The Future of Luxury

Highlights from consumer insights studies

THE BOSTON CONSULTING GROUP

Two main sources of data

Annual BCG - Altagamma	BCG FIT Global Luxury Customer Survey
Annual survey of 10,000 luxury Consumers across 10 countries • US, UK, France, Italy, Germany, Spain, China, Japan, Korea and Brazil **Category breakdowns** **Consumer Segments as key lens to read market dynamics** **Sounding board of leading global luxury brands**	**Survey fielded in early 2015 across 3 countries, with ~3000 respondents** • US, China and India **Deep dives conducted in 3 main categories** • Beauty • Accessories • Travel **Income parameters were also set by country, in annual net (after tax) household terms:** • Low income: <$100K in US, <6.2M Rupees in India, or <620K CNY in China • High income: >$100K in US, >6.2M Rupees in India, or >620K CNY in China

A number of key themes identified

1	**Quality, exclusivity, craftsmanship still 'winning'**	**'Introverted luxury values (quality, exclusivity, craftsmanship) still stronger than extroverted**
2	**Being vs. Owning**	**Consumers increasingly preference *experiences* over *luxury purchases*, particularly in developed countries**
3	**Online purchasing a reality across all markets**	**Online purchasing most prevalent in US but also in China and India, especially for higher income consumers**
4	**'Word of Mouth' key influencer for purchases**	**Word of mouth/advocacy now the key influencer of luxury purchases**
5	**Willingness for alternate distribution models**	**Rental & subscription models continue to see growth; greater signs of interest in China, India**

What does luxury mean?

1

United States

beautiful best brand car class clothes comfort convenience cost craftsmanship designer easy elegant end enjoyment exciting exclusive expensive extra extravagant family fancy fine food freedom fun happy home indulgence luxury money nice pampering pleasure prestige price quality relaxation reward rich something spa special splurge status style travel treat unique unnecessary

India

adventure awesome best better brand car clothes comfort ease elegance enjoy enjoyment entertainment exclusive expensive family fashion feeling food happiness health home hotel house innovative jewelry life living luxury mind money nature pampering peace pleasure premium products quality relaxation satisfaction service shopping spending star status style technology travel unique work

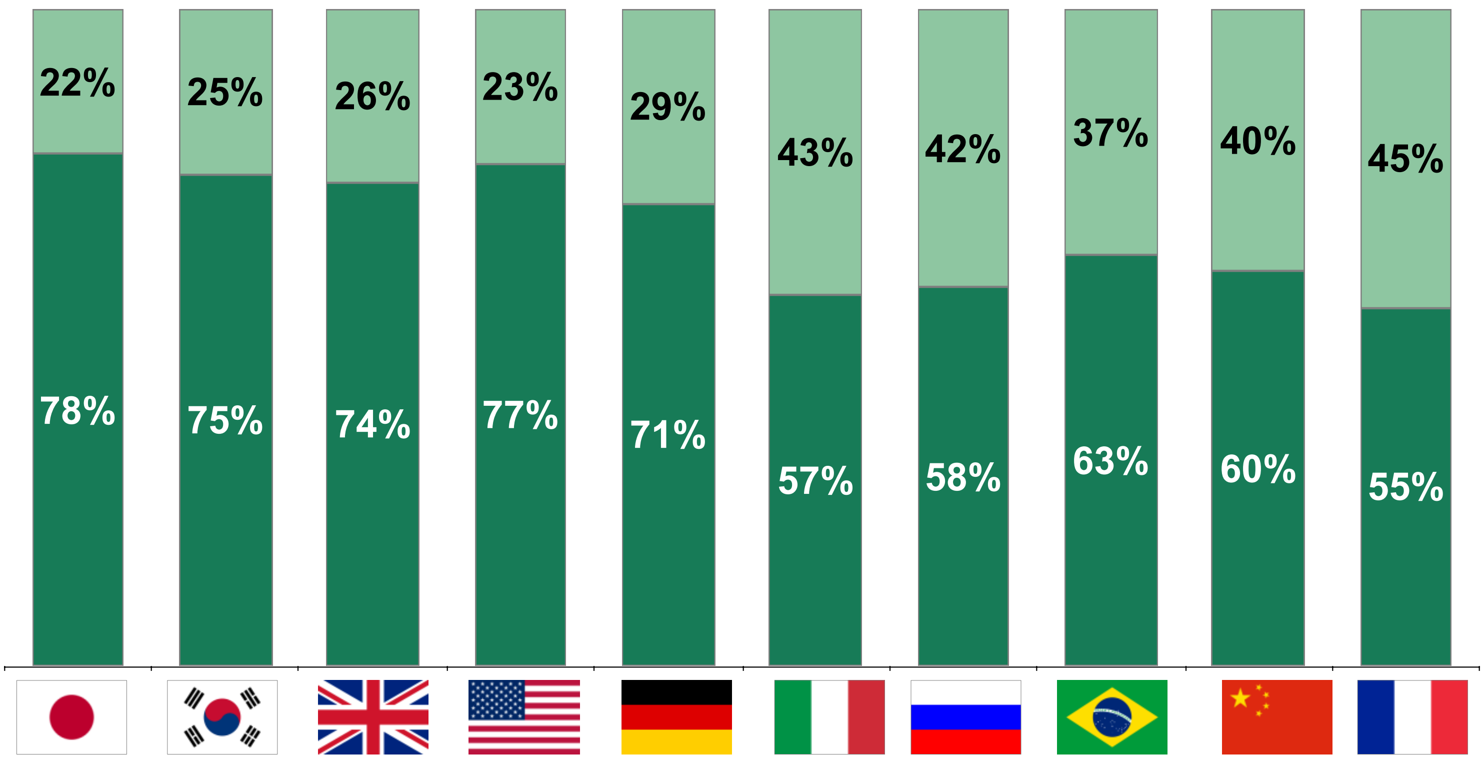
China

beautiful brand channel charming classic comfortable confidence costly culture delicate design desired dignified dior elegance enjoyable excellent expensive exquisite face fashionable fine gorgeous graceful high-end high-quality identity level luxury lv necessary personalized position precious pretty price quality sang social stately status style symbol taste temperament unique value waste wealthy workmanship

Source: Question 22: What words best describe what luxury means to you?

Luxury for 'yourself' values roaring

1



Luxury 'for others'
extrovert

- Adorned aesthetics
- Brand visibility
- Customization
- Being cool/sexy

Luxury 'for yourself'
introvert

- Quality
- Exclusivity
- Craftsmanship
- Timeless

% of respondents[1]

1. Respondents were asked to rank the top 3 values: the graph represent the value ranked as the most important
Source: BCG 2013 and 2014 ad hoc study (10'000 respondents in 10 countries)

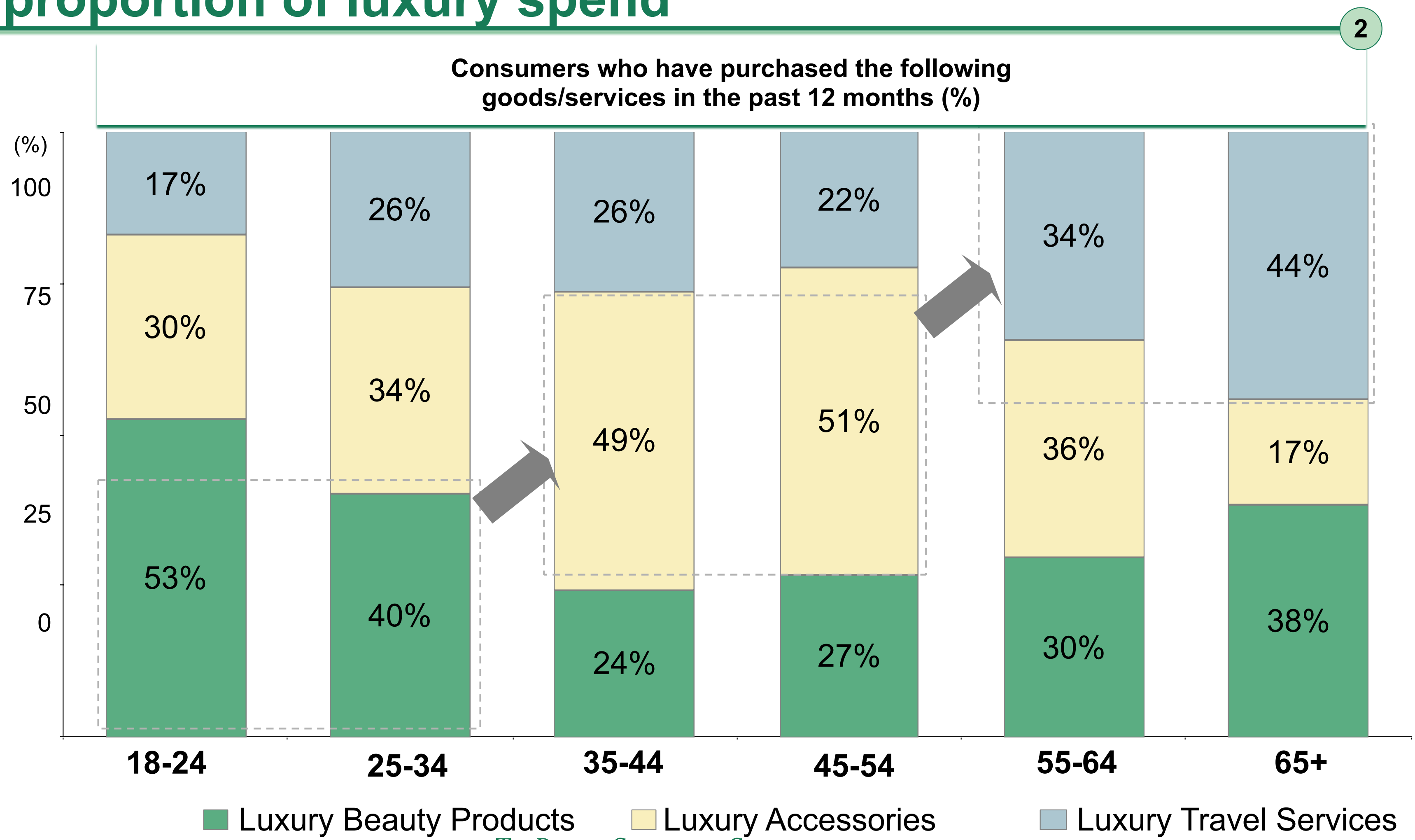
FIT

Shift to "experience" culture most prominent in US, whereas personal goods favored in India, China

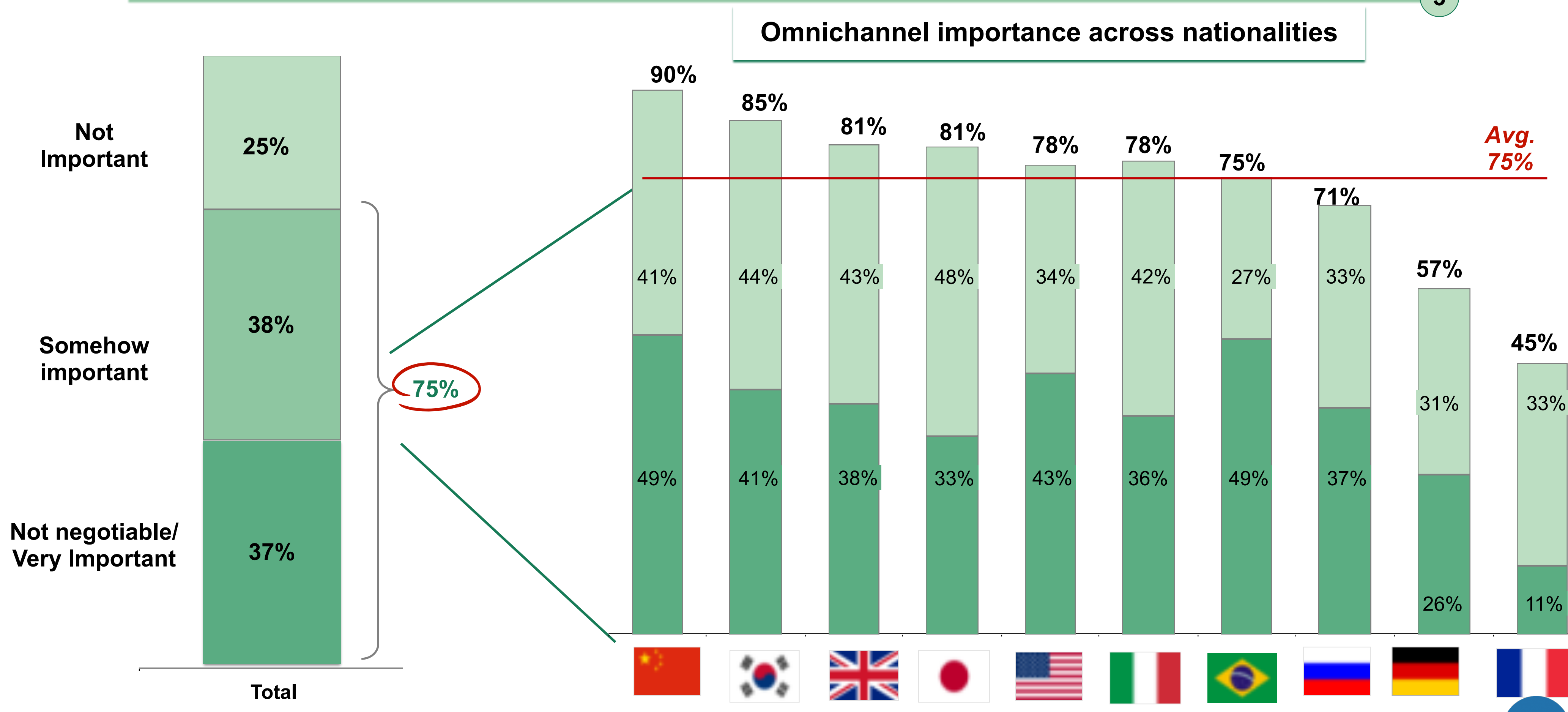
		US	India	China
Experiences	Weekend away	#1	#1	#1
	Night out	#2	#4	#6
	Spa experience	#5	#6	#4
Personal Goods	New clothes	#3	#3	#3
	New piece of technology	#4	#2	#2
	Luxury accessory	#6	#5	#5

Source: BCG FIT Global Luxury Customer Survey

As consumers age, travel takes on an increasing proportion of luxury spend



3 out of 4 consumers asking for omnichannel

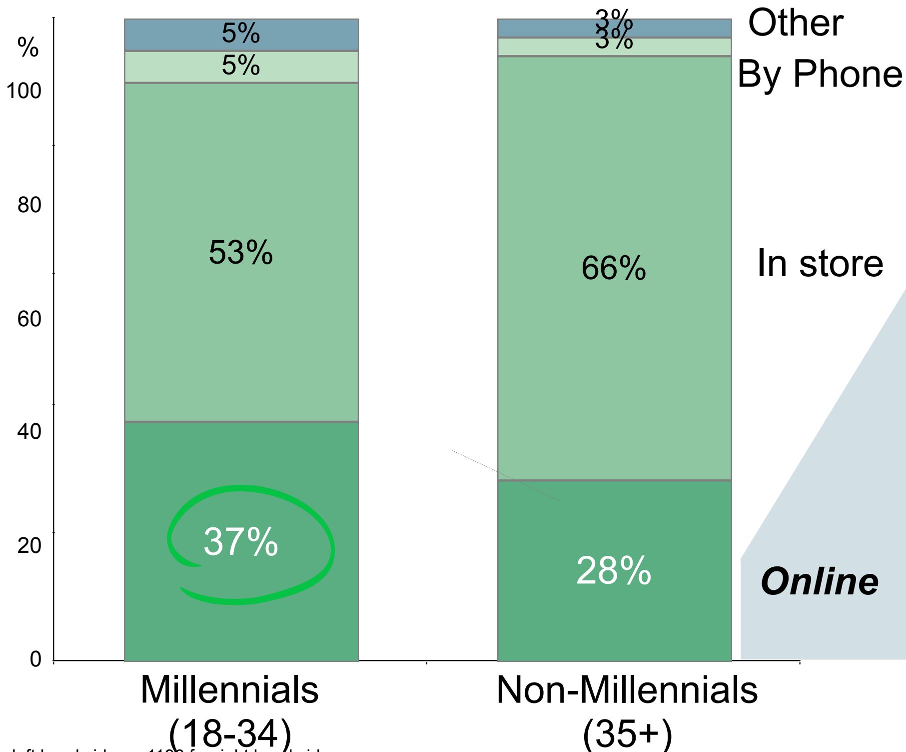


Question: "How important is for you that a brand can be reached through different channels?"
Source: BCG 2014 ad hoc study (10'000 respondents in 10 countries)

Globally, millennials direct a greater share of their luxury spend online relative to older generations

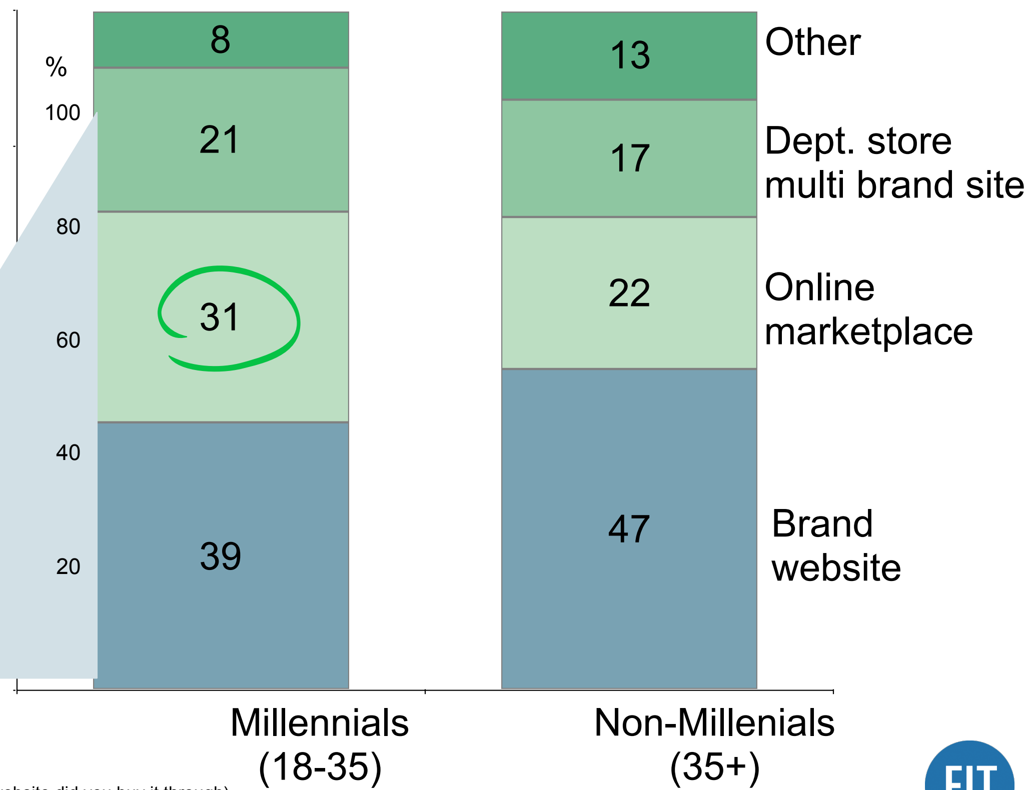
Channel: millennials direct more of their luxury spend online than 35+

Breakdown of average luxury purchase channels



Specific sites: millennials more likely to purchase through online marketplace than 35+

Breakdown of online luxury purchase channels



Note: n = 3045 for left hand side, n=1196 for right hand side
Source: Question 10 (What % of your luxury purchases are made through the following channels), Question 32 (for online buyers, what website did you buy it through)

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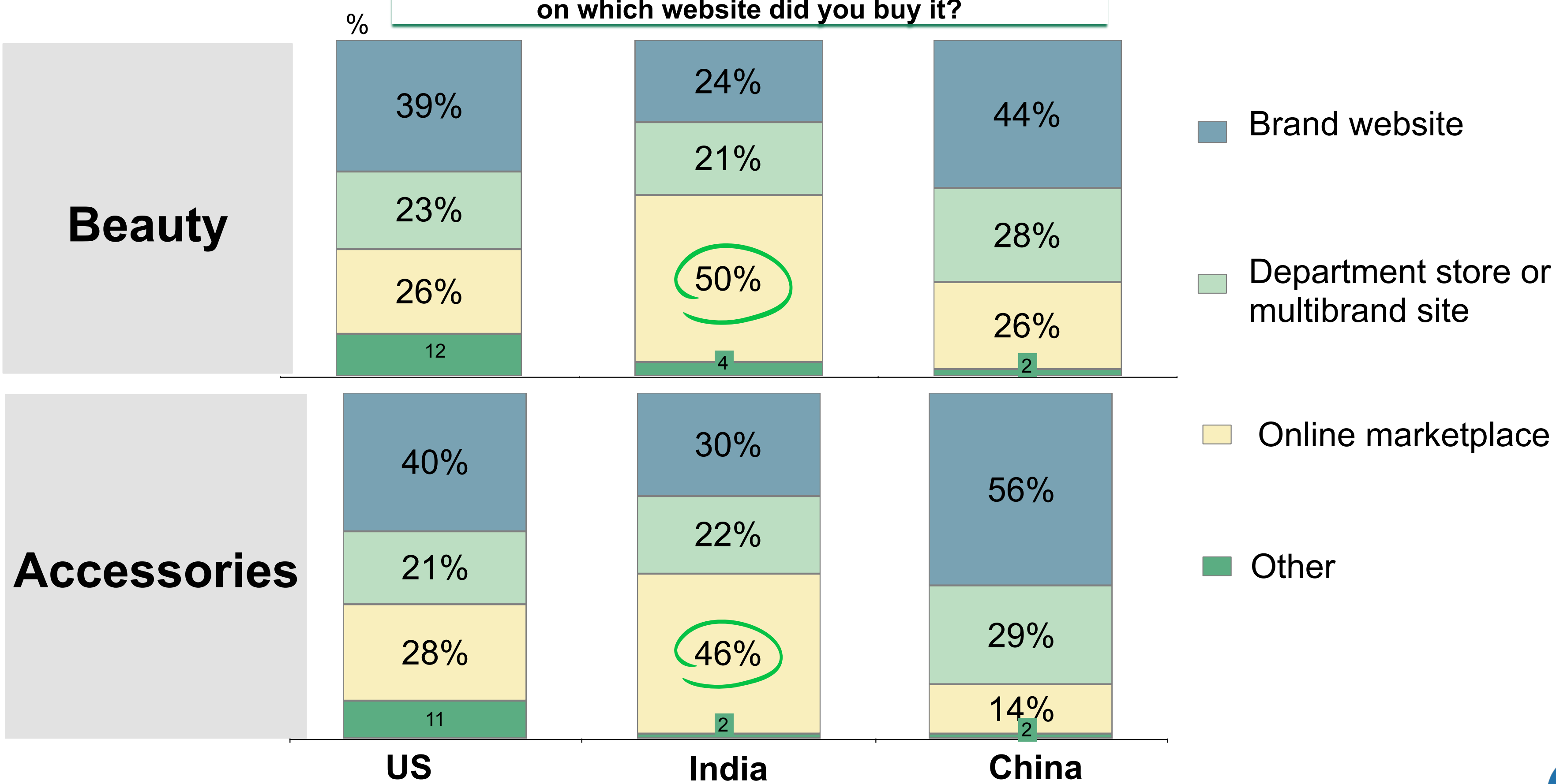
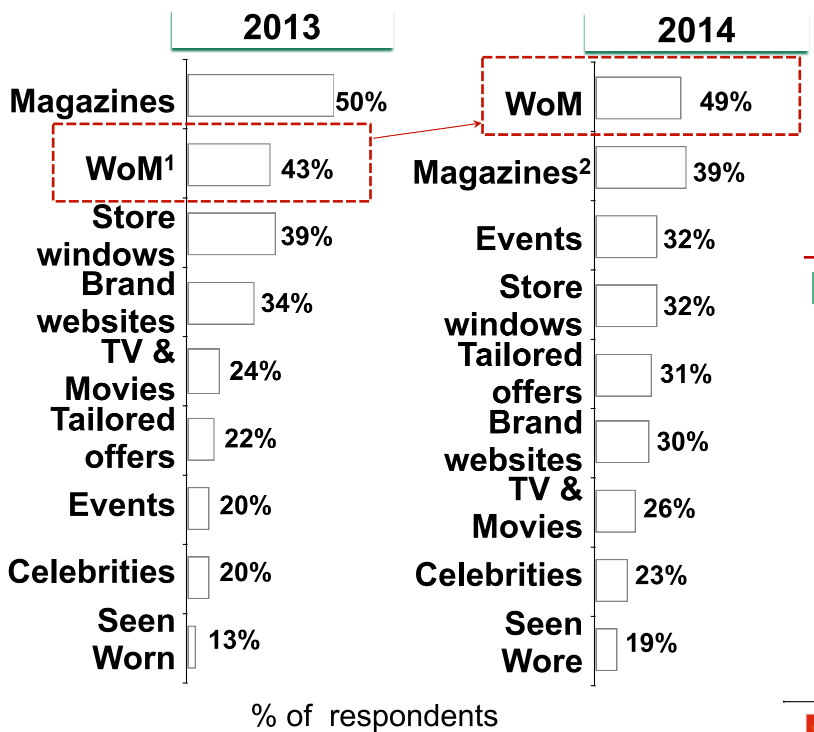
Marketplaces see greatest share of online beauty & accessories sales in India

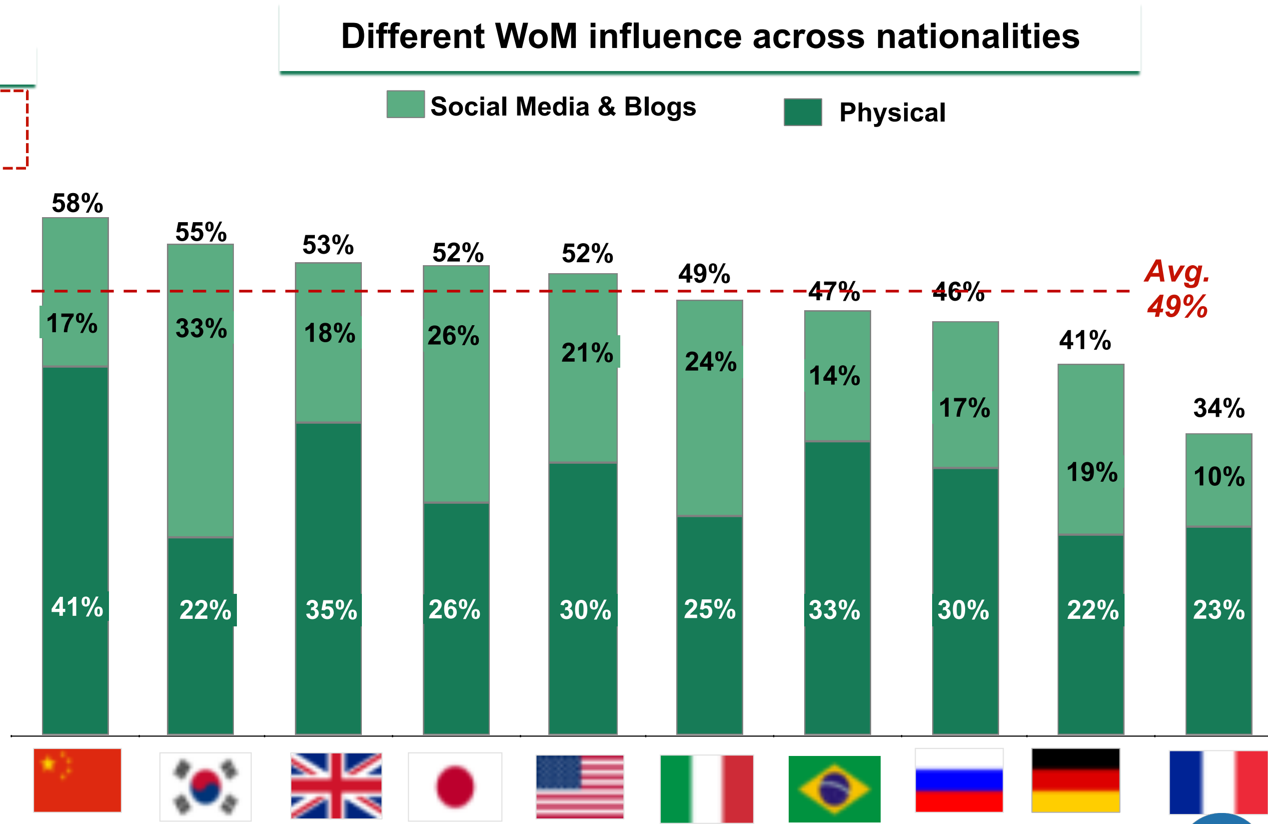
Question: If you made the purchase online, on which website did you buy it?



N=1,196:
Source: Question 32, BCG FIT Global Luxury Customer Survey

Word of Mouth: 1st influence lever, outpacing magazines





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)

Rental models more attractive to Chinese and Indian consumers than US

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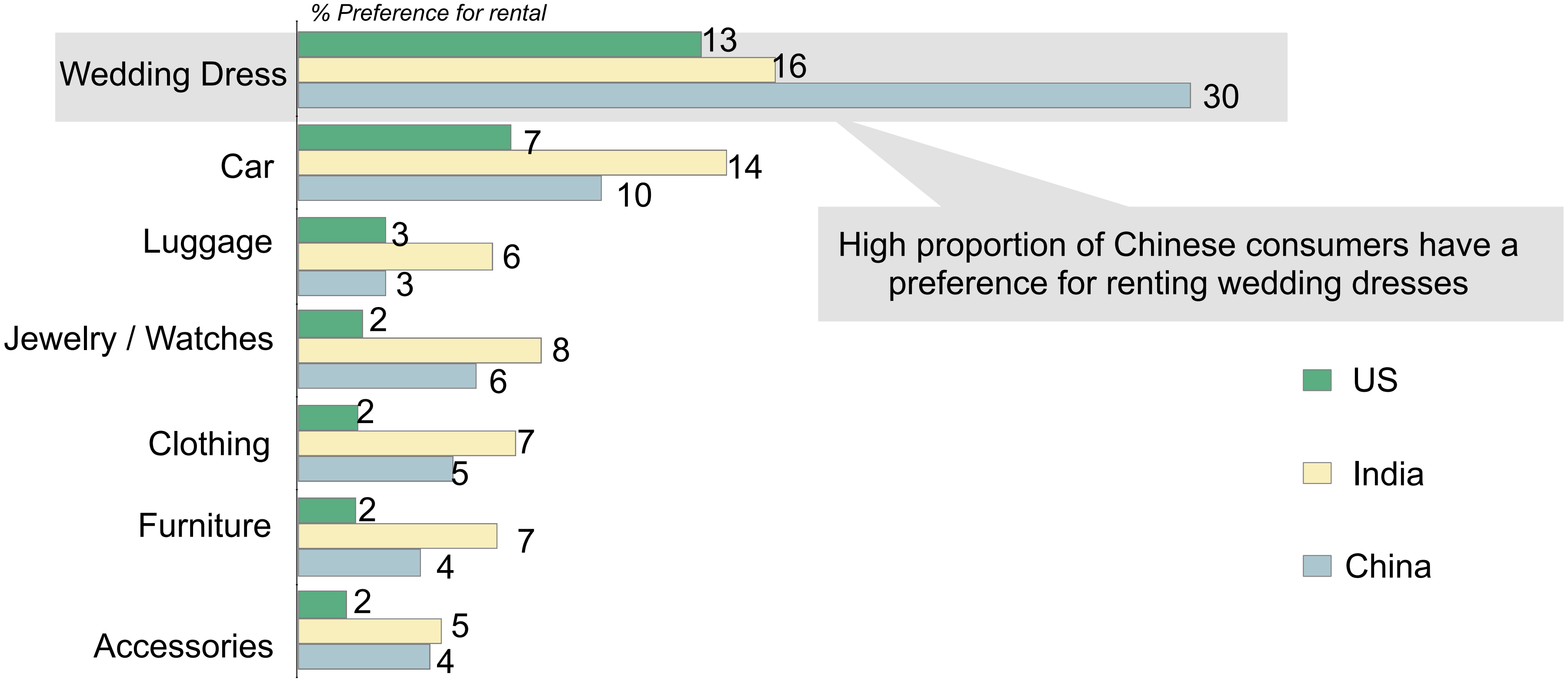
Question: Which of the following would you prefer to rent vs. own?



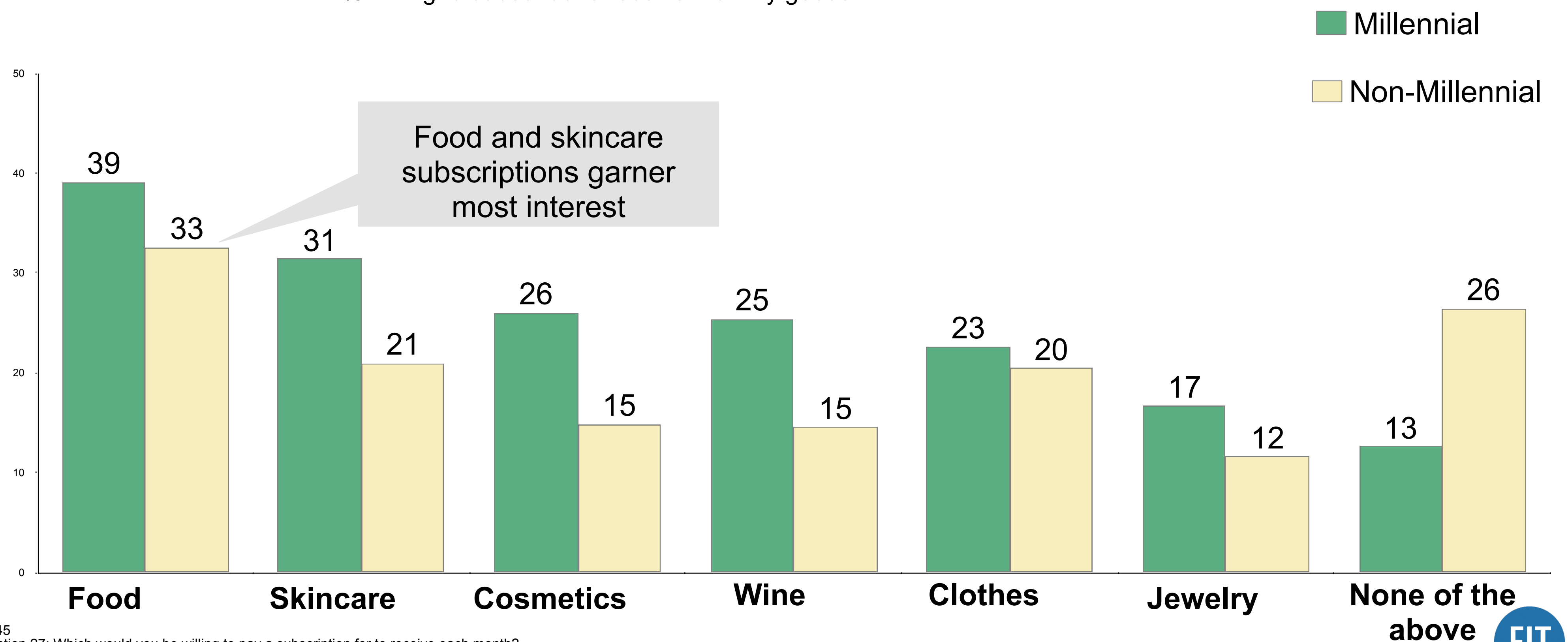
Note: n = 3045
1. For example, 93% of surveyed consumers answered "Yes" when asked if they would consider renting jewelry, despite the fact that only 8% would "prefer" this to ownership
Source: Question 26: Which would you prefer to rent rather than own? Categories excluded: vacation places, office space, and home

Subscription offerings most appealing to millennials

~25+% of Millennials willing to subscribe across multiple categories

Millennials more interested in subscription model than Non-Millennials

% willing to subscribe to receive monthly goods



Note: n = 3045
Source: Question 27: Which would you be willing to pay a subscription for to receive each month?

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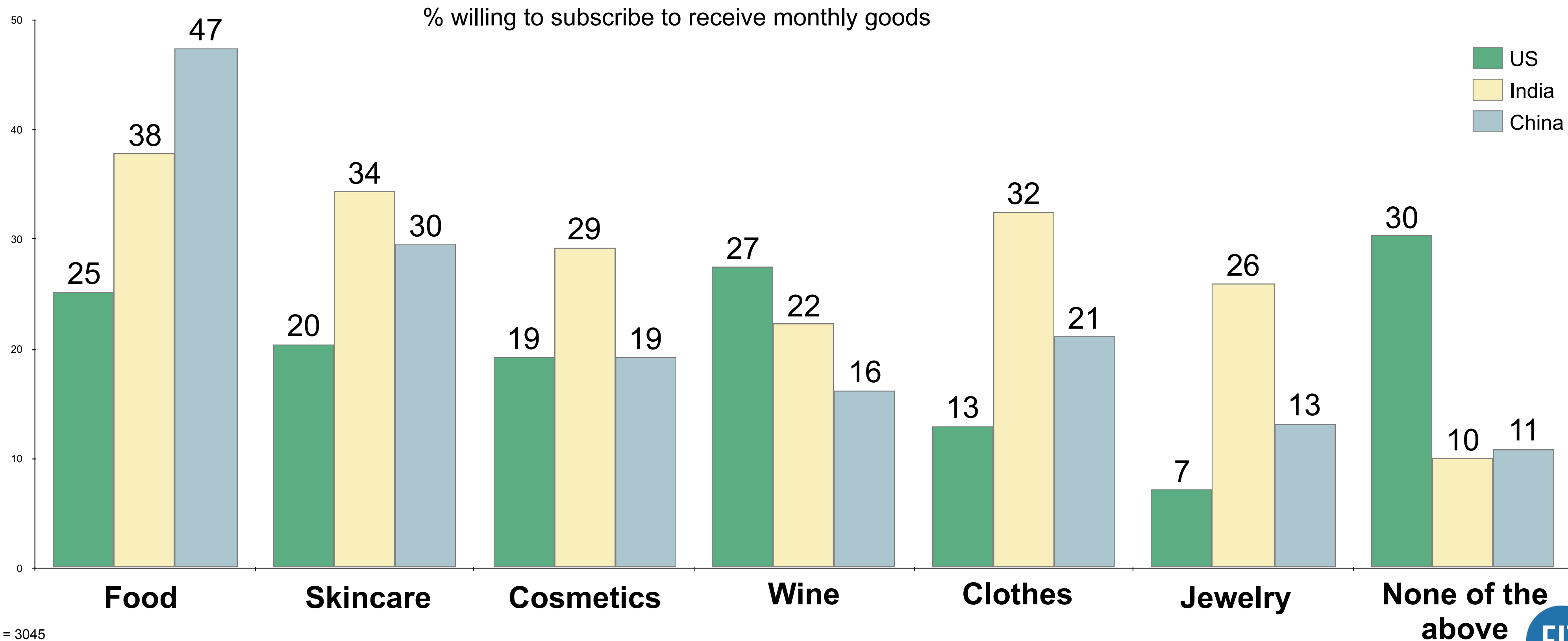
Subscription models most appealing to consumers in India and China; less interest from US consumers

In all categories except cosmetics, consumers in India and China expressed greater interest in subscription than US consumers



Note: n = 3045
Source: Question 27: Which would you be willing to pay a subscription for to receive each month?

What does this mean for luxury players?

1	Quality, exclusivity, craftsmanship still 'winning'	Continue to invest and communicate around elements of in quality, craftsmanship and exclusivity
2	Being vs. Owning	Invest in experiential luxury - at a minimum bring more experience into the purchase pathway
3	Online purchases a reality across all markets	Invest in eCommerce; determine role and assortment for each eCommerce channel (own brand versus eretail versus marketplaces) – especially in emerging economies
4	'Word of Mouth' key influencer for purchases	Build or accelerate advocacy marketing; generate positive word of mouth by systematically developing relationships with influencers
5	Willingness for alternate distribution models	Invest in alternate distribution model tests – especially in emerging economies