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True-Luxury Global Consumer Insight
Summary of the BCG-Altagamma 2019 Study

A document prepared

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UNIQUE STUDY ON THE TRUE-LUXURY GLOBAL CONSUMER

This document is the summary of the "True-Luxury Global Consumer Insight" research, carried out by Boston Consulting Group (BCG) in collaboration with Altagamma. This research, now in its Sixth Edition, is the most complete and innovative research on True-Luxury consumers.

The study has been designed to provide a uniquely comprehensive understanding of True-Luxury consumers:

- **All luxury categories captured:** from personal (clothing, accessories, jewelry, watches, perfumes and cosmetics, ...) to experiential luxury (hotels, restaurants, wine and spirits, ...)
- **Size and relevance of the sample:** covers more than 10,000 respondents with an average spend on luxury goods of ~39 k€ /year. Spend thresholds on few categories increased from last year to maintain this study's focus on True-Luxury consumers
- **Wide geographical coverage:** top 10 luxury spending countries -- US, UK, Italy, France, Germany, Brazil, China, Japan, South Korea and Russia. From this year, also begun monitoring Indian consumers
- **Ad hoc Advisory Board:** composed of ~20 luxury companies, the Board gives recommendations on the main trends

THE MARKET IN 2018 REACHES 920 B€, FORECAST TO REACH 1.3 T€ BY 2025

In 2018 the luxury market is valued at 920 B€ (330 B€ of personal luxury and 590 B€ of experiential luxury). Estimated to grow at 4.6%, the luxury market is predicted to reach ~1.3 T€ by 2025 (405 B€ of personal and 851 B€ of experiential luxury). Between 2018 and 2025 we anticipate:

- **Personal luxury** to grow at ~3%, driven by accessories & cosmetics
- **Experiential luxury** to grow 2pp faster than personal luxury
- **Millennials** will reach 50% of personal luxury market by 2025, accounting for 130% of the growth in personal luxury market by generation
- **Chinese** will represent 40% of luxury market by 2025, accounting for 75% of the personal luxury market growth by nationality

- **Largest contribution to True-Luxury growth** coming from Status Seeker, #Littleprince and Fashionista segments, seeking extravagance, fun and new creativity. Megacitier, expression of the global millennial tribe, continues to grow

CONSUMER TRENDS OF THE 2019 EDITION

In this Sixth Edition, we introduce two new and emerging topics: Second-hand luxury and Collaborations. Second-hand luxury is an untapped multi-billion € industry, set to grow faster than overall personal luxury. Collaborations represent an increasingly valued product offering, driven by the fastest growing consumers (Chinese and Millennials). This year, additional deep-dives on Sustainability and Mix & Match were included, to better understand their impacts on the purchasing behavior of True-Luxury consumers.

Thirteen consumer trends emerge from the study:

- 1. New and emerging**
 - a. Second-hand luxury
 - b. Collaborations
- 2. Keeps growing**
 - a. Sustainability
 - b. Luxury casualwear
 - c. Influencers
 - d. Social media
 - e. Online channel
- 3. Stabilizing**
 - a. Omnichannel
 - b. Mono-brand store
 - c. Made-in
 - d. Mix & match
 - e. Customization
 - f. Buy-abroad

1. New and emerging

- **Second-hand luxury:** Digital platforms are fueling this 22 B€ market, which is predicted to grow 12% pa to reach 31 B€ by 2021. Most True-Luxury consumers are interested in purchasing pre-owned luxury items (60%), due primarily to perceived price-quality, the search for sold out, limited edition or vintage items, and the increased transparency on price and authenticity from increasingly professional online platforms. Across all categories, handbags account for 40% of second-hand purchases. This is followed by clothing, with the exception of China and Japan that display strong appetite for small leather goods and watches, respectively. Top 5 second-hand purchased brands are: Chanel, Louis Vuitton, Gucci, Burberry and Dior. Clear differences are observed across regions, with different brands scoring highest across Europe, China and US. One-third of True-Luxury consumers sell through second-hand platforms, to mostly empty their wardrobe (44%), finance new luxury purchases (21%) and embrace sustainable behavior (17%). Over half of younger consumers consider resale value when purchasing luxury items, providing an optimistic outlook for the future of second-hand luxury. Overall, 45% of True-Luxury consumers participate in the second-hand luxury market, comprising 19% sole sellers, 11% sole purchasers and 15% both buying and selling. Younger True-Luxury consumers and Chinese are more likely to sell, while older True-Luxury consumers and North Americans are more likely to purchase second-hand luxury.
- **Collaborations** between traditional luxury brands and Streetwear brands and artists are highly valued by True-Luxury consumers, with 90% awareness and 50% having purchased items from special editions. Younger generations (67% Gen Z, 60% Millennials) and Chinese consumers (62%) are the main buyers of these products. Handbags and sneakers are the most frequently purchased categories among collaborations. Overall, True-Luxury consumers are attracted to collaborations because they provide new, special and unique styles from traditional luxury houses. Strong demand for collaborations mirrors the emergence of new luxury values that include innovation, fun and extravagance.

2. Keeps growing

- **Sustainability:** Garnering increasing media attention, sustainability is now a powerful influence over True-Luxury purchasing behavior. Over 60% of True-Luxury consumers prefer a brand that cares about sustainability (+10pp vs. 2013), while 56% educate themselves on a brand's approach to social responsibility (+11pp vs. 2013). The influence of sustainability on purchasing behavior is greatest for younger generations (64% Gen. Z and Millennials) and Asian consumers (81% South Koreans, 70% Japanese and 66% Chinese). When buying luxury goods, the most valued sustainability criteria relate to environmental (37%), animal (27%) and ethical manufacturing concerns (21%), driven by younger consumers. In contrast, older True-Luxury consumers are most concerned about ethical manufacturing.

- **Luxury casualwear:** The adoption of luxury casualwear continues to gain traction among True-Luxury consumers, with 74% of respondents shifting towards a more casual approach (+1pp vs. 2017, +8pp vs 2016).
This is led by increased acceptance of casualwear at more and more occasions, including at work. However, for older generations formalwear saturation is now the primary driver of the shift to luxury casualwear, followed by the desire for comfort.
In addition, casual-biased categories were identified as the most likely to see a future increase in spending. Among all luxury apparel and accessory categories, sneakers and jeans have become the main drivers of expected spending increases, up 5pp and 7pp yoy, respectively.
- **Social media and influencers:** Influencers are increasingly relevant to True-Luxury consumers, with top-tier influencers generating inspiration far beyond their follower count. The global reach of mega-influencers is personified by Chiara Ferragni, who ranked in the top 3 most popular influencers for True-Luxury consumers of all examined nationalities.
Social media and influencers retain their place as the greatest influence lever over True-Luxury consumers, up 30pp since 2013, and driven by Chinese consumers. Magazines continue as main influence lever over Europe and US, with social media and influencers rapidly catching up. In fact, over 80% (50% more than once per day) of True-Luxury consumers use social media to interact with luxury brands, fashion bloggers and luxury peers, rising to 95% (59% more than once per day) of Chinese consumers.
- **Online channel:** Online sales reached 21% of last purchase occasions, having grown consistently over the past years at 1pp p.a.. Contributing to overall market growth, most online purchases (59%) are in addition to physical sales rather than cannibalizing.
The online ecosystem comprises three main channels: online mono-brand, full price multi-brand and generalist marketplaces, which together account for ~85% of online sales. Off price e-tailers, online flash sales and social media-linked sales characterize the remaining ~15%. However, significant differences exist across geographies, with ~70% online sales in China stemming from generalist marketplaces and full price multi-brand, while ~70% of US and Europe arising from full-price multi-brand and mono-brand online stores.

3. Stabilizing

- **Omnichannel:** Overall, ~80% of last purchase occasions occur in-store and ~20% online. Omnichannel represents the blurring of these distinct channels (e.g. research online, purchase offline), and is stabilizing at 50%. However, this apparently stable global channel mix, masks the

reality of substantial changes across and within geographies over time. For example, Chinese consumers are the greatest participants in omnichannel 64%, while 42% of European and 48% of US consumers.

- **Mono-brand store:** Remains the preferred channel for True-Luxury consumers, accounting for 30% of sales. In an increasingly online environment, brands' efforts to increase foot traffic to mono-brands have been fundamental to maintain this sale channel relevant, also among younger consumers. In fact, the share of sales completed in mono-brand stores has increased in Europe (+6pp vs. 2016) and US (+2pp vs. 2016), but dropped 2pp in China due to online sales growth. The availability of latest products, including special editions, together with unique in-store experiences and events are the main reasons why respondents would purchase more frequently in mono-brand stores.
- **Made-in:** Overall, 29% True-Luxury consumers prefer made-in Italy, 21% made-in France and 12% made-in US. Made-in Italy continues to increase its lead, particularly in apparel, handbags and shoes, while Made-in France continues to lead by distance in Perfume and Cosmetics. Made-in Italy is now favored by Chinese and Millennials consumers, overcoming made-in France.
- **Mix & match:** Among all True-Luxury consumers, 46% shift some of their spending from traditional luxury brands and increasingly towards luxury niche and sports brands. Younger consumers are drawn to luxury niche due to perceived exclusivity, while older consumers believe niche offers better price-quality ratios. Meanwhile, luxury sports brands appeal to younger consumers who desire clothes that reflect their healthy lifestyles, while increased comfort appeals to older consumers.
- **Customization:** Demand for customization is stabilizing. Product configuration and made-to-measure are the most desired by True-Luxury consumers. Younger generations are more willing to wait or pay extra for personalized products.
- **Buy-abroad:** Stabilized at 70% local purchases. Clear regional differences with Chinese local purchases at 58%, while 80% of European and North American purchases completed locally. Paris overtakes New York as the premier destination for luxury shopping abroad. Rounding out the top ten cities are: London, Hong Kong, Tokyo, Milan, Los Angeles, Shanghai, Rome and Seoul. According to True-Luxury respondents, 38% believe that luxury shopping is a core part of their travelling experience, while 25% said they could find a broader selection of items and brands abroad.