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True-Luxury Global Consumer Insight
Summary of the BCG-Altagamma 2020 Study

A document prepared

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UNIQUE STUDY ON THE TRUE-LUXURY GLOBAL CONSUMER

This document is the summary of the "True-Luxury Global Consumer Insight" research, carried out by Boston Consulting Group (BCG) in collaboration with Alt gamma. This research, now in its Seventh Edition, is the most complete and innovative research on True-Luxury consumers. This year, given the unprecedented situation linked to the Covid-19 outbreak, the study was conducted in two moments: Pre-Covid (in January 2020) and Post-Covid (in June 2020).

The study has been designed to provide a uniquely comprehensive understanding of True-Luxury consumers:

- **All luxury categories captured:** from personal (clothing, accessories, jewelry, watches, perfumes and cosmetics, ...) to experiential luxury (hotels, restaurants, wine and spirits, ...)
- **Size and relevance of the sample:** covers more than 12,000 respondents with an average spend on luxury goods of ~39 k€ /year. Spend thresholds on few categories increased from last year to maintain this study's focus on True-Luxury consumers
- **Wide geographical coverage:** top 10 luxury spending countries – US, UK, Italy, France, Germany, Brazil, China, Japan, South Korea and Russia. From this year, also begun monitoring UAE and KSA consumers
- **Ad hoc Advisory Board:** composed of 20+ luxury companies, the Board gives recommendations on the main trends
- **Select re-run of survey:** In wake of Covid-19' impact on luxury market, a sub-set of the survey was re-run to ensure insights are accurate and up-to-date

COVID-19 IMPACT ON THE LUXURY MARKET AND ON TRUE-LUXURY CONSUMERS

COVID-19 IMPACT ON LUXURY MARKET

- **Pre-Covid estimates for the luxury market were on a positive trajectory.** The crisis has slowed a decade of growth across luxury categories. The global luxury market was set to a positive trend: the personal luxury market was set to achieve +3.2% YoY growth for the period 2020-2022 while the experiential luxury market was enjoying a more positive trend (+5.8%).
- **Now, even the most optimistic forecasts show a drop from -35% to -45% in 2020 for the global luxury market.** In particular, sales of luxury personal goods are expected to decrease from -25% to -45% in 2020 while experiential luxury estimates are even more negative, with a drop between -40% and -60% in 2020. In a best-case scenario (a vaccine becomes available or the economic ramifications of the pandemic are not too severe), people will resume shopping and traveling and give a boost to luxury goods sales. But in a worst-case scenario (a vaccine takes longer to develop or the recession is more severe), companies will struggle to regain momentum and people's ability and willingness to buy luxury goods will suffer.
- Taking these factors into account, we believe that the industry's recovery will be gradual, **reaching 2019 level only in 2022-2023** depending on categories.

COVID-19 IMPACT ON TRUE-LUXURY CONSUMERS

- **Even True-Luxury consumers felt the impact of the crisis on their finances and spending behavior.** 57% of consumers say the economic uncertainty prevents them from making purchase and investments they had planned before.
- **The sentiment towards recovery is also mitigated,** with 43% of consumers thinking that recovery after the crisis will not be fast. Only **Chinese** nationals emerge as more **optimistic** towards recovery, with 77% agreeing that recovery will be fast. However, it is important to notice that the country is now well ahead in the virus cycle as opposed to most of other countries.
- **Most of True Luxury consumers are cutting** their spend related to luxury at least in the **short term,** with some categories suffering more than others. According to consumers attitudes, casual wear and cosmetics are expected to rebound in two years, while other categories will suffer the impact of Covid-19 even in the long term. Within experiential luxury, consumers are most reluctant towards hotels, cruises and resorts.

CONSUMER TRENDS OF THE 2020 EDITION

In this Seventh Edition, we focus on the trends that are **shaping the new luxury reality** and have **been** accelerated by the recent circumstances, distinguishing two categories:

- **Temporary trends, here today.** Consumers trends that are very relevant today, but whose duration is unpredictable and may be affecting the industry only in the short term.
- **Accelerating Trends, here to stay.** Consumer trends that are here to stay, that have been accelerated by recent events and that are structurally shaping the luxury reality.

Eight key consumer trends emerge from the study:

- 1) **Temporary Trends, Here Today**
 - a. Experiential Luxury and Tourism: more secluded and short-hauled
 - b. Chinese: from global spenders to local consumers
 - c. Millennials take a hit, but are the most hopeful for the future
- 2) **Accelerating Trends, Here to Stay**
 - d. Luxury Values Polarizing between West and China
 - e. Purpose at the heart of Sustainability 360°
 - f. Next Generation relationship driven by Clienteling 2.0
 - g. A new shopping equation: online acceleration & in-store experience
 - h. New business models reshaping ownership: rise of 2nd hand and rental

1) Temporary Trends, Here Today

a. Experiential Luxury and Tourism become more secluded and short-hauled

TRENDS

Before Covid-19 hit, 43% of True-Luxury Consumers were shifting their spending towards experiential luxury. The trend is resisting, with 40% of consumers of all geographies confirming they are more likely spend more on luxury experiences and less on products compared to before.

Because of Covid-19 however, we will witness a preference for more secluded and intimate experiential categories, at least in the short term. Social experiences are most impacted as consumers prefer to spend more time at home or private exclusive gatherings such as super yacht and villas. As a consequence, appetite for luxury bars, luxury hotels and resorts and luxury cruises is expected to be very negative, with 50-60% of consumers saying they will spend less or significantly less in these categories at least for the next 6 months.

When it comes to international travel, 54% of True-Luxury consumers do not expect to resume it before 6 months from now, but responses differ among nationalities. On average in fact, 65% of Germans, 57% of French and 55% of Italian (with similar shares for other European nationals) expect to resume international travel between now and 6 months from now, preferring neighboring countries and short-hauled trips as opposed to long-haul destinations. Non-Europeans will wait a bit longer before traveling internationally again, also because short-hauled destinations available to them are not always appealing.

Once the emergency will be under control, Italy is on top of True Luxury consumers' mind when it comes to international destinations, except for Chinese, who rank it only third, after France and Japan – while pre-Covid Italy was their preferred destination.

IMPLICATIONS

Priorities for brands operating in experiential luxury & tourism are articulated on two phases. In the upcoming “fight phase”, brands would need to focus on virus safety measures, advertising on cleanliness and health, as well as to experiment with incentives (flexibility, deals). Think hyper local is also a priority for the short term, adapting communication and offering to fuel local demand. In the “future phase”, brands would need to echo their brand reputation, invest in gathering deep knowledge of their (old and new) clientele and identify potential grow vectors (e.g. M&A).

Implications for Italy revolve around two areas: the first is the focus on Italian clientele first, promoting what matters most to them in terms of best-in-class cleaning and flexible and cheaper deals; the second is expand horizons and keep capturing the interest of international tourism, with a particular focus on restating the interest of the Chinese. Of utmost importance is the topic of national branding, in which brands and government come together to collectively promote Italy reassure domestic and international clientele.

b. Chinese: from global spenders to local consumers

TRENDS

Due to Covid-19 and the limitations on international travel, we expect Chinese consumers to re-patriate their luxury spend to their home country. 73% of Chinese consumers confirm that they will convert at least half of their yearly abroad luxury spend back to China in the next 12 months. This new dynamic driven by re-patriation of demand is expected to boost luxury market projections for China, at a faster rate than pre Covid-19 estimates.

For luxury categories, Chinese consumers feel that recovery will be faster in their domestic market particularly for apparel, shoes and leather goods, as they are easily accessible to them. While they will wait at ca. 8 months before traveling abroad specifically to buy luxury products. However, the gap between domestic and international predicted recovery for luxury experiences is shorter as the type of luxury experiences they look for cannot be replicated locally. Ca. 50% of Chinese consumers say that they will wait at least 6 months before traveling internationally, putting on top of their travel destinations Japan, France and Italy.

IMPLICATIONS

Due to the impossibility to nurture relationships with Chinese clients in Western countries, brands would need to relocate their marketing, PR and communication efforts to be closer to where clients are. For the same reason, they would need to review strategically their distribution footprint and think about penetrating the Chinese market with a local partner, especially in e-commerce. Lastly, rethink pricing and tailor offer to local market is a way to boost local sales.

c. Millennial take a hit, but are the most positive and hopeful for the future

TRENDS

Millennials and Generation Z have been most-impacted by Covid-19 compared to older generations, with 50% of young respondents saying their income have been reduced due to the coronavirus compared to 35% for Baby Boomers and 25% for Silvers. Yet, they are the most hopeful about the future: 53% think that recovery will be fast compared to ca. 20% on average for older generations.

With or without a crisis, these generational cohorts are of special interest, given their increasing spending power in the coming years and their ability to influence older generations. They are forerunners of existing trends – some of which enhanced by Covid-19 – such as preference for personalized clienteling, purchasing online (especially on multi-brand stores) and developing opinions via social media and influencer

Gen Z and Millennial marketing matters now more than ever, and some brands have clearly understood it. Among Gen-Z and millennials, 60% say that an advertisement on social media has influenced their purchase decision during COVID-19, compared to 25% of older generations. In the absence of physical and local contact, many brands engaged with these

generation creatively during Covid-19 on emerging social media such as Bilibili (for young Chinese) and TikTok.

IMPLICATIONS

Millennials & GenZ are now suffering the effects of Covid-19, however they are expected to represent 55% of total luxury consumption by 2025. The priority for the short term is finding the right balance between engaging with young generations who are anticipators of future trends and will be driving the future of the market, while nurturing older generations who are more solid in terms of spending power and are currently core consumers for luxury.

2) Accelerating Trends, Here to Stay

d. Luxury Values polarizing between West and China

TRENDS

Fashion and luxury have always been characterized by alternation of style eras, each lasting circa a decade. Before Covid-19 hit, we witnessed a shift in values with a recent wave of extravagance and fun identity statements as opposed to more traditional values, such as craftsmanship and fun identity statements. Post-Covid, we witness that this growth trajectory still progresses fast in China but halts in the Western world, with two diverging directions.

The luxury world is now polarizing between "Sobriety is the way" in the West and "Extra is cool" in China. In fact, most of European & Americans True-Luxury consumers state they will be more likely to prefer brands that are understated and timeless, while most of Chinese respondents say that they will prefer luxury items with brand visibility and iconic patterns. As preference for luxury *extro* values increased by ~14% for Chinese, while it has lost ~9% for Westerns, we can say that the luxury world is not only traveling at two speeds but also towards two different directions: "Sobriety is the way" in the West and "Extra is cool" in China.

IMPLICATIONS

A potential dilemma arises for luxury brands and for their identity: would they follow *extro* values to appeal Chinese consumers or would they sober-up for westerns? Two elements need to be considered: Chinese make 35% of the luxury market and they will continue to represent the engine of growth for luxury, even in the post-Covid era. Western nationalities on the other hand, will recover at a slower pace, but it's important to notice that they still represent a big slice of consumers in luxury today. Whichever directions brands will take, it is of utmost importance for brands to stay true to their identity and heritage

e. Purpose at the heart of Sustainability 360°

Many sustainability trends have been accelerated by Covid-19 crisis as well as other recent events, with the urge of redefining the meaning of Sustainability at 360°.

Sustainability is influencing consumers now more than ever, with more than half of True Luxury respondents saying that it will be more likely to have an impact on their purchasing behavior than before the crisis.

Now more than ever, consumers are conscious of which brands are sustainable and which are not, and closely scrutinize their actions. More specifically, during the Covid-19 emergency, consumers paid a lot of attention on luxury brands' contribution to society, appreciating those brands who donated money to research and/or community, took early steps in protecting their workers and re-purposed their facilities to produce medical material, with ca. 60% of respondents agreeing that these actions had a positive impact on their perception of such brands. Ca. 20% say that potentially would buy more from them in the future.

Consumers are not only putting emphasis on brand's involvement in communities & diversity and inclusion on the wave of recent events, but they also still support environmental causes such as climate change and see favorably those brands who act beyond words.

Consequently, the traditional meaning of sustainability – focused on the environment and animal welfare – has evolved towards Sustainability 360°. Sustainability 360° holistically integrate all those beliefs, actions and initiatives that contribute to define the purpose of each brand, putting a big emphasis on the responsibility of brands. That is why, we think that purpose is at the heart of Sustainability 360°.

IMPLICATIONS

Industry-wise, luxury has made progress on sustainability, however at a slower rate in 2019, and many brands are missing out on the benefits of sustainable practices. Combating climate change, strengthening circularity and reducing the footprint is also a top priority of the industry. In order to be a successful 360° sustainability player, brands need to meaningfully commit to society as well as to the environment, master the table stakes demanded by consumers (e.g. fair labor practices, environment), develop sustainability strategies that go beyond obvious initiatives and accelerate transparency. Most importantly, sustainability needs to become part of the overall business strategy and day-to-day operations internally and in the supply chain as well as part of the digitization.

f. Next-Generation Relationship driven by Clienteling 2.0

TRENDS

The new generation of relationship will be driven Clienteling 2.0. Establish long-term relationships with consumers leveraging data about what they like, what they purchase, how they behave is what we call clienteling. “2.0” means ensuring that the relationship is seamlessly nurtured both in store & online, combining capabilities of people and data using advanced tools (e.g. machine learning).

In the new luxury reality, True-Luxury consumers will highly value digital personalized clienteling. 46% of respondents say they will be more appreciative of digital personalized clienteling in the future compared to before, especially Chinese (76%) and Italians (57%) consumers. They will have high expectation on the level of service they will receive, expecting the same between digital and offline channels.

Clients wish to replicate online the type of relationships with brands they used to have offline. While in the past they used digital channels mostly as an alternative to physical stores for transactional purchases, they now expect more from them, especially in terms of relationship with brands and clienteling.

Some brands have already started experimenting new and personalized ways of engaging with consumers during lockdown, for example introducing exclusive live shopping video services with personal shoppers.

IMPLICATIONS

Brands would need to focus on building a strong clienteling 2.0 backbone, that is composed by three elements. First, data capabilities: brands need to be able to capture and leverage data to get to know their clients, building an end-to-end automated flow from customer data capture to activation. Second, Advanced Analytics and Artificial Intelligence tools and methods: to bring data to life and to gather insights on customers. Third, and most important, people: brands should be able for example to enable sales associates to use customer targeting and personalized recommendations, moving away from blast campaigns to personalization.

g. A new shopping equation: online acceleration & in-store experience

TRENDS

Shift to online channels was already emerging but has been further accelerated by recent events. Online channels to gain share during and post-lockdown, becoming an increasingly important source of inspiration beyond purchase channel: 50% of consumers say they will spend more time gathering inspiration for purchase online vs purchasing the product.

36% of True-Luxury consumer say they will buy more online than offline compared to before, but 23% will still buy more offline channels than online, driving to polarized results. In the

first bucket there are mostly young generations, as well as Asian consumers. In the second, there are mostly Western consumers – specifically for hard luxury categories such as watches and jewelry.

The rise of online channels therefore is not the death of retail, which on the contrary will need to evolve. Store 2.0 will look very different from now: they will focus on experience and service, they will have “hyper-localized” assortment and they will upgrade their digital offering. Mono-brands store will have a new role to appeal consumers: they will probably be less in number, more immersive and more experiential, and a place for connection and sociality.

IMPLICATIONS

The shopping equation between online and offline is made possible by a solid omnichannel strategy. Create an online connection that feel exclusive and beyond what non-luxury retailers offer (e.g. fashion shows, private showings, personal shoppers...). Shift from store to experience, trying new concepts such as store in store, test & try, brand storytelling & brand-related services. Leverage data and technology to make your consumers live a seamless omnichannel experience: invest in tech Advanced Analytics and Artificial Intelligence to create E2E consumer journeys.

h. New business models reshaping ownership: rise of 2nd hand and rental

Purchasing new luxury goods is not the only way consumers engage with the luxury market. 16% of True-Luxury consumers have rented a luxury item in the last 12 months, 25% have purchased a 2nd hand luxury item and 33% have sold a 2nd hand luxury item. We expect all of these trends to rise over the coming years, even if they might be halted temporarily by recent events linked to Covid-19.

Rather than feel threatened, brands should recognize 2nd hand luxury as a valuable customer acquisition channel. 73% agree or strongly agree that they buy more expensive brands in 2nd hand market (up to 74% in Young Millennials and 81% in Older Millennials). Moreover, 65% agree or strongly agree that they discover new brands through the 2nd hand market (up to 70% in Young Millennials and 75% in Older Millennials).

Brands have a few options for participating in the 2nd hand market: 70% of 2nd hand luxury consumers would like to purchase 2nd hand products directly through brands, 68% would like to find 2nd hand products in mono-brand stores and 74% would like brands to certify 2nd hand products sold on re-sellers.

45% of True-Luxury consumers are also interested in renting luxury items, behind the 2nd hand purchasing market in which 62% are interested. Leading reasons for reluctance to rent luxury items are a desire to own luxury products (44%), not wanting to use something owned

or used by someone else (12%) and being afraid of damaging the product (12%). The desire to own luxury products is less pronounced for Gen Z and Young Millennials (40%).

IMPLICATIONS

Both opportunities and risks are posed by the wardrobe of the future. Opportunities are related to building new and growing revenues streams, enlarge customer base and operate in the circular economy, favoring sustainable practices. However, brands need to be mindful of potential cannibalization of sales, especially linked to rental: consumers may be inclined to rent a luxury item where they previously they may have purchased instead.

NEW LUXURY REALITY AND IMPLICATIONS FOR BUSINESSES

Brands that address challenges and opportunities without delay will be in a better position to navigate the new reality. In the initial Flatten phase, luxury players prioritized protecting their people and cash. Some switched to making personal protective equipment, hand sanitizer, and other essentials. In many regions, brands now are transitioning to the Fight phase, where they need to reset and streamline operations and invest in processes that will drive advantage into the Future phase of the new luxury reality.

The crisis will result in structural changes in and luxury consumer behavior and preferences. In the new reality, Consumers will buy less, more locally and more selectively, while Distribution resets towards digital & different channel economics. Structural changes include a new shape of P&L for brands, polarization and consolidation of the luxury industry and acceleration digitalization of business, both customer-faced and internal to the company, with the rise of “bionic organization”.

Luxury brands must reset, streamline and invest to win in the new reality. Reset and streamline focuses on 5 priorities:

- **Reset distribution:** Redefine footprint, including role of wholesale, physical stores, platforms, digital and omni-channel sales
- **Make supply chains less costly and more agile:** Renegotiate supplier partnerships to increase flexibility, risk-sharing, and decrease time to market
- **Adjust P&L:** Redo costs to reflect lower revenue
- **Rethink the fashion calendar:** Produce fewer collections; Match delivery to the seasons; Cut back on collection shows
- **Implement a zero-based organizational redesign:** Review org structure and break down silos; Adopt “bionic” operating model to combine human, technology capabilities

Brands would also need to invest in 6 priorities to win the new reality:

- **Address changing consumer demands:** Amplify brand purpose, sustainability, and community

- **Invest in inspiration:** Excel in content ideation, creation, amplification, and nurture target communities
- **Embrace clienteling 2.0:** Personalize client relationships; Marry analytics with people to improve selling
- **Accelerate the digital ecosystem:** Cover the entire customer journey, including inspiration, purchase and post-purchase
- **Build an AI-driven technology backbone:** Digitize core processes for product development, and to accelerate e-commerce
- **Bring fresh skills to the workforce:** Hire, retain and train people who know AI and AA

CONCLUSION

The Covid-19 has accelerated many consumer trends that in normal times would have taken some more years to fully develop. Some trends are here to stay, others might be just temporary.

In the short term, consumers will be more careful about their luxury consumption and will buy more local. Chinese consumers, in particular, will re-patriate most of their spend to China becoming local spenders as opposed to global shoppers. Millennials and GenZ are taking a temporary hit, but they will be the engine of luxury consumption in the future. Consumers will also prefer secluded and short-hauled tourism and experiences.

In the long term, we expect luxury values to polarize between West and China. A value that is common to all consumers however, is the importance of sustainability – in the broader sense of the term. Moreover, consumers will be more appreciative of personalized clienteling both through online and offline channels. Related to channels, a new shopping equation is emerging with the fast acceleration of online and the evolution of physical stores. New business models reshaping ownership such as 2nd hand and rental are also expected to catch on.

All of these trends are contributing to redefine the meaning of luxury. As a consequence, brands need to reimagine most aspects of their business to adapt to these changes. Priorities for brands are becoming sustainable players at 360°, embracing digital capabilities to – among others – implement clienteling 2.0, and integrating people and technologies.