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BASELWORLD Forum Reveals the Future for Luxury Goods

The luxury goods' industry is poised to recover strongly as new opportunities arise, according to the three world experts speaking at this year's BASELWORLD Forum held today (6 April 2003) in Switzerland. The title of the Forum debate was «When Diamonds Shine Through Fog – The Challenges for Luxury Goods in a Difficult Environment».

Having been hit by the global downturn of the past two years, luxury goods companies can expect their fortunes to improve significantly, as the global economy embraces a long-awaited recovery in the latter part of 2003. Those companies whose products offer emotional security and increased relevance to the needs of the luxury consumer will succeed best of all. This was the message from the BASELWORLD Forum, the annual platform for key opinion makers on luxury goods, which took place at the world-famous BASELWORLD – The Watch and Jewellery Show today (6 April 2003) in Basel.

To beat the competition and thrive as the global economy picks up, luxury brands need to be well managed and financially strong, need to innovate on the back of market research and not lose sight of their core business and the established values of their products, while responding to changing consumer dynamics. These companies can expect to spearhead the recovery in the luxury goods' market and will be well placed to grasp the new opportunities that are now emerging as economies recover. Among these new growth opportunities is the concept of "New

Luxury”, a phenomenon which sees middle-market consumers trading up and paying a premium price for remarkable goods.

The outlook for 2003 will remain challenging but, by 2005, the luxury sector should see sales growth of 5%, according to the Forum's first speaker, Paola Durante, Chief Analyst of Luxury Goods, at Merrill Lynch in Italy. “Looking at the key OECD indicators for global economic growth, we expect to see a turning point in the second half of 2003, followed by a recovery in the last quarter of the year,” she said, adding that the expected post-war rally will witness a more progressive recovery than in the period leading up to 2000.

The other sector drivers that will continue to impact and determine sales of luxury goods' companies are currency fluctuations, the feel-good factor among consumers, and international travel. The majority of luxury brands produce their goods in Europe, but, on average, sell only 20% of their goods in their own market, explained Durante. Some companies generate from 33 - 40% of their sales in the Japanese market alone. Therefore, currency rates between the euro and the dollar and the yen remain crucial - a depreciating euro will bring benefits but is likely to remain strong this year. Durante expects no short-term improvement in international travel, which can account for 12% of sales for some luxury brands. While the feel-good factor remains depressed, companies should remember that consumers don't usually cancel purchases of luxury goods, they merely postpone them. Overall, Durante expects that, “Luxury goods will continue to grow above GDP growth, and the potential returns for the sector remain significant”.

The New Luxury phenomenon will bring enormous benefits to luxury goods' companies, but they must understand the essential drivers that will, and do see consumers prepared to pay a premium price for exceptional products, commented the second speaker, Michael J. Silverstein, Vice-President of the Boston Consulting Group (BCG) in Chicago. “New Luxury consumers are driven primarily by the interplay of emotional and functional benefits. Luxury goods must not only sell at a high price, they have to offer distinct and relevant emotional and functional benefits to the consumer,” explained Silverstein.

The New Luxury segment shatters the belief that high-priced goods can only be sold in smaller volumes compared with other sectors. However, he warned against complacency, and said that the New Luxury market would be exploited by outsiders who understand the needs of the dissatisfied luxury consumer. Also, the role of women in purchasing decisions needs particular attention, as they are a key factor boosting the New Luxury economy through their spending behaviour which is akin to “splurging”. “Women today want to spend more – they feel they deserve it,” said Silverstein.

The final speaker, Stéphane Truchi, Managing Director of the French-based market research company, IPSOS (the new partner of the BASELWORLD Forum), stressed the importance of understanding consumer confidence levels, and hence, their emotional needs in troubled times. “Consumer confidence remains low, and will be like this for at least another six months,” said Truchi. However, the overriding desire of consumers for products that offer them security and “make them dream”, will provide luxury goods' companies huge opportunities as the world economy recovers.

IPSOS research shows that among the key targets for companies in the luxury sector are Masters – a market of people in the 45 to 65 age group who have large discretionary income, who are living longer, who consider themselves to be young, and who want to live life to the full. The other potential markets include young people in the 25 to 35 year age group, but companies need to target these carefully, and offer, above all, products representing security, stability and realism against the backdrop of a rapidly-changing world. The other key opportunity is the emerging Chinese market which for luxury goods may represent a minimum market size of 10 million people.

The new partnership between BASELWORLD Forum and IPSOS will result in inestimable, exclusive market information for decision makers involved in the luxury goods' sector, via an annual international survey conducted amongst industry experts. The results of the industry research project will form the basis for the BASELWORLD Trend Report, to be released in the autumn of

Luxury goods' sector poised to recover strongly | 2

2003 at a series of three international press conferences in Europe, Asia and the USA.

Transcripts of all the BASELWORLD Forum 2003 speeches are available on www.baselworld.com/forum by Monday, April 7, 2003

BASELWORLD □ The Watch and Jewellery Show

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Internet:	www.baselworld.com
e-mail:	visitor@baselworld.com

Media contact:

Herbert Siegert
BASELWORLD PR-Coordinator
MCH Basel Exhibition Ltd.
P.O. Box | CH-4021 Basel
Tel. +41 58 206 22 64
Fax +41 58 206 21 90
press@baselworld.com
www.baselworld.com

UK office:

Suzanna Hammond | Carolyn
Gater
Hammond PR
31 Welbeck Street | London W1G
8ET
Tel. +44 20 7935 5404
Fax +44 20 7935 5897
baselworld@hammondpr.co.uk