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Luxury Daily®

# STATE OF LUXURY 2018

## The Insider View


Luxury Daily®

A **Luxury Memo** report polling our audience, brought to you by *Luxury Daily* publisher Napean LLC in partnership with Unity Marketing.

# STATE OF LUXURY 2018

## The Insider View

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# Introduction

A feeling of optimism about the luxury industry's prospects for 2018 is starting to pervade the industry. In this *Luxury Daily* and Unity Marketing's second annual survey among luxury industry insiders, including both executives that manage the companies that provide luxury goods and service experiences to luxury consumers and the businesses that provide support services to the luxury industry, nearly half of those surveyed (47%) believe that conditions in the luxury market in general will improve in 2018 and more than two-thirds feel conditions for their own companies will gain as well. Both measures are markedly better than in the survey conducted last year.

And this survey was taken through August and September 2017, before the Bain & Company annual global study report that predicted worldwide luxury goods industry growth to grow 5% this year. While this is news that would cast a positive glow industry wide, it had no impact on the luxury insiders' perspective we surveyed.

> *"The results of the online survey give us a bird's eye view of the current luxury business, its challenges and opportunities and where it is headed in the future."*

But as the saying goes, "Hope is not a strategy," and there still is plenty of work that needs to be done for the luxury industry to turn these optimistic feelings into measurable results and growth for their brands.

The digital revolution continues to disrupt business as usual in retail in general, luxury in particular, though this year the survey shows more luxury companies have embraced the potential that Internet marketing and ecommerce represent by it.

Innovation, both in product and services offerings, offers a path for growth in the future for many players, as well. Though innovation strategies, just as often fail to catch on and realize their promise, as succeed.

And political turmoil, the most disruptive trend identified in last year's survey and which we expected to be resolved after the U.S. Presidential election, continues unabated, if not accelerated across the culture. It remains the most negative trend impacting the luxury market today.

In the report that follows you will see the result of this year's survey among 600 luxury industry insiders compared with those from last year. We will report on the trends year-to-year and provide actionable takeaways based on the results to help you power your competitive and marketing strategies for 2018 and beyond. From our perspective as observers and analysts of the luxury industry, at large, and the luxury consumers that are vital members of the luxury community, *Luxury Daily*, the world's leading luxury business publication, and Unity Marketing, a market research firm specializing in the luxury market and affluent consumer segment, are pleased to bring you this report.

From Aug. 1 through Sept. 31, 2017, we surveyed 600 executives from the *Luxury Daily* subscriber list and the Unity Marketing database. The survey was conducted during the same time period and among the same number of respondents as last year, making the results comparable. The results of the online survey give us a bird's-eye view of the current luxury business, its challenges and opportunities and where it is headed in the future.

Throughout this report we will try to draw conclusions about what the research findings mean, depending on the vantage point of those in the business, whether competitors in the luxury market or companies supporting the efforts of those companies. In this way we will attempt to make the research data actionable for you.

**Mickey Alam Khan**
Editor in Chief
*Luxury Daily*
mickey@napean.com

# Letter from Pam Danziger, President, Unity Marketing

In my business as a luxury industry insider serving luxury marketers and brands, I start each day reading *Luxury Daily*, like thousands of others. It keeps me up with news and trends in the luxury market. But in my profession as a market researcher, I know that the information is anecdotal, scattered and unstructured, making it difficult to take that daily snapshot of stories and compile it into a comprehensive and authoritative picture of the key trends impacting the luxury market.

A formal research study is what is needed, which is what Mickey and I set out to do with this second annual survey among people working in the luxury industry. Our goal is to document the most significant trends shaping the future of the luxury industry in which we all operate. We polled more than 600 industry insiders to measure the challenges and opportunities facing companies in this space and compared the results with those from last year's survey. We thank all those insiders for sharing so generously their thoughts and feeling about the luxury industry, and their role in the market.

What we discovered in this study is an industry undergoing profound changes with the digital revolution being both its primary disrupter but also its potential savior in the years ahead. We have identified seven key trends shaping the industry's future, with perhaps the most important of which being the very definition of "luxury" is shifting in the minds and lifestyles of the customers we serve, either directly in the products and services on offer or indirectly as marketers providing support services to those companies. This shift calls on those in the industry to adjust their definition of "luxury" as well.

We found that insiders view the past year as a challenging one for their businesses, as they did last year. But improvements are also being felt overall and the insiders survey believe their companies have strategies to respond to the shifts in the market that will enable them to overcome the headwinds they have faced. The insiders have ambitious goals for next year and expect to do better over the next twelve months.

One notable finding in this study is that luxury industry insiders identify a vital need for better-trained and experienced professionals to fill key roles in their companies resulting from the many changes, challenges and opportunities blossoming in the luxury industry. This suggests that professionals with education and experience in the industry may find new employment opportunities over the coming year.

Companies operating in the luxury industry, the very foundation of which is to provide the best and most exquisite things and experiences to the most discerning and powerful consumers, first and foremost need the best and brightest personnel — the industry's human capital — to prosper.

We proudly share this important industry study with you.

Good 'Luxe,'

**Pamela N. Danziger**
President
Unity Marketing

# Executive Overview

This luxury industry insiders' survey takes the measure of 600 participants in the luxury industry. It includes perspectives from luxury goods marketers, which represent the largest share of insiders surveyed (41%%), luxury service and experience marketers (16%) and suppliers of services, such as advertising, media, consulting and others, to luxury goods and experiential marketers (28%). This year's survey sample was enhanced by greater participation of insiders working in the home luxury goods and services sectors. Here is a snapshot of the key findings from this study:

**• About the Luxury Industry Companies Surveyed**

This year's luxury insiders' survey was enhanced with the addition of more home goods marketers to gather an even wider perspective on the luxury industry across all the consumers' lifestyle interests. Insiders participating in home furnishings, appliances, linens and tabletop were the most highly represented sample in the study, joining jewelry, clothing and fashion accessories, watches, art, beauty, food, wine and spirits and automobiles to share their perspectives of the opportunities and challenges in the luxury market in 2018 and beyond.

On the luxury service and experiences side, insiders offering services to homeowners, including real estate, interior designers, architects and builders, added perspective too, along with hospitality, dining and restaurants, travel service, retailers, financial services and beauty services.

The vast majority of luxury goods and services marketers operate in a global sphere, though the predominant share of these companies (85%) view the United States and Canada as their key luxury consumer market, with Western Europe (37%) and United Kingdom (32%) being the next most important markets.

The luxury goods and services marketers work for companies that have been active in the luxury market an average of 30 years, with most having been in business nearly a decade before setting their sights on the luxury business. Some 40% of these companies became active in the luxury industry since the new millennium, and 80% since 1980.

Regarding the Internet, nearly 40% of the luxury goods and service marketers currently are not selling over the Internet, though 68% of luxury goods companies are ecommerce enabled. Among those companies that sell goods and services online, nearly one-third of corporate revenues are attributed to online sales.

**• Advertising, Marketing and Innovation Strategies**

In 2018 a majority (58%) of luxury goods and experience marketers plan to spend more on advertising, with social media, Web site enhancements and internet advertising getting the biggest boost in advertising investments.

The biggest challenges to growth for the luxury goods and service marketers surveyed are how to find new customers for their brands, intense and growing competition in general, as well as price competition. The cost of doing business in today's luxury market, too, holds back companies from growth. However, luxury goods and services marketers are less challenged this year as compared to last with selling to customers who are not willing to trade up to luxury, which is a net positive change for insiders this year.

Overall luxury goods and service insiders view the Internet and social media as the magic bullet in 2018 to reach new customers, build impressions and make connections.

To power innovation strategies, they turn to the news and industry trade sources to follow trends and engage in active listening and social media monitoring to hear what their customers are saying and understand what they are feeling. Formal market research studies and active listening to their own staffs are far less important overall, but a huge missed opportunity.

### • Key Trends Impacting the Luxury Market

Three trends emerged as the most positive for the growth of luxury insiders' businesses. They are product and service innovation, social media and rise of the digital world, and product/service diversification.

On the other hand, the most negative trends impacting their businesses in the current market is political instability and divisiveness, followed by monetary policies and the challenge of finding and retaining qualified employees.

### • Business Conditions in the Luxury Industry

The overall perspective about business conditions in the luxury market this year show significant improvement from last year. Nearly half (47%) of insiders surveyed believe the luxury market in general will improve in 2018, as compared with 2017.

As for their own companies, over two-thirds expect business conditions to improve this year, which again is an improvement over last year.

### • Deep Dive into Seven Key Trends Shaping the Future of the Luxury Market Are Identified

The survey included a number of open-end questions allowing the luxury insiders to share their attitudes, beliefs and feeling about prospects for the luxury market including the special challenges and opportunities they see for the industry and the companies in which they work.

The luxury insiders surveyed see these seven key trends as most profoundly shaping the industry's and their professional future:

**1. Digital Revolution**
New sources of information for consumers
Has upside and downside depending on insiders' perspective
Heritage and tradition giving way to immediacy and now

**2. Definition of Luxury Is Changing**
What is luxury is today?
How do people recognize the clues and cues of luxury?
Who is the arbiter of luxury?

**3. Consumer Preference, Spending Shifts**
Changing consumer expectations
Changing demographics
Changing shopping behaviors
Changing values
Changing service expectations

**4. Competitive Pressures**
Competing for best and brightest employees
Experiences vs. goods
Lost brand loyalty
Competition for consumer attention
Competition from mid-market and premium goods
Flooded market
Emerging 21st C companies
Failure of luxury heritage and tradition

**5. Social Turmoil**
Political climate
Cultural divisiveness
It's uncertainties on steroids

**6. Globalization**
Interconnected world economy
New cultures, new cultural influences
Different lifestyles
Threat of terrorism
Brexit, monetary policies

**7. Demand for Innovation**
Is management and staff up for change?
Pressing need to diversify
Tactical focus, lacking strategic focus
Need for creative destruction

Read on for details about these findings with call outs of what the findings mean for companies that serve the luxury market and industry.

# Luxury Insiders Surveyed

In all, 599 luxury industry insiders completed the online survey, which is virtually the same as the 603 who did so last year. The survey includes industry participants representing four key sectors:

- *Luxury goods marketers and/or retailers:* Just under half of those completing the survey compete in the luxury goods sector.
- *Luxury services/experiences marketers:* Some 16% of respondents participate in delivering luxury services and/or experiences, including home-related, travel, financial services, real estate and others.
- *Suppliers of goods and services to luxury marketers:* This is our second largest respondent segment, with just over one-fourth of our sample supporting luxury goods and experience companies, including insiders from advertising, branding and media agencies, consultants, manufacturing partners, researchers, et cetera.
- *Publishers, reporters and educators:* These observers of the luxury market were broken out separately this year and represented fewer than 10% of the survey sample.

**TAKE AWAY**

Different perspectives emerge depending upon the roles played in the luxury industry, so throughout this report we will interpret the findings from those different vantage points.

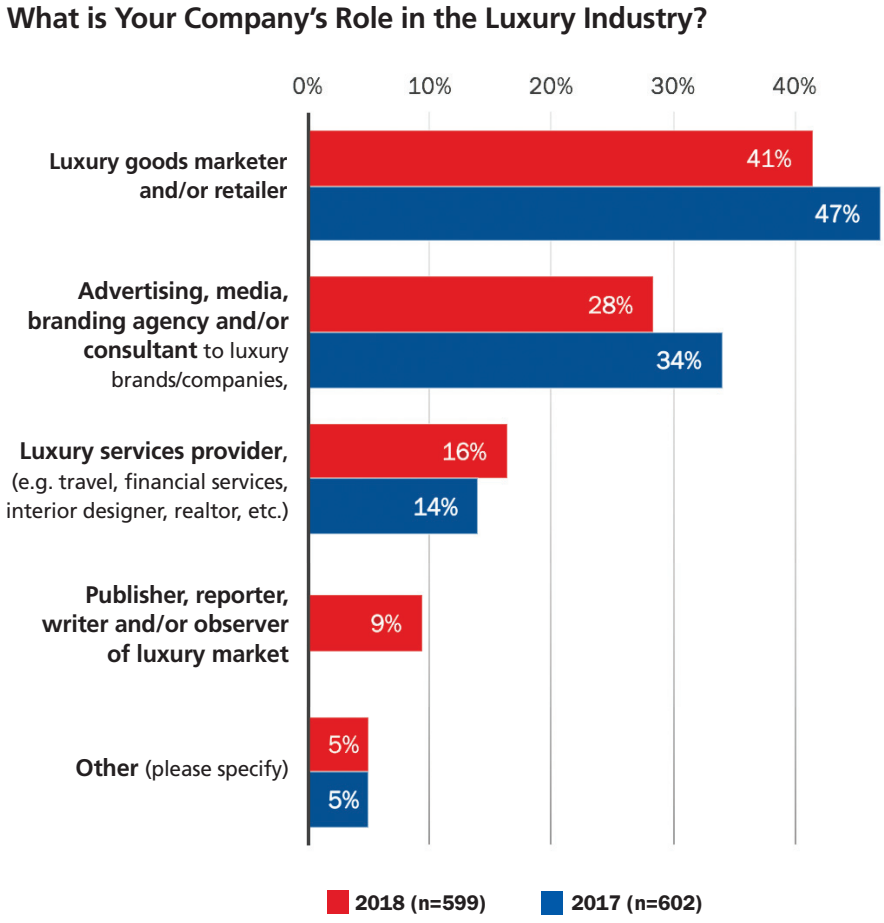


Figure 1: Luxury industry insiders surveyed

# A Closer Look at the Luxury Goods & Services/Experiences Marketers

The luxury goods and service/experience marketers were asked additional questions pertaining specifically to their businesses.

## Luxury Goods Categories

In luxury goods, home furnishings represented the largest share of participants, followed by jewelry and fashion marketers. With the addition of more home furnishings marketers' perspectives, a greater range of luxury consumers' lifestyle needs are covered this year.

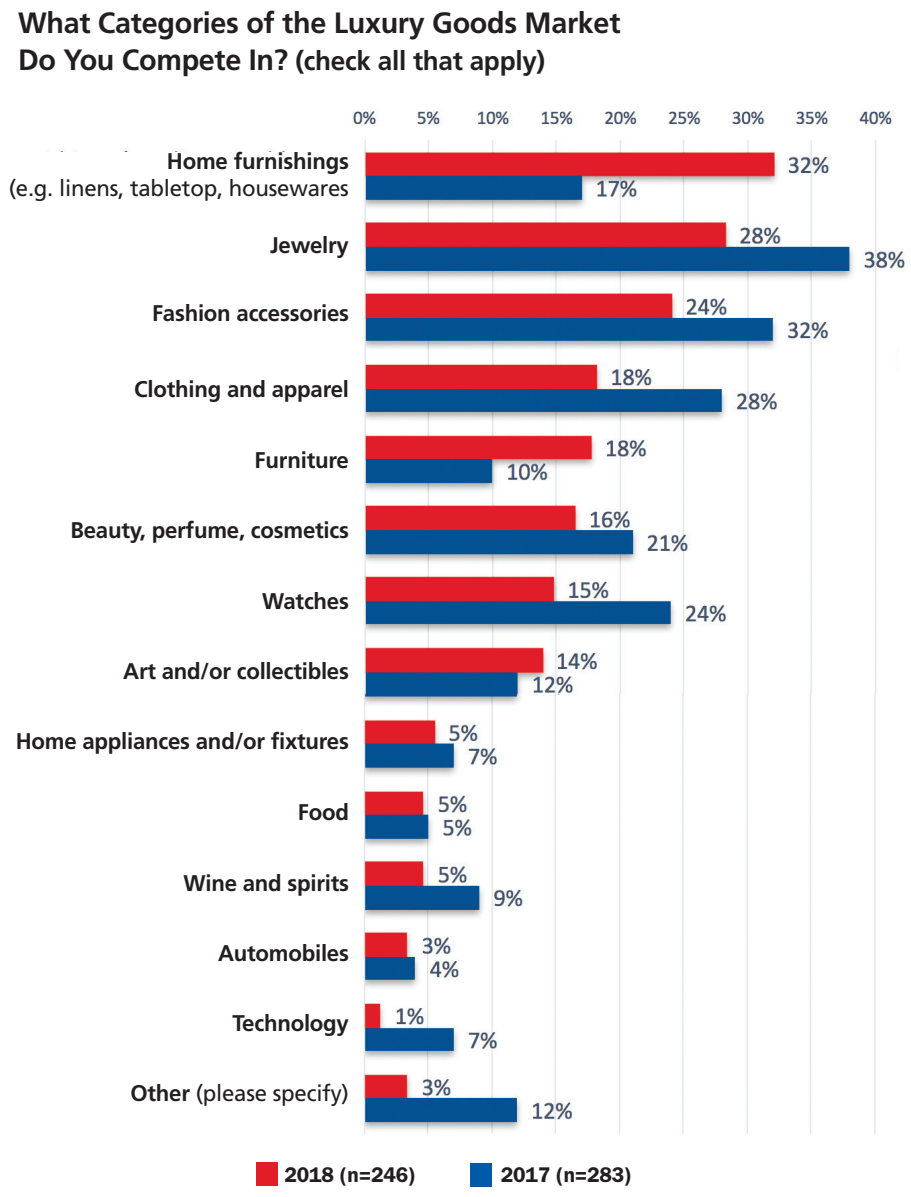


Figure 2: Categories in which luxury goods marketers compete

## Luxury Services & Experiences Categories

Among luxury services and experiences marketers, home services providers, such as interior designers, architects and builders, are added to results from hospitality, real estate, travel, dining, retail, financial and beauty service to again give a broader perspective on the market for luxury experiences.

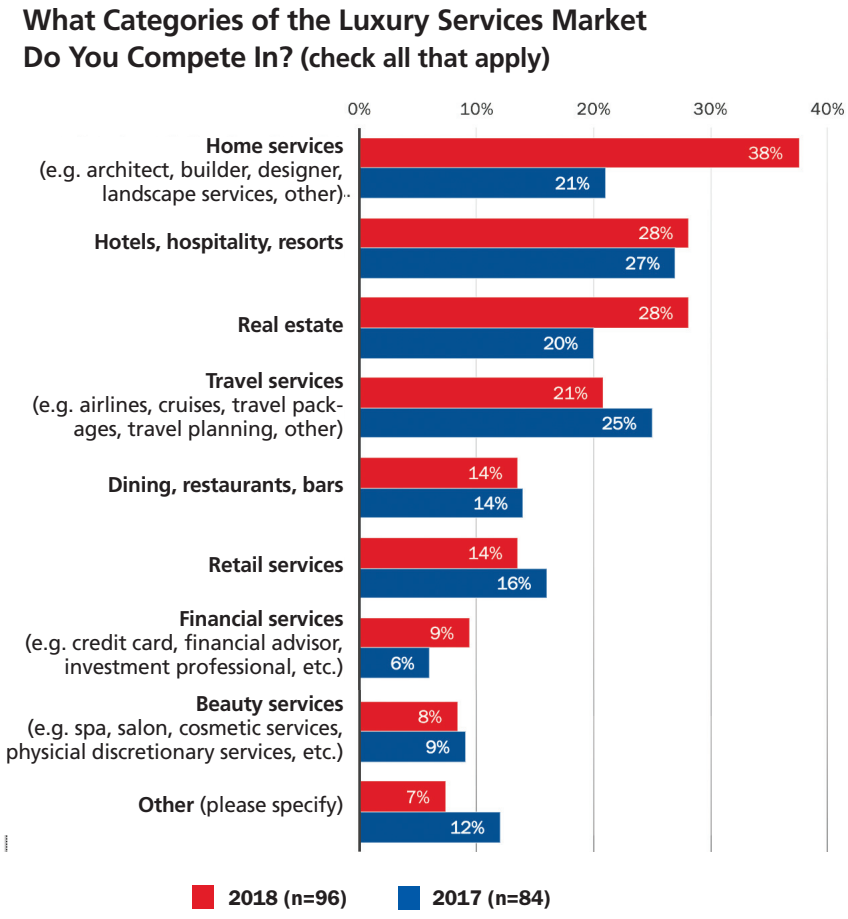


Figure 3: Categories in which luxury services marketers compete

## Luxury Markets Competed In

Among luxury goods and services marketers, the United States and Canada account for the lion's share of their business focus, followed by Western Europe, United Kingdom, China and the Middle East. Overall, the insiders surveyed compete in an average of 3.7 markets, the same as last year.

**TAKE ACTION**

This survey, while conducted in English by two U.S.-based firms, taps perspectives of players in the rapidly expanding global for luxury.

Globalization is a key trend identified by the survey respondents, representing both opportunities for growth and expansion, as well as challenges in terms of adapting marketing and branding messages and mediums and retailing strategies to consumers in local cultures.

## Years in Business and Competing in the Luxury Market

Luxury goods and services marketers have been in business 36 years, on average, with the largest share in business from 26–50 years.

By contrast, their companies have been competing in the luxury market for 30 years, on average, so they entered the luxury market about six years after founding. This is a pattern of delayed entry into the luxury market that we found last year.

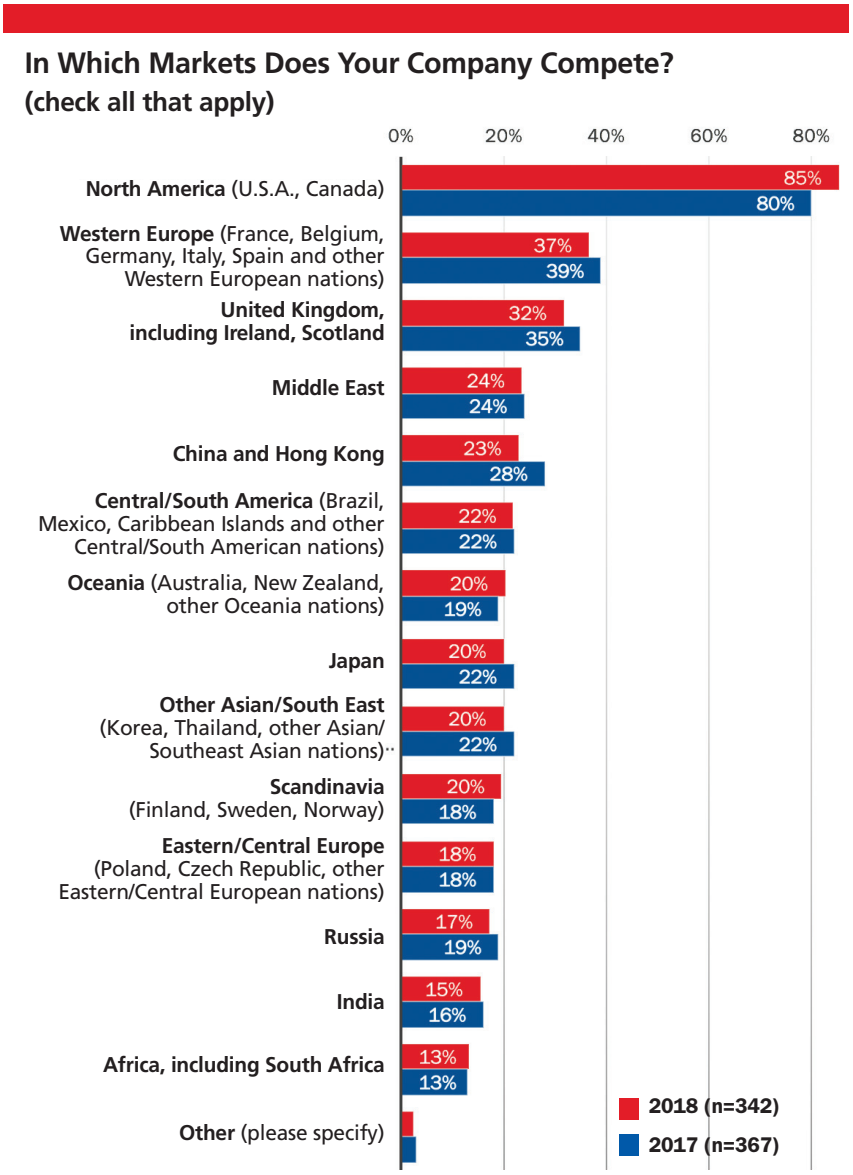


Figure 4: Markets competed in

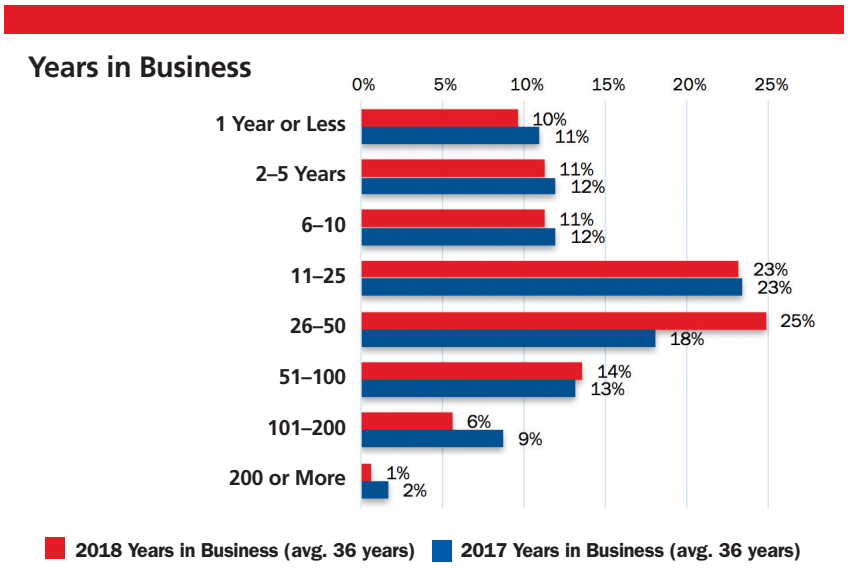


Figure 5: Luxury goods and services insiders' years in business

## Years Launched in the Luxury Market

The majority (53%) of luxury goods and services marketers started in the luxury market since 2000, with nearly 80% entering the luxury arena since 1980.

**TAKE ACTION**

While many heritage luxury brands have a history extending back a hundred years or more, today's luxury industry is composed primarily of newer companies just beginning to get their luxury on.

With a majority of industry respondents only entering the luxury market since the new millennium, this study is skewed toward recent entrants in the luxury market, having a history of less than 50 years in the business of luxury.

Presumably, with less heritage and tradition to fall back on, these newer luxury companies are better positioned to adapt to the recent changes affecting the consumer market. Further, many came of age along with the digital revolution since the millennium.

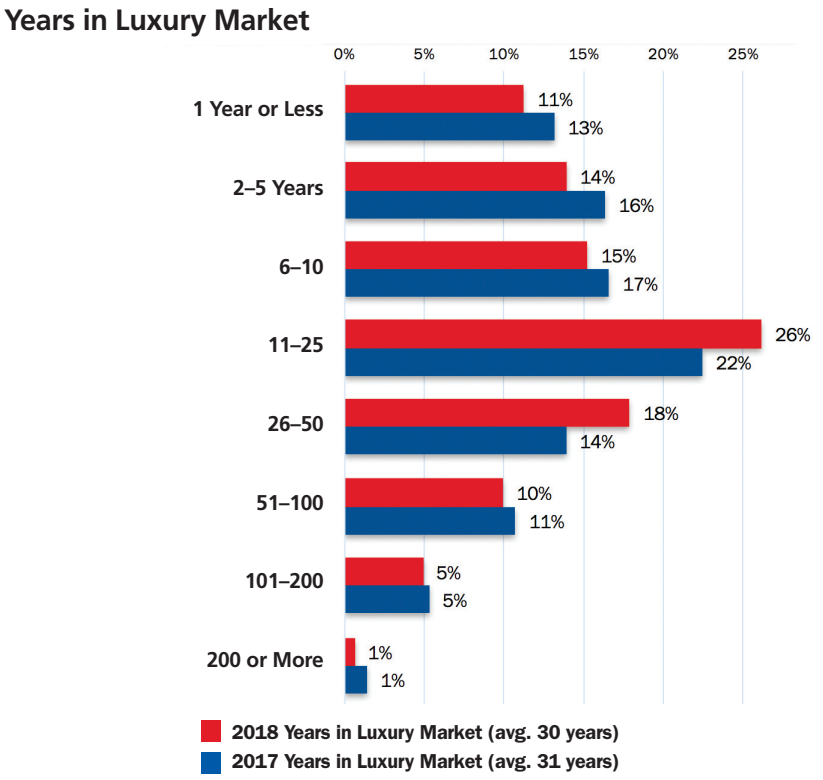


Figure 6: Luxury goods and services insiders' years in luxury market


Figure 7: Luxury goods and services insiders' year launched in luxury market

## Selling Over the Internet

The majority of luxury goods and experiences marketers currently sell over the Internet, with luxury goods marketers (68%) more active selling over the Internet than luxury service marketers (45%). Notably, the percentage of luxury goods marketers that sells over the Internet rose, from 62% in 2016 to 68% in 2017. But that leaves about one-third of luxury goods marketers not yet selling their products via ecommerce.

Further, a greater number of service marketers (28%) have no plans to sell over the Internet as compared with luxury goods marketers, only 13% of which have no plans to sell on the Internet.

## Company Revenues Generated Online

While more luxury goods companies, in particular, are selling their products over the Internet, ecommerce direct-to-consumer sales do not contribute significantly to overall sales. Some 42% of luxury insiders survey report that only 10% or less of revenues come via the Internet. The average percentage of revenues coming via Internet sales is 34% overall, same as last year.

**TAKE ACTION**

The Fall 2017 Bain Luxury Study reported that approximately 9% of global personal luxury goods sales will be generated via online channels, including both a brand's dedicated Web sites and e-tailers offering a platform for multi-brand engagement. But while online sales remains fairly low, Bain predicts that its overall share of the luxury personal goods market will grow to 25% by 2025.

### Does Your Company Currently Sell Its Goods and/or Services Over the Internet?

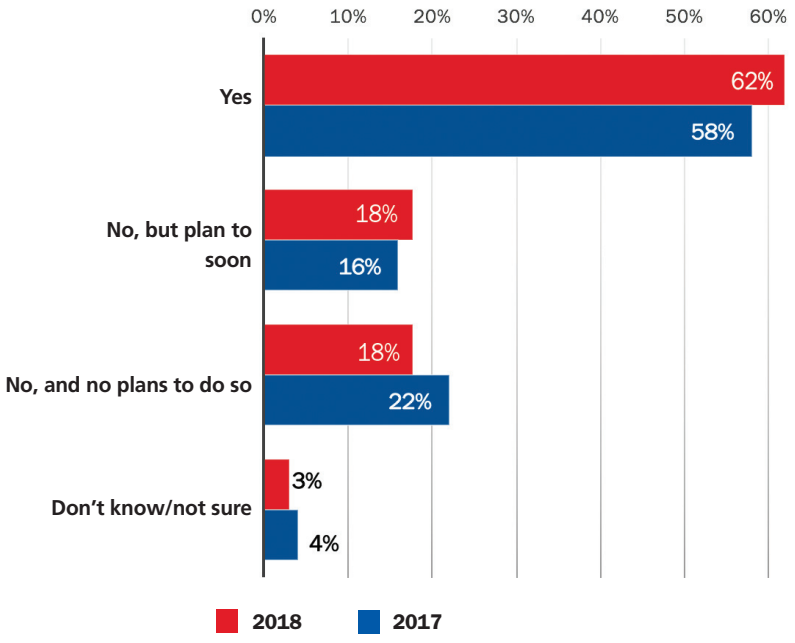


Figure 8: Luxury goods and services marketers selling over the Internet

### What Percentage of Total Company Revenues Are Made Over the Internet?

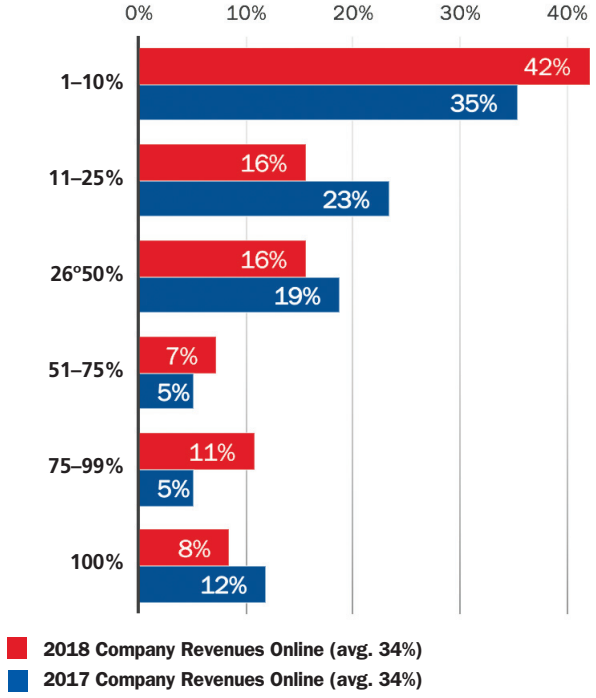


Figure 9: Percent of company revenues generated over the internet

"Channels are now coming together in an interdependent and integrated ecosystem around the customer," writes Claudia D'Arpizio, a Bain partner and lead author of the study. This calls on marketers to define their channels of distribution not how the company wants to manage operations, but rather base it upon how the customers want to engage with brands.

In the evolving omnichannel ecosystem for luxury brands, Bain calls out the complementary roles of retail and wholesale, the need to leverage online as a support platform for all physical channels, travel/airport and off-price retail as a means to widen the customer base with less intimidating ways to explore luxury brands and the vital need for e-commerce engagement.

*"Brands that have been slow to embrace all that digital interaction offers customers, including the purchase option, must see that a complete 360-degree digital platform is the tipping point to relevance with millennials."*

With 20,000 luxury mono-branded stores worldwide, brands must manage the omnichannel "network" from human touch points to digital engagement. Brands that have been slow to embrace all that digital interaction offers customers, including the purchase option, must see that a complete 360-degree digital platform is the tipping point to relevance with millennials.

This suggests that by ignoring the sales potential and customer reach available online that a sizeable number of luxury brands are leaving serious money on the table. JWT Intelligence's worldwide director, Lucie Greene, is widely quoted as saying, "Ecommerce has been described as the 'next China' for luxury in terms of opportunity."

# Advertising, Marketing and Innovation Strategies

Only luxury goods and service/experience insiders were asked this series of questions about their advertising expectations and their advertising, marketing and innovation strategies.

## Trends in Marketing and Advertising for 2018

Prospects are bright for growth in advertising and marketing spending in 2018. This survey found a substantial majority (58%) of luxury insiders expecting to invest more on advertising over the next 12 months. This is also a notable improvement from last year. Also significant is that both luxury goods and services/experience marketers report virtually identical percentages that will increase spending next year.

**In the Coming Year, Will Your Company Spend More, Less or the Same on Marketing and Advertising?**

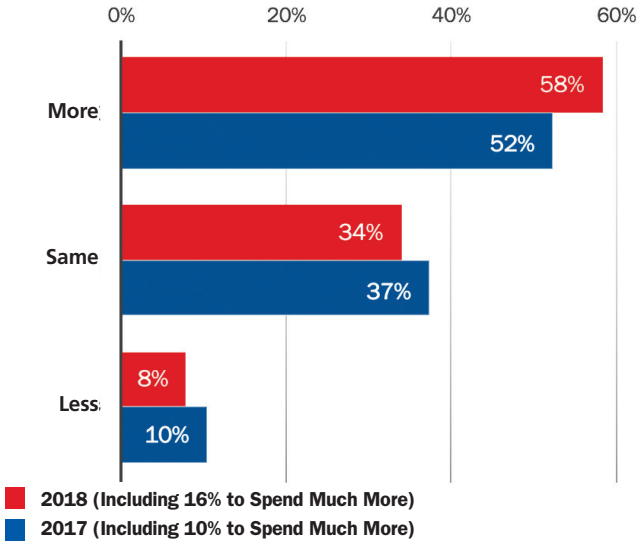


Figure 10: Advertising and marketing spending trends in 2018

**TAKE ACTION**

While investing more on advertising and marketing does not necessarily translate into more sales and influence on the target luxury consumers, it is a bellwether of strength in the industry overall. The fact that a majority of luxury industry insiders will invest more in this area in the coming year is a positive indicator that they continue to focus on finding new customers, attracting them to their brands and grow sales.

## Where Luxury Insiders Plan to Invest their Advertising Next Year

When asked how the luxury goods and services marketers will be allocating their advertising spending in 2018, the greatest percentage, nearly 80%, said that social media promotions will be in their plans, with two-thirds also planning website enhancements.

Internet advertising, followed by influencer and content marketing and videos are also widely planned. Notably only about 40% will allocate advertising in print publications.

**TAKE ACTION**

Earlier in the year, *The Wall Street Journal* reported that luxury fashion brands such as Gucci and Louis Vuitton — traditionally big magazine advertisers — are starting to shift more and more ad dollars to digital channels. The trend toward digital is confirmed in this survey, as well. Globally, the luxury industry spent more than $1 billion on digital ads in 2016, a 63% increase since 2013, while spending on magazines declined 8% over the same period, according to a study by Zenith.

While Zenith reports print advertising accounts for the majority of advertising for luxury brands, the share of spending on digital is predicted to increase significantly over the next few years.

Contributing to the turn away from print and embrace of digital advertising is that brands can save money via digital, in particular, social media, and exposure via social media can propel their branding messages organically. Marketing firm Tribe Dynamics has proposed a new advertising metric called "Earned Media Value." EMV calculated how much a brand can save via organic social media posts. It found the top 10 luxury brands saved some $33 million in advertising expenditures by shifting from print to digital in March 2017, a 33% increase over last year.

**Where Will Your Company Be Investing Its Advertising and Marketing Budgets in the Coming Year? (check all that apply)**

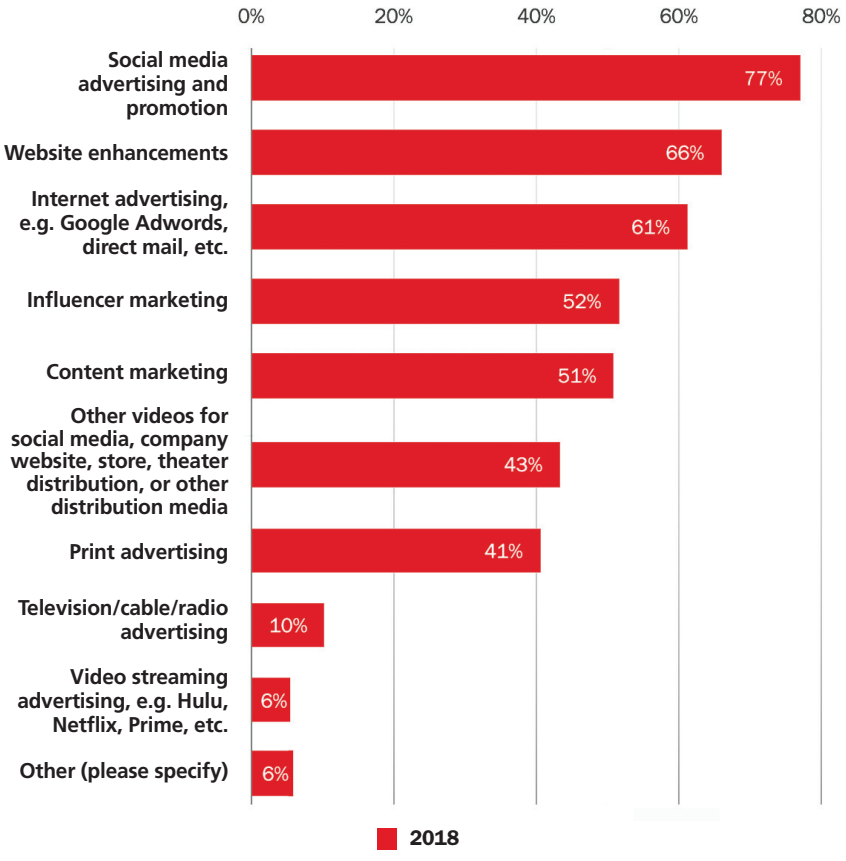


Figure 11: Where luxury insiders will invest in advertising

Overall, the strong growth of the US digital ad market can largely be attributed to increased time spent by consumers on digital media and brands' increased comfort with allocating budgets to digital formats, particularly on digital video. In a recent 2016 survey of almost 400 U.S. ad agencies and marketers, the IAB found that two-thirds of respondents plan on increasing spending on digital video in the next year.

Further, mobile will become an increasingly important advertising platform as consumers devote more of their viewing on cell phones and tablets. Today there remains a gap in support of mobile distribution, call the mobile opportunity gap by *Business Insider*. They predict that this gap will close in 2018 when mobile will eclipse desktop ad spend. BI reports, "Digital video advertising will grow faster than any other segment over the next five years, as consumers shift time spent online to phones and tablets. Revenue in this category is forecast to rise from $8.5 billion in 2016 to $23 billion in 2021."

## Biggest Challenges to Growth for Luxury Goods & Services/ Experiential Marketers

Finding new customers for their luxury goods and service/experience is luxury marketers' biggest challenge to growth. This is followed by the competition in general as well as price competition, with price competition growing stronger this year than last. Given the recent emergence of so many brands trying to gain a foothold in the luxury market including competition from lower-priced brands aiming for high-end customers, this clearly is a growing concern.

The rising costs of doing business follows as a growth challenge, as it takes a significant investment in marketing to find new customers, willing to spend and to defeat the emerging competition. This is confounded by the challenges of changing distribution channels, most especially Internet disruption.

Changing customer tastes along with challenges of those less willing to trade up to luxury offerings also inhibit growth, though notably, fewer this year face the challenge of customers less willing to spend than did last year.

**TAKE ACTION**

While finding new customers is the luxury marketer's chief challenge to growth, developing strategies to further engage and retain one's current customers is ultimately the most profitable and most effective way to grow.

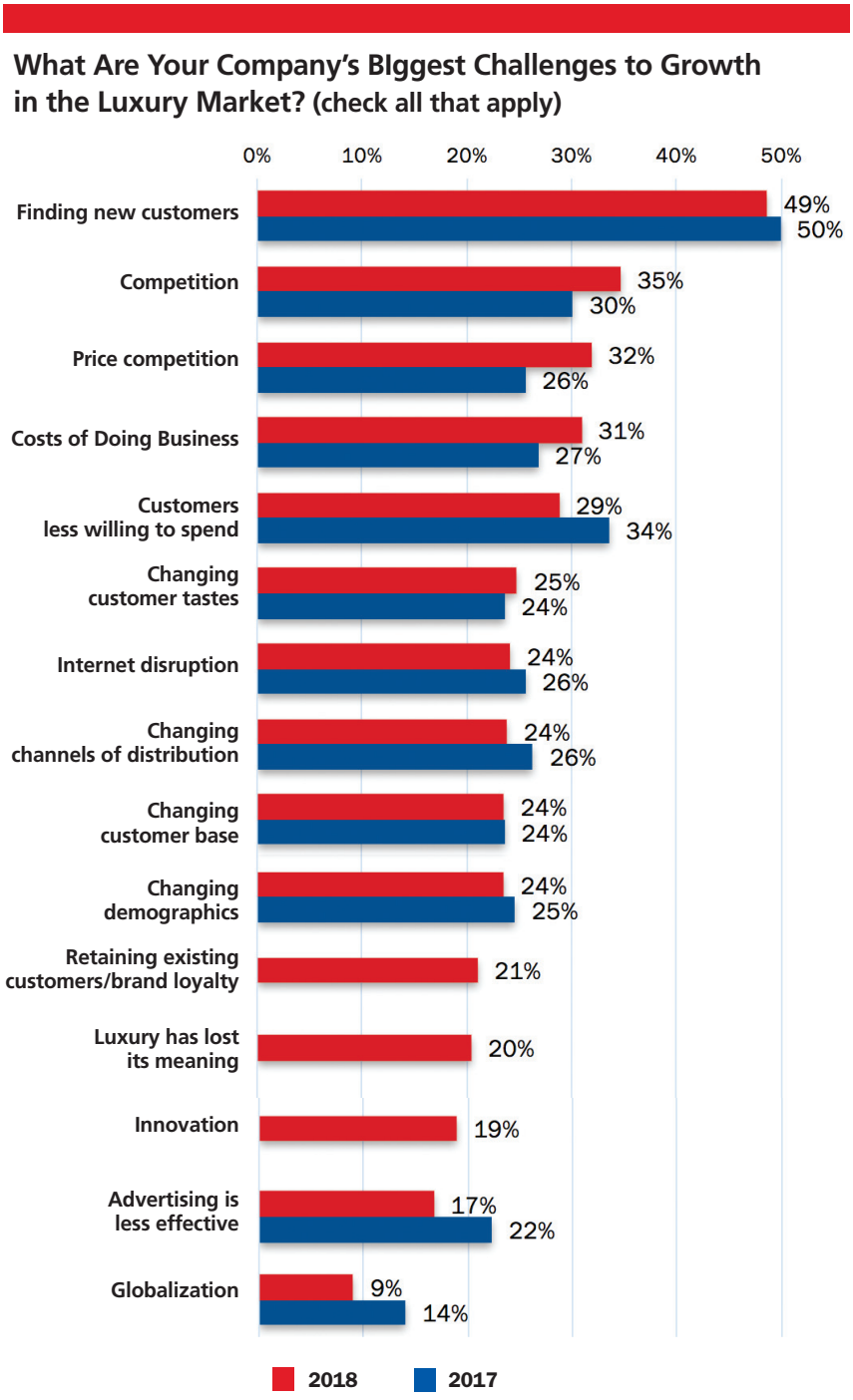


Figure 12: Luxury goods and services marketers' challenges to growth

Study after study has found that the cost of acquiring a new customer is many times more than keeping and developing existing customers, with most studies finding customer acquisition costs four to 10 times more:

- A Bain & Company study found a mere 5% increase in customer retention can increase a company's profitability by 75%. Further, Bain research found that the average amount spent by a repeat customer was two-thirds more than a new customer.
- The Gartner Group reports that 65% of a company's business comes from existing customers.

- And in a seminal article on the value of customer retention, consultants P.M. Dawkins and F.F. Reichheld reported that a 5% increase in customer retention generated an increase in customer net present value of between 25% and 95% across a wide range of industries. ('Customer Retention as a Competitive Weapon', *Directors and Boards*, 1990)

All this adds up to the critical importance of customer retention and development, not at the expense of new customer acquisition strategies, but as a part of a company's overall marketing strategy.

With a goal of acquiring new customers, Unity Marketing has identified a key opportunity for luxury marketers: Build connection with young HENRYs (high-earners-not-rich-yet) on the road to affluence.

Young HENRYs represent the best potential luxury customers of the future. That is because most ultra-affluents, the top 2-3% of high-income customers and the traditional target for luxury brands, start on their road to affluence as HENRYs.

Ambitious, aspiring young HENRYs on the road to ultra-affluence are the key to the next-generation customers for luxury brands.

**What Are Your Company's BIggest Challenges to Growth in the Luxury Market? (check all that apply)**

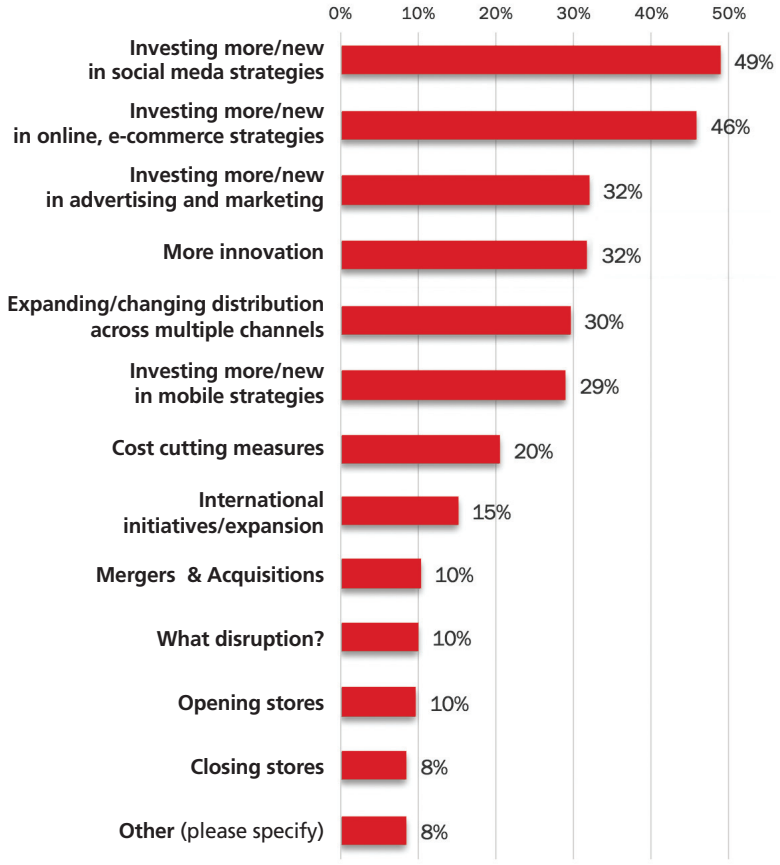


Figure 13: Luxury market disruption

## Responding to "Disruption"

Most, if not all industry sectors, are facing the challenges of "disruption." So we asked luxury goods and service/experience marketers about the reported "disruption" in the luxury market. In response the greatest share (49%) said that investing more in social media and online Internet strategies (46%) was their answer.

More advertising, more innovation, expanded distribution strategies and exploration of mobile are also getting attention to answer disruption's effect.

**TAKE ACTION**

The luxury industry is facing the disruptive effect of changes in the luxury consumer market due to changing demographics of the customer we serve, their shifting expectation in products and services, and their new chosen ways to shop, buy and engage with brands. This ultimately requires reinvention of the traditional way of doing things to get the industry, and luxury brands, back in growth mode. And if luxury brands don't do this themselves, there are plenty of new companies waiting in the wings to move onto the luxury stage.

Whenever people say the word "disruption," they usually mean the actions of "disrupters." That is, new age, Internet-powered brands are disrupting the status quo. In other words, the market disruption is caused by the disrupters, or as this insider said, "Amazon and the commoditization of everything." But it is not that simple.

Disrupters aren't the cause of the problem, rather they are the effect of it. Amazon, Airbnb, Uber and all the rest are brands that offer new solutions to old problems. Because they are not entrenched in the old way of doing things and hampered by established conventional wisdom, they are able to look at the market in new ways and come up with creative, innovative solutions that the established marketers missed.

What's disrupting the business of traditional luxury brands is that their very tradition and heritage is giving way to a demand from customers for greater relevancy in the way they live today and aspire to live tomorrow. That is the launch pad for many new-age luxury brands and the potential graveyard for the establishment.

Luxury brands must respond to customers looking for new luxe experiences delivered in new ways. This will require dramatic shifts in management, marketing, branding, advertising and distribution strategies.

**What Efforts Does Your Company Make to Innovate in the Luxury Market Today? (check all that apply)**


Figure 14: Innovation strategies

## Innovation Strategies

To stay ahead of the curve, the greatest number of industry insiders (65%) persistently scan the news for developments and new ideas. They also gather input from customers through "active listening" (62%) and monitoring social media (57%), though far fewer listen to company staff (37%) or conduct formal market research (35%) to drive innovation.

**TAKE ACTION**

The luxury industry insiders surveyed have ambitious expectations for growth in the coming year. To achieve those business goals, marketing and advertising strategies will play a pivotal role, as Peter Drucker famously wrote in his classic 1954 book, *The Practice of Management*:

> *Because the purpose of business is to create a customer, the business enterprise has two — and only two — basic functions: marketing and innovation. Marketing and innovation produce results; all the rest are costs. Marketing is the distinguishing, unique function of the business.*

For those businesses hoping to reap some of the extra dollars luxury industry players will invest in marketing and advertising in 2017, it will be especially important to deliver meaningful and measurable results. As this survey has shown, managing costs in today's rapidly shifting luxury market is a critical priority for luxury goods and services companies. They demand results for the money invested in marketing and advertising.

So the call today is not necessarily for more advertising and marketing, but for more effective advertising and marketing, with effectiveness measured in new customers and growing sales, not just more clicks or shares or engagement. Luxury goods and services companies need sales and profits to grow. That means budgets allocated to advertising and marketing need to deliver returns to both the top and bottom line of luxury businesses' balance sheets.

# Key Trends Impacting the Luxury Market

This section examines the views of all industry insiders – luxury goods, services/experiences and suppliers of services to the luxury industry – on the most important trends impacting the luxury market.

In the survey, luxury industry insiders were asked to rate each of 16 trends presented as to whether it was positively or negatively impacting growth for their company, using a five-point scale from mostly negative, somewhat negative, neutral, somewhat positive and mostly positive.

To aid in analysis, an index was created where 100 equals the average, or neutral, with values over 100 viewed as more positive and those under 100 viewed as more negative to their own company's growth.

The most positive trends propelling luxury insiders' company growth are:

- Innovation in product and service offering, with an index value of 115, which means this trend is 15% more positive than average.
- Social media and the rise of the digital world, both rated 113, or 13% more positive than average.
- Diversification in product and service offerings, rated 112.
- Finding new paths to market, rated 111,
- Globalization, 107.
- Changes in wealth distribution, 103.

On the other hand, luxury insiders view the current instability in politics and the culture as supplying the most negative headwinds to luxury growth, followed by monetary policies and economic trends and finding and retaining well-qualified employees.

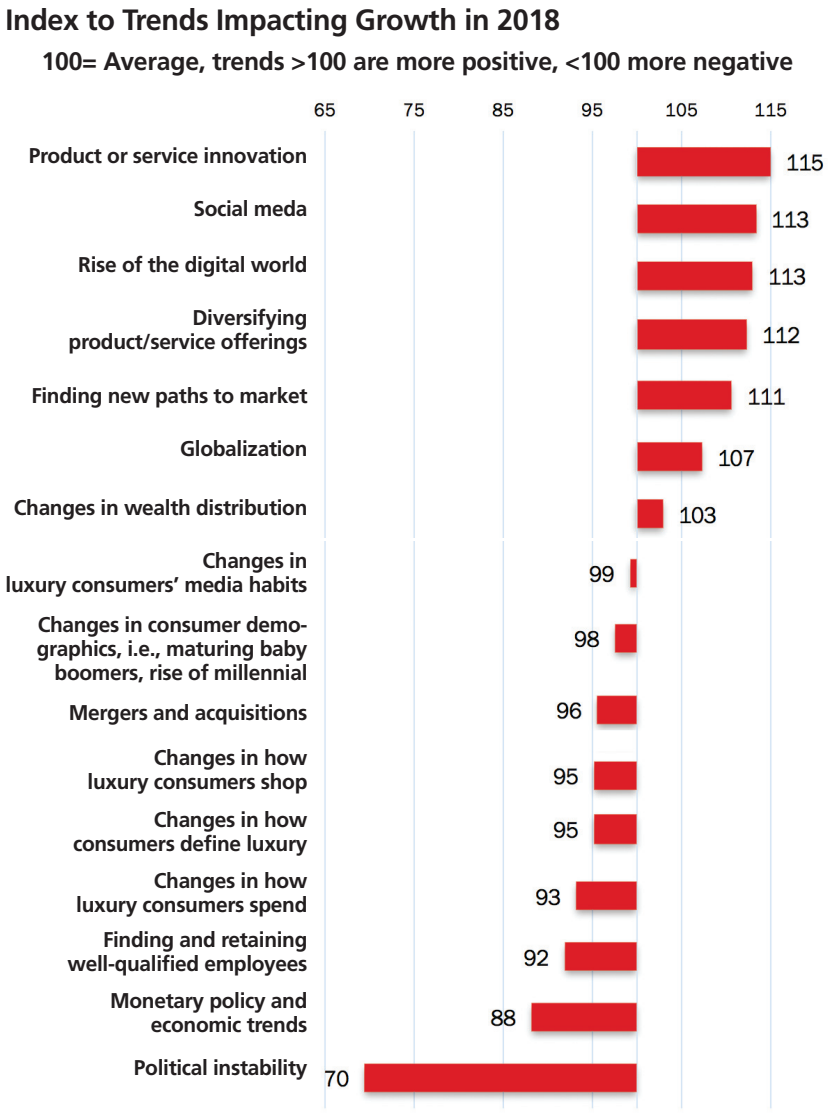


Figure 15: Index to trends impacting growth for luxury insiders' companies

**TAKE ACTION**

Depending on the trend, marketers have more or less control over how each affects their company's growth. For example, the trends which they have little or no control over include many of the most negatively impacting trends, as well as many changes in the makeup of the consumer market:

### Little or no control

- Political instability
- Monetary policies and economic trends
- Changes in wealth distribution
- Changes in consumer demographics

### Some control

Some trends marketers can exert some influence on. Marketers can greatly increase the positive impact of each of these trends on their own company's growth through research to identify the shifts in the marketplace around them:

- *Changes in how consumers define luxury.* Though brands cannot control the mindset of luxury consumers and how they partake of luxury in their lifestyles, companies can evolve the way they present and position their brand of luxury in accordance with how the consumers' definitions are changing.
- *Changes in luxury consumers' media habits.* Another trend that companies have limited effect over, but through research, they can make sure they are aligned and positioned to take advantage of the shifts in consumers' media preferences.
- *Changes in how luxury consumers shop and spend.* Being proactive, rather than reactive, is key to responding to changes in luxury consumers' shopping and spending behavior. Market research is needed to power these efforts.
- *Finding and retaining qualified employees.* This trend is generally viewed as negatively impacting the growth for luxury marketers. Attracting the best and brightest talent to the company is key, so supporting and working with the growing body of advanced educational institutions training the next generation of luxury leaders is one way to make connections with prospective employees. And once those qualified staff are on board, maintaining good employee relationships and giving staff paths to grow and develop in their careers is also key.
- *Mergers and acquisitions.* Luxury insiders view this trend more negatively. But the key is whether one's company is being acquired or doing the acquisition. Both bring many changes to a corporate culture, though acquiring companies tend to have more control to manage the changes.

### Largely Under Company Control

Finally, companies can exert much control of many of the more positive trends from the luxury insiders' perspective, with their effectiveness measured by how well they respond to each:

- *Product and service innovation.* Luxury companies must maintain an innovation mindset and always be looking for ways to bring positive change to their operations that meet evolving needs of the customers.
- *Social media.* This is the most positive trend favoring growth, according to the insiders surveyed. But how to measure true success in social media is still not well defined. Is it number of clicks, number of friends or extent of reach or is it measured in sales generated through social media activity or other metric? This has been a topic covered widely by *Luxury Daily.* (http://bit.ly/2zGnLmJ).
- *Rise of the digital world.* Another mostly positive trend for luxury company growth, but one which some one-third of luxury goods companies surveyed here have forsaken, at least as a source for Internet sales.
- *Globalization.* With the luxury goods and services companies surveyed active in nearly four global markets, on average, they are already taking advantage of this trend and are likely to continue to expand globally in the future.

- *Diversifying product/service offerings.* Diversification is seen as a largely positive trend, one that will benefit greatly from market research to identify growth segments in the market. Market research can also help companies discover from their customers and brand loyalists where they would like to see their favorite brands expand.
- *Finding new paths to market.* This is another mostly positive trend, according to luxury insiders. Clearly for some one-third of luxury goods companies surveyed here, the Internet is one logical new path to market. Market research is also key to identifying new avenues to pursue in finding new customers and growing sales.

## Trends Perspective by Roles Played in Luxury Market

Here is a perspective on how each of the key luxury insider segments — luxury goods, luxury services/experiences and suppliers of services to luxury marketers — view the trends impacting growth.

**Trends Index by Role Played in Luxury Market**

| | Total | Luxury Goods | Luxury Services/ Experiences | Suppliers to Luxury Companies |
|---|---|---|---|---|
| Product or service innovation | 115 | 114 | 117 | 114 |
| Social media | 113 | 112 | 112 | 117 |
| Rise of the digital world | 113 | 110 | 111 | 119 |
| Diversifying product/ service offerings | 112 | 114 | 110 | 114 |
| Finding new paths to market | 111 | 108 | 106 | 116 |
| Globalization | 107 | 105 | 109 | 109 |
| Changes in wealth distribution | 103 | 100 | 105 | 106 |
| Changes in luxury consumers' media habits | 99 | 97 | 99 | 105 |
| Changes in consumer demographics, i.e., maturing baby boomers, rise of millennials | 98 | 92 | 106 | 104 |
| Mergers & Acquisitions | 96 | 96 | 102 | 9 |
| Changes in how consumers define luxury | 95 | 92 | 98 | 101 |
| Changes in how luxury consumers shop | 95 | 89 | 96 | 105 |
| Changes in how luxury consumers spend | 93 | 87 | 96 | 102 |
| Finding & retaining well qualified employees | 92 | 92 | 94 | 93 |
| Monetary policies and economic trends | 88 | 86 | 94 | 89 |
| Political instability | 70 | 69 | 71 | 69 |

Figure 16: Index to trends by role played in luxury market

## Luxury Goods Insiders' View of Trends

As the predominant segment in this survey, the perspective of luxury goods marketers tend to drive the overall index ratings of each trend. However, luxury goods insiders tend to view the changes in consumer demographics, shopping and spending behavior, mergers and acquisitions, finding new paths to market and the rise of the digital world as more negatively impacting their businesses. On the other hand, luxury goods marketers see diversification of product and services offerings as a trend they can more effectively use to grow their businesses.

**TAKE ACTION**

Because most market research covering the luxury market emphasizes the fact that U.S. affluent consumers, in particular, are becoming more experiential and less materialistic in their purchases, it is not surprising to find that the luxury goods marketers tend to view most trends in a more negative light than the other luxury insiders.

This calls on luxury goods marketers to make the most of every positive opportunity to connect with their affluent target customers, build brand loyalty and grow sales. Especially important for goods marketers will be to take advantage of the many shifts in consumers' buying and shopping behavior and proactively put themselves out in front of those trends. It means being more active on social media, growing sales opportunities over the Internet, evaluating diversification strategies, taking advantage of shifts in consumers' paths to purchase and extending product offerings into new channels, as appropriate.

If it is true that the affluent consumer market is going more experiential, then luxury goods brands are sitting in the cross hairs. They need to turn buying, using, wearing and enjoying their products into an experience. It means emphasizing the experiential aspects of their brands and delivering true customer experiences throughout the path to purchase. Good customer service simply gets a brand into the game. Being truly consumer-centric and customer-driven is essential today to succeed.

## Luxury Services/Experiences View of Trends

By contrast the luxury services/experience insiders view innovation, changing consumer demographics and mergers and acquisitions as more positively impacting their segment of the market, while finding new paths to market their services/experiences is more of a challenge to them than it is for luxury goods insiders.

**TAKE ACTION**

Whereas the luxury goods marketers face headwinds in their sector of the luxury industry, the service and experiential marketers are enjoying affluent consumers' shift toward indulging in experiences. The changes in wealth distribution, especially that the rich are getting richer, is most profoundly good for their business, as are the changes in how luxury consumers spend.

Yet as primarily service providers, luxury experience marketers are challenged to find the right service-oriented professionals to deliver those luxury-quality services to their clients. They also feel the pinch of greater competition in the luxury service space, especially as more mainstream travel and hospitality brands move into luxury with new offerings. Further, they are beginning to feel the competitive threat of the newly emerging sharing economy and the expanded access consumers have to luxury experiences thanks to the Internet.

For luxury service marketers it is important to remember that time is the one true luxury for their affluent clients. Therefore, any ways they can shave off minutes, even seconds, in their service processes will be greatly valued by their customers. And because luxury services are often delivered by person-to-person contact, they need to emphasize service training for all customer-facing staff and empower staff to put the customer first in all interactions.

## Luxury Industry Suppliers' View of Trends

In general the insiders that provide services, such as advertising, media and tech services and support, tend to view the trends changing the luxury market as more positively impacting them in the support role they play in the luxury market. In particular, they find growth opportunities due to social media, the rise of the digital world, finding

new paths to market, changes in consumers' media, shopping and spending behavior, changes in consumer demographics and changes in how luxury consumers define luxury in their lifestyles.

**TAKE ACTION**

Luxury industry suppliers focus their businesses on solving problems for their clients and helping them make the most of their opportunities. The many challenges faced by luxury industry marketers provide ample opportunities for them to grow their businesses. The results of this survey point to areas they should focus to help their clients face challenges and create new opportunities.

Chief on the suppliers' client list of challenges and opportunities is social media and other disruptions brought about by the rise of the digital culture and globalization. They also assist clients find opportunities to diversity their brands and find new paths to market. Keeping clients informed about changes in marketing and advertising strategies and tactics is key, as is helping them understand and deal with the many changes roiling the consumer target market.

And looking back to the finding about luxury marketers' biggest challenges to growth (*Figure 12*), they should focus on providing their luxury goods and services clients with ways to find new customers and increase their willingness to spend. Novel approaches to helping clients beat the competition is also a high priority for luxury marketers, all the while they wrestle with challenges brought on by the rising cost of doing business. Delivering the most value to their clients for the money invested in support services is key to success for luxury suppliers' businesses.

## Trends Shift from 2017 to 2018

In preparing the 2018 survey, some trends that were less impactful overall were dropped from the survey and others, such as innovation, were added based upon the results from last year's survey. However, for most trends we can track the shifts from last year to this to indicate which are becoming more problematic and which are shifting to provide a more positive perspective.

In comparing the trend perspective from 2017 to 2018, the trends that have moved more positively from 2017 to 2018 include:

- More new paths to market
- Diversification of product and service offerings
- Monetary policies and economic trends
- Mergers and acquisitions

On the other hand, those trends that have moved in a more negative direction include:

- Changes in how consumers define luxury
- Changes in how luxury consumers shop
- Political instability
- Social media

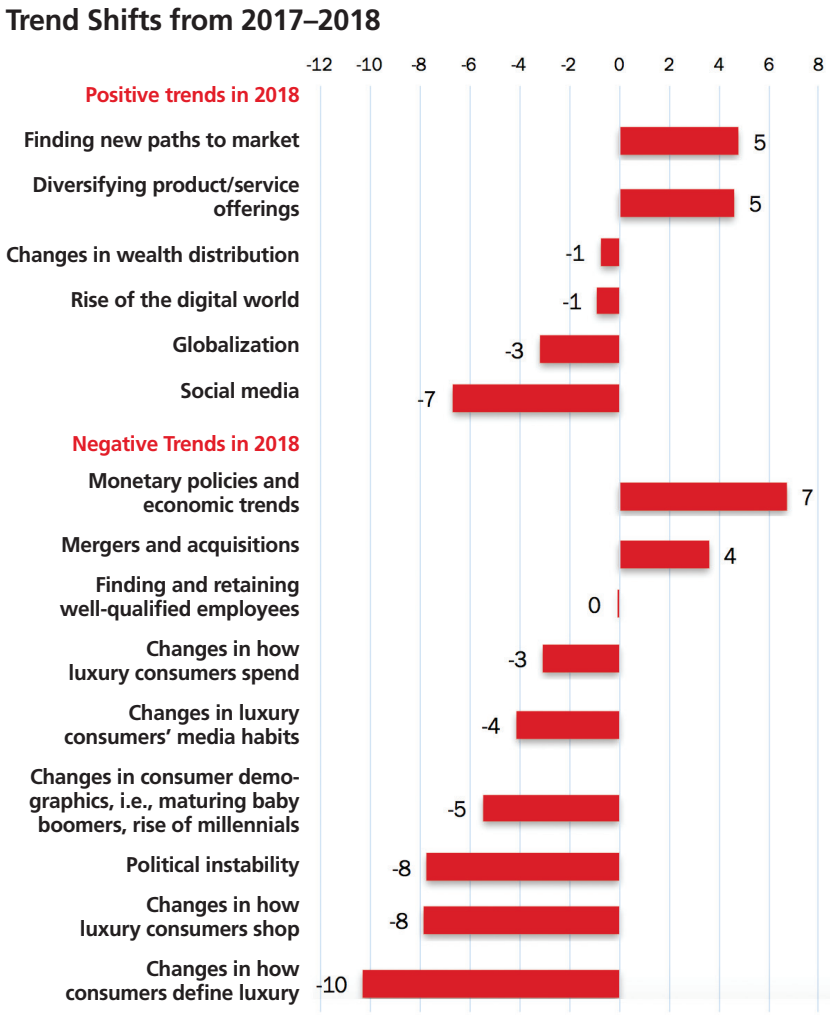


Figure 17: How trends have shifted from 2017 to 2018

**TAKE ACTION**

From 2017 to 2018, mergers and acquisitions have tracked positive movement, perhaps owing to the fact that more M&A are being done in the luxury space which is providing new opportunities for luxury companies to innovate and grow. In acquiring a luxury brand, a company can gain far more than a new brand to take to market. They will be acquiring much needed human capital who will bring new blood, new ideas and new approaches into a more established company where it is most needed.

When Walmart bought Jet.com and Bonobos, it acquired more than new brands, but its next-generation business leaders. "Marc Lore from Jet is one of the most respected next-generation retail leaders and you can see how much authority they are giving him," Dave Knox, author of Predicting the Turn, shared with me recently. "And Bonobos' Andy Dunn is an even more prominent thought leader in the next generation of retail. So they have brought two amazing leaders into the fold that are now part of Walmart."

Recent acquisitions in the luxury space, notably Michael Kors acquiring Jimmy Choo and Coach Kate Spade, and renaming itself Tapestry in the process, signifies a move to creating American luxury brand conglomerates along the lines of the big Euro-three — LVMH Moët Hennessy Louis Vuitton, Kering (Gucci, Saint Laurent, et.al.) and Richemont (Cartier, Van Cleef & Arpels, et. al.) — or as Greg Furman, founder/chairman of the Luxury Marketing Council, said "LVMH-izing American luxury."

> *"The need for legacy luxury players to rejuvenate and stay relevant means the emerging luxury players are ripe for the picking. 'The long tail effect is starting to create opportunities for the upstarts in luxury, as millennials embrace more local and boutique offerings…' "*

"Consolidation is the natural order of capitalism," said Christopher Ramey, executive director of The Home Trust International, which provides services to luxury home goods and services brands. So he foresees the trend of more M&A in the luxury market to come. Faced with stagnant or slow growth, some companies find it better to buy market share, rather than to invest a lot of time and dollars to try and steal it."

Depending on the acquisition target, conglomerates can buy market share, or as Mr. Furman notes, they can buy growth by picking off an emerging luxury brand early as it starts its ascendency. It is easier today to take this early-stage strategy thanks to the Internet where designers and entrepreneurs can build a global luxury consumer following faster and more cost-effectively than in the "old days when $300 million or more was needed to invest in advertising and marketing to launch a luxury brand," Mr. Furman said.

More M&A driven consolidation may prove the lifeline for both the acquiring and acquired. "The conglomerates are on an unprecedented early-stage brand acquisition binge because they need to survive and thrive as their legacy brands fail to rejuvenate and stay relevant," said Milton Pedraza, CEO of the Luxury Institute.

This need for legacy luxury players to rejuvenate and stay relevant means the emerging luxury players are ripe for the picking. "The long tail effect is starting to create opportunities for the upstarts in luxury, as millennials embrace more local and boutique offerings," Mr. Pedraza said.

With the luxury brand M&A arms race on, also inevitable will be challenges to make those consolidations work. The Euro-three are more experienced at this, but as Mr. Pedraza points out, "They struggle with a command and control mindset that tends to stifle the young brands." This could give the aspiring US-based groups an edge, but he also said that they "have yet to prove they can execute."

"The strategic nexus on which it all depends isn't the numbers on the balance sheet," the Luxury Marketing Council's Mr. Furman said. "But the companies being able to integrate radically different cultures with different value systems." He goes on to point out that financially driven buyers do not dig deeply enough into these areas.

In addition, as the companies merge and eliminate duplicate functions, it is critical that the best senior leadership staff remains to guide the merged entity. "Maybe the acquired company has the best marketer, but they are thrown overboard because the one in the acquiring company is more vested," Mr. Furman notes.

On the whole, a U.S.-led luxury conglomerate will be best positioned to take advantage of the emerging market opportunities in the world's largest luxury market: the United States. "The new American 'LVMH' has feet on the ground here and will be faster and smarter about making the good picks than the Europeans will be," Mr. Furman predicts. "They have a pan-European bias and have for too long believed that in the States the only luxury markets that mattered are New York and Los Angeles," noting that the Euro-three are heavily skewed toward Euro-indigenous brands.

The time is ripe for a U.S. luxury conglomerate to emerge, but it will be based upon a digitally savvy new world model, rather than an old world one. "The Europeans understand the importance of craft, sophistication and aesthetic in the luxury market, but Americans have the edge in understanding the new ways luxury consumers want to connect with brands," Mr. Furman said. Net/Net: "Americans will do it better," he predicts.

# Business Conditions in the Luxury Industry

Included in the luxury insiders' survey were a series of questions about how they see their current and future business conditions, both for the luxury industry as a whole and their own companies.

## Insiders' View of Business Conditions

To aid in analysis, an index was created where 100 equals the average, or neutral (neither better or worse), and values over 100 are viewed as more positive business conditions and those under 100 are viewed as more negative to the industry as a whole or their own companies.

The luxury industry insiders view business conditions over the past year as challenging indeed, with an index value of 91, 9 points below average. However, they believe that conditions will improve for the industry overall in the next twelve months, though not significantly.

Of their own businesses, they tend to see their companies have weathered the storm fairly well over the past 12 months compared with the industry as a whole, but feel even more positive about their own company's expectations for the coming year.

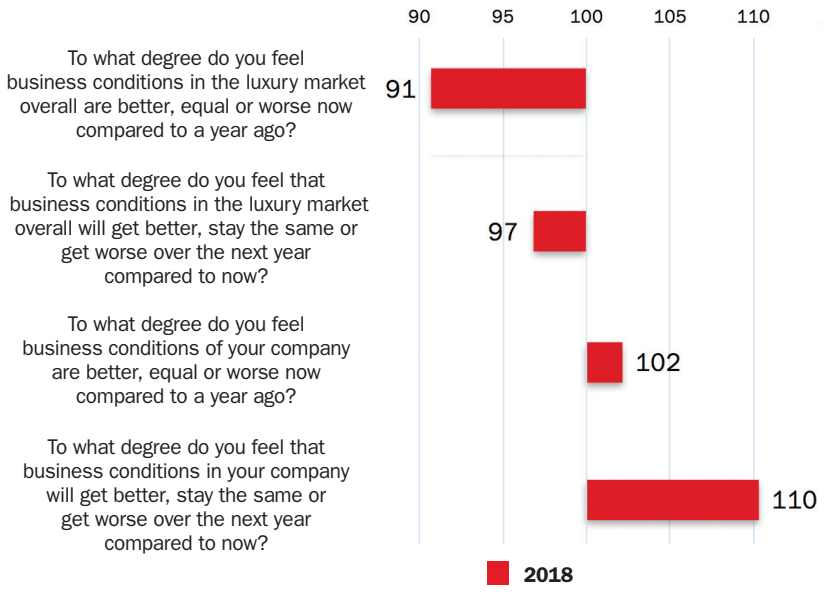


Figure 18: Luxury insiders' business conditions index

Of special note is that the industry insiders expect their own companies to do significantly better over the next 12 months (index value of 110) as compared with the luxury industry itself (index value of 97).

**TAKE ACTION**

Recalling the two trends most negatively affecting the luxury market as a whole, specifically the political turmoil, monetary policies and economic trends, the luxury insiders believe these will largely remain a challenge, though their companies should be able to overcome them.

In general, the majority of industry insiders believe that their own companies are locked and loaded to make real progress over the next 12 months, despite the changes that the new year will bring.

## Business Conditions in Luxury Market Overall Last Year to This

In analyzing the trend in how luxury insiders perceive current conditions in the luxury market overall now as compared with a year ago, business conditions have improved significantly, but still are not great yet. Last year, some 45% saw business conditions in the luxury market worse now compared to a year ago, which has improved to only 31% who say the same. On the flip side, today 41% of insiders view the luxury market overall doing better than a year ago, as compared with 29% last year.

By segment, there is significant difference in the role the insiders play in the luxury market and their measure of current conditions. Luxury goods, luxury services/experiences and suppliers to the industry all perceive current business conditions similarly.

## Business Conditions in Luxury Market Overall in Next Twelve Months

In keeping with the more positive perception of business conditions today, the luxury insiders are also more positive now than they were a year ago about prospects for the industry overall in the coming year.

Nearly half (47%) of insiders surveyed expect the luxury market to get better in 2018, as compared with 43% who saw brighter prospects for the industry in 2017.

However, on this measure luxury goods insiders are less optimistic about overall industry growth than are luxury services/experience or industry suppliers. Some 43% of luxury goods insiders believe the market will improve over the next twelve months, as compared with 50% of both services/experiences and industry suppliers.

**To What Degree Do You Feel That Business Conditions in the Luxury Market Overall Are Better, Equal or Worse Now Compared to a Year Ago?**

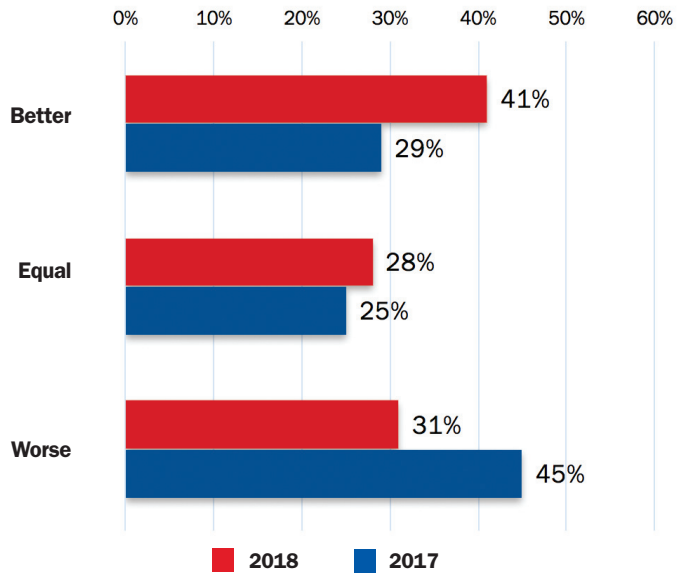


Figure 19: Business conditions in luxury market overall last year to now

**To What Degree Do You Feel That Business Conditions in the Luxury Market Overall Will Get Better, Stay the Same or Get Worse Over the Next Year Compared to Now?**

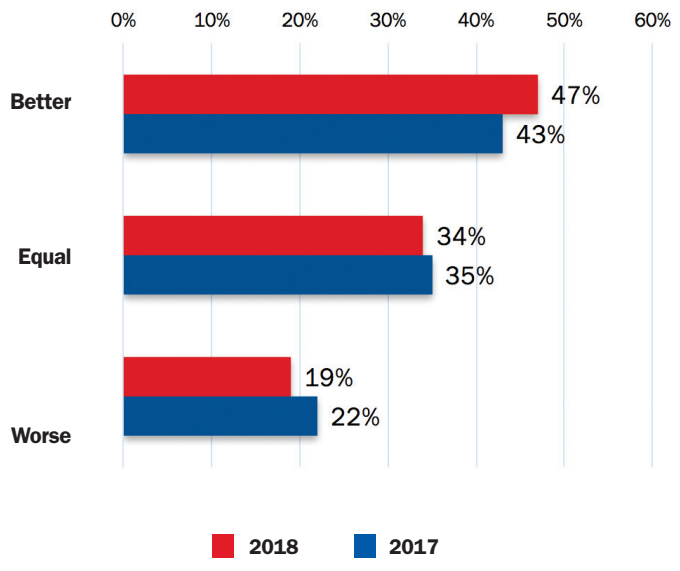


Figure 20: Business conditions in luxury market overall in next 12 months

**TAKE ACTION**

The most recent report from Bain & Company for the luxury market in 2017 predicts overall growth of 5% for the personal luxury goods segment with it to reach €262 billion this year. After what it calls a "reboot" from 2015-2016, Bain sees the luxury market reaching a "new normal" of 4%-5% annual growth through 2020.

Taking credit for this exuberant forecast is the rising tide of luxury-leaning millennials with whom luxury brands are finally starting to connect. "It's an interesting time in the world of luxury – the millennial state of mind has changed the way purchases are made across generations and has pushed luxury brands to redefine what they deliver to customers," said Claudia D'Arpizio, a Bain partner and lead author of the study. "For brands that manage to get this right, there is significant potential growth in the market for personal luxury goods in the years ahead."

It would appear from this most recent survey of luxury insiders, however, that they are not quite as optimistic as Bain in their expectations for growth, particularly the luxury goods marketers that are feeling the competitive pressure from consumers' shift toward more experiential spending.

## Business Conditions in Their Companies over the Past Twelve Months

Today a majority of industry insiders (54%) feel their own company's business conditions are improved now over a year ago. This compares with only 48% who felt their company's business conditions were improved when surveyed last year.

On this question, however, there are distinct differences in perceptions of current business conditions for their companies based upon their segments. Suppliers of services to luxury marketers, such as advertising, media and technical support, are far less

**To What Degree Do You Feel That Business Conditions of Your Company Are Better, Equal or Worse Now Compared to a Year Ago?**

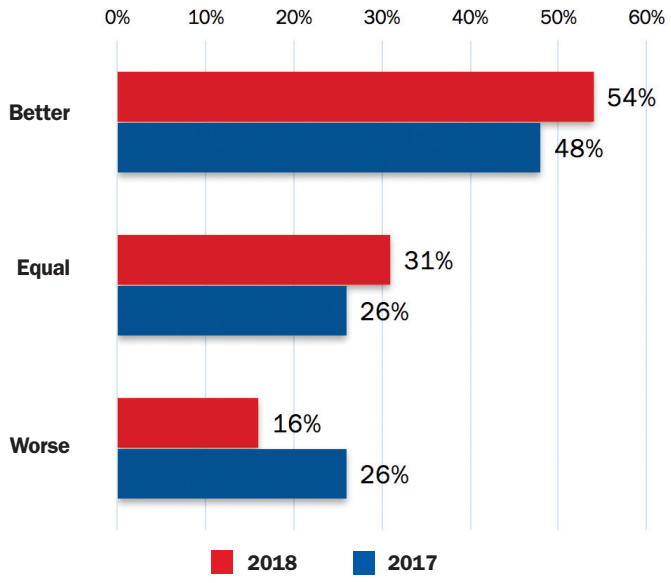


Figure 21: Business conditions for their companies last year to now

**To What Degree Do You Feel That Business Conditions in Your Company Will Get Better, Stay the Same or Get Worse Over the Next Year Compared to Now?**

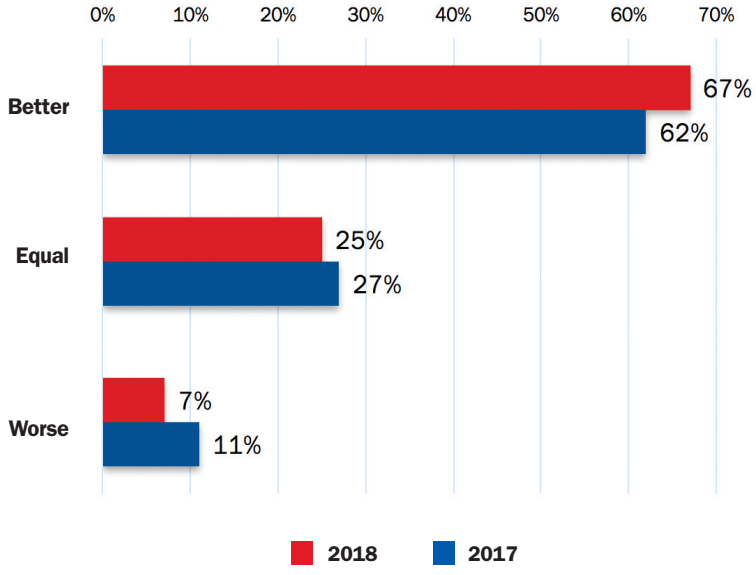


Figure 22: Business conditions for their own companies in next twelve months

optimistic about where their companies are today than a year ago, with only 45% feeling things are improving for their companies. This compares with 58% of luxury goods insiders and 60% of services/experience insiders who feel their companies are doing better now.

## Business Conditions in Their Own Companies in Next Twelve Months

And in ending this section of the survey, luxury insiders are overwhelmingly optimistic about the prospects for their companies over the course of 2018. Over two-thirds feel their businesses will do better next year.

In this question, too, luxury insiders are more optimistic about their company's future prospects than they were in last year's survey when only 62% expected conditions to improve.

In this question about prospects for their companies over the next year, all insiders regardless of the role they play are about equally positive that their companies will see improvement in 2018.

**TAKE ACTION**

Luxury insiders' very positive expectations for their own businesses over the next year suggests that they will pick up the pace in marketing and promotional activities, in particular employing Internet and social media strategies to find new customers and beat the competition. Continued expansion across global markets also is expected in the coming year, as this has historically been a boost to luxury brands.

Given the challenges many luxury goods companies feel in finding well qualified employees, the next year could also be a good one for young professionals to launch a career in the luxury goods industry, as well as a year offering new career-building opportunities for experienced managers.

With changes in wealth distribution and less worry about consumers willing to spend to trade up to luxury, luxury marketers are also encouraged about growth for their own businesses in the next 12 months. While they face stiff competition, they are empowered by the Internet and social media strategies to capture the imagination, and spending, of the wealthy luxury consumers looking for new luxury goods and services/experiences.

In particular luxury industry suppliers have a potential a gold mine in helping their clients maneuver the changing marketplace brought about by the rise of the digital world. But as of yet, they do not appear to have found the secret to turning the ripe opportunity into measurable growth, as their lowered perceptions of their companies' performance in the past year testifies.

An increasingly important role that suppliers play for their clients is to keep them abreast of changes and trends in their target customers' luxury lifestyles and helping them shape strategies to deal with those trends.

Of special importance to the suppliers is to help their clients develop new ways to position luxury brands in line with the new ways that luxury consumers are defining luxury in their lives and expressing it in their lifestyles, whether in fashion, home, travel, dining and personal services used.

Suppliers also have a vital role in helping their clients understand and respond to the shifts in luxury consumers' buying and shopping behavior.

# What 2018 Holds for the Luxury Market

The Luxury Institute predicts that more than one-fourth (28%) of affluent consumers plan to spend more on luxuries in the coming year, with fewer than 10% expecting to cut spending in 2018. These findings are based on global survey among 4,300 affluent consumers in seven of the world's richest industrialized nations, and Mexico.

With more than 90% of the world's affluent consumers expecting to participate in the luxury market this year, the survey also revealed that the experiential luxury categories will see the most growth in 2018, including leisure travel. Forty-one percent of those surveyed said that they will spend more this year than last on luxury hotels, airfare (40%), cruises (38%) and tours (37%). Also predicted to get a boost in affluent consumers' share of wallet are dining (33%), health and fitness (30%), automobiles (30%), entertainment (30%), technology (29%) and vacation real estate (29%).

> *"The experiential luxury categories will see the most growth in 2018, including leisure travel. Forty-one percent of those surveyed said they will spend more this year than last on luxury hotels, airfare (40%), cruises (38%) and tours (37%)."*

On the other hand, traditional luxury goods categories are expected to experience less vibrant spending than experiences. For example, only 26% of affluent consumers surveyed say they will spend more in 2018 on apparel, followed by jewelry (25%) and watches (24%).

The Luxury Institute survey also reveals where those purchases will be made. Increasingly, it will be online, with 21% of those surveyed saying they would rather shop online, as compared with 17% last year. Further, more than one in four (27%) luxury shoppers are channel agnostic, with no preference between shopping online or in-store. Yet, the majority of affluent consumers (52%) prefer to experience shopping personally in a store.

"The rising popularity of online shopping reflects successful efforts of many luxury brands to embrace an omni-channel approach to retailing, but the ongoing appeal of the in-store experience confirms the importance of brick-and-mortar," Luxury Institute CEO Milton Pedraza said. "The major challenge remains for many companies to transform stores from cost centers into experiential drivers of profitable growth. This can only be achieved with proper investment in technology, design and, especially, in increasing the emotional intelligence and relationship building skills of the entire organization."

Combining insights from the consumer-side Luxury Institute survey and this insiders' view, here are thoughts on what 2018 holds for the luxury business:

### Integrate Digital/Real-World Customer Experiences

The digital transformation affecting all segments of commerce, including the luxury business, calls on companies to increasingly integrate their online and in-store experiences. Luxury consumers expect it.

Consumers' path to purchase no longer is linear. Luxury consumers often start their search for luxury satisfaction online, then choose to make their final purchases in-store, online or through a personal service, such as a travel professional or concierge service. The critical need is for luxury goods and services providers to be there, anywhere the customer chooses to engage with them. It requires luxury companies and service providers to provide guideposts and direction in all the many ways the consumers are looking for them: online, through social media, in-store and face to face.

## Turning Luxury Goods into Luxury Experiences with Personalized Service

And while online and social media strategies are expected to be the primary strategic focus for luxury companies in 2018, enhancing the in-store experience needs to take precedence as well. At its core luxury retail is a people, not a product, business today. And bricks-and-mortar luxury retailers already have their secret weapon to beat online competitors — the personal touch. If only they used it effectively to personally engage their best customers in the best markets with plentiful happy, smiling, well-trained and helpful sales associates, rather than forsaking this most powerful weapon in the name of cost control.

> *"Bricks-and-mortar luxury retailers already have their secret weapon to beat online competitors — the personal touch. If only they used it effectively to personally engage their best customers…."*

A new survey by InMoment, based on the opinions of more than 30,000 U.S. and Canadian consumers, provides context about the critical importance to customers for a human interaction during their in-store shopping experience. The study's goal is, "a better understanding of their shopping habits during the path to purchase, from their decision to visit the store to the in-store experience, to their feelings post purchase."

Recognizing that "customers' access to information, desires for personalization and immediacy and cravings for true connections are upending millennia-old business models," the study shows just how critically important the person-to-person relationship between the customer and retail personnel is in today's omnichannel retail environment.

When consumers want to or need to buy a product, they increasingly turn to the Internet, but when they want a shopping experience — a very different thing — they go to the store. "Retailers that are concerned with in-store sales should look to experience," InMoment reports. "The majority of consumers say they shop in store for a sense of immediate gratification and the ability to confirm quality. Conversely, a majority of consumers say they shop online for convenience."

Convenience of the physical store is important too, since consumers rated location as the top reason to shop in-store, but that is followed by previously good customer experiences in that store that sets up the expectation of good customer experiences in their next shopping experience. And for that, the customers' feelings about their interactions with the retailers' staff, that person-to-person connection, is the most important factor.

Good, caring and personal customer service on the shop floor greatly enhances the customer satisfaction, resulting in a greatly enhanced likelihood that the customer will return to the store again for his or her next shopping experience.

## Happy Customers Make Happy Retailers

The InMoment data makes the importance of that personal interaction crystal clear.

Overall, a positive experience with the retailers' staff increases customers' satisfaction by 33%. But it is even more important for fashion retailers, who see upwards of 70% greater customer satisfaction when their shopping experience is enhanced by good customer service. And a happier customer results in a return customer. Retailers can bank on it.

It is a message that Apple has taken to heart, with its goal for its Apple Stores not just to create a satisfied, but a delighted customer, with the money following that delight. Author and leadership expert Steve Denning said, "Apple has grasped that making money is the result of the firm's actions, not the goal. By delighting the customer, Apple ends up making more money than it would if it set out to make money."

## Customer Delight is Luxury Retail's Goal

Retailers are competing in a marketplace today where consumer expectations of the customer experience are elevated beyond simply finding and getting a product. The human element in retail is the most important factor in attracting customers and driving sales in-store, not product.

It is not so much the product anymore, but the customer experience that gives the bricks-and-mortar retailer the competitive edge and which only people can deliver. Surely, Amazon can satisfy its customers with wide selection, cheap prices and fast delivery, but who would ever describe shopping on Amazon.com delightful?

Delighting customers must be the luxury retailer's goal. That takes people interaction. The ability for bricks-and-mortar stores to develop personal relationships with customers is their secret weapon. But too many retailers are not deploying this most powerful of competitive weapons effectively or consistently.

## Challenges Ahead for the Luxury Business in 2018

With luxury insiders predicting a vibrant market for their goods and services in 2018, and the Luxury Institute study confirming their expectations, what trends may upend those plans? What challenges and roadblocks do luxury insiders foresee?

For the answer to those questions, we turned to the experts: the luxury insiders who answered our survey and have a stake in the game.

• *Political upheaval and resulting macro-economic shifts*

Of all the worries that keep luxury insiders up at night, the most prominent is political upheaval, both at home and abroad. Political turmoil threatens the world order and the economies both at home and abroad. "Political instability is the most negative trend facing us because that affects how investments are made, which in turn affects the disposable income on which retail relies," says this insider.

Another says, "Political uncertainty in the U.S. and abroad with an expectation that overall economic conditions are likely to suffer as a result." And that uncertainty is fueled by our leaders, the respondent added: "Not knowing what Trump will do locally and globally makes for instability in our economic outlook."

Luxury brands need confident affluent consumers secure in their wealth to grow business. However, the political and economic uncertainty leads to less confident affluent consumers feeling insecure in their wealth.

"A paper market crash looks inevitable with multiple markets currently in unsustainable bubbles," another luxury insider speculates. "The middle and lower-luxury markets are tied into stock markets and would be badly impacted in such a crash."

• *Income inequality and divisions between the 'haves' and 'have mores'*

Also linked to political turmoil is the growing cultural awareness of income inequality, driving luxury consumers underground and away from more conspicuous consumption and luxury indulgences. "Widening income gap may cause people to seek alternative items of lessor status so as not to be seen as ostentatious," one insider says.

With the "have mores" seeking to lower their profile, it makes it harder for luxury brands to find them and service them. "The real luxury world will get more and more exclusive, and servicing the HNWI will be much harder than before. It will take more specialized people and more attractive marketing campaigns with real consumer engagement to reach them," another says.

Whether real or not, the wealthy feel they simply do not have enough and so they hold tight to what they have and seek to get more wealth. "Most wealthy people don't feel wealthy," this insider relates. "They are fearful. They want to make money with everything they buy. They are mostly fearful of losing money."

As the truly wealthy retreat into their secure enclaves, this market segment that is already hard to reach will become even harder. "Luxury consumers are already hard to reach, what with ad blocking, private media ecosystems, etc. It is going to make it harder to connect with the consumer," reflects this insider.

And complicating matters even further is that the HNW are reluctant to share with marketers.

"Capturing data about UHNWI and HNWI is challenging, such as spending habits, media consumption, etc. These consumers are the least willing to take surveys or provide information about themselves, even to the point that purchases are made (i.e. CRM data) and tied to their businesses or their administrative assistants," says another.

*• Democratization of luxury and its perceived loss of value*

While the reputed democratization of luxury has given a point of entry for new brands to appeal to the next generation of customers, it has caused disruption to established luxury brands.

"Some of our leading luxury brands have diluted their significance and impact by expanding their product lines with multiple entry points," one insider says. "They are chasing after a broader base of clientele as opposed to differentiating themselves from their imitators."

The democratization trend in luxury is disrupting the traditional relationships that luxury brands have developed over the years with their primary customers: the sophisticated wealthy.

"Separating the new consumers from the traditional consumers is a clear sign of the coming trend. During the recent Salon du Luxe in Paris, the major concern of the industry present was how to fight 'the industrialization of the luxury goods.' Masstige is welcome and necessary, but more exclusive, personalized luxury will certainly play an important role in the years to come."

> *"The proliferation and democratization of product means that it's harder to break through, tell powerful stories and get consumers to truly connect and immerse themselves in brands."*

Due to the rapid proliferation of new brands responding to the democratization forces, the pressure is on to define and differentiate true luxury from the poseurs.

"The proliferation and democratization of product means that it's harder to break through, tell powerful stories and get consumers to truly connect and immerse themselves in brands," a respondent says.

And the disruption is not only a result of the democratization of the brands themselves, but the democratizing of access to luxury is broadening the market and reaching new customers.

Luxury brands and retailers must respond, per a luxury insider: "The proliferation of technology and the democratization of its access forces us all to have to become experts in two demanding fields — our actual business and also tech maven — both at home by ourselves while fulfilling our other obligations."

*• Resistance to change and lack of innovation*

In the face of a rapidly changing market with customers expecting new services and products to meet their evolving needs, the luxury business is called on to change with it. But many insiders fear that their companies are not willing to lean into the changes that they need to make. This insider worries about "the relative lack of real innovation that pulls the industry out of its malaise and current conventions."

Innovation is the need, but some fear that their companies are trying to hold back the tide.

"[The] rise of the digital world has changed retail forever and isn't stopping. Retail — especially, luxury retail — must adapt quicker than it has." And another says the problem is "the resistance to change of many heritage companies."

Innovation demands a more engaged, proactive management working in the luxury industry, as one insider pointed out: "The market is changing, though this has been a constant from day one — times change. The biggest trend is that many luxury retailers have lost the plot — just walk into a store!"

However, many of the luxury insiders surveyed are rising to the challenge and forcing innovation on their otherwise reluctant management. "For this segment innovation, exclusivity and search for perfection is necessary," according to a respondent.

For luxury brands, the advice is innovate or die.

"The luxury industry will continue to reinvent itself, innovation and experience will become important in reaching out to the new millennials audience," says this insider.

### • *Competitive encroachment*

In the face of the changing makeup of the luxury market, emerging brands are not restricted by tradition or conventional wisdom and so are able to respond more effectively, more innovatively and more in tune with the changing times. The result is vastly increased competitive pressure, as this insider relates: "Brands innovating and keeping loyal to their DNA will thrive and get higher market share in a market which is shrinking."

And another says, "The weakness of larger luxury competitors is opening the door to increase our brand's market share."

The failure of some luxury brands to adapt will give emerging competitors a powerful push.

"Luxury heritage brands should endure, but I will be happy to see some shakeout. I look forward to seeing how some brands integrate technology and personal service into their experience," one says.

In the shift to the experience economy, luxury brands cannot just bring out new product and hope they get a hit. Competition is rising from unexpected places, most notably the mass market.

"With so much competition, it will get more challenging to convince customers why they should buy a luxury product versus mass market," says this insider. And another sees the threat as "over-saturation of the luxury market with goods that are competing for luxury status."

One insider sees opportunities for luxury brands to think differently and innovate with new products and services that make a real difference to the customers. In that way, they can confront the growing competitive threats. "The answer is to implement more differentiated brand strategies to face an increased and diversified competition," advises this insider.

### • *Finding paths to growth*

Luxury brands must grow: it is the very nature of business. In the face of intense competition and the rapid rate of change in the market, luxury brands have to search long and hard to find avenues of growth.

"Despite our own continued and steady growth and the strength of our solid market base, it has all been uphill since 2008 and 2009, when our customers were 'blue,' not impoverished but just not enjoying life!" reveals this insider.

At least one insider has identified the path to growth for the brand:

"Those luxury products such as cars, travel and wines will continue to be successful due to the fact that they have taken their utilization of the social media platform to the next level. It is those products that utilize these key drivers that will be on the cutting edge to their viability:

1) Social media

2) Experience

3) Customer engagement

4) Price

5) Perceived value in comparison to online shopping

6) Involvement in their communities and what they are giving back

"If the luxury market uses any of these or all drivers, they will be the ones that will withstand the heavy competition from online shopping and grow," shares this insider.

## Opportunities Abound in 2018

Despite the challenges, opportunities abound for luxury brands in 2018. "What excites me are new products and new approaches to life that address the consumer – body, mind and soul. The new luxuries are serenity, vitality and radiant good health. What encourages me is how we are creating new definitions of luxury," proclaims this insider.

Among the trends that are giving new hope and bringing vitality to the luxury business are:

- *Digital strategies*

As noted previously, digital marketing, branding and engagement strategies are at the top of most luxury companies to-do lists for 2018. "Ecommerce and multiple digital/physical touch points is a must for customers. Augmented reality (AR) will become a mainstay within the next two-to-three years," comments one insider.

Another shares the opportunities that digital strategies hold for luxury brands: "The continuous digitalization of the business world creates new, innovative strategies to reach consumers."

Digital media is giving consumers a behind the scenes look at the luxury lifestyle, thus making it more relevant and enticing to a wider audience. "The increasing prevalence of social media makes it easy for people to be inside the 'affluent' lifestyle. This increases the appetite for luxury and builds greater awareness," notes this insider.

> *"Putting authenticity forward as an essential platform for luxury brands requires brands to tell their authentic story and tell it well."*

Digital strategies are transforming the business of luxury, but integrating these new-age digital strategies with established luxury branding, sales and service traditions will be critical for success.

"What encourages me are AR apps that will emerge once the iPhone X debuts, continued maturation of VR/AR/MR and AI capabilities, and use of LBE [location-based entertainment] providing models for retail for luxury to combine with visual presentation-communication and established white-glove services," this insider shares.

- *Authenticity: Customers want the real deal*

Bringing authentic luxury back is identified by many insiders are a way to tap new opportunities in 2018.

"A significant number of clients are more and more sensitive to the authenticity of our brands and how distinctive we make them," says this insider.

This return to authenticity holds the secret of success for many brands.

"If heritage brands go back to what made them great, consumers will come back when they see that authenticity," an insider expresses.

Putting authenticity forward as an essential platform for luxury brands requires brands to tell their authentic story and tell it well.

"Authentic storytelling is still authentic storytelling, and resonates when well told," notes this insider.

"The more-connected consumer will challenge luxury providers to be better at engagement and constantly drive authenticity to new heights," is the call for action.

But it demands that brands stay true to their story of authenticity, as this insider cautions:

"The luxury market relies on adding value to any product. Consumer awareness and appreciation about authenticity and artisan process is growing. Too many manufacturers deceive consumers about the manufacturing process, materials and country of origin source information. Consumers want deep information about how and where a product is. We need to enforce laws regarding country-of-origin marking, so that consumers are aware of what is mass-manufactured, artisan made, culturally authentic or just an imported copy."

Luxury consumers must trust the information that brands share. Such information must be the real deal.

"Luxury branding is not just about a logo. It's about all the information related to how a product was made. Trust is a big issue in the luxury market," this insider shares.

- *Return to luxury's artisan roots*

A return to luxury artistry and artisanal roots is one way that many insiders see the luxury market going.

"People are getting weary of everything looking the same, i.e. Pottery Barn furniture, Louis Vuitton bags. It provides a window of opportunity for new, unique products with artisanal value to catch their interest. However, client trust in the artisans' craftsmanship and value will build slowly," this insider notes.

And another says, "People are finding value in artisanal goods. The challenge is to broaden that attraction and appeal."

As brands dig more deeply into the mindset of their luxury consumers and return to their artisan roots, luxury brands can regain relevance and build appeal.

"There is an increasing flight to quality. Brands are moving towards genuine artisan craftsmanship over badging and branding," remarks this insider.

The opportunity in returning to luxury's roots is huge, this insider shares: "Bring back artisans, make exclusive products and take exclusive care of the clientele that has put the luxury industry where it is today and help it grow tomorrow."

- *Values added deliver real value to the customer*

As the definition of luxury in the minds of consumers shifts, luxury brands are called on to add additional values into their branding promise.

"There are endless possibilities as branding today goes beyond product," one insider says. "Brands are returning to bespoke offerings in limited editions. It is about connecting with the consumer so we are relevant and they shop with us. Product, style, value, innovation, differentiation, high-touch service are in vogue."

Adding value into the branding proposition requires that brands align with the values of their customers.

"There is a commitment in the industry to understand the quality of luxury in the customers' terms and present the attributes of luxury products and services effectively and convincingly," an insider says.

Luxury must be relevant not just to the few, but to the many to inspire them to reach for the ultimate.

"Luxury can be redefined and doesn't not have to equate to being rich and glutinous. It requires better marketing and brands not being so out of touch with real people," says this insider. "To grow the consumer market for luxury goods, there has to be more than price, and exclusivity. There is new interest in Made in America, for example, and finding ways to show how these goods help Americans get more jobs. Luxury has to be socially involved and not just for entitled few."

Sustainability and environmental consciousness, along with social awareness is becoming more important to the luxury companies in which these insiders serve.

"Brands with higher environmental and social sustainability and company transparency in the future will have a stronger connection and loyalty among potential customers," says this insider.

The higher costs associated with luxury must translate into more value for the customers who invest, as this insider shares: "The people who purchased based on price and convenience alone will come to understand that the product they purchased hasn't held up to use. This will change their attitude toward their next purchase, insisting on quality that luxury brands offer. People are starting to realize that you get what you pay for."

• *Exquisite design never goes out of style*

A hallmark of authentic luxury with artisanal workmanship is exquisite style. Design sophistication and style never goes out of style. This insider says the greatest opportunity in luxury lies in consumers' "irresistible need for beautiful design that is timeless and made purposefully."

The value of luxury design and style is the industry's answer to fast fashion and imitators.

"There has been a cheapening of all things fashion and a dilution of once-great designers. But style and trends are becoming more important decision-making factors than perceived brand value," this insider says.

While style and design trends are shifting faster than ever, luxury brands with need to stay in front of those trends and present products that inspire consumers to reach to a new level.

"There is a shift from badge brands to brands that fulfill an internal need. The context is changing, which will bring a new definition of luxury. We must develop brands that offer more to luxury consumers who require it."

In summary, this insider says, "Consumers want a return to design and style. They demand it of us."

• *Shift to experiences gives luxury brands new platform on which to connect*

And, finally, the experience economy calls on all in the luxury business to consider the experiential side of the purchase experience, as this insider recognizes: "Luxury is an experience and consumer spend on experiences. That requires we translate the purchase into an experience."

> *"The emphasis on experiences creates a new platform through which luxury brands can engage with customers and deliver more meaningful messages."*

This emphasis on experiences creates a new platform through which luxury brands can engage with customers and deliver more meaningful messages. "The focus on experience opens the doors of interest and involvement for our consumers, both young and older. We can provide those unique experiences combined with authentic stories and message of real change in the choices we make," says this insider.

"We must maintain an emphasis on white-glove service. The interest in experiences over accumulation of goods means our products must become part of great memories made by our customers," this insider shares.

The experiential consumer will return to physical stores to get those great experiences, even if his or her search for luxury begins online.

"The pendulum is swinging back to shopping in stores for products. You can't get a great shopping experience on the Internet. You lose the nuance and knowledge when you don't have two-way engagement in a store. This gives the consumer confidence that they are making the right choice," says this insider.

The key to tapping into the experiences-led consumer is to make a meaningful contribution to their lifestyles, this insider shares, "There is an opportunity for brands to find ways to make positive meaningful change with how they add value to their consumers' life and the world."

## What to Watch for in Luxury in 2018

The luxury business is back and stronger than ever. That is the key takeaway from this edition of *Luxury Daily* and Unity Marketing's State of Luxury survey conducted among 599 luxury industry insiders. While some headwinds remain, the luxury industry insiders surveyed believe they have the "right stuff" to compete in today's rapidly evolving market for luxury goods and services.

While cutting-edge digital strategies will continue to help luxury brands connect with the next generation of consumers, it is not necessarily the magic bullet to bring transformational innovation to the business. Brands must delve deeply into their intrinsic values and make sure that the digital strategies adopted reflect that.

Indeed, 2018 will become the year when customers, not brands, take the forefront. That calls on brands to develop new stories of luxury that truly connect with consumer values and lifestyles.

For both luxury goods and services brands, inspiring customers to step up to luxury will require a focus on delivering the authentic, artisanal, design-driven, responsibly-made and socially-conscious values promised through their marketing. If they do not, they will create a path for disruptive, emerging brands to connect with those customers in more relevant and meaningful ways.

Luxury is at once timeless, yet must remain timely.

Luxury brands have an opportunity to bring their operations and marketing communications into the 21st century, while maintaining the integrity and authenticity of their traditional luxury quality, artistry, workmanship and age-old values.

Throughout 2018 we will continue to see the luxury business evolve, dealing with the challenges that still plague the industry but rising to the many opportunities that arise as well.

# For More Information on the Luxury Market

Those interested in learning more about the luxury industry and opportunities in the luxury market should contact this study's sponsors:

## Luxury Daily

This survey is the joint effort of *Luxury Daily* and Unity Marketing.

*Luxury Daily* is the world's largest luxury business publication. It is part of Napean LLC, a New York-based publisher whose portfolio also includes Luxury FirstLook, Luxury Roundtable and Luxury Retail Summit conferences and Luxury Daily Awards. Mickey Alam Khan is founder and editor in chief.
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Speaker, author, and market researcher Pamela N. Danziger is internationally recognized for her expertise on the world's most influential consumers: the American Affluent. Her latest book, *Shops that POP! 7 Steps to Extraordinary Retail Success*, reveals the secrets to crafting a retail shopping experience that's irresistible to high-value shoppers.

As founder of Unity Marketing in 1992, Pam leads with research to provide brands with actionable insights into the minds of their most profitable customers.

Pam is a member of the renowned Leaders in Luxury + Design panel recognized by The Home Trust International. She received the Global Luxury Award for top luxury industry achievers presented at the Global Luxury Forum in 2007. She was named to *Luxury Daily*'s Luxury Women to Watch in 2013. She is a member of Jim Blasingame: The Small Business Advocate's Brain Trust and a contributing columnist to Forbes.com and *The Robin Report*.

She is the author of six books, including a new book soon to be published entitled *Home for HENRYs: Meet the New Customers Home Décor Marketers Are Searching For — High-Earners-Not-Rich-Yet* and a recent mini-book, *What Do HENRYs Want?*, which explores the changing face of America's consumer marketplace. Pam is frequently called on to share new insights with audiences and business leaders all over the world.