



Lux Redux: reshaping the Luxury sector

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May 1st, 2013

THE BOSTON CONSULTING GROUP

What is luxury?



Collins

"Indulgence in rich and sumptuous living"



American
Heritage

"Something inessential but conducive to pleasure and comfort. Expensive and hard to obtain"



Larousse

"Caractère de ce qui est couteux, raffiné, somptueux. Plaisir couteux qu'on s'offre sans vraie nécessité"

→ what is costly, refined and sumptuous. Expensive pleasure one can buy without true necessity



Wikipedia.it

"Abitudine a consumi di elevata gamma qualitativa e di coste. Spesso, superflui, destinati ad ornare il proprio corpo o la propria abitazione"

→ Habit to consume high quality and expensive range. Rare, non-necessary products to ornate own body or home



Daijisen

"必要な程度をこえて、物事に金銭や物などを使うこと。金銭や物などを惜しまないこと。"

→ To use money or things for a certain purpose above the necessary level. Not to spare money nor things



Baheth

"البيئة التي تتكون من الامور مكلفة من غلاء المعيشة ومتطورة"

→ Environment which consists of expensive cost of living and sophisticated things



ru.wiktionary.
org

"внешнее великолепие, богатство, пышность . излишество в жизненных удобствах и удовольствиях, сопровождаемая расточительством изобилие, пышность"

→ External splendor, wealth, opulence. Extravagance in living comfort and pleasure, with a wasteful abundance



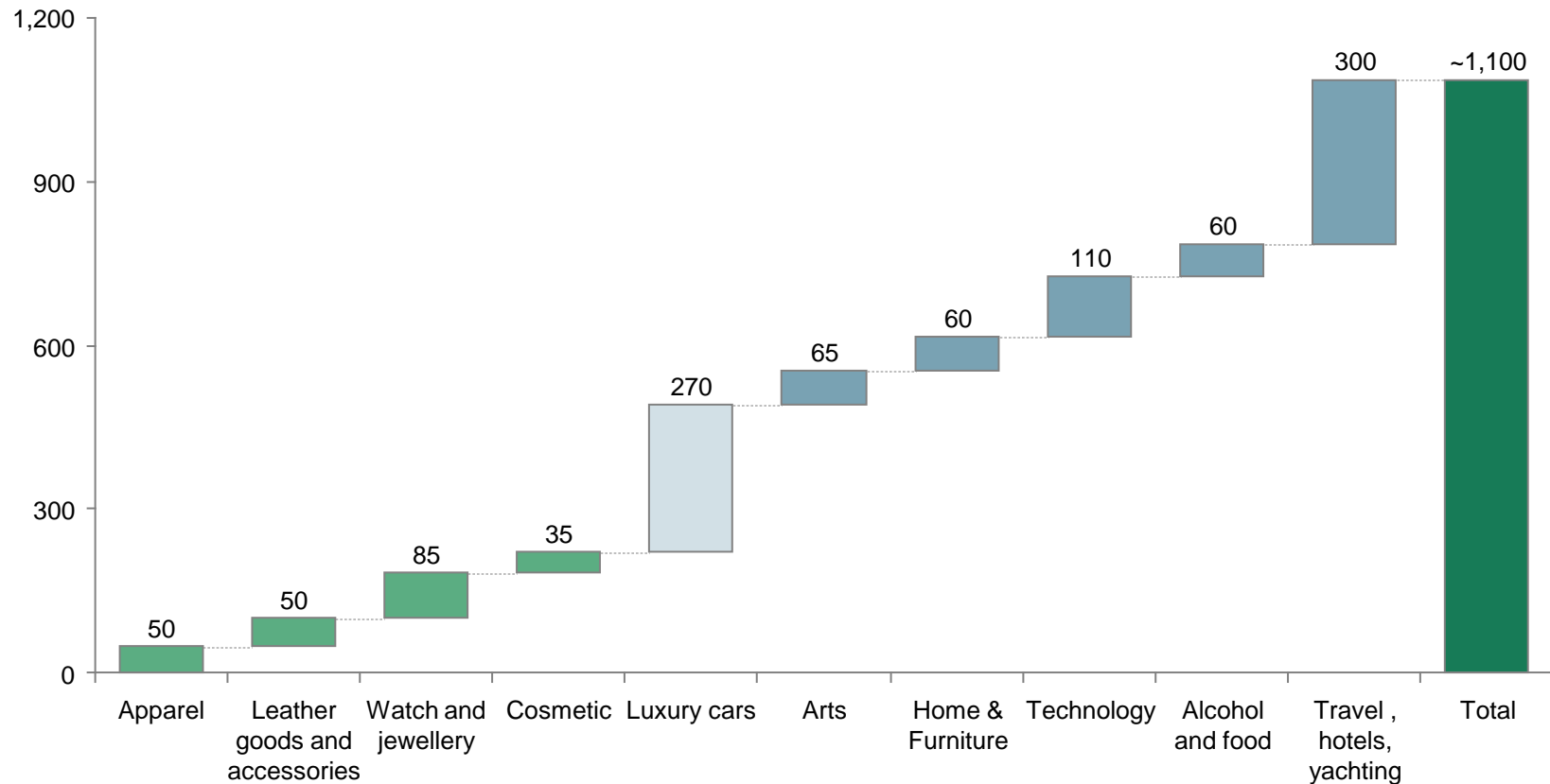
ZDIC

"挥霍浪费钱财,过分追求享受"

→ Extravagant waste of money, excessive pursuit of enjoyment

The market as defined by consumers: 1.1T€

Estimation of market size in €B



1. Luxury car category not included in the survey. BCG estimate

Source: IPSOS market research 2009–2011 (sample of 1000+ individuals from top 50% revenue quintile in mature countries (US, Japan, France, Italy, Germany, UK, Spain) and top 10% revenue quintile in emerging countries (China, Brazil, India, Russia...))

Two main drivers of growth

Emergence of a middle class

Aspirational masses



"The trendy metropolitan"

~ 330 M people
25-27% of luxury market

Rising middle class



"The proud business woman"

~ 70M people
25-27% of luxury market

Growth of number of Millionaires¹

New money



"The Loan Trader"
The Russian climber"

7.5 M people
30-35% of luxury market

Old money



"The Noble Italian Entrepreneur"

2.5 M people
10-15% of luxury market

1. High net worth individuals (investable assets > US \$ 1 Mio.)
Source: Dr. Ziems, Concept M; BCG analysis

Projections for 2013-14

Continuity scenario

GDP growth in line with 2010-12

Growth of HNWI in line with last 3 years

Winter scenario

GDP growth reduced by 1.5% in Japan, Europe, US and by 3% in Emerging Countries (vs. 2010-12)

Growth of HNWI / by 2 vs. last 3 years

Spring scenario

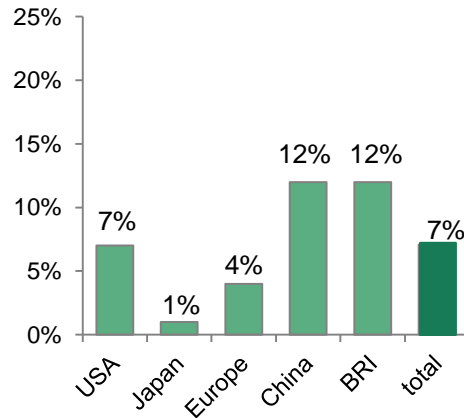
GDP growth increased by 1% in Japan, Europe, US and by 2% in Emerging Countries (vs. 2010-12)

Growth of HNWI in line with last 3 years

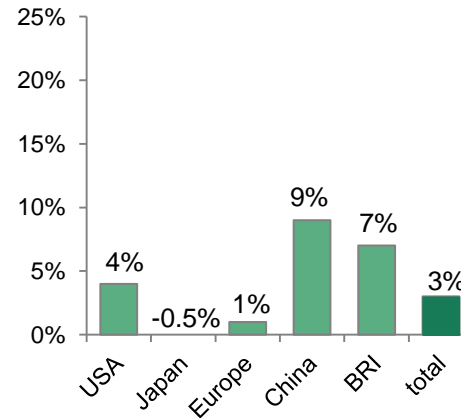
key hypothesis

Output

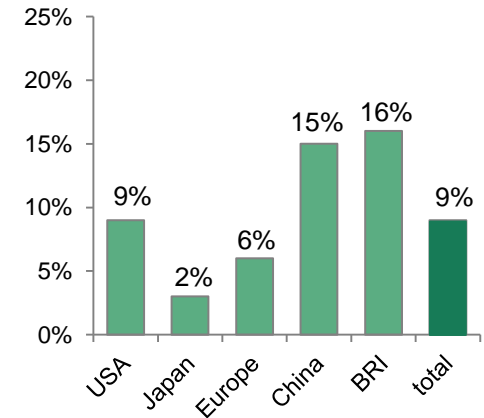
Personal Luxury Goods market 2013-2014 CAGR



Personal Luxury Goods market 2013-2014 CAGR

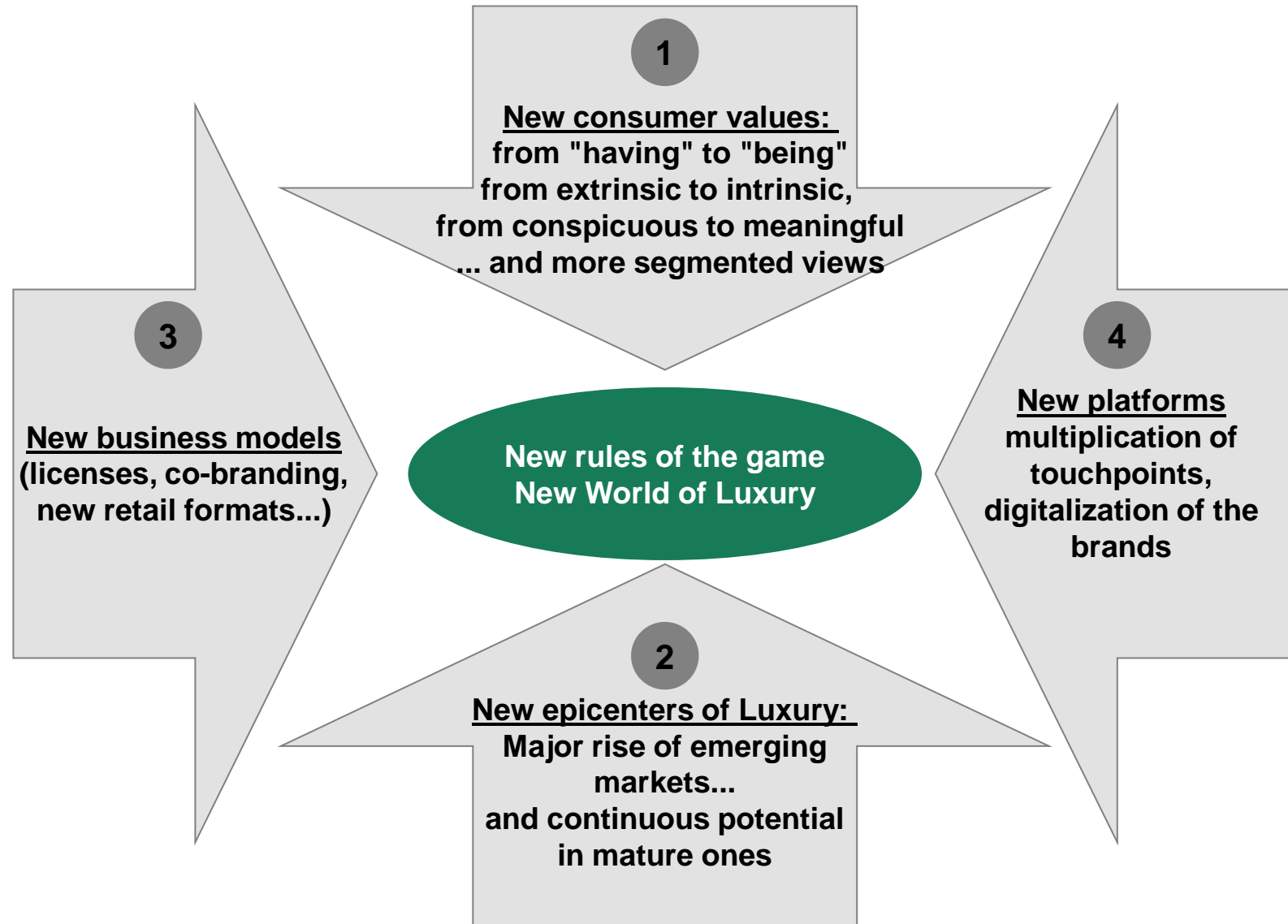


Personal Luxury Goods market 2013-2014 CAGR

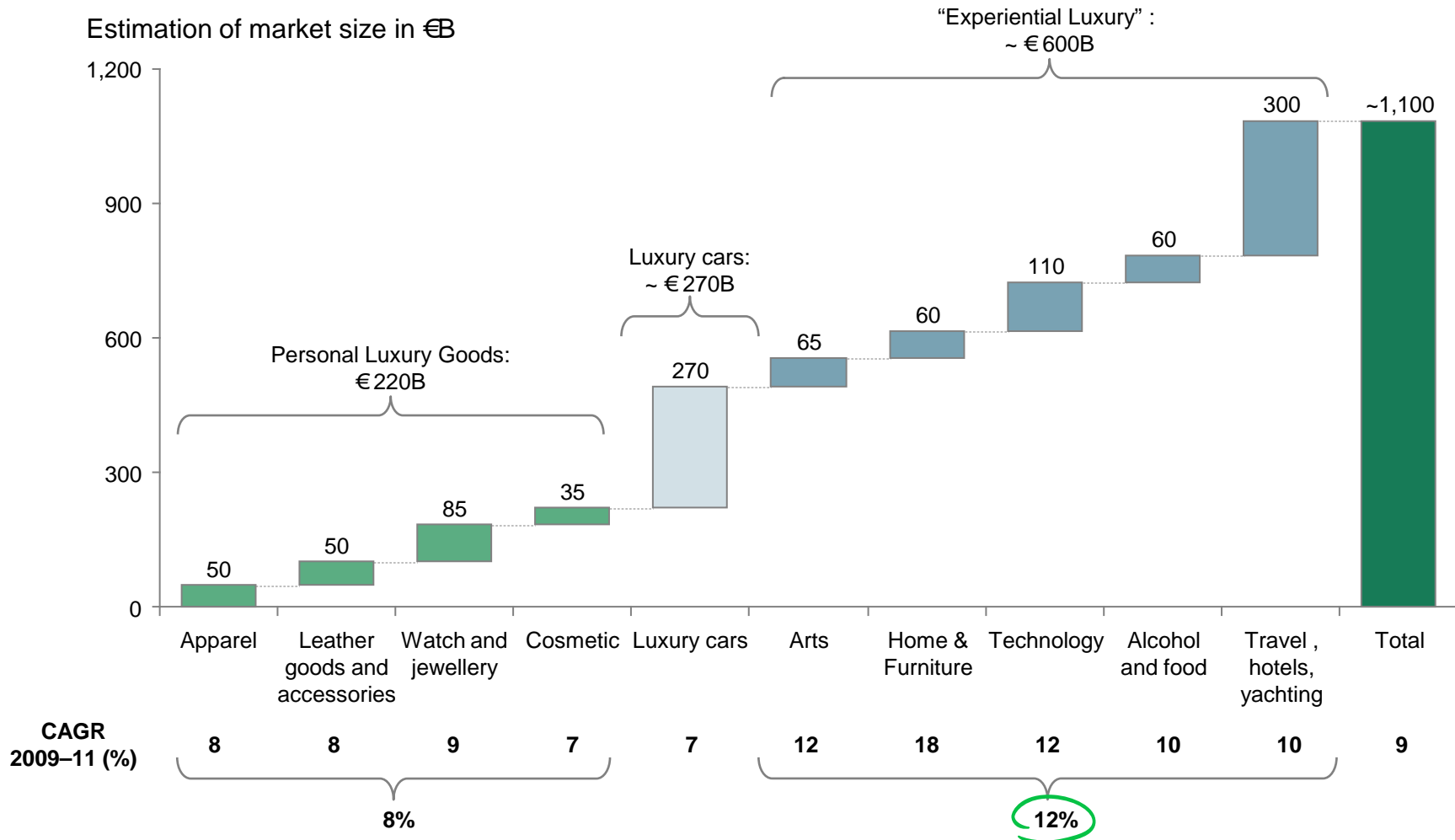


The new world of luxury

Key trends that are changing the rules of the game



1 Growth coming from "being" vs. "having"



1. Luxury car category not included in the survey. BCG estimate

Source: BCG-IPSOS market research 2009-2011 (sample of 1000+ individuals from top 50% revenue quintile in mature countries (US, Japan, France, Italy, Germany, UK, Spain) and top 10% revenue quintile in emerging countries (China, Brazil, India, Russia...))

Fundamental differences between luxury goods and luxury experiences



Characteristics



Examples



- Watches with diamonds
- Jewelry
- Bags, apparel
- ...



- iPad
- High-end kitchen
- High end furniture
-



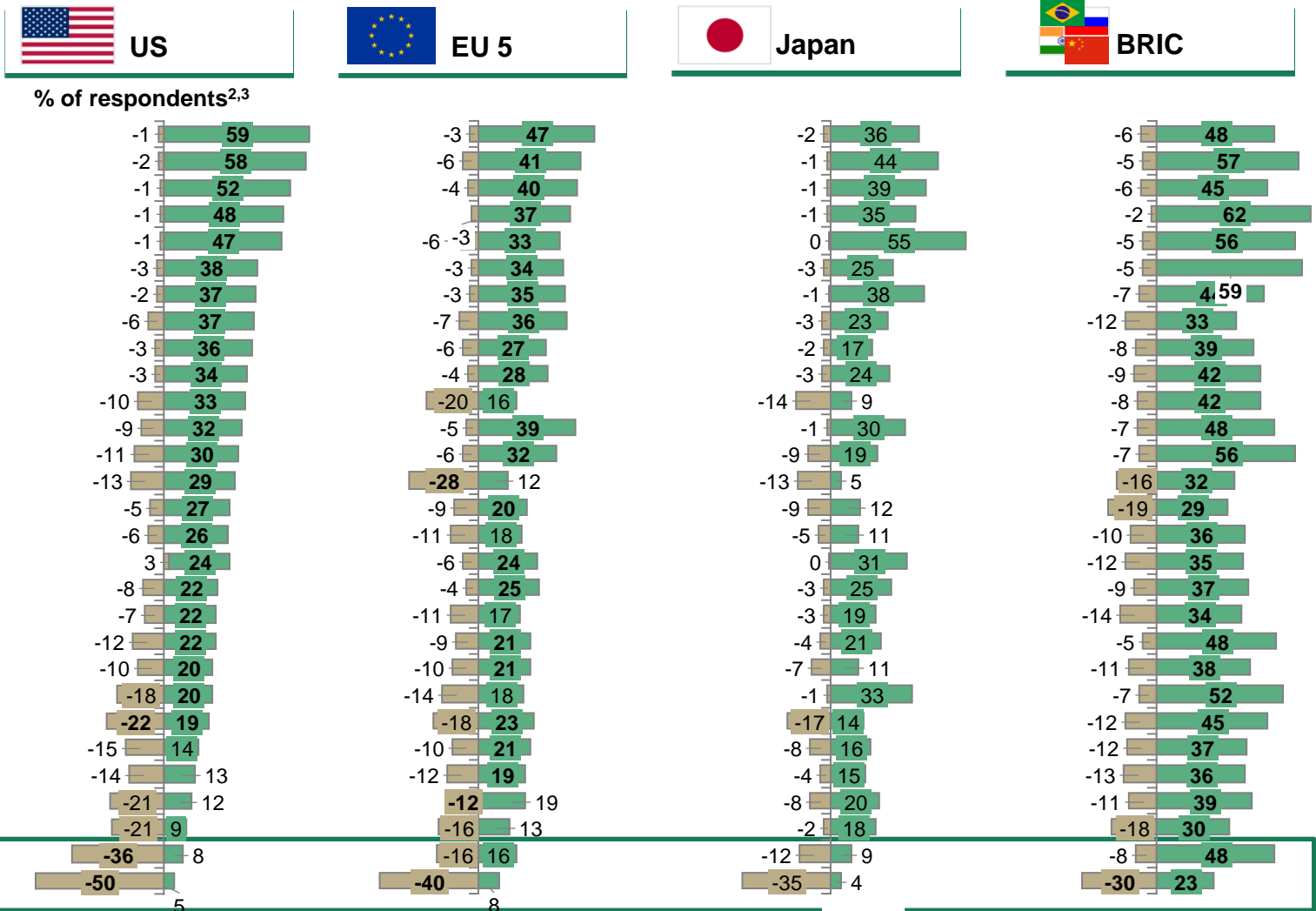
- Luxury hotel or resorts
- High-end restaurant
- Spas...

Source: Internet research

Luxury values clearly challenged

More important¹

Less important¹



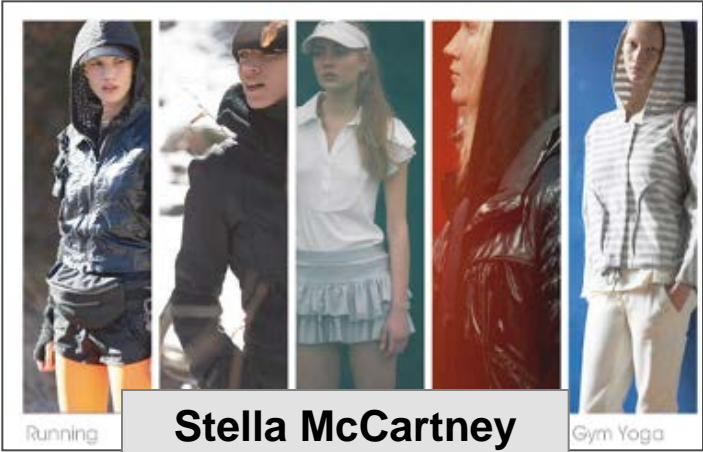
1. Than two years ago 2. Survey question: Below is a list of terms and values. For each, please indicate if this is something that you would see as being more or less important to you than it was two years ago 3. Respondents who ranked the term as equally important as two years ago have been excluded.
 Note: Graph excludes answer "no change"; EU includes EU Big5 (Germany, UK, Spain, Italy and France); Developing markets include Brazil, China, India, Russia; Bottom income quartile cut and sample reweighted to represent real income distribution in each country
 Source: BCG Global consumer sentiment survey 2011

1

Value challenges also coming from blurring boundaries between Luxury & mass



Jil Sander for Uniqlo



Stella McCartney for Adidas



Jimmy Choo for H&M



Lagerfeld for Macy's

Luxury brands adapting to new values: is it enough?

From extra-luxury to intro-luxury

From sex to craftsmanship

Chanel N°5, 2001

Chanel N°5, 2009-10

LV, 2007

LV, 2009-10



Dior Couture, 2002

Dior Couture, 2009-10

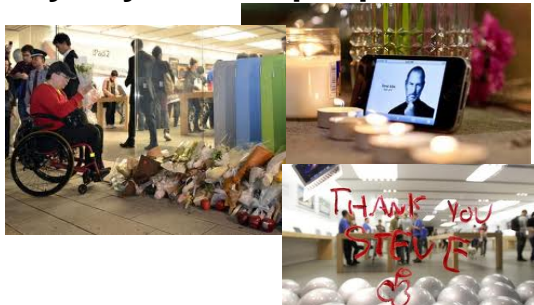
Gucci, 2001

LOUIS VUITTON
Gucci, 2009-10



1 What new sense of purpose for Luxury?

Improving every day's life of people



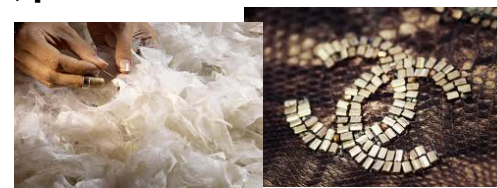
Aesthetic/ art, quest for the beauty



Learning/ cultural quest



Craftsmanship, preservation of know-how



Heritage, be part of the history



Well-being and pleasure quest



Performance, pushed to the limit



Green (?)



Chinese Luxury consumption accounts for 120-130B€ heavily skewed towards "having"

Chinese consumption
(in and outside China)

Share of total market

Personal
Luxury
Goods



~45 B€

20%+

Cars



~50B€

20%

Experiential
Luxury



~30B€

5%

Total

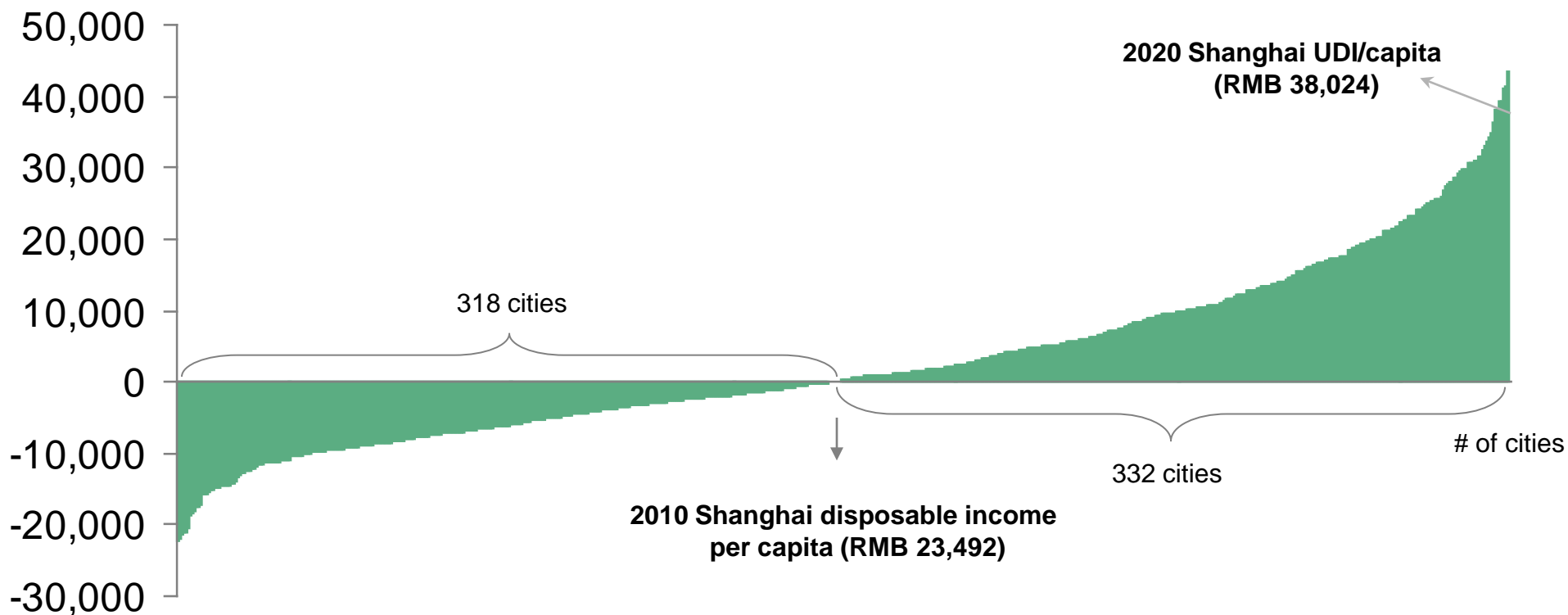
~125 B€

12%

2 More than 330 "Shanghais" in 10 yrs in China

2020 city disposable income per capita vs. 2010 Shanghai level

△ RMB (2020 UDI/capita – 2010 Shanghai UDI/capita)



Very different segments of luxury consumers in China : Illustration of 3 segments

The successful entrepreneur

Demographics

Mostly men



30-45

High assets, high income
(e.g. >150k RMB)
All cities

The new comers

Men and Women



All age

Medium income (e.g. 60k RMB)
Tier 3 and 4 cities

The "Sugar 2" generation

Men and Women



Younger

High assets (inherited),
income irrelevant (can be low)
Tier 1 and 2 cities (mostly)

Luxury attitude

Ostentatious, status oriented

Low education on /
knowledge of luxury
brands

Big spender
Travel a lot

Ostentatious, status oriented

Low education on /
knowledge of luxury, go
for big brands

Low tickets
Do not travel much

Discernment, knows luxury brands, will go for niches

Still status oriented, want to show

Big spender
Very hooked on the internet
Travel a lot

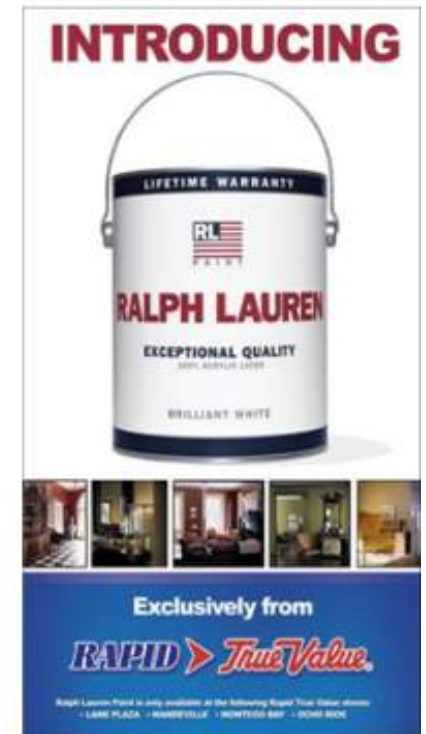
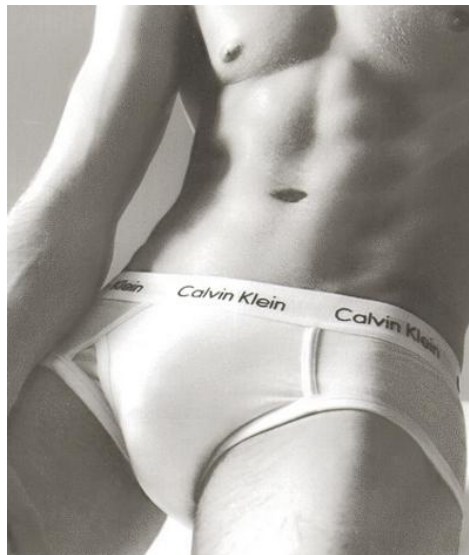
Main categories

Watches
Cars
Bags
Self-purchase and gifts

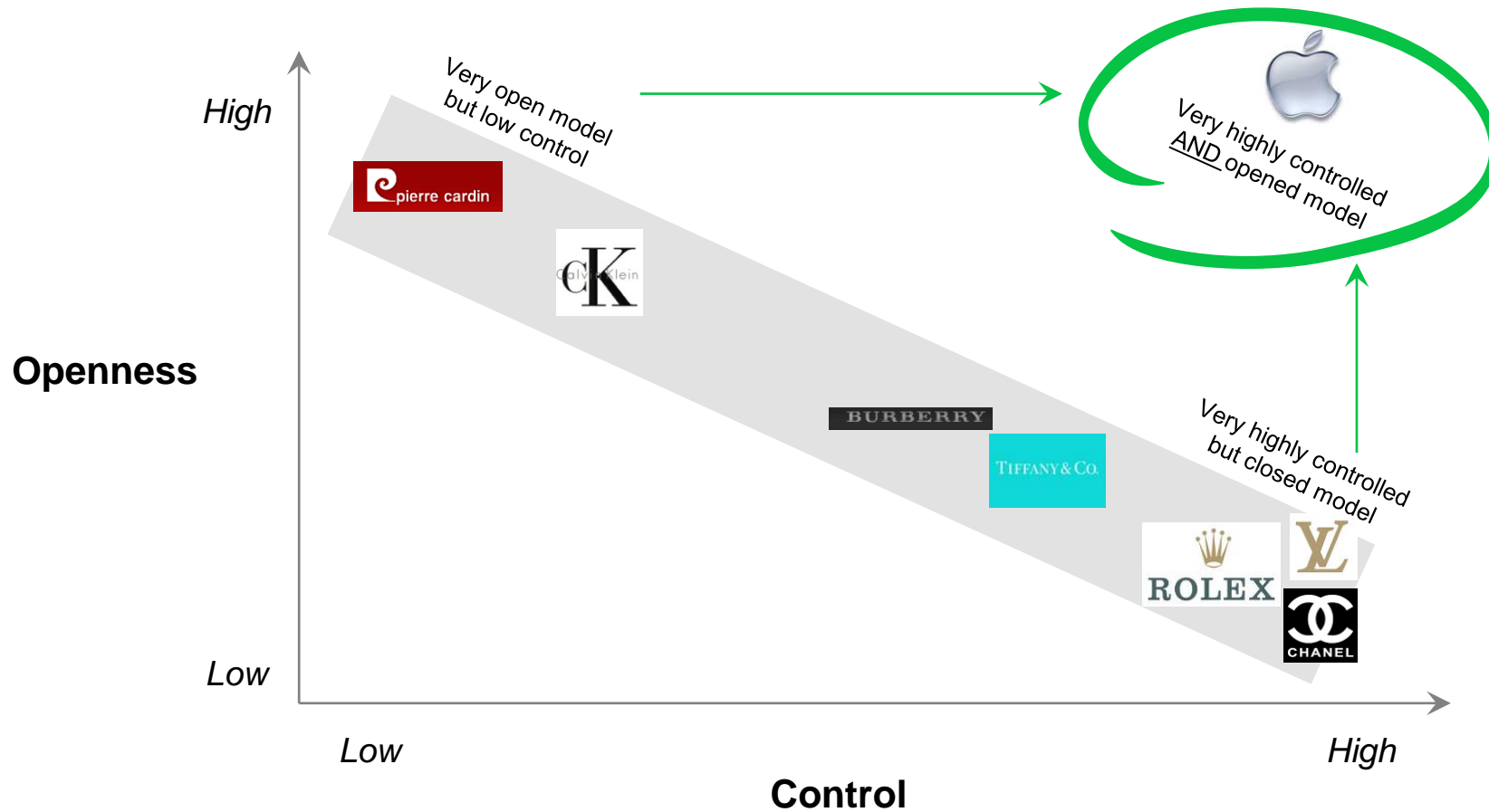
Cosmetics
Accessories

All categories including fashion, jewelry and more experiential categories (travel...)

3 Uncontrolled licenses can hurt the brand



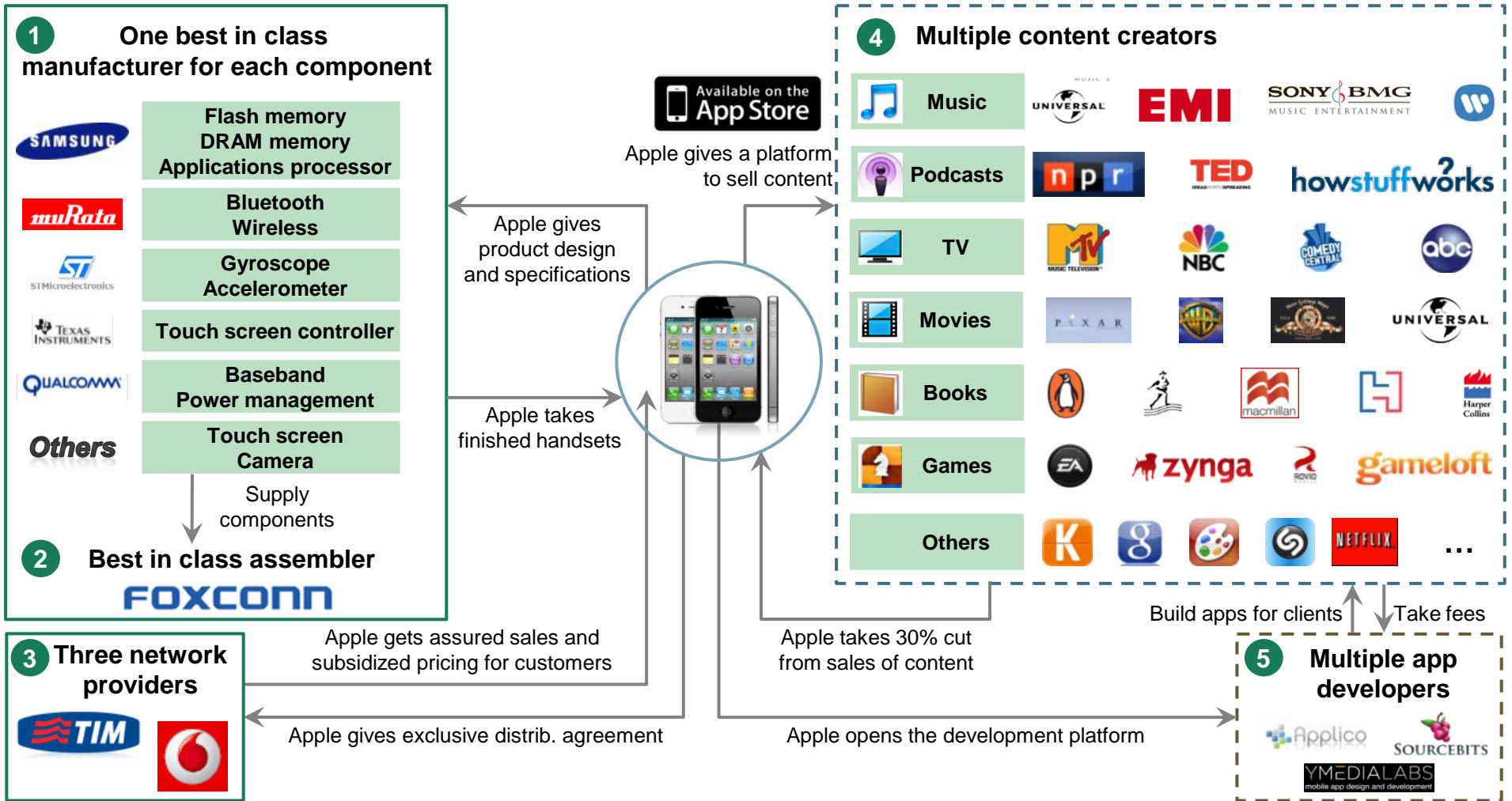
Breaking compromises between Control and Openness





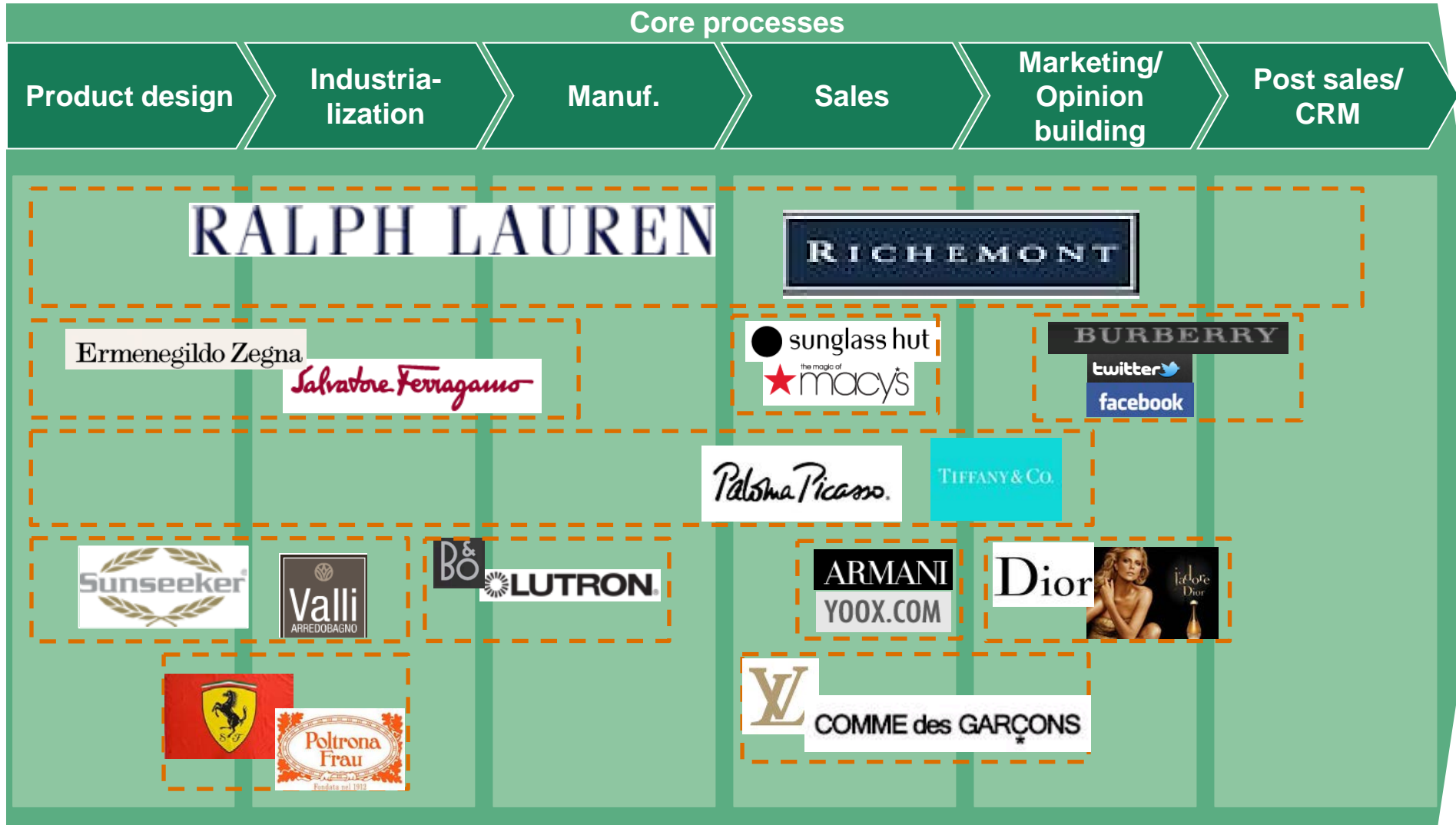
3

Apple beats Nokia with an Eco-system

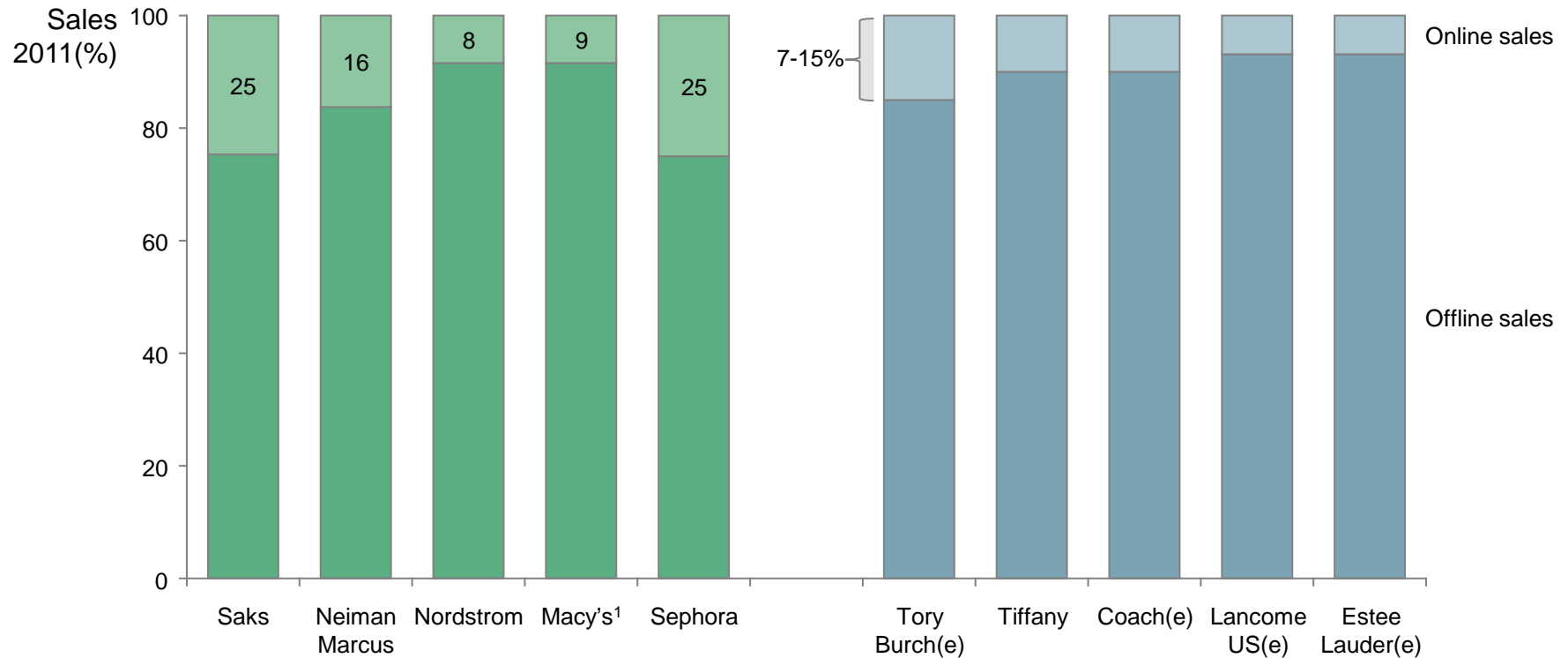


"Our competitors aren't taking market share with devices; they are taking share with an entire ecosystem." – Stephen Elop, CEO of Nokia

Examples of collaboration



Ecommerce and luxury: already a reality



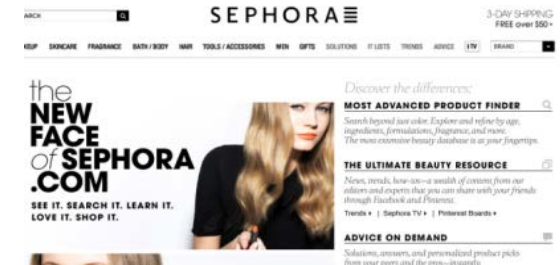
1. Includes Bloomingdale's
Source: Internet retailer, BCG Estimates

The best websites address the 3C's

Example: New Sephora.com

Commerce

- Aesthetically pleasing with trendy homepage
- Equipped with advanced product finder
- Clear description of products and customer reviews
- Layout easy to navigate, quick to buy products
- Free shipping with purchases over \$50
- Selection of three samples with every purchase
- Products easy to return (online and offline)



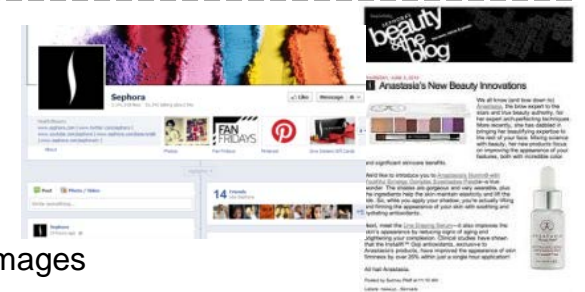
Content

- Purchase history available
- Product discussion forums
- 'The Sephora Glossy' online magazine
- 'Beauty Talk' forum with instant peer & professional advice
- Sephora TV introducing & educating on new F&B products
 - 'Beauty and the Blog' update on new products



Community

- On demand advice from peers and professionals
- Active consumer forums linked to product reviews
- 'Beauty Insider' membership community
- Updated rich in content social media platforms (e.g., Twitter, Facebook, Youtube, Pinterest, Instagram)
 - Pinterest pin button to easily pin products and images



New competition between Brands & Dept Stores

Ralph Lauren presents the product authentically...

✗ No additional product suggestions
 ✓ Clear display of product brand
 ✗ Limited viewing options
 ✗ Short product description
 ✓ Standard size chart

Blue Label
 Audie Crepe Jersey Dress
 Price: \$398.00
 Style #13007227

The light-as-air layers at the hem of our Audie style give it an unforgettable feminine appeal.

- High neckline. Sleeveless silhouette.
- Cut on the bias for a fully flared skirt. Back keyhole with self-covered button.
- Falls 24 1/2" from the natural waist.
- 70% cotton, 30% nylon. Lining: 100% viscose. Dry clean. Imported.

COLOR: Collection Black
 SIZE: Select Size
 QUANTITY: 1
 ADD TO SHOPPING BAG

...but Saks utilizes online technology to engage the customer with the product

✓ Suggests additional Ralph Lauren products to complete the **silhouette**
 ✓ Product **reviews** button enable opinion seekers to engage and gather more information
 ✓ **Video** and zoom used to display product from all sides
 ✓ **Detailed product description** aids product positioning
 ✓ Women **size guide** addresses potential hesitation to shop online

Ralph Lauren Blue Label
 Audie Crepe Jersey Dress
 ☆☆☆☆☆ Be The First to Write a Review
 Like

Its fitted jersey bodice is sure to flatter curves as its floaty crepe skirt adds a touch of whimsy as it moves with its wearer.

- Round collar
- Sleeveless
- Fitted bodice
- Slightly flared skirt
- Button closure at keyhole back
- Pull-on style
- Fully lined
- About 25" from natural waist
- 70% cotton/30% nylon
- Dry clean
- Imported

Model shown is 5'9 1/2" (178cm) wearing US size Small.

Additional information
 Women's Premier Designer & Contemporary Size Guide
 \$398.00 0486378138217
 QTY. * 0 Choose Color and/or Size

ZOOM & PAN ON ITEM PLAY VIDEO

4 New competition wit Amazon as well

+500 Cartier watches on sale on Amazon

Up to 9 e-retailers in the marketplace (Jomashop, WatchSaving, Finebrand, PricePro, Certified Watch Store, Swiss Luxury...)

Real price difference vs Cartier (-10 to 25%)

Many reviews

Incomplete name of the product

Free shipping (prime)

1 click

YOUR SELECTION **DETAILS & PURCHASE**

CALIBRE DE CARTIER WATCH
AUTOMATIC, STEEL

Contemporary and refined, the Calibre de Cartier watch reinterprets the round form in watchmaking with character and style. Equipped with the new Manufacture Cartier movement, the 1904 MC, this new timepiece is a

REF: W7100037
PRICE: \$7,100
[EXCLUDING SALES TAX]

ADD TO MY WISH LIST
SEND TO A FRIEND
PRINT THIS PAGE

DETAILS & PURCHASE

Add to Cart
Add to Wish List

2 new from \$6,044.99
Have one to sell? **Sell on Amazon**

Cartier Men's W7100037 De Cartier Leather Strap Watch by Cartier
Buy new: \$7,100.00 \$6,044.99
9 new from \$6,044.99
Get it by **Wednesday, Jun 6** if you order in the next **13 hours** and choose one-day shipping.
FREE One-Day Shipping & Free Returns See Details
Watches: See all 201 items
See Visually Similar Items

Cartier Women's W7100037 De Cartier Leather Strap Watch by Cartier
Buy new: \$4,100.00 \$3,475.99
8 new from \$3,475.99
★★★★☆ (12)
Watches: See all 201 items
See Visually Similar Items

Cartier Men's W7100037 De Cartier Leather Strap Watch
List Price: ~~\$7,100.00~~
Price: **\$6,044.99** FREE One-Day Shipping & Free Returns Details
In Stock. Ships from and sold by Amazon.com.
Only 4 left in stock - order soon.

- Self Winding Automatic Movement
- Durable Sapphire Crystal
- Case diameter: 43mm

FINANCING Amazon's financing program requires a minimum promotional balance is not paid in full within 12 months. Interest will be charged. Subject to credit approval. See complete details and restrictions. See all qualifying watches.

[See more product promotions](#)

Call for actions to our luxury clients

- 1. Don't consider it is back to normal. Things have changed in depth**
- 2. Expand into new experiential categories vs traditional personal goods; boost experiences as part of traditional offering**
- 3. Reinvent new codes vs mass players, make sure you deliver a unique luxury value added and in product and experience**
- 4. Stretch your pricing accordingly!**
- 5. Invest to understand the aspirations /frustrations of various consumer segments**
- 6. Attack specific segment e.g. women self-purchaser or senior segment**
- 7. Do not forget to farm in mature countries while hunting in emerging ones. Chase the globetrotters from China, Brazil etc
Build fully international executive teams (with senior talent from China)**
- 8. Consider new business models, consider licenses and co-branding, while maintaining control; Develop new distribution format, create surprises at POS**
- 9. Increase your bond with consumers; Develop more intimacy/ CRM**
- 10. Create a real web presence for the brand (ecommerce, branding, blogs and social media etc); digitalize your brand! Up your ambition level online.**