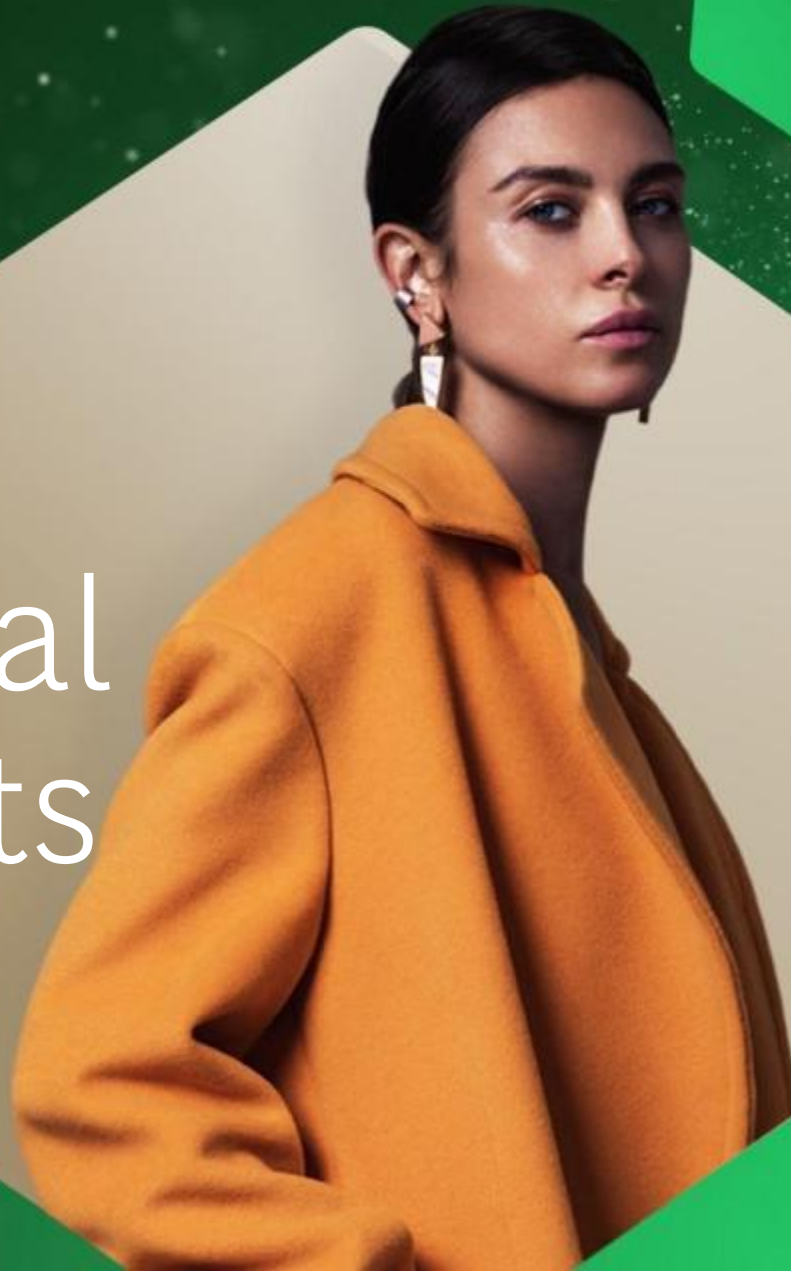


9th Edition
July 2023



True-Luxury Global Consumer Insights



2023 STUDY: CONTENTS



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The new frontier of Luxury experience

2023 study keeps True-Luxury consumer at the center...

~20M True-Luxury Consumers (out of ~370M total consumers) generating **ca. 40% of global luxury market**

9th Edition True-Luxury consumer survey

Respondents **12,000+ respondents**
of which 2,000 in China & 2,000 in US

Avg. spend **€39K+** Avg. personal spend¹
(back to pre-Covid level)

Markets **Top 12 WW Luxury Markets**



PHRONESISPARTNERS *Research partner*
simplifygrowth

1. Includes personal and experiential luxury, excluding cars, yachts, smartphones and smartwatches

..with a much wider range of tools, sources and deep dives



30+ in depth interviews with individual **True-Luxury consumers**



25+ interviews & content discussion sessions with **industry experts & topic leaders**



Brand new deep dive on **customer experience**, based on quali-quantitative sources and advanced **data & analytics tools**



Engagement of **local Luxury experts** and **industry partners** from China and US

TMI 腾讯营销洞察
Tencent Marketing Insight

HIGHNOBIETY

We bring ALTAGAMMA partners and members of BCG luxury ecosystem to the table to generate the best consumers insights



Note: List of brands not exhaustive

Chapter 1.

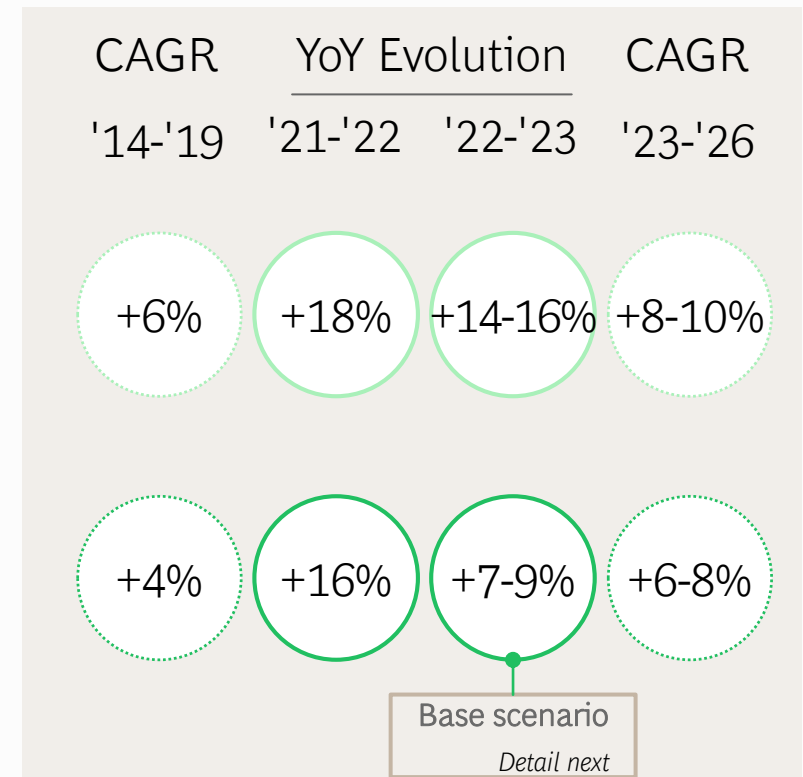
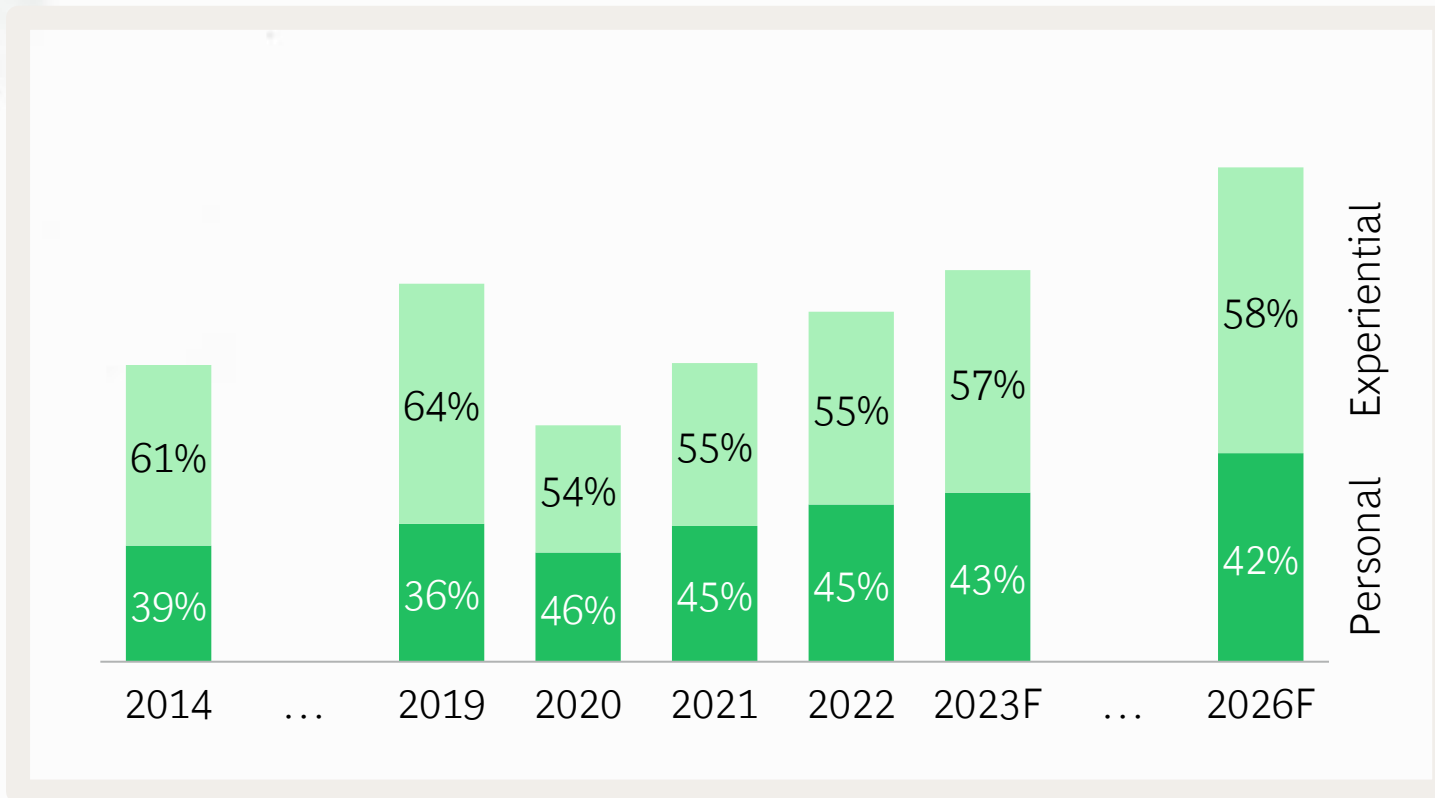
FUTUREPROOF: LUXURY MARKET THRIVES AMIDST UNCERTAINTY

Market outlook & True-luxury consumer sentiment



Personal luxury has recovered to pre-covid levels and Experiential on the way; High single-digit growth expected

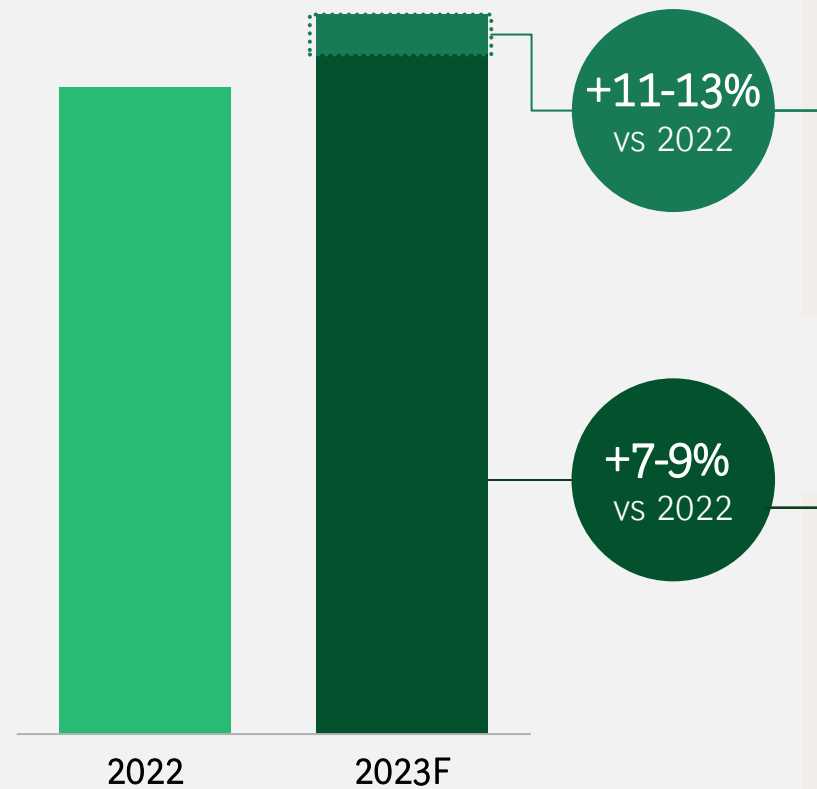
Global True-Luxury Market



Note: Personal includes apparel, footwear, accessories, leather goods, beauty, jewelry (branded and unbranded) and watches / Experiential includes furniture, food and wine, fine dining & hotel and exclusive vacations

Source: BCG Fashion & Luxury Market Model as of June 2023; BCG Analysis

Personal Luxury Market – 2023 expected scenarios



We envision 2 evolution scenarios based on key geographies outlook

Optimistic Scenario: *High expected global growth*

- **Strong restart of China** Luxury market (~+20% vs '22), mainly fueling domestic consumption, while gradual spend increase in nearby countries (e.g., HK, Macao) and in int. destinations from H2 2023
- **Solid confidence** of US consumers despite the macro context, driving domestic and international demand (high-single digit growth)

Base Scenario: *Slow-down of Western Consumers not compensated by Asian acceleration*

- **More cautious outlook for China** (~+15% growth '22-23) with technical rebound domestically and slow restart of international consumption
- **Limited confidence** of consumers in Western markets, with H2 '23 heavily impacted by economic uncertainty (mid-low single digit growth)

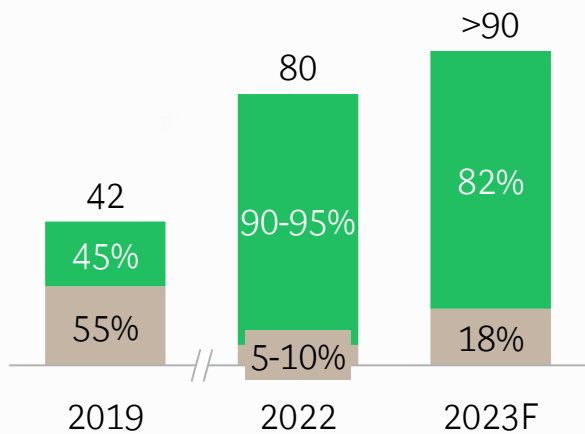
Unprecedented complexity to make Luxury market forecasts | Today's macroeconomic volatility requires an assessment on a weekly horizon

China is back but with significantly different dynamics vs Pre-Covid

Growth back, but ~4X home market '23 vs '19...

Market in China as per base scenario, B€

■ Mainland ■ Abroad



95%

Chinese luxury consumers expect to spend more or about the same on luxury products in the next year

... and abroad spend unlikely to return to '19 level

18%

Abroad spend in '23, with some recovery expected as travel resumes in H2, but unlikely to return to '19 level

68%

Chinese luxury consumers willing to spend more in mainland, as benefits of buying outside (price, range, etc.) gradually diminish

Growth driven by Young, Rich & Lower Tier cities...

~40%

11% Heavy spenders¹ contribute 40% of the total luxury spending

+9pp

Future spending net appetite % Chinese Beyond Money² vs Avg. True-Luxury Beyond Money¹

~50%

of under 30, accounting for ~50% of total spending

+15pp

Future spending net appetite % Chinese Gen Z vs Avg. True-Luxury

~50%

total spending by Tier 2 & below cities

...in a thriving digital environment

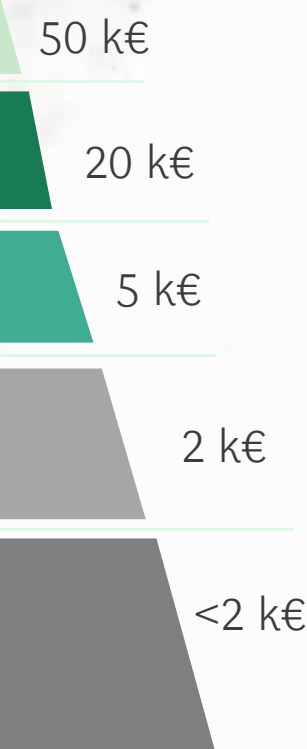
46%

of domestic digital purchases in 2023 (+17pp vs 2019)

92%

of all consumers influenced by digital channels, with WeChat ecosystem impacting ~60% of purchases

The top of the pyramid has consistently overgrown the bottom: conquering the wealthiest segments is the key priority for luxury brands

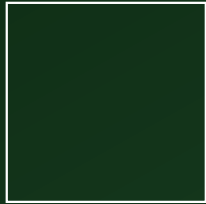


Cluster	2016		2022		2026F		CAGR Pop. '16-'22	CAGR Pop. '22-'26
	Pop. (M)	Size (B€)	Pop. (M)	Size (B€)	Pop. (M)	Size (B€)		
Beyond money	0.3	20	0.5	38	0.6	50-60	5%	9%
Top absolute	1.4	31	1.7	53	2.3	60-70	4%	8%
Absolute & Entry absolute	15	201	17.6	260	18.9	320-340	3%	2%
Total true-luxury	16.8	252	19.8	352	21.9	430-470	3%	3%
Top aspirational	20.9	62	20.5	71	24.5	90-100	0%	5%
Other aspirational	375.0	551	327.2	476	425.3	720-730	-2%	7%
Total Luxury Consumers	~410	~870	~370	~900	~470	~1240-1300	-2%	6%

- **2 wealthiest clusters** representing less than 1% of the market but accounting for ~10% of sales
- Strong growth of the top segments confirming their **priority role in the upcoming years**
- '16-'22 population decline due to strong **impact** of Covid on **aspirational** and **Chinese slow down** in '22; acceleration over the next years

Note: Numbers rounded. Personal includes apparel, footwear, accessories, leather goods, beauty, jewelry (branded and unbranded) and watches / Experiential includes furniture, food and wine, fine dining & hotel and exclusive vacations

Source: BCG Fashion & Luxury Market Model as of June 2023; BCG Analysis



True-Luxury consumer sentiment

True-Luxury consumer sentiment pulse check

GLOBAL OVERALL VS TRUE-LUXURY CONSUMER

0



How does the True-Luxury Consumer sentiment differ from the global overall consumer?



TRUE-LUXURY CONSUMER DEEP DIVE

1



SENTIMENT ABOUT MACRO-CONTEXT
How is the True-Luxury Consumer feeling about the macroeconomic context?



2



SPENDING OUTLOOK
Who are the most resilient consumers and what's their sentiment towards future spending?



3



SPENDING BEHAVIOR
Will consumers who raise their spending levels continue to follow the same spending patterns?



0 Consumers feel financially worse-off, but are spending more; instead, True-Luxury consumers are more confident and project solid spending increase

1

SENTIMENT ABOUT MACRO-CONTEXT

2

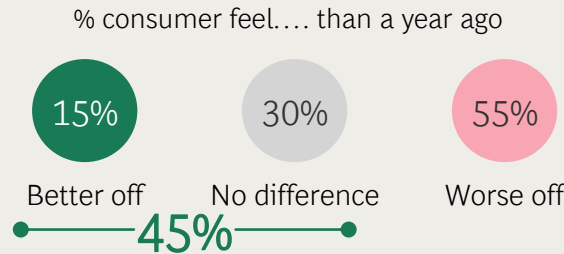
SPENDING OUTLOOK

OVERALL GLOBAL CONSUMER

GLOBAL CONSUMERS ARE PESSIMISTIC ON ECONOMIC OUTLOOK...

68% ..believe a recession has started in their country

...ARE FEELING WORSE OFF FINANCIALLY THAN A YEAR AGO...



...HOWEVER, MOST ARE SPENDING MORE DUE TO PRICE HIKES AND LOWER SAVING

60% ...expect to increase household spend in the next 6 months

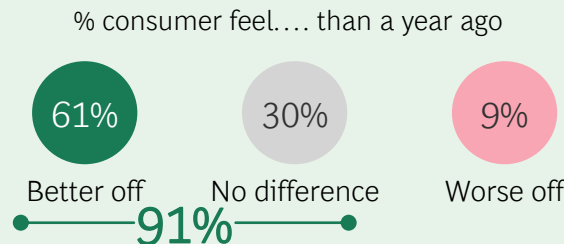
PRICE INCREASE AS TOP REASON EXPECTED FOR INCREASE IN SPEND

TRUE-LUXURY CONSUMER

THE MACRO MATTERS ALSO FOR TRUE-LUXURY CONSUMERS...

50% ..believe a recession has started in their country

....BUT THEY DO NOT FEEL FINANCIALLY WORSE OFF...



... AND ANTICIPATE SOLID SPENDING ON LUXURY, CONFIDENT ABOUT THEIR STRONG FINANCIAL POSITION

85% ..expect to spend more or about the same on luxury products in the next year

CONFIDENCE IN FINANCIAL POSITION AND INTENTION TO INVEST AS TOP REASON EXPECTED FOR INCREASED SPEND

1 True-Luxury Consumers are well-aware of volatile macro environment, with heterogeneity across geos...

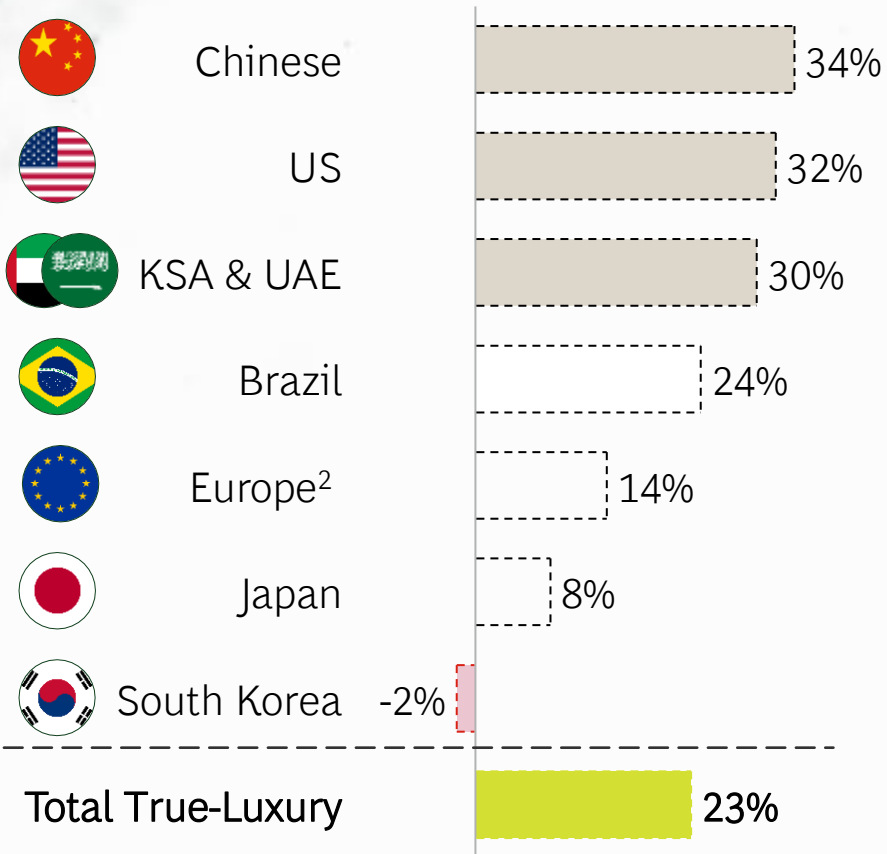


	Total True-Luxury	Saudi Arabia	China	Brazil	South Korea	EU	Japan	USA
"THERE WILL BE AN ECONOMIC RECESSION IN MY COUNTRY"	50%	32%	39%	34%	43%	53%	54%	69%
"MY COUNTRY'S ECONOMIC REVIVAL IS NOT ON THE RIGHT PATH"	37%	22%	26%	30%	29%	42%	39%	53%
"INFLATION IS HERE TO STAY FOR A LONG TIME"	61%	54%	32%	65%	78%	67%	72%	73%
"I WORRY THAT THE CONFLICT BETWEEN RUSSIA AND UKRAINE WILL CONTINUE FOR A LONG TIME"	67%	55%	53%	74%	76%	68%	74%	74%

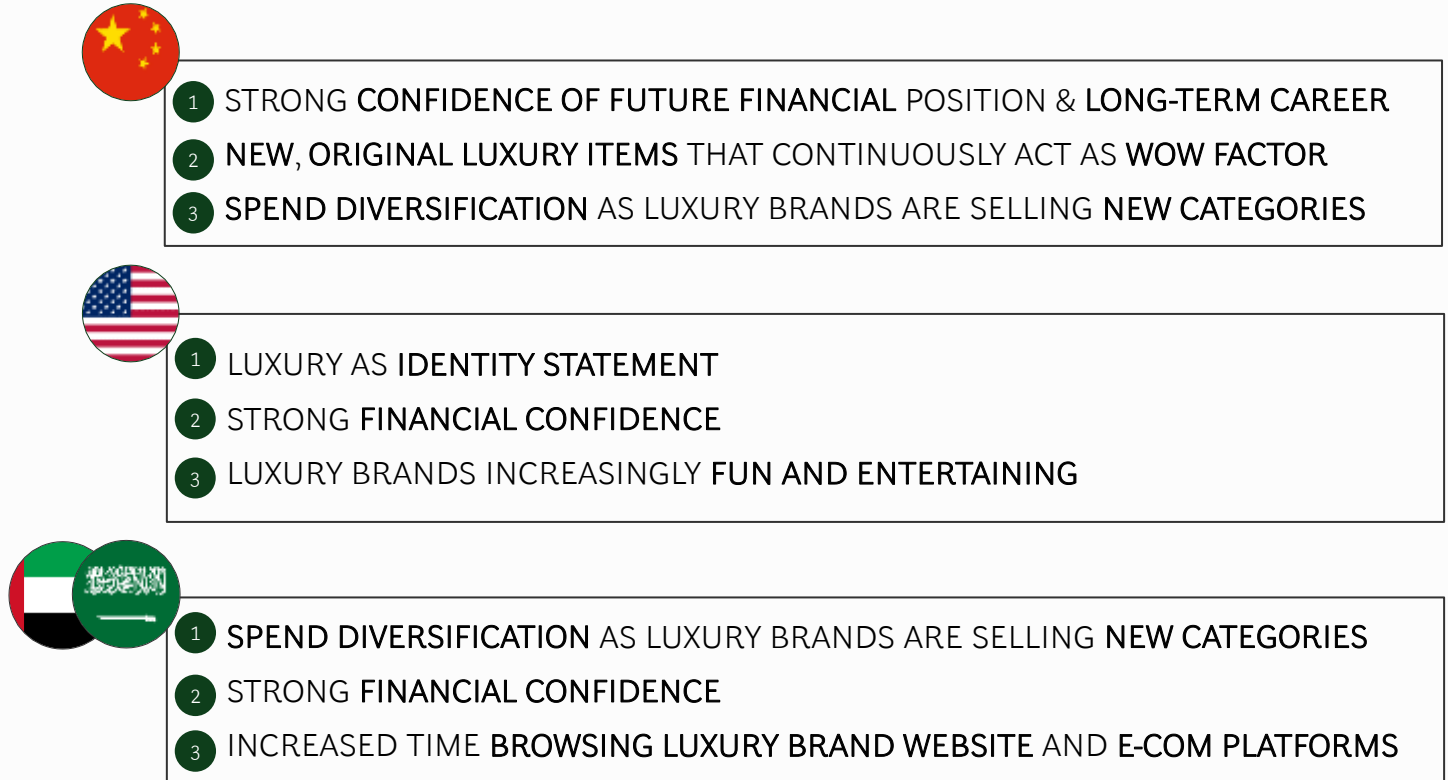
China and Middle East consumers exhibiting an optimistic outlook, while US, Japan & EU prove to be more pessimistic

2 Post-Pandemic spending euphoria persists in US despite pessimistic sentiment; Chinese spending is booming, consistent with recent re-opening

SPENDING NET APPETITE¹ (%)

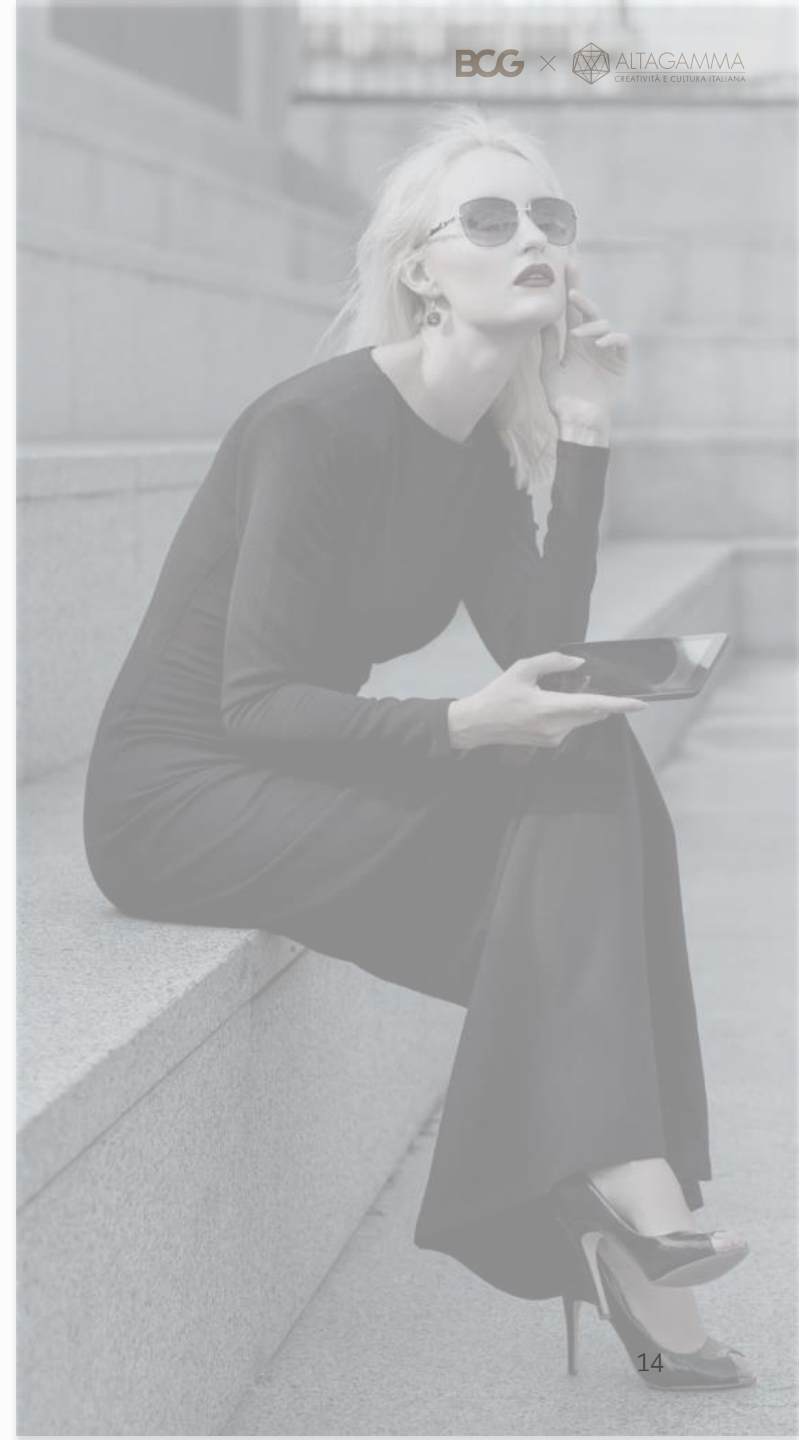
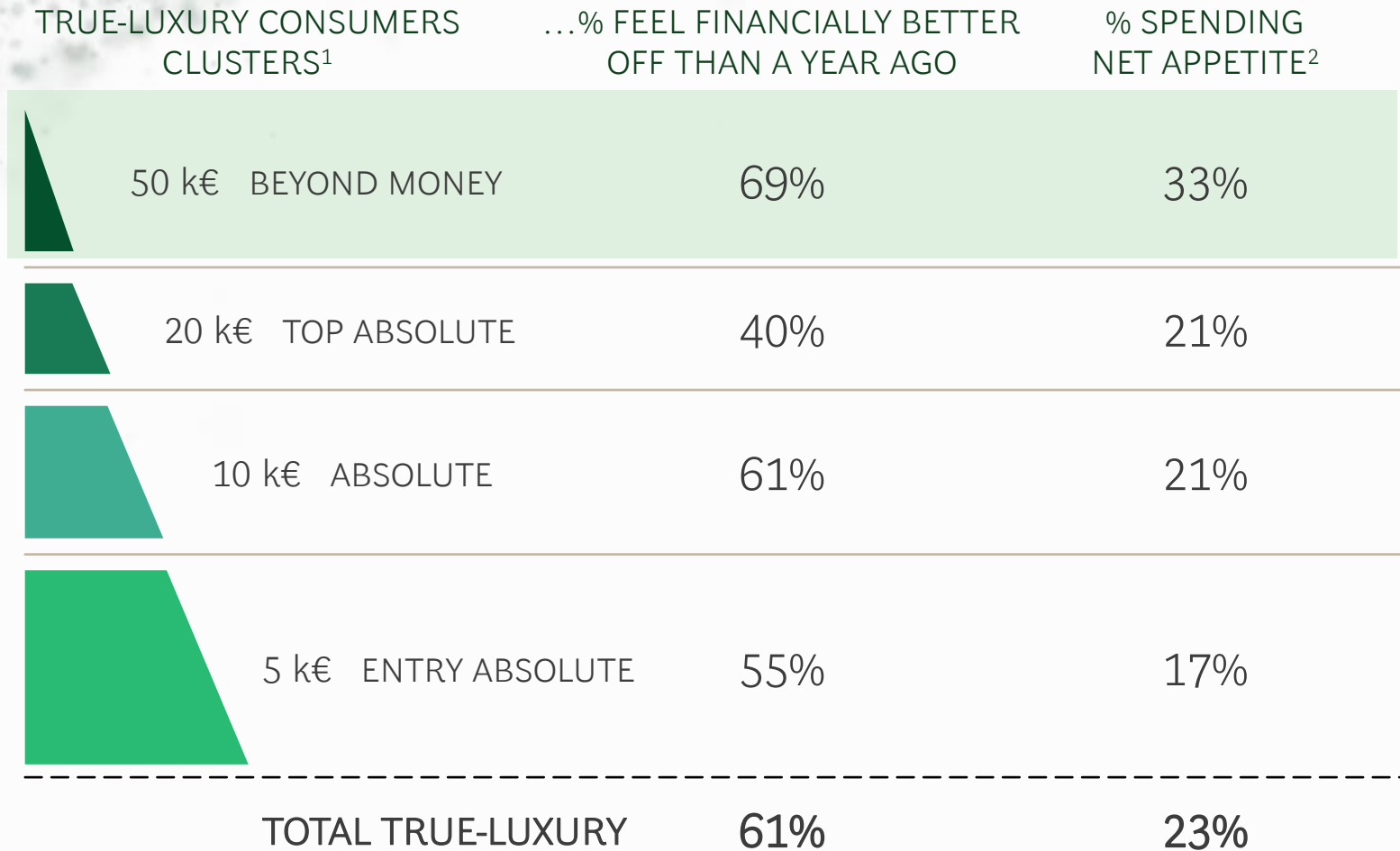


TOP DRIVERS OF INCREASE IN SPENDING



1. Net appetite next 12 months: (% of a lot more + % of a bit more) – (% of a bit less + % of a lot less) 2. Includes France, Germany, Italy and UK
Source: BCG-Altgamma True-Luxury Global Consumer Insight Survey Mar/Apr '23 (12K respondents in 12 countries)

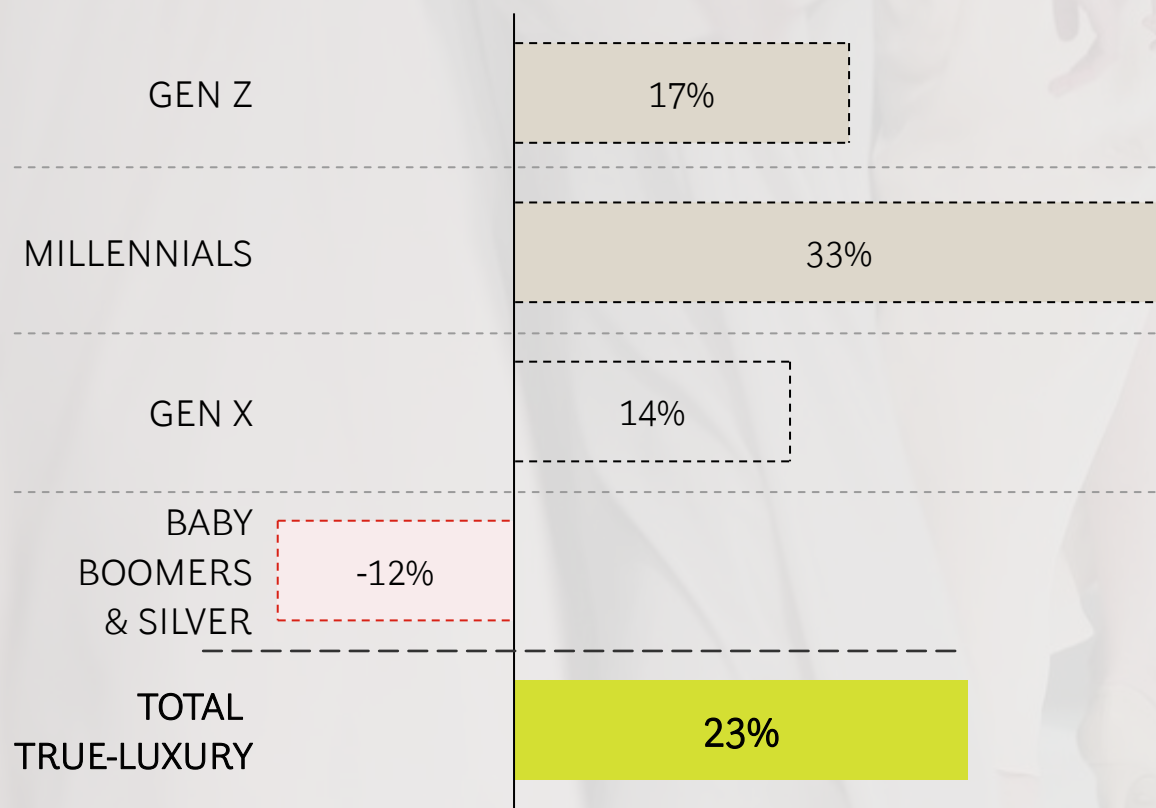
2 Wealthiest customers are the key growth engine for the future



1. Based on annual spend in luxury which includes personal and experiential luxury, excluding cars, yachts, smartphones and smartwatches 2. Net appetite next 12 months: (% of a lot more + % of a bit more) – (% of a bit less + % of a lot less)
Source: BCG-Altgamma True-Luxury Global Consumer Insight Survey Mar/Apr '23 (12K respondents in 12 countries)

2 Millennials show highest spending appetite, empowered by financial confidence & career stability, followed by the optimism of GenZers

SPENDING NET APPETITE¹ (%)



KEY SPENDING DRIVERS

- 1. LUXURY BRANDS WOW FACTOR
 - 2. STRONG FINANCIAL OPTIMISM
-
- 1. SOLID FINANCIAL AND CAREER STABILITY
 - 2. LUXURY AS IDENTITY STATEMENT
-
- 1. LUXURY BRANDS' DIVERSIFICATION
 - 2. LUXURY AS INVESTMENT OPPORTUNITY
-
- 1. VERY SELECTIVE WHEN DOING NEW PURCHASES
 - 2. ECONOMIC UNCERTAINTY

1. Net appetite next 12 months: (% of a lot more + % of a bit more) – (% of a bit less + % of a lot less)

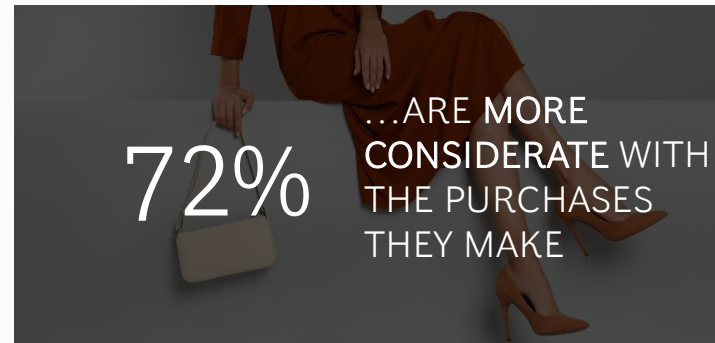
Source: BCG-Altgamma True-Luxury Global Consumer Insight Survey Mar/Apr '23 (12K respondents in 12 countries)

Note: Age group year of birth: Gen Z 1997-2005 – Millennial 1981-1996 – Gen X 1965-1980 – Baby Boomer 1946-1964 – Silver 1928-1945

3 True-Luxury consumers are spending more, exhibiting evolving patterns and shifting priorities towards more mindful and wellbeing-centric behavior

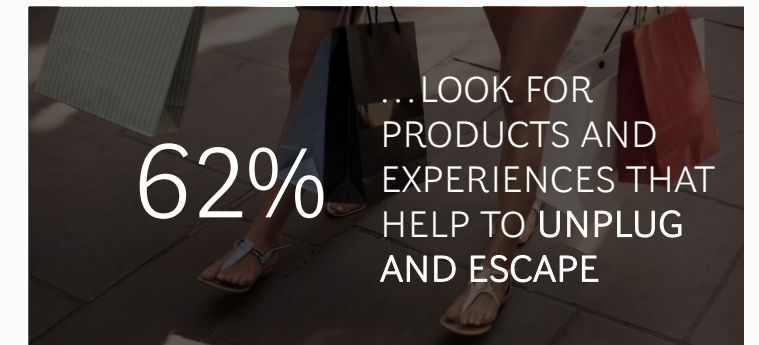
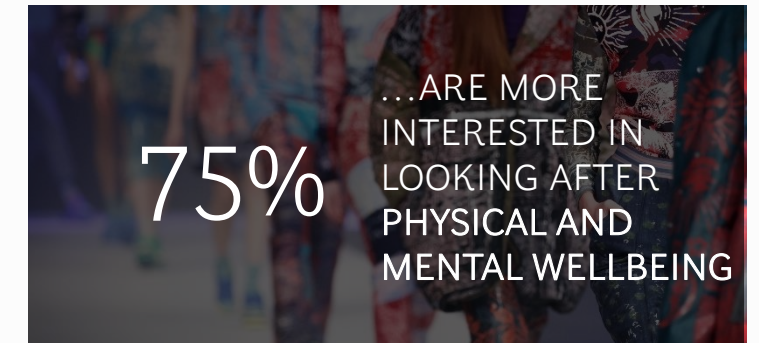
MINDFUL SPENDING

True-Luxury Consumers have higher standards and a more discerning mindset about spending behavior. They carefully consider their choices and seek out remarkable and distinctive elements



WELLBEING-CENTRIC SPENDING

Consumers prioritize their physical and mental well-being, recognizing the importance of balancing their time and finances. Meaningful experiences and relationships are their priorities



Chapter 2.

TOP 10 TRENDS CEOs SHOULD STAY AHEAD OF

*Snapshot of market, consumer and novel
Luxury trends*



Navigating the Luxury landscape: top 10 trends CEOs should stay ahead of


EVOLVING MARKET REALITIES

Plan to quickly react and setup to tackle challenges

- 1 CHINA IS BACK, BUT PLAYBOOK IS DIFFERENT
- 2 KSA: IGNITE THE UNTAPPED POTENTIAL 
- 3 SHIFTS & OPPORTUNITIES IN THE SUPPLIER LANDSCAPE
- 10 SCALE MATTERS MORE THAN EVER



SHIFTING CONSUMER PREFERENCES

Evolve to address consumers' needs, behaviors and taste


- 4 LUXURY IN A CHANNEL-LESS AGE: TRUE-LUXURY CONSUMER STILL UNHAPPY
- 5 DECODING THE GENERATIONAL DIVIDE 
- 6 SUSTAINABILITY & NEW OWNERSHIP MODELS ACCELERATION
- 7 DOUBLE DOWN ON VIC - VERY IMPORTANT CUSTOMERS - VIA CLIENTELING 3.0

NEW(ISH) FRONTIERS REQUIRING INVESTMENT

Get prepared, experiment & invest (or be left behind)

- 8 THE REVOLUTION OF GENERATIVE AI 
- 9 WEB3 & METAVERSE: VIRTUALIZATION OF FASHION & IDENTITY 

Key focus of the report

 Ad hoc deep dives

Top 10 trends CEOs should stay ahead of (I/IV) – Evolving Market Realities

EVOLVING MARKET REALITIES

1 CHINA IS BACK, BUT PLAYBOOK IS DIFFERENT

China revamp is happening (15-20% expected growth in '23) with evolving dynamics compared to Pre-Pandemic:

- **Increased local demand** (82% in '23, unlikely to return to '19 level - 45%)
- **Thriving digital ecosystem** (46% purchases online)
- **Higher diversification in the consumer base** with heavy spenders, younger & lower-tier cities driving growth

Brands should develop a new playbook to **win the evolving consumers locally and internationally** and recruit **emerging groups**, step-changing presence in the **online ecosystem**, **reimagining online shopping experience** and devising **creative tactics across touchpoints** (e.g., enrich Mini Programs, leverage localized content)

2 KSA: IGNITE THE UNTAPPED POTENTIAL

KSA is a key growth engine in Middle East, **worth ~3B€** and projected to reach **~6B€ by '30** (+10-12% CAGR '22-30). This is driven by **massive investments (>1T€)** in local development (Vision 2030), **internal pent-up demand** (from ~40+% spend leakage today) and boost of **luxury tourism**, fostered by **young (60%+ of <30y), heavy-spending, increasingly sophisticated, and digitalized KSA consumers** (+17pp online penetration¹ vs avg. True-Luxury)

Specific strategy to capture growth in Saudi vs other GCC countries, incl. finding the **right local partner**, **upgrading product offer** to match international standards of the local **sophisticated consumer** and **enhancing retail footprint** to capitalize on new real estate giga-projects (e.g., Diriyah Gate)

3 SHIFTS & OPPORTUNITIES IN THE SUPPLIERS LANDSCAPE

Post-Covid supplier landscape has drastically changed. Increasing number of **supply-focused investments** & M&A both **from suppliers**, consolidating into specialized poles, & **from brands** selectively investing in upstream vertical integration. Due to rarity of competences & difficulty of access, **reliable set-up of local suppliers** is increasingly crucial

Brand CEOs have the responsibility to **actively react to shifting suppliers' dynamics**, contributing to shape them. They should assess how to optimize supply chain, thinking strategically on the **best make-buy setup** to secure volumes, while maintaining flexibility and fostering a local made-in set-up

TREND

IMPLICATIONS

1. Based on last purchase channel including omnichannel (e.g., ROPO)

Top 10 trends CEOs should stay ahead of (II/IV) – Shifting consumer preferences

SHIFTING CONSUMER PREFERENCES

4

LUXURY IN A CHANNEL- LESS AGE: TRUE- LUXURY CONSUMER STILL UNHAPPY

Luxury brands and industry experts have been actively discussing omnichannel journeys and the creation of truly seamless Customer Experiences for more than a decade. However, **less than 50% of luxury consumers are truly satisfied** with their overall experience.

Luxury brands have spent considerable time and resources perfecting the offline customer experience and in-store selling ceremony and, as a consequence, their **in-store satisfaction level is ~x2 that of mass retailers**. However, **online ceremonies of luxury brands are greatly lagging behind**, with **luxury satisfaction level being ~ 0.8x that of mass players**. This 'digital discontent' is created by two types of unmet needs: **functional** (like speed and availability) and **emotional** (like pampering & human reassurance). While functional issues are often in the forefront for both brands and customers, **solving only functional tablestakes, will not allow brands to deliver a true luxury experience**.

Current brand practices & misconceptions are, like the underestimation of touchpoints (which are ~x30 vs only 10 years ago) or silo-view of channels (while in reality >50% of journeys are multichannel) are further fueling the digital discontent.

In order to master CX in a channel-less age, brands will need to **quickly fix the basics on functional aspects**, leveraging the playbooks that are already in place and dedicating the necessary time, investments, and discipline to bridge the gap with “best in class” players on service efficiency, speed and reliability. In order to propel CX to new heights, brands will need to take the lead, **writing the playbook on emotional step-change**. To do so, every brand will need to strategically decide whether to **"play defense" by hyper-specializing** or **"play offense" by hyper-personalizing**. Hyper-specialization requires the definition of a **specific, focused role for each touchpoint** (based on its' strengths) and the guidance of each customer to the optimal touchpoint based on his or her needs. Hyper-personalization on the other hand, requires that **all touchpoints are empowered to play every role** and can be adapted (in real time) to individual customer needs. No matter which, in order for brands to master the new frontier of luxury experience, it is crucial not to revert back to the channel view: brands should always privilege a **customer journey-view over a business channel-view**.

Top 10 trends CEOs should stay ahead of (III/IV) – Shifting consumer preferences

SHIFTING CONSUMER PREFERENCES

5

DECODING THE GENERATIONAL DIVIDE

The generational surpass is finally happening: Young (Millennials & Gen Z) **twice the size** vs '16 and worth **~210B€ in '22**, expected to almost double again by 2026. Therefore, there are **2 segments to address**: Young spending more (+15% vs old), with positive future outlook (33% appetite of Millennials vs Olders -12%); Olders guaranteed growth (3x cum. spend in last 15y vs younger and 20x vs Gen Z) and worth **~190B€** today

6

SUSTAINABILITY & NEW OWNERSHIP MODELS ACCELERATION

Brand purpose & responsibility non-negotiable anymore, accelerated by **upcoming regulations** especially in EU and relevance for consumers (65% influenced by Sustainability, +4pp vs 2019, 72% for Gen Z); appetite for **new business models** - renting & second-hand - continue to accelerate (65% interested in purchasing pre-owned luxury, +5pp vs 2019)

7

DOUBLE DOWN ON VIC - VERY IMPORTANT CUSTOMERS - VIA CLIENTELING 3.0

The top of the pyramid has consistently overgrown the bottom and the **2 wealthiest clusters** (Beyond Money & Top absolute), represent less than 1% of population, but account for **~10% of sales**. Moreover, they are expected to grow at a faster rate (8+% CAGR '22-26 vs 6% avg. True-Luxury). As a consequence, the top segment (“Beyond Money”) will triple in size by 2026 (vs 2016).

TREND

IMPLICATIONS

Looking forward, Brands should adopt a **two-step strategy**: in the short term, embrace a **bifocal approach**, capturing opportunities of both segments in the next decade with tailored solutions
In the mid-term, brands should **loyalize Gen Z & Millennials**, harvesting past years' over-investments

ESG agenda should be pursued with urgency and, given the complexity of the landscape and the evolving regulatory environment, it is fundamental to **join forces at Sector level**, partnering with authorities & institutions
Key to **selectively invest resources** on the **ESG topics** which are the **most impactful** for each brand business model

Luxury brands have always focused on VIC, but nowadays they should place higher efforts to **drive loyalty** with increasingly demanding top clients, offering **flawless experiences and reaching perfection in selling ceremonies**, also leveraging **AI-based tools** to make a step change in **clienteling** and **1:1 personalized journeys**

Top 10 trends CEOs should stay ahead of (IV/IV) New(ish) frontiers

NEW(ISH) FRONTIERS REQUIRING INVESTMENTS

8

THE REVOLUTION OF GENERATIVE AI

GEN AI has a **tangible impact for Luxury**, across (i) **hyper-personalization** and **CX enhancement**, (ii) **creativity** support and boost (e.g., content & product design), (iii) **complexity** & costs **reduction** (e.g., ops. & logistics optimization) and (iv) **manual tasks automation**. Specifically, GenAI will allow luxury brands to overcome "reach vs depth" tradeoff: **scalable solutions** for personalized treatments offered to VIC only, could be extended to mid-pyramid & aspirational customers (90%+ of Luxury customers)

Experiment with the technology, focusing on the **highest potential business-led use cases** and building technology muscle, while preparing the workforce and defining clear policies to protect the business

9

WEB3 & METAVERSE: VIRTUALIZATION OF FASHION & IDENTITY

Web3 still at **early-stage** in Luxury, and, despite being a new frontier, its adoption slowed down with **long path ahead to mass market**. However, it is expected to **gain traction** due to higher consumers' appetite (70+% current & prospective virtual fashion buyers) led by **2 driving engines, Young tech. Pioneers** and **Escapers** (e.g., from Middle East, India & Brazil) and due to **higher investments in technology**

Since Web3 adoption is still lagging, but will definitely accelerate in the coming years, brands should be **ready to capture upcoming opportunities**, incl. **gamified, immersive and community-based experiences** which can boost **consumer engagement ~5x** vs traditional approach. This will allow to recruit new audiences, amplify content and nurture communities

RELEVANT ACROSS ALL TRENDS

10

SCALE MATTERS MORE THAN EVER

Scale has become a competitive advantage with Luxury **Megabrands** consistently **growing ~3x vs luxury market**, reaching **10-20+B€ revenues** vs 2-5B€ of medium-sized brands. This is increasingly widening the gap with "followers" and contributing to strong **polarization**

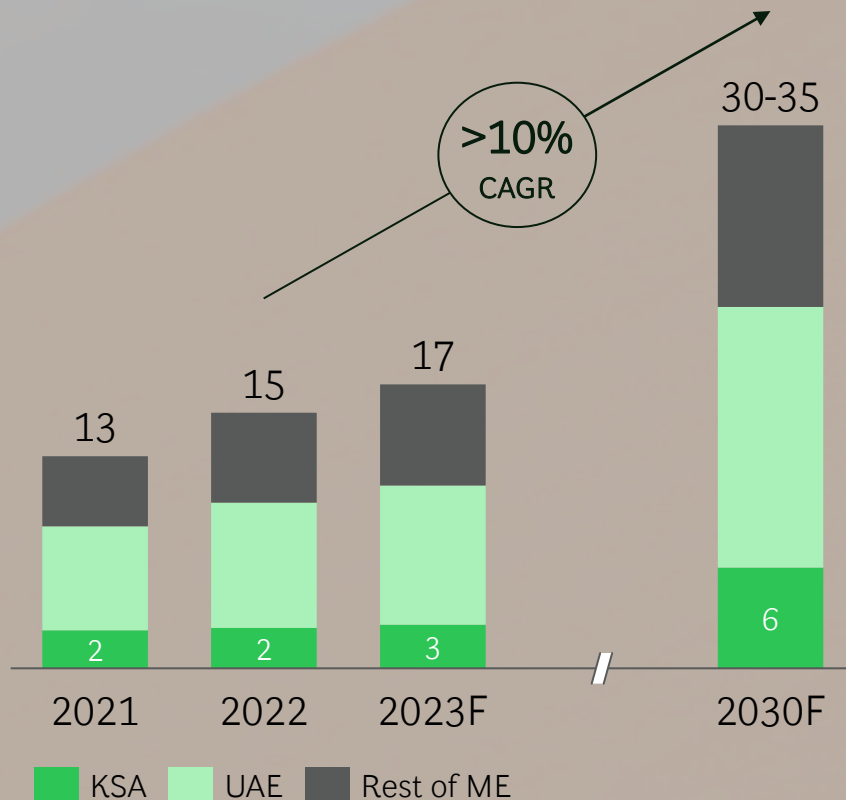
Growth must be seen not only as a value creation source, but as an imperative to **stay relevant** in the market, unlocking **ability to invest in marketing** (i.e., digital media & content creation), **retail** (i.e., securing the best locations) and building an **agile and AI & tech-backed operational machine**. Smaller brands should invest in creativity and find innovative channels to distinguish



KSA: igniting the untapped
potential

The Middle East: a promising frontier of opportunities, with KSA as the regions' powerhouse, expected to double in size by 2026

Personal Luxury Market in Middle East¹, B€



THRIVING MARKET

Personal Luxury market in Middle East is expected to grow at **>10% CAGR '22-'30**

- UAE and KSA the main regional growth engines, with KSA worth ~3B€ in 2023 and projected to double in size and reach ~6B€ by '30 (+10-12% CAGR '22-30)
- Smaller markets will increasingly come into focus

OVERALL GROWTH DRIVERS

1. Increased demand from local young generations, better informed and connected
2. Inbound tourism mainly boosted by leisure development
3. Development of retail stores and malls
4. International brands with dedicated offering (collaborations, collections, events...)



Focus on next slides

1. Total personal luxury
Source: BCG Fashion & Luxury Market Model as of June 2023

Two main drivers fueling KSA Luxury market growth...

Why KSA is a key frontier of growth for Luxury Market (I/II)

1

INTERNAL PENT-UP DEMAND

Penetration: Saudi luxury retail trails behind benchmarks, with strong room to expand

7% vs 26%

% Luxury Retail Market Penetration
KSA vs Western Europe¹

Spend leakage: Saudis tend to spend a lot on Luxury shopping when travelling outside of Kingdom

42%

Spend leakage abroad

Positive future spending outlook

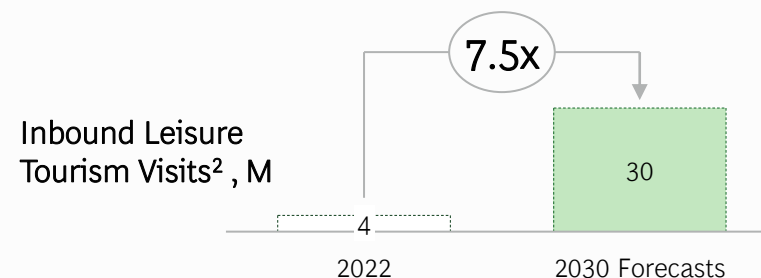
47% vs 39%

% True-luxury consumers expect to spend more over the next year
KSA vs avg. total True-Luxury

2

SURGE IN HIGH-END TOURISM

Several **high-end tourism destinations** expected to open in the next five years (e.g., Diriyah Gate, Red Sea), with the objective to bring “heavy-spending” tourists to KSA



8 tourism-related **giga-projects** expected to receive 5-10M³ cumulative visits by 2030

1. Based on 2021 data 2. Number of visits not including Religious, MICE and VFR segments 3. Including only the forecasted visits 25 from leisure tourism, assuming 4-7 nights stay Source: BCG-Altagama True-Luxury Global Consumer Insight Survey Mar/Apr 2023 (12K); Saudi Tourism Authority; Euromonitor; GlobalData; Giga-projects press releases; Desk Research; BCG expert interviews

...coupled with local development & favorable demographics

VISION 2030: SAUDI ARABIA BEYOND BORDERS



Strategic plan that aims to transform Saudi Arabia into a world-class destination for businesses and consumers. Designed to promote economic diversification, with massive investments (>1T€) spanning across different sectors, incl. infrastructure, healthcare, education, tourism, transportation, technology and digitalization

REGULATORY EVOLUTION

Recent regulatory changes and reforms are increasing the attractiveness for international brands to conduct business locally; opportunities to ease new business developments are being explored

LOCAL DEVELOPMENT

Development of retail stores and malls to drive the domestic spend
+500k sqm in Riyadh three flagship locations³ **+90%** mall supply by '27 vs '22 reaching ~15Mn sqm

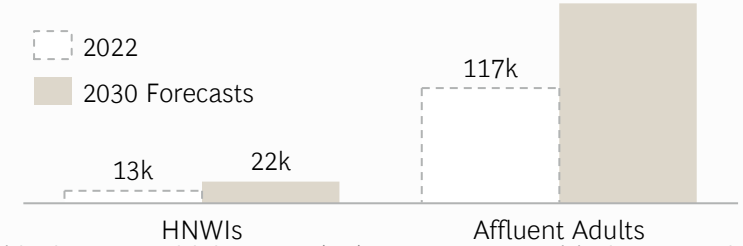
DEMOGRAPHIC CONTRIBUTORS

YOUNG MARKET

60%+ of Saudi population below 30 years old, highly informed and connected

STRONG CONCENTRATION OF HNWIs

of Affluent Individuals¹ and HNWIs² in Saudi Arabia '22 and '30 forecast, k



Why KSA is a key frontier of growth for Luxury Market (II/II)

1. High-Net-Worth-Individual: net wealth between \$5-\$50M 2. Affluent individuals: net wealth between \$1-\$5M 3. KAFCO, Diriyah Gate and new airport hub
 Source: BCG-Altgamma True-Luxury Global Consumer Insight Survey Mar/Apr 2023; Euromonitor; Press Research; Reuters; BCG expert interviews

KSA Luxury consumer: young, sophisticated, techy and seeking innovation

CONSUMER

- Young local consumers highly digitalized and technology-savvy
- Solid appetite for future increase in luxury spend (30% vs. 23% globally net appetite¹), fueled by young generations
- Strong concentration of rich spenders with ~130K with a net wealth >\$1M
- Well travelled, aware of global luxury brands, while connected to their heritage and culture, appreciating local brands

PRODUCTS & VALUES

- Beauty, Watches & Jewelry the categories with the highest expected increase in spend (*net appetite 89% for Perfumes, 88% Watches*)
- Strong appetite for smart & technological products (~60% vs. ~40% avg. True-Luxury)
- Pioneers in immersive virtual fashion purchasing (65% vs. 47% avg. True-Luxury net appetite¹)
- ~75% consider sustainability for luxury purchases (vs. ~65% avg. True-Luxury)

CHANNEL

- Multi-channel growth: mall the preferred purchase channel, yet sales on e-com expected to drive future growth (+17pp online penetration² avg. True-Luxury avg. True-Luxury)
- KSA luxury retail mainly located in six malls in Riyadh, Jeddah and Dammam
- Social media the main source of information for luxury purchases (~50%), followed by brand websites (~20%)
- Thriving second-hand market: ~45% vs. ~30% avg. True-Luxury

KSA is a peculiar market, requiring a specific approach for Luxury brands vis-à-vis UAE and other GCC countries

FIND THE RIGHT LOCAL PARTNER

A local partner is required to succeed, and different set-ups could be chosen, depending on the target growth and brand size. Typically:

1. New **entrants** rely on **franchise** model for a phased entry, through local (like AlMalki and Saudi Jawahir) or regional distributor (like Chalhoub and Al Tayer Insigna)
2. Once the **brand gained a solid footprint**, direct presence or joint venture could be adopted to strengthen presence

EXPLORE FOOTPRINT EXPANSION OPPORTUNITIES

Expand the footprint to new large-scale real estate developments

1. **Existing downtown locations** (e.g., KAFD and Diriyah Gate)
2. **New tourist destinations** (e.g., Red Sea, Al Ula and Qiddiya)
3. **Duty-free gateways** (e.g., new airport hub in Riyadh for business travels, Jeddah airport hub, cruise terminals and key land border crossings such as King Fahd Causeway)

MATCH LUXURY INTERNATIONAL STANDARDS

Provide a comprehensive product portfolio

1. Include in the assortment the **latest product innovations and limited-edition capsules**, often not available to Saudi customers
2. Portfolio upgrade will unlock the unmet domestic demand of well-travelled Saudi consumers, **reducing the dispersion of luxury spend abroad**

ADDRESS LOCAL & CULTURAL RELEVANCE

Adjust product mix to reflect local preferences and cultural norms

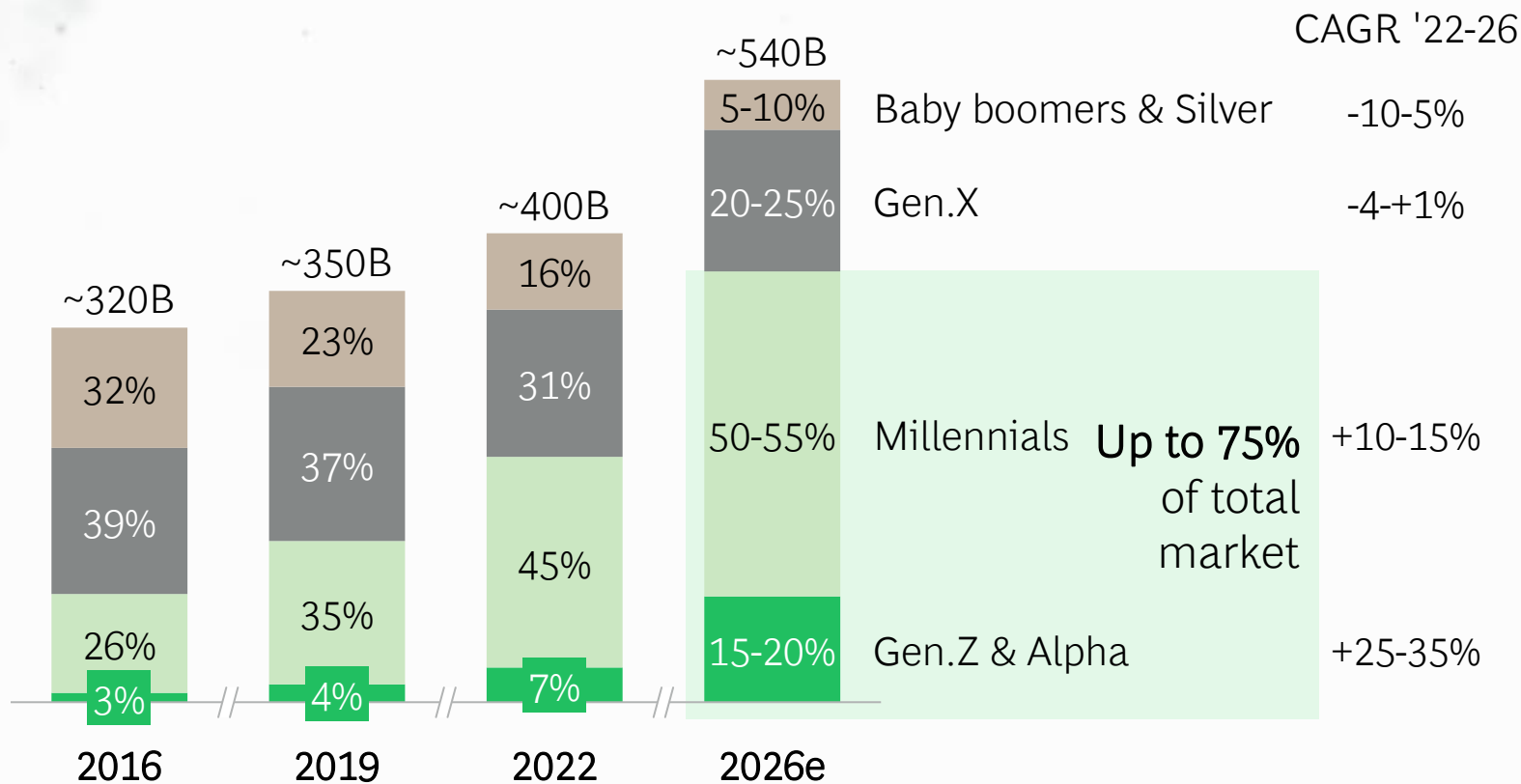
1. Ensure **local adaptation of the assortment**, incl. for ex. broader portfolio for accessories, fewer RTW options for women, ad hoc flavors for perfumes
2. Tailor product & marketing calendar to **key local holidays**: Develop **customized campaigns**, windows, events for **local festive seasons** incl. the two EIDs



Decoding the generational divide

Next Gens here | Millennials and Gen Z driving the growth

Personal True Luxury Market by generation - €B



Millennials and Gen Z are digitally influencing the luxury market and **driving its growth**

KEY DRIVERS

1. **High average spend per person**, especially Gen Z, who starts to purchase luxury items at a younger age compared to previous generations
2. Average 25y consumer in 2022 spending more than the avg. 25y consumer in 2015 due to overall **increasing wealth** and **higher influence around luxury products**
3. Brands increasingly focusing their efforts on **recruiting younger generations**, allocating majority of their marketing investments to digital channels

Young lead growth today, yet Older Gens invested over time and should not be neglected in short-term

	Young generations		Older Gens	
	1 Gen Z	Millennials	2 Gen X	Baby Boomers & Silver
Age	11-26	27-42	43-58	59-78
Avg. spend ¹ in Luxury 2022, k€	35k	41k	35k	33k
	~40k		~35k	
Cumulated spend range ¹ 2008-2022, %€	2-5%	20-25%	30-35%	35-40%
Cumulated spend range ¹ 2008-2022, B€	~150B	~1.100B	~1.700B	~2.000B
	~1.250B		~3.700B	

! **+15%** average spend 2022
Younger vs Older Gens

! **3X** cumulated spend in last 15 years
Older Gens vs Younger Gens and **20X** vs Gen Z

Today, two segments of generations are both sizeable and relevant to address, contributing to brand value in different ways

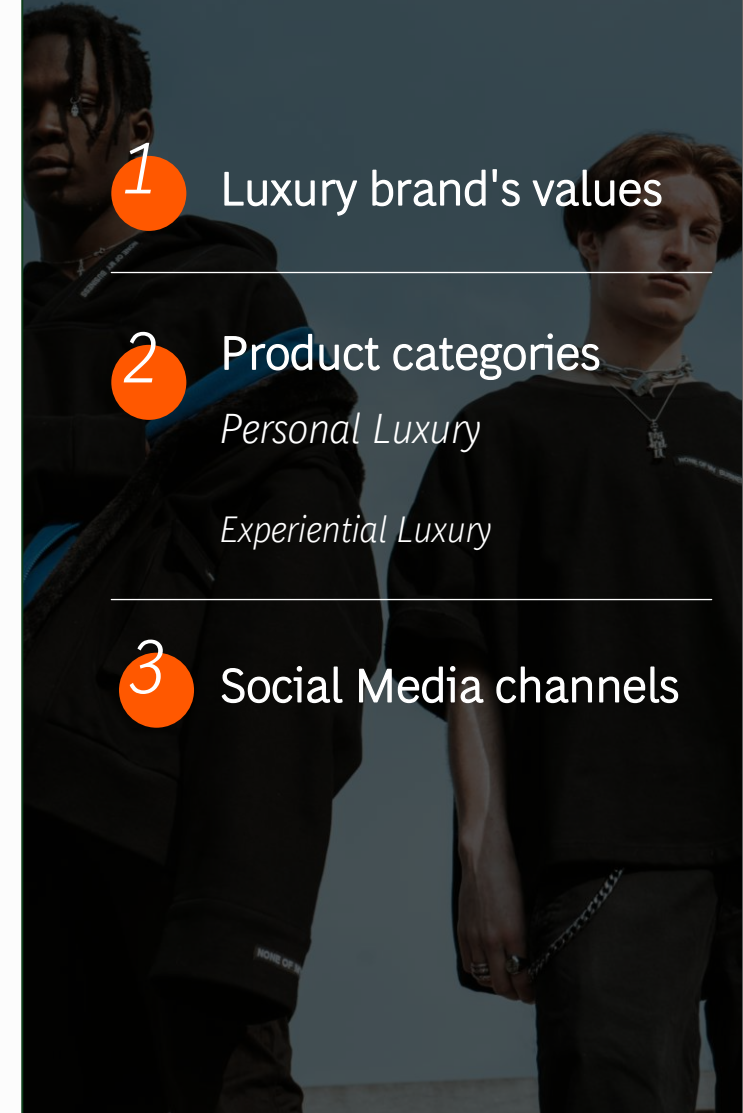
- 1 Younger Gens exhibit higher average spending per person and are the potential future growth drivers
- 2 Older Gens are the loyal customers brands have recruited over time, who have consistently invested for years and contributed its success

1. Personal Luxury spend includes apparel, footwear, accessories, leather goods, beauty, jewelry (branded and unbranded) and watches
 Source: BCG-Altgamma True-Luxury Global Consumer Insight Survey Mar/Apr '23 (12K respondents in 12 countries); BCG Fashion & Luxury Market Model as of June 2023
 Note: Age group year of birth: Gen Z 1997-2005 – Millennial 1981-1996 – Gen X 1965-1980 – Baby Boomer 1946-1964 – Silver 1928-1945; Younger Gens: Gen Z + Millennials / Older Gens: Gen X + Baby Boomers & Silver

Some clear differences across the two segments...

	Younger gens	Older gens
Customer journey interactions	Strong sense of Community Peers' and community's judgement ranked as top sources of guidance & information	Confidence in Professionals Professionals' reassurance & recommendations (e.g., sales staff) ranked as top sources of guidance & information
Technological adoption <i>(% Showing appetite towards Metaverse & Virtual Fashion)</i>	Tech – pioneer <i>TOP 1 REASON WHY POSITIVELY IMPACTED</i> ~60% 39% Possibility to discover new luxury collections in Metaverse	Tech – agnostic <i>TOP 1 REASON WHY NEGATIVELY IMPACTED</i> ~40% 36% Virtual fashion too far from traditional luxury experience
New ownership business models	New ownership models adopter ~60% Have or are interested in renting luxury items ~50% Have sold second-hand luxury items	Ownership oriented ~40% Have or are interested in renting luxury items ~30% Have sold second-hand luxury items
Influence of sustainability <i>(% influenced by sustainability when making luxury purchases)</i>	~70% <i>TOP DISTINCTIVE SUSTAINABILITY CRITERIA</i> 1. Animal welfare 2. Social causes support	~60% <i>TOP DISTINCTIVE SUSTAINABILITY CRITERIA</i> 1. Mindful use of resources 2. Sustainable innovation

...However, each generation displays very distinct peculiarities



- 1 Luxury brand's values
- 2 Product categories
Personal Luxury
Experiential Luxury
- 3 Social Media channels

1 Values differ significantly across generations: innovation & sustainability core for younger, while timeless and unique experience for older

Top 10 values by Generation – Top 1 ranked

	Gen Z	Millennials	Gen X	Baby Boomers & Silver
	1. SUPERIOR QUALITY	1. SUPERIOR QUALITY	1. SUPERIOR QUALITY	1. SUPERIOR QUALITY
	2. REWARD FOR MYSELF ☆	2. INNOVATION ☆	2. EXCLUSIVITY	2. CRAFTSMANSHIP
	3. EXCLUSIVITY	3. EXCLUSIVITY	3. REWARD FOR MYSELF ☆	3. TIMELESS
	4. CRAFTSMANSHIP	4. BRAND VISIBILITY ☆	4. CRAFTSMANSHIP	4. REWARD FOR MYSELF ☆
	5. INNOVATION ☆	5. SUSTAINABILITY ☆	5. TIMELESS	5. EXCLUSIVITY
	6. SUSTAINABILITY ☆	6. CRAFTSMANSHIP	6. BRAND VISIBILITY	6. A UNIQUE EXPERIENCE ☆
	7. TIMELESS	7. TIMELESS	7. A UNIQUE EXPERIENCE ☆	7. HERITAGE ☆
	8. AN IDENTITY STATEMENT	8. COOL/SEXY	8. ADORNED AESTHETICS ☆	8. AN IDENTITY STATEMENT
	9. COOL/SEXY	9. REWARD FOR MYSELF	9. INNOVATION	9. BRAND VISIBILITY
	10. BRAND ICONIC PATTERNS	10. BRAND ICONIC PATTERNS	10. COOL/SEXY	10. SUSTAINABILITY

Shared values
across gens

☆ Gen distinctive
values

Note: Question asked was "Luxury to me is... Please rank the top 3 values"
Source: BCG-Altgamma True-Luxury Global Consumer Insight Survey Mar/Apr '23 (12K respondents in 12 countries)

2 Among Personal Luxury, higher spending of Gen Z on Tech Devices and Virtual Fashion, while Gen X on Watches and Baby Boomers on Formal

Δ Yearly avg. spend by category vs Avg. True-Luxury

		Gen Z	Millennials	Gen X	Baby Boomers & Silver
BEAUTY & PERSONAL CARE	PERFUMES	-14%	2%	1%	1%
	COSMETICS	-5%	0%	1%	7%
	LASER AND INJECTABLES	4%	2%	-7%	4%
CASUALWEAR & SPORTS	SPORTSWEAR	-4%	-1%	4%	-1%
	KNITWEAR & SWEATERS	-16%	4%	-2%	-8%
	LOUNGEWEAR	-11%	0%	2%	7%
	OUTERWEAR	-19%	3%	1%	-9%
FORMALWEAR	PANTS & SKIRTS	-17%	0%	4%	5%
	DRESSES & SUITS	-1%	-2%	3%	10%
	SHIRTS & TOPWEAR	-3%	3%	-2%	-16%
	SILK GOODS	-2%	-3%	7%	2%
HARD LUXURY	JEWELRY	-15%	3%	0%	-5%
	WATCHES	-19%	2%	3%	-5%
LG ¹ & ACCESSORIES	SHOES	-21%	5%	-3%	-12%
	HANDBAGS & SMALL LG ¹	-16%	6%	-8%	0%
	SUNGLASSES	-9%	1%	2%	-7%
OTHER LUXURY GOODS	SMARTPHONES & TABLETS	7%	1%	-2%	-9%
	SMART WATCHES	5%	2%	-8%	-7%
	CARS	-4%	1%	-2%	1%
	INVESTED IN NFT	22%	-5%	7%	-5%
	LUXURY BOATS & YACHTS	-12%	2%	0%	0%
	PURCHASED VIRTUAL FASHION	30%	0%	-4%	-11%

Cosmetics
of consumers who purchased 2022
Gen Z 1.4x
Baby Boomers & Silver

Jewelry
Penetration of Gen Z 54% vs 48% Avg True-Luxury consumer




LG & ACCESSORIES
Despite lower Gen Z spending vs other gens, very high penetration
60% Gen Z consumers purchased LG & accessories in 2022

Note: question asked was "Please, indicate for each category how many luxury items you have purchased in the past 12 months and how much you have spent".

1. Leather goods Source: BCG-Altagama True-Luxury Global Consumer Insight Survey Mar/Apr '23 (12K respondents in 12 countries)

2 Among Experiential Luxury, older generations craving for private experiences, particularly Wellness & Spa and Luxury Hotels

Δ Yearly avg. spend by category vs Avg. True-Luxury

	Gen Z	Millennials	Gen X	Baby Boomers & Silver	
 EXPERIENTIAL PRODUCTS	DESIGN FURNITURE	-10%	3%	-4%	
	LIGHTING	-5%	2%	-3%	
	HOME TECHNOLOGY	10%	0%	-4%	
	ART GOODS	-14%	3%	4%	-18%
 PRIVATE EXPERIENCE	RESTAURANTS	-7%	-3%	7%	6%
	WINES & SPIRITS	-19%	-1%	4%	16%
	PRIVATE ACCOMODATION	4%	-2%	2%	14%
	WELLNESS & SPA	-12%	-2%	2%	27%
	RENT LUXURY BOATS	-1%	-1%	1%	6%
	HOTELS	-10%	-2%	-1%	25%
 SOCIAL EXPERIENCE	CRUISE VACATIONS	-9%	0%	0%	13%
	RESORT VACATIONS	-7%	0%	1%	1%
	LUXURY BARS & CLUBS	-7%	4%	-4%	-9%

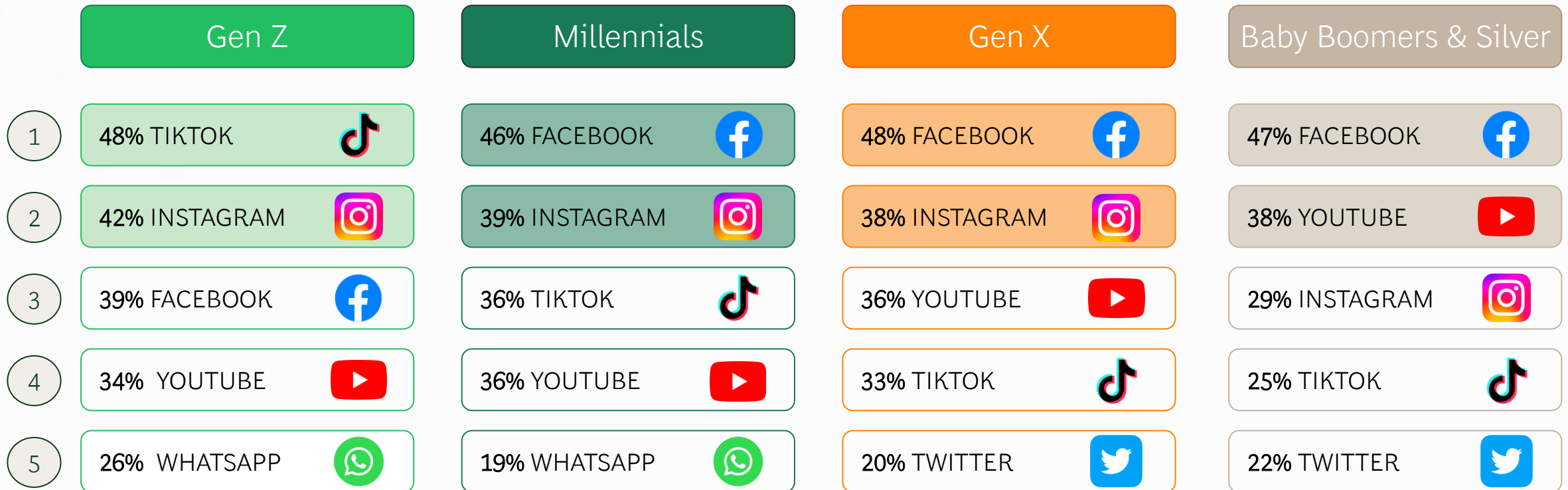
Luxury Bar & Clubs
of consumers who purchased 2022
Gen Z
1.2x
Millennials

Note: question asked was "Please, indicate for each category how many luxury items you have purchased in the past 12 months and how much you have spent".

Source: BCG-Altgamma True-Luxury Global Consumer Insight Survey Mar/Apr '23 (12K respondents in 12 countries)

3 Also, social media channels adoption differs significantly, with TikTok top 1 for Gen Z

Top 5 social media to interact with luxury brands
(% consumers who ranked from 1 to 5)



Different strategies for Brands required in the short and mid-term

TODAY

Adopt **different strategies** for product, social media and marketing, understanding the **profound differences** across generations

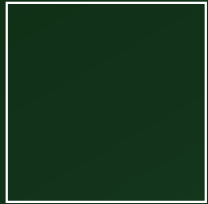
Capture the **opportunities of both gens' segments**:

- **Overinvest on the Young** which represent the bulk of growth in order to recruit them
- **Nurture and capitalize on the Old** ones who have built your brand over the years

MID-TERM

Gain profound understanding of **Gen Z & Millennials' peculiarities**, fundamental to reap the rewards of the recruitment investments

However, demographic only the first step to understand customers' – **personalization & GEN AI** allow much more sophisticated strategies around behavioral clusters & personas



The revolution of Generative AI

Generative AI is a new step in the Artificial Intelligence evolution

GenAI is a new and upcoming technology ...

... with high potential for disruption

Artificial Intelligence



the field of computer science that seeks to create intelligent machines that can replicate or exceed human intelligence

Machine Learning



subset of AI that enables machines to learn from existing data and improve upon that data to make decisions or predictions

Deep Learning

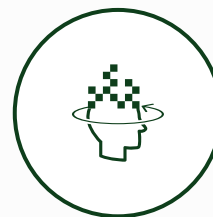


a machine learning technique in which layers of neural networks are used to process data and make decisions

Generative AI



create new written, visual, and auditory content given prompts or existing data

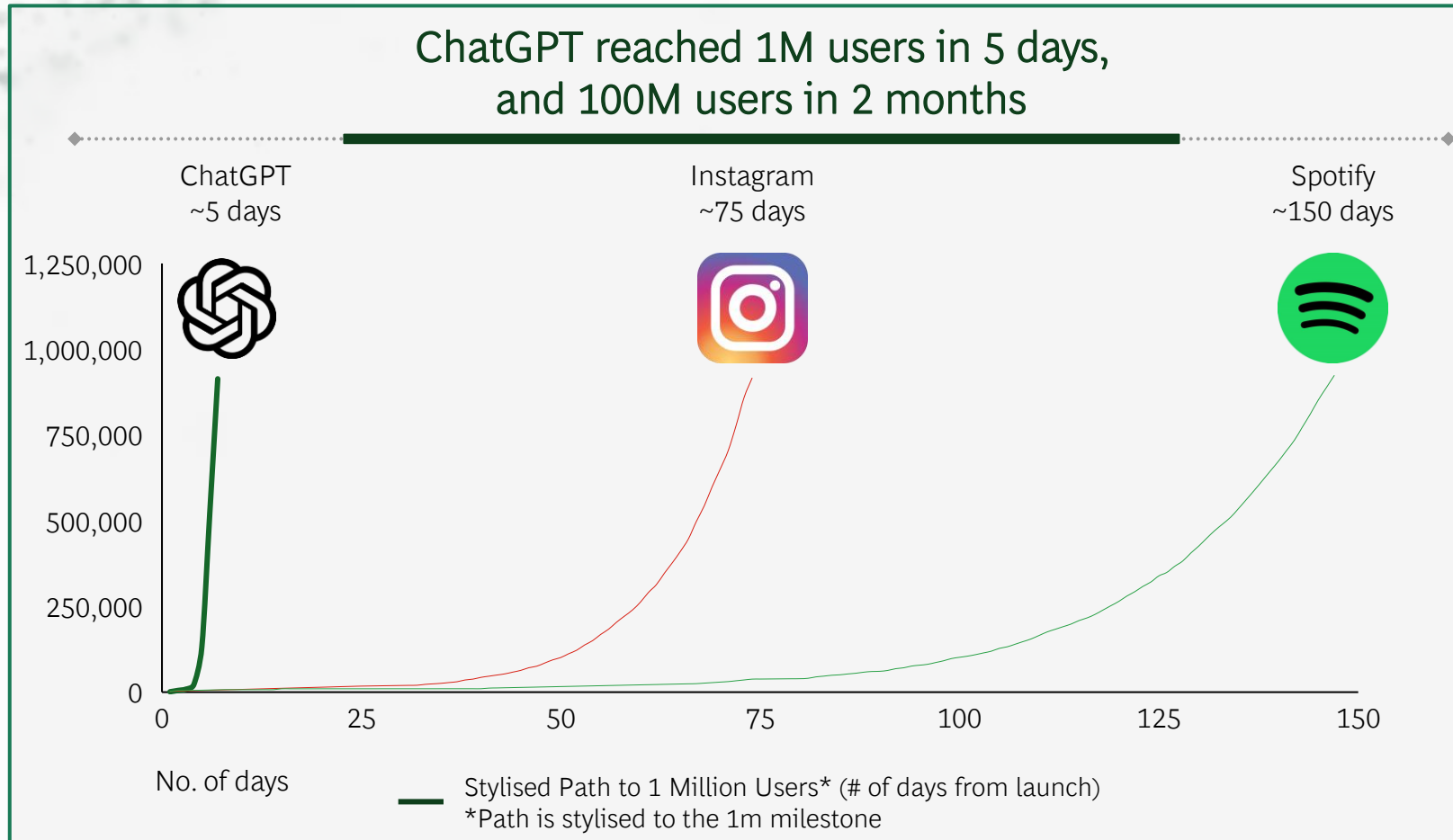


GenAI can create fully original text, images, audio and more, in seconds



GenAI matures at unprecedented speeds, model applications and parameters have skyrocketed

It is rapidly becoming a part of our personal and professional lives



But unlike Instagram and Spotify, Generative AI will become a major part of our work

80%

of US workers will have some (~10%) share of their work affected by GPT-4

19%

of US workers will have a significant (~50%) share of their work affected by GPT-4

GenAI is already having a transformative effect on many industries and is being prioritized by executives

The new technology's impact across industries is booming..

Technology

~88%

Of software developers reported higher productivity when using a Generative AI code assistant¹

Biopharma

21 days

Needed for Generative AI to identify a novel drug candidate for the treatment of IPF (vs. years with traditional methods)²

Insurance

~30%

Reduction of customer service costs for InsureTech platforms leveraging GenAI

Retail

1.5X

Increase in retailer conversion rate³ caused by automated on-model image generation

... and likely to see rapid adoption and massive investments

~\$20B+

of committed VC funding for Generative AI in the last three years alone⁴

67%

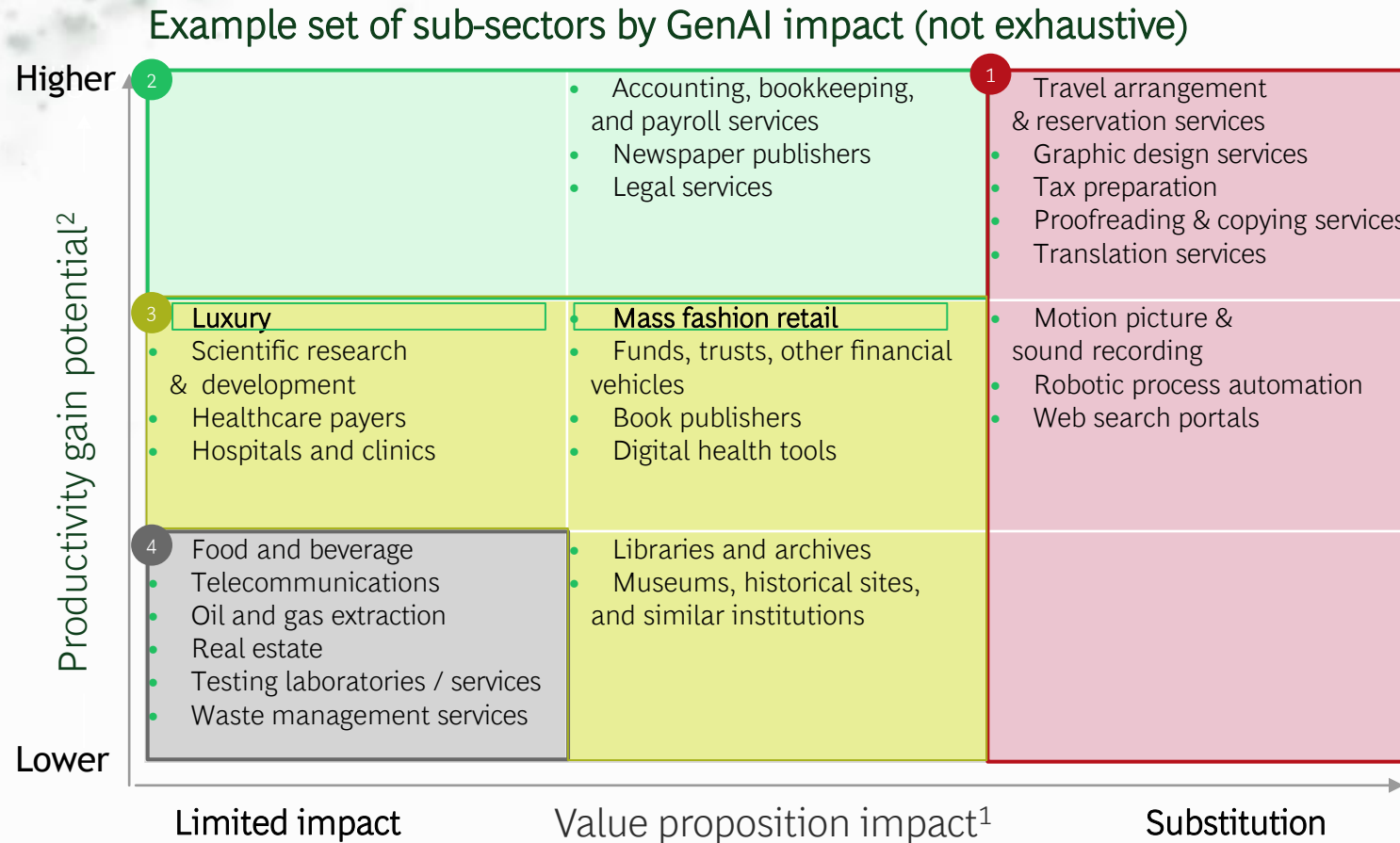
of senior IT leaders are prioritizing Gen AI within the next 18 months⁵

45%

of executive leaders reported ChatGPT has prompted them to increase their AI investments⁶

1. Github "Quantifying GitHub Copilot's impact on developer productivity and happiness" 2. Nature Biotechnology "Deep learning enables rapid identification of potent DDR1 kinase inhibitors"; 3.Vue.ai website; 4. Crunchbase, Pitchbook, BCG Analysis; 5. Salesforce; 6.Gartner

GenAI will most disrupt content & knowledge industries – more traditional sectors like Luxury will be greatly impacted but less disrupted

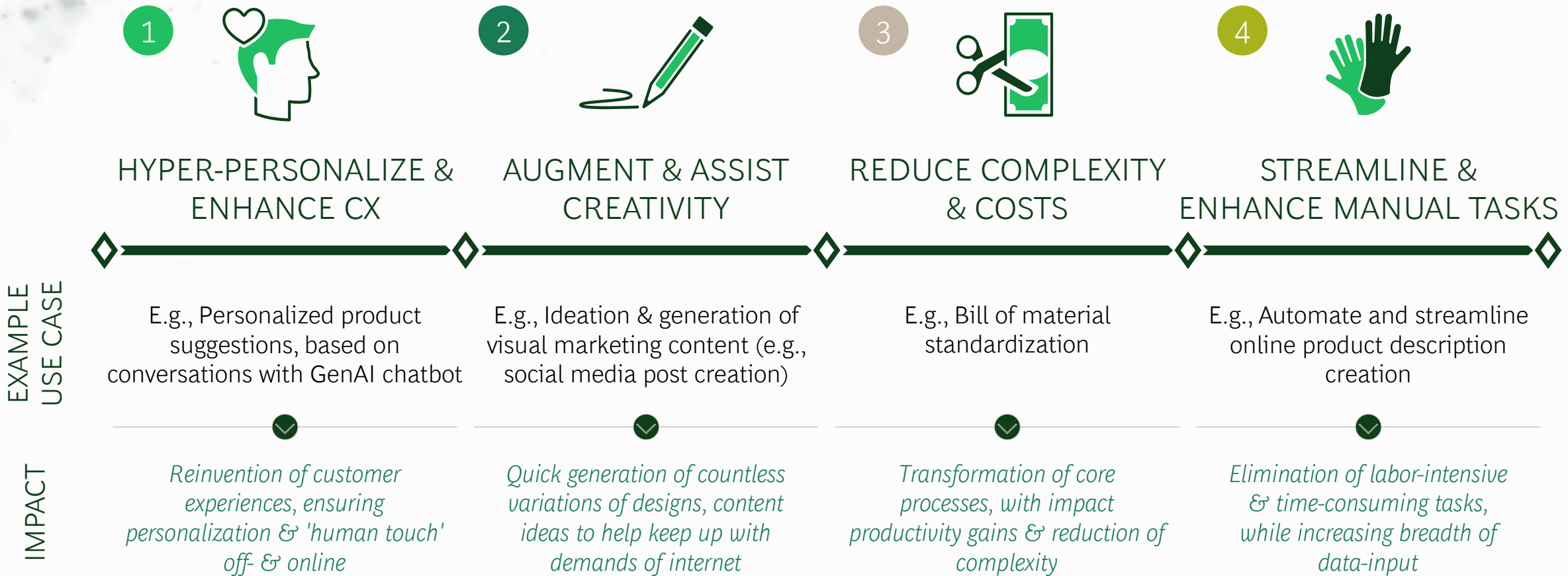


- 1 **Fundamentally disrupted sub-sectors** in which value proposition has been changed, and new products / services have emerged
- 2 **Highly-impacted sub-sectors** focused on knowledge or content generation, where GenAI can replace / automate large portions of operations and service
- 3 **Moderately-impacted sub-sectors**, where many tasks can be automated, but value is provided in the form of a product or face-to-face service
- 4 **Low / no impact** due to high dependence on physical products, infrastructure, or face-to-face service delivery

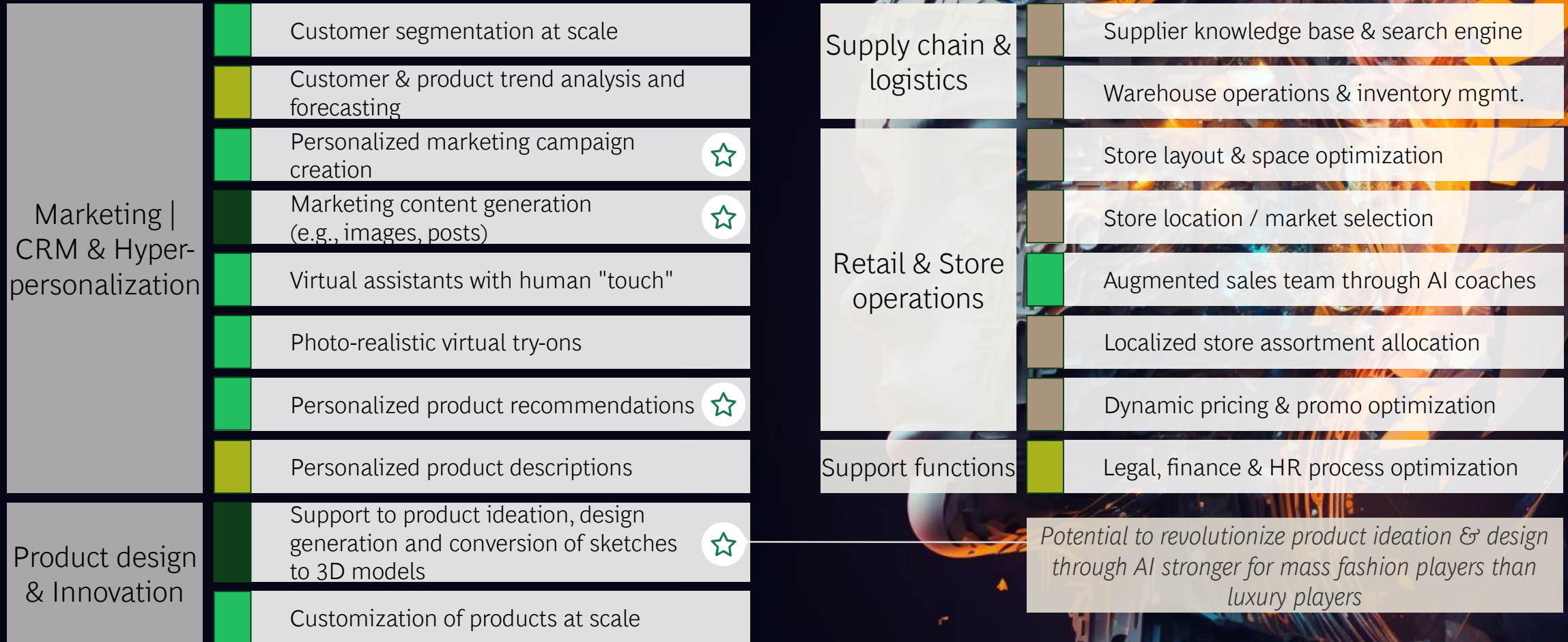
Note: Very few industries are at risk of full substitution, but individual sub-sectors and companies may be displaced

1 Top-line impacts due to improved or new products and services; 2. Greater productivity per head, driving reduced costs or improved quality of outputs & delivery

GenAI offers four opportunities to impact the luxury industry in the immediate future



Applications of GenAI in Luxury to transform core processes & reinvent customer experiences

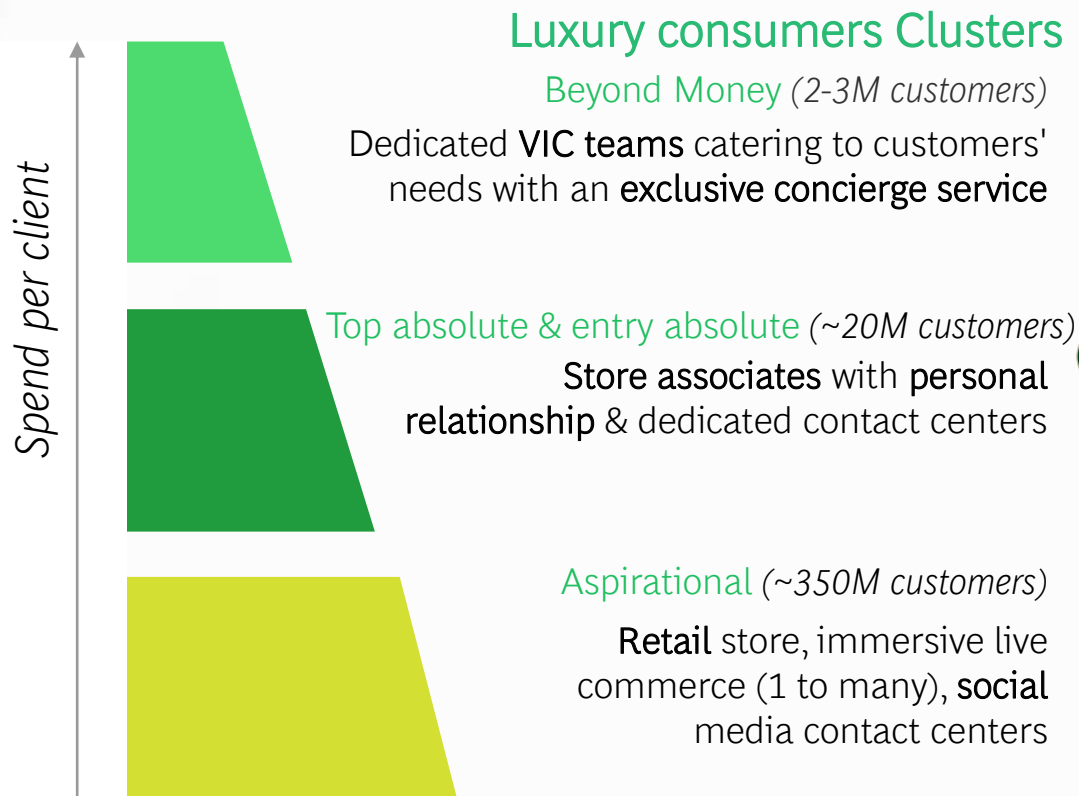


- 1 Hyper-personalize & enhance CX
- 2 Augment & assist creativity
- 3 Reduce complexity & costs
- 4 Streamline & enhance manual tasks
- ★ Golden use cases (highest expected impact)

Reach vs richness | GenAI might allow Luxury brands to overcome the trade-off, creating scalable solutions for personalized VIC treatment

Until now luxury brands had to face a trade off between depth of services and scalability...

...but through GenAI, some aspects of personalized VIC services could be extended to mid-pyramid & aspirational customers



Examples of client facing use cases



Personalized Content creation: images, posts for social media, tailored to customer's preferences



Conversational shopping: browsing & shopping through natural language conversation with a generative AI assistant



Personalized product recommendations & hyper-realistic virtual try on: in-store feeling also online



Augmented clienteling in store: boost in-store personalized experience for non-VIC clients

Executives must make choices across three key pillars

POTENTIAL

Which use cases will differentiate your organization?

1

Discover your strategic advantage through experimentation

- CEOs need to experiment, discovering & deciding on the company's optimal use cases
- When use cases are identified, design a fast & reliable implementation approach
- Ensure long-term advantage through investment in talent and infrastructure

PEOPLE

How should CEOs adapt org structures and prepare employees for deployment?

2

Prepare your workforce with strategic workforce planning and transforming of models

- CEOs will need to address key org questions for change management, talent and operating models
- Generative AI will redefine roles and responsibilities across the organization & CEOs need to develop a strategic workforce plan

POLICIES

How will the company ensure ethical guardrails and legal protections are in place?

3

Protect your business with clear policies that address the limitations of GenAI

- Generative AI presents critical risks, which companies will need to prepare for, by preparing clear policies and training that define roles and responsibilities on how to use GenAI
- CEOs should ensure the organization adapts responsible AI norms for long term risk mitigation



Web3 & Metaverse: Virtualization of Fashion & Identity

Web3 is the envisioned next version of the internet, centered around user control

WEB 1.0

USERS READ

Publishers create and make money



1990s-2000s



WEB 2.0

USERS READ & CREATE

Networks control & make money in a centralized way

Pre-existing



New

2000s-2020s

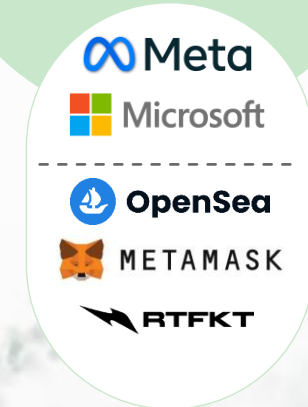


WEB3

USERS READ, CREATE & OWN

Users control networks & money in a trustless and decentralized way

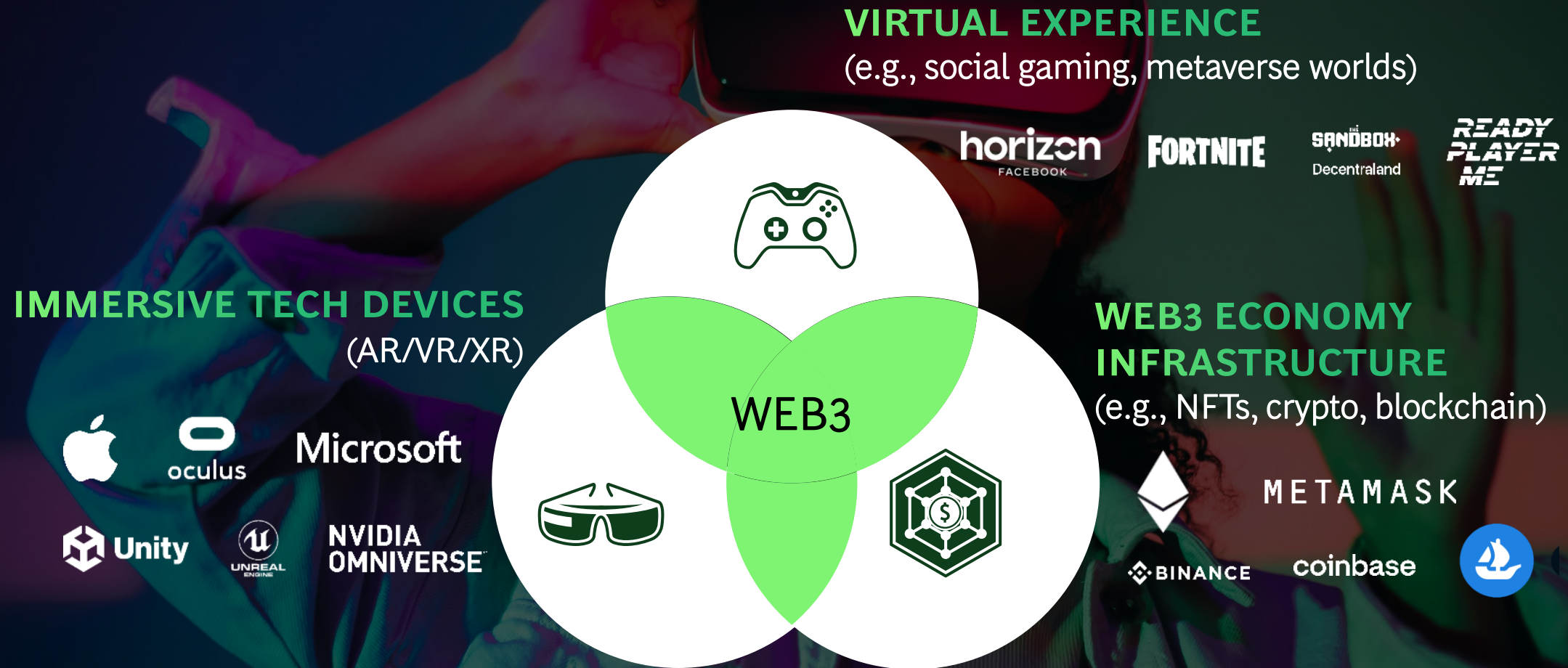
Pre-existing?










New

2020s-??

Web3 unfolds in three intertwined concepts and technologies



The market is still at its nascent stage...

		STATUS
	VIRTUAL EXPERIENCE (E.G., SOCIAL GAMING, METaverse WORLDS)	 Gaming is a thriving market, while metaverse platforms still facing tech. & graphics weaknesses
	IMMERSIVE TECH DEVICES (AR/VR/XR)	 High growth potential, but tech. development and adoption level still lagging
	WEB 3 ECONOMY INFRASTRUCTURE (E.G., NFT, CRYPTO, BLOCKCHAIN)	 Strong base of Early Adopters, but not yet permeated mass market
 <i>Very preliminary experiments of applications integrating all the three pillars</i>		

● Early stage ● Advanced stage

...with some challenges to face

LACK OF INTERCONNECTION

Data exchanges between multiple virtual worlds are complex, making presence on different platforms not user-friendly

PARTIALLY DEFINED BUSINESS MODELS

Effective monetization strategies and synergy creation with core business still to be developed

REGULATORY UNCERTAINTY

Regulations around consumer data protection in Web3 still evolving

LOW UTILIZED DIGITAL CONTENT

Short and highly-codified digital formats, usually exported with low quality to social media

However, 3 key reasons to believe there is a strong potential to be unlocked



1 GROWING INVESTMENT IN TECHNOLOGY

Tech giants are increasingly investing in Web3 development, launching tech. products to enhance its features, applications & experiences

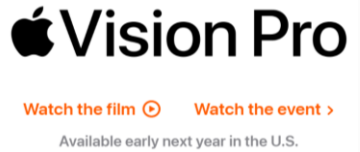


\$70B Microsoft acquisition of Activision Blizzard, US videogame manufacturer & distributor

+\$10B Meta annual plan investment in metaverse

\$13B total global VC & PE investments in metaverse in 2021

Apple Vision Pro announcement release in 2024



2 PROMISING BUSINESS OPPORTUNITY

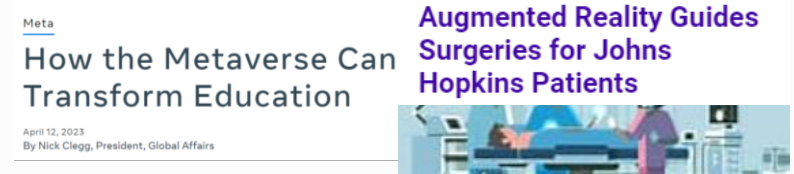
Several effective B2B and B2C use cases and applications have potential for generating new business opportunities across industries



\$60B total market in game purchases 2021

\$250M daily NFTs¹ trading volume at peak

+20% '22-'27 CAGR Global Enterprise AR market



3 INCREASING CONSUMER APPETITE & ADOPTION

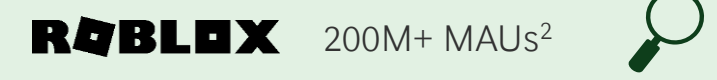
Consumers spending more time socializing, creating and expressing themselves in immersive social spaces



87% of Gen Z and Millennials True-Luxury consumers engaged in video games

71% of Gen Z and Millennials True-Luxury consumers active/interested to be in metaverse

x2.5 daily chat messages sent on Roblox vs Messenger



In-depth investigation of True-Luxury consumers detailed next 51

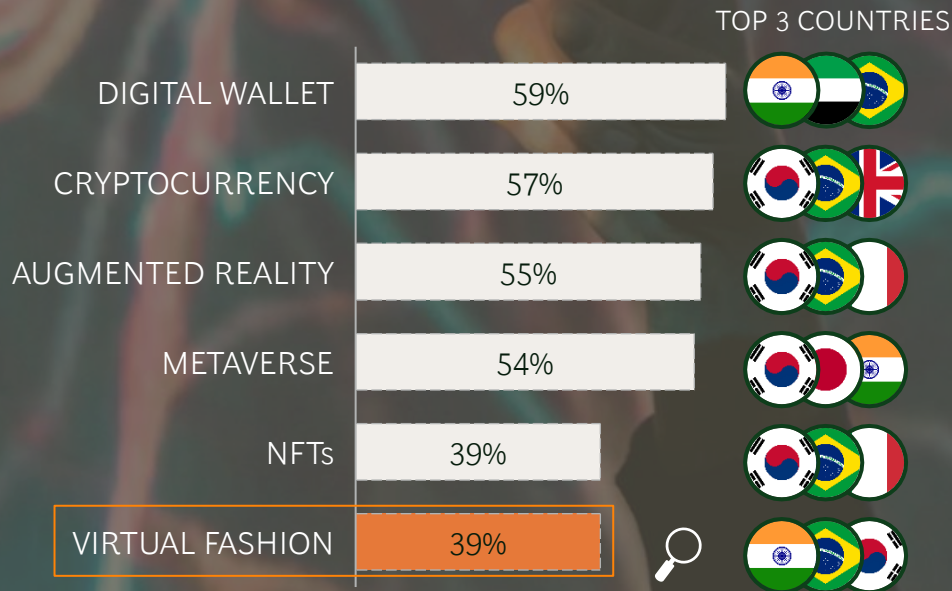
1. Not fungible token 2. Monthly Active Users
Source: BCG-Altgamma True-Luxury Global Consumer Insight Survey Mar/Apr '23 (12K respondents in 12 countries); Press search; BCG expert interview

3 Despite the current technological lag, Luxury Consumers are increasingly aware and showing appetite for Virtual Fashion, NFTs & VR

CONSUMER AWARENESS

There is rising awareness among True-Luxury Consumers for new technologies, particularly in South Korea, India and Brazil

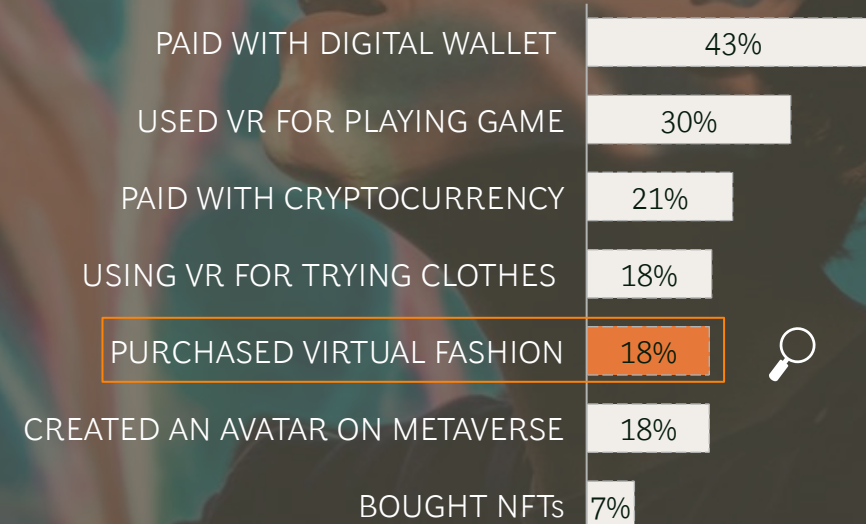
"Which of the following new technologies have you heard of?"



APPETITE FOR VIRTUAL FASHION & IDENTITY

1/5 of True Luxury Consumers have paid with Cryptocurrency, purchased virtual fashion and have been active on the metaverse

"Which of the following new technologies have you used in the last 12 months?"



3 Limited purchases so far, yet 70%+ as potential buyers...



Have you ever been active on the metaverse and purchased virtual fashion from a luxury brand?

4% PURCHASED

12% ACTIVE ON METAVERSE

55% INTERESTED

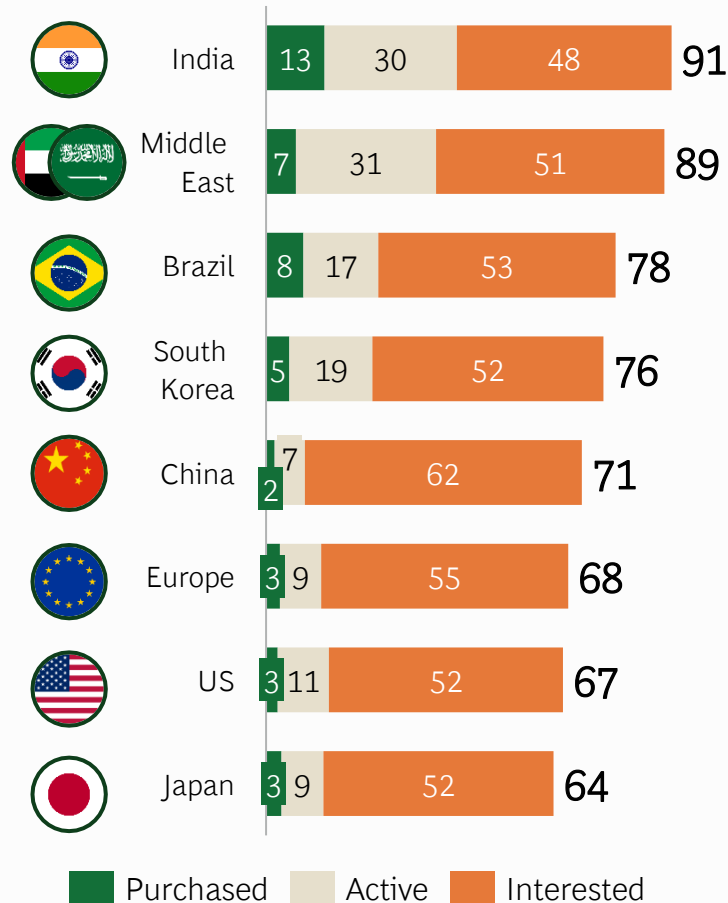
29% NOT INTERESTED

71%

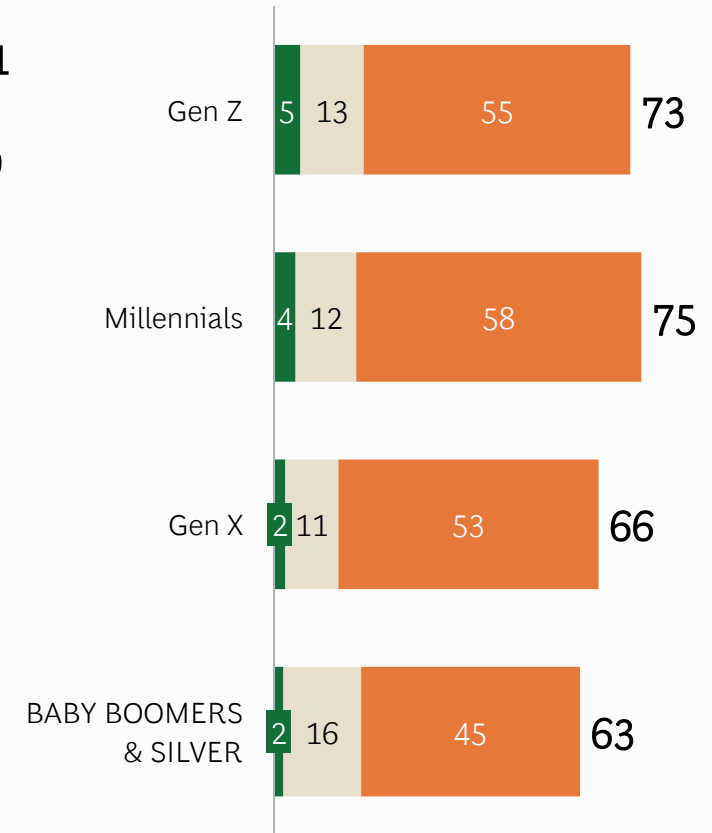
CURRENT & PROSPECTIVE VIRTUAL FASHION BUYERS

...mainly Indian, Middle Eastern and Brazilian young gens

% CURRENT & PROSPECTIVE BY COUNTRY



% CURRENT & PROSPECTIVE BY GEN



Note: Middle East includes UAE and KSA – Graphs refer to all respondents – % not interested
Source: BCG-Altgamma True-Luxury Global Consumer Insight Survey Mar/Apr '23 (12K respondents in 12 countries)

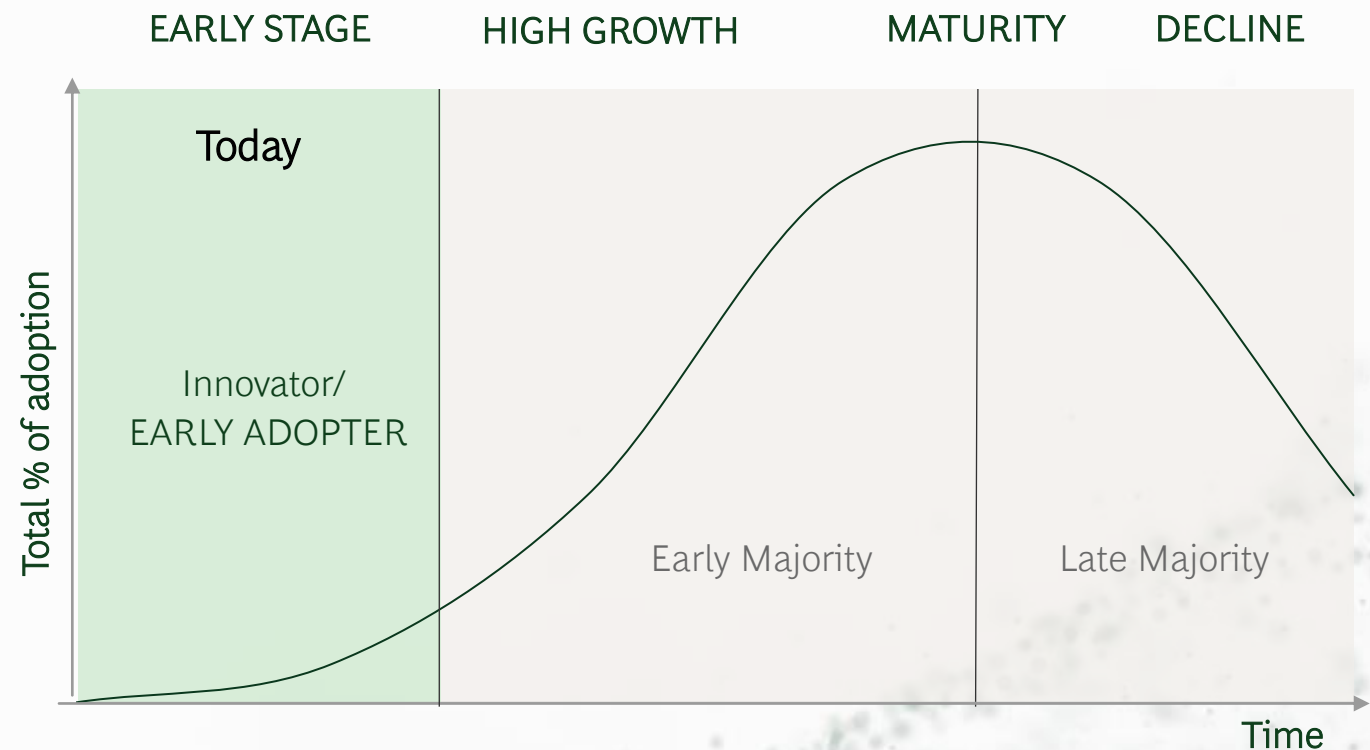
3 In the current early-staged market, Early Adopters are young gens' tech pioneers and Escapers; still long path ahead to reach mass market

As of today, virtual fashion still for **Early Adopters**

We see **two types of customers** currently active on metaverse:

1. **Young gens Tech. Pioneers:** very young technology enthusiasts
2. **Escapers:** individuals who seek to escape from underwhelming realities, immersing in alluring virtual worlds

Faster adoption growth to happen once the **technology** will provide fully immersive, captivating experiences



3 However, 3 positive signals from customers on future evolution of Virtual Fashion



FUTURE INCREASE IN SPENDING

Despite current low purchase rate, **54%** of consumers stated their spend will increase over the next year, especially young generations

% of true luxury consumers that expected to increase spending in virtual fashion over next year

<40y	>40y
61%	41%

POSITIVE BRAND PERCEPTION

Consumers perceive **metaverse-active** brands as **cooler**

54% of true luxury consumers have positive perception for brands developing virtual fashion

KEY DRIVERS

1. CHANCE TO DISCOVER NEW LUXURY COLLECTIONS AND EXPERIENCES
2. CHANCE TO BETTER EXPRESS PERSONAL STYLE THROUGH DIGITAL PERSONAS

RELEVANCE OF VIRTUAL IDENTITY ALSO FOR THE PHYSICAL WORLD

Consumers highly value their virtual identity and recognize strong connection between choices in the physical world and avatar customization

- 90%** think that their virtual identity is important
- 88%** say that they get physical style inspiration from dressing their avatars
- 85%** say that their avatars dress at least somewhat like in real lifestyle

HOW WEB3 IMPROVE LUXURY CX



Gamified content & presence in immersive worlds contribute to **strengthen brand awareness and purchase intent**



Immersive 3D-AR/VR applications provide luxury customers with **engaging experiences** throughout the marketing funnel, especially boosting conversion



Web3 tech-enabled communities are far **more engaged** than Web2 equivalents, showing path for brands to boost loyalty and advocacy



Moreover, brands should be ready for a future where these 3 pillars are integrated together

NEXT STEPS FOR LUXURY BRANDS

- 1 Learn how to **effectively engage customers** beyond the physical world, exploiting **immersive experiences** as recruitment channel for young audience
- 2 Amplify marketing and content creation by incorporating 3D-AR/VR devices and smartphone augmentation solutions
- 3 Create their own Web3 community and provide unique **token-based experiences** to nurture relationships with target audiences

What's next for Luxury Brands: gamified, immersive and community-based experiences can boost consumer engagement ~5X vs traditional approach

Chapter 3.

LUXURY IN A CHANNEL-LESS AGE: TRUE-LUXURY CONSUMER STILL UNHAPPY

The new frontier of Luxury experience



Zoom into Luxury customer experience

1



**CUSTOMER
DISSATISFACTION**

Unveiling luxury
customer
dissatisfaction and
gap of online
channel

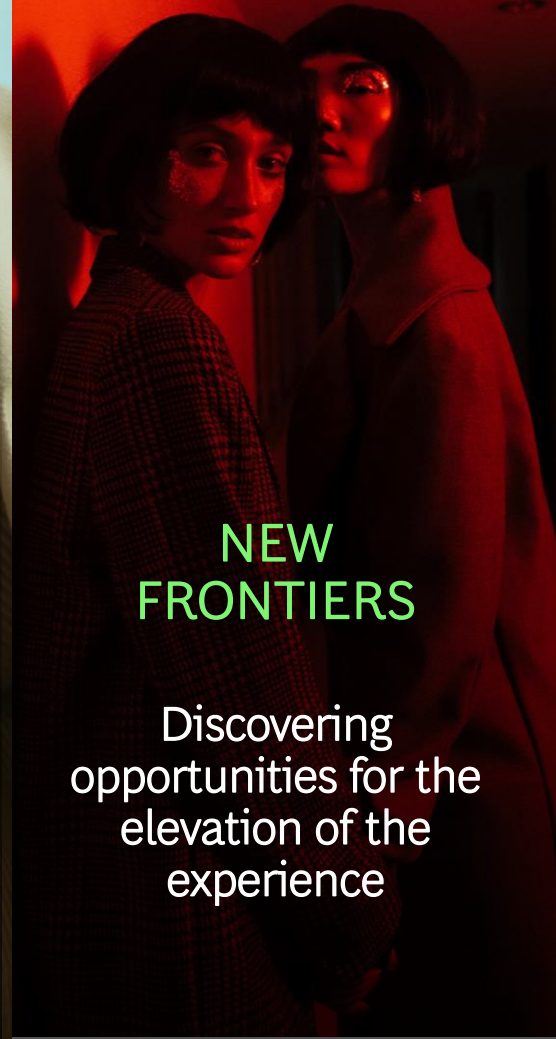
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**COMPANIES'
BLIND SPOTS**

Revealing companies'
misconceptions &
realities about the
Luxury CX

3



**NEW
FRONTIERS**

Discovering
opportunities for the
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NEW FRONTIERS

Discovering
opportunities for the
elevation of the
experience

We've been talking about omnichannel for **more than a decade** ...

BOF The Business of Fashion
Agenda-setting intelligence, analysis and advice for the global fashion community.

RETAIL
Burberry's Bet on Retail Entertainment
What does Burberry's new high-tech store herald for the future of physical retailing?




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Christiane Klarmann
2) | [Cite this article](#)
tion content, [access vi](#)

References

Atwal, G./Williams, A. (2009): Luxury Brand Marketing – Everything!, in: Journal of Brand Management, 16, 5/6, p

2012



Media network blog
Four brands storming the world of fashion and technology

From Burberry to Ralph Lauren, fashion brands are experimenting with new and emerging technologies

Kieran McBride
Fri 5 Sep 2014 12:36 BST

Once again the fashionistas are descending for **London fashion week**. With Somerset House and central London transforming for their arrival, it's fascinating to see the way in which we the consumer can now access the sometime previously rarified air of the fashion world. Fashion's evolving - not just into more and more extreme sights on the catwalk - but behind the scenes too, as **brands** adapt to new consumer expectations around how, when and why they want to interact.


TA
ST ADVANCED
RY, STUDY SAYS
Federation noted that in today's tough
sted resources in integrating the digital
gy. At some point in the future, he added,
at retailers interact with customers.
ch group is, some players are doing
oming out a winner.



2014

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A major challenge luxury brands have faced since the beginning of the digital era is how to bring the same high-end experiences they offer in-store to the digital space. Now, even more than having a lively digital presence, luxury brands are faced with the challenge of adapting to an increasingly omnichannel world.

Omnichannel marketing means closing gaps in experiences across channels to offer a seamless, unified brand experience across devices and



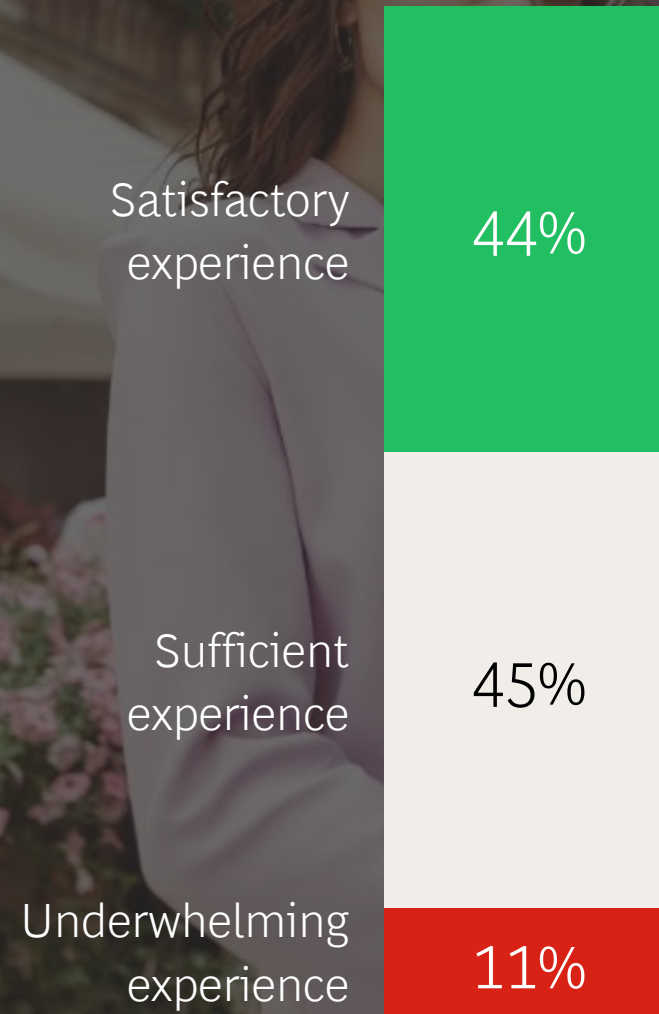
The diffusion brand, as it has existed for the past few decades, feels ancient in the modern fashion industry.

In fashion, the term "diffusion brand" means a secondary line by a well-known designer. (Think Marc by Marc Jacobs, CK by Calvin Klein.) They are intended to reach a younger, aspirational demographic with lower price points and

and so on..

...yet customers are still not happy

Less than half of Luxury consumers are truly satisfied with their overall experience and feel it was above expectations

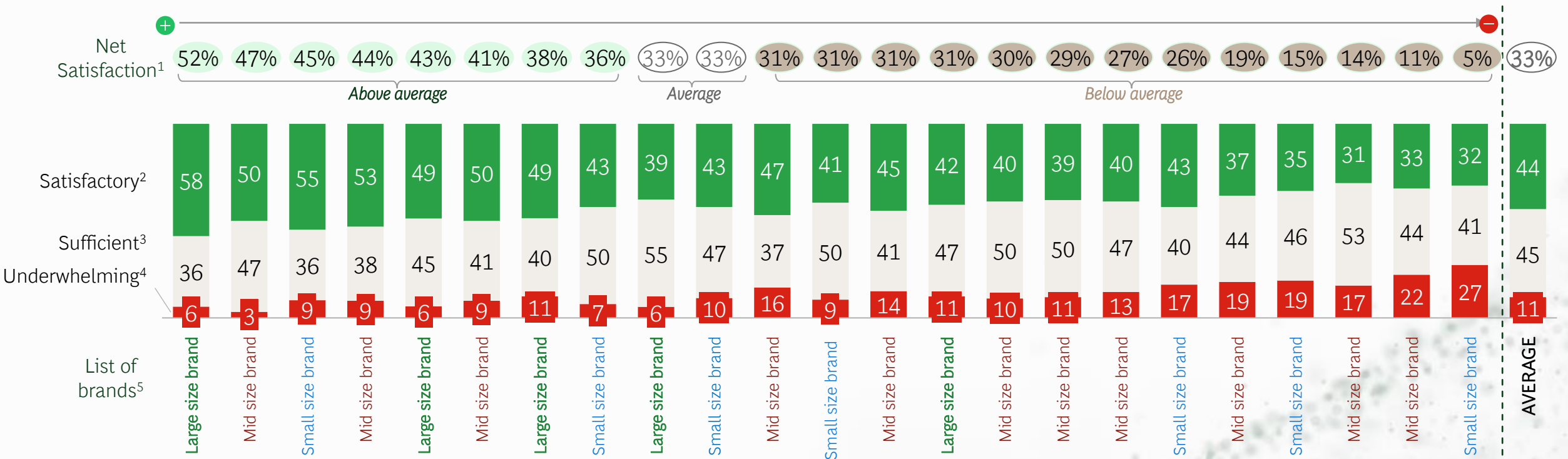


Brand temperature check | All brands struggle to reach Net Satisfaction Score above 50 and huge satisfaction gaps exist among peers



Think about the expectations you had at the beginning of your purchase experience. How much was the actual experience of buying the luxury item in line with your initial expectations?

Satisfaction on last purchase (online & offline) by brand, %



Note: Included only Brands with at least 30 respondents who have purchased from them

1. Net Satisfaction = % Above Expectations - % Below Expectations; 2. Above expectations 3. Purchase experience in line with expectations; 4. Purchasing exp. below expectations 5. Clustering of brands based on 2022 revenues

Source: BCG-Altgamma True-Luxury Global Consumer Insight Survey Mar/Apr '23 (2.6 K respondents in 6 countries)

Luxury brands have spent decades perfecting the **offline** experience ...

Luxury brands beat retailers hands down in the **offline experience**

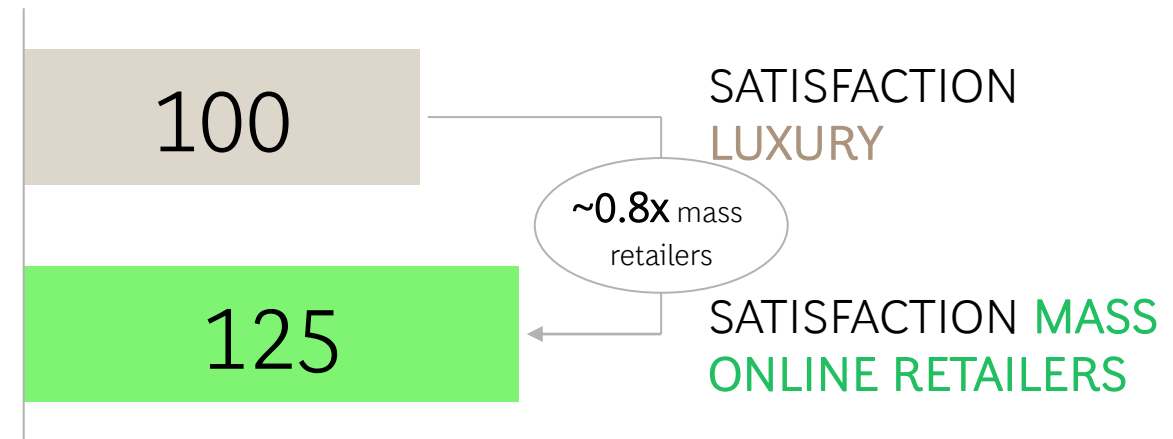


Going to my favorite stores is like treating myself – I feel pampered, I get my champagne... I'd go everyday
- Anna, 48 y.o.

Note: Satisfaction based on NPS calculated as % of Promoters (9-10 ranking) minus % of Detractors (0-6) and converted to 100
Source: BCG-Altgamma True-Luxury Global Consumer Insight Survey Mar/Apr '23 (2.6 K respondents in 6 countries); BCG analysis

...yet **online** ceremonies are lagging behind their in-store counterparts

Instead, **online experiences** of retailers are overall comparable & even superior in terms of services



Why is my online experience the same whether I'm buying a **blue polo** or a **10k€ travel bag** from my favorite **Luxury brand**?
- Adam, 35 y.o.

1.Specialty and not specialty retailers

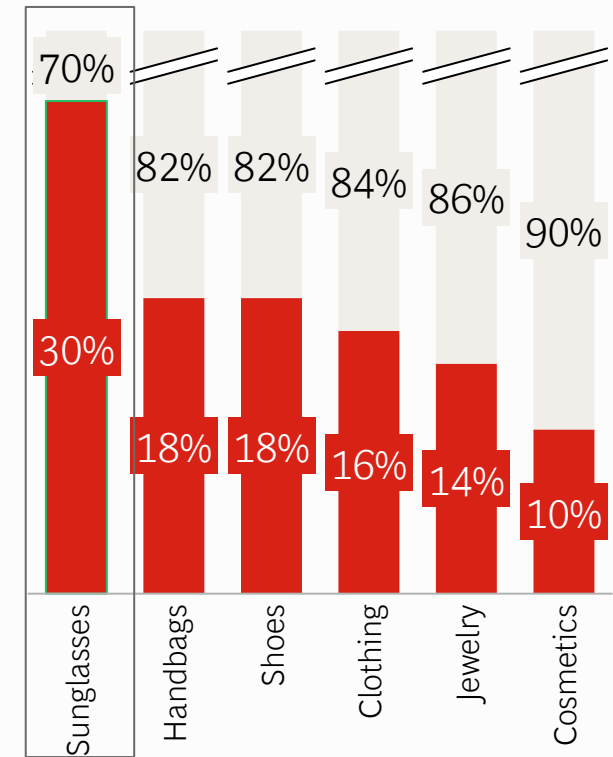
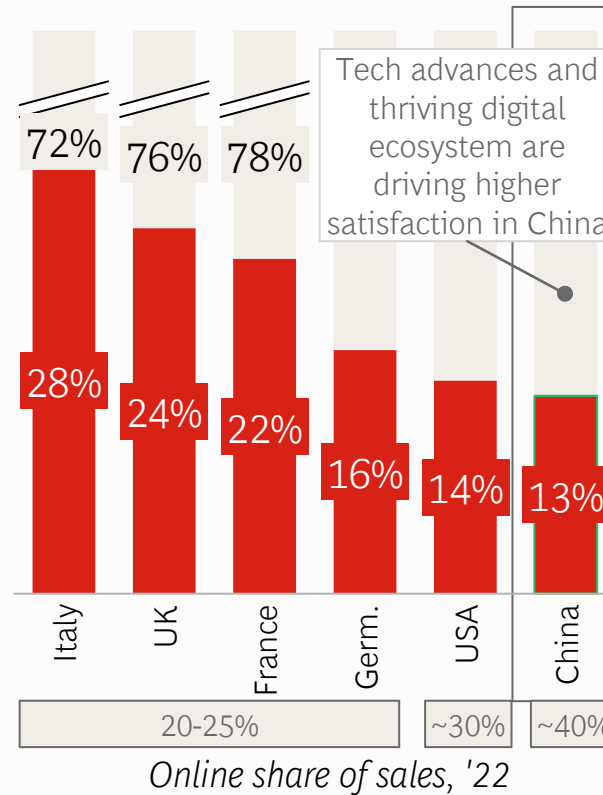
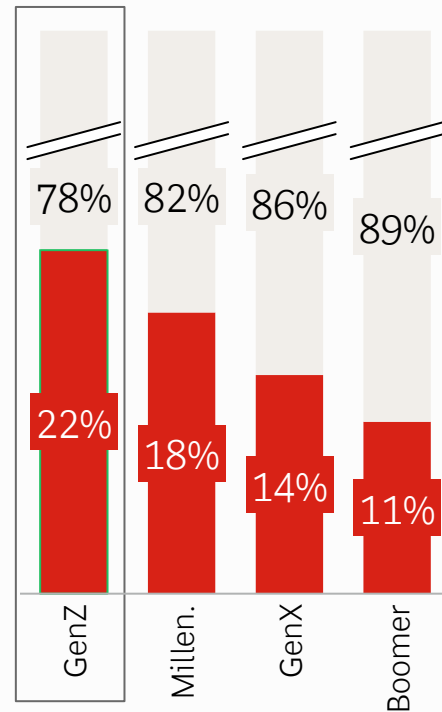
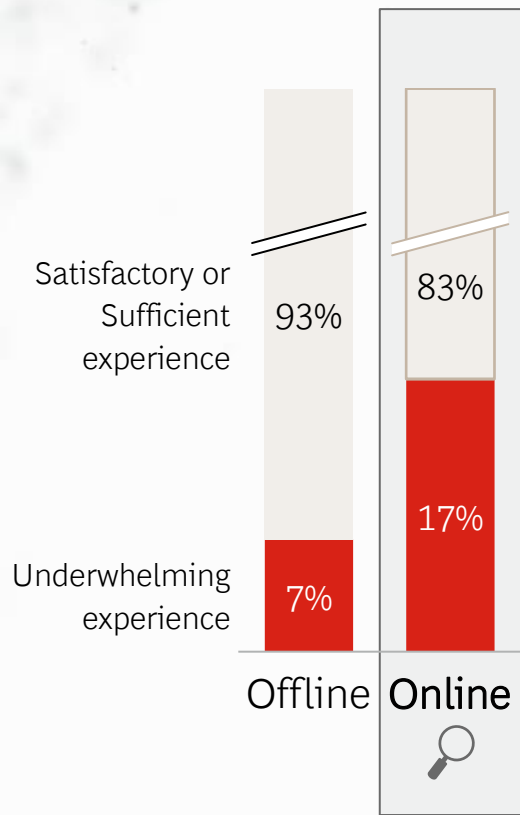
The Digital Discontent | Dissatisfaction with the online experience most pronounced in Europe and amplified amongst GenZ

Online dissatisfaction 10pp higher vs offline

1 in 5 GenZers believe online experience is underwhelming

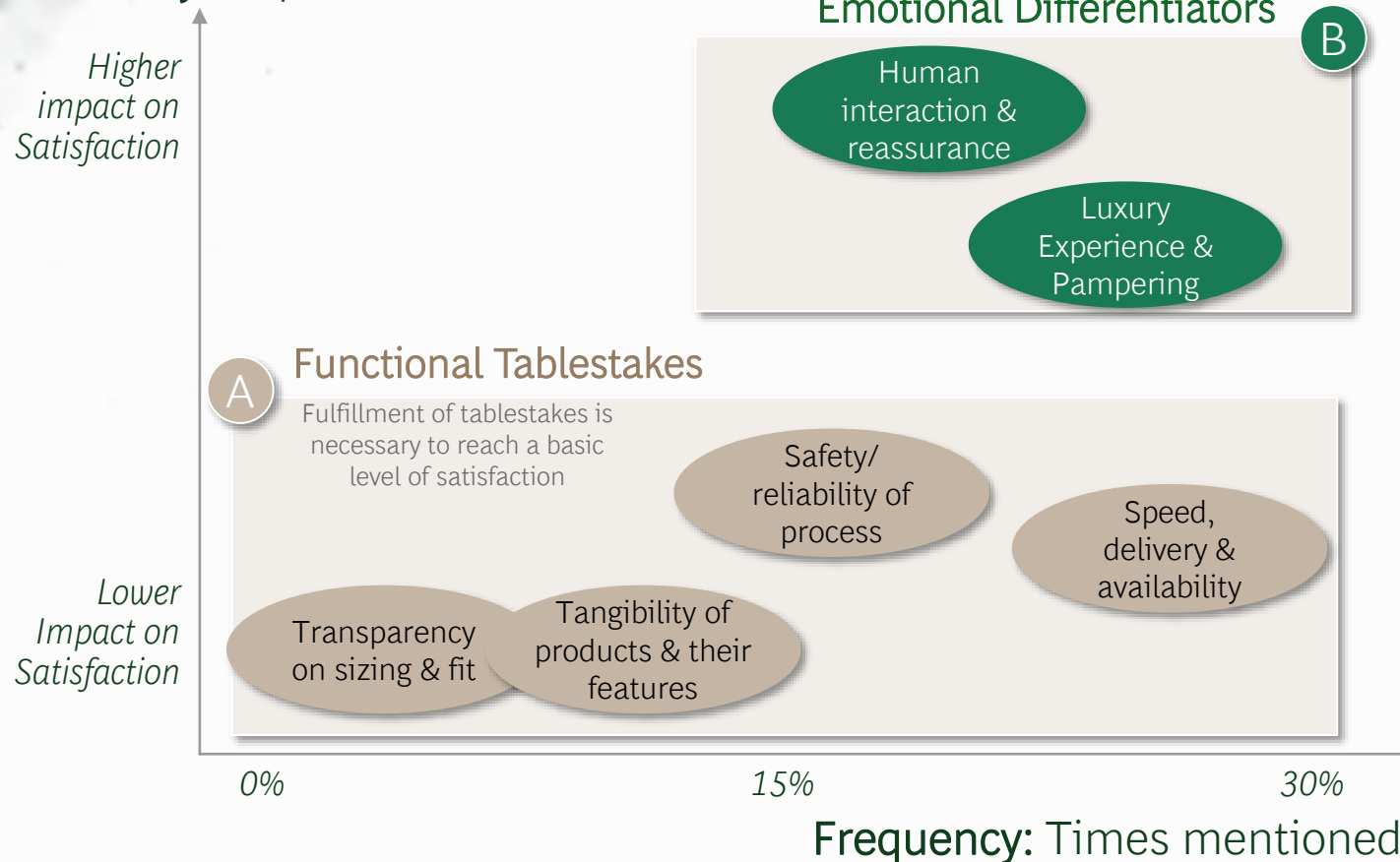
Chinese are more satisfied online, Europeans less content

Sunglasses drastically stand out for online dissatisfaction



The Digital Discontent is built on two gaps: with mass retailers on functional tablestakes & with in-store luxury on emotional differentiators

Severity: Impact on Satisfaction¹



B
Bring the magic of in-store luxury also online

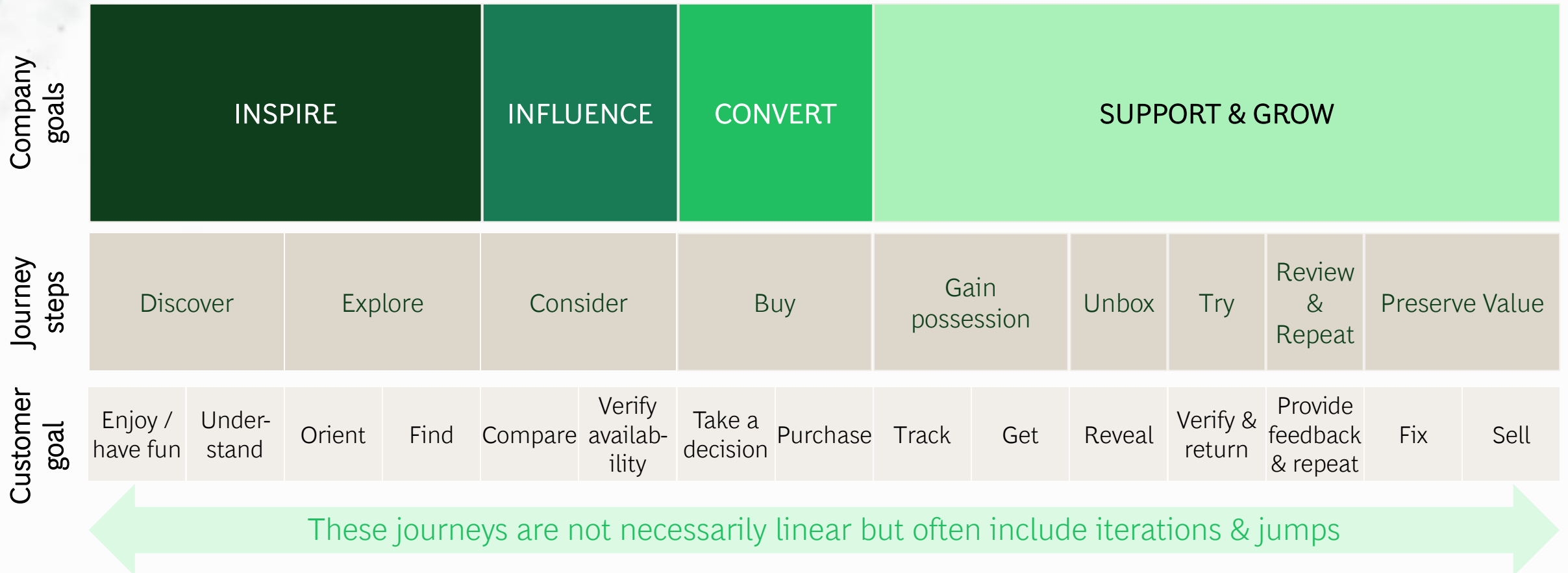
Luxury consumers are looking for the same level of **exclusivity, human touch & pampering** when online (as they receive offline) – and the lack of these is heavily impacting their **satisfaction with online experience**

A
Bridge the gap vs online retailers

Tablestakes, like product availability and payment options, are expected by luxury customers as **basic requirements** and are needed to "bridge the gap" with retailers online

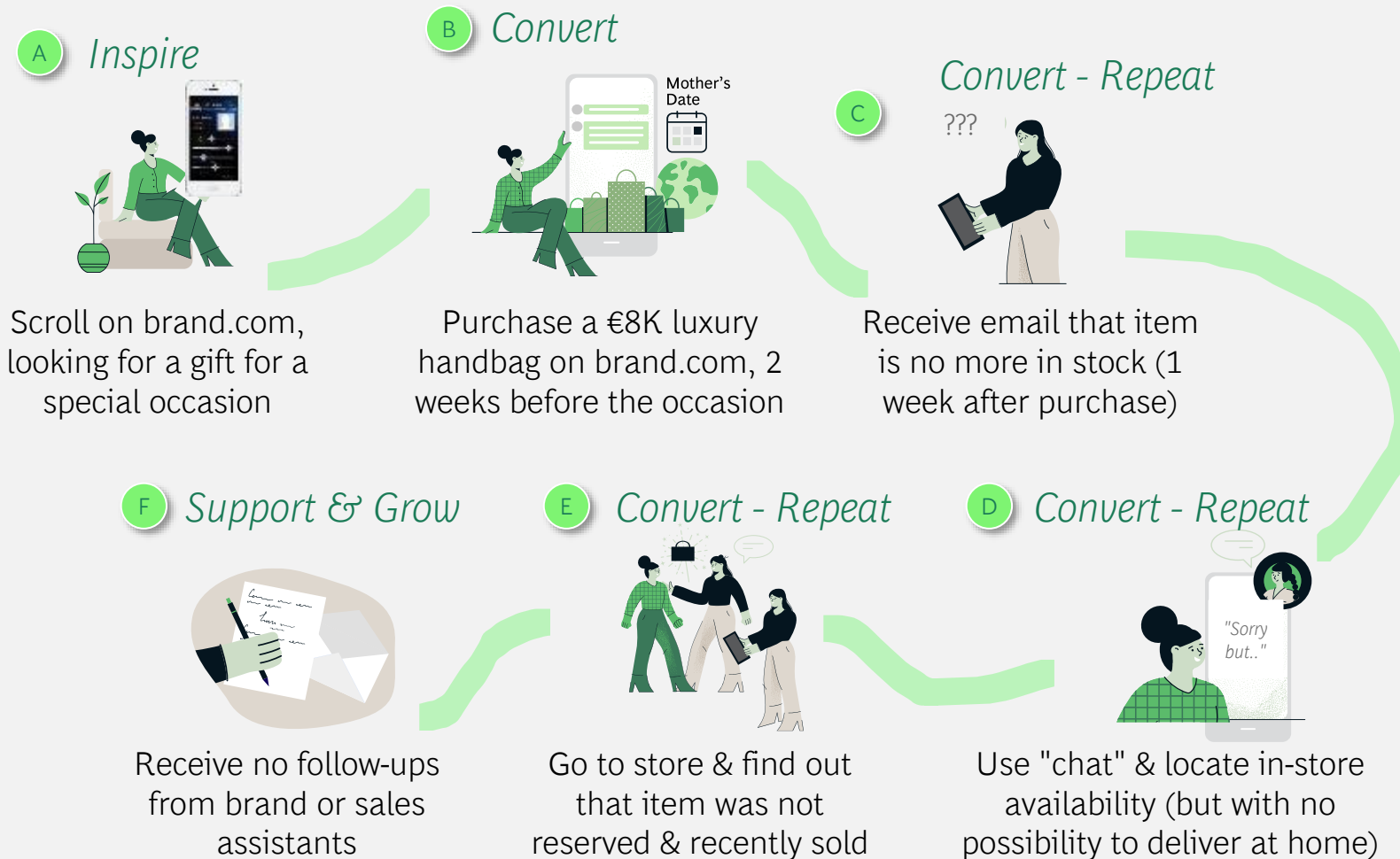
1. Level of impact that the "Unmet Need" has on the level of dissatisfaction customers experience with their online experience (measured through NPS)
Source: BCG-Altgamma True-Luxury Global Consumer Insight Survey Mar/Apr '23 (2.6 K respondents in 6 countries)

The root causes of the digital discontent vary according to the different steps of the customer journey



The Digital Discontent along the Journey | An exemplary customer story

Illustrative



This might sound like a horror story built on a myriad of functional unmet needs...

Solving the functional issues will not be enough to deliver a true luxury online experience

Inspire



Scroll on brand.com, looking for a gift for a special occasion

Convert



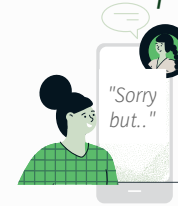
Purchase luxury handbag on brand.com

Convert - Repeat



Receive email that item is not in stock (1 week after purchase)

Convert - Repeat



Use "chat" & locate in-store availability (with no possibility to deliver at home)

Convert - Repeat



Go to store & find out that item was not reserved & recently sold

Support & Grow



Receive no follow-ups from brand or sales assistants

Emotional Unmet Needs

2

I was scrolling through 100 impersonal, flat product pages – I miss the in-store champagne and pampering...

3

I wanted guidance & human reassurance when selecting the item

2

"Click and buy" felt cheap, comparable to any non-luxury retailer

2

I got an impersonal, standard payment confirmation email

3

Noone was there to help me find an alternative

2

I had spent 8k on a bag and I get treated like I ordered toothpaste on Amazon

2

The chat was as "luxurious" as that of a car rental service

3

They are so regulated about what they could offer via chat; in person it would be easier

3

Sales assistants were judgmental and "restricted" in their possibilities to help

3

No-one asked me how I felt about what happened

2

I would have expected an email / message when the new collection of bags came out – I discovered it from my friend wearing it

Functional Unmet Needs

5 6

I had no idea what the material really looked like & how products would fit

1

"In store pickup" was not offered & delivery time was estimated at 2 weeks

4

I didn't get my bag & was unsure when & how the reimbursement would occur

1

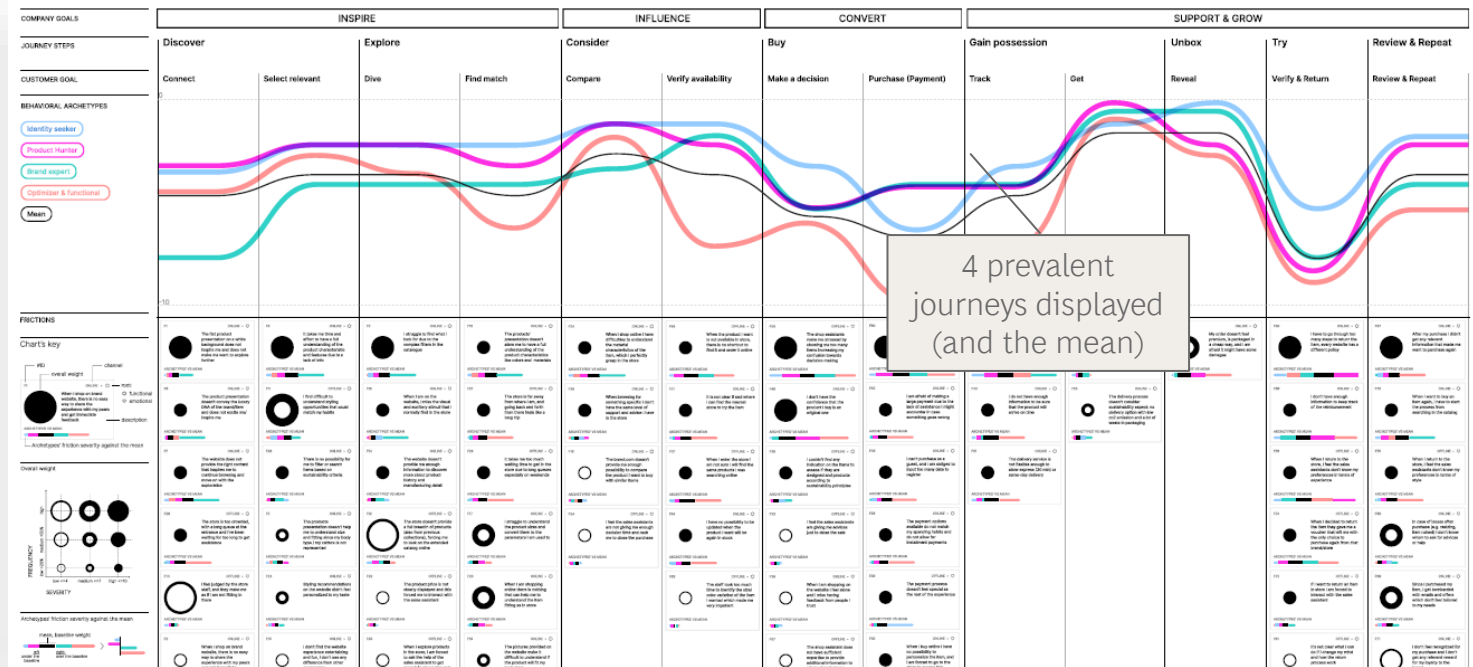
If they have it in a store, why can't they ship it to me?

1

How come they couldn't reserve it for me between chat & store?

Friction map | To quantify the weight of each emotional and functional friction, 2.600 individual luxury customer journeys were mapped...

Luxury Consumer Friction Map along the journey



Individual journeys need to be analyzed to understand each customers' individual frictions

Exemplary frictions in Aftersales:

At-home "unboxing" of online purchases is completely neglected by brands:

~ 70% of consumers find unboxing extremely important and felt it was anticlimactic

~ 65% say brands are missing to provide an "extra surprise" in their package (e.g., note, small gift)

Frictions emerging along the journey are **not to be simplified** by (i) "clustering" based on partial differentiators (e.g., only geography) or (ii) applying a "one-size-fits-all" approach

...and key **root causes** behind **unmet needs** were analyzed ...

Inspire & Influence

BRANDS ARE RELINQUISHING THEIR ROLE IN INSPIRATION...

...MAINLY BECAUSE BRAND.COM PERCEIVED AS FLAT AND UNINSPIRING

Convert

DIGITAL NATIVES FEEL PRESSURED BY STORE STAFF...

...AND PREFER PEER INTERACTION & FEEDBACK

Support & Grow

AFTERSALES IS NOT PROVIDING ENGAGING, MEANINGFUL INTERACTIONS

...emerging from an **in-depth customer survey**

➤ **65%** of online inspiration takes place on non-owned channels

➤ **75%** find online has uninspiring product descriptions/content¹

➤ **+40%²** of digital natives³ would prefer no interaction with SAs⁴

➤ **+57%²** of digital natives³ want to receive feedback from peers

➤ **40%** suffered from lack of contact from brand after purchase

1. Ranking it #1, #2 and #3 as a friction 2. Digital natives vs average luxury consumer; 3. Digital natives identified as one of four key behavioral archetypes, with strong tendencies of "identity seeking" 4. Sales Assistants

Zoom into Luxury customer experience

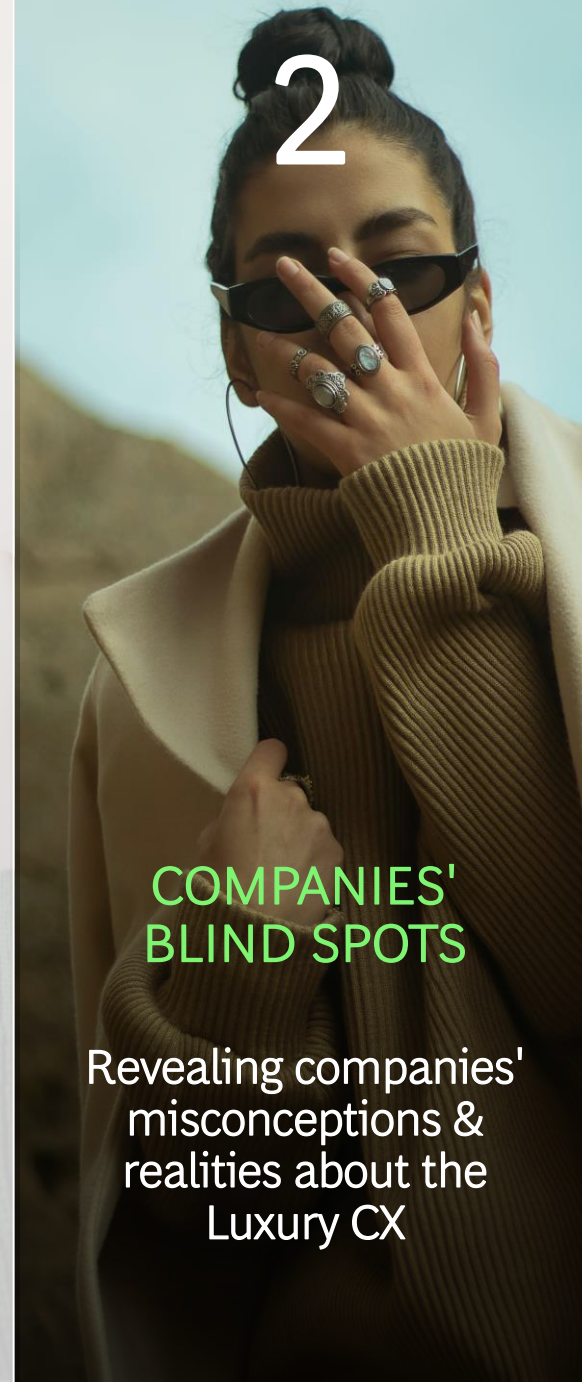
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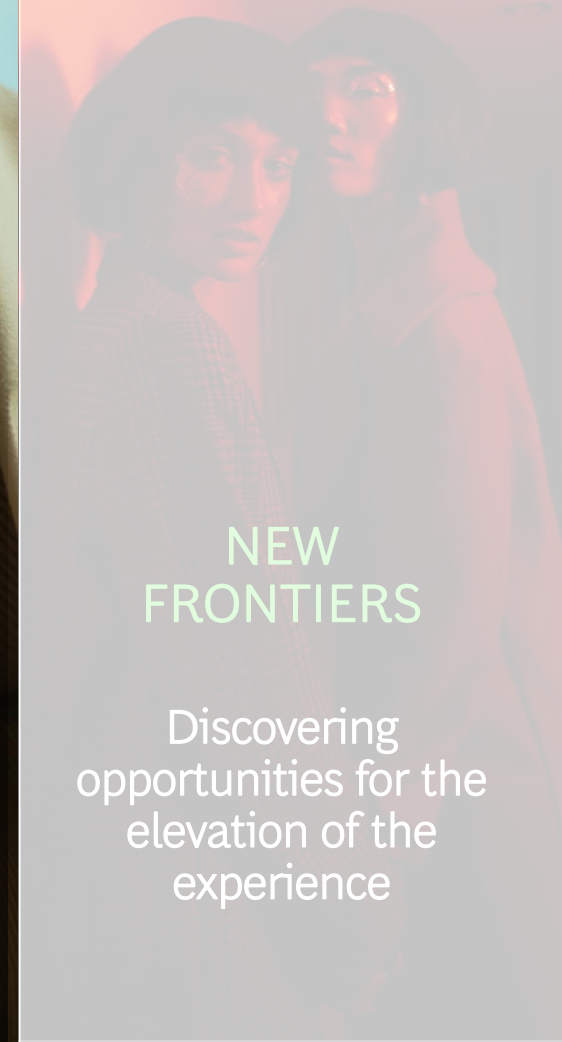
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COMPANIES' BLIND SPOTS

Revealing companies'
misconceptions &
realities about the
Luxury CX

3



NEW FRONTIERS

Discovering
opportunities for the
elevation of the
experience

How brands are acting vs what the reality is for customers | 4 brand misconceptions that further fuel emotional & functional unmet needs

- 1 **OUTDATED CHANNEL-SILO VIEW**
- 2 **OBSOLETE & BASIC VIEW OF TOUCHPOINTS**
- 3 **NEGLECT OF THE HUMAN INTERACTION**
- 4 **TRANSACTION-BASED MEASUREMENT OF ONLINE ROI**

How Brands act

Brands continue to **privilege a siloed channel view** to measure performance & define incentives

Brands underestimate the recent increase in **complexity of Customer Journeys**

Brands are **failing to provide human interaction & reassurance** across the online journey

Brands are focusing on **maximizing transactional functionalities** at the **expense of inspiration** and are only partially measuring the success of online investments

How reality is

Less than **50%** of Journeys are mono-channel, and the majority of consumers switch heavily between channels

Journeys now contain **up to 500** touchpoints (exponentially more than just a few years ago) and are no longer linear, but iterative

40+% of customers yearn for stronger human guidance, reassurance and care from the brand, both on and offline

Only **25%** of customers inspired on brand-owned channels purchase on brand.com – measuring ROI on transaction KPIs leads to under-use of online

Predominantly fueling **functional** tablestakes

Predominantly fueling **emotional** differentiators

Zoom into Luxury customer experience

1

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How brands can master the CX |

Propelling customer experience to new heights by fixing the basics on functional aspects & focusing on emotional step-change



FUNCTIONAL
TABLESTAKES

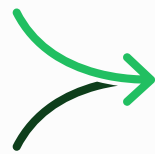
A PLAYBOOK IS THERE
Leverage what's already in place

EMOTIONAL
DIFFERENTIATORS

B WRITE THE PLAYBOOK
Luxury brands need to take the lead

- 1 Every brand needs to gain profound understanding of each journey that their customers undertake...
- 2 ...and strategically decide what role each touchpoint and channel should play along the customer journey... *Deep dive next* 🔍
- 3 ... allowing them to unlock the emotional connection across all channels, harnessing clienteling and next level customer service

Hyper-specialization vs Hyper-personalization | Brands should strategically decide which role to play in each touchpoint



HYPER-SPECIALIZATION:

DEFINITION OF A FOCUSED ROLE FOR EACH TOUCHPOINT & GUIDANCE OF CUSTOMERS TO THE OPTIMAL TOUCHPOINT

HYPER-PERSONALIZATION:

ALL TOUCHPOINTS ARE EMPOWERED TO PLAY EVERY ROLE & CAN BE ADAPTED (IN REAL TIME) TO VARIOUS CUSTOMERS' NEEDS

WHAT'S NEEDED

Identify prevalent journeys, optimize each touchpoint to fit the most frequent journeys, redesign processes, people, trainings, incentives and tech around the new touchpoints

Collect data on each customer (in store behavior, online browsing & 3rd party data), learn to recognize each customer and adapt TPs in real time based on customer's needs



Scale is less of an issue, investment is manageable, internal communication is straight-forward

All customer journeys are addressed, and individual preferences & frictions are catered to



Only the most prevalent journey is addressed (and many customers' journeys are neglected)

Requires extensive data, tracking of single customer behavior, investments on all channels and creativity in "writing the playbook"

To master the new
frontier of luxury
experience and
make True-Luxury
consumers happy...

...don't fall into the trap
of the Channel View

Think in *customer
journeys*, not in
business channels

Altagamma & BCG Team for the 9th edition of the study



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Seara**

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**Sofia
Nicoletti**

BCG Consultant



BCG Luxury expert network ready to discuss in every large market the outcomes of True-Luxury Global Consumer Insight 2023

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Thomas Zou | |

Thank you.

