ALTAGAMMA 2017 WORLDWIDE LUXURY MARKET MONITOR

MILLENNIAL STATE OF MIND:
THE TAILWIND BEHIND CONSUMER BEHAVIORS AND WINNING STRATEGIES

CLAUDIA D'ARPIZIO
MILAN, OCTOBER 25 2017

BAIN & COMPANY

ALTAGAMMA
CREATIVITÀ E CULTURA ITALIANA

WORLDWIDE LUXURY MARKET **ON A PAGE: 2017 AND BEYOND**

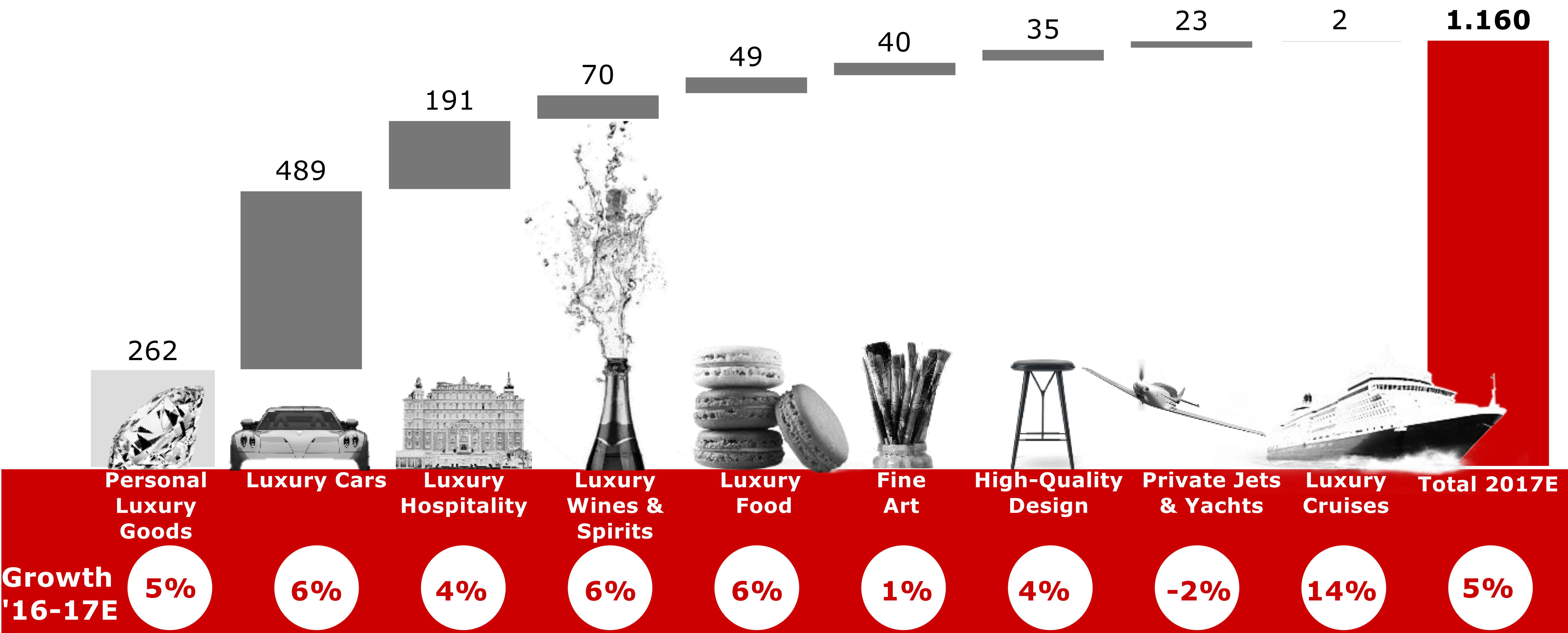
EXPERI(M)ENT(I)AL	**LUXURY "X" FACTOR**: **EXPERIMENTING** WITH **EXPERIENCES** KEY TO SUCCEED IN PERSONAL LUXURY
HEALTHIER	AFTER 2016 REBOOT, 2017 "**NEW NORMAL**": **POSITIVE** GROWTH, **YOUNGER** CUSTOMERS, HIGHER **VOLUMES**, **LOCAL** CUSTOMERS BACK EVERYWHERE
UNIVERSAL	"**LOCAL TOURIST**" AS THE UNIVERSAL CUSTOMER: ALMOST ALL **NATIONALITIES** AND **GEOGRAPHIES** GROWING (ESP. **CHINESE** AND **CHINA**)
ECOSYSTEMIC	EVOLUTION TOWARDS AN **ECOSYSTEM OF CHANNELS** AROUND THE CUSTOMER, WITH **ONLINE** PLAYING A LEADING ROLE
POST-ASPIRATIONAL	TRADITIONAL MARKET **SEGMENTATION** LOSING RELEVANCE: BRANDS NEED TO INTERPRET **CUSTOMER ASPIRATIONS** WHILE STAYING TRUE TO THEIR OWN DNA
CURATED	DELIVERING **CONTENT**, **INSPIRATION** AND **ENGAGEMENT** THROUGHOUT **TOUCHPOINTS** WILL BE KEY TO WIN
POLARIZED, PROFITABLE, EVOLVING	**WINNERS** VS. **LOSERS**, YET ALL CONSISTENTLY **PROFITABLE**; ARE THE **ECONOMICS** OF THE INDUSTRY EVOLVING?

LUXURY IS CHANGING SKIN:
THE RISE OF MILLENNIALISM

EXPERI(M)ENT(I)AL

GLOBAL LUXURY MARKETS REACHING ~€1,2T IN 2017, UP 5% FROM 2016

GLOBAL LUXURY MARKETS 2017E | €B



LUXURY TOYS

LUXURY CARS
OUTPERFORMING, ACROSS THE BOARD LED BY **ASIA** AND A NASCENT **ONLINE CHANNEL**

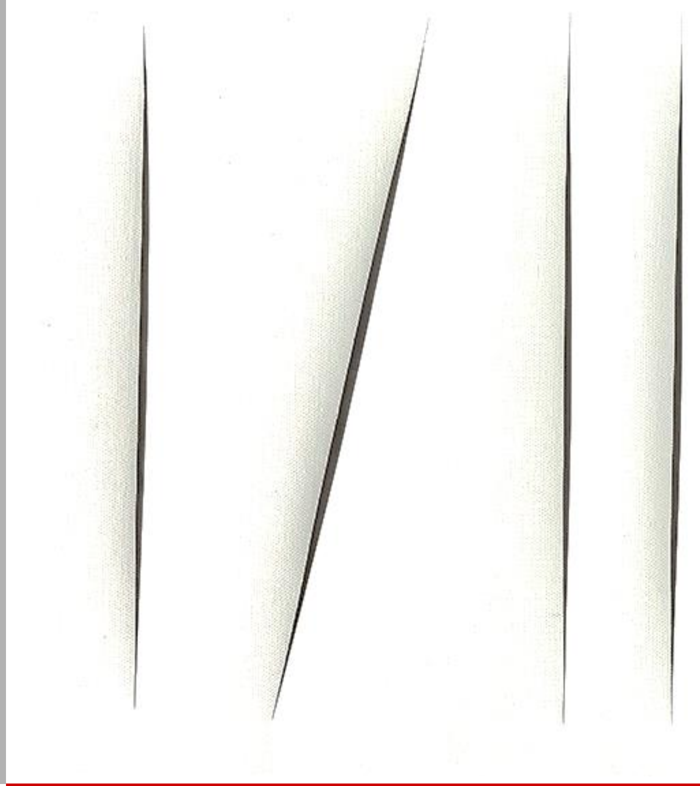
STABLE YACHTS WITH UNDERLYING **POLARIZATION; CHARTERING,** THE **NEW TREND** OF YOUNG GENERATIONS?

SHRINKING JETS SEGMENT DUE TO **UNCERTAINTY** IN MOST **MARKETS**

AT-HOME LUXURIES

HIGH-QUALITY DESIGN CONTINUING TO **GROW PROFITABLY**, WITH STRONG PERFORMANCE **POLARIZATION DRIVEN BY SIZE**

FLAT BUT **EVOLVING FINE ARTS MARKET**: **SHIFT** AWAY FROM AUCTIONS TO **PRIVATE SALES**; **FAIRS** AND **ONLINE** BECOMING KEY CHANNELS FOR **CUSTOMER ACQUISITION**



2017

F&B EXPERIENCES

ACCELERATING LUXURY FOOD WITHIN A **FAST-EVOLVING ECOSYSTEM**: HOME-DELIVERY APPS "**COOPETING**" WITH RESTAURANTS; ***FLEXITARIANISM*** AS THE NEW FOOD MANTRA

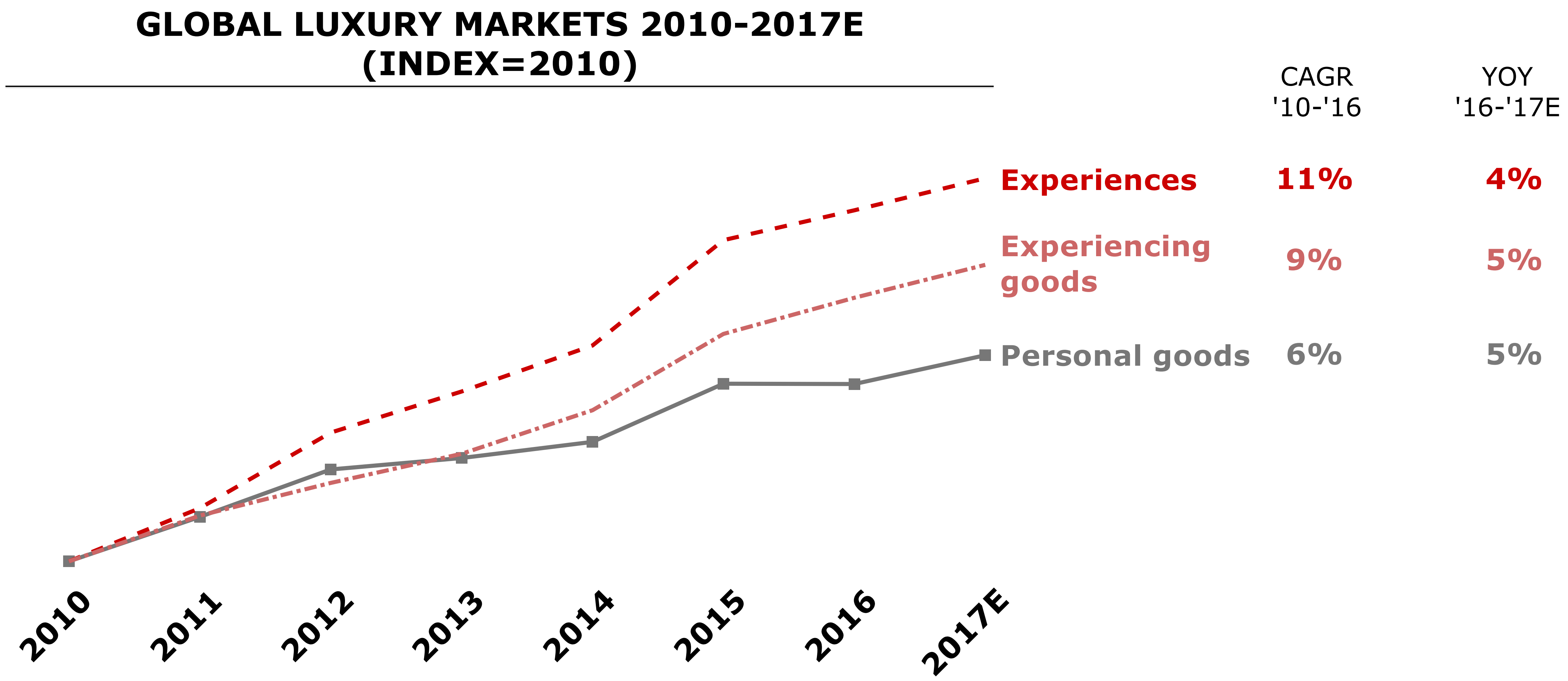
SPIRITS OUTPERFORMING **WINES; CHINESE MARKET** BACK TO GROWTH

TRAVEL EXPERIENCES

POSITIVE PERFORMANCE OF **LUXURY HOTELS: ATTRACTING AND RETAINING MILLENNIALS** WILL BE THE **MAIN CHALLENGE**

BRISK GROWTH OF **LUXURY CRUISES** DRIVEN BY STRONG **APPEAL** TO **BABY BOOMERS AND MILLENNIALS (EXPEDITION SEGMENT)**

EXPERIENCES ARE WINNING IN THE POST-CRISIS ERA

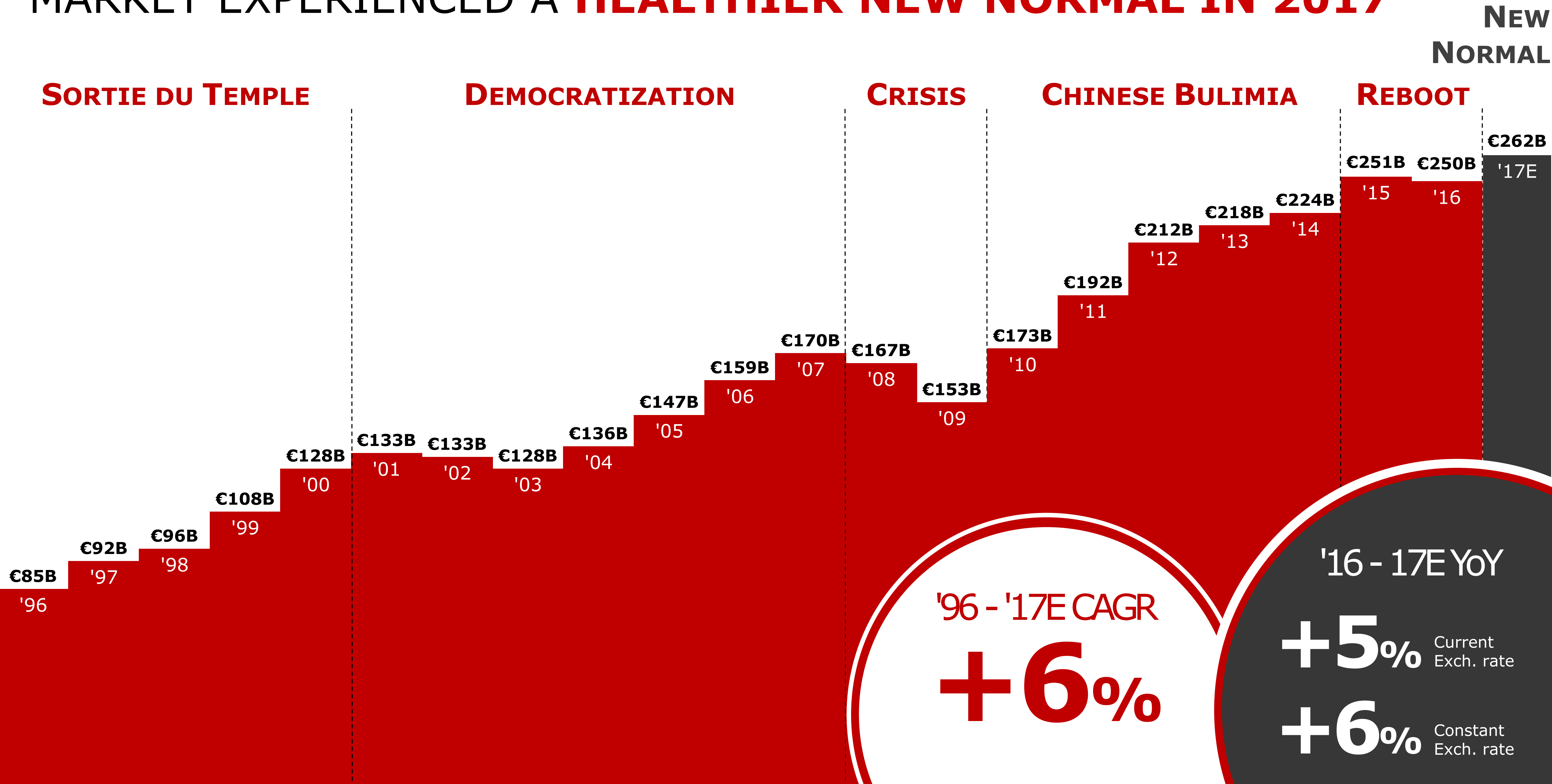


REACTIONS FROM PERSONAL LUXURY GOODS PLAYERS DRIVING 2017 PERFORMANCE, IN LINE WITH OTHER SEGMENTS

NOTE: Experiences include hotels, cruises and restaurants; Experiencing goods include cars, wines & spirits, food & beverage, private jets, yachts, fine art and beauty; Personal goods include design and all other luxury goods

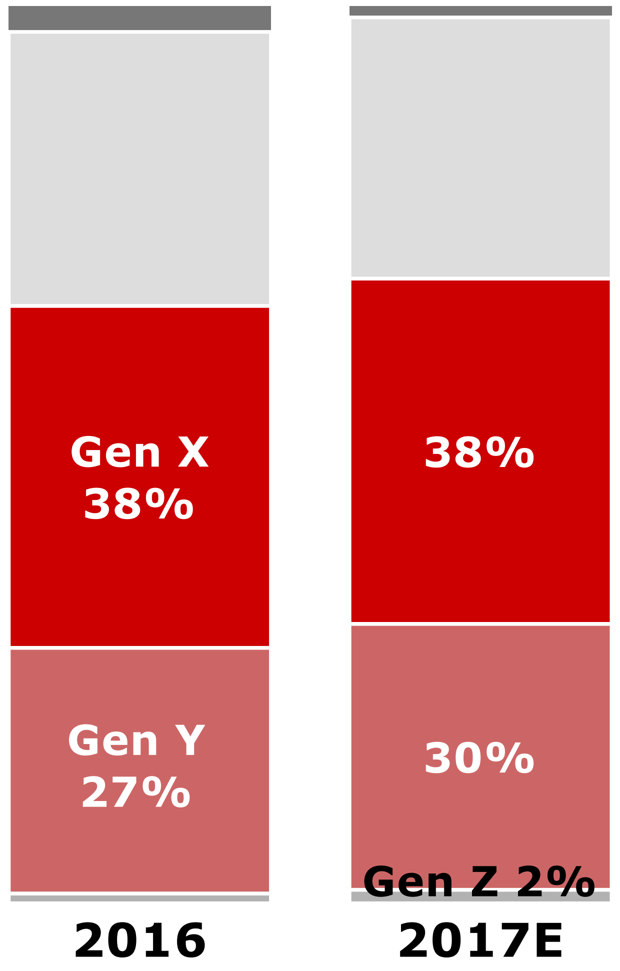
HEALTHIER

PERSONAL LUXURY GOODS: AFTER 2016 STAGNATION, THE MARKET EXPERIENCED A HEALTHIER NEW NORMAL IN 2017

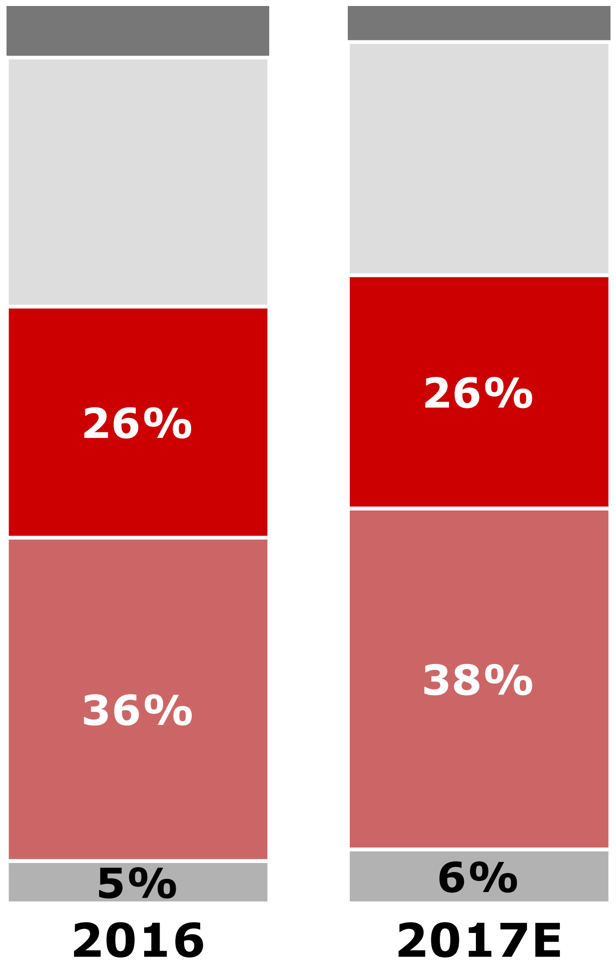


MARKET ACCELERATING TOWARDS YOUNGER GENERATIONS
MILLENNIALS ALREADY 30% OF THE MARKET; GEN Z COMES NEXT

PERSONAL LUXURY GOODS CONSUMERS BY GENERATION | €B



PERSONAL LUXURY GOODS CONSUMERS BY GENERATION | MM



YOUNGER GEN AS THE **MAIN GROWTH ENGINE** OF THE MARKET**: ~85%** OF LUXURY **GROWTH** FUELLED **BY GEN Y AND Z** IN **2017**

VIRTUOUS CIRCLE AROUND THE **YOUNGER GEN ACCELERATION:**

- **MILLENNIALS** ENTERING THE MARKET WITH **CLEAR TASTES AND BEHAVIORS, INFLUENCING** OTHER GENERATIONS
- **WINNING BRANDS** DEVELOPING **TAILORED STRATEGIES** AND **UPGRADED VALUE PROPOSITIONS**
- **MILLENNIALS** ARE **RESPONSIVE** AND **ENGAGED** BEYOND EXPECTATIONS, **AMPLIFYING** THEIR **SPENDING** AND **ADVOCACY**

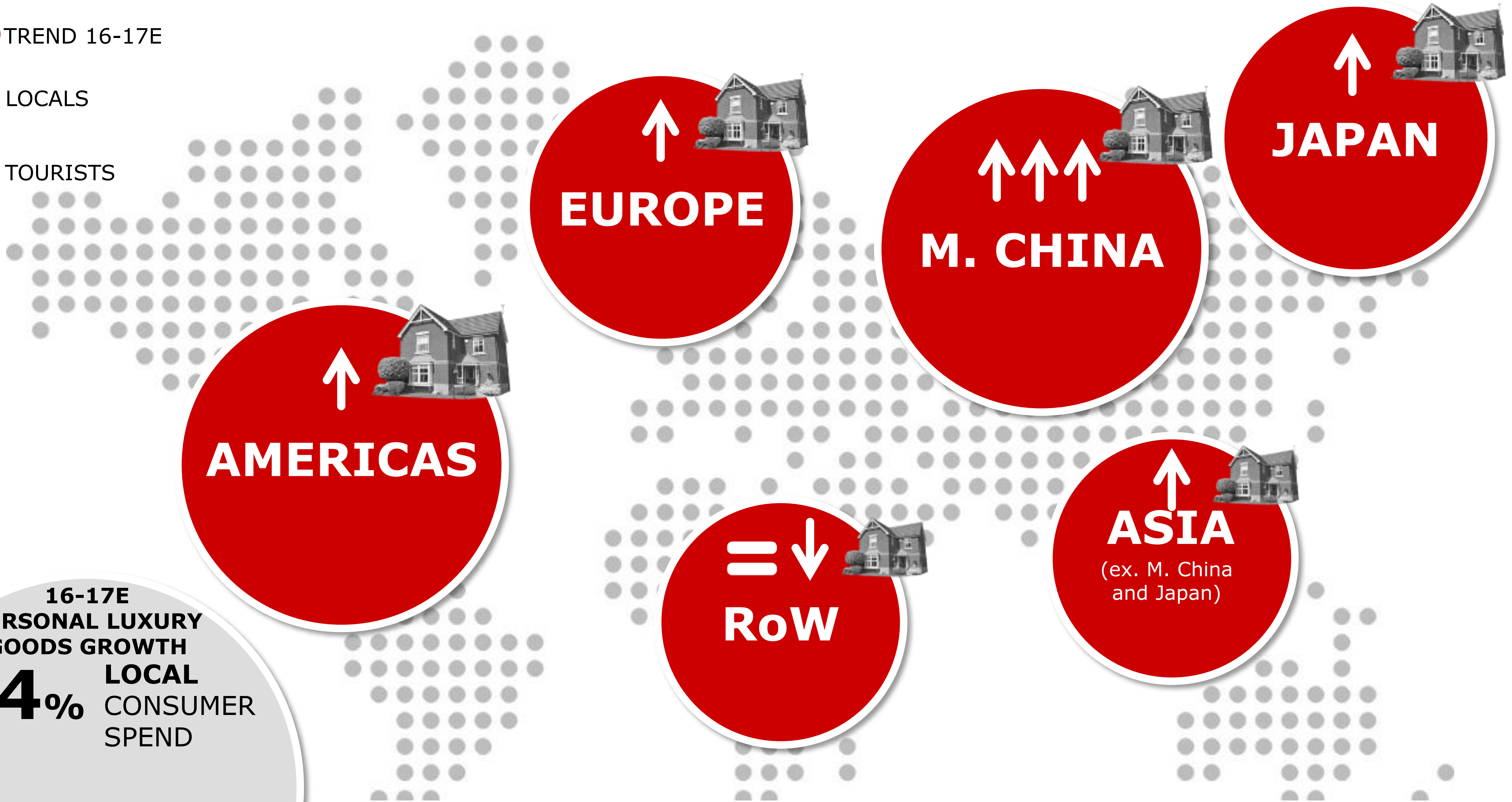
GEN Z APPROACHING **VERY FAST,** ALREADY SHOWING **SPECIFIC ATTITUDES** AND **DIFFERENCES VS. GEN Y**

SOLID MARKET FUNDAMENTALS, WITH **LOCAL CONSUMPTION BACK** ACROSS THE BOARD

↑ = ↓ TREND 16-17E

LOCALS

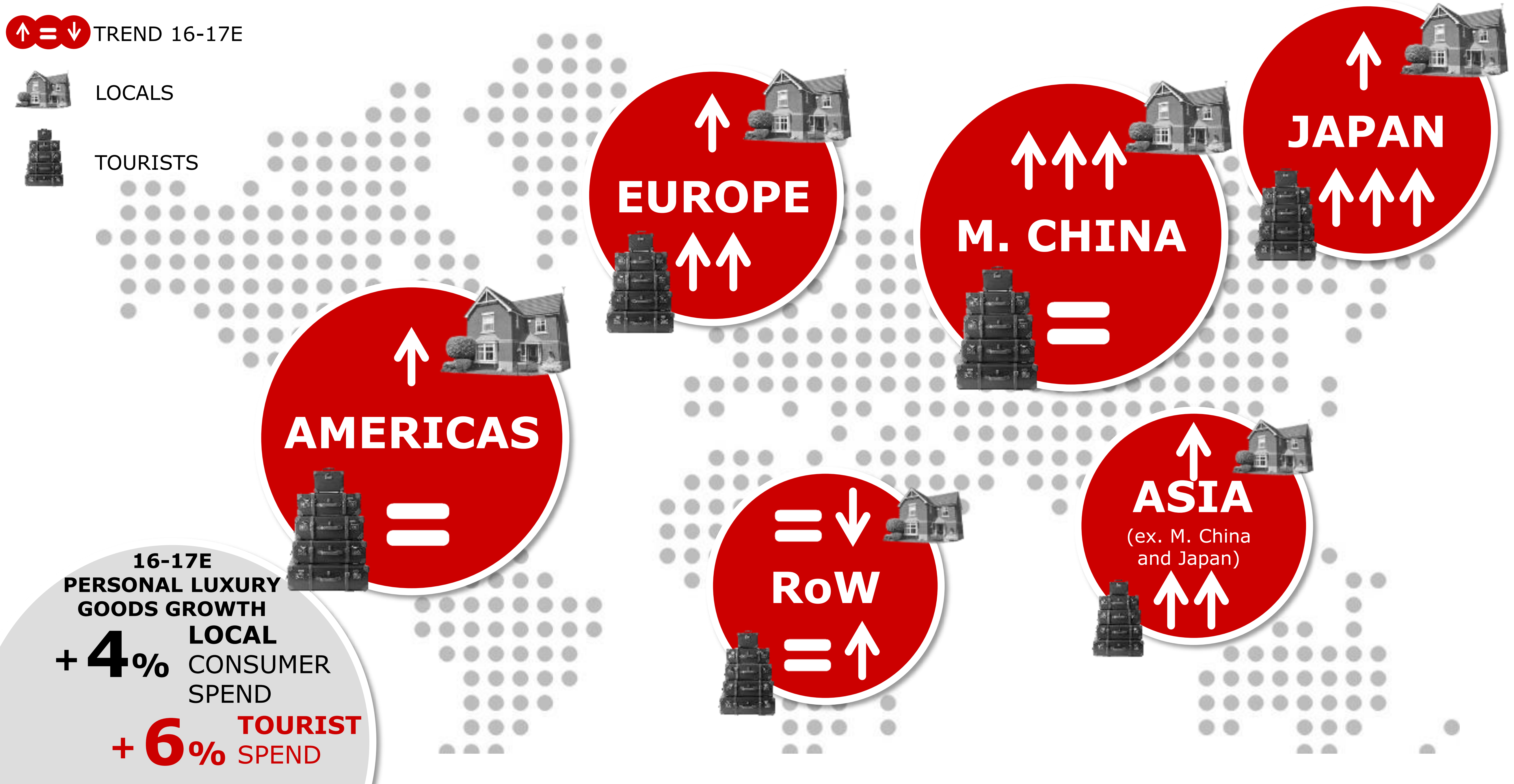
TOURISTS



16-17E PERSONAL LUXURY GOODS GROWTH

+4% **LOCAL** CONSUMER SPEND

TOURIST SPEND IS PROVIDING A KEY EXTRA BOOST



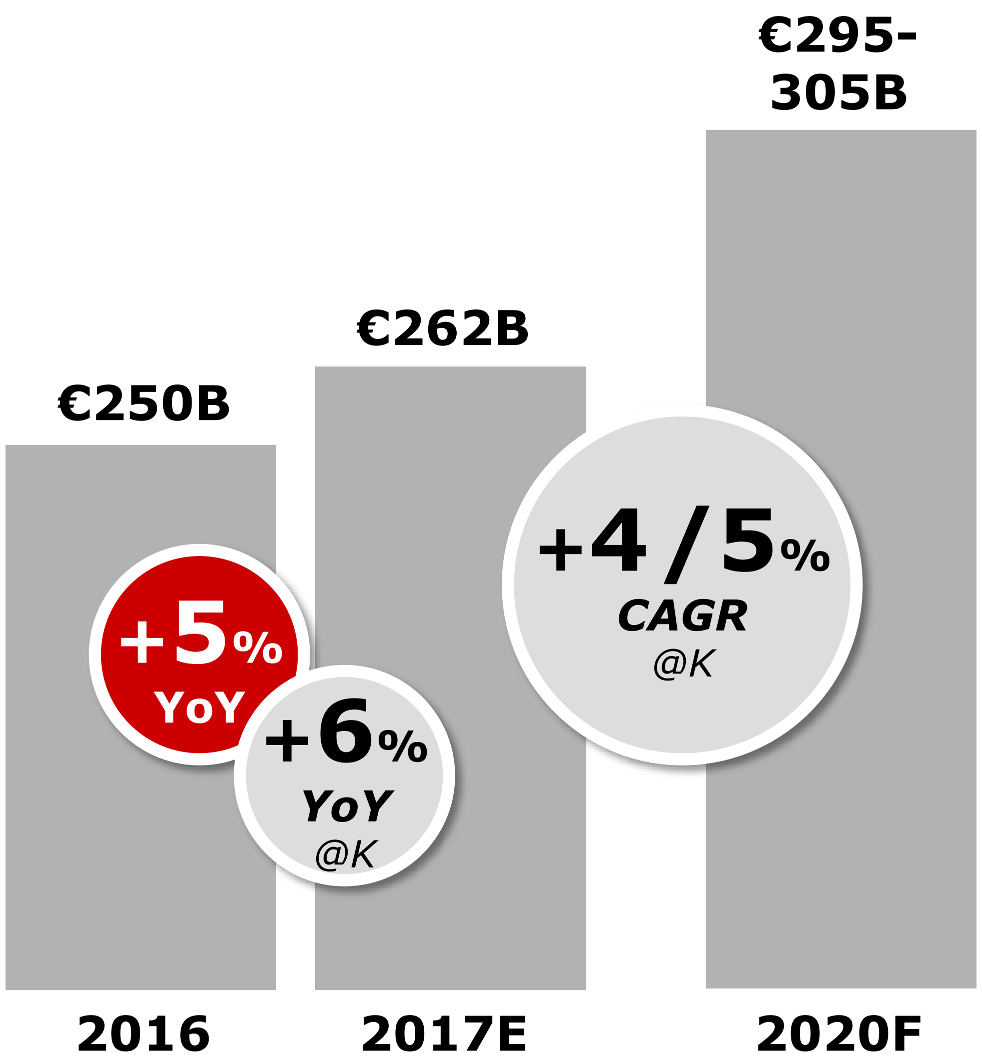
10 YEARS AFTER THE CRISIS, LUXURY MARKET GROWTH DRIVEN BY VOLUME – NOT PRICE INCREASE (EXAMPLE: LEATHER GOODS)

LUXURY LEATHER GOODS MARKET TREND - VOLUME AND PRICE EFFECT (1994-2017E|% GROWTH)

	SORTIE DU TEMPLE DEMOCRATIZATION	CRISIS	CHINESE BULIMIA	REBOOT	NEW NORMAL
	1994-2007	2008-2009	2010-2014	2015-2016	2016-2017E
MKT GROWTH	+10%	±0%	+14%	+3%	+7%
PRICE EFFECT	↓	↑↑	↑↑↑	↑↑	=
VOLUME EFFECT	↑↑↑	↓↓	↑	↓	↑↑
MAIN DRIVERS	**FOOTPRINT** AND **CONSUMER BASE EXPANSION** PRICE MIX **REDUCTION**	**VOLUME REDUCTION** **MARKET POLARIZATION:** PRICE MIX **INCREASE**	**FOOTPRINT EXPANSION** YET **LFL VOLUMES DOWN** **UNIT PRICE UP** AND **INTL PRICING** POLICIES	**UNIT PRICE UP** **LUXURY EQUATION INCONSISTENCIES** : VOLUMES DOWN	**VOLUMES UP AGAIN** **RE-ADJUSTMENT** IN **PRICE MIX** OFFSETTING **INCREASE** IN **UNIT PRICE**

POSITIVE MARKET OUTLOOK TO 2020: **4-5% GROWTH PER ANNUM**

PERSONAL LUXURY GOODS MARKET FORECAST| €B



RISING **CHINESE MIDDLE CLASS** & **RECOVERY OF MATURE-MARKET CONSUMERS** DRIVING GROWTH

GEN Y & Z, SIMILAR YET DIVERSE, KEY GROWTH DRIVERS GOING FORWARD

BEST PERFORMING BRANDS DRIVING **WINNING CATEGORIES**

HARMONIZATION OF CHANNELS, WITH **ONLINE** CONTINUING TO **PLAY A KEY ROLE**, BEYOND SALES

@k: real terms growth


UNIVERSAL
Passaporto svizzero
Passaport svizzer
Swiss passport
DEN EUROPÆISKE UNION
DANMARK
PASPOORT
EUROPEAN UNION
UNITED KINGDOM OF
GREAT BRITAIN
United States
of America
여 권
PASSPORT
JAPAN
PASSPORT
EUROPEISKA UNIONEN

POSITIVE PERSONAL LUXURY GOODS GROWTH **ACROSS GEOGRAPHIES**, WITH **CHINA** TOP PERFORMER

CHINA
CUSTOMER **TRUST** RENEWED

MIDDLE CLASS ACCELERATION

SOPHISTICATION ACROSS THE BOARD

ASIA
HK & MACAU BACK TO **GROWTH**

S. KOREA POSITIVE ON LOCALS, **DECELERATING** ON **TOURISTS** (CHINA TRAVEL BAN)

TAIWAN STAGNATING

EUROPE
REBOUND OF **TOURISTS**

POSITIVE LOCAL CONSUMPTION

UK AND **SPAIN** ATTRACTIVE TO **TOURISTS**, **GERMANY** SHOWS STRONG PERFORMANCE OF **LOCALS**

JAPAN
YEN-DRIVEN **SOFT H1, BOOMING H2**

ACCELERATING CHINESE SPEND

POSITIVE LOCAL CONSUMPTION, YET **MILLENNIALS** MORE **DETACHED**

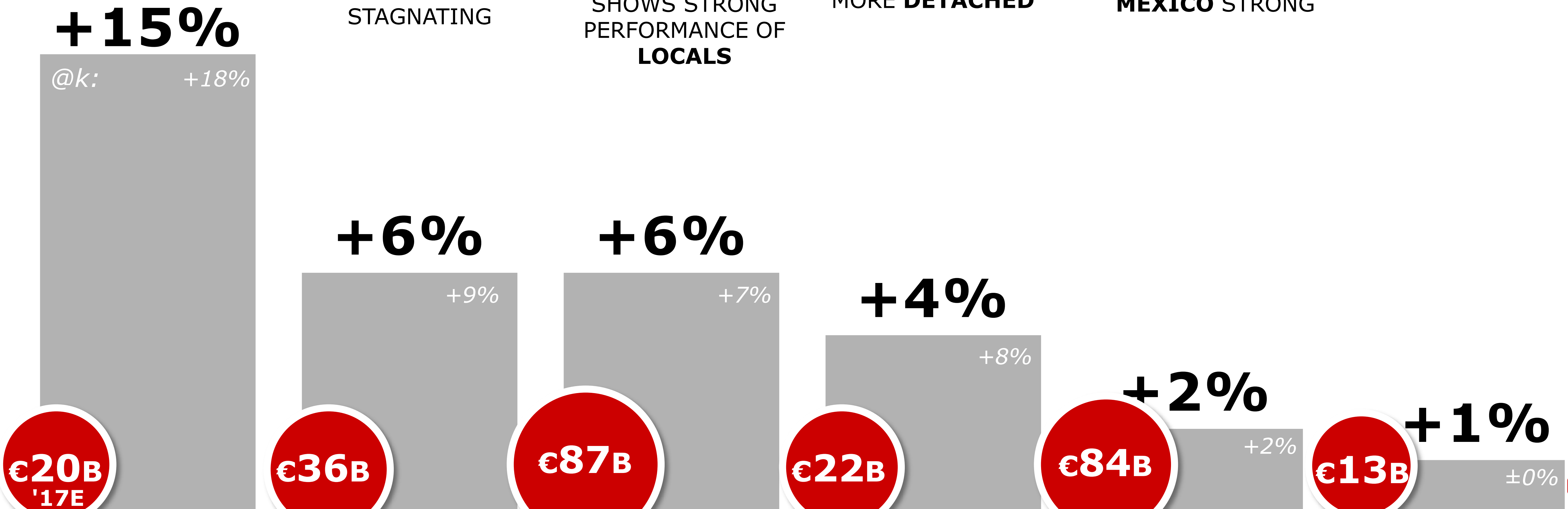
AMERICAS
US TOP-SPENDERS DRIVING GROWTH

DEPT. STORES STRUGGLING TO REINVENT THEIR FORMULA

CANADA AND **MEXICO** STRONG

ROW
MIDDLE EAST FLAT HIT BY ECONOMIC UNCERTAINTY

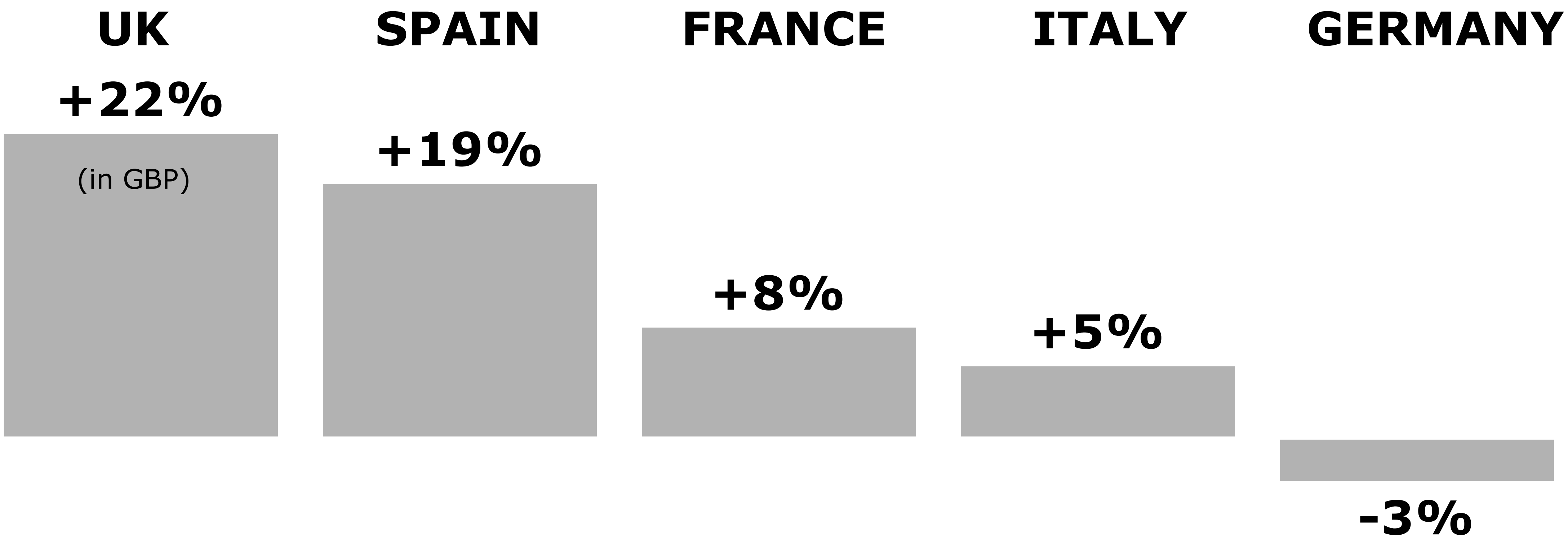
'17E VS '16



LONG-HAUL TOURISTS BACK IN EUROPE WITH **INCREASED VOLUMES** IN MOST COUNTRIES

Global Blue

2016-2017E EUROPEAN PERSONAL LUXURY GOODS TAX FREE SHOPPING GROWTH IN LOCAL CURRENCIES

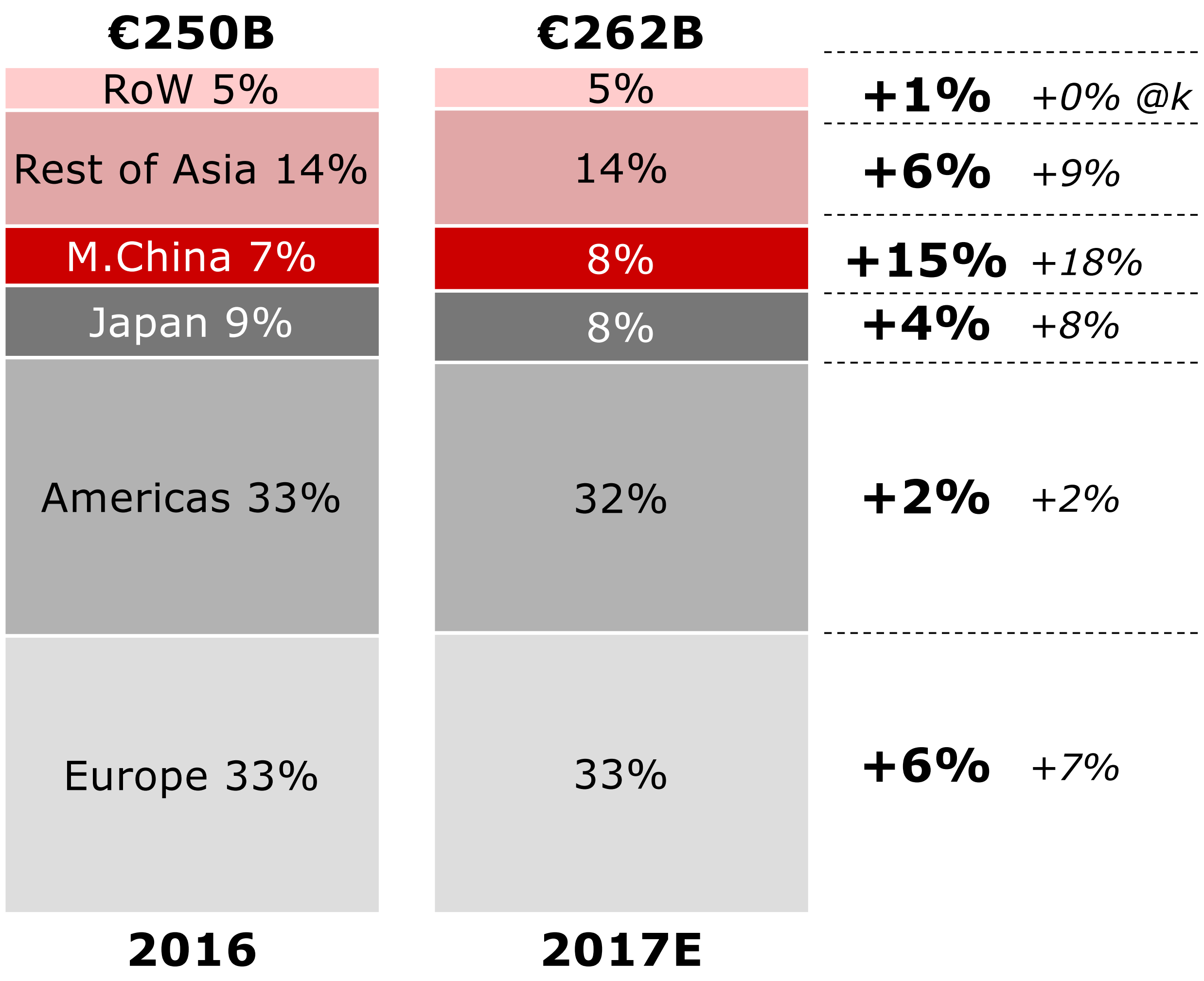


	UK	SPAIN	FRANCE	ITALY	GERMANY
AVERAGE TICKET	=	↑	=	↑	=
TRANSACTIONS	↑↑	↑↑	↑↑	↑	↓

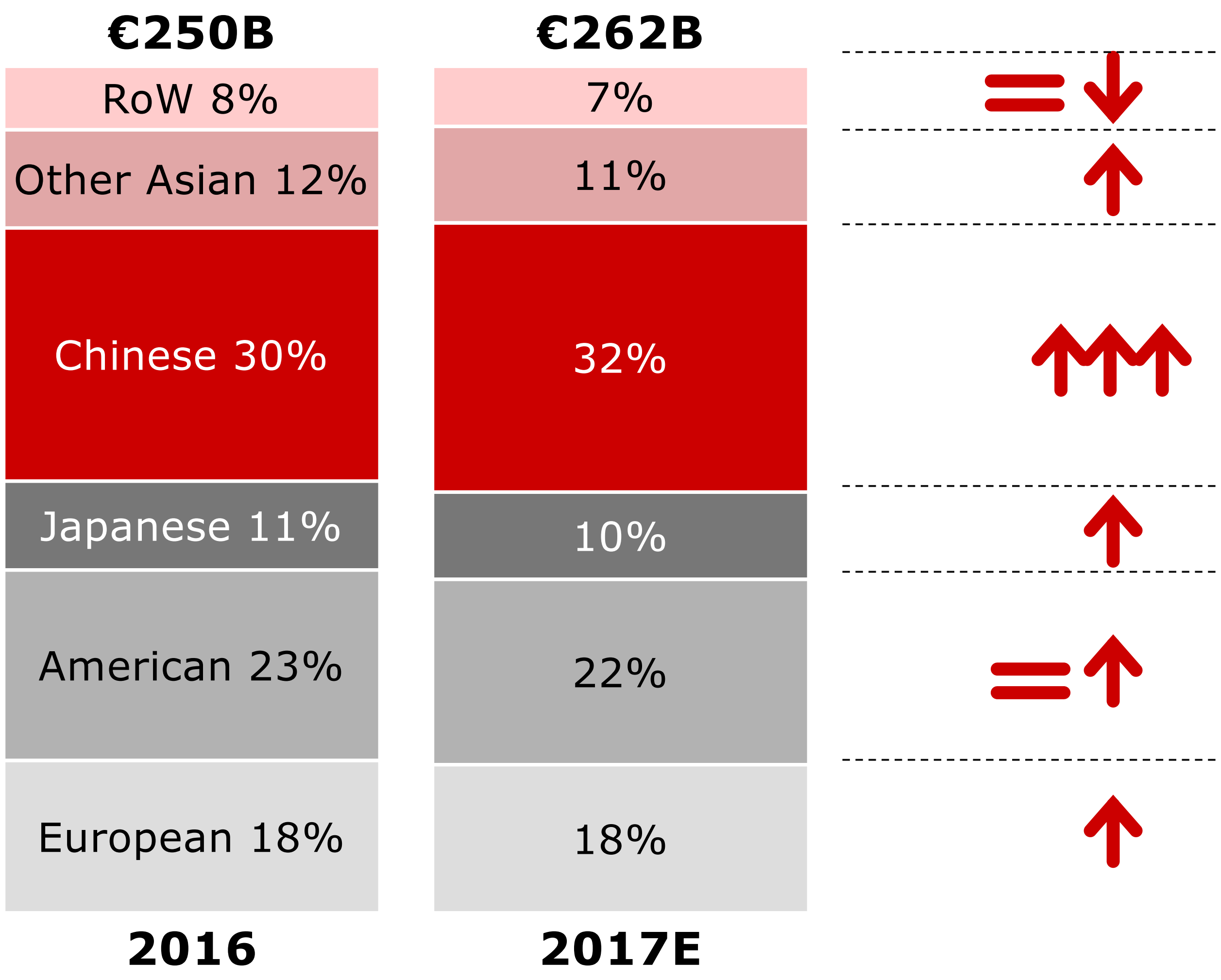
NOTE: figures refer to Jan-Sep period

POSITIVE **GROWTH ACROSS THE BOARD,** WITH BOTH **CHINA** AND **CHINESE** PURCHASES ACCELERATING

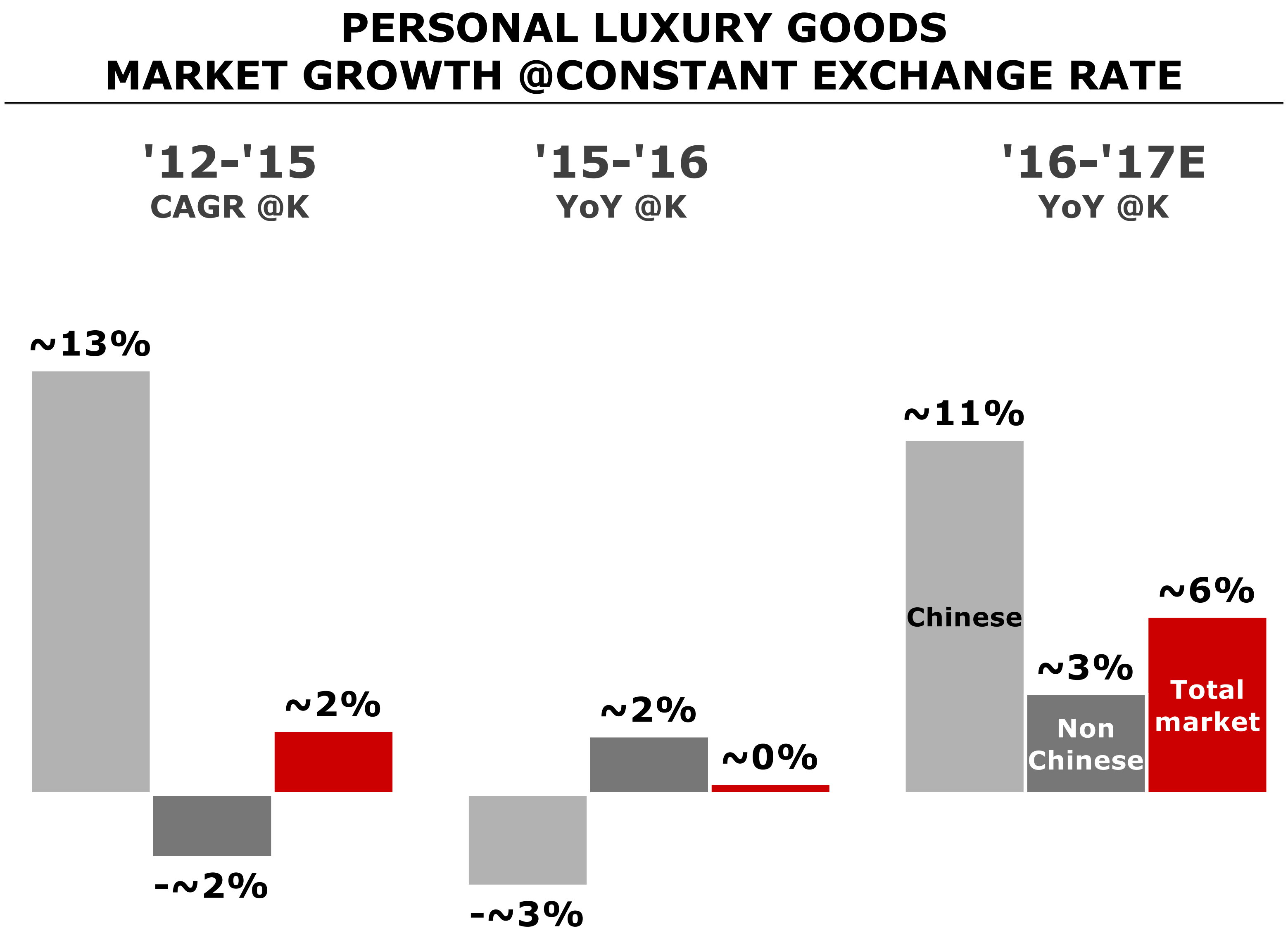
PERSONAL LUXURY GOODS MARKET BY GEOGRAPHY | €B



PERSONAL LUXURY GOODS MARKET BY CONSUMER NATIONALITY| €B



BOOMING CHINESE CONSUMPTION PAIRED WITH HEALTHY GROWTH OF OTHER NATIONALITIES



CHINESE CONSUMERS CONTINUING TO **GROW**, BOTH AS **ENTHUSIAST INTERNATIONAL SHOPPERS** AND AS **LOCAL CONSUMERS**

CHINESE LOCAL CONSUMPTION PARTICULARLY **BOOMING IN 2017**, FUELED BY A RENEWED **CONSUMER CONFIDENCE** AND **HEALTHIER FUNDAMENTALS** (e.g. LOWER PRICE DIFFERENCIALS)

NON-CHINESE CONSUMPTION BACK TO GROWTH IN **2016** AND **2017**

THE UNIVERSAL CUSTOMER BEHAVING AS A **LOCAL TOURIST**:
INSIDER ABROAD, STRANGER AT HOME

LOCAL ABROAD

ADJUSTED STORE **CONCEPT**

LOCATION-SPECIFIC **PRODUCT OFFER**

IN-STORE **EXPERIENCE**, NOT TRANSACTION

FEELING **WELCOMED** AND **RECOGNIZED**, EVERYWHERE

TOURIST AT HOME

MULTIPLE **FORMATS** ACROSS THE CITY

FREQUENTLY **REFRESHED ASSORTMENT**

IN-STORE **RELAX** AND **CONVENIENCE**, NO PAIN POINTS

FEELING **IN DIFFERENT PLACES**, YET WITHOUT MOVING

PLAYERS TO CONSIDER STORES AS EPISODES OF THE BRAND NARRATIVE, TO IMPRESS AND REASSURE THE CUSTOMER SIMULTANEOUSLY

ECOSYSTEMIC

NEW ERA IN RETAIL; WHOLESALE GROWTH DRIVEN BY SPECIALTY AND ONLINE

Retail +8%

Solid LFL **+5%**

Selective openings and Network consolidation

+3% perimeter growth

Wholesale +3%

Brisk **Specialty Stores +5%**

Dept. Stores still stuck, brands downsize their exposure

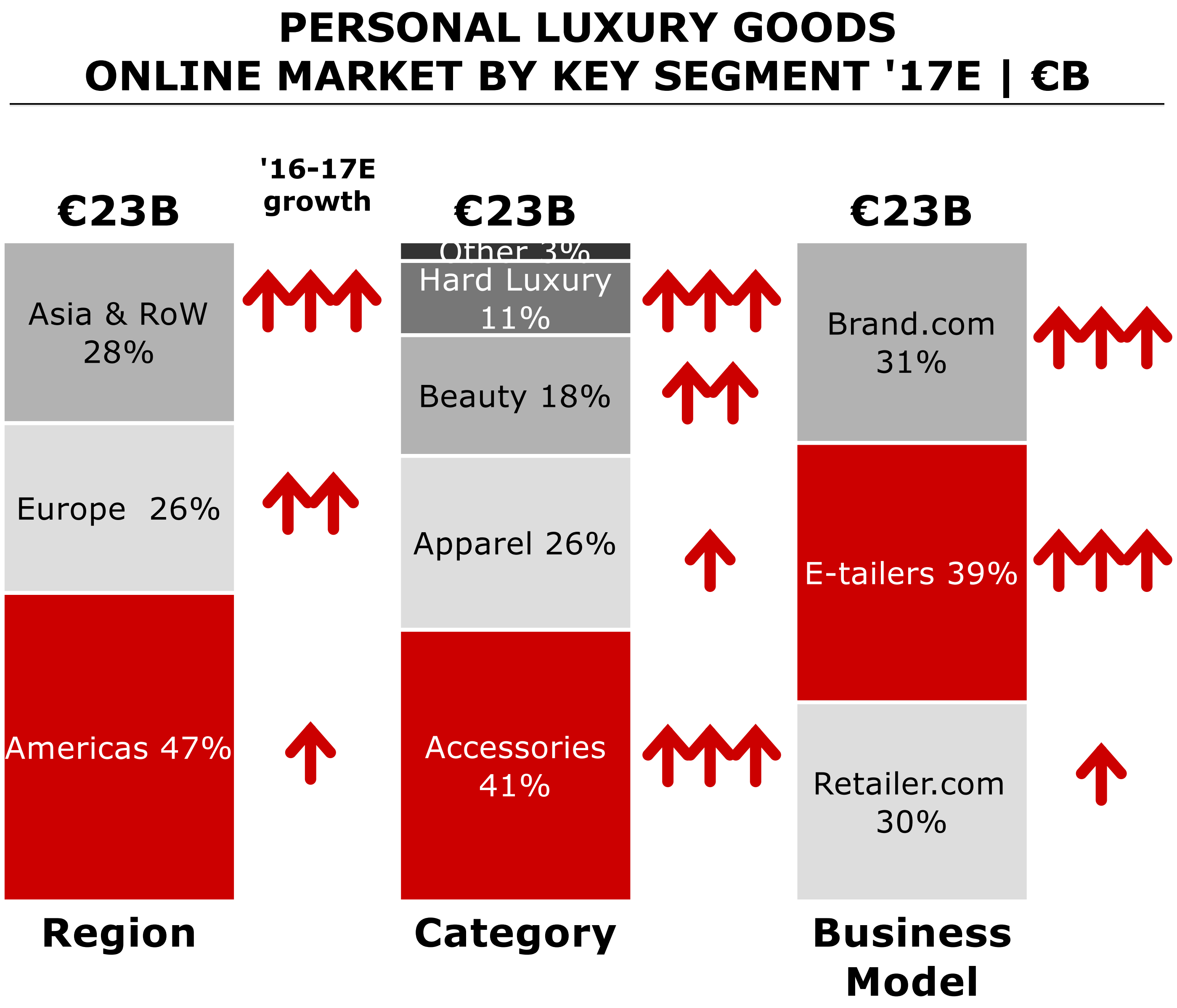
'17E vs '16 PERSONAL LUXURY GOODS GROWTH

Online +24%

Airport +12%

Off-price +8%

ONLINE: GROWTH **ACCELERATION** DRIVEN BY **SPECIFIC FOCUS** AND **KEY PARTNERSHIPS** ENABLING THE CHANNEL



ASIA AND **EUROPE MAIN GROWTH** ENGINES OF A TRADITIONALLY **US-CENTRIC MARKET**

ACCESSORIES THE **TOP CATEGORY**, WITH **SHOES CONSISTENTLY OUTPERFORMING**

BEAUTY VERY **STRONG** AND **HARD LUXURY** RAPIDLY **GAINING SHARE**

GOOD PERFORMANCE OF **APPAREL**, UNLOCKED BY **FREE RETURNS**

E-TAILERS OUTPERFORMING, LEVERAGING **STRONGER CONTENT/COMMERCE** INTEGRATION

BRANDS FINALLY **CAPITALIZING** PROACTIVELY **ON THE CHANNEL POTENTIAL** THROUGH THEIR OWN WEBSITES

CHANNELS ARE NOW COMING TOGETHER IN AN **INTERDEPENDENT** AND **INTEGRATED ECOSYSTEM** AROUND THE CUSTOMER

COMPLEMENTARITY OF ROLES
BETWEEN **RETAIL** AND **WHOLESALE**

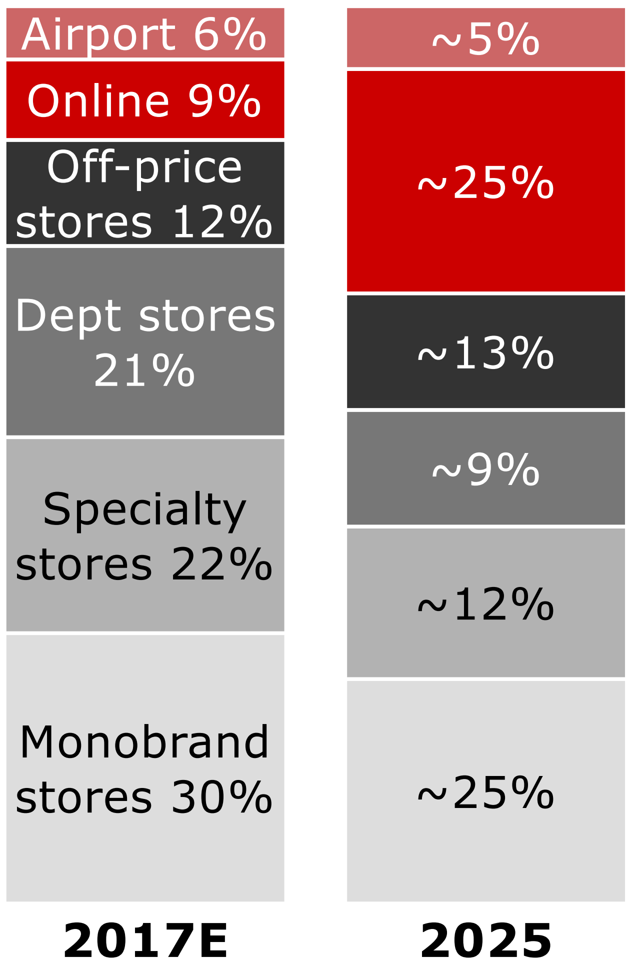
LEVERAGE OF **ONLINE** AS A **360° SUPPORT PLATFORM** FOR PHYSICAL CHANNELS

TRAVEL RETAIL AND **OFF-PRICE** USED TO ENLARGE **CUSTOMER BASE** AND **SHOPPING OCCASIONS**

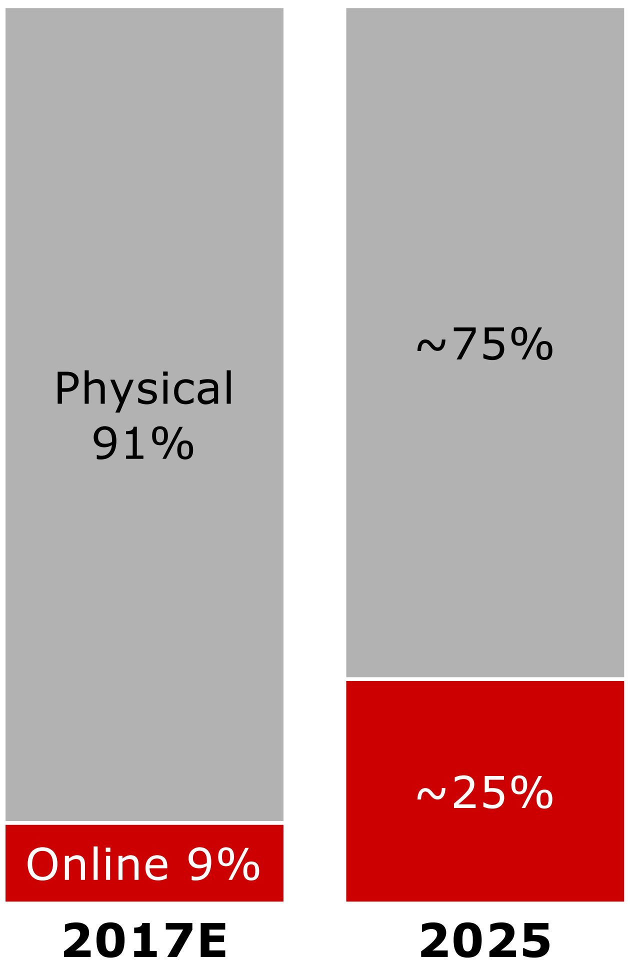
E-COM ACCELERATING: DIFFERENT MODELS **GROWING** AND **CO-EXISTING**

...WITH **RETAIL FOOTPRINT** EVOLVING ITS **IMPORTANCE** AND **ROLE**

PERSONAL LUXURY GOODS MARKET BY CHANNEL | %



PERSONAL LUXURY GOODS MARKET BY CHANNEL | %



MANAGE THE NETWORK
IS THE NEW MANTRA FOR RETAIL

20K
LUXURY MONOBRAND STORES IN 2017

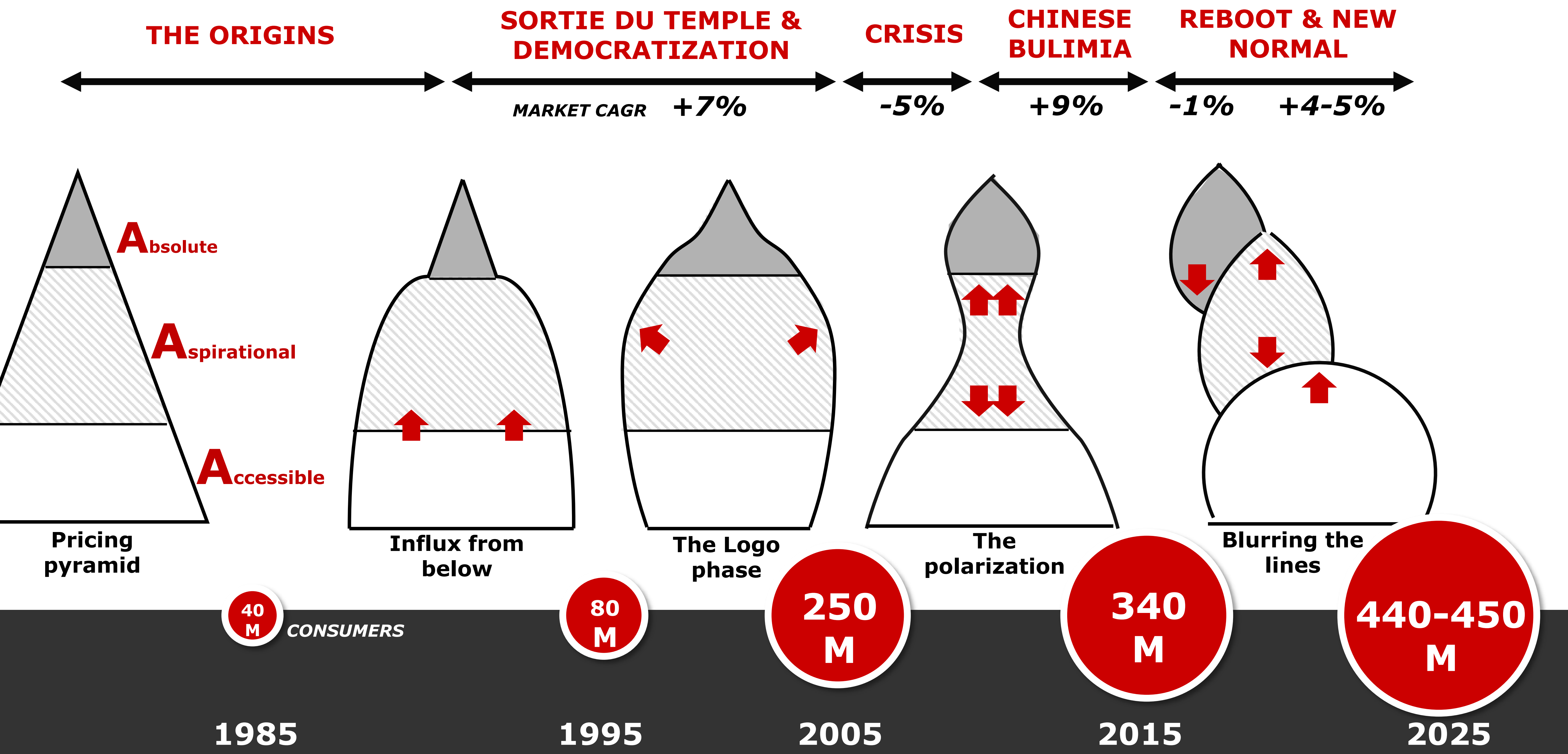
FROM **~1000**
DOS OPENINGS
IN **2012**

TO **~350**
IN **2017E**

TO ***-XXX***
IN ***2025E?***

POST-ASPIRATIONAL

TRADITIONAL MARKET SEGMENTATION IS LOSING RELEVANCE



PLAYERS **SHAPING CATEGORY PERFORMANCE** THROUGH TAILORED STRATEGIES

SHOES

KEY ENTRY FASHION ITEM STILL THE **KING** AMONG ACCESSORIES

JEWELRY

ENTRY & **MID SEGMENTS** DRIVING THE GROWTH

BAGS

VERY DYNAMIC GROWING BOTH IN **VOLUMES** AND **PRICES**

BEAUTY

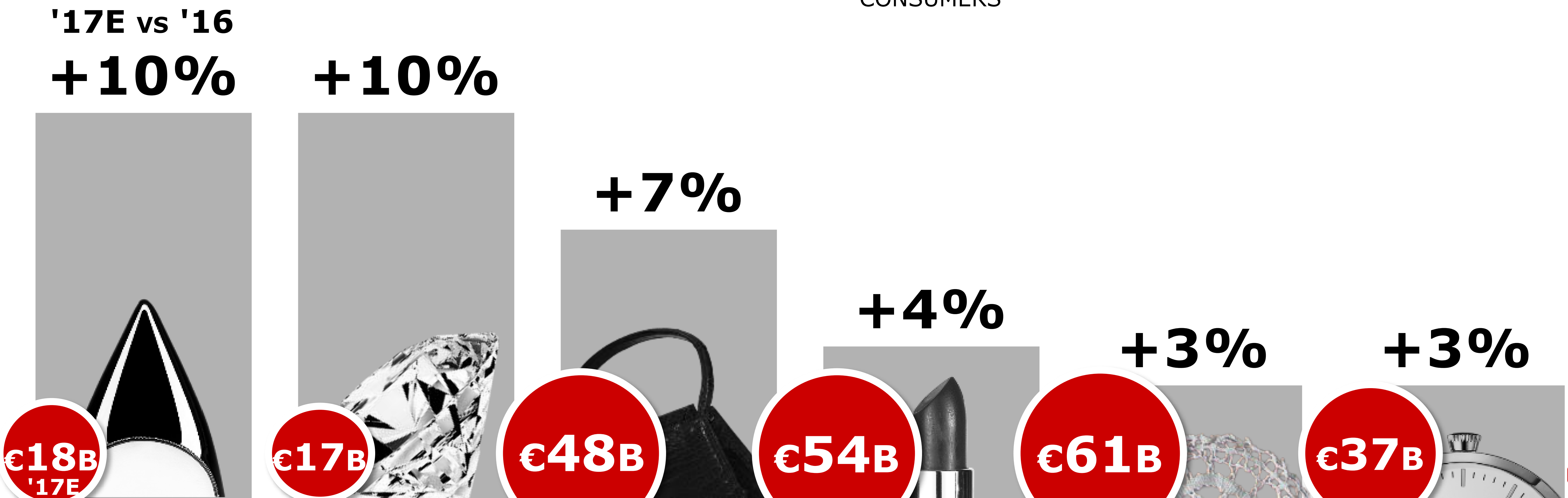
MAKE-UP FUELING THE GROWTH **BLOGS** AND **DIGITAL INFLUENCES** KEY TO ATTRACT CONSUMERS

APPAREL

WOMENSWEAR OUTPERFORMING MENSWEAR **FASHION PLAYERS** LEADING THE **GROWTH**

WATCHES

HIGH- & **MID-END BRANDS** TOP PERFORMING **BOOST** OF **PRECIOUS** AND **ENTRY LINES**



… AND INVESTING IN **LUXURY STREETWEAR** TO **ATTRACT GEN Y**

SNEAKERS
€3,5B
'17E
+10%
'17E vs '16

DENIM
€3,2B
+6%

DOWN JACKETS
€2,3B
+15%

T-SHIRT
€2,5B
+25%

PARKA
€1,1B
+8%

RUBBER SLIDES
€0,5B
+50%

LUXURY CONSUMPTION: FROM AN END IN ITSELF TO A **MEANS TO SELF-EXPRESS**

FITTING IN THE ELITE

BELONGING

FROM

BEING RECOGNIZED AS PART OF A GROUP WITH SHARED STATUS

STANDING OUT AS INDIVIDUAL

BEING

TO

FEELING PART OF A GROUP WITH SHARED VALUES

UNIQUENESS IS THE ESSENCE OF **MODERN LUXURY** AS **"OPINIONS"** BECOME THE NEW FUEL OF **ASPIRATION**

FROM		TO
PRECIOUS MATERIALS & **BESPOKE** PRODUCTS FOR **MORE DEMANDING** CUSTOMERS	ELEVATION	**EXTREME EXPRESSION** OF THE BRAND VALUES AND VISION FOR **MORE DISCERNING** CUSTOMERS
HIGH **QUALITY** & **CRAFTED** PRODUCTS IN **CORE** CATEGORIES AT AN **EXCLUSIVE** PRICE POINT	CORE PROMISE & VALUE PROPOSITION	**HIGHLY CURATED** PRODUCTS (BRAND POINT OF VIEW, QUALITY, CRAFTING) ACROSS ALL **CONSUMER OCCASIONS**
VICARIOUS PURCHASE (PLAIN PRODUCTS IN "MINOR" CATEGORIES WITH A LOGO) THAT PROVIDE "**BADGE VALUE**"	REACH EXPANSION	**CREATIVITY INFUSION** AND **LUXURIZATION** OF ENTRY ITEMS AND "NEW" CATEGORIES
EXCLUSIVITY: PURCHASING THE BRAND OF THE "HAPPY FEW"	DRIVER OF ASPIRATION	**OPINION**: BEING ABLE TO MAKE A PERSONAL STATEMENT THROUGH STYLE CHOICES


SCALE LOUPE 10x
CURATED

CONSUMERS DON'T WANT TO JUST LISTEN TO BRAND STORIES, BUT WANT TO **LIVE THE STORY**

HELP ME…

…define who I am

SELF-EXPRESSION

…convey it to others

ENGAGE WITH ME…

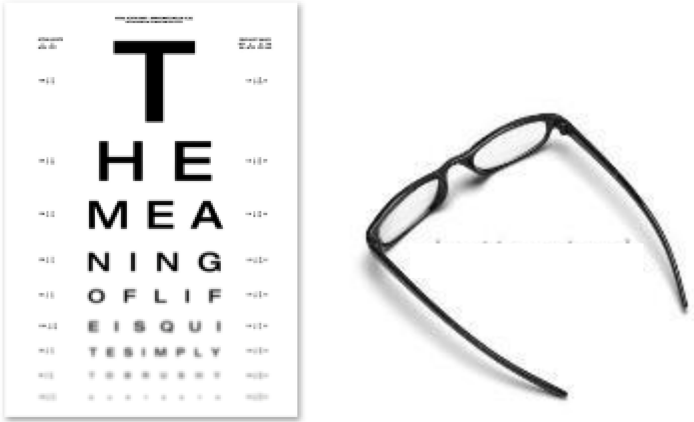
…on what matters to me

PASSIONS

…on what entertains me

MAKE MY…

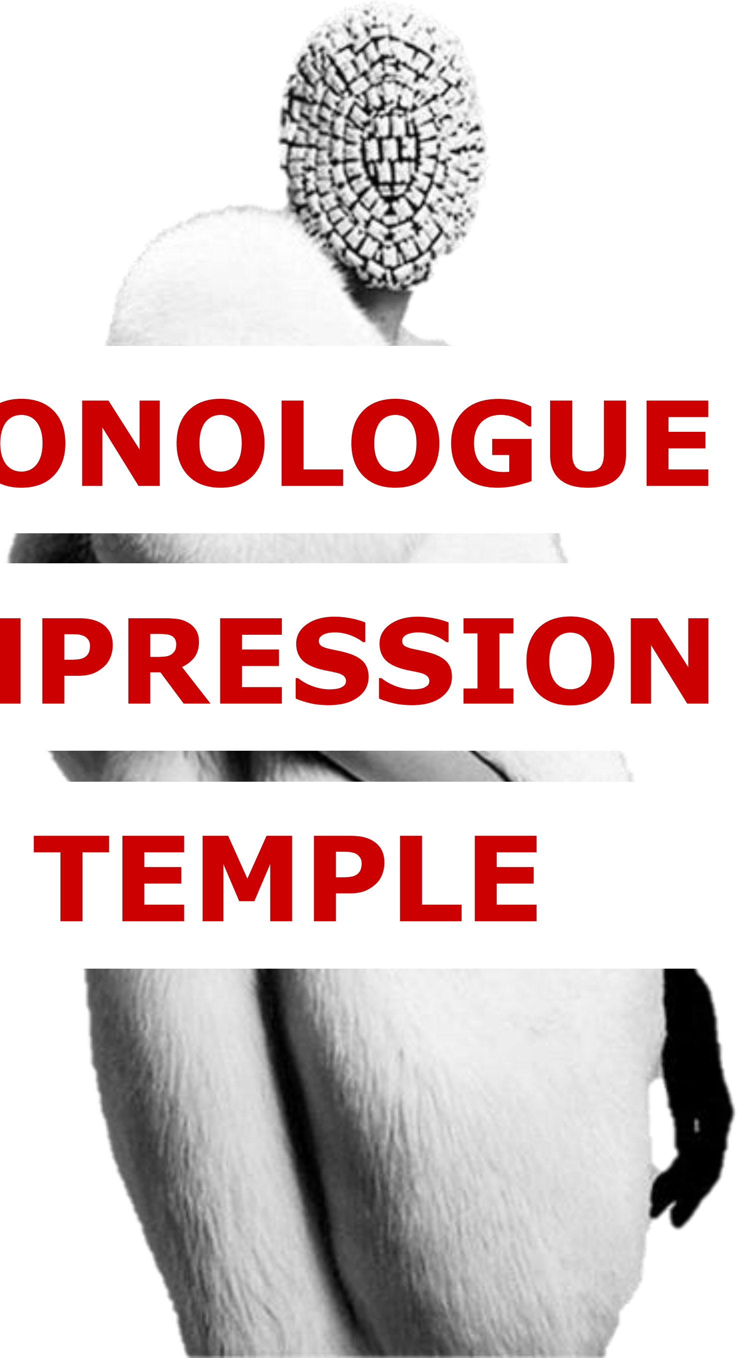
…life more meaningful



EXPERIENCE

…transactions easier

LUXURY BRANDS NEED TO **INSPIRE CUSTOMERS** THROUGHOUT **TOUCHPOINTS**



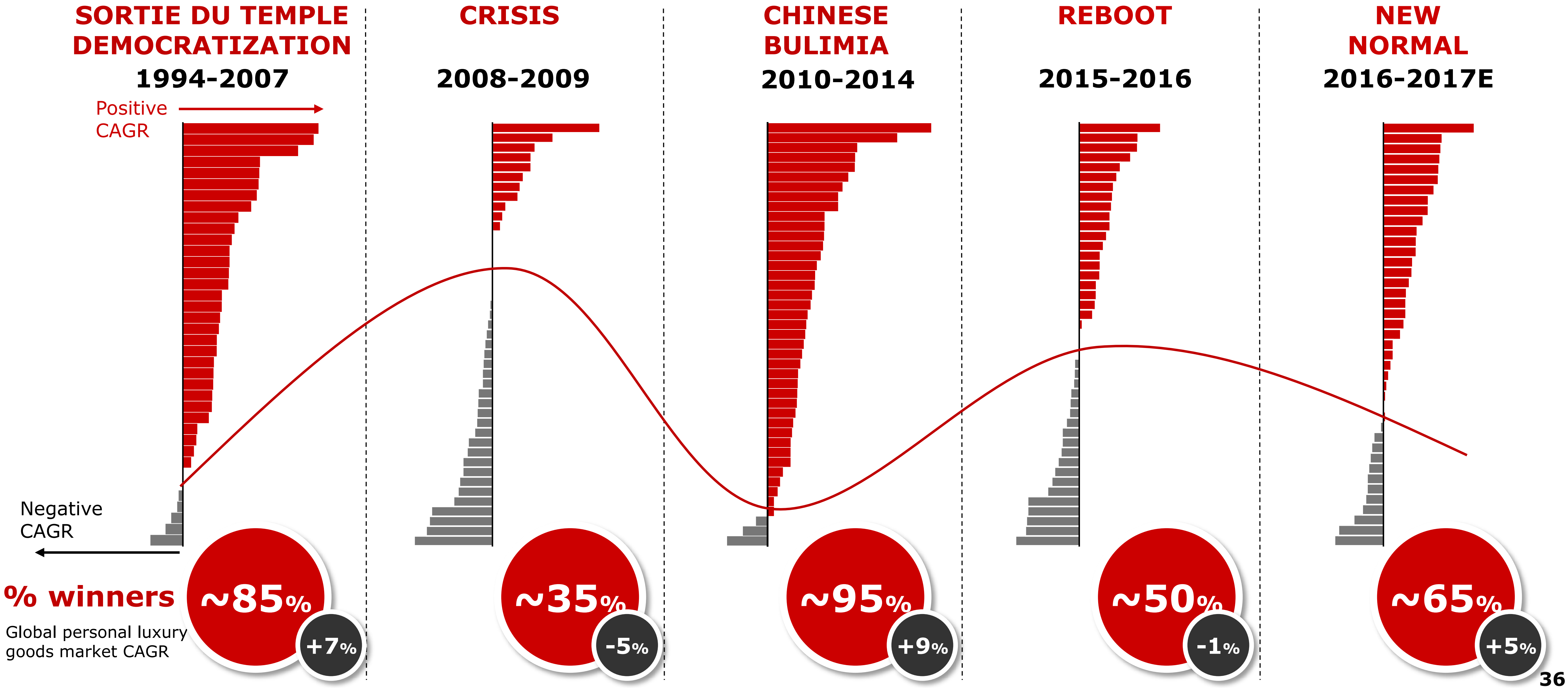
FROM	TO
MONOLOGUE	DIALOGUE
IMPRESSION	IMMERSION
TEMPLE	HOME

THE STORE BECOMES THE **EPICENTER** OF THE **BRAND**
STORY-LIVING

POLARIZED, PROFITABLE, EVOLVING

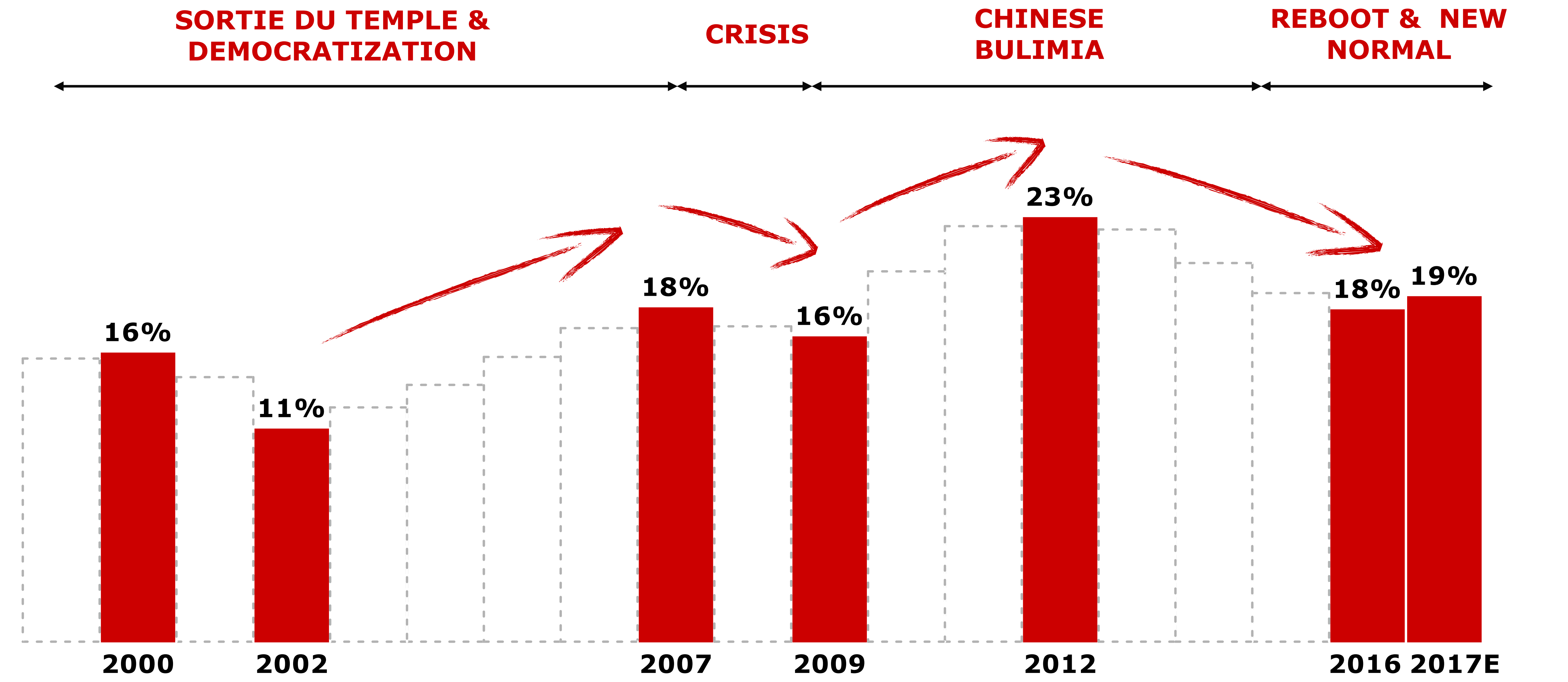
BEST-IN-CLASS PLAYERS LEADING THE **WAVE OF CHANGE, YET** GROWTH **POLARIZATION** REMAINS

REVENUE CAGR OF SELECTED SOFT PERSONAL LUXURY GOODS BRANDS BY ERA



THROUGH DIFFERENT ERAS, LUXURY BRANDS HAVE CONSISTENTLY DELIVERED **ATTRACTIVE OPERATING PROFITS**

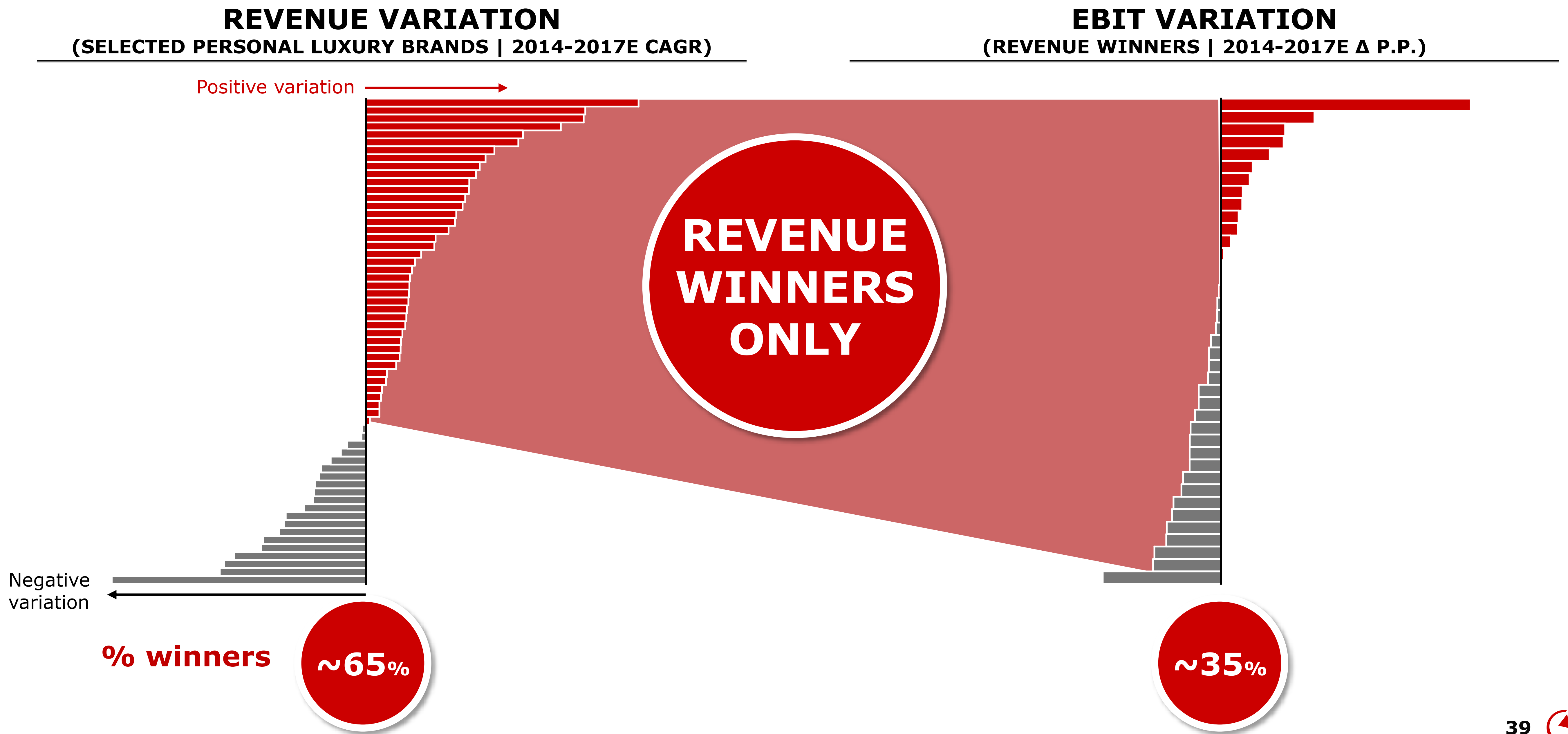
EBIT OF SELECTED PERSONAL LUXURY GOODS BRANDS BY ERA



€350B

CUMULATED PROFITS GENERATED BY LUXURY GOODS BRANDS IN THE PAST 20 YEARS

GROWTH IS BECOMING **MORE EXPENSIVE** THAN IN PAST 20 YEARS



FROM CAPEX

STORES
STORES
STORES

BRAND
MARKETING
COMPETENCES

TO OPEX

INDUSTRY P&L SHIFTING,
INCREASINGLY IN THE NEXT YEARS

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LUXURY IS CHANGING SKIN:
THE RISE OF MILLENNIALISM

LUXURY CEO'S **MONDAY MORNING AGENDA**

EXPERI(M)ENT(I)AL	BUILD **STORY-LIVING** THROUGH INSPIRATIONAL **CONVERSATIONS** AND **EXPERIENCES**
HEALTHIER	DEVELOP **1:1 RELATIONSHIPS** TO NURTURE **YOUNGER GEN** AND **"LOCAL TOURIST" CUSTOMERS**
UNIVERSAL	
ECOSYSTEMIC	DEVELOP A **HOLISTIC DISTRIBUTION** APPROACH, REDESIGNING **CUSTOMER JOURNEY**
POST-ASPIRATIONAL	UNDERSTAND AND INTERPRET IN LINE WITH BRAND DNA THE **ASPIRATIONS** OF THE CURRENT TIMES TO BECOME **RELEVANT** TO THE CUSTOMER
CURATED	UPGRADE **PERSONALIZATION** OF **PRODUCT**, **SERVICE** AND **MESSAGE:** MASTER ALL **TOUCHPOINTS** WITH CUSTOMERS ALONG THEIR **LIFETIME**
POLARIZED, PROFITABLE, EVOLVING	INVEST IN **PEOPLE, COMPETENCIES**, AND BECOME **MARKETING-CENTERED**

BE CUSTOMER-OBSESSED AND MILLENNIAL-MINDED

BAIN & COMPANY

People Passion Results!

CLAUDIA D'ARPIZIO, PARTNER
BAIN & COMPANY LUXURY GOODS VERTICAL

Claudia has spent 23 years advising multinational luxury and fashion clients on everything from strategy and new product development to innovation and organizational change.

She is also the lead author of 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 13 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 Bain Luxury Study, one of the most cited sources of market information in the luxury industry.

BAIN CONTACTS

FOR ANY QUESTIONS OR FURTHER DISCUSSION, PLEASE CONTACT:

CLAUDIA D'ARPIZIO

-PARTNER (MILAN)

-EMAIL: CLAUDIA.DARPIZIO@BAIN.IT

FEDERICA LEVATO

-PARTNER (MILAN)

-EMAIL: FEDERICA.LEVATO@BAIN.IT

FOR A COPY OF THE STUDY, PLEASE CONTACT:

INTERNATIONAL PRESS

- ALIZA MEDINA (ALIZA.MEDINA@BAIN.COM OR +44 207 969 6480)
- DAN PINKNEY (DAN.PINKNEY@BAIN.COM OR +1 646-562-8102)

ITALIAN PRESS

- CRISTINA BRIGNOLA (CRISTINA.BRIGNOLA@BAIN.IT OR +39 02 58288 553)

METHODOLOGY OF THE STUDY

1 Revenues at retail equivalent value

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

Retail
+
Wholesale
+
Licenses

PLAYER CONSOLIDATED SALES

Retail
+
Wholesale at retail value
+
Licenses at retail value

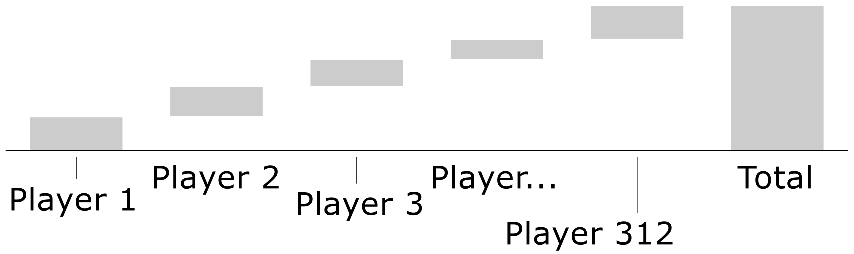
PLAYER SALES AT RETAIL VALUE

Application of **estimated mark ups** by geography and category

Application of **estimated royalty rates** and **mark ups** by geography and product category

2 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
- Tens of industry experts interviews (top management of brands, distributors, department stores, …)
- Consistency check on the data and fine tuning

...we cross check results

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