

BAIN - ALTAGAMMA
LUXURY GOODS WORLDWIDE
MARKET STUDY, SPRING 2021

THE HEALING OF (POST) COVID LUXURY: FIGURES, TRENDS AND ACTIONS

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BAIN & COMPANY



ALTAGAMMA
CREATIVITÀ E CULTURA ITALIANA



Foreword on content and sources

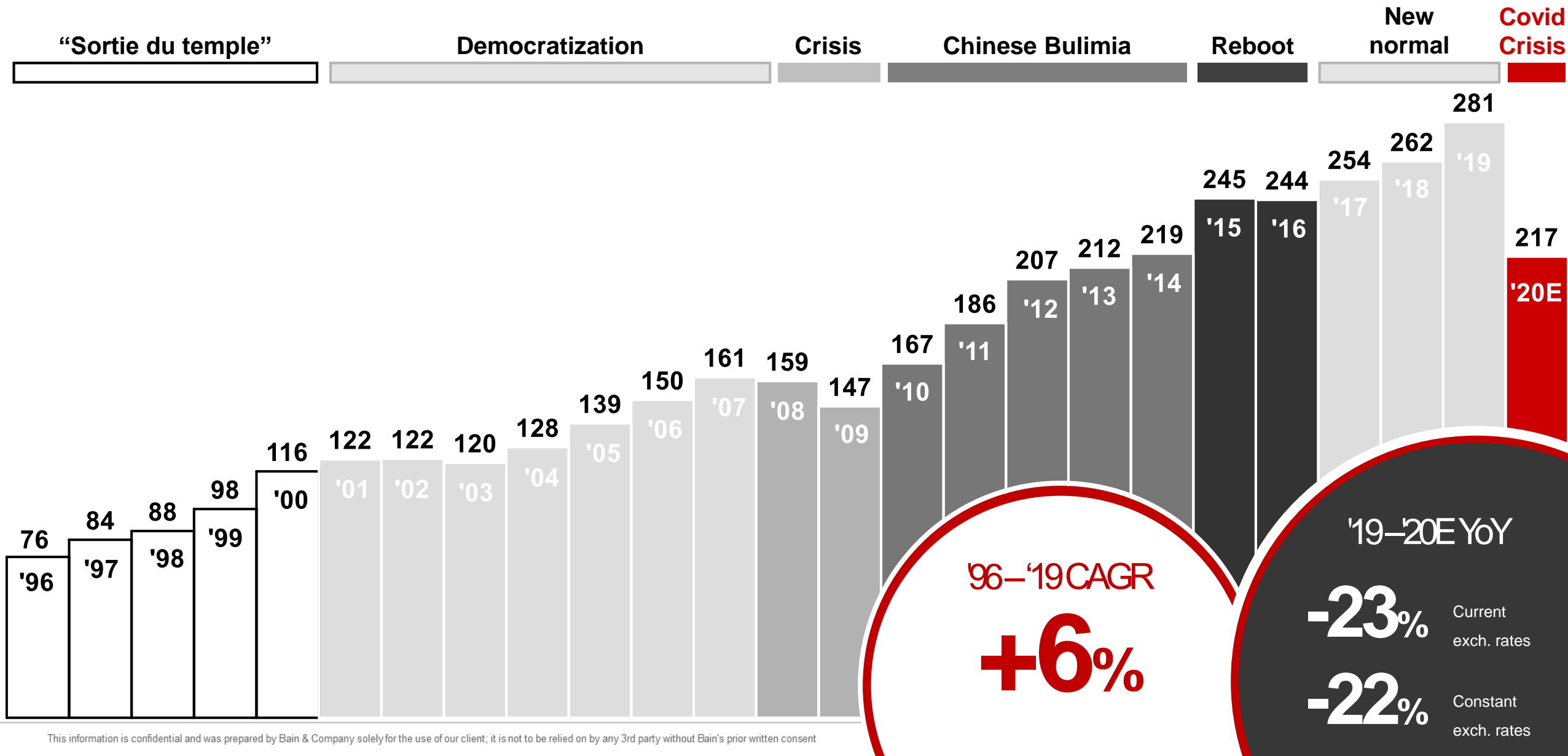
Content of this document

- This document contains **an update** on the **personal luxury goods market**, in particular:
 - Insight to the performance of the market in the **first quarter of 2021**, with details by region, channel and categories (**vs. Q1-2019**)
 - Expectations for the luxury market's **performance in 2021**, according to two scenarios and related recovery of the luxury market to 2019 level (pre-Covid-19)
 - Bain's **recommendations** for how luxury players can **steer the next phase of growth**

Sources of this document

- The **insights** are based on **Bain's** triangulation of **information** and **sources**, available as of 13th **May 2021** and includes:
 - Data regarding the **outbreak of the Covid-19** and consequential lockdown across countries
 - **Macroeconomic data** (e.g., GDP, consumer confidence index) and the latest **forecasts**
 - **Current trading performance** from relevant luxury industry players
 - Annual **reports**, quarterly **results** and analyst reports
 - **Consensus of 100+ expert interviews**
- The scenarios **do not consider disruptive changes** in Covid-19 **status quo** (e.g., potential future **waves** of Covid-19 related to variations of the virus)

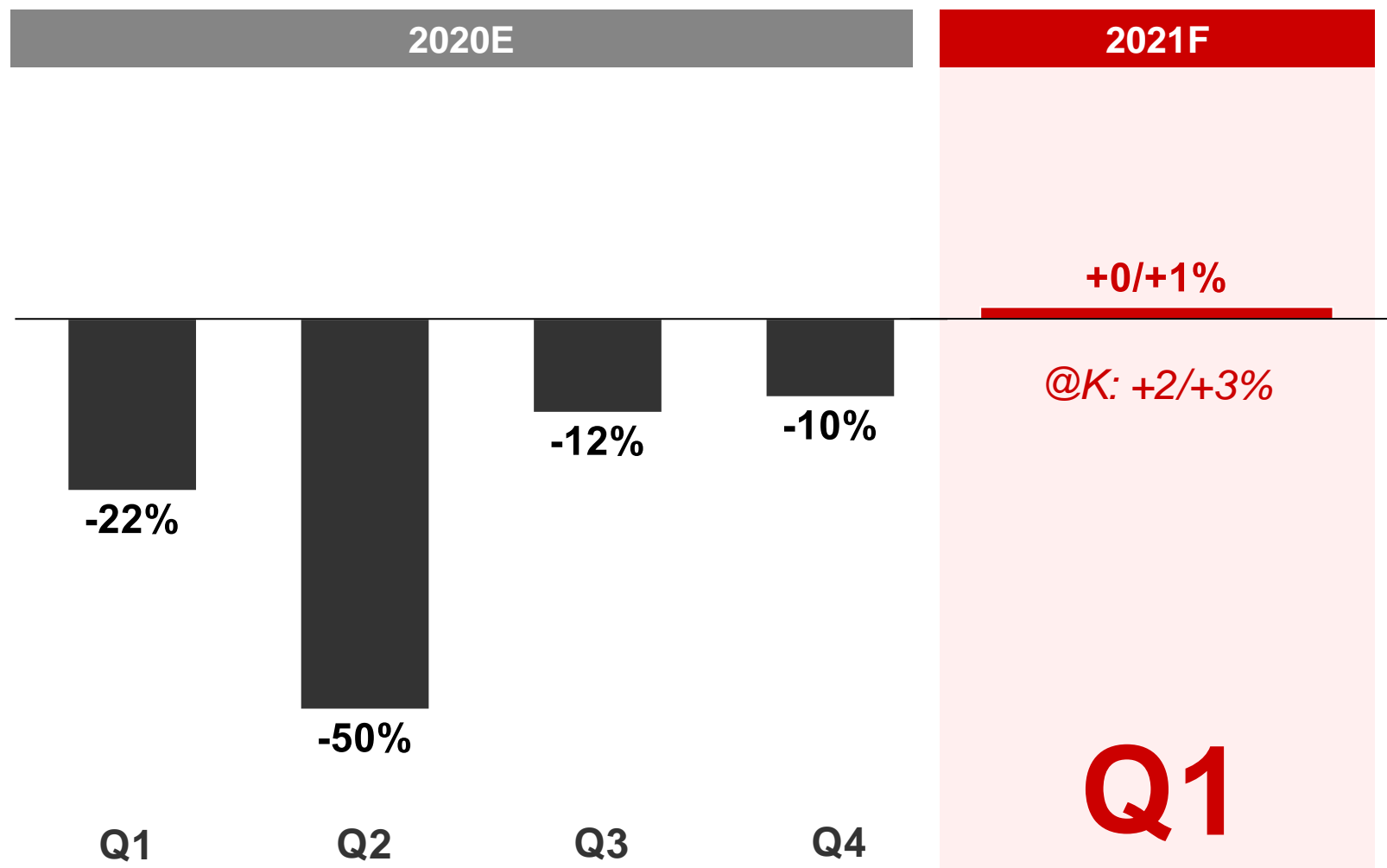
The “new normal” trajectory of the **personal luxury goods market** was interrupted by the rude awakening of 2020, leading to the first decrease in more than 10 years



Luxury market **roars back** in first trimester 2021: **flat/positive growth** vs. 2019 Q1

2020 & Q1-21

Personal luxury goods market evolution per quarter 2020E and 2021F (% | vs. 2019 QoQ)



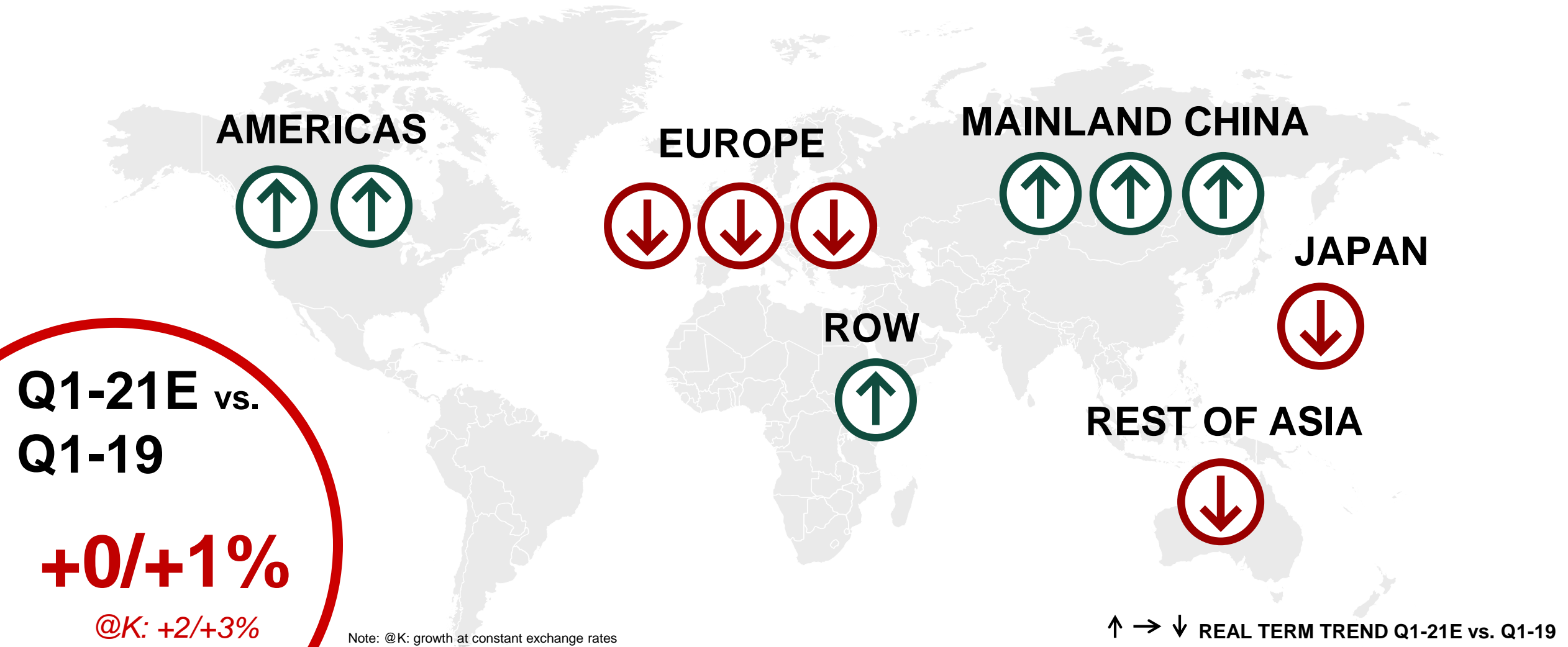
- **Q4-20 improving** thanks to:
 - **China** still booming and more than offsetting the poor performance in the rest of Asia
 - **Western markets** progressing at two different paces, with Americas showing great recovery while Europe is still struggling (also due to local lockdowns)
- **Q1-21F flat/growing vs. Q1 2019.** Key drivers shaping quarterly performance include:
 - Progressive deployment of vaccines (despite different pace across regions)
 - Continuous repatriation and acceleration of Chinese spending in China
 - Boost of the online channel
 - Faster recovery of US consumer confidence vs. challenged performance in Europe

Note: @K: growth at constant exchange rates

Luxury market rebound in Q1 strongly driven by China and US; Europe is the only region still in strong contraction

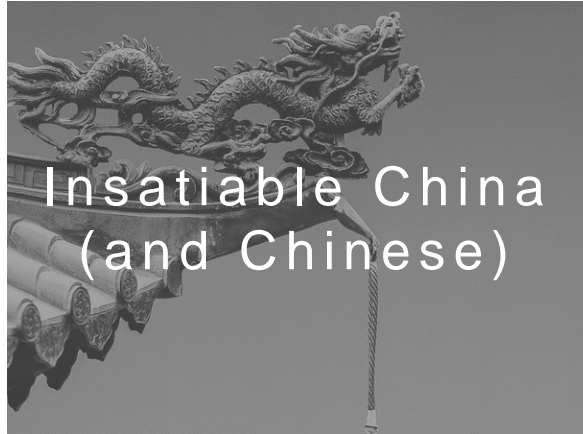
/ESTIMATES

Personal luxury goods market – Quarter-on-quarter growth trend by region (Q1 2021E vs. Q1 2019)

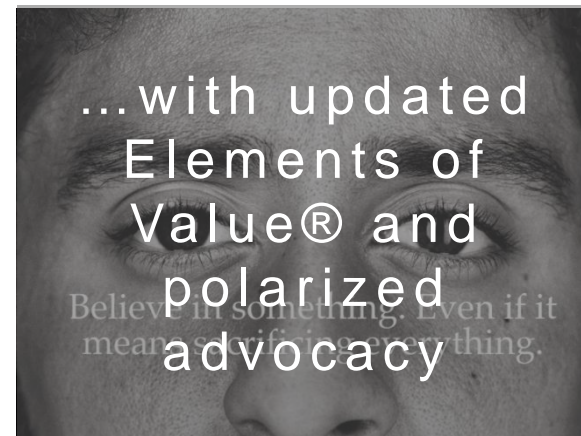


While market progressively navigating out of the Covid-19 crisis, several trends consolidate while others are emerging/accelerating to shape its future evolution

CONSOLIDATING TRENDS



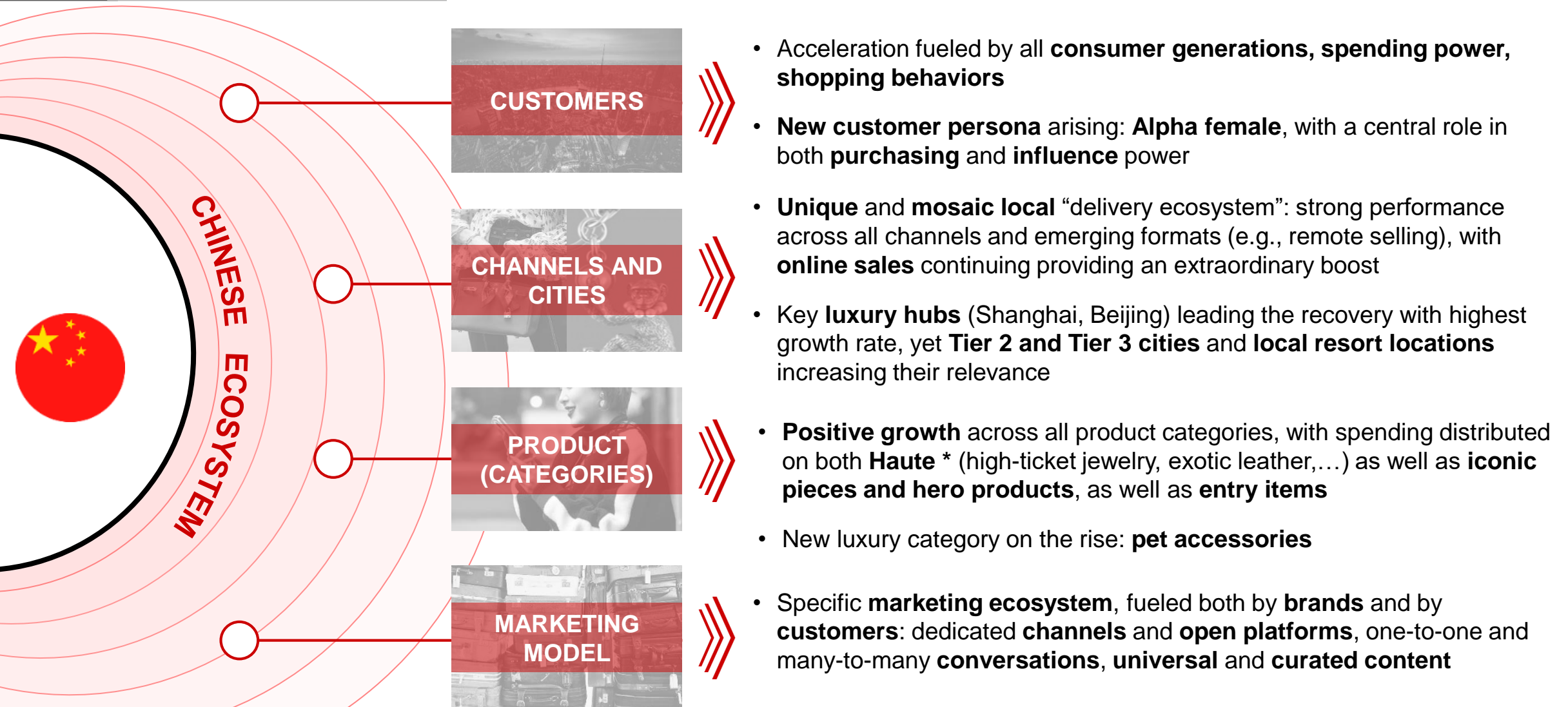
SURPRISING / ACCELERATING TRENDS



China increasingly becoming a full ecosystem, fed with locally tailored strategies along the value proposition and value chain

1

GEOGRAPHIES



Roaring 20s approaching in the **US**, showing clear macro, consumer, and channel trends that will reshape market structure in the region going forward

1

G E O G R A P H I E S

Key drivers of US market rebound

Improved **macro economic** fundamentals

- **Sound macroeconomic indicators**, with 2021 **GDP projections** revised upwards and **unemployment rate** falling vs. expectations

Dynamic **stock market** and **investment plan**

- **Positive returns** on stock performance providing **liquidity** on the market
- Approval of a **multi-trillion-dollar** investment plan to upgrade **infrastructure** and increase **employment**

Sound **consumer confidence**

- **US consumer confidence index** at its highest level since February 2020
- **Regained willingness** for shopping as **country reopened**

Fast **vaccines** deployment

- **Acceleration** of vaccines deployment, aiming at covering **70% of total US adult population** by 4th July 2021

Potential future evolution within US luxury market

Evolving market map, with new city hubs and wealth ruralization

Rise of tomorrow's consumer: **subcultural** relevance and **next-generation** mindset

Channel rationalization and **new role** for department stores as **platforms** for (direct) brand activations

Increased **interest** (and share of spending) from **top/UHNWI customers** towards luxury

Online over-performing across geographies and categories; off-price and monobrand still impacted by limited footfall, but recovering; travel and multibrand in distress

2

CHANNELS

↑ → ↓ REAL TERM TREND Q1-21E vs. Q1-19

Q1-21E trends across key channels vs. Q1-19

Online



- **Robust double-digit performance** of the channel across **geographies** and **categories**
- **Continuous enlargement** of **consumer** base, thanks to clients approaching the **channel for the first time**, or using the channel to approach **luxury for the first time**

Off-price



- **Slowdown in traffic** (especially in high touristic destinations) impacting the channel
 - **European locations** more severely impacted by closures/restrictions
 - In US, channel benefitting from the **improving consumer confidence**, as well as from being generally present in **2–3 tier locations** (i.e., away from big metropolis)

Monobrand



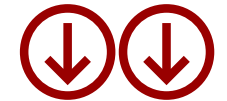
- **Recovering channel, still impacted by closures/restrictions and poor footfall**
 - Chinese store network only one positively trading
 - In more traditional markets (Europe *in primis*) **2–3 tier locations** relatively **better performing** vs. key luxury hubs
- **Remote client activations** as mitigants of low footfall

Travel retail



- Still deeply **suffering** from the air traffic **halt**
- Only **limited localized rebound** in selected **intra-regional** (or intra-country) routes
 - Europeans travelling to Middle East (i.e. Dubai), while Americans moving to US southern locations, Chinese moving to local resort locations
- **Duty free continues to be severely impacted** by lack of tourism

Department & Specialty stores



- **Still difficult performance for department stores**
 - In US, big luxury hubs more challenged, while improving performances on 2-3 tier cities; online strong “breath of fresh air”
 - **European players**, traditionally relying on tourists, **struggling to win locals**
- **Specialty store natural selection**

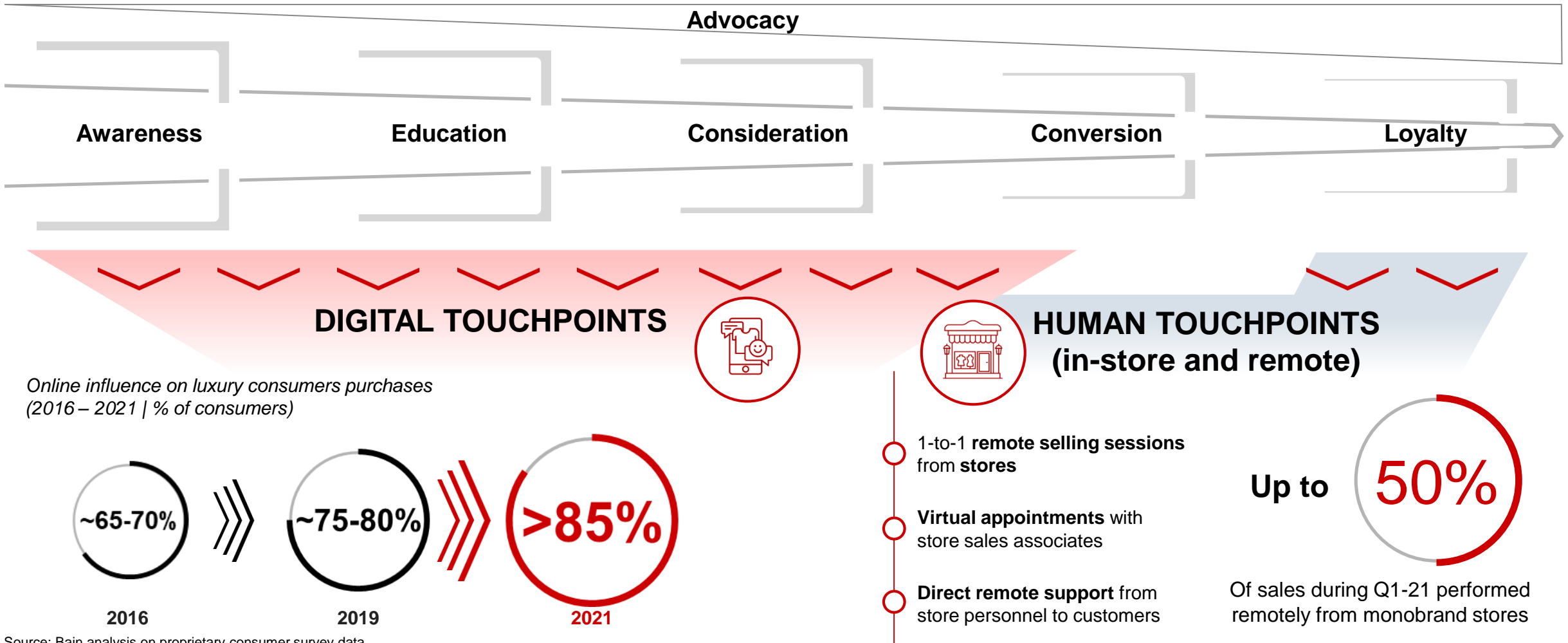
Source: From interviews with selected luxury brands panel

Digital continuously increasing its influence over luxury purchases during 2021, yet **human-led touchpoints** maintaining a critical role for customers' loyalty

2

CHANNELS

The customer funnel












Source: Bain analysis on proprietary consumer survey data

All customer nationalities positively growing (or on a recovery path), with a broader approach to luxury shopping blurring market boundaries

3

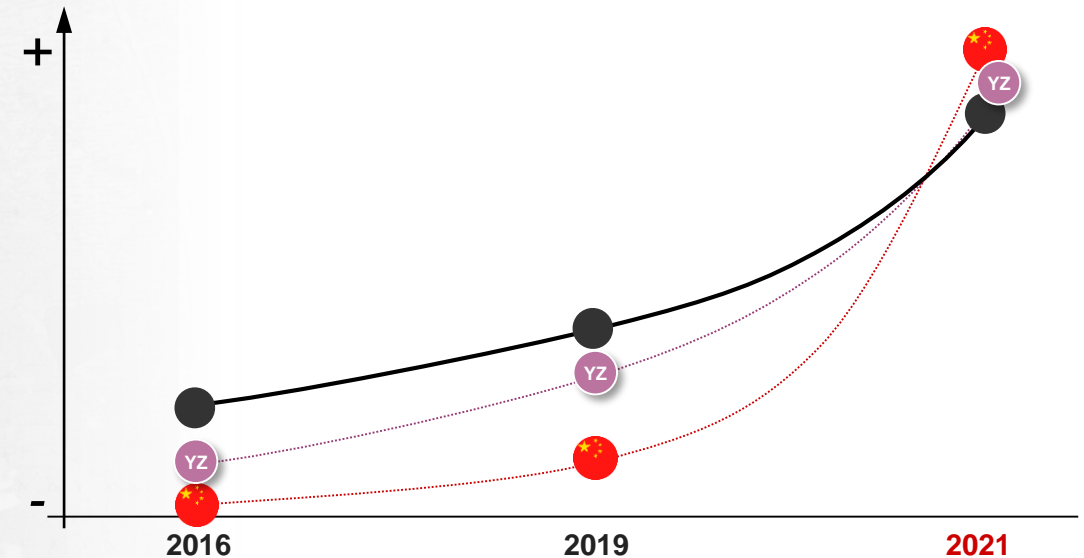
NATIONALITIES & CONSUMER BEHAVIOURS

Trends across key nationalities

	Q1-21E vs. Q1-19	Intra-regional travelling
 AMERICANS	 	Restarted
 EUROPEANS		Still lacking
 JAPANESE		Still lacking
 CHINESE		Accelerating

Source: Bain analysis on proprietary consumer survey data

Evolution of customer preference to buy across price positionings



All customers evolving towards **fluid purchasing behaviors among price points**, also in those segments (Chinese, Millennials) historically characterized by **stronger brands' segmentation**

Evolving **Elements of Value®**: brand aesthetic overtaken by brand ethic and hero product design as ways to self-express, belong and make a social impact

3

NATIONALITIES & CONSUMER BEHAVIOURS

What fashion-luxury consumers want: top Elements of Value® evolution

So far...

QUALITY

BRAND AESTHETIC/DESIGN

FUN & ENTERTAINMENT

VALUE FOR MONEY

SELF-EXPRESSION

SEAMLESS EXPERIENCE*

CONFIDENCE / REASSURANCE

HERITAGE

INVESTMENT

SUSTAINABILITY

STATUS

AFFILIATION & BELONGING

...what's accelerating Post-Covid



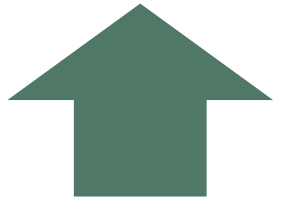
From brand aesthetic to **hero products aesthetic**



Increased willingness to **affirm one own identity and values** (through style and brand choices)



Leapfrog of the importance of social commitment on **sustainability and Diversity Equity and Inclusion**



Increased need to **feel connected to humans**



Emerging "**platform-related Elements of Value**" (integrates, connects, ...)



Note: for simplicity does not include all 30 Elements of Value, names have been adjusted to be adapted more clearly to the industry context; (*) Seamless experience includes more EoVs such as simplify, reduce effort, avoid hassles, ...

Luxury market is performing well on **advocacy** over the pandemic, though polarized; critical to win Gen Z, increasingly demanding in terms of customer experience

3

NATIONALITIES & CONSUMER BEHAVIOURS

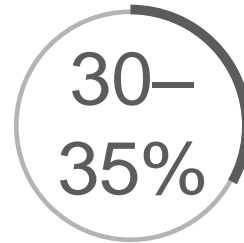
Evolution in luxury industry NPS®



Average **Net Promoter Score®** of luxury industry increase **in last 15-18 months**

Polarization of NPS® trends among luxury brands

*Evolution in **brands' NPS level** vs. panel average (2019-2021 | % of brands)*



**INCREASING
RELATIVE NPS**

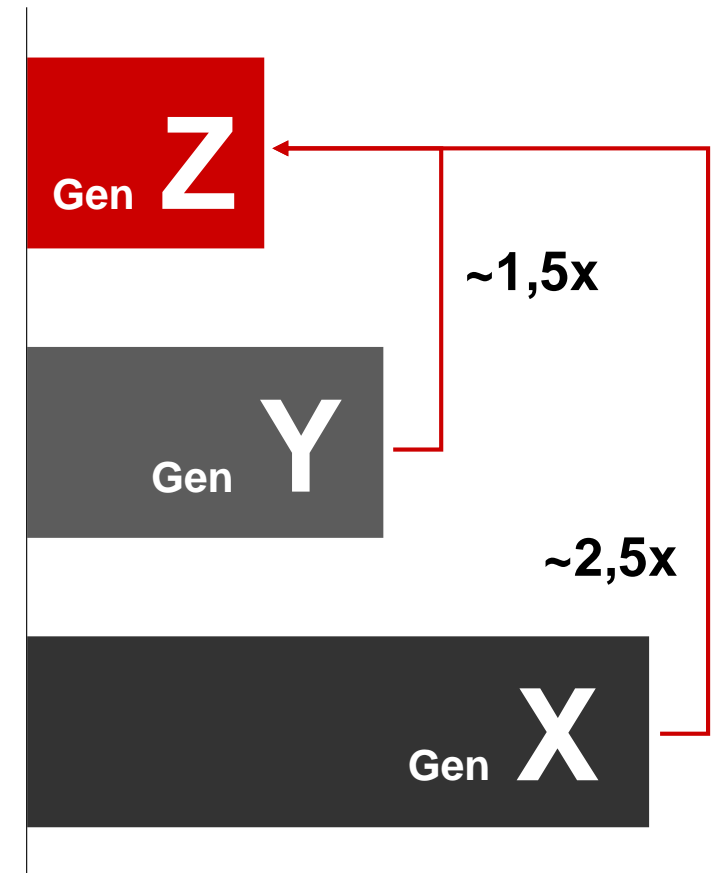


**STABLE
RELATIVE NPS**



**DECREASING
RELATIVE NPS**

Post vs. Pre-Covid increase of average luxury brand NPS® by generation



Accessories and jewelry driving the rebound of the market, while apparel lagging behind (with an expected increasing dynamism)

4

PRODUCT CATEGORIES

PRODUCT CATEGORIES



Accessories



Driving the rebound **across geographies, channels** and **price-points**; **shoes** champions of the champions



Beauty



Online not **offsetting** the lack of **global tourism**: **skincare** better performing vs. fragrances; **make-up in recovery**



Jewelry



Rebound happening across price-points (high-end and entry items), sustained by newness injections/new collections



Apparel



Overall **sluggish performance**; **expected dynamism** on “**fashion**” items with the progressive return to social life



Watches



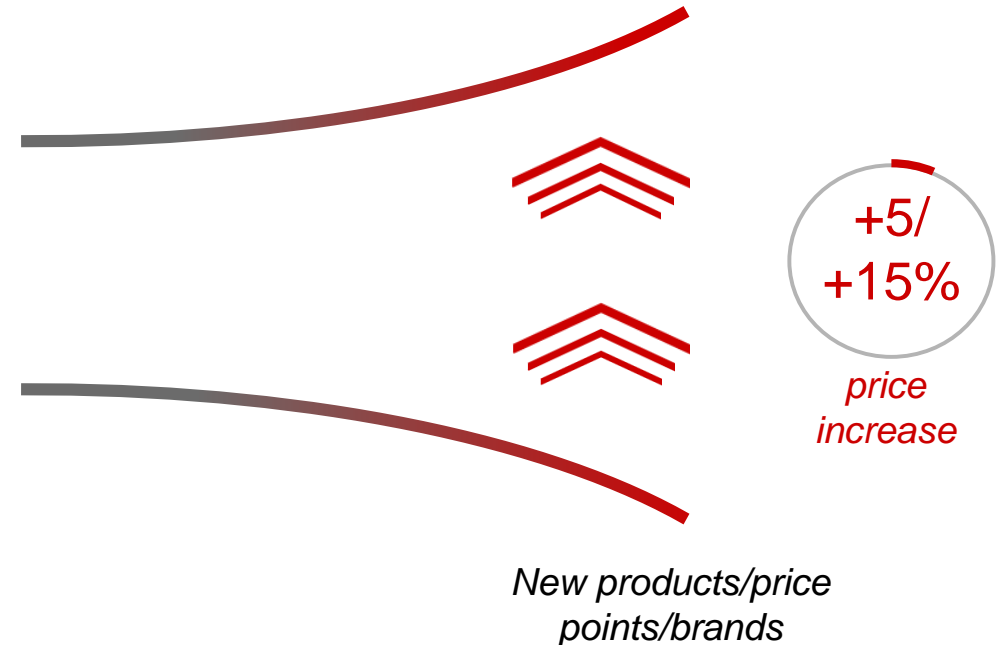
Recovery driven by **China** and **US**; **newness injections** as well as **re-launch of icons** key elements to **engage** with customers

Price range evolution pre/post-Covid

Pre-Covid

Post-Covid

New products/price points

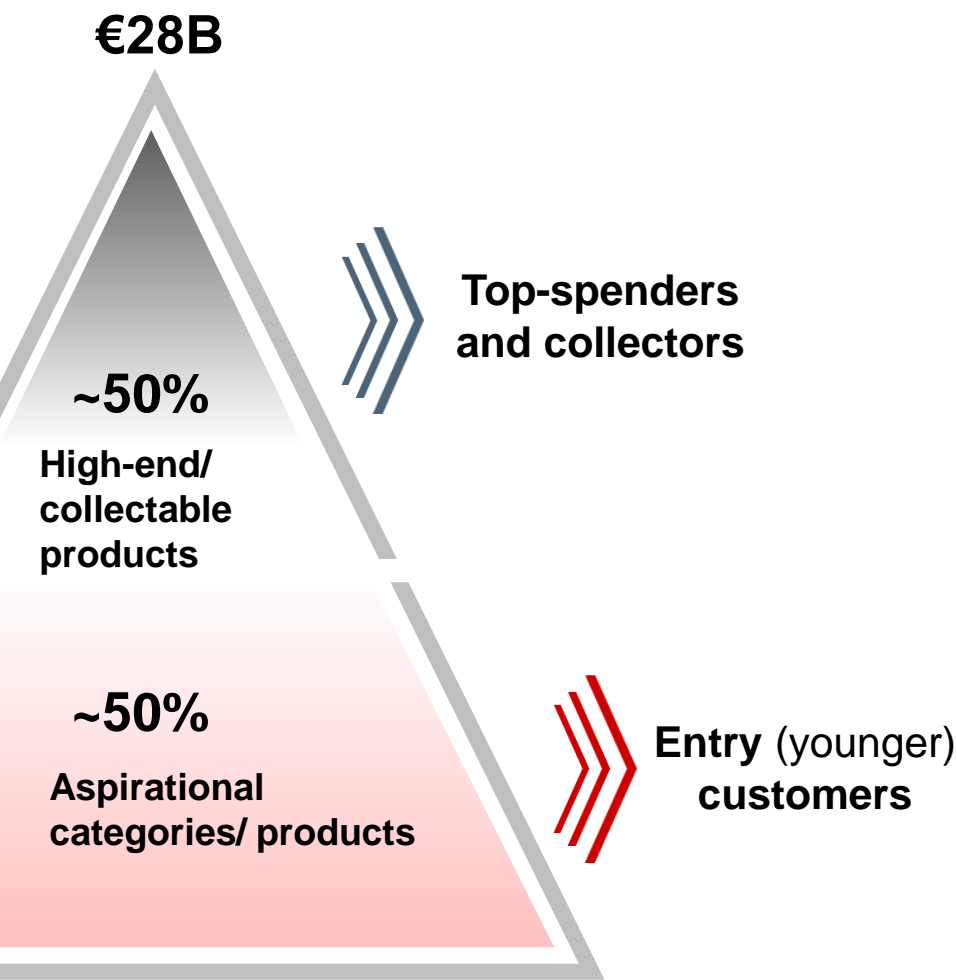


Price span enlarging across categories and brands with **customers absorbing selective price increases** and adjustments

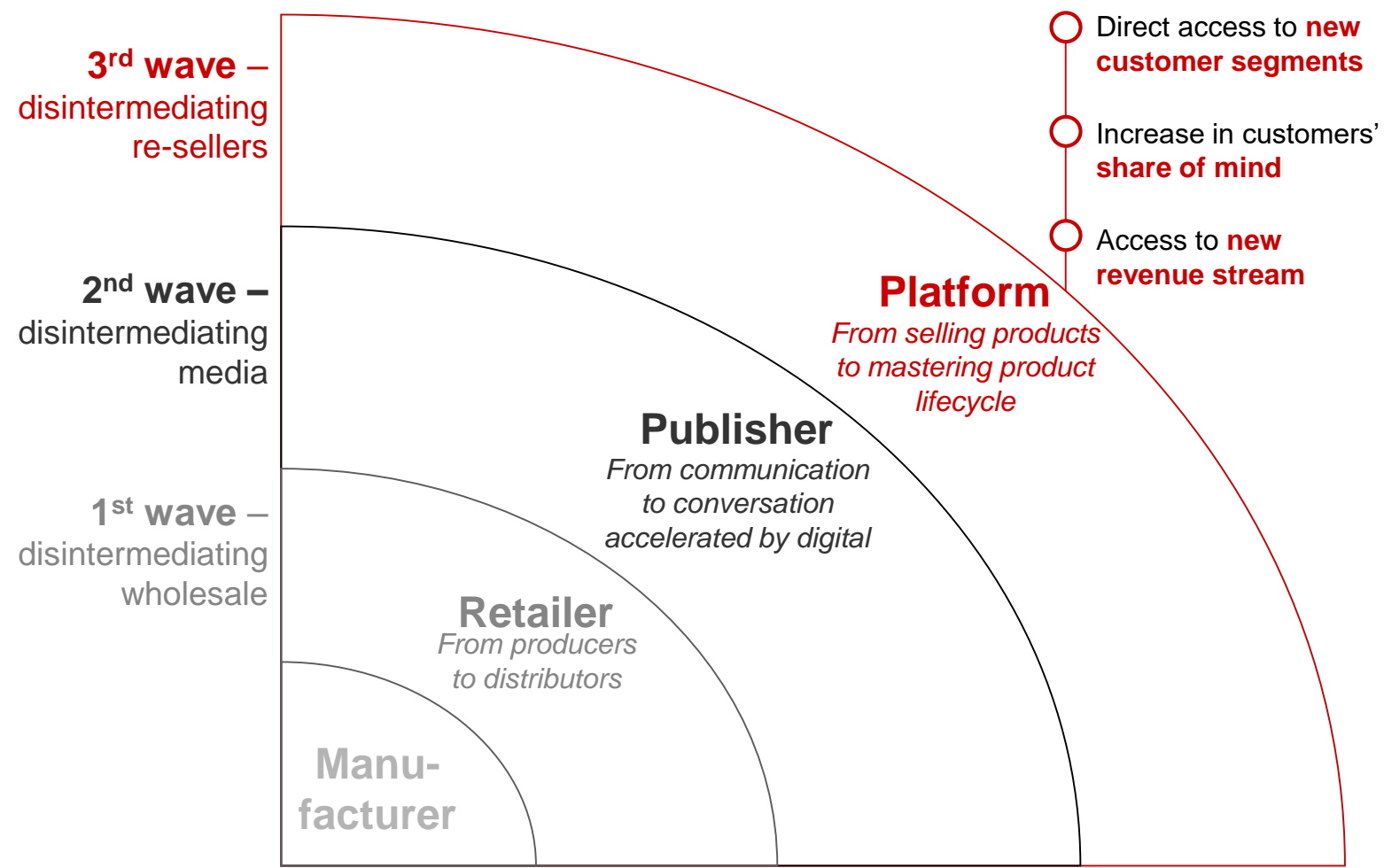
“Pre-loved” luxury intercepting high-spenders and entry customers, with brands increasingly tapping into the market in a further wave of disintermediation to customers

4 PRODUCT CATEGORIES

2nd hand market by offer type (2020E)



Brands' waves of disintermediation to final customers

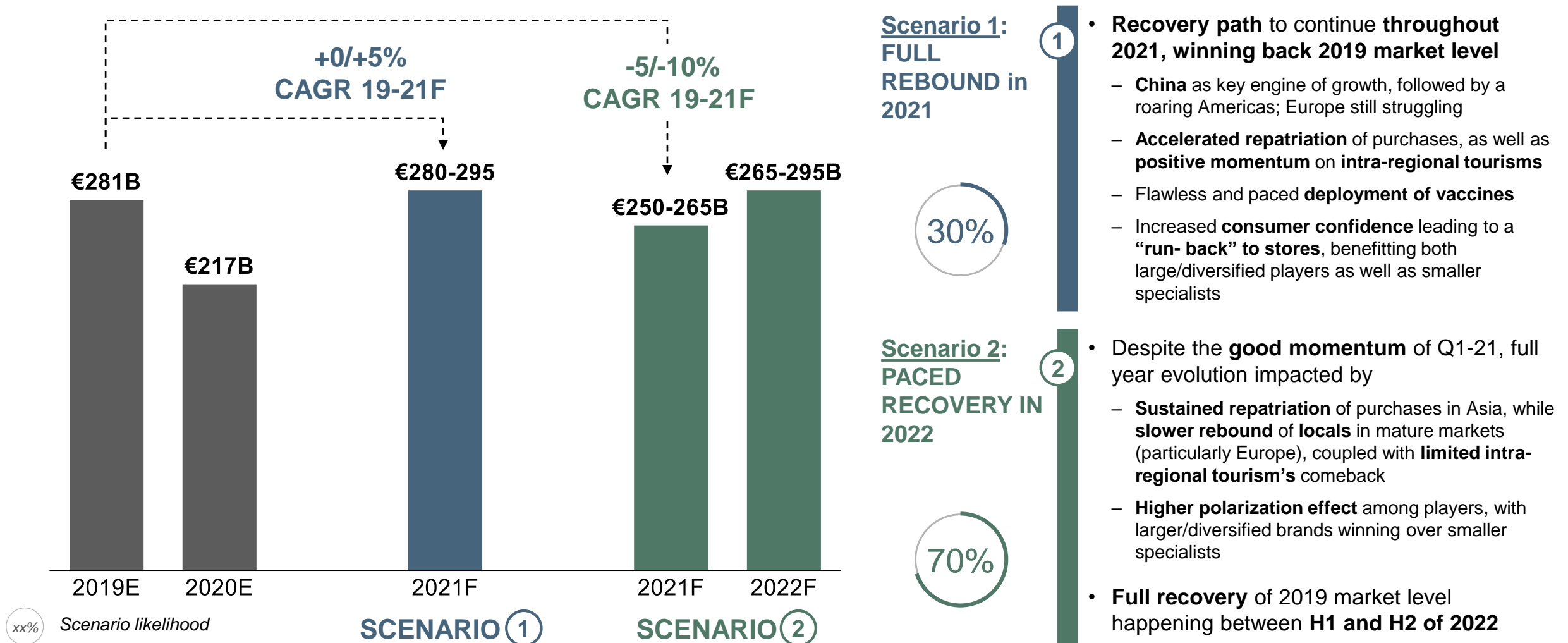


Given the recent results, the personal luxury goods market could recover pre-Covid levels according to two scenarios: full rebound in **2021** vs. paced recovery in **2022**

2021 AND BEYOND

/ ESTIMATES

Personal luxury goods market – recovery scenarios (% | 2019, 2020E, 2021F and 2022F @K exch. rates)



What does post-Covid new normal look like? **More tech, more human, more now**

Lifestyle new mantras will affect shopping and luxury as a whole



The psychology of *Carpe diem*/Y.O.L.O.

From **uncertainty** to **positive attitude**
Risk as the new baseline

Fast resurgence to luxury shopping might apply soon to other sectors: travels, luxury experiences ...



Health(ier) living

Suburbanization
From **WFH** to **WFA(nywhere)**
Slowmadism

Changing the global map, centers of gravity and geographic relevance of luxury consumptions



Connection 24/7

Digital as new raw need
Human and **social connections** rediscovered

Technology as key enabler of everyday life, but human and social connections make the difference – also in luxury shopping experience



Ethics over Aesthetics

Back to roots: **values**, **DNA**
Meaning and **Purpose**

Sustainability and DE&I ever more important when customer value luxury brands

CEO agenda remains unchanged, still even more urgent

Sustainability is the new digital, culture is next!

Insurgency
Diffused creativity
Meaning and Purpose



Culture



Customer obsession
Diversity, Equity
& Inclusion



Brand

Cultural relevance
New Elements of Value
Inspiration
Higher voice



Product

Episodic
Multi-seasonal
Enduring relevance
New icons
Circularity
Personal
Product virtualization
Strategic pricing



Innovation

Signifiers beyond brand/logo
Cultural spillovers (new categories)
Open-source creativity
End-to-End sustainability
Diffused creativity



Marketing

Always on
Conversational
Enriched
Broadcasted
Transmedia
ROI friendly



Customer Experience

Life journey
High-value episodes
Omnichannel Engagement
Wow “in-real-life” experience
Immersion
Human touch



Distribution

Global and forward-thinking architecture
Local ecosystem
Omni-relevance



Business model

Platform
Network of interests
2nd life

Global Sourcing excellence

Organization and Enablers

Process virtualization

Sustainable, resilient, controlled and connected supply chain

Zeitgeist talent model

Centers of Excellence

Omnichannel logistics

Rapidly acting, with one's own rules, throughout every element of the value proposition and its enablers will be crucial to “heal” and win in the post-pandemic luxury market

Claudia D'Arpizio, Partner

Bain & Company Luxury Goods vertical



Claudia has spent 25 years advising multinational luxury and fashion clients on everything from strategy and new product development to innovation and organizational change.

She is the lead author of the Bain Luxury Study, one of the most cited sources of market information in the luxury industry.

In 2009, Claudia was also recognized as one of the Top 25 Consultants in the World by Consulting Magazine.

Federica Levato, Partner

Bain & Company Luxury Goods vertical



Over the last 15 years, Federica has led more than 200 assignments in the fashion and luxury industry on issues relating to corporate and brand strategy, portfolio management, merchandising, retail and wholesale excellence, digital acceleration, millennial strategies, marketing and communication, and more.

Alongside Claudia D'Arpizio, Federica is the co-author of the Bain Luxury Study, one of the most cited sources of market information in the luxury industry.

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METHODOLOGY OF THE STUDY

Revenues at retail equivalent value

- Revenues at retail value represent total sales valued at retail price.
- Each player's consolidated sales are *retailized* through the following methodology:

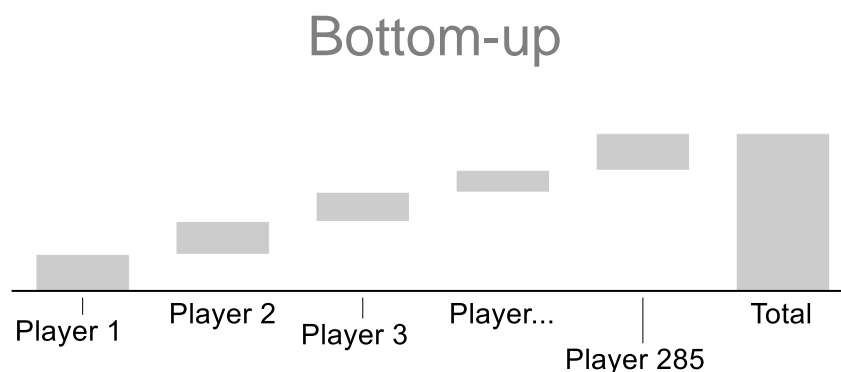
$$\frac{\text{Retail} + \text{Wholesale} + \text{Licenses}}{\text{PLAYER CONSOLIDATED SALES}}$$



$$\frac{\text{Retail} + \text{Wholesale at retail value} + \text{Licenses at retail value}}{\text{PLAYER SALES AT RETAIL VALUE}}$$

- Application of **estimated markups** by geography and category
- Application of **estimated royalty rates and markups** by geography and product category

Bottom-up and top-down estimates



We add brands' individual retail values...



Top-down

- Industry-specific (e.g., watches vs. beauty) data in the main geographical markets
- Comparison between market breakdown and turnover breakdown for key players
- Interviews with industry experts (top management of brands, distributors, department stores ...)
- Consistency check on the data and fine tuning

...we cross-check results

