LUXURY GOODS WORLDWIDE MARKET STUDY Fall-Winter 2014

The rise of the borderless consumer

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BAIN & COMPANY

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Executive summary: Slower but steadier growth and a shift to consumers

The 13th edition of the Bain Luxury Study, published by Bain & Company for Fondazione Altagamma, the industry association of the manufacturers of Italian luxury goods, analyzed recent developments in the global luxury-goods industry.

Slower, steadier growth for luxury goods

The overall luxury industry comprises nine segments in total, one of which is personal luxury goods. Factoring all segments, the overall luxury market exceeded €850 billion in 2014, showing healthy growth of 7% overall, driven primarily by luxury cars (10%) and luxury hospitality (9%).

Bain research finds that international travel and tourism is fueling an appetite for 360-degree luxury experiences, such as high-end transportation, that includes highly customized "super cars" and yachts, as well as luxury hotels and cruises.

Not to be outdone, personal luxury goods—the "core of the core" of luxury—continue to buoy the market. The overall market is on target to reach €223 billion in 2014, triple its size 20 years ago. Yet that growth is slowing: in 2013, luxury goods grew 7%, and in 2014, growth slowed to 5% at constant exchange rates (2% at current rates). That slower pace is, however, more sustainable, and it reflects the "new normal" for luxury goods, particularly as the global economy continues its sluggish recovery from the financial crisis of 2008. Demand from Chinese consumers, mature consumers in the US, and Japanese shoppers returning to luxury goods have all helped shore up growth.

It is worth noting that luxury spending doesn't always take place at home. The luxury-goods industry in most markets is now driven by touristic spending, which means that who the buyers are matters more than where they buy. There are exceptions, however. Japanese citizens make most of their luxury purchases at home, primarily owing to currency factors. (The value of the yen has declined nearly 30% since 2012.) But Chinese consumers now represent the top and fastest-growing nationality for luxury, spending abroad more than three times what they spend locally. Tourists are also increasingly influencing the luxury market in the Americas. With such cross-pollination of luxury spending, it makes less and less sense to think only in terms of location. Instead, the focus is shifting to consumers, with local trends and tastes representing only part of the picture. This new mind-set has important implications for luxury brands. It requires thinking about the product offerings from a more global perspective, with the concepts of seasons and national boundaries—key pillars of this industry—becoming obsolete.

The following are specific regional trends:

- **Americas**—The Americas were the undisputed growth engine in 2014, delivering 6% growth at constant exchange rates (3% at current rates). Growth in the US could have been even more robust if it hadn't been for a harsh winter. Brazil posted disappointing results due to local currency devaluation, but Mexico and Canada both maintained positive performance.

- **Europe**—Growth across the continent was up 2%, despite persistent economic challenges, socio-political tensions in Eastern Europe, and less dynamic tourism. The market continues to heavily rely on international tourism, as deteriorating consumer confidence halted any significant effects from the partial recovery among local spenders.

- **Japan**—Japan regained a growth leadership position in 2014, driving a positive trend through an increase of 10% at constant exchange rates (2% at current rates) that made it the best-performing market in real terms.

- **China**—Luxury spending in China showed a negative trend for the first time: –1% growth this year at constant exchange rates (–2% at current rates), due to greater controls on luxury spending and changing consumption patterns. Simultaneously, less established and younger accessible brands have endeared themselves to the growing upper-middle-class "wannabe" consumer segment, which is expected to double by 2017.

- **The Rest of Asia**—Greater China is flattening while South Korea strengthened its position as a trendsetter and influencer for fashion and luxury. In Southeast Asia, Malaysia and Singapore were hampered by the Malaysian airline accidents, but most of the rest of the region experienced a brisk pace of growth.

Within specific categories of luxury goods, accessories captured 29% of the market and grew by 4% in 2014 (at current exchange rates)—more than apparel and hard luxury (jewelry and high-end watches), the next two largest categories. For the first time since 2007, the growth of high-end shoes surpassed that of leather goods, emerging as an evident status symbol, albeit at a lower ticket price than other leather goods. At the opposite end, watches took a hit from the downturn in Asia. In response, many watchmakers cut production to sidestep the risk of oversupply.

Across most categories, the retail channel is growing, comprising approximately 30% of the market. There is an ongoing retailization of historical wholesale formats and markets. For instance, increasing numbers of US department stores are adopting a concession-based model. Markets such as Russia and the Middle East have also shifted to joint ventures over the past few years.

When it comes to a physical shopping experience, consumers prefer a monobrand environment, which still makes up more than 50% of the market. Conversely, online, they love variety and assortment and prefer buying in a multibrand e-environment.

1.

Luxury-spending trends in 2014

- The global luxury market comprises nine segments, including personal luxury goods, cars, luxury hospitality, luxury cruises, designer furniture, fine food, fine wines and spirits, yachts and private jets. The three biggest segments (in order) are cars, personal luxury goods and luxury hospitality. Personal luxury goods are the focus of the Bain Luxury Study.

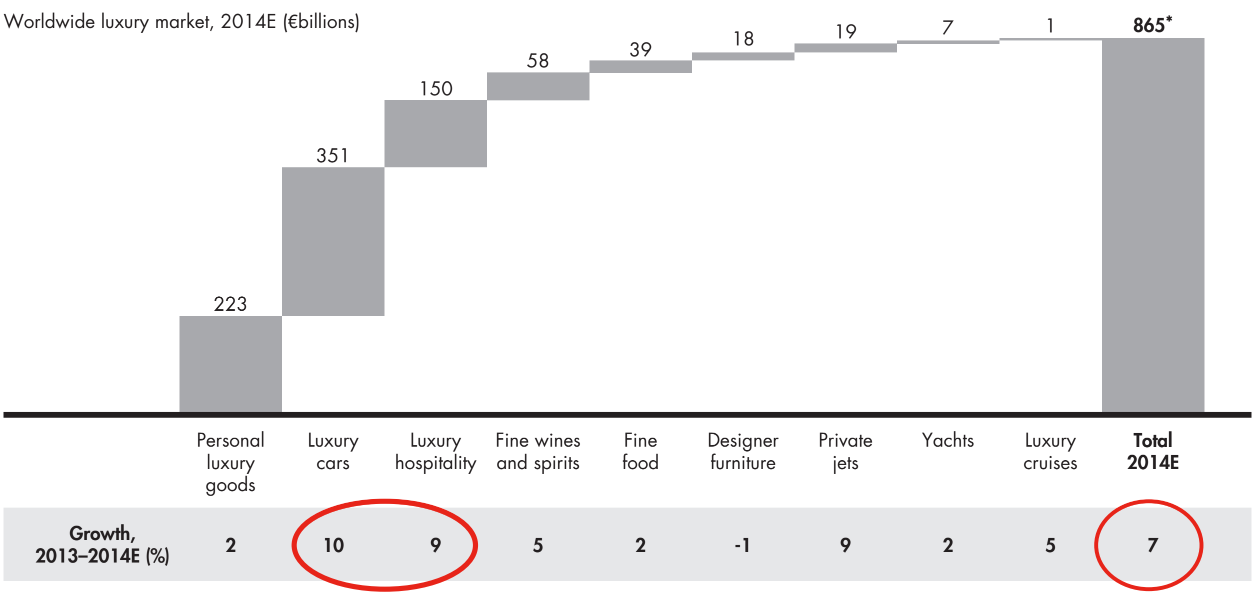
- The global luxury market exceeded €850 billion in 2014. That reflects healthy growth of 7% overall, driven primarily by luxury cars and luxury hospitality. Growth in the luxury car market was solid, up 10% from 2013, driven by emerging markets, where luxury vehicles are still seen as symbols of status and social enablers. The high degree of vehicle personalization and even after-sales service are helping to double or, in some cases, triple the basic price tag. Luxury hotel sales, up 9%, benefited from steadily growing demand. Members of younger generations (the over-30 population) who are seeking superior lifestyle experiences helped fuel 5% growth in the cruise market. Demand for gourmet food was unrelenting, particularly in filling the gap for innovative gifts and even travel souvenirs. Yacht sales bounced back at a low, positive single-digit pace (2% in 2014), while private-jet sales are up 9%, boosted by emerging-market demand, notably in Brazil.

- Personal luxury goods—the "core of the core" of luxury—continue to buoy the market. The market for personal luxury goods has nearly tripled in the past 20 years, with a strong rebound following the financial crisis in 2008. Growth has slowed since 2013 however, driven in part by currency effects.

The global luxury market comprises nine segments; personal luxury goods are the focus of the Bain Luxury Study

Source: Bain & Company

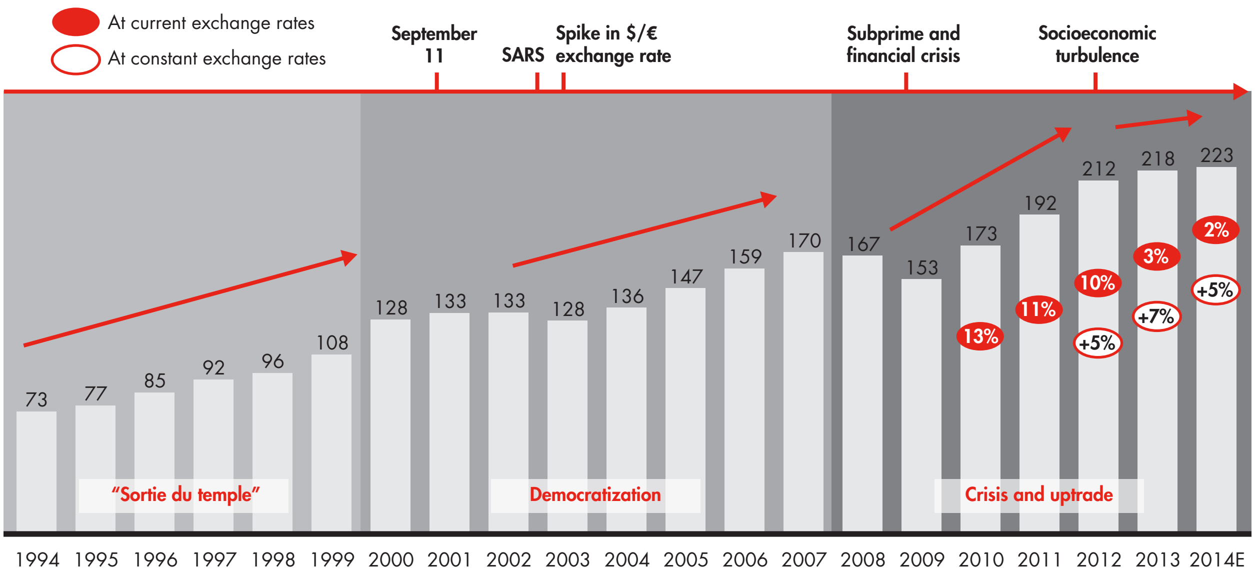
The global luxury market exceeded €850 billion in 2014, enjoying healthy growth that was driven primarily by luxury cars and hospitality



*Discrepancy in total is due to rounding
Source: Bain & Company

The market for personal luxury goods has nearly tripled over the past 20 years, but growth is leveling off

Global personal-luxury-goods market, 1994–2014E (€billions)



Source: Bain & Company

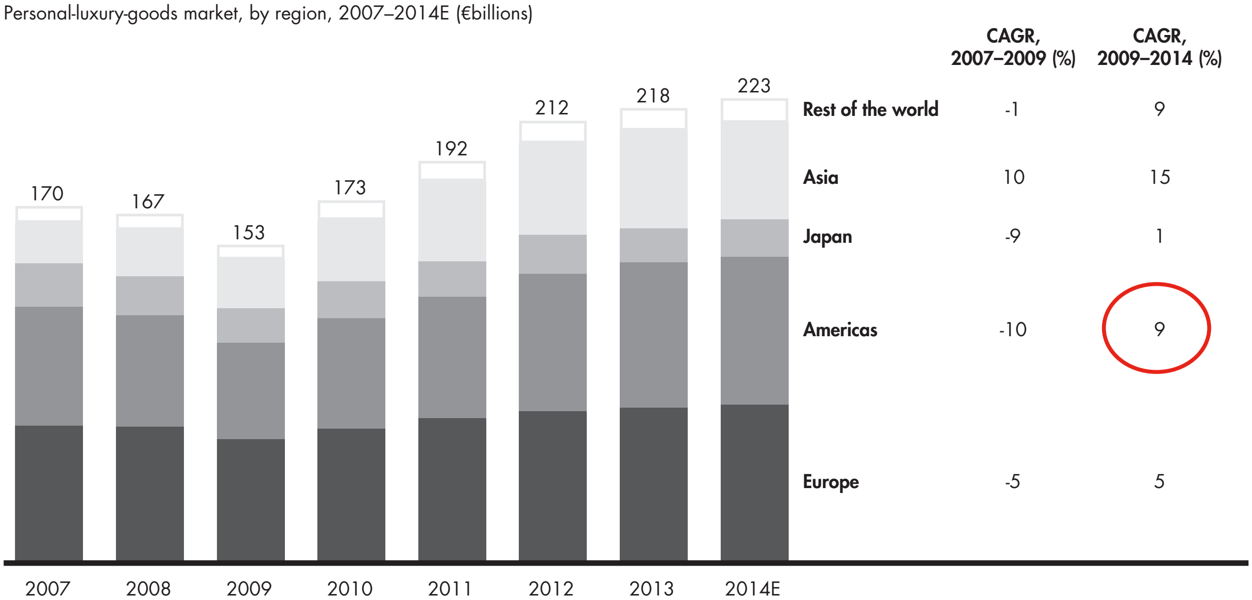
2.

The regional lens

- The Americas region has made a strong recovery from the crisis, with a compound annual growth rate (CAGR) of 9% from 2009 through 2014.
- In 2014, the Americas are projected to show the strongest year-on-year growth, at 6% at constant exchange rates (3% at current rates).
- The US remains the largest global market, bigger than the next four (China, France, Italy and Japan) combined. Moreover, the US is continuing to grow rapidly, with estimated growth of 5% in 2014.
- The importance of the US market for luxury brands is epitomized by the magnitude of New York City alone, which is a bigger market for personal luxury goods than the second-largest country, Japan.
- China embodies the shift from local markets to consumers. The market for luxury goods in China contracted in 2014, yet purchases by Chinese consumers now represent about a third of the global market.
- Globally, many markets now depend on touristic spending for luxury goods, not just on local consumers.

The Americas have made a strong recovery from the crisis

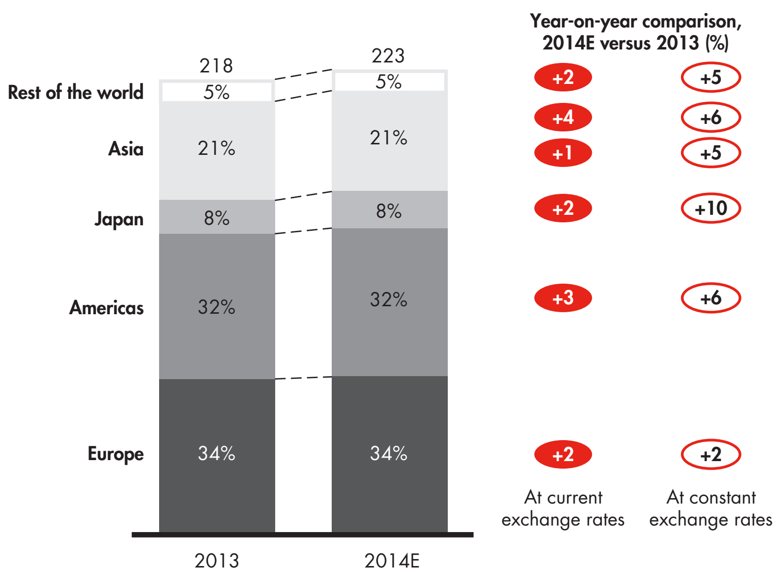
Personal-luxury-goods market, by region, 2007–2014E (€billions)



Source: Bain & Company

In 2014, the Americas region was confirmed as a key growth engine; Asia suffered from unexpected events and currency effects

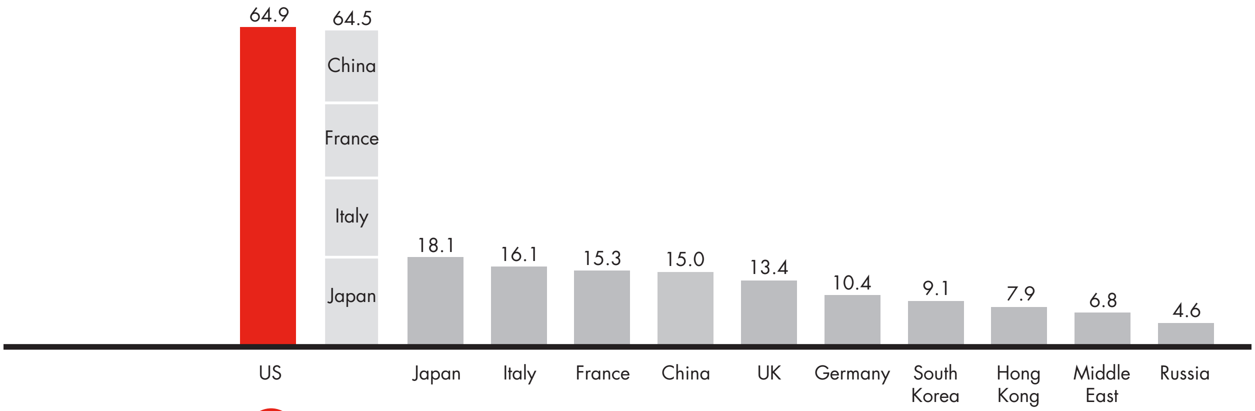
Personal-luxury-goods market, by region, 2007–2014E (€billions)



Source: Bain & Company

The US remains the largest global market by far

Personal luxury goods, top countries, 2014 (€billions)

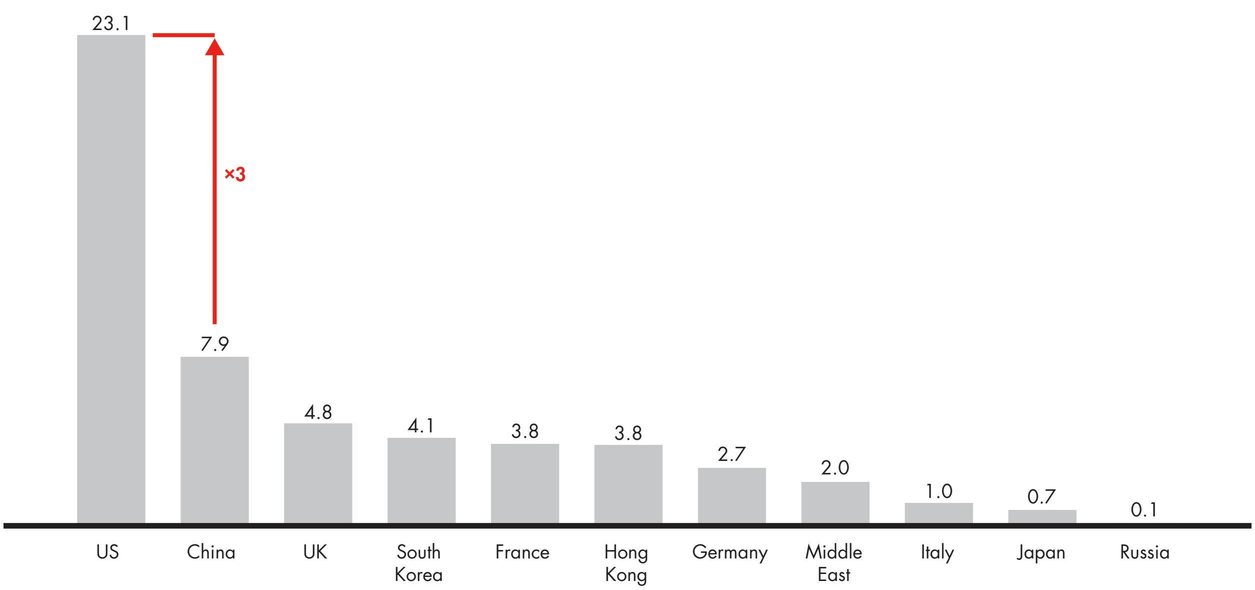


	US	Japan	Italy	France	China	UK	Germany	South Korea	Hong Kong	Middle East	Russia
Growth in Euro currency, 2013–2014E (%)	**3**	**2**	**-1**	**3**	**-2**	**9**	**4**	**7**	**1**	**3**	**-18**
Growth in local currency, 2013–2014E (%)	**5**	**10**	**-1**	**3**	**-1**	**4**	**4**	**4**	**3**	**6**	**-7**

Source: Bain & Company

Since 2009, the US has contributed three times as much absolute-value growth as Mainland China

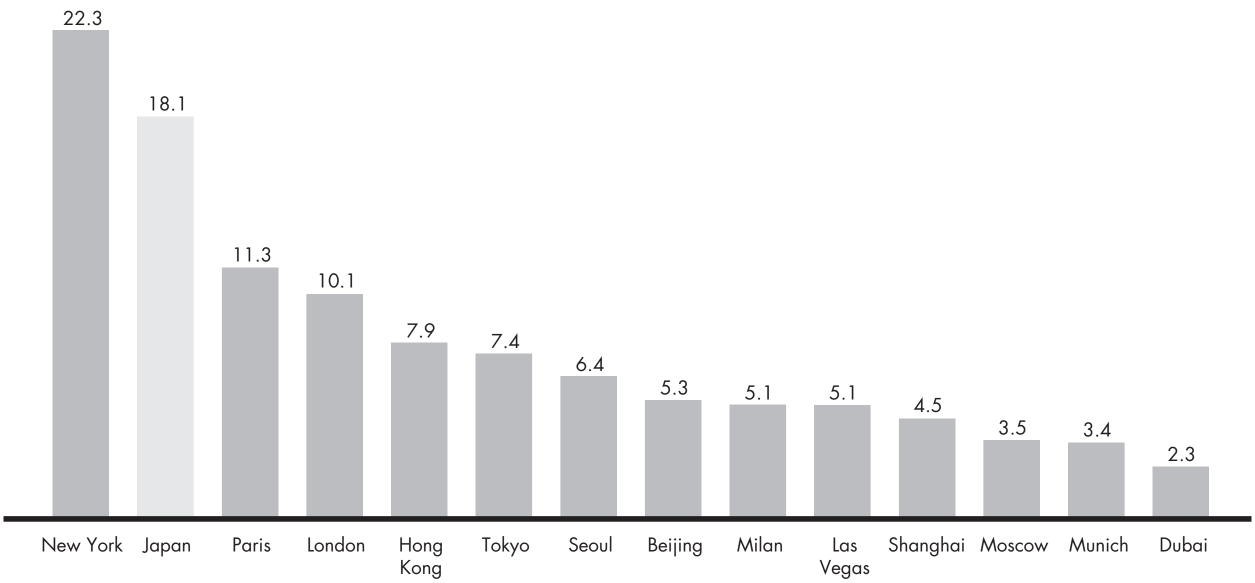
Personal luxury goods: growth contribution, by market, in absolute value, 2009–2014E (€billions)



Source: Bain & Company

New York City alone remains bigger than the second-largest global market

Personal luxury goods, top cities, 2014 (€billions)

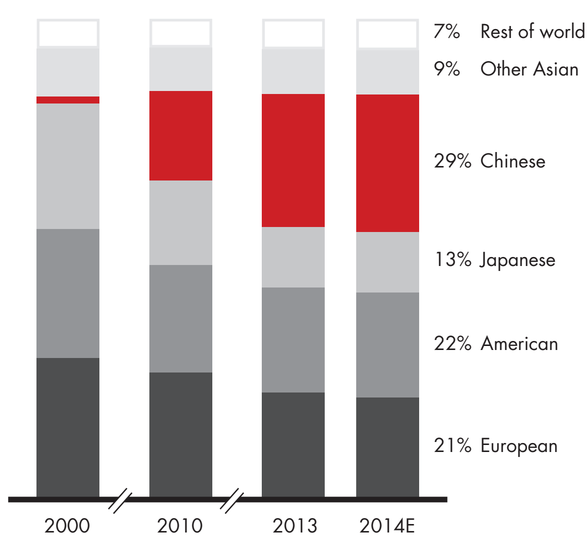


Source: Bain & Company

Mainland China contracted in 2014, yet purchases by Chinese consumers represent about a third of the global market

Personal-luxury-goods market in China, 2007–2014E (€billions)

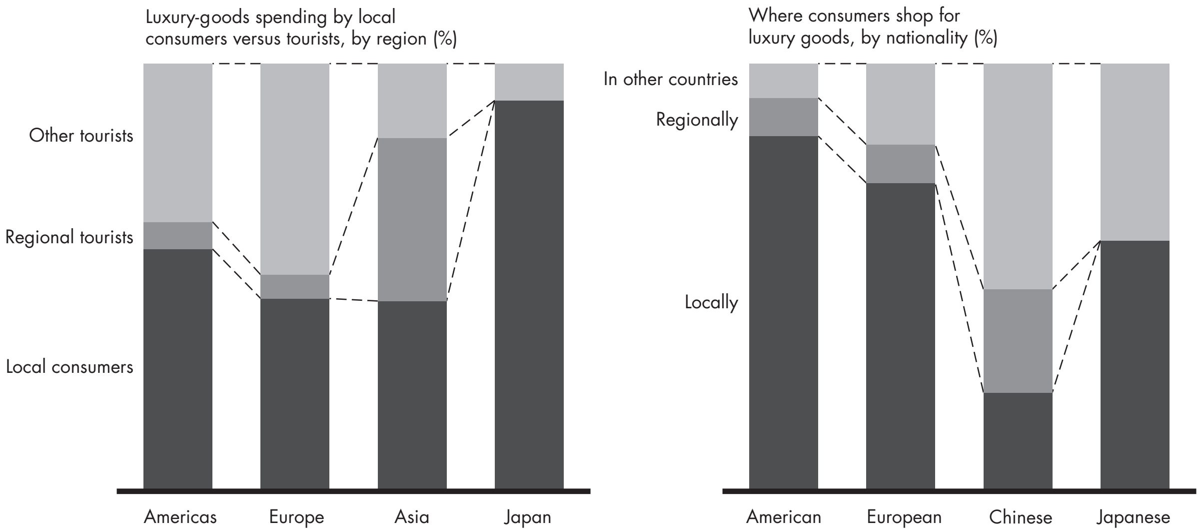
Global personal-luxury-goods market, by consumer nationality, 2000–2014E (€billions)



Source: Bain & Company

Most global markets now depend on touristic spending

Global personal-luxury-goods market, by region and consumer nationality, 2014



Source: Bain & Company


The UAE is bidding to host World Expo in 2020.
The UAE is bidding to host World Expo in 2020.
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3.

Changes in distribution

- Company-owned retail stores continued to gain share relative to wholesale channels. From 2007 through 2014, the share of company-owned retail sales has gained 10 percentage points and now totals nearly one-third of the luxury-goods market. This reflects an ongoing "retailization" of what had been wholesale formats (for example, department stores and e-commerce) and markets (such as Russia and the Middle East), with brands increasingly seeking global control of their operations.

- Retail channels grew 5% in 2014 alone. Of that, 2% came from new-store openings and the remaining 3% came from like-for-like sales growth.

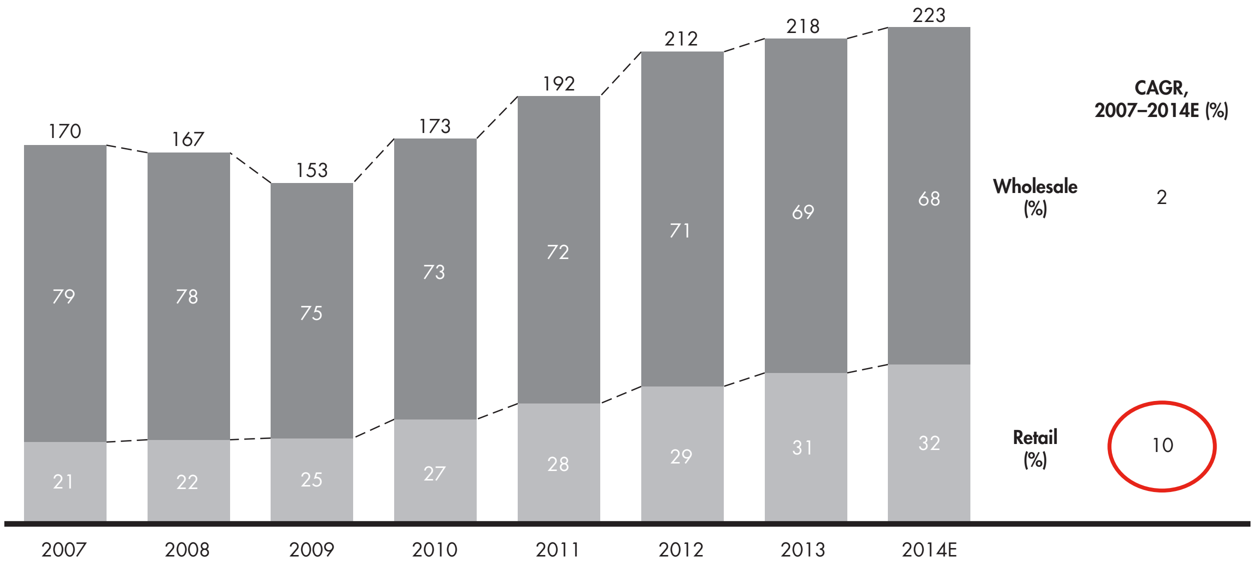
- Monobrand stores now represent more than one-third of the overall market, while monobrand distribution across formats already claims 52%.

- The airport channel continues to gain share, with a CAGR of 11% from 2011 through 2014. Airports now represent 5% of total luxury sales and are particularly critical in Asia and Europe. Because the beauty product category is by far the biggest segment in airport retail, airports represent a "sixth continent" for the beauty category.

- The online luxury market, which has grown twelvefold in the past 11 years, now makes up 5% of all sales. In terms of location, digital shopping is more developed in the Americas. From a category standpoint, accessories and apparel dominate online at 41% and 28% of sales, respectively. Retailers (such as department stores) are still the top-performing players online, followed by e-tailers, and then only by individual brands, some of which are struggling to find the right formula for this channel: indeed, some 35% of brands still do not sell online.

Company-owned retail continues to gain share over wholesale channels

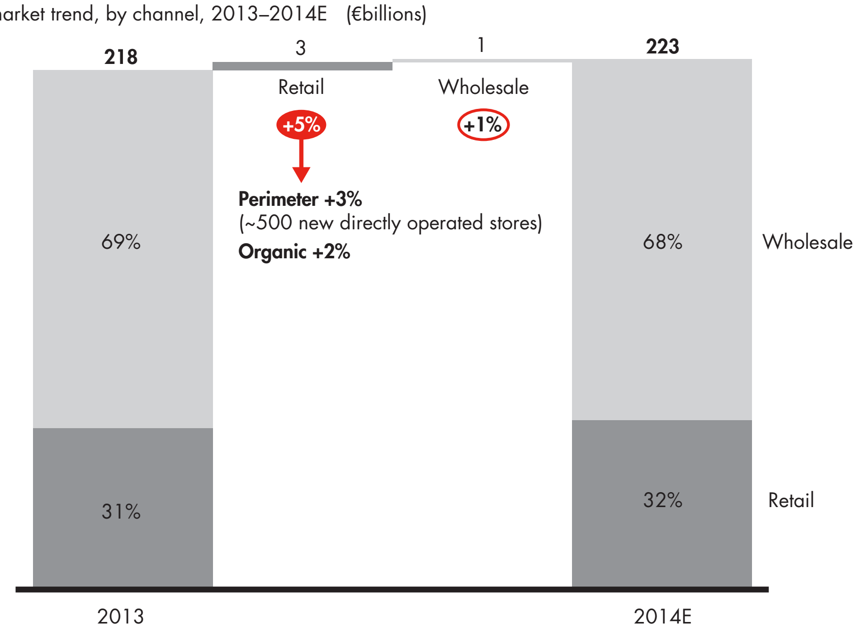
Personal-luxury-goods market, by channel, 2007–2014E (€billions)



Source: Bain & Company

In 2014, retail growth has been driven by both new-store openings and like-for-like sales growth

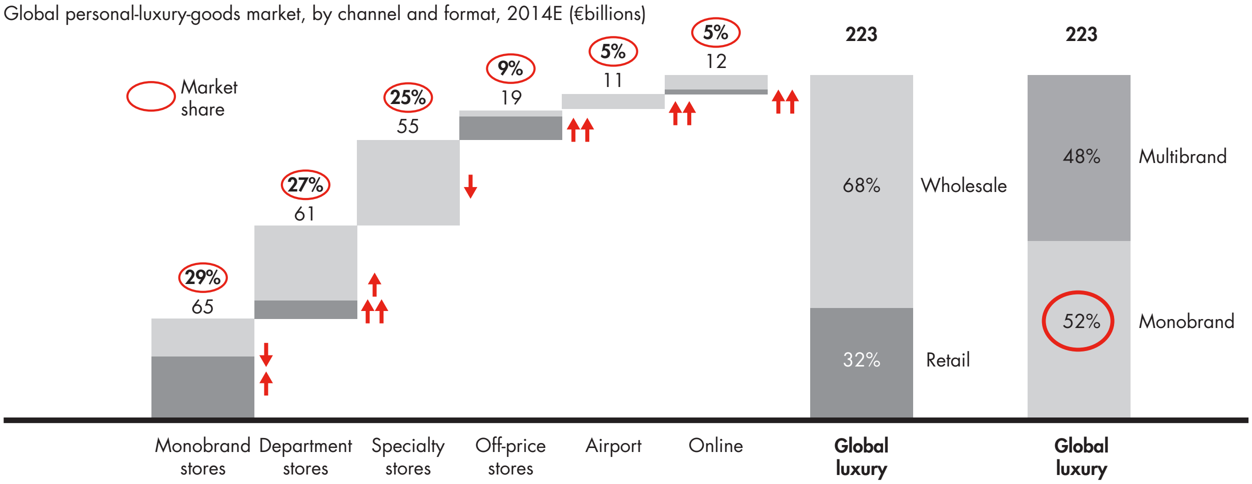
Global personal-luxury-goods market trend, by channel, 2013–2014E (€billions)



Source: Bain & Company

The share of company-owned retail has grown across all formats

Global personal-luxury-goods market, by channel and format, 2014E (€billions)

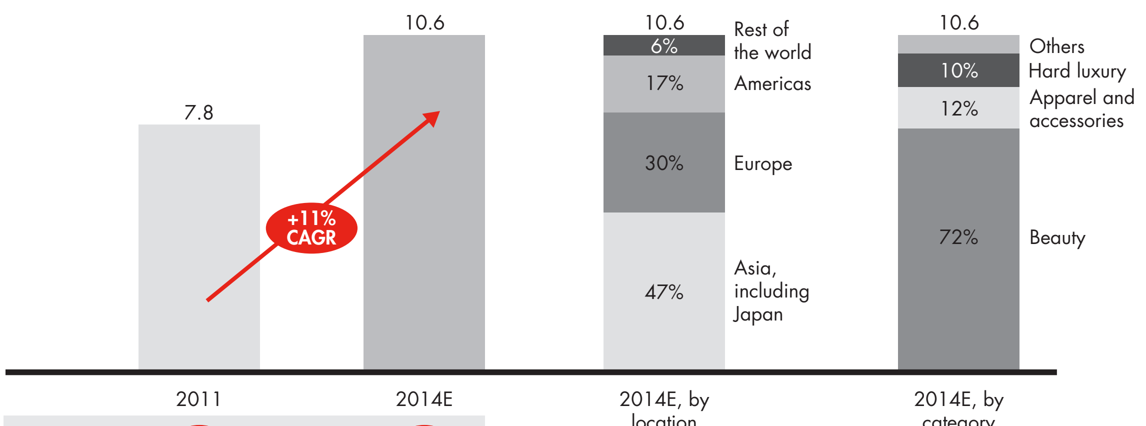


Monobrand (%)	**100**	**50**	**0**	**80**	**15**	**35**
Multibrand (%)	**0**	**50**	**100**	**20**	**85**	**65**

Source: Bain & Company

The airport channel continues to gain share

Airport personal-luxury-goods market, 2011–2014E (€billions)

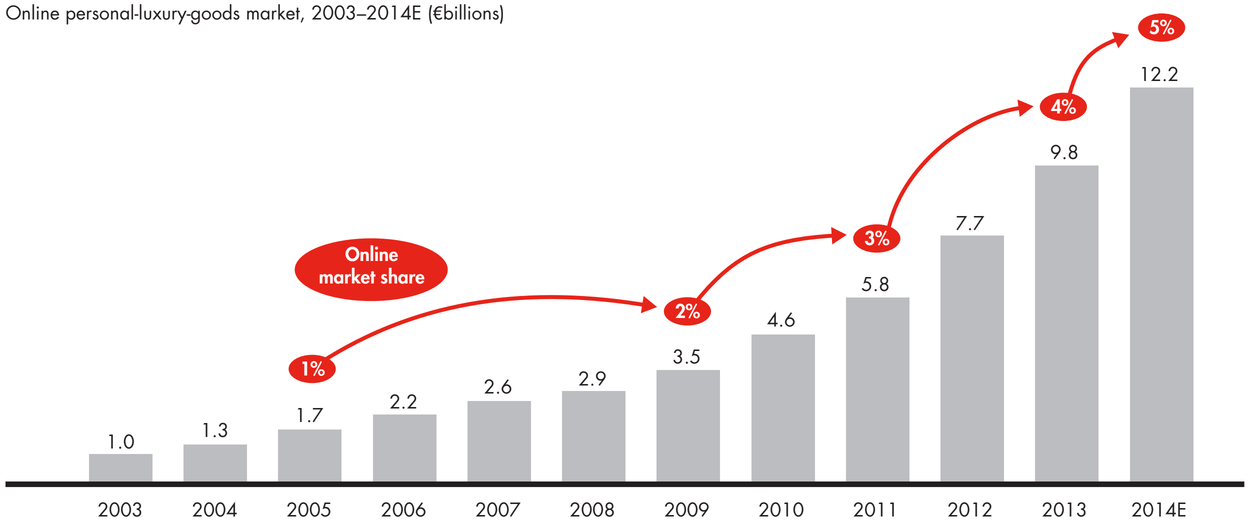


	2011	2014E
Market share	4%	5%
Growth since 2013		**10%**
Growth since 2013 (at constant exchange rates)		**13%**

Source: Bain & Company

The online luxury market has grown twelvefold in 11 years

Online personal-luxury-goods market, 2003–2014E (€billions)

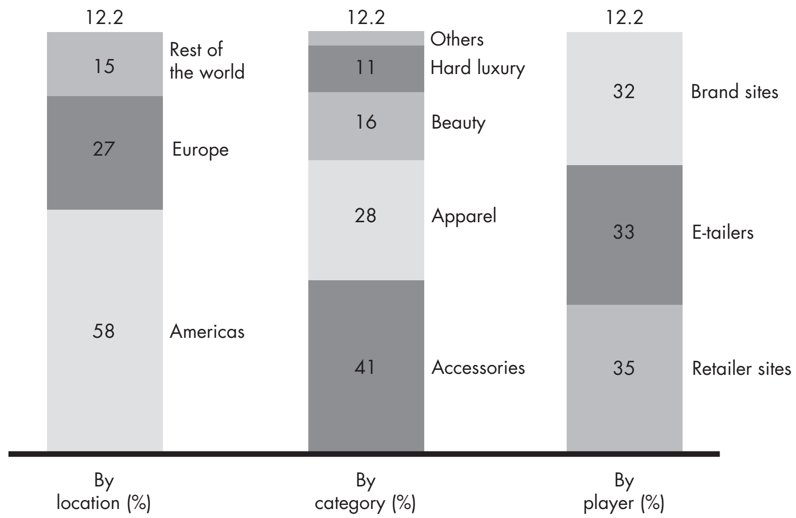


Growth (%)		**32**	**37**	**27**	**20**	**12**	**22**	**31**	**24**	**33**	**28**	**24**

Source: Bain & Company

The online channel is particularly developed in the Americas, and accessories and apparel dominate

Online personal-luxury-goods market, 2014E (€billions)



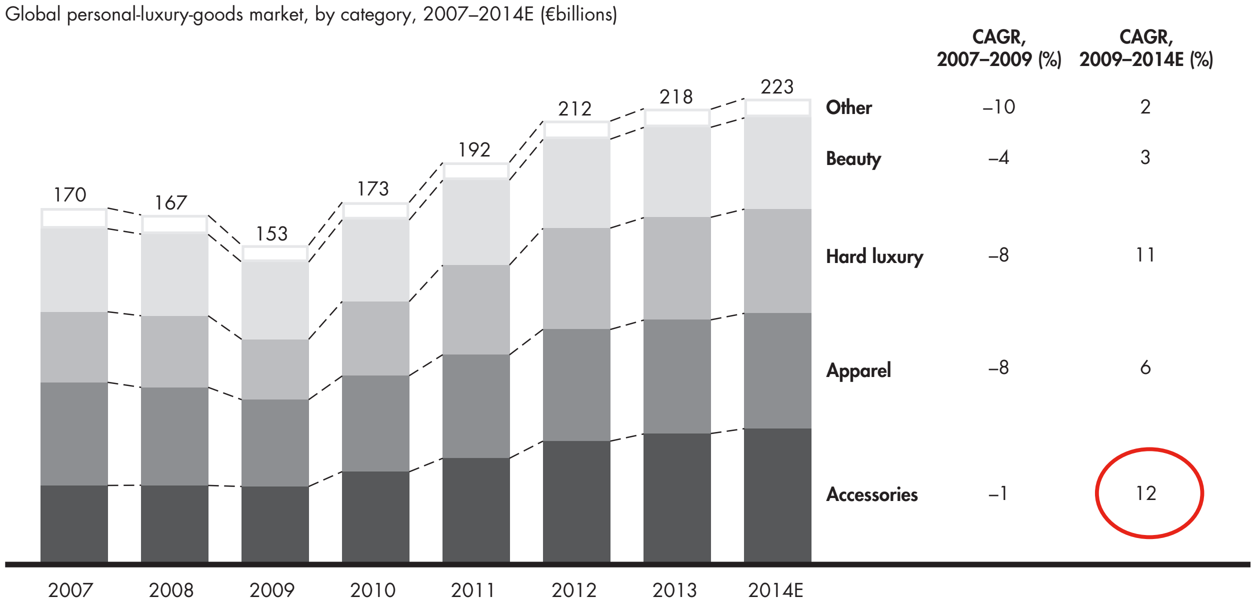
Source: Bain & Company

4.

Individual category performance

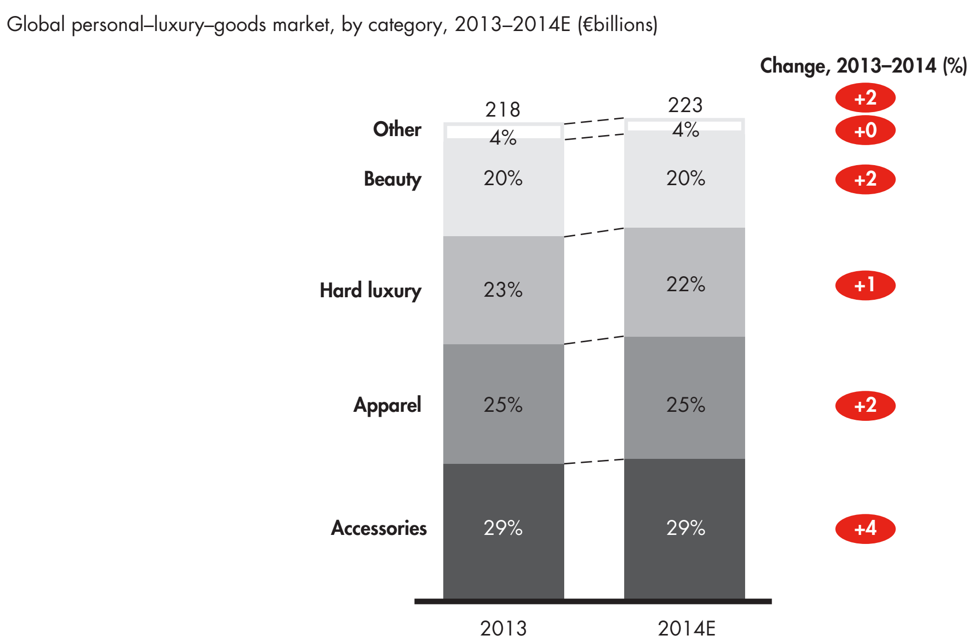
- Since 2012, accessories have become the largest category within luxury goods (at 29% of total sales in 2014), followed by apparel (25%), hard luxury (22%) and beauty (20%). Moreover, accessories have grown the fastest lately, with a CAGR of 12% from 2009 through 2014.
- In 2014, this pattern held true, as accessories grew 4% year over year—more than any other personal-luxury-goods category and more than the market overall.
- Shoes are becoming an accessible status symbol, and that category has grown faster than luxury leather goods every year since 2012. Shoe specialists are outpacing lifestyle brands, especially in the men's segment.

Accessories remain the biggest personal-luxury-goods category, and it is the fastest growing



Source: Bain & Company

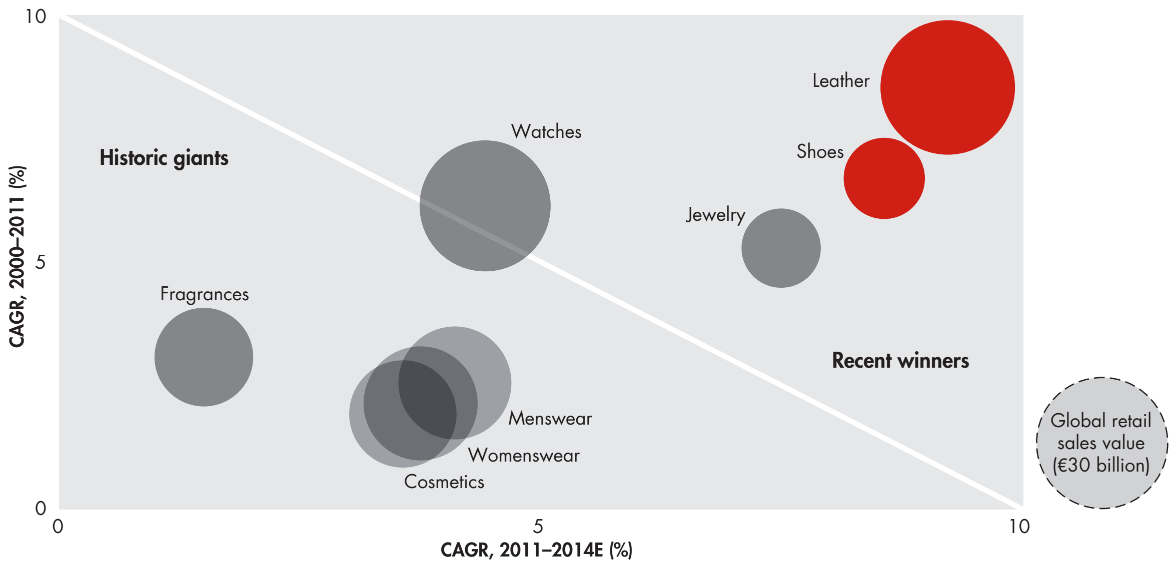
This pattern held true in 2014, when accessories continued growing faster than other categories



Source: Bain & Company

Soft accessories have been the top-performing luxury category in both the short and the long term

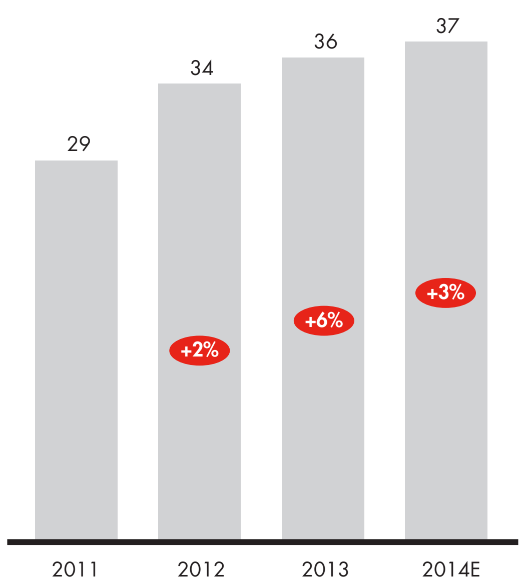
Global personal-luxury-goods market, by category, 2000–2014E (€billions)



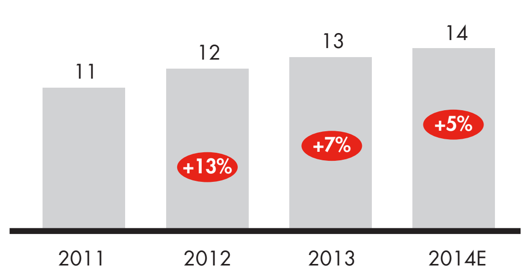
Source: Bain & Company

As accessible status symbols, shoes benefit from strong tailwinds and have been growing faster than the overall leather-goods category for the last three years

Luxury leather goods, 2011–2014E (€billions)



Luxury shoes, 2011–2014E (€billions)



Source: Bain & Company

5.

Outlook for the future

- After years of relentless growth, a slower and more sustainable trend should be the new normal. Using constant exchange rates, we project an overall luxury-goods market of €250 billion to €265 billion by 2017, reflecting a growth rate of 4% to 6%.

- This is a more mature growth phase, in which the industry should be more resilient and less prone to economic spikes and dips.

- The future will be characterized by disruptive innovations, such as cashless payments, 3-D printing, facial recognition and augmented reality that will completely change the luxury experience as we know it.

- Yet over the next 10 years, we anticipate the common theme of these changes will put consumers at the center, not only of the customer experience—as a critical part of the ideation, creation and sale of luxury goods—but also at the center of all major business processes for luxury brands.

- In conclusion, the key to winning in the luxury market over the next 10 years will be getting ready for "Luxury 2.0." Success will be defined by a relentless focus on three luxury-goods management principles:

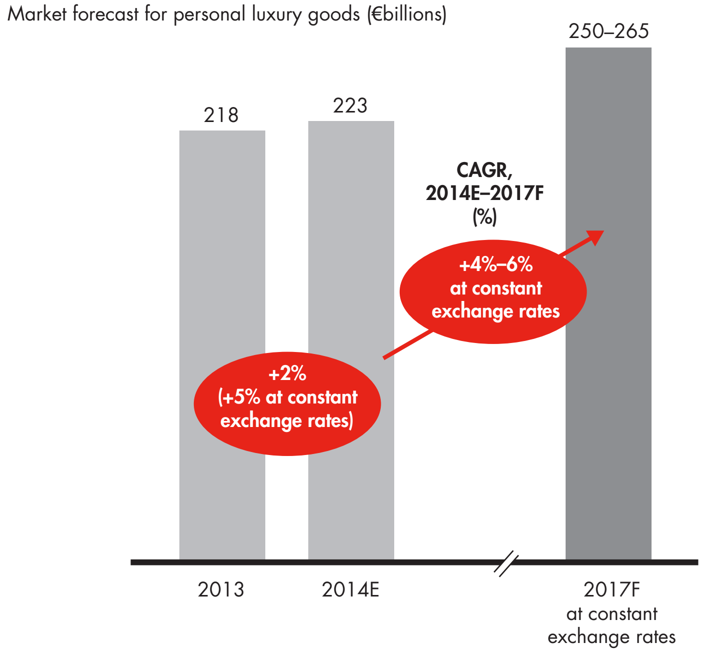
  – Superior customer experience

  – Flawless retail management

  – People excellence

After years of relentless growth, slower and more sustainable growth of 4% to 6% should be the new normal

Market forecast for personal luxury goods (€billions)



Key trends

- **Emerging consumers** consistently **support market growth**
  - Booming **upper-middle class** particularly **benefits** the **accessible segment**
- **Americans** and **Japanese** continue on a **positive path; Europeans will recover** eventually

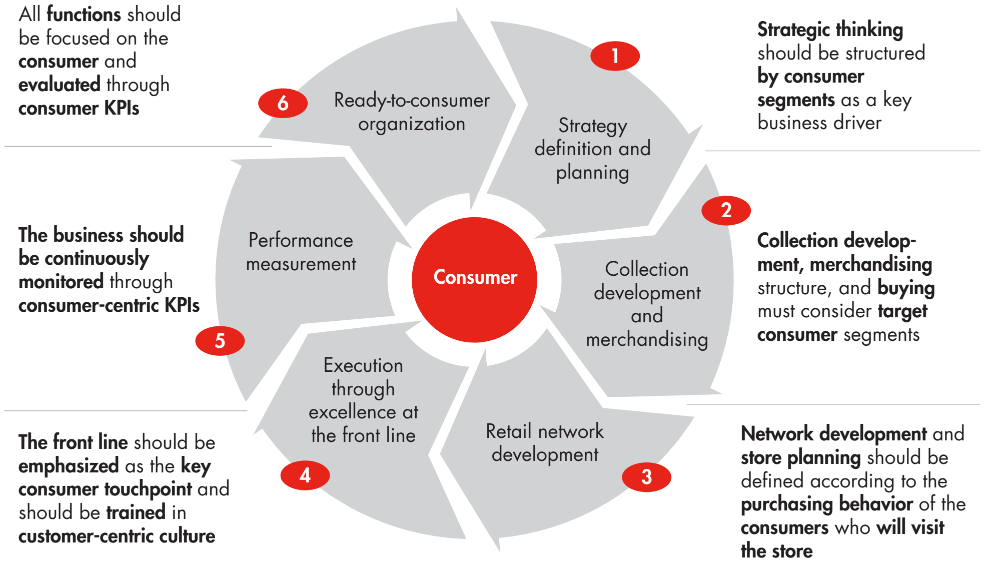
- **US** and **Japan** are **top-of-mind markets**…
  - …while **a new strategy** needs to be put in place to **intercept** the **next wave of Chinese shoppers** in China and abroad
- **Accessories** will **continue to outperform** the market, but **tough times** are **ahead** for **luxury watches**

Source: Bain & Company

In this mature phase of growth, the industry should be more resilient in the face of economic spikes

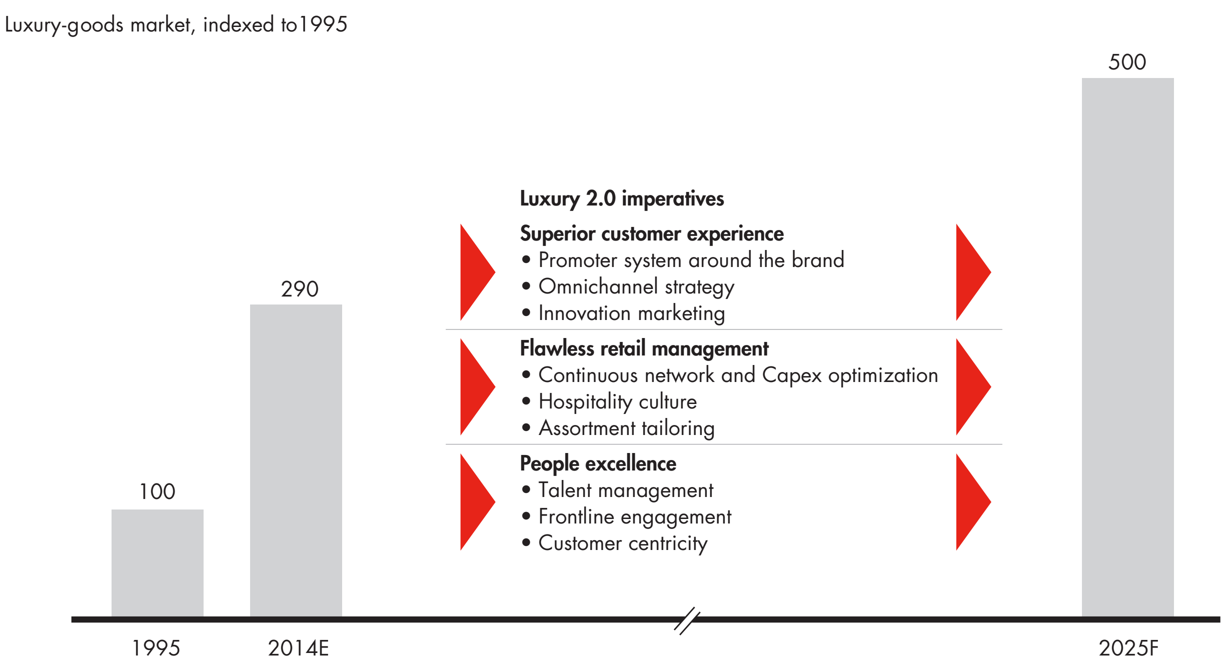
Note: Growth rates at constant exchange rates
Source: Bain & Company

Understanding consumers and aligning their business accordingly will become the mantra of luxury brands over the next decade



Source: Bain & Company

How will luxury businesses succeed in the next decade? Get prepared for Luxury 2.0



Source: Bain & Company

The future will be marked by disruptive innovations that should completely change luxury

Yesterday		Today	Tomorrow
1990s	**2000s**	**2014**	**20XX**
Monochannel	Multichannel	Omnichannel	No channel
Monoproduct	Multiproduct	Lifestyle product offer	Lifestyle coach
Local footprint	Multilocal footprint	Global footprint	Global consumer
Baby boomers	Baby boomers, Gen X	Baby boomers, Gen X, Gen Y	Gen Y, Gen Z, space gen
Licensing partnership	Distribution partnership	Internalization (no partnership)	Consumers as partners
Seasonal	Transseasonal	Buy now, wear now	Think now, wear now
Product	Brand	Exclusivity	Individual irony

Source: Bain & Company

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About the Bain *Luxury Goods Worldwide Market Study:*

In cooperation with Fondazione Altagamma—the flagship trade association for the Italian luxury-goods industry—Bain & Company analyzes the market and financial performance of more than 270 leading luxury-goods companies and brands. This database, known as the Luxury Goods Worldwide Market Observatory, has become a leading and much studied source in the international luxury-goods industry. Bain has published its annual findings in the *Luxury Goods Worldwide Market Study* since 2000. The study's lead author is Claudia D'Arpizio, a Bain partner in Milan. Fondazione Altagamma is led by Andrea Illy, who was named chairman in 2013.

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