BCG
THE BOSTON CONSULTING GROUP

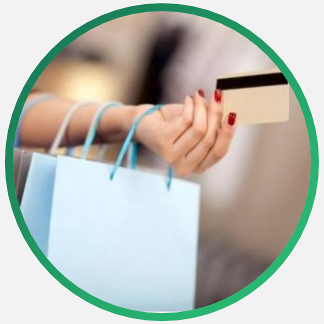
2018 True-Luxury Global Consumer Insight

5th Edition

ALTAGAMMA
CREATIVITÀ E CULTURA ITALIANA

MILANO, FEBRUARY 20TH 2018

The BCG-Altagamma True-Luxury Global Consumer insight panel in line with 2017



Third Ed. 2016	10,000+ Consumers	€21K+ Average spend	10 Largest worldwide luxury Markets
Fourth Ed. 2017	12,000+ • +1,000 in China • +1,000 in US	~€36K Average spend	=
Fifth Ed. 2018	12,000+ • +1,000 in China • +1,000 in US	~€37K Average spend	=

Source: BCG-Altagamma True-Luxury Global Consumer Insight Survey 2017 (12K + respondents in 10 countries)

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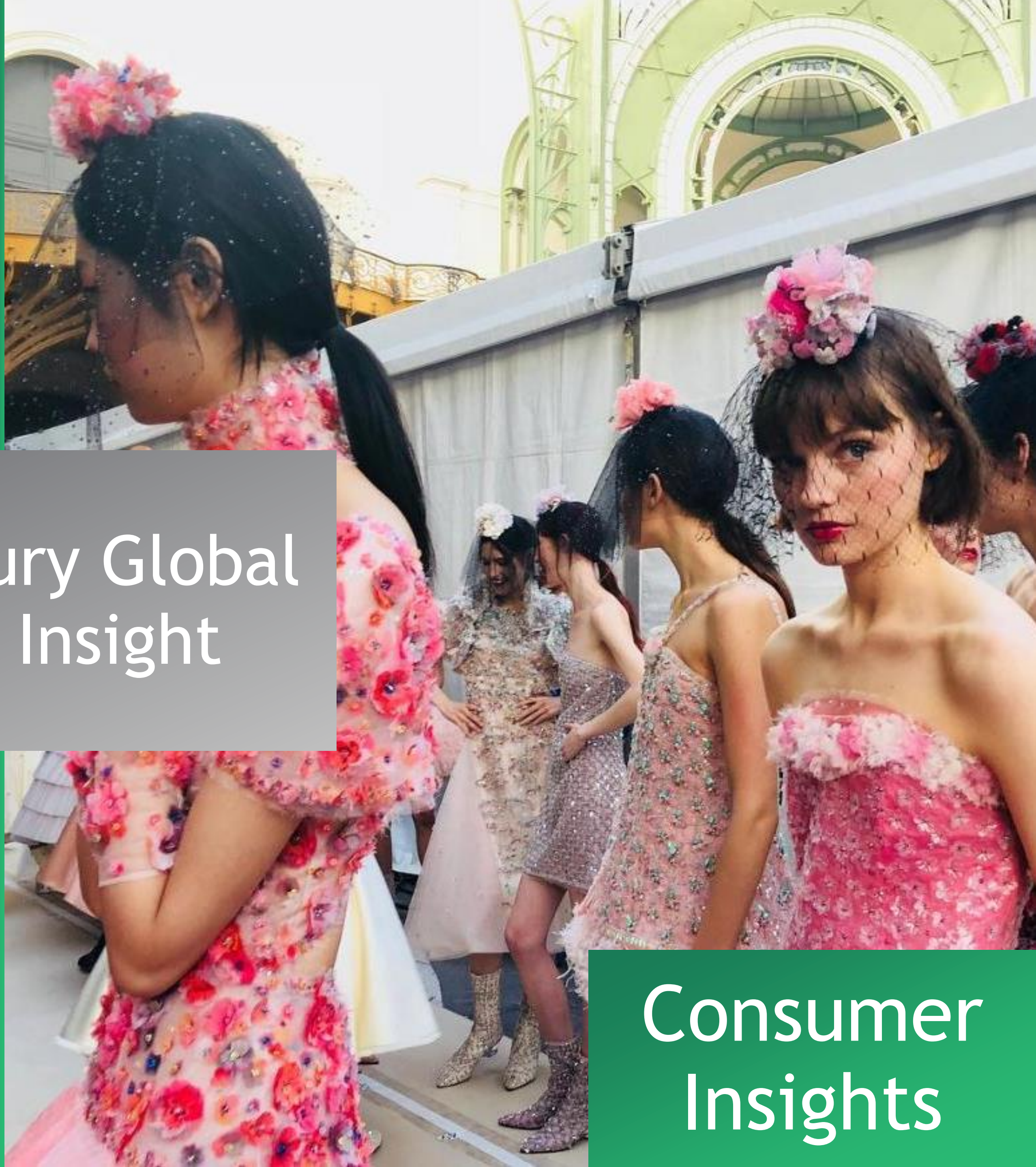
Market

True-Luxury Global Consumer Insight



Consumer Insights

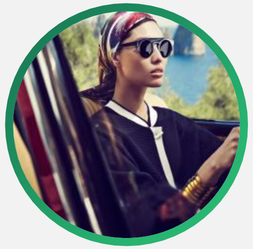
Market

True-Luxury Global Consumer Insight

Consumer Insights

5 lenses to take a closer look at the 2017 - 2024 Luxury Market

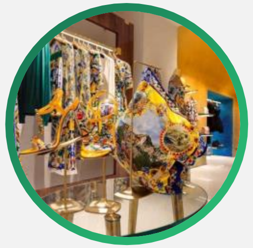
Categories: Personal growing at ~3% driven by accessories & cosmetics; Experiential 2pp faster



Generation: Millennials will grow from 29% to 50% of luxury market

Nationality: Chinese, again the driving force, up from 32% to 40% of luxury market

True-Luxury Behavioral Segments: Megacitier and Rich Upstarter key within Millennials and Chinese, Absolute Luxurer within mature markets and older consumers



Channel: Store-solo stabilizing in an Omnichannel world?

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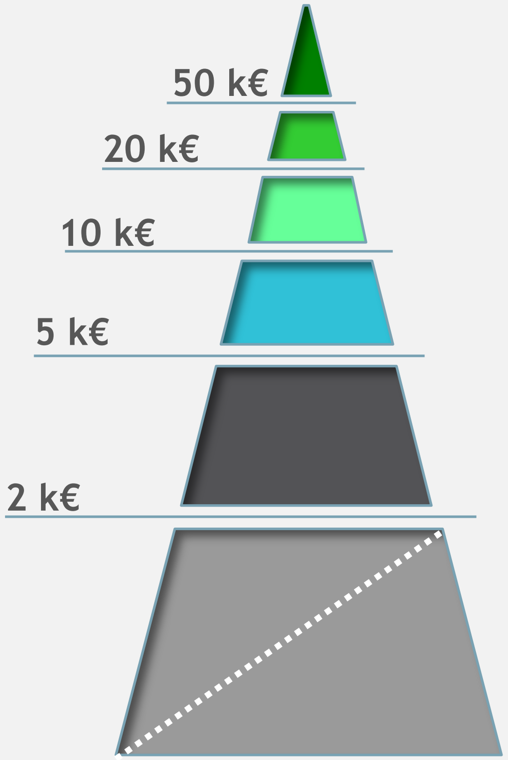
18 M True Luxury Consumers generating ~30% of global market, expected to further polarize in the next years



CLUSTER	2017		2024	
	# (M)	Bn(€)	# (M)	Bn(€)
Beyond money	0.4	22	0.6	41
Top Absolute	1.4	33	2.2	54
Absolute	4.9	98	6.5	145
Entry Absolute	11.3	115	13.9	155
Total True-Luxury	18	267 (29%)	23	395 (31%)
		+128		
Top Aspirational	21	65	28	93
Other Aspirational	375	580	445	772
		+192		
Total Luxury Consumers		~913		~1.260
		+347		

Note: Including personal and experiential luxury, excluding cars and yachts
Source: BCG Luxury Market Model

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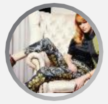
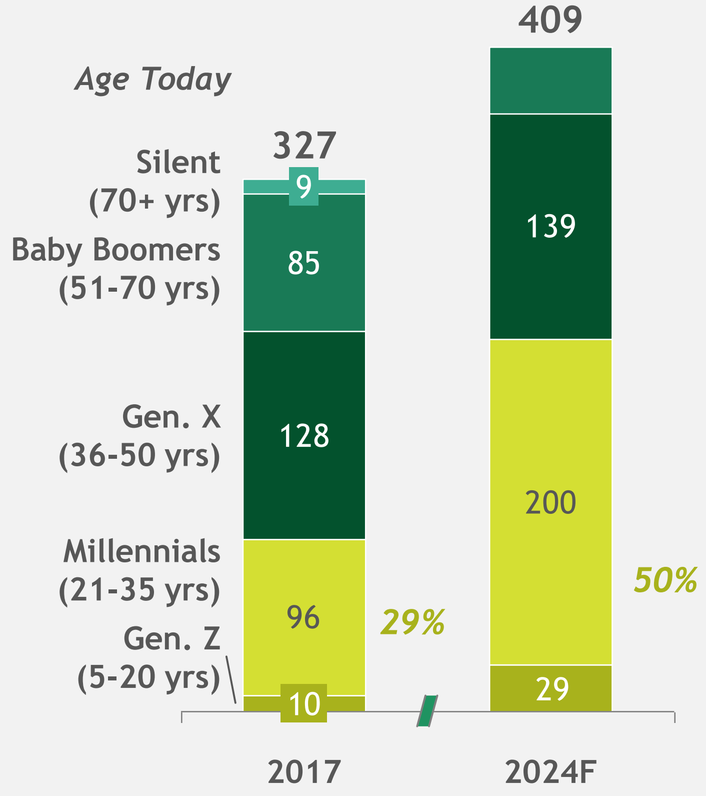
2 most relevant avenues of growth for the Personal Luxury market

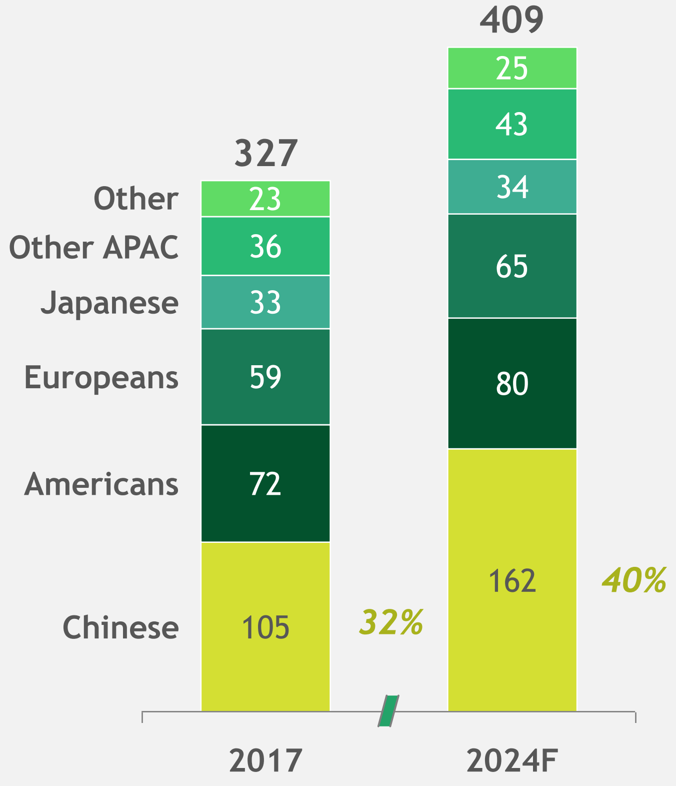


50% of the market made by Millennials by 2024



130% *Of the growth will be driven by Millennials*

40% of the market Made by Chinese by 2024



70% *Of the growth will be driven by Chinese*

Note: Relative to Personal Luxury
Source: BCG Luxury market model

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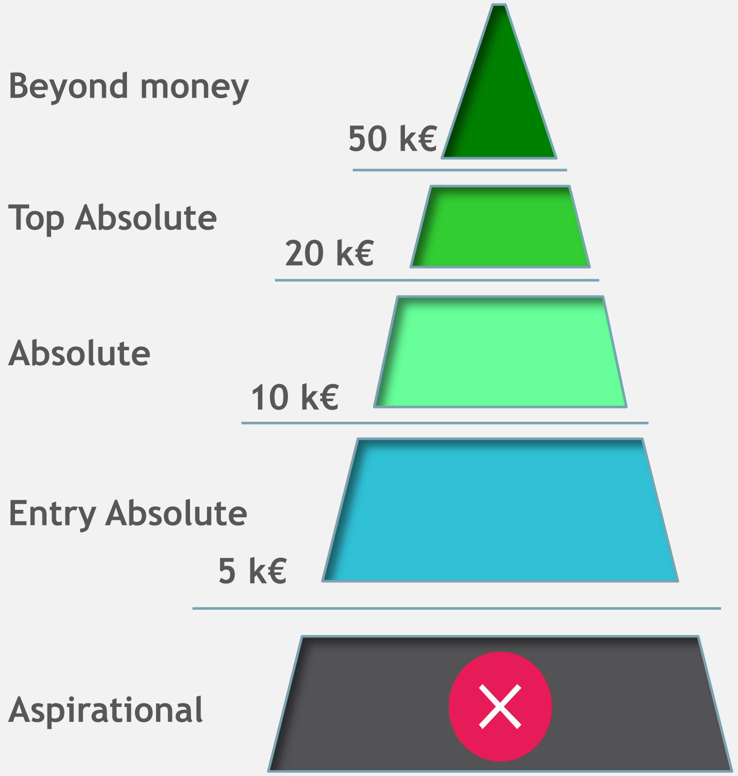
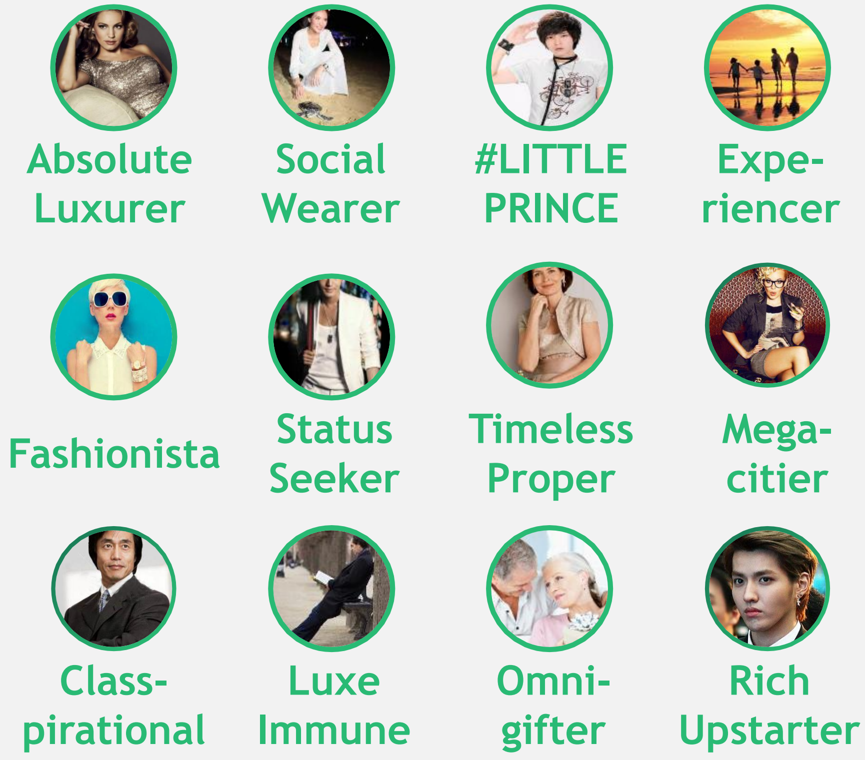
We have been exploring behavior of Luxury consumers for the last 5 years, focusing on the True-Luxury Consumers

True-Luxury Global Consumers segmentation by spending level



True-Luxury Global Consumers Behavioral segmentation



Source: BCG-Altagamma True-Luxury Global Consumer Insight Survey 2017 (12K + respondents in 10 countries)

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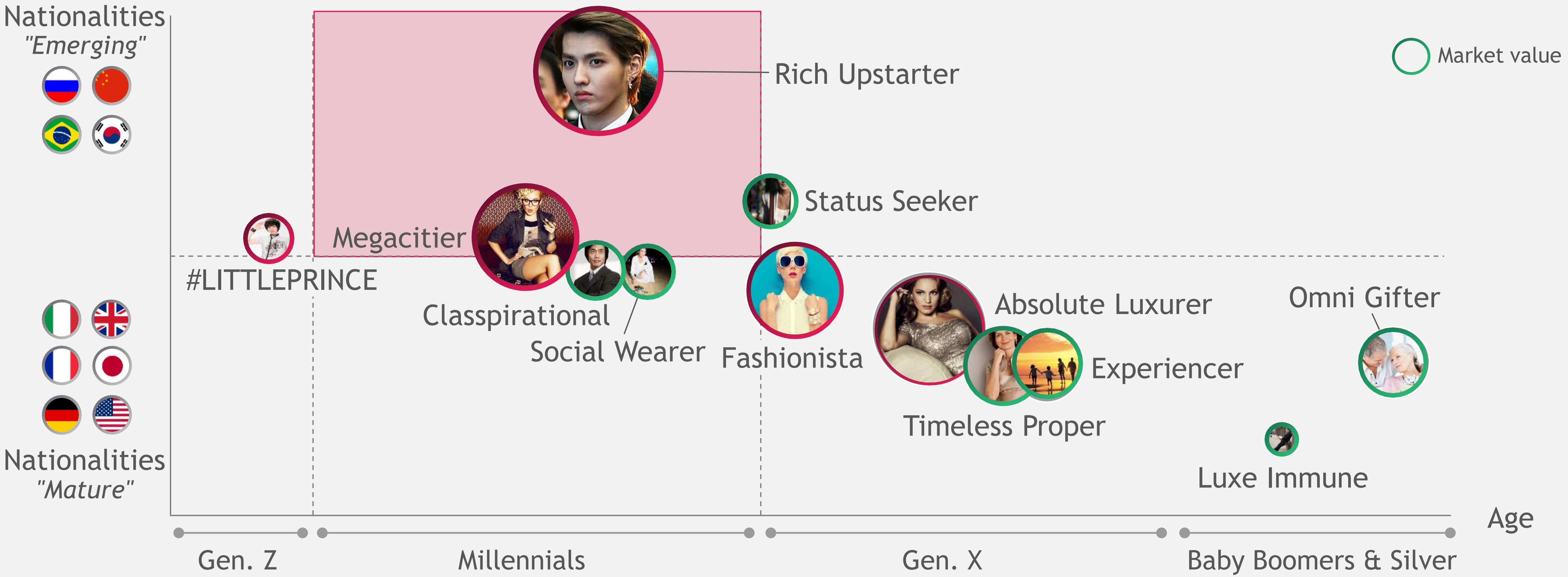
Along 2 main avenues of growth, Megacitier & Rich Upstarter; Absolute Luxurer key in mature markets & older



Brands will win if they will understand in depth stronger & growing behavioral segments: why they buy, what they like, where they buy, where and how they get influenced...

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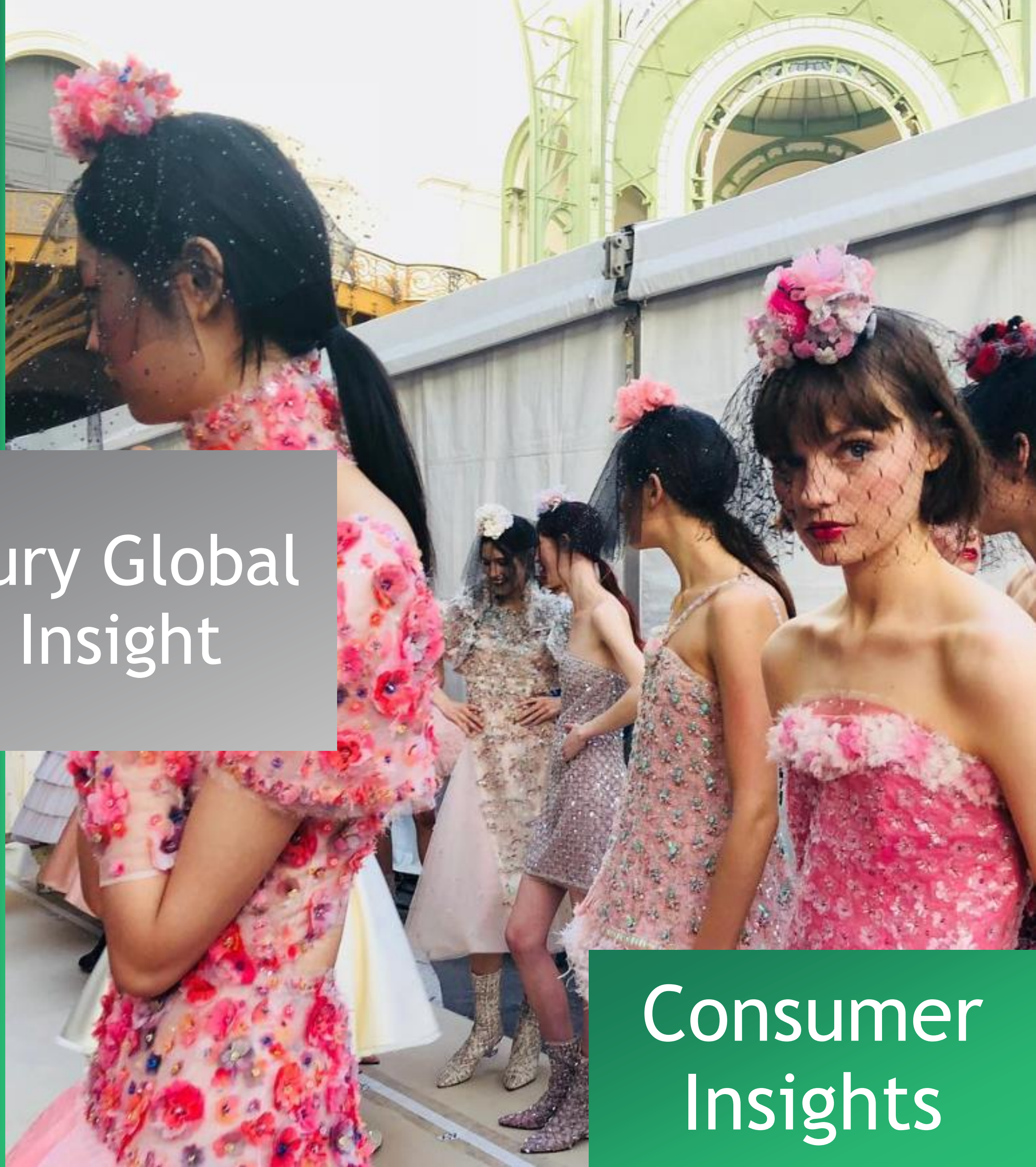
Market

True-Luxury Global Consumer Insight



Consumer Insights

10 trends relevant for the True-Luxury Consumers

Product & Branding
"What they want"

1. **Luxury casualwear:** keeps increasing vs formal with 73% appeal, +7pp YoY, also driven by "forever young" behaviors
2. **Luxury product values:** traditional values as quality hold but new values as "extravagance & fun" key to success
3. **Collaborations:** cover demand for newness, give a cool edge, strengthen brand awareness & willingness to buy
4. **Mix and match:** ~55% Millennials partially shift from luxury brands to trade down or mix styles buying niche brands
5. **Brand loyalty:** Millennials the generation with highest brand loyalty across categories - 36% are loyal vs. 30% overall

Communication & Media
"How to reach them"

6. **Social media:** social media keep booming - from 9th in 2013 to 1st lever in 2017 on True-Luxury consumers
7. **Influencers:** within social media, influencer power booming because of perceived authenticity

Sales Channels
"Where they buy"

8. **Omnichannel:** achieved ~50%. Online-solo keeps growing with older consumers. Store-solo shows signs of recovery
9. **Online ecosystem:** evolving with regional differences (brand.com vs multi-brand vs generalist marketplaces shares)
10. **Mono-brand stores:** stabilizing due to luxury brands' efforts –"Special product" offer, in-store experience improvement

Source: BCG-Altagamma True-Luxury Global Consumer Insight Survey 2017 (12K + respondents in 10 countries)

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For Millennials particularly relevant "What they want"; for Chinese "Where they buy and how to reach them"

Product & Branding
"What they want"

1. Luxury casualwear
2. Luxury product values
3. Collaborations
4. Mix and Match
5. Brand loyalty

Communication & Media
"How to reach them"

6. Social Media
7. Influencers

Sales Channels
"Where they buy"

8. Omnichannel
9. Online ecosystem
10. Mono-brand stores

1 True Luxury Consumers Global market trends

2 Focus: Millennials

3 Focus: Chinese

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Product
& Branding
"What they want"

Communication
& Media
"How to reach them"

Sales
Channels
"Where they buy"

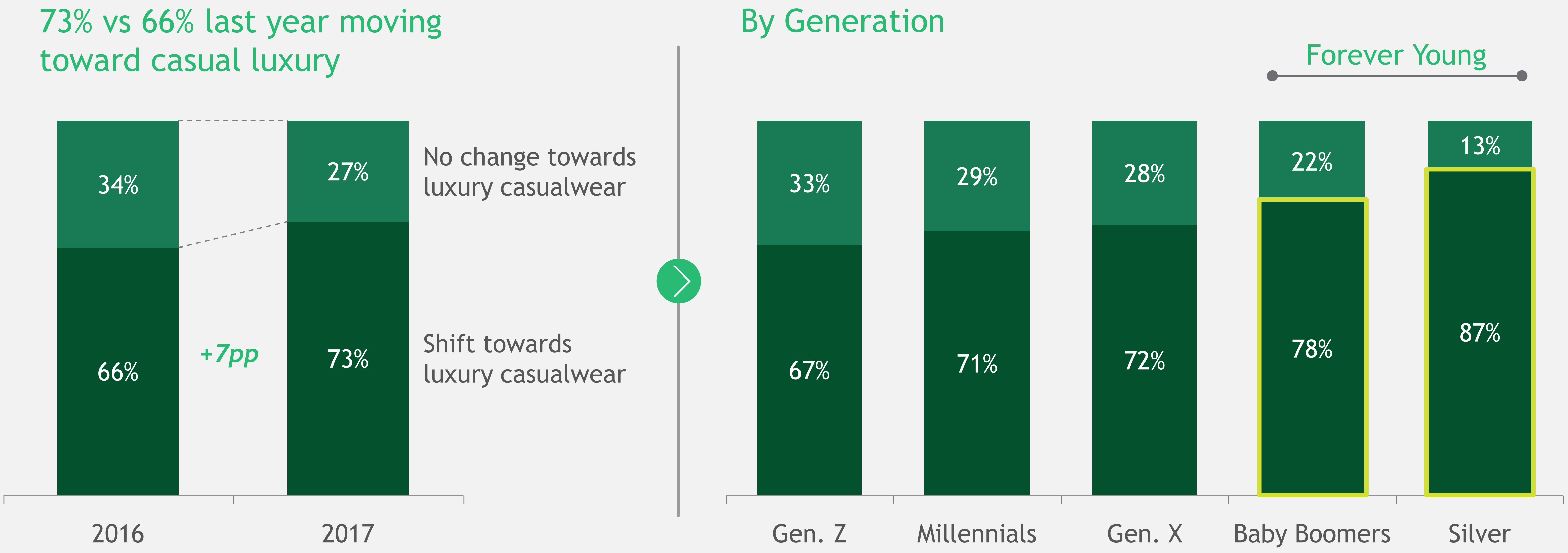
1

True Luxury Consumers Global market trends

2 **Focus: Millennials**

3 **Focus: Chinese**

Luxury casualwear confirmed as a major trend, especially for 'Forever Young' generations



Source: BCG-Altagamma True-Luxury Global Consumer Insight Survey 2017 (12K + respondents in 10 countries)

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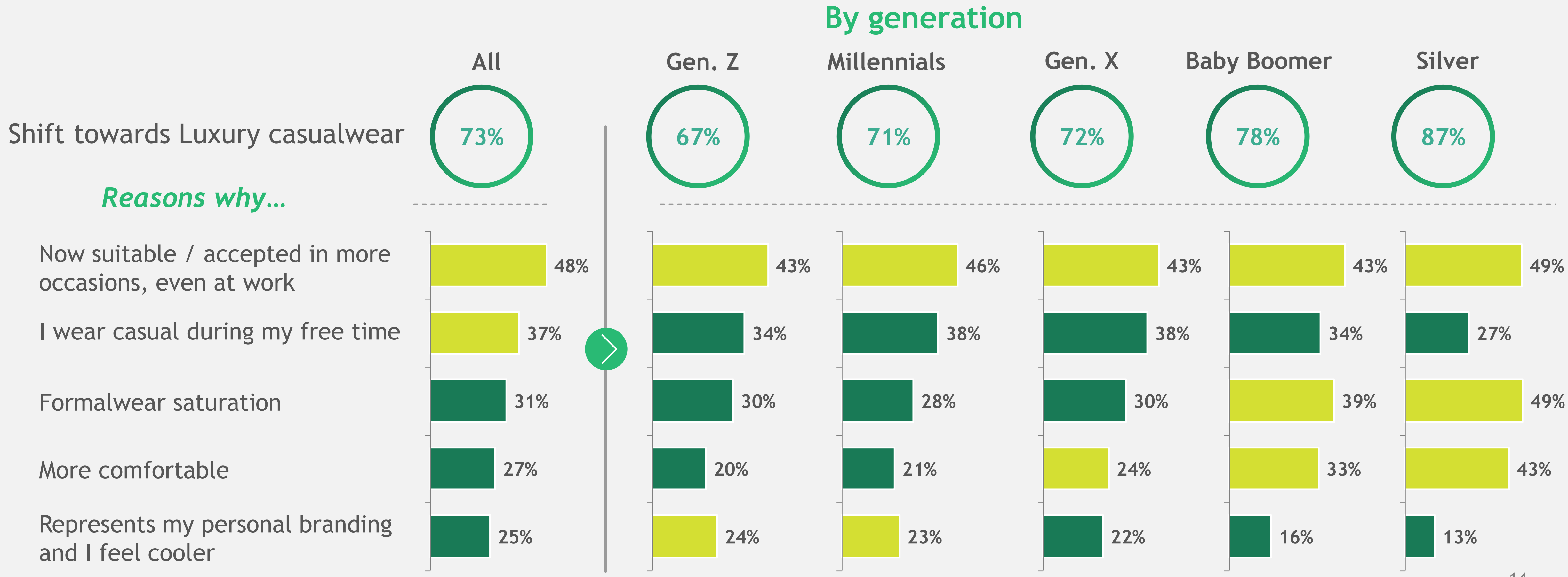
Luxury casualwear the "new normal": driven by formal saturation & comfort for older, by coolness for young

"Thinking about formalwear / casualwear which of the following statements best apply to you?"



Source: BCG-Altagamma True-Luxury Global Consumer Insight Survey 2017 (12K + respondents in 10 countries)

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Among top 5 future luxury spending categories True-Luxury Consumers do see 3 casual oriented ones

? *In which categories will your spending on luxury goods be affected the most and in which direction?*

Index: % People expecting to increase spending - % of people expecting to decrease spending in that category

	Balanced Casual & Formal		***Biased to Casual***		
					
	Pants & Skirts	***Shirts***	***Sneakers***	***T-Shirt***	***Jeans***
Overall True-Luxury consumers expected spending increase	+39%	+38%	+37%	+35%	+34%

Top 5 categories

Source: BCG-Altagamma True-Luxury Global Consumer Insight Survey 2017 (12K + respondents in 10 countries)

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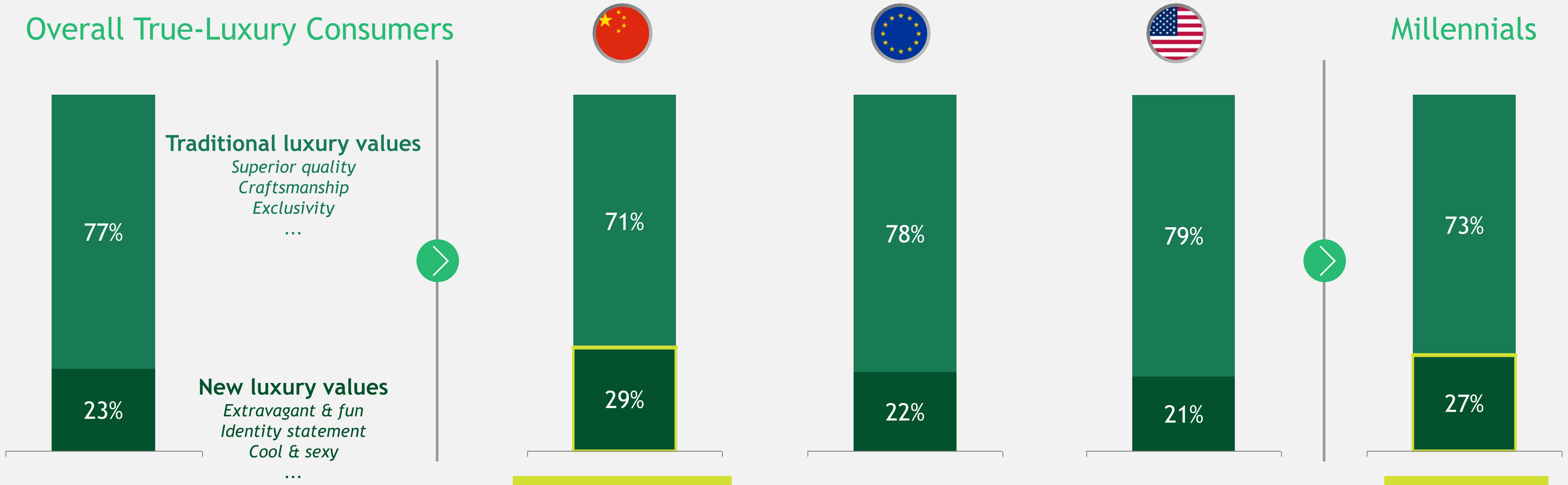
Traditional luxury values still predominant, however new values key for success amongst Chinese & Millennials



Highest positive difference vs. overall	Extravagant & fun An identity statement	Craftsmanship Heritage	Timeless Craftsmanship	Cool & sexy Innovation
Highest negative difference vs overall	Exclusivity Adorned aesthetics	Brand iconic patterns Extravagant & fun	Adorned aesthetics Exclusivity	Craftsmanship Superior quality

Source: BCG-Altagamma True-Luxury Global Consumer Insight Survey 2017 (12K + respondents in 10 countries)

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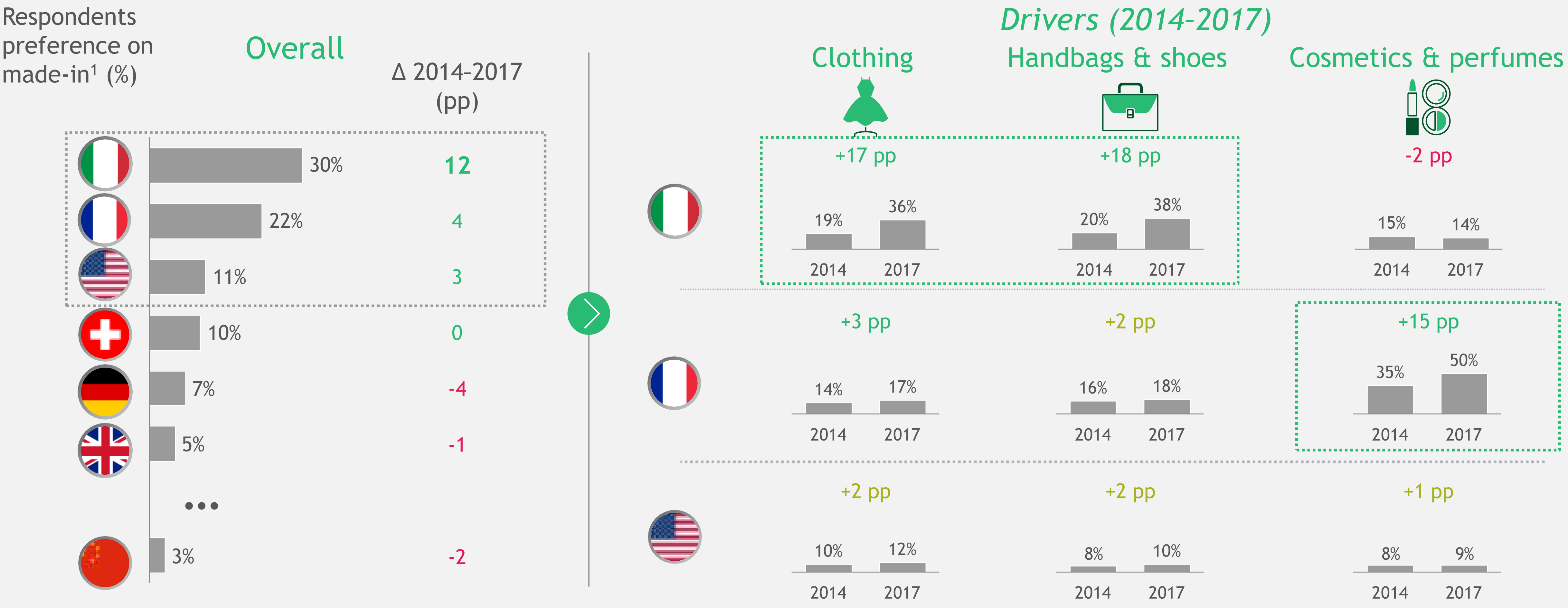
Made-in Italy still leading, fueled by apparel, handbags and shoes

"Which country of manufacturing do you consider the best for luxury products?"



1. Excluding cars, luxury boats, design and lighting
Source: BCG-Altagamma True-Luxury Global Consumer Insight Survey 2017 (12K + respondents in 10 countries)

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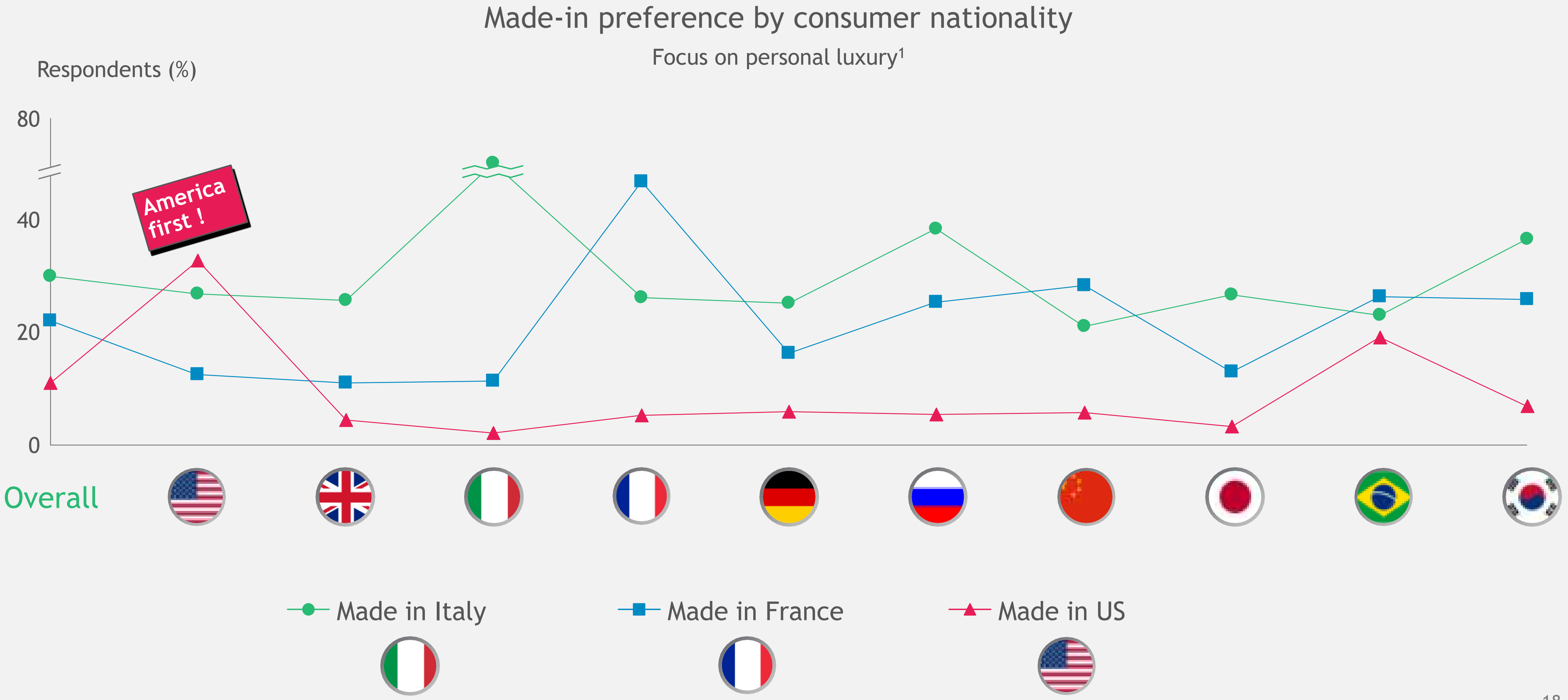
Made-in Italy recognized worldwide, however Made-in France preferred in China, Brazil & France



1. Excluding cars, luxury boats, design and lighting

Source: BCG-Altagamma True-Luxury Global Consumer Insight Survey 2017 (12K + respondents in 10 countries)

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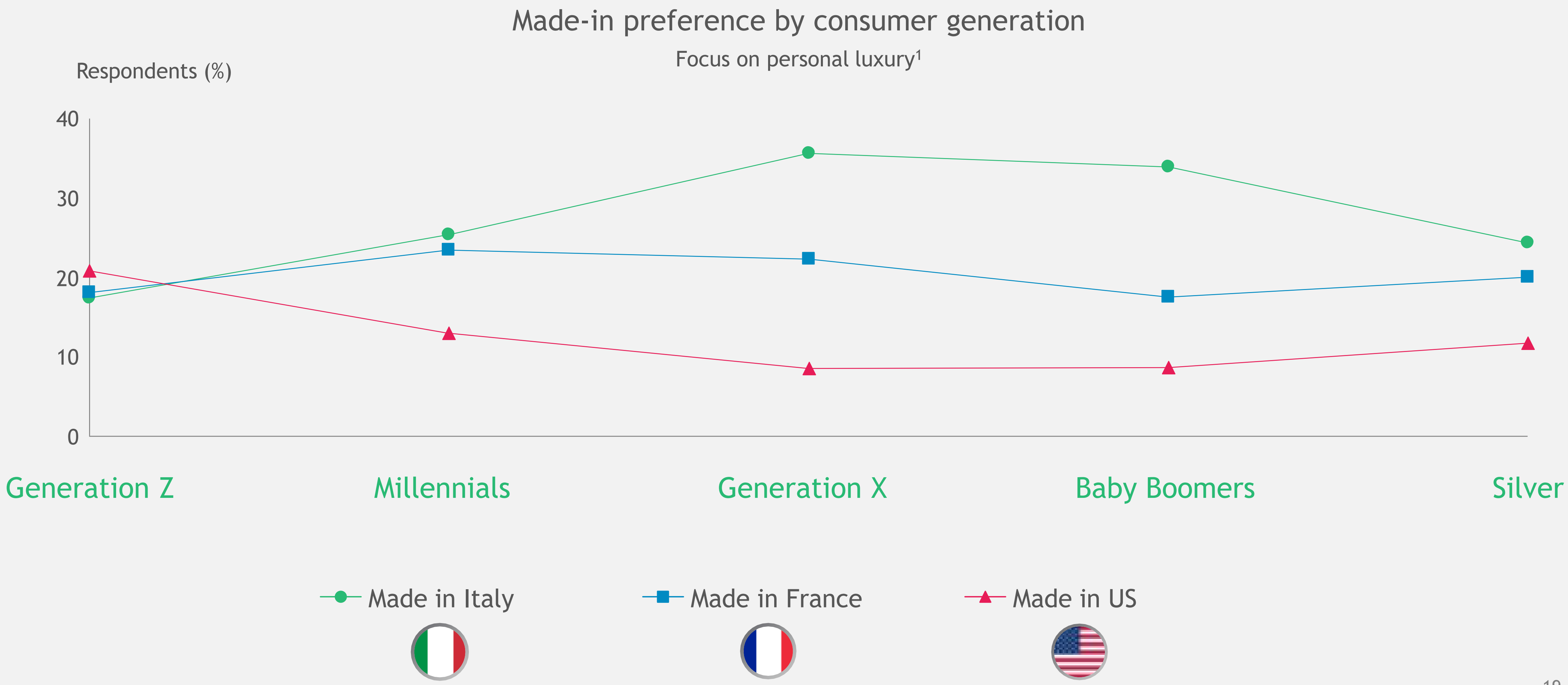
Made-in Italy preferred amongst Gen X & Baby Boomers, Made-in France much closer amongst youngers



1. Excluding cars, luxury boats, design and lighting

Source: BCG-Altagamma True-Luxury Global Consumer Insight Survey 2017 (12K + respondents in 10 countries)

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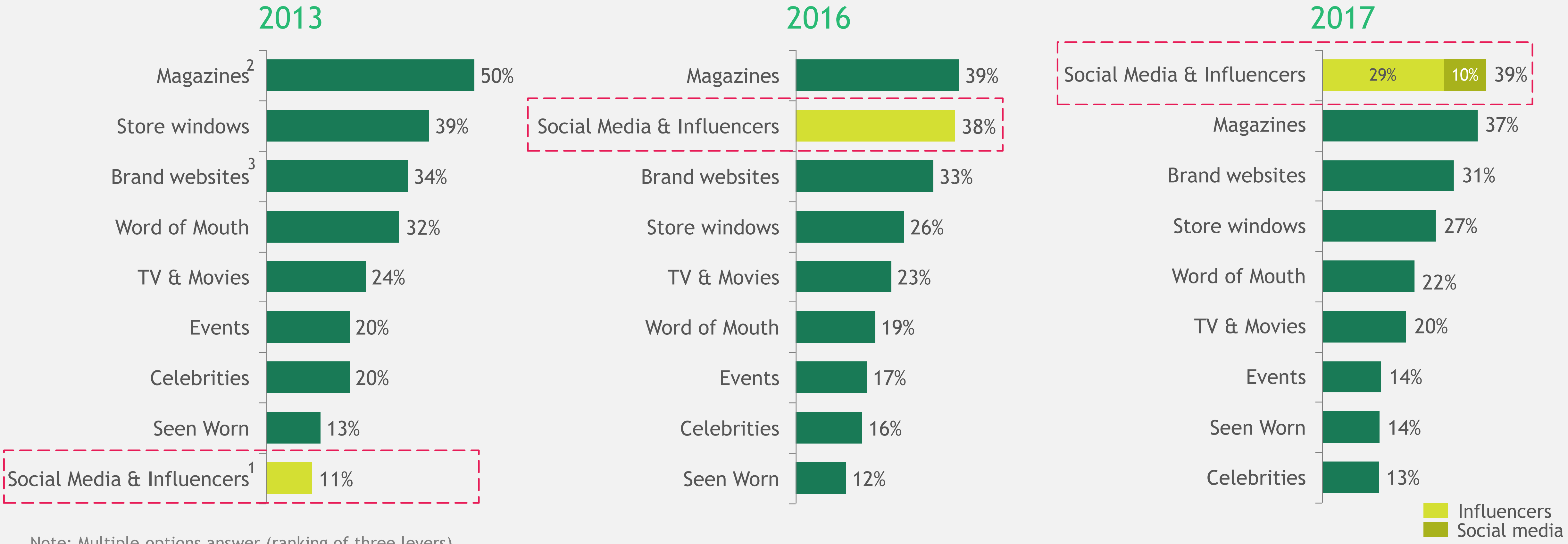
Social Media rank as 1st influence lever on True-Luxury Consumers, +29pp vs 2013 and +1pp vs 2016

? *"Which of the following online sources of information / channels impact how you develop opinions or make decisions about luxury purchases?"*



Note: Multiple options answer (ranking of three levers)
1. Includes Social Media, Online blogs & Influencers; 2. Editorials and Commercial in Magazines. Includes both traditional & digital magazines; 3. Includes also Brand's App
Source: BCG-Altagamma True-Luxury Global Consumer Insight Survey 2017 (12K + respondents in 10 countries)

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Instagram gaining space vs. Facebook and Youtube in the West; Wechat, Weibo and QQ leading among Chinese

?

How would you rank the social media you use when interacting with luxury brands, fashion bloggers?

Western world[1]

Rank	Social media	2017	Vs. 2016
1	facebook	65%	↓
2	Instagram	53%	↑
3	YouTube	48%	↓

Chinese world

Rank	Social media	2017	Vs. 2016
1	Tencent - Wechat	70%	=
2	Weibo	55%	=
3	Tencent - QQ	40%	↓

1. Includes: US, UK, Italy, France, Germany and Brazil
Source: BCG-Altagamma True-Luxury Global Consumer Insight Survey 2017 (12K + respondents in 10 countries)

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Who is your favorite Influencer

?

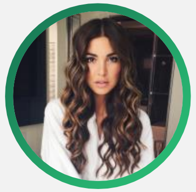
West


Chiara Ferragni


Danielle Bernstein


Aimee Song


Sincerely Jules


Negin Mirsalehi

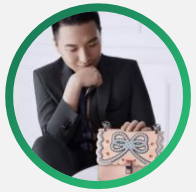
China


Gogoboi


Aimee Song


Chiara Ferragni


Becky's Fantasy


Mr. Bags

The power of influencers does not lie in their follower count, but in their ability to influence through perceived authenticity, a unique point of view and storytelling

Will Influencer-led content creation and power represent a challenge for luxury brands?

Source: BCG-Altagamma True-Luxury Global Consumer Insight Survey 2017 (12K + respondents in 10 countries); BCG Analysis

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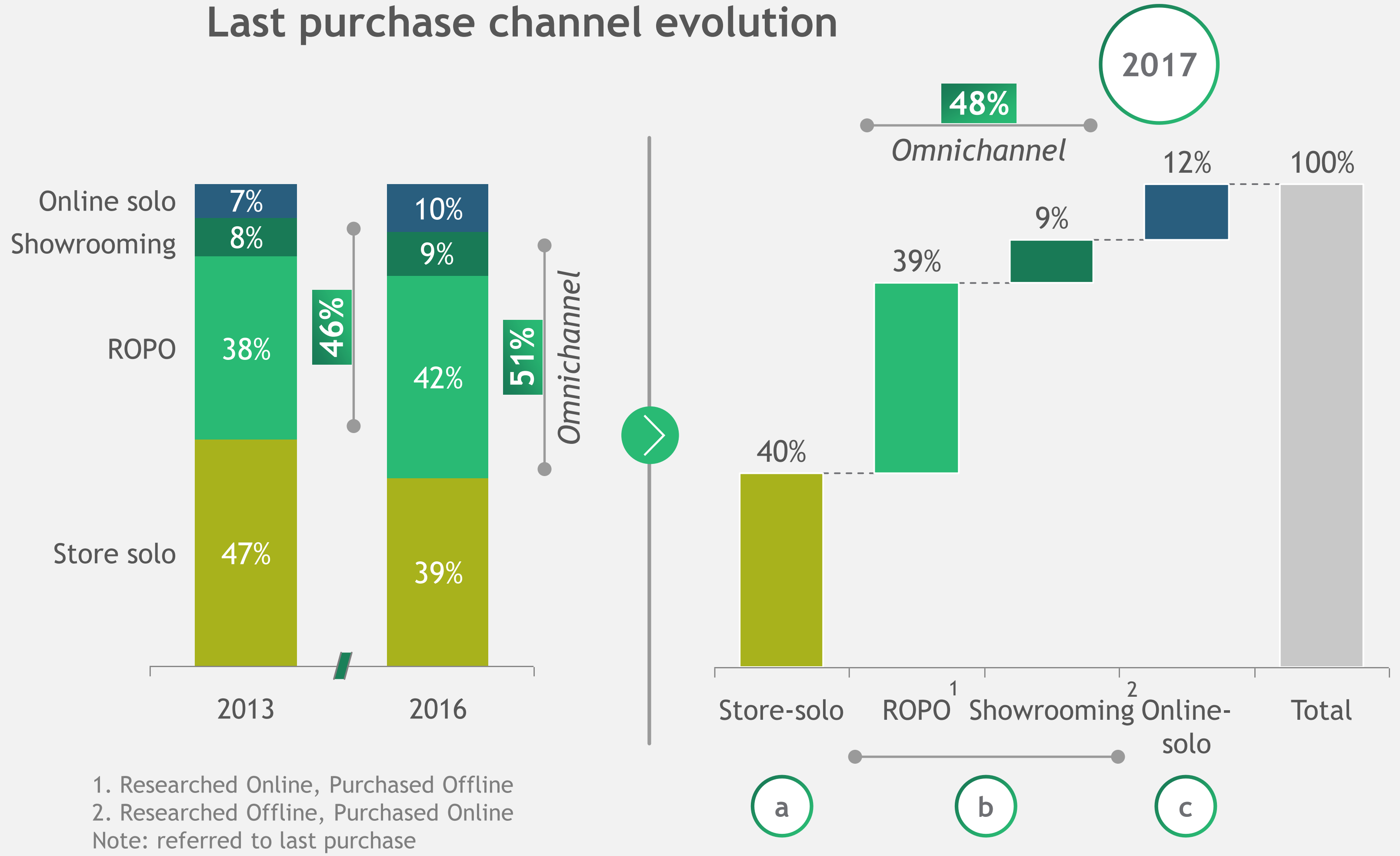
Omnichannel stabilizing, Online-solo up with senior, signs of store recovery

Last purchase channel evolution



1. Researched Online, Purchased Offline
2. Researched Offline, Purchased Online

Note: referred to last purchase

Source: BCG-Altagamma True-Luxury Global Consumer Insight Survey 2017 (12K + respondents in 10 countries)

- **a** Signs of Store-solo stabilization driven by US True Luxury Consumers & younger generations
- **b** Omnichannel stabilizing for the 1st year, however future growth expected to come from Millennials 'Omni' attitude
- **c** Online-solo continues to grow driven mainly by older generations in mature countries

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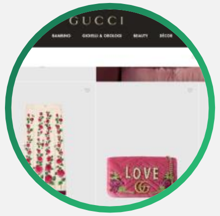
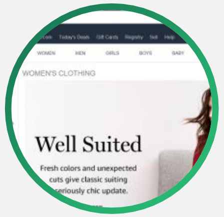
3 channels dominate True-Luxury online ecosystem, counting for ~90%

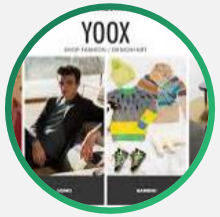


33%
Mono-brand website
(e.g. Brand.com)

32%
Full price multi-brand
(e.g. NAP, Farfetch)



23%
Generalist marketplaces
(e.g. Amazon, T-mall, Alibaba, JD)



6%
Off price e-tailers
(e.g Yoox)

4%
Online flash sales
(e.g. Ventee Privee, VIP)

2%
Social Media linked sales
(e.g. WeChat, C2C)

Note: referred to last purchase
Source: BCG-Altagamma True-Luxury Global Consumer Insight Survey 2017 (12K + respondents in 10 countries)

Luxury online ecosystem dominated by Mono-brand online, Full price multi-brand & Generalist marketplaces (~90% of the last purchases online)

Mono-brand online preferred in mature markets & by older generations, Generalist strong in China and Multi-brand amongst Millennials

Online ecosystem varies broadly across luxury categories

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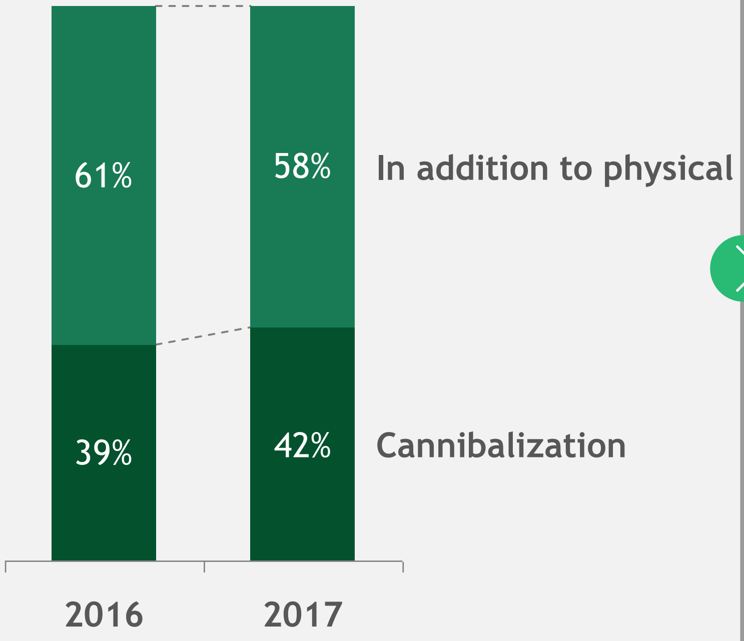
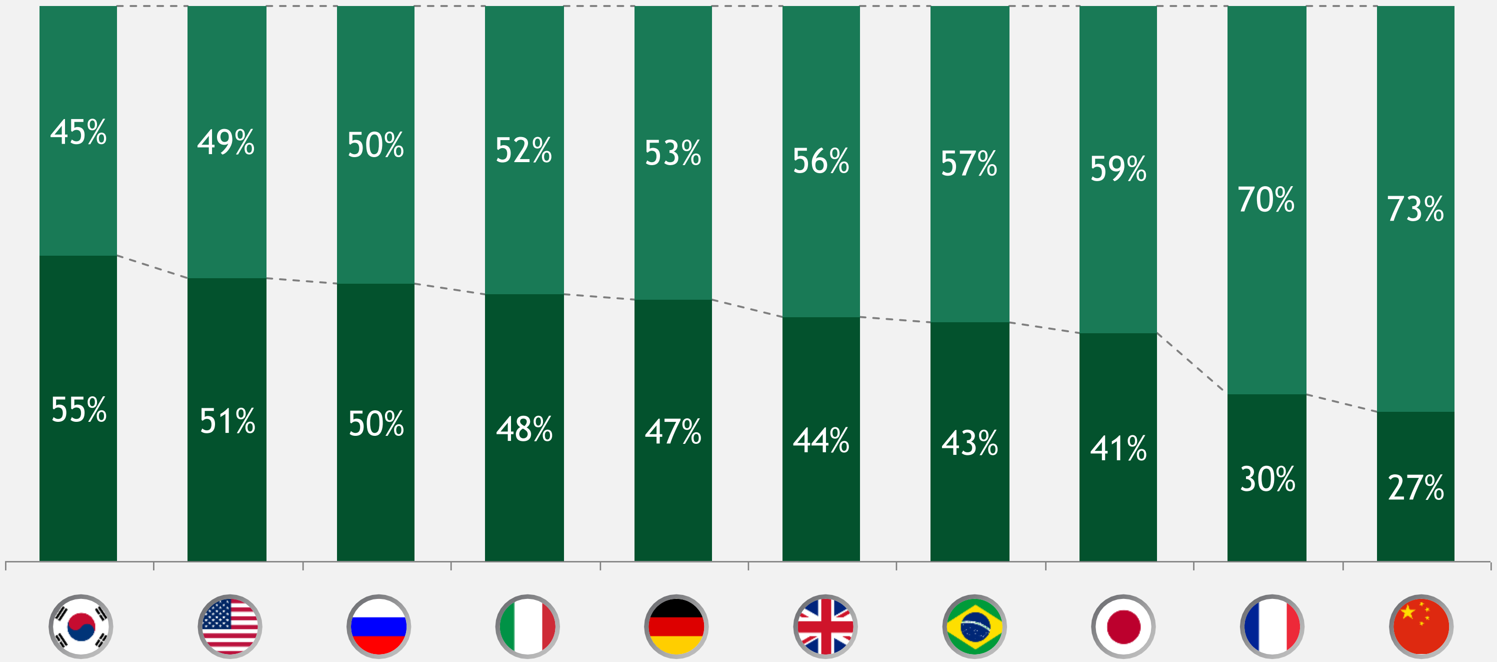
~60% of purchases perceived to be additional to physical retail purchases; peak in China at ~70%

? *"Do you have the feeling that your spending online is in addition to or cannibalizing your luxury spending in physical stores?"*

True-Luxury Global Consumers



By nationality



Source: BCG-Altagamma True-Luxury Global Consumer Insight Survey 2017 (12K + respondents in 10 countries)

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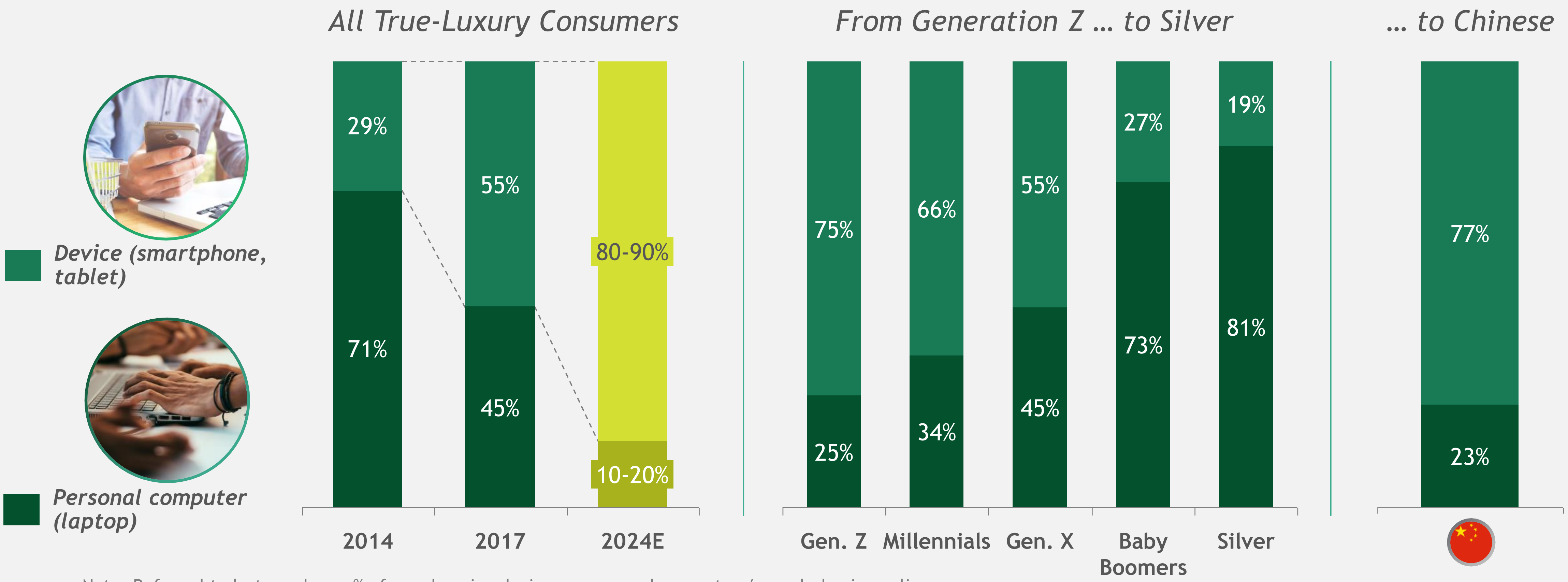
Mobile prevailing over PC for online shopping, driven by Chinese and youth; further increases expected

? *"Which device did you use to buy this item online?"*



Note: Referred to last purchase; % of people using device vs. personal computer / people buying online
Source: BCG-Altagamma True-Luxury Global Consumer Insight Survey 2017 (12K + respondents in 10 countries)

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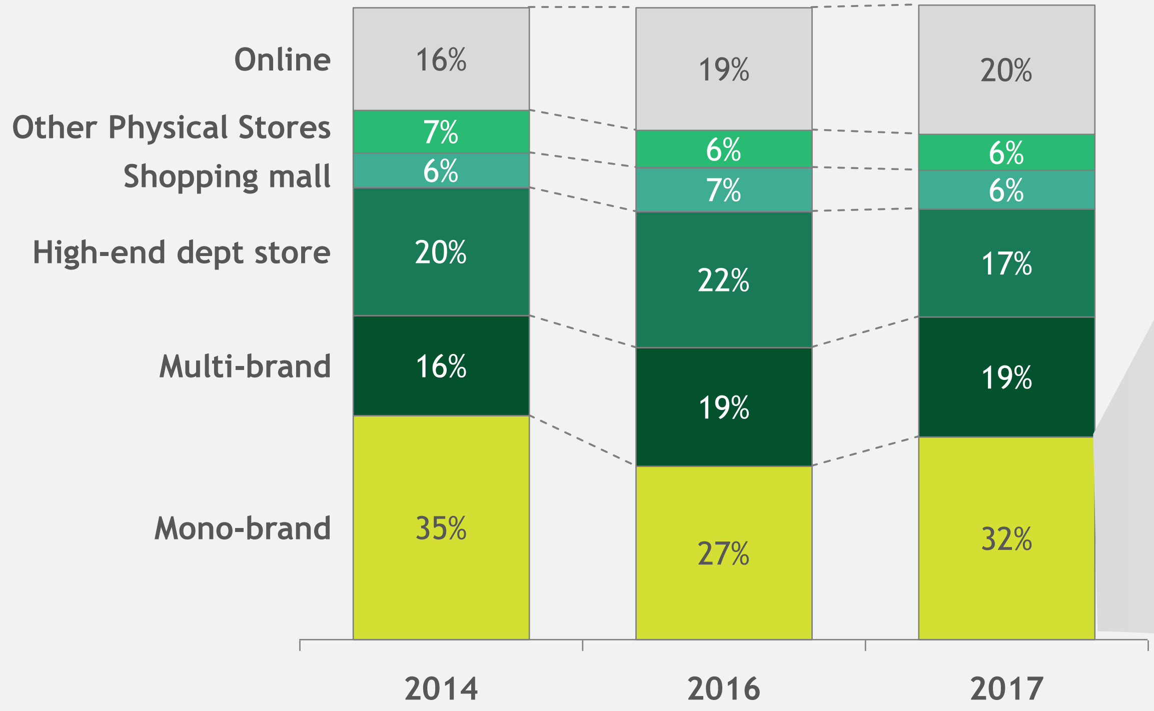
Mono-brand still the most used channel by True-Luxury Consumers, gaining back some ground vs Dept. Stores

? *"Which kind of store did you buy the product from?"*

True-Luxury Global Consumers



Reasons to purchase in mono-brand stores

Note: Referred to last purchase
Source: BCG-Altagamma True-Luxury Global Consumer Insight Survey 2017 (12K + respondents in 10 countries)

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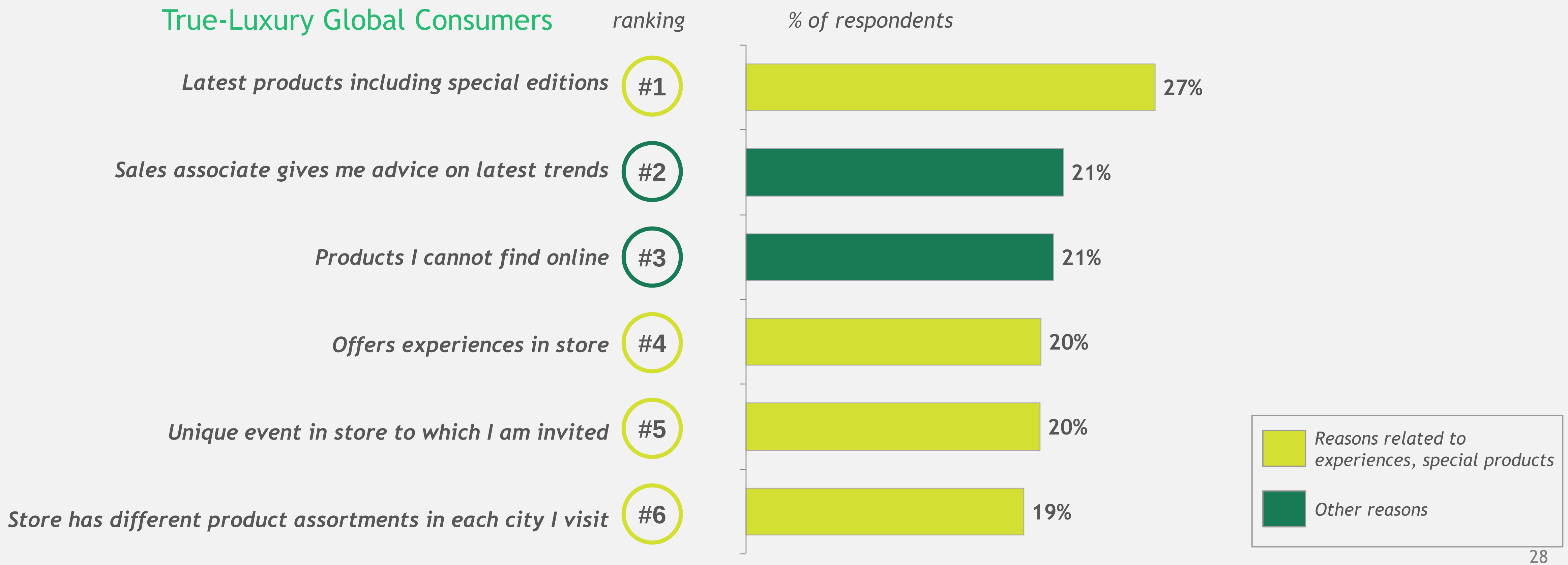
Brands efforts to offer special editions & new experiences in store drive consumers to increase visits to mono-brands

?

Which are the reasons for which you are and would purchase more frequently in a mono-brand physical store?



Source: BCG-Altagamma True-Luxury Global Consumer Insight Survey 2017 (12K + respondents in 10 countries)

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Product
& Branding
"What they want"

Communication
& Media
"How to reach them"

Sales
Channels
"Where they buy"

1

True Luxury Consumers Global market trends

2 Focus: Millennials

3 Focus: Chinese

4 segments count for~70% of Millennials True-Luxury spend: focus & deep understanding will allow Brands to win

Rich Upstarter

"Luxury I am coming"

The new massive affluent class, from emerging countries

Megacitier

"World is my city. The city is my world"

Megacitiers have an international imprinting

#LITTLEPRINCE

"Luxury is my fun"

Young and rich, luxury is "natural" to them

Absolute Luxurer

"Luxury is my commodity"

The "true" high spending Luxury Consumer

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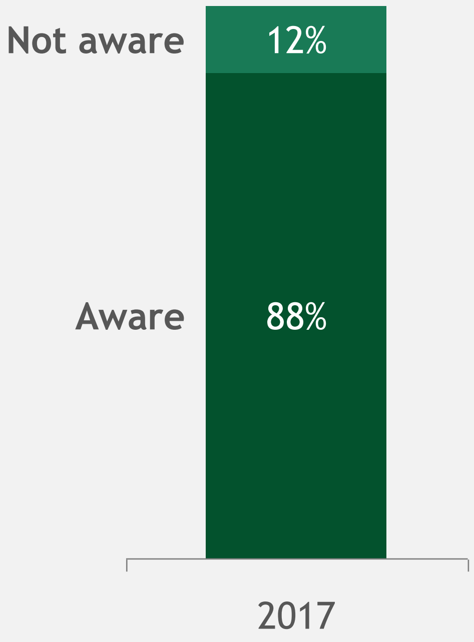
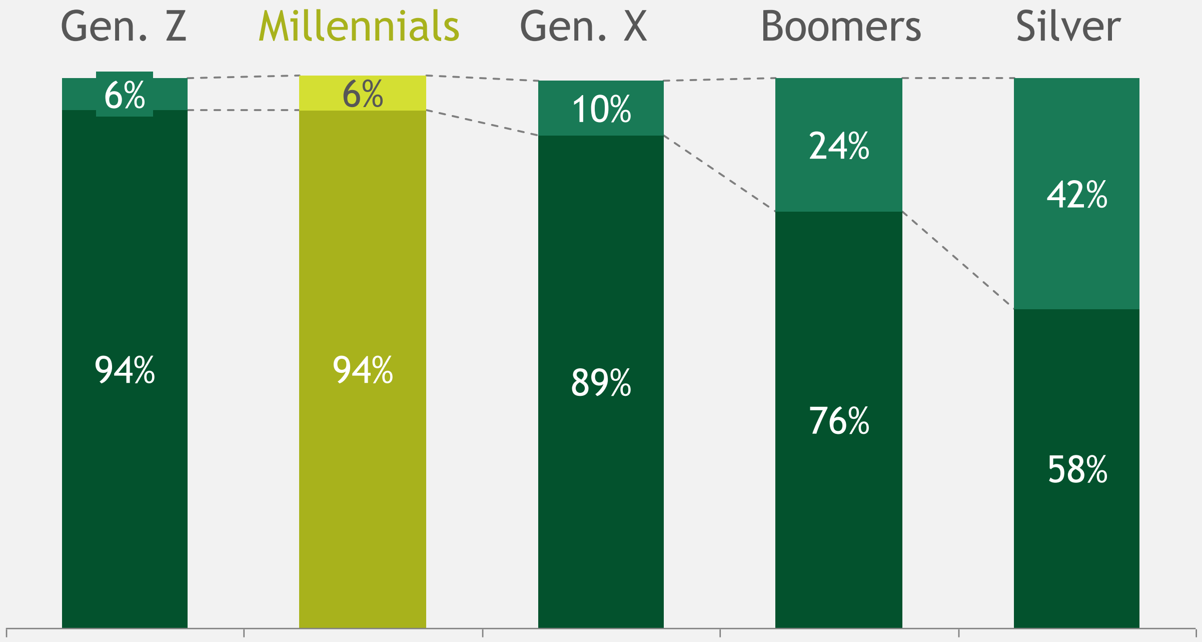
88% of True-Luxury Consumers aware of collaborations, Generation Z and Millennials reaching ~94%

88% are aware of collaborations



By Generation



Source: BCG-Altagamma True-Luxury Global Consumer Insight Survey 2017 (12K + respondents in 10 countries)

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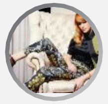
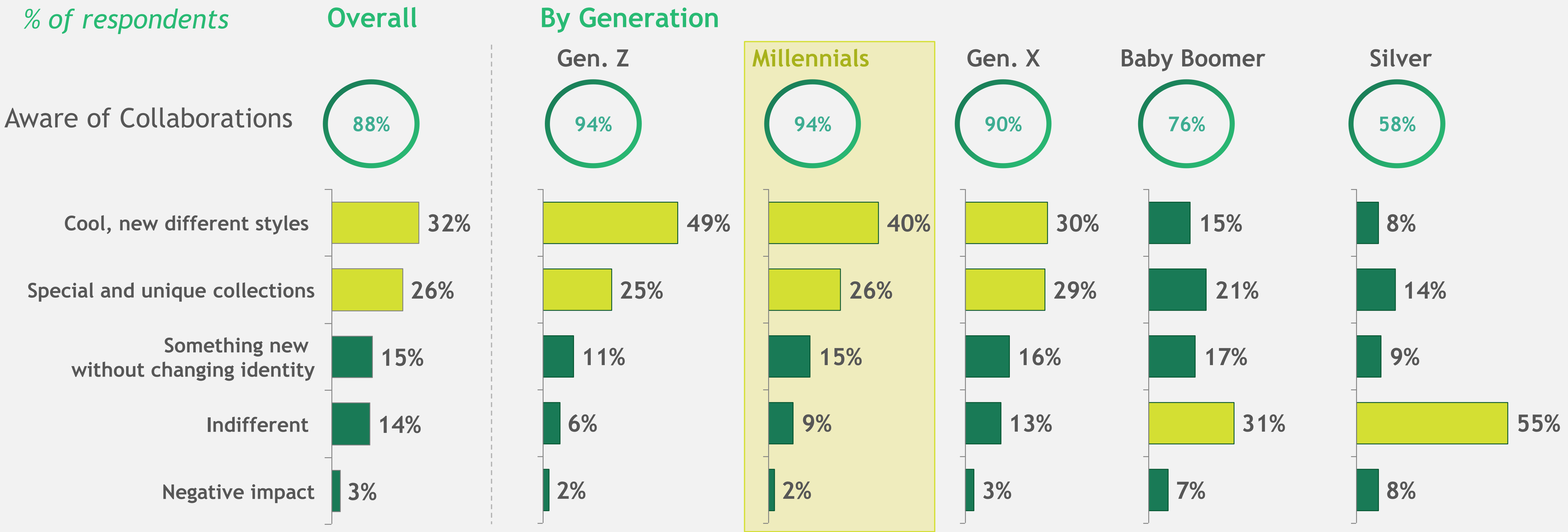


Collaborations with streetwear & artists have a positive impact on young generations and no impact on older ones

?

"Thinking about special editions realized in collaboration with different brands / artists, which of the following statements best applies to you?"



Note: Selected most important answers
Source: BCG-Altagamma True-Luxury Global Consumer Insight Survey 2017 (12K + respondents in 10 countries)

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Additionally, collaborations have a positive impact on the willingness to buy for ~55% of True-Luxury Consumers

? *What is the impact of collaborations in your willingness to buy from the brand?*

	Overall	Gen. Z	Millennials	Gen. X	Baby Boomer	Silver
Willingness to buy Index[1]	55%	61%	62%	57%	32%	12%
Increase in my willingness to buy the main collection	33%	37%	35%	34%	24%	23%
Increase in my willingness to buy the collaboration collection	34%	33%	36%	35%	28%	13%
Decrease in willingness to buy from the brand	12%	9%	9%	11%	20%	24%

1. % "Positive influence on my willingness to buy repeatedly from the collaboration's collection" + %"Positive influence on my willingness to buy from the brand's main collection" - %"Negative impact on long-term customers like myself: I do not recognize the brand or want to buy from it anymore"
Note: Selected most important answers
Source: BCG-Altagamma True-Luxury Global Consumer Insight Survey 2017 (12K + respondents in 10 countries)

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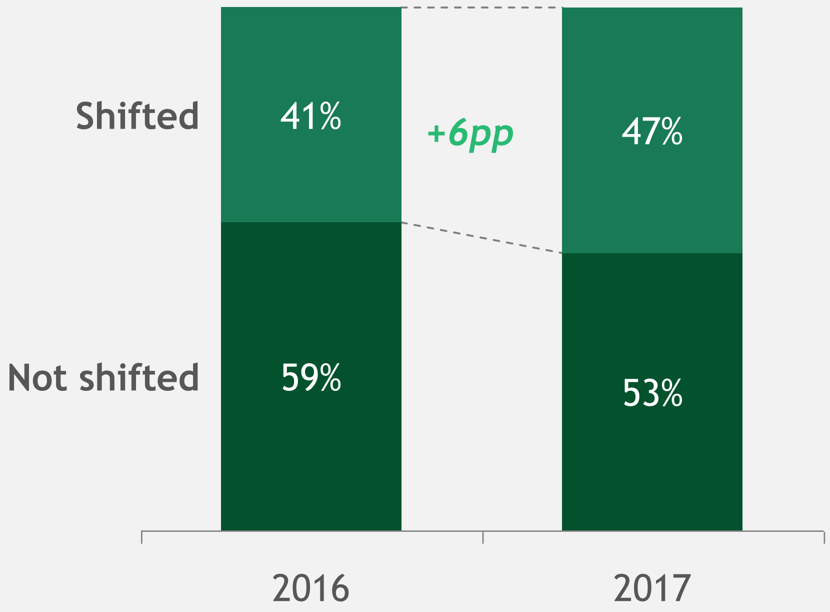
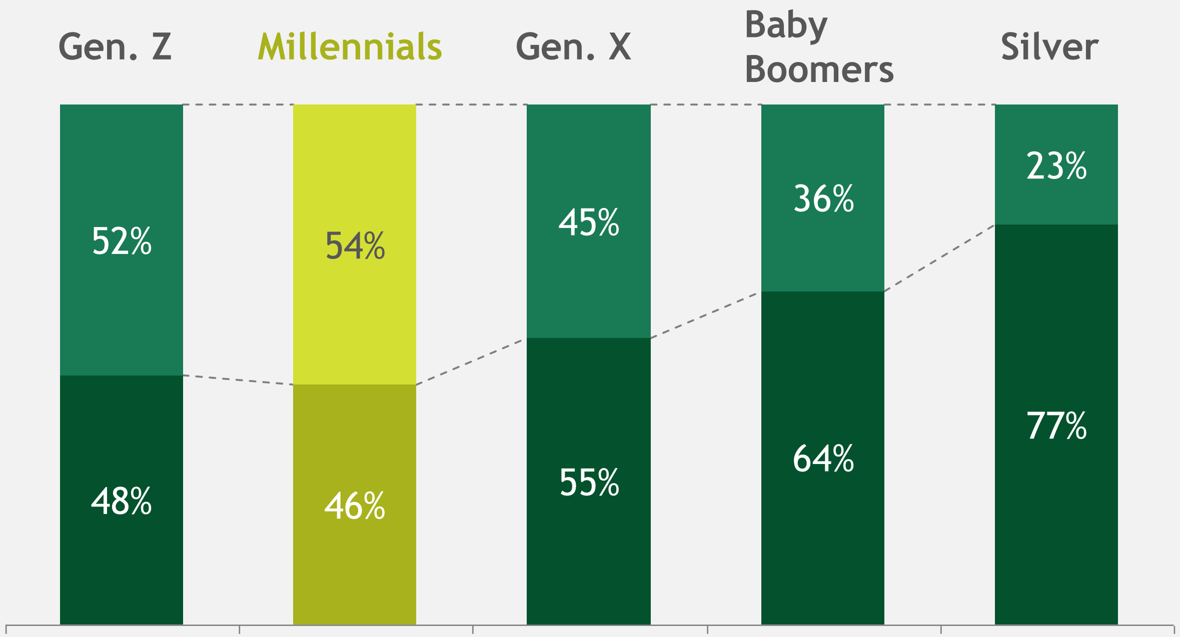
The mix & match trend attains ~54% for millennials

? *"Thinking about your spending of 2/3 years ago and that of the last 12 months, do you have the feeling that you have partially shifted your spending from luxury brands to premium / fast fashion / niche or sports brands?*

47% of respondents have shifted from top luxury brands



By Generation



Source: BCG-Altagamma True-Luxury Global Consumer Insight Survey 2017 (12K + respondents in 10 countries)

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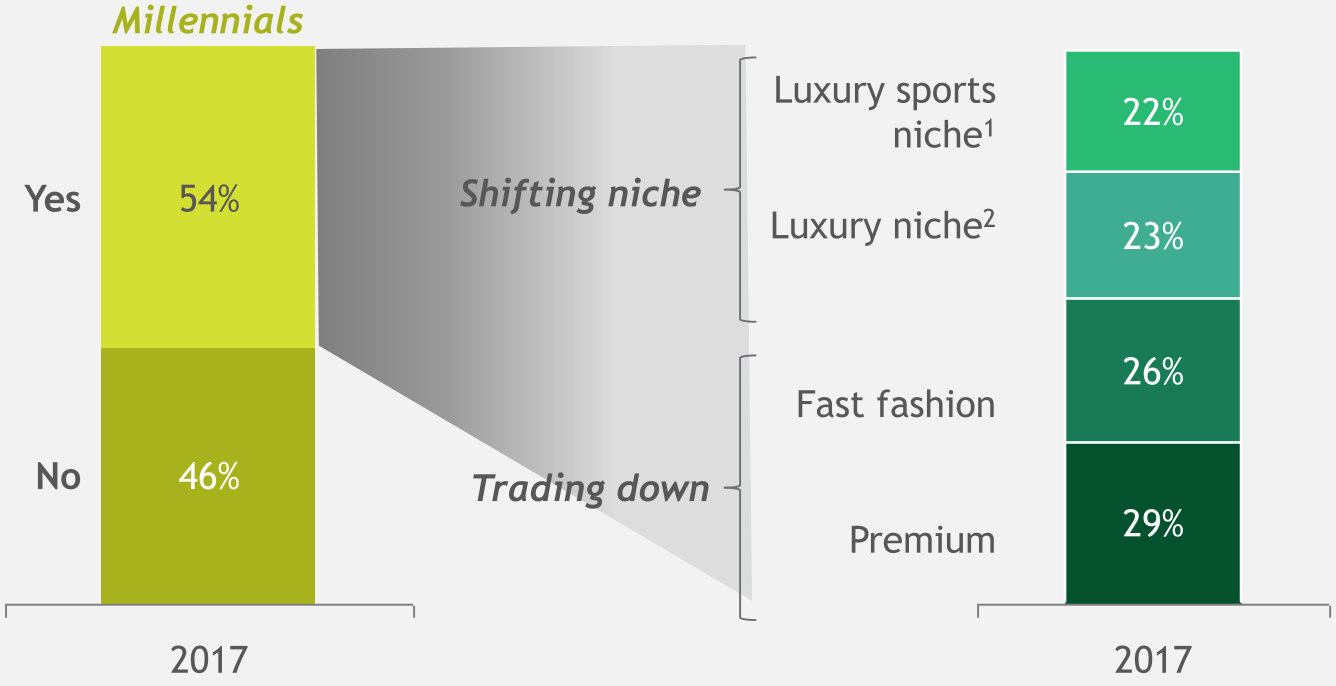
~54% of Millennials shift from luxury brands; they trade down or mix styles buying niche brands

~54% of Millennials shift from top luxury brands



Relevant categories

- Sneakers, Backpacks, T-shirts
- Formal shoes, Sunglasses, Perfumes
- T-Shirts, Shirts, Jeans
- Handbags, Perfumes, Watches

1. e.g. Lululemon or Sweaty Betty 2. e.g. Acne Studios, Mr & Mrs Italy, Aquazurra ecc

Source: BCG-Altagamma True-Luxury Global Consumer Insight Survey 2017 (12K + respondents in 10 countries)

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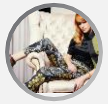
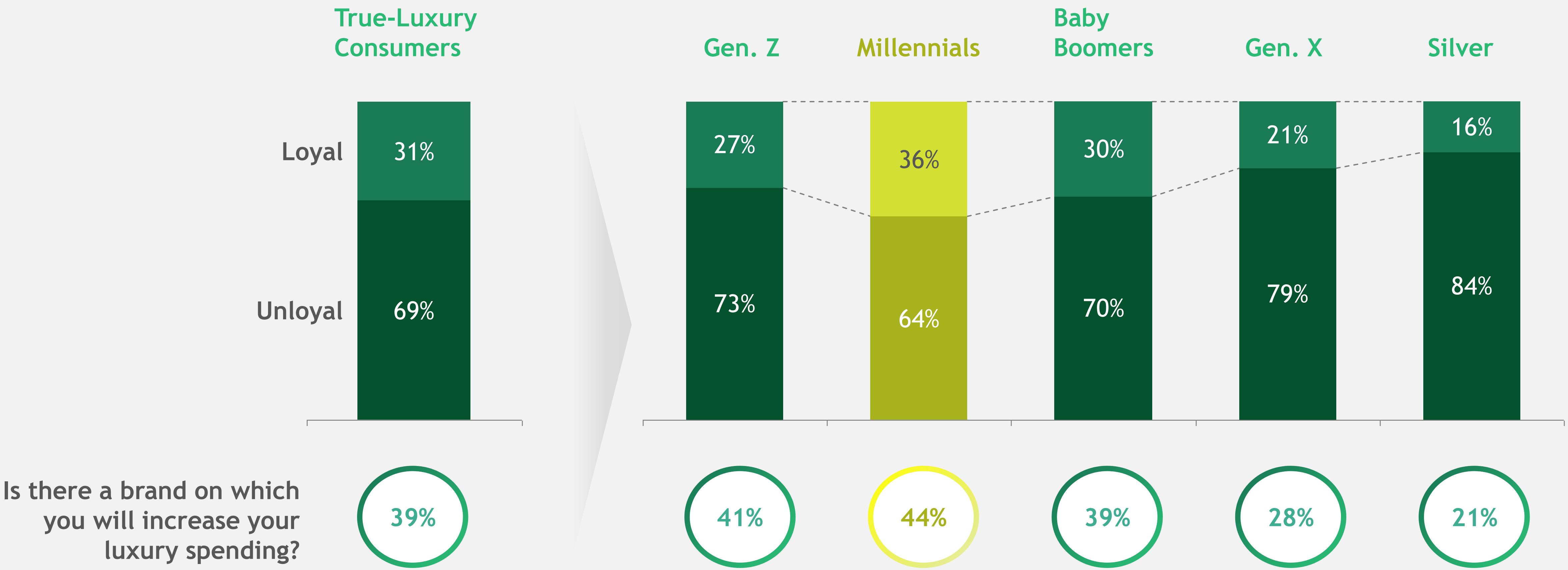


Although they mix & match, Millennials are the most loyal generation across luxury brand categories



Source: BCG-Altagamma True-Luxury Global Consumer Insight Survey 2017 (12K + respondents in 10 countries)

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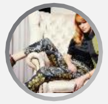


Millennials

Millennials: some luxury brands know them and reach them better

~25 brands included in the analysis[1]

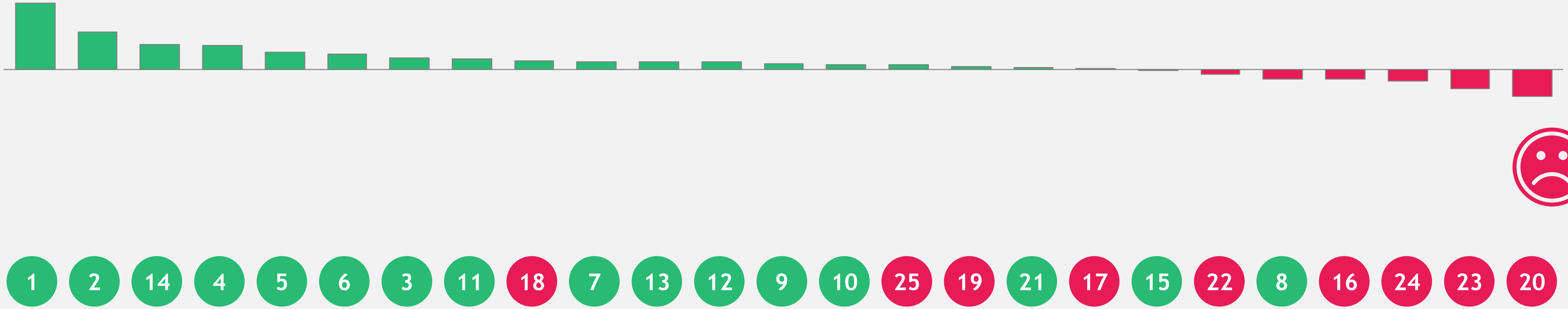
?

"Is there a brand on which you have reduced / you will reduce your luxury spending?
Is there a brand on which you have increased / you will increase your luxury spending?"

Satisfaction Index = % respondents who will increase their spend - % respondents who will reduce their spend

Millennials

True Luxury Consumers rank



xx = Brand Ranking for True-Luxury Consumers

1. Chosen brands with at least 10 respondents per brand
Note: Satisfaction Index = % respondents who will increase their spend - % respondents who will reduce their spend
Source: BCG-Altagamma True-Luxury Global Consumer Insight Survey 2017 (12K + respondents in 10 countries)

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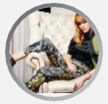


Millennials

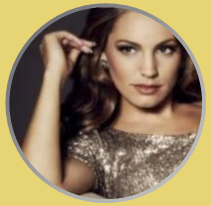
4 key segments to capitalize Millennials growth, ready?

Rich Upstarter

Megacitier

#LITTLEPRINCE

Absolute Luxurer



- What do we find in the key segments' wardrobe?
- Which mix of style do they look for: casual vs. formal products; extravagant vs. classy?
- What is the relevance of the collaboration collection vs. the main collections? Is this a way to increase their spending?
- How do they want their relationship with the brand to be "managed"? Be recognized, be rewarded...?
- ...

Positive halo effect on neighboring segments

Classpirational

Fashionista

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Product & Branding
"What they want"

Communication & Media
"How to reach them"

Sales Channels
"Where they buy"

1

True Luxury Consumers Global market trends

2 Focus: Millennials

3 Focus: Chinese

China

3 segments count for ~55% of Chinese True Luxury spend: focus & deep understanding will allow Brands to win

Rich Upstarter

"Luxury I am coming"

The new massive affluent class

Megacitier

"World is my city. The city is my world"

The Chinese Millennials

Fashionista

"In fashion I trust"

The new Chinese consumers, more fashionable

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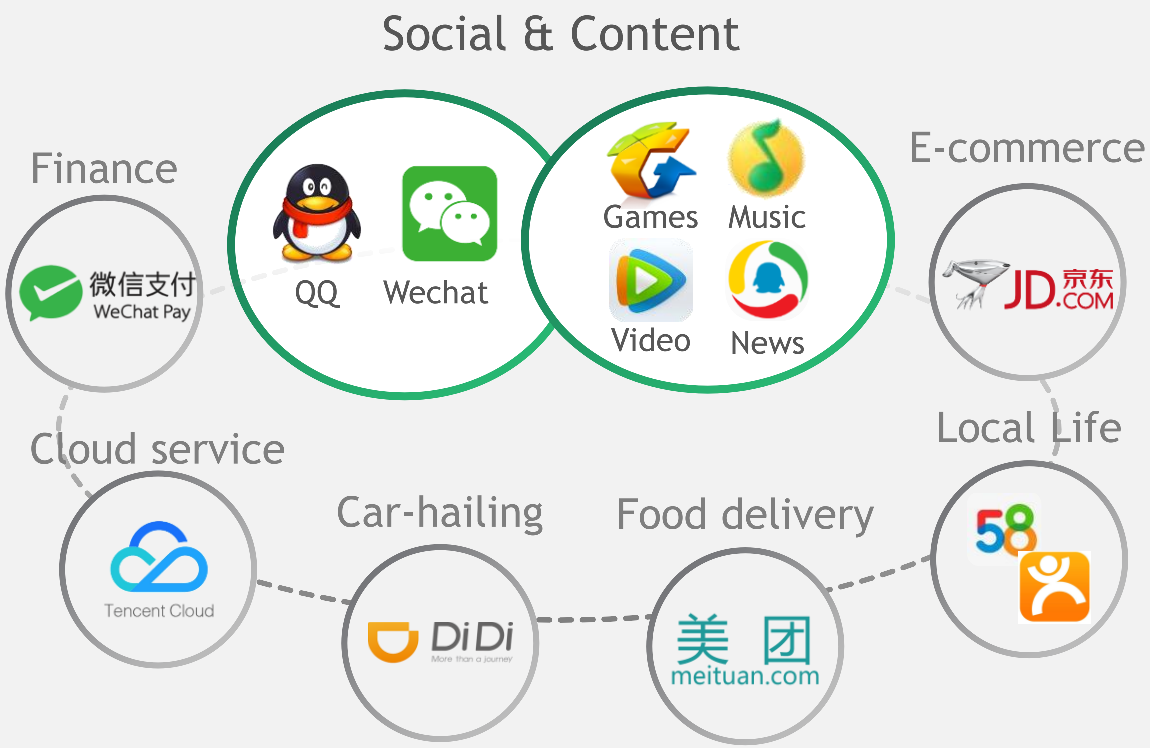
China's digital ecosystem is highly integrated and dominated by two players

Tencent — Connectivity & Content focused



Alibaba Group — Digital commerce focused

Source: BCG Analysis

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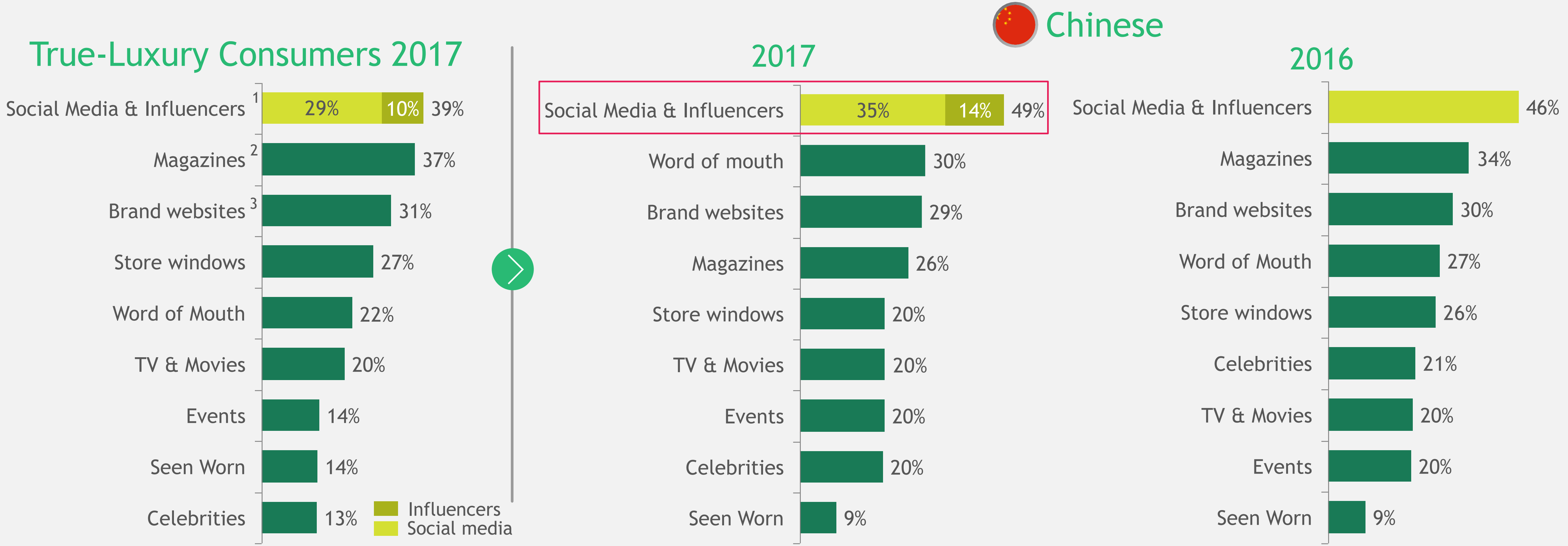
Social Media rank as the 1st influence lever, followed by Word of Mouth & Brands websites

? *"Which of the following online sources of information / channels impact how you develop opinions or make decisions about luxury purchases?"*



Note: Multiple options answer (ranking of five levers) 1. Includes Social Media, Online blogs & Influencers; 2. Editorials and Commercial in Magazines. Includes both traditional & digital magazines; 3. Includes also Brand's App
Source: BCG-Altagamma True-Luxury Global Consumer Insight Survey 2017 (12K + respondents in 10 countries)

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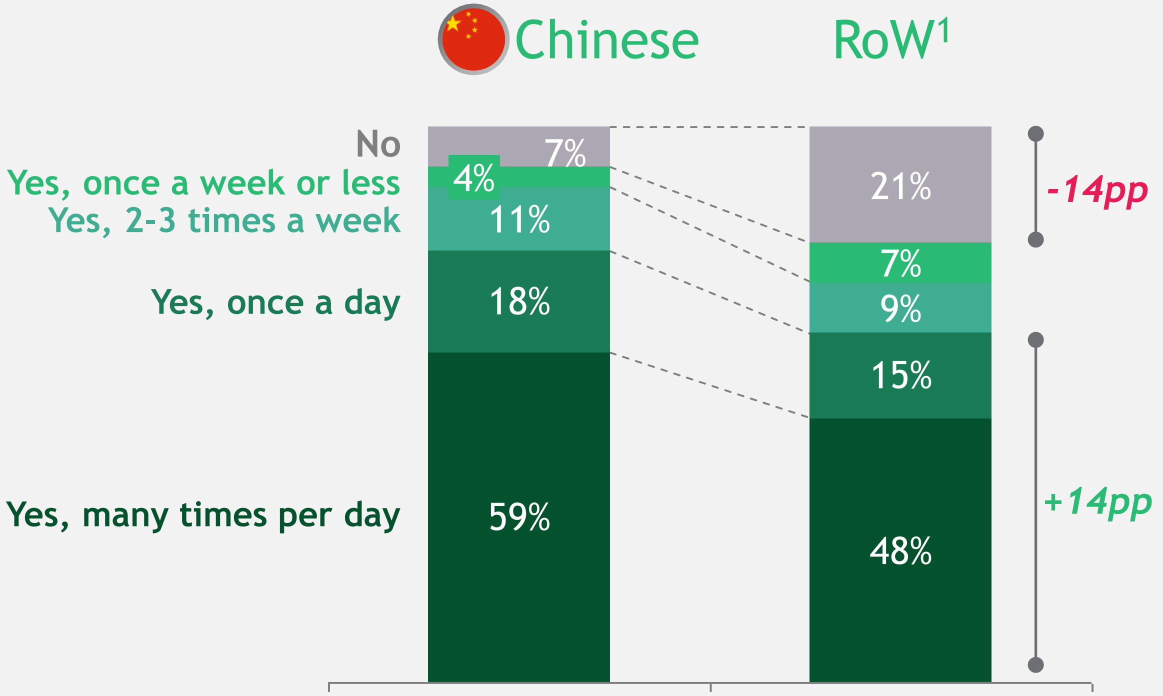
Chinese True-Luxury Consumers increasingly use Social Media

? *Do you use Social Media to interact with luxury brands?*



Chinese's interaction with luxury brands through Social Media is increasing and already higher if compared with other countries consumers' interaction

1. Rest of the World
Source: BCG-Altagamma True-Luxury Global Consumer Insight Survey 2017 (12K + respondents in 10 countries)

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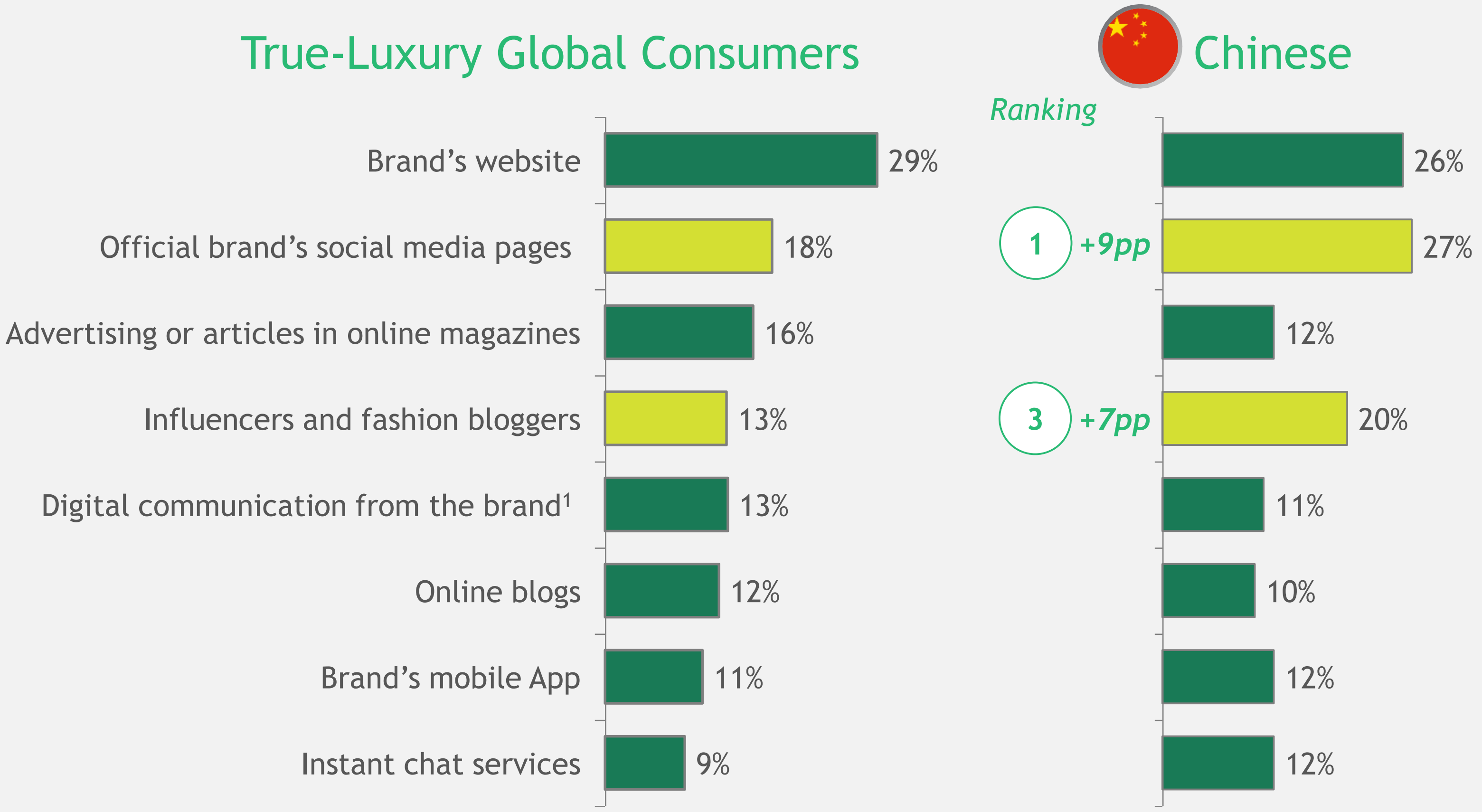
Within online sources, Brand Social Media 1st, influencers 3rd

? *"Which of the following online sources of information / channels impact how you develop opinions or make decisions about luxury purchases?"*



Source: BCG-Altagamma True-Luxury Global Consumer Insight Survey 2017 (12K + respondents in 10 countries)

Social Media & Influencers' relevance driven not only by consumers but also by the ecosystem and by investments from platforms

It will be key for Luxury brands to partner with Social Media platform

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Social media: Tencent's WeChat helps brands influence consumers along the entire shopping journey

	Reach	Engage	Convert	Transaction	After-sales & CRM
Moments Ads	**Fan recruitment:** target audience through user tags	**"@ brand" feature:** engage with fans in the ad's comment box	**WeChat Pay:** direct in-place payment option		
Official Accounts	**3rd party accounts:** Native, tailor-made ads	**Own account:** engage fans with self-generated content			
Omni-channel enhancement			**Mini programs:** link customers to brand O2O experience, both in-store and for after-sale service		
WeCard			**WeChat Pay:** attracts users to go from online to offline		**Customized deals & gift cards**
WeChat Index		**Insights into user interests** to help brands communicate useful content on "social hotspots". Keyword trends, article-reading habits, and word-of-mouth monitoring analytics			

Source: BCG Analysis

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Moments Ads: engage with fans and potential customers on China's most widely used social sharing platform

'@brand' feature: interact with loyal fans

Integrate into EC campaign with WeChat Pay

'Fans Recruit': reach potential customers

Special Event Campaign

Customized purchase experience

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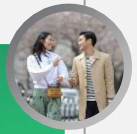
Digital content: Tencent's content ecosystem reaches and engages a wide range of potential customers

	Reach	Engage	Convert	Transaction	After-sales & CRM
Tencent News Room	**Penguin Media Platform/Online Media Group:** co-create and distribute branded, social-native content)				
Live Broadcasting	**Social apps:** immersive social, entertainment and news event live broadcasting, with KOL and celebrity network		Push product reservation opportunities to customers		
Music Platform	**QQ Music:** banner + native ads for target listeners				
IP Co-Operation	**Content ecosystem:** embed innovative ads into Tencent's hottest games and movies/shows, incorporating celebrities and scenario relevance for social buzz				
Online TV	**Penguin TV:** engage with high-income TA on the big screen, enhancing interaction and exposure				



Source: BCG Analysis

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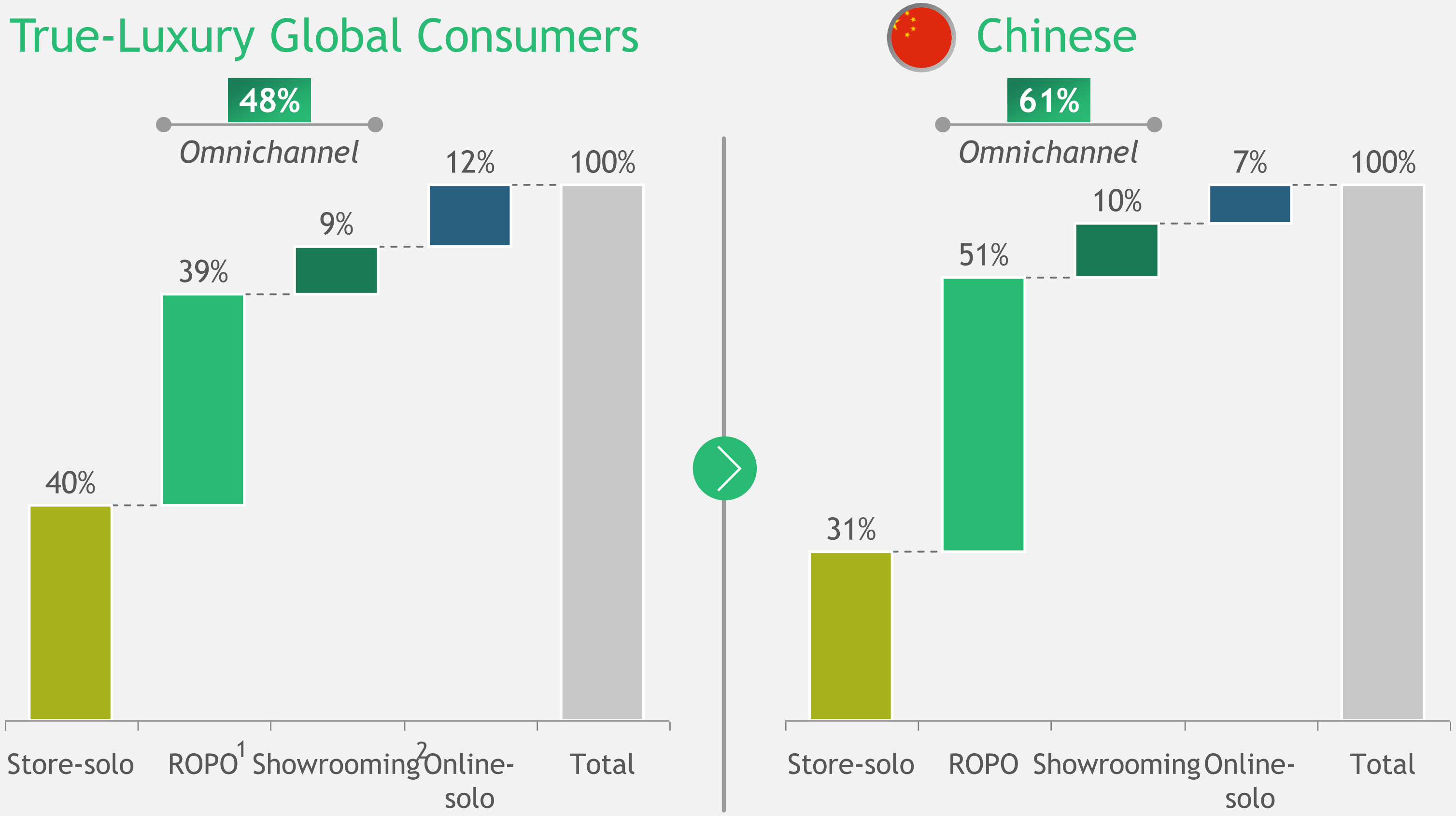
Chinese ROPO over indexed due to online struggles



Chinese consumers more 'Omni' than True Luxury Consumers (~61% vs 48%)

Omnichannel relevance driven by higher ROPO & by not yet attractive Online Solo alternative

Online Solo struggle to emerge due to counterfeit products' fear & the lack of a worthy luxury experience on the mass market platforms

1. Researched Online, Purchased Offline
2. Researched Offline, Purchased Online
Source: BCG-Altagamma True-Luxury Global Consumer Insight Survey 2017 (12K + respondents in 10 countries)

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Chinese: some brands well ahead competition

~25 brands included in the analysis[1]

? *"Is there a brand on which you have reduced / you will reduce your luxury spending?
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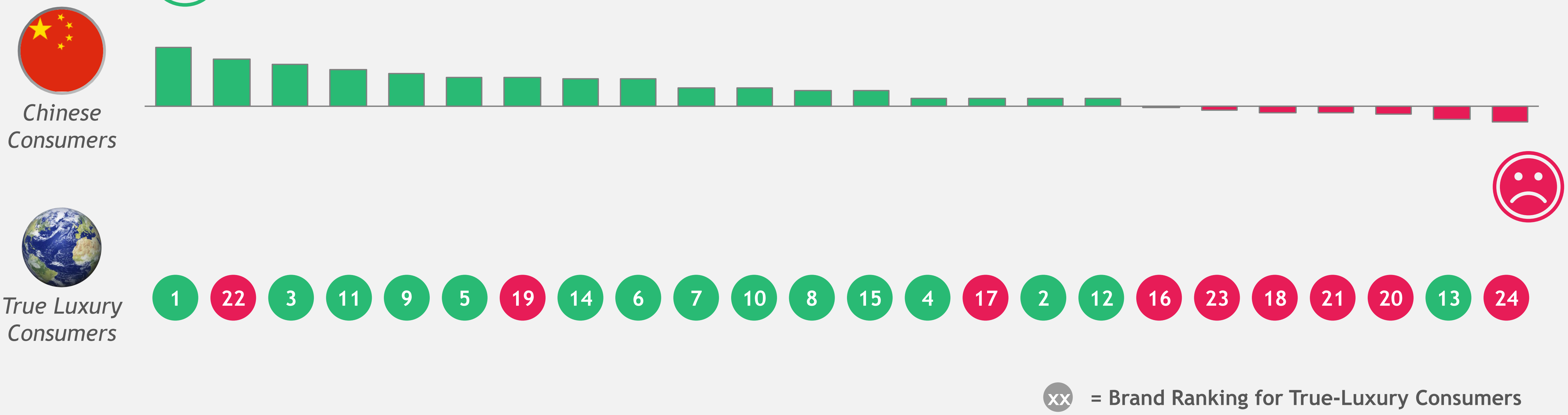
Satisfaction Index = % respondents who will increase their spend - % respondents who will reduce their spend



1. Chosen brands with at least 5 respondents per brand
Note: Satisfaction Index = % respondents who will increase their spend - % respondents who will reduce their spend
Source: BCG-Altagamma True-Luxury Global Consumer Insight Survey 2017 (12K + respondents in 10 countries)

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3 key segments to capitalize Chinese growth, ready?

Rich Upstarter

Fashionista

Megacitier

- How often do they expect brands to create new content / provide information through channels (from commercials to social media)?
- How to help Chinese define their identity statement through their wardrobe?
- Which influencers or fashion bloggers do they like to see in collaboration with luxury brands?
- Which sales channels do consumers prefer? Why? Which type of engagement are they looking for?
- ...

Positive halo effect on neighboring segments

Classpirational

#LITTLEPRINCE

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The True Luxury Consumer: What BCG could do for Luxury Companies leveraging the study

Brand Equity to support sales boost

Launch an ad hoc survey on True Luxury Consumer of the brand to bring insight to the next level on key topics relevant for the business
- e.g. Categories, Geographical Markets, Consumer generations
- e.g. Digital, retail execution, megacities penetration,
- ….

Voice of consumers to inform key decisions

Launch an ad hoc consumer study tailored on the specific target consumer of a Brand to inform key business decisions
- e.g. Possible merge / demerge of two lines
- …

Actionable consumer segmentation

Develop a tailored and proprietary consumer behavioral segmentation for the brand, applying BCG behavioral segmentation to Brand CRM data
- To capture future organic growth and boost LFL retail sales
  - Inform key decisions in merchandising, assortment, CRM, marketing,…
  - Define and launch pilots
  - Measure and scale up

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