9th edition
ALTAGAMMA CONSUMER & RETAIL INSIGHT 2023

Positive sentiment and optimistic outlook with 40% True-Luxury consumers expecting to spend more in Luxury in next year. UAE and Saudi Arabia toward doubling the sector size. Distribution: moving toward a fusion of physical and digital. Retail outlets shrinking and concentrated in 25 major cities globally.

Milan, July 5, 2023 - The ninth edition of the **Altagamma Consumer and Retail Insight** was held today at the Centro Congressi of Fondazione Cariplo in Milan. Higher-spending consumers (about 20 million out of a total of 370 million) continue to show a good appetite for luxury products, **with 40% True-Luxury consumers expecting to increase their spend next year**. With a difference, however, between the **excellent forecasts for China (+50% spend appetite vs average)** and the **United States (+40% spend appetite vs average)** and the **more tepid forecasts for Europe (-40% appetite vs average** and less than half of US and China). After personal luxury goods have returned to pre-pandemic levels, experiential luxury (expected to account for 57% of the total market value in 2023) is also picking up with a higher growth rate than the former.

After an introductory speech by Altagamma Chairman **Matteo Lunelli**, the evidence emerging from the True-Luxury Global Consumer Insight (**Guia Ricci** and **Filippo Bianchi**, Boston Consulting Group), and Luxury Retail Evolution (**Luca Solca**, Bernstein) were commented together with Altagamma CEO **Stefania Lazzaroni,** by **Maria Pina Carai**, Director, Head of Client Management Global Merchant Services Italy of **American Express**; **Fabrizio Cardinali**, CEO of **Etro**; **Alain Prost**, Chairman and CEO of **Ginori 1735**; and **Isabella Traglio**, Executive Board Member, Head of Design and Research & Development of **Vhernier**.

At the opening of the conference, **Matteo Lunelli, Chairman of Altagamma**, underlined that "*the high-end consumer has a double figures increasing propensity to spend. The number of points of sale is stable but with a significant increase in size and with the creation of unique experiences that are increasingly personalized and exclusive. Consumer habits, values and omnichannel distribution methods are changing, while new collaborative and consolidation strategies are emerging both downstream and upstream of the supply chain. In this context, Altagamma Foundation reconfirms its strategic priorities: protection of manufacturing, internationalization through dimensional growth, digital and sustainable transformation and, finally, international promotion of Italian excellence*".

CONSUMER FOCUS

The **True-Luxury Global Consumer Insight survey** (see the summary attached) was presented by **Filippo Bianchi** (Managing Director and Senior Partner of Boston Consulting Group) and **Guia Ricci** (Managing Director and Partner of Boston Consulting Group).

This year, BCG's proprietary mapping of 2,600 luxury customer journeys provided insight into some of the elements underestimated by brands that fuel True-Luxury customers' dissatisfaction with the digital experience. In fact, while **the level of satisfaction in the physical channel is twice as high in luxury than in the mass market, luxury brands' online shopping experiences experience low satisfaction compared to mass retailers and pure online players.**

As highlighted by **Filippo Bianchi, BCG Managing Director and Senior Partner, and Guia Ricci, BCG Managing Director and Partner: "*Less than 50% of Luxury consumers are truly happy*** *with their overall experience. Brands spent decades perfecting offline "ceremonies" recognized as dream-like yet are significantly lagging behind in online:* ***digital satisfaction is 0.8x that of mass retailers****. To upgrade the experience,* ***Brands cannot continue to think in channel view (****today >50% multi-channel journeys) but need to decide whether to* ***"play defense" by hyper-specializing****, in which one touchpoint plays one role, with customers guided to the optimal one), or "****play offense" by hyper-personalizing****, in which all touchpoints play every role, adapting to each customer's needs".*

Among the results from the study:

- Higher-spending consumers continue to show a good appetite for luxury products, **with 40% of True-Luxury Consumers** expecting to **increase spending in the coming year**. **China**'s post-pandemic euphoria results in a remarkable net buying propensity (+50% vs avg. True-Luxury), consistent with the country's reopening, while the **United States** stands at +40% spend appetite vs avg. True-Luxury, despite pessimism toward the macroeconomic environment. **Europeans**, on the other hand, have a net buying propensity of -40% vs avg. True-Luxury, heavily influenced by the uncertainty of the macro picture.
- **China is rebounding** (projected growth of 15-20% in 2023 compared to 2022), but with changing dynamics compared to the pre-pandemic environment, including **much higher local demand**

(expected to account for 82% of total spending in 2023) and it is unlikely to return to 2019 levels; **opportunities in the digital ecosystem**, with 46% of Chinese consumers' domestic purchases made on online channels; and **greater consumer diversification**, with high spenders supporting the market (~40% of total spending), while young people under 30 and consumers in lower-tier cities will increasingly contribute to the sector's growth.

- **The Middle East represents a promising opportunity for the luxury sector**: the personal luxury market is valued at around €15 billion in 2023 and is expected to reach €30-35 billion in 2030. The United Arab Emirates (UAE) and the Kingdom of Saudi Arabia (KSA) are the two main drivers of regional growth. The personal luxury market in **KSA** is worth about €3 billion in 2023 and is expected to reach about €6 billion in 2030, **doubling its size** (CAGR 10-12% over the period 2022-2030). This market **offers many untapped opportunities** due to several factors (including local development fueled by Vision 2030, increased domestic demand, growth in high-end tourism).
- Generational divide: **in 2022, young people (Millennials and Gen Z) represented a value to the industry of more than 200 billion euros**, double the 2016 figure. Value that **will double again by 2026**, when they will be 75% of the market. Brands will have to consider the characteristics that make this target audience different from "seniors," devising diversified engagement strategies, with personalization of offerings and communications.
- Generative AI is being prioritized by many executives. In the luxury sector, GenAI offers significant opportunities, spanning the entire value chain, with a very high impact in marketing, personalization, and customer experience. In addition, this technology could extend the "VIC treatment" (Very Important Consumer) to other aspirational luxury clients, **representing 350 million consumers**.

RETAIL FOCUS

"Big brands have launched an escalation to build bigger, more meaningful, and more profitable stores," says **Luca Solca, Senior Research Analyst, Global Luxury Goods at Bernstein**. *"It's the right thing to do, as in a world where you can buy from your cell phone, the store has to become exceptional to be worth a visit. The problem is all with the smaller brands, who can't afford these stores. How does one get to 'fry with water'? Inventiveness, pragmatism, humility: we need to appeal to these Italian talents to stay in the game."*

The Luxury Retail Evolution study, presented by Luca Solca (Senior Research Analyst, Global Luxury Goods at Bernstein), investigates the evolution and outlook of luxury companies' retail strategies.

- Indeed, the store network of major luxury brands **has grown only 0,5% since 2019**. Luxury retail continues to be concentrated in a relatively small number of cities: the top 25 have about 40% of the stores. Milan-partly as a result of the downsizing of Via della Spiga and the still relatively minor development of big brands at airports-is not in the top 10.

- **Escalation in the size and quality of flagship stores**, with large and very significant stores that integrate elements of the specific DNA of the brand and the location into their architecture. These large stores do not represent a sacrifice for the income statement, but - on the contrary - thanks to the accompanying investments in communication, they are also very profitable, with turnovers of several hundred million euros and high margins. The magnitude of these new flagships is such that they expand their role far beyond their sales or brand support role, becoming real attractions for the large flows of tourists in the cities.

- The escalation extends beyond flagship stores to **events, temporary stores, exhibitions, collaborations**: the fronts on which to compete continue to multiply, and what mega-brands accomplish on these fronts puts smaller competitors under pressure. In an industry of fixed costs, scale becomes a key competitive advantage, helping to further widen the gap between mega-brands and everyone else.

- Smaller brands need inventiveness, to set up different stores that can "make an impression." It needs pragmatism, to find new locations that can cost less. You need humility and realism, to start small and maybe grow when you can afford it: better to have a small and profitable store, maybe even a little "eccentric" than the luxury route, because the profits from this store will help support the development and growth of the brand. Having a large store and then lacking the means to do communication is a strategy that does not pay.

DIGITAL PRESS KIT:
https://bit.ly/AltagammaConsumerRetail2023

For more information:
ALTAGAMMA
Edoardo Carloni - Tel: 339 1618463 E-mail: carloni@altagamma.it
Giorgio Bocchieri - Tel: 334 6853078 E-mail: bocchieri@altagamma.it

BOSTON CONSULTING GROUP
Alessia Esposito – Tel: 366 7809577 E-mail: esposito.alessia@bcg.com
Rita Genuardi – Tel: 344 0173796 E-mail: genuardi.rita@bcg.com