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"Altagamma Bain Design Market Monitor"
Brand, size and distribution: the challenges for growth

Altagamma and Bain&Company present the first edition of their new market research on Design at the Triennale in Milan.

Milan, 1 April 2015. With the presentation of a new study based on an analysis of 350 Italian and international businesses from 30 countries, the Altagamma Foundation launches a new annual appointment dedicated to Design, and high-end design in particular. The **Altagamma Bain Design Market Monitor 2015**, conducted in collaboration with Bain&Company, focuses on the challenges presented by distribution and dimension, which are key to Italy's leadership in the field.

Despite its hundred-year history, the high-end Design **sector** (Core Design) is still developing and is characterised by a multitude of small, independent and predominantly European operators which are highly specialised and concentrated in the pre-supply chain area. It is a market which could triple in size in time as long as businesses change their paradigms and develop their business model: **branding, route-to-market, business collaboration, growth of the contract segment, and the ability to specialise in multiple areas.**

Italian businesses have been pioneers and are still the undisputed leaders of the **high-end market** (Core Design) worth **€29 bn**, in which **Italian brands hold a market share of around 30% (8.3 bn)**, and in particular the **top end of the segment (Pure Design) worth €18 bn, where the Italian market share is 39%, equating to 7 bn.** Based on these statistics, the study looks at mid and long-term business strategies, including:

- developing the online platform by improving customer experience and service levels;
- strengthening the role of direct sales channels and enhancing the consumer's multi-channel shopping experience;
- supporting the multi-brand channel with ad-hoc trade marketing strategies;
- defining a structured approach to the contract channel by overseeing projects from conception to execution.

The study was discussed in a panel session coordinated by **Armando Branchini** (Vice Chairman of the Altagamma Foundation and head of research) that involved **Stefano Core** (Driade), **Claudio De Albertis** (La Triennale Foundation), **Piero Gandini** (Flos), **Roberto Gavazzi** (Boffi), **Piero Lissoni** (architect), **Claudio Luti** (Kartell) and **Claudia D'Arpizio** (Bain&Company).

According to **Claudia D'Arpizio**, Partner at Bain&Company, "*the Design sector can look forward to a wonderful future if it can manage to free itself from the restrictions holding it back at present. It is one of the most groundbreaking industries in terms of developing highly innovative products, both from a functional and an aesthetic point of view. To grow, it will be necessary to use the same innovative approach not only in terms of the products but also to evolve the route-to-market aspect, at present linked to an extremely traditional model which is far removed from new consumers".*

Claudio Luti, Chairman of Kartell and Vice Chairman of the Altagamma Foundation underlines how *"Italian design needs to step up a gear in three areas: brand policies, distribution strategy and dimension growth. A serious brand policy, which combines good communication with a high level of innovation, is essential for becoming a global company. The distribution strategy requires serious attention and must be devised according to the specific characteristics of each individual business, but an analysis of the geographical area and consumer involvement will be crucial aspects for all companies. Increasing a business's size means developing its market power. By taking these three paths, our businesses will be able to become more profitable, enjoy a better overview of the global markets and, above all, remain independent".*

"Even after analysing the various subsectors," adds Altagamma Vice Chairman **Armando Branchini,** *"a fairly clear picture emerges: to maintain Italy's industrial leadership in the Design sector, a comprehensive re-evaluation of the business model is required, which must focus on the earliest part of the supply chain, namely the market. Otherwise it is very difficult to envisage the expansion of medium-sized businesses or the transition from specialist in one area to specialist in multiple areas".*

Below is a summary of the Design Monitor findings:

- MARKET Overall, the **Design market** was worth approximately **€90 bn** in 2014 (360 bn including the entire unbranded home market).
  The **Core Design** segment (high-end design) has almost returned to its pre-recession levels (2008/2009) and is worth **€29 bn.**
  The **Pure Design** segment (top-end) represents approximately 60% of the Core Design market and is worth approximately **€18 bn.**

  This recovery is driven by the upturn in the American market (+6% in 2014), **the improvement of the European market** (+1%), the growth of **developing countries** (+6/7%) and the increasing role of the **contract segment** (+15% for those managed in-house).

- DISTRIBUTION. Comparatively speaking, the **wholesale** channel is extremely important for generating profit in the Core Design market (72% versus 64% for luxury goods), but the **business model is struggling** in the traditional market countries and is **difficult to export** to emerging markets. The **direct retail model is only sustainable for specialists** who offer a diversified service to maximise their market.

- SECTORS. **Lighting is the most responsive post-recession category** (+5% CAGR from 2009 to 2014), driven by LED innovation technology, and is followed by good performances in the living&bedroom category (+4% CAGR 2009-2014).

- PROFITABILITY. **The sector's profitability levels are more modest** (8% for the Core segment, 9% for the Pure segment) compared to other high-end industries (such as Personal Luxury Goods, 15/20%).

- ITALIAN BUSINESSES Thanks to deep-rooted expertise which have been consolidated over time, Italian businesses are **the market leaders in high-end design.** The Italian market shares in the areas of **Lighting (35%)** and **Living&Bedroom (34%)** are particularly high. **Exports** are often their **predominant source of revenue.** The main export area is Europe, followed by the United States and Asia, where the “Made in Italy” brand is a strong incentive for the development of the contract sector. In figures, **Italian operators number 190 out of a total of 360**, with an average revenue of €45 million at retail prices (compared with €120 million by the other 170 non-Italian businesses).

- PURE DESIGN SEGMENT. In the market's highest-end sector, Italian businesses represent 39% of the market share, peaking at 50% in the Living&Bedroom and Lighting sectors. Exports account for 67% (versus 47% in the Premium sector), average dimensions are smaller (€60 million in revenues versus 130 in the Premium segment) and profit margins slightly higher (9% vs. 8%). Upstream integration is greater and there is a higher number of family-run and independently-owned companies.

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