

BAIN-ALTAGAMMA LUXURY GOODS WORLDWIDE MARKET STUDY, SPRING 2020

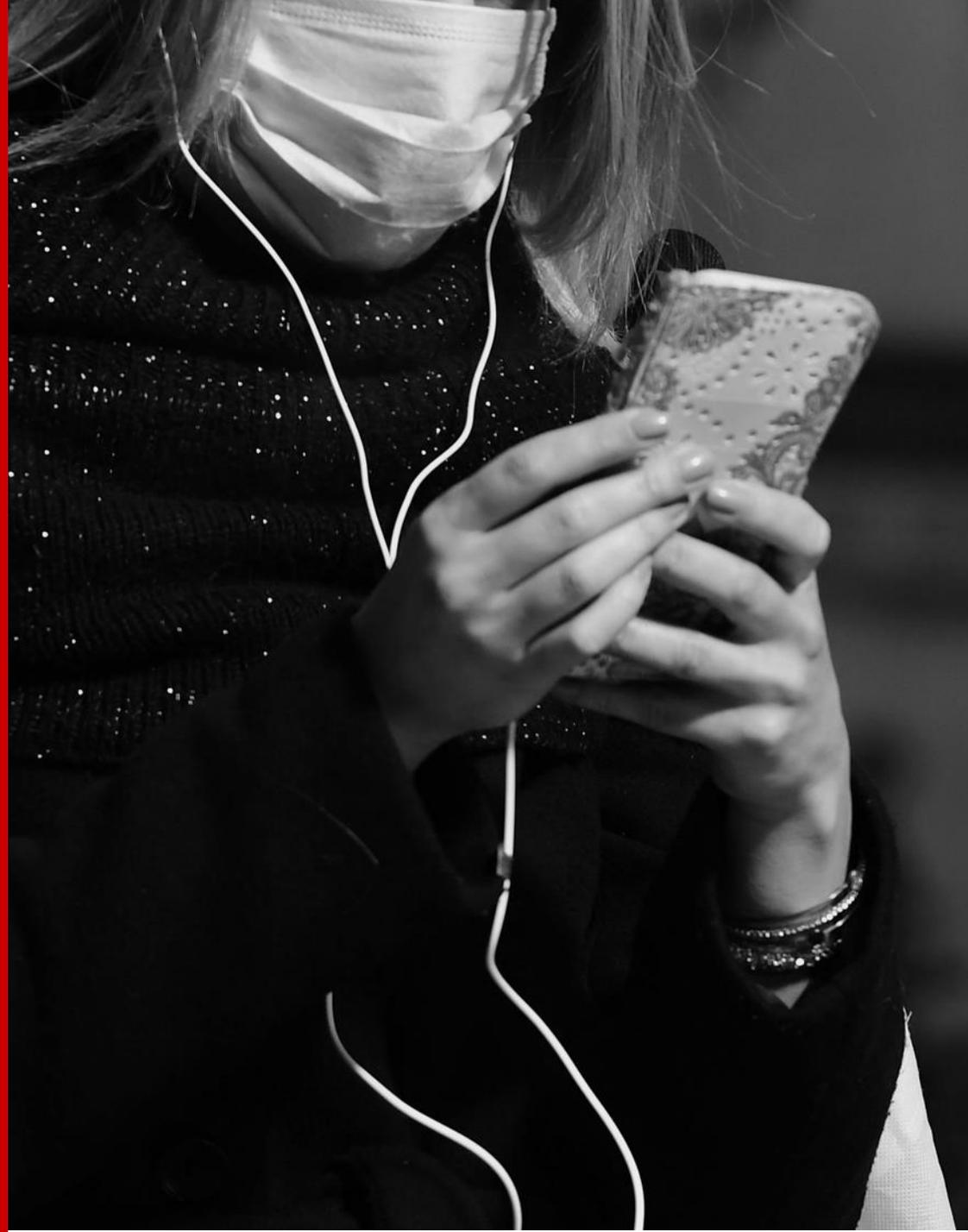
LUXURY AND CORONAVIRUS:
FIGURES, TRENDS AND CEO AGENDA

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May, 7th 2020

BAIN & COMPANY 

 **ALTAGAMMA**
CREATIVITÀ E CULTURA ITALIANA



Foreword on content and sources

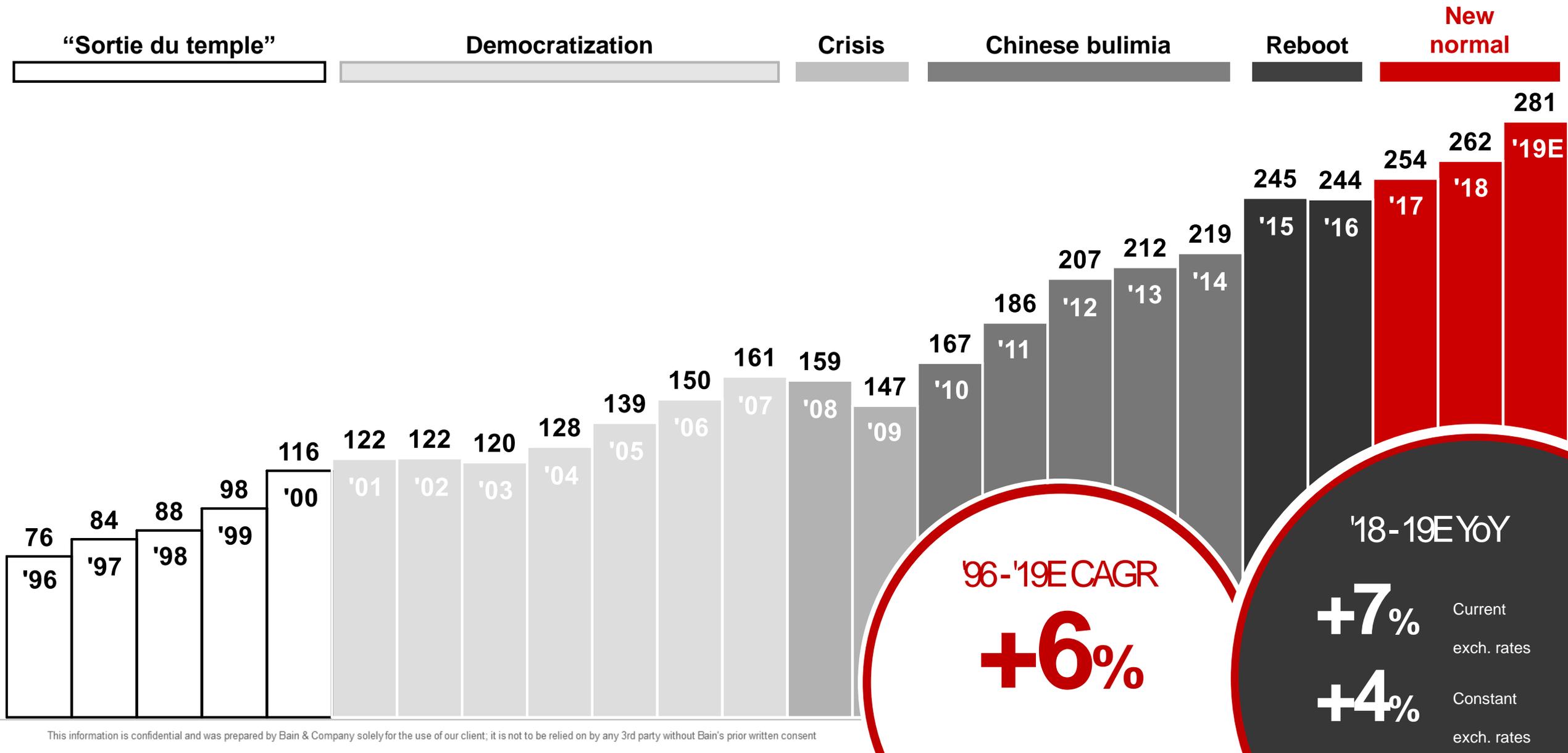
Content of this document

- This document contains **an update** on the **personal luxury goods market**, in particular:
 - An insight to the performance of the market in the **last quarter of 2019**
 - Expectations for the luxury market's **performance in 2020** (scenario-based) amid the virus outbreak
 - **Estimates** for how the luxury market will evolve **beyond 2020** and **up to 2025** and related **macrotrends** emerging
 - Bain's **recommendations** for how luxury players can **face the current situation**

Sources of this document

- The **insights** are based on **Bain's** triangulation of **information** and **sources**, available as of **May 4th 2020**, and including:
 - Data regarding the **outbreak of the COVID-19** and consequential lockdown across countries
 - **Macroeconomic data** (e.g. GDP, consumer confidence index,...) and their latest **forecasts**
 - **Current trading performance** from relevant luxury industry players
 - Annual **reports**, Quarterly **results** and Analyst reports
 - **Consensus of 100+ expert interviews**
- The scenarios **do not consider disruptive changes** in COVID-19 **status quo** (e.g. potential future **second wave** of COVID-19 or the **development and global introduction of a vaccine**)

The personal luxury goods market remained on a “new normal” path of moderate growth in 2019



The industry had a strong 2019 holiday season, especially domestically

Q 4 2 0 1 9



CHINESE CONSUMERS AND CHINA CONTINUING TO FUEL GROWTH

- **Chinese** customers still **driving growth**, with a continued acceleration of **domestic spending** in particular
 - **Repatriated** spending from **Hong Kong** which continued suffering in Q4
- Chinese travelers continued directing their **spending toward Europe** rather than US (due to trade US-China relationships)



LOCALS UPHOLDING THE AMERICAS MARKET

- Despite the **halt to tourism** in the US, market continued to show resilience thanks to further growth of **local spending** supported by **sustained consumer confidence**



EUROPEAN MARKET SUSTAINED BY BOTH TOURISM AND LOCALS

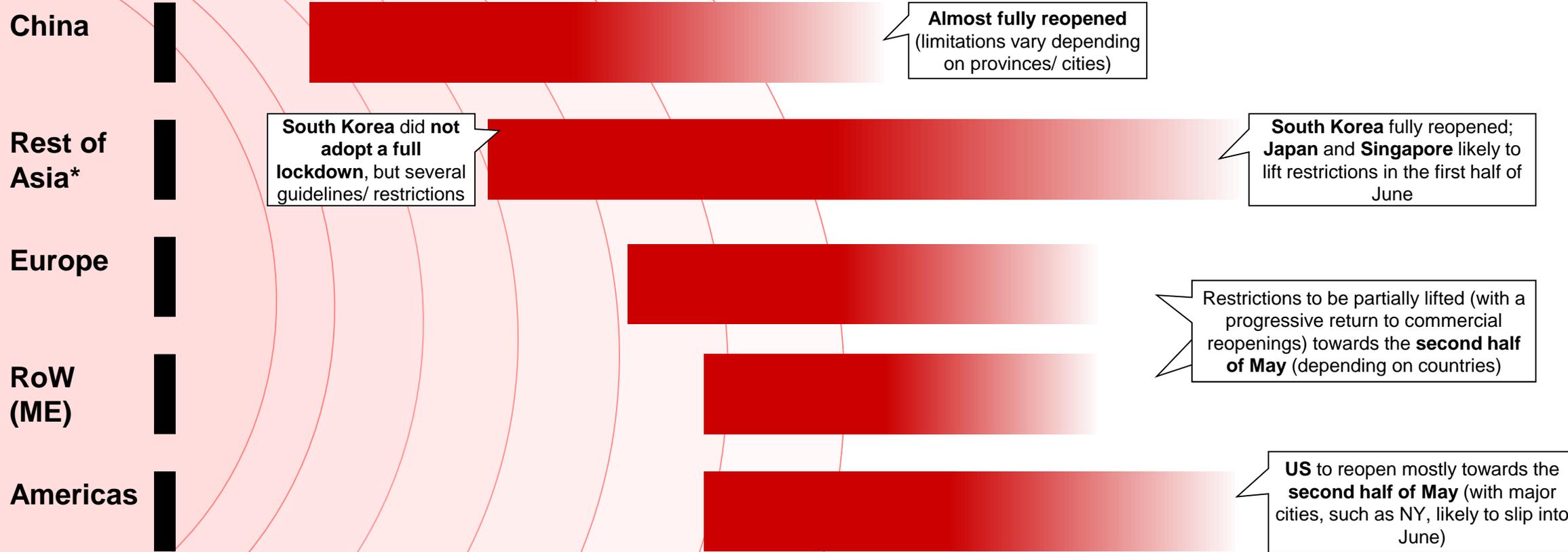
- **Positive** final quarter for Europe **thanks to renewed** tourism (especially Americans), but also pushed by **strong local performance**
- **Varied performances** across countries with UK and France still impacted by sociopolitical situation vs good performances in Italy, Germany and Russia

Coronavirus and the personal luxury goods market: timeline of a crisis

Lockdown period and expected reopening timeline (indicative by region)

COVID-19 spread

Month	January	February	March	April	May	June	...										
Week	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	...



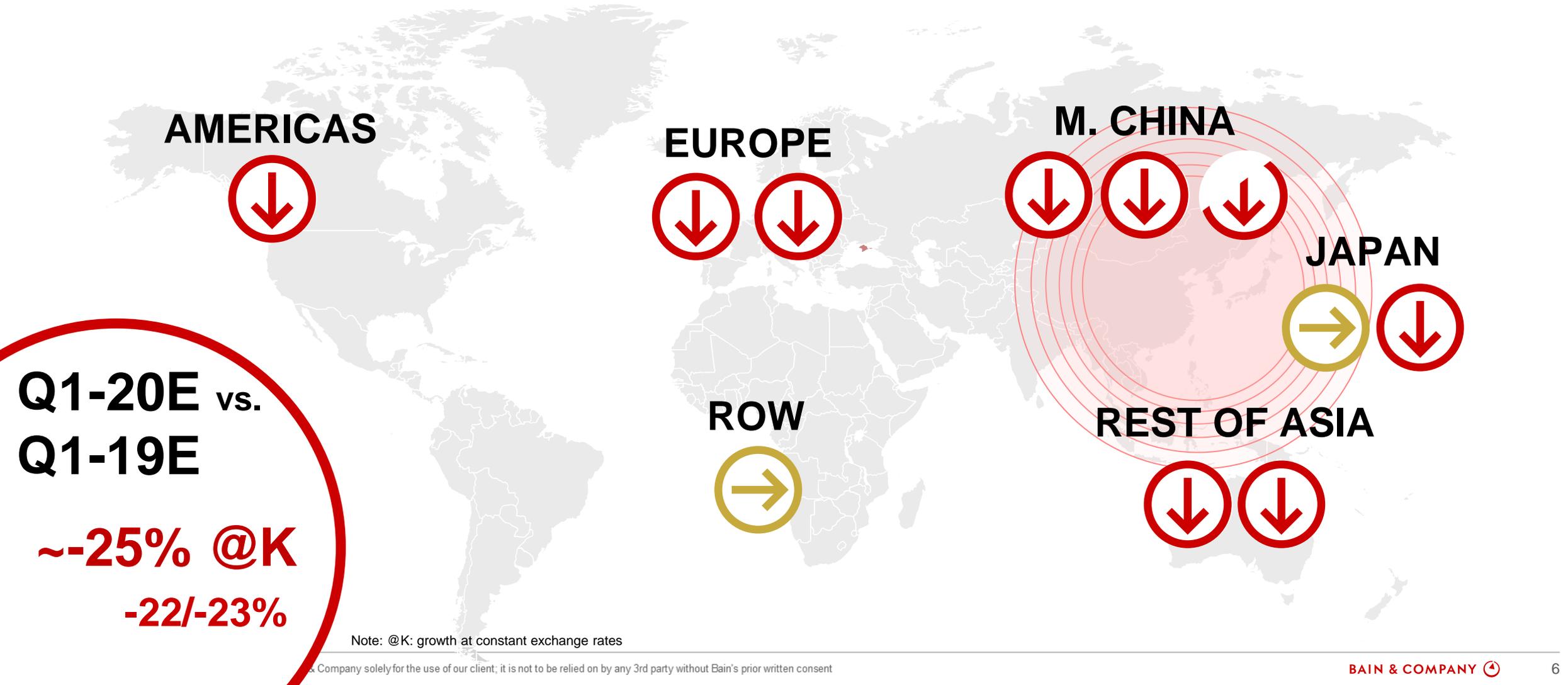
Note: (*) Including Japan; Source: Press search, Expert interviews

Luxury market to decline by ~25% in Q1 2020, driven by a severe slowdown in Asia followed by Europe and Americas

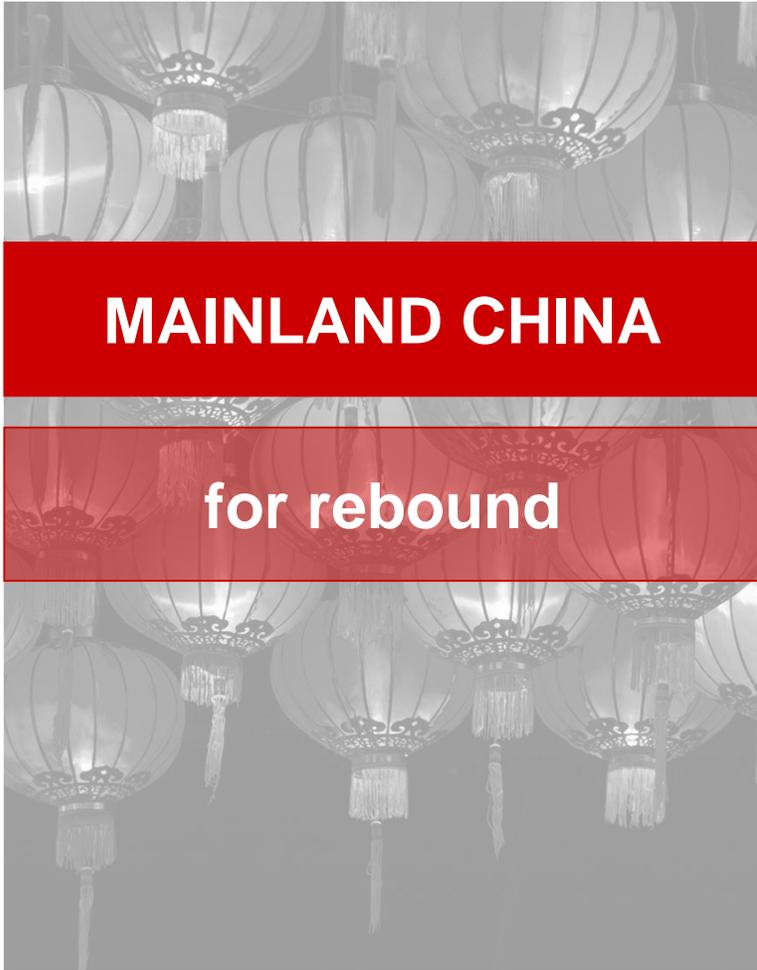
Q1 2020 PERFORMANCE

/ ESTIMATES

Personal luxury goods market – Quarter-on-quarter growth trend by region (Q1 2020E vs Q1 2019E)



In the midst of the crisis, the clear champions of the luxury market have so far been Mainland China, the online channel and the accessories category



While YTD performance is down across the regions, China is showing signs of a soft recovery

YTD APRIL 2020 PERFORMANCE

GEOGRAPHIES

YTD trends across key geographies – focus on retail sales from selected luxury brands panel

Mainland China

YTD



Week

1-3



4-7



8-13



14-18



- **Very strong start of year, then brutally offset by lockdown**
- After reopenings, progressive recovery with **best-in-class players already YTD positive**, but polarized performance among brands
- Common key performance indicators view post COVID-19: **lower traffic** (nearly halved vs LY after lockdown), yet **high conversion** and **average tickets**

Europe

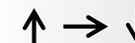


- In the beginning of the year, **general positive trend** across countries, with Russia and Germany showing very good performances and also demonstrating higher resilience in weeks following onset of lockdown in Europe
- **Collapse of Chinese** (primarily) and **Middle-Eastern tourism** progressively impacting region since end of January
- Negative trend on **locals** across Europe due to **generalized lockdown**

Americas



- **Positive performance** in first part of year driven by local consumption
- **More pronounced** slowdown in recent weeks, due to the **spread of COVID-19** and **widespread lockdowns**
- **Reduced spending** began slightly sooner for **Chinese Americans** due to **early COVID-19 awareness**



REAL TERM TREND YTD 19E-20E

Source: From interviews with selected luxury brands panel

Rest of Asia, Japan and Rest of the World were slightly more resilient, sustained by local purchases

YTD APRIL 2020 PERFORMANCE

GEOGRAPHIES

YTD trends across key geographies – focus on retail sales from selected luxury brands panel

Japan

YTD



Week

1-3



4-7



8-13



14-18



- **Flat performance** in January; followed by slowdown from tourists, and then from local spending
- **Latest weeks** strongly impacted by the fear of a second wave of outbreak and the extension of the declared **state of emergency**

Rest of Asia

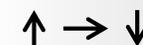


- **Negative performance** driven by strong reduction of Chinese tourism **and local luxury spenders** showing signs of slowdown
- Mixed performances varying by country:
 - Since end of lockdown, **locals in South Korea showing strong comeback**
 - **Strong contractions in Hong Kong and Macau**, both on **locals** and **tourists**
 - In **Southeast Asia**, **local** consumers still **not offsetting** the impact of the **reduced tourism inflows** (mainly Chinese) occurred since the outbreak

Rest of world



- Flattish performance, with **Middle Eastern customers redirecting their spending locally/ in the region**
- Slowdown accentuated starting from mid-March as a consequence of **increasing lockdown measures taken by the different countries**



REAL TERM TREND YTD 19E-20E

Source: From interviews with selected luxury brands panel

Online is the only channel that posted positive performance while travel retail and department / speciality stores struggled

YTD APRIL 2020 PERFORMANCE

CHANNELS

Personal luxury goods market – Year-to-date growth trend (YTD 2020E vs YTD 2019E)

Online

Off-price

Monobrand

Travel retail

Department & Specialty stores

YTD



- Overall **sustained performance**, even though affected by closures of selected warehouses during April
- Expected to **maintain a positive trajectory** also in coming weeks/months

- **Initially** showing **positive performance** (despite reduced tourism), now also in **a slump** due to generalized lockdowns

- After a **strong** start to the year, channel **heavily impacted** by waves of temporary closures all across the globe
 - **Rebound** initiated in China / Korea with new safety measures (still limited traffic largely offset by conversion and average ticket price)

- **Deeply affected** globally by **air traffic slump**
 - **Decreased Asian tourism** worldwide (affecting especially Europe)
 - **Europe** (at first sustained by intra-regional tourism) and Americas (initially less impacted as structurally less dependent on tourism), also now suffer from intra-country & intra-regional freeze

- Hit **hard** by the **limitations, department and specialty stores** currently suffering from **severe cash-pressure** (payment terms respect, negotiations for order returns)
- Many weaker players risk bankruptcy

Source: From interviews with selected luxury brands panel



REAL TERM TREND YTD 19E-20E

While all categories declined, accessories showed the highest resilience, followed by beauty and jewelry

YTD APRIL 2020 PERFORMANCE

CATEGORIES

Personal luxury goods market – Year-to-date growth trend (YTD 2020E vs YTD 2019E)

Accessories

YTD



- **Resilience** of the category due to key factors:
 - Highest **online penetration**
 - Strong **product identity**
 - **Durable** yet **approachable** category
 - Reduced “scarcity” approach by brands

Beauty



- Booming **trend** of beauty **online** (as a good “**stay-at-home**” category) insufficient to rebalance **negative travel retail** (as category biased toward the channel)

Jewelry



- Although physical retail (high share of jewelry distribution) strongly impacted; customers shifting (even for high-priced tickets) to **alternative shopping channels** (i.e. **online, telephone**) when possible

Apparel



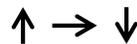
- Thriving **loungewear** and **athleisure** not offsetting the impact on RTW:
 - Less online-friendly category
 - Potential safety-concerns around RTW (in physical channel)
- Among usage occasions, **formal** and **evening-wear** most hit

Watches



- Despite initial **positive trend in US** (due to pre-COVID-19 rush), **watches** are increasingly **suffering**:
 - High **price points**
 - **Fewer purchasing possibilities** (most brands without an e-commerce)

Source: From interviews with selected luxury brands panel

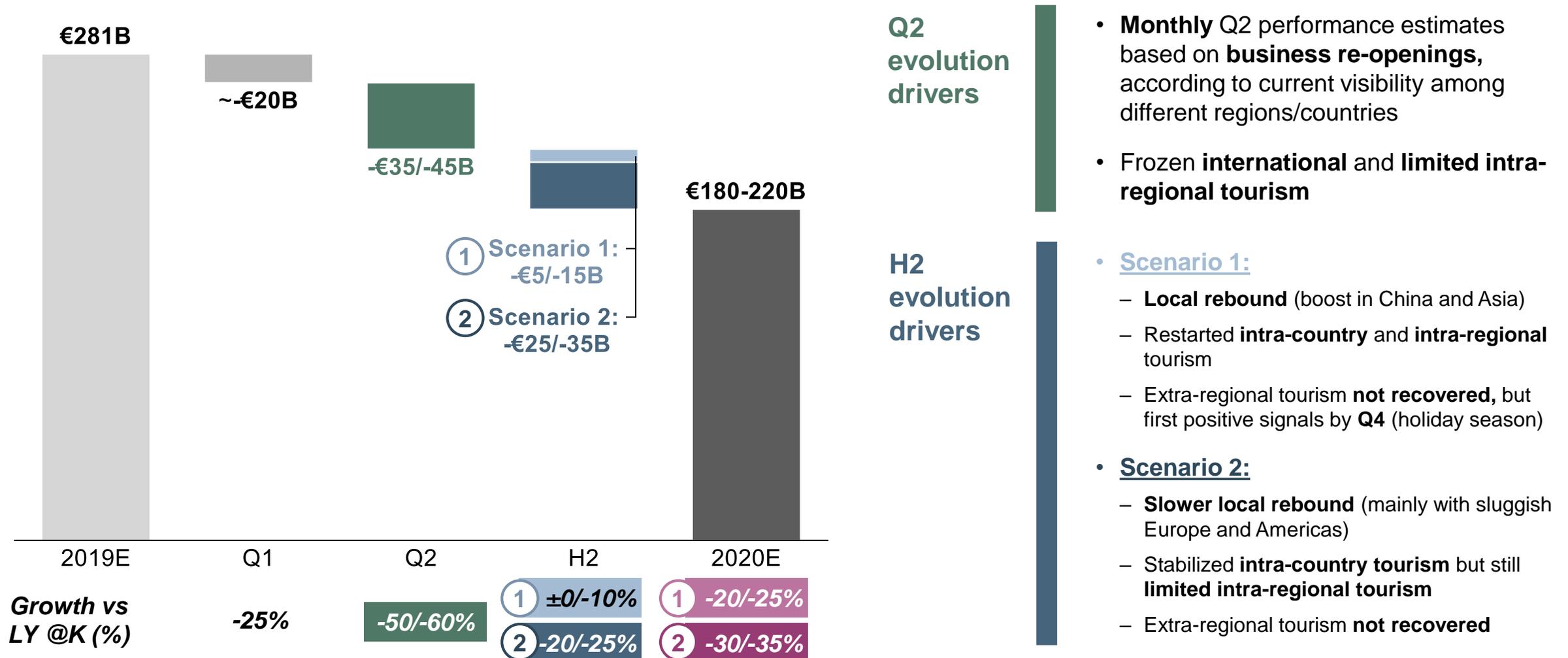


REAL TERM TREND YTD 19E-20E

The personal luxury goods market could contract from -20% to -35% in 2020, with Q2 being the hardest-hit quarter in the year

2020 FY

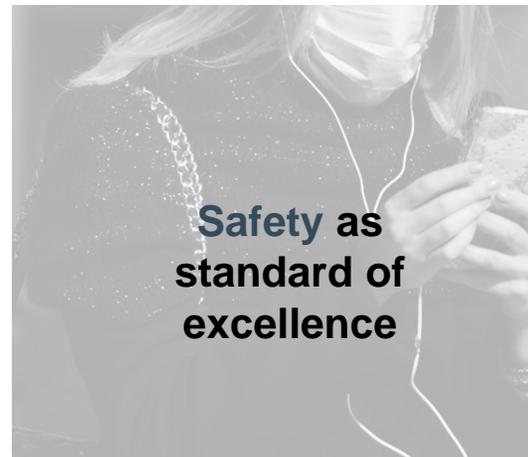
Personal luxury goods market – Quarter-on-quarter evolution for 2020E (% | 2020E vs. 2019E)



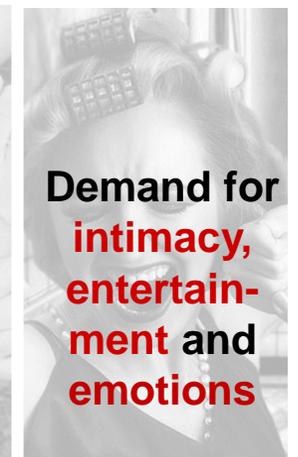
Within this market context, several consumer trends are emerging or solidifying in response to the crisis



HERE FOR NOW



HERE TO STAY



Within this market context, several consumer trends are emerging or solidifying in response to the crisis

A new balance between experiences vs. goods



- The restrictions to travels and gatherings will **constrain the spending in luxury experiences** (e.g. luxury travels, dinners out) in the short-mid term with the untapped spending that could be **partially re-directed to luxury goods**, shifting again, during the timeframe, from experience to physical goods; brands to design engaging virtual experiences (including remote shopping)

Concentration of customers' choices on fewer relevant brands



- As **individual consumers** spending will be pressured, they will likely invest in **fewer favorite brands**, reducing the “long-tail” of occasionally bought brands; **brands to overcome the risk of being “considered by many, loved by none”** building relevance via direct engagement, customer intimacy and **hero products/capsules**

Shopping over-indulgence (of Chinese customers)



- After month of **stores closures, social distancing** and **disrupted/changed personal** and professional habits, Chinese customers will likely show willingness to recover part of **purchases not made during lockdown**

Safety as standard of excellence



- **Safety, health, risk reduction** will be **essential** for customers; **brands** to integrate it not only in their policy and procedures but also in the **storytelling**

More China



- Luxury shopping is likely to **restart first in China** if the virus remains under control there; continued restrictions on travel will mean that many purchases that would **have been made abroad** will **happen in China**

Accelerated shift to online shopping within a phy-gital mindset



- When safe, **consumers will return to physical stores** with a renewed passion for real-life experiences that drives particularly **Gen Z** customers who want to have **engaging in-store experience**, but some **digital shopping habits** built during the outbreak will **stick - especially** if brands **raise their game** in online assortment, user experience and digital marketing

Within this market context, several consumer trends are emerging or solidifying in response to the crisis

Heightened environmental and social consciousness



- Consumer **concern** about **sustainability** and **social issues** will **continue**, consolidating the importance of **environment** but **increasing** the **importance of human and social components**; enlightened brands may rethink the **end-to-end product lifecycle**, **supply chain** management and disposal of **unsold stock** but also their impact on **people** and **broader society**

Acceleration of post-aspirational mindset



- **Ethics** will become as important as **aesthetics** as consumers prioritize **purposeful brands**
- **New communities** will balance the lacking/changed **physical interactions**

Strengthened local pride



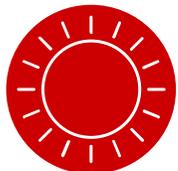
- Public opinion during the outbreak has sometimes **stigmatized certain nations**, triggering assertive displays of **cultural pride** in those territories. Brands need to **avoid inflaming these local sensitivities**

Call for pricing relevance



- **Customers will polarize**, in terms of spending and attitude towards luxury
- Brands will need to develop a **credible offer at different price points**, to increase their relevance with different customer audiences, but staying true to their **core DNA and positioning**

Demand for intimacy, entertainment and emotions



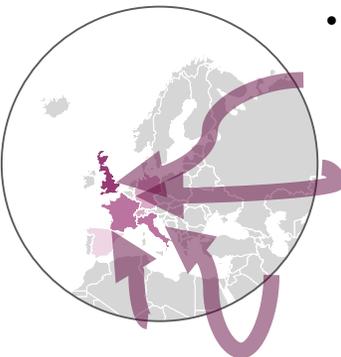
- Consumers will seek for **positive emotions** from their interaction with brands, not as a denial of the difficult situation, but as a way to “stay strong and keep going”; brands to “**make people happy**” through **creativity** and sustain an **mindful yet hopeful mindset**

The evolution of the market beyond 2020 will rely on regional macrotrends, local consumer confidence and tourism flows

BEYOND 2020

/ BASED ON SITUATION AT END OF APRIL

	Europe	Americas	China	Japan	Rest of Asia
Regional macroeconomic fundamentals	<ul style="list-style-type: none"> Strongest impact and slowest recovery 	<ul style="list-style-type: none"> Strongest impact and slowest recovery 	<ul style="list-style-type: none"> Limited impact given swift recovery and previous fast trajectory 	<ul style="list-style-type: none"> Strong impact and relatively brisk recovery 	<ul style="list-style-type: none"> Strong impact but resuming brisk trajectory
Local consumer confidence reaction	<ul style="list-style-type: none"> Lingering effect on consumers 	<ul style="list-style-type: none"> Lingering effect on middle-class <ul style="list-style-type: none"> – Yet higher share of HNWI showing resiliency 	<ul style="list-style-type: none"> Acceleration on luxury purchase repatriation 	<ul style="list-style-type: none"> Lingering effect on mature consumers Faster recovery on new generations 	<ul style="list-style-type: none"> Relatively rapid restored confidence <ul style="list-style-type: none"> – Middle-class, to focus on lower price points
Touristic flows	<ul style="list-style-type: none"> Intra-regional tourism to recover much faster than international ones across the board <ul style="list-style-type: none"> – Chinese, Asian and RoW tourists: <ul style="list-style-type: none"> > Close to full recovery of local tourism (especially in China) in 2020 > Return of regional travels in 2021 (destinations within the region), probably even earlier for RoW (i.e. Middle East) > International travels (mainly to Europe and Americas) unlikely to recover before 2022 – European and American tourists: <ul style="list-style-type: none"> > Likely to display an overall slower recovery (vs. Asian countries) of national, regional and international travels 				



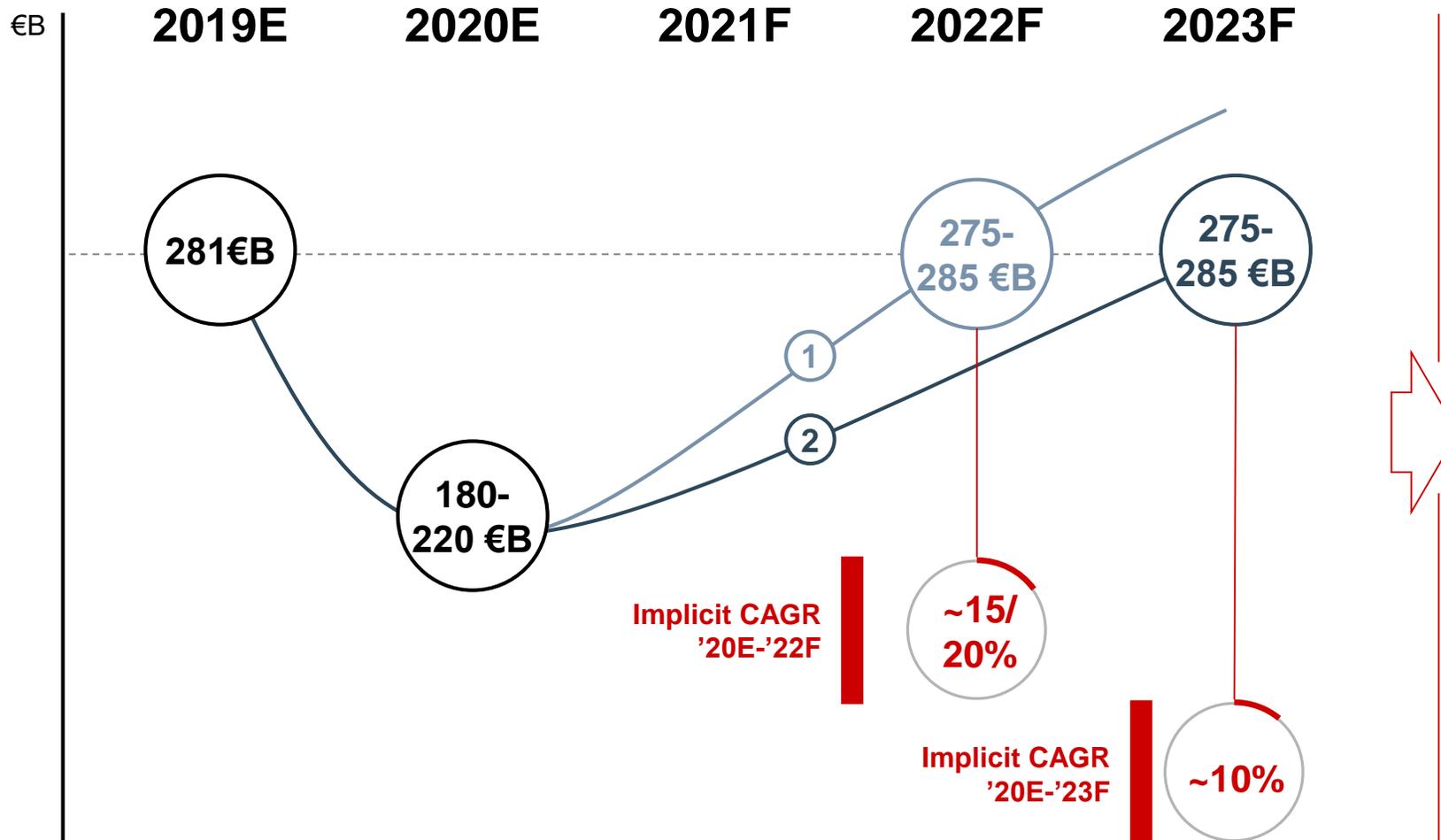
↑ → ↓ TREND BEYOND 2020E

A recovery to 2019E levels will occur between 2022F and 2023F, and depends on a variety of market drivers

BEYOND 2020

/ ESTIMATES

Personal luxury goods market (€B | 2019E – 2023F)



- **Recovery** of the market to pre-COVID-19 levels will likely happen **between 2022** and **2023**, depending on:



Real economy trends



Consumer confidence response to sanitary crisis and recession



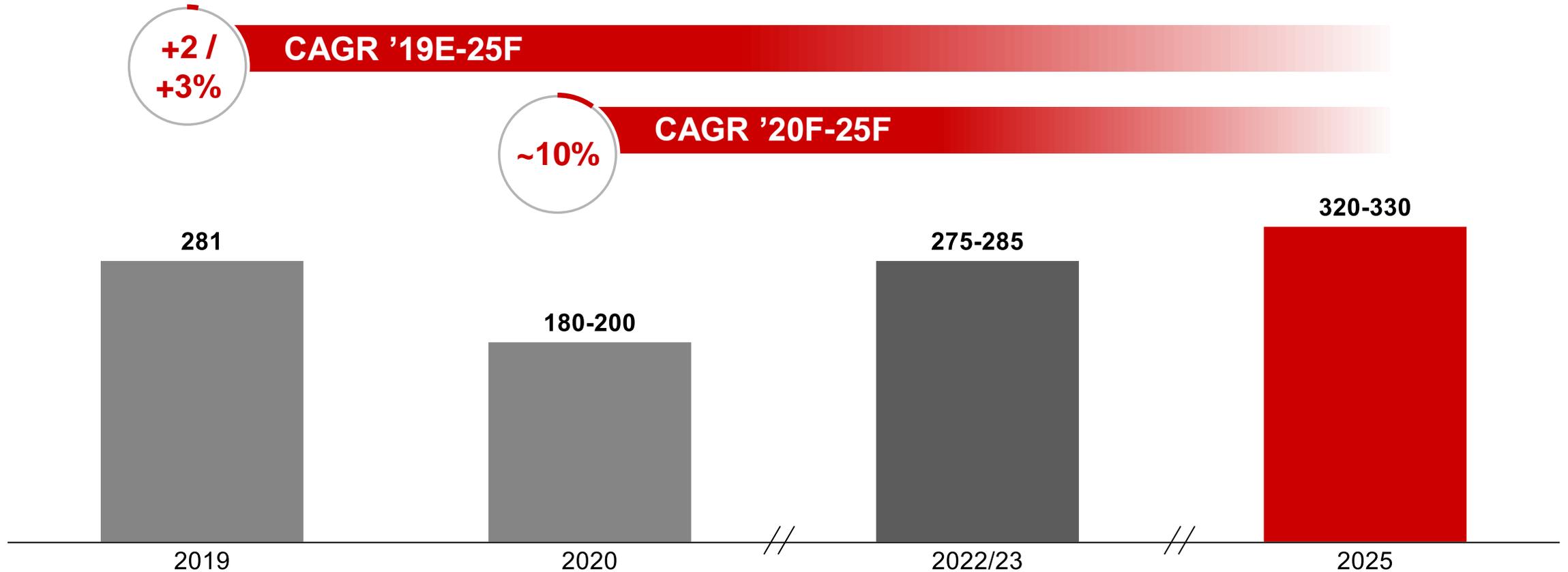
Tourism flows



Luxury brands' ability to **design** and **implement** actions to **anticipate** and **satisfy customer needs**

What about 2025 luxury market?

Personal luxury goods market evolution (€B | 2019E – 2025F)



The **speed** of luxury market growth will depend (even more than before) on **strategic moves** to **react** to the current crisis and **transform** industry on behalf of the customer

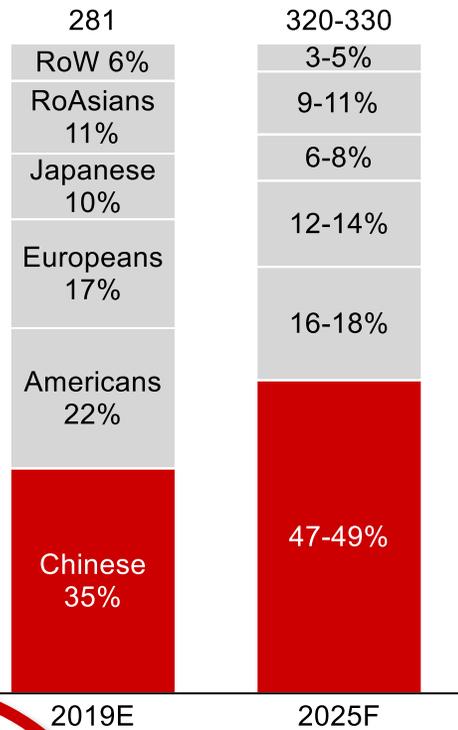
The market will reach €320-330 billion in 2025 thanks to consumers in China, the online channel and younger generations

BEYOND 2020

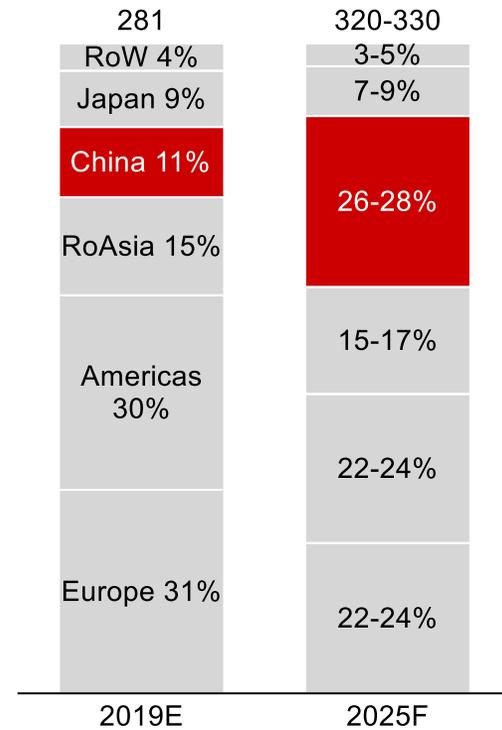
/ ESTIMATES

Personal luxury goods market main breakdowns (€B)

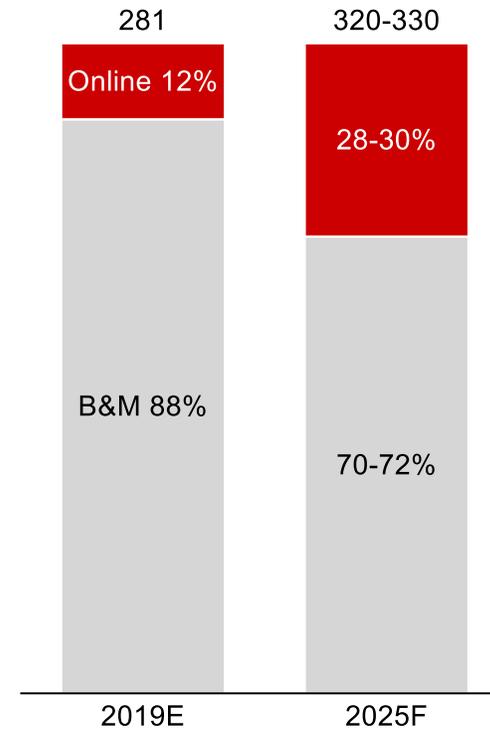
1 Nationality



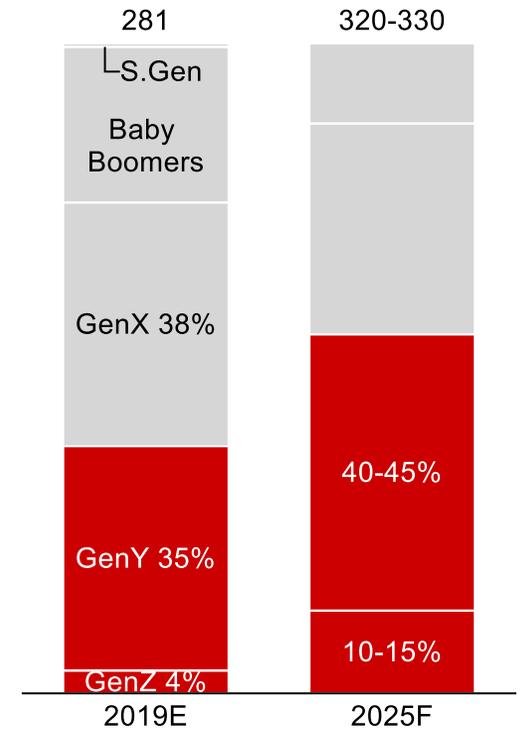
2 Region



3 Channel



4 Generation



19E-25F
CAGR
+2/+3%

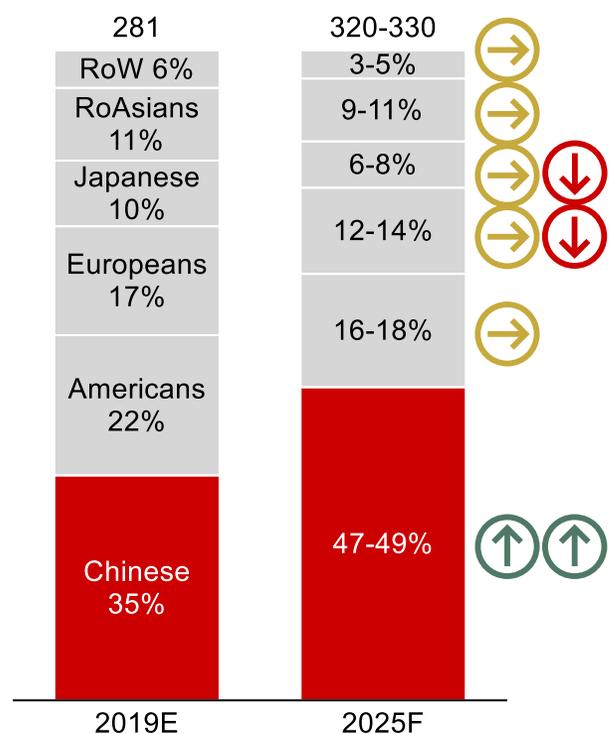
China takes it all: by 2025, China will become the most relevant country and Chinese consumers will make up close to 50% of luxury purchases globally

BEYOND 2020

/ ESTIMATES

Personal luxury goods market by nationality and region (€B)

1 Nationality



2 Region



↑ → ↓ REAL TERM TREND 19E-25F



- China (and **Chinese**) will continue to drive luxury market growth, with an acceleration of **domestic consumption** vs. **foreign**
 - Local **Chinese purchases** to reach **50%+** by 2025



- Rest of Asia will **follow closely China**, with growth driven by a balance of both **local consumption** and **intra-regional tourisms**



- Japan will consolidate its **stable position** in the luxury market, driven by **domestic shopping** and **boosted** by a (regained) touristic consumption, particularly from other **Asian customers**



- Europe's growth** path stabilizing in the medium term, relying on a **regained confidence** by local customers and boosted by the **comeback** of **global tourism**



- Americas**, as Europe, stabilizing its growth, primarily sustained by **local middle-class**, while **less dependent** on international customers

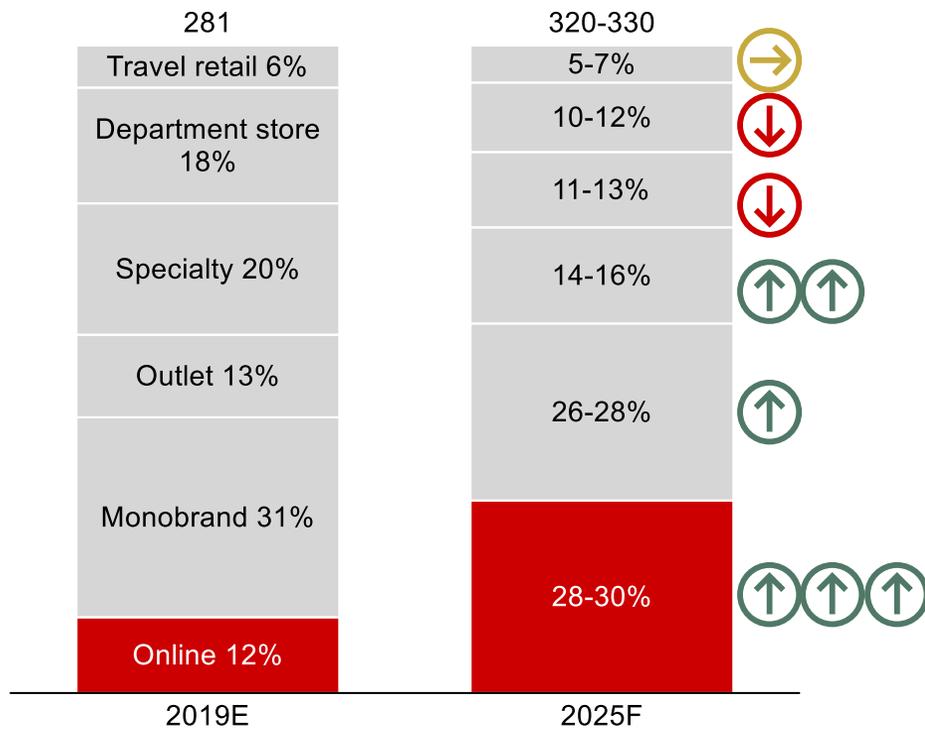
Phy-gital integration will drive distribution ecosystem: further integration of online and physical, with traditional “wholesale” channel re-sizes

BEYOND 2020

/ ESTIMATES

Personal luxury goods market by channel (€B)

3 Channel



- **Online will accelerate**, becoming the **#1 channel**



- **Blurring boundaries** between digital and physical retail experience/ role, boosting a **true omnichannel**



- Drastic re-thinking of the **role of the store** (customer experience, selling ceremony, store clustering, formats, last mile online stock point) further accelerated by pandemic



- **Physical retail networks disruption** accelerated: **resizing** of existing network (both in terms of footprint size and average format) expected



- **Outlet channel increasing weight** due to more **value-driven purchases in mature economies** and a big push of **Chinese middle class**



- **Winners vs. Losers** game within **specialty stores**, expected to **suffer** (and be drastically re-sized); sharp and clear **fashion/opinion leading point of view** key to survive

- **Department stores losing relevance** in the distribution ecosystem (especially in US); expected a drastic business model re-think

- After the **heavy impact of COVID-19** on the channel, travel retail expected to go back to **same level of market penetration** in the mid-term

↑ → ↓ REAL TERM TREND 19E-25F

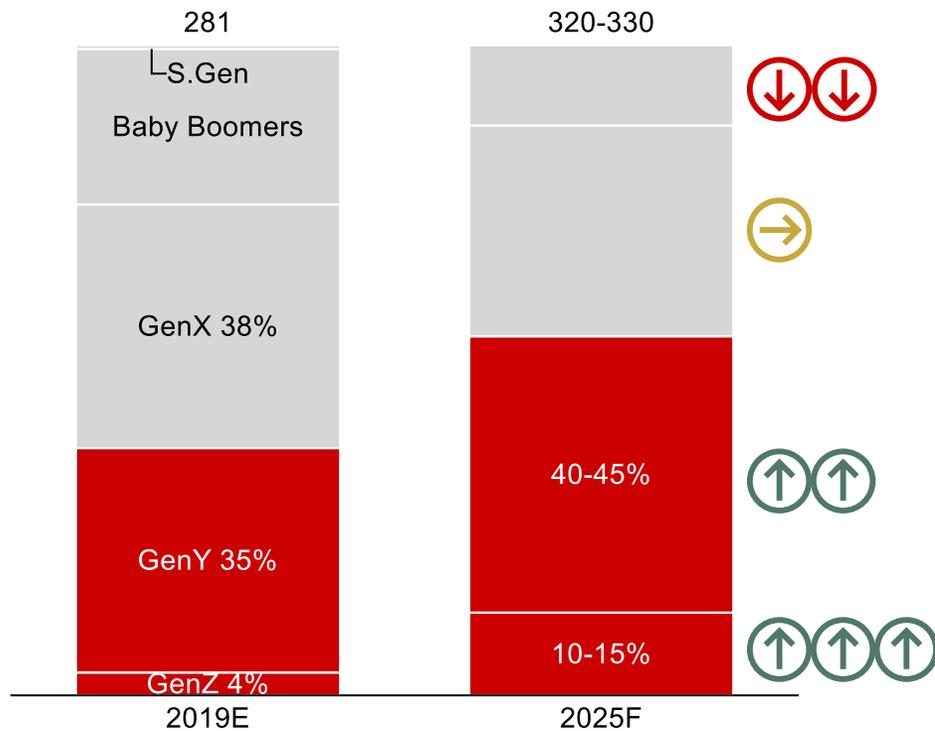
The 45-and-younger demographic will contribute 150% of market growth in 2025. Gen Z and Gen Y combined will make up 50% of the market

BEYOND 2020

/ ESTIMATES

Personal luxury goods market by generation (€B)

4 Generation



~150%

Gen Y and Gen Z expected to contribute to ~150% of the total growth from 2019E to 2025F

Z

- **Digital-native generation** accelerating their **growth and incidence**, perfectly at ease in a reshaped **phy-digital omnichannel environment**

Y

- GenY expected to **continue their expansion path**, accounting for nearly **half of the market** in 2025: affluent middle-class fueling the growth, with a more conscious attitude toward luxury

OTHER

- **GenX will consolidate a stable position** in the market, showing **high resilience** to the future **ecosystem transformation**
- **Baby boomers**, an **aging population**, will account for a smaller share of the market

↑ → ↓ REAL TERM TREND 19E-25F

Luxury industry will face disruptive changes/forces and it will be largely in the hands of the players to re-shape the industry of the future, starting now



Strategic **consolidations** and **“rescue” M&A** along the value chain



Blurring industry and market **boundaries**: price, categories, target customers



From big data to **smart** data
From digital to **post-digital**



The new face of **sustainability**: less product, more value, no impact



Global customer, **local** (and **cultural**) relevance



Supply chain of tomorrow: **glo-cal sourcing?**



Melting **wholesale?**

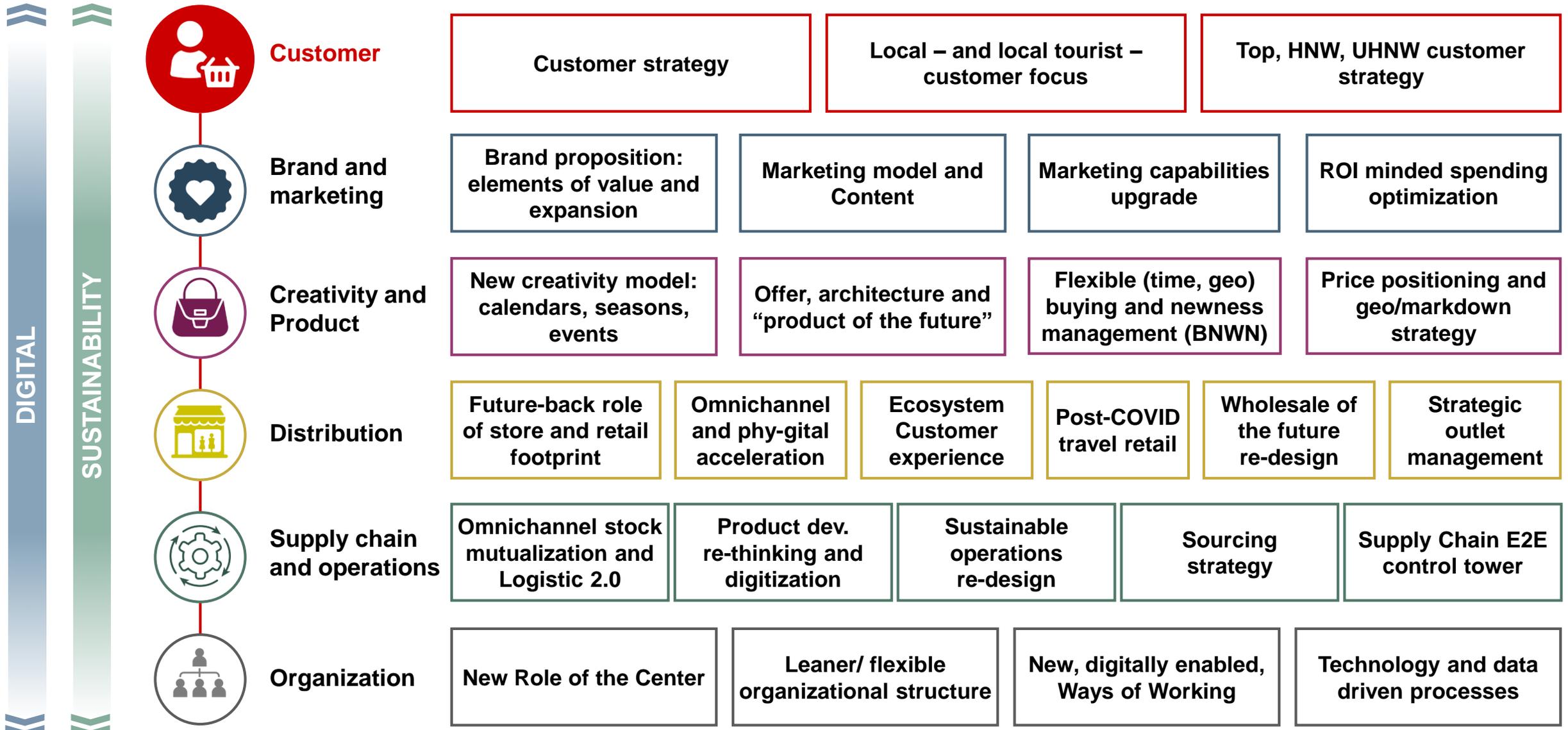


New **“engines”**, new **business models** and **insurgent** brands gaining share



Sourcing/manufacturing network **downfall?**

While promptly reacting to navigate the crisis, luxury brands need to **PLAN NOW** how to lead the future transformation of the industry, starting from the customer



Winning brands will be the ones that best interpret the zeitgeist, remaining consistent with their inner DNA and roots

INSURGENCY
(emerging or at scale)



Claudia D'Arpizio, Partner

Bain & Company Luxury Goods vertical



Claudia has spent 25 years advising multinational luxury and fashion clients on everything from strategy and new product development to innovation and organizational change.

She is the lead author of the Bain Luxury Study, one of the most cited sources of market information in the luxury industry.

In 2009, Claudia was also recognized as one of the 'Top 25 Consultants in the World' by Consulting Magazine.

Federica Levato, Partner

Bain & Company Luxury Goods vertical



Over the last 15 years, Federica has led more than 200 assignments in the fashion and luxury industry on issues relating to corporate and brand strategy, portfolio management, merchandising, retail and wholesale excellence, digital acceleration, millennial strategies, marketing and communication, and more.

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

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METHODOLOGY OF THE STUDY

Revenues at retail equivalent value

- Revenues at retail value represent total sales valued at retail price.
- Each player's consolidated sales are *retailized* through the following methodology:

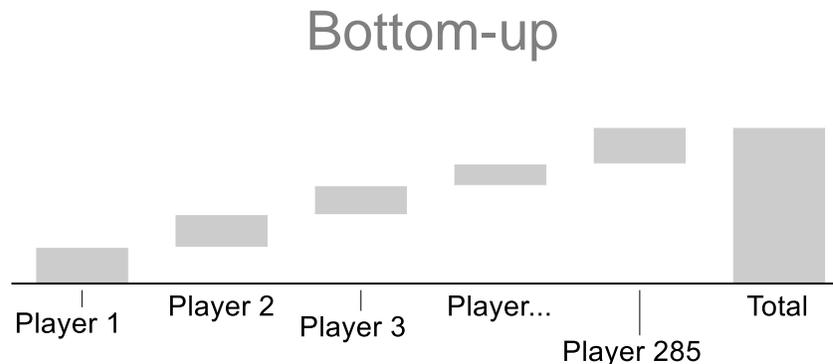
$$\frac{\text{Retail} + \text{Wholesale} + \text{Licenses}}{\text{PLAYER CONSOLIDATED SALES}}$$



$$\frac{\text{Retail} + \text{Wholesale at retail value} + \text{Licenses at retail value}}{\text{PLAYER SALES AT RETAIL VALUE}}$$

- Application of **estimated markups** by geography and category
- Application of **estimated royalty rates and markups** by geography and product category

Bottom-up and top-down estimates



We add brands' individual retail values...



Top-down

- Industry-specific (e.g., watches vs. beauty) data in the main geographical markets
- Comparison between market breakdown and turnover breakdown for key players
- Interviews with industry experts (top management of brands, distributors, department stores ...)
- Consistency check on the data and fine tuning

...we cross check results

