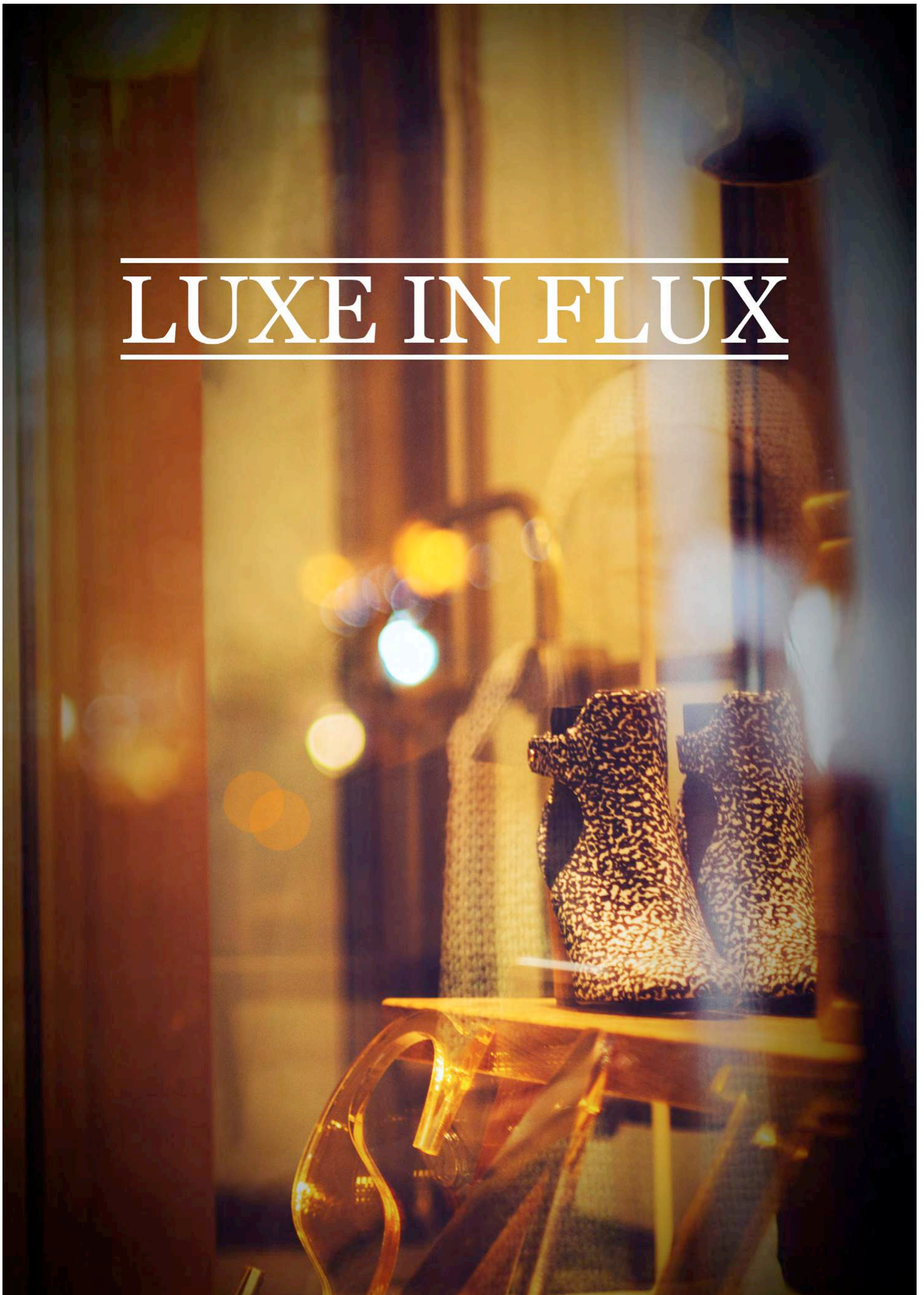


LUXE IN FLUX





Sitting in the lap of luxury.

The phrase conjures up images of a life of comfortable excess, privilege and affluence, a world away from the masses. The very idea of opulence as a rarified concept is what helped drive the long-term success of traditional luxury companies like Hermès and Rolls-Royce.

But does the word luxury still symbolize what it once did? Do conventional brands historically associated with it still have the cachet they enjoyed in past generations? Does the definition of luxury change depending on who you ask? Today, when everyone from the housekeeper to the teenager next door is wearing the latest Gucci accessory or carrying a Dior handbag (genuine or not), it is difficult to categorize luxury in the traditional sense.

Is luxury still luxury if it's accessible to all?

This raises an interesting question - is luxury still luxury if it's accessible to all?

No matter how contemporary luxury is defined, no one can argue that it remains a lucrative sector of the consumer goods market.

In 2014, the luxury market, defined as apparel, cosmetics, watches and jewelry, exceeded \$337 billion in annual sales, according to Euromonitor. That represented more than a 3% year-on-year real value gain over the previous year.

This growth was driven primarily by strong sales in emerging markets, and came despite profit warnings and disappointing results from many leading high-end brands, instability in the Eurozone and challenging

SPEED READ

- ☞ “Accessible luxury” has brought traditional luxury brands to the masses via entry-level offerings designed to attract gateway consumers.
- ☞ Consumers spent nearly \$1 trillion on luxury experiences in 2014.
- ☞ The majority of affluent and hyper-affluent millennial consumers turn to online research prior to making a luxury purchase.

conditions in markets such as Hong Kong and Russia. Euromonitor notes that designer apparel led global sales with a market share of 40%, but predicts that luxury accessories, jewelry and timepieces will show the most dynamic growth in the future.

Euromonitor also notes that significant market polarization occurred between 2009-2014, with many luxury brands attempting to reach a broader range of consumers through “affordable luxury” offerings – entry-level products designed to be purchased by aspirational, middle-class consumers. This trend is just one way the definition of luxury is changing and creating an industry in flux.

Luxury – A Definition

Perhaps to better understand what luxury is today, it is appropriate to begin by defining what it is not. According to Erica Corbellini, a Bocconi University professor who teaches about luxury in her course “The Management of Fashion and Luxury Companies,” true luxury doesn’t possess any of the following characteristics:

- Luxury is not just an object - it is the whole experience, including the service surrounding the sale, as well as the actual item that is acquired.
- Luxury is not readily available – it takes advantage of our evolutionary desire to obtain objects in limited supply, particularly when they are signifiers of wealth and status. Luxury requires waiting. As an example, the Hermès Birkin bag which retails from \$10,000 to upwards of \$200,000 can take up to two years to obtain.
- Luxury is not simply expensive – although most luxury items are costly, they must also provide desire and pleasure and offer an appropriate value proposition for the price that is charged.
- Luxury is not fast – it needs time. It will never be mass-produced or quickly delivered to the market. Neither will it be fast in how it is bought, consumed or interpreted.

Professor Corbellini believes that the idea of traditional luxury began to change in the beginning of the 1990s, when exclusive luxury brands began a democratization process wherein they began to offer more accessible price points. Following that was the growth of “aspirational luxury” where luxury brands started extending into new product categories. Luxury companies also began an internationalization process where they entered new markets for the first time, rather than selling exclusively in the United States, Europe and Japan. All of these moves helped usher in a new sort of luxury for everyone.

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She notes that the financial crisis of 2009 really reshaped attitudes and opinions about luxury, followed quickly by the introduction of millennials as adult consumers. She believes the millennial approach and attitude toward luxury is vastly different than the generations that preceded them. These changes, and others, have brought about a new understanding of modern luxury.

Accessible Luxury

When luxury came to the masses, it brought with it the risk of brand degradation. Where once the sole province of the elite, luxury today is affordable to the middle-class. This idea has surely raised more than a few eyebrows of the old aristocracy who may likely be asking themselves, “What good is it to own a Louis Vuitton handbag if everyone has one?”

But it is precisely the refusal to adhere to that outdated way of thinking that has helped established luxury brands meet the evolving demands of consumers and attract a whole new set of “gateway consumers” along the way. When Louis Vuitton began marketing its small monogrammed leather goods at relatively modest price points, a new wave of consumers – young, aspirational and brand-conscious – flocked to their stores.

This strategy may have worked too well. The brand became so popular, its entry-level Speedy bag became known as the “three-second bag” in South Korea precisely because of its ubiquitous appearance. The goal, of course, was to establish brand loyalty and convert these consumers to the more expensive products as their incomes increased. The risk was that the brand would lose its cachet.

This trend toward luxury for the masses has allowed brands like Tory Burch, Kate Spade and Michael Kors to establish themselves in the luxury arena. An aspirational consumer can acquire a Michael Kors handbag complete with the familiar MK logo charm dangling from the handle or a pair of Tory Burch flats with the signature double-T logo glittering on the toe for less than \$300 each. This represents a very low barrier to entry as compared to more traditional luxury brands such as Chanel or Hermès.

While these are hardly the items considered traditional luxury, for the new class of aspirational luxury consumers the brand recognition is enough. And just like their exclusive counterparts, these companies hope to guide their aspirational customers to purchase items from their higher-priced lines down the road.



Experience Is The New Black

Perhaps spurred on by the years of austerity following the financial crash of 2008 or by the changing desires of millennials or a combination of both, today's luxury consumption is more about experiences than products. A recent study by Boston Consulting Group revealed that consumers spent nearly \$1 trillion in luxury experiences in 2014, compared to less than \$400 billion on luxury products. Consumers at all levels are moving from a "stuff" to an "experience" mentality. It seems the late George Carlin had it right when he said, "Trying to be happy by accumulating possessions is like trying to satisfy hunger by taping sandwiches all over your body."

Diving with hammerhead sharks, embarking on exotic holidays or enjoying ultra-deluxe gourmet meals, each considered experiential luxury, all share a commonality – they shift a consumer's luxury experience from ownership to participation. These luxury experiences can also be customized to the consumer's precise interests and needs, meaning the discerning consumer gets exactly what he or she wants, every time.

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Yet these luxury experiences are not limited to special occasions nor do they need be ultra-expensive. While a 10-course meal in a Michelin-starred restaurant or white-glove safari in Tanzania may be out of reach of the masses, other experiential luxury opportunities are not. These days almost anyone can do things once considered unobtainable. Elective cosmetic procedures can be completed over a lunch hour. The hoi polloi can exercise alongside celebrities at places like SoulCycle or Barry's Boot Camp.

The key to turning these activities into experiential luxury is creating an atmosphere where demand outstrips supply and the cost is above-average for the experience itself. While the super affluent consumer may not care about getting sweaty next to Katie Holmes, the aspirational consumer does.



Likewise, the shift towards experiential luxury has also infiltrated high-end hotel chains. Where once sophisticated hospitality relied on Italian marble and Egyptian cotton to enhance the experience, these hotels are now shifting their focus toward curating unique opportunities for their guests. Today's discerning consumer no longer considers the purchase of a Rolex or pair of Louboutins to be brag-worthy. Instead, they want to talk about the sunrise they viewed across an Arctic snowfield on their dogsled trip to the North Pole.



Mobile Luxury

More than two billion consumers worldwide will have smartphones by 2016 and more than one-half of all mobile phone users globally will have smartphones by 2018, according to global research firm eMarketer. This figure represents more than one-third of global consumers. As consumers embrace technology to streamline more and more daily functions, shopping for luxury products is no exception.

With so many potential shoppers enjoying technology at their fingertips, luxury brands would be remiss to ignore this powerful group of tech-savvy consumers. Erik Pavelka, CEO of Martini Media, recently predicted, "Luxury brands are going to expand their digital presence very considerably, including video and multimedia production, where they can really leave a lasting impression on consumers."

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This move towards a digital presence is something new for most luxury brands who have historically shied away from selling their wares – or even promoting them – on any channel other than traditional bricks-and-mortar or print media. However, now that today’s savvy, affluent consumer can easily access data related to high-ticket purchases, it is essential for luxury brands to maintain an interactive and meaningful presence on the web.

Especially in the case of the affluent millennial. A recent survey completed by Ipsos MediaCT reveals that the majority of affluent (household income of at least \$75,000 per year) and hyper-affluent (at least \$250,000 in annual household income) millennials first turn to online resources to conduct research prior to purchasing a luxury item. This flies in the face of traditional marketing approaches long-adhered to by luxury marketers relative to the relationship between digital media and luxury goods.

Recognizing that nearly 70% of survey respondents identified as “very comfortable” making a luxury purchase online, many luxury brands must strengthen their online presence to capture these consumers. While some luxury brands have dabbled in having a simple online presence in the past, few have made the move to offer their goods for sale online.

While a few luxury brands have experimented with online sales partnerships through channels such as Net-A-Porter, many have not. Yet with changing demographics and the introduction of technology as a daily necessity, even the most reluctant brands are moving in that direction. Hermès just launched its own Hermèsistable website, offering a limited selection of accessories, and Chanel joined the ranks by announcing plans to launch their own e-commerce site by the end of 2016.

The world of luxury continues its evolution.

