



Fondazione
Altagamma

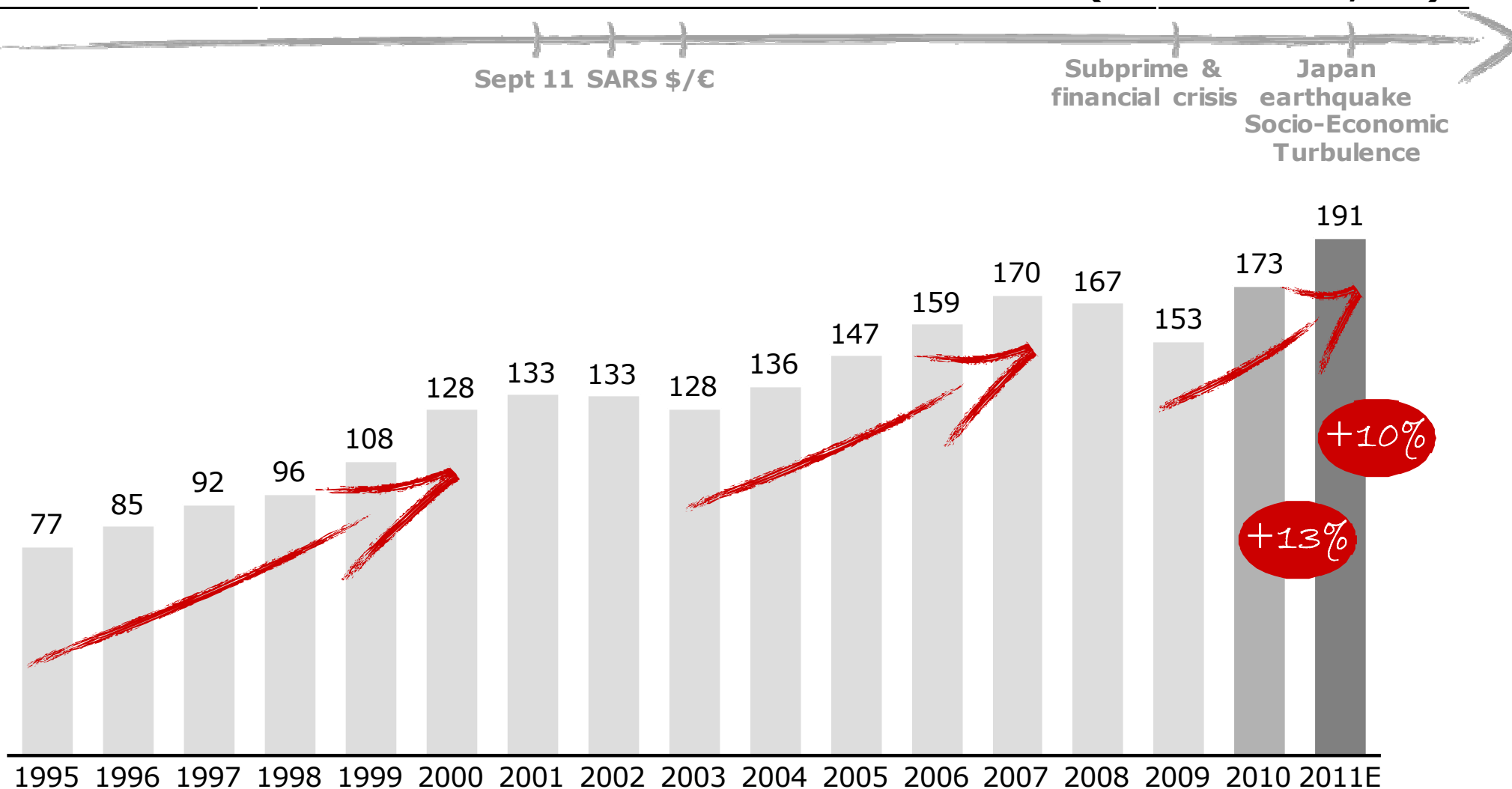
Worldwide Luxury Markets Monitor

Spring 2012 Update

Milan, 7th May 2012

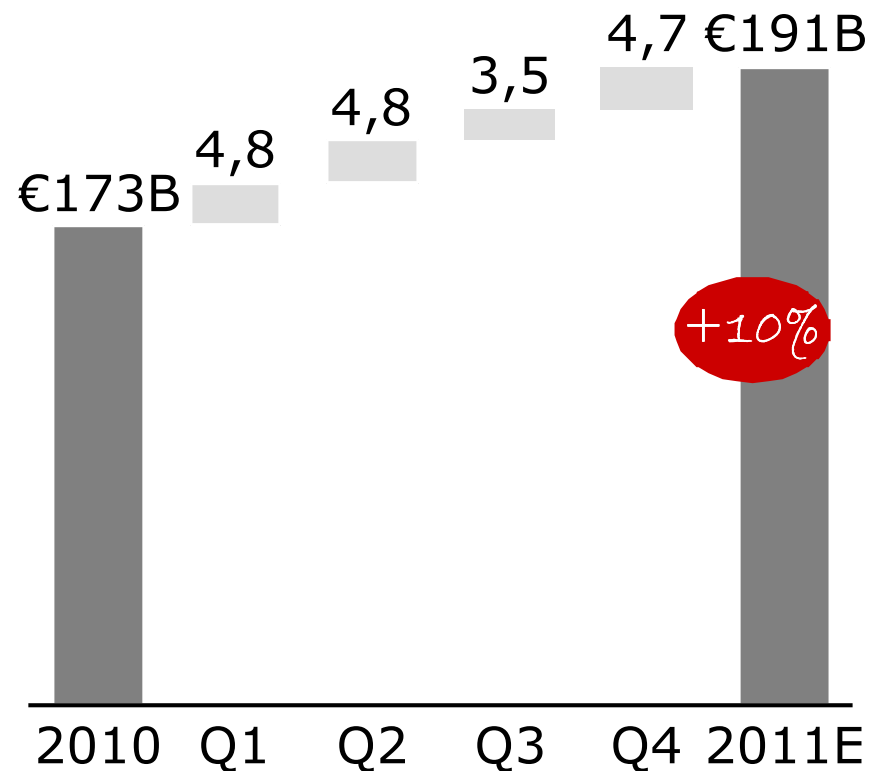
2011: a new peak for luxury goods consumption

WORLDWIDE PERSONAL LUXURY MARKET EVOLUTION (1995-2011E, €B)



Holiday season confirmed strong

PERSONAL LUXURY GOODS MARKET BY QUARTER



QoQ growth 12% 12% 8% 10%

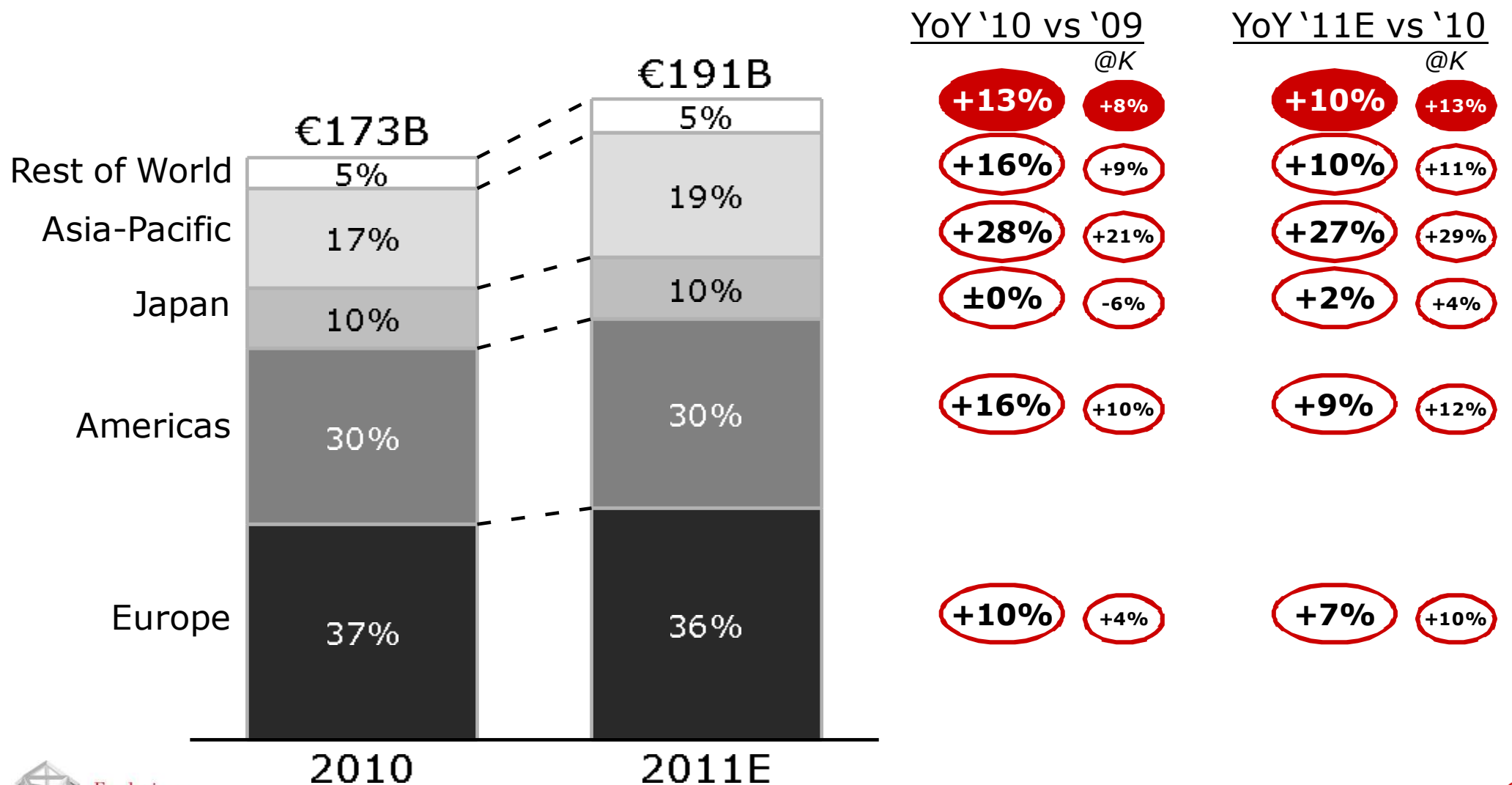
HOLIDAY SEASON

- **Another strong holiday season**
 - Shoppers have been lured with door-buster deals weeks in advance
 - High footfall in department stores
- **Asian market driving growth, especially China and Hong Kong**
- **Mature markets keeping pace**
 - US positive results, record of **Black Friday retail sales**
 - First signals of **slow down** in **Italy** and **Spain**
- Boom of **on-line sales** starting from November



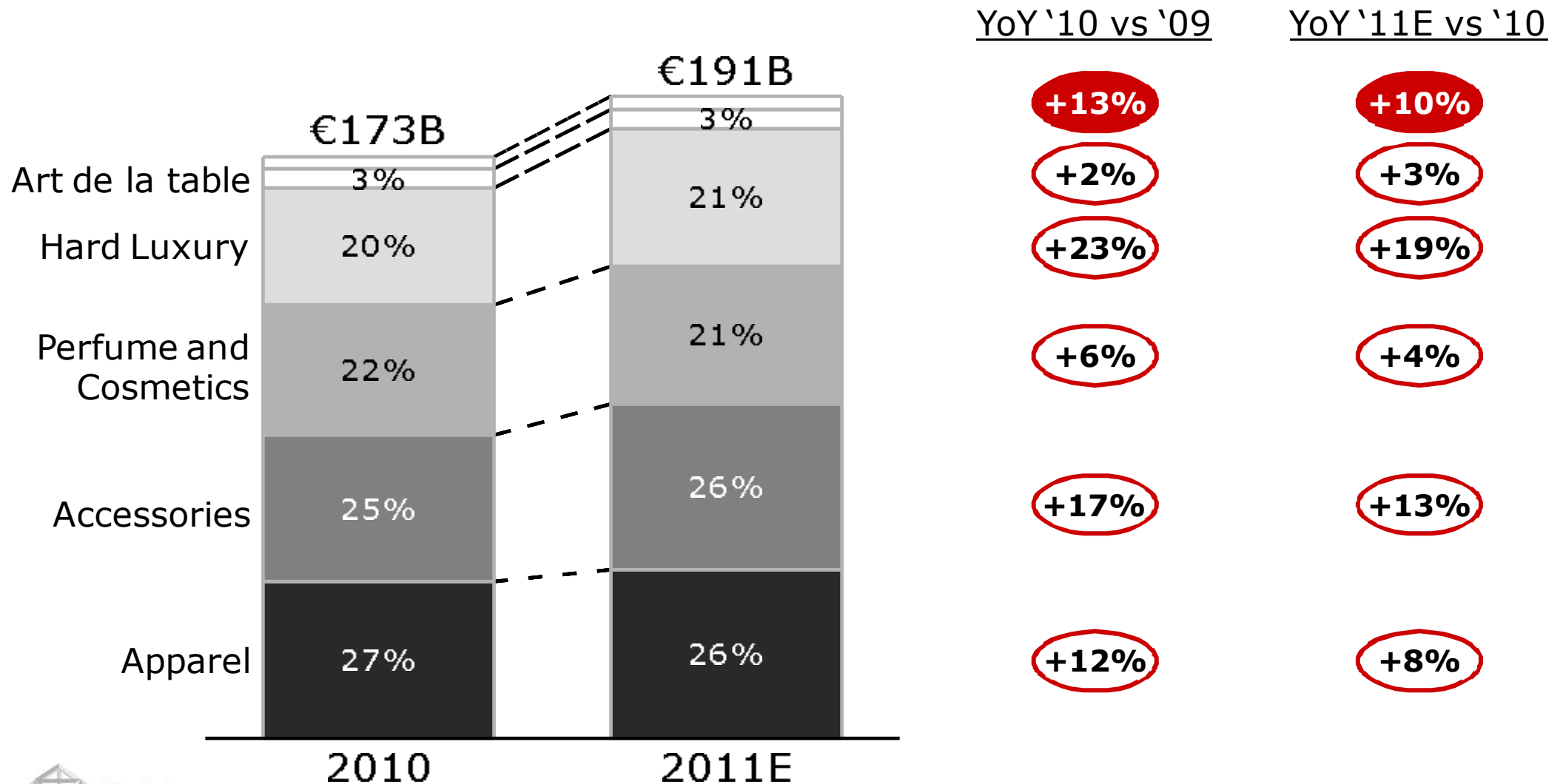
2011: No signs of slow down for the booming Asian market, and mature markets showing real strength

WORLDWIDE PERSONAL LUXURY GOODS MARKET BY AREA



2011: The rebound of hard luxury is the key contributor to market growth

WORLDWIDE PERSONAL LUXURY GOODS MARKET BY CATEGORY



2012: Market outlook is very positive despite socio-economic turmoil

2012 GROWTH RATES BY REGION

	Europe	+2-4%
	Americas	+5-7%
	Japan	+0-2%
	Asia Pacific ex china	+14-16%
	China	+18-22%
	ROW	+5-7%
		+6-7%

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WORLDWIDE MARKET TRENDS

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



Key drivers of luxury goods market growth in 2012

• Geographies

- Italy, Japan: local consumption suffering across the board
- Europe, US: strong momentum
- China: still engine of the growth, but ongoing market maturation
- India: new acceleration



• Product categories

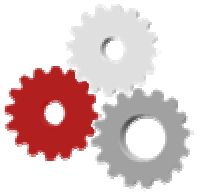
- Hard and soft accessories winning categories
- Apparel under pressure from non-luxury segments

• Luxury segments

- Absolute
- Absolute
- Absolute!



Dichotomic performance in mature markets



SELL-OUT RETAIL SPRING/SUMMER '12

SELL-IN FALL/WINTER '12



- Strong signals of **slow down in local consumption** in particular in the **wholesale** channel (Multi-brand specialty retailers)
- **Chinese** and Asian flows **maintaining momentum in key touristic cities**



- **Flat performance** of department stores in **January** and **February**
- **Bullish retail performance** in **March vs. last year** when Tokyo stores were partially closed after the earthquake



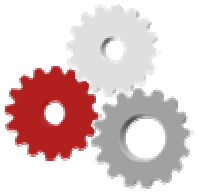
- **Strong sell-out trend for US luxury department stores: +8%** Jan-March vs 2011
- **Positive results of European stores** thanks to **strong affluence of tourists**, especially from Asia

- Double-digit negative sales campaign for **wholesale** channel in **all categories**, deeply impacted by overall **macro-economic crisis**

- **Sell-in campaign aligned with market trend**
- **Male market** gaining share across categories

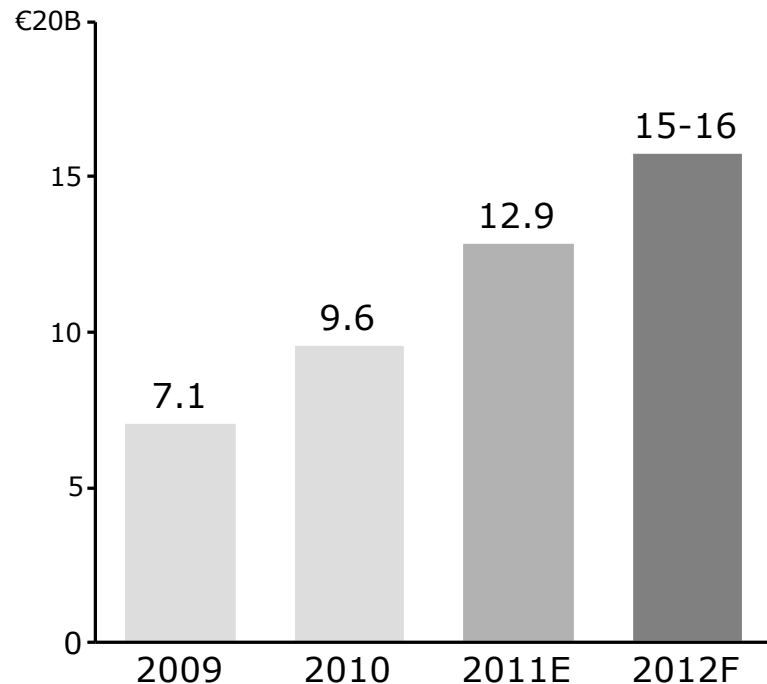
- **Eastern Europe** (mainly **Russia**) regaining **buoyancy**
- **Positive performance** in **US**, no slow weakening of consumer confidence
- Mature European markets **maintaining growth pace**

China: market is gradually maturing but still offers very relevant growth opportunities



MAINLAND CHINA

Chinese Personal Luxury Goods
Market trend (2009-2012F, €B)

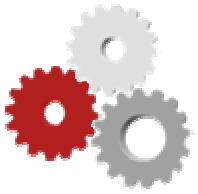


YoY growth 20% 35% 35% 18-22%
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- Chinese economy is **slightly slowing down**...but is still **growing 4-5 times more** than **US** and **Western Europe**
- **Ongoing expansion** of international luxury brands in **tier 2, 3** and **even 4 cities**
 - **Two-thirds of future Chinese wealth creation** are expected to **come from tier 3** and **4 areas**
 - **New retail developments** in **tier 1 cities** allow for further **new market entries**
- **Established brands start to see flattening** like for like growth
- **Growing e-commerce** channel
- Ongoing **government talks** about **reducing high duties**

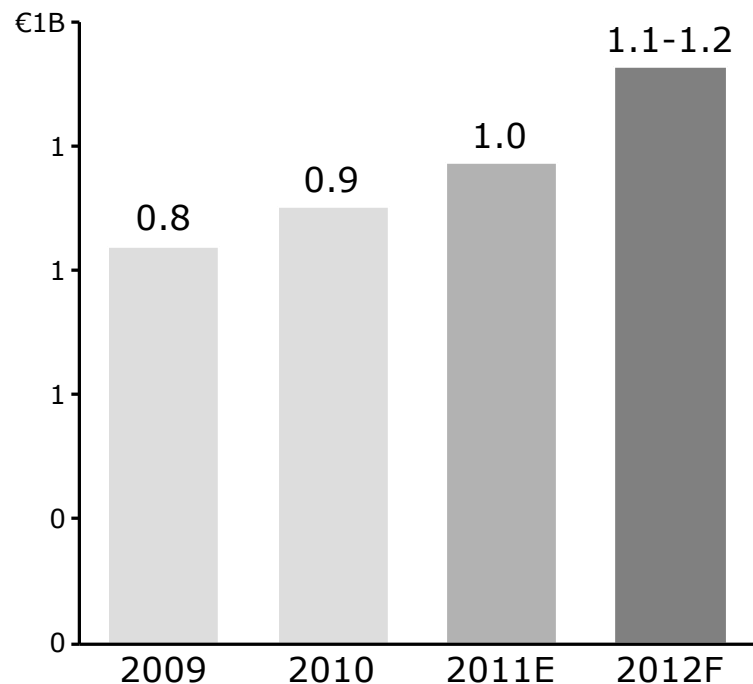


India, a small but promising and increasingly dynamic market to keep an eye on



INDIA

Indian Personal Luxury Goods
Market trend (2009-2012F, €B)

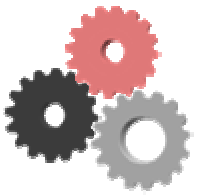


YoY growth 0% 10% 10% 15-20%
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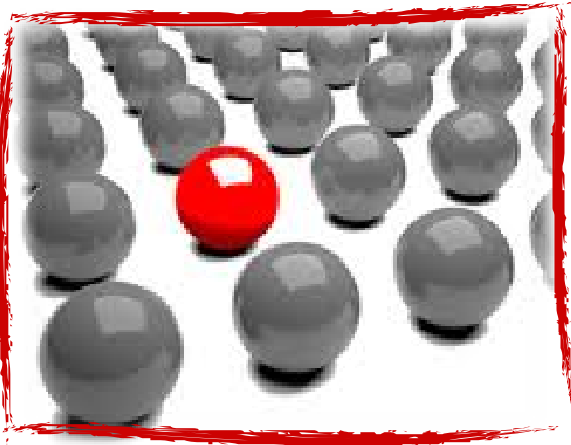
- The **Indian market** is increasingly **attracting the attention** of major international luxury brands
 - **Luxury consumers** are **evolving, accepting international trends** despite strong local traditions
 - **New cities** are emerging as **luxury destinations** beyond New Delhi, Mumbai and Bangalore (i.e. Chennai, Hyderabad and Pune)
 - **Booming online shopping**, mainly driven by customers looking for good **bargains**
- India is strategically poised to create the one **of the largest global market opportunities in the next decade**
- Luxury brands are still encountering **relevant challenges** in the country
 - **Slow evolution** of **retail infrastructure**
 - Partial **restrictions** to **FDI**
 - **High duties** that push many local consumers to shop at lower prices in Dubai or Singapore



It's all about accessories in 2012: sophistication, distinctiveness and personalization

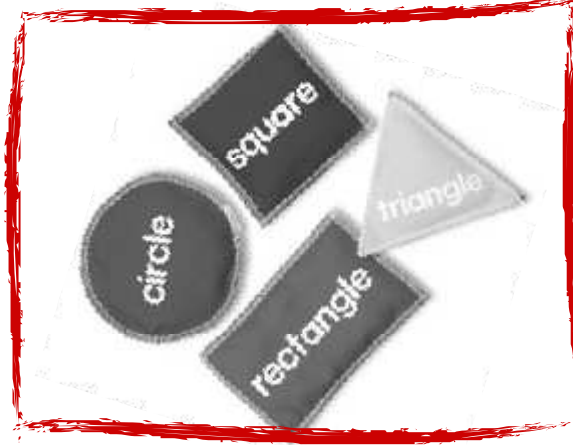


*Make it mine,
make it unique!*



To meet the increasingly **strong desire for differentiation**, ever more **luxury brands** are **offering personalization options** for their **leather goods**, including **made-to-measure**

*Shapes and materials
are the new logos*



Logos no longer the only means to achieve distinctiveness, nowadays **distinctive bag shapes** and the **use of particular materials** and **façons** distinguish one brand's **products** from others'

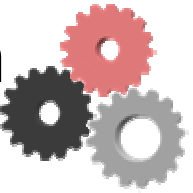
*The higher...the
better!*



Consumers' **insatiable chase for quality and craftsmanship** and for the use of **high-end materials** has pushed **many brands** to **focus** on their **top offer** rather than the entry level one



Apparel under upward pressure: increasing competition of fast-fashion retailers & premium national champions



'Luxury-zing' fast-fashion retailers



In an **attempt** to **reduce their low-cost allure**, fast-fashion retailers **invest in large flagship stores in prime locations** and **launch more premium lines** to trade up, and thus increasingly **compete** with accessible **luxury brands**

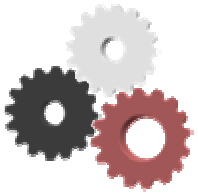
Premium champions exploiting mix & match



Premium brands ever more **benefiting** from ***mix & match*** trend: **combination** of sophisticated **accessories from luxury brands** with **less expensive garments from premium ones**

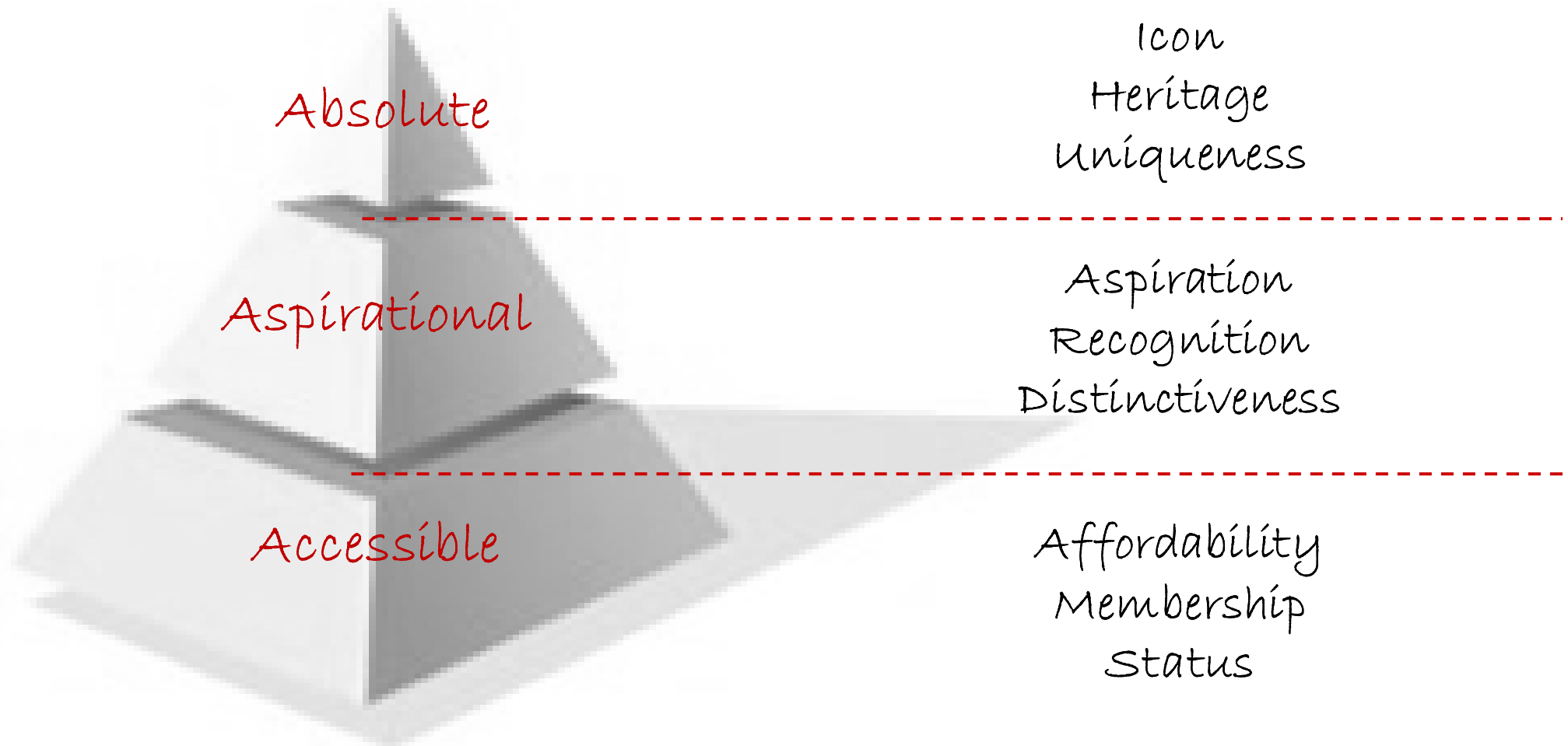


Segmenting the market on brands positioning, we define three layers: the "3 A's" of luxury

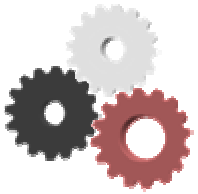


LUXURY PYRAMID

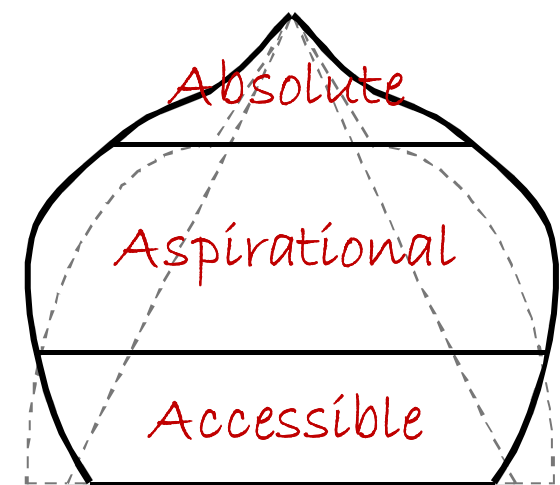
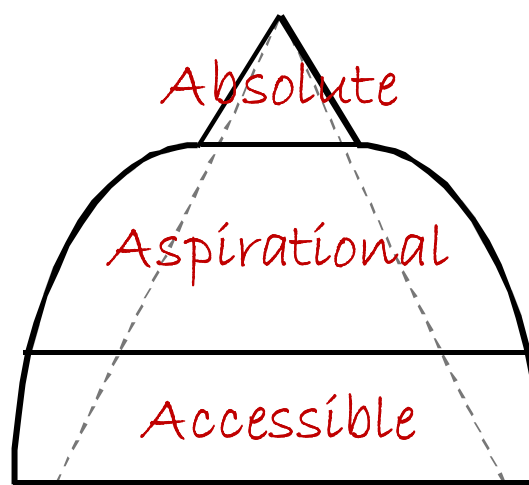
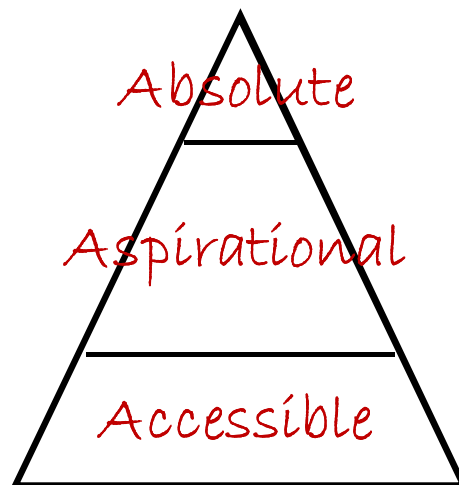
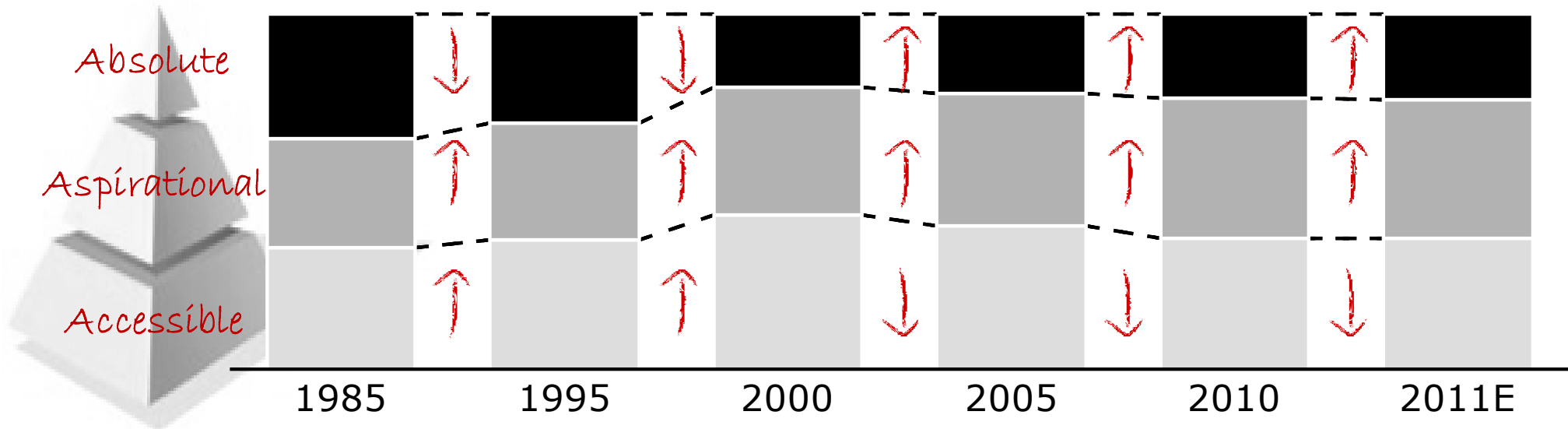
POSITIONING FEATURES



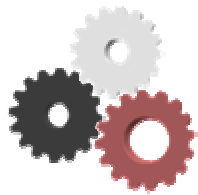
Post “democratization”, the Absolute Luxury segment outperformed the market since 2000



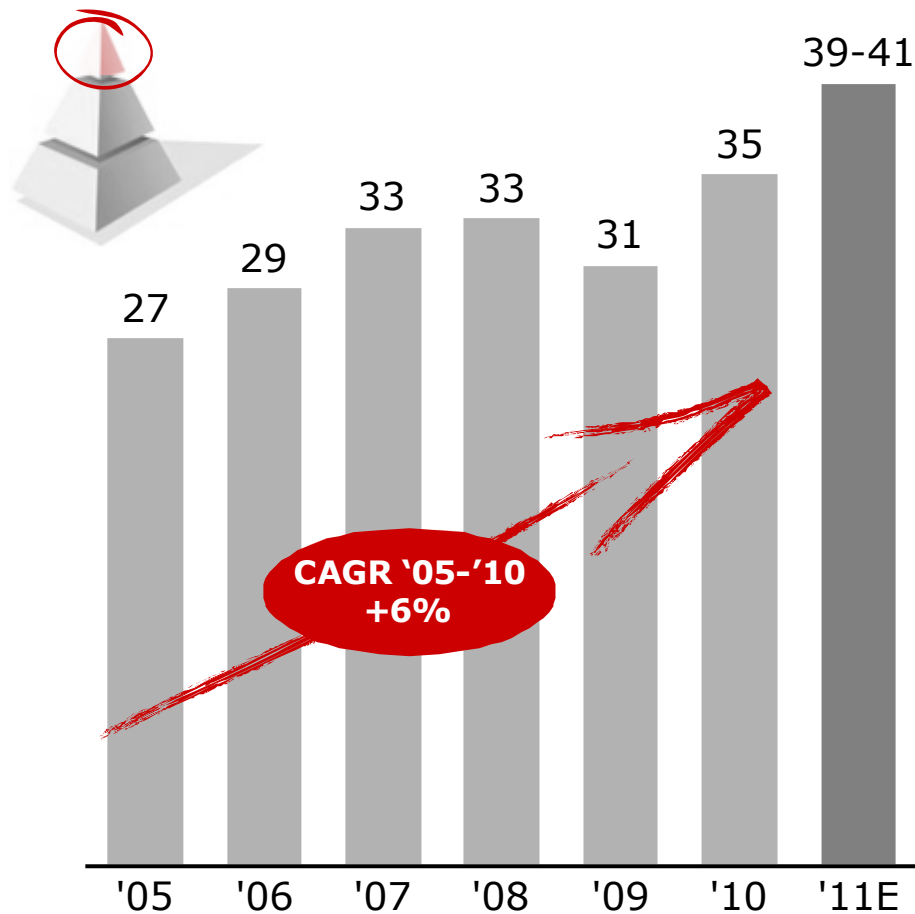
WORLDWIDE LUXURY MARKET EVOLUTION BY SEGMENT



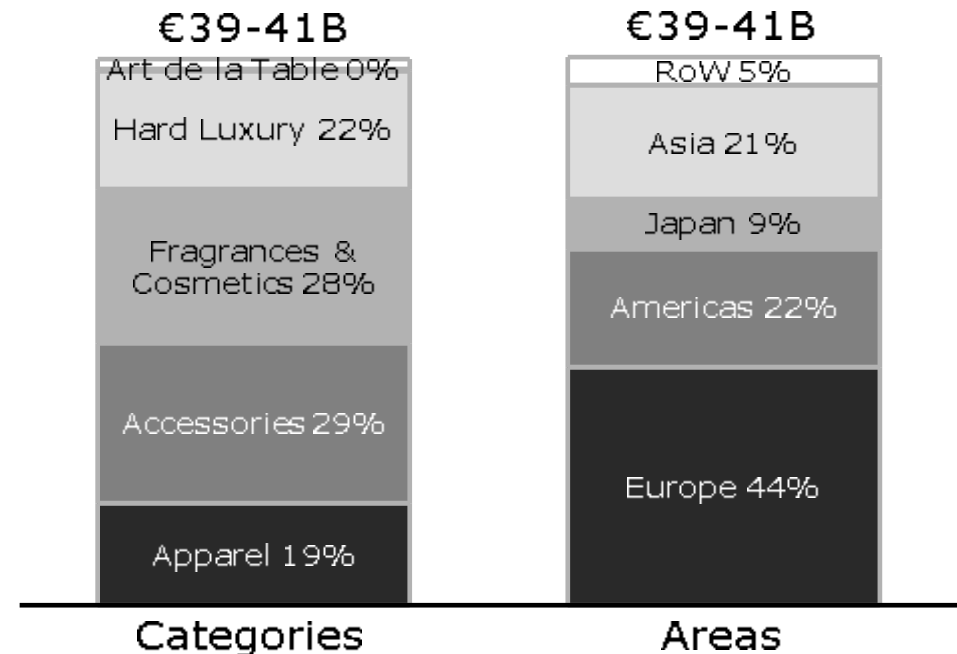
Absolute segment reached around €40M in 2011



WORLDWIDE ABSOLUTE LUXURY MARKET (2005-2011E, €B)



2011E WORLDWIDE ABSOLUTE LUXURY MARKET



- **Accessories** are the **largest category** of the **Absolute segment**
- The **European market** is **home** to **most Absolute brands**, thus explaining the strong predominance



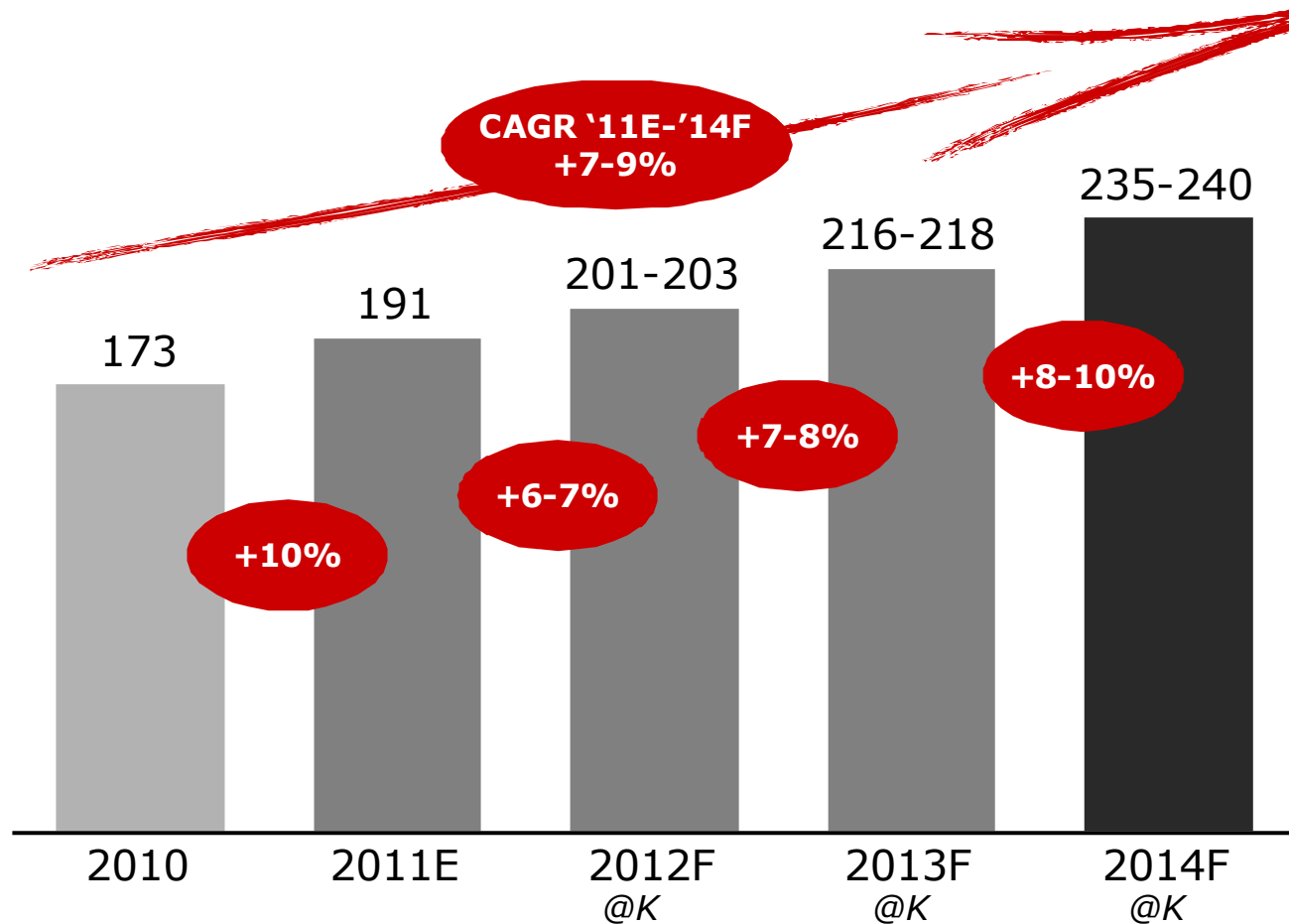


So, what's next?



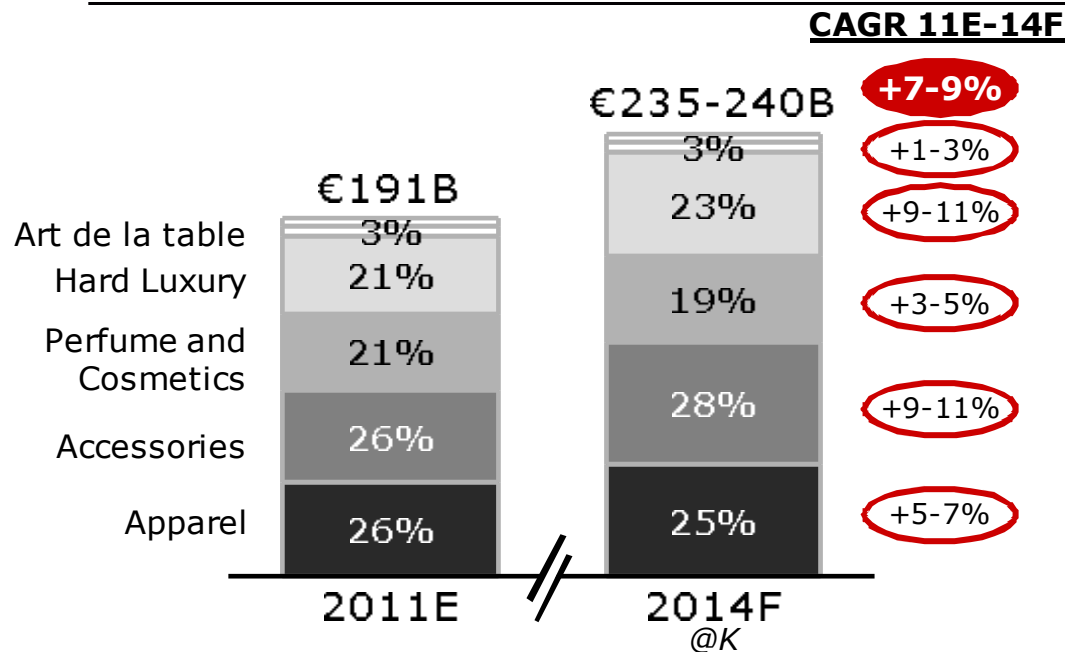
Luxury fundamentals will remain strong in the medium term

WORLDWIDE PERSONAL LUXURY GOODS MARKET EVOLUTION (2010-2014F, €B)



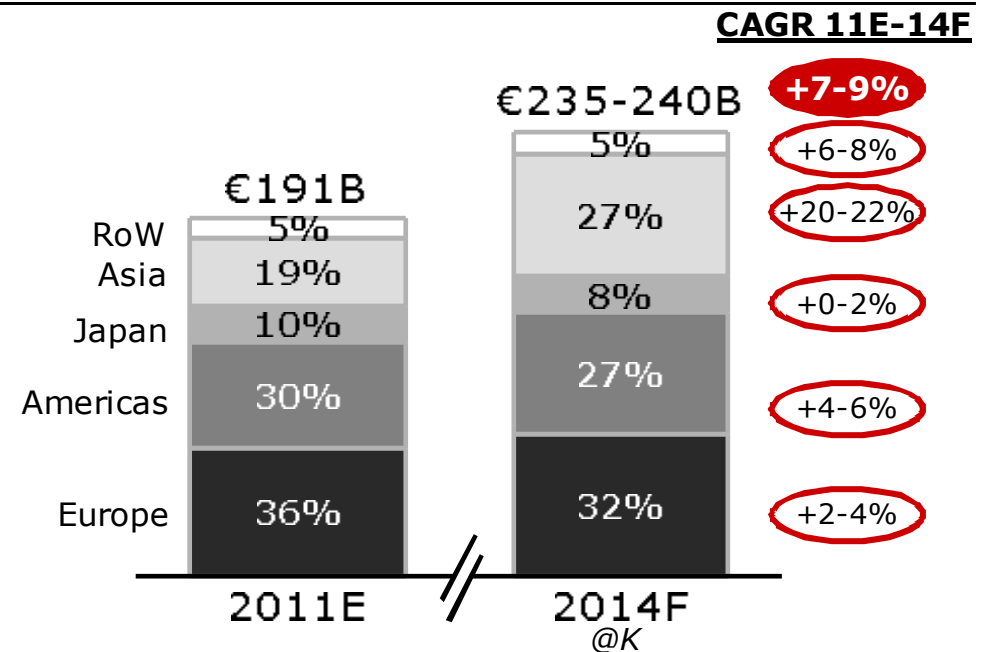
Market growth pushed by hard and soft accessories and by the Asian consumers

2011E-2014F WORLDWIDE LUXURY MARKET BY CATEGORY



- **Accessories** and **hard luxury** categories, champions of the last years, are **expected** to consistently **outperform** the **overall market** in the **years ahead**

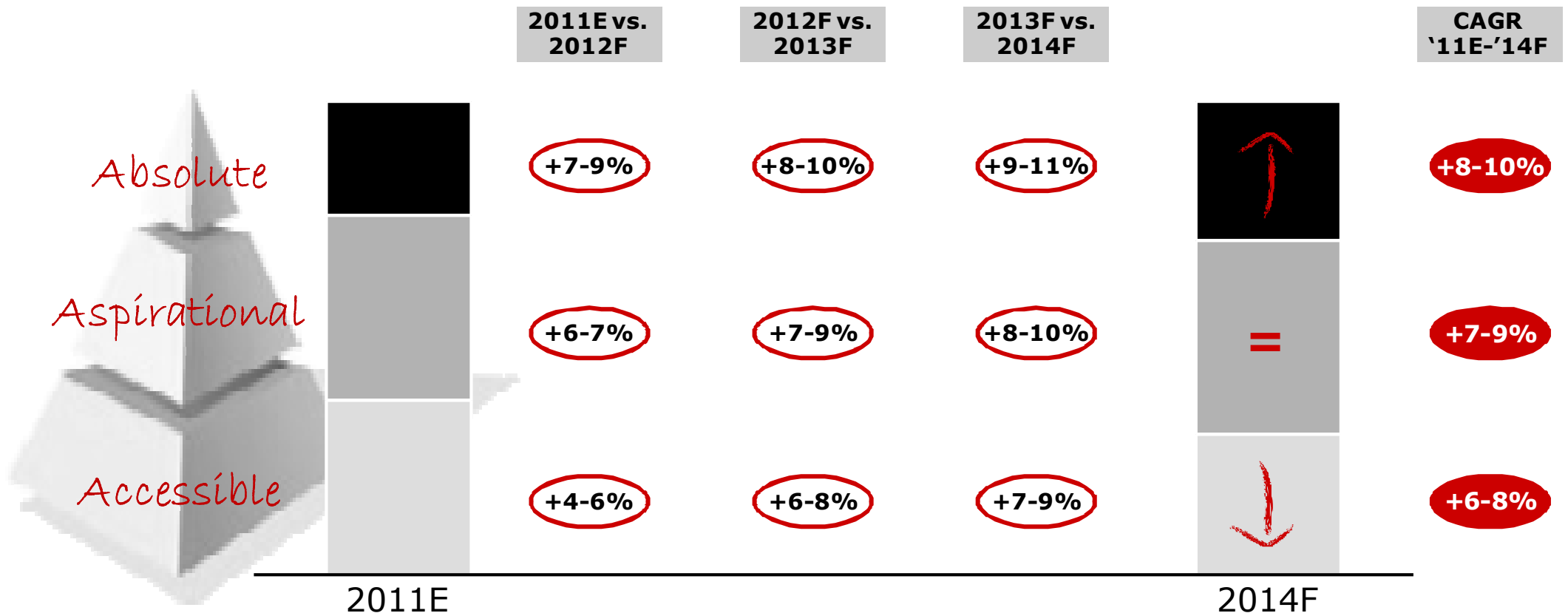
2011E-2014F WORLDWIDE LUXURY MARKET BY AREA

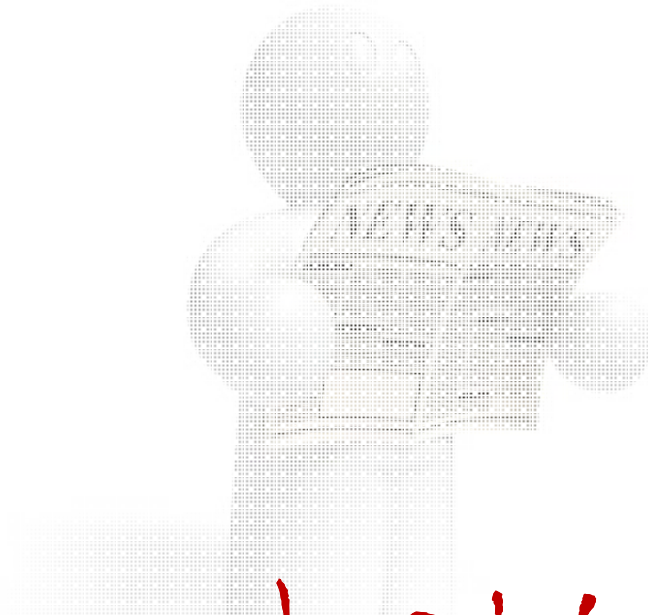


- **Asian growth** is **not expected** to **slow down**, mainly pulled by Greater China and Korea but with increasing contribution of new markets in South East Asia

Absolute Luxury segment will keep outperforming the market in the years to come

WORLDWIDE LUXURY MARKET EVOLUTION BY SEGMENT (2011E-2014F)





And...what's new?



"New" emerging markets to keep in the radar screen

South-East Asia



A **region of contrast** between highly **developed countries** and **emerging ones united by luxury aspiration**

Central EurAsia



A **set of very different countries once under the same austere regime** and now with a **growing thirst for luxury**

South Africa



From a leading supplier of luxury raw materials, to a **growing target market** anchor for the **Sub-Saharan region**

A variegated reality promising relevant developments for the next future



LUXURY CONTEXT

- Very **different levels** of **development** among the **countries** in the **region** (e.g. Singapore vs. Indonesia vs. Vietnam)
 - International **brands penetration** variable
- Relevant **income differences**: **few people controlling** most of the **wealth**
- Some countries offering **tax advantages** thus **attracting regional shopping tourism** (e.g. relevant Indonesian travelling flows to Singapore)



MARKET GROWTH DRIVERS

- **Fundamentals**:
 - Around 600M inhabitants
 - SE Asia region contributed ~17% of Asia ex-Japan GDP (1,4€B) and projected to grow at 6%
 - SE Asia's disposable income has grown rapidly, growth rate is 2X that of developed markets
- **Demographic change**
 - **Growth** in **urban rich** and **middle class**
 - **Consumers** are getting **younger** and **more educated**
- **Spending patterns mimic the West**
 - **Increasing penetration** of **credit cards**
 - **Growing preference** for **branded products**
- **Evolution of shopping channels**
 - Continued **shift of channel mix towards modern trade retailers**
 - Online becoming important
- **High dynamism of established markets**
 - **High-end shopping areas** in **Singapore** have **increased over time** but the **pipeline remains strong**



Some emerging *pearls* among ex Soviet countries

Central Eurasia



LUXURY CONTEXT

- **For a long time** these countries had been **closed** to **foreign markets**
 - **Luxury products** were **available** to a very **limited elite**
- **Tariffs & duties**
 - **Prices** are on average **30%-60% higher** due to **import duties** and **taxes**
- **Distribution**
 - **Local partnerships** are **still key** to successfully do business in the region



MARKET GROWTH DRIVERS

- **Market changes**
 - Starting with the 1990s and 2000s, **after the collapse of the regimes**, the **region** started **opening** to **foreign investments**
 - **International luxury brands** opened their **first boutiques** or created **agreements** with local partners to distribute their products, **boosting** the **supply of luxury**
- **Growing demand**
 - Today **despite country-specific differences**, the local consumers are **increasingly interested** in **luxury products** especially from **Western brands**
- **Emerging 'pearls'**
 - Some **countries** are **emerging** as potential **big opportunities**: i.e. **Azerbaijan** and, more recently, **Kazakhstan**
- **Turkey** (very relevant luxury market per se) **will play an important role as a hub for the area**



Increasing interest for luxury and growing consumer base in South Africa



South Africa

LUXURY CONTEXT

- South Africa is one of the **leading global sources** of **platinum, gold, diamonds** and **ostrich leather**
- Many of the **renowned international luxury brands** have **already set foot** in **South Africa**
- There is also a **local production** of **luxury goods**, mostly in **leather goods** and **jewelry**



Johannesburg (South Africa)

MARKET GROWTH DRIVERS

- **Favorable macroeconomics**
 - **Biggest African economy**
 - **Steady GDP growth**
 - **Increasing urbanization** (already above China with 62% vs. 47%)
 - **Stable economic and political environment**
- **Ease of doing business**
 - **English-speaking**
 - **Favorable trading terms**
 - **Declining import duties on luxury goods**
 - **Rail & roads level above most BRIC**
- **Growing demand**
 - **71K millionaires in South Africa** (60% of African millionaires, more than in Emirates or Saudi Arabia, approaching Russia's 95K)
 - **Emergence of a well-off class: by 2020 420.000 households will have over 100K\$ of disposable income** for an estimated total of **~\$100B**
 - **Strong appetite for 'status' products**



Needless to say...luxury consumers are changing rapidly: **more of the same will not be enough**

*Chinese customers weights for over 20%
Asians for more than 50%*

Younger consumer base in Asia
Ageing core customers in Europe,
US and Japan

Emerging markets already
accounts around 30% of
luxury market



Feminization of men
Male-ization of women

**Unstoppable rise of
independent women**

Overall Casualization of
luxury

*Absolute luxury: new
(bigger) money*

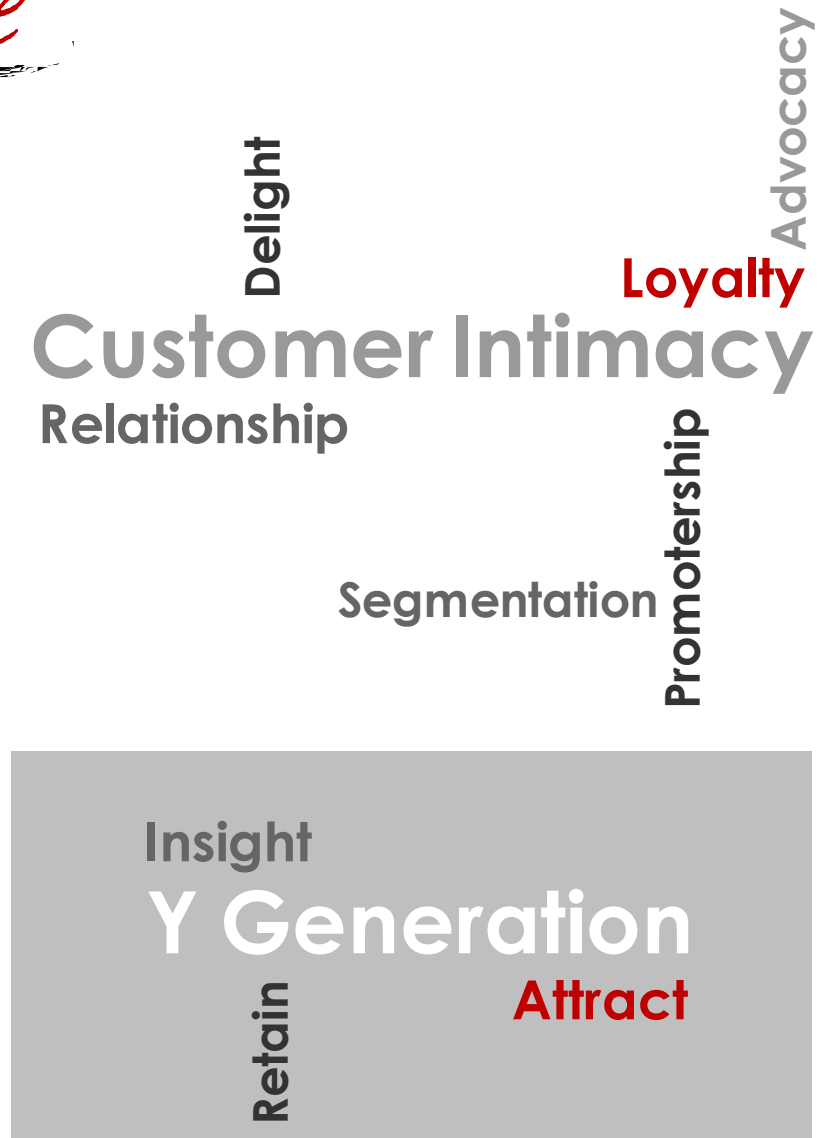


Innovation in all business levers and consumer touch points will be key to succeed

Experience



innovation



Claudia D'Arpizio, Partner

Bain Luxury Goods Practice



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 leader of 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 the Bain's Yearly 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 the Consulting Magazine one of the "Top 25 Consultants in the World".

Claudia is frequent speaker and writer on luxury goods strategy and she 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 lives between Rome and Milan.

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