ALTAGAMMA CONSUMER & RETAIL INSIGHT 2024

Very Important Clients are driving the growth of luxury: impeccable quality and service, exclusivity, and personalization. The role of Client Advisors.
Retail: competition to purchase large properties.

Milan, July 2, 2024 – The tenth edition of the **Altagamma Consumer and Retail Insight** event took place today at the Fondazione Cariplo Conference Center in Milan, where attendees were offered a qualitative analysis of luxury consumers and new trends in retail.

Growth in the high-end segment is being driven by the top bracket of consumers – **Very Important Clients** – who are becoming the focal point for brands, **accounting for 30% of their revenue on average** and acting as their Brand Ambassadors.
To win these clients over, **brands need to identify them, get the fundamentals of their products and services right** (exclusivity, top quality, experience), **and master the essentials of the client relationship**: hyper-personalization, careful management of wait times for unique products, availability of high-level Client Advisors, and a sense of community.

The top of the pyramid has an even more significant impact on consumption: ***Beyond Luxury* consumers***,* with an annual personal spend of more than €50,000, **represent less than 1% of the total number of luxury clients. In terms of spending, however, they account for 21%** – more than 200 times the average consumer. Their importance has doubled compared with 10 years ago.

Also **growing in importance are Client Advisors**, who form strong bonds with *Beyond Luxury* consumers – sometimes closer relationships than with the brands themselves. These are increasingly central and highly professional individuals whom companies must therefore attract, train, and retain.

On the retail side, **luxury is constantly escalating**, with increasingly spacious, unique, and distinctive stores. Brands are rushing to **purchase real estate on the key luxury shopping streets** of Milan, Paris, London, and New York.

After the introductory speech by Altagamma President **Matteo Lunelli**, the findings from the True-Luxury Global Consumer Insight survey (**Filippo Bianchi** and **Guia Ricci**, Boston Consulting Group) and the Luxury Retail Evolution study (**Luca Solca**, Bernstein) were discussed, alongside **Stefania Lazzaroni**, Director General of Altagamma, by **Scott Malkin**, Founder and Chairman of Value Retail; **Aldo Melpignano**, Founder of Egnazia Ospitalità Italiana and Altagamma Vice President for Hospitality; **Antonio De Matteis**, CEO and Men's Creative Director of Kiton and President of Pitti Immagine; and **Patrizia Cianetti**, Global Marketing and Communication Director of Ducati.

Opening the conference, **Matteo Lunelli, President of Altagamma**, emphasized: *"Even at a time of extreme market uncertainty and volatility and low consumer confidence, the high-end sector presents an outlook for growth, albeit moderate. The luxury consumption is sustained by Top Clients, who are pushing companies to refine and improve their entire offering, from services to the excellence of their creations. It is significant that 1% of customers account for 21% of spending and that their relevance has doubled in the last 10 years. To meet the expectations of this increasingly demanding clientele, companies will have to continue to invest in technology and in attracting talent with new skills"*

CONSUMER FOCUS

The True-Luxury Global Consumer Insight survey *(summary attached*) was presented by **Filippo Bianchi**, Managing Director and Senior Partner, and **Guia Ricci**, Managing Director and Partner at Boston Consulting Group, dedicating this year's edition to top spenders, defined as "Beyond Money" - customers at the top of the luxury spending pyramid.

According to **Boston Consulting Group** experts: *"The 'Beyond Money' segment of buyers is the most significant for brands: 500,000 individuals who represent 20-25% of the total luxury market and are growing by 10% each year (CAGR). They are immune to economic cycles and geopolitical crises, consider luxury an essential, and offer spending about 5 times less volatile than the aspirational buyer segment. Compared to the latter, they have also more than doubled their spending in the past decade. This group includes Very Important Clients, who buy products from 10 brands on average, but are identified and treated as such by only 2 or 3 of them. Important opportunities are therefore missed in 70% of cases; these could be recouped with more sophisticated target segmentation."*

Here are some of the findings from the study:

- It has become increasingly complex to make forecasts on the Luxury sector due to the macro-economic landscape volatility, rapid evolution and fluidity of the market, requiring analysis on a weekly basis. However, **a period of normalization is expected for 2024 with a realistic scenario of 1-3% growth compared to 2023,** with a slow recovery of domestic consumption in China and limited consumer confidence in Western markets.
- **The most resilient and rapidly growing segment is the "Beyond Money" segment: consumers with an annual personal spend of more than €50,000**. The segment is fueled by the soaring wealth of Ultra-High-Net-Worth Individuals.
- **The study shows that brands are not fully harnessing the potential of this "Beyond Money" segment** due to suboptimal segmentation that prevents them from correctly identifying these consumers.
- **Strategies for brand engagement with VICs** (Very Important Clients) must therefore be based around:
    - *Improving consumer segmentation and thus identifying the consumers with the highest spending potential.*
    - *Mastering the fundamentals (table stakes), ensuring outstanding product quality, exclusivity, impeccable service, and exceptional experiences.*
    - *Specializing in the differentiating factors that VICs love: hyper-personalization, bespoke products that make the wait exciting, top-level Client Advisors, and a sense of community.*
- Interviews with **Very Important Clients** reveal the scale of the challenge for brands: the dreams and expectations of VICs are evolving faster than companies are able to make them a reality. In addition, these clients are pursued and pampered by brands in every sector, from personal goods to hospitality and entertainment. This makes them very difficult to impress, and the competition to engage with them is increasingly fierce. The study identifies **four key expectations** that brands must take into account to satisfy and win over VICs:
    - **Hyper-local personalization and global recognition**: The purchasing experience needs to be hyper-personalized, but it also needs to ensure that VICs' status is recognized globally at every stage of the customer journey.
    - **Unique products without artificially engineered wait times**: While the "waiting game" artificially created by some brands is becoming obsolete for standard products, wait times for bespoke products are generally accepted, as long as they are justified and engaging as part of the purchasing experience.
    - **More loyalty to Client Advisors than to the brands themselves**: 70% of Very Important Clients say they have a trusted Client Advisor (Sales Associate) within the brand. Of these VICs, 70% would be willing to switch brands if their Client Advisor moved to a competitor.

Client Advisors are increasingly important, as the trust that they bring becomes the deciding factor for these clients in choosing to make a purchase. Today, the top Client Advisors have extensive client portfolios and are becoming an increasingly rare resource in the marketplace, especially given the younger generation's disinclination for this type of work. This is leading to a **talent war, which brands can address through training, the ability to attract and retain talent** through a strong corporate culture, flexibility, growth prospects, and competitive salaries, incentives, and benefits.

- **Being more than a customer and being part of a community**: New generations of VICs are less loyal to the brands they buy from and look to them for a sense of community and networking opportunities. More than 80% of respondents believe that an emotional connection with a luxury brand is critical to their decision to make a purchase and want to be part of a community of like-minded buyers.

RETAIL FOCUS

The Luxury Retail Evolution study explores the evolution and prospects of high-end companies' retail strategies. This year's study, titled *Store Wars*, highlighted the race among big brands to purchase real estate on luxury shopping streets.

"*The major luxury groups have spent about €10 billion on retail over the past 5 years, with investments picking up pace significantly in the past 18 months,"* says **Luca Solca, Senior Research Analyst, Global Luxury Goods at Bernstein**. *"These investments have primarily been focused on the major streets: Via Montenapoleone in Milan, Fifth Avenue in New York, the Champs-Élysées and Avenue Montaigne in Paris, Bond Street in London. The topography of luxury retail in these cities is changing. Investments made by the major groups are generating a domino effect, driving those who can afford it to move in the same direction. The perceived risk for them is that they will be shut out of prime locations, in the same way as is happening in China's top shopping malls."*

Here are some of the findings from the study:

- **Luxury retail is constantly escalating.** Stores are becoming bigger and bigger, increasingly unique and unlike one another, distilling the values and meanings rooted in each brand's DNA. They can accommodate very different consumer segments, look good on social media, and are set up to entertain visitors and make them lose track of time, taking on a leading role as one of a city's top attractions while remaining highly profitable. This year's analysis reveals another side of this escalation: **the rush to snap up real estate on the main luxury shopping streets** of Milan, Paris, London, and New York.
- **In the past 5 years, the major luxury groups have spent about €10 billion**, with investments picking up pace significantly in the past 18 months. These investments have primarily been focused on the major luxury streets: Via Montenapoleone in Milan, Fifth Avenue in New York, the Champs-Élysées and Avenue Montaigne in Paris, Bond Street in London. The topography of luxury retail in these cities is changing. **Investments made by the major groups are generating a domino effect**, driving those who can afford it to move in the same direction. **The perceived risk for them is that they will be shut out of prime locations**, in the same way as is happening in China's top shopping malls (Plaza 66 in Shanghai, for example).
- **The problem lies in the fact that investing in real estate lowers the return on invested capital (ROIC).** Even more so for companies whose cash flow generation and invested capital base is smaller. This is because the "rental yield[1]" of a commercial property like the ones that house luxury stores is about 2%. Diluting the ROIC is negative, because it is accompanied by a decline in stock market

[1] Rental yield is the difference between the income from renting the property and the total cost of the investment.

performance and multiple contraction. This can lead to a drop in the company's value and the risk of leaving itself more exposed as a potential takeover target. Not to mention the risk that these investments will have too much of an impact on the cash flow and will therefore negatively affect operational investments.

- It will therefore be **crucial for smaller luxury companies not to ape the strategy of the larger groups**. In practice, this may mean returning to streets that are currently less prized (such as Via della Spiga in Milan or Madison Avenue in New York City), **being prepared to discover new areas that could become more important**, and committing to **open stores for Very Important Clients on request**, with operating costs less than one-tenth of the costs of a high street store.

DIGITAL PRESS KIT HERE (full reports, biographies, images).

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