STATE OF LUXURY 2019

The Insider View

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

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# STATE OF LUXURY 2019

The Insider View

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Introduction

A feeling of confidence is buoying the spirit of luxury brands and the people who work in them and those who work alongside the luxury industry in supporting roles, such as advertising and tech. This “rising tide lifts all boats” hope is propelling the industry forward into the new year.

In Luxury Daily and Unity Marketing’s third annual survey among luxury industry insiders, their optimism is palpable, including both executives who manage the companies that provide luxury goods and service experiences to luxury consumers and the businesses that provide support services to the luxury industry.

Whereas only two short years ago fewer than one-third (29%) of the roughly 600 industry insiders surveyed believed that business conditions in the luxury market were improved over the previous year, today a sizeable majority (56%) believe things are better now. And looking to the future, a majority (52%) of those surveyed believe business conditions will improve again next year, according to the -600 insiders surveyed this year.

In the most recent study, four key trends emerge:

- **Rising tide of affluence:** People throughout the world are growing in wealth and affluence, which is likely to bring a growing appetite for luxury. While there is a feeling that more affluent consumers will translate into more customers for luxury brands, there are signs on the horizon that may create turbulence for luxury brands in the future, including the ever-present macro-economic trends, growing political instability and problems finding well-qualified employees to fill the ranks in in a full-employment economy.

- **Digital luxury:** What was once a non sequitur – digital luxury – is no longer so. The luxury industry has fully embraced the digital revolution and is finally surfing the World Wide Web. Internet ecommerce, advertising and social media are priorities for luxury companies in 2019, as it was over the last two years. But these strategies are not as of yet producing especially meaningful results. The share of ecommerce luxury sales remains at about one-third and social media marketing is rated by few as very effective.

- **Next-gen luxury customers:** Finding new customers, especially attracting the next-generation, is luxury companies’ primary growth challenge, but this year luxury brands are placing more emphasis on retaining existing customer loyalty as well. Of note, this year luxury insiders feel less challenged by price competition or confronting customers less willing to spend. This is a strong positive trend presaging consumers’ greater willingness to step up to luxury next year.

- **Disruption:** Disruption remains a key concern for luxury companies. But their response to its effects — Internet and social media marketing strategies — may not be the “magic bullet” hoped for. Further, everybody is planning to do the same thing and so few are thinking outside the box to find innovative strategies for competitive differentiation.

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 its optimistic feelings into measurable results and growth for their brands.

In the report that follows you will see results of this year’s survey among 600-plus luxury industry insiders compared with those from the past two years. We will report on the trends year-to-year and provide actionable research takeaways to help you power your competitive and marketing strategies for 2019 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 honored to bring you this report.

From August 1 through October 15, 2018, 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 in previous years, 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.

This year’s survey was further enhanced by additional questions surrounding the luxury insiders’ marketing and advertising perspectives, with particular emphasis on digital/social media marketing.

Throughout this report we will 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.

Good “Luxe”

**Mickey Alam Khan**
Editor in Chief
*Luxury Daily*

**Pamela N. Danziger**
Lead Researcher
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 (36%), luxury service and experience marketers (20%) and suppliers of services, such as advertising, media, consulting and others, to luxury goods and experiential marketers (30%). This year’s survey sample was well represented by participants in many leading luxury verticals, including jewelry, fashion, beauty, home furnishings, home services, hospitality and travel services.

• About the Luxury Goods Companies Surveyed
This year’s luxury goods insiders’ survey sample drew a nice cross section of luxury goods categories, leading with jewelry, clothing and apparel, beauty, home furnishings, fashion accessories and watches. Among this luxury goods group, the majority (60%) sell direct-to-consumers via a company-operated Web site, with independent retailers and branded company stores their next most important channel of distribution to consumers.

Online distribution, either through a company-owned Web site or in partnership with other online platforms, is an important distribution channel for a majority of brands (67%); however only about 35% of company revenues are credited to online channels, virtually the same as in the two previous years. This suggests that online distribution is not growing as fast as luxury goods companies would hope.

• About the Luxury Experiential/Services Companies Surveyed
Included in the sample of luxury experiential and services companies surveyed, home services, such as architects, interior designers, etc., hotels/hospitality, travel services, real estate and dining/restaurants accounted for the largest share of companies surveyed.

Among these companies, just over 40% also sell luxury products as an adjunct to their services offerings, with product sales accounting for 45% of revenues among those companies that also sell products.

• About Luxury Companies’ Advertising, Marketing and Innovation Strategies
Luxury companies will pick up the pace of advertising this year, with nearly half (45%) expected to spend more on advertising and marketing in 2019. Overall, these companies will increase advertising and marketing spending by about 8%.

Looking at their advertising venue choices, Internet and digital advertising will get the biggest boost. Some 80% will spend more in this category, followed by mobile (70% will increase spending) and email marketing (53%). However, nearly half (48%) will spend less on print advertising.

One the other hand, overall distribution of advertising media, while it skews toward Internet digital, email and mobile, some 66% of those surveyed still rely on print.

Top on luxury insiders’ list of further areas of expansion in promotion and marketing this coming year are enhancements to company Web sites, content marketing and more special and in-store events.
Social media is also widely used by luxury brands, but its effectiveness by channel is rated far less effective than would be hoped. For example, 81% of brands use Facebook, but only 17% rate it as very effective. The most highly used platform is Instagram, but there too only 33% rate it as very effective.

Among luxury brand’s biggest challenges to growth are finding new customers (49%), costs of doing business and competition (both 34%) and the changing ways luxury consumers are shopping (33%). This year, however, there are notable differences compared with previous years. Concern about price competition and customers less willing to spend on luxury have subsided a bit, while customer retention and loyalty are of growing concern.

Disruption remains a challenge in the luxury market, with insiders saying that social media strategies are their top choice to respond, followed by online and ecommerce strategies and innovation.

To power innovation strategies, most insiders report they are actively listening to customers, but structured market research strategies are not high on their lists. They also attend to industry news and trade sources and attend conferences and industry summits to stay out in front.

- **About Trends Impacting the Luxury Market**

Top on the list of trends that are having a positive impact on the luxury market are product/service innovation, globalization, rise of the digital world and finding new paths to market.

Providing headwinds for luxury brands’ growth, however, are the negative impacts of political instability, monetary and economic factors, finding and retaining well-qualified employees and the impacts of mergers and acquisitions.

- **About Business Conditions in the Luxury Market**

Overall luxury insiders are going into 2019 with a very positive expectation for the year. Some 56% of those surveyed feel that business conditions are better now than a year ago and 52% expect business conditions to improve once again in 2019.

Regarding their own companies, 56% say business conditions are better this year than last and 64% expect conditions for their companies to improve in 2019.

This summarizes the key findings from the structured questions in the survey. Read on for details about these findings, along with analysis of the open-ended questions included in the survey. In addition, in the following report you will find callouts of what the research results mean for companies that serve the luxury market and industry.
Luxury Insiders Surveyed

Luxury goods marketers and suppliers and providers of services to luxury companies, such as advertising, marketing and branding agencies and consultants, dominate the luxury insiders surveyed.

In all, 607 luxury industry insiders participated in this year’s online survey, which is virtually the same as the 599 in 2018 and 603 in 2017. The survey includes industry participants representing four key sectors:

- **Luxury goods marketers and/or retailers**: Just over one-third of those surveyed compete in the luxury goods sector, fewer than in the previous years.

- **Luxury services/experiences marketers**: Some 20% of respondents participate in delivering luxury services and/or experiences, including home-related services, travel, financial services, real estate and others. Their participation has steadily increased in the survey.

- **Suppliers of goods and services to luxury marketers**: This is our second largest respondent segment, with just under one-third of our sample providing support services to luxury goods and experience companies, including insiders from advertising, branding and media agencies, consultants, manufacturing partners, researchers, et cetera. Their participation has remained roughly the same.

- **Publishers, reporters and educators**: These observers of the luxury market were broken out separately this year and represented just over 10% of the survey sample.

**Figure 1**: Luxury industry insiders surveyed

**TAKE ACTION**

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.
A Closer Look at the Luxury Goods Marketers

The next series of questions were asked only of luxury goods marketers and retailers.

Luxury Goods Categories
Luxury goods brands selling jewelry, clothing and apparel, beauty, home furnishings and fashion accessories represented the largest share of luxury goods respondents in this year’s survey.

Over the course of three years’ surveys, there has been considerable variation in the luxury goods categories in which the survey respondents compete.

Figure 2: Categories in which luxury goods marketers compete
Luxury Goods Distribution Channels

New to this year’s survey is a question about how luxury goods companies distribute their products to consumers.

Direct-to-consumer distribution via company-owned Web sites took the lead, while distributing through independent retailers is an important channel for half of the luxury goods marketers surveyed. “Others” include distributors, trade shows and popups primarily.

Distribution Challenges

An open-ended question was added to this year’s survey to ask about luxury goods marketers’ biggest challenges in distribution. In today’s omnichannel, global luxury market, distribution has become infinitely more complicated, as this respondent said the key challenge is “to create a seamless customer experience across countries and channels.”

- **Getting distribution partners to communicate the brand’s DNA**

Beyond logistical challenges, brands face the challenge of creating and maintaining “consistency of communication to keep strong brand image and DNA.” With distribution partners responsible for a critical portion of communicating the brand’s “unique value proposition and properly tell our story” in store, luxury brands must rely on retail partners and their staff to communicate effectively with customers, which is a major challenge for brands.

“Finding retailers who truly understand the brand and its value as well as how to sell to the luxury customer,” is a major concern.

- **Getting control of the data**

Another major theme that emerges is the question of control. Luxury brands are keen to “keep selective distribution only to agreed distributors,” and “keep the brand off unauthorized online sites and third-party sellers, like eBay, Amazon and Houzz.”

With more distribution partners and more information scattered across channels, the challenge of data control is critical. “Not having the data of consumers when sold through third parties,” a respondent commented.

- **Push-pull between luxury brands and distribution partners**

There is a continual push-pull between product brands and their retail partners. One respondent feels “retailers are incompetent, stuck in the old ways of doing things and arrogant.”

While this retailer feels its product partners are exerting too much control through their practices, others also feel brands are not supporting them enough. “As a retailer, the biggest challenge comes from the manufacturers with heavy-handed practices to expand distribution within our defined trading area.”

Brands going direct-to-consumers often creates conflict with trading partners. Many times these are seen as more competitive than complementary. “Competing against our vendors who sell direct to consumer.”
• **Goods brands and retailers need to pull together; training is key**

Ultimately the challenge of luxury distribution comes down to finding “retailers who truly understand the brand and its value, as well as how to sell to the luxury customer.” Too many retailers are looking for “items that can be sold quickly and easily.” And from many brand companies’ perspective, those retailers are not providing the necessary training and education to their staff to sell the brand effectively.

Retail sales training is critical in the distribution mix. “Training of in store personnel to create the proper experience, so consumers don’t resort to online channels.”

• **Consumers demand a seamless relationship with brands and retailers**

Today’s luxury consumers want a seamless, simplified experience with luxury brands, but are getting conflicting messages and experiencing friction when trying to find the products they crave. “Consumers are fatigued from many divergent messages in the media about the product and develop a feeling of hopelessness in trying to control their purchase decisions and resort to an easy, least stressful decision.”

There remains much work to be done on both the product marketers and the retailers’ side. Working along side, not in opposition to each other and communicating effectively and with one voice is the key for brands to “gain quality points of distribution (i.e., locations/venues) that comport with their brand standards.” That will then lead to “finding the right way of distribution and get the right client.”

**Opportunities in Distribution**

In looking at the opportunities in distribution, online and social media are seen by many as the next wave. “The social media interest groups and marketplaces are the new form of word-of-mouth that give increasing opportunities to reach new clients,” said one respondent. As we will see in the following section about advertising and marketing strategies, however, few brands have unlocked the secret of effective social media marketing.

• **Finding a true omnichannel approach that simplifies the customer’s journey**

Luxury brands are looking holistically to the customer’s journey and want to be a guide along that journey. “To effectively engage clients during the entire process to ensure top levels of service and gain ongoing loyalty,” said another. The key is to “use digital in-store and combine it with ecommerce and social media to enhance experience of shopper.”

• **Creating the luxury experience in the real world**

While many see opportunities online, others are looking to enhancing the in-store experience and see independent retailers as an avenue of growth. “More small independent retailers,” said a respondent, who will educate their staff “on the brand and luxury selling skills.”

Physical retail is where luxury brands can create experiences for their clients, such as this one who sees personalization as key to its future. “As customization and experiences grow, we believe this is a HUGE opportunity for retailers and also for consumers looking for a bespoke customer experience.”

And another finds personal customer experience a priority with “new ‘experience based’ partners,” and continues, “Our top customers tend to connect world-wide with high-end events and we look for partners who can collaborate and assist especially in new markets.”

• **Logistic strategies that maximize efficiency**

In distribution efficiency and logistics are key, as this respondent shares. “The flip side of our biggest challenges is related to scaling. We’ve become incredibly efficient and those efficiencies scale. As we do grow, we will have the opportunity to maximize profitability and avoid ‘growing pains.’”

In conclusion, one respondent laid out their company’s distribution opportunities that are on many luxury brands’ agenda:

- Develop ecommerce
- Develop branded company stores
• Diversify retailers
• Develop criteria for opening new stores

Internet Ecommerce for Luxury Goods Marketers
Over the past three years, the share of luxury goods companies selling direct-to-consumer over the Internet has continued to rise, from 58% in 2017 to 67% today.

While the share of luxury goods companies selling online has increased in the past three years, the luxury goods companies on average are generating about the same share of revenues online as before, just over one-third.

TAKE ACTION
Luxury goods companies are placing a heavy emphasis on online strategies but the results are not showing in the overall survey. The greatest majority of luxury goods companies (38%) report they generate 10% or less of company revenues online.

The call is not to just do more on the Internet, but to do more better. As we uncover in the advertising and marketing sections in this survey, Internet marketing is underperforming for many brands.

Mobile-Enabled Web Site
The vast majority of luxury goods’ Web sites are mobile-enabled.

In a follow-up question among those 88% of luxury goods companies with mobile-enabled Web sites, they report that on average about one-third (30%) of all Internet sales are generated through mobile devices.

TAKE ACTION
While luxury goods brands have fully embraced Internet marketing as a path to consumers, they have yet to learn how to make a meaningful digital connection with them. In subsequent questions where we delve further into their marketing and social media efforts to engage online, it is apparent that significant work needs to be done to pave a path to new customers over the Internet.
A Closer Look at the Luxury Experiential Marketers

The next series of questions were asked only of luxury experience and service marketers.

Luxury Services & Experiences Categories
Among the service/experience providers, those that support homeowners, such as designers, architects and builders, were the most highly represented, followed by hospitality, travel services marketers and real estate.

In this year’s survey, a slightly lower share of home services and real estate companies responded than last year.

Experiential Marketers Also Sell Products
In a new question, luxury services marketers were asked about selling luxury goods along with services. Slightly less than half (43%) sell luxury goods in addition to services, while the majority sells only services.

Among those services companies that also sell luxury goods, nearly half of company revenues (45%) are generated from sales of products, with the remainder made in luxury services (53%).

Note: this question was only asked of those services marketers that also sell products to their clients.

### What Categories of the Luxury Services Market Do You Compete In? (check all that apply)

- **Home services** (e.g. architect, builder, designer, landscape services, other)
- **Hotels, hospitality, resorts**
- **Travel services** (e.g. airlines, cruises, travel packages, travel planning, other)
- **Real estate**
- **Dining, restaurants, bars**
- **Retail services**
- **Financial services** (e.g. credit card, financial advisor, investment professional, etc.)
- **Beauty services** (e.g. spa, salon, cosmetic services, physical discretionary services, etc.)
- **Other** (please specify)

![Figure 7: Categories in which luxury services marketers compete](image)

### Does Your Luxury Services Company Also Sell Luxury Products to its Clients?

- **Don’t know, 5%**
- **No, 51%**
- **Yes, 43%**

![Figure 8: Experiential marketers sell luxury goods](image)
All Luxury Goods & Experiential/Services Marketers

The next series of questions were asked of all luxury goods and luxury experiential/services marketers, but not among the advertising agencies, consultants and other companies that work alongside luxury industry marketers in providing services to them.

Luxury Markets Competed In

Over 80% of our luxury goods and service/experience marketers compete in the U.S. and Canada, followed by Western Europe, United Kingdom, China and the Middle East. Overall, the insiders surveyed compete in an average of 4.2 markets, slightly higher than the 3.7 markets found last year.

**TAKE ACTION**

This survey taps the perspectives of luxury companies competing in the global market for luxury. The fact that the average number of markets rose from 2018 (3.7) to 2019 (4.2) testifies to the growing importance of the global market.

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

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**In Which Markets Does Your Company Compete?**
(check all that apply)

<table>
<thead>
<tr>
<th>Region</th>
<th>2019 (n=343)</th>
<th>2018 (n=342)</th>
<th>2017 (n=367)</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America (U.S.A., Canada)</td>
<td>83%</td>
<td>85%</td>
<td></td>
</tr>
<tr>
<td>Western Europe (France, Belgium, Germany, Italy, Spain and other Western European nations)</td>
<td>42%</td>
<td>39%</td>
<td></td>
</tr>
<tr>
<td>United Kingdom, including Ireland, Scotland</td>
<td>39%</td>
<td>35%</td>
<td></td>
</tr>
<tr>
<td>China and Hong Kong</td>
<td>28%</td>
<td>23%</td>
<td></td>
</tr>
<tr>
<td>Middle East</td>
<td>24%</td>
<td>28%</td>
<td></td>
</tr>
<tr>
<td>Oceania (Australia, New Zealand, other Oceania nations)</td>
<td>19%</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>22%</td>
<td>27%</td>
<td></td>
</tr>
<tr>
<td>Central/South America (Brazil, Mexico, Caribbean Islands and other Central/South American nations)</td>
<td>22%</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>Other Asian/South East (Korea, Thailand, other Asian/Southeast Asian nations)</td>
<td>22%</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>Russia</td>
<td>19%</td>
<td>22%</td>
<td></td>
</tr>
<tr>
<td>Scandinavia (Finland, Sweden, Norway)</td>
<td>18%</td>
<td>20%</td>
<td></td>
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<tr>
<td>India</td>
<td>16%</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td>Eastern/Central Europe (Poland, Czech Republic, other Eastern/Central European nations)</td>
<td>18%</td>
<td>19%</td>
<td></td>
</tr>
<tr>
<td>Africa, including South Africa</td>
<td>13%</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>Other (please specify)</td>
<td>3%</td>
<td>7%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Figure 9: Markets competed in
Years in Business and Competing in the Luxury Market

The typical luxury goods and service/experience marketer has been in business 38 years, slightly more years than in last year’s survey. Over half (54%) have been in business for 25 years or less.

By contrast, the typical luxury goods and service/experience companies has been in the business of luxury for 30 years, entering it roughly eight years after opening. Some 40% of marketers have been in the luxury market for 10 or fewer years.

Of note, in 2019 there are fewer companies that just entered the luxury market, while more that have been in business two to five years.

Figure 10: Luxury goods and services insiders’ years in business

Figure 11: Luxury goods and services insiders’ years in luxury market
Years Launched in the Luxury Market

While our luxury marketers have averaged about 30 years in the luxury market, our industry insider sample skews toward new entrants, with 55% of companies launching into the luxury market from 2000 and after, with nearly 80% entering the luxury market in 1980 or thereafter.

TAKE ACTION

While many heritage luxury brands have a history extending back a hundred years or more, today’s luxury market is composed primarily of new entrants 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 heavily 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 younger luxury companies are better positioned to adapt to the recent changes affecting the consumer market. Furthermore, many came of age along with the digital revolution, so presumably they are ahead of those which have been slower to adapt.

<table>
<thead>
<tr>
<th>Years Launched in Luxury Market</th>
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</thead>
<tbody>
<tr>
<td>2016-2018</td>
</tr>
<tr>
<td>2010-2015</td>
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<tr>
<td>2000-2009</td>
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<td>1920-1929</td>
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<td>1910-1919</td>
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<tr>
<td>1900-1909</td>
</tr>
<tr>
<td>1800-1899</td>
</tr>
<tr>
<td>Before 1800</td>
</tr>
</tbody>
</table>

Figure 12: Luxury goods and services insiders’ years launched in luxury market
Advertising, Marketing and Innovation Strategies

This series of questions asked all luxury insiders surveyed about their advertising, marketing and innovation plans, including luxury goods, services/experiential marketers and companies that provide services to these companies, such as advertising agencies, consultants and others.

Spending on Marketing & Advertising

This year a greater share of industry insiders report their companies will be spending about the same on marketing and advertising in the coming year, 48% for 2019 as compared with 34% in 2018.

However, in this year’s survey all respondents, including companies that market services to luxury companies, not just luxury goods and services marketers, were asked this question. That may explain some of the differences in the survey results.

Overall, luxury insiders reported that about 15% of total revenues were invested in marketing and advertising. This is a larger share than is typically found in other consumer businesses, where advertising and marketing investments tend to range between 5-10% of total revenues.

On average advertising expenditures will grow ~8% overall.

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 near majority of luxury industry insiders will invest more on advertising and marketing next year is a positive indicator that they will continue to focus on finding new customers, attracting them to their brands and growing sales.
Trends in Spending by Media

On average luxury insiders will invest ~8% more on advertising expenditures in 2019. Figure 14 shows how their spending will be distributed by media, either spending more, the same or less than last year.

Among those advertisers that use each of the various advertising media, Internet/digital and mobile advertising are slated to be the categories where luxury insiders will grow their investment in 2019, along with email marketing.

On the other hand, print and television cable are where a far greater share are likely to spend less on in 2019.

However, the reliance on each advertising media is not evenly distributed. Figure 15 shows the overall distribution of media use by type.

Among the most used advertising media are the digital ones, including email marketing and mobile.

Print advertising is only used by two-thirds of the luxury insiders, followed by direct mail and catalogs by 55%.

TAKE ACTION

Next year will be another tough one for traditional print. Fewer than one-fifth of the luxury insiders will increase spending on print in 2019, while digital media will take the lion’s share of new advertising investment.

UK-based Zenith’s 2019 report Advertising Expenditure Forecasts takes a broader look at luxury advertising on a global basis. Zenith’s analysis also points to significant growth in digital spending, predicting that “digital advertising is responsible for almost all the growth in luxury ad spend. We forecast luxury advertising in digital media to grow by US $886m between 2017 and 2019.”
Yet even as luxury brands turn to digital channels, they are as a class slower to adopt it than other advertisers included in the study. “Across the 23 markets included in the report, advertisers in all categories spent 39% of their budgets on digital advertising in 2017, compared to luxury’s 30%, and we expect them to spend 42% this year, compared to luxury’s 33%.” They further predict, “By 2019 we forecast that digital advertising will account for 35% of total luxury ad spend.”

Zenith identifies the problem luxury brands have adapting to the online world. “Luxury brands have historically been skeptical of the value of the digital environment for conveying their brand values, with its limited ad formats, crowded pages and often poor-quality content.” However it notes, “The environment has been improved by better ad formats and more high-quality content such as premium video, while programmatic private marketplaces, preferred deals and programmatic guaranteed deals all help brands pick the right content for their messages to appear in.”

The Zenith predictions for the increase in luxury advertisers spend globally are more conservative than the insiders included in this study, predicting only a 2.8% increase in spending in 2019, but below the growth rate of advertising in general, which they peg at 3.6% in 2019.

Zenith analyzes the problems facing luxury brands in the rapidly evolving market for luxury. “Some luxury advertisers are struggling to adapt to the preferences of younger consumers, who often value experiences over material luxuries. Meanwhile, the continued decline of print consumption poses a particular challenge for high-end luxury brands, which still rely heavily on magazines to communicate their brand values.”

However, Zenith reports that luxury brands remain wedded to magazines as key to communicating their brand value. “High luxury brands are more exclusive and iconic, and advertise in prestigious media with limited reach, spending 57% of their budgets on magazine advertising in 2017. This proportion is falling, but slowly: we still expect 55% of high luxury ad spend to go to magazines in 2019.”

Zenith further distinguishes high luxury brands from those that are more broadly based. “Broad luxury brands target a wider range of consumers with mass-media advertisers, and spent 41% of their budgets on television in 2017, more than any other medium.”

“After a relatively slow start, luxury advertisers are now committing to the digital future, led by luxury hospitality brands,” said Jonathan Barnard, head of forecasting at Zenith. “Luxury brands face unique challenges online, such as the need to maintain exclusive brand values while communicating with potential customers at scale. By using personalized digital communications and high-quality ecommerce experiences, luxury brands can generate new sales while preserving their exclusive appeal.”
Other Advertising Strategies Used

In a new question, luxury insiders were asked about other marketing strategies for the coming year.

Continued work on company Web sites, investment in content marketing, in-store events, influencer marketing and public relations are top on the list. “Others” include strategic partnerships, videos and trade show exhibits.

Social Media Channels

Probing further into luxury insiders’ use of social media, a series of new questions were asked, starting with which platforms are used and how they rate their relative effectiveness.

Among the favored social media channels for luxury insiders’ companies are Instagram and Facebook. However, their relative effectiveness differs markedly. Facebook is rated far less effective than Instagram, with 17% rating Facebook as very effective compared with 33% of Instagram users. The next most effective channel, though less used relative to Instagram and Facebook, is YouTube, rated by 16% as very effective.

However, what is most notable in these findings is the relative ineffectiveness of any social media channels.

Note: Only insiders that reported using each social media channel rated its relative effectiveness.
Figure 18 shows a breakdown of how the users of each social media channel rated their effectiveness:

In this look at the relative effectiveness of each social media channel, Instagram is the winner, while Facebook leaves much to be desired, with 41% rating it as only somewhat effective and 23% rating it of limited effectiveness. Twitter, too, is underperforming.

Net/Net: Luxury companies have not yet figured out social media. Otherwise many more would rate the channels they use as very effective.

**Most Important Social Media Platform**

Based upon the results from the effectiveness ratings, it is not surprising that Instagram is the most important social media platform for luxury insiders’ companies. But Facebook’s relatively strong rating is a surprise given its relatively low effectiveness rating.

Among the other channels reported as most important include Houzz and LinkedIn, which is relatively more important for business-to-business luxury industry service providers and in the case of Houzz, home luxury service marketers such as interior designers and architects.
**Biggest Challenges to Growth**

Finding new customers, costs of doing business and competition are the top growth challenges for luxury insiders’ companies, along with the changing ways consumers shop and retaining existing customers’ loyalty and patronage, which grew in importance this year.

In this year’s study, there are notable differences from previous years, however. Concern about price competition and customers being less willing to spend have subsided quite a bit, while customer retention and loyalty have increased as an issue of concern for many luxury insiders’ companies.

**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.

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-ten 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.
- 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 3–4% of high-income customers and the traditional target for luxury brands, start on their road to affluence as HENRYs.

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

**Responding to “Disruption”**

Most, if not all industries, 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 (50%) said that investing more in social media and online Internet strategies (46%) was their answer.

But based on the overall low effectiveness rating of social media platforms, luxury marketers are challenged to get these strategies right. Also notable is that luxury insiders report remarkably similar strategies when responding to disruption. More social media and online investments are on deck, as are plans for more innovation and expanded channels of distribution.

Relatively fewer insiders’ companies will make an investment in more or new advertising strategies than found last year, while more are also looking toward international expansion.

**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 evolving 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, on a growth trajectory. And if luxury brands do not 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 are not 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 is 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 luxury 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 changes in management, marketing, branding, advertising and distribution strategies.

**Innovation Strategies**

To stay ahead of the curve, the greatest number of industry insiders actively listens to input from customers, as well as persistently scan the news for developments and new ideas.

They also gather ideas from industry conferences and monitoring social media, while far fewer listen to company staff or conduct formal market research to drive innovation.

Interestingly, no innovation strategy popped this year as getting more attention, except attending conferences. All the others declined somewhat or basically stayed the same.
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 2019, 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.

The call today is not necessarily for more advertising and marketing, but for more effective advertising and marketing, with effectiveness measured in new customers, retaining existing 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 will examine the views of all industry insiders on the most important trends impacting the luxury market, including luxury goods and services marketers along with suppliers of goods and services to luxury marketers.

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 the luxury industry’s growth.

Overall industry insiders view most trends as having a potentially positive impact on the luxury market in 2019, with product/service innovation, globalization, the rise of the digital world and finding new paths to market as the most positive trends.

This year political instability is their biggest concern, followed by monetary policies, finding well-qualified staff and mergers and acquisitions.

Looking back to 2018, we found the most positive trends for growth were:

- Product or service innovation
- Social Media
- Rise of the digital world
- Diversification of products and services
- Finding new paths to market

Figure 23: Index to trends impacting growth for luxury insiders’ companies
In 2018 luxury insiders saw more trends negatively impacting their businesses, unlike this year where more trends are seen as having a potentially positive impact.

**Trend Shift**

Comparing last year’s look at trends with this year’s, here is how insiders’ perspectives have shifted:

Overall, these trends shifted more positively in 2019, as compared with 2018:

- Changes in how luxury consumers spend
- Changes in consumer demographics
- Changes in how luxury consumers shop
- Changes in how consumers define luxury
- Globalization
- Changes in luxury consumers’ media habits.

These trends shifted more negatively, including mergers and acquisitions, finding qualified employees, social media, diversification, monetary policies, political instability and the rise of the digital world.

Looking at these trends from the insiders’ role in the luxury industry, luxury services/experiential brands see changes in the distribution of wealth and product innovation as more positively impacting their businesses, while trends in monetary policies and social media are less impactful in their realm.

Marketers that offer services to luxury brands are making the most of the changes in the luxury market impacting their clients. For them changes in how luxury consumers shop and spend and shifts in their media habits are creating opportunities for their businesses. They are also positively impacted by their clients calling on them to help innovate their businesses in product and services offerings.

**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
Trends which marketers have some control over include the following. 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.

• 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.

**TAKE ACTION: Luxury Goods Brands**

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 many trends in a more negative light than the other luxury insiders.

This calls on luxury goods marketers to make the most of every opportunity to make connections with their affluent target customers, build brand loyalty and grow sales. Retail partner and staff training are critical to this.

Especially important for goods marketers is to take advantage of the many shifts in consumers’ buying and shopping behavior and proactively put their brands out front of those trends. It means being more effective on social media and not just doing the same things over and over again, but to find creative ways to stimulate sales and engagement through these channels. It also means exploring 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.

**TAKE ACTION: Luxury Experiential/Service Companies**

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 businesses, as are the shifts toward more experiential purchases in how luxury consumers are allocating their spending.

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 leading 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 only 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.
TAKE ACTION: Providers of Services to Luxury Clients

Luxury industry suppliers focus their businesses on solving problems for their clients and helping them make the most of their clients’ opportunities. The many challenges faced by luxury industry companies provide ample opportunities for industry providers to grow their own 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 20), they should focus on providing their luxury goods and services clients with ways to find new customers, retain customer loyalty 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.
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.

Overall, luxury insiders view business conditions in the luxury market much improved now (56%) compared with last year (41%) and in 2017 (29%). They also are more positive about business conditions next year (52%) than they were in the past two years.

This positive outlook for the industry is making them highly optimistic for next year with 64% saying conditions for their company will improve. However, only slightly more than half (56%) reported that business conditions for their own company are better now than in the past year.

**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 2019 brings.
Business Conditions Detail

In general most of the “better” responses in this year’s survey fall in the “somewhat better,” rather than the “much better” range.

And most of the “worse” responses fall into the “somewhat worse,” rather than the “much worse” range as well.

Now let us dig into the insiders’ perspectives on each question.

Business Conditions in Luxury Market Overall Last Year to This

What a difference two short years makes in luxury insiders’ view of business conditions in the overall luxury market.

While in 2017 some 45% believed business conditions were worse at the time than a year ago, this year 56% believe conditions are better now than a year ago.

This year only 19% believe conditions are worse, a dramatic drop from the 45% who said business conditions were worse back in 2017.

On this question, luxury insiders’ whose companies provide services to luxury companies are significantly more bullish about the luxury market’s business conditions.
Business Conditions in Luxury Market Overall in Next Twelve Months

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

Over half (52%) of insiders surveyed expect the luxury market to get better in 2019, as compared with 47% who saw brighter prospects for the industry in 2018.

In terms of next year, luxury industry services/experiential marketers are generally less optimistic than their luxury goods and industry service providers surveyed.

TAKE ACTION

The most recent luxury market report from Bain & Company predicts overall growth of 6–8% this year to reach €276-281 billion, up from 5% growth last year. Identifying “China” and the “millennials state of mind” as buzzwords for the luxury industry, Bain expects the industry to reach €390 billion globally in sales by 2025.

“2018 is off to a strong start,” said Claudia D’Arpizio, a Bain & Company partner and lead author of the study. “Currency fluctuations will have an impact, but we expect the healthy trend to continue across all regions and customer segments. Chinese consumers continue to stand out as a growth-driver for the industry, and are more fashion-savvy and digitally advanced than ever before, accelerating the shift of the industry to the millennial state of mind.”

In the study, Bain identified four key trends shaping the future for personal luxury goods:

- Chinese customers in first place: Chinese consumers will be a key nationality driving the growth of the luxury market. Buyers of luxury in China are young, increasingly fashion-savvy and well aware of the price-value equation.
- Click, Click, Click: Online continues to gain ground as boundaries blur with traditional physical channels. Social media continues to influence purchases especially for younger consumers.
- Casual and streetwear: Streetwear categories experienced standout growth in 2017, driven by casualization of workplace attire and younger buyers of luxury goods. This segment remains a key lever to attract new customers.
- Consolidating new normal: Volume is driving market growth, not just price increases. Exchange rate fluctuations are redistributing spend among regions but not impacting global growth.

Looking ahead to 2025, Bain & Company expects growth to remain at a healthy 4-5% per year (at constant exchange rates) increasing the market size to €366-390 billion.
“Luxury brands should view themselves as the masters of their own destiny,” said Bain & Company partner and report co-author Federica Levato. “Customers are responding to targeted strategies, and top performing brands are already winning over the customers of tomorrow.”

Business Conditions in Their Companies Over the Past Twelve Months

Today a majority of industry insiders (56%) feel their own company’s business conditions are improved now over a year ago.

This represents a slight uptick from last year and a more significant improvement from 2017.

In terms of where their businesses are today, the luxury goods companies report a more positive perspective on their current business conditions, than do service/experiential or luxury industry service providers.

Business Conditions in Their Own Companies in Next Twelve Months

This is the only question in this series where luxury insiders are less optimistic about business conditions than last year. There was a decline in those who view business conditions for their companies to improve next year, down from 67% in 2018 to 64% in 2019.

Along with that, there was an increase in those who expect business conditions to get worse, rising from 7% in 2018 to 10% in 2019.

Notably the luxury services/experiential insiders, though still optimistic, are less so than luxury goods or industry service providers about their businesses’ prospects for next year.
Luxury insiders’ 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, 2019 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 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 feel 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 gold mine in helping their clients maneuver the changing marketplace brought about by the rise of the digital world. But as yet, they do not appear to have found the secret to turning the ripe opportunity into measurable growth, as the relatively low effectiveness of social media 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 help them shape strategies to deal with those trends.

Of special importance to the suppliers is helping 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.
The Future of Luxury

In this final section of the report, luxury insiders share the challenges and opportunities they see on the horizon for the luxury industry in general and their companies specifically.

Most challenges have their flip side, which is opportunity waiting for those companies that recognize it and lean into it. But there are two challenges on the horizon that luxury companies have little ability to confront: political and social upheaval and macro-economic shifts.

In the political and societal realm, a growing trend toward populism and a pushback against the “elites” is creating a hostile environment for the elites that make up the luxury consumer market. This has been seen most prominently in the yellow vest protests that roiled Paris in autumn 2018, and to a lesser extent Marseilles, Avignon and Lille in France.

Luxury boutiques and department stores in luxury retail centers on the Champs Élysées, Rue Saint-Honoré and Avenue Montaigne — home to legacy luxury brands such as Chanel, Louis Vuitton and Balenciaga, Galeries Lafayette and Printemps — had to be boarded up to prevent vandalism. Tourists and local shoppers have been advised to stay away, resulting in an estimated sales decline between 20 percent to 40 percent, according to French finance minister Bruno Le Maire. As the holiday shopping season progressed, French officials seem increasingly helpless to exert control as protests continue to pick up steam.

Mario Ortelli, managing partner of luxury advisors Ortelli & Co, told the Business of Fashion, “You don’t want to shop at Louis Vuitton on the Champs Élysées when cars are burning on the street. You don’t want to walk around with an Hermès bag when there’s a violent protest happening.”

One of the flash points in the yellow-vest protests was a call to reinstate a wealth tax on French households that own assets valued at €1.3 million. President Emmanuel Macron abolished this tax as one of the first changes that his government enacted. This underscores a class-based resentment growing in France that is home to many of the world’s leading luxury brands. But no country is immune from this threat, as this luxury insider says, “Economic polarization creates a class war.”

The Chinese luxury market, which has been a major contributor of growth for luxury brands over the past decade, shows signs of turmoil as well. In November 2018, the Savigny Luxury Index that tracks the stock trajectory of 18 firms fell 11.3 percent, putting the average share price below where it started in January. With uncertainty surrounding China, the luxury business is in turn facing a slowdown in both sales growth and stock performance.

“China’s woes are pivotal to the luxury goods sector as evidenced by investor reaction to any sign of slowdown in the dragon economy,” said Pierre Mallevays, managing partner at Savigny Partners LLP, in a report. “So far, it is Chinese tourist spending that is showing signs of abatement, with demand in Mainland China remaining robust.”

Chinese tourism spending is falling because, as Savigny Partners’ Mr. Mallevays notes, the Chinese government is placing restrictions and increasing surveillance on the amount of personal imports that Chinese nationals can bring back into the country. This only underscores the concern of one luxury insider who said, “Socialism will kill luxury. Freedom drives the growth of wealth.”
Further, Mr. Mallevays warns investors and luxury companies to remain on high alert for a potential trade war between the United States and China.

“There is a truce, but China and the U.S. are still staring down the barrel of a gun at each other in relation to trade,” he said. “The outcome of this standoff has significant repercussions for the luxury sector, as the health of its two largest markets hangs in the balance.”

In the U.S., the climate of societal change can be felt as well, though less violently.

American voters pushed back against the political establishment and elite to elect as president Donald Trump. The Trump administration is viewed by some among luxury insiders as bad for the luxury business and by others as good for it.

On the plus side, the U.S. is experiencing historically low unemployment, rising incomes and a surge in retail spending. This all adds up to economic growth.

On the negative side, one luxury insider said, “[There is] overarching apprehension, concern, lack of confidence and uncertainty, primarily as a result of the instability in Washington, as well as the prospect of trade wars and tariffs.”

Uncertainty about the direction of the country and its leaders’ ability or inability to stabilize the opposing forces and put things on the right track is never good for industry or businesses.

This then marks another worry looming among some industry insiders: potential recession.

J.P. Morgan recently released a survey among ultra-high net worth investors and found 75 percent of those surveyed predicted a recession to hit the U.S. by 2020. Among those expecting an economic downturn, a fifth of respondents (21 percent) believe it will begin in 2019 and 50 percent expect the next recession to start in 2020.

The survey was conducted among 700 global private investors, including UHNW individuals classified as anyone with more than $30 million in liquid financial assets and high-net worth defined as having more than $1 million.

And due to globalization, a downturn in the U.S. will inevitably impact the rest of the world.

So far, Seeking Alpha is not predicting a downturn, but sees a slowdown coming.

“Global economic growth may slow in 2019 as the economic cycle nears a peak, with increasing drag from worsening financial conditions combining with full employment and rising prices,” writes analyst Jeffrey Kleintop of Charles Schwab. “Global stock markets may enter a bear market if leading indicators signal the gathering clouds of a global recession.”

Mr. Kleitop said rather than predicting a “Recession Warning,” indicating a recession is imminent, he favors the terminology borrowed from weather forecasting of a watch.

“A better term is ‘Recession Watch,’ in which conditions are favorable to a recession if a number of risk factors (e.g., trade, interest rates, inflation) deteriorate,” he writes.

Regarding the luxury sector in particular, Seeking Alpha reports French investment bank Societe Generale believes a “slowdown in the luxury sector has just started as concerns remain over the spending trend of affluent Chinese millennials and the impact of the yellow vest protests in France.”

Further, it reports that Goldman Sachs has dropped its forecast for 2019 luxury industry sales growth to +5 percent from a prior forecast of +7 percent. This more conservative prediction is about half of what it predicted for sales growth in 2018.

Across the board, political, societal and macro-economic factors weigh heavily in the list of concerns for luxury industry insiders.

“I feel we are headed for a market correction, which will impact how much people want to spend,” said one insider.
Another expressed similar concern, but expected it would have less impact on the insider’s company prospects: “Global recession, although it will probably have less impact on HNW individuals.”

Uncertainties in these realms cause companies to pull back rather than move forward.

“My clients have money to spend, but they know this will not last and is not sustainable long term. We want to export but are not comfortable starting this process with the current administration,” said this insider.

Another insider expressed an “overarching apprehension, concern, lack of confidence and uncertainty, primarily as a result of the instability in Washington, as well as the prospect of trade wars and tariffs.”

**Challenges and Opportunities**

In our analyses, four major trends are transforming the luxury market, creating challenges for many and opportunities for others. These trends are:

![Diagram showing Rising Tide of Affluence, Disruption, Digital Revolution, and Next-Gen Customers]

**Rising Tide of Affluence Can Raise All Boats**

While the aforementioned political, social and macro-economic trends may provide headwinds for the global luxury industry over the next year or two, the rising tide of global wealth and affluence is a tailwind with the potential to move all players forward in the luxury market.

Capgemini, in its *World Wealth Report 2018*, finds that global high-net-worth individual wealth rose 10.6 percent to surpass $70 trillion in 2017, the first time it crossed that line. That made 2017 the sixth-consecutive year of wealth gains. Capgemini defines the HNW individuals as having investable assets of $1 million or more, excluding primary residence, collectibles, consumables and consumer durables.

Moving up the wealth ladder, the ultra-high-net-worth segment, with investible assets of $30 million or more, gained even more. The number of UHNWI individuals grew 11.2 percent, while their wealth expanded 12 percent over the previous year.

Capgemini further predicts that global HNWI wealth will reach more than $100 trillion by 2025. Asia-Pacific and North America are the regions that are providing the greatest lift in global wealth accumulation, with Europe being the third-largest region for wealth.

“Asia-Pacific and North America powered the growth in the HNWI population and wealth,” the Capgemini report states. These areas accounted for 75 percent of the increase in the global HNWI population (1.2 million new millionaires were added in these two regions) and 69 percent of the rise in new wealth.
The United States leads in the number of HNWI, with a total of 5.3 million, while Japan with 3.2 million, Germany (1.4 million) and China (1.3 million) follow.

Credit Suisse takes a broader look at wealth, by including primary residence, collectibles, consumables and consumer durables in its wealth calculations. Based on that perspective, Credit Suisse identifies a total of 42.2 million millionaires in the world, led by 17.4 millionaires in the United States.

All told, there are 18.6 million millionaires in North America, 12.4 million in Europe, 6.6 million in Asia-Pacific (not including China) and 3.5 million in China proper.

Given the concentration of wealth in the U.S. market, this insider sees that all eyes need to be on the U.S. luxury consumer. “The place of spending money will be in the US. The sales managers and associates should have a clear-cut knowledge of this base of consumers.”

Another insider bemoans the overemphasis of luxury companies on China and losing their way as a result. “My concern is the overwhelming focus of top industry players on the Chinese market to the detriment of the rest of the world. It is all about focusing on revenue only and not on running great sustainable companies.”

Overall, the global growing wealth class means there are more people who can afford luxury. The question for luxury companies is how to respond to the other trends that are impacting the consumer market overall. To assess that, let’s look at the other three major trends shaping the future of luxury.

Adapting to the Digital Revolution in a Human Way

While the luxury industry has been slow to adapt to the digital revolution, it is rapidly catching up because this is where the growth is. “It still amazes me that luxury brands are playing catch up on digital. It is well established that digital can be a positive addition to a luxury brand, and the industry needs to embrace this,” reflects one insider.

Another shares, “There is a lack of understanding of the true digital economy and reluctance to embrace technology as an enabler and new channel opportunity.”

Euromonitor International reports that the growth in luxury goods sales is nearly three-times faster in digital than in-store based retail, 14 percent as compared with traditional retail at 5 percent. Reporting also that 64 percent of global consumers are now using the Internet, it predicts digital access to reach 91 percent across the globe by 2030. “Digital access has accelerated all aspects of life with consumers leveraging connectivity for all daily purposes,” Euromonitor states, adding, “Digital connectivity has been the great societal equalizer, enabling luxury brands to reach new geographies and consumers.”

The digital revolution requires the luxury industry “to truly understand where their consumers are retrieving the information from. It’s all about re-inventing their brand and staying relevant,” this insider shares.
Given consumers’ equal access to information, which in no small part is contributing to global populism, luxury brands are challenged to tell their stories in a new, more relevant way since traditionally those stories have been based upon ideas of status and class. It requires a complex balancing act, as this insider relates, “The proven value-added services a company provides [in-store] traditionally raised the luxury status. With consumers being self-perceived experts due to available information, it complicates providing luxury service. The new luxury as defined by millennials often associated with freedom is a challenging shift for traditional luxury products. It’s hard to compete with time, when that becomes a significant component of the luxury experience. Digitally, the entire experience changes.”

The digital revolution calls on luxury companies to create a 360-degree consumer experience that combines the human, in-person elements with digital in a true and meaningful luxury way. However, as this insider reflects, “These are not generally well integrated across channels.”

It is noteworthy that among many luxury insiders, the discussion of the digital revolution reverts to enhancing the in-store, personal experience for customers. Luxury companies have invested in boosting their techno-power, but the digital revolution also calls on them to enhance the human element.

“Designing department or flagship stores requires an in depth understanding of the human/technology relationship, which in the luxury business world is sadly lacking,” this insider relates. “We need to draw from anthropology/sociology more to identify interesting insights and concepts that are able to better explain what’s going on in interactive environments. Stereotypical descriptions such as ‘seamless,’ ‘immersive’ [and] ‘experiential’ circulate endlessly, but explain very little.”

Creating a coherent, meaningful customer experience in the digital and in-store realms is the way for the luxury industry to adapt to the digital revolution.

The call is for luxury companies to look beyond digital marketing tactics to a more comprehensive, overarching understanding of who their customers are, what they value most and how to deliver it to them — both digitally and in-store — in a way that enhances their pleasure and ultimate happiness. This will help to create loyalty and support among the high-spending customers that luxury brands need to cultivate.

**Next-Generation Luxury Consumers Redefining Luxury’s What and How**

While luxury companies have rightly focused on income and wealth demographics as the primary segmentation strategy to define their target market, crossing that traditional income demographic with the age of the customer is going to become increasingly important. The millennial generation, aged 19 years to 39 years in 2019, is finally hitting their stride economically and rapidly approaching the age when lifelong income reaches its peak, between 35-54 years.

The Wall Street Journal recently reported that 26-year-olds are the customers that retailers are most eager to attract. Why? Because they are the single biggest age cohort in the U.S. population today, numbering 4.8 million. Those aged 26 are smack dab in the middle of the millennial generation. “The group of 93 million comprises people born roughly between 1980 and 2000,” the WSJ writes. By comparison, the baby boomers, born from 1946 to 1964 and numbering 78.8 million at their peak, have now declined to 74 million according to the latest census.

Millennials are vital to every brand’s future. They are entering their prime spending years as they buy homes and appliances and furnishings for those homes, cars, electronics, business attire and things to support a growing family. Their expenditures will continue to grow as more of the generation moves assumes the responsibilities of adulthood. Their importance as a consumer segment will only continue to increase up until about age 50 when their household spending is expected to peak, according to spending wave research conducted by Harry Dent. That means from now until about 2040, millennials will be the key consumer segment driving the U.S. economy.

The WSJ article is filled with valuable data and interesting anecdotes about how different the millennials are from previous generations, most especially their baby boomer parents. As a result, “companies are developing new products, overhauling marketing and launching educational programs – all with the goal of luring the archetypal 26-year-old,” the article reports.
But amid the data reported, one critical perspective is missing: 26-year-olds’ income. Yes, the age of the customer is important in targeting the things they will buy, but even more important for luxury marketers is to understand their spending potential. At any age, those customers with the highest income spend two-to-three times more in any category than those in the middle. So luxury brands need to focus not just on the consumers’ age but their income to tap the millennial generation’s lifetime spending potential.

The best prospects for luxury brands are millennials on the road to affluence, called HENRYs (High-Earners-Not-Rich-Yet).

HENRYs are at the forefront of this generation in terms of income and lifelong spending power. HENRYs are consumers with household income from $100,000 to $250,000, or at the top 75th percentile in income in the U.S. economy to just about the 95th percentile.

Those ultra-affluents at the top five percentile are the traditional targets for luxury brands, but young HENRYs are but one step below them. Millennial HENRYs are earning significantly more, are more educated, more informed and setting the trends that their peer group at lower incomes will follow.

And since they are making so much more money at such a young age, they are likely to continue in the lead and out-earn their peers throughout their adulthood. What is more, most people who reach ultra-affluent levels of income start out as HENRYs. Connections that luxury brands make with young HENRYs now may provide a path for lifelong brand loyalty and engagement in the future.

Marketeters that really want to get a read on the new customers so critical to their future must focus attention on the millennial high-earners at the vanguard of the pack — the HENRYs ages 19 years to 39 years who are earning $100,000 and up.

Complicating matters, however, millennials come into the luxury market with brand new ideas of what luxury is, what it means to them and how they want to participate in it. This will require fundamental shifts in what and how luxury brands engage and market to this next-generation customer. A recent Ipsos report finds that 81 percent of modern luxury consumers believe that the definition of luxury is rapidly changing, confirming what should be abundant clear to luxury brands. Millennials do not want their parents’ or grandparents’ style of luxury.

This may ultimately require luxury brands to redefine the luxury they bring to market, as this insider said. “We may need a redefinition or clarification of what defines luxury. I believe this differs by demographic and psychographic segments.”

As a group, millennials place a higher value on experiences than tangible luxury goods.

Euromonitor reports: “There is a fundamental shift in consumer values towards luxury experiences over things that bring happiness and well-being,” citing a survey among millennials which found that more than 50 percent of U.S. millennials prefer to spend money on experiences over things.

This experiential shift requires luxury goods brands, in particular, to find ways to enhance the experience of finding, having and owning the luxury they sell. This insider shares: “For our luxury clients, the most serious trend is the replacement of status objects with status experience. Conversely, the raging commoditization of all consumer categories can be good news/bad news for the high-end player.”

To prosper, luxury brands must remain true to their core values and heritage while adapting to the new expectations that younger consumers bring.

“As a heritage brand with an older target market and the move to digital, it is difficult to get the right balance for our customers and reach them in the right way, but not ignore the aspirational younger customer at the same time,” explains one insider.
However, describing young consumers as “aspirational” may not be the right terminology. Aspirational they may be, but aspirational for what? It seems more likely their aspirations turn toward enhanced experiences like travel and less toward status symbols and conspicuous consumption. That’s why luxury goods brands need to think of ways to become more inspirational to reach to this group, rather than assuming wrongly that they are aspirational toward traditional status-symbol brands.

Another finds it challenging to meet both old luxury and new luxury consumer expectations. “There is too much business pressure put on luxury brands to meet the needs of the new consumers (e.g., millennials). This pressure tends to make luxury brands lose their premium edge and sophisticated character.”

The growing groundswell of populism and backlash against the elite being felt in America and seen in the streets of Paris are a warning sign that the old luxury model is under threat. “There is growing attitudinal backlashes. First, that luxury will be seen as a bad thing for various ethical and societal reasons and so younger lux buyers may shy away. Second, that luxury consumers are becoming more aware of ‘lux in name only’ and either questioning large brands or actively picking smaller ones.”

There is growing concern among luxury insiders that today’s consumers, most especially the millennial up-and-comers, do not understand what luxury is. “Many consumers do not actually know what ‘luxury’ is and it’s an overused term,” said one. Another complains: “There is a blurring of lines between luxury and non-luxury, as well as an increasing gap between ‘old’ luxury brands and millennials.”

But while luxury insiders may see this as a consumer problem — i.e., the consumers don’t get it — the reality is luxury brands need to align their definition of luxury with that of the customers.

In other words, the luxury brands do not “get” the new consumers. The call is for luxury brands to “align product and marketing messages to resonate with different customer targets in order to overcome disinterest in brands and provide a reason to buy,” said one insider.

Specific changes on the horizon that millennials bring include increasing preference for access to luxury (i.e., gently used and rented) rather than ownership. Rent the Runway, The Real Real, Zipcar and Uber are signposts in this shift to experiencing luxury without the extra weight, or cost, of owning it.

In addition, millennials with so much more information and access to brands far and wide bring a new value system into the market where they are increasingly opting for lower-priced but still premium options from brands and retailers such as Supreme, Everlane, Gilt, Outnet.com (the outlet site from full-priced Net-A-Porter), membership site Rue La La, as well as Neiman Marcus’ Last Call, Nordstrom’s Rack and Saks Off 5th Avenue.

One insider believes that the discovery experience will become even more important to millennial HENRYs as they grow in wealth and income. “Discovering something unique and precious is more valued to many than simply buying the something.”

Another stresses that millennials’ shorter attention span and focus on instant gratification means brands have to help them more along their buying journey. “Their ADD (short attention span and need for constant entertainment) makes expensive buying decisions difficult for them. It is by understanding of these consumers that we will enhance their spending patterns.”

Meanwhile luxury brands have to continue to stay relevant to their existing wealthy consumers, which as this insider stresses, is becoming more challenging. “The wealthy individuals who look for something unique are difficult to get in touch with.” And another said, “The polarization of economic wealth makes innovation of design expensive, forcing luxury ‘makers’ and ‘sellers’ to all chase the same sector of wealth which narrows the playing field.”
Proactive versus Reactive Response to Disruption

Recognizing the disruption brought about by the culture’s growing distrust of the elite establishment, the digital revolution and the new customers that luxury brands must appeal to, luxury companies are called on to become more agile and adaptive to get out in front of the disruptive influences.

“I am concerned about the ability of larger companies to react quickly enough to the new world. So many are still stuck in old business thinking and are losing ground. Getting faster, more facile and more transparent are key, along with maintaining your brand DNA and building on your unique story with experience to connect to the consumer,” advises one insider.

By remaining fixed in old ways of thinking and not adapting to the new environment, luxury brands are warned of imminent danger. “The redefinition of luxury is a key trend. Luxury brands are built on this notion, and as the consumers’ mindset shifts, this has the potential to completely wipe out long established brands,” warns one insider.

Luxury brands are ethereal things, created by and for people. Understanding the people for whom luxury is created and cultivating people within the luxury organization who can create wonderful new things that inspire the imagination of the customers is critical to future success.

That means luxury brands must invest in human capital and give them support and responsibility so that they can bring about needed changes within their own organizations. “We must identify the next-generation leadership among digitally-native candidates to find strong leaders who merge the best of the digital world with the basic business and brand building knowledge and expertise. This will drive growth and profitability,” one said.

Another said, “Finding and retaining well-qualified employees is most important for us. Companies’ talents will be key to the brand experience success and hard to manage with globalization of the luxury business. New talents acquisition and on boarding along with management training must become a strategic priority.”

Another warns: “Companies’ ability and willingness to invest in staff and customer experience overall worries me. They talk the talk, but walking the walk is not happening.”

Established luxury companies that are slow to adapt and unwilling to change will fall behind. “Companies have to think about how they manage time in an increasingly accelerated economy, which can jeopardize both the creativity and the quality of the product,” said an insider.

Existing luxury company command-and-control mindset needs adjustment, too. Management must “recognize that the consumer is in control. They will ultimately influence how brands should evolve their product development and business practices in order to grow their businesses.”

Another concern for luxury insiders is the increased concentration of power in the hands of a few international conglomerates. Consolidation may threaten the integrity of acquired brands and continue to foster the traditional command-and-control management style.

“Due to the continued concentration of certain groups through continued M&A activity, more and more market share is in the hands of fewer and fewer mega-corporations,” said one insider, adding, “Usually, small or even midsized companies do not have the budgets to help obtain a sufficient awareness. They have to fight to get the ‘leftovers.’ Even thanks to all the advantages of social media, the competition in each business category is fierce and consumer loyalty can change so fast today, depending on which brand has the most means to ‘brainwash’ prospective consumers heavily and continuously.”

Another expresses it this way: “Some big brands are getting too big and losing focus on what’s most important — a consistent customer consistent experience.” The result, as this insider says, “Luxury conglomerates win, everyone else loses.”

Ultimately, brands that innovate, test and try new approaches to reaching the consumer, all the while maintaining loyalty to heritage and their luxury DNA, will win in the future. But it will require nimbleness, as this insider pointed out: “It takes agility and the willingness to adapt and repurpose elements of business to stay aligned with consumer needs/expectations. A reluctance and/or fear in making decisions to change will hurt the company.”
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:

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**About Pamela N. Danziger, Unity Marketing**

Speaker, author, and market researcher Pamela N. Danziger is internationally recognized for her expertise on the world’s most influential consumers: the American Affluent, including the HENRYs (high-earners-not-rich-yet) mass affluent.

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. She is also a principal with Retail Rescue, which offers focused and effective consulting, training and mentorship in retail management, marketing, sales and operations.

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 The Robin Report and Forbes.com.

A prolific writer and blogger, Pam is author of nine books, including her latest, *Meet the HENRYs: The Millennials that Matter Most for Luxury Brands*. It is added to her bibliography that includes a range of titles for retailers and marketers focused on the highest-spending consumers in the American economy.

As a luxury market expert, Pam is frequently called on to share research-based insights with audiences and business leaders all over the world. She holds a B.A. in English Literature from Pennsylvania State University and a M.L.S. from University of Maryland.

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