



**BAIN & COMPANY**

# **Luxury Goods Worldwide Market Study**

8th Edition

October 19, 2009

# Methodology and sources

## Methodology

- Bottom-up brand based market evaluation
- Build up of retail turnover by brand
- More than 220 brands analyzed in detail
- More than 500 companies analyzed in detail including licensees, retailers, luxury e-tailers and web retailers

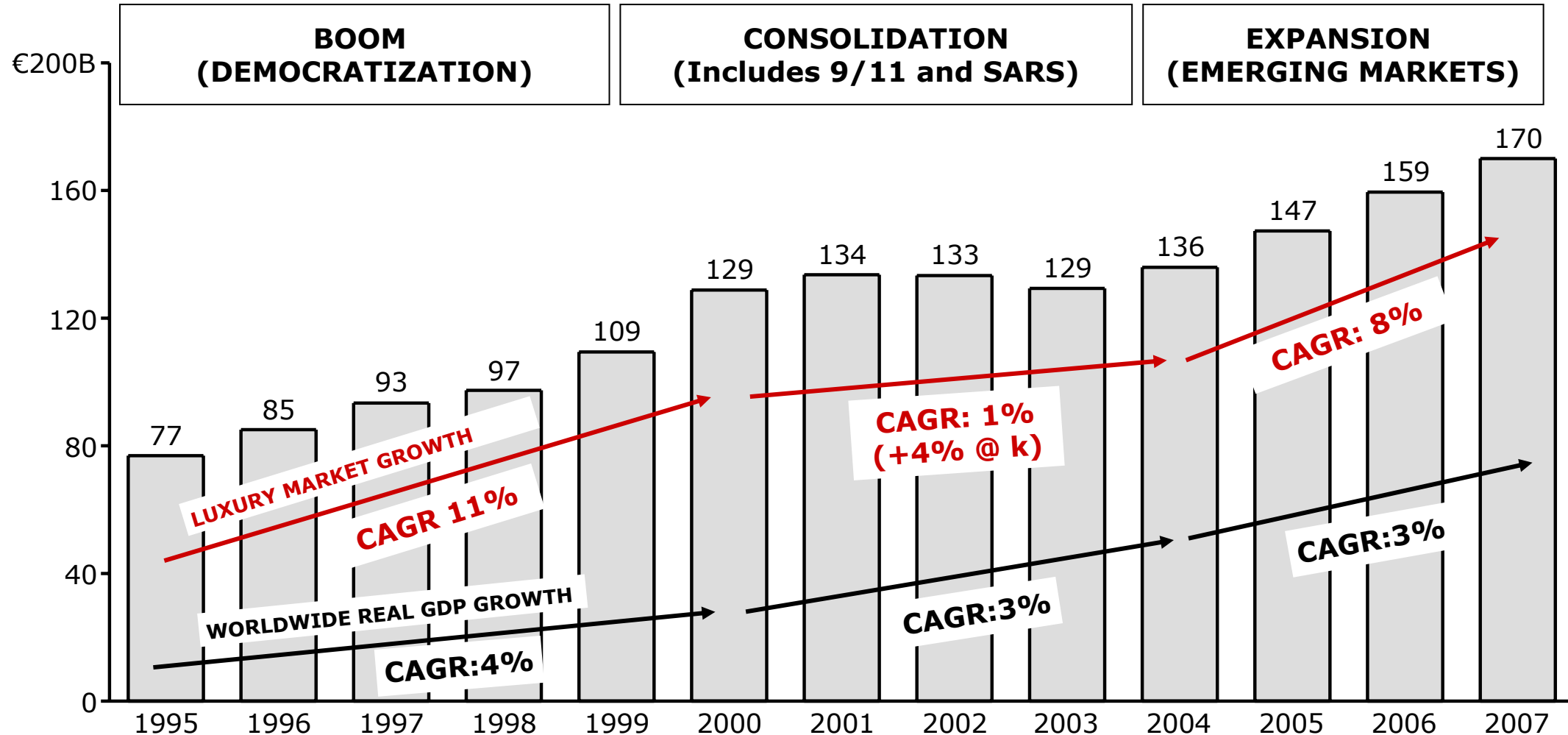


## Sources

- Annual reports, analyst reports, press releases
- 2009: quarterly results of listed luxury companies
- Interviews

# A step back: luxury goods market always over-performed economy

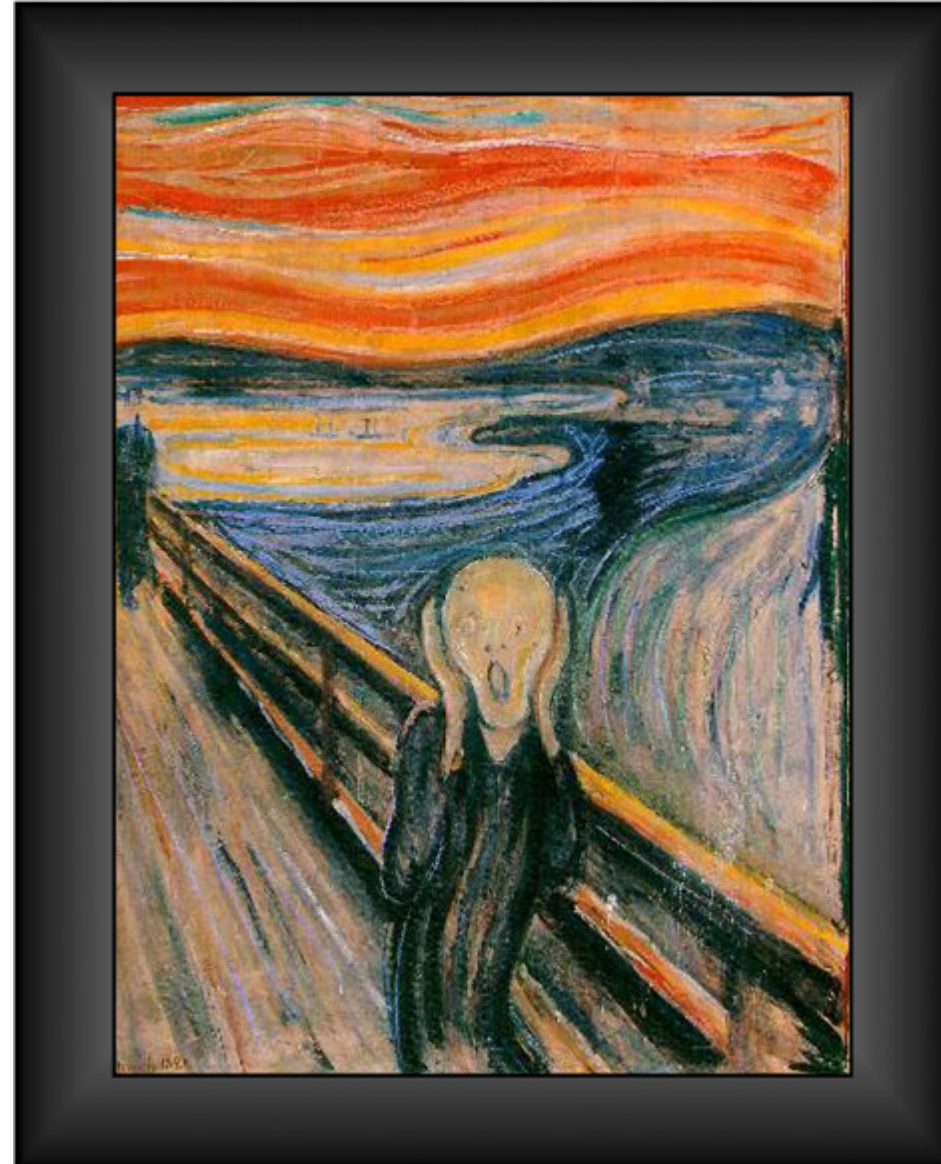
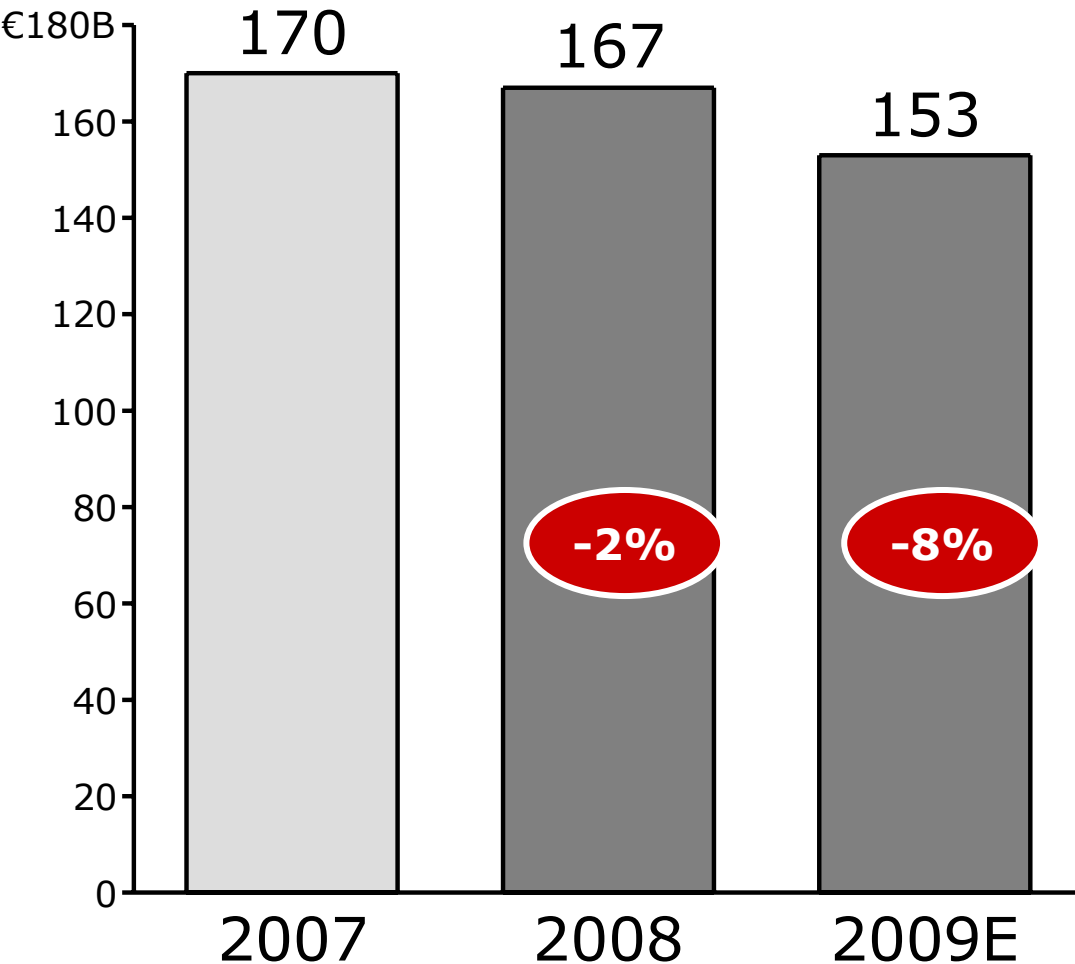
Worldwide Luxury Goods Market trend (1995-2007)



Note: 'k' equates to constant exchange rate

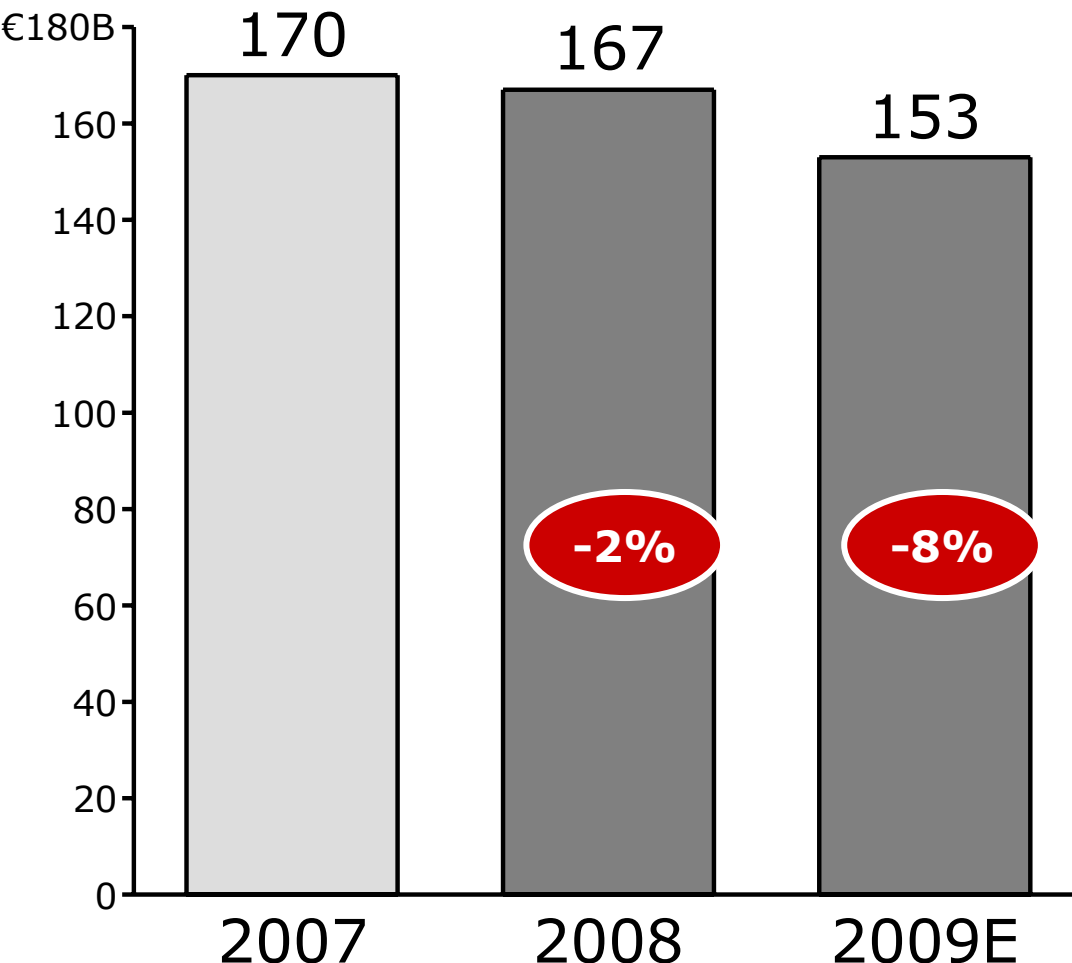
# The luxury market, hit by the economic downturn, shrinks for the first time

Worldwide Luxury Goods Market trend  
(2007-2009)



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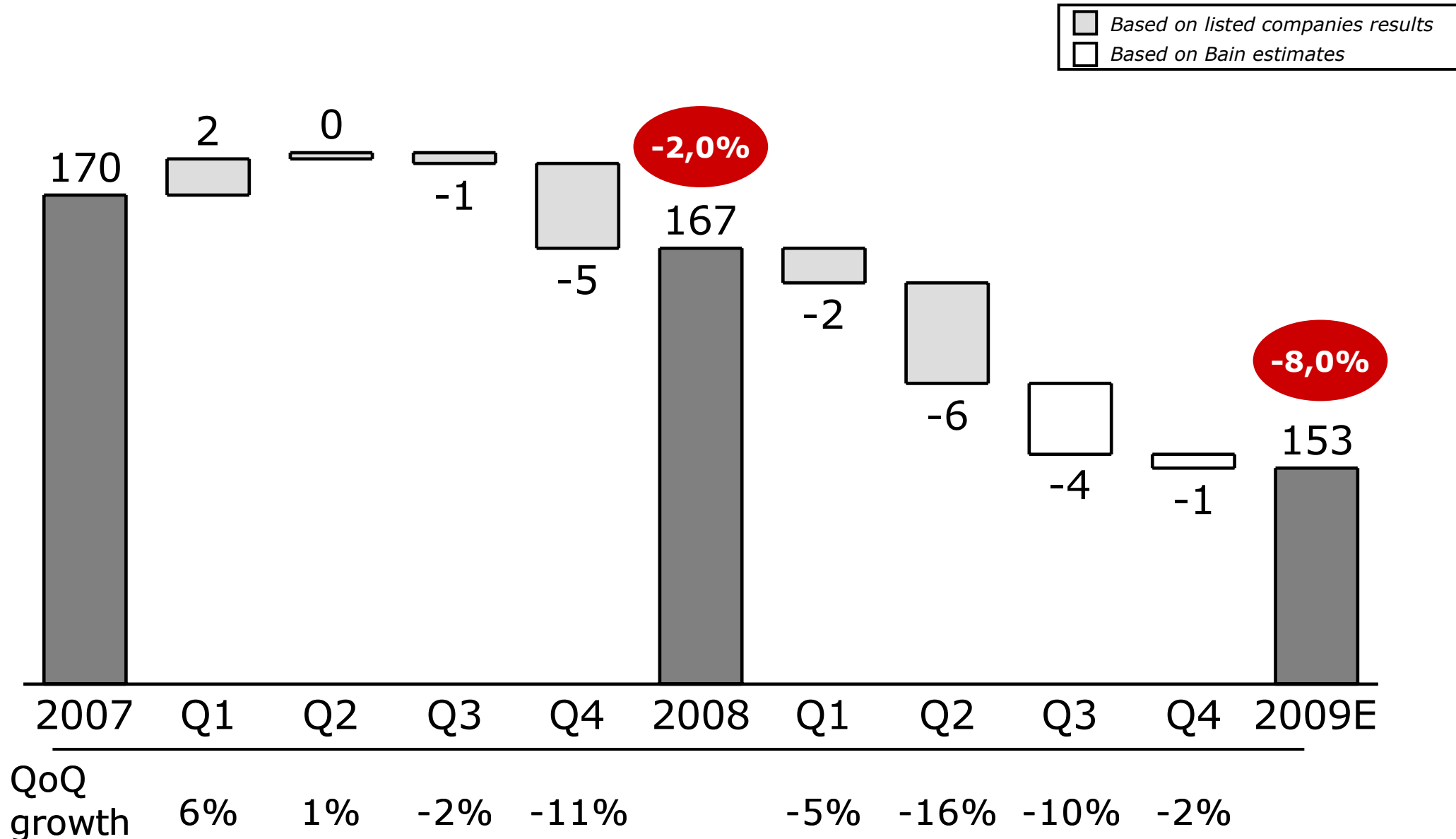
Worldwide Luxury Goods Market trend  
(2007-2009)



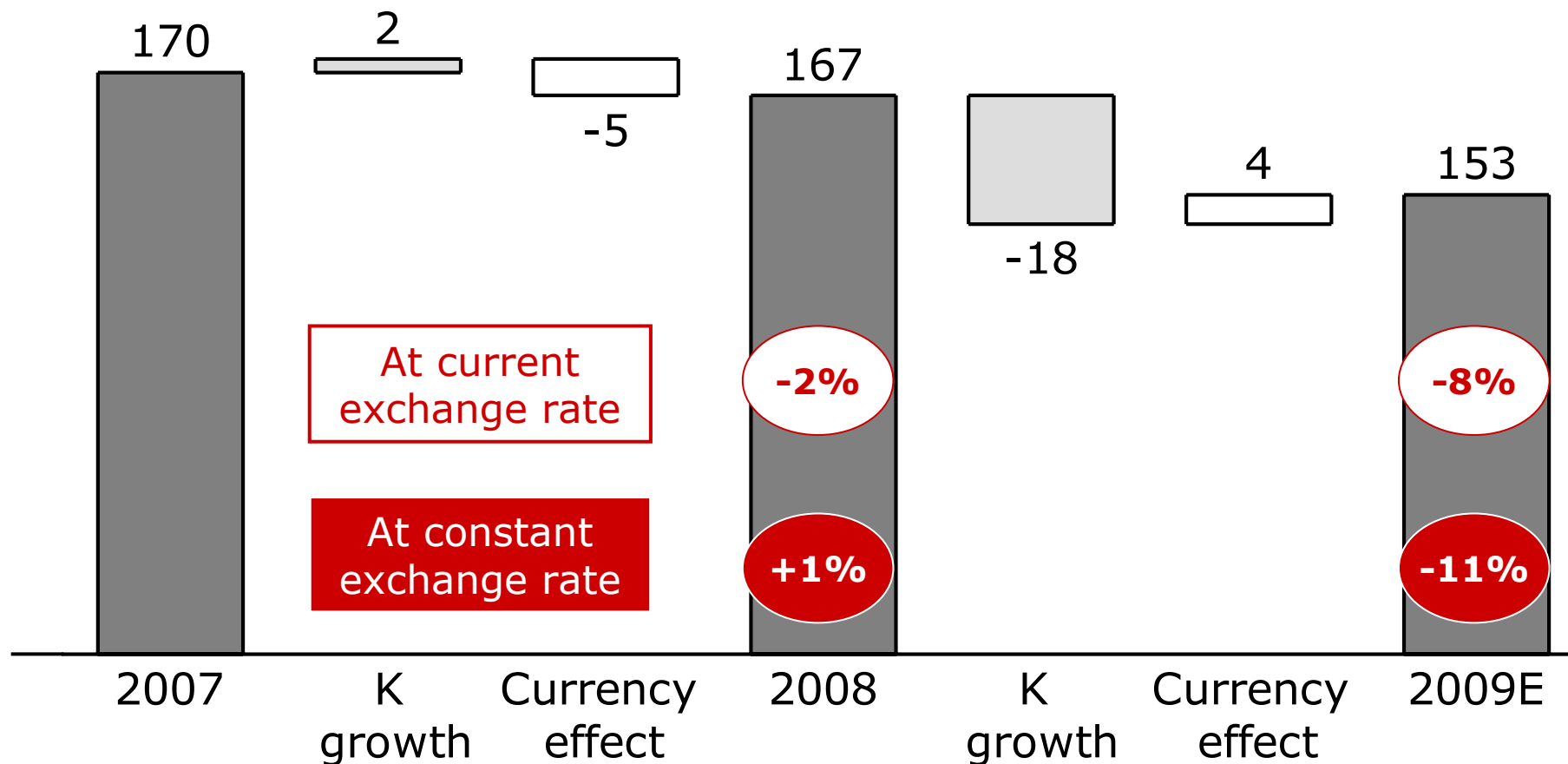
## Why?

- Stable and aging consumer base in consolidated market
- Consumers' confidence at the lowest ever
- Downturn impacting both consumers' revenues and net wealth
- Distributors in emerging markets hit hard by shortage of credit
- Panic reactions by consumers, retailers and brands

# Results worsened quarter by quarter. First signals of recovery expected at the end of 2009



# Exchange rates effected negatively 2008, but positively (for the first time ever!) 2009



€/Y	161.3	150.6	129.4
€/\$	1.4	1.5	1.4
€/£	0.7	0.8	0.9

Note: 'k' equates to constant exchange rate

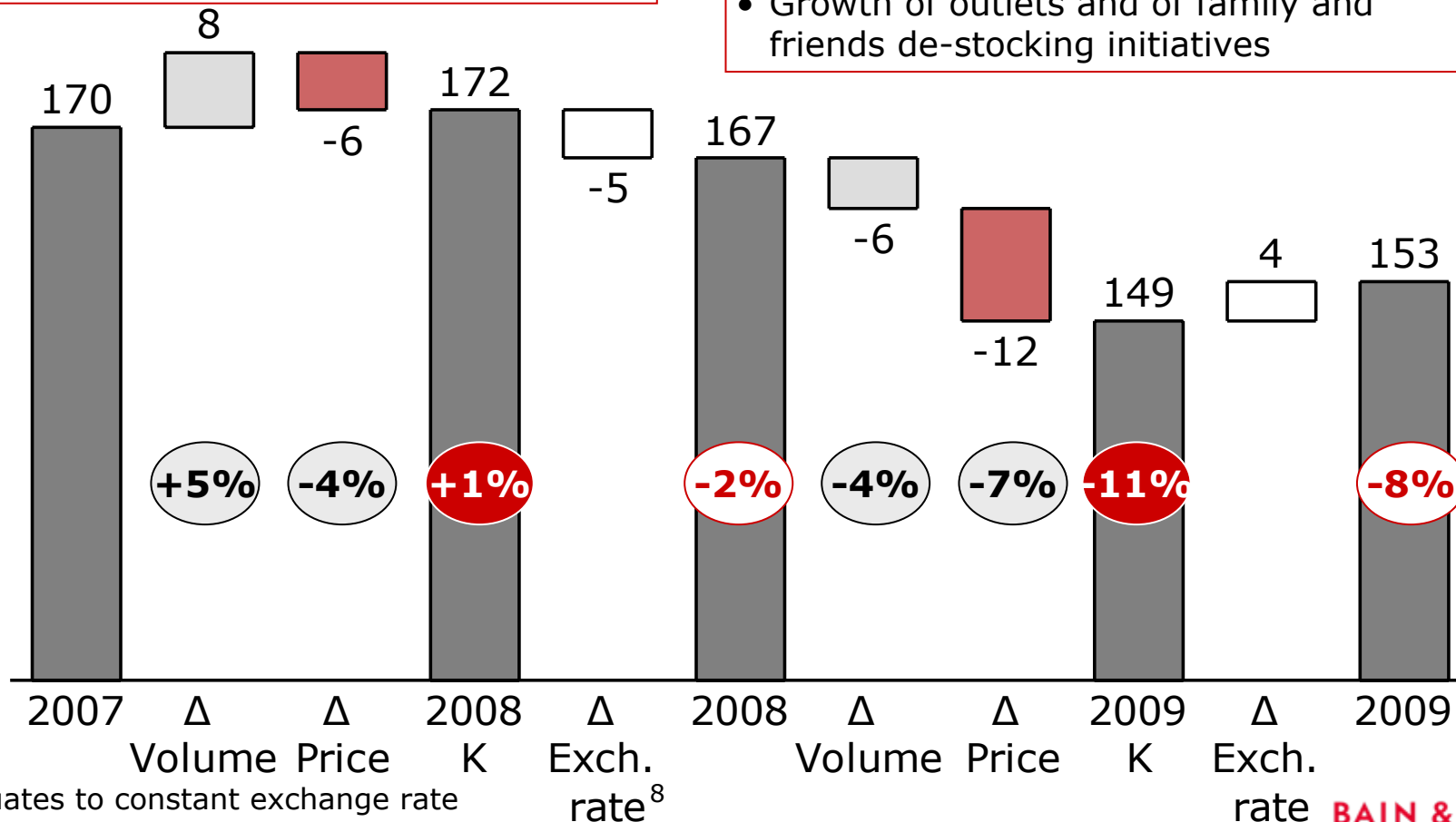
# Luxury goods went through a deep deflation in the last 4 seasons...

## 2008

- Good volumes and prices in Q1 and Q2
- Aggressive mark-downs in Q3 and Q4
- Success of entry price items

## 2009

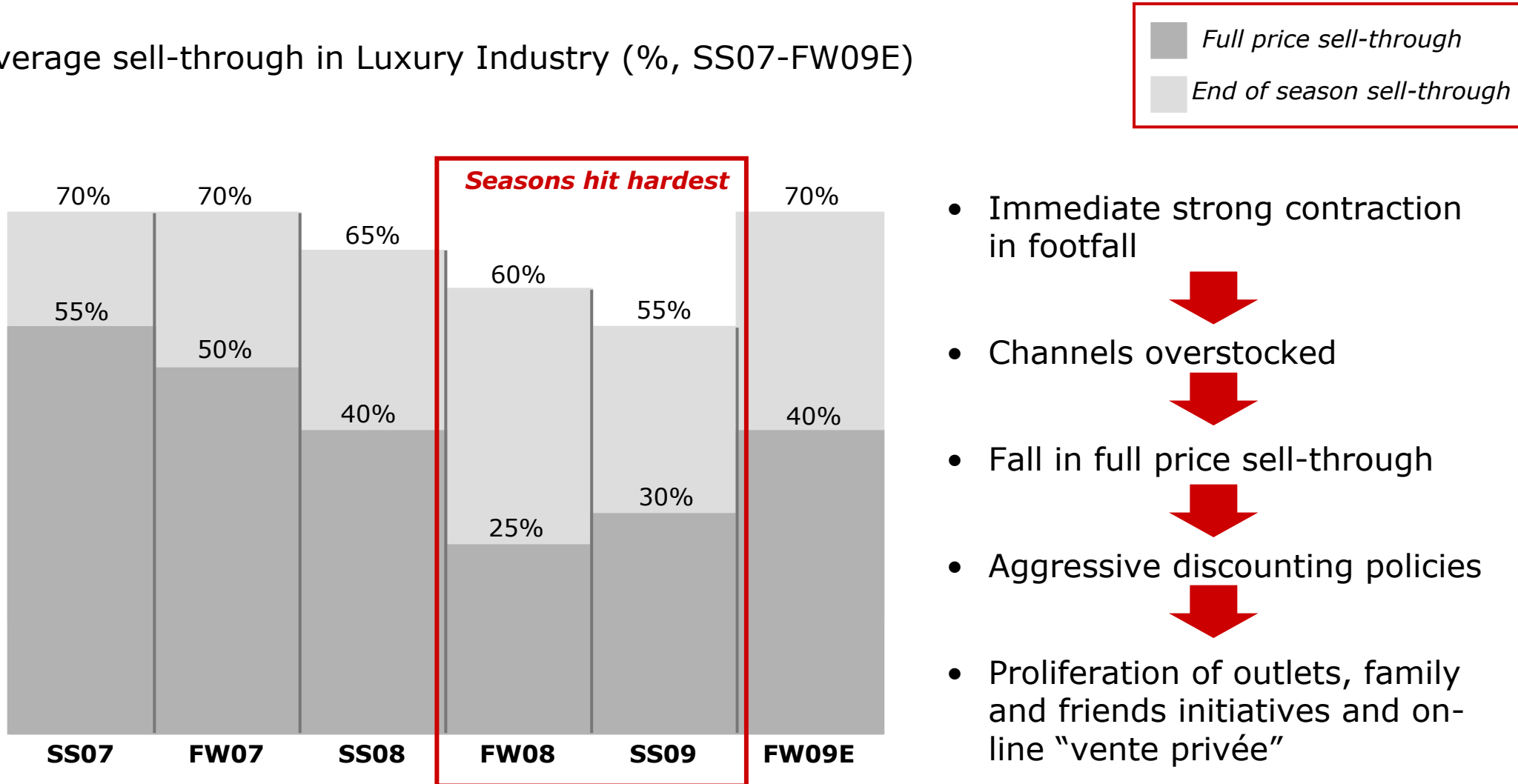
- Aggressive mark-downs in Q1 and Q2
- Reduced open to buy (retail and wholesale)
- Trading down: focus on entry items and branded accessible products
- Growth of outlets and of family and friends de-stocking initiatives





# ...due mainly to the vicious cycle of "overstock-discount-bargain hunt"

Average sell-through in Luxury Industry (% , SS07-FW09E)

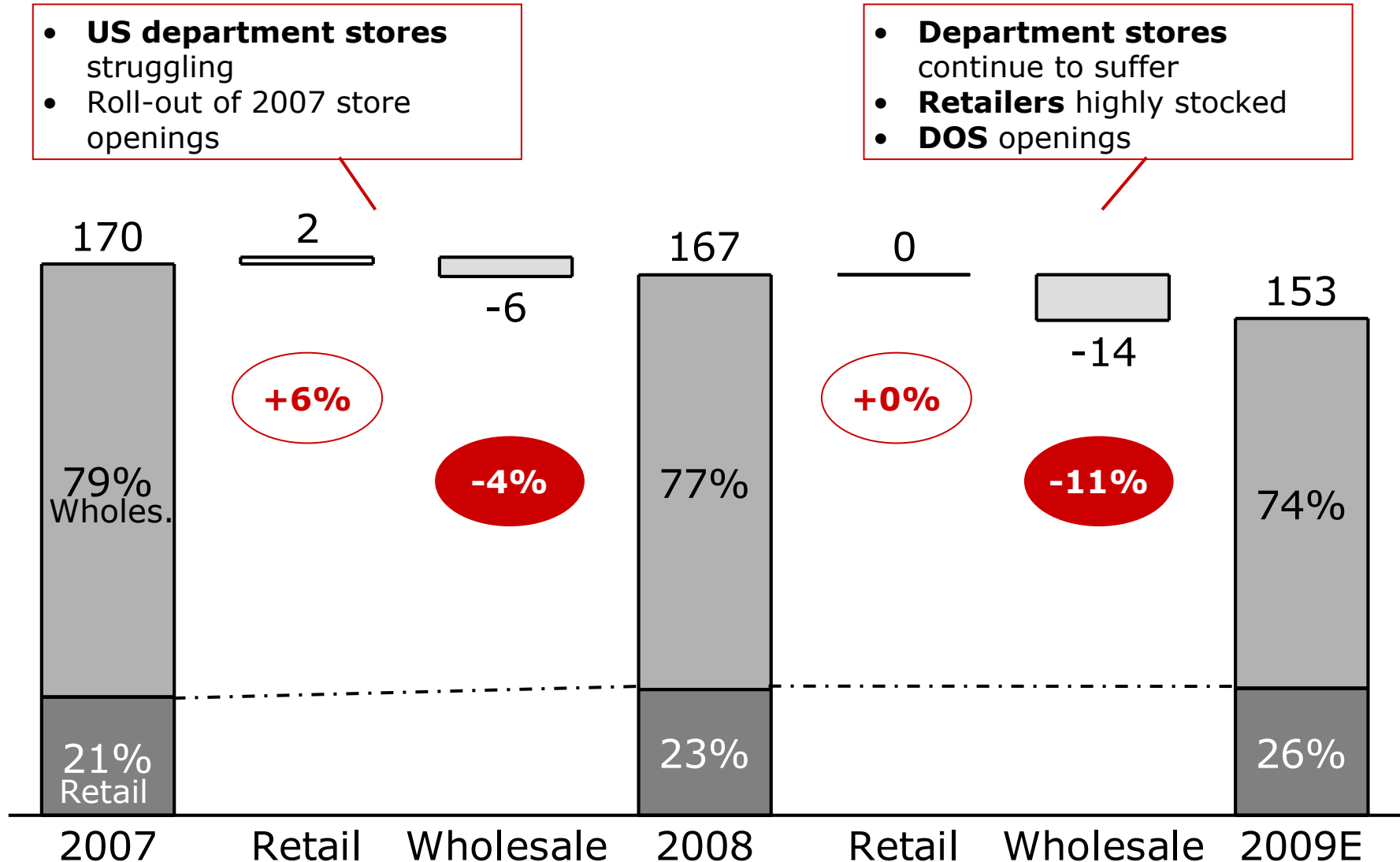


# Retail and on-line strengthen the relationship with consumers

## Channels

- Wholesale poor performance accelerates industry “retailization”
- In Retail new openings offset negative organic growth
- Super-outlets: increasing footfall and average ticket
- Luxury shame pushing boom of online shopping

# Poor performance of the wholesale channel: crisis is accelerating industry "retailization"



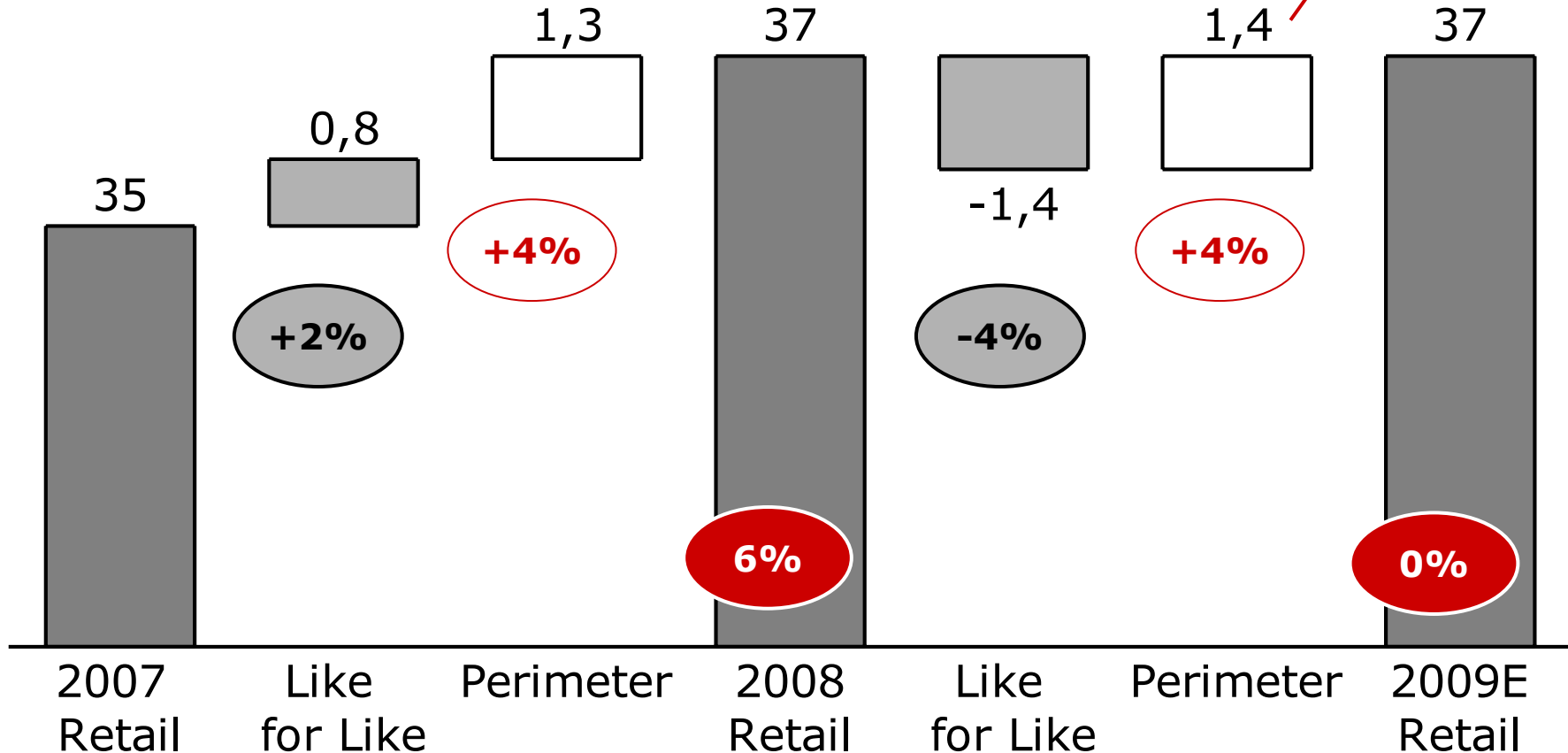
# Retail: 2008 and 2009 new openings offset negative organic growth

## Boom of new openings:

- 750 New stores
- 2007 openings full year effect

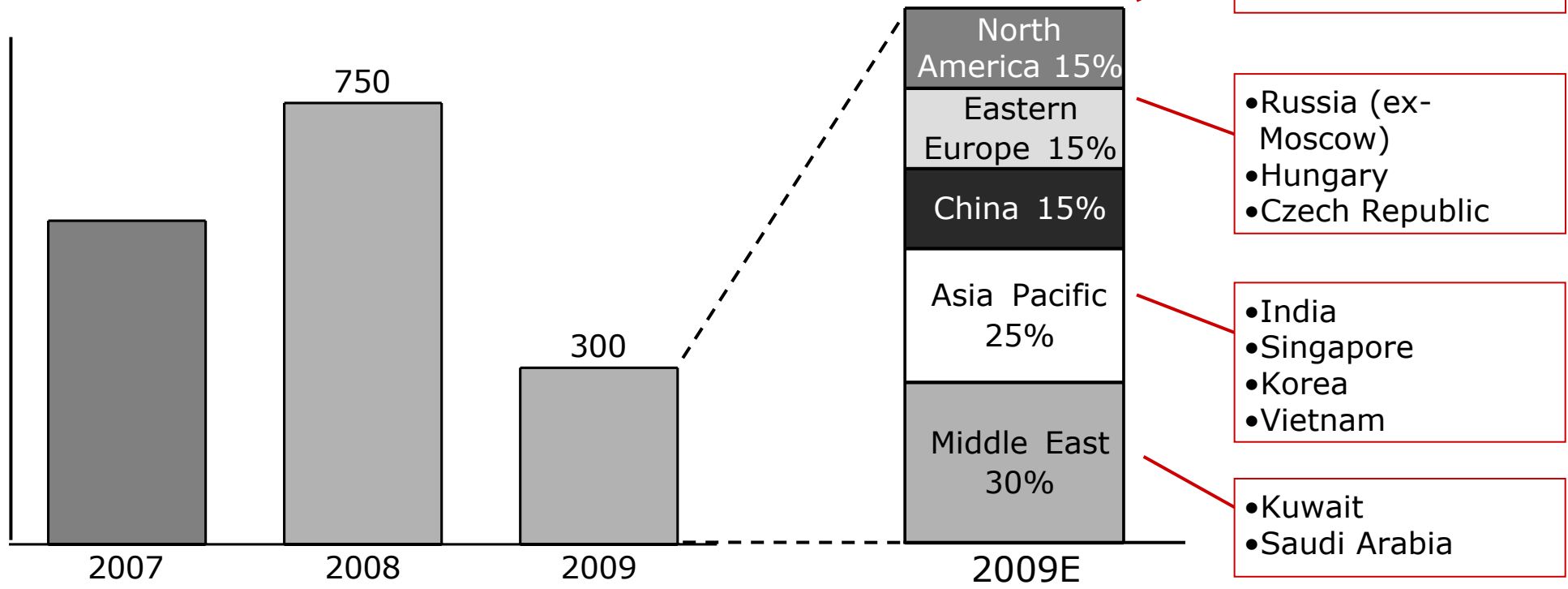
## Hit the brakes on openings:

- 300 new stores
- 2008 openings full year effect



# Players drastically cut openings, yet momentum led to 300 new stores ....not only in China

New DOS openings (#)



Δ sales/ DOS total network

2007	3%
2008	-1%
2009	-3%

# Bargain-oriented consumer and industry destock led to booming off-price channels

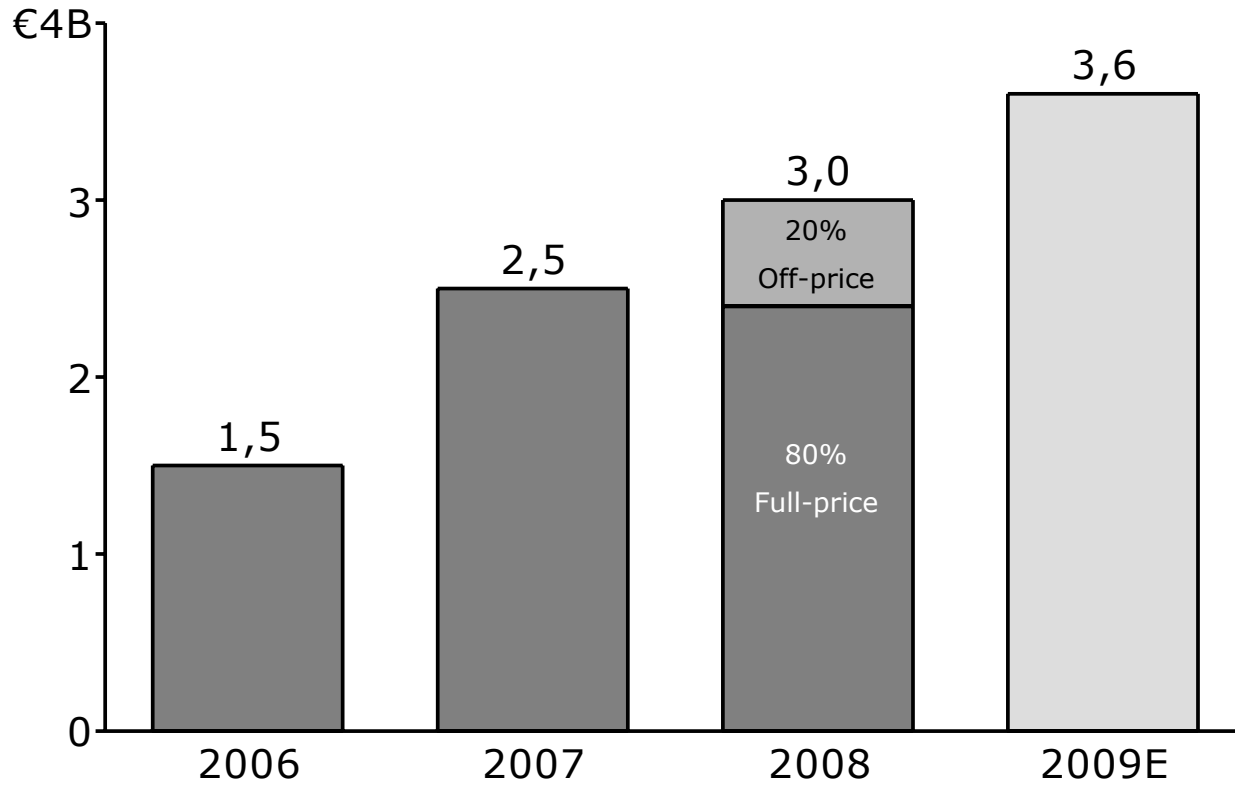
## Luxury Outlets performance in 2008-2009

- Around **250 new openings** within the biennium
- Many **luxury players entering** the outlet business
- **Department stores enlarging** their outlet presence
- Total **Sales** increase **5%**
- **Footfall** increase **10-15%**
- Average **ticket** increase **5-10%**
- Sales per square meter **stable**



# Younger consumers and "luxury shame" are fuelling on-line shopping

Luxury Goods On-line shopping by area and by channel, B€



**Yoy growth**

**+65%**

**+20%**

**+20%**

# Super China is now more than 1/3 of weakened Japan

## Channels

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- Super-outlets: increasing footfall and average ticket
- Boom of online shopping wins on “luxury shame”

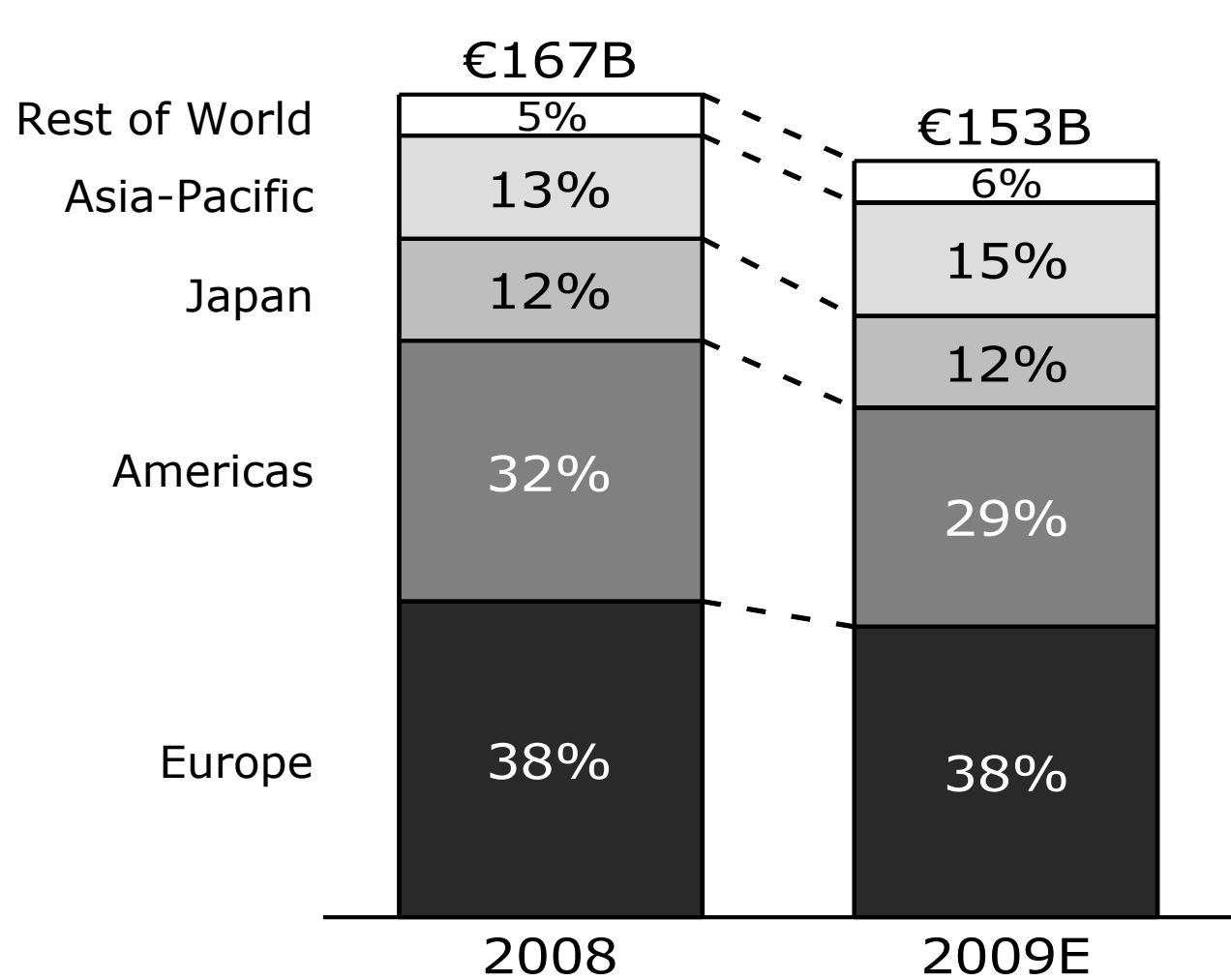
## Markets

- Consolidated luxury markets show continued softness
- Japan still suffering from generation shift and financial crisis. Have they hit the floor?
- Asia Pacific: double digit growth driven by China, the new real frontier for luxury
- Timid growth of Middle East led by oil-centric Kuwait and Saudi Arabia



# Luxury sales in mature markets show continued softness partially dulled by Asian growth

Worldwide Luxury Goods Market by Area



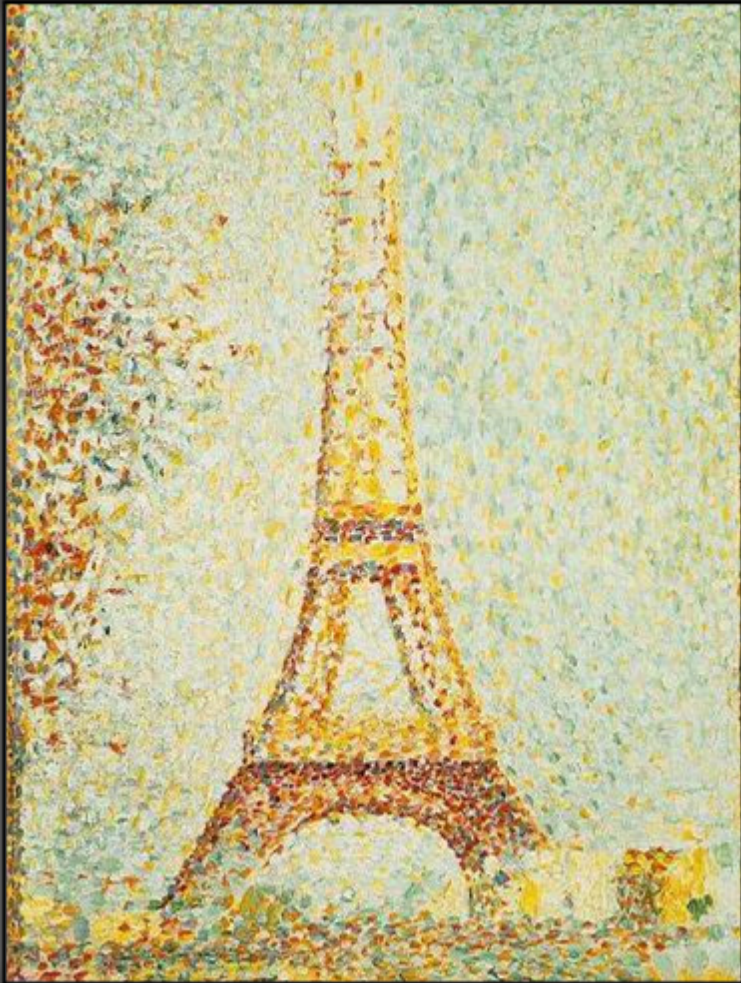
YoY '08 vs '07



YoY '09E vs '08



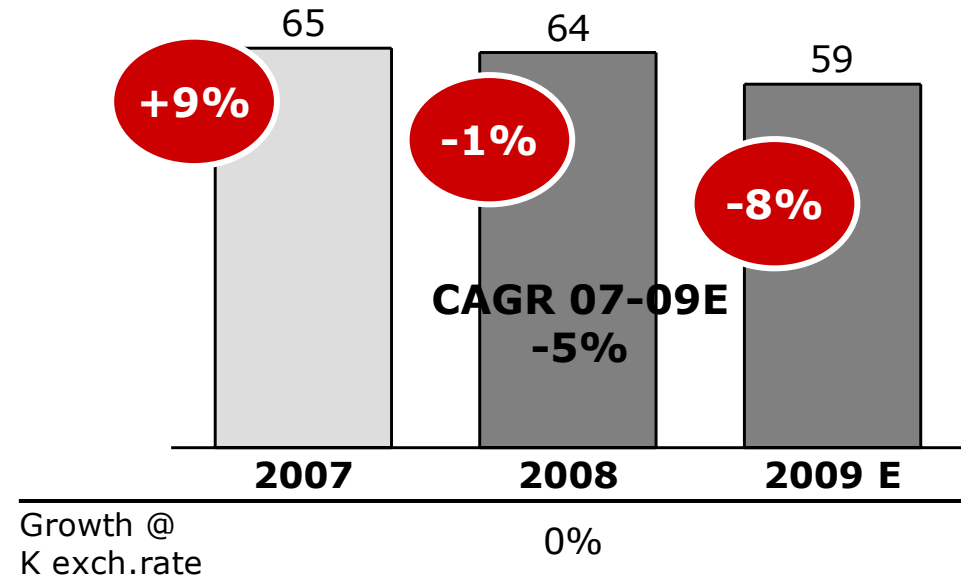
# Top European markets severely hit by crisis, new ones reacting better



Note: 'k' equates to constant exchange rate

## EUROPEAN MARKET

CAGR 99-09E +4%



- In 2008:
  - **First signals** of incoming crisis
  - **Rest of Europe** (other than top 4 countries) almost accounts for **30%** of total European market
  - **Hard luxury driving growth**, especially watches (+6%)
- In 2009E:
  - **Recession hitting strong** continental Europe **at the beginning of the year**
  - **Strong €** continue to **reduce tourist** flows especially from USA and Japan
  - **Oxygen** from some **new openings** in emerging countries of Eastern Europe (Hungary, Czech Republic)

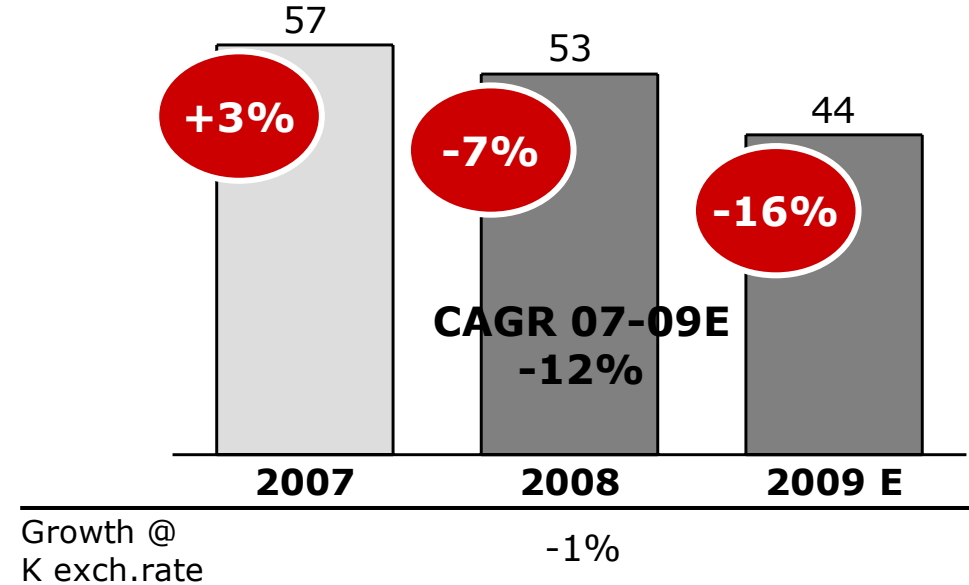
# Americas: 13 Billion revenues burnt in 2 years



Note: 'k' equates to constant exchange rate

## AMERICAN MARKET

CAGR 99-09E +1%



- In 2008:
  - Strong impact of **department stores huge mark-downs** starting from September (-25% sales average)
  - **Lowest holiday season ever**
  - **Accessible segment** hit hardest (-8%)
  - **Fragrances and cosmetics struggling (-5%)** due to reduction of consumption and trading down
- In 2009:
  - **Highest decrease in real terms:** \$ value is only partially lowering the impact
  - Recession continue to negatively impact: consumers are reducing consumption or delaying it

# Japan: has the market hit the floor?



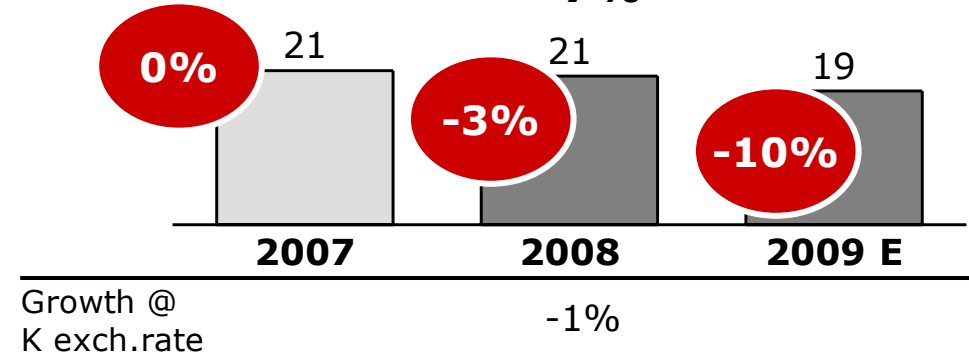
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## JAPANESE MARKET

CAGR 99-09E +3%

### CAGR 07-09E

-7%



- In 2008:
  - Market hit both by the financial crisis and by **generational shifts**
  - **Cosmetics is growing**, leveraging on Japanese traditional culture for skin care products
  - **Good results of outlet**: high footfall and real luxury experience
  - **Shoes** are gaining market share: traditional shoe makers are challenged by luxury brand
- In 2009:
  - New store openings have been cancelled or delayed
  - **Young generations** more keen on mix & match with niche local player: **"luxury logo" shame**

# After few months of stagnation, Asia Pacific posted a double digit growth

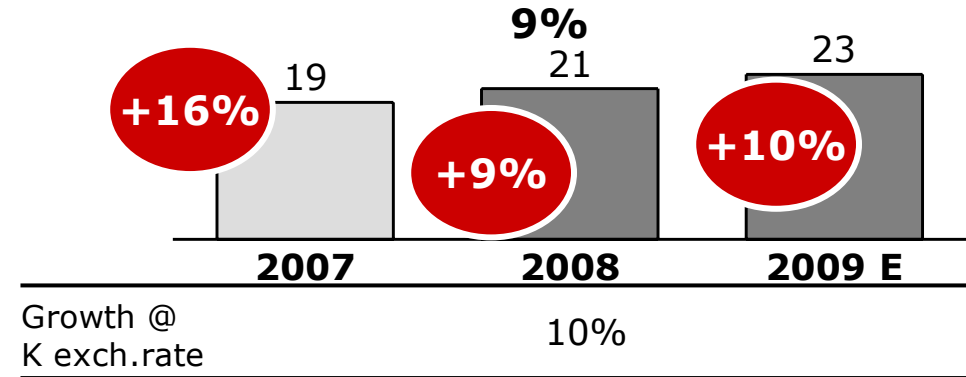


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## ASIA PACIFIC MARKET

CAGR 98-09E +9%

CAGR 07-09E



### •In 2008

- **Solid growth** confirms past trends and consolidates market dynamics thanks to **China good performance**
- Growth driven mainly by perimeter increase
- More "showy" categories continue to keep their pace growth: Accessories +12% and Hard Luxury +10%
- Consumers starting to become more luxury conscious: **sales shift from Accessible to Aspirational brands**
- **Hong Kong has suffered** in the first semester due to low footfall, **but it restarted** in second semester

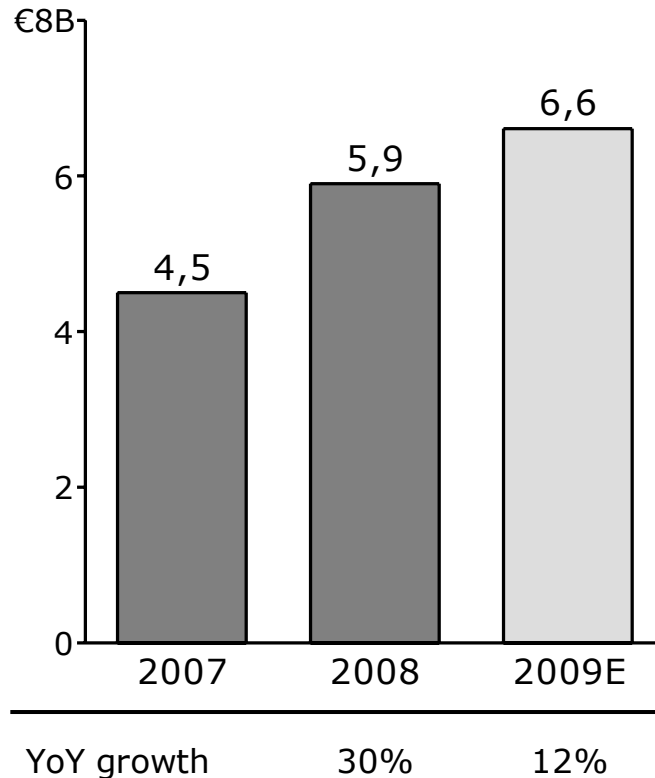
### •In 2009:

- **China is still driving growth**
- **Full year effect** of last years store openings
- **Taiwan** benefiting from re-opening of China-Taiwan traffic flow
- **Korean market boosts growth** thanks to Korean Won appreciation

# China is definitively the new frontier for luxury brands!

## Mainland China Luxury Market 2008-2009E

Chinese Luxury goods market trend  
(2007-2009E, €B)



### Coast cities

- Hit by crisis in Q1 2009
- Top tier cities suffering from already "maturity" of local luxury consumer
- Growth re-starting from Q2 2009 due to internal Chinese tourism
- Positive organic performance of existing stores in particular for 1<sup>st</sup> comers
- Buoyant Q3

### Internal cities

- Strong retail boost due to infrastructure plans signed by the Government
- Strong luxury market boost thanks to important openings by luxury brands

# Fashion down-trading but no compromises on shoes and IT bags

## Channels

- Wholesale poor performance accelerates industry “retailization”
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## Markets

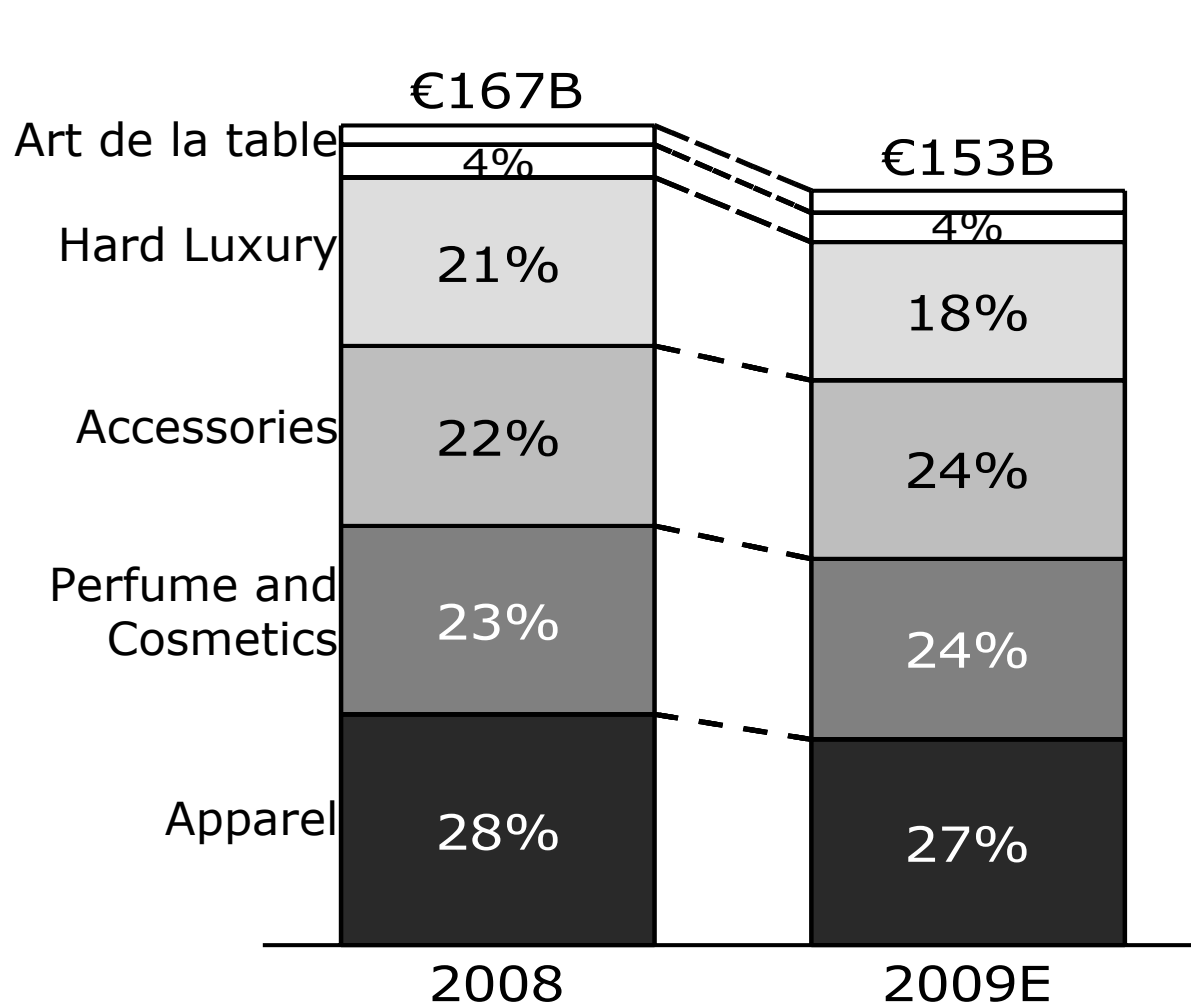
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## Categories

- **Hard luxury: consumers are postponing and channel is destocking**
- **Apparel strongly hit by down-trading to premium and fast-fashion brands**
- **Cosmetics suffers from competition of the “masstige” segment (“Nivea” effect)**
- **Accessories resilient: super brands and strong aspirational content**

# Accessories are crisis-proof!

Worldwide Luxury Market by Category



YoY '08 vs '07

- 2%

-6%

+2%

+1%

-2%

-6%

YoY '09E vs '08

-8%

-10%

-18%

-1%

-4%

-11%

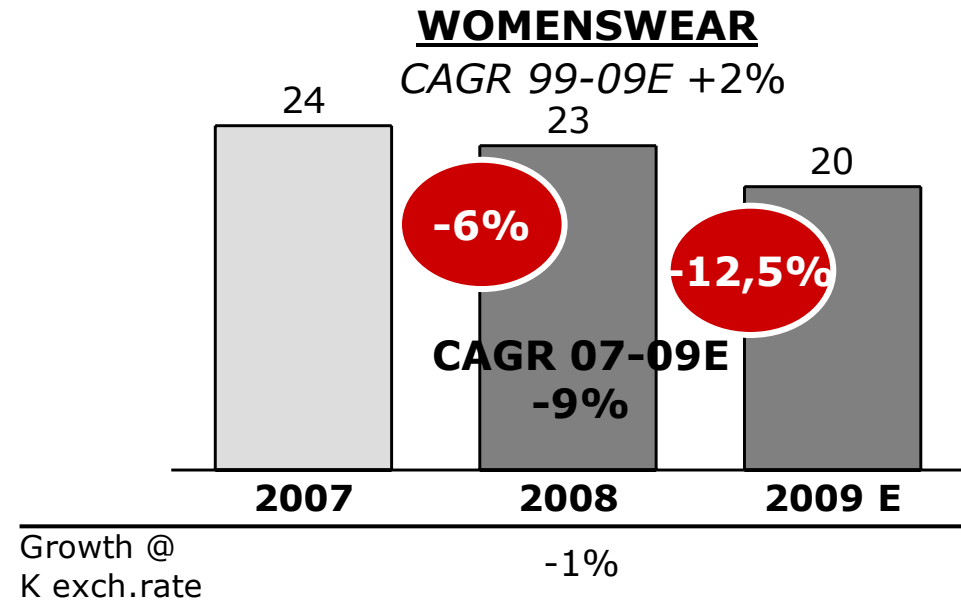


# Women are trading down on fashion forward outfits



Note: 'k' equates to constant exchange rate

25

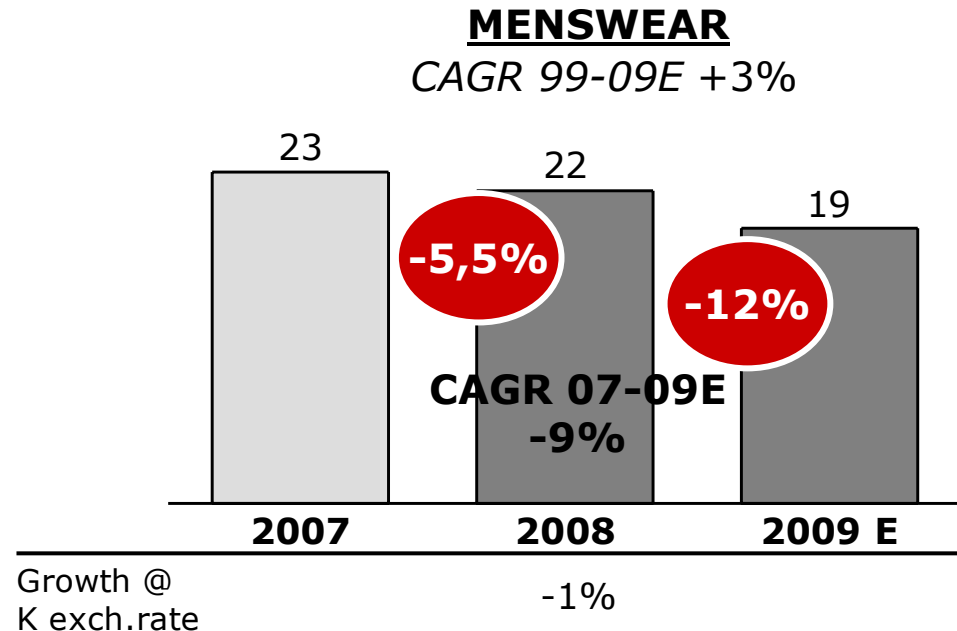


- In 2008 and 2009:
  - **“Shop in your closet” effect:** overall consumption reduction especially on non necessary items
  - Woman are **not willing to spend** a lot of money **for excessive fashion content products:** evergreen products preferred for intrinsic value
  - **Second and third lines are increasing** their share of wallet: people are looking for **value for money**
  - **America and Europe struggling the most,** highly impacted by mark down seasons especially from department stores
  - **Accessible brands are worst in class:** customers are shifting down to premium or fast fashion players

# Men rationally postponing formalwear but keep upgrading their fashion/casual look



Note: 'k' equates to constant exchange rate



- In 2008 and 2009:
  - **Men are reducing luxury formalwear consumption** delaying purchasing and moving towards casual wear
  - Casual-wear more resilient: impulse purchase and up-trading
  - **Consumers tend to be more loyal to their favorite brands**, both traditional and fashion ones
  - **America** (-11% in 2008) **is suffering more than Europe** (-6%), **Asia growing strongly**
  - **Accessible brands decreasing more than other segments**: higher competition from aspirational brands entering accessible price range

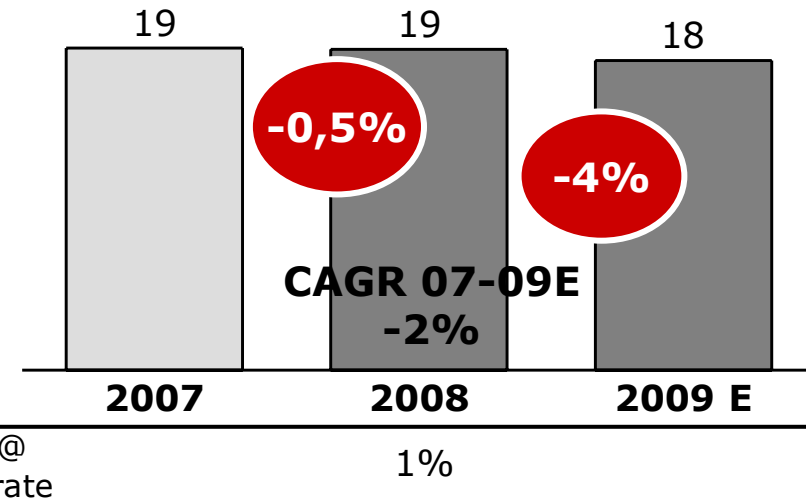
# IT bags are proven to be resilient



Note: 'k' equates to constant exchange rate

## LEATHER GOODS

CAGR 99-09E +7%



- In 2008:
  - **Strong impact** and success of entry price items: boosted volumes but lower average price
  - **Booming category in emerging markets:** Asia (+10%) and Middle east (+21%)
  - **Absolute leather brands continue to gain share (+2%):** product is seen like a real investment due to its long lasting value
- In 2009:
  - **Huge impact of mark down** especially on fashion products
  - Accessorization slowing down in mature country
  - **Power brands more and more powerful**
  - **Leather goods suffer if it's a non-core category**

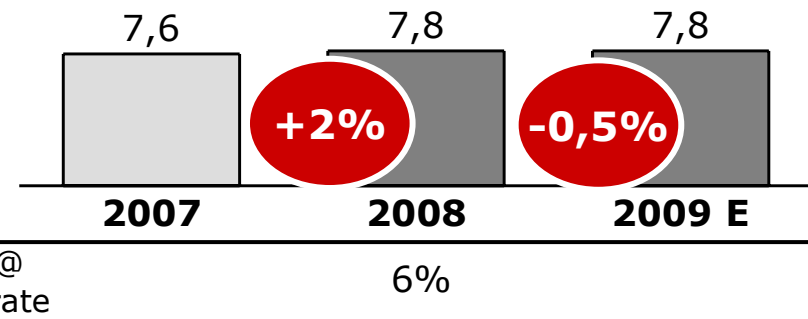
# Shoes are the new bags!



Note: 'k' equates to constant exchange rate

**SHOES**  
CAGR 99-09E +6%

**CAGR 07-09E**  
**1%**

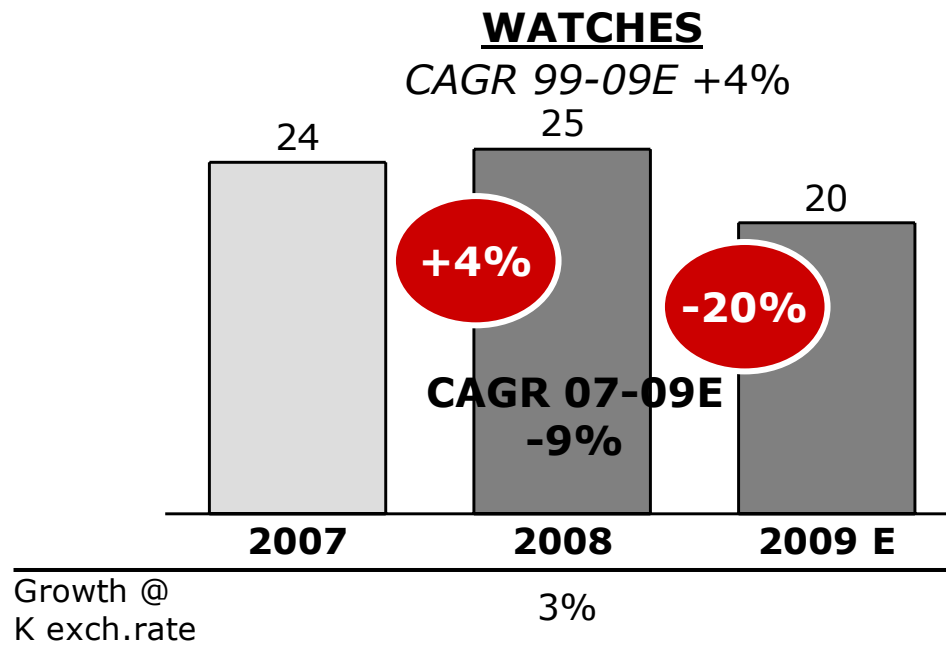


- In 2008:
  - Shoes **less impacted** by luxury crisis than other categories
  - **Only America is struggling** due to **huge mark down** in department stores
  - **Women are driving growth:** real self-fulfillment category
  - **Cheap and Chic trend is deepening shoes role** on the overall outfit: **absolute brands driving growth** (+5,5% in 2008)
  - **Fashion forward and contemporary brands gaining shares** over classical shoe maker brands
- In 2009:
  - **Hunt for bargain: sales are shifted** during **discount periods**

# Watches: let's put the hands back 5 years



Note: 'k' equates to constant exchange rate



- In 2008:
  - **Watches keep their growth even if at a lower pace**
  - **Solid growth in Europe (+6%) and emerging markets (+11%)**
  - **Accessible** segment **less resilient** (-1%) than other segments
- In 2009:
  - **Retailers are over-stocked** from previous seasons
  - **Crisis** has strongly impacted on personal real wealth, thus **reducing high end purchases addressable consumers**
  - **Luxury shame:** consumers **delay** superfluous purchases

# Jewelry: not shelter goods but embarrassing accessories in downturn periods

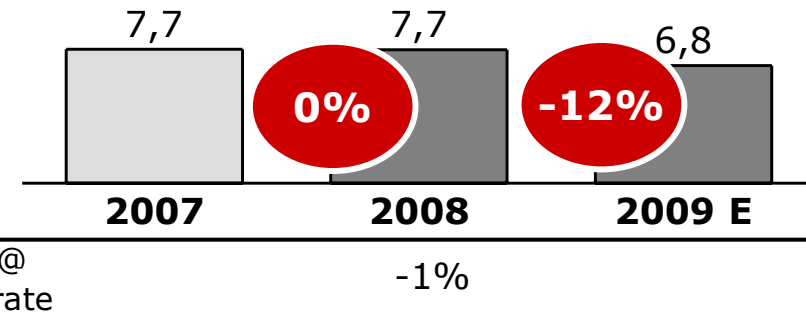


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## JEWELRY

CAGR 99-09E +5%

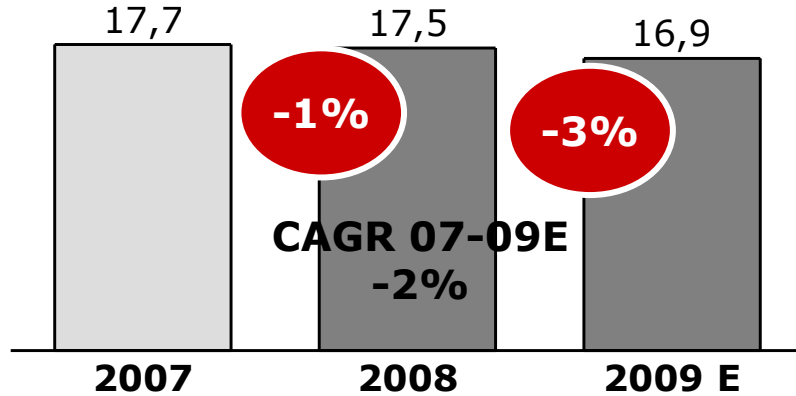
CAGR 07-09E: -6%



- In 2008:
  - **First slow down** after a period of growth, driven by **America** (-8,5%) and **Japan low performances** (-2,5%)
  - **Weak Christmas holidays season**
  - **Absolute and "pure" jewelers** are winning over lower segments (+2,6%): polarization of consumers between top end and low end jewelry
- In 2009:
  - **Consumers are switching** the targets of their self-indulgence purchases to **less ostentatious items**
  - **Strong growth of silver jewelry** over gold items

# Fragrances are aspirational entry-items while Cosmetics suffer from down-trading

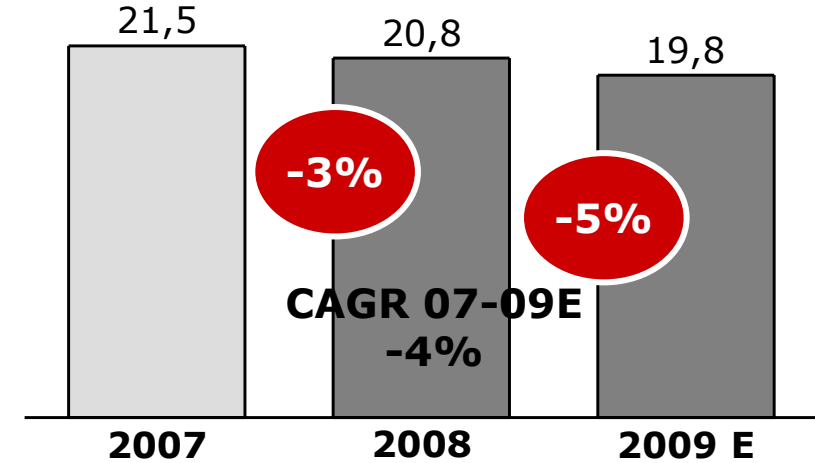
**FRAGRANCES**  
CAGR 99-09E +3%



Growth @  
K exch.rate

3%

**COSMETICS**  
CAGR 99-09E +4%



Growth @  
K exch.rate

1%

- **American market is suffering** for overall decline of beauty consumption, **Europe remains positive** in 2008
- **Men's fragrances** remain **positive** but slowing down
- Market not affected by mark down but by a **poor holiday season**
- **Lower number of launches in 2009**, postponed later in year (September)
- **Niche product** are gaining market shares over specialists

Note: 'k' equates to constant exchange rate



- In **Europe skincare is suffering more than make up** in 2009, due to consumer down-trading to mass products
- In **America make-up deeply affected** by decreased consumption, skincare starts to suffer only in 2009
- **Mass market** deeply investing in advertising & promotion stealing consumers to the upper segments
- **Cosme-ceutical brand more resilient**

# The current crisis is changing consumer behaviors

## Channels

- Wholesale poor performance accelerates industry “retailization”
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## Consumers

- Cut-back and delay purchase of visible categories
- Understatement and inconspicuous consumptions
- Polarization, Mix and match, Chic-onomic
- Real value seek



# Four relevant macro-trends affecting consumers

Cut back  
and  
Delay  
purchase

- Consumers “**shop their closets**”, reusing purchases from past years
- ... refreshing their looks with few **key items** and **accessories**
- **Visible categories** (watches, jewels) temporarily **removed** from shopping list

Under-  
statement

- **Frugality** is fashionable **even for wealthiest** consumers
- **Extravagant spending** considered **irresponsible** or **disrespectful**
- **Luxury shame**, impacting negatively logo and showy products

Polarization

- **Down-trading** on **fashion** items, **investing** in **evergreen** items
- Accelerating **Cheap & Chic** to **Chic-onomic** trend
- **Fast Fashion** players winning the game

Look for  
Real Value

- Booming **season-end sales** and **discount channels**
- Willing to spend only for **items** and **brands** who pass **the worth-it-test**
- **Aspirational** consumers **trading down**

# Some trends are accelerated but will fade away in the mid term - others will last going forward

## Long-term trends

- Consumer conscience
- Technology dependence
- Feminization of society
- Individualism
- Tribalism
- Sensory/ Indulgence



**Luxury market enlarges its arena**

## Emerging trends that will endure

- Consumer experience
- "Real Value" for money
- Polarization of consumptions



**VALUE: the first driver for luxury consumption**

## Upcoming trends that will fade away

- Cut-back luxury purchase
- Luxury shame and inconspicuous consumptions

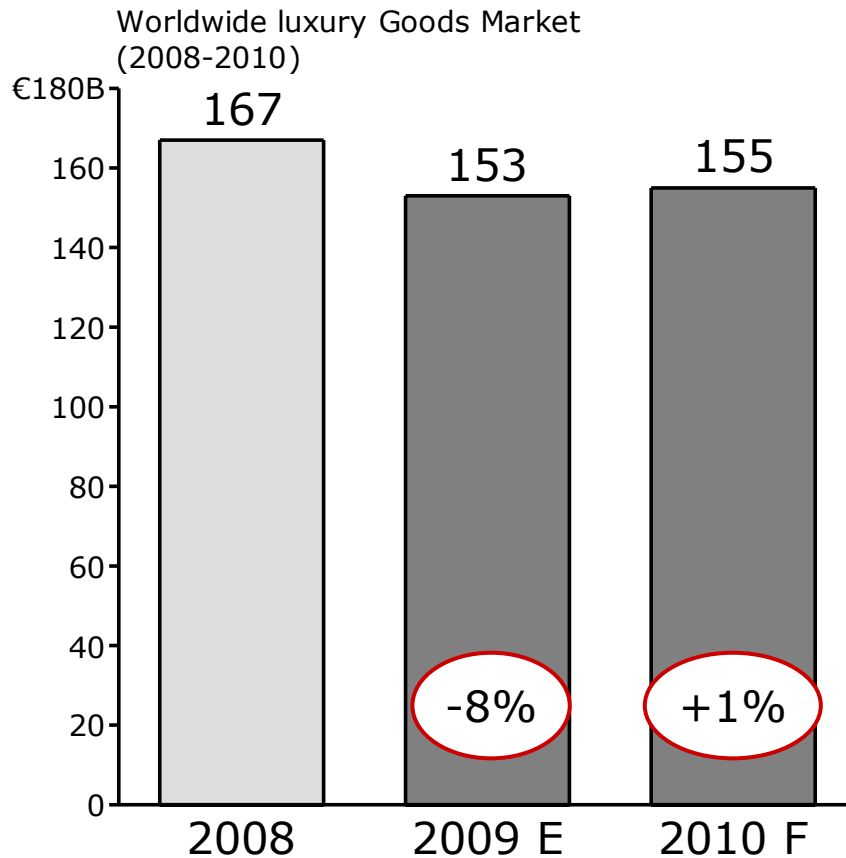


**Luxury will survive!**

# We forecast a timid market growth in 2010...

## Bain Forecast

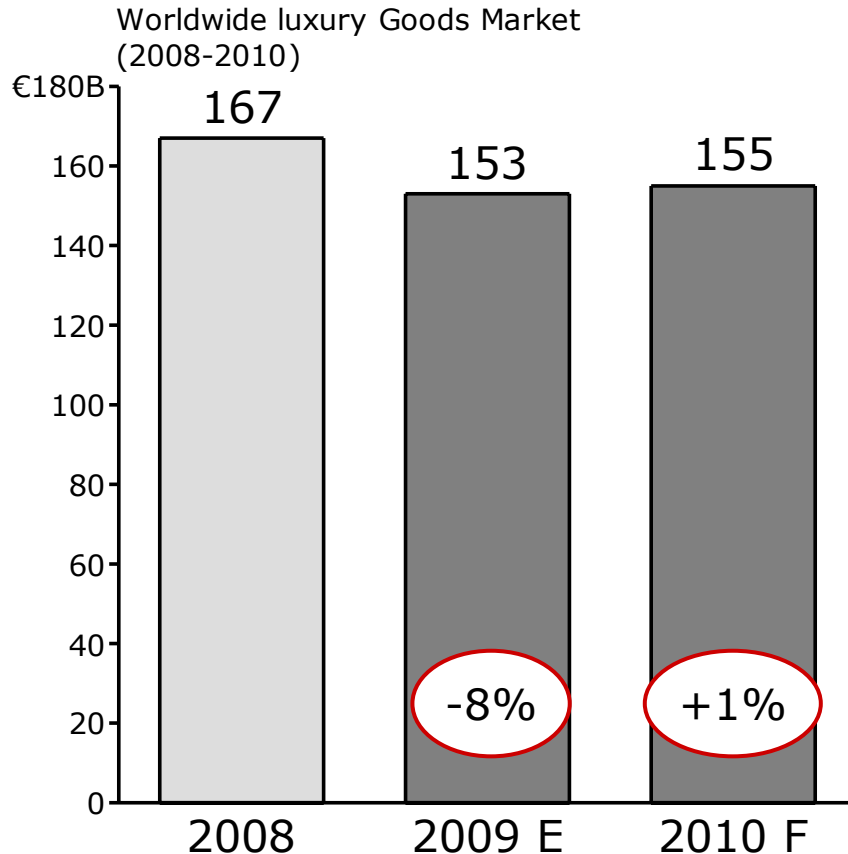
(2010 @ Constant exchange rates)



# ...the market will fully recover in 2011-2012

## Bain Forecast

(2010 @ Constant exchange rates)



## Main Assumptions

- GDP trend:
  - Strong contraction in 2009
  - Flat/slight recovery in 2010
  - Full recovery from 2011 (+4,2%)
- Luxury reaction with a multiple of 1.8 on a global basis to GDP trend
- 2009 and 2010: GDP forecast adjusted based on current trading and order taking
- First positive signs in order taking from FW 10

# In 2010 starts a new decade: 10 key facts to keep in mind...

## Getting old together with your consumers?

1. Aging population in Western and Eastern countries
  - After the baby boomers?
  - Working woman vs socialite
  - Young generations: global/ no global
2. What after aspiration
3. Global positioning vs creativity niches

## Go East! What's in your luggage?

4. Asia may become the first market in 10 years
  - China and more
  - Central Asia
  - New tourist flows and destinations
5. More than 15 countries, more than 300 cities, more than 50 million consumers

## How big is better?

6. Need for a second wave of consolidation
  - New comers/New competencies
  - More synergies
  - Exotic money
7. New characters in the plot
  - Emerging global brands from new markets
  - Larger competitive arena: no more boundaries among luxury, premium, branded fashion

## Retail excellence? Consumer experience!

8. Current distribution blueprint proven to be obsolete
  - Full-price vs off-price channels
  - Collapse of specialty and department store business model?
  - DOS shopping experience
  - Low consumer satisfaction
9. More to come from web-luxury
10. New competitors from retailing?

# ...when envisioning the future



- **Getting old together with your consumers?**
- **Go East! What's in your luggage?**
- **How big is better?**
- **Retail excellence? Consumer experience!**

# Claudia D'Arpizio, Partner Head of Bain's Fashion & Luxury Practice



**Fashion and Luxury  
Goods Practice**

**Bain & Company**

Claudia D'Arpizio is a partner in the Milan office. She is a leader in the firm's Global Consumer Products and Retail Practices, in particular she specializes in Luxury Goods and Fashion.

For over 15 years, Claudia has advised multinational clients, mainly in the consumer products, retail and luxury goods industries. She has helped companies with business unit strategy, sales and marketing, product and service adjacency, multi-channel distribution strategies, new product development and innovation, acquisitions and divestitures, performance improvement, organizational changes.

In addition, Claudia has developed an extensive worldwide industry database in cooperation with Altagamma, the trade association for the Italian luxury industry. This survey, known as the "Luxury Goods Worldwide Market Observatory", is periodically updated and has become one of the most valued and studied market sources in the international luxury goods industry.

Claudia has become a worldwide-recognized expert in luxury goods and in 2009 she **has been awarded by Consulting Magazine as one of the "Top 25 Consultants in the World"**

Claudia is extensively quoted in Italian media, such as *Il sole 24 ore*, *La Repubblica*, *Il Corriere della Sera* and in International media, as *The Wall Street Journal*, *US, Europe and Asia editions*, *Financial Times*, *New York Times*, *The Economist*, *Newsweek*, *Reuters*, *Bloomberg*, *Associated Press*, *WWD*, *Fortune*, *Washington Post*, *International Herald Tribune*, *National Post Business Magazine*, *Boston Globe*, *The Time* and *Dow Jones Newswire*.

# Bain contacts

For a copy of the study or to schedule an interview with Claudia D'Arpizio, please contact:

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- Frank Pinto      at email: [frank.pinto@bain.com](mailto:frank.pinto@bain.com)      or +1 917-309-1065