

RESEARCH

Retail's future will be defined by memories, creation centers and city-based markets: FIT

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Affluent shopper

By JEN KING

NEW YORK – Fifteen years from now, the luxury industry's current retail models will no longer work as consumer expectations will have radically evolved.

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Luxury Daily

During “The Future of Luxury: Global Research Insights, Emerging Trends and New Business Models for 2030” presentation June 3, conducted by graduate students of the Fashion Institute of Technology class of 2015, the peer groups suggested that lasting memories, “centers of creation” flagship stores and like-minded cities will drive luxury sales in the future. The three presentations built on the larger themes of new luxury consumer values, platforms and epicenters to paint a picture of what the world may look like if consumer behavior continues on its current track.

“In 2007, LVMH sponsored a study on the future of luxury in collaboration with Ideou and that lead to the work presented at the American Express Luxury Summit,” said Pamela Baxter, president and CEO of LVMH Perfumes & Cosmetics, North America and president of Christian Dior Couture, Inc., New York.

“All of these ideas presented, are now concepts eight years later that are best practices in luxury retailing,” she said. “The idea this year was to look even further into the future and build upon that research.

“We wanted to field original quantitative global research to study luxury consumers. This year, the students are armed with global research from the survey aided by the BCG group and covering the U.S., China and India.”

To aid the students in their projections for the future of luxury retailing, BCG, along with FIT, conducted a survey entitled “BCG FIT Global Luxury Consumer Survey.” The survey fielded responses from 3,000 luxury consumers in the United States, China and India.

The projects were presented by 2015 graduate students of FIT’s Cosmetic and Fragrance Marketing and Management master’s program, all of whom are emerging beauty industry executives outside the classroom. Luxury conglomerate LVMH served as the program partner while Boston Consultant Group acted as research partner.

What the future holds

The future of consumer values was the first theme to be tackled as students recognized that in the future the traditional “building blocks” of luxury will have significantly changed. During the opening remarks of the presentation, the group defined traditional luxury as heritage, craftsmanship and quality, but noted that although these pillars work with today’s “polymorphic” consumers, in the future higher expectations should be expected.

A polymorphic consumer was summarized by the group as being “the other,” a majority of which are single, with short eight-second attention spans. Also, this consumer sector, deemed by most as millennials, is actually made up of six different consumer types.

To best appeal to the polymorphic consumer of tomorrow, brands must base their operations off a future luxury model that amplifies the traditional luxury qualities and turns them into memory creation and value connection.

Memory creation is based on sensory appeal, delayed gratification and disruption, all of which are based on emotion. Value connection can be achieved through intimacy, both digitally and physically, mindfulness of consumers’ time and legacy.



Louis Vuitton boutique

To achieve the future luxury model in the short term the students recommend increasing consumer research practices from an average of 3 percent today to 8 percent. For the long term, students suggest a “Mood Metrics” system that will use technology to read consumers’ moods to best identify the actual wants and needs of that specific client and, lastly, to allow products to morph and change with the shifting interests of the consumer.

This was followed by a presentation centered on new luxury platforms, particularly bricks-and-mortar retail. “The Future of Luxury Retail Bricks-and-Mortar” presentation explained that despite ecommerce growth, physical storefronts still comprise 75 percent of the retail landscape. But, bricks-and-mortar retail must rethink and reinvent its four key elements: assortment, service, navigation and product.

The current market sees ecommerce outpacing bricks-and-mortar by five to one and transactions in the United States decreasing by 10 percent and traffic declining by 8.2 percent. With 60 percent of luxury growth being driven in the future by the existing consumer base, brands must recognize sentiment. Seventy-two percent of millennials say they would rather spend money on an experience rather than a product.

Thus, in the next 15 years, brands should begin moving share of wallet to share of time to meet experiential expectations of consumers. The student group took the four established elements of retail and updated practices for the future.

Assortment becomes discovery by creating an 80:20 “in and out non-competitive merchandise” model in-stores. For example, a boutique would stock 80 percent branded merchandise and the final 20 percent of items would support overall lifestyle, but from like-minded brands.



Bloomingdale's Stanford, CA location

Service is recalibrated to relationship through beneficial programs for sales associates such as being referred to as “experience managers,” strengthening the career path and setting up a compensation mode.

Through a balance of high-touch and high-tech today’s navigation in a retail setting is enhanced to capture the consumer's’ journey. Lastly, products must become items of “creativity” that are “pragmatic” and more of an experience.

Together these four new elements form a global flagship model that is known as the “capital of creation.” Within these storefronts, craftsmanship will be transparent through a type of “open kitchen” layout and creativity will be a main focus, allowing consumers to alter products to fit their individual wants and needs.

Where in the future

While many retail strategists stress the importance of emerging markets, these regions only comprise about 30 percent of the global luxury market, according to a report by A.T. Kearney.

In the 2015 “Global Retail Development Index Ranking,” A.T. Kearney released a special feature, “A Look at Luxury” to understand the rate at which luxury brands are entering emerging markets. After a challenging 2014, which was marked by low economic growth and political instability in many developing areas, luxury brands have adapted expansion strategies to succeed in diverse and evolving landscapes ([see story](#)).

But, the student presentations at took expansion strategies to a new level, by breaking down the borderlines to create a “new lens of luxury epicenters.” As it stands today, luxury brands have linked markets by geography rather than categorizing countries that share a similar GDP profile, as the students suggest.

The three Ts, tourism, technology and transmigration, must be taken into account for market evolution beyond 2025. Also, the city is a focal point rather than a country as a whole due to the discrepancies between a tier 1 and tier 2 city.



Affluent family

To deconstruct traditional boundaries the students in this group developed the Dynamic Market Scorecard (DMS) that provides a strategic framework and serves as a model for future big bet cities.

The DMS analyzes market dynamics in terms of local demands of ultra-high-net-worth individuals, tourist demand and supply side drivers such as infrastructure and distribution. Individual dynamics such as mobile connectivity and mobile and ecommerce spends are also taken into account. A city is also judged on its market maturity, which is then allotted a score: emerge, takeoff, accelerate, thrive and mature.

To adapt to the epicenters of luxury in 2030, luxury brands would need the 3 Rs of new management: restructure, relocate and reallocate resources. Restructure entails driving efficiency by sharing relevant expertise with big bet cities and relocate plays into this by reorganizing key talent, while additional resources at the city-level would drive productivity.

The research spearheaded by BCG and the FIT students suggests investments as the ideal stepping stone to begin catering to the sentiment of luxury consumers in 2030. Sarah Willersdorf, partner at **BCG**, New York, summarized by telling brands:

"Number one, continue to invest in messages around quality and craftsmanship...more than this it's about actually targeting the messages across the different countries," she said. "Secondly, invest in experiential luxury and continue to try to bring more of this experience to purchase pathway...experience is defined in many different ways, in many times it's just convenience.

"Number three, ecommerce, so the time is coming if you haven't invested you need to invest in ecommerce. You need to think about all the channels separately. It's not enough to rely on eretailers to do this sort of goal for you," she said. "Word of mouth is always a strength. But this is about investing systematically in word of mouth, and more than this I think the message is around marketing.

"In many industries you hear that print is dead, magazines are not important, but actually beauty, luxury and fashion – it's different. Print is still important, events are more important than ever before, so i think it's about targeting the market within our industry. Finally, test alternative distribution models; we can see that subscription models are just beginning, but we see that there is an appetite from consumers."



Graduate students from FIT's Cosmetic and Fragrance Marketing and Management master's program

Luxury Consumer Values was presented by Brooke Burdine, Winnie Cho, Kristen Levis, Laney Marx, Corey Moran, Alyssa Navia, Mila Talabucon and Pierre Vouard.

Luxury Platforms was presented by Rachel Ball, Hannah de Boer, Amanda Bopp, Julie Conlon, Juliana Hendershot, Sonya Lucki, Priyanka Malhotta and Catherine Velazquez.

New Epicenters of Luxury was presented by Thomas A. Reedman, Jessica Zavolas, Lauren Haffer, Nola Lawless, Amanda Raus and Amanda Spencer.

The full research white papers for The Future of Luxury, along with white papers for past presentations, are available at fitnyc.edu/5518.asp.

Final Take

Jen King, lead reporter on Luxury Daily, New York

Embedded Video: <https://www.youtube.com/embed/4F74gHdwKZs>

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