Selected key 2016 and beyond business trends in the luxury industry

January 2016
# 4 key trends in the Luxury industry

## A changing world: new growth drivers in the Luxury industry
1. Strong reduction in retail expansion: 2/3 of the next decade's growth will be organic
2. Opportunities in countries where luxury buying is long-established, with US consumers expected to be the main contributor of future growth

## Intro values still roaring & customers increasingly looking for experience
2. Intro luxury values (quality, exclus., craftsmanship) still stronger than extro
3. Accelerating shift from “having” to “being”
4. How to (i) diversify and (ii) deliver individual outstanding experiences along the purchase pathway?

## 'Word of Mouth' key influencer for purchases
3. Word of mouth/advocacy now the #1 influencer of luxury purchases
4. And magazines are not dead (yet)

## The rise of the digital world
4. Luxury sales are accelerating online
5. Beyond e-commerce, digital as a key lever to influence purchasing behaviors of Luxury customers
6. Multichannel is a Must – What role for the stores in the future?
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New growth drivers (1/3) : Recent switch from Retail expansion to Organic growth

Last decade growth by component:
- Traditional Markets: 25%
- Emerging markets: 35%
- Price - Mix: 10%
- Volume: 30%
- Total growth: 100%

Upcoming decade growth by component:
- Traditional markets: 20%
- Emerging markets: 40%
- Price - Mix: 10%
- Volume: 20%
- Total growth: 100%

1. Europe (Italy, France, UK, Germany, Spain, Nordics), US and Japan; 2. Referrers to personal luxury (apparel, accessories, hard luxury, Perfume & Cosmetics)

Note: Last decade Personal Luxury market CAGR growth ~5%; upcoming decade Personal Luxury market CAGR growth ~4%

Source: Bernstein / BCG analysis

The Boston Consulting Group
New growth drivers (2/3) : Top Luxury consumers are back and are to make 40% of growth

<table>
<thead>
<tr>
<th>Cluster</th>
<th>2014</th>
<th></th>
<th>2021</th>
<th></th>
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<tbody>
<tr>
<td></td>
<td># (M)</td>
<td>$Bn^1</td>
<td># (M)</td>
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<td>Beyond money</td>
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<tr>
<td>Ultra</td>
<td>2</td>
<td>42</td>
<td>2</td>
<td>73</td>
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<tr>
<td>Very high</td>
<td>4</td>
<td>84</td>
<td>5</td>
<td>122</td>
</tr>
<tr>
<td>Total Top Luxury</td>
<td>9</td>
<td>94</td>
<td>11</td>
<td>135</td>
</tr>
<tr>
<td>Total Top Luxury</td>
<td>15</td>
<td>220</td>
<td>18</td>
<td>330</td>
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<table>
<thead>
<tr>
<th>Cluster</th>
<th>2014</th>
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<th>2021</th>
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<tbody>
<tr>
<td>Top Aspirational</td>
<td>19</td>
<td>54</td>
<td>25</td>
<td>76</td>
</tr>
<tr>
<td>Aspirational</td>
<td>356</td>
<td>481</td>
<td>422</td>
<td>609</td>
</tr>
<tr>
<td>Total Luxury Consumers$^1$</td>
<td>~390</td>
<td>~755</td>
<td>~465</td>
<td>~1015</td>
</tr>
</tbody>
</table>

1. Including Experiential and Personal luxury, excluding cars and Yachts

Note: rounded numbers

Source: BCG Analysis
New growth drivers (3/3): US consumers expected to be the main contributor to future growth

P&E¹ Luxury market growth by Nationality ($Bn)

1. Personal & Experiential Luxury market; 2. Italian, French, German, English  3. Including Japanese, S. Korean, Russian, Brazilian and RoW
Source: BCG 2014 ad hoc study (10'000 respondents in 10 countries)
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Intro values still roaring

"What is luxury to you?"

% of respondents

<table>
<thead>
<tr>
<th>Extro values</th>
<th>24%</th>
<th>24%</th>
<th>29%</th>
<th>30%</th>
<th>34%</th>
<th>38%</th>
<th>39%</th>
<th>40%</th>
<th>41%</th>
<th>44%</th>
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<tbody>
<tr>
<td>Adorned aesthetics</td>
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<td>Brand visibility</td>
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<td>Customization</td>
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<td>Being Cool/Sexy</td>
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<table>
<thead>
<tr>
<th>Intro values</th>
<th>76%</th>
<th>76%</th>
<th>71%</th>
<th>70%</th>
<th>66%</th>
<th>62%</th>
<th>61%</th>
<th>60%</th>
<th>59%</th>
<th>56%</th>
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<tbody>
<tr>
<td>Quality</td>
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<td>Exclusivity</td>
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<td>Craftsmanship</td>
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<td>Timeless</td>
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</table>

1. Respondents were asked to rank the top 3 values: the graph represents the value ranked as the most important
Source: BCG 2014 ad hoc study (10'000 respondents in 10 countries)
Experiential Luxury market accounts for the largest part of the Luxury market

Luxury market ($B, 2014 retail value)

- **Personal luxury** ($290B)
- **Experiential luxury** ($465B)
- **Cars & Yachts** ($350B)
- **Others** ($280B)

**P&E Market:** $755B

Covered by True-Luxury Global Consumer Insight

1. Personal and Experiential luxury
2. Including Private Jets, Art de la table, etc

Note: Some numbers are rounded.
Source: BCG 2014 specific survey, BCG-IPSOS market research
Fundamental differences between personal Luxury goods and Luxury experiences

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Personal Luxury goods</th>
<th>Hybrid</th>
<th>Experiential luxury</th>
</tr>
</thead>
<tbody>
<tr>
<td>Having</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>For self only</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Usually visible to other</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>For the mid-long term</td>
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<td></td>
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</tbody>
</table>

**Examples**

- Watches with diamonds
- Jewelry
- Bags, apparel
- iPad
- High-end kitchen
- High end furniture
- Luxury hotel or resorts
- High-end restaurants
- Spas...

Source: Internet research

The Boston Consulting Group
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"Which of the following has an impact on your purchase decision?"

Word of Mouth: 1st influence lever, overcoming magazines

% of respondents

<table>
<thead>
<tr>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>WoM</td>
<td>50%</td>
</tr>
<tr>
<td>Magazines</td>
<td>32%</td>
</tr>
<tr>
<td>Brand websites</td>
<td>34%</td>
</tr>
<tr>
<td>TV &amp; Movies</td>
<td>24%</td>
</tr>
<tr>
<td>Tailored offers</td>
<td>22%</td>
</tr>
<tr>
<td>Events</td>
<td>20%</td>
</tr>
<tr>
<td>Celebrities</td>
<td>20%</td>
</tr>
<tr>
<td>Seen Worn</td>
<td>13%</td>
</tr>
<tr>
<td>Store windows</td>
<td>39%</td>
</tr>
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</table>

Different WoM influence across nationalities

Social Media & Blogs | Physical

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1 Includes WoM, Social Media and Other Social blogs  
2 Editorials and Commercial in Magazines  
Note: multiple choices possible, out of top 3 ranks  
Source: BCG 2014 ad hoc study (10'000 respondents in 10 countries)
Social media and blogs the real engine of WoM growth

"Which of the following has an impact on your purchase decision?"

**Δpp '13-'14**

<table>
<thead>
<tr>
<th></th>
<th>Blogs</th>
<th>Social Media</th>
<th>Physical</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>43%</td>
<td>5%</td>
<td>32%</td>
</tr>
<tr>
<td>2014</td>
<td>49%</td>
<td>8%</td>
<td>29%</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th></th>
<th>+6pp</th>
<th>+3pp</th>
<th>+6pp</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td></td>
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<td></td>
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**WoM digitalization index¹**

<table>
<thead>
<tr>
<th></th>
<th>0.3</th>
<th>0.7</th>
</tr>
</thead>
</table>

¹ WoM Digitalization index: calculated as Social Media & Blogs influence vs. WoM physical influence

Note: multiple choices possible, out of top 3 ranks

Source: BCG 2014 ad hoc study (10'000 respondents in 10 countries)
Impact of blogger collaboration in luxury

- Enlisted nine bloggers to help drive online and brick-and-mortar sales
- Hosted a series of **in-store events** across the U.S., resulting in 147,000 social interactions
- Blogger Christine Andrew of Hello Fashion fueled a **107% uptick in “likes” and 465% increase in comments** to Neiman Marcus’ Instagram page after a Fall Trend event

- Rach Parcell of Pink Peonies reportedly **drove $1 million in sales to nordstrom.com** during the 2014 holiday season

## Vignette: Chanel targeting social media with immersive pop-up perfume exhibit in NY

<table>
<thead>
<tr>
<th><strong>Immersive experience</strong></th>
<th><strong>Social media promotion</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exhibit highlights key elements of Chanel No5 eau premiere from 'creation' to 'revelation'</td>
<td>Selfie walls</td>
</tr>
<tr>
<td>Sensory experience</td>
<td>• Visitors encouraged to post about their experience online</td>
</tr>
<tr>
<td>• Coco Chanel whispers No5 anecdotes directly to you</td>
<td>Twitter hashtag on perfume samples</td>
</tr>
<tr>
<td>• Interactive video tables for each key ingredient</td>
<td>• Magically appears when sample paper is spritzed with perfume to promote tweeting</td>
</tr>
<tr>
<td>• 'Revelation' room scented with eau premiere</td>
<td>Virtual tickets</td>
</tr>
</tbody>
</table>
| Customizable postcards    | ![Virtual tickets image]
| • Stamp-customizable eau premiere bottle cards mailed anywhere in the world for free | ![Virtual tickets image]

Note: Chanel No5 eau premiere 'In a New Light' exhibit May 7-May17/15 in NYC
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The rise of online luxury continues: >25% growth every year since 2007

Online luxury global market (personal luxury goods) (2007-2015, $B)

Online sales expected to represent:
- ~10-15% of Luxury sales in 2020?
- ~40-50% of the growth 2015-2020?

Note: Personal luxury includes apparel, leather and accessories, watch and jeweler, cosmetics
Source: Forrester research, BCG analysis

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Digital: what's in beyond ecommerce?

Need to reorient Marketing Spend to Online (Social media, blogs etc)

A. Drive awareness with audiences through new platforms

B. Build deep consumer engagement and exploit advocacy marketing

C. Enhance customer driven innovation:
   - products
   - retail,....

D. Build a multichannel customer experience
3 out of 4 consumers asking for omnichannel

"How important is for you that a brand can be reached through different channels?"

Omnichannel importance across nationalities

Source: BCG 2014 ad hoc study (10'000 respondents in 10 countries)
"Pure store" no longer the first channel in terms of sales origination

"Where have you bought the last item purchased? Where have you researched it?"

Source: BCG 2013 and 2014 ad hoc study (10,000 respondents in 10 countries)
Multi-channel Consumers spend more

Brand X: average consumer spend by channels (index=100)

- On-line only: 100
- Store only: 122
- Multichannel (on-line+store): 267

Source: BCG analysis, mix of Maisons (Europe, US)
As a consequence: - traffic in physical stores & + rent = decreasing store return

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traffic (#)</td>
<td>~ 70 K</td>
<td>~60 K</td>
</tr>
<tr>
<td>Conversion rate (%)</td>
<td>~ 13%</td>
<td>~ 12.8%</td>
</tr>
<tr>
<td>Clients (#)</td>
<td>~ 9.1 K</td>
<td>~7.7 K</td>
</tr>
<tr>
<td>Average yearly purchase ($)</td>
<td>~$1.000</td>
<td>~$1.300</td>
</tr>
<tr>
<td>Sales / store ($M)</td>
<td>~$9.1 M</td>
<td>~$10.0 M</td>
</tr>
</tbody>
</table>

Sales / sqm: $30 K / sqm * 5 = $150 K / sqm
Rent / sqm: ~$6 K / sqm * 3.7 = ~$21.4 K / sqm

Note: Analysis performed on a subset of Personal Luxury Brands
Source: Public data, Interviews with experts, Cushman & Wakefield Valuation report, BCG analysis
Emerging Trends: New business models
Luxury on-demand

UberLUX
- Tested in select markets on New Year's and Valentine's Day 2015
- Car models: Mercedes Benz S-Classes & BMW 7-Series
- Pickups from highest-rated drivers

Audi
- Tested in SFO with plans to expand to more cities
- Vehicles available: A4 sedan & R8 supercar
- Can use car for up to 28 days
- Also offers 'Audi at Home' where residents in select condo complexes can share a fleet of Audi vehicles

Glamsquad
- On-demand beauty app providing hair, makeup or nail services from beauty professionals on-demand
- Currently in New York, LA, Miami and the Hamptons
- Founded by Gilt Groupe co-founder

Source: Company websites, Luxury Daily
Emerging Trends: New business models

Luxury Travel Retail

Wearable Technology

Luxury Overview - 17Jan16- FINAL.pptx
Thank you