

BAIN-ALTAGAMMA
LUXURY GOODS WORLDWIDE MARKET STUDY
SPRING 2023

A thousand winds that blow

Luxury players relentlessly adapting to
an ever-changing world

CLAUDIA D'ARPIZIO | FEDERICA LEVATO

JUNE 23, 2023

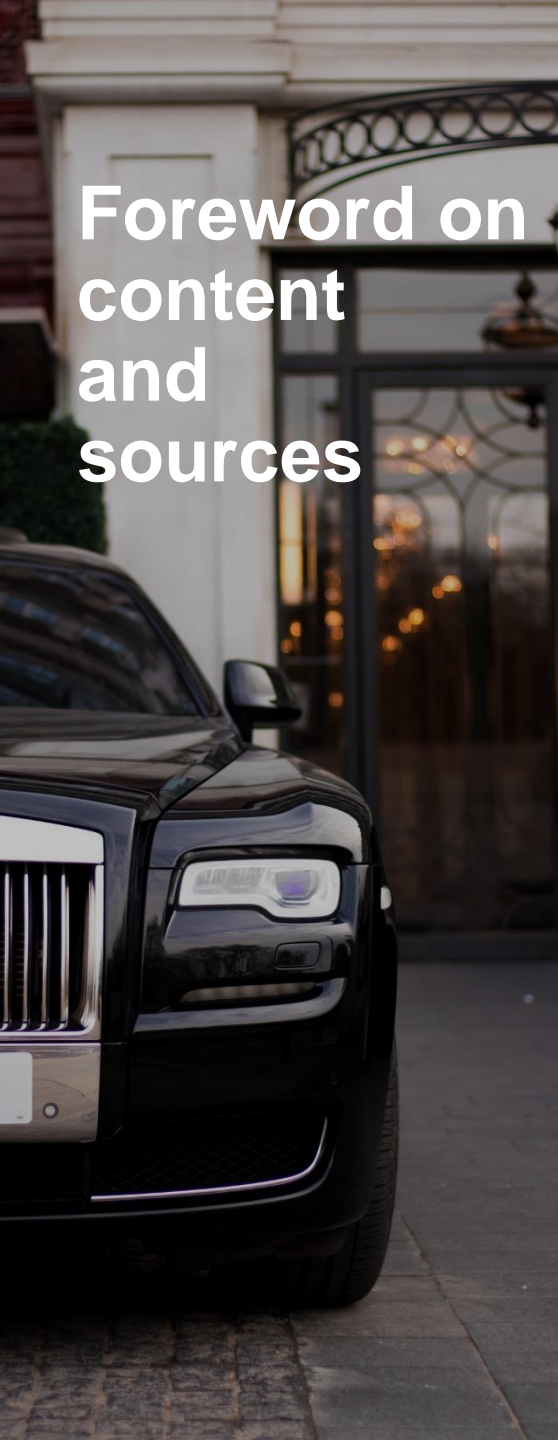
BAIN & COMPANY 

 **ALTAGAMMA**
CREATIVITÀ E CULTURA ITALIANA

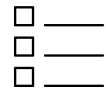


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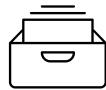


Foreword on content and sources



Content of this document

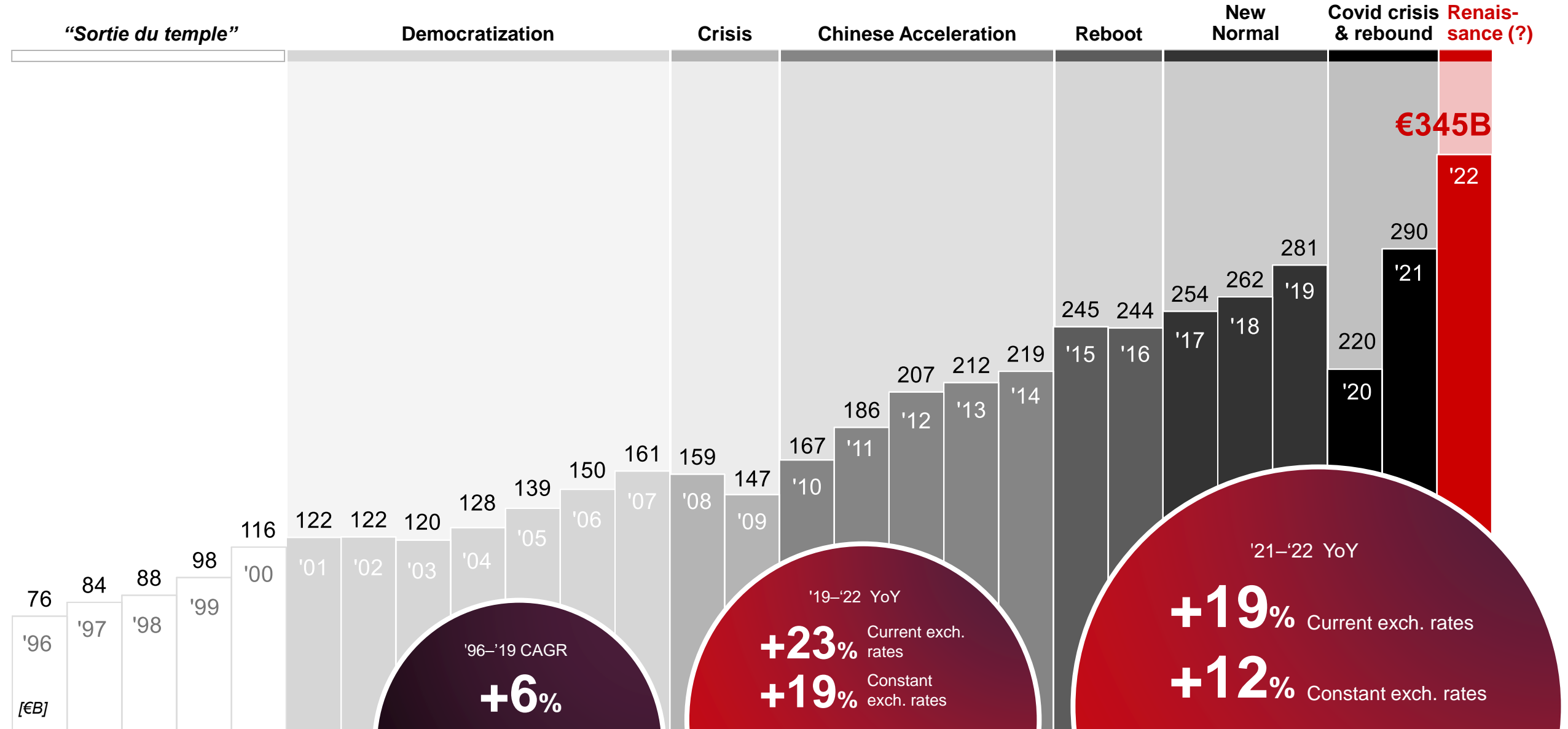
- This document contains **an update** on the **luxury goods market**, in particular:
 - Insight to the **performance of the market** as of **year-to-date** (mid-June 2023), with higher depth on the **first quarter**, with details by region, channel, and categories
 - **Estimates** for how the luxury market will evolve **during FY 2023**, with related emerging **macrotrends**
 - 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 23, 2023** 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) nor in **global sociopolitical** situation

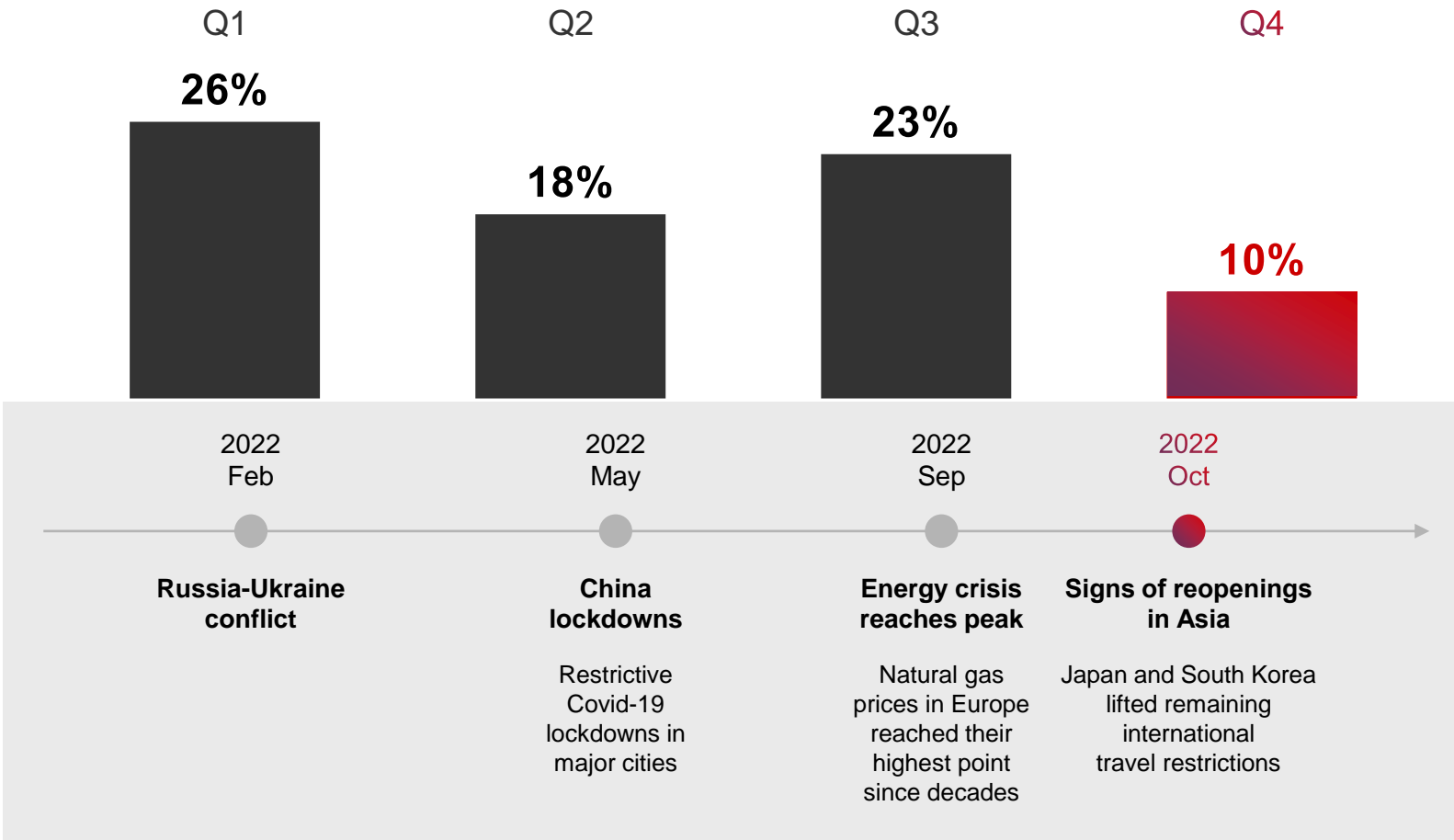
Personal luxury posted a record year in 2022 despite TUNA (Turbulence-Uncertainty-Novelty-Ambiguity)



Growth softening in Q4-22 (yet still double-digit), mostly due to persisting zero-Covid measures in China

2022

(% growth vs. 2021)



Q4-22

Softening of the growth primarily due to:

- Persisting **zero-Covid policy** restrictions in China, hampering reignition of the region and delaying Chinese spending (*both locally and internationally*)
- Reinforced winds of **potential recession** affecting (mostly) **US** and (more limitedly) **EU's** affluent consumers' spending behavior



Q1-23E

Posting **solid growth** thanks to:

- **Positive trend** of local consumers in **Europe**, despite geo-political tension and macroeconomic uncertainty
- **China reopenings** and **lifting of zero-Covid policy restrictions** (since early January, before Chinese New Year)
- **Positive momentum** in **Japan and Southeast Asia**, favored also by first revamp of intra-regional touristic flows

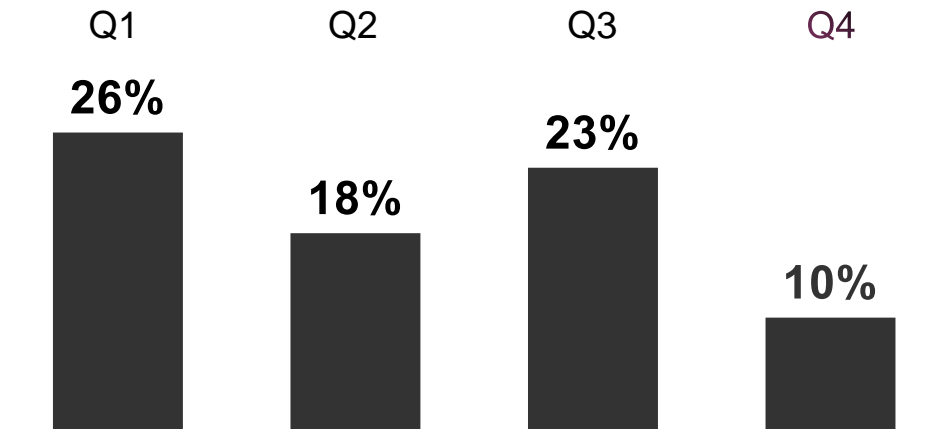
...and **despite**

- **Slowdown of US** market, due to a cautious purchasing attitude from affluent consumers in light of potential recession

Market maintaining **strong growth** in **Q1-23E**, yet with nuances across countries

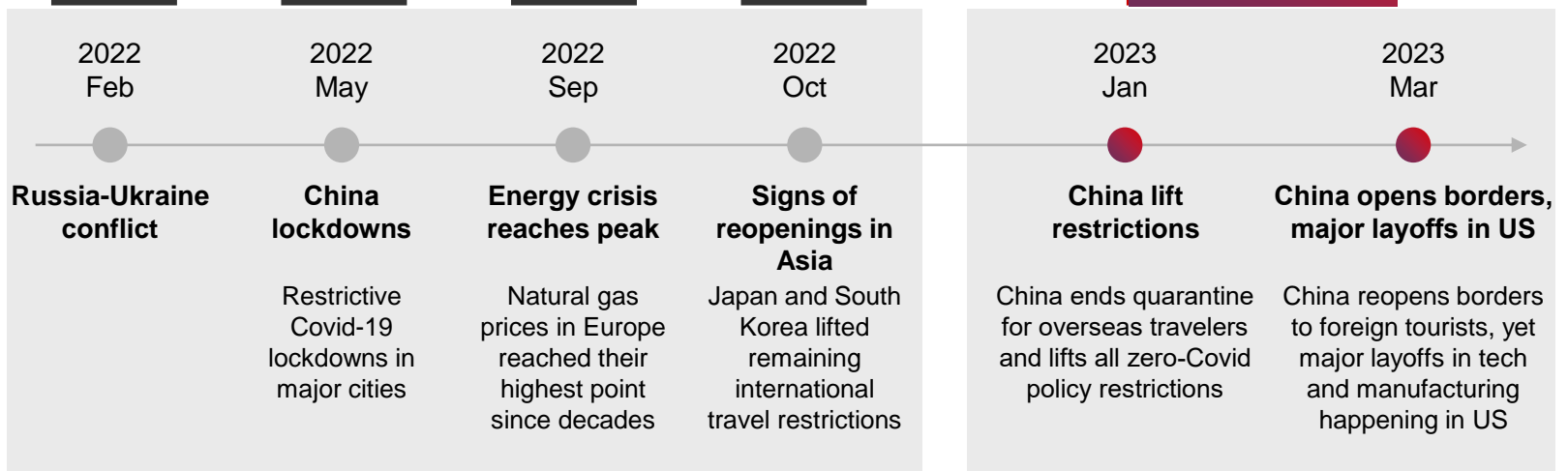
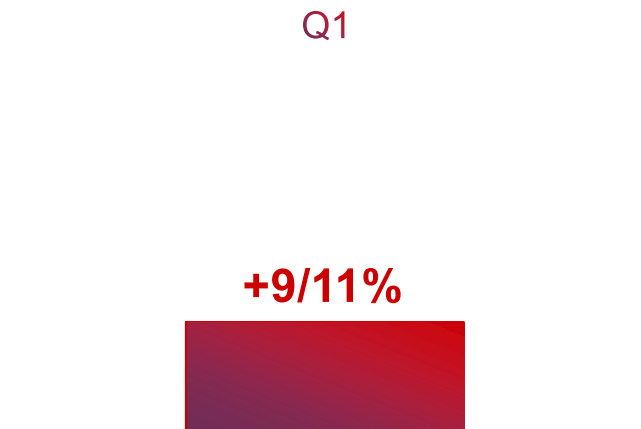
2022

(% growth vs. 2021)



2023 E

(% growth vs. 2022)



Q1-23E holding strong; US slowing down while Mainland China on the road to recovery. Strong start in Japan

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

(% growth | Q1-23E vs. Q1-22 and Q2-23F vs. Q2-22 YTD)



↑ → ↓ Real term trend Q1-23E vs. Q1-22
 ↑ Q1-23E
 ↑ YTD Q2-23F (Apr/mid-Jun)

Note: (1) CCI stands for Consumer Confidence Index; (2) Data as of April 2023, referring to 2023E vs. 2022
 Source: Bain elaboration on IMF, World Bank, OECD Data

PERSONAL LUXURY SCORING SOLID GROWTH...

Q1-23E vs. Q1-22

+9/11%

@K: +8/10%

... WITHIN CHALLENGED YET PROMISING MACRO-ECONOMIC SCENARIO

	'22	'23E
Hyperinflation gradually decreasing	~11%	~7%
	~8%	~4%

Consumer confidence slightly recovering (CCI¹ as of Mar '23 vs. Oct '22)

GDP growth rate change ² nuanced across countries	US slowdown	Other countries	China acceleration
	↓	↑	↑

²Negative arrow indicates a slowdown in GDP growth, positive arrow an acceleration

**US slowing down...
with polarized
performance**



**Europe on the rise...
(Asian) tourists to
be back at scale**



**Chinese poised to
splurge...fueling
“luxury spring”**



**Reshuffle of Asian
landscape, with *old and
new* luxury magnets**



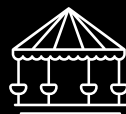
OPPORTUNITIES AND CHALLENGES



Ultra-wealthy still
sound... but
expectations rise



“Quest for elevation”
rediscovered



**Experientiality and
travel** gain (back) shine



Accelerating **ESG**
regulatory pressure



New frontiers for Tech:
Generative AI

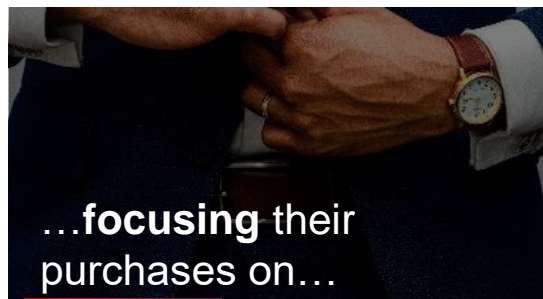
US slowing down, with polarized performance



Aspirational consumers
weakening, due to economic uncertainties and end of government subsidies



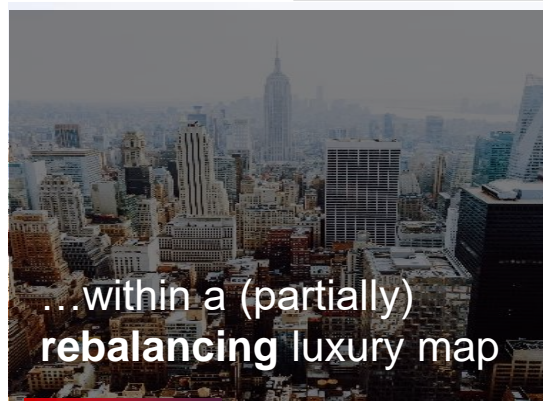
Top customers
holding up, yet partially shifting their spending abroad as price differentials widens



Statement pieces
across categories



Wardrobe staples, "New" formal and occasion wear



Giants' comeback
New York, California



Holiday destinations
recovering (yet still behind 2019)
Hawaii, Las Vegas



Polarization of "new" centers of luxury
Texas holding up vs. normalized Midwest and Tier-2/3 cities

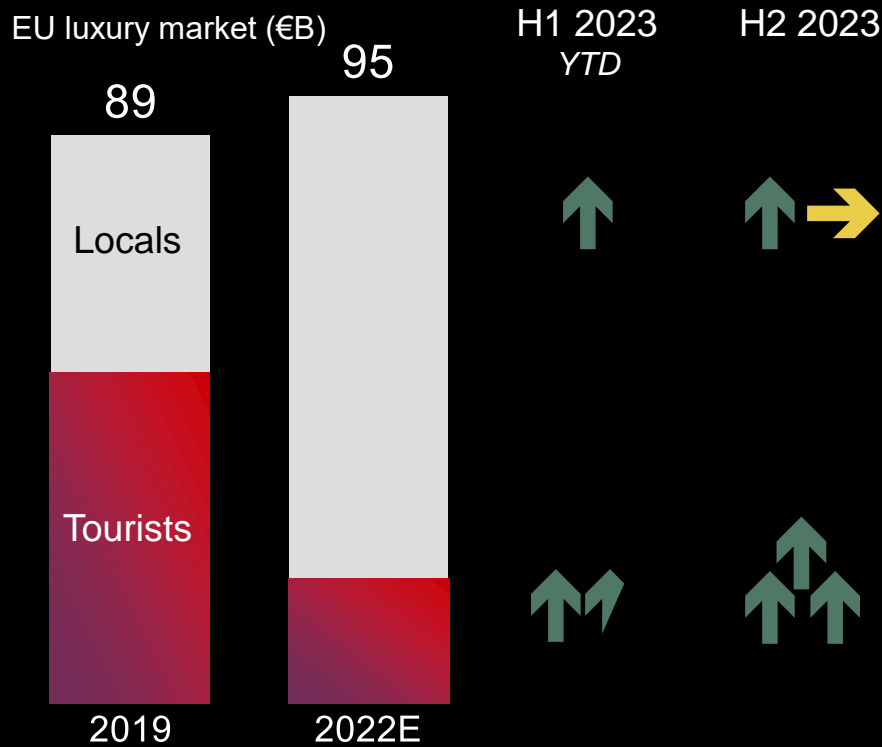
IN A CONTEXT OF STILL SOLID
"SAVINGS CUSHION" AVAILABLE



~\$900B

US household excess savings still unspent
(vs. \$2.1T in mid-2021)

Good start in Europe, although awaiting **moment of truth** in H2 as local vs. tourist dichotomy reignites



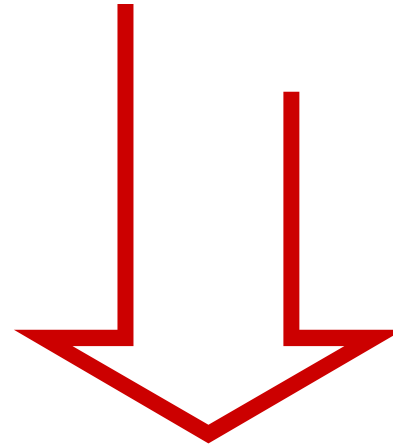
↑ → ↓ REAL TERM TREND vs. 22E



Tourists being a pocket of growth still to be fully recovered (vs. 2019)...

Long tail of **US and Middle Eastern tourists** in the first half of the year, expected to **consolidate**

Asian tourists comeback in the last months, yet **solid return** expected later in the year



...yet potentially creating tension with **locals**

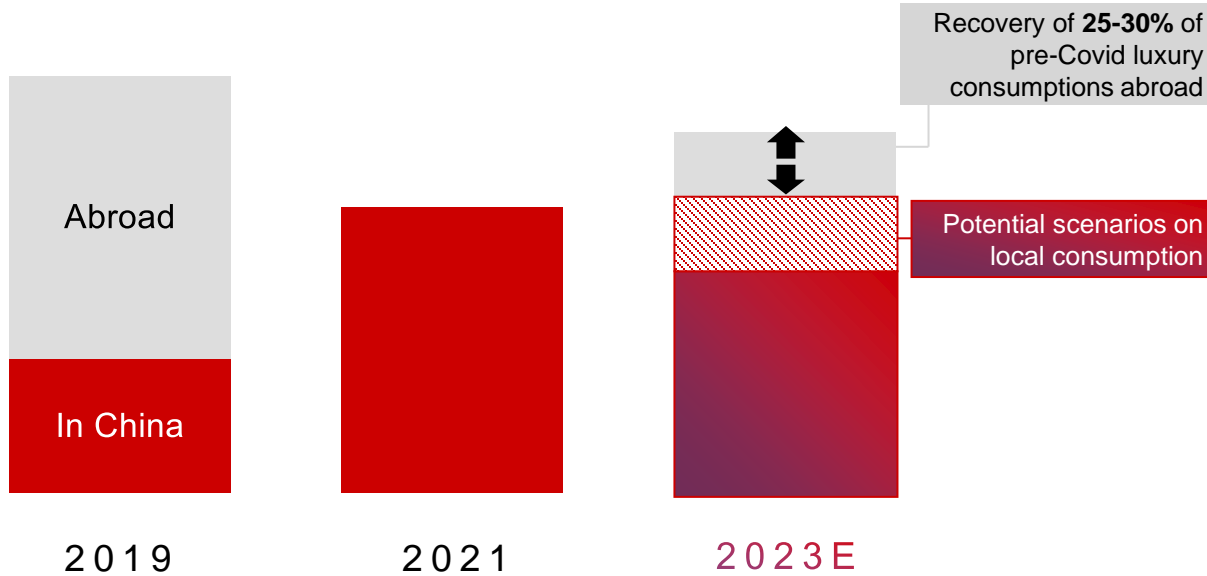
Sustained performance in the first quarter, especially by **top spenders**, aspirational customer slowing down

“**Moment of truth**” in the coming months, as brands face **acceleration of tourist customers** in the stores

Chinese poised to splurge over the next months... fueling “luxury spring”

Chinese expected to rise again in 2023, although “re-distributing” their spending across countries...

(Chinese spending by region | 2019-23E)



With expectations of positive growth path ahead, will Chinese consumers **come back** to drive spending elsewhere or is local consumption a “**here-to-stay**”?

DIFFERENT DYNAMICS TAKING PLACE

LOCALLY



Top-of-the-pyramid brands and products winning



Hunger for culture and experience, beyond consumerism



Shifting e-commerce landscape, beyond incumbents

TRAVELING

Consumers eager to **travel** again, both domestically and internationally



...WITH NEW TOPICS ARISING (TYPICAL OF ADVANCED ECONOMIES) FOR LONG-TERM SCENARIOS



“Asian” reshuffle: Japan gaining momentum as travel destination and South Koreans rebalancing their spending (abroad), strong SEA and HK

Market value as of 2022

↑ → ↓ REAL TERM TREND Q1-23E VS. Q1-22
 CONSUMER CONFIDENCE TREND: Q1-23 VS. Q1-22

HONG KONG & MACAU



Sharp acceleration as primary destination for **Chinese tourism** since **the country reopened**, with additional tailwinds from government policies

- ↑ Consumer confidence
- ↑↑ Touristic inflows
- ⋮ Touristic outflows

Not meaningful

~€5B

SOUTHEAST ASIA



Continued brilliant growth path, sustained by influx of Russian tourists spending and first arrivals of Chinese; strong appetite for **jewelry and watches**

- ↗ Consumer confidence
- ↑ Touristic inflows
- ↑ Touristic outflows

~€12B

SOUTH KOREA



Rebalance of locals' spending toward **purchases abroad**; **travel retail accelerating** pushed by **local customers** and **inflows from Southeast Asia**, despite **no or limited Chinese arrivals** so far

- ↘ Consumer confidence
- ↗ Touristic inflows
- ↑↑ Touristic outflows

~€21B

JAPAN



Local customers keeping up their **spending**, yet **growth** coming from **tourist inbounds** (hungry for best-seller **accessories**), with **first signs of Chinese arrivals**

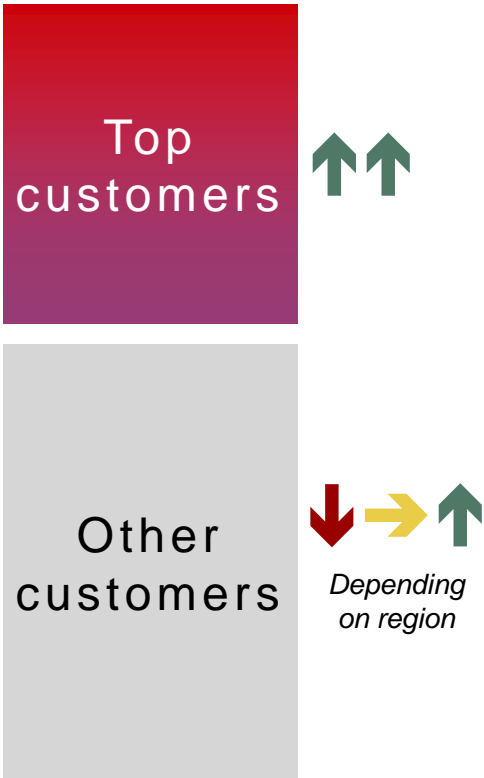
- ↗ Consumer confidence
- ↑↑ Touristic inflows
- ↑ Touristic outflows

~€24B

Top customer still voracious across luxury categories...

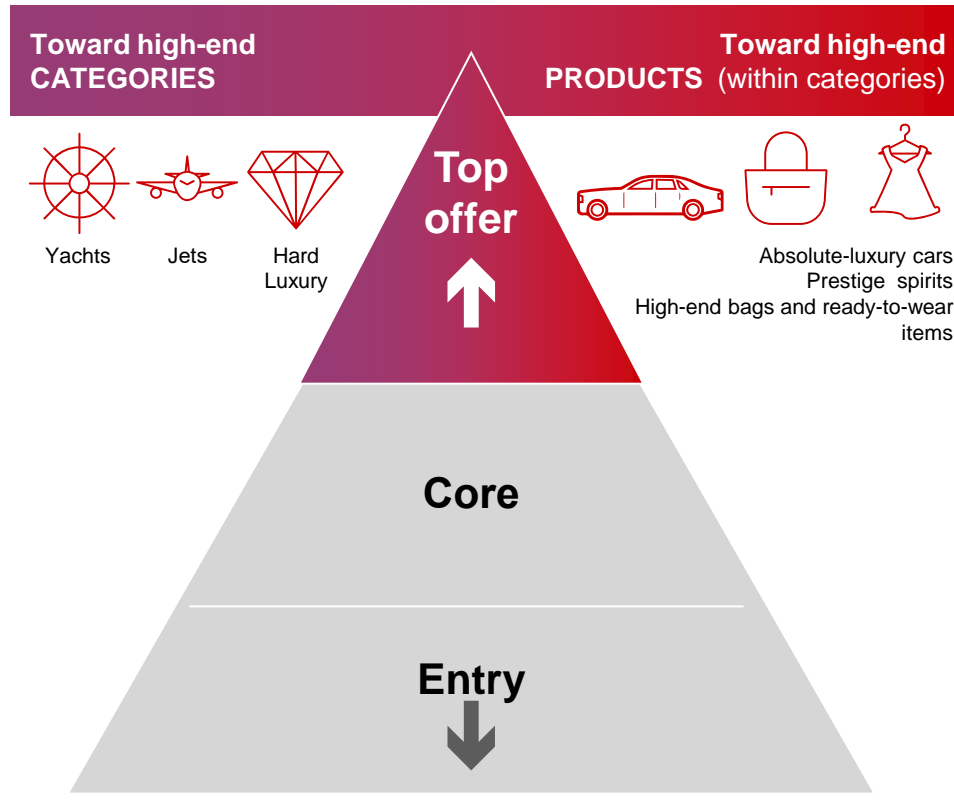
High resiliency of (U)HNWI spending...

Luxury consumer by segment
Growth trend (Q1-23 vs Q1-22)



...Fueling growth of uber-luxury categories

Growth trend by price positioning
(Q1-23 vs Q1-22)



↑ → ↓ REAL TERM TREND Q1-23E VS. Q1-22

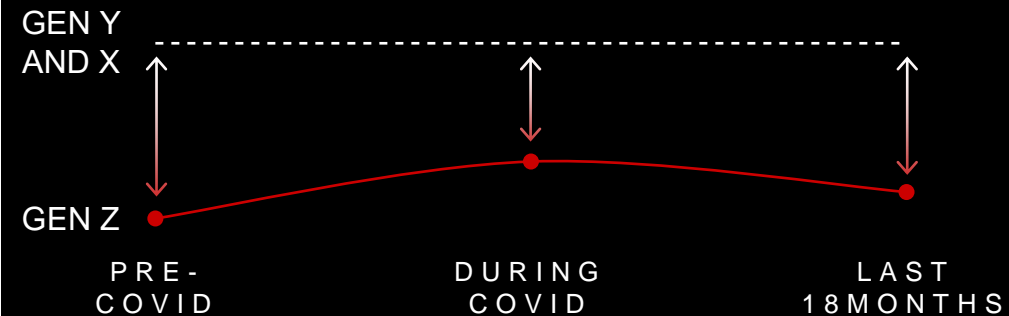
...WHILE ALL CUSTOMERS HAVE BEGUN RISING AGAIN THEIR EXPECTATIONS...



Variation in Luxury industry NPS® in last 18 months

...AND GAP ON NEWER GENERATIONS IS STILL WIDE

Evolution in luxury industry NPS® by consumer generation, Gen-Z vs. other generations (Indexed, Gen-Y and -X = 100)



Cross-category quest for elevation, driven by icons and uber-lux pieces, with customers looking for “less but better” purchases

Real term trend Q1-23E vs. Q1-22



Watches



Iconic models and giant brands driving, scarcity creating a long tail of growth for the category; women gaining momentum



Jewels



Growth driven both by uber-lux pieces - (further) pushed by brands – and core iconic items



Accessories



Iconic bags still driving and increasingly perceived as valuable assets

Shoes booming in Asia while consolidating in Western world, transcending beyond sneakers



Apparel



Strong (and resilient) growth, sustained by top spenders, paired with broader quest for durability and quality

Elevation of wardrobe staples and sound momentum in occasion-wear



Beauty



Fragrances growing, fuelled by niche offer and recovery of duty-free

Makeup and skincare maintaining positive trajectory, “lipstick effect” to push back amid fear of recession in aspirational consumers

Customers hungry for...



“LESS BUT BETTER”

Rising quest for quality and durability with a continued elevation across price points, including entry-prices, and categories



UNIQUENESS OVER STATUS

Luxury entering the “literally me” era, marked by desire to show ourselves moving beyond pure aspirational/ status items






INVESTMENT STAPLES

Timeless and icon pieces now consolidated asset class, due to their scarcity and continuous appreciation

Continuous price elevation: tipping point approaching?



Experientiality and travel gain (back) shine, tapping into larger luxury territories




 Real term trend Q1-23E vs. Q1-22



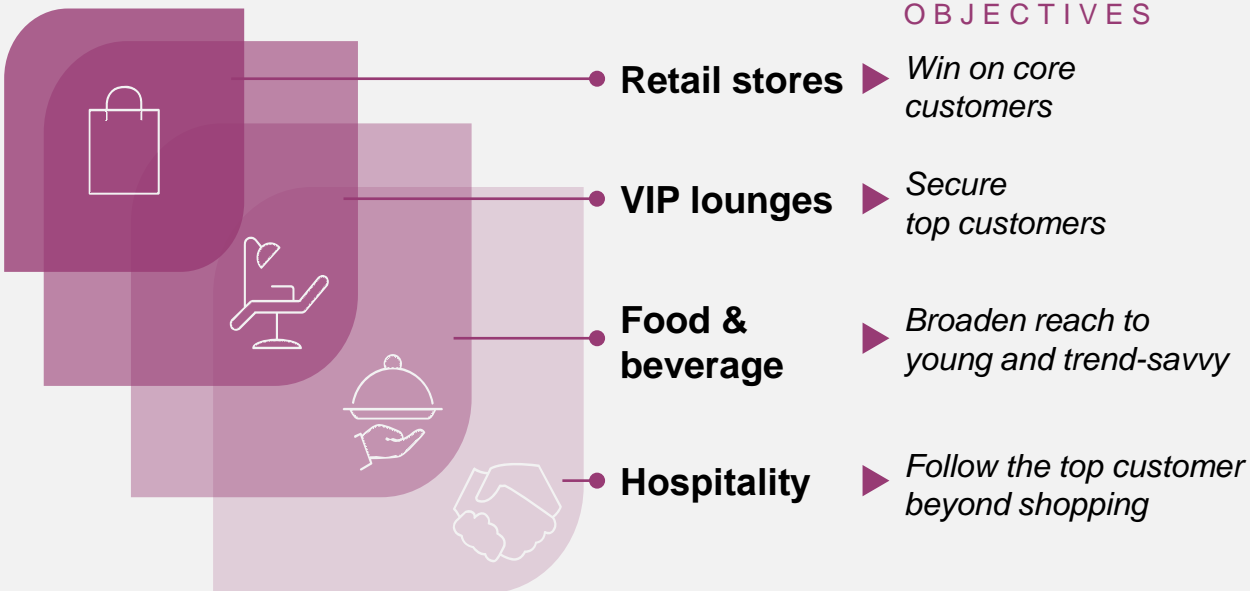
("Expanded") Monobrand



Continued solid growth, fueled by ongoing appetite for in-store experiences and benefiting from shifts in consumer flows

Brands are **expanding the reach** of their physical network and tapping into **other luxury territories**

OBJECTIVES



Online



Online normalizing its growth across geographies, with e-tailers performing better vs. brand.com by relying on their solid base of resilient top customers



Outlet



Solid growth due to the downtrading of aspirational luxury customers (more affected by macroeconomic context) and growing inventory in the system



Travel retail



Long-awaited rebound, with dynamism from Southeast Asia and Japan, fueled by first intra-Asia travels



Depart. & spec. stores



Polarized performance, stronger in Europe (vs. US) and in the high-end segment; anticipated start of mark-down seasons potentially hampering luxury price-value equation

Direct retail continuing on a solid growth path, increasingly fueled by **trans-humanism** and **omnichannel 3.0** focused on **local customers**

PHYSICAL WORLD....

...DIGITAL WORLD

Pure physical retail

Stores **walk-in revamping** after pandemic outbreak, fueled by people desire to live again physical experiences, yet with **nuances across regions**



...and with footfall expected to gradually **balance back** to the structural downward trends observed in the years leading to COVID



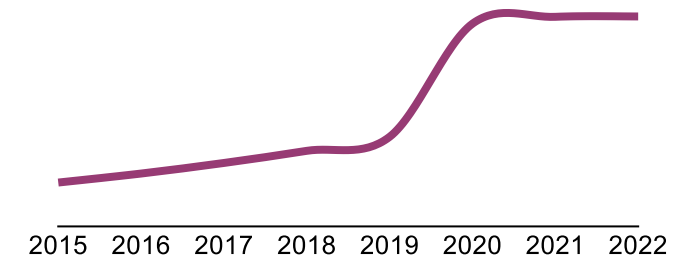
Tech-enabled sales and clienteling proving the **real engine of growth** behind **physical monobrand stores**, offsetting secular **traffic decrease** trend




- Empowered selling ceremony
- Tech-enabled CX
- Showrooming and remote selling
- Proactive engagement
- AI-enabled relationship sale

Brand.com

Direct online still growing (at par or just below physical retail), yet undergoing a **normalization trend** after **unparalleled boost** following Covid-19 outbreak

Digital penetration (% on total personal luxury goods market)



   Real term trend Q1-23E vs. Q1-22

How will it evolve with the rise of touristic flows?

Accelerating ESG regulatory pressure on brands to operate more sustainably increasing the urgency to operationalize the decarbonization of the value chain

LEGISLATION RECENTLY APPROVED BY EU REGULATORS IMPACTING FASHION INDUSTRY

Selected examples



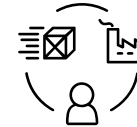
Industrial Emissions



Extended Producer Responsibility (EPR)



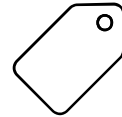
Waste Shipment and Waste Legislation



Corporate Sustainability Reporting Directive and Due Diligence



Eco Design and Digital Product Passport



Green Claims and Textile Labelling

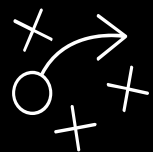


Microplastics



Chemical Restrictions

Key priority and challenge of the next 3 years for any luxury brand is to **operationalize the decarbonization of the value chain (Scope 3)** to decouple the expected business growth from the absolute growth of emissions



AT COMPANY LEVEL

Setting clear and tangible goals within and beyond company (e.g., Scope 3) to be rolled out across brand, markets, functions



AT INDUSTRY LEVEL

Sharing a unified industry-wide response, setting common targets and sharing best practices

Generative AI further pushing the boundaries of trans-humanism, with unparalleled impact across the whole value chain

YESTERDAY

TODAY

TOMORROW

Tech innovation as:

Sales channel

Technology opening up **new sales opportunity** through **digital channels**

...while supporting **business enablers digitalizing tasks**
(e.g., demand planning, product allocation, ...)



Value chain steps covered

Engagement facilitator

Technology enabling **omnichannel** and enhanced customer engagement

...with **limited impacts** on business enablers



Skill enabler and enhancer

Generative AI impacting all steps of the value chain, from distribution to creativity (yet only partially)

...and revolutionizing **business enablers across all functions**



Game-changing tech talents



Data analysts and Digital specialists

Drive insights from structured data supporting decision making
Scale-up e-comm business and social-media presence



Data scientists

Leverage the power of unstructured big data to enable data-driven decision making



AI developers

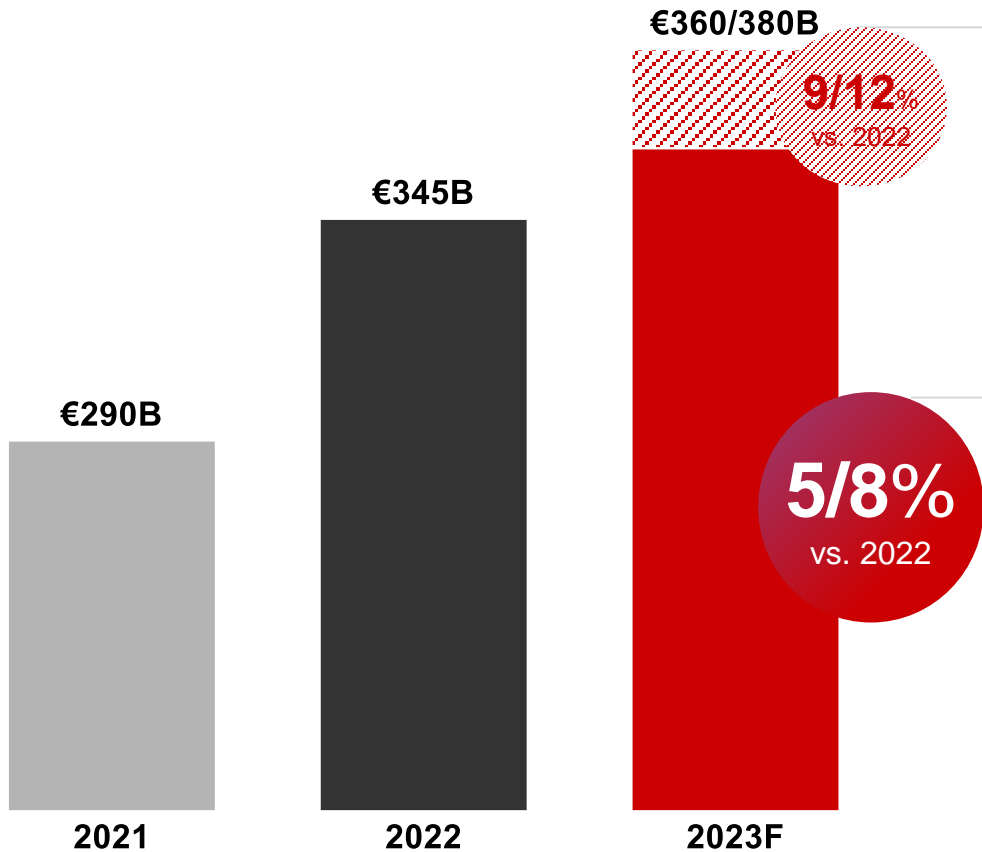
Set up the right prompts to maximize performance of generative AI models

As it happened with digital sales channels, **leaders of tomorrow** will be the ones able to **stay ahead of the curve and create a competitive advantage** through new technologies

What should we expect in 2023?

Personal luxury goods market

(% growth | 2022 and 2023E at constant exch. rates)



Growth vs. last year
(@current exchange rate)

Source: IMF



Europe and Americas



M. China



Japan and Rest of Asia

Better scenario

Positive growth path in 2023, driven by China recovery and grip from Europe and Americas (although stabilizing)

Europe and Americas to **sustain growth**, with **consumer confidence** only **slightly affected** by macroeconomics plus inbound **touristic flows**

M. China (and Chinese) to **recover fast** thanks to **back-to-store** and **back-to-travels**

Japan and SEA **maintaining strong momentum** on local consumers, further supported by intra-Asia tourism accelerating across the region

Realistic scenario

Overall growth more severely impacted by a slowdown scenario in mature markets, while sound recovery in China

Macroeconomic slowdown hovering over the economy, potentially **adversely influencing** luxury customer **spending**

Rebound of confidence leading to sound **local consumption recovery**

Japan progressively **normalizing growth pace**
South Korea not fully recovering to 2022 levels

Real GDP growth '23F vs '22

+0.7%
Europe

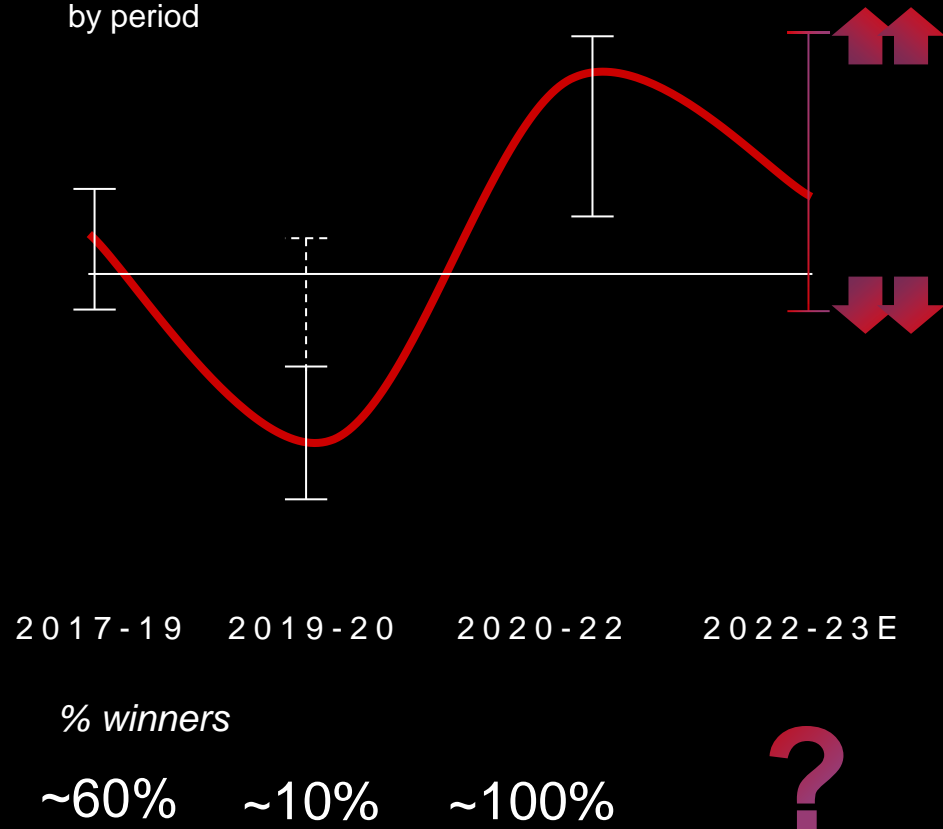
+1.4%
USA

+5.3%
M. China

+1.0% **+4.2%**
Japan Rest of Asia

New phase of performance
polarization and
dispersion after the post-
pandemic growth...

Market growth and growth polarization
by period



...with **renewed drivers of resilience**
establishing winners and losers

SO FAR...

...**TODAY**

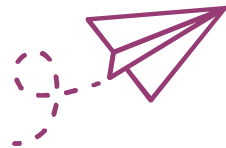
Focus on local customers everywhere	Holistic focus on consumers , regardless of origin (local AND tourists)
Exposure to Asia (China)	Balanced exposure across geographies
High-low value proposition	“High” (justified) value proposition, with elevated entry
Multi-touchpoint engagement model	Clienteling and experientiality at scale
“No matter what , but make it right ”	Push on icons , timeless and statement pieces
Insurgency as mantra	Giants (and newcomers) overperforming

How can smaller brands compete in a world of giants?

...while tooling up to sustain **long-term growth**

Be a successful **insurgent** brand

Unmissable to establish



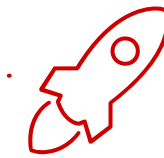
Founder's **vision**

Hero product

Avant-garde **distribution** ecosystem

Cutting-edge conversation territory and **engagement**

Upgrade to scale up



Managerialization and founder's mentality at scale

"**Beyond hero**" legitimated offering and timeless icons

Omni-relevance and **retail excellence**

Customer **obsession** across the funnel

Remain relevant in the long run



Superior **CX** through **new tech**



HR & talents of the future



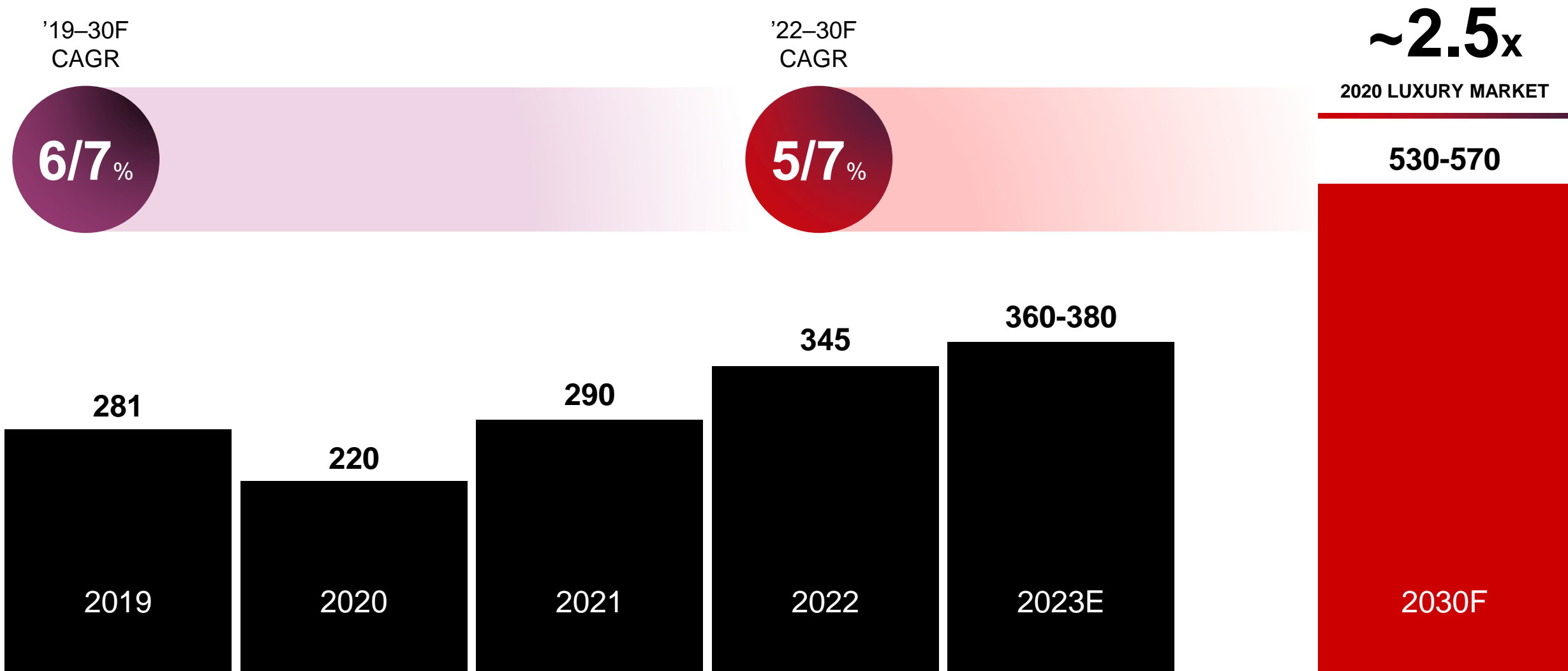
Integrated 360-degree supply chain



Brand equity and **sociocultural** relevance

After growth acceleration in 2022, and potential bumps along the route, solid fundamentals driving a brilliant midterm direction

Personal luxury goods market evolution (€B | 2019–2030F)



How to win in the Future of Luxury

...while surfing the current uncertainty

Be driven by **purpose...**

through a broader Elements of Value[®]-driven proposition and expanded brand meaning

Master the customer journey

Intercept the **winning portion of the customer base** (across generations, nationalities, income, cultures, ...) and own its luxury journey

Excel in omni-retail 3.0

Constantly evolve **solutions** to stay at the **forefront of industry** and deliver superior CX

Build new markets

Invest in **shaping the structure of emerging markets**, to build early competitive advantage and grip on local consumers

Grow beyond product trading

Develop new tech-enabled **revenue streams** and **profit pools** to complement pure product trading

... bringing **cultural avant-garde** and **insurgent excellence** to **new domains** pushing **business transformation**

Champion impact

Take a **leadership role**, to become the trailblazers for the whole fashion industry

Retool *creativity* chain

Evolve supply chain toward 360-degree integration, enhanced connection, and **consolidated resilience**

Tech up

Think, act like a digital native, and **implement with agility**

360° Localization

Adjust **value proposition** to market specificities and **optimize supply chain** accordingly

THANK YOU



Claudia D'Arpizio

Partner, Bain & Company

Leader, Global Fashion-Luxury Goods vertical



Claudia has spent almost 30 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 300 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

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For a copy of the study, please contact:

Press

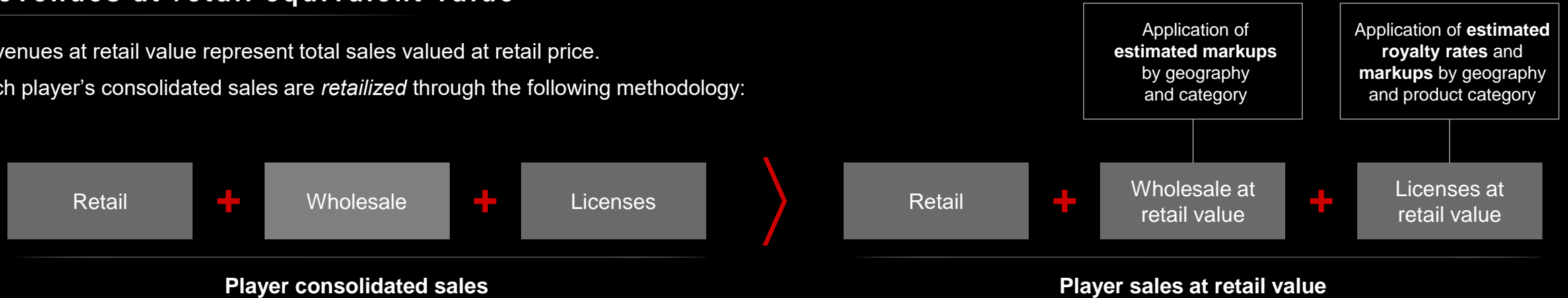
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Methodology of the study

Revenues at retail equivalent value

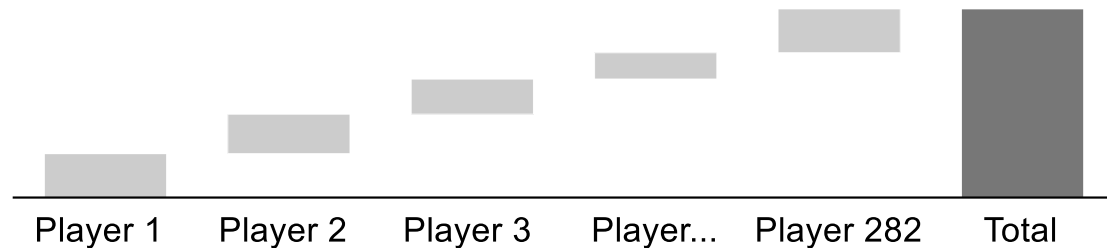
Revenues at retail value represent total sales valued at retail price.

Each player's consolidated sales are *retailized* through the following methodology:



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

...we cross-check results

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