Global State of Luxury 2024

An industry underscored by change
“Regular Black Swan events are our norm; having a clear end goal is critical to navigate this degree of change and disruption”

Luxury CEO 2023
The luxury players are faced with a challenging and evolving environment, with shifting markets, consumers, categories and channels.

Global Personal Luxury Goods Market is expected to generate $410B in 2023¹

- 26% of market accounted for by US & 14% accounted for by China
- Luxury apparel and leather goods make up 34% and 19% of market
- 3-7% expected CAGR through 2023-2028, slowed from 11% (2020-2023)²
- 24% revenue made up by top 7 brands

Luxury Market Dynamics

- Slowing luxury demand vs. post-COVID boom
- By 2026, 75%+ of luxury consumers will be younger cohorts (Gen Y and Z)³
- Mature markets like US and China are facing economic challenges and pulling back on luxury spending
- Hard luxury goods, beauty and personal care categories expected to lead sector growth
- Slowing e-commerce growth and expect to normalize to pre-COVID levels

What Do Consumers Value?

- Experience
- Exclusivity
- Personalization
- Quality
- Authenticity
- Sustainability

¹ Excludes experiential luxury categories (e.g., hospitality, cars, etc.), estimates are projecting a 5% reduction in this total based on H2 results
² Historical market values from Euromonitor; forecasted CAGR range calibrated via various sources
³ The Altagamma Foundation: True-Luxury Global Consumer Insight 2023
Source: Euromonitor, The Altagamma Foundation
Inflation, waning consumer confidence and spend appetite created a challenging macro environment for the sector in 2023.

### Factors Impacting 2023 Performance

<table>
<thead>
<tr>
<th>Factor</th>
<th>Description</th>
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<tbody>
<tr>
<td>Inflationary Pressures</td>
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<tr>
<td>COVID Tailwinds Fading</td>
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<td>Global Fragility</td>
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<td>Slowing Growth in China</td>
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<td>Heavy Holiday Discounting</td>
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</tbody>
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"There’s a **challenging macro environment** coming across from all regions, I think this is something that has been quite unique, because historically if you get softness in one region you’re able to pick it up in another."

– Jonathan Akeroyd, Burberry CEO

"After three roaring years, and outstanding years, growth is converging toward numbers that are more in line with historical average."

– Jean-Jacques Guiony, LVMH CFO

Source: Business of Fashion, Vogue Business, Adobe Analytics, Kearney
With the headwinds in 2023, brands applied various strategies to address market dynamics

**Consolidation via M&A**
- L’Oreal buys Aesop in $2.5B deal
- Kering acquires 30% stake in Valentino
- Tapestry acquires Capri Holdings in $8.5B deal

**Expansion into Beauty**
- Prada debuts skincare and beauty lines, Prada Skin and Prada color
- Richemont launches new fragrance and beauty division

**Quiet Luxury Wave**
- Brunello Cucinelli saw +27.5% growth in first 9 months of 2023 vs. 2022
- Quiet luxury searches up 614% on Google in past year (Jun ’23)

**Double Down on Boutiques**
- Luxury groups including LVMH, Kering and Richemont added 650,000 square feet of retail space in the past 12 months¹

**Cost Cutting Programs**
- Farfetch lays off 11% of headcount and closes offices and retail locations in cost-cutting program
- Ssense lays off 7% of headcount

**Successful Pricing Strategies**
- Chanel increases bag prices internationally in September, up to 17% for its most popular styles
- Hermes elevated prices by 5-10% in January

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1. JLL Luxury Report 2023
Source: Company news & financial reports, JLL, Business of Fashion, Google Trends
Despite efforts, an industry-wide slowdown was observed after H1 2023.
Looking forward to 2024, we expect continued softening demand but with pockets of growth.

Global Luxury Goods Market Outlook
2018-2028, $USD million

- Designer Apparel and Footwear (Ready-to-Wear)
- Luxury Leather Goods
- Super Premium Beauty and Personal Care
- Luxury Jewellery
- Luxury Timepieces
- Luxury Eyewear & Other

1. Historical market value and absolute projected values from Euromonitor; forecasted CAGR range calibrated via various sources
2. Includes luxury eyewear, writing instruments and stationery, electronic wearables

Source: Euromonitor, Kearney
Luxury’s top two markets are projected to experience slowing growth while grappling with individual market dynamics.

<table>
<thead>
<tr>
<th>Top Markets: Luxury Goods 2023, % market share</th>
<th>Hist. CAGR '20-23</th>
<th>Proj. CAGR '23-28E</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>26%</td>
<td>18%</td>
</tr>
<tr>
<td>China</td>
<td>14%</td>
<td>14%</td>
</tr>
<tr>
<td>Japan</td>
<td>6%</td>
<td>2%</td>
</tr>
<tr>
<td>UK</td>
<td>6%</td>
<td>14%</td>
</tr>
<tr>
<td>France</td>
<td>5%</td>
<td>6%</td>
</tr>
<tr>
<td>Italy</td>
<td>5%</td>
<td>9%</td>
</tr>
<tr>
<td>South Korea</td>
<td>4%</td>
<td>9%</td>
</tr>
<tr>
<td>Germany</td>
<td>4%</td>
<td>8%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>3%</td>
<td>19%</td>
</tr>
<tr>
<td>Taiwan</td>
<td>2%</td>
<td>6%</td>
</tr>
<tr>
<td>Non Top 10</td>
<td>26%</td>
<td>8%</td>
</tr>
</tbody>
</table>

Top 10 markets account for ~75% of luxury market, with China still driving majority of growth despite market slowdown.

Source: Euromonitor, Henley & Partners, Kearney

**USA**
- Aspirational shopper fatigue
- Political uncertainty
- End to COVID relief
- Millionaire migration

**China**
- Domestic economic struggles
- “One China” policy
- Rise of Guochao and national pride
- Crackdown on displays of wealth
Growth markets will play a critical role in the development of luxury

**Luxury Growth Markets**

**Middle East**
- Attractive haven for wealthy individuals
- Increasing investment in international tourism

**China**
- Continued appetite for domestic shopping and tourism
- Brands investing in local store openings and luxury developments

**India**
- Rising incomes, increased digital connectivity and middle-class lifestyle changes driving growth
- Consumer confidence reached four-year high in Sep 2023

**Southeast Asia**
- Rebound of regional tourism
- Younger consumers buying luxury in part driven by K-pop boom

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1. Historical market value and absolute projected values from Euromonitor; forecasted CAGR range calibrated via various sources
2. Reserve Bank of India, “Consumer Confidence Survey”
3. Singapore, Philippines, Thailand, Malaysia, Indonesia

Source: Reserve Bank of India, Henley & Partners, Business of Fashion, Euromonitor 2023, Kearney

$16B $3B $59B $13B

+5% +9% +10% +6%

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Highlights on select disruptive forces shaping 2024

- Sustainability Imperative
- Refining Channel Strategies
- Supply Chains for Uncertainty
- Sweeping Role of Technology
- Luxury Market
Channel dynamics continue to normalize post pandemic

Refining Channel Strategies

Global Personal Luxury Goods by Channel YoY % growth, 2017-2023

- **Owned Retail**
  - The boutique continues to serve as the primary connection point
  - Expectations for owned retail are rising to be immersive, emotional, frictionless

- **Wholesale**
  - Wholesale is recovering after loss of share from DTC & e-commerce boom
  - Remains an important channel for brands to broaden reach and offload inventory risk

- **E-Commerce**
  - E-commerce post-covid growth slowed as consumers return to stores
  - 68% of customers say that COVID-19 has elevated their expectations of companies’ digital capabilities

1. Salesforce – State of the Connected Customer
   Source: Euromonitor 2023, Salesforce, Kearney
In-store shopping will continue to dominate the luxury market, while social commerce maintains momentum.

**Mono-brand boutiques shine**
- Renewed appetite for in-store experiences and return of post-pandemic footfall will benefit mono-brand boutiques.
- Brands are upgrading the boutique shopping experience with omni-channel & digital elements (interactive dressing rooms, personalized product recommendations, etc.).

**Return to travel**
- Rebound of transcontinental tourism and rise of “bleisure” (business & leisure) travel drives growth in duty-free and international retail.
- The traditional travel retail value proposition is due for a refresh—eroding price effectiveness & misaligned assortment are key pain points for Fashion consumers.

**Continued surge of social commerce**
- Social commerce adoption, led by China, growing at 30% (2023-2030)\(^1\).
- Brands are implementing livestream shopping (e.g., Douyin), one-click & in-app checkout, and XR experiences to drive conversion and engage with consumers at different touchpoints.
Growing regulatory momentum will put pressure on brands to accelerate sustainability efforts.

Incoming sustainability regulations and directives will dictate change:

- **Sep ’23**: EU Corporate Sustainability Reporting Directive (Approved)
- **Sep ’23**: EU Microplastics Ban, under REACH (Approved)
- **Dec ’23**: EU Ecodesign for Sustainable Product Regulation (Provisional Agreement)
- **Jan ’24**: Canada Protection Against Forced and Child Labor (In Effect)
- **Q1 ’24**: US SEC Climate Disclosure (Expected Approval)
- **Q4 ’24**: EU Corporate Sustainability Due Diligence Directive (Expected Approval)
- **Q4 ’24**: EU Textile labelling regulation, revision (Expected Proposal)

**Sustainability Imperative**

Source: EU Commission, SEC, UN, Government of Canada, New York State Senate, Kearney
Fashion and retail brands are increasingly susceptible to a variety of demand and supply shocks across the supply chain. This includes:

- Supply chain shutdowns driven by geopolitical and health risks (e.g., Ukraine, Israel conflicts)
- Sourcing restrictions from ethical, environmental and labor concerns (e.g., Xinjiang)
- Facility shutdowns from increased scrutiny over labor violations
- Poor forecasting leading to insufficient transportation capacity and service issues
- Raw material production jeopardized by looming climate crisis
- Channel shifts to DTC or re-commerce
- Brand reputation damage and demand shifts from conscious consumption
- Shifting retail seasons (see now buy now, drop model) require expedited timelines and more agility

### Supply Chains for Uncertainty

**Near and On-shoring**
- Reduces exposure to geopolitical risks, unlocks faster speed to market
- European brands are already leveraging production in Eastern Europe and Middle East

**Tightened Vertical Integration & Collaboration**
- Increases control & visibility
- LVMH acquired stake in tanneries and leather manufacturers; Brunello Cucinelli & Chanel in knitwear suppliers

**E2E Traceability**
- Build traceability via aggregation of standardized data, joint process ownership with upstream suppliers, and origin testing
- Brands are adopting digital solutions (e.g., FibreTrace, EON)

Source: WWD, Business of Fashion, Kearney
Disruptive technologies are allowing brands to elevate consumer experiences and optimize operations

**Gen AI in Go-To-Market**
- Accelerating go-to-market lead time
- Enabling agility in product development
- Automating low value-add activities

**Virtual Merchandising**
- Enabling global, real-time purchasing
- Reducing operating costs
- Unlocking data driven consumer insights

**Blockchain & RFID for Traceability**
- Providing consumers affirmation of authenticity
- Combating counterfeit risks
- Enhancing supply chain visibility

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**Moncler**
uses AI-generated photos in London Fashion Week campaign

**Tommy Hilfiger**
launches digital fashion items generated by AI

**Ralph Lauren**
partners with AR startup Obsess to reduce physical sample making

**Alexander Mcqueen's label MCQ**
embeds blockchain + NFC technology in product tag

**Watch retailer Chrono24**
enables customers to try on Rolex and Omega watches via its virtual showroom

**Aura Blockchain Consortium**,
first global luxury blockchain to improve digital traceability

Source: Jing Daily, Obsess AR, Chrono24, HighSnobiety, Company news, Kearney
Final Thoughts

Unprecedented consumer and market shifts will continue

Relying on historical resilience will leave brands behind

Clarity of vision and path forward are critical to weather the changes
Thank you

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