THE BOSTON CONSULTING GROUP

Fondazione Altagamma

The True-Luxury Global Consumer Insight

4th Edition

Milan, February 16th, 2017

The True-Luxury Global Consumer Insight panel

	12 000+ Consumers	~36 k€ Avg. luxury spend	10 Nationalities
Vs. 2016 Ed.	• +1 000 in China • +1 000 in US	• +15 k€	

Source: BCG-Altagamma True-Luxury Consumer Insight

We push to be relevant on the highest segments of the luxury consumers

True-Luxury Consumers sample distribution (% respondents)

Luxury yearly spend[1] (k€ per consumer)	3rd edition	4th edition	
> 100 k€	1 %	7 %	▲
50 - 100 k€	6 %	18 %	▲
20 - 50 k€	28 %	30 %	=
10 - 20 k€	35 %	25 %	▼
5 - 10 k€	30 %	20 %	▼
Average Spend for overall sample	~21 k€	~ 36 k€	

7%

25%

▲▼= Clusters size evolution 4th vs 3rd Edition

1. Expenditure includes personal luxury (e.g. handbags, shoes, sunglasses and other accessories, clothing) and experiential luxury (e.g. hotels, wine and spirits, exclusive vacations). Excluded cars, yachts, smartphones & tablets
Source: BCG-Altagamma True-Luxury Global Consumer Insight

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We set higher thresholds by category vs previous edition to identify a "True Luxury Consumer"

Personal Luxury Goods

Category	Threshold Price	vs. '16
Handbags	>1 000 € / each	▲
Shoes	>300 € / each	=
Sunglasses	>180 € / each	=
Other accessories[1]	>180 € / each[2]	▲
Outerwear / Coats	>1 400 € / each	▲
Dresses for women	>1 200 € / each	▲
Suits for men	>1 600 € / each	▲
Sweaters / Knitwear	>400 € / each	=
Shirts / Topwear	>200 € / each	▲
Jeans / Pants / Skirts	>250 € / each	=
Fragrances & Cosmetics	>100 € / each	▲
Watches	>2 000 € / each	=
Smart watches	>400 € / each	=
Jewelry	>1 200 € / each	▲

Experiential Luxury Goods

Category	Threshold Price	vs. '16
Restaurants	>200 € / person	▲
Wine & Spirits	>100 € / bottle	▲
Hotels (leisure)	>450 € / night	▲
Cruise / resort	>4 000 € / pers./ week	=
Design furniture	>3 000 € / each	▲
Lighting	>1 000 € / each	=

Other Luxury Goods

Category	Threshold Price	vs. '16
Cars	>100 000 € / each	=
Luxury Boats / Yachts	>750 000 € / each	=
Smartphones / Tablets	>1 000 € / each	=

Minimum spent 5 k€ in the past year on personal luxury goods

1. "Other accessories " includes scarves, wallets, belts and ties 2. > 180€/each for Small Leather Goods, >150 €/each for Silk Goods
Source: BCG-Altagamma True-Luxury Global Consumer Insight; BCG

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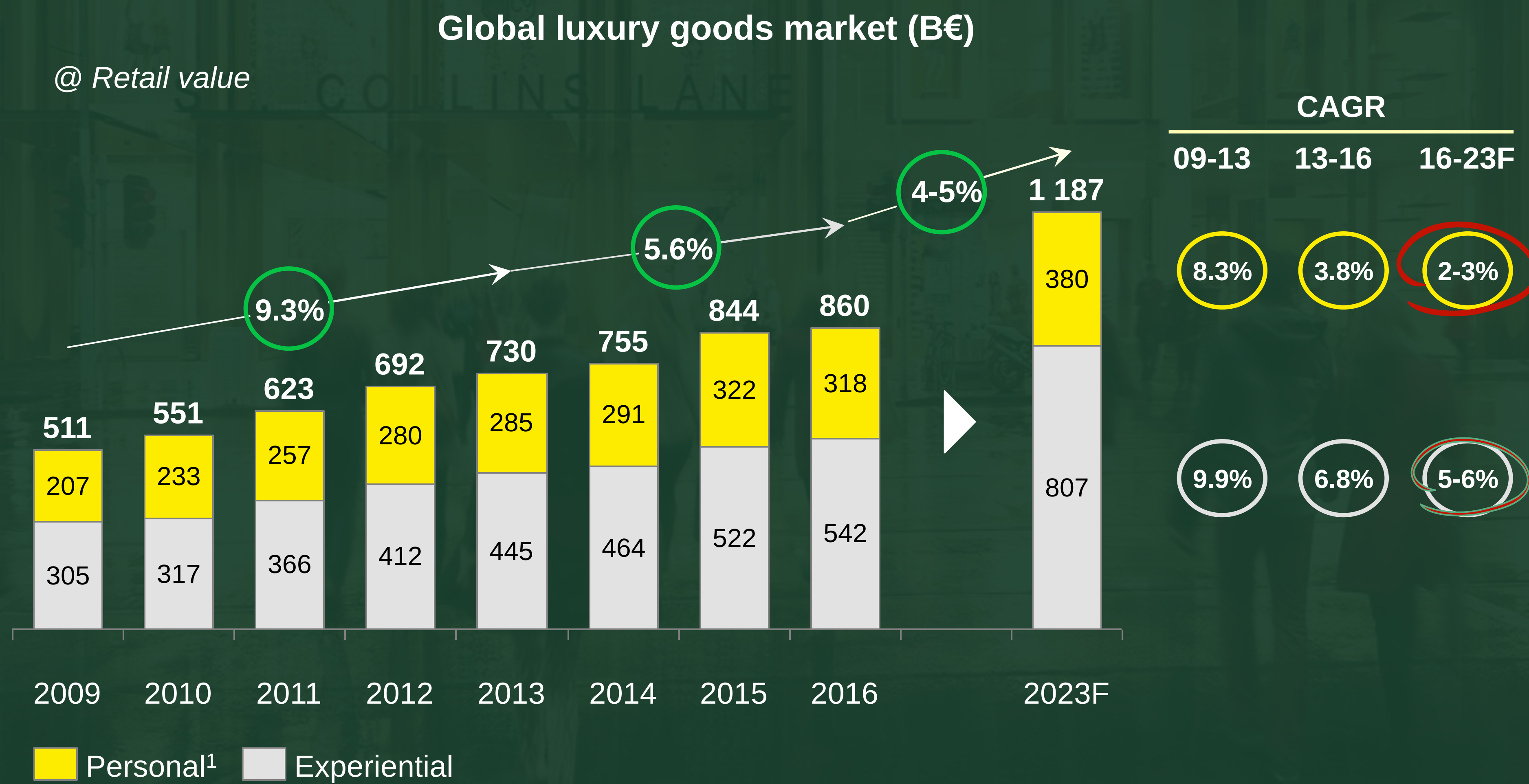
The True-Luxury Global Consumer Insight 4th Edition

Main Outcomes

- Steady market, True luxury consumers growing
- A rising perception of price-value misalignment
- More casual, more customized!
- True luxury consumers buying more at home
- Luxury goes omnichannel
- Monobrand at the heart of an omnichannel experience
- #Luxurygoessocial
- Behavioral consumer segment evolution

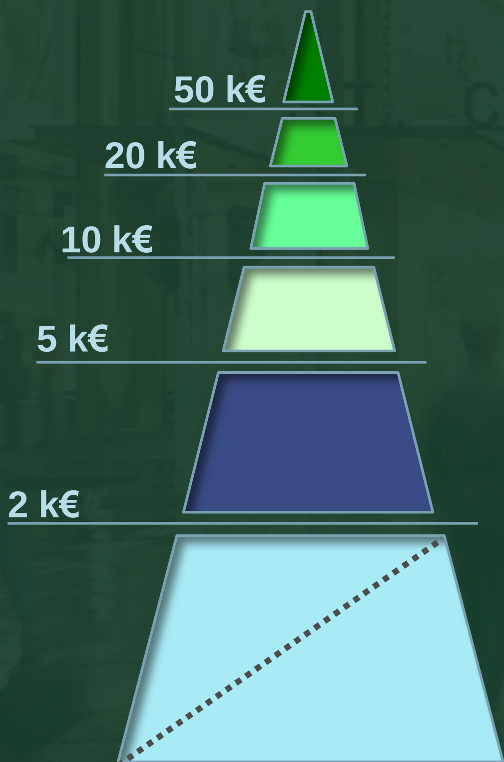
Steady market, True-Luxury Consumers growing

The global luxury market worth ~860Bn€ in 2016, experiential growing faster than personal luxury



1. Personal goods include accessories, apparel, watches & jewelry, fragrances & cosmetics
Source: BCG Luxury Market model

Out of ~400 Mn Luxury Consumers only 17Mn identified as "True-Luxury Consumers"



CLUSTER	2016 # (M)	2016 Bn(€)	2023 # (M)	2023 Bn(€)
Beyond money	0.4		0.5	
Top Absolute	1.3		2.0	
Absolute	4.5		6	
Entry Absolute	11		14	
Total True-Luxury	17	+5	22	
Top Aspirational	21		28	
Other Aspirational	375	+72	440	
Total Luxury Consumers	~415	+75	~490	

Note: rounded numbers
Source: BCG Luxury Market model

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A further polarizing pyramid ahead: True-Luxury Consumers up from ~29% to ~32% of global market

CLUSTER	2016 # (M)	2016 Bn(€)[1]	2023 # (M)	2023 Bn(€)[1]
Beyond money	0.4	20	0.5	40
Top Absolute	1.3	30	2.0	53
Absolute	4.5	93	6	141
Entry Absolute	11	107	14	147
Total True-Luxury	17	250	22	381
Top Aspirational	21	61	28	92
Other Aspirational	375	549	440	715
Total Luxury Consumers	~415	~860	~490	~1185

+131

+196

+325

1. Including Experiential and Personal luxury, excluding cars and Yachts
Note: rounded numbers
Source: BCG Luxury Market model

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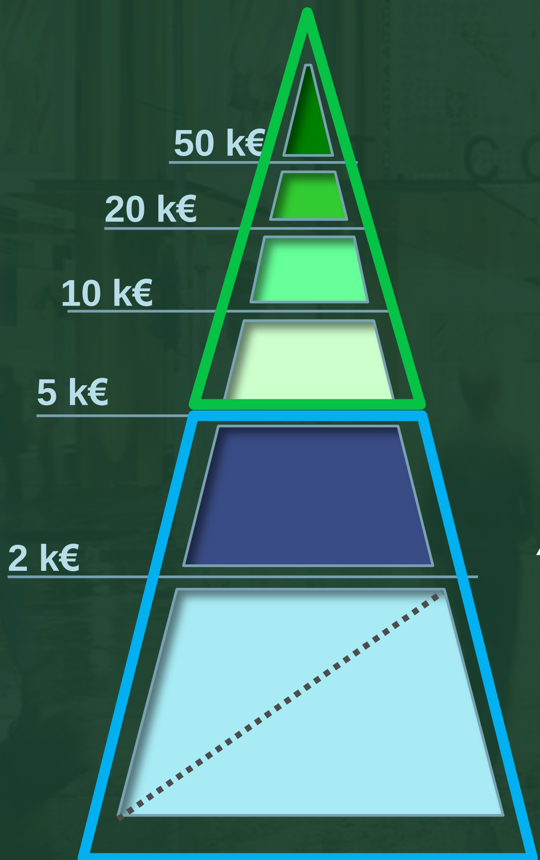
True-Luxury Consumers maintaining a healthier and steadier growth for the future



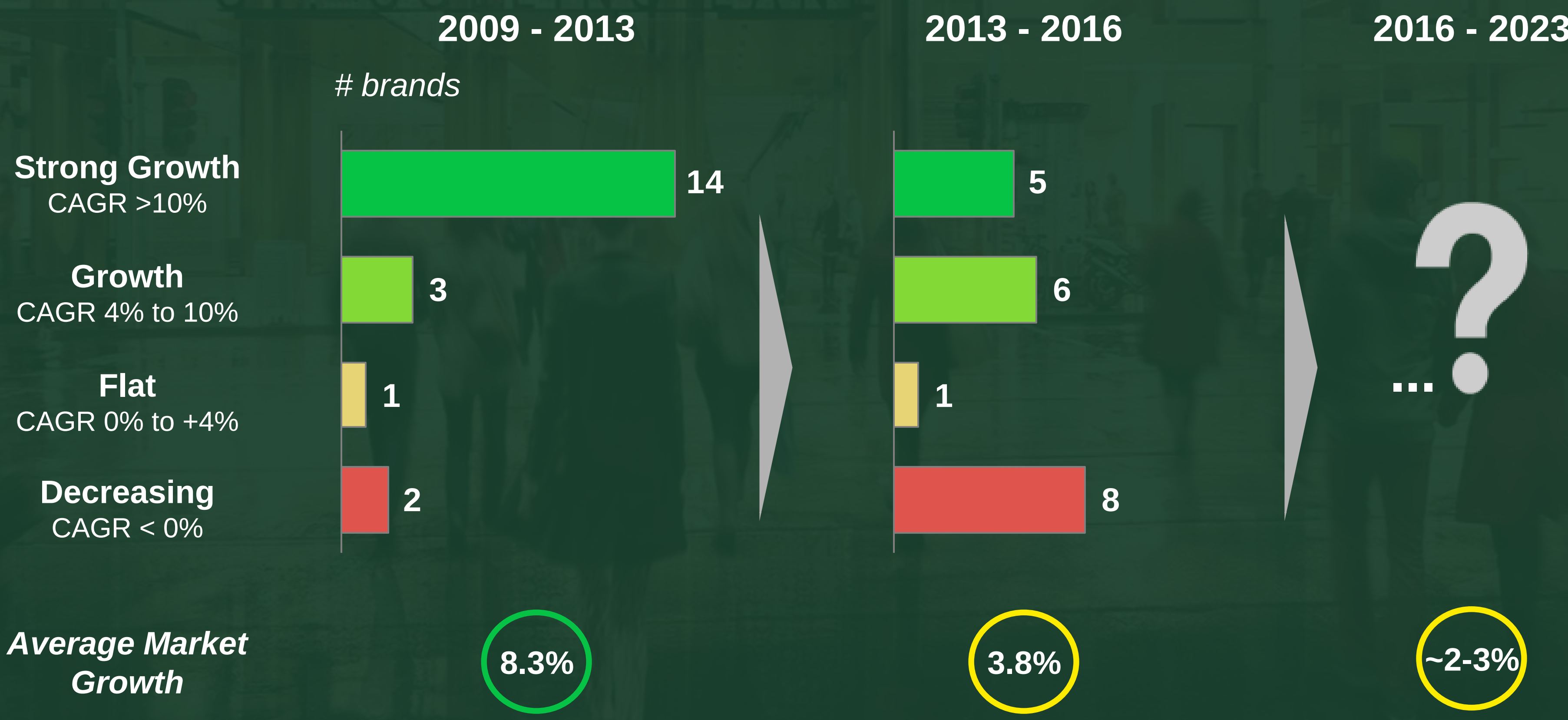
CAGR 2016 - 2023

	Personal	*Experiential*	*Total*
True Luxury	*4-5%*	*7-8%*	*6-7%*
Aspirational	*1-2%*	*5-6%*	*~4%*
	2-3%	*5-6%*	*4-5%*

Note: rounded numbers
Source: BCG Luxury Market model

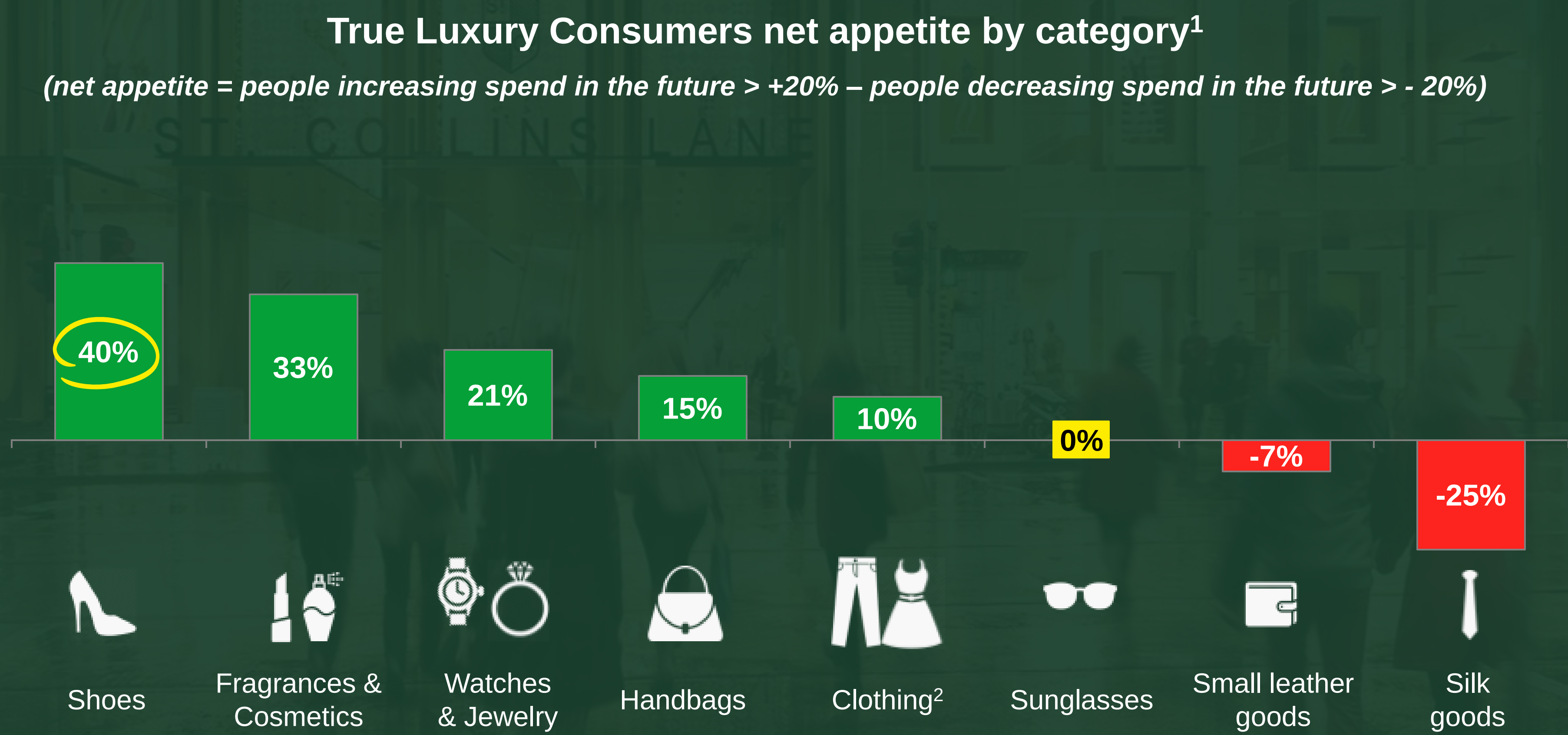
In a slower personal luxury market, there will be clear winners and losers among Brands

Turnover growth for 20 leading personal luxury brands[1]



1. Sample of 20 leading brands in personal luxury
Source: Press Search; BCG Analysis

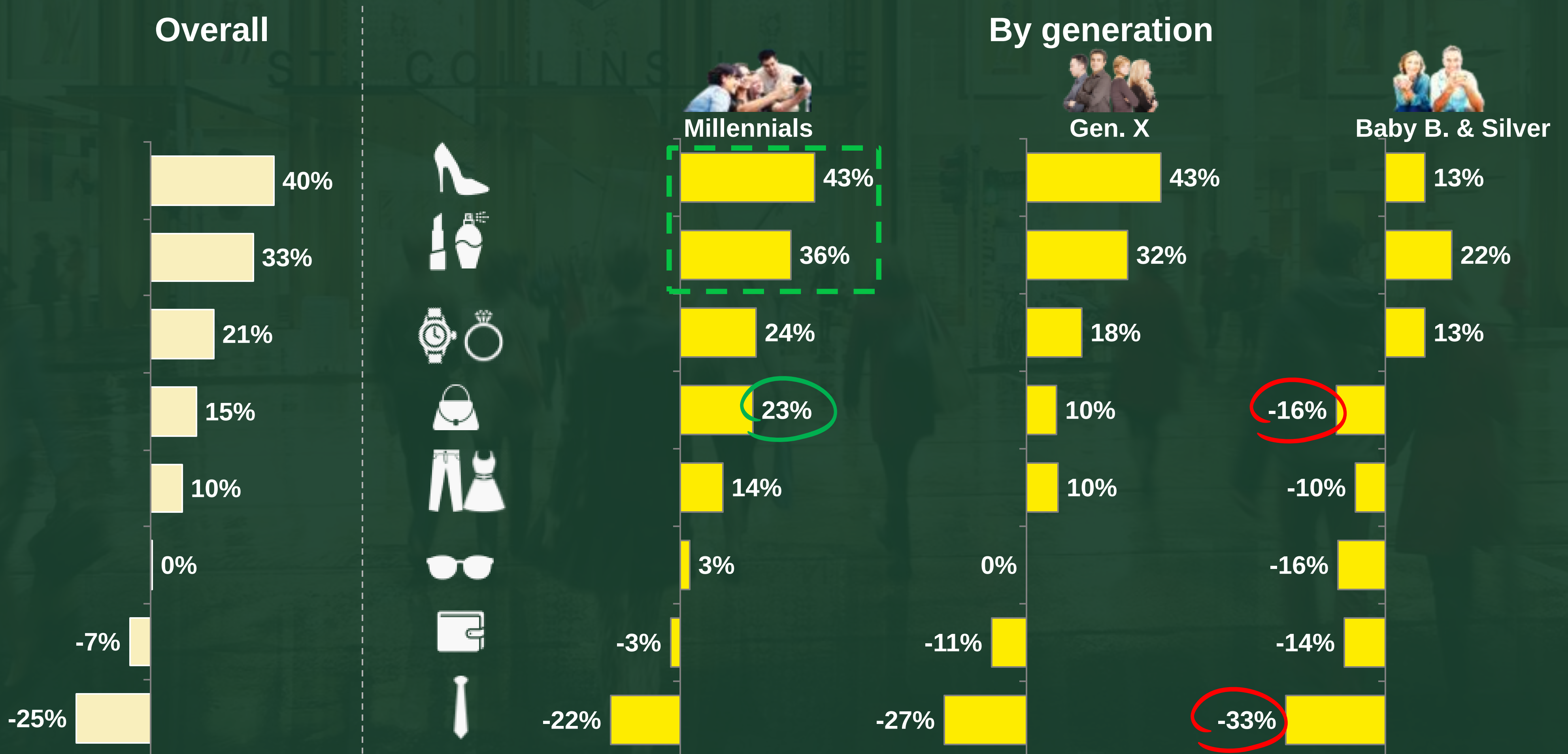
In a slower personal luxury market, winners and losers expected also among categories



1. Index calculated as percentage of customers who see growth in spend less the percentage who foresee a decrease in spend on the category (Positive – Negative). Multiple options answer (up to 5 categories) 2. Including jeans / pants; shirts / topwear; dresses / suits; coats / outerwear; knitwear
Source: BCG 2016 ad hoc study (12,000 luxury consumers in 10 countries)

Appetite driven by Millennials with shoes and F&C key to recruit them - Handbags polarized

Net appetite by category[1]



1. Index calculated as percentage of customers who see growth in spend less the percentage who foresee a decrease in spend on the category (Positive – Negative). Multiple options answer (up to 5 categories) Source: BCG 2016 ad hoc study (12,000 respondents in 10 countries)

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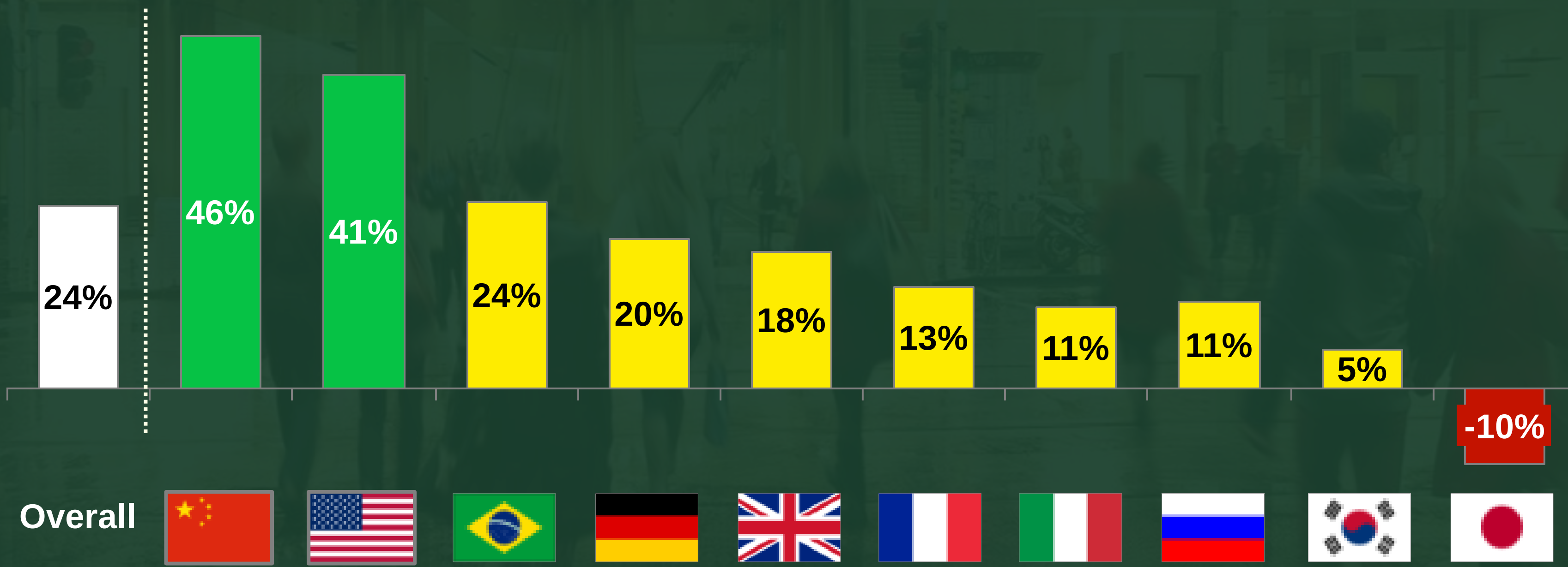
Chinese and Americans will continue to drive the appetite for luxury consumption

True Luxury Consumers net appetite by nationality[1]

(net appetite = people increasing spend in the future > +20% – people decreasing spend in the future > - 20%)



1. Index calculated as percentage of customers who see growth in spend less the percentage who foresee a decrease in spend (Positive – Negative)
2. Share of nationalities in terms of luxury market value

Source: BCG Luxury Market model; BCG 2016 ad hoc study (12,000 luxury consumers respondents in 10 countries)

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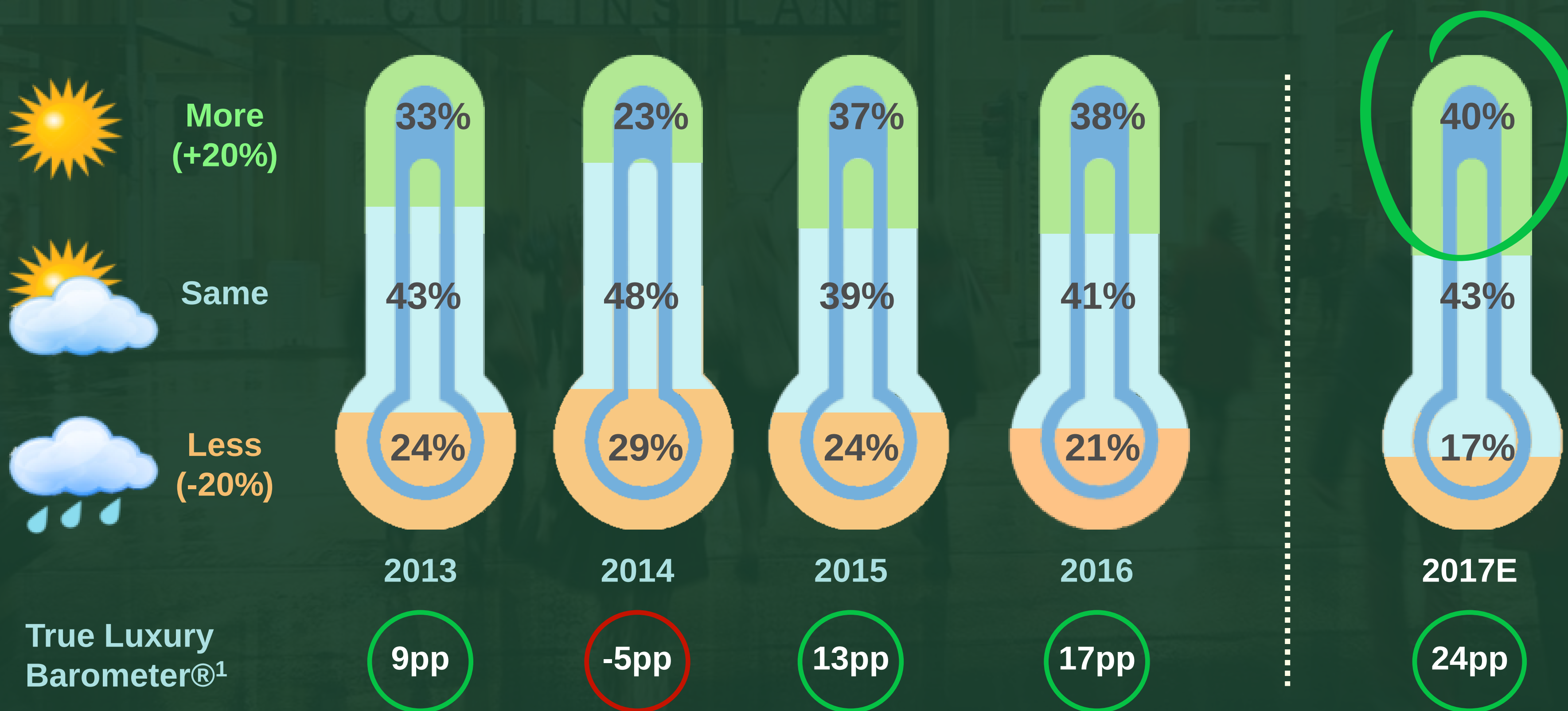
True-Luxury Consumers showing a good appetite for 2017

True Luxury Barometer®

"Do you expect to spend more or less on luxury products in the next year?"



1. Index calculated as percentage of customers who see growth in spend less the percentage who foresee a decrease in spend (Positive – Negative). The index represents a proxy of the expected growth of spend in Luxury by Top Luxury consumers
Source: BCG 2016 ad hoc study (12,000 luxury consumers respondents in 10 countries)

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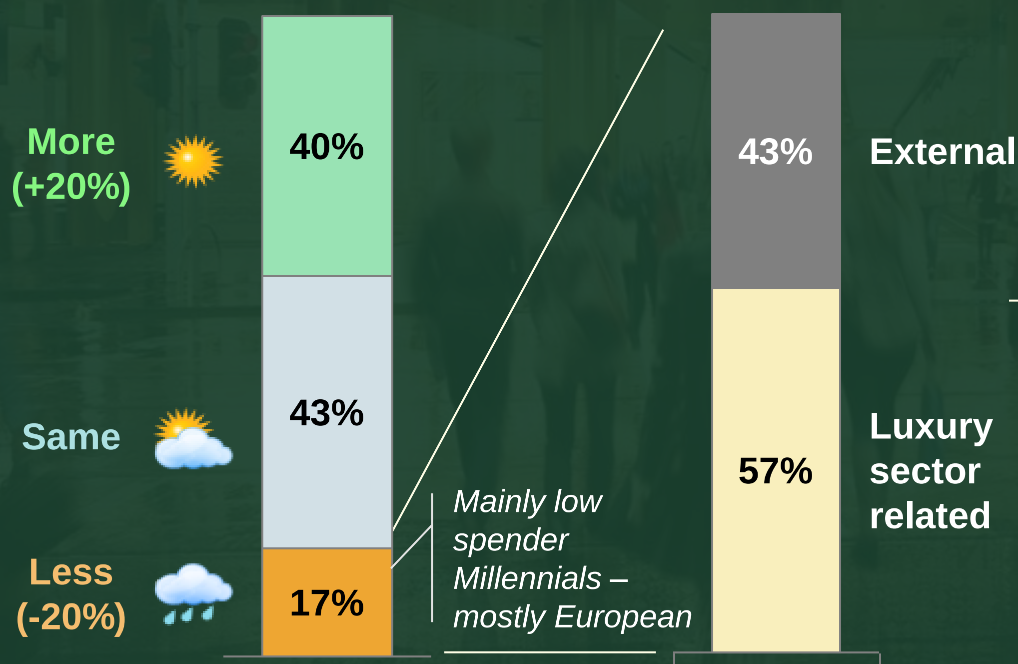
Only 17% of true luxury consumers declare they will spend less in 2017

"This year have you spent more or less on luxury products vs last year?"

" What are the key reasons for which you have spent less?"



External:

- Economic instability
- Travel less frequently
- Lower confidence in future income
- Fear of terroristic attacks

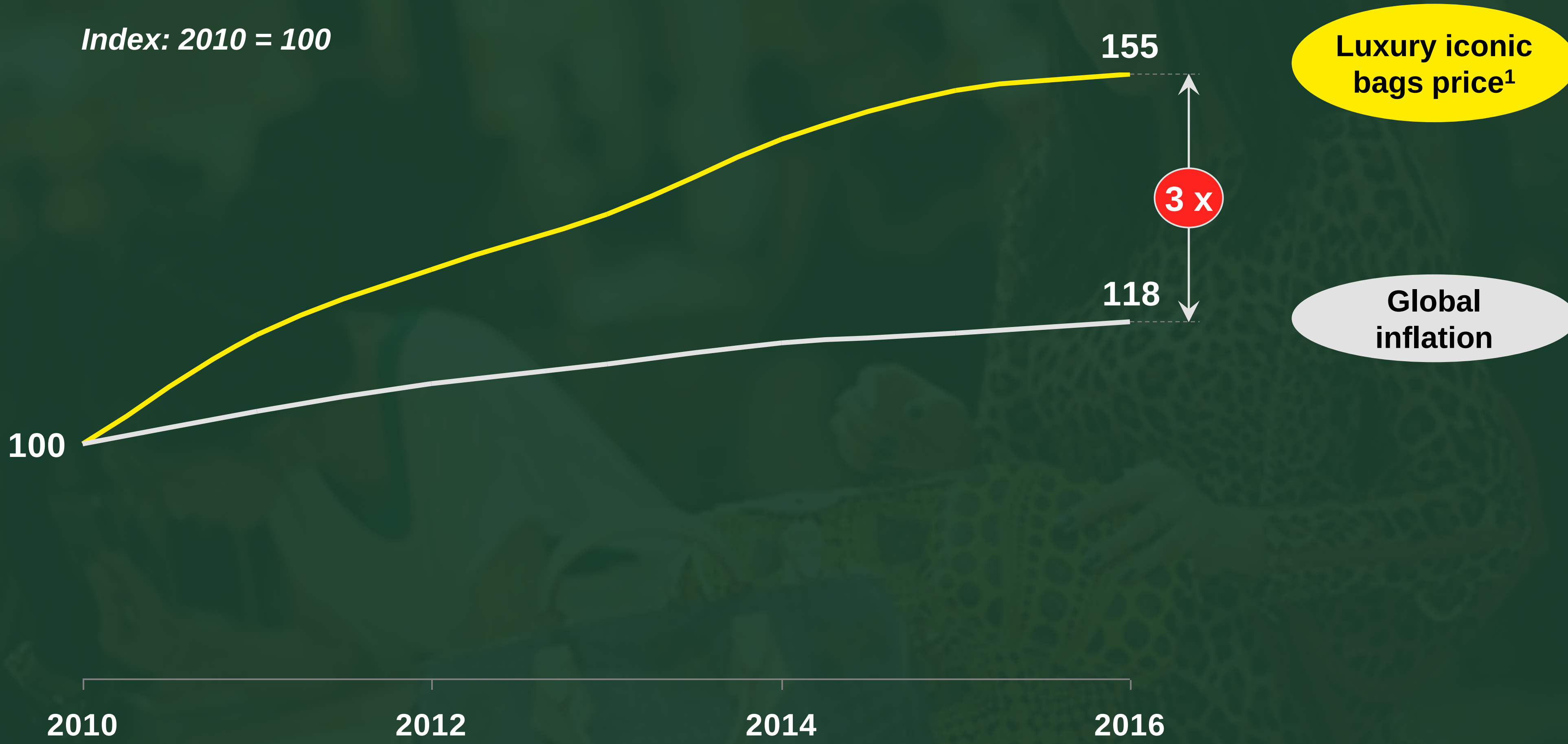
Luxury sector related:

- Luxury prices increase
- Personal luxury saturation
- Less special occasions to attend
- Lower interest in luxury brands
- Partial shift to premium / fast fashion brands
- Brands selling too much non core categories

Note: multiple options answer (ranking of three reasons)
Source: BCG 2016 ad hoc study (12,000 respondents in 10 countries)

A rising perception of price – value misalignment

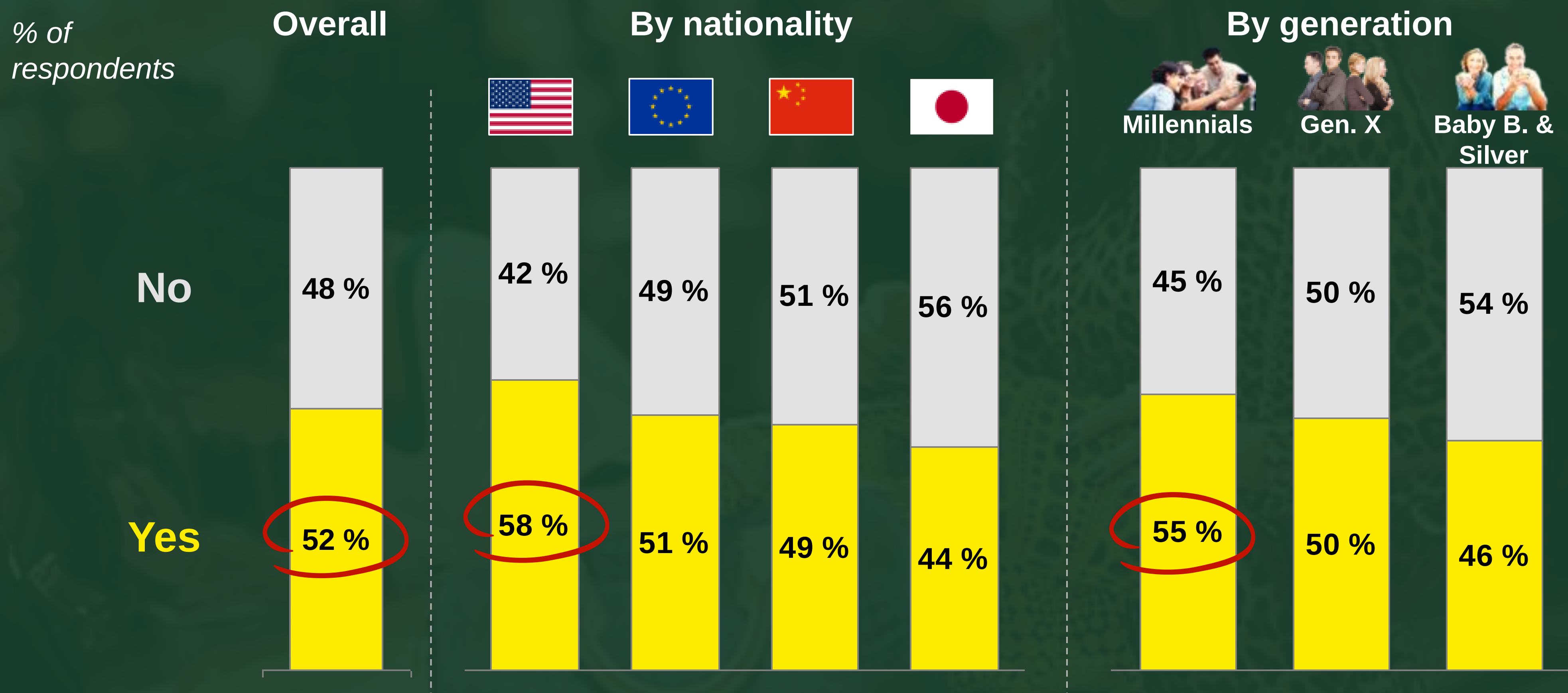
Over the last years the price of luxury iconic items has increased by far more than inflation



1. Average luxury products price increase calculated based on 2010-2016 list prices of a panel of iconic luxury handbags
Source: Press search; World Bank; BCG analysis

>50% of Luxury consumers perceive a price/value misalignment. Americans & Millennials most disappointed

"Do you feel a progressive separation between overall value of Luxury products and their price?"



Source: BCG 2016 ad hoc study (12,000 respondents in 10 countries)

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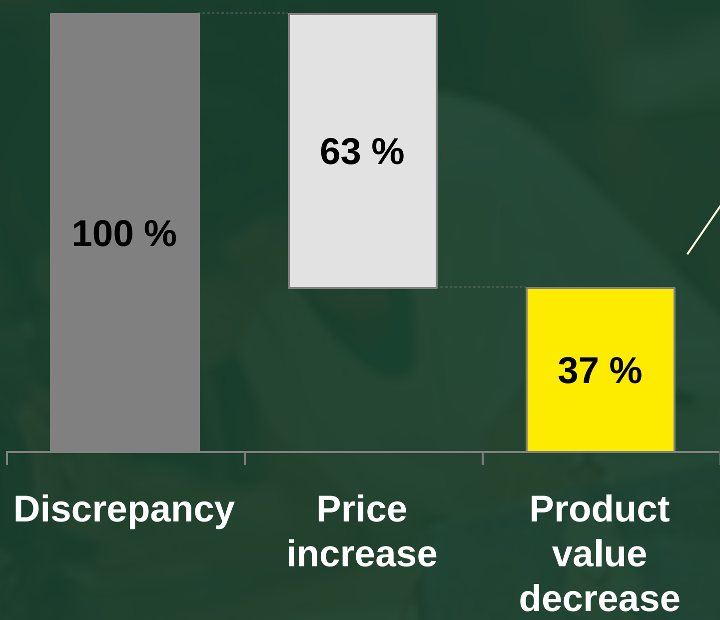
2 / 3 of misalignment perception driven by price, 1 / 3 by exclusivity loss and product quality issues

"Thinking about your favorite luxury brand, you told that you noticed a discrepancy between the overall value and the price. What are the main reasons for this?"

% of respondents perceiving a price discrepancy



Emerging Markets

Key reasons[1]

- **#1** Iconic products' **exclusivity loss**
- **#2** **Lack of innovation**
- **#3** Overall Brand's **exclusivity loss**

Mature Markets

Key reasons[1]

- **#1** Lower material **quality**
- **#2** Lower manufacture **quality**
- **#3** Iconic products' **exclusivity loss**

1. Multiple options answer (ranking of three reasons)

Source: BCG 2016 ad hoc study (12,000 respondents in 10 countries)

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8 out of 10 disappointed consumers plan to react : In ~50% of cases likely to translate in lost sales

"In case of a progressive separation between the price and the perceived product value, what would you do?

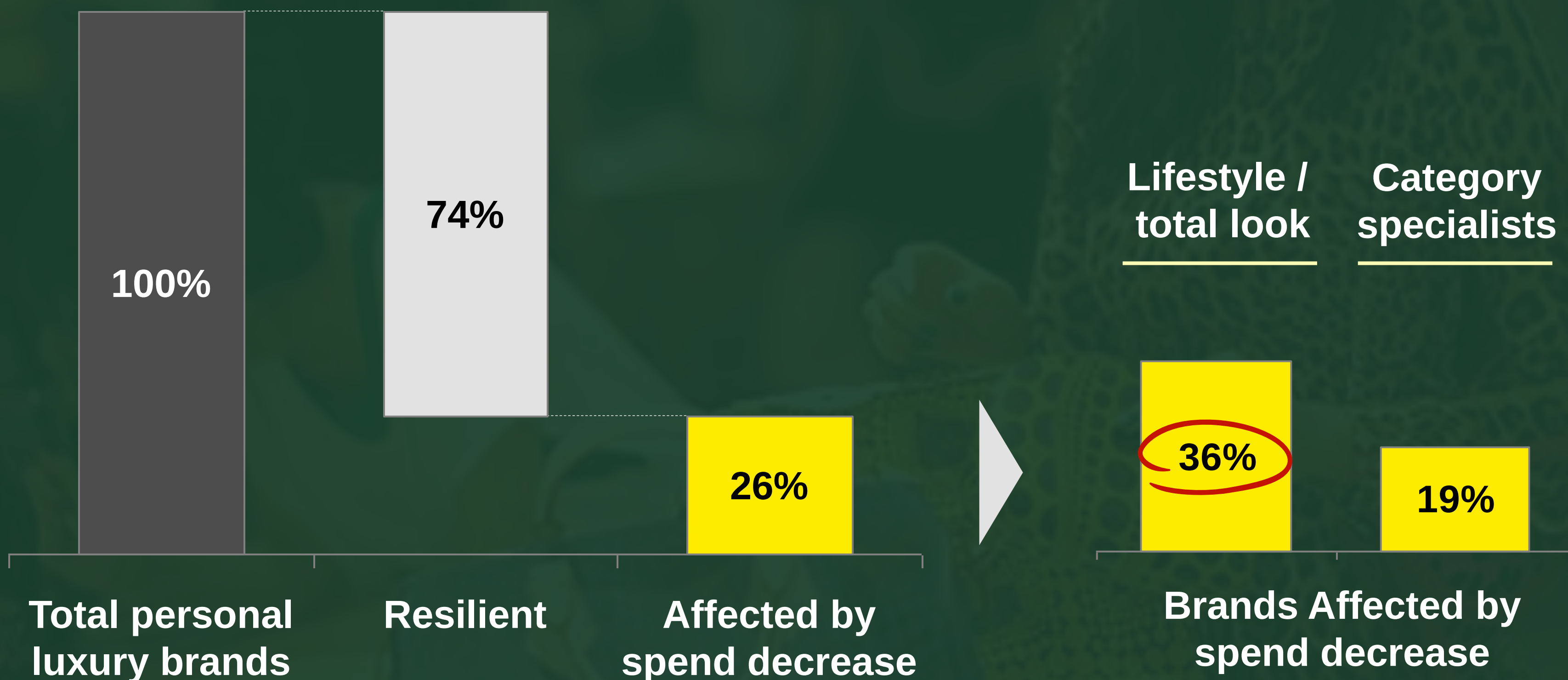
% of respondents perceiving a price discrepancy

Source: BCG 2016 ad hoc study (12,000 respondents in 10 countries)

As a result ~60 out of ~230 Brands surveyed losing traction, especially total look ones

"Is there a brand on which you have the feeling that you have reduced / you will probably reduce your luxury spending?"

% of brands recalled by respondents



Note: Out of the total 12,000 respondents, 79% mentioned a luxury brand on which they reduced their spend. Total personal luxury brands include 230 brands spontaneously recalled by respondents. Brands affected by spending decrease include those mentioned by more than 50 respondents. Possible to mention only one brand Source: BCG 2016 ad hoc study (12,000 respondents in 10 countries)

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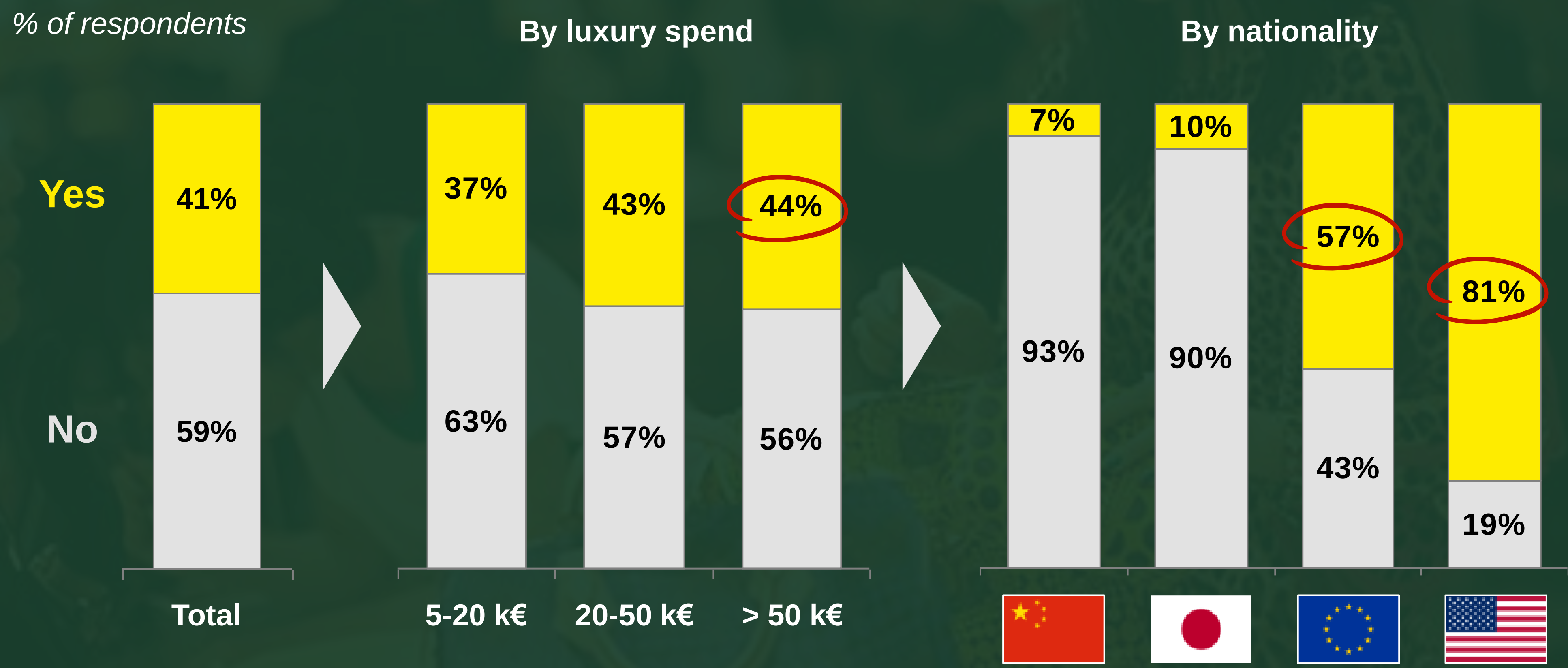
Trading down is an attitude also for beyond money Luxury consumers . Americans the most active

"Do you have the feeling that you have partially shifted your spending from luxury brands to premium and / or fast fashion brands?"



Source: BCG 2016 ad hoc study (12,000 respondents in 10 countries)

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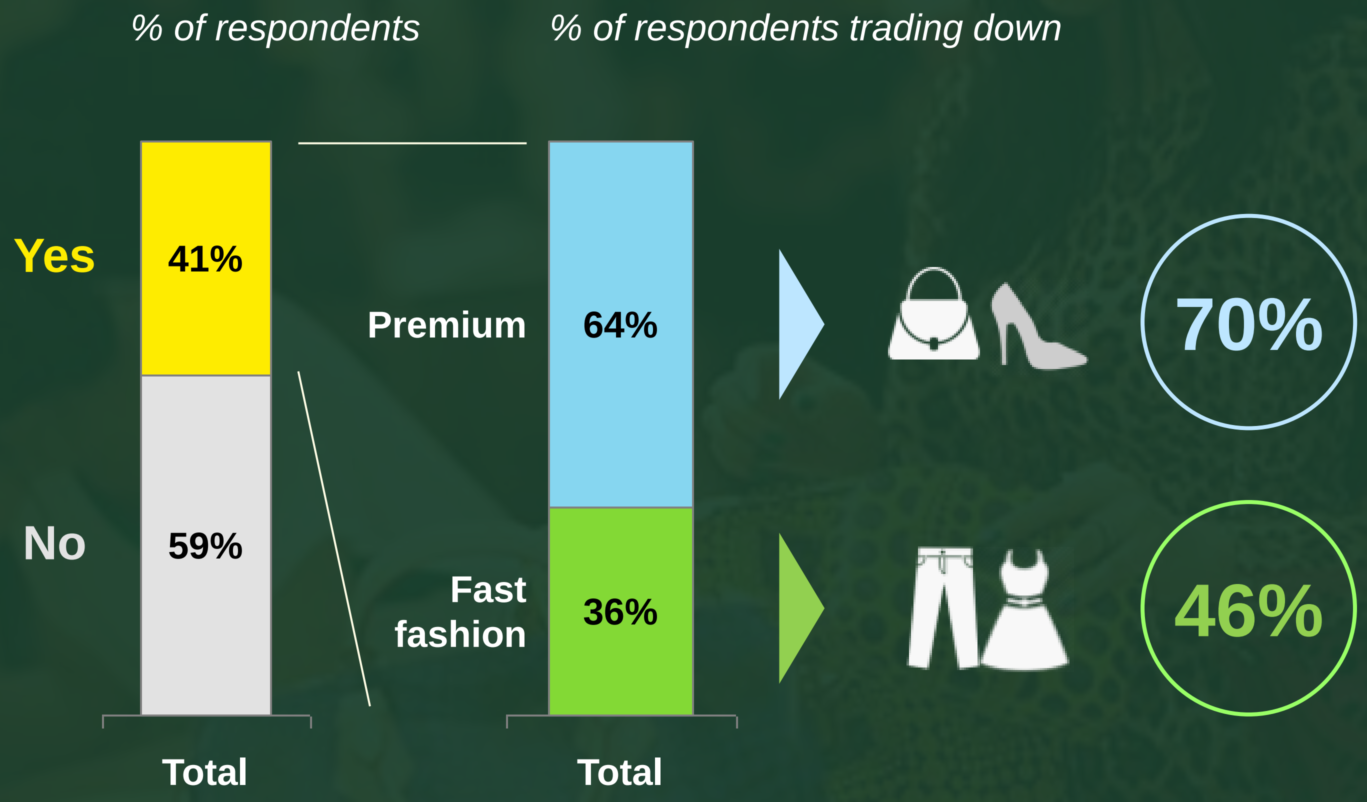
Luxury Consumers trading down to premium brands almost 2x than to fast fashion ones

"Do you have the feeling that you have partially shifted your spending from luxury brands to premium and / or fast fashion brands?"



Note: Multiple options answer. In calculating the % of respondents trading down to premium and fast fashion brands, respondents trading down to both premium and fast fashion brands were counted twice
Source: BCG 2016 ad hoc study (12,000 respondents in 10 countries)

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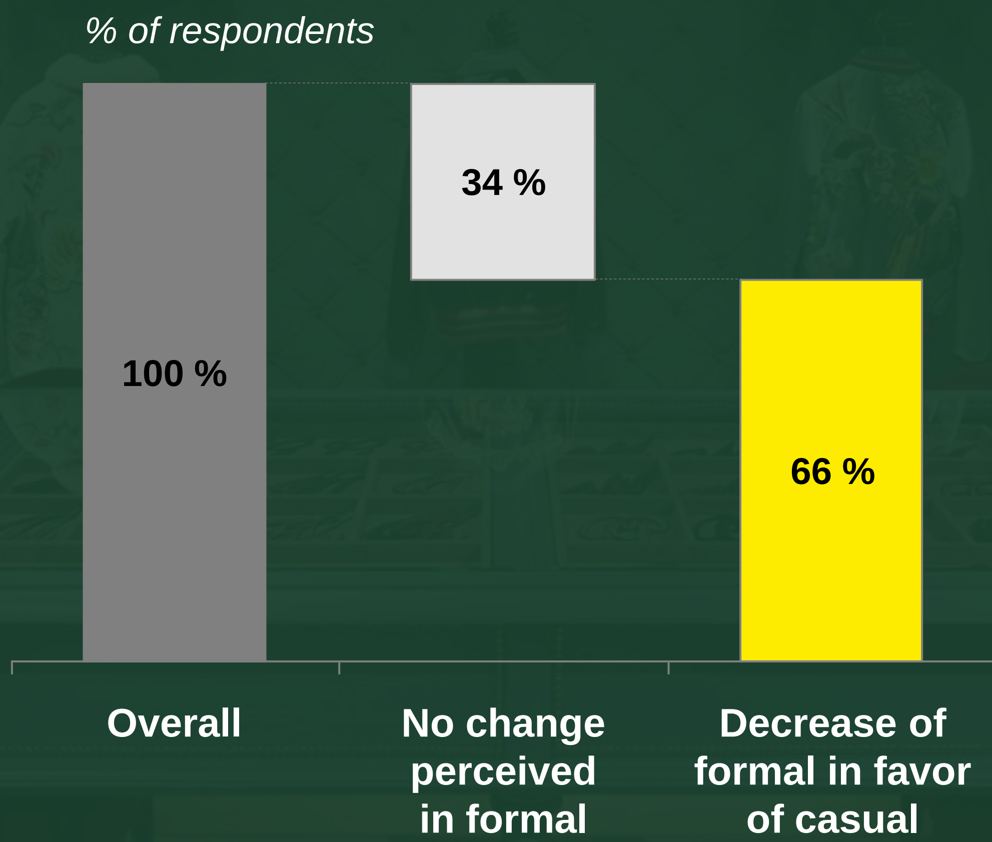
More Casual, more Customized!

Casualwear with increasing appeal vs. formal for 2 / 3rd of True-Luxury Consumers

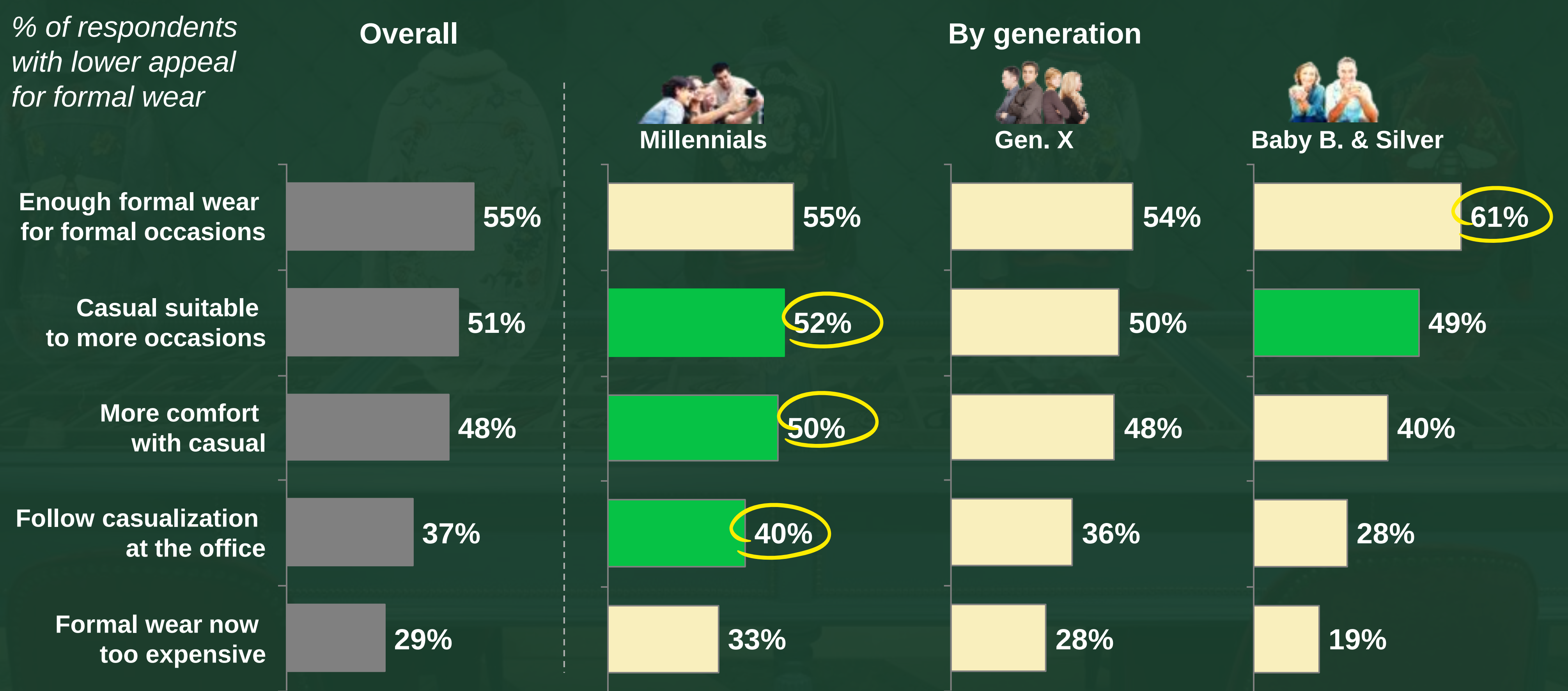
"Has your attitude towards formal wear changed?"



Source: BCG 2016 ad hoc study (12,000 respondents in 10 countries)

Casualwear fuelled by wardrobe saturation for the eldest, higher appeal and acceptance for the youngest

"What are the key reasons driving the lower appeal for formal wear in your mind?"

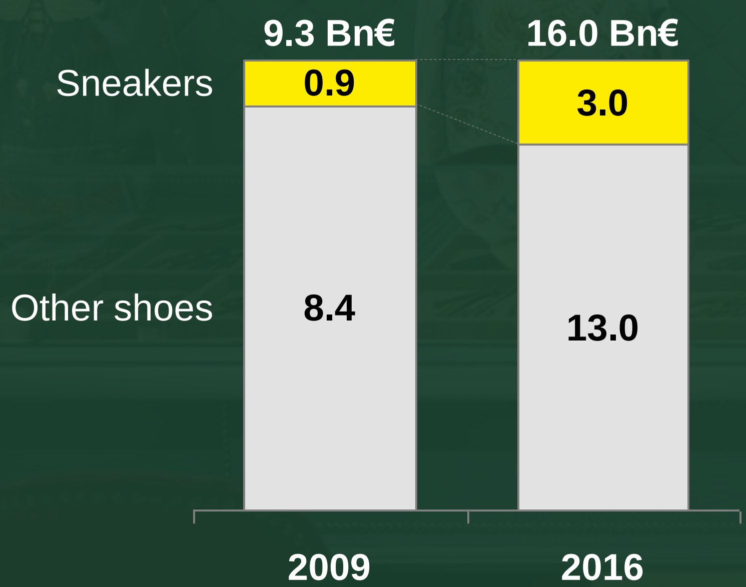


Note: multiple options answer (up to three reasons)
Source: BCG 2016 ad hoc study (12,000 respondents in 10 countries)

The Luxurization of the Casualwear

Luxury sneakers

Market @ Retail value (Bn€)



Luxury down jackets

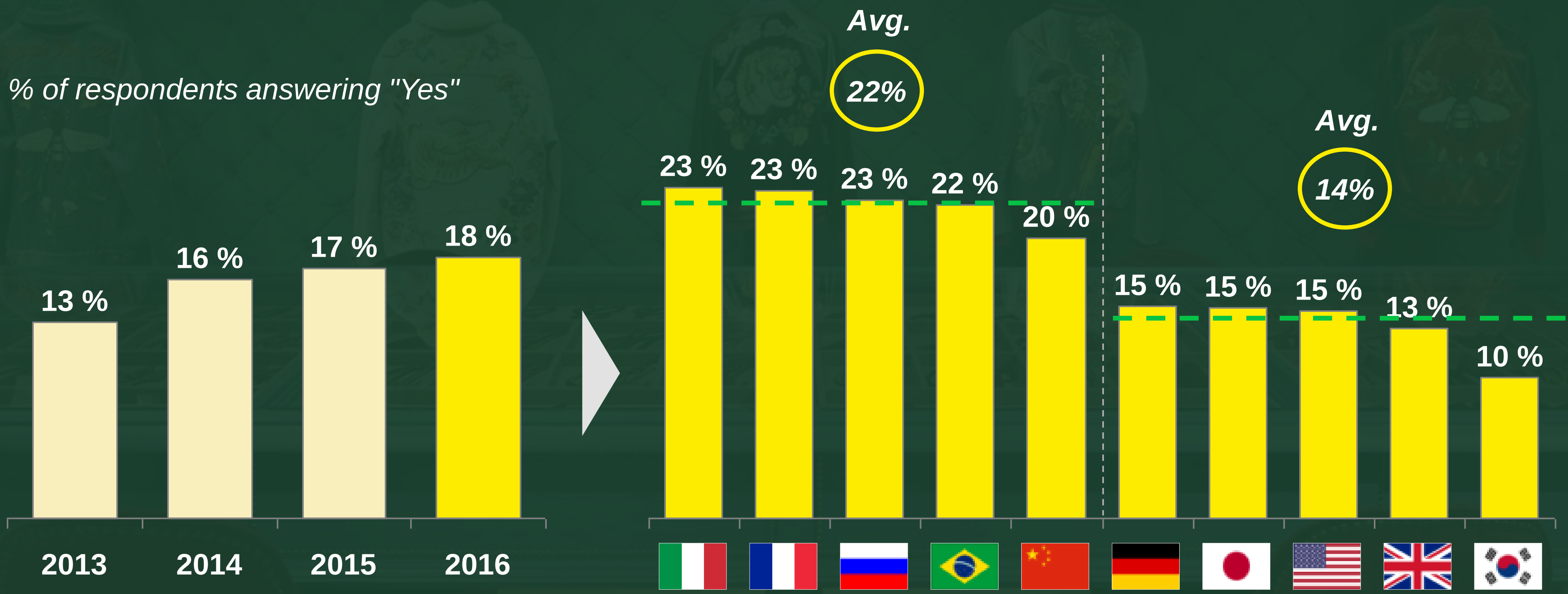
Market @ Retail value (Bn€)

Source: BCG Luxury market model

Growing demand for customization

"Is customization relevant for you when purchase luxury?"

% of respondents answering "Yes"



Source: BCG 2016 ad hoc study (12,000 respondents in 10 countries)

Bespoke is the most desired feature; different customization priorities by product category

"Which are the elements of customization that you value the most?"

% of respondents considering each customization aspect relevant

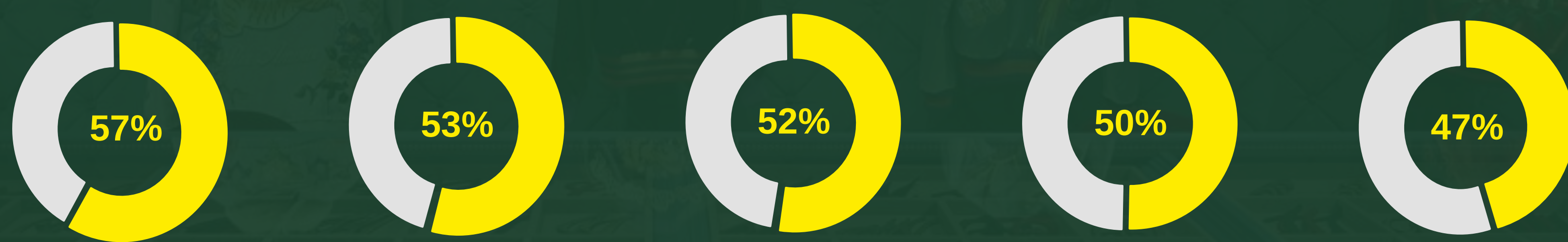
#1 Bespoke products

#2 Product configuration

#3 Service

#4 Made to measure

#5 Initials or writings



1st category by relevance

Note: multiple options answer (ranking of three reasons)
Source: BCG 2016 ad hoc study (12,000 respondents in 10 countries)

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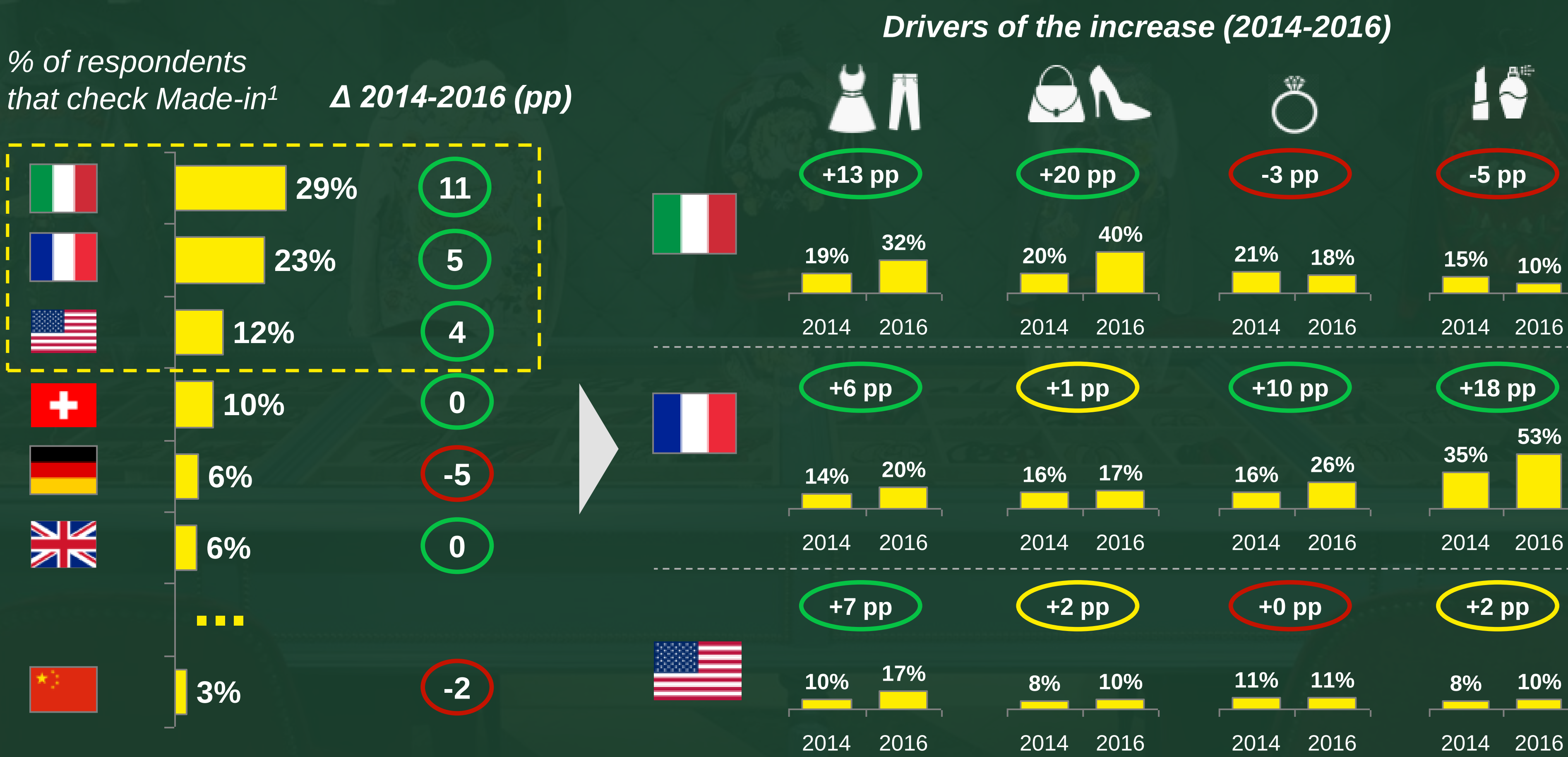
Made-in Italy still leading, fuelled by Apparel, Bags and Shoes

"Which country of manufacturing do you consider the best for luxury products?"

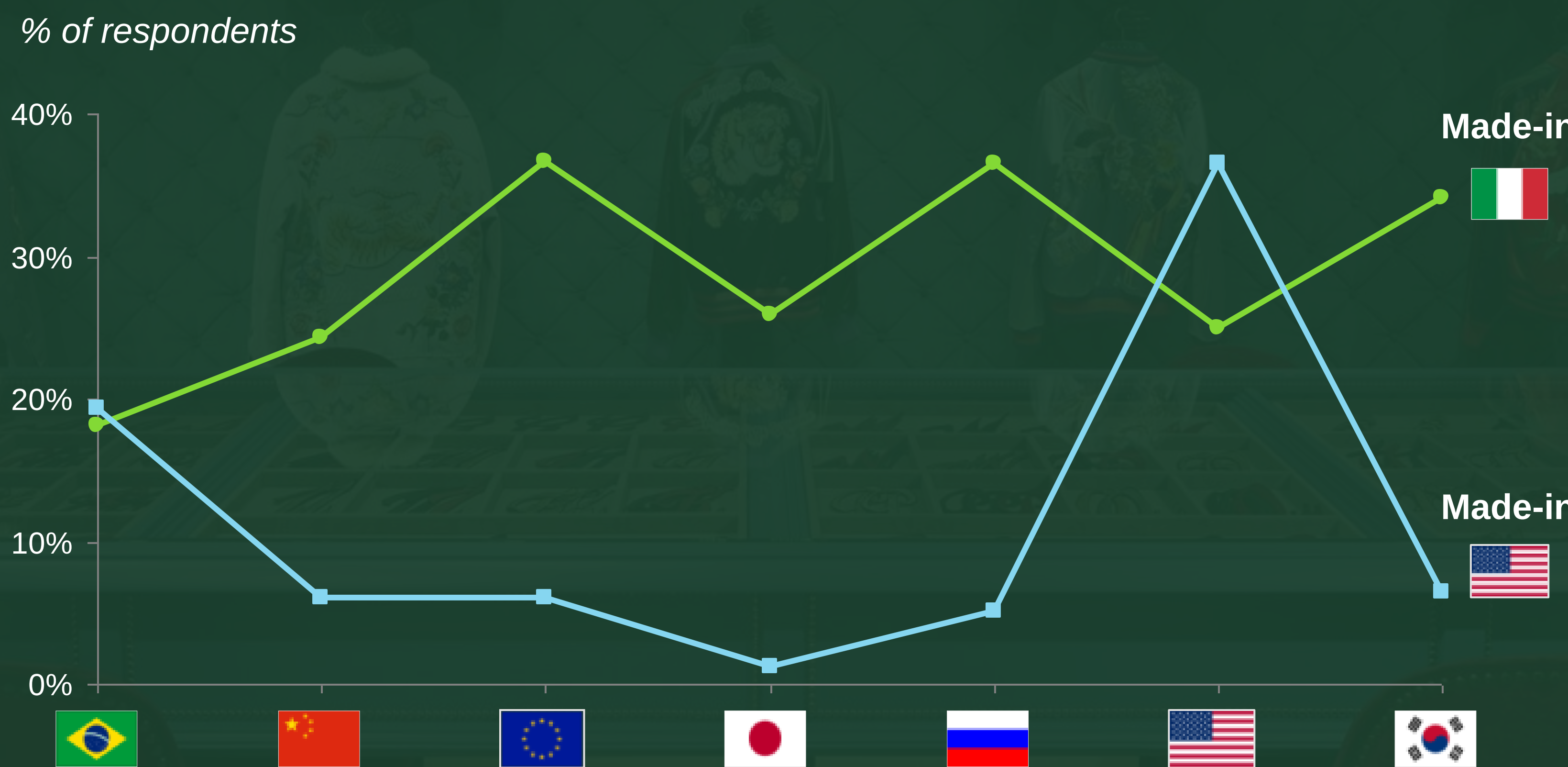


1. Excluding cars, luxury boats, design and lightening
Source: BCG 2016 ad hoc study (12,000 respondents in 10 countries)

Made-in Italy recognized worldwide, while Made-in U.S. mainly appreciated by Americans

Made-in preference (Italy vs. US) by consumer nationality

Focus on Personal Luxury[1]



1. Excluding cars, luxury boats, design and lightening
Source: BCG 2016 ad hoc study (12,000 respondents in 10 countries)

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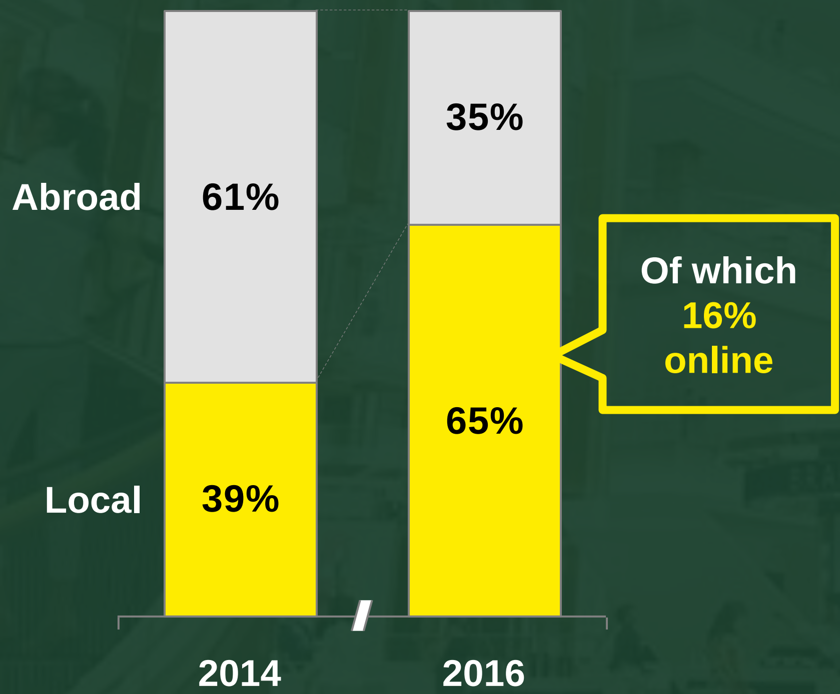
True Luxury Consumers buying more at home

True-Luxury Consumers are buying more in their home country

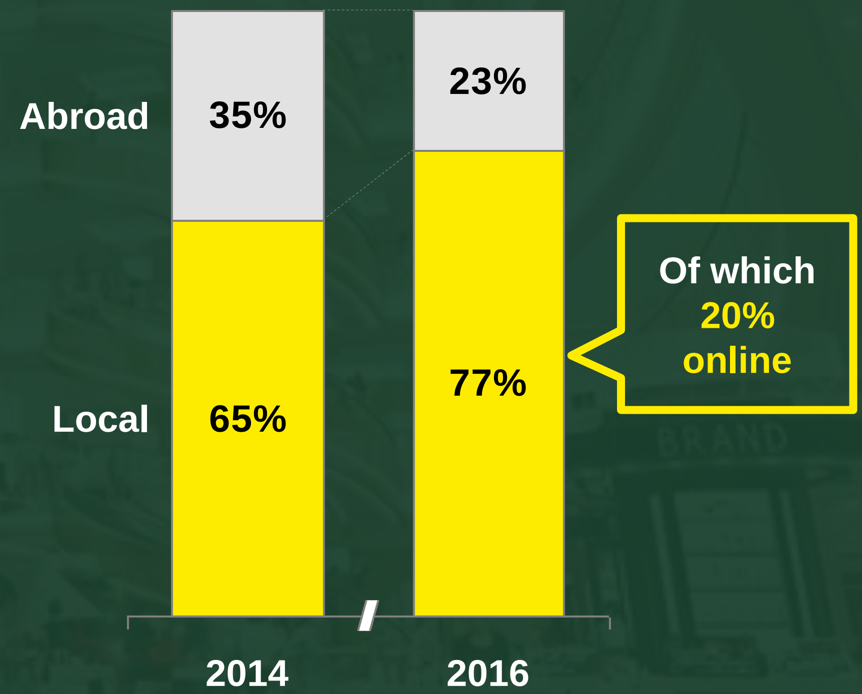
"Where did you buy your last luxury item?"[1]

% of Chinese respondents



"Where did you buy your last luxury item?"[1]

% of American respondents

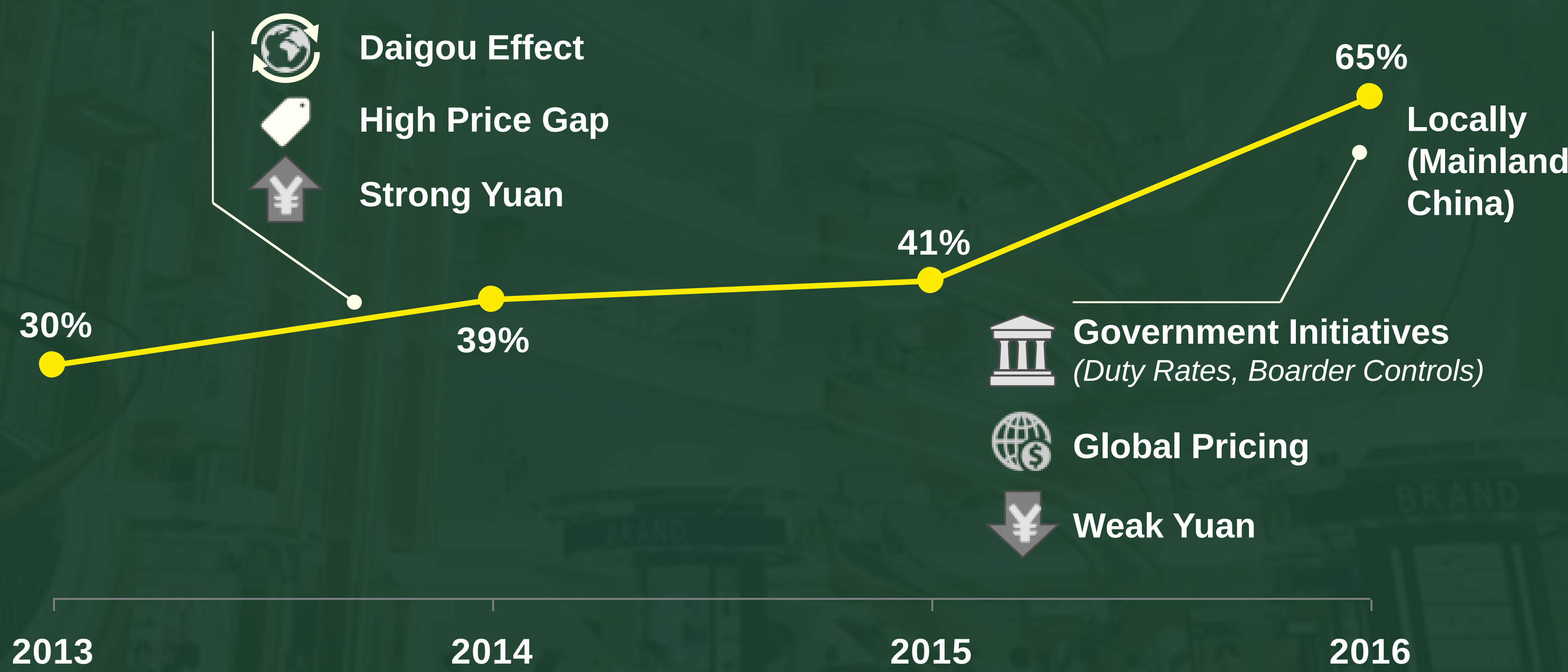


1. For Top 4 EU nationalities (French, German, Italian, British) local purchases from 48% in 2014 to 79% in 2016. For Japanese local purchases from 71% in 2014 to 82% in 2016 2. Includes both cities where respondents bought in the last 12 months and plan to buy in the next 12 months. Multiple options answer (all cities that apply) Note: Hong Kong, Taiwan and Macau included in "Abroad" Source: BCG 2016 ad hoc study (12,000 respondents in 10 countries)

Chinese increasingly back home to buy luxury

"Where did you buy your last luxury item?"

% of Chinese buying locally[1]



1. Hong Kong, Macau, Taiwan excluded
Source: BCG 2016 ad hoc study (12,000 respondents in 10 countries)

True Luxury Consumers are buying more in their home country

China

"Where did you buy your last luxury item?"[1]

Top destinations for luxury shopping[2]

% of Chinese respondents

	2015	2016	
#1	Paris	Tokyo	▲
#2	Tokyo	London	▲
#3	New York	Paris	▼
#4	Milan	New York	▼
#5	Dubai	Milan	▼

United States

"Where did you buy your last luxury item?"[1]

Top destinations for luxury shopping[2]

% of American respondents

	2015	2016	
#1	Paris	London	▲
#2	London	Tokyo	▲
#3	Milan	Paris	▼
#4	Dubai	Dubai	=
#5	Hong Kong	Milan	▼

1. For Top 4 EU nationalities (French, German, Italian, British) local purchases from 48% in 2014 to 79% in 2016. For Japanese local purchases from 71% in 2014 to 82% in 2016 2. Includes both cities where respondents bought in the last 12 months and plan to buy in the next 12 months. Multiple options answer (all cities that apply) Note: Hong Kong, Taiwan and Macau included in "Abroad" Source: BCG 2016 ad hoc study (12,000 respondents in 10 countries)

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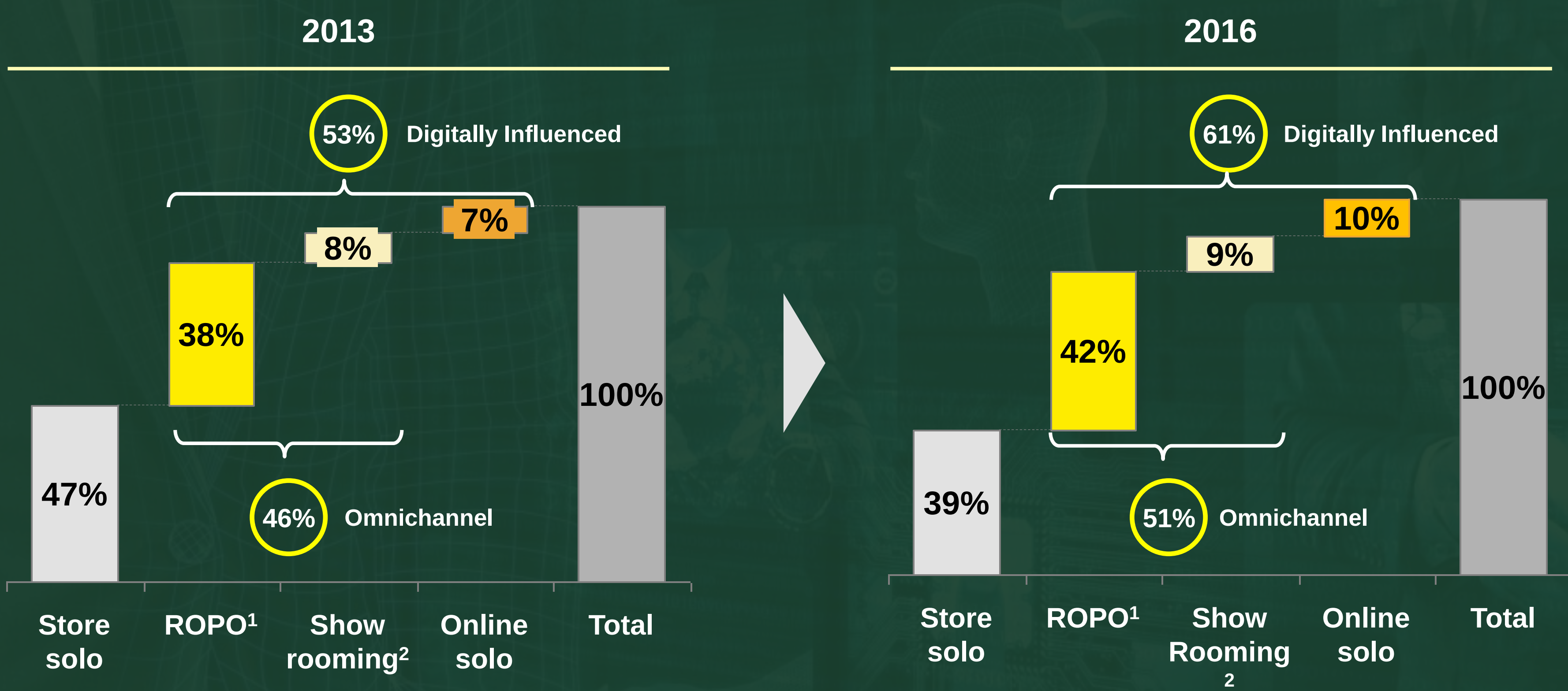
Luxury goes Omnichannel

Store solo sales decreasing but omnichannel the real trend vs. online solo sales

"Where have you bought your last luxury item? Where have you researched it?"

% of respondents on last purchase



1. Researched Online, Purchased Offline 2. Researched Offline, Purchased Online
Source: BCG 2016 ad hoc study (12,000 respondents in 10 countries)

Digital influence growth fuelled by Americans

"Where have you bought the last item purchased? Where have you researched it?"

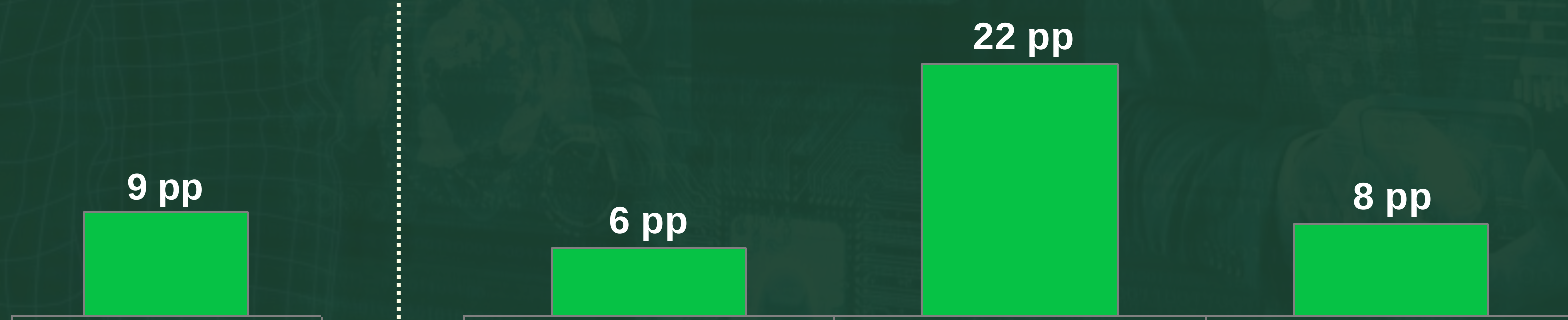
Overall | **By nationality**

Digitally influenced purchases[1] 2016 (%)

(→ On line solo + Show rooming + ROPO)

Overall	China	USA	EU
61%	64%	72%	54%

Trend 2013-2016 (Δ pp)



1. Considering the last luxury purchase
Source: BCG 2016 ad hoc study (12,000 respondents in 10 countries)

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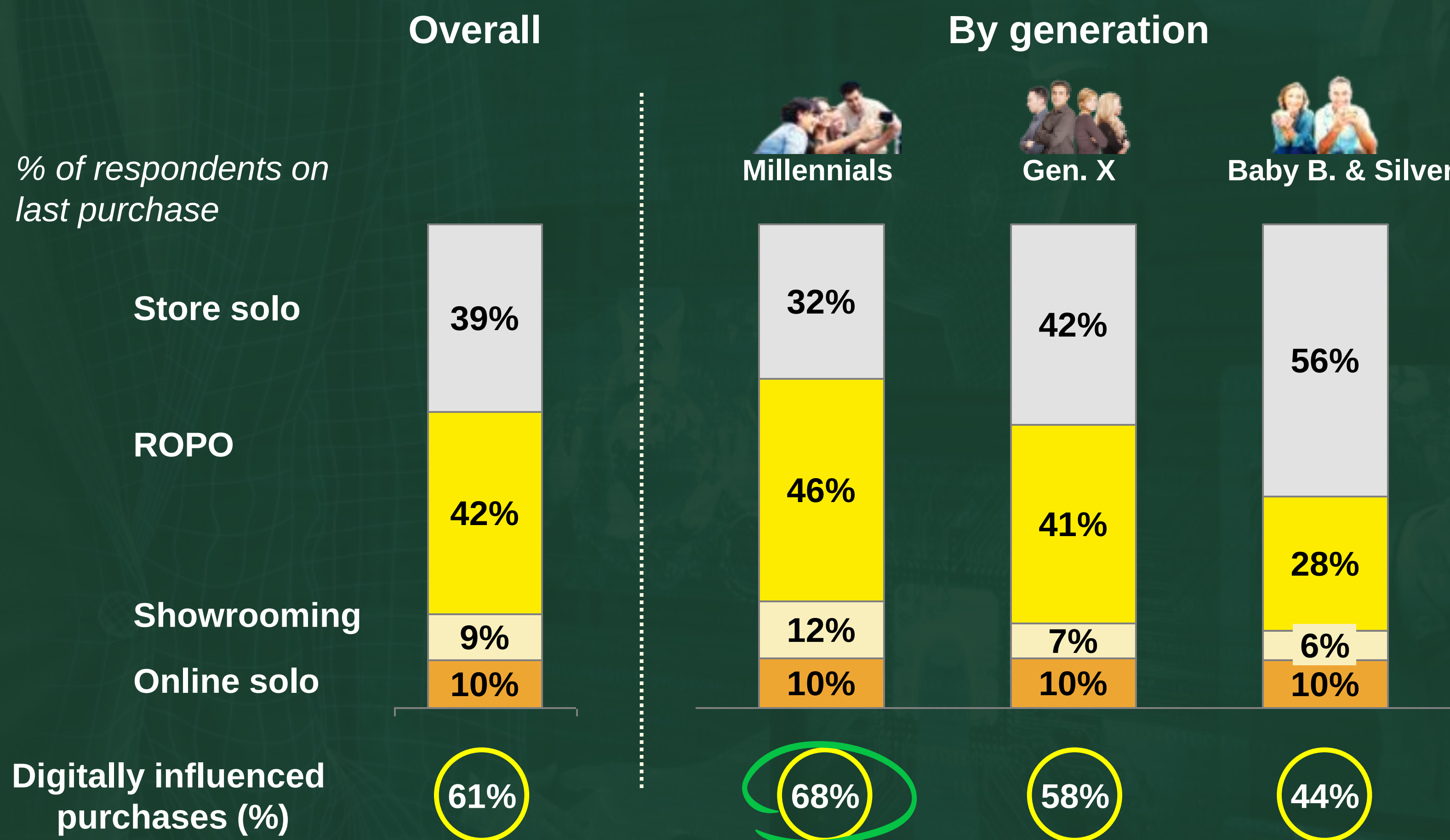
Millennials the most digitally influenced

"Where have you bought the last luxury item purchased? Where have you researched it?"[1]



1. Mainly personal items (~90%), among experiential includes wine & spirts, furniture, smartphones,..
Source: BCG 2016 ad hoc study (12,000 respondents in 10 countries)

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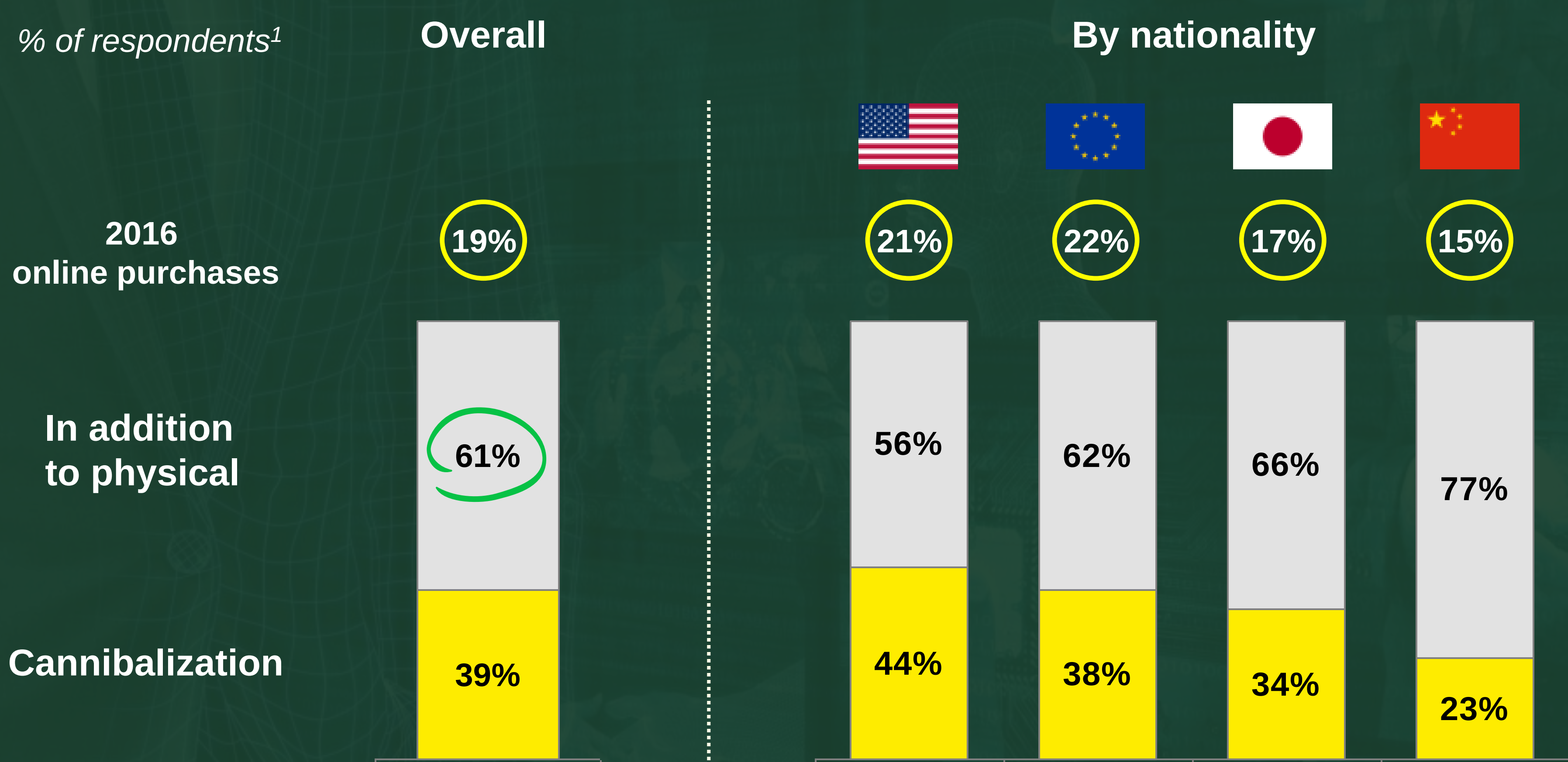
60% of online purchases are perceived to be additional to physical retail purchases

"Do you have the feeling that your spending online is in addition to or cannibalizing your luxury spending in physical stores?"



1. Considering the online channel among the top 3 channels used over the last 12 months
Source: BCG 2016 ad hoc study (12,000 respondents in 10 countries)

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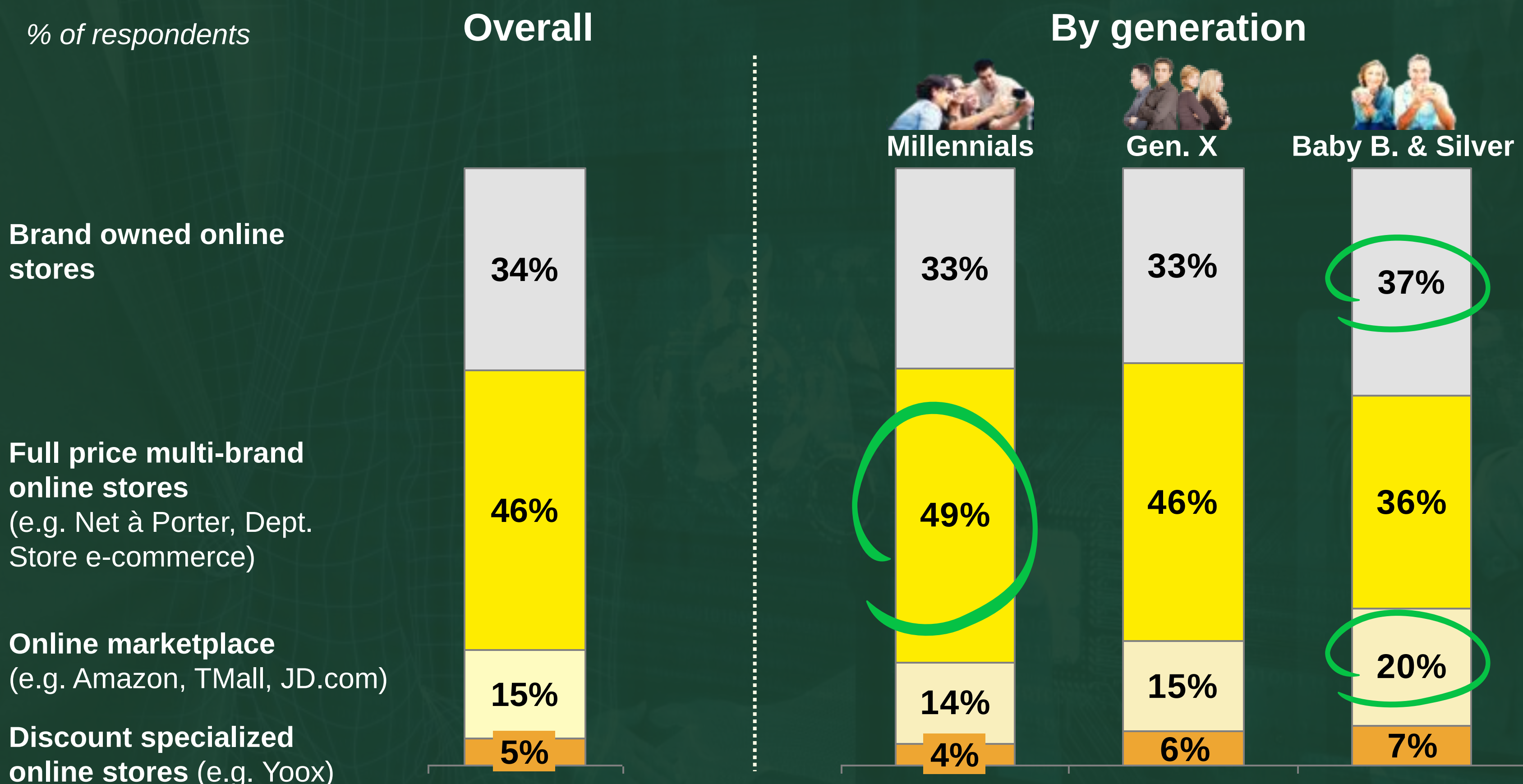
Full price multibrand eShops key for Millennials : Brands' websites and Marketplaces for the eldest

"Which kind of online store did you buy the product from?"

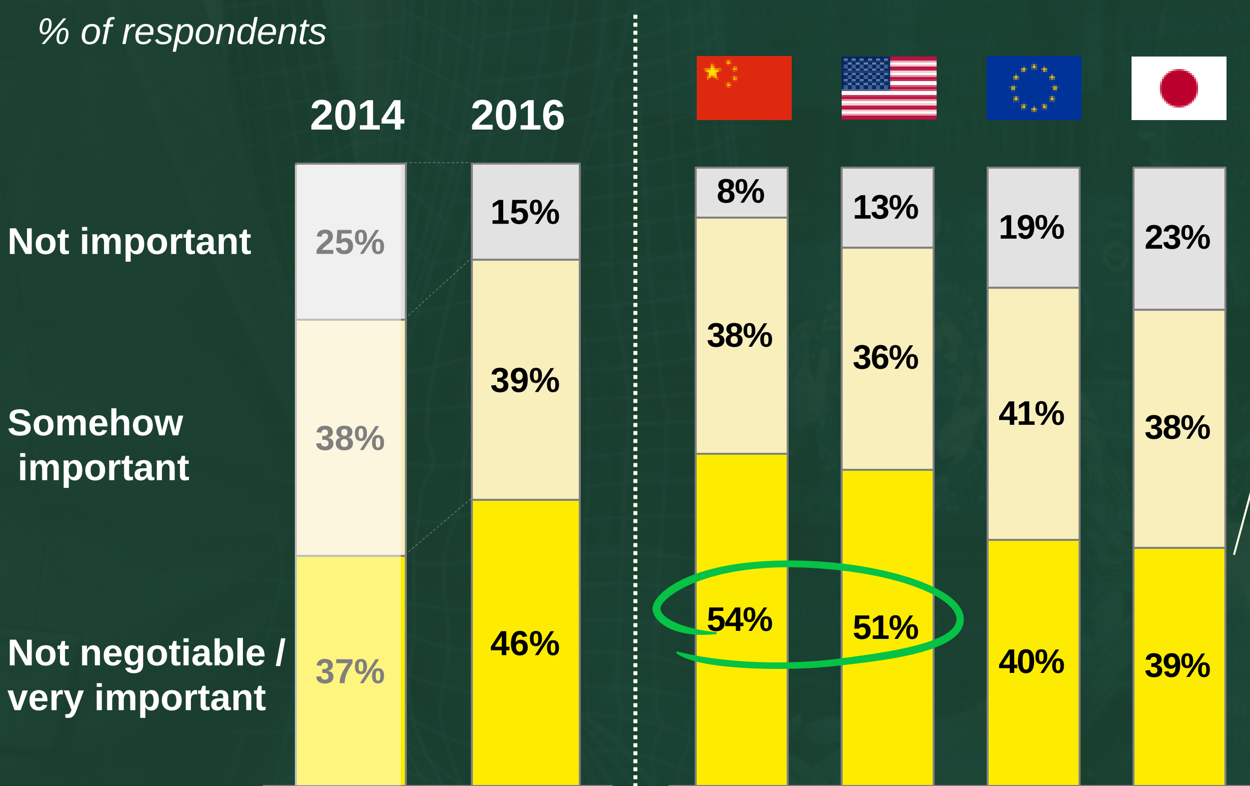


Source: BCG 2016 ad hoc study (12,000 respondents in 10 countries)

Demand for an omnichannel experience is growing fast , driven by Chinese and Americans

"How important is it for you that a brand can be reached through different channels?"

Overall — **By nationality (2016)**



"What you would expect when interacting with your preferred luxury brand through multiple channels?"[1]

% of respondents considering omni-channel not negotiable/very important

- **54%** — **Consistent Brand Image**
- **49%** — **Integrated Delivery and Service Level**
- **39%** — **Same Rewards**
- **38%** — **Customer relationship Management**

1. Multiple options answer (ranking of three reasons)
Source: BCG 2016 ad hoc study (12,000 respondents in 10 countries)

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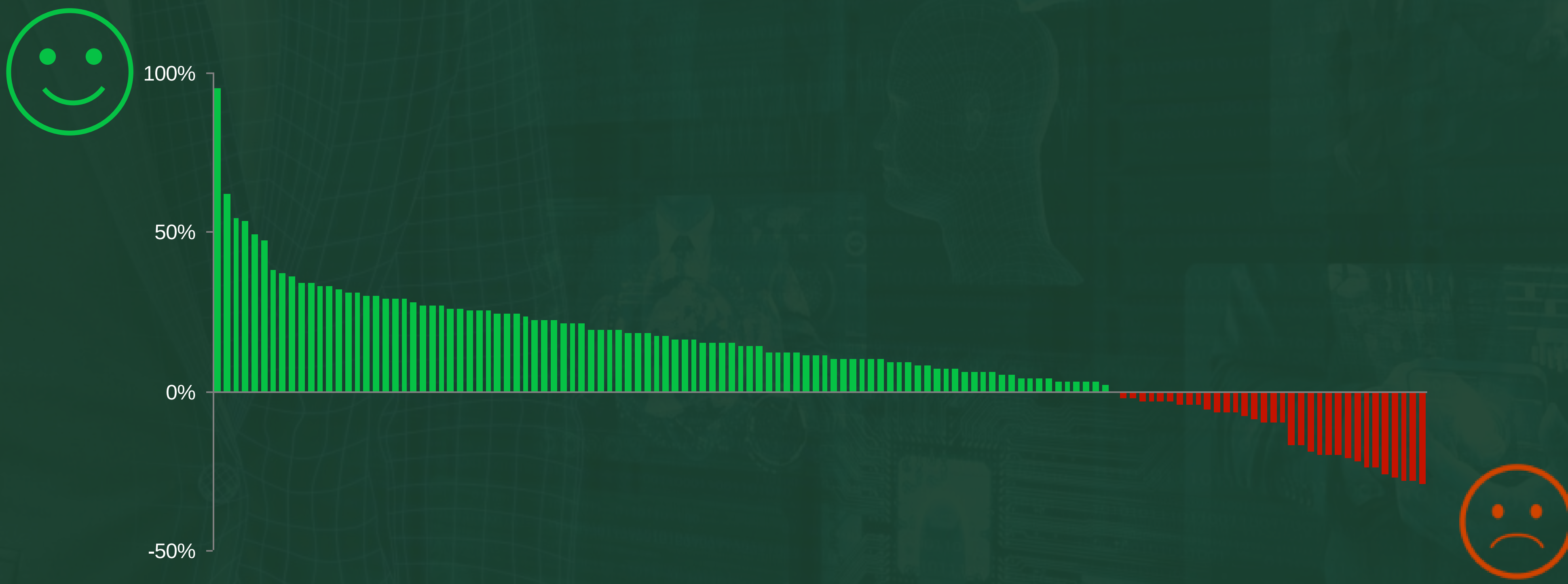
How effectively are Luxury Brands responding to the omnichannel expectations? (I)

~100 brands included in the analysis[1]

Brands' satisfaction distribution (2016)

Omnichannel Satisfaction Index = (People mentioning as the best brand – people mentioning as the worse brand)



1. Only personal luxury goods, Included only brands with statistical significant observations in total satisfaction
Source: BCG 2016 ad hoc study (12,000 respondents in 10 countries)

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How effectively are Luxury Brands responding to the omnichannel expectations? (II)

~100 brands included in the analysis[1]

Omnichannel needs

Brands' satisfaction distribution (2016)

Consistent brand image

Integrated delivery and service level

Same Rewards across channels

Customer relationship management

1. Only personal luxury, Included only brands with statistical significant observations 2.# respondents who selected the brand as best brand – # respondents who selected the brand as worst brand   Source: BCG 2016 ad hoc study (12,000 respondents in 10 countries)

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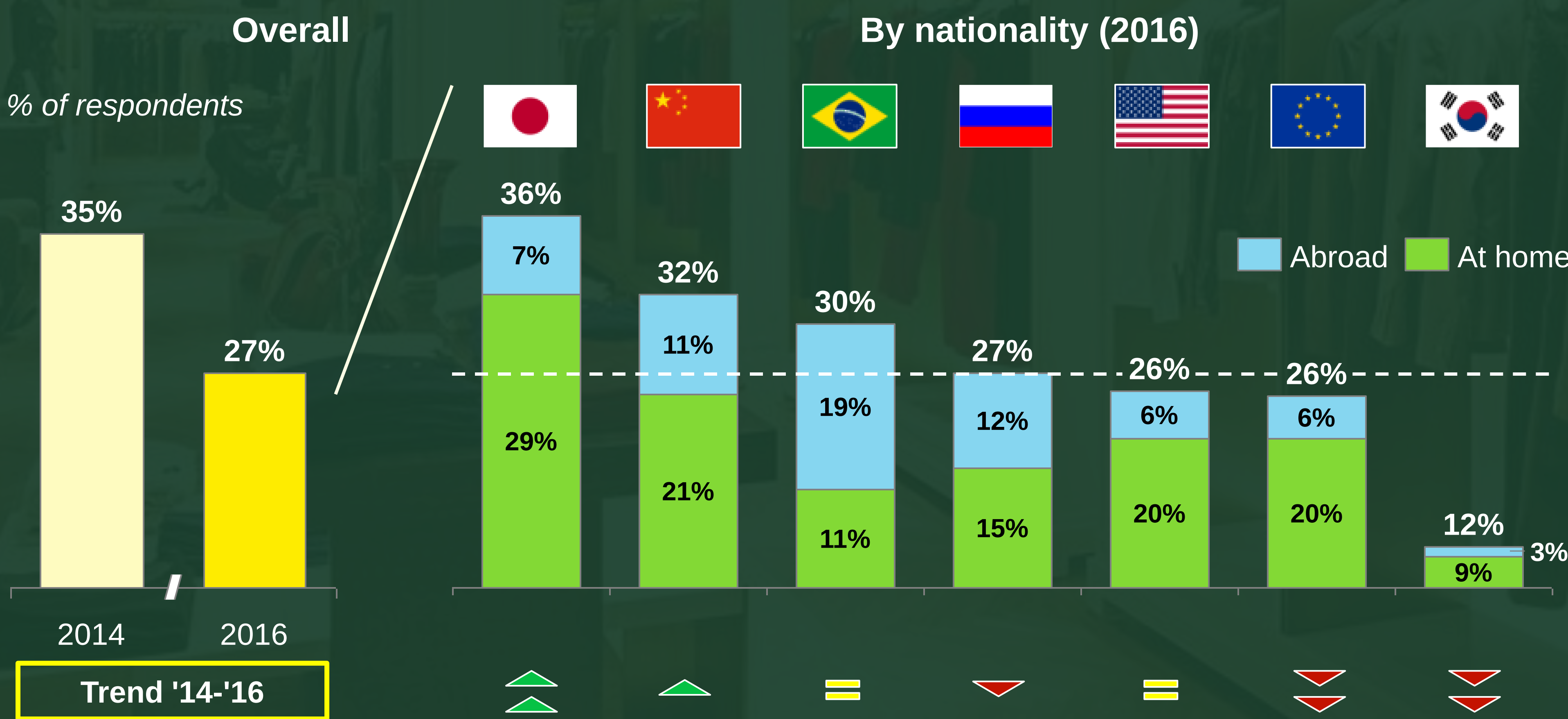
Monobrand at the heart of an omnichannel experience

Monobrand stores losing traffic and sales; Japan and China more resilient

"Have you bought your last luxury item from a monobrand store?"

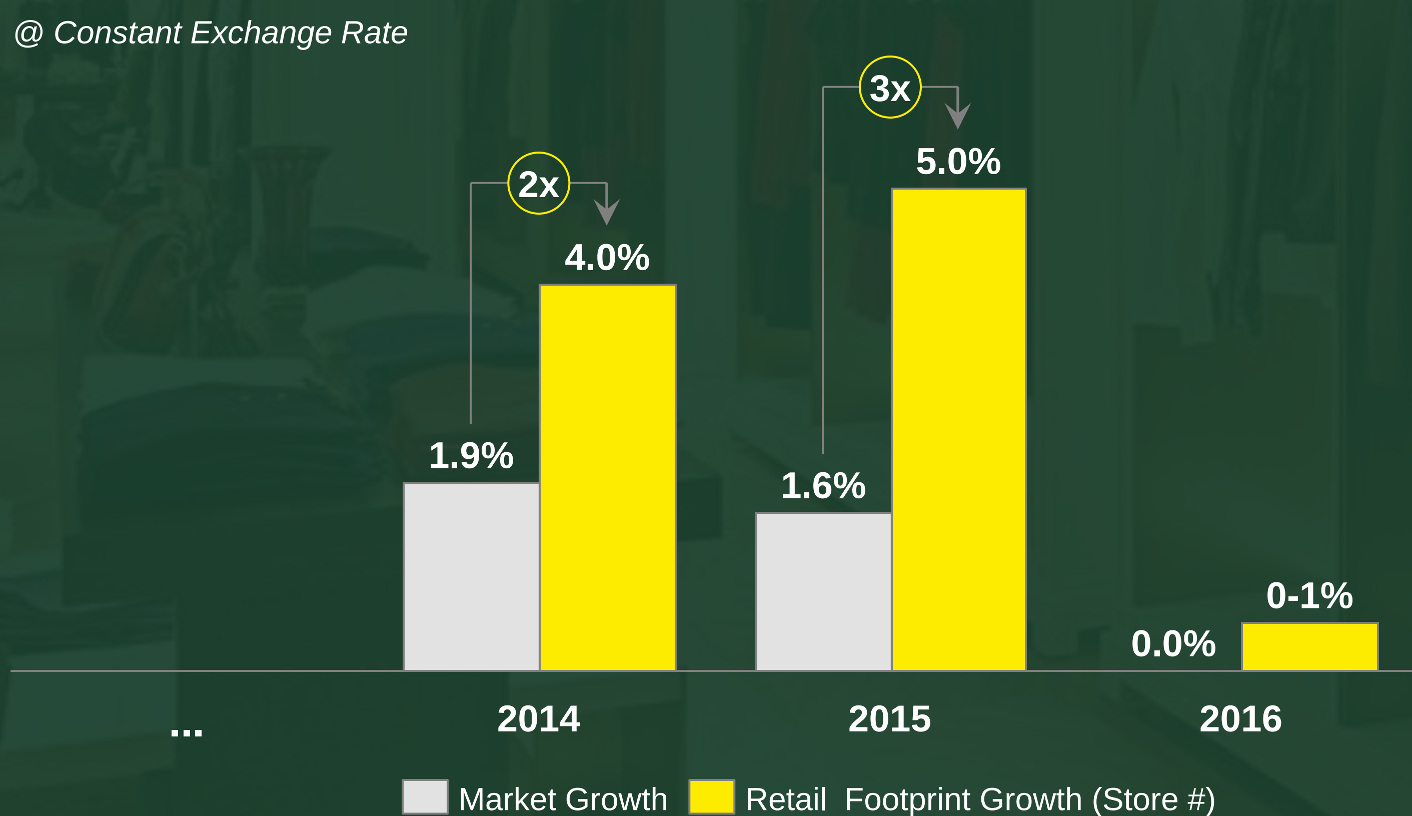


Source: BCG 2016 ad hoc study (12,000 respondents in 10 countries)

Too many stores opened in the past vs. market growth

BERNSTEIN

Global retail footprint[1] growth vs. Personal Luxury Market growth (2014-2016)



1. # stores
Source: BCG Analysis, "Luxury Goods Store Wars 2016" - Bernstein

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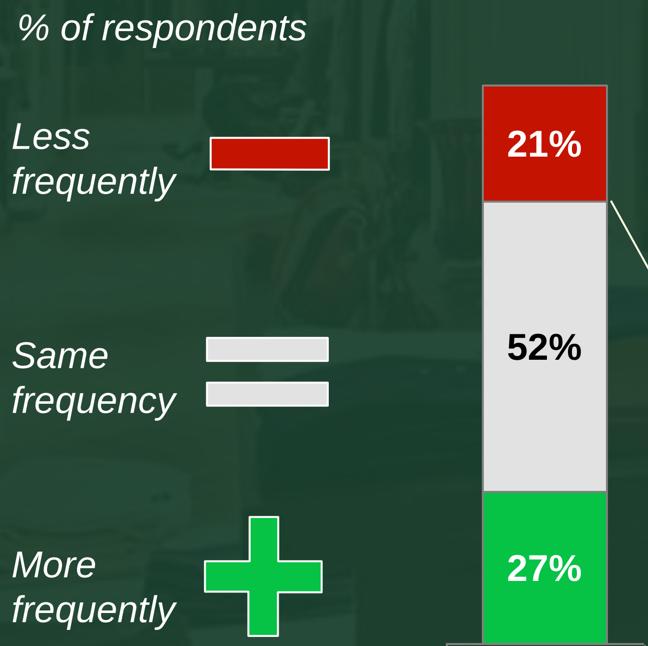
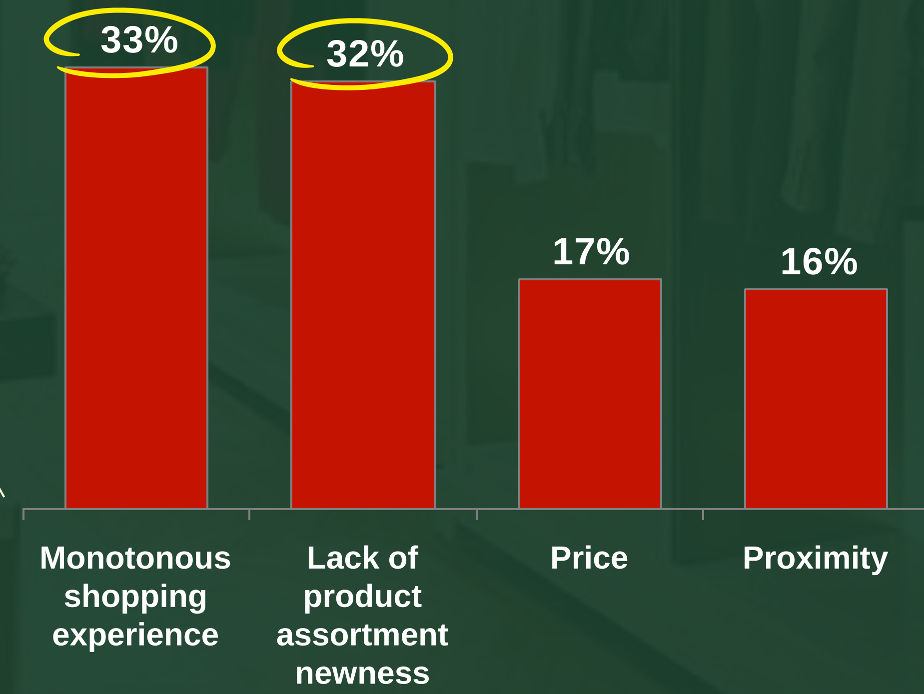
Shopping experience and product assortment the main reasons for monobrand disaffection

"Do you have the feeling that you will purchase more or less frequently in monobrand stores?"

"Which are the reasons for which you are purchasing less frequently in mono-brand physical stores?" [1]



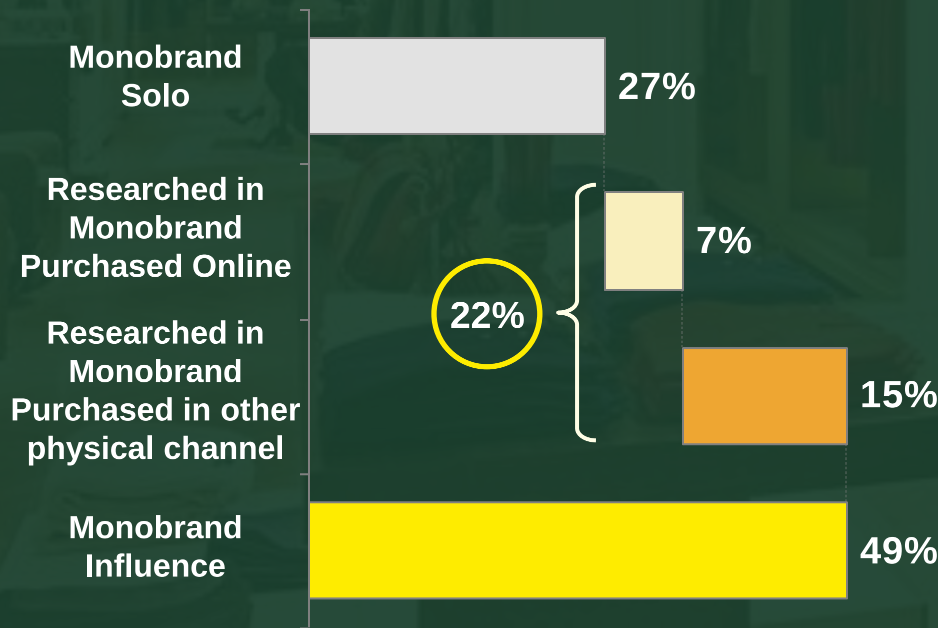


Source: BCG 2016 ad hoc study (12,000 respondents in 10 countries)

But monobrand still at the heart of an omnichannel True-Luxury consumer experience around the Brand

Monobrand influence

% of respondents on last purchase



Reasons to buy in Monobrand

- #1 Try & touch the product
- #2 Offer range of the brand
- #3 Product customization
- #4 Experienced / trustable sales staff
- #5 Presence of signature / exclusive items

Monobrand influencing 22% of purchases done in other channels

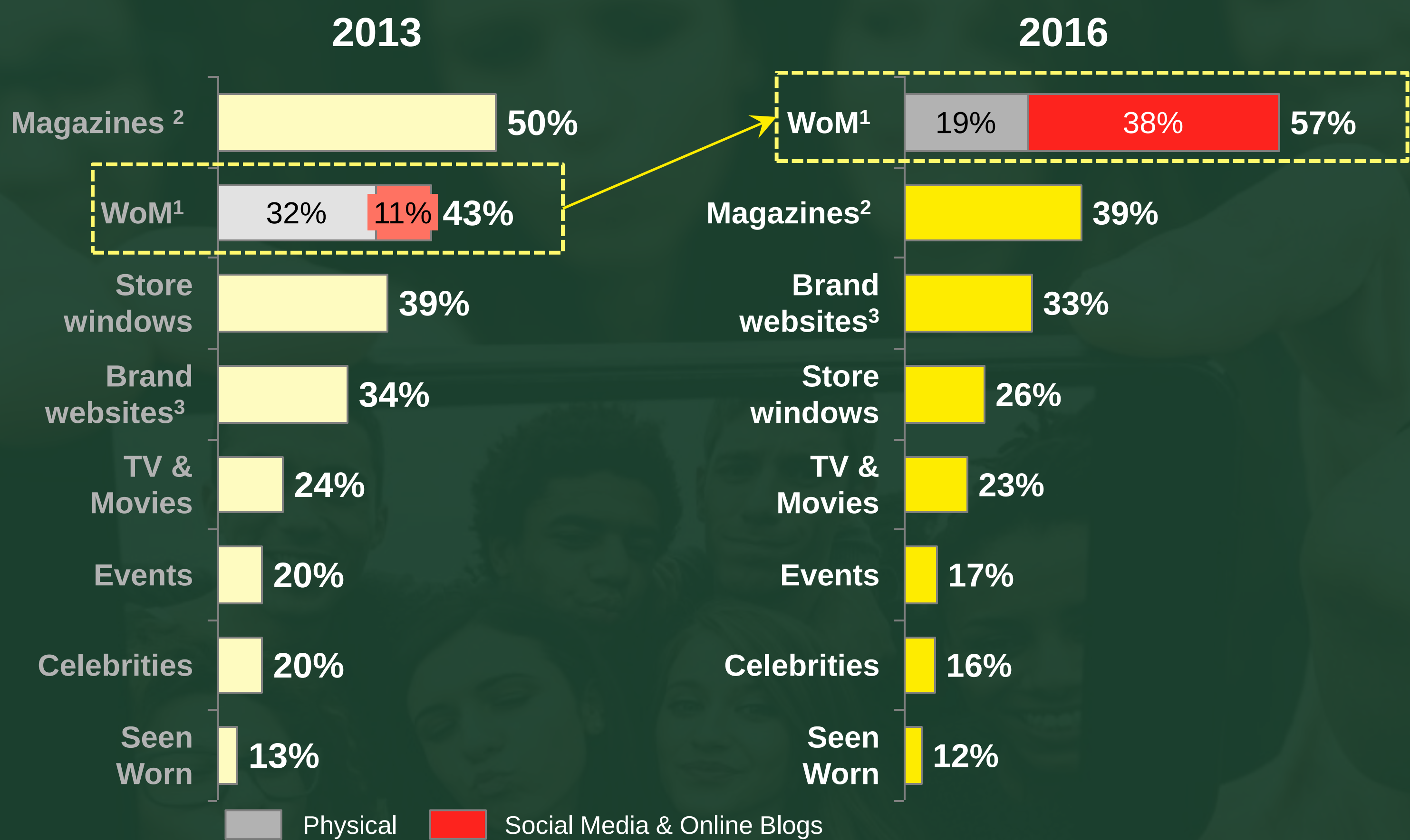
Source: BCG 2016 ad hoc study (12,000 respondents in 10 countries)


#luxurygoessocial

Word of Mouth the 1st influence lever on True Luxury Consumers, thanks to digital /social media

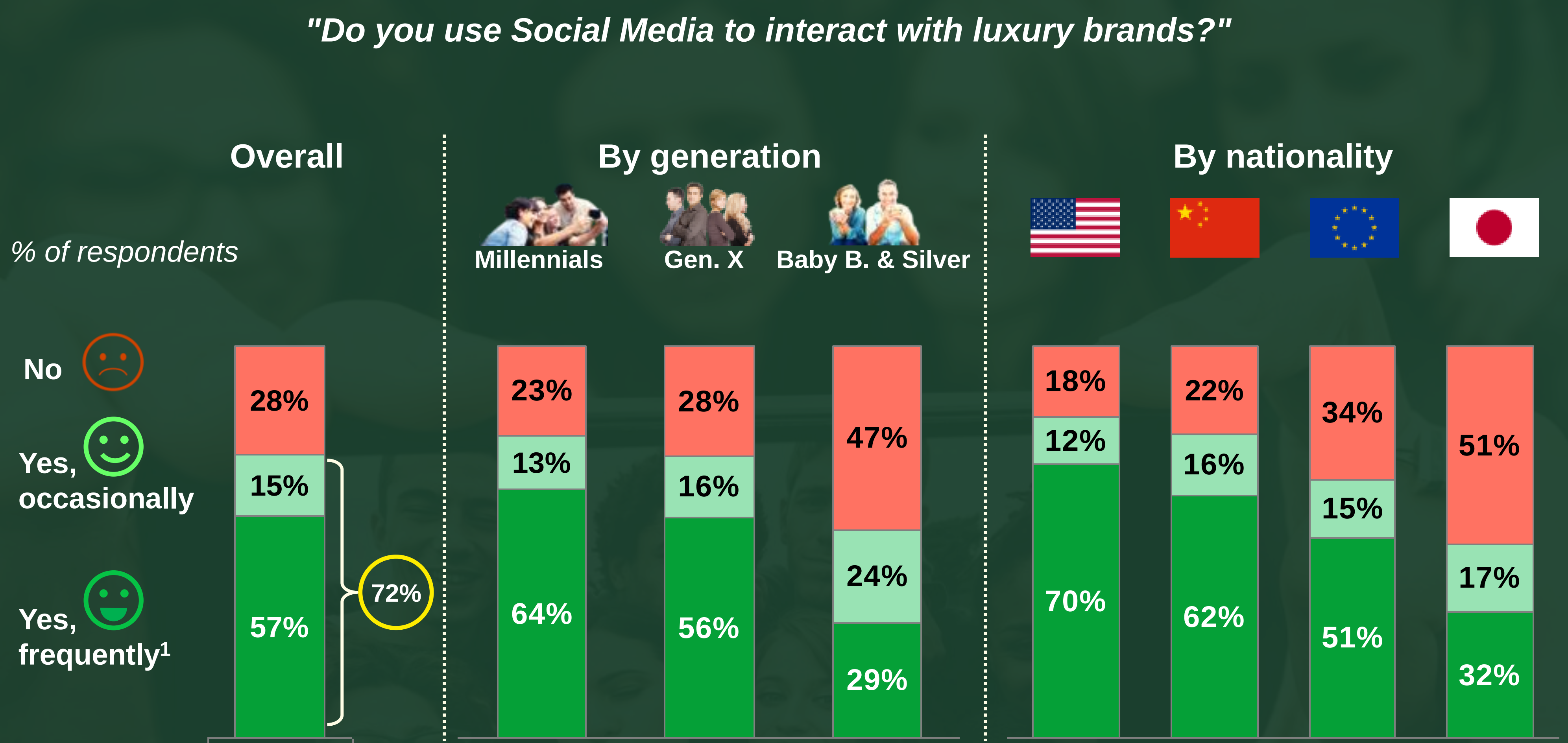
"Which of these levers has an impact on how you develop opinions or purchase decisions?"

% of respondents



Note: Multiple options answer (ranking of five levers) 1 Includes physical Word Of Mouth, Social Media and Other online blogs 2. Editorials and Commercial in Magazines. Includes both traditional & digital magazines 3. Includes also Brand's App
Source: BCG 2014 ad hoc study (10'000 respondents in 10 countries)

72% of true luxury consumers use Social Media to interact with their favourite luxury brands



1. At least one Social Media used more than once per day
Source: BCG 2016 ad hoc study (12,000 respondents in 10 countries)

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Facebook, YouTube, Instagram the hottest Platforms
Instant messaging with very high frequency

"How frequently and which Social Media do you use to interact with luxury brands or social media peers to share opinions?"

1. Tencent QQ 2. Sina Weibo
Source: BCG 2016 ad hoc study (12,000 respondents in 10 countries)

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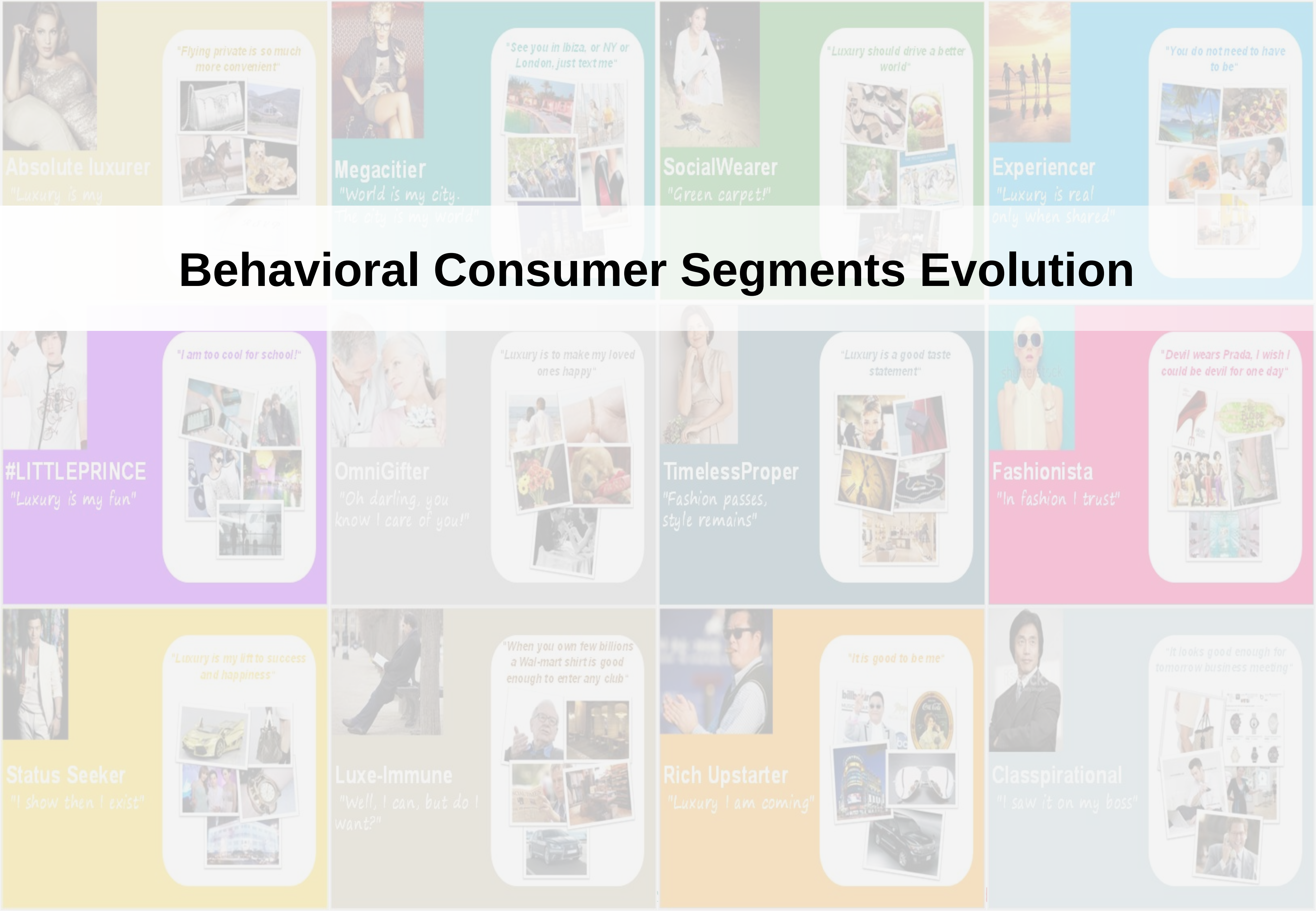
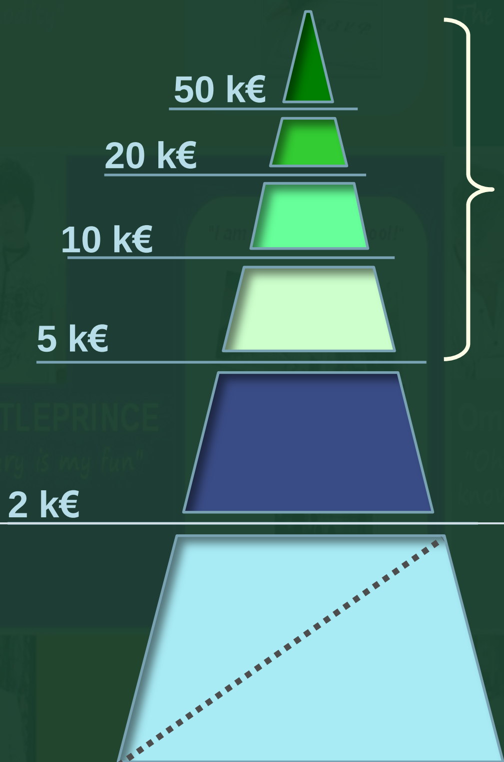
Behavioral Consumer Segments Evolution



Where does behavioral segmentation apply?

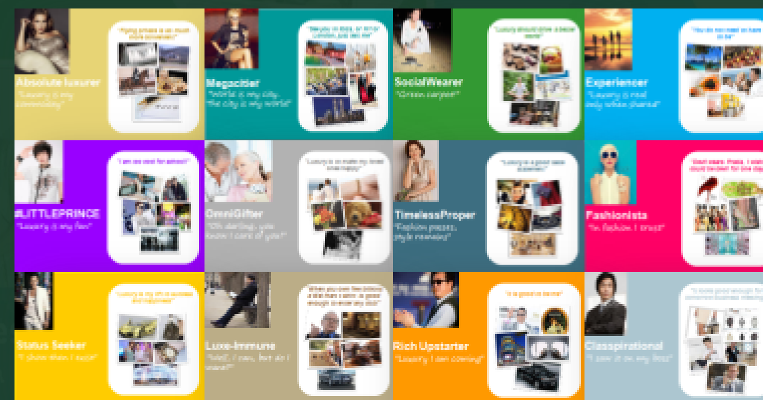


True-Luxury Consumers ✓

Top Aspirational ✓

Other Aspirational ✗

Behavioral Segmentation



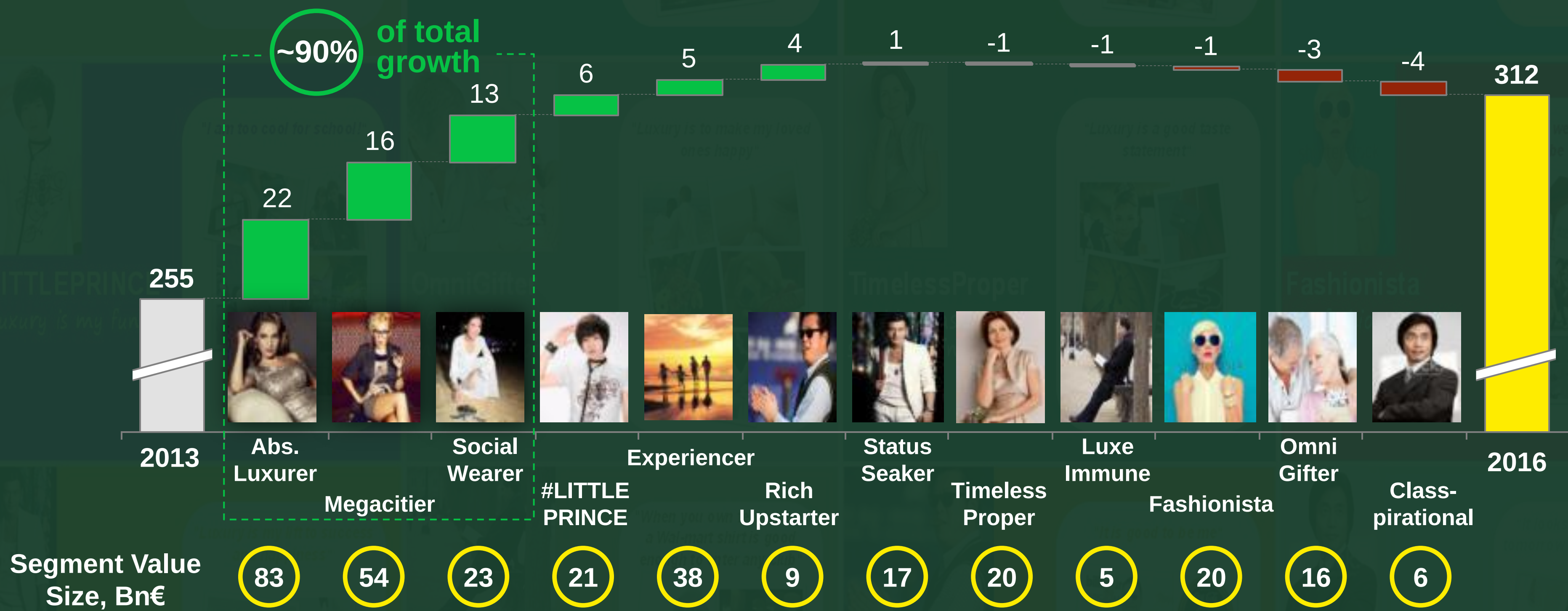
Occasional Luxury Consumers

1. Including Experiential and Personal luxury, excluding cars and Yachts
Note: rounded numbers
Source: BCG Luxury Market model

Absolute Luxurer, Megacitier and Social Wearer have driven market growth over the last years

Contribution to luxury market growth by segment (2013-2016)

Total P & E Market generated by True Luxury & Top Aspirational consumers – Bn€



Absolute Luxurer growing by spend increase, Megacitier and Social Wearer growing by luxury consumer number

Source: BCG 2016 ad hoc study (12,000 luxury consumers in 10 countries)

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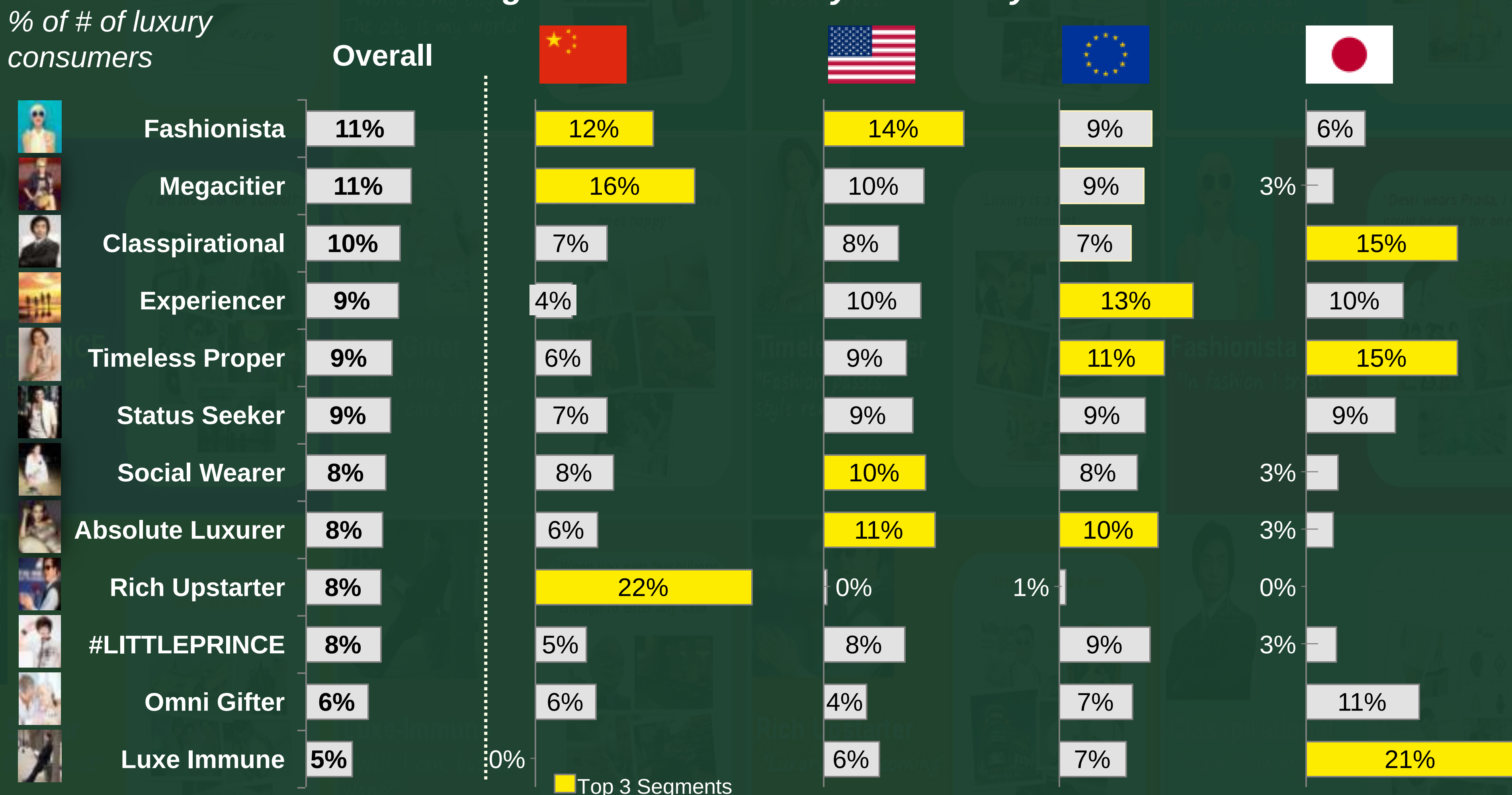
Each geography has its own segment mix

Segment distribution by nationality



Source: BCG 2016 ad hoc study (12,000 luxury consumers in 10 countries)

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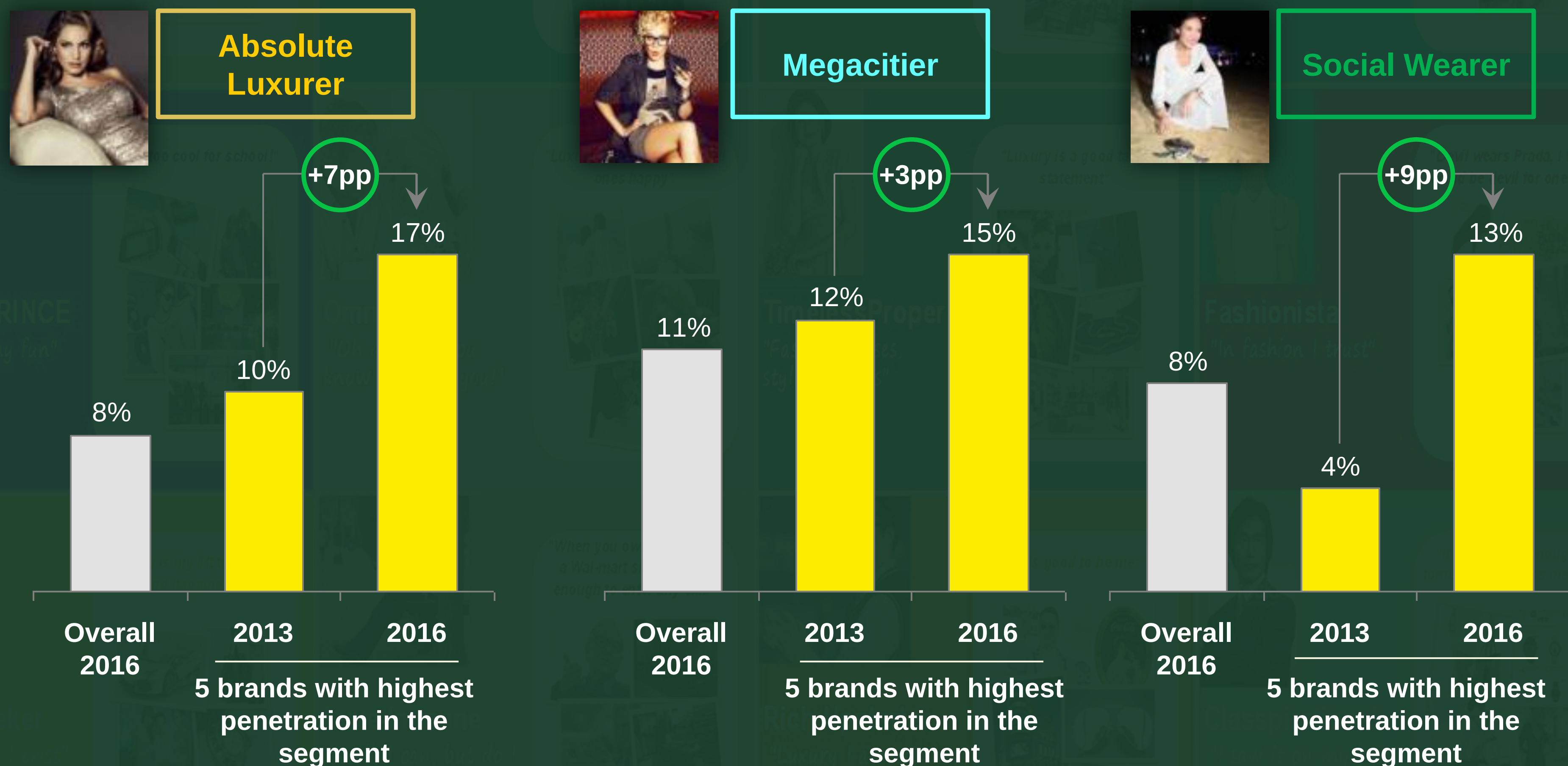
Working well on a segment pays back

Share of # of luxury consumers, %



Source: BCG 2016 ad hoc study (12,000 luxury consumers in 10 countries)

Example: a Brand successfully changing its consumers mix towards more attractive behavioral segments

Example for an high-end personal luxury brand

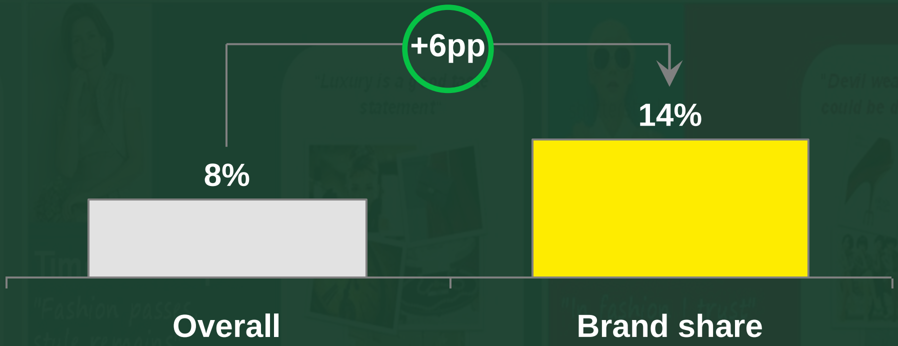
Segment with highest penetration vs. segment with lowest penetration for a successful and growing brand

Segment

Absolute Luxurer

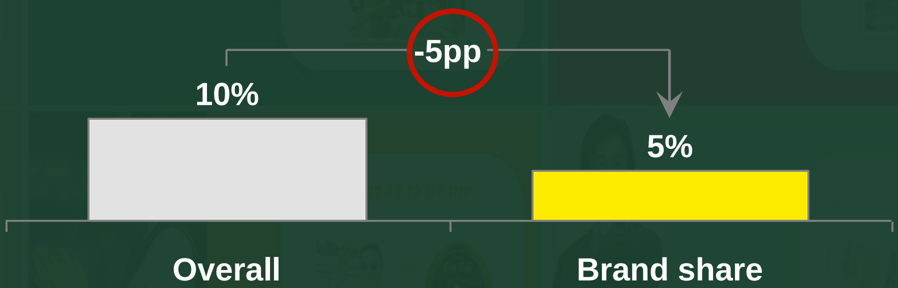
- Avg. Spend **40k€**
- Growing[1] **+11% p.a.**
- Tends to be **very loyal**

Share of # of luxury consumers, %



Classpirational

- Avg. Spend **3k€**
- Diminishing[1] **-15% p.a.**
- **Less loyal** to a brand



The luxury brand here represented achieved a + 16 % revenue growth p.a. in the last 3 years

1. Segment Generated Market

Source: BCG 2016 ad hoc study (12,000 luxury consumers in 10 countries)

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The True-Luxury Global Consumer Insight 4th Edition

Main Outcomes

1. In a moderate growth luxury market, True-Luxury Consumers maintaining a healthier and steadier pace
2. In a slower personal luxury market expected winners and losers both among Brands and among Categories
3. Discrepancy between perceived value and price puts at risk affection of ~50% of consumers
4. Casualwear with increasing appeal vs. formal for 2 / 3 of True-Luxury Consumers
5. Customization a growing request and purchase driver, especially in Apparel
6. Consumers buying more in their home country, especially Chinese
7. Store solo sales decreasing but omnichannel the real trend vs. online solo sales
8. Monobrand stores losing traffic and sales, not only for online effect
9. True-Luxury Consumers massively engaging on Social Media with their favorite Brands
10. Strong differences in Brands performances within winning Luxury Consumers BCG Behavioral segments

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Thank you

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The True Luxury Consumer: What BCG could do for Luxury Companies leveraging the study

1 Brand Equity to support sales boost

Launch an ad hoc survey on True Luxury Consumer of the brand to bring insight to the next level on key topics relevant for the business

- e.g. Categories, Geographical Markets, Consumer generations
- e.g. Digital, retail execution, megacities penetration,
- ....

2 Voice of consumers to inform key decisions

Launch an ad hoc consumer study tailored on the specific target consumer of a Brand to inform key business decisions

- e.g. Possible merge / demerge of two lines
- ...

3 Actionable consumer segmentation

Develop a tailored and proprietary consumer behavioral segmentation for the brand, applying BCG behavioral segmentation to Brand CRM data

- To capture future organic growth and boost LFL retail sales
  - Inform key decisions in merchandising, assortment, CRM, marketing,...
  - Define and launch pilots
  - Measure and scale up

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