



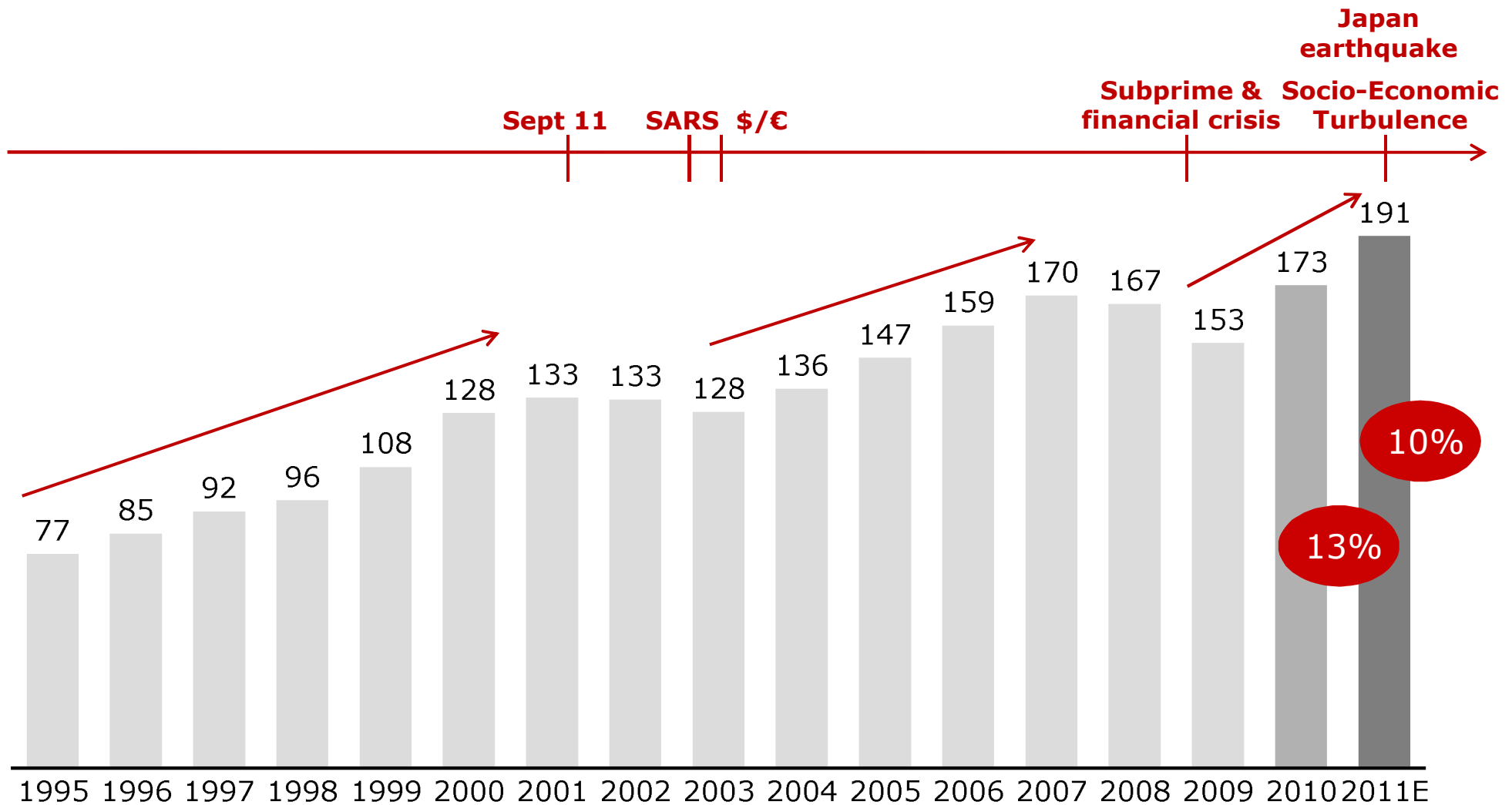
Fondazione  
Altagamma

# Luxury Goods Worldwide Market Study, 2011

## 10th Edition

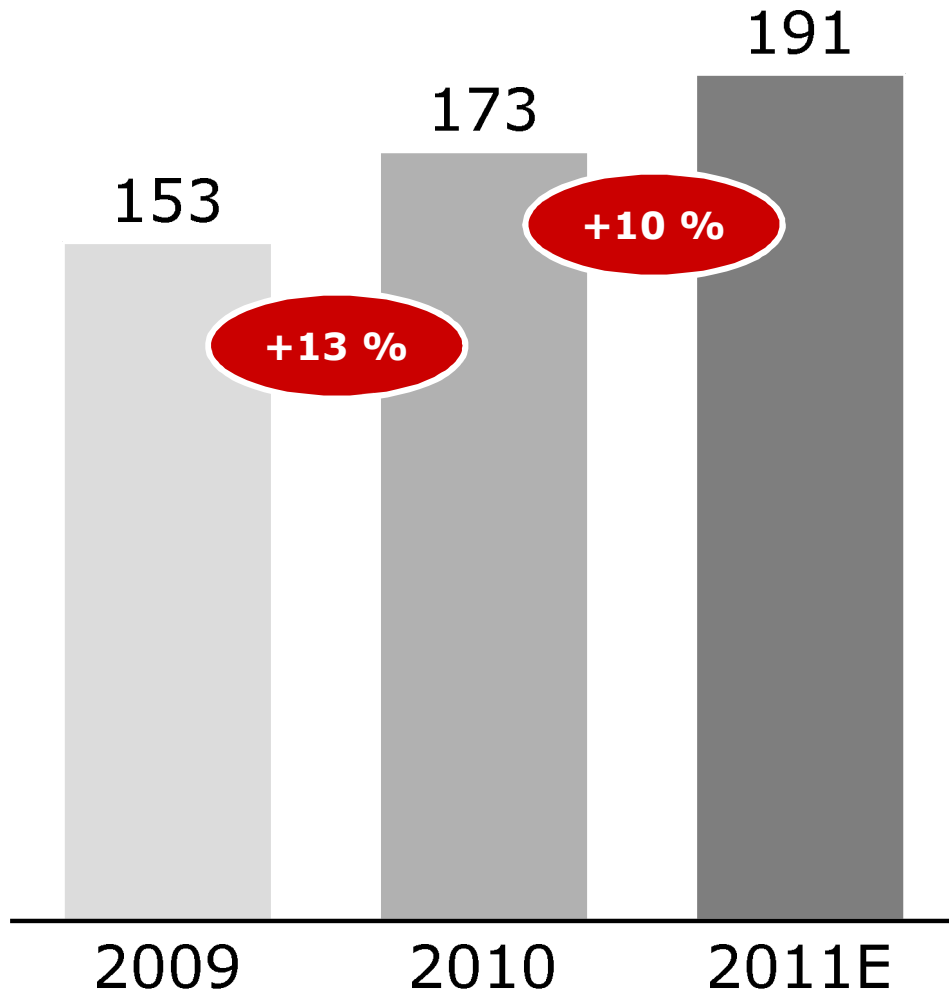
# 2010-2011: two phenomenal years for personal luxury goods despite global events

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

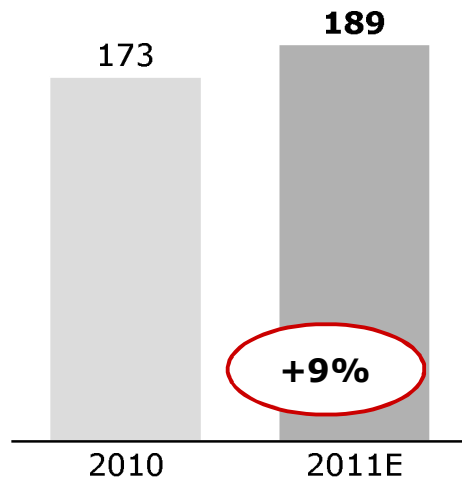
- New growth phase for local consumption in mature markets
- China, again, surging
- Japan earthquake effect milder than expected



# to slow down expected for the 2011 holiday season

## Worst scenario

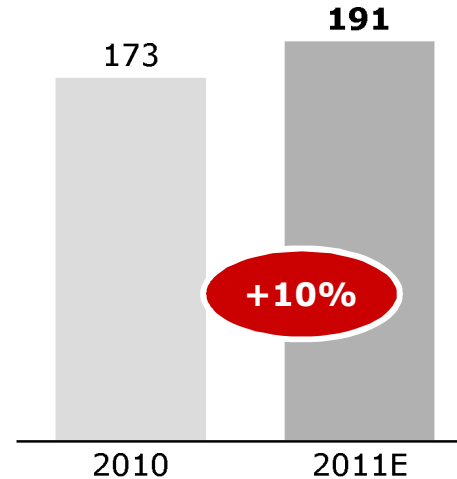
Worldwide Personal  
Luxury Goods 2011  
Scenarios €B



- Holiday season in line vs. 2010 (+3% vs last year)

10%

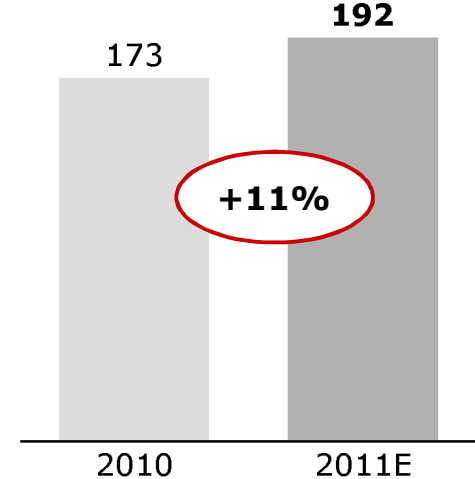
## Base scenario



- Holiday season growing vs. 2010 (+7% vs last year)

70%

## Best scenario



- Holiday season over performing (+10% vs last year)

20%

Main  
assumption

Assumed  
Probability

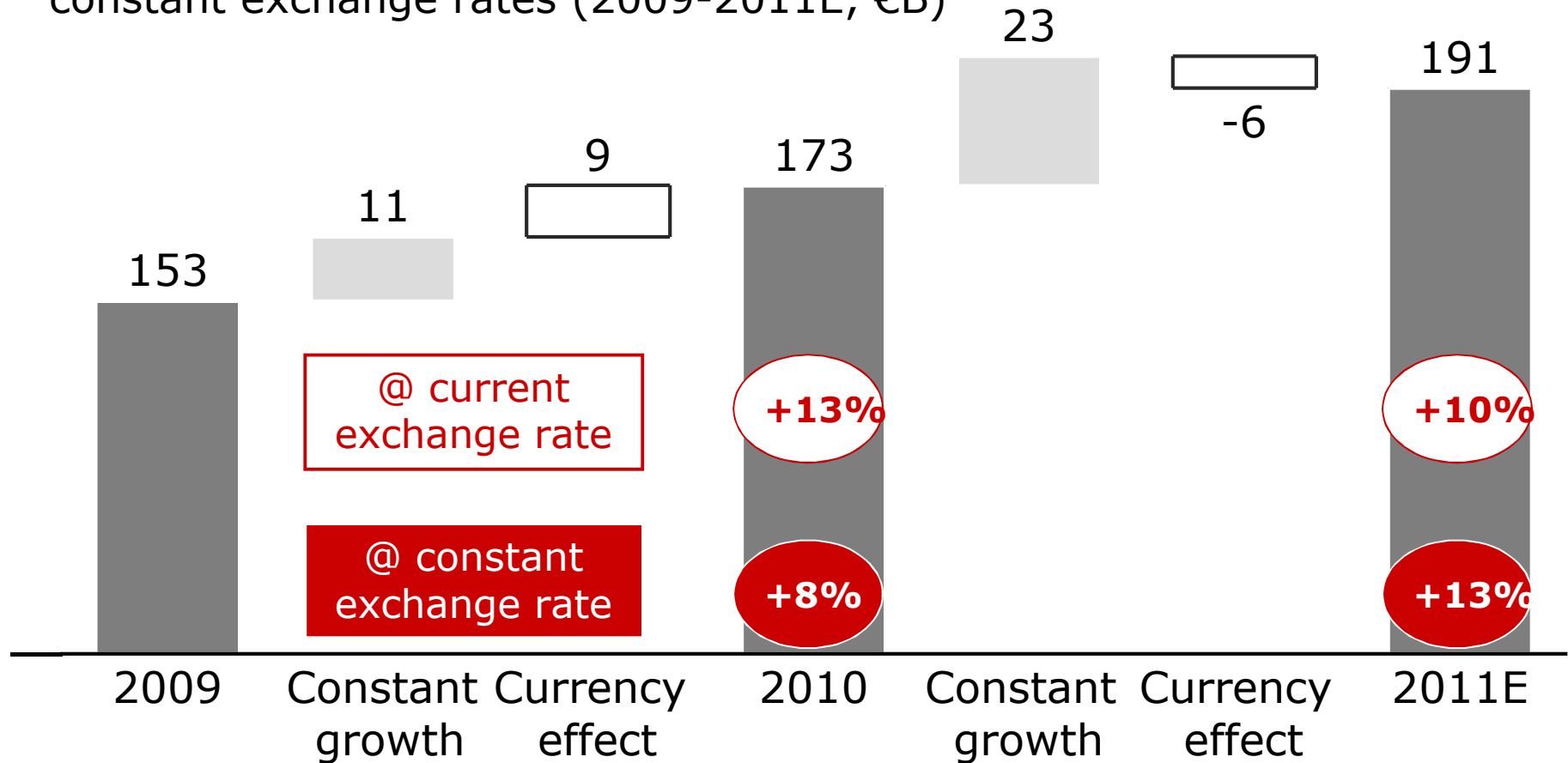


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# In real terms, the market is growing consistently at a double-digit rate

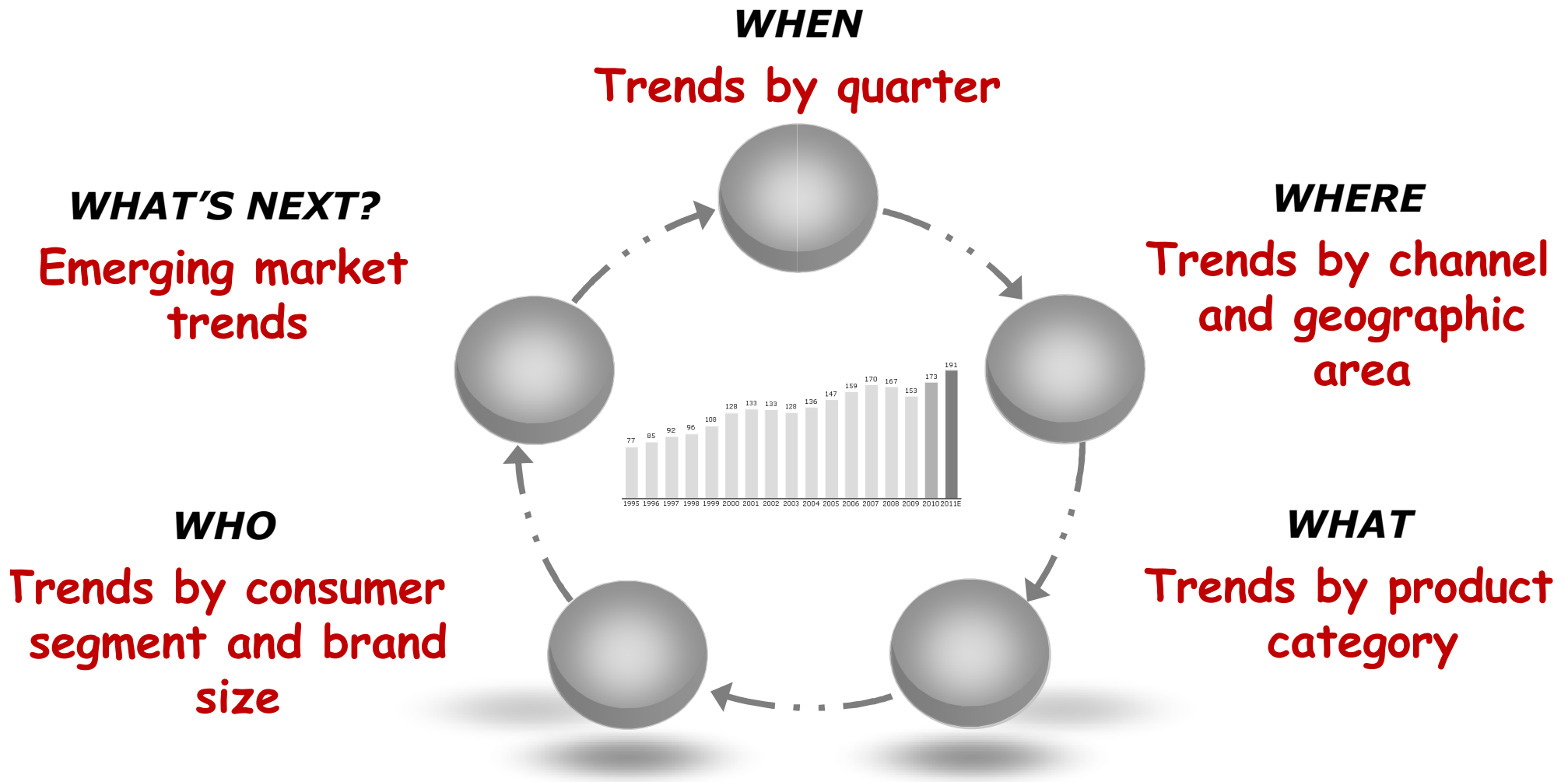
Worldwide Personal Luxury Goods Market trend @ current and constant exchange rates (2009-2011E, €B)



€/\$	1.4	5% US dollar appreciation	1.3	-5% US dollar depreciation	1.4
€/Y	130.0	12% Yen appreciation	116.1	3% Yen appreciation	112.7



# 5 W's" for analyzing 2010-2011 Personal Luxury Goods market performance

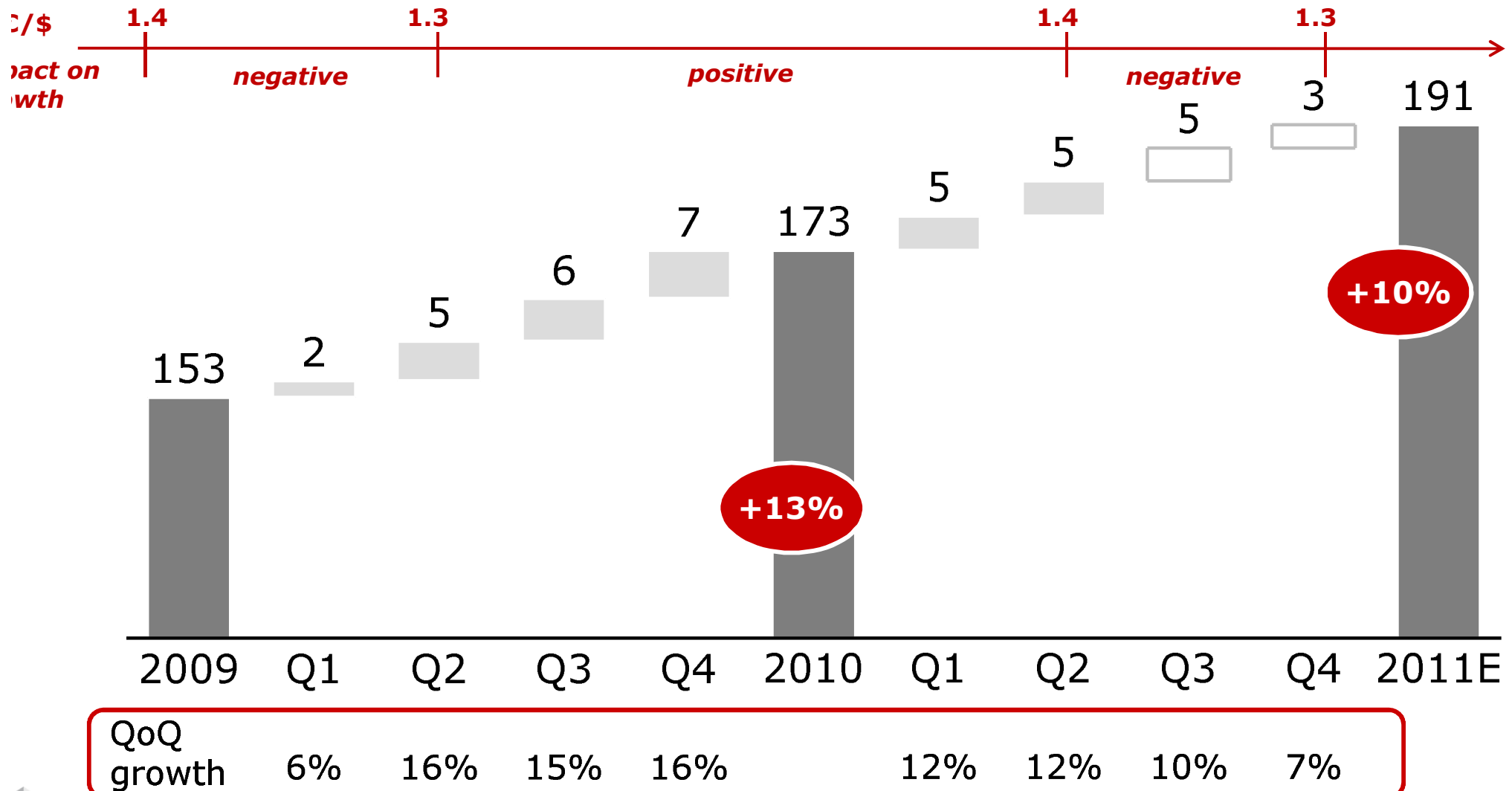


# The positive effect of exchange rates on revenue shifted to negative in the second half of 2011



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

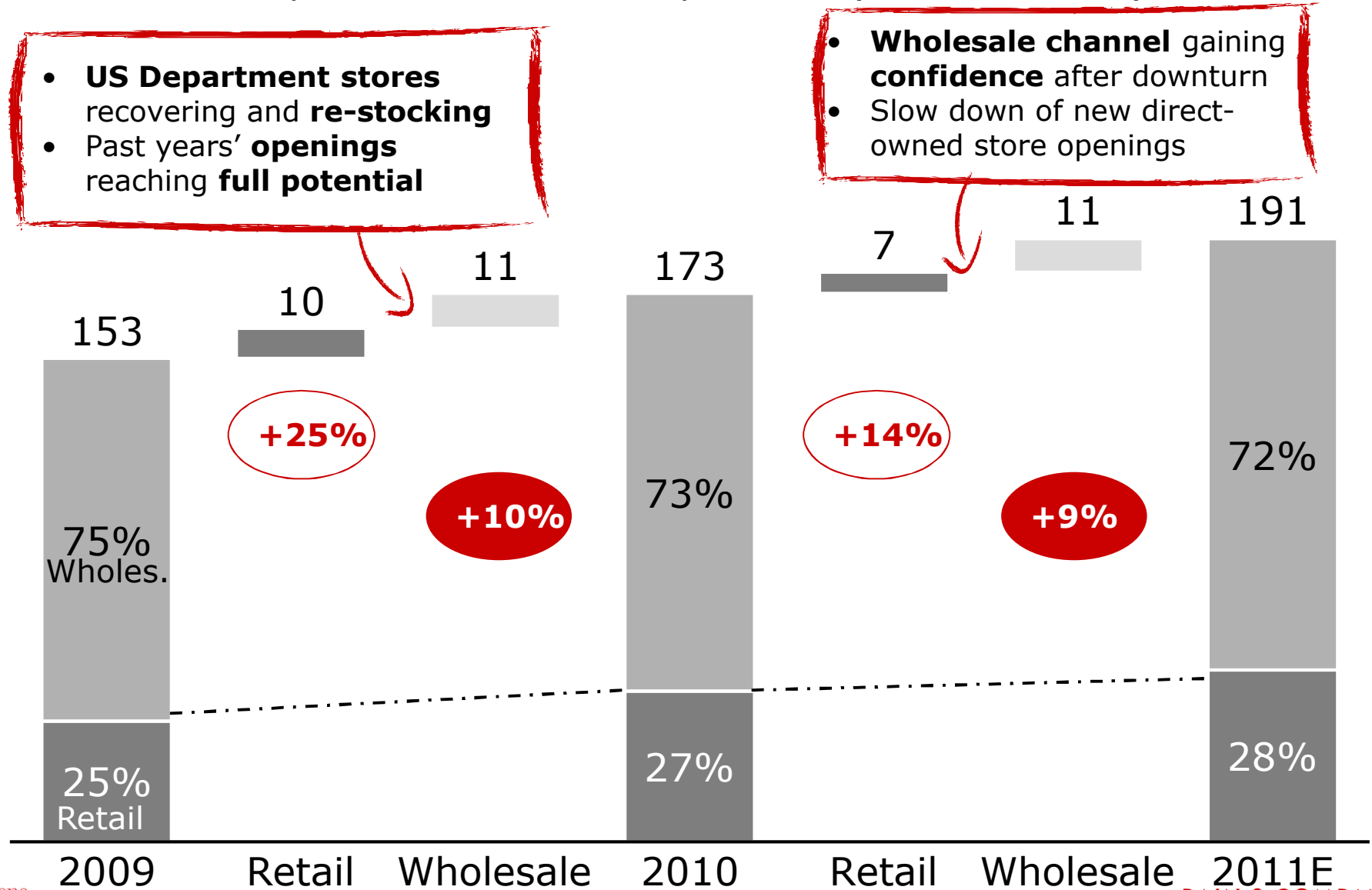
Based on listed companies result  
 Based on Bain estimates



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



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





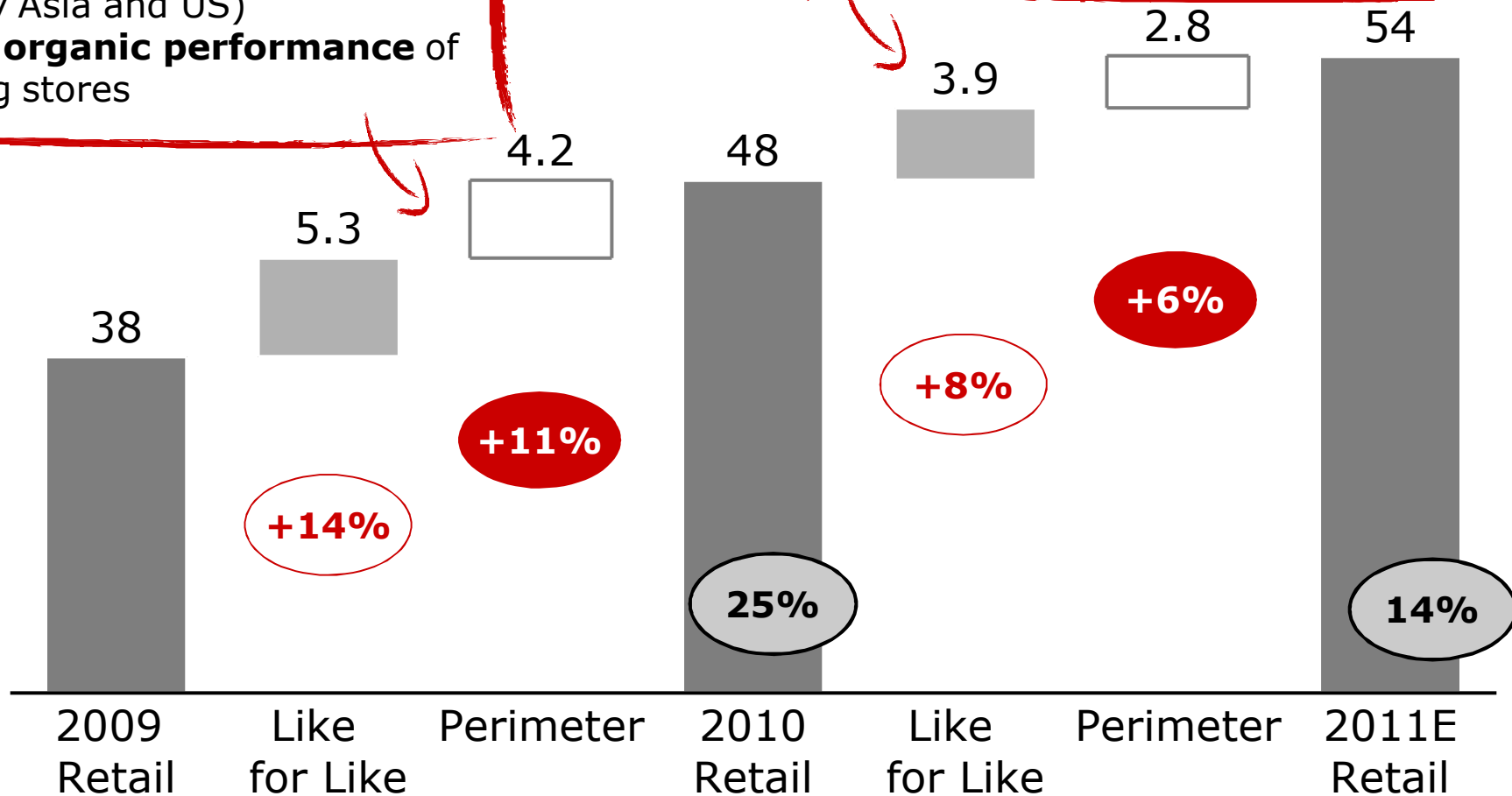
# Perimeter growth slowing down in 2011: players are reducing the pace of new openings



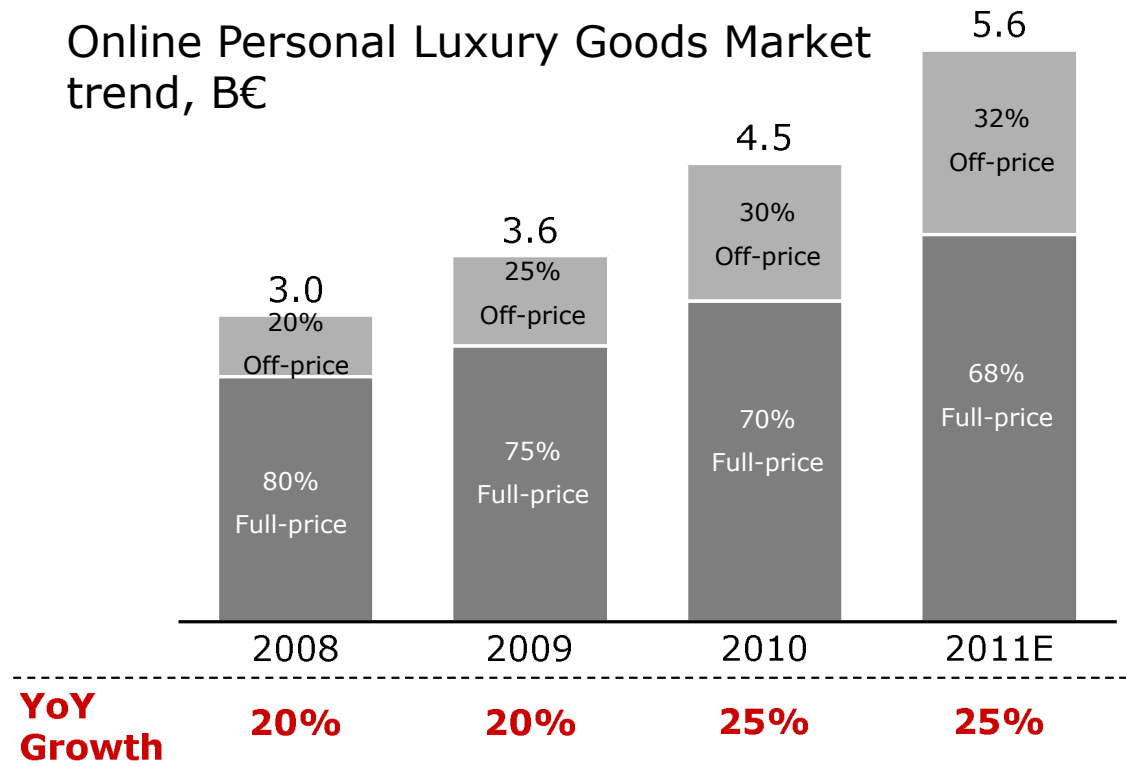
Worldwide Personal Luxury Goods Market  
Trend – Retail channel (2009-2011E, €B)

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

- **Slow down of new openings:**  
Investment reductions planned during the crisis
- **Network maintenance:** relocation and refurbishment of current stores



# 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

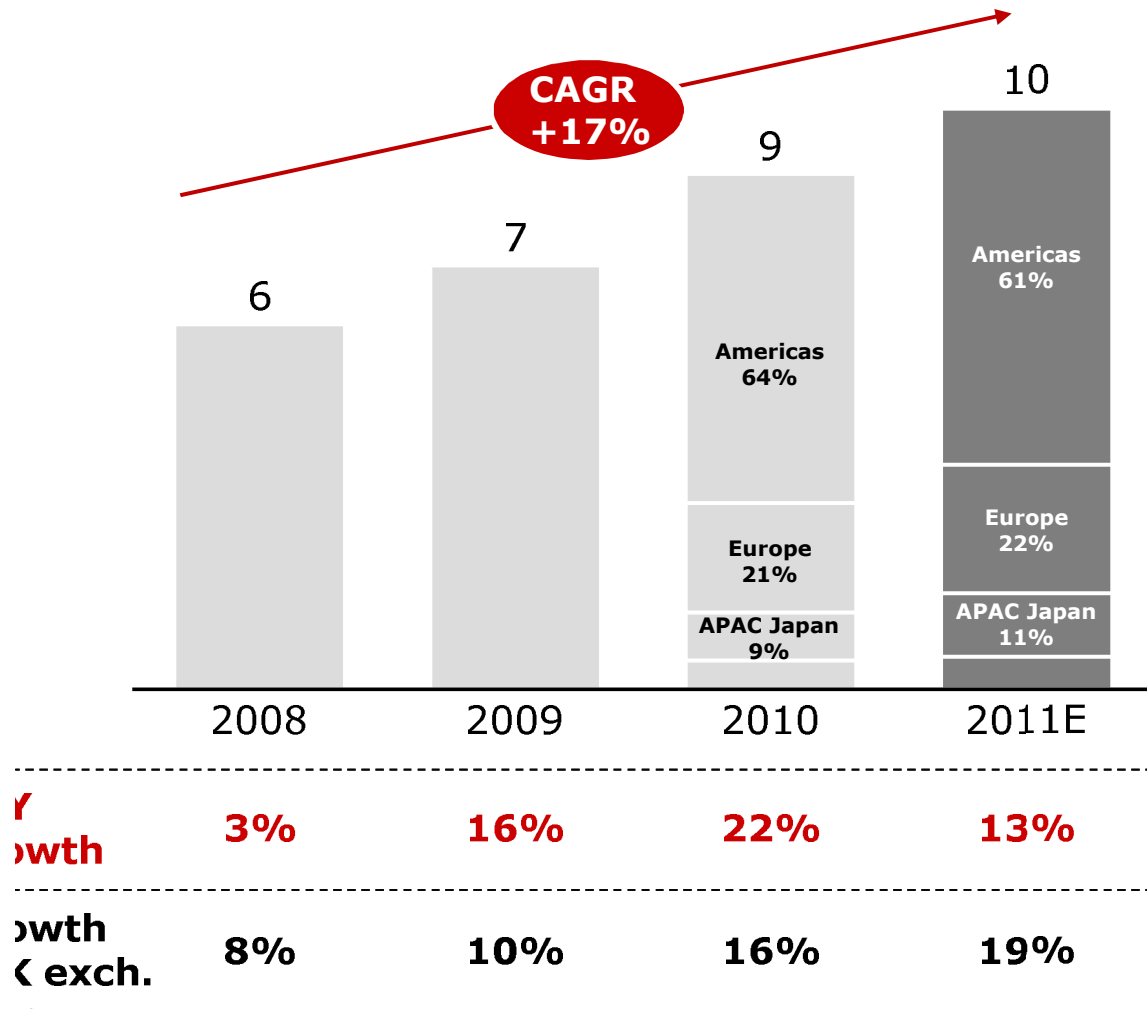
**Private sale websites** gaining share within off-price segment



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



Off-price Personal Luxury Goods Market, B€



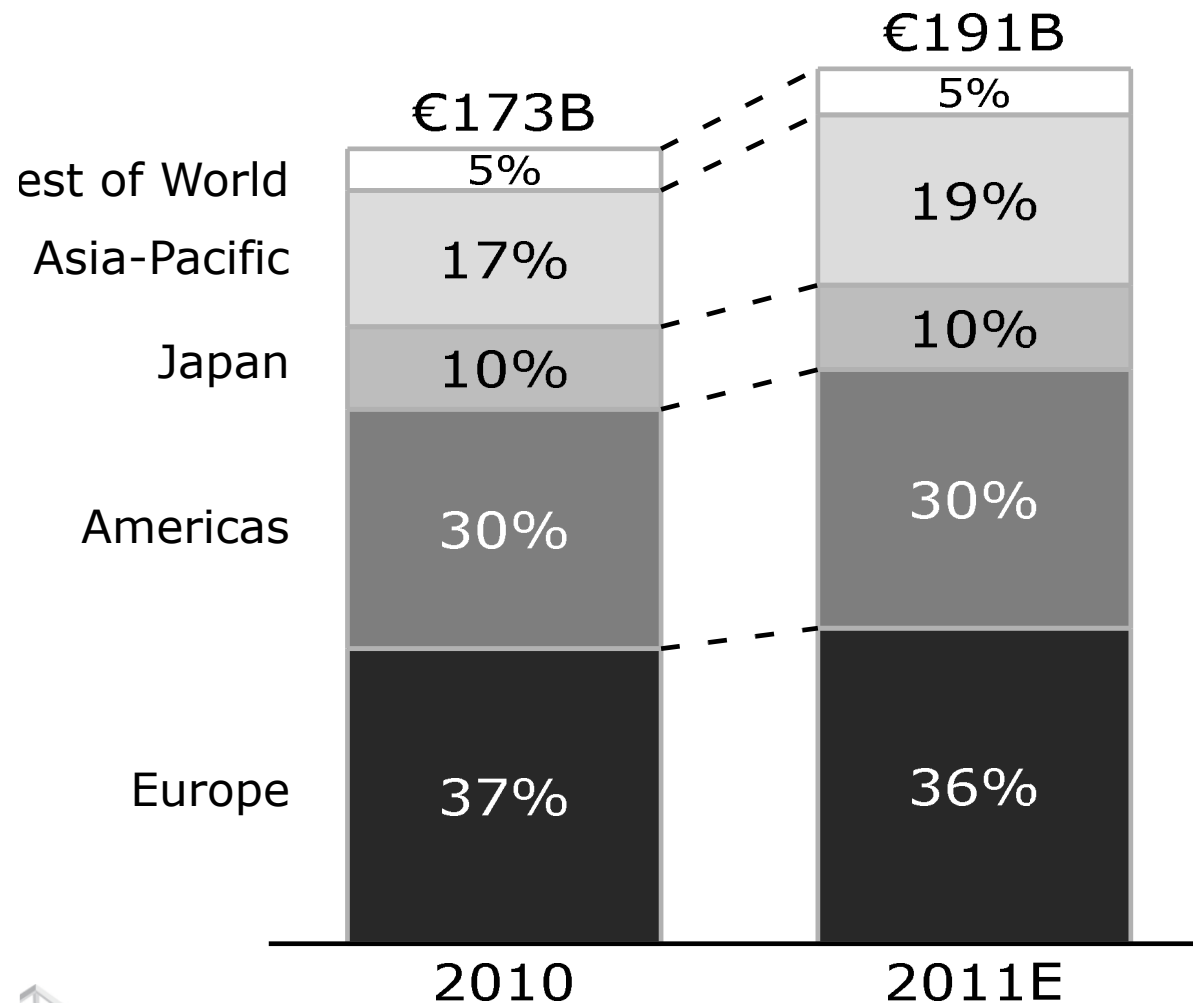
- **Off-price channel** now accounts for ~5% of overall market
- **Different stages of development** for the various regions:
  - **North America & Japan: mature and consolidated market** with limited growth perspectives
  - **Europe: highly fragmented market** with **new developments** in pipeline
  - **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



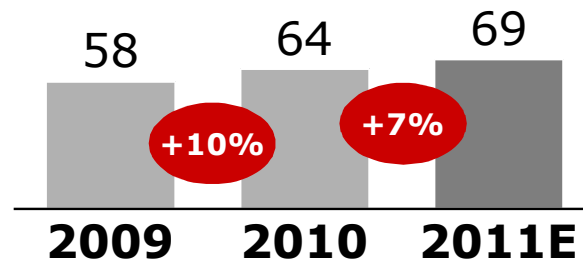
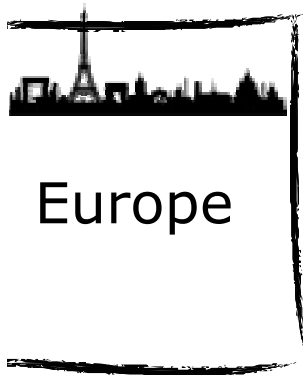
YoY '10 vs '09



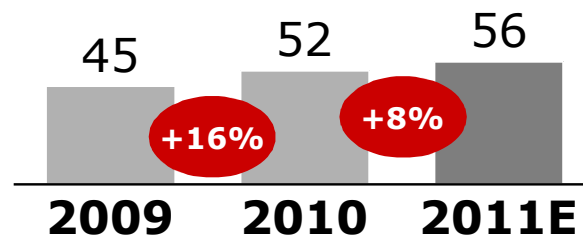
YoY '11E vs '10



# 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



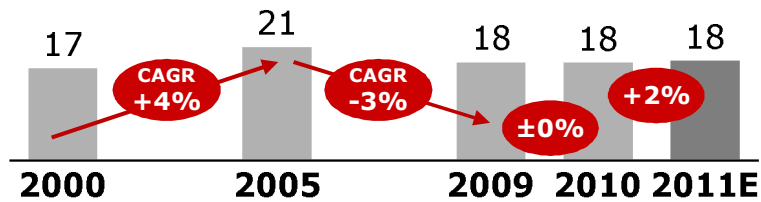
- **2010** growth driven by **women categories** and **full recovery** of **jewelry** and **watches**
- **New openings** in **2<sup>nd</sup> and 3<sup>rd</sup> tier cities** and locations
- General trend of **turning department stores into concessions** in order to gain control over a strategic channel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

# apan: is the dark period over?

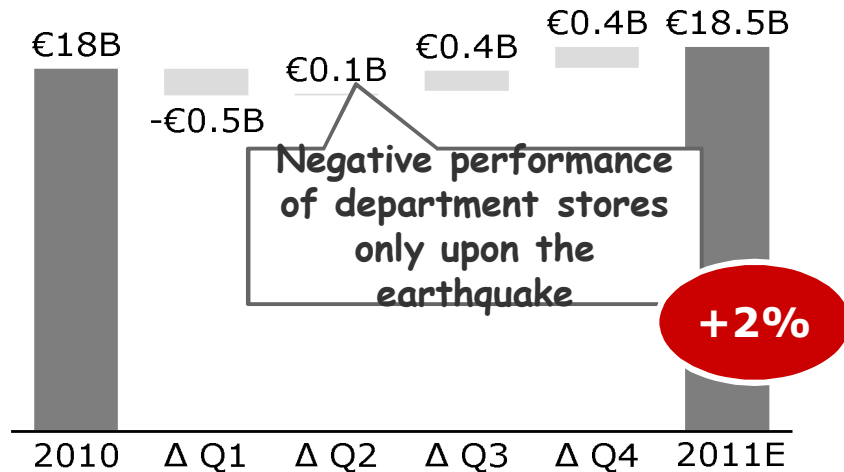


## Japan

Japan Personal Luxury Goods Market, €B



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



QoQ growth	-12%	2%	8%	8%
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- 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)

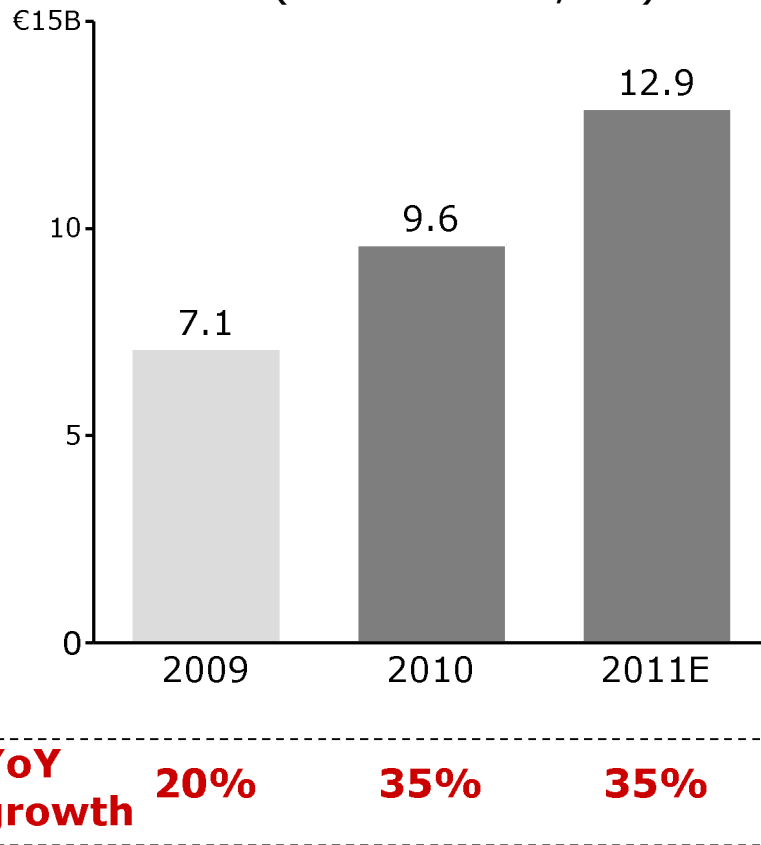


# Impressive and healthy growth in China



## 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

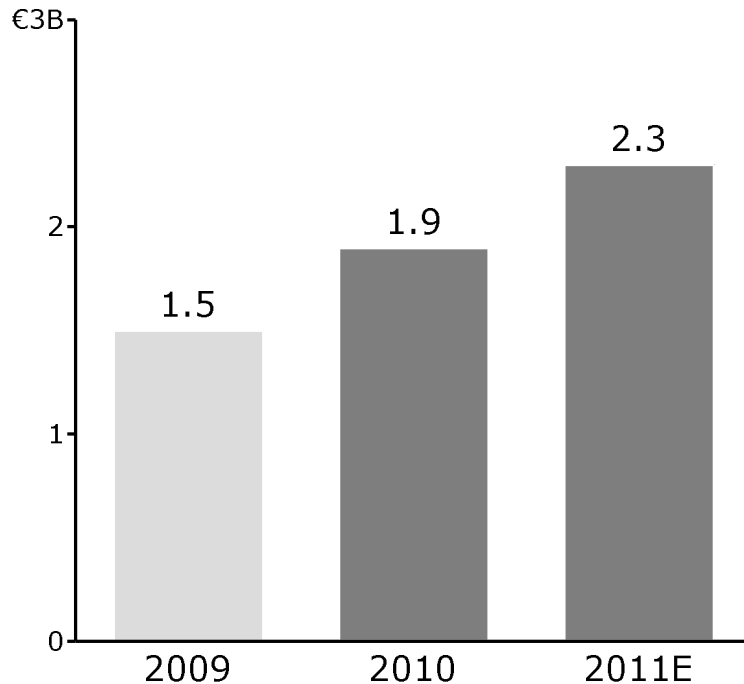


# Brazil: a small but fast-growing market



## 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

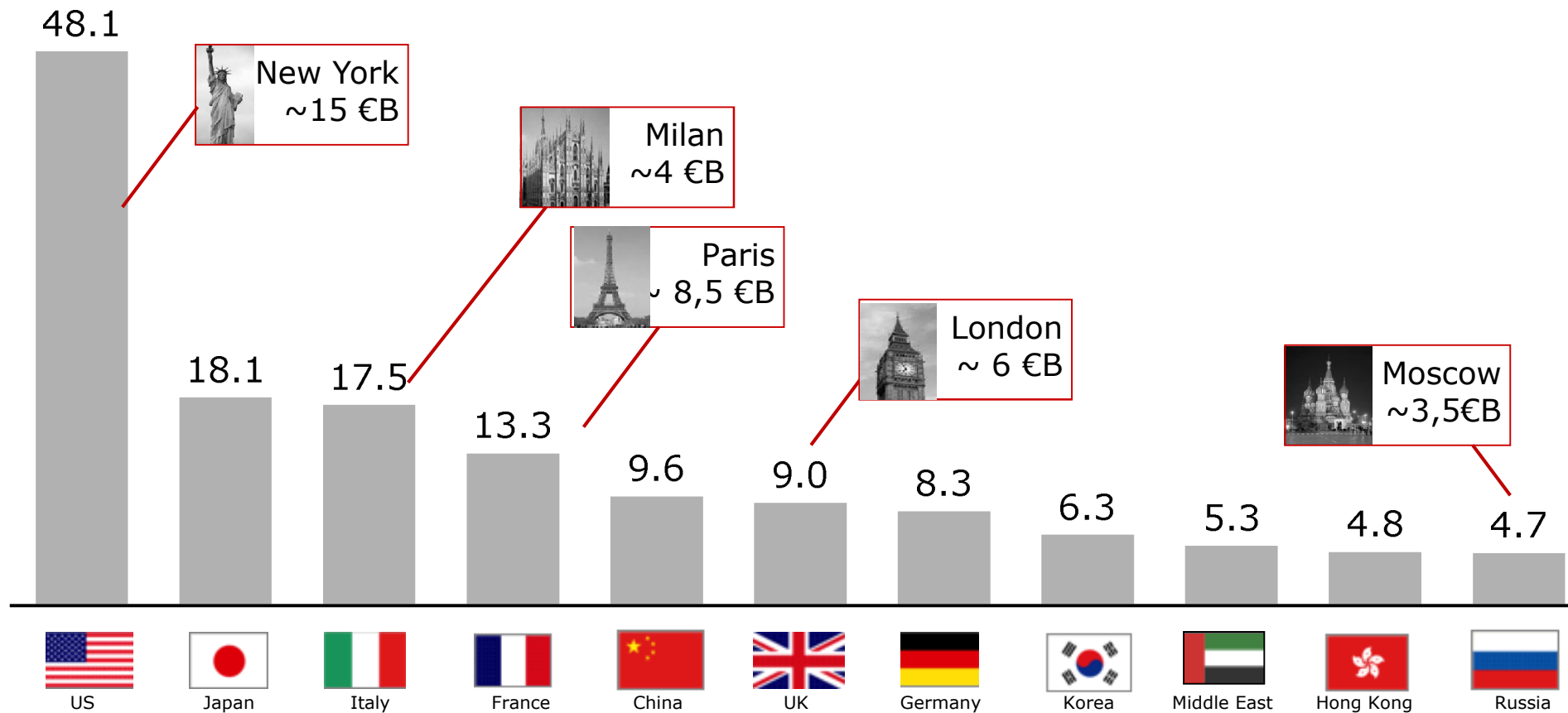




# Ranking by country: Mainland China has overcome the U.K.; Hong Kong is bigger than Russia



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



**Growth 09-10**

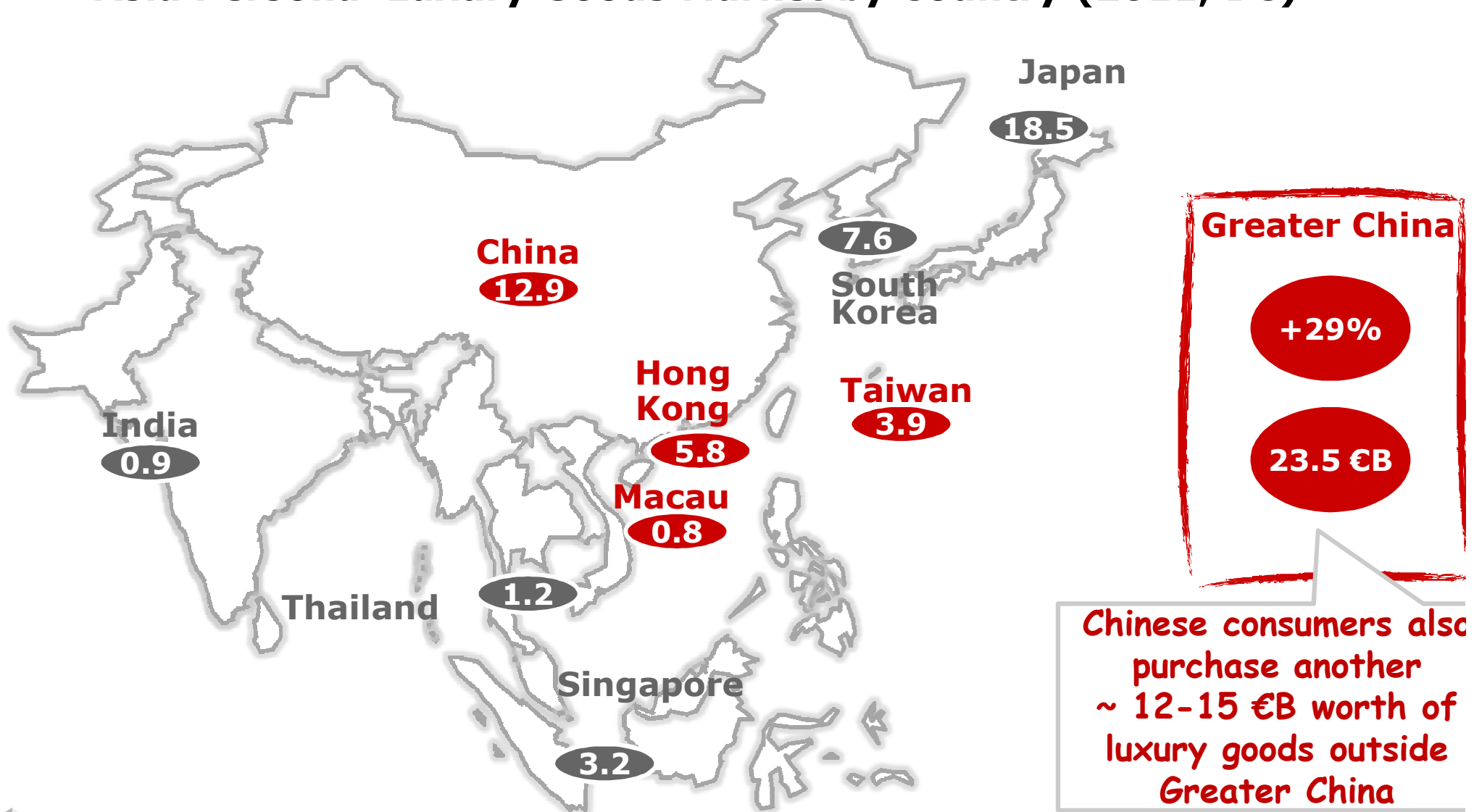
Country/Region	Growth 09-10 (%)
US	15%
Japan	0%
Italy	13%
France	12%
China	35%
UK	9%
Germany	9%
Korea	25%
Middle East	12%
Hong Kong	30%
Russia	4%



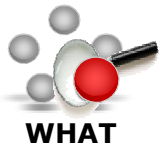
Chinese customers, at home and abroad, account for more than 20% of global luxury consumption



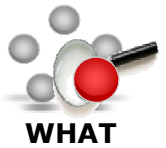
## Asia Personal Luxury Goods Market by Country (2011, B€)



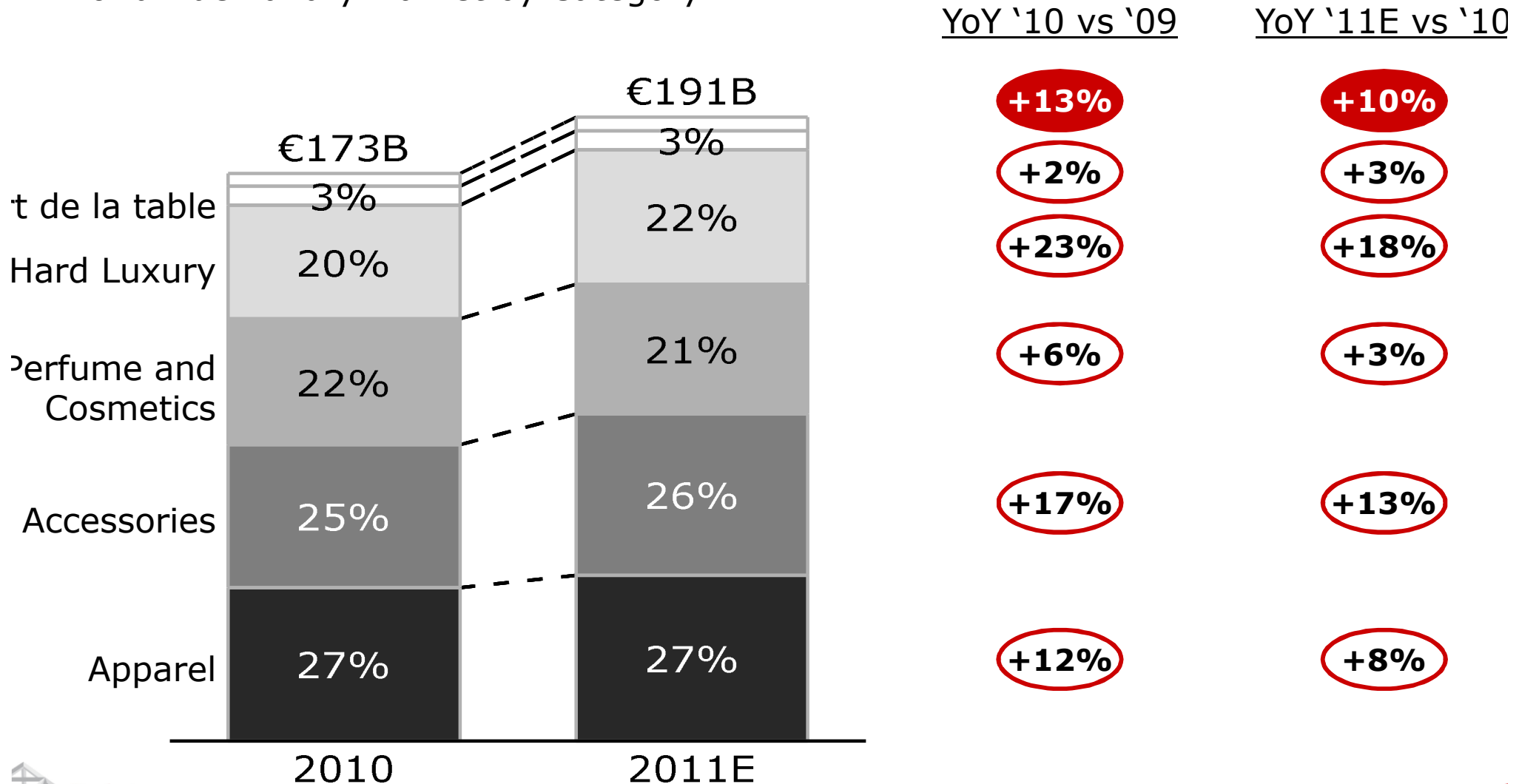
# Watches: an old yet very contemporary category, leading the wave of growth



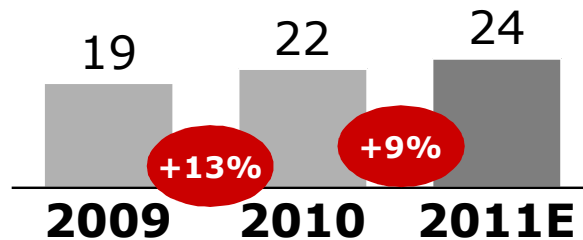
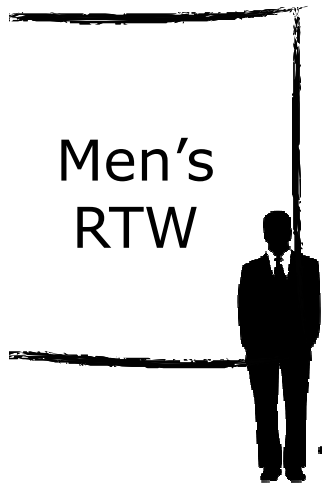
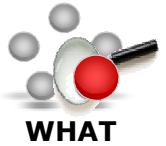
# Hard luxury's rebound is a key contributor to growth in 2011



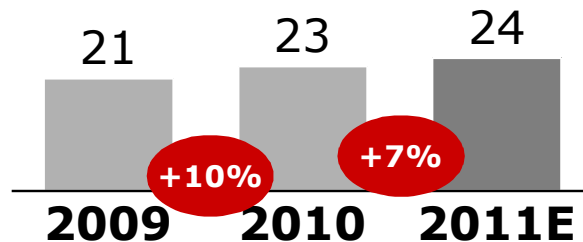
Worldwide Luxury Market by Category



# new interpretations of formalwear and overall casualization" drive growth in apparel



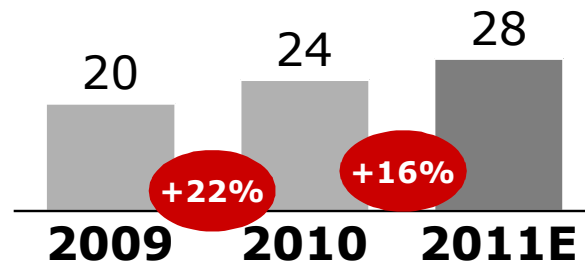
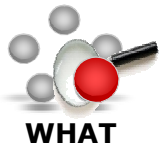
- Menswear **outperforming** the **overall apparel market**, mainly driven by “**new formal**” (mature markets) and “**upper casual**” (China)
- Many lifestyle brands investing in **men’s-only stores** in key locations
- **Increasing polarization in 2010**
  - **Accessible** brands +17%
  - **Aspirational**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



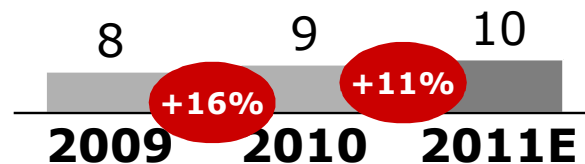
- **Rebound** of products and brands with **high fashion content** for special occasions in the high-end segment
- Progressive “**casualization**” of **everyday dressing**
- **Strong competition** from “**premium champions**” and **fast-fashion** retailers makes luxury womenswear **underperform** the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



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



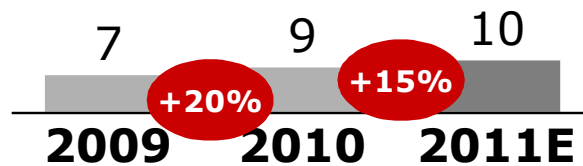
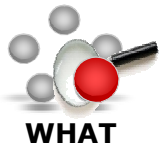
- **Strong growth across all geographies**
- **Increasing men's spending**, especially in Asia, with China having the largest share of male consumers
- **Consumer consciousness** at all price levels
  - **Clear positioning** of **top-ranked brands** in the mindset of consumers
  - No compromise on **quality,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



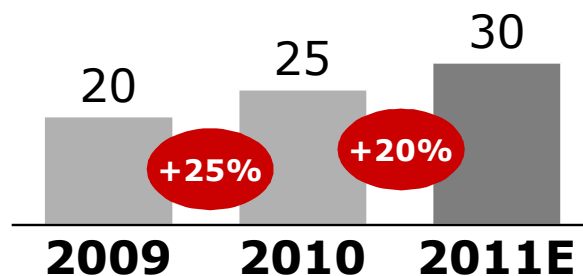
- **Big brands heavily investing** in this category, driving **growth** in the **aspirational segment**
- **Men shoes outperforming the market**
- **2011** confirms the **trend** towards the **launch** of **products** with **lower price points** (e.g. tubular) already anticipated in 2010 by the boom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



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



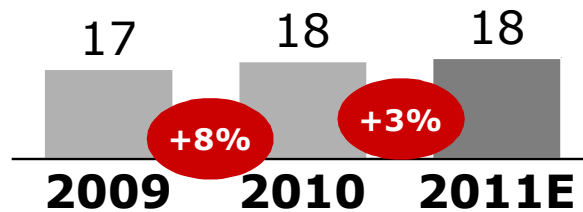
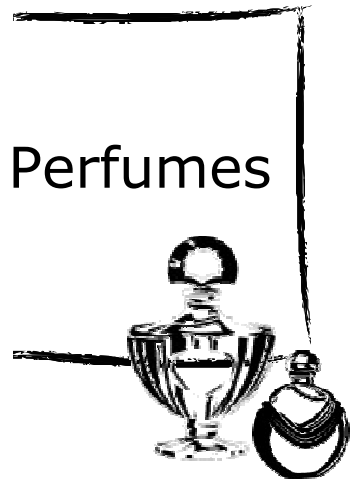
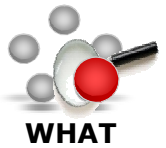
- Very good performance of **accessible segment** in **2010** (silver jewelry)
- Benefits from “**brandization**” of the entire industry
- Ongoing **expansion** of **directly-operated stores** in **2011**
- **New entries** of **lifestyle brands**



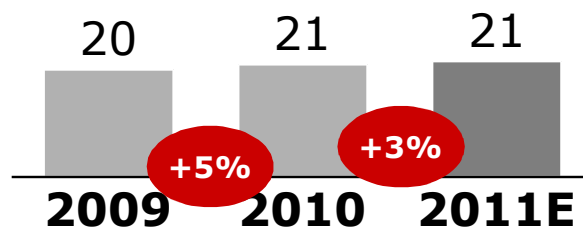
- In **2010**, **Swiss watch exports** finally recovered after financial turmoil
- **Growth** spread across **geographies** and **price segments**
- Watches segment, traditionally wholesale driven, **is starting to invest heavily in retail, especially in Asia**
- **Growing female consumption** (jewel-watches)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

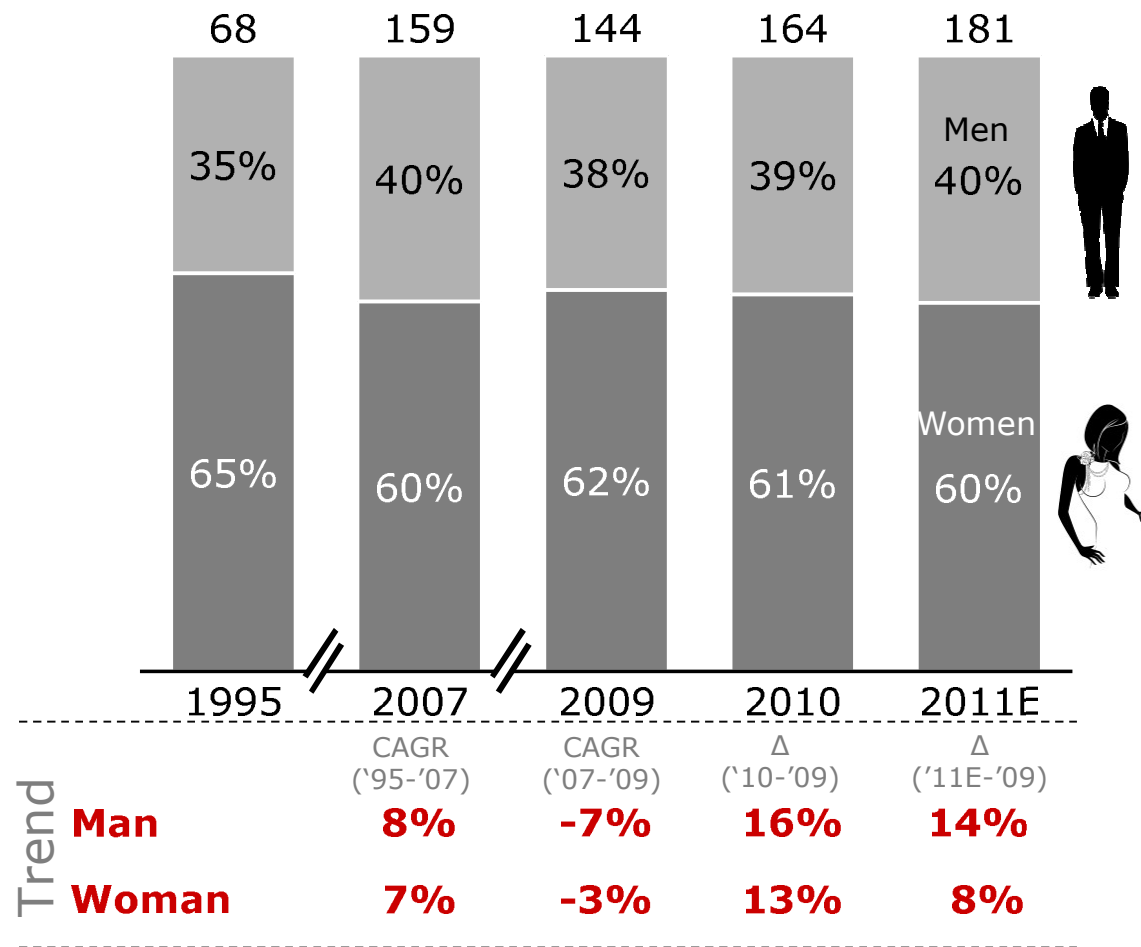




# Men's market is over-performing women's in all categories



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**



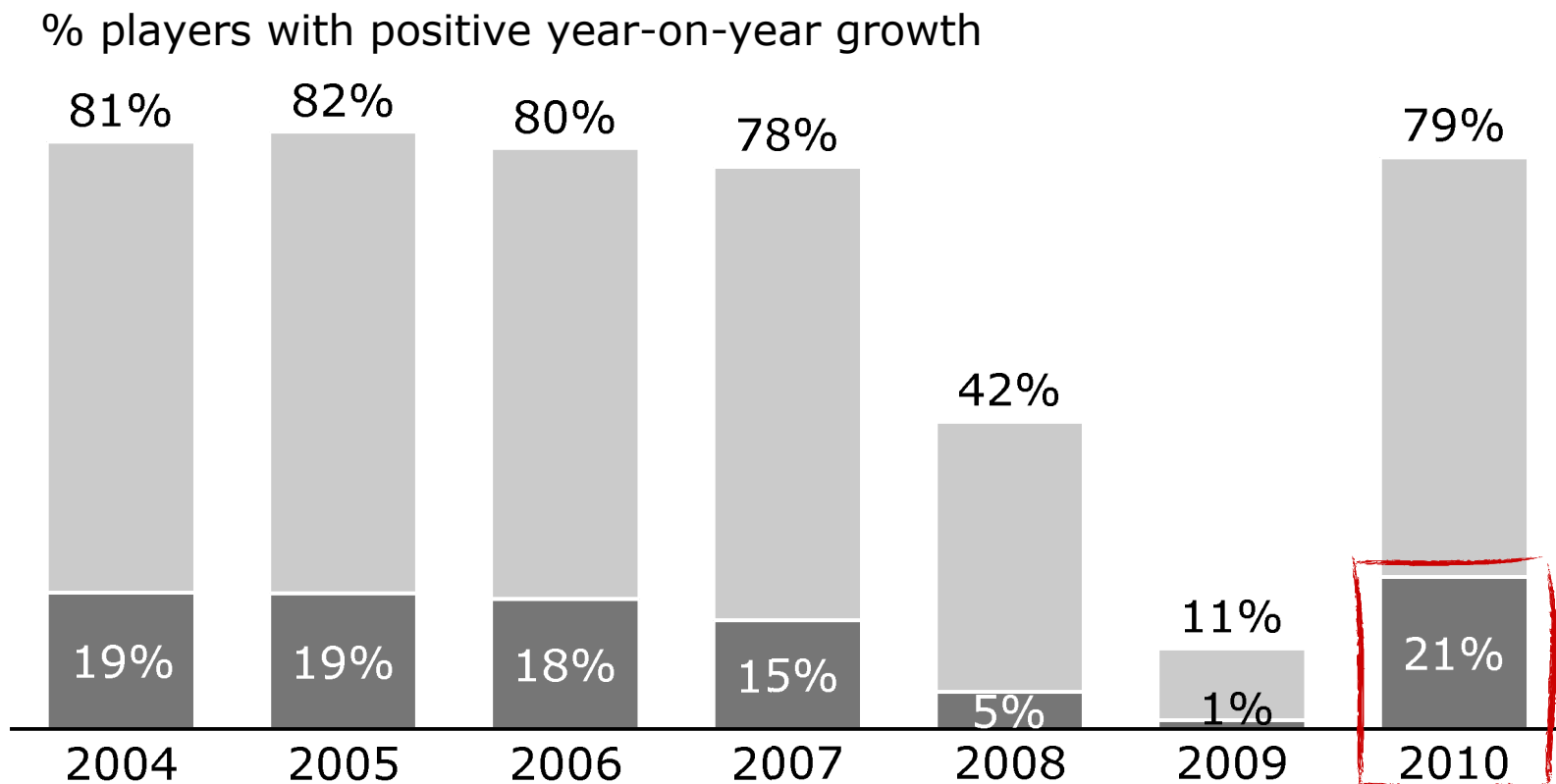
Strong market momentum: 80% of brands grew and the number of stars is the highest ever



## MARKET GROWTH QUALITY INDEX

*Analysis @ 1995 fixed rates*

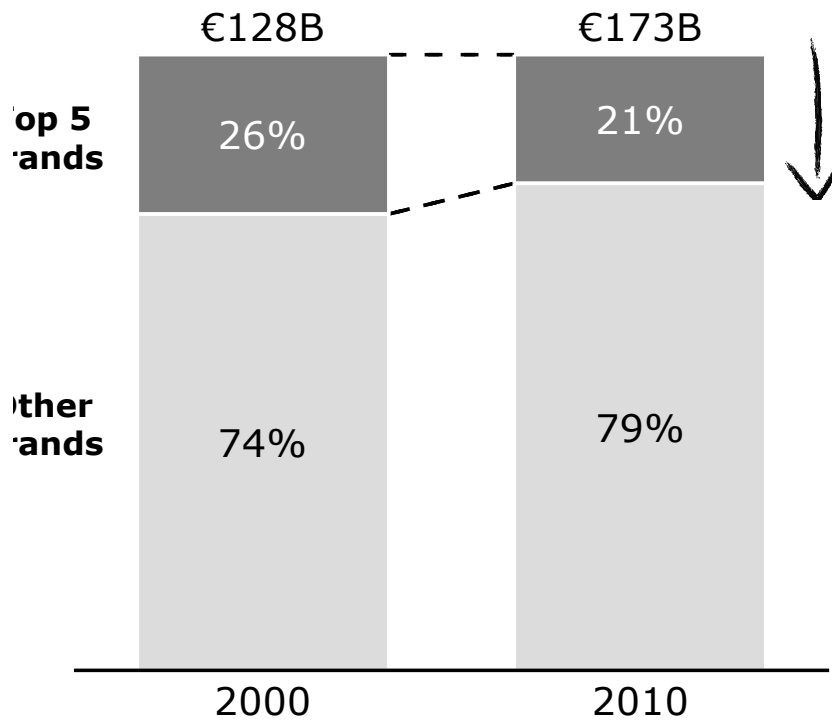
Weight of "stars"  
(players with growth  
rates above 20%):



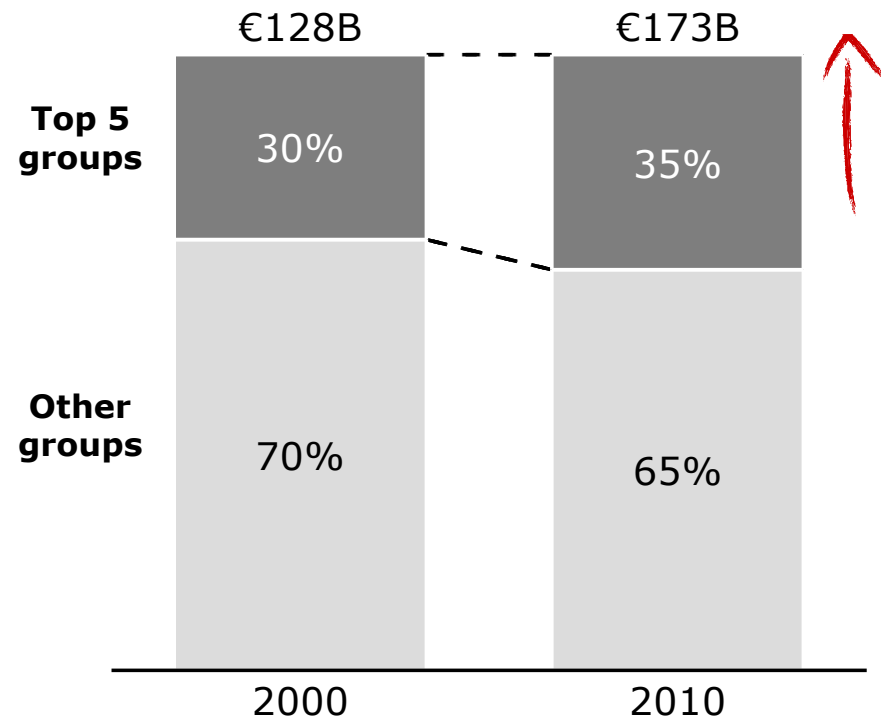
# Strong competition at the brand level drives increasing concentration at the group level



Trend of Top-5 Luxury Brands' Share



Trend of Top-5 Luxury Groups' Share



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

++

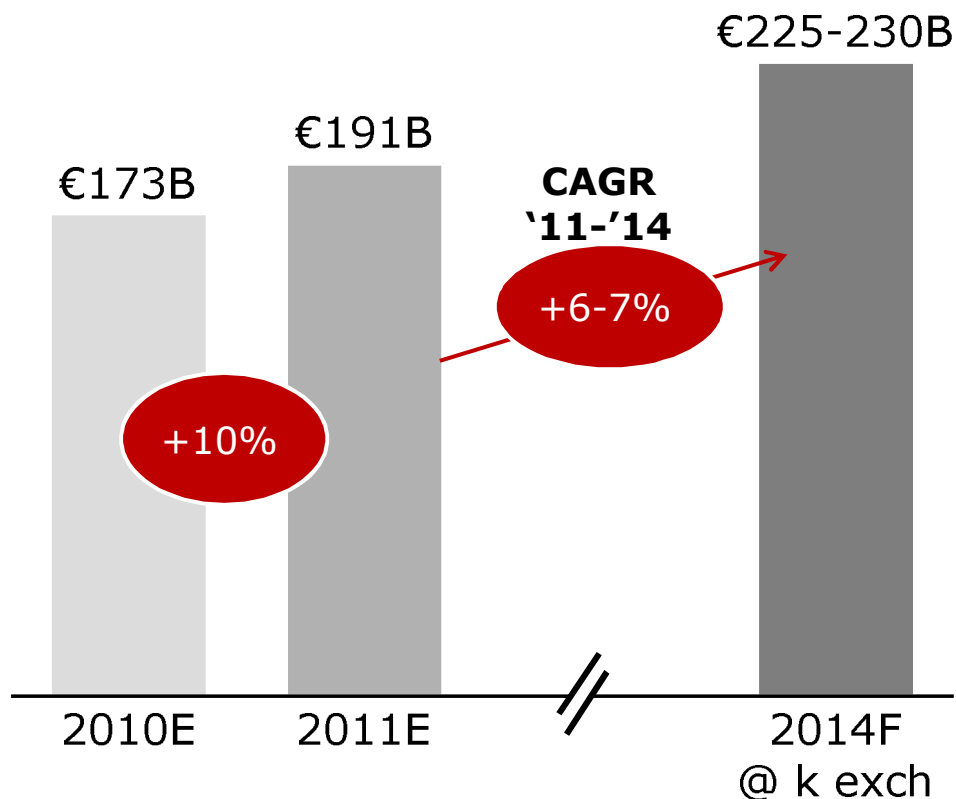


## Worldwide Luxury Market

- **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



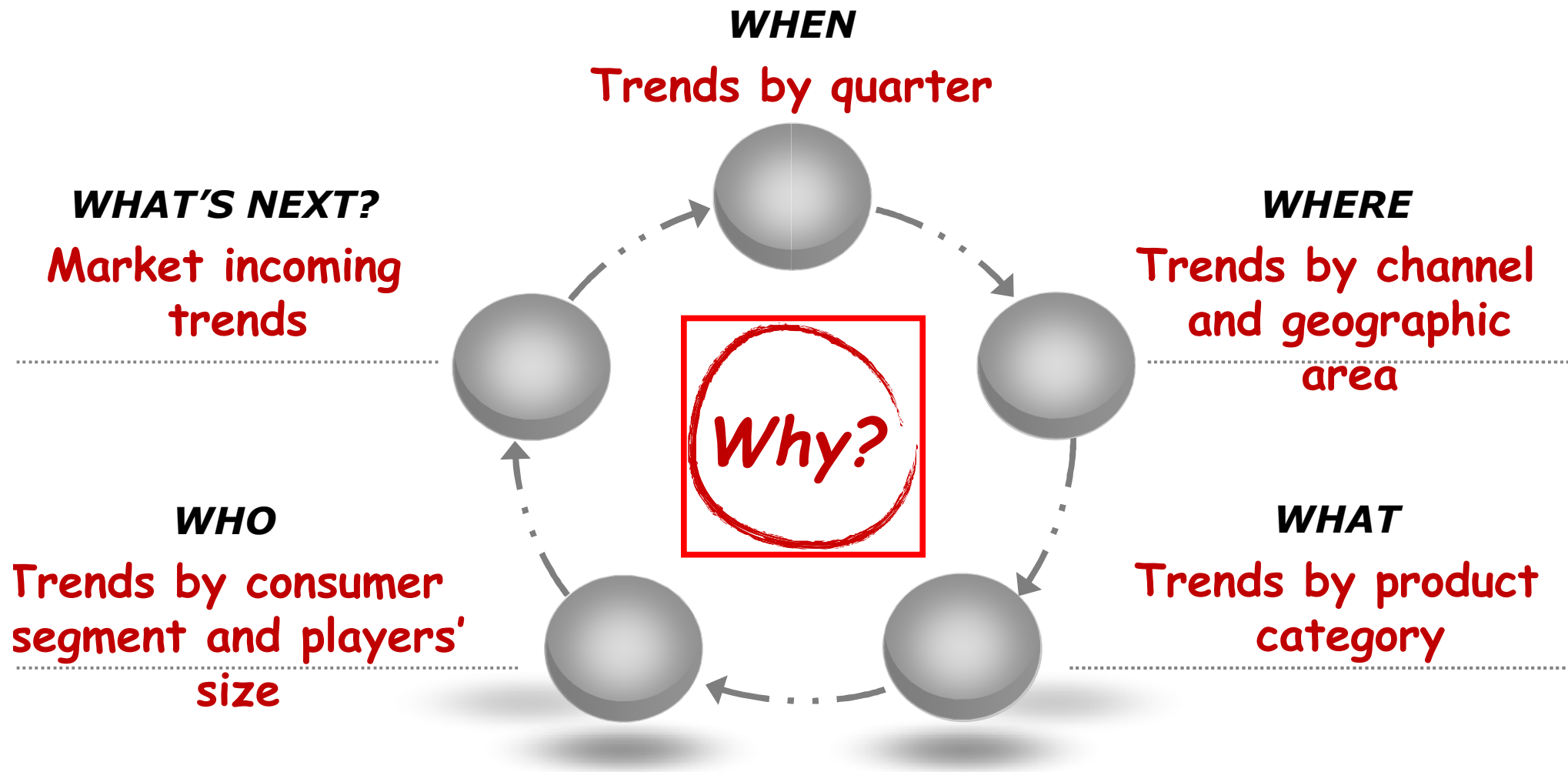
**Note that growth from 2011 and 2014 is at constant exchange rates**

## 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?

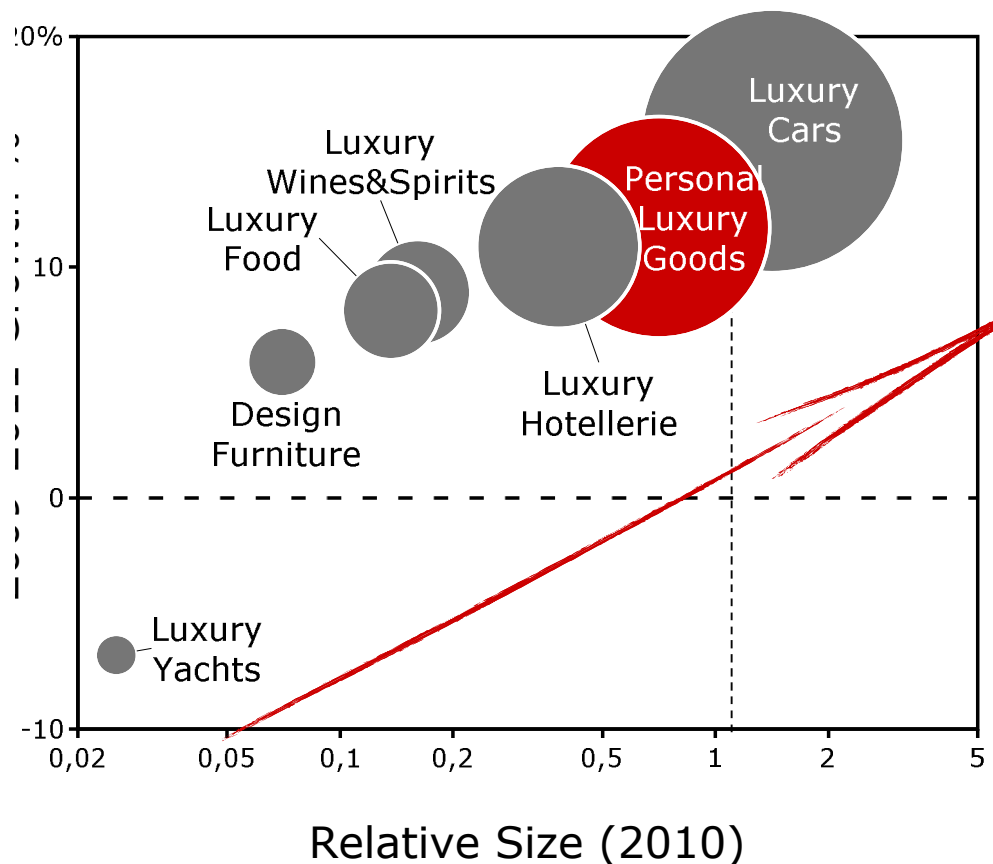


# Polarization megatrend impacts markets differently at different stages of maturity/democratization

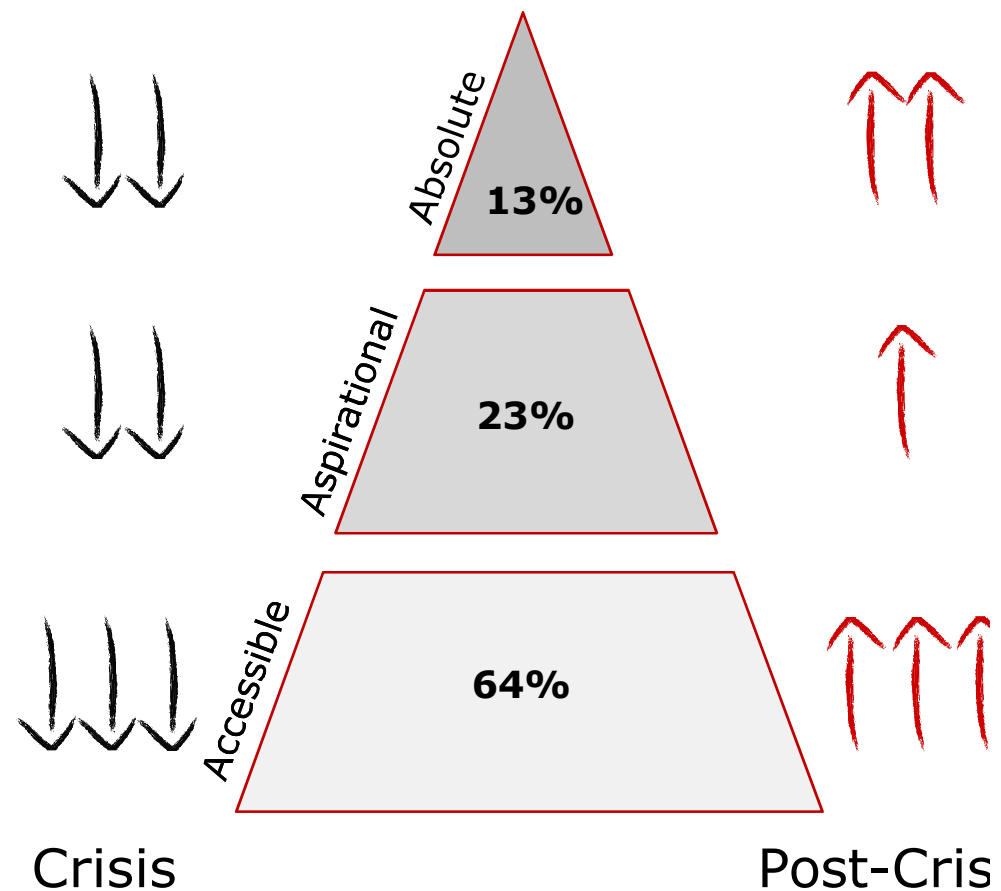


## Worldwide Luxury "Market of the Markets" trend by segment and positioning

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**



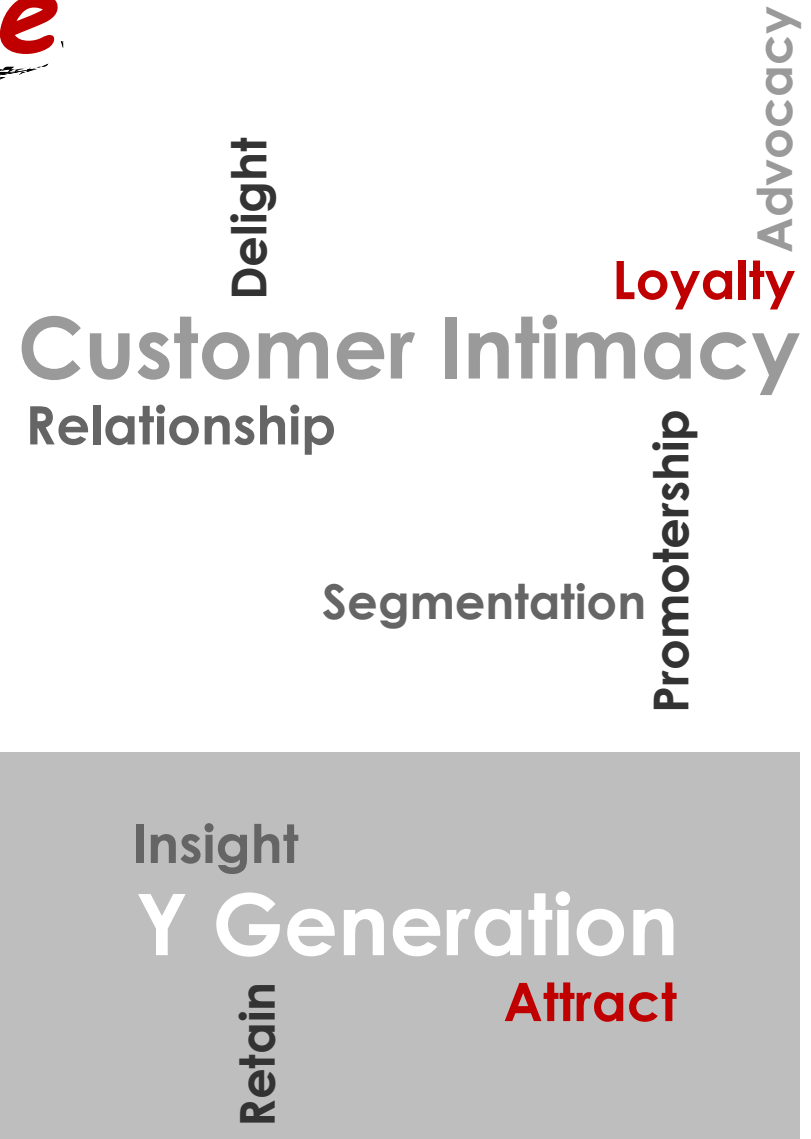


alent, Technology and Trust will drive excellence in Luxury

## *Experience*



Innovation



# 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 the 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, and 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 updated twice yearly 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. In 2009 she **was named 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, including *The Wall Street Journal*, *Financial Times*, *The Economist*, *Fortune*, *Newsweek*, *Reuters*, *Bloomberg*, *Associated Press*, *Dow Jones Newswires*, *International Herald Tribune*, *New York Times*, *TIME*, and *WWD*.



# Bain contacts

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For a copy of the study or to schedule an interview with Claudia D'Arpizio, please contact:

## ***INTERNATIONAL PRESS***

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