"The human capacity to transform something into emotions"
What do we mean by **High-Quality Design**

---

**High-Quality** + **Design**

---

**Brand**

"Maestri"

**Aesthetics**

**Innovation**

**Global**

**Quality**

**Iconic**

**Technology**

**Memorable**

**Original**

**Inventive**

---

**DESIGN MARKET**

**CORE DESIGN MARKET**

- Living & Bedroom
- Bathroom
- Lighting
- Kitchen
- Outdoor
- Office
- Technical Lighting
- Kitchen appliances
- Homeware
- Other
Some key numbers of our study

We analyzed from about across

500+ PLAYERS 30 COUNTRIES 9 PRODUCT CATEGORIES

To identify the High-Quality Design market
Market includes **Pure Design** Players competing with upper segments of **Premium Brands** and **Branded Retailers**

**Pure Design Brands**
High-end furniture players with:

- Design DNA and culture
- Collaborations with top/star architects
- Iconic products/lines
- International reach

**Personal Luxury Brands**
Personal luxury goods brands diversified in home products

**Branded Retailers**
Native mono-brand retailers with an upper-premium positioning

**Premium Design Brands**
- Players with upper-premium positioning (with differences among geographies)
- Upper-premium lines of mainstream brands
Market segmentation: some examples of players included in the panel

HIGH-QUALITY DESIGN MARKET SEGMENTATION (ILLUSTRATIVE BRANDS)

Pure Design brands

- Alias
- Artemide
- antoniolupi
- B&B Italia
- BISAZZA
- Boffi
- bulthaup
- driade
- FLOS
- GESSI
- Kartell
- LIVING DIVANI
- Louis Poulsen
- Minotti
- MOROSO
- vitra.
- zanotta

Personal Luxury Brands

- FENDI
- HERMÈS
- KENZO
- TRUSSARDI
- VERSACE

Branded Retailers

- ARHAUS
- DESIGN WITHIN REACH
- POTTERY BARN
- RH
- Room & Board
- roche bobois
- Thomasville

Premium Design Brands

- BONALDO
- calligaris
- cattelan Italia
- KOS
- ligne roset
- MOEN
- Veneta Cucine
We will provide an **update** on the **trends** of High-Quality Design market and discuss **route-to-consumer dynamics**

--- **Market dynamics** ---

- How is the market performing and where is the growth coming from?
- What is the role of the different categories, channel and geographies?
- How is the profit pool moving?

--- **Path to the consumers of the future** ---

- How to unchain the future growth of the sector?
- How does the brands need to evolve to be relevant to the consumers of the future?
- Which role will digital play to enable the changes?
"There are 360 degrees, so why stick to one?"
2015 record year for High-Quality Design market

- **2015 peak year** after the 2008-2009 crisis
- **Sizeable growth** across all segments
- **Living & Bedroom** champion category

- **Polarized** growth across players:
  - Larger brands experiencing higher growth
  - Smallest brands struggling to survive

- **Growth** driven by Asia and emerging markets
- US and Europe in good shape. **Italy still stagnating**
- **European brands** leading the industry with still large growth to grasp in the growing geographies

- **All direct channels** (retail, contract, e-commerce) overperforming the traditional wholesale distribution (structural disruption?)

- Profitability expansion in every product segment
High-Quality Design is more than one third of the broader Design Market

BROAD DESIGN MARKET (2015 | €B)

CORE MARKET

- Living & Bedroom: 15%
- Kitchen: 6%
- Bathroom: 5%
- Lighting: 4%
- Outdoor: 2%
- Core Design Market: 32%
- Office: ~25%
- Architectural Lighting: ~15%
- Kitchen appliance: ~10%
- Homeware: ~5%
- Other: ~10%
- Design Market: ~100%

This information is confidential and was prepared by Bain & Company solely for the use of our client; it is not to be relied on by any 3rd party without Bain's prior written consent.
High-Quality Design market grew at +9% (+4%@K), for the first time **over-performing pre-crisis level**

**CORE DESIGN MARKET TREND (2000-2015 | €B)**

[@ constant exchange rate](#)
Retailers grew fastest growth in the last years, despite a lower profitability compared to pure brands.
Different market trends by product category over the last fifteen years

CORE DESIGN MARKET BY CATEGORY (2000-2015€B)

@ constant exchange rate

Different reactions to economic downturn

Pre-crisis
Growth across all categories, Lighting fastest growing segment

Post-crisis
All segments with positive performance in 2015, **Living and Bedroom** the winning category

**Recent Consumption Trend in the High Quality Design Market**

- **Living & Bedroom**: Fastest growing category in 2015, favored by **contract growth**, **brandization** and **space evolution trends** (e.g. space maximization through systems and storage solutions, targeted ad hoc-furniture for selected categories, home-office convergence, ...)
  - **Nominal Growth '14-'15**: +12%
  - **Real Growth '14-'15**: +7%

- **Kitchen**: Postponed consumption in times of crisis due to the large size of the investment and strong correlation to real estate; 2nd year in a row with positive performance, still low single digit growth
  - **Nominal Growth '14-'15**: +3%
  - **Real Growth '14-'15**: +1%

- **Bathroom**: Reduced spending since crisis but recently positive performance thanks to wellness trend driving spending on SPA-like bathrooms, no longer considered only service rooms but actual living areas of the house
  - **Nominal Growth '14-'15**: +7%
  - **Real Growth '14-'15**: +3%

- **Lighting**: Accelerated by technology (i.e. shift to LED) and energy saving solutions, with relevant role of **contract**
  - **Nominal Growth '14-'15**: +9%
  - **Real Growth '14-'15**: +5%

- **Outdoor**: Impacted negatively during crisis due to lower priority of category in a budget constraint situation, recently in strong revival on the wave of the "cocooning phenomenon" whereby consumers have started spending more time at home
  - **Nominal Growth '14-'15**: +9%
  - **Real Growth '14-'15**: +5%

---

This information is confidential and was prepared by Bain & Company solely for the use of our client; it is not to be relied on by any 3rd party without Bain's prior written consent.
Polarized growth across players, with larger brands strongly outperforming the market.
APAC and ROW driving growth; Europe, but Italy, recovering, US boosted by exchange rate dynamics

CORE DESIGN MARKET BY GEOGRAPHY (2012-2015|€B)

- Rest of World: €28B to €28B (6% to 6%) CAGR +4%
- Asia-Pacific: €29B to €32B (6% to 15%) YoY 13–14: +7%, YoY 14-15: +7%
- Americas: €29B to €32B (14% to 15%) YoY 13–14: +7%, YoY 14-15: +11%
- Europe: €32B to €32B (29% to 31%) YoY 13–14: +5%, YoY 14-15: +13%
- Italy: +1-2%

YoY 14-15: +4%
- Americas: +6%
- Asia-Pacific: +7%
- Europe: +7%
- Rest of World: +4%
High-Quality Design players enjoy big opportunities to unlock the potential of high spending consumers

HIGH-QUALITY DESIGN & INTERIOR DESIGN MARKETS VS LUXURY CONSUMERS SPENDING BY GEOGRAPHY (2015|€B)

- Still relevant gap between "where the demand comes from" and "where the potential client is located":
  - Strong role of European players (~65%), with Europe representing almost 50% of the destination market
  - Still limited size of the Asian end-market (~15%), considering the interior design market size and the consumers luxury consumption in these geographies
  - Potential market to be grasped by design players improving brand visibility and go-to-market approach

<table>
<thead>
<tr>
<th>Region</th>
<th>Design market by country of origin</th>
<th>Design market by destination</th>
<th>Interior design market</th>
<th>Luxury consumers spending in PLG</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>67%</td>
<td>31%</td>
<td>30%</td>
<td>~24%</td>
</tr>
<tr>
<td>Americas</td>
<td>47%</td>
<td>35%</td>
<td>27%</td>
<td>~18%</td>
</tr>
<tr>
<td>Asia</td>
<td>24%</td>
<td>15%</td>
<td>8%</td>
<td>~8%</td>
</tr>
<tr>
<td>Row</td>
<td>1%</td>
<td>6%</td>
<td>8%</td>
<td>~51%</td>
</tr>
</tbody>
</table>

High-Quality Design players enjoy big opportunities to unlock the potential of high spending consumers.
Retail and Direct channel constantly **over performing** traditional Wholesale. **Online small but growing fast!**

### Core Design Market by Channel (2012-2015 | €B)

<table>
<thead>
<tr>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholesale</td>
<td>76%</td>
<td>74%</td>
<td>72%</td>
</tr>
<tr>
<td></td>
<td>+18%</td>
<td>+24%</td>
<td></td>
</tr>
<tr>
<td>Online</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td></td>
<td>+7%</td>
<td>+10%</td>
<td></td>
</tr>
<tr>
<td>Retail</td>
<td>14%</td>
<td>14%</td>
<td>15%</td>
</tr>
<tr>
<td></td>
<td>+16%</td>
<td>+19%</td>
<td></td>
</tr>
<tr>
<td>Direct</td>
<td>8%</td>
<td>9%</td>
<td>10%</td>
</tr>
</tbody>
</table>

- **Wholesale**, the largest channel worldwide, after a phase **contraction in EU**, showing a degree of recovery
- **Directly operated retail** with increasing channel share
  - **Sustainability and scalability** for Pure Design brands currently challenged by high retail costs, limited traffic and improvable customer engagement
  - Retailers experiencing a strong growth
- **Direct sales form HQ** representing the main channel for contract business, and accounting for an **increasing share of the market**
- **Online still a marginal channel** but strongly growing, gaining a 4% share within distribution mix
  - Pure design "brands" not fully benefitting of this growth due to **intrinsic structural reasons** (e.g. logistics and returns, payment) and lack of a fine-tuned value propositions

**Note:** Online including web sales and catalog

---

This information is confidential and was prepared by Bain & Company solely for the use of our client; it is not to be relied on by any 3rd party without Bain’s prior written consent.
Profitability expansion in every product category in 2015...

CORE DESIGN - PROFITABILITY BY CATEGORY (2015|%)
...though industry with the need to evolve to fully grasp market potential and consolidate the growth

Design players should capitalize current positive conditions to accelerate and sustain growth
Italy enjoys a leading role in the design industry, but still characterized by a sub-optimal company structure.

**ITALY COMPETITIVE POSITIONING IN THE DESIGN INDUSTRY**

<table>
<thead>
<tr>
<th>Country of Origin</th>
<th>Avg size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>~50M€</td>
</tr>
<tr>
<td>DACH</td>
<td>~160M€</td>
</tr>
<tr>
<td>USA</td>
<td>~200M€</td>
</tr>
<tr>
<td>Nordics</td>
<td>~120M€</td>
</tr>
<tr>
<td>Other</td>
<td></td>
</tr>
</tbody>
</table>

**Italy 1st country** in design industry, with ~30% of global market share, ~35+% for pure players

**Italy leader** in lighting and living and bedroom, gap to fill in Kitchen vs Germany

**Italian industry** still made of a multitude (~200) of small and independent players, with a limited average size
Design market expected to grow between 3-4% in 2016, in line with 2015 real growth

CORE DESIGN MARKET TREND (€B)

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>28</td>
<td>+4%</td>
</tr>
<tr>
<td>2014</td>
<td>29</td>
<td>+9%</td>
</tr>
<tr>
<td>2015</td>
<td>32</td>
<td>+3/4%</td>
</tr>
<tr>
<td>2016E</td>
<td>33</td>
<td></td>
</tr>
</tbody>
</table>

@ constant exchange rate

KEY DRIVERS

- **Growing population** of luxury consumers worldwide and their disposable income
- **Improved consumer confidence**, in particular in Europe and US
- **Recovery and acceleration** of global residential real estate development
- **Increased residential 2nd hand transactions** positively affecting furniture substitution
- **Non residential/office** real estate market back to grow
- **Sizeable pipeline** of High-End hotel rooms, in particular in emerging markets
- **Retail stores opening & refurbishment** growing but decelerating
"...you design for the present, with an awareness of the past, for a future which is essentially unknown"
Need to **innovate the business model** to unlock the future market potential

- The High-Quality Design market reached a relevant size, yet this is really **fragmented, complex** and with a mindset still focused on **developing innovative products**, both from a technological and aesthetic point of view, but still limited in overcoming the challenges of a complex route-to-consumers.

- Highly exposed to macro-economic factors, the market today finally recovered from the economic downturn and shows an healthy growth.

- The industry has been slow at reacting to the structural changes that the market is undergoing, driven by an **evolution of demand and consumption trends**:
  - New and less mature consumers
  - Diverse and more distant geographies
  - Interactions ever more filtered by professional figures
  - Distribution models ever more experiential and complete

- High-Quality Design furniture **players seem unable to fully exploit the market growth potential**, in particular in emerging regions, due to a suboptimal route-to-market and a limited capability to communicate with the growing number of luxury consumers.

- Players can no-longer afford to postpone a comprehensive review of their **value proposition** and business model if they want to unlock their untapped potential.
Limited and sometime filtered interaction between clients and design brands who struggle to become "lovemarks"

- **Most purchases intended for direct consumption with gifting element having limited relevance**
- **Influencers relevant for mediating the brands interaction with final consumers especially for certain categories (e.g. kitchens and bathrooms)**
- **Purchases are planned in advances, driven by a specific need for which consumers shop around considerably to find the most suited solution**
- **Today's consumers expect a high level of customization and brands are ever more keen to please them through a proliferation of options**
- **The long waiting time creates a big expectation which if not met can significantly impact relationship with brand**
- **Interaction with brands and purchases occur infrequently during customers lifetime allowing for swings in engagement**
Today's paradigms of the High-Quality Design differ from what they used to be

**BEFORE**
- Few High-End players
- Highly-focused industrial manufacturers
- Proximity to end users
- Opinion leader in matters of lifestyle

**NOW**
- Competition from many players with a different positioning
- Different business models (retailers, multi-category)
- Growing distance from relevant geographies
- A chorus of many loud voices

*This information is confidential and was prepared by Bain & Company solely for the use of our client; it is not to be relied on by any 3rd party without Bain's prior written consent.*
XGen (growing in spending) and Millennials (growing in numbers) will drive the consumption in coming years...

LUXURY CONSUMERS DEMOGRAPHIC EVOLUTION (2015-20 | %)

- Luxury market mainly boosted by Generation Y and Generation X
- Generation Y market value almost entirely driven by the Chinese middle class
- Generation X benefitting from a higher luxury spending due to changing consumption habits across regions
- Generation Z approaching the market, although still representing a very small share in 2020
...dramatically **changing the traditional consumption patterns**
Such evolution is placing a set of challenges in front of High-Quality Design players.

- **Consolidation**: How to best reach critical mass to overcome current business model limitations?
- **Supply Chain Management**: How to manage the growing distance with emerging markets?
- **Digital Transformation**: How to capitalize new digital technologies?
- **Go to Market strategy**: How to reach the end consumers where they live travel and work?
- **Consumer insight & CRM**: How to identify and target more profitable customer segments? (B2B & B2C)
- **Branding**: How to make High-Quality Design brands more relevant and visible?
Brands need to deploy **larger territories of conversation**

**EXTENDED BRAND TERRITORIES**

- **Luxury goods customers**
- **Design lovers**
- **Product enthusiasts**

**Luxury**
- **Experience**
- **Future**

**Brand**
- **Lifestyle**

**Aesthetic**
- **Culture**

**Current Core**
- **Extended Core**
- **Re-defined Core**

- **Luxury goods customers**
- **Design lovers**
- **Product enthusiasts**

**Luxury**
- **Product**
  - **Innovation**
- **Materials**
- **Technology**

**Design**
- **Aesthetic**
- **Archi-star**

**Experience**
- **Luxury goods customers**
- **Design lovers**
- **Product enthusiasts**

**Emotions**
- **Future**
- **Luxury**

**Culture**
- **Luxury goods customers**
- **Design lovers**
- **Product enthusiasts**

**Technology**
- **Luxury goods customers**
- **Design lovers**
- **Product enthusiasts**

**Innovation**
- **Luxury goods customers**
- **Design lovers**
- **Product enthusiasts**

**Materials**
- **Luxury goods customers**
- **Design lovers**
- **Product enthusiasts**

**Color & texture**
- **Luxury goods customers**
- **Design lovers**
- **Product enthusiasts**

**Brands need to deploy larger territories of conversation**
Digital technology is opening endless opportunities across consumer journey

4.2 Billion of customers with a broadband access

~5 Trillion of GB of data exchanged in 2014

0.3 The years that Google+ took to reach 50M users vs. radio

42% of people who currently follow friends or brands on a social network

1.1 Billion of smartphone owners

56% of smartphone owners use their device to check prices online
Design is already impacted by emerging digital trend in several ways

**Online search & inspiration**

"Furniture shoppers both web-room (search online and buy in-store) and show-room (search in-store and buy online)"

"+15% yoy growth in home furniture related online search"

"Smartphone searches growing 45% yoy, with strong in-store mobile searches"

**Bonding & Engagement**

"25% of furniture customers invest a long time searching for the perfect piece"

"Higher growth of product related search compared to brand related search"

**Transparency**

"Higher growth of product related search compared to brand related search"

**Omni-channel**
In Italy, **home furnishing** is among the **fastest growing segments** within the online space.
Traditional touchpoints to the customer are changing their role at a very fast pace.
Traditional touchpoints to the customer are changing their role at a very fast pace.

- Funnel
  - Awareness
  - Consideration
  - Transaction
  - Advocacy

Touchpoints:
- Re-focused Advertising
- Web empowered Influencers
- Visible Contract
- Retail Brand.com + social
- Wholesale Multibrand.com

Distribution Communication
Digital is **transforming consumers behavior** and the way companies can influence it. Battle far from being decided

---

**POTENTIAL SERVICES OFFERED BY DIGITAL TECHNOLOGY**

- **Retail 2.0**
- **In-product technology**
- **COMMUNITY**
- **Value added services**
- **PERSONALIZATION**
- **OMNI-CHANNEL**
- **BRANDING**
- **INTERACTIVE CATALOGUE**
- **LOYALTY PROGRAM**
- **Story Telling**
- **Editorial Content**
- **FLAWLESS SERVICE**
Tomorrow starts today!

1. Big is the new small
2. Love your customers… you will be loved back
3. Enlarge your brand and discuss the future
4. Relationship has no channel
5. Be the (digital) transformation
Claudia D’Arpizio is a Partner at Bain & Company Milan office. She is a leading member of the firm’s Global Consumer Products and Retail Practices, and leads Bain’s Luxury Goods Vertical.

For more than 20 years, Claudia has advised multinational clients, mainly in luxury and fashion goods. She has extensively worked on issues relating to corporate and business unit strategy, sales and marketing, product and service adjacencies, channel and omni-channel strategy, new product development, innovation, acquisitions and divestitures, performance improvement and organizational changes.

Claudia is the lead author of the Bain’s Yearly Luxury Study, developed since 1999 in cooperation with Altagamma, the trade association of the Italian luxury brands. This study, based on the analysis of an extensive panel of worldwide luxury brands, is periodically updated and has become one of the most valued and cited sources of market information in the luxury industry.

Claudia is a globally recognized expert in luxury and in 2009 was named by the Consulting Magazine one of the “Top 25 Consultants in the World”.

Bain contacts

For any questions or further discussion, please contact:

**Claudia D'Arpizio**
- Partner (Milan)
- Email: claudia.darpizio@bain.it

**Matteo Luoni**
- Manager (Milan)
- Email: matteo.luoni@bain.it

For a copy of the study, please contact:

**INTERNATIONAL PRESS**
- Dan Pinkney (dan.pinkney@bain.com or +1 646-562-8102)

**ITALIAN PRESS**
- Cristina Brignola (cristina.brignola@bain.it or +39 02 58288 553)
BAIN & COMPANY
People, Passion, Results!