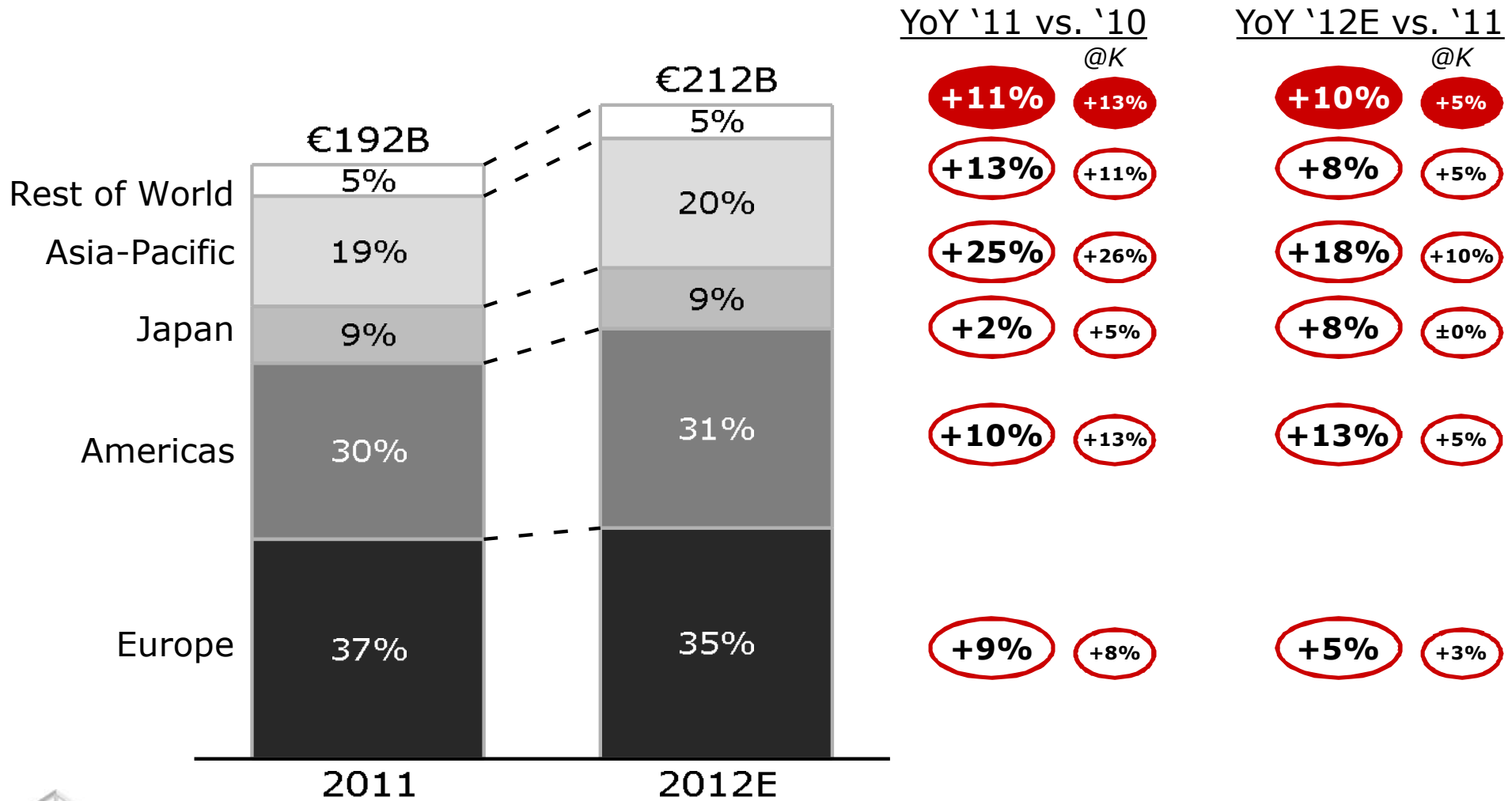
China, still the luxury 'sweet-spot' (?)



Asia remains the major growth engine in 2012



WORLDWIDE LUXURY GOODS MARKET BY AREA (2011-2012E, €B)



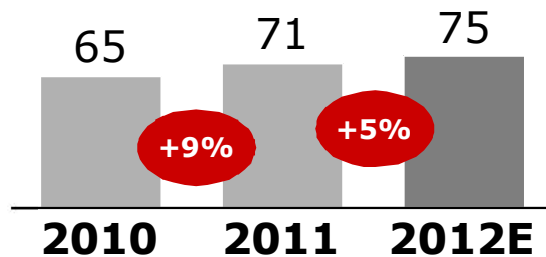
Tourists are insulating Europe from the economic crisis



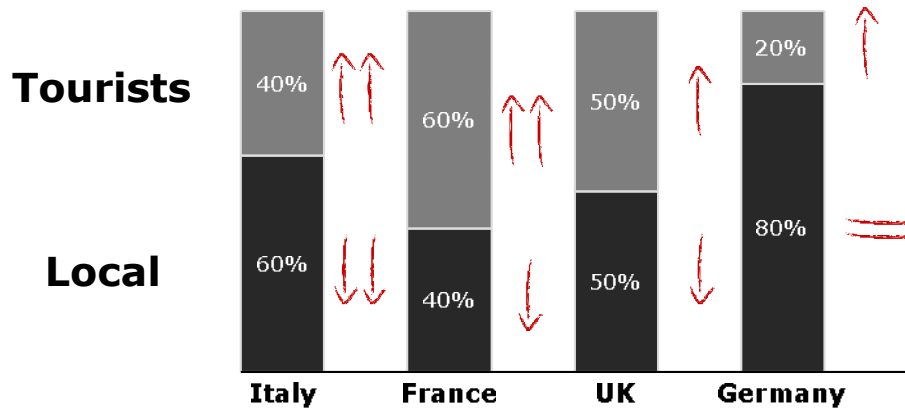
EUROPEAN LUXURY GOODS MARKET (2010-2012E, €B)



European Personal Luxury Goods Market trend (2010-2012E, €B)



Share of sales to tourist vs. domestic by European major country (2012E)



- **2011 steady growth** with the **exception of Spain** (in recession since 2009)
- **Heterogeneous effects of sovereign debt crisis in 2012**
 - In **Italy**, sharp **reduction in local luxury consumption** (multibrand wholesale channel hit the worst)
 - High consumer confidence** and **increasing interest in luxury** from **young consumers in Germany**
- **Tourism is *the* growth driver in 2012**
 - Simpler visa rules for Chinese citizens** **boosting arrivals in France**
 - Olympic games caused a shift from local to foreign consumption in the UK**
- **Russia and Eastern Europe** registering **faster growth**, with Poland performing particularly well

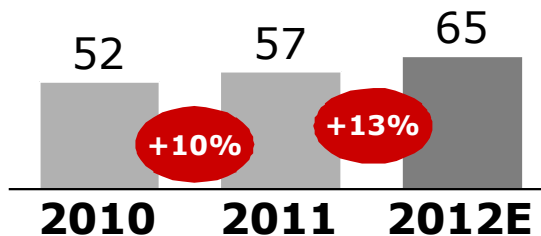
Expansion in 2nd tier locations in mature markets providing extra room for dynamism



Americas



American Personal Luxury Goods
Market trend (2010-2012E, €B)

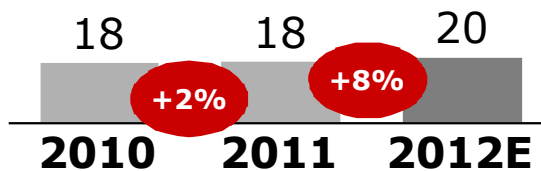


- **US** saw **good performance** in **2012** inflated by dollar appreciation (€/+\$+9% vs. 2011)
- **2nd tier locations** increasingly attracting the **attention** of **international brands**
- **Good performance** of **department stores**, still a fundamental channel in US
- **Growth** in **South America** driven by **Brazil**; most **brands leaving Argentina** after years of **disappointing performance**

Japan



Japanese Personal Luxury Goods
Market trend (2010-2012E, €B)

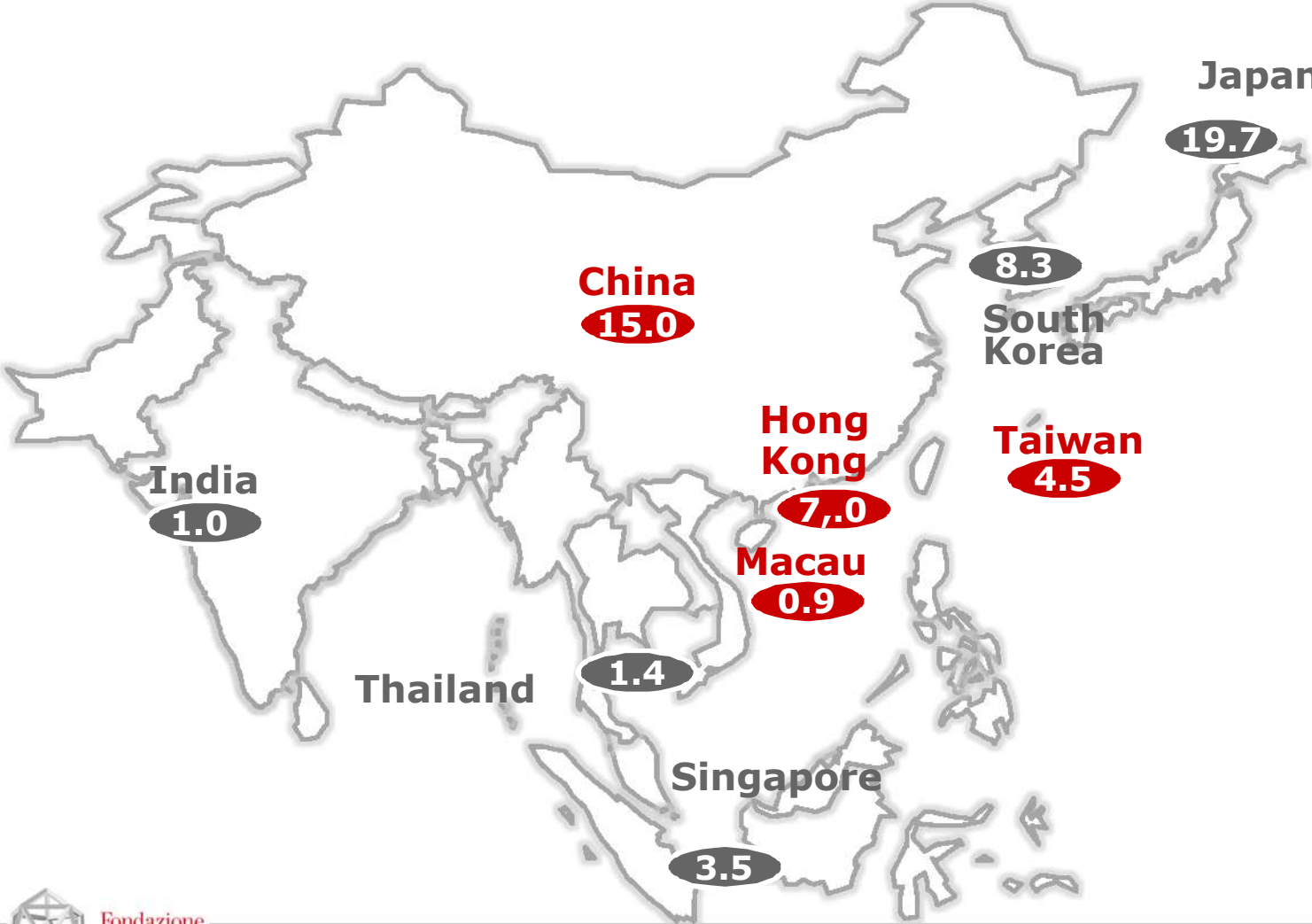


- **Cosmetics, hard luxury** and **accessories** performing well in **2011**; **contraction** of **apparel**
- **2012 nominal growth** sustained by **positive currency effect**: in **real terms**; market **stagnating** in all channels (from retail to department stores)
- **Osaka** increasingly **gaining relevance** over Tokyo as **key fashion city** in the country

Greater China accounting for almost half of all Asian markets



ASIA LUXURY GOODS MARKET BY COUNTRY (2012E, €B)



Greater China
+19%

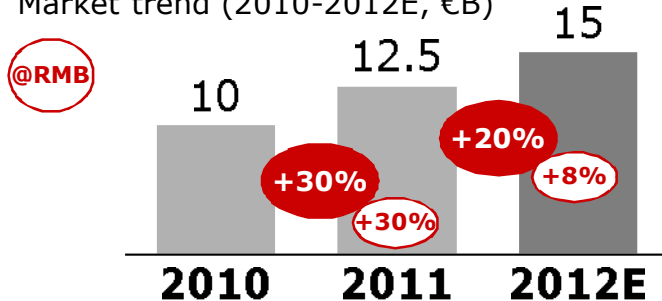
27.3 €B

Mainland China becoming more challenging as consumers become more sophisticated



MAINLAND CHINA

Chinese Personal Luxury Goods Market trend (2010-2012E, €B)



Chinese Luxury by quarter (2011 -2012E, €B)

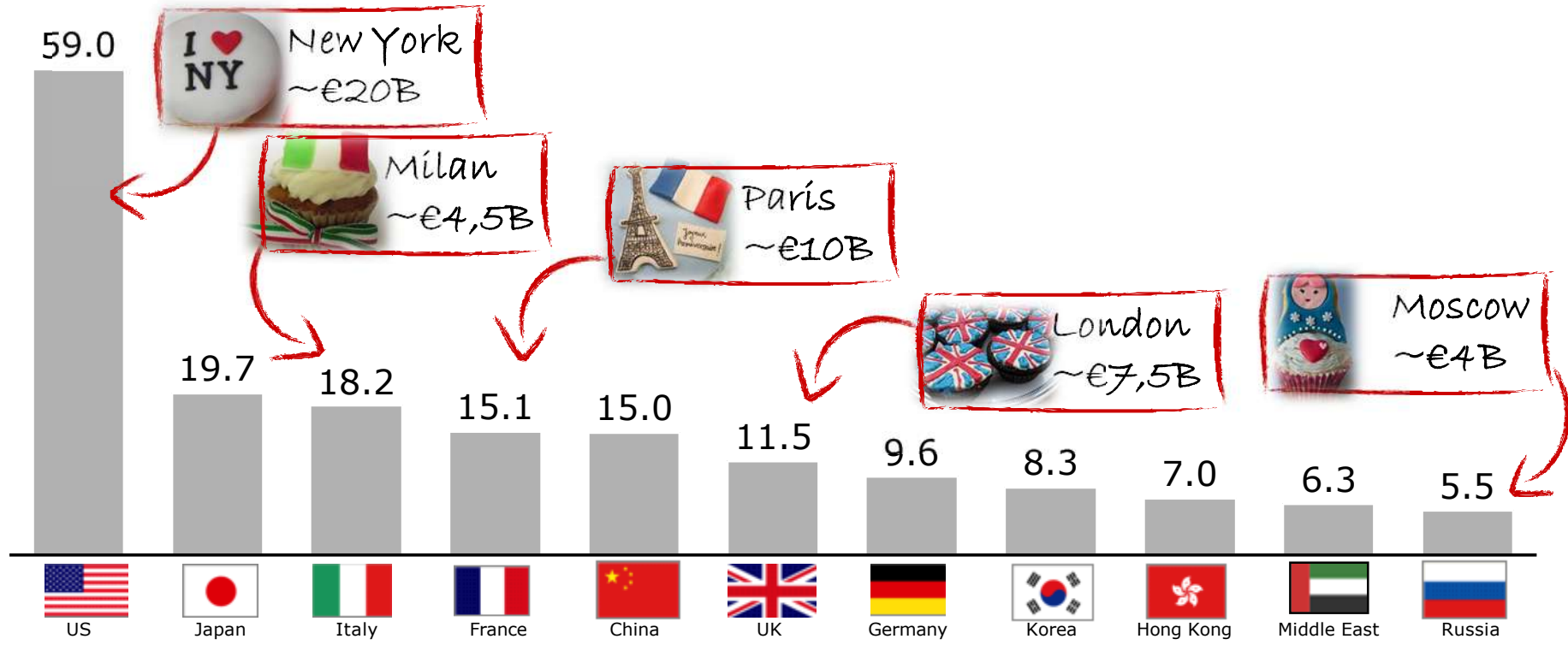


- **2011** confirmed **strong growth** in China, both **organically** and by **perimeter** expansion
- In **2012**, first signs of **deceleration**
 - Increasing **overseas luxury shopping** by **Chinese** (easier visa policies, even lower prices thanks to weak Euro)
 - Sudden **reduction** in **gift-giving**
 - **Government transition** across the country
 - Recently introduced **ban on civil servants spending government funds on luxury**
- **Increasingly sophisticated consumers** shifting from **overexposed logo brands** to **absolute quality products**
- **Growing numbers of women in business**
- **Brands increasingly proactive** in improving **local in-store experience** and **tailored product offer**

Mainland China among the "luxury giants", becoming world's number two market with addition of Hong Kong



PERSONAL LUXURY GOODS - RANKING BY COUNTRY (2012E, B€)



	US	Japan	Italy	France	China	UK	Germany	Korea	Hong Kong	Middle East	Russia
€ Growth 11-12E	13%	8%	0%	4%	20%	9%	5%	13%	18%	10%	7%
Local currency growth 11-12E	4%	0%	0%	4%	8%	3%	5%	6%	8%	3%	4%

Still plenty of untapped potential in “new emerging” markets



BRAZIL



INDIA



SOUTH AFRICA



SOUTHEAST ASIA

Population 2011
% world population

190 M people
2.8%

1.2 B people
17.5%

51 M people
0.7%

560 M people
8.1%

UHNWI 2011
HNWI 2011

4,600
165,000

7,700
125,000

800
~70,000

4,300
~200,000

Luxury goods market 2012E
% tot market

€2.7B
1.3%

€1.0B
0.5%

€0.8B
0.4%

€4.8B
2.3%

Expected growth

15-25% for the
next 5 years

20-30% for the
next 5 years

20-30% for the
next 5 years

15-25% for the
next 5 years

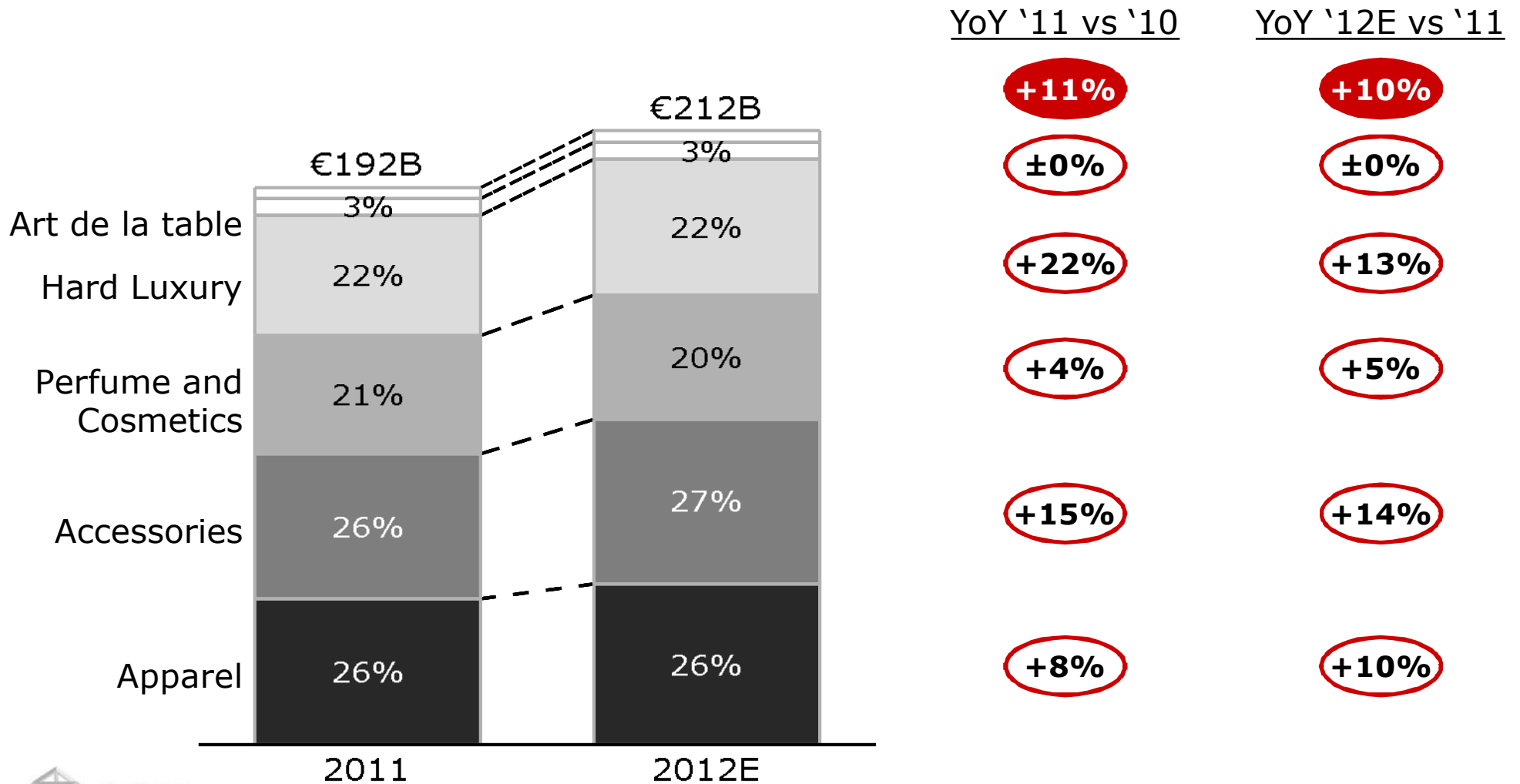
Leather and accessories: the champion category, again



Accessories and hard luxury still outperforming the market, with apparel growth accelerating



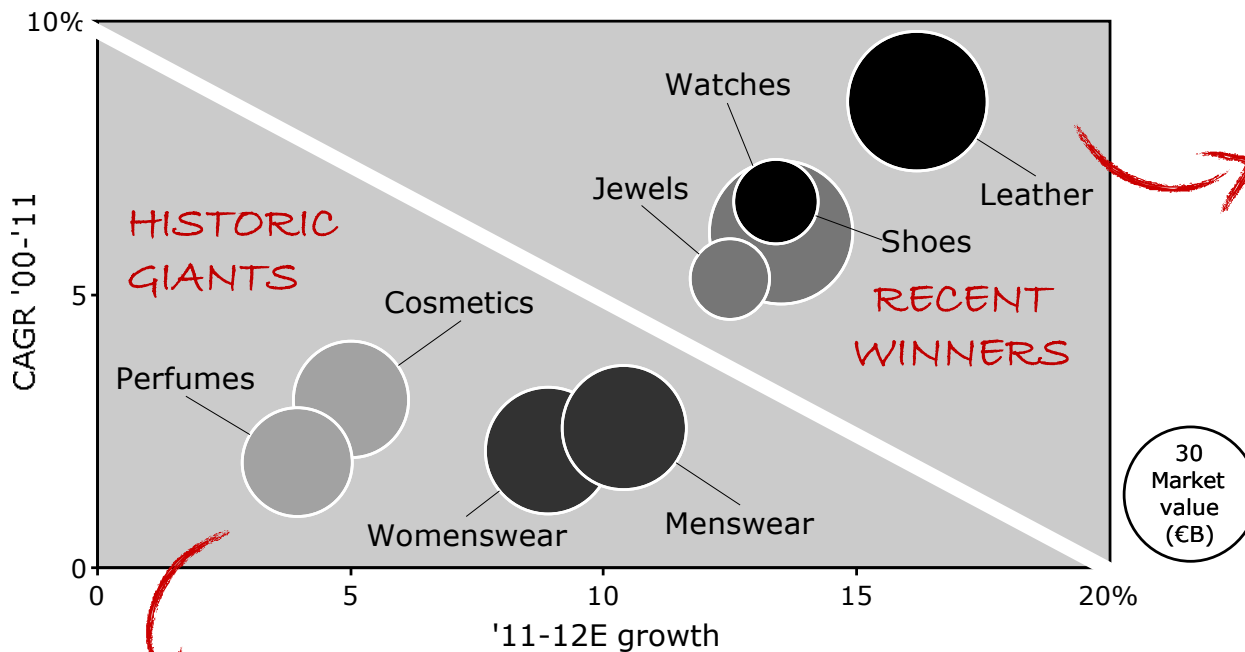
WORLDWIDE LUXURY GOODS MARKET BY CATEGORY (2011-2012E, €B)



Soft and hard accessories: champion categories in the short and long run



WORLDWIDE LUXURY GOODS MARKET BY CATEGORY (2000-2012E, €B)



- **Accessorization macro-trend** has **boosted** these categories
- **Soft accessories** absolute over-performers: **Lower average price, higher recognizability** and strong focus on **product offer innovation** that always **leverages icons**
- **Watches and Jewels** come in second: **watches** as the **first luxury category** to penetrate emerging markets, **jewelry** boosted by **new brands** entering the battleground

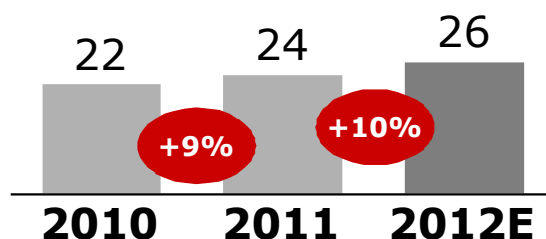
- **P&C** and **apparel** are the **historically most established categories**, but experiencing a **consolidation trend** with relatively **stable growth**
- **Recent crisis competition** from **premium apparel segments** has **reduced dynamism**, forcing **players** to **find** their own **distinctive niche/ positioning**
- **P&C following FMCG trends**, with luxury **cosmetics** gaining share



“Modernization of tradition” is the foundation of apparel good performance

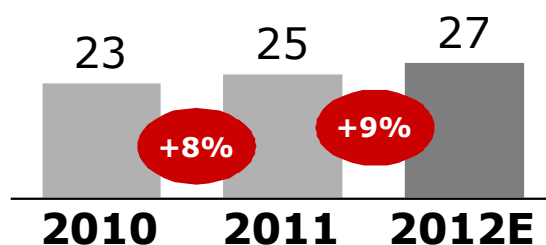


Men's RTW



- **Brands, department stores** and even **online players focusing on men** through **dedicated concepts/formats**
- **Rebound of formalwear, casualwear** sustaining the pace by **expanding the customer base**
- **Italian craftsmanship** confirming strong performance
- **Investments in made-to-measure** offer to **indulge consumers**, especially from **emerging markets**

Women's RTW

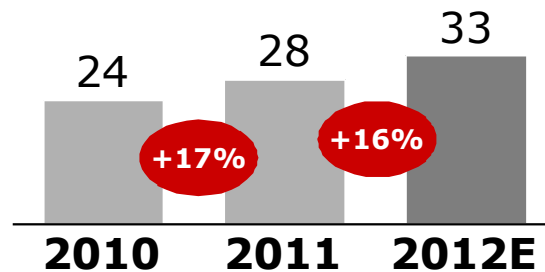


- **Absolute brands outperforming** the market
- **Asian rising women nurturing** category dynamism
- **Boom of furs and fur-wear** launched/re-launched by all **major brands innovating** in shapes and colors
- **Childrenswear strong growth** with **all brands investing** in the category mainly through **licensing**

Once again accessories defy economic uncertainty

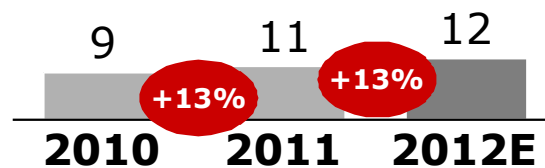


Leather goods



- **Accessible brands striving to keep pace** with **Absolute** and **Aspirational brands**
- **Consumer sophistication in China shifting** from **logo products** to **absolute quality** and **intrinsic value**
- **Men increasingly relevant** as target customer for large and small **leather goods**
- **New tech-toys** revamping **accessories offer**

Shoes

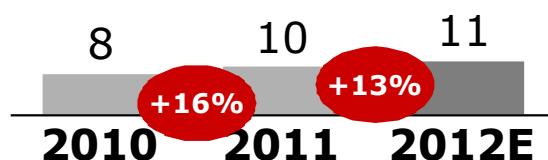


- **Absolute segment outperforming** the market thanks to **shoe specialists** and **lifestyle brands** with distinctive/iconic offers in shoes
- **Men's shoes outperforming** women's shoes
 - Traditionally **women-only** shoe makers **expanding into men's**
 - **Bespoke** offer to attract higher-end consumers
- More **sophisticated consumers increasingly looking** for **quality** and **design**

Hard luxury still overexposed to shifts in the wholesale channel

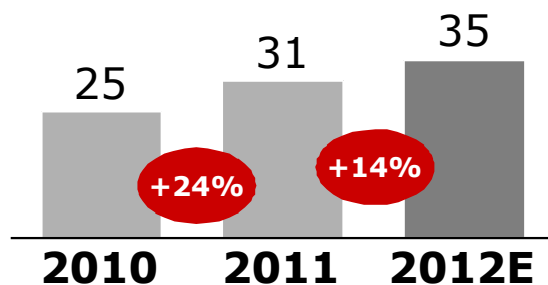


Jewels



- **Emerging markets** still **key driver of growth**
- **Mature markets** demonstrating **sound performance of retail** channel, with **traditional wholesale struggling**
- **Growth boost** by the **increase of average price** due to **skyrocketing raw materials**
- **Lifestyle brands** entering the **high-jewelry segment** through dedicated investments in **manufacturing** and **retail format**

Watches

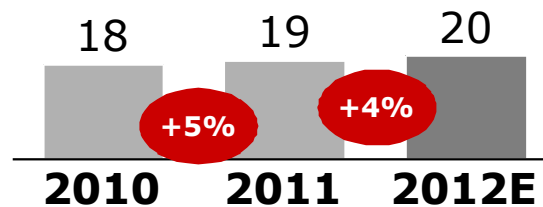


- In **2011**, **watches proved** to be the **top category** for growth
- **2012** witnessing **first signs of channel destocking**, especially for '*mass-pirational*' brands in China
- **Ongoing retailization** to improve **customer experience** and **increase distribution opportunities** in **emerging markets**
- **Haute-horlogerie** more and more **targeting women** with **tailored offer**

Innovation and new launches: the growth levers of beauty

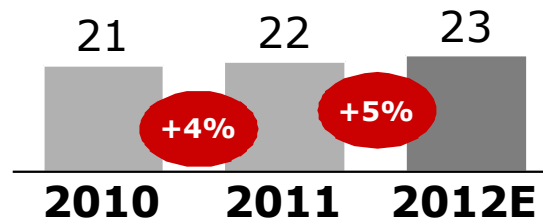


Perfumes



- **2011:** year of 'line extensions', while **2012** witnessed **several new launches** both for men and women
- **New designer brands** entering the category
- **Department stores outperforming** specialized chains in **US**
- **Widespread price increases sustaining growth** in **Europe** over relatively flat volumes

Cosmetics

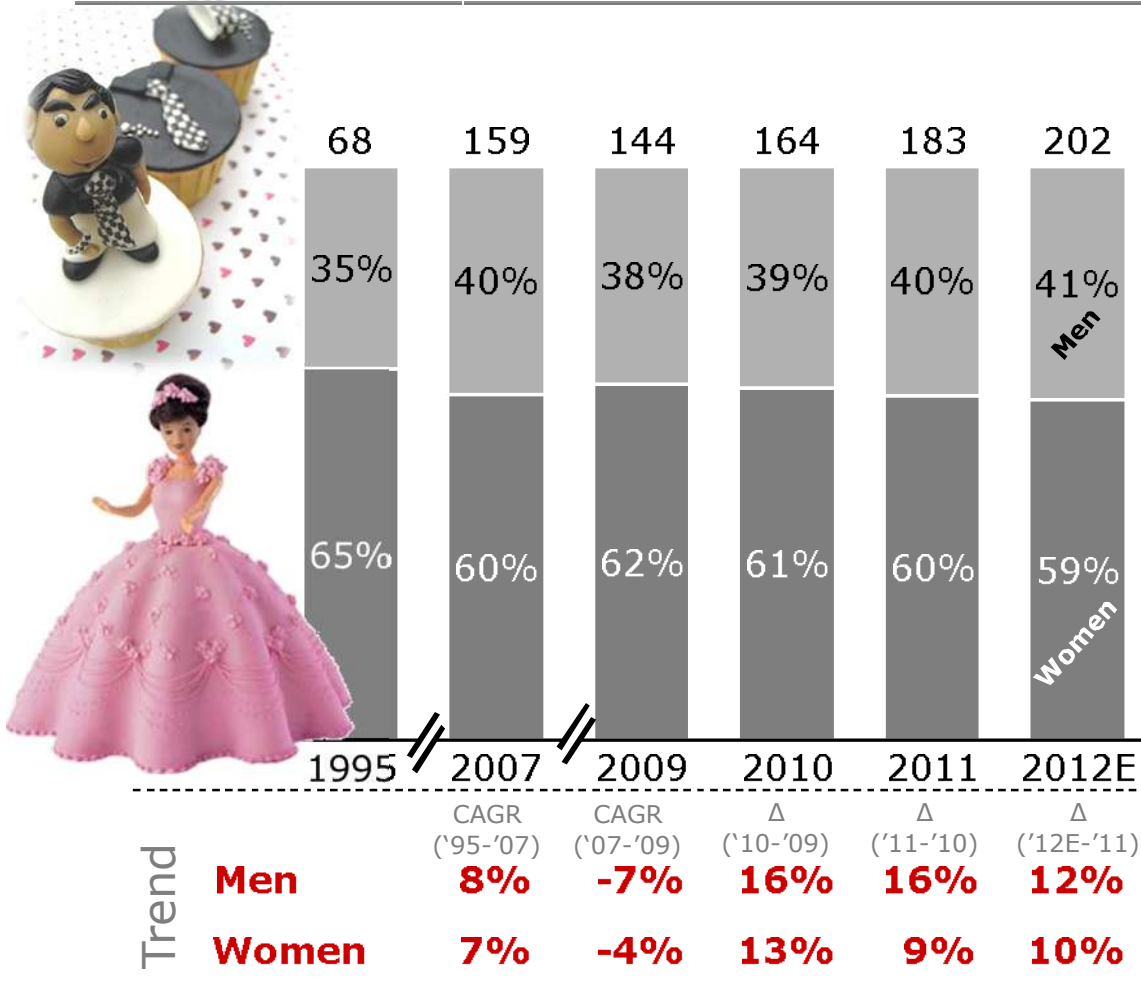


- **Continuous innovation** in **skin-care** with launch of **multipurpose products**
- Brands **increasingly targeting emerging markets** in color cosmetics
- **Lips** and **nails** proving to be the **most dynamic categories** within **make-up**
- **Cosmetics specialists** opening **boutiques** in **emerging markets** (e.g. India) to fill an existing distribution gap

Male market increasing overall share; Asian power-women the new key target to monitor!



LUXURY GOODS MARKET BY GENDER (1995-2012E, €B)



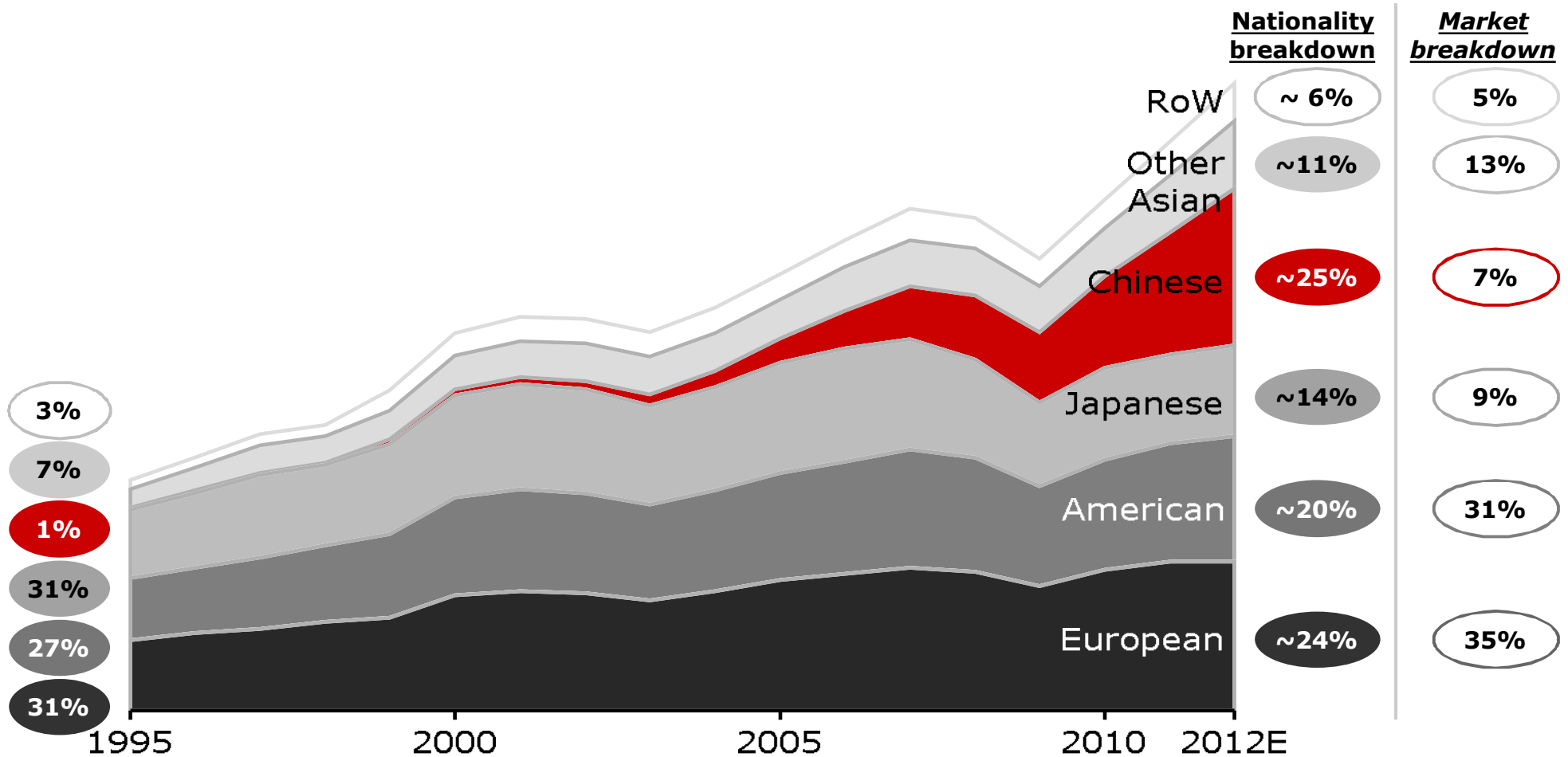
- Strong **"Men-ization"** of the market in **2011** and **2012**
- **Polarization** of trends: **Men winning in mature markets, power-women** gaining share in **Asia**
- Lifestyle brands are heavily investing in **men-only concepts, mainly in USA and Asia**
- **Power Women** in China are increasing **their all-around spending in luxury**



Chinese consumers have become the top luxury nationality in 2012



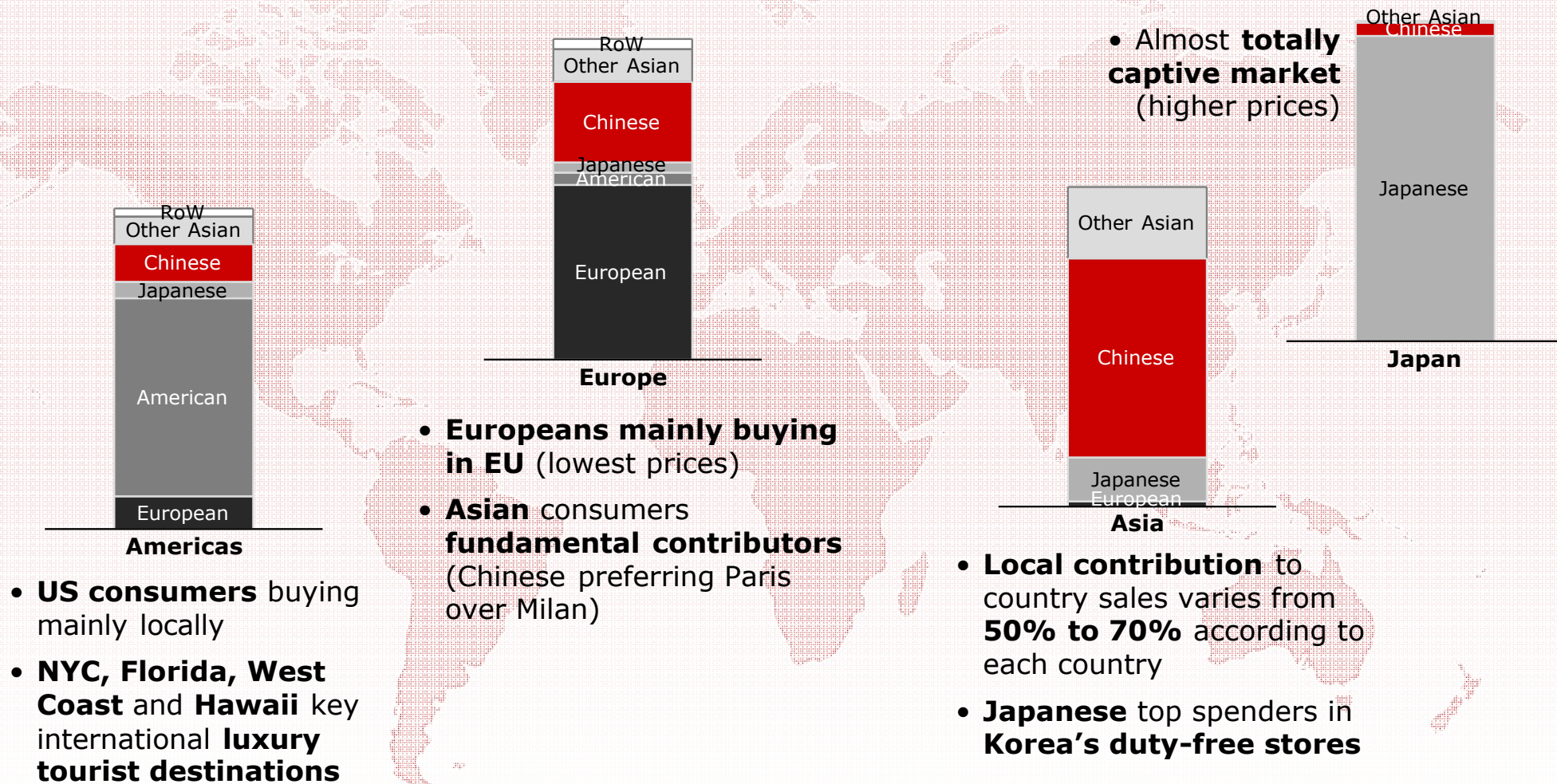
LUXURY GOODS MARKET BY CONSUMER NATIONALITY (1995-2012E, €B)



Over 40% of the market consists of “luxury tourism”



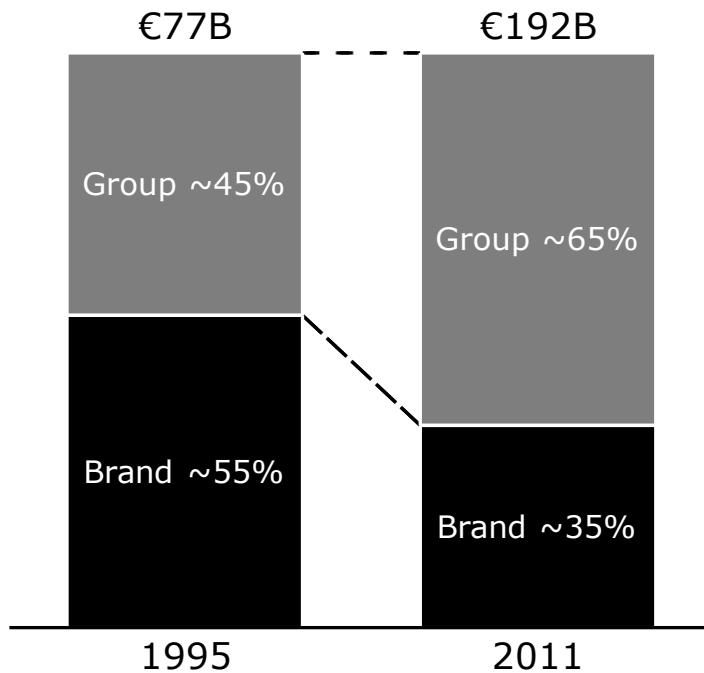
LUXURY GOODS MARKET BY CONSUMER NATIONALITY (2012E, €B)



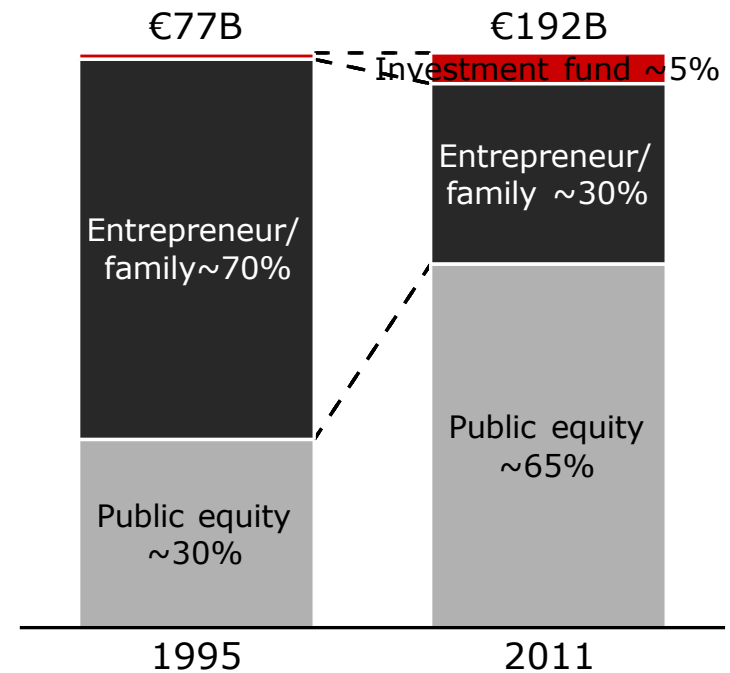
Individual entrepreneurship is not enough anymore!



LUXURY GOODS MARKET BY BUSINESS ARCHITECTURE (1995 VS. 2011, €B)



LUXURY GOODS MARKET BY OWNERSHIP (1995 VS. 2011, €B)



Groups leverage "synergies"...
...ξ...

...access to money boosts growth



The market outlook is moderately positive for 2013



TREND BY REGION

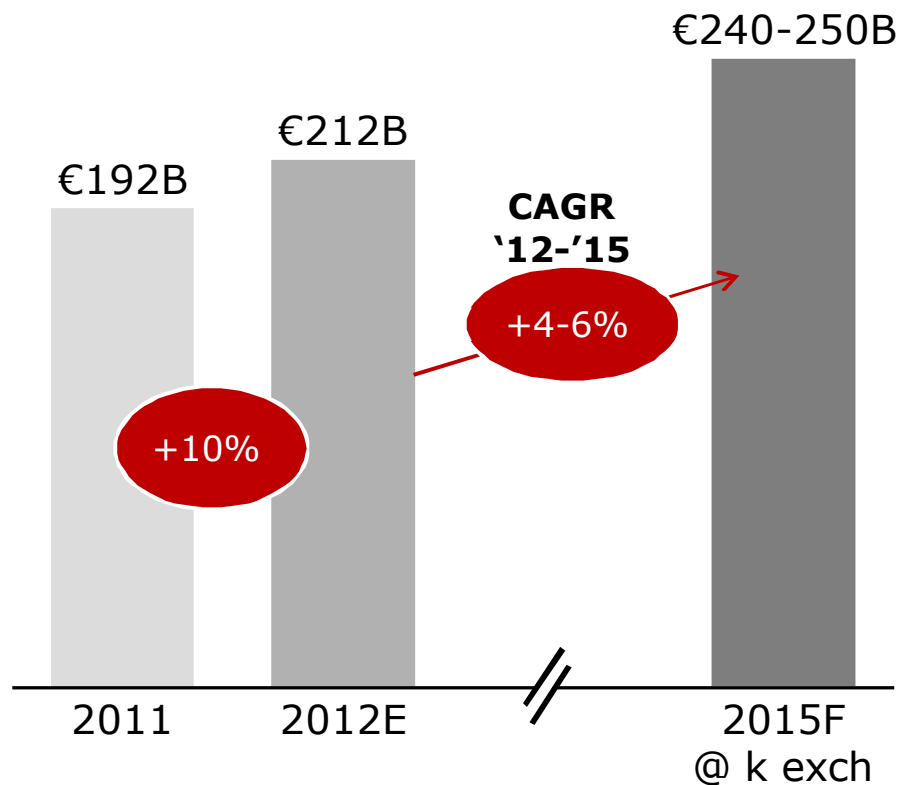
Europe	+	
Americas	++	
Japan	~	
Asia Pacific ex China	+++	
China	++	
ROW	++	

WORLDWIDE LUXURY MARKET

- **In 2013, market will continue to grow**, thanks to **emerging consumers**
- **Recovering economy** in mature markets will increase consumer confidence and local consumption
- **Chinese** support a **local maturing market**, while **boosting growth abroad**
- **Retail remains key**, with a more **selective approach** to new openings
- **Accessories outperforming** other categories

Basics will remain strong in the medium term

LUXURY GOODS MARKET TREND



KEY TRENDS

- **Emerging consumers** gaining **more relevance** both **locally** and **globally**
 - **Chinese** will **consolidate** their **position** as **first nationality** worldwide
 - Other **emerging markets** (e.g. India, Africa, Central Eurasia) finally **finding their own way to luxury**
- **Consolidation** of **mature markets** and **expansion** in still **under-penetrated countries**
 - Penetration of **second tier cities** and **locations**

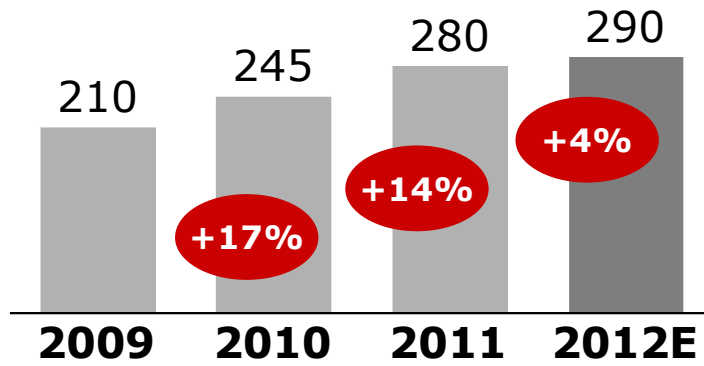
Luxury consumption spans across several categories



Luxury Cars: new consumers making the absolute segment the most dynamic



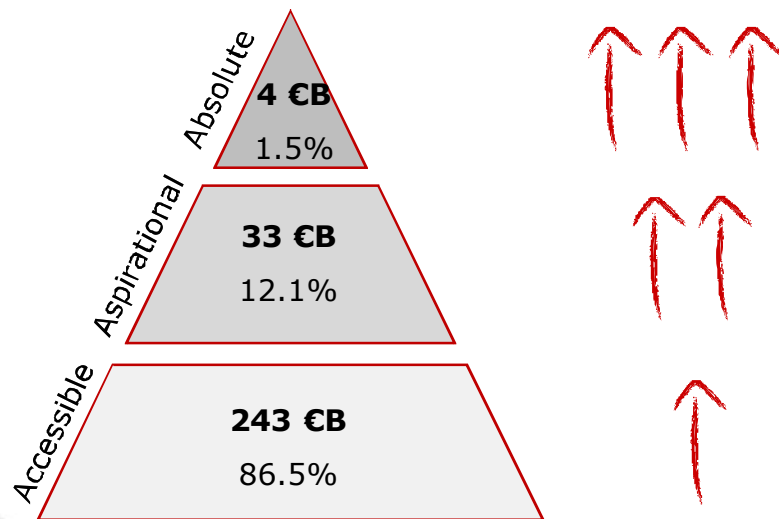
Luxury Cars Market trend (€B)



Key industry macro-trends

- **Slow down in 2012** after the positive trend of past years
- **Far East is overcompensating Western performance**
 - European markets suffering the most, especially Italy
 - Asia is pushing demand, but it is slowing down
- **Accessible** offer is losing share, whereas **super-luxury cars** continue to grow, fueled also by the **power-women** segment in emerging markets
- **Hybrid engines** expected to be an **important trend** for luxury cars in the coming years
- **Overall reduction of prices:**
 - shift towards more of a value model
 - increase in discounts by dealer
 - more "base-line" configurations

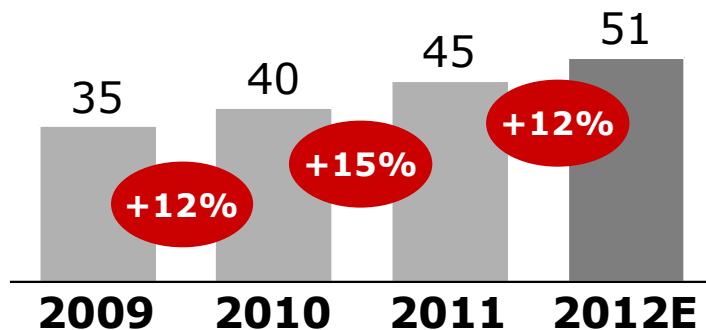
Trends by segment



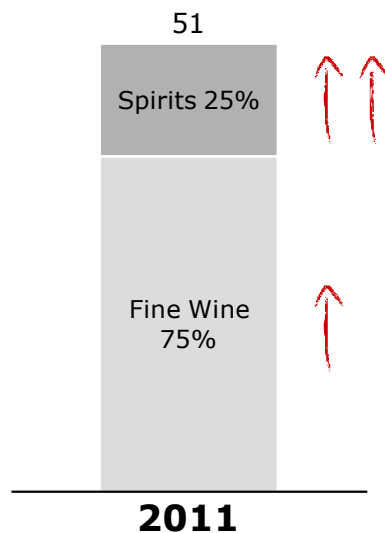
Strong momentum for luxury wines and spirits



Luxury Wines & Spirits Market trend (€B)



Trends by segment



Key industry macro-trends

• Wines

- **Quality is the key word:** higher prices, lower volumes
- **“Bubbles” are outperforming** the market: **champagne** accounting for **30%** of total **luxury wine sales**
- **BRICs boost** offsetting mature markets decline
- **China to become leader** in luxury wine imports in 5-10 years

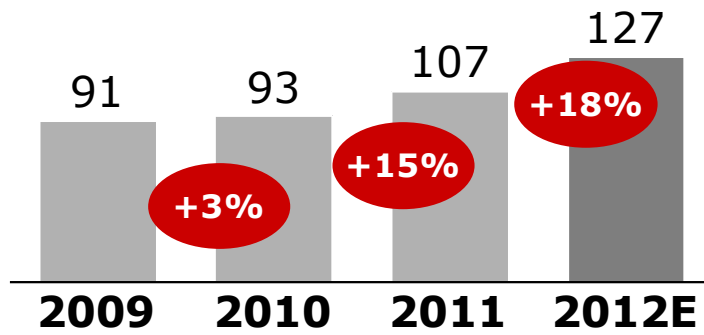
• Spirits

- **Premiumization of the market** in all segments and areas, especially in US
- **Vodka** is the leading category, boosted by strong **marketing investments**
- **Whiskey, rum and tequila** leverage taste and ageing to educate consumers
- **Out-of-home** consumption is **gaining share**

Hospitality conquering ever more share-of-wallet of luxury consumers



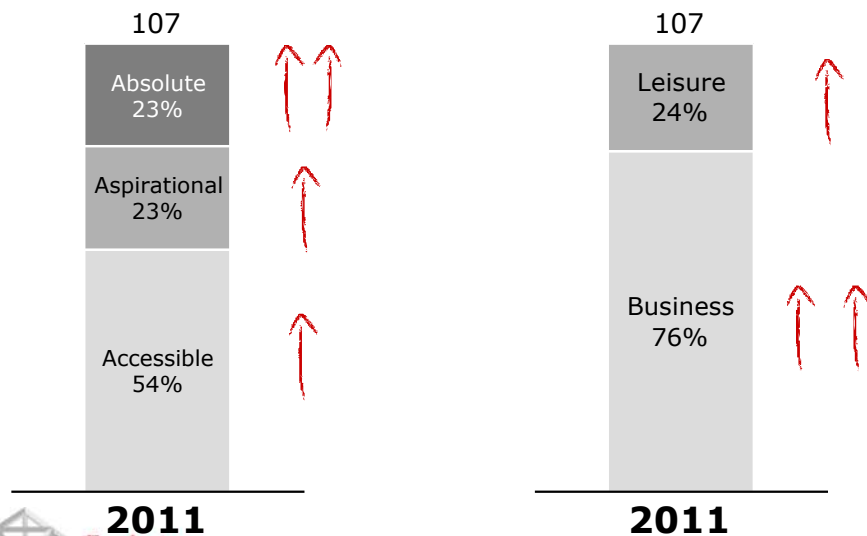
Luxury Hospitality Market trend (€B)



Key industry macro-trends

- **2011 confirmed** to be a **record year**, even if performance slowed down at the end of the year
- **US\$ appreciation** has boosted performance in **2012**, but growth in **real terms is lowering**
- **Occupancy strongly recovering to pre-2008 levels** in all segments (**~70% in 2011-2012**)
- A global hunt for “bling” by luxury travelers is evolving into a **desire for rare and rewarding experiences**
 - customization** and **distinctiveness** are *the* watchwords
- Growing role of **social networks and internet reviews** in decision process: consumers are savvier and demand accurate, timely and engaging information

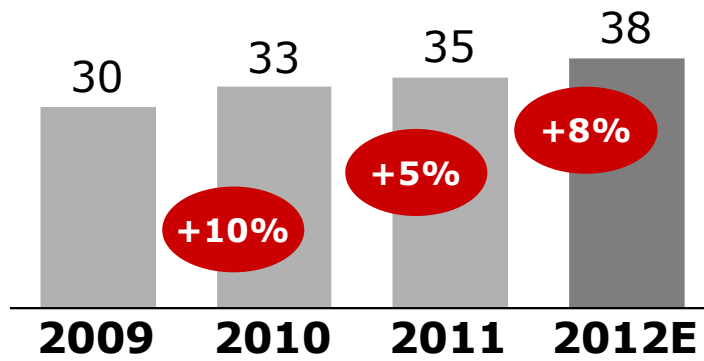
Trends by segment



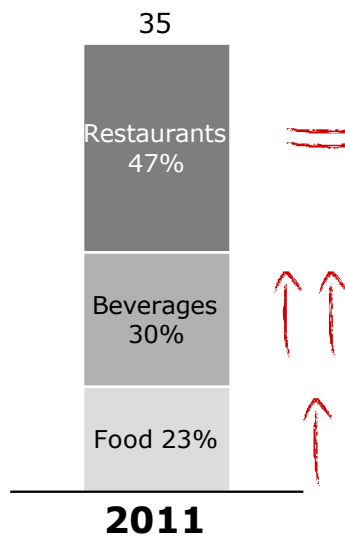
In-home luxury food keeping pace, out-of-home consumption suffering



Luxury Food Market trend (€B)



Trends by segment



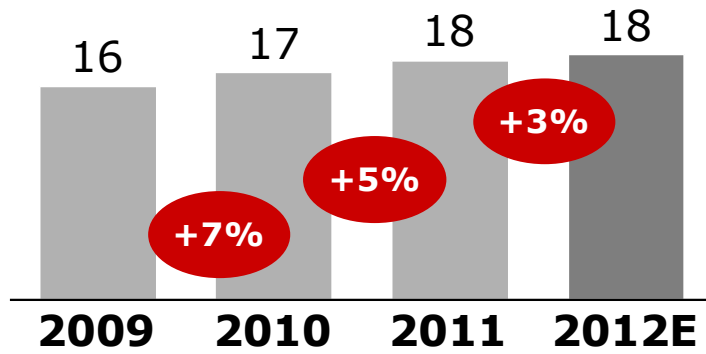
Key industry macro-trends

- **Steady growth**, lowering after 2010 strong rebound
- **Consumers** becoming **ever more selective**, looking for **quality** and **local products**
- Luxury restaurants have kept their **loyal clientele** but the **average spend** per customer is **lowering**
- **Bottled water best-in-class**, especially in Asia and US, **despite boom of filtered water** at home and in restaurants
- Convergence between **gourmet food** markets and restaurant **multi-purpose spaces**

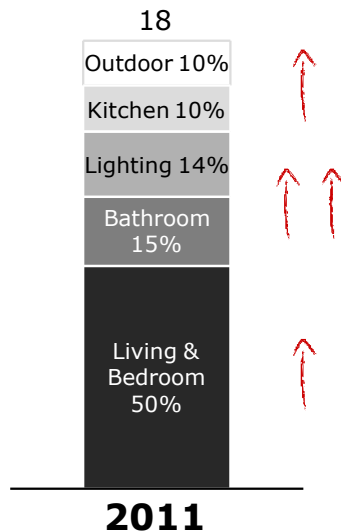
High-end design and furniture market in a slow downward trend



High-End Furniture Market trend (€B)



Trends by segment



Key industry macro-trends

- Continuous recovery trend **since 2010**
- Growth supported by **real-estate recovery** and **trade up effect**
 - Meaningful **innovations** in living concepts, **technologies** and **materials**
- **A dichotomy in performance** between **mature** and **emerging markets**
 - **EU** and **US** are flat or **slow growing**
 - **Emerging markets** experiencing a '**wave of design luxurization**'
- **Lighting and Bathroom** are the **main growth drivers** of the last two years, **outperforming** the **other categories**
- **Made-in-Italy** proves to be the **first choice** in **design and furniture**, especially for **emerging market customers**

Growth mainly driven by demand expansion, with innovation pushing lighting and bathrooms



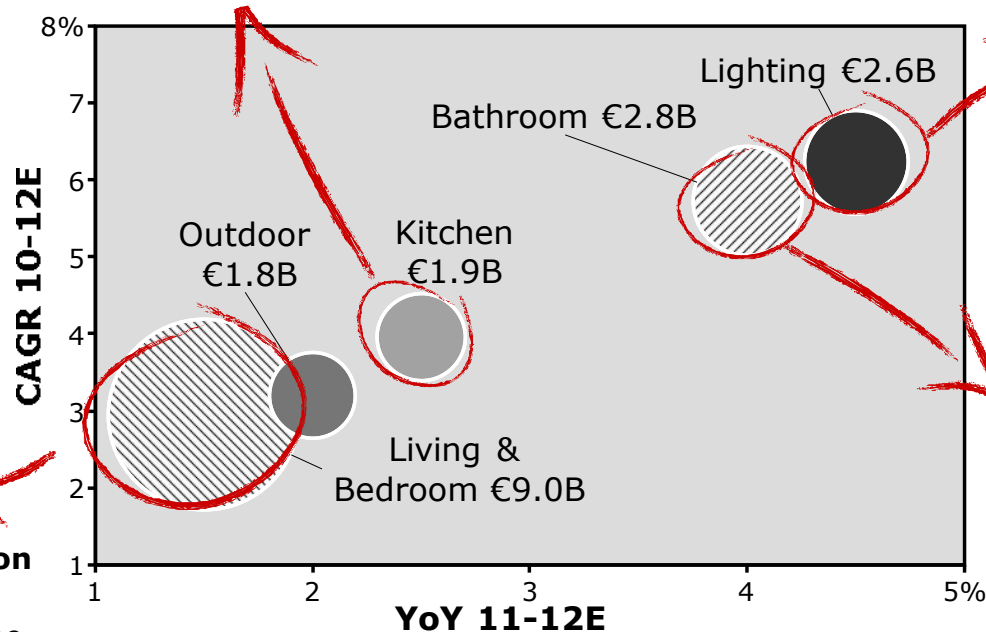
MARKET GROWTH BY PRODUCT SEGMENT, 2010-2012E (%)

Kitchen growing at average levels

- **Real-estate** restart in some geographies
- **Recovery of postponed purchases** from previous years

Lighting outperforming the other categories

- **LEDs and home automation** fulfill consumers' passion for technology, sustaining premium prices
- Growing attention to **energy saving**



Living & Bedroom good market responsiveness

- **Special/limited edition**
- **Fashion brands** increasingly entering the category
- **Eco/natural-trend**
- **Retail** expansion

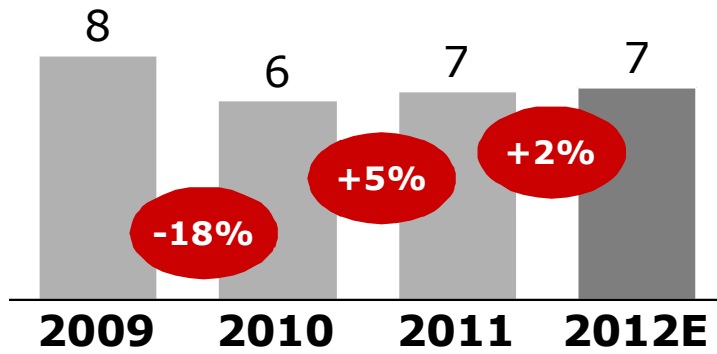
Bathroom fixtures reinvented to drive dynamism

- Increasing demand for **innovative** bathroom designs and concepts
- Dominance of **natural materials**
- Increased interest in **innovative accessories**

Yachts market still far from previous years' levels



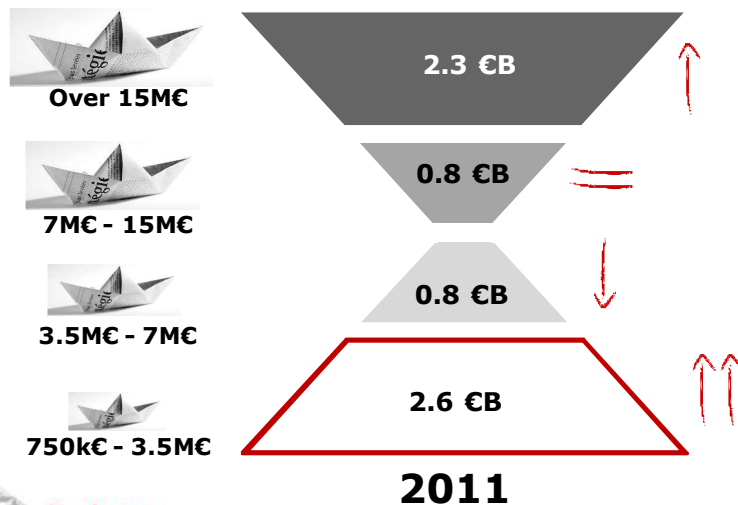
Luxury Yachts Market trend (€B)



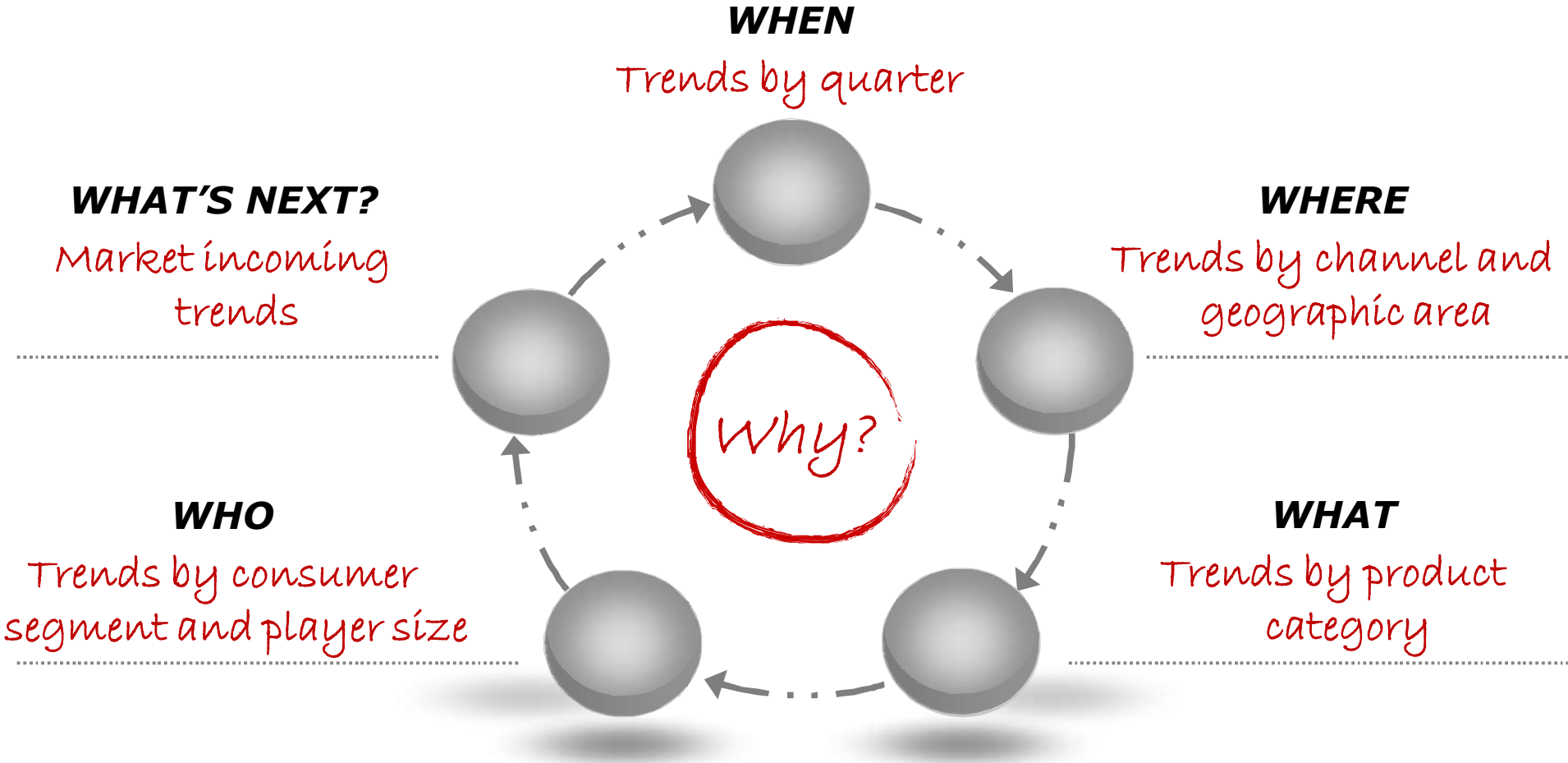
Key industry macro-trends

- **2011** the market showed the first signs of a **slow recovery** thanks to an increase in order taking from **emerging markets**
- **Macroeconomic** conditions undermine a full market recovery, causing a **slow down** in growth in **2012**
 - Strict fiscal policy (i.e. luxury taxes)
 - Leasing difficulties
 - HNWI wealth decreasing in mature markets
- More **optimistic expectations** for **emerging markets** especially through **alternative ownership configurations** (i.e. fractional ownership and time sharing)
 - Lack of adequate port infrastructure** still representing a **major drawback** to full expansion of yacht sales

Trends by segment



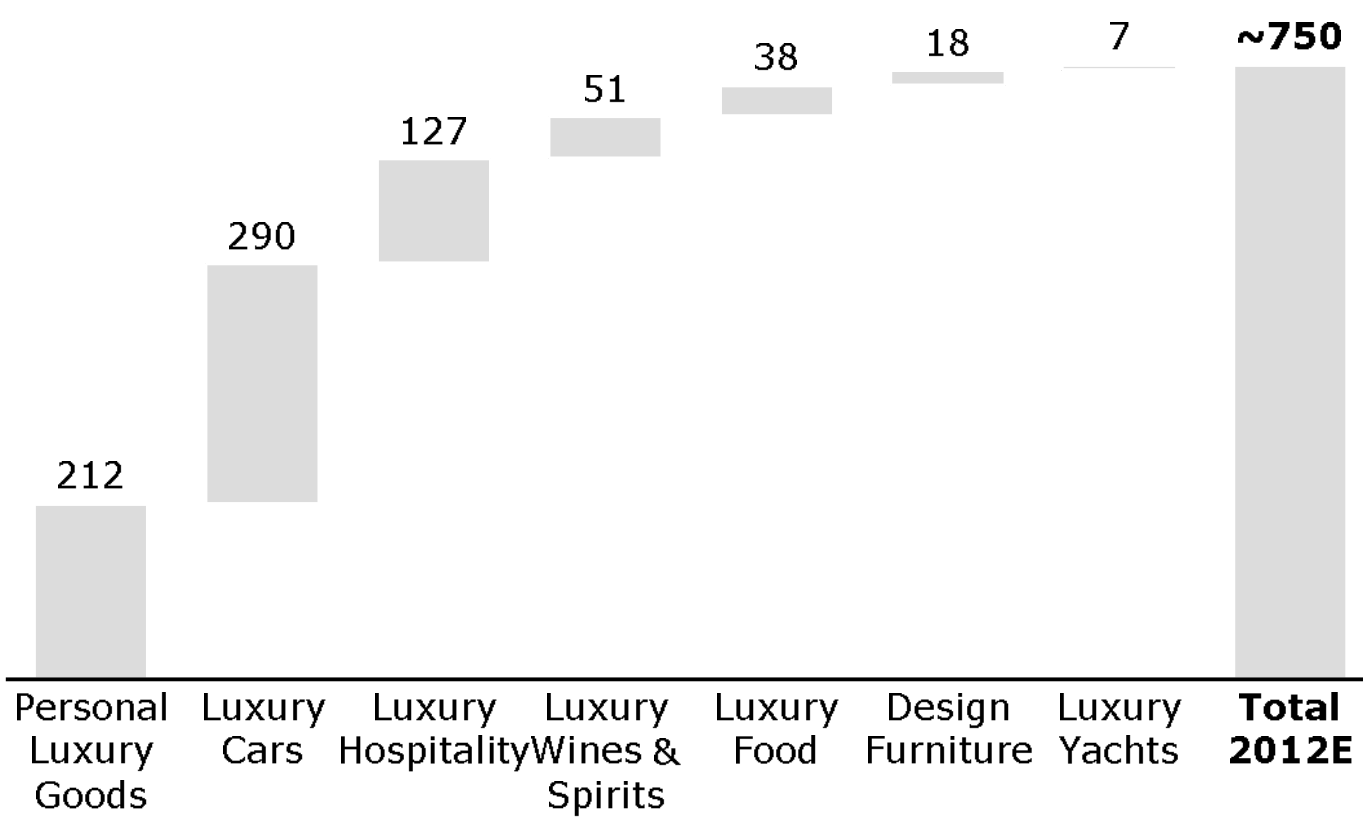
An additional "W" is fundamental to the outlook



Global luxury approaching €1Trillion



WORLDWIDE LUXURY "MARKET OF MARKETS" (2012E, €B)



**Growth
11-12E**

10%

4%

18%

12%

8%

3%

2%

9%



Fondazione
Altagamma

BAIN & COMPANY

So...what's happening?



- **Luxury** maintains **strong global fundamentals** in **all segments**, although **performance** differs by brand and market in a landscape of **economic uncertainty**
 - **High-ticket categories** (i.e. cars, yachts, design) **striving** to **grow** in line with previous years
- From **emerging markets** to **emerging consumers**
 - **Consumers** ever more **global** in their **luxury shopping** thanks to **increasing mobility**
- **Retailization** of **'unexpected categories'**
 - All **personal luxury goods**, including perfumes & cosmetics
 - **Gourmet food, fine wine** and **restaurants** increasingly **combined** in **multi-purpose formats**
- **On-line / Real-time**
 - **Embedded in the product** (e.g. from cars, to yachts, to home automation)
 - **Experienced in the store** (e.g. digital screens, tablet catalogues)
 - **Real time communication** between brands and consumers (communities, blogging)



In this changing luxury world, what has worked so far may not be enough anymore

The key macro-trend impacting luxury market in coming years is **generational shift**



Baby Boomers

55+

*Retired/retiring
Mainly men*



Generation X

35-55

*At the top of the career
Men & women*



Generation Y

20-35

*First earning money/2nd
generations
Only children*



Generation Z

0-20

*Spending dad's money
Spoiled kids*

Exclusivity & status

Scarcity

Detached selling ceremony

Personal relationship

Bricks & Mortar

Sense of belonging

"Customer relationship"

Multichannel

Uniqueness

24/7 availability (at click)

Tailored entertainment

360° experience

Omnichannel

How to succeed in next 10-15 years? Get prepared for **Luxury 2.0**

PERSONAL LUXURY GOODS MARKET TREND INDEXED (1995=100)

Luxury 2.0 imperatives



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



Claudia D'Arpizio
Luxury Goods Practice

Bain & Company

Claudia D'Arpizio is a Partner at Bain & Company. She is a leading member of the firm's Global Consumer Products and Retail Practices, and heads Bain's Luxury Goods and Fashion Practice.

For over 18 years, Claudia has advised multinational clients, mainly in fashion and luxury goods. She has extensively worked on issues relating to business unit strategy, sales and marketing, product and service adjacencies, channel strategy, new product development, innovation, acquisitions and divestitures, performance improvement and organizational changes.

Claudia is the lead author of Bain's annual 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 Consulting magazine one of the "Top 25 Consultants in the World"**.

Claudia is a frequent speaker and writer on luxury goods strategy and 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.

Claudia divides her time between Rome and Milan.

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