

BAIN - ALTAGAMMA
LUXURY GOODS WORLDWIDE MARKET STUDY
SPRING 2022

Rerouting the Future

Figures, trends, and actions

CLAUDIA D'ARPIZIO | FEDERICA LEVATO

JUNE 21, 2022

BAIN & COMPANY 

 ALTAGAMMA
CREATIVITÀ E CULTURA ITALIANA



Foreword on content and sources

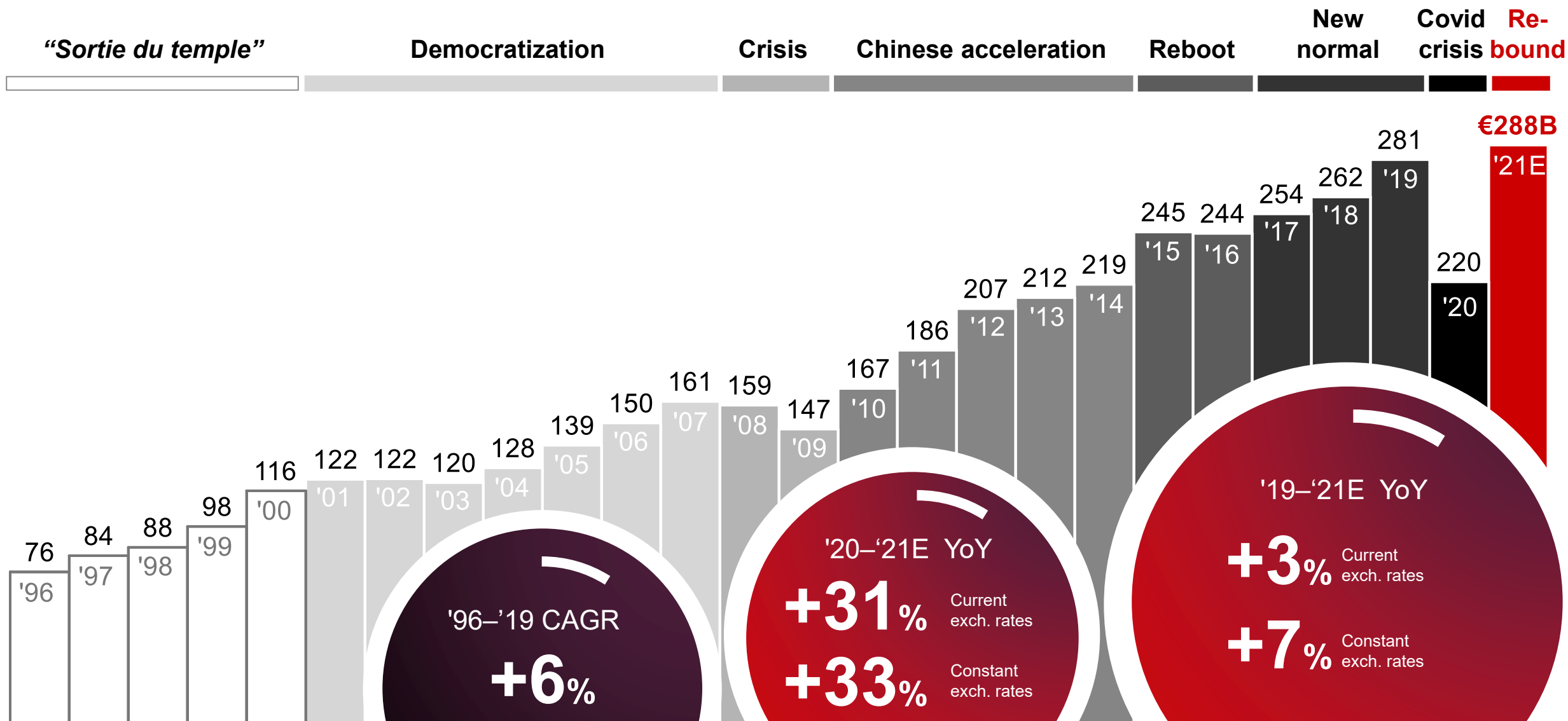
Content of this document

- This document contains **an update** on the **luxury goods market**, in particular:
 - Insight to the **performance of the market** for the **first quarter of 2022**, with details by region, channel, and categories
 - **Estimates** for how the luxury market will evolve **during FY 2022**, with related **macrotrends** emerging
 - Bain's **recommendations** for how luxury players can **steer the next phase of growth**

Sources of this document

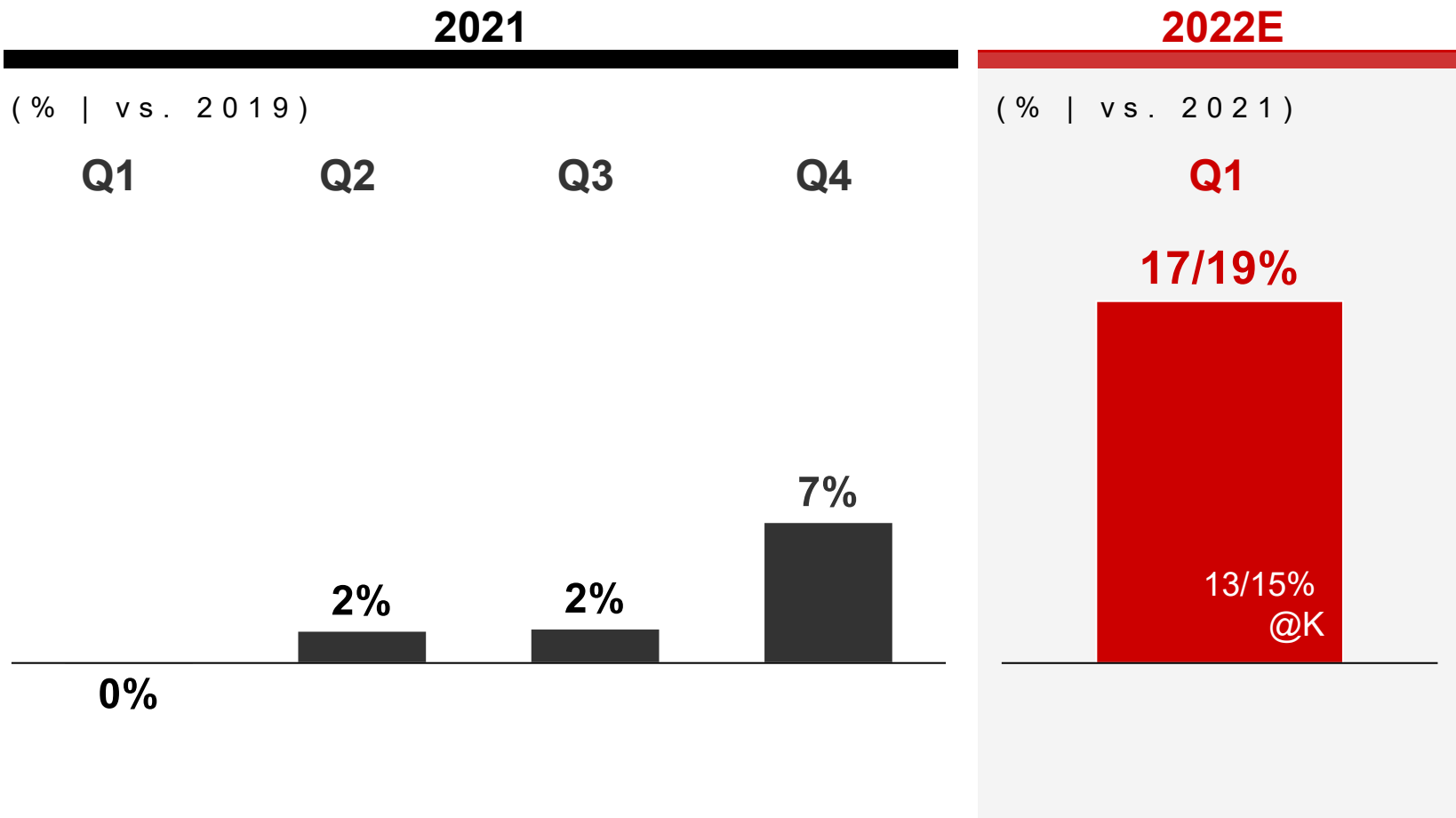
- The **insights** are based on **Bain's** triangulation of **information** and **sources**, available as of **June 15, 2022** and includes:
 - Data regarding the **outbreak of the Covid-19** and consequential lockdown across countries
 - **Macroeconomic data** (e.g., GDP, consumer confidence index) 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) as well as **no broadening** of the ongoing **Russia-Ukraine conflict** to other countries nor a **fast resolution** in the incoming months

After its worst dip in history, the **personal luxury goods market** experienced a **V-shaped rebound in 2021**



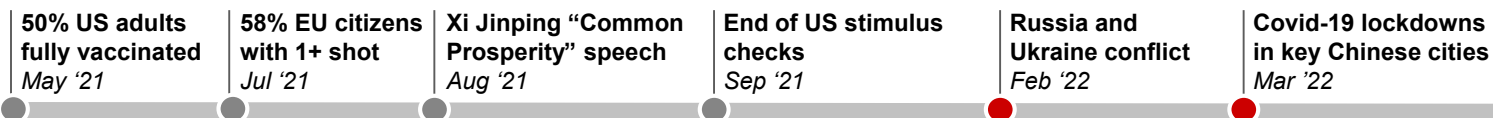
Q4-21 above expectations, thanks to a strong holiday season Q1-22E roars with high double-digit growth, despite challenges

Personal luxury goods market evolution by Q (% | vs. 2019)



- **Q4-21** posting a **higher-than-expected** growth:
 - Flamboyant **holiday season** across regions
 - Western markets **sustained by local demand**, with **US** in particular maintaining a **positive** momentum despite end of stimulus checks
 - **China** still growing double digit, while selected **other Asian countries** gaining traction thanks to sustained local spending (e.g., S. Korea)
- **Q1-22E** growing double digit thanks to:
 - Solid local confidence both in **Americas** and **Europe**, despite political and macroeconomic disruptions
 - **High customer demand**, back to (phygital) stores
 - **China** keeping up a **strong momentum** (solid Chinese New Year) until March
 - **High vaccines’ campaign effectiveness**, with no major outbreaks in **Western countries**

Timeline of the year

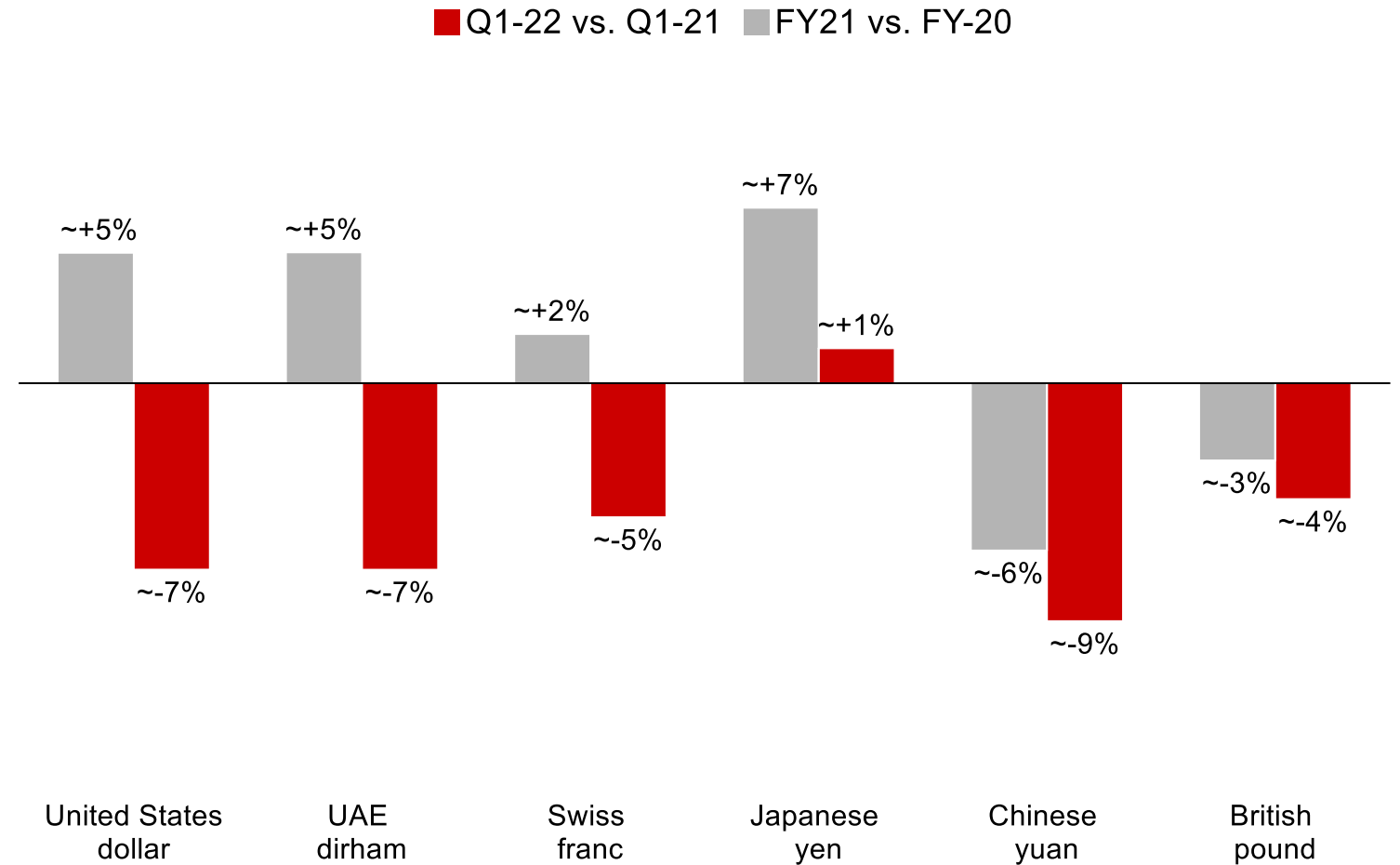


Note:@K: growth at constant exchange rates

Euro weakened towards majority of currencies in Q1-22 vs. Q1-21, inverting direction vs. previous year

Full year and quarterly key currencies evolution vs. Euro~

(% | (F Y 2 1 V S . F Y 2 0 A N D Q 1 - 2 2 E V S . Q 1 - 2 1)



Note: Bain elaborations on average currency exchange rates for the selected periods (Source: Fxtp, OFX)

Q1-22 booming, with US and Europe leading the growth; Mainland China hard stop in Q2 due to Covid-19 restrictions in key cities

Personal luxury scoring double-digit growth ...

Q1-22E vs. Q1-21

+17/19%

@K: +13/15%

... despite complex macroeconomic scenario

Hyperinflation

~8%

In US and Eurozone since March

GDP slowdown

~1 p.p.

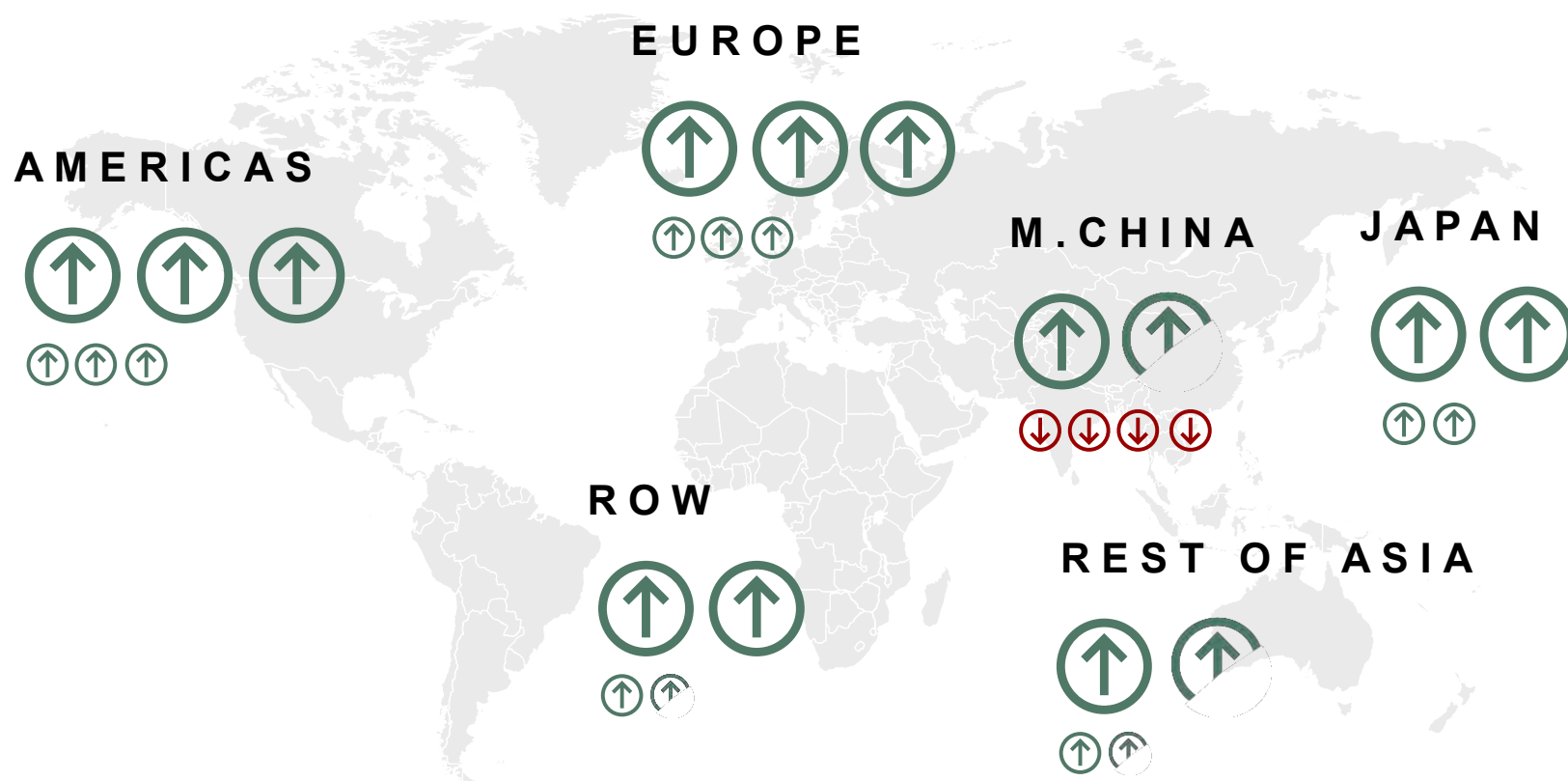
Slowdown in 2022 GDP vs. January estimate

Russia-Ukraine conflict

Increasing financial markets volatility, further pressure on prices and macroeconomic indicators

Personal luxury goods market – Quarter-on-quarter growth trend by region

(% | (Q1-22E vs. Q1-21 AND Q2-22F vs. Q2-21 YTD))



↑ → ↓ REAL TERM TREND Q1-22E vs. Q1-21



Q1-22E



YTD Q2-22F (Apr/mid-Jun)

Geo dynamics enhancing opportunities and challenges: rerouting the future

Markets and consumer changes

Europe: accelerating recovery ... despite war's shadow



US: the power of diversity unlocked



Zero-Covid crunching spending in China



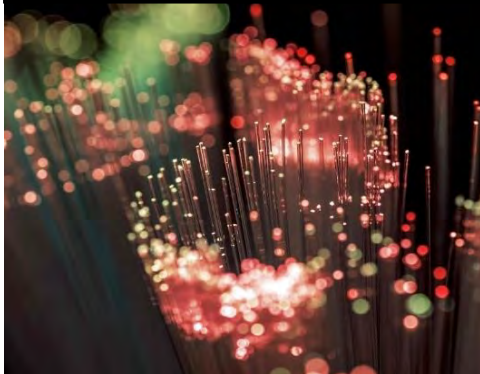
South Korea as the new Japan



Opportunities and challenges for players

(toward consumers, stakeholders, employees, society, etc)

Enlarged and enhanced value proposition of luxury creators, beyond product



Omni-touchpoints and evolved customer engagement



Future of sustainability based on innovation



Working future in luxury: new people ambition and "beyond brand" value proposition



Geo dynamics enhancing opportunities and challenges: rerouting the future

Markets and consumer changes

Europe: accelerating recovery ... despite war's shadow

Europe is on the **path to recover 2019 level one year before** expectations, thanks to booming local demand driven by a fierce "back to normality" attitude, alongside restarted (intra-regional) tourism; impact of Russia-Ukraine conflict restricted to local markets (so far)

US: the power of diversity unlocked

Brands are simultaneously speaking to a **diverse customer base**: multicultural, increasingly ethnic, younger and wealthier- leading to across-the-board growth

Zero-Covid crunching spending in China

Ongoing pandemic shows profoundly **different traits** vs. 2020 and poses challenges to Chinese spending; yet, consumers' appetite remains **strong**, leading to a **recovery** between end of 2022 and beginning of 2023

South Korea as the new Japan

S. Korea has undergone a profound transformation in the last two years, increasing its size and cultural relevance; brands successfully reinvented the **business model to cater growing local demand** and influence

Opportunities and challenges for players

(toward consumers, stakeholders, employees, society, etc)

Enlarged and enhanced value proposition of luxury creators, beyond product

Growth delivered by "**traditional**" product categories (hard luxury leading), while digital assets and virtual world increasingly represent an opportunity to enlarge and enhance value propositions and act as **creators**

Omni-touchpoints and evolved customer engagement

Direct-to-consumer formats continue to increase their relevance; tech disruption favors luxury brands to adopt an **uber-channel approach**, building a new intimacy with customers by leveraging new and evolved touchpoints

Future of sustainability based on innovation

Lack of clear sustainability standards, coupled with higher consumers' demand of sustainable products represents a **call to action** for luxury brands: **out-innovate** on sustainability to build a **competitive advantage**

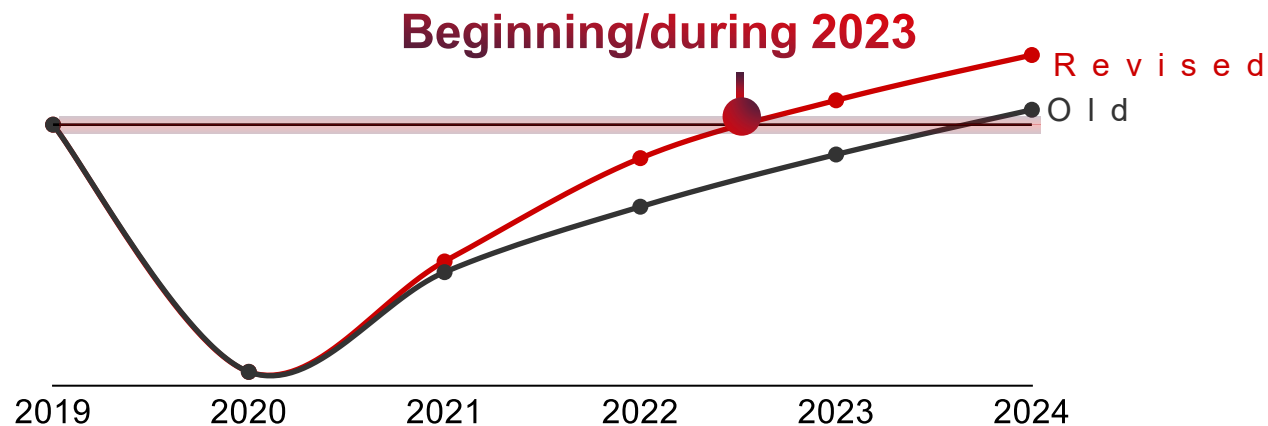
Working future in luxury: new people ambition and "beyond brand" value proposition

The evolving working environment poses diverse challenges to luxury brands: expand people value proposition, be effectively diverse, become talents maker and smartly leverage automation

Europe on the path to recover 2019 level **one year before** expectations, fueled by solid local consumption alongside restarted (intraregional) **tourism**

Europe on a steeper recovery trajectory, surfing positive tailwinds

Booming demand driven by a fierce **“back to normality”** attitude



YTD '22E
VS. '21



Across countries and locations
(luxury hubs and new cities)

Locals:

YTD '22E vs. '21 growth

Tourists:

(YTD '22E vs. '21 | % on total European spending)

20/30%

Intraregional and Americans, further aided by favorable currency

2022 F

Expected recovery driven by sustained **local demand** and **intraregional tourists**, overcompensating for the lack of **Asian spending** in the region



Back to stores

... yet still remotely engaged



Back to conviviality

... social life and (local) experiences



Restocking the wardrobe

... across categories and price points

Impact of **Russia-Ukraine** conflict restricted to **local** markets, with **limited consequence** (so far) on global luxury customer sentiment and spending

Russian luxury customers market size



Russian local consumption



- Strong impact, particularly on Russian middle class due to **restrictions** in place and local **currency devaluation** through March/April
- **Export bans** towards Russia have been including **personal luxury goods**. Furthermore, **majority of luxury brands** decided to suspend their **Russian operations**, cancelling **deliveries** as well as **closing monobrand** stores in the country
- **U/HNWIs** better positioned (despite some measures to frozen relevant personal assets abroad), have been focusing on **specific luxury purchases** (e.g., hard luxury) to preserve **value of their savings**

Russian touristic spending



- **Current travel bans** are limiting **Russian tourists** to travel in **Europe**
 - **Middle East countries** (Dubai in particular) have been representing the **primary destination** for those who decided and managed to relocate outside the country
 - In 2019, **Russian** and **Ukrainian** spending for luxury tourism globally was valued at **~€18-20B** (including culture/entertainment/shopping, stay, dining and transports)
- **Restrictions** imposed from EU on Russian banks to access **international payment circuit** are preventing their spending also in the **medium term**

An increasingly multidimensional diverse customer base leading the unprecedented growth of the US luxury market

Cultures and Ethnicity

US population increasingly **diverse**, with **ethnic** and **cultural** groups gaining relevant share on the market and showing **distinctive traits**

Spending power

V/UHNWIs are increasing their spending toward luxury, thanks to **generational wealth transfer** as well as “**new rich**” groups (e.g., crypto-wealth)

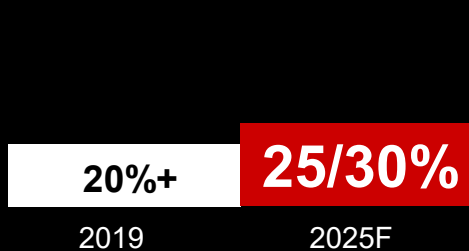
Generations

Fast generational shift happening, with younger generations, becoming the key customer **segment** in the region

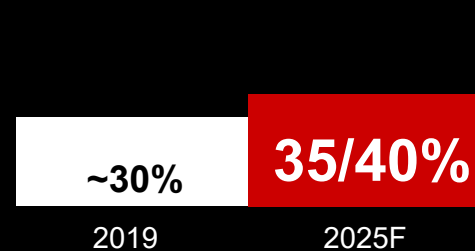
Locations

Gradual shift towards **suburbs** (by older generations) and **new cities** (by young professionals) will increase their relevance on the **country's luxury map**

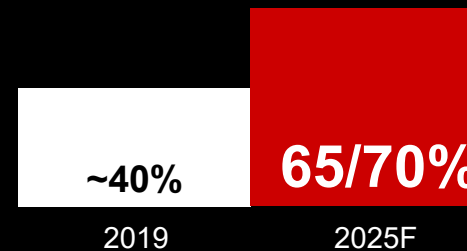
NON-WHITE ETHNIC GROUPS ON US LUXURY MARKET



UHNWI INCIDENCE ON N. AMERICA LUXURY MARKET



GEN Y & Z INCIDENCE ON N. AMERICA LUXURY MARKET



2025 GROWTH OF LUXURY MARKET BY KEY AREA



Luxury brands managed to unleash the real power of diversity (and the true potential) of the entire American customer base

China challenged from end of Q1-22 under the weight of zero-Covid policy; recovery expected throughout H2-22

What is different vs. 2020 virus outbreak?

Wider



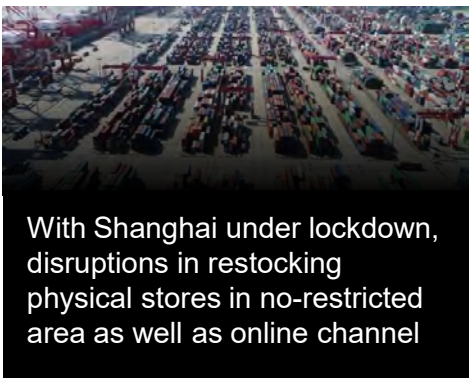
~400M people in more than 45 cities living under partial/full restrictions, including key luxury hubs-Shanghai and Beijing

More stringent



"No-tolerance" policies from government to prevent and limit further virus diffusion

Logistic block; online "down"



With Shanghai under lockdown, disruptions in restocking physical stores in no-restricted area as well as online channel

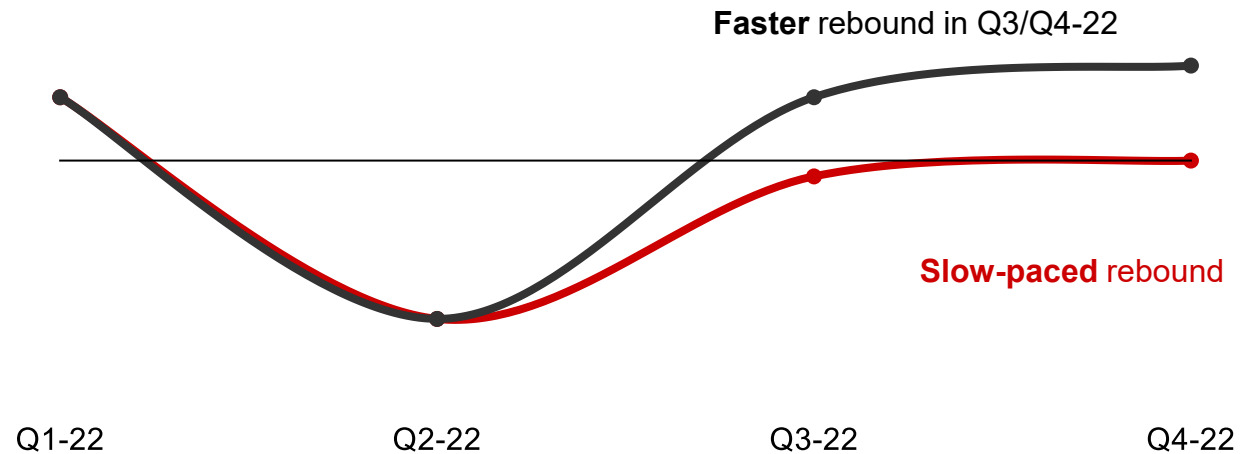
Higher stock and RE volatility



More volatile and still depressed stock and real estate markets not supporting (so far) a fast recovery of spending

Expected recovery

M. CHINA QUARTER-ON-QUARTER GROWTH (% | 2022F VS. 2021)



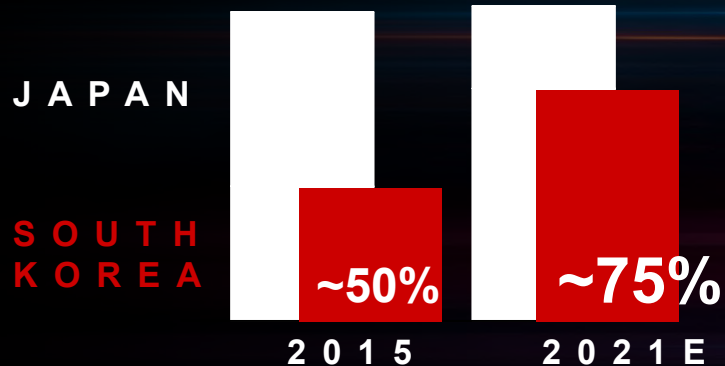
Signs of **strong willingness** to buy from Chinese consumers after **progressive/partial reopening** in **selected cities** (e.g., Shanghai) since early **June**

Chinese consumers' **appetite** toward personal luxury products **remains strong** and will sustain a fast recovery as soon as **restrictions** are **fully lifted**, and **social life is back to normal**

Expectations of a **progressive recovery** from Q3-22 with an outlook to regain 2021 level between end of **2022** and **beginning of 2023**

South Korea as the new Japan—increasing its size as well as its **cultural relevance**, replacing in the last two years **touristic spending with local demand**

S. KOREA AS % OF JAPAN
(% | 2016-2021)



Winning elements of S. Korean luxury market

Structured pool of luxury customers

Wide audience for luxury products across spending bands, from the powerful **Chaebol Elite** to the **K-pop idolizing GenZ**, with a strong **core** in an **urbanized and logo-loving middle class**

Integrated touchpoints' ecosystem

Diverse and integrated distribution ecosystem, pairing **digital-integrated monobrand** with **winning department stores**

Culturally influencing role

Entered the **third phase of Hallyu**, the so-called Korean wave, and enjoying **global recognition** for its cultural (across sectors—arts, media, tv) and **creative relevance**

Local creativity integrated with global taste

Strong local **tradition and creativity on specific categories** (e.g., skincare, outerwear), fully integrated with a **transversal and multifocal global taste**

Winning brands **reinventing business model** to cater **growing local demand and influence**

Luxury value proposition is enlarging and enhancing **within and beyond products**: all categories growing, digital assets augmenting the pie

Within products

REAL TERM TREND Q1-22E VS. Q1-21

Accessories



Despite **comfy shoes style** confirming its relevance, rising interest of “**for occasion**” pieces (back on “embellished” heels); **iconic bags** driving category growth, yet also more **functional items** (if reinterpreted with a “twist”) attracting (younger) customers’ attention

Jewelry



High jewelry at its peak, catering top clients demand; costume jewelry and entry-offer increasingly leveraged (by both genders and particularly from younger Gens) as **creative pieces** to **elevate** the outfit

Watches



Luxury watches posting an **unprecedented growth** since **2010s**, sustained by **global appetite**; **iconic pieces** driving the growth, yet solid momentum also on entry (from younger audience)

Beauty



Makeup with traction since ease of restrictions and social life pickup; **fragrances** still **lagging** behind; mild recovery of **travel retail** supporting category rebound, though still below pre-pandemic levels

Apparel



Recovery of social life and back-to-office pushing **new formalwear** vs. leisure, with womenswear leading vs. menswear; customers **seeking** for “**stand-out**” pieces across occasions in the **post-streetwear era**

Beyond products

VALUE PROPOSITION

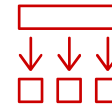
ENLARGED

&

ENHANCED



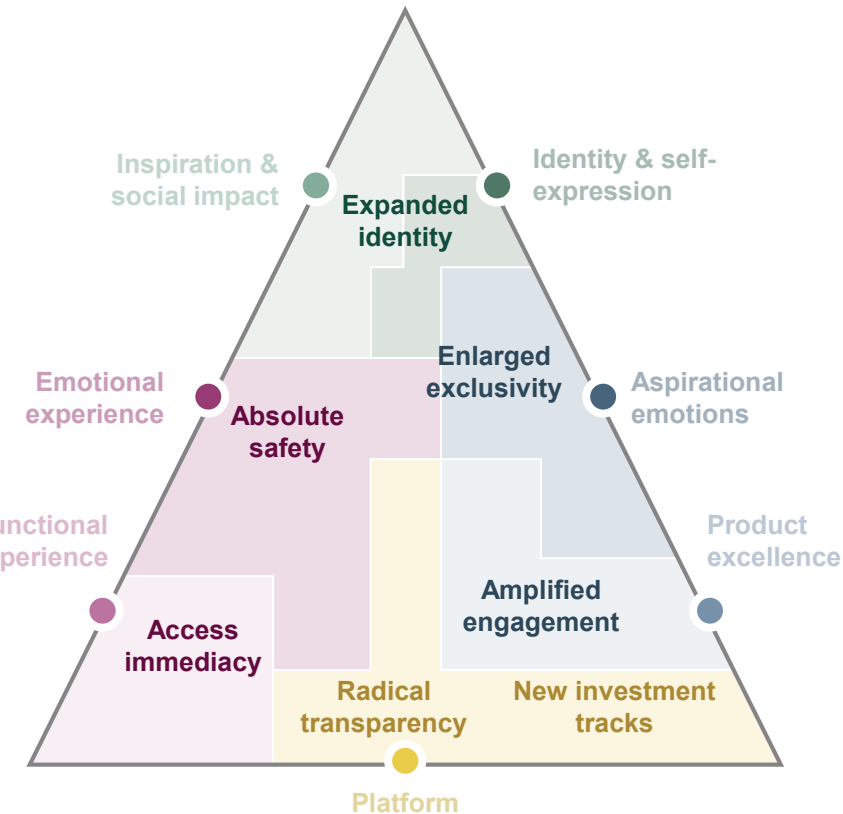
New products & services
Digital twins, product passports



New channels
NFT trading platforms



New customer groups
Gen Alpha, “Crypto nerds”, gamers



ABOVE

ALIGNED

BELOW

VS. PRE-PANDEMIC LEVEL

Luxury brands have the opportunity to play a key role in shaping the virtual worlds on the rise

Estimated weight of digital assets & metaverse on luxury market in 2030E

~5-10%



Meta-humanism

To interact with these alternate layers of reality, the personal sphere is increasingly “avatarized”



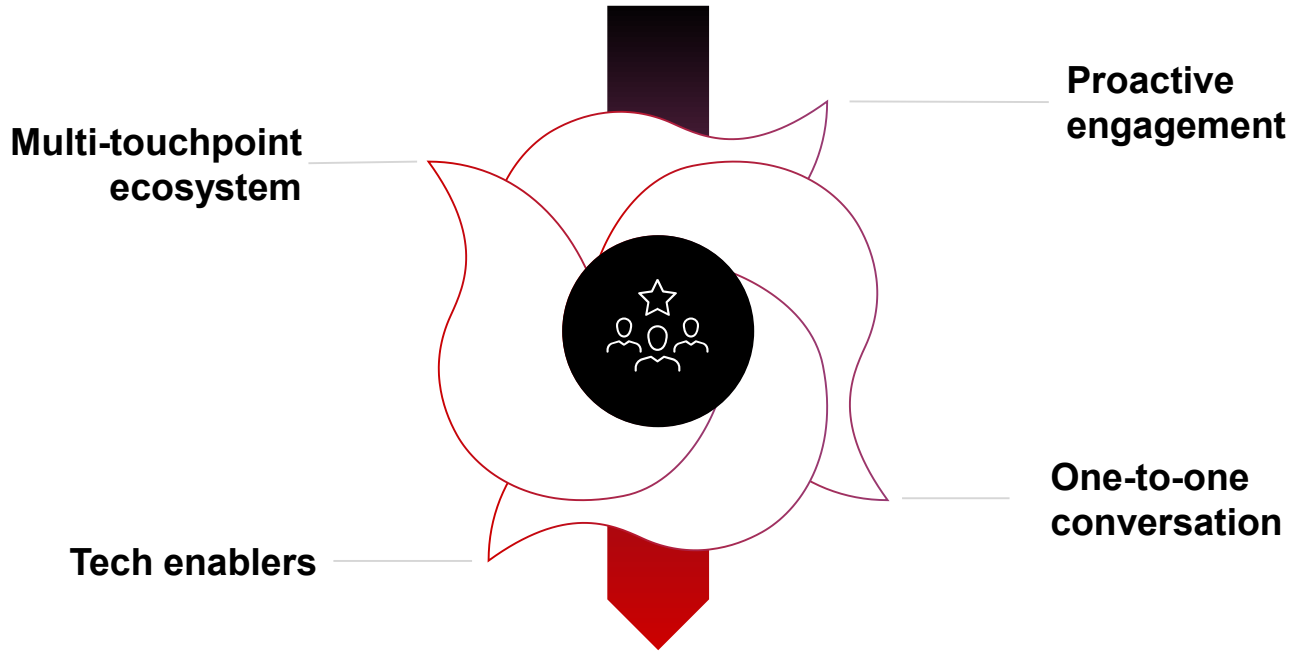
In these “new” realities **brands have a white space to act as creators and builders**, vs. the physical space where value added is incremental



A world for creators

Uber-channel approach, unlocked by tech, enables **continuous** client-brand bonding

TOP-DOWN COMMUNICATION



NEW INTIMACY

NEW — — — — TOUCHPOINTS — — — — EVOLVED



Online _____ (↑)(↑)(↑)



Strong (yet “normalized”) performance across geographies, **balanced** between **direct** and **indirect** formats; brands focusing on customer **retention** through **remote** interactions + “**human touch**”

Monobrand _____ (↑)(↑)(↑)



(Local) customers’ willingness of physical interaction driving **traffic** and **tickets increase**; luxury maps still **evolving**: network upgrades and selected expansions, particularly in European and American “**new**” cities

Outlet _____ (↑)(↑)



Dynamism on American off-price stores thanks to **customers’ activation** paying off (also on high-spending customers) and **mark-down** policies under **control**; Europe winning on locals, although still lacking touristic spending

Depart. & specialty stores _____ (↑)(↻)



Traffic recovery (and sell-out) for US department stores; European ones supported by regained intraregional tourism; solid payoff for best-performing players who strongly invested on customer obsession and clienteling initiatives

Travel retail _____ (↻)



Signs of a mild recovery in selected regions-Americas and Europe-thanks to pickup of domestic and intra-regional travelling; improving trajectory expected during summer season

ABOVE

ALIGNED

BELOW

VS. PRE-PANDEMIC LEVEL

Growing relevance of sustainability is a call to action: **out-innovate** to **future-proof luxury brands' strategy**



No shared definition of sustainability in fashion & luxury



The **lack of common standards and definitions** is a barrier but also an opportunity to build **thought-leadership**



Impact-per-wear is a key metric for luxury brands



Luxury brands have an opportunity space to build a **compelling and science-based storytelling around durability**



The demand for sustainable products is there and will grow



15% of consumers today really use sustainability as a KPF, expected to become **50% in the next 5–10 years**



Key sustainability topics are likely to evolve over time



Materiality has changed and **will continue to evolve**, a few non-negotiable topics will remain at the center of the agenda



Innovation is rapidly becoming a competitive advantage



Raising importance of CVC, Advanced Purchasing Commitments, and truly systemic approach

Future of work in luxury: more challenges in attracting and retaining the best talent, people value proposition expansion needed

PEOPLE EXPECTATIONS

More meaning

(not just material benefits, but also purpose, learning, ...)

More life

(balance, flexibility, ...)

More inclusion

(need to embrace more diversity, psychological safety, ...)

BUSINESS REQUIREMENTS

Cultural diversity

(as competitive advantage, to better reflect the changing world)

New set of skills

(3D design, metaverse, AI, modern marketing, ...)

X-INDUSTRY CHALLENGES

Escalated war for talent

(across industries, with luxury companies being challenged by other purposeful employers)

IMPLICATIONS FOR LUXURY BRANDS

EXPAND PEOPLE VALUE PROPOSITION

beyond luxury aura, personalized by persona, and inclusive of all

BE EFFECTIVELY DIVERSE

to cope with external diversity and be culturally relevant

BECOME TALENT MAKERS

vs. talent takers, doubling efforts to develop people beyond core competences

SMARTLY LEVERAGE AUTOMATION

to free up people time from repetitive tasks

FOR ALL PROFESSIONS

What should we expect for full 2022?

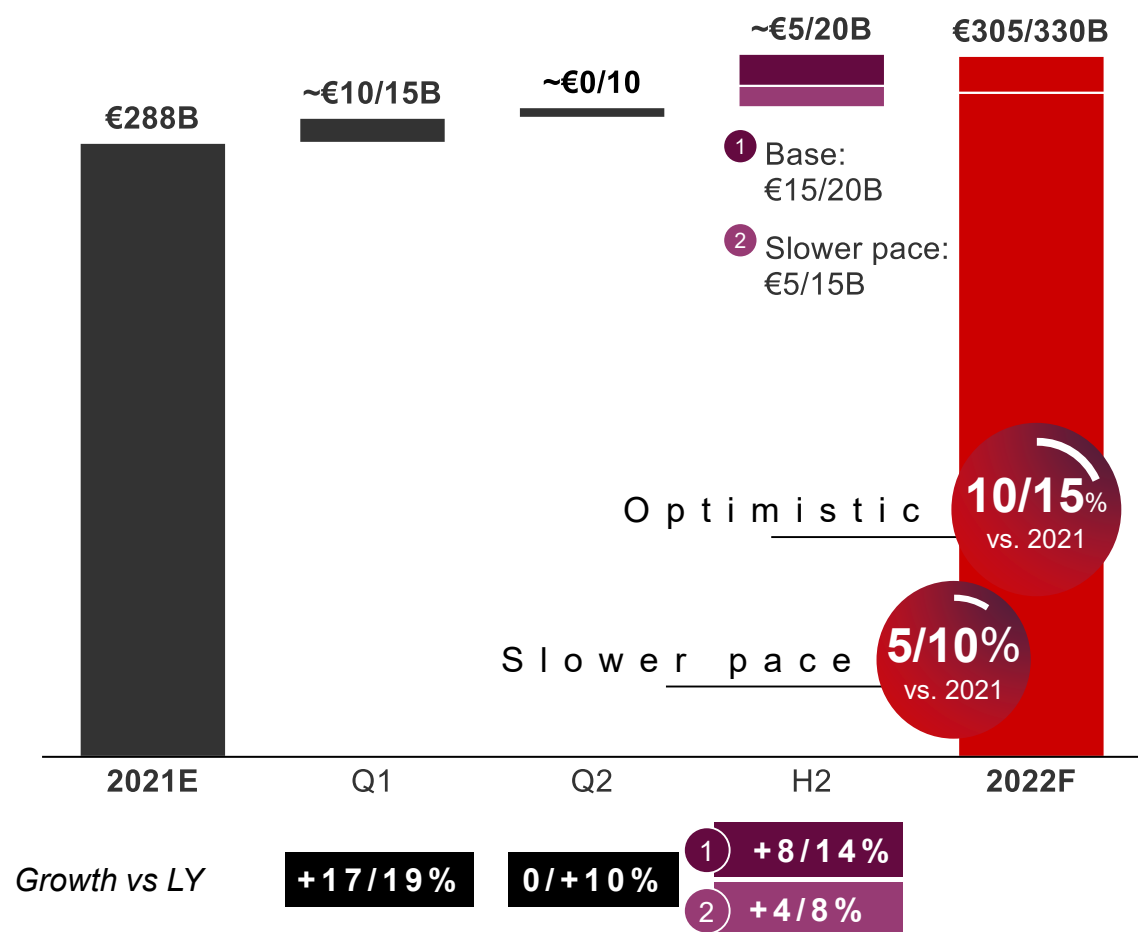
Mature markets
(Europe and Americas)



China

Personal luxury goods market – evolution scenarios

(% | 2021E and 2022F)



Optimistic scenario

2022 growth path continues along expectations, though with rebalanced “forces” across geographies

- Europe and Americas will maintain a sustained growth throughout the year (normalizing in H2), with **no slow down** in consumer confidence driven by macro-political tensions (e.g., inflation, Russia-Ukraine conflict)
- M. China’s Covid-19 restrictions will be lifted, and **Chinese customers’ spending** (at home) will rapidly bounce back to pre-restrictions level starting from Q3-22

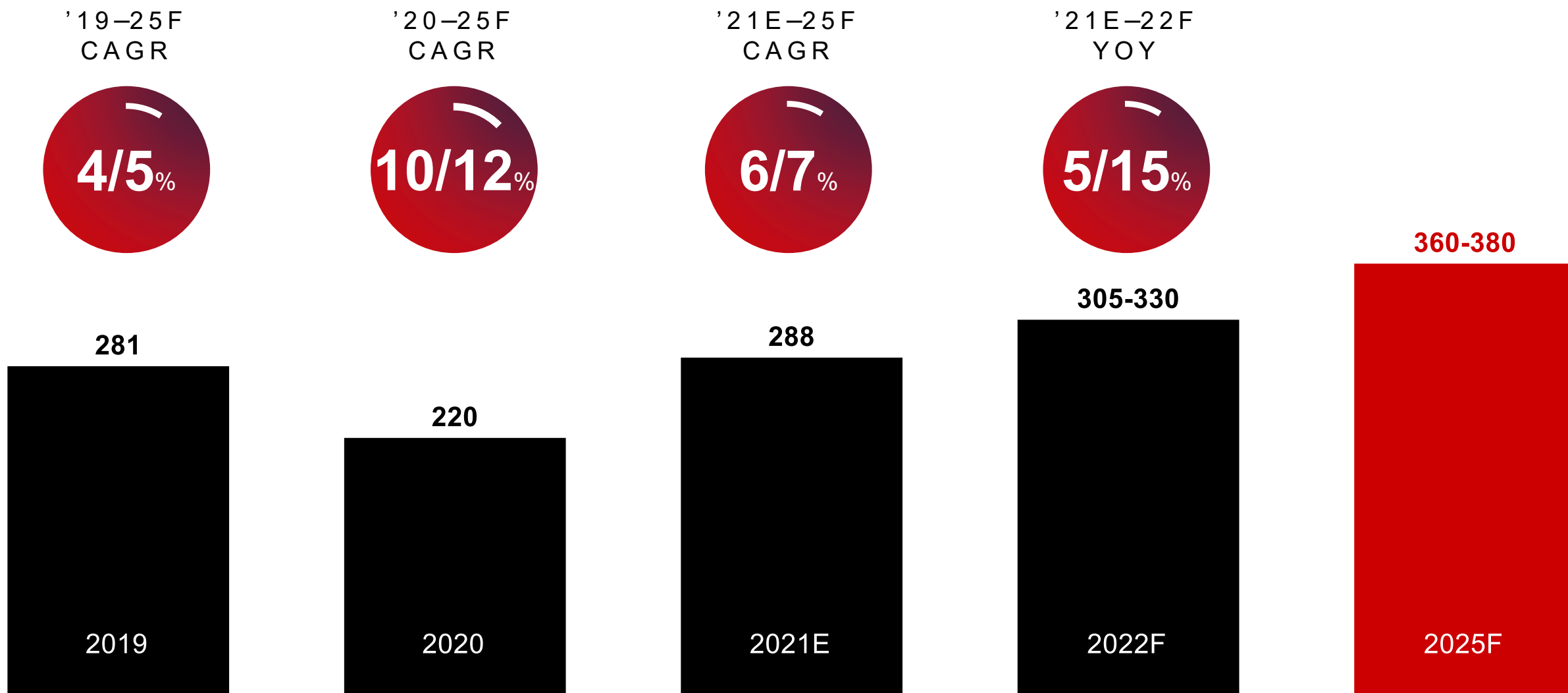
Slower pace scenario

Growth pace potentially reduced due to slower China recovery and challenged spending in mature markets

- Potential **inflationary** pressure and **macro-economic slowdown** in mature markets could impact luxury customer **spending** (particularly within upper-middle class)
- Lift/removal of Covid-19 restrictions will **take longer**
- Local customers’ spending will **not bounce back to pre-restriction level by end 2022**

Despite the challenges and disruptions in first months of 2022, luxury market midterm direction remains **unchanged**

Personal luxury goods market evolution (€B | 2019–2025F)



CEO agenda

A world for (scale) insurgents

1	2	3	4	5
New elements of value	Customer of the future	Morphing system of touchpoints	Product focus (vs brand and categories)	Human touch-oriented operations
Brands proposition: Elements of Value & expansion	Customer «obsession»	China proximity; USA acceleration	New creativity model	Sustainable operations
Sociocultural relevance: ESG and DEI	Clienteling and local customer	Future-back role of store	Hero product	Product development 2.0
Metaverse & NFTs	Top & UHNWI nurturing	Phygital acceleration	New role of logo	Global sourcing excellence
	Engagement model, content & capabilities upgrade	Luxury as a service	Multifocal offer	HR of the future
		Wholesale of the future		

THANK YOU



Claudia D'Arpizio,
Partner Bain & Company

Leader Global Fashion –
Luxury Goods vertical



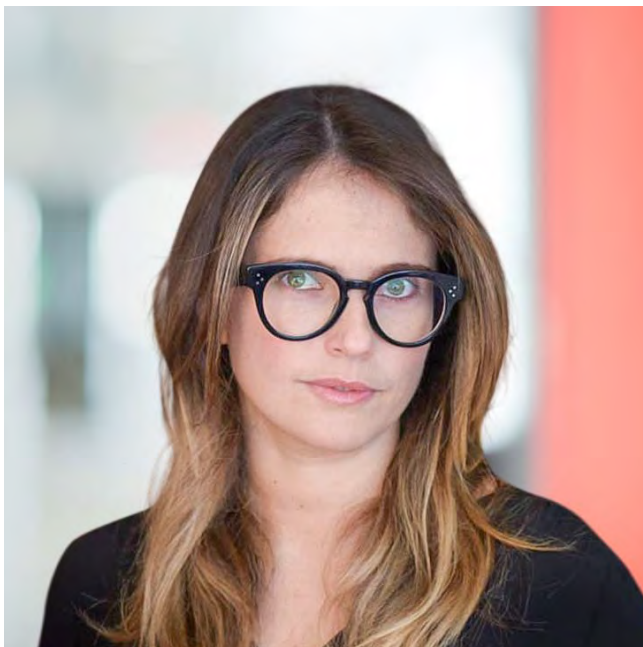
Claudia has spent more than 25 years advising multinational luxury and fashion clients on everything from strategy and new product development to innovation and organizational change.

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

Leader EMEA Fashion –
Luxury Goods vertical



Over the last 18 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.

Bain contacts

**For any questions or further discussion,
please contact:**

Claudia D'Arpizio

- Partner (Milan)
- Email: claudia.darpizio@bain.com

Federica Levato

- Partner (Milan)
- Email: federica.levato@bain.com

Filippo Prete

- Associate Partner (Milan)
- Email: filippo.prete@bain.com

**For a copy of the study,
please contact:**

Press

- Orsola Randi (Italy)
Orsola.Randi@bain.com or +39 340 408 2256
- Gary Duncan (EMEA)
Gary.Duncan@bain.com or +44 7788 163791
- Dan Pinkney (US)
Dan.Pinkney@bain.com or +1 646-562-8102

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:



Bottom-up and top-down estimates

Bottom-up



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, etc.)
- Consistency check on the data and fine-tuning

... we cross-check results

BAIN & COMPANY 

