

ALTAGAMMA-BAIN

Luxury Goods Worldwide Market Study

SPRING 2024

Long Live **Luxury** (?)

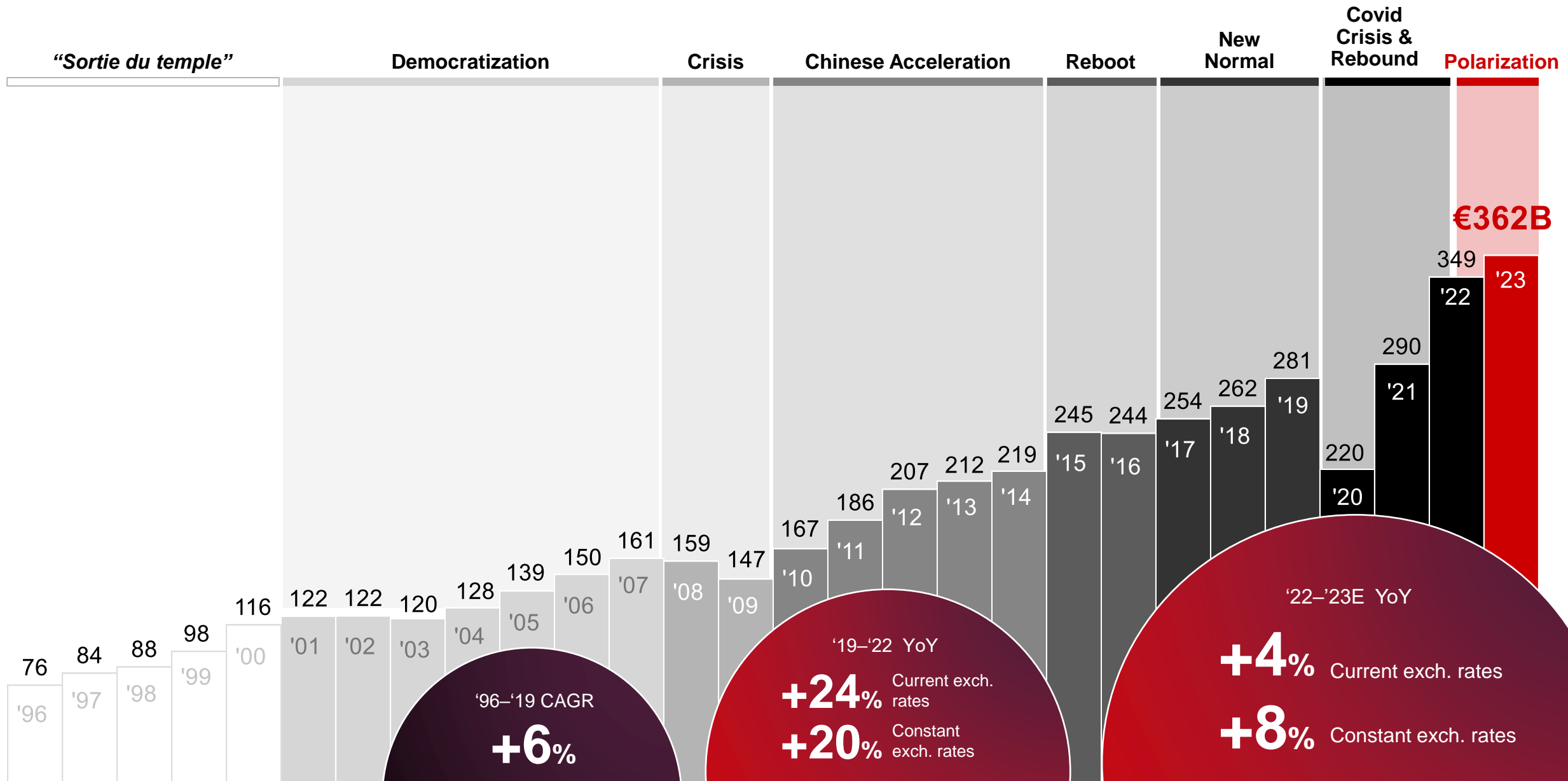
Adjusting buoyancy in troubled waters

CLAUDIA D'ARPIZIO | FEDERICA LEVATO

JUNE 18, 2024



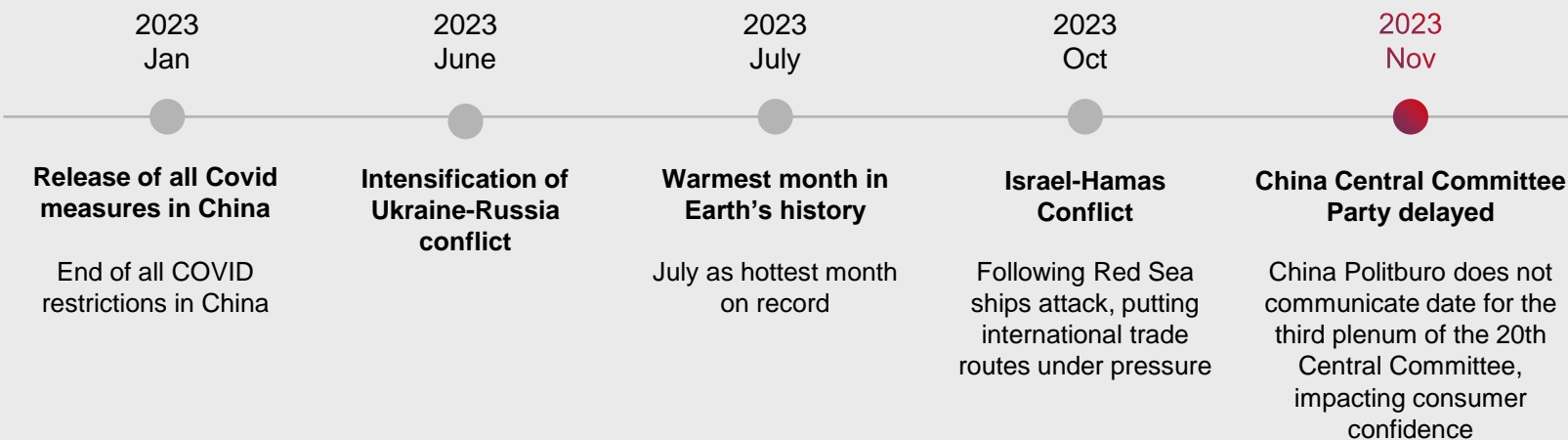
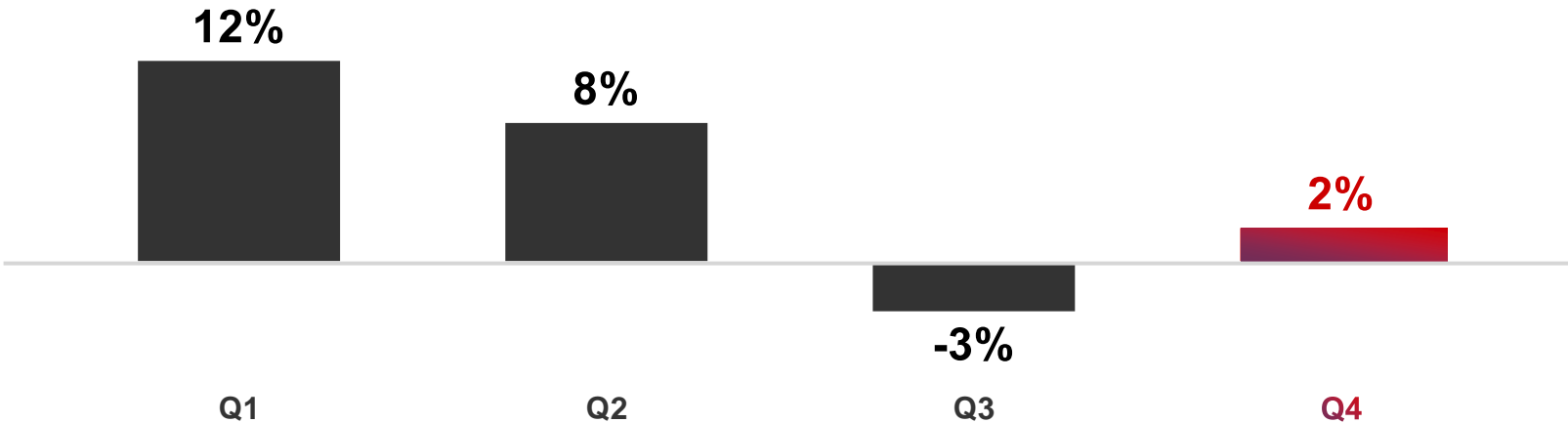
Amid uncertainty, personal luxury posting another year of growth in 2023



Mildly positive Q4-23: stronger-than-expected holiday season in US, continued influx of luxury travelers

2023

(% growth vs. 2022 at current exch. rates)



Q4-23

Mildly positive primarily due to:

- Inflation slowing down, favoring locals' consumption during holiday season
- Continued recovery of Asian touristic flows toward Europe, and strong levels of American tourists
- In contrast, consumer confidence slowing down (again) following geopolitical tensions and economic turbulence



Q1-24E

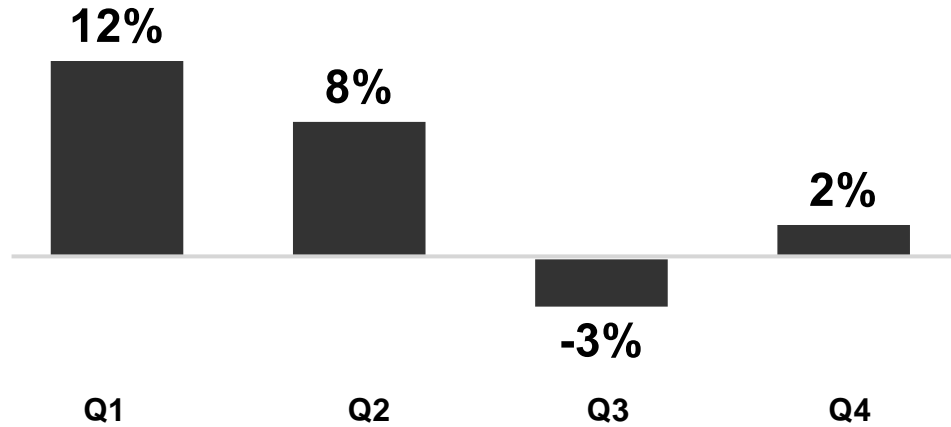
Posting **negative growth** due to:

- **China** suffering from diverting spending due to recovery of **outbound tourism** (favoring JP and EU) and growing **economic uncertainties**, hampering middle-class consumer confidence
- **US** grappling with continued macroeconomic pressures yet **progressing to a slow-paced upswing** driven by improved GDP and consumer confidence
- **Stronger resilience in Europe** and **continued momentum in Japan**, both favored by tourism inflows

Market **slowdown** in **Q1-24E**, with nuances across regions and strong brand **polarization**

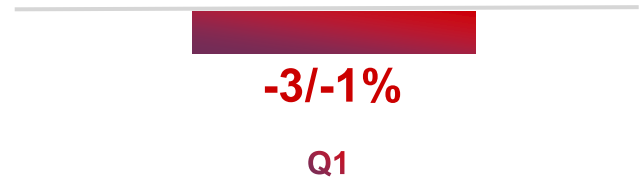
2023

(% growth vs. 2022 at current exch. rates)



2024E

(% growth vs. 2023 at current exch. rates)











Q1-24E

Experientiality winning (again) over tangibles, driving to an overall **stable broader luxury market** in these first months of 2024

TOTAL (€B, 2023E) **~1,508** →

↑ → ↓ Current exch. rate trend Q1-24E vs. Q1-23

Luxury Cruises	LUXURY CRUISES		↑	Rising interest in smaller intimate ships, outpacing traditional cruise concept
Private Jets & Yachts	PRIVATE JETS & YACHTS		↑ →	Steady delivery growth from robust accrued orders, now gradually normalizing
Fine Arts	FINE ARTS		↓	Auction market slowing down, due to artwork shortage and economic uncertainties
High Quality Design & Furniture	HIGH-QUALITY DESIGN & FURNITURE		↓ →	Pressured by weak real estate but gradually improving
Gourmet Food & Fine Dining	GOURMET FOOD & FINE DINING		↑	Strong demand for experiences and recovery of touristic flows
Fine Wines & Spirits	FINE WINES & SPIRITS		↓ →	Premiumization and downtrading, with Gen Z's lower consumption hindering growth
Hospitality	HOSPITALITY		↑	Tourism boom and surge for immersive experiences
Cars	CARS		↓ →	Order backlog normalization, with polarized brands' performance
Personal Luxury Goods				

Q1-24E suffering; Mainland China under pressure, US still negative, Europe resilient and Japan flourishing

Personal luxury goods market – Quarter-on-quarter growth trend by region

(% growth | Q1-24E vs. Q1-23 and Q2-24F vs. Q2-23 YTD)



↑ → ↓ Real term trend Q1-24E vs. Q1-23
 ↑ Q1-24E
 ↑ YTD Q2-24F (Apr/mid-Jun)

Note: (1) CCI stands for Composite Consumer Confidence Index; (2) Data as of May 2024, referring to 2024E vs. 2023; @K = Growth at constant exchange rates
 Source: Bain elaboration on IMF, World Bank, OECD Data

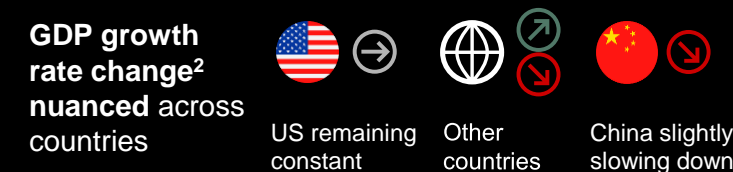
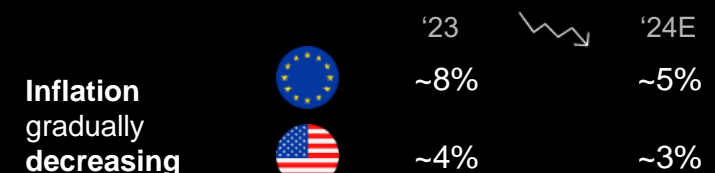
PERSONAL LUXURY REPORTING GROWTH DOWNTURN

Q1-24E vs. Q1-23

-3/-1%

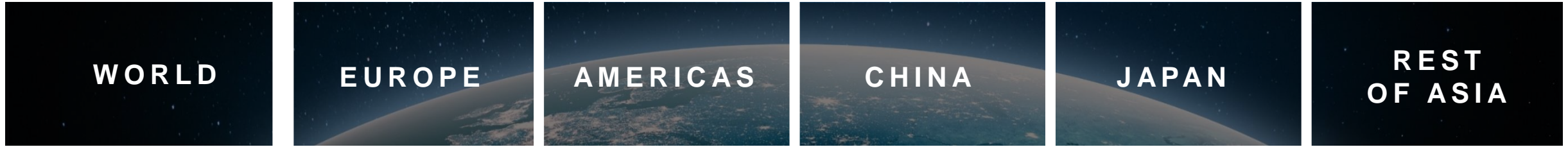
@K: +0/2%

... WITHIN A COMPLEX AND VOLATILE MACROECONOMIC SCENARIO



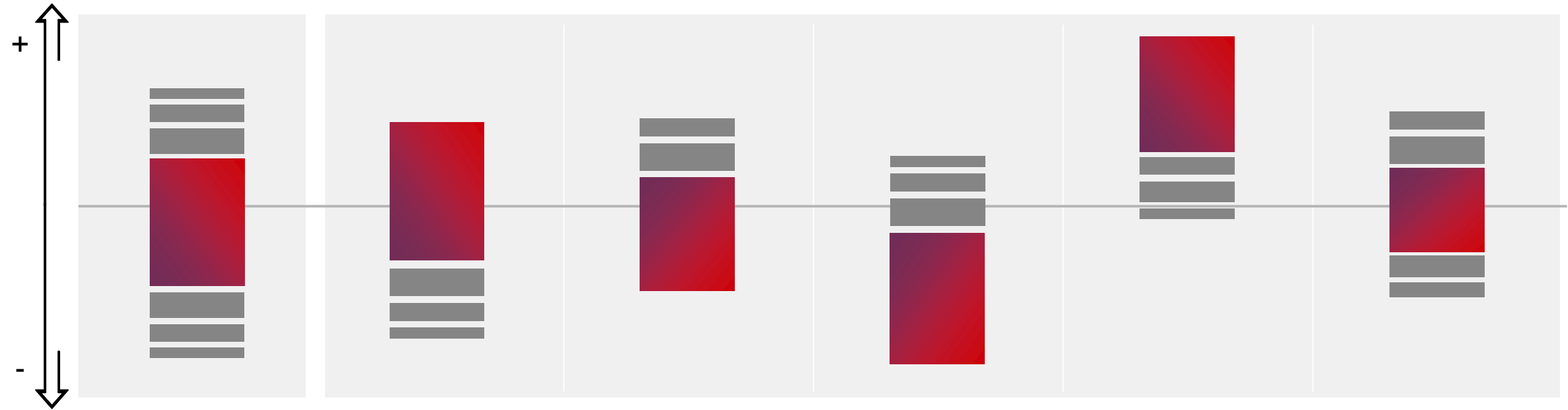
²Negative arrow indicates a slowdown in GDP growth, positive arrow an acceleration

Significant **polarization in brands' performance**, within and across regions



Market growth polarization by region (Q1-24E vs. Q1-23)

Brands concentration by growth: ■ High ■ Low



Highly polarized between winners and losers

Highly polarized, with majority of players performing resiliently

Highly polarized, yet mostly skewed toward slowdown

Overall contracting, with majority of brands struggling, few winners

Overall positive market with all brands continuing to post solid performance

Mixed performances, polarized at reference category and brand level

Western world continuously challenged



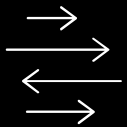
China struggling amid structural and social shadows



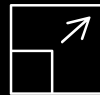
Japan continued flourishing helped by tourism's blossom



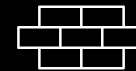
OXYMORONIC TRENDS COEXISTING



Consumption shaken by economy, market and players' strategies



Top customers obsession + broadening audiences



Price elevation (at its ceiling?) vs. markdowns: the perfect storm

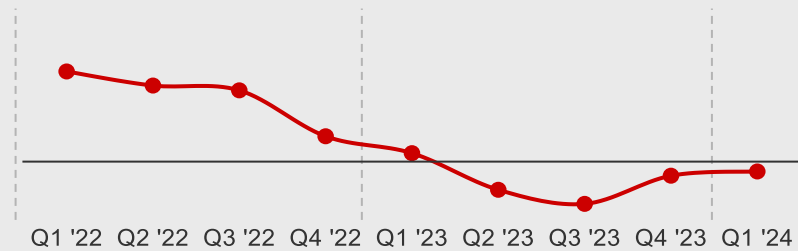


Pressured profitability, further polarization expected

WESTERN WORLD CONTINUOUSLY CHALLENGED

US still facing **hard times**, amid **prolonged** uncertainties

AMERICAS YOY GROWTH BY QUARTER (% | Q1-22, Q1-24)



IMPROVING MACROECONOMIC BASELINE (Q1-24 vs. Q1-23)

Consumer confidence rising
+~2%

GDP growth further increasing
+~3%

Unemployment rate on steady resilience
+~0%

...ALTHOUGH CRUCIAL EVENTS AHEAD EXPECTED TO IMPACT MARKET GROWTH



Presidential election in November
Driving swings in consumer confidence



Fed cut of interest rates
Boosting economy recovery

TRANSVERSAL LOCAL CUSTOMERS DYNAMICS



High-end clientele as glimmers of sustained performance

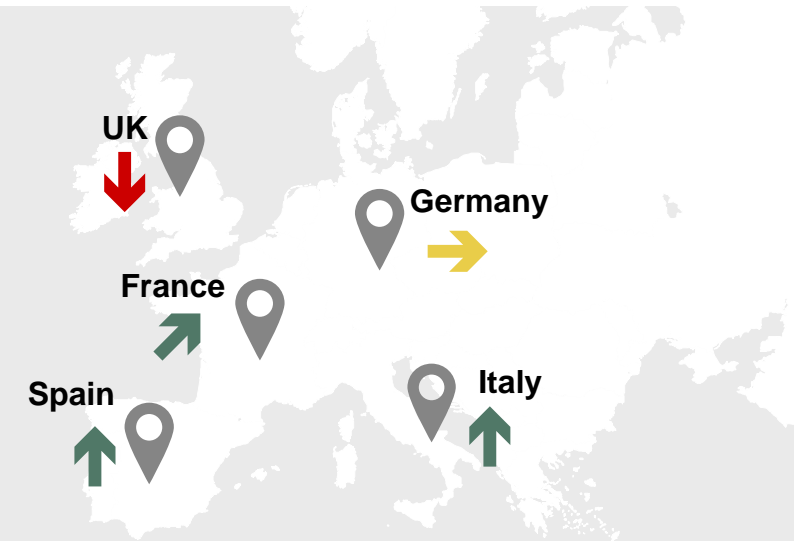


Aspirational customers still in downward spiral



↑ → ↓ Luxury consumer spending trend (2024 YTD)

EUROPE growing, tourists driving and locals beating expectations



WITH POLARIZED LOCAL CUSTOMERS DEMAND



Stronger pools of local consumption in main cities in **Italy** and **France**, weaker UK



Uber-luxury pieces outperforming, **entry-level items** progressively regaining relevance as mean to access luxury

Chinese spending in line with 2023, yet with contrasting dynamics

Within the country

CHALLENGING MACROECONOMIC ENVIRONMENT,
HINDERING MIDDLE-CLASS CONSUMPTION

Sluggish GDP
growth

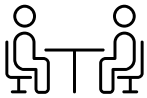
Pressured
middle class

Weak
consumer
confidence

WITH

“LUXURY SHAME”

PATTERNS DRIVING CONSUMER SPENDING



1-TO-1 OVER IMPULSE SHOPPING

Lower traffic within malls

1-to-1 activations and private events as **key means to drive purchases** of local customers



UNDERSTATEMENT WINNING

Stronger demand for **discrete & understated products** over branded items

Timeless aesthetic beating out fashion items

Outside the country

INTERNATIONAL TRAVEL CATCHING UP
TO PRE-PANDEMIC LEVEL
ALTHOUGH WITH NEW(ER) DYNAMICS

JAPAN OVER EUROPE

EXPERIENCES OVER PRODUCTS

JAPAN (and EUROPE)
BENEFITING FROM OUTBOUND TOURISM...



Scheduled flights

in Q1-24 as % of 2019 avg



~90-100%



~70-80%



Chinese shoppers abroad



... AT THE EXPENSES OF CLOSER
‘LOCAL’ DESTINATIONS



Hainan Sales

YTD YoY Variation

~ -30%

JAPAN

continuing flourishing, with new(er) nationalities appearing



Backlog of travel

INBOUND TOURISM INFLOWS (YoY '19-'24)

+10-15%

Favorable yen arbitrage

sinking to **lowest level** against US dollar in last 20 years

YEN/USD EVOLUTION



nourishing **tourist inflows** from all over the world, across Tier-1 cities and **new luxury locations**

Avg. saving for a Chinese consumer shopping in JP vs. EU and CNY post-VAT refund



Softer local consumption



Overcrowded stores hindering locals' willingness to shop



Price adjustments to rebalance inter-regional differentials weakening locals' purchasing power

CATEGORY DYNAMICS



Strongest jewelry

Volume growth favored by more **limited price elevation** and high penetration on **local VIC** clientele



Entry on the rise

Belts, small leather goods and eyewear growth sustained by **touristic inflows**



Bags outgrowing

Positive impact from touristic consumption paired with **"investment" mindsets** on timeless styles from local consumers



Ready-to-wear suffering

Across **price points**, as **clienteling** efforts are redirected away from local VICs

Consumption shaken by ongoing turbulence and brand strategies

Rising pressures, especially on young generations



INCREASING UNEMPLOYMENT LEVELS



PRESSURED CONSUMER CONFIDENCE



WEAKENING FUTURE OUTLOOK

Revamped relevance of senior generations, after last years' spending binge of younger ones

CUMULATED PERSONAL LUXURY GOODS SPENDING GROWTH BY GENERATION

REAL-TERM TREND AND INSIGHTS BY GENERATION (Q1-24)

	'20-23E vs. '17-19	Q1-24 Real-term trend	
Luxury market	~1.5x		
Gen Z	~6x	↓	Side-lined diverting spending on experiences, following last years' constraints and uncertainties on the future
Gen Y	~2x	→ ↓	Diverging across ages younger millennials constrained by limited spending power older ones progressively inheriting wealth
Gen X	~1x	↗	Into the spotlight back in the crosshairs of conversation from luxury brands, to exploit their spending power
Baby Boomer	~0.7x	→ ↗	Living their wealth diversifying their spending across goods and experiences, bolstered by accrued wealth

↑ → ↓ Spending trend by generation(Q1-24E vs. Q1-23)

Brands playing **dichotomously**, focusing on **top customers** with **products and events** (now **at scale**) while **widening their audiences** in **broader conversation territories**

INCREASING THE FOCUS ON TOP CLIENTS, TAKING THE RELATIONSHIP "AT SCALE"



1-TO-1

Clienteling with hyper-personalized servicing

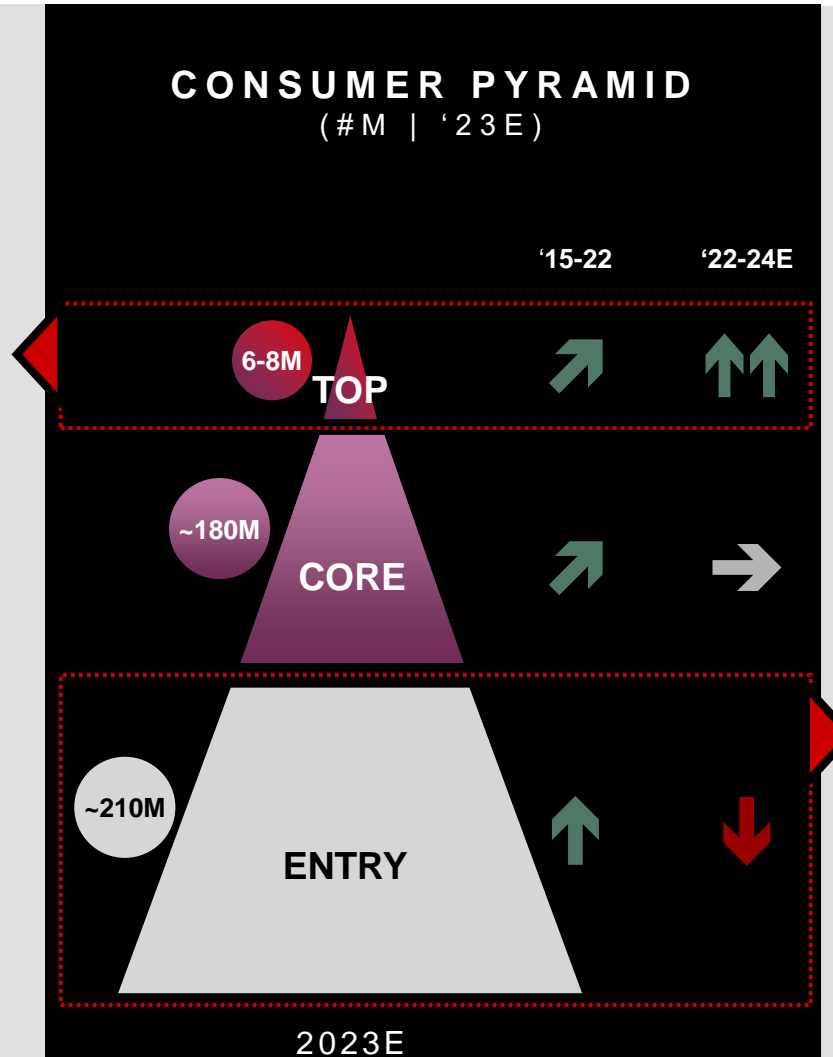


1-TO-MANY

Events at scale with (partially) undifferentiated interaction

CONSUMER PYRAMID

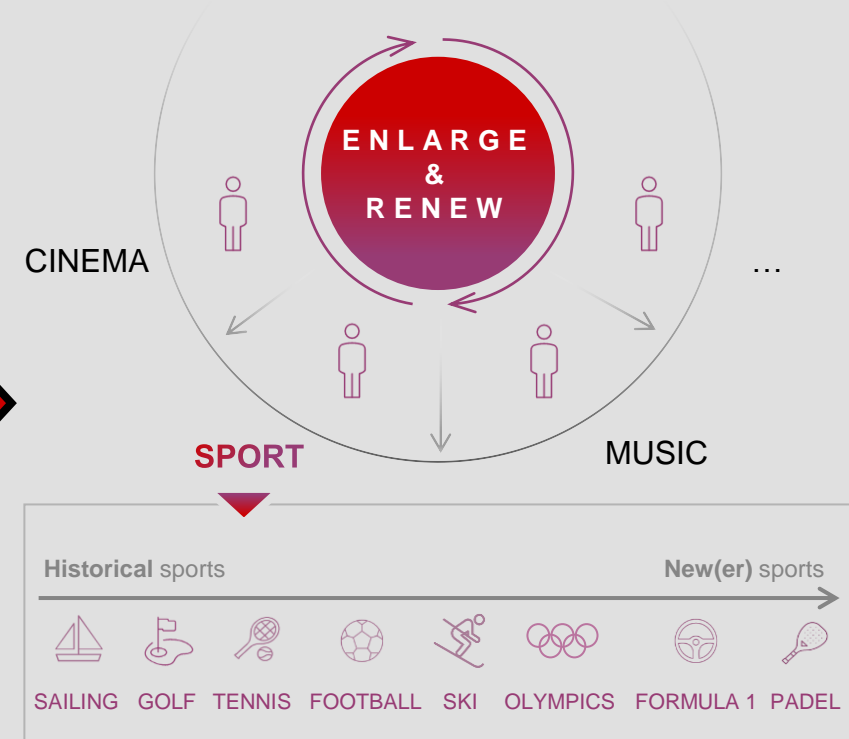
(#M | '23E)



WIDENING THE REACH TO BROADER AUDIENCES

Conversation with current clientele

Reach toward larger clientele

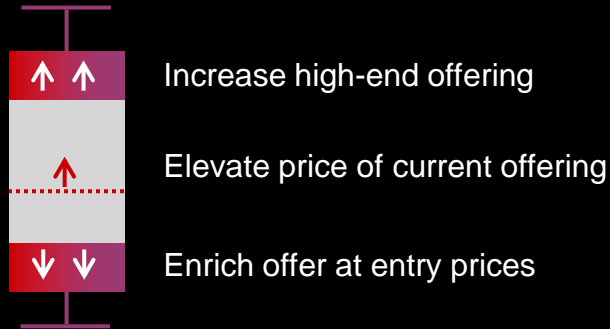


PRICE ELEVATION (AT ITS CEILING?)
VS. MARKDOWNS: THE PERFECT STORM

Post-elevation, diverse paths risk alienating the price-value equation

From **monolithic increases** to **diverse approaches**

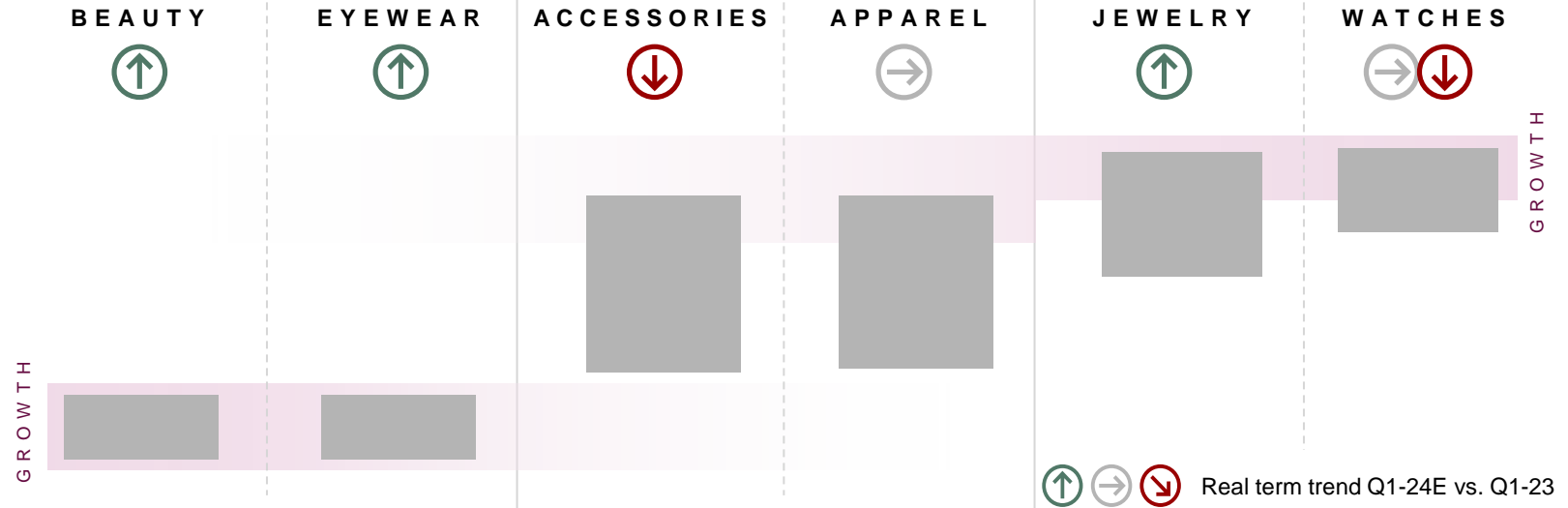
SINCE Q2-24



High **markdown pressure** creating **cognitive dissonance**

- LONG MARKDOWN SEASON ACROSS CHANNELS
- SILENT BUT STEADY PRIVATE SALES

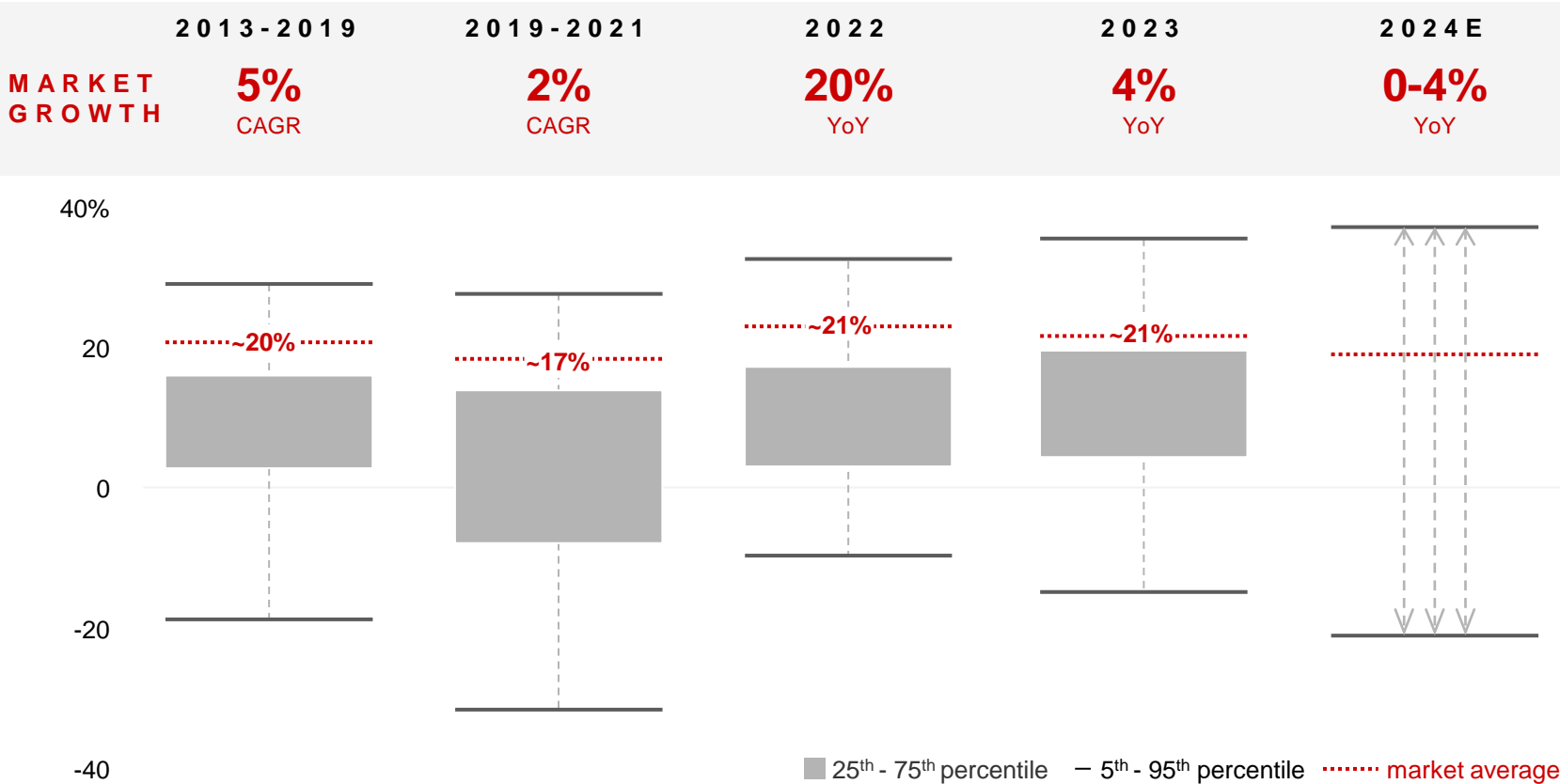
Top-customer and small-luxuries effect driving growth at the extremes of the price pyramid



SMALL-LUXURIES EFFECT	THE NEW PLAN "A" (APPAREL VS. ACCESSORIES)	INVESTMENT OVER PLEASURE
Aspirational consumers spending shift as means of self-indulgence	Apparel outgrowing accessories	Hard-luxury overperforming as investment-led purchases take share
<p>Makeup, fragrances, and eyewear on the rise</p> <p>Skincare back to growth</p>	<p>Bags retaining traction despite price hikes</p> <p>Shoes suffering from aspirational slowdown</p> <p>Apparel growing on timeless styles</p>	<p>In jewelry, uber-luxury and entry segment driving growth</p> <p>In watches, channel overstocking impacting growth; only few leaders thriving</p>

Turbulence heightening dispersion in profitability

EBIT MARGIN DISTRIBUTION (% | 2013-2024E)



▶ **Activation of performance improvement levers** arising as paramount priority to decouple margin over-performance from revenue growth

WITH CLEAR **KEY LEVERS** TO MANAGE



BALANCE CUT AND GROWTH

Undertake investments in growth enablers, while securing bottom line



STAY TRUE TO CORE

Pursue growth with purpose: double down on defending stronghold on core elements of the business



EMBRACE AGILITY

Act swiftly, maintaining agility in decision making while flexing the cost base



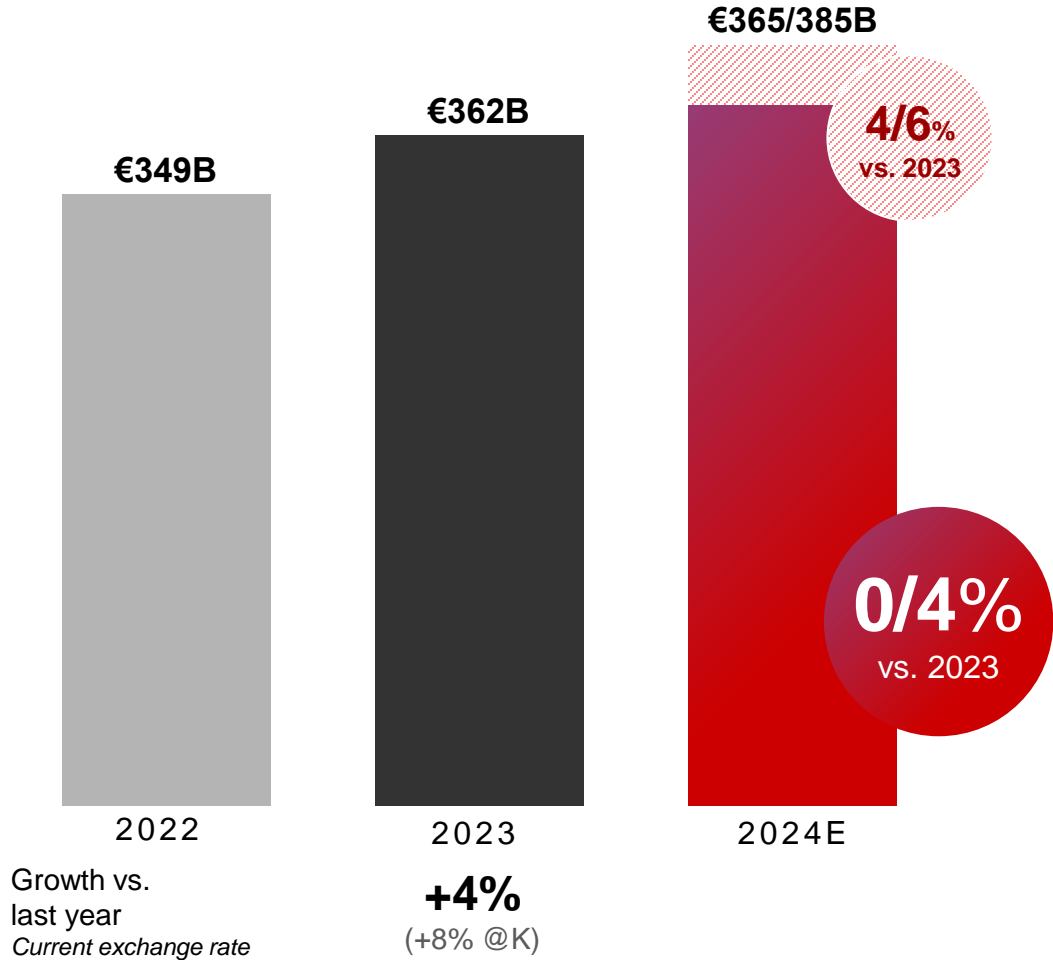
MATCH DEMAND WITH SUPPLY

Optimize stock management across channels and regions, to ensure efficiency and responsiveness to market demand

What should we expect for 2024FY?

Personal luxury goods market

(% growth | 2023 and 2024E at constant exch. rates)



Note: (1) Referring to People's Republic of China; @K = Growth at constant exchange rates



Europe and Americas Mainland China Japan and rest of Asia Middle East

Probability

BETTER SCENARIO

Positive confidence on local customers adding to accelerating **touristic flows** in key regions
Chinese economic measures positively impacting on consumer confidence
Americas consumer confidence revitalizing

10%

REALISTIC SCENARIO

Revamping touristic flows outweighing **locals' slowdown** across regions
Progressive improvement unfolding in **US** across the year (favored by weaker comparable); **China still negative but normalizing**
Progressive normalization of Japan

80%

HIGHLY UNLIKELY SLOWDOWN SCENARIO

Worsening of macroeconomic situation in China after Party Conclave in July
Additional unforeseen hindrances to **geopolitical scenario**, stressing further luxury consumption globally or regionally
Uncertainty in **US** due to **November elections outweighing push on economy**

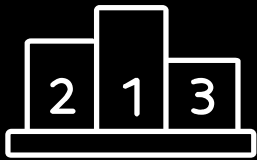
NEGATIVE TREND

10%

REAL GDP GROWTH '24E VS. '23

+0.8%	+2.4%	+4.7%	+0.8%	+4.5%	+1.9%
Europe	USA	China ¹	Japan	Rest of Asia	Middle East

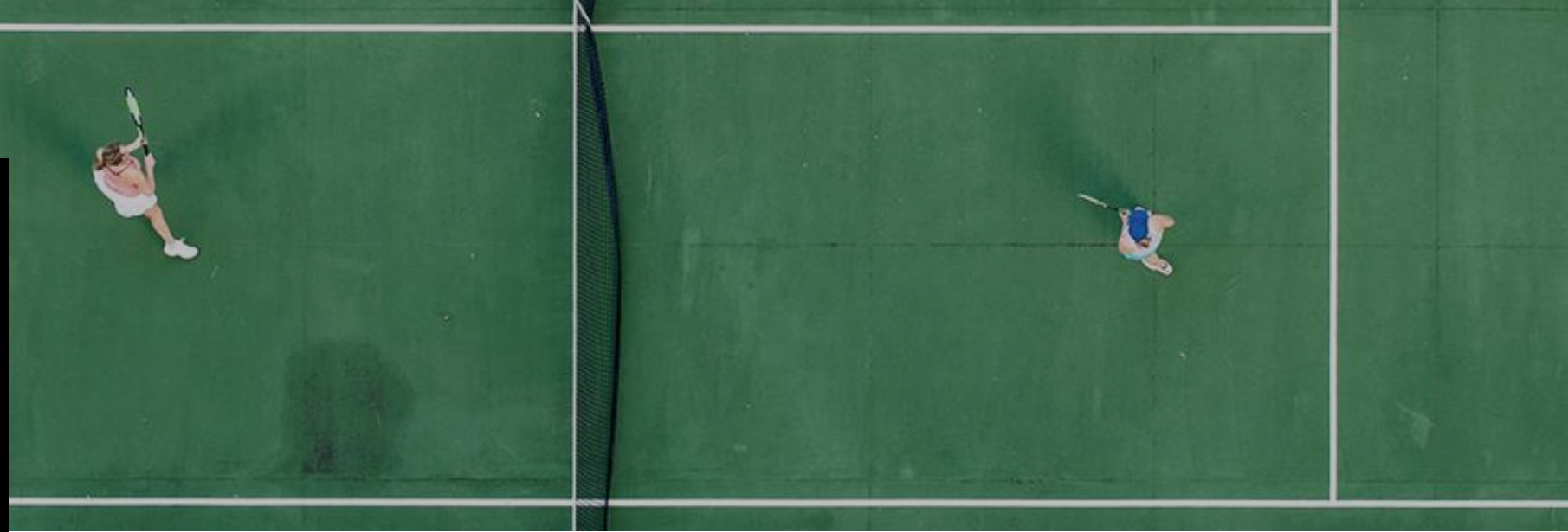
Who is this game for?



How can brands reimagine their **value proposition**

To address their different priorities

And to win in a tougher competitive environment?



Key challenges to win

GIANTS



CHALLENGERS



NEW INSURGENTS

How to **continue widening** customer base?

How to win **share of mind** (and **desirability**) against giants?

How to rethink the **go-to-market** to successfully **drive growth**?

How to navigate through times of crisis?

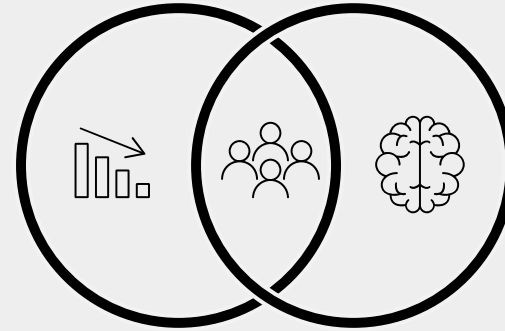
Κρίσις

“A parting of the ways, a point of uncertainty in which important decision must be made, before events move on”

To what extent is it an **exogenous-** or **endogenous-driven crisis?**

MACROECONOMIC PRESSURES

Restrained GDP growth
Rising geopolitical uncertainties
Hindered consumer confidence
Shrinking real disposable income



SECTOR WEAKNESSES

Creativity loss
Demand-supply gap
Customer trust at risk
Unreactive business models

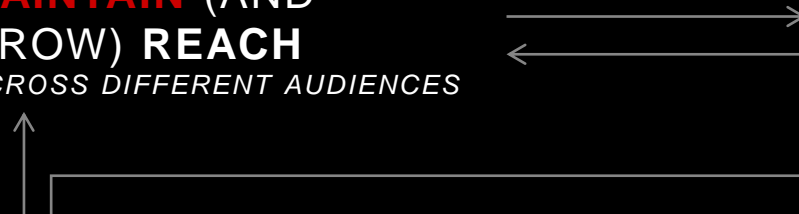
RETHINK BRAND VALUE PROPOSITION, PURPOSEFULLY

MAINTAIN (AND GROW) REACH
ACROSS DIFFERENT AUDIENCES

NURTURE VALUE PROPOSITION
ACROSS PRICE POINTS

DELIVER ON EXPERIENCES
ACROSS ALL TOUCHPOINTS

FUEL CONSUMER LOVE
BEYOND DESIRABILITY



A large school of fish swimming in dark water, with the text "THANK YOU" overlaid in the center. The fish are densely packed and appear to be moving in a coordinated pattern. The text is white and centered, with a red horizontal line underneath it.

THANK YOU

Claudia D'Arpizio

Partner, Bain & Company

Leader, Global Fashion-Luxury Goods vertical



Claudia has spent more than 30 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

Leader, EMEA Fashion-Luxury Goods vertical



Over the last 20 years, Federica has led more than 300 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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For a copy of the study, please contact:

Press

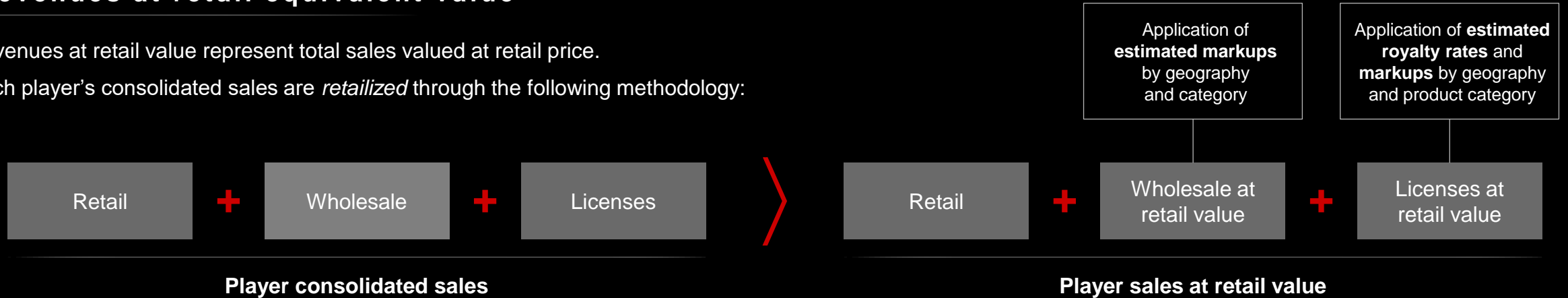
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Methodology of the study

Revenues at retail equivalent value

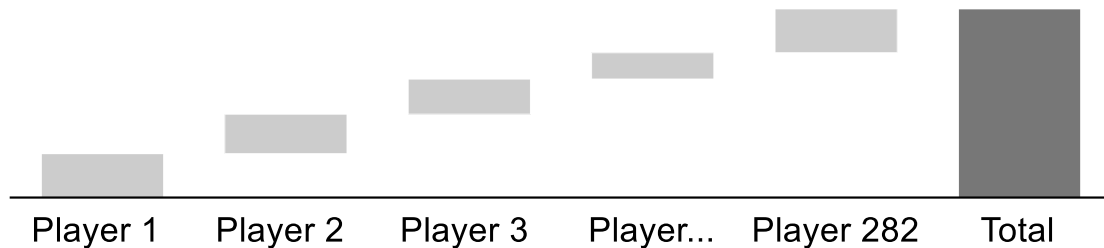
Revenues at retail value represent total sales valued at retail price.

Each player's consolidated sales are *retailized* through the following methodology:



Bottom-up and top-down estimates

Bottom-up



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

BAIN & COMPANY

