

COMMERCE

## Luxury needs to grapple with the new normal

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*Alicia Vikander for Louis Vuitton cruise 2016 ; Louis Vuitton has turned its business around in China*

By SARAH JONES

LONDON Luxury brands are each facing individual challenges spanning distribution and marketing in the face of a changing retail landscape, according to an analyst from BNP Paribas at Luxury Interactive Europe 2015 on Oct. 27.

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As brands look to reach consumers in emerging markets, particularly China, there are bound to be difficulties they need to work through, making a sense of struggle more of a normality than a rarity. In addition, the rise in online channels will alter the ways in which brands connect with consumers.

"As far as luxury is concerned, we've gone through an incredible wave, I think," said Luca Solca, managing director, head of global luxury goods, at [Exane BNP Paribas](#). "If you look back 40 or 50 years, you see that luxury goods has grown in waves as new nationalities have come to the market.

"American in the 60s and 70s and then the Japanese and then the Eastern Europeans more recently," he said. "The Chinese have provided a huge boost to growth.

"I expect that growth is going to look great down the road, so my view is that there's going to be a lot more apparently boring elements on luxury goods companies' agendas dealing with cost efficiency and supply chain optimization and so on. And I think this is probably going to be a lot of what's the companies will do in the next three to five years.

"My view is yet another sector will have to deal with the new normal, and my impression is the new normal is just coming now."

Getting to know you

Pure ecommerce sales still represent only a small part of the luxury market, but 70 percent of affluent consumers are conducting some form of research prior to entering a store, whether it be through social media, a brand's online storefront or another Web site.

At the same time, bricks-and-mortar traffic is down, but conversions in-store are up. Retailers have the opportunity to sell items that are not readily available within the store through digital channels. However, this requires management of IT and the supply chain to have real-time information at point of sale.



*Neiman Marcus memory mirror*

This mix of channels being used by consumers calls for a seamless integration of the physical and digital. This extends to CRM and client interactions.

Many luxury brand store managers are still holding their VIP client information in physical black books. This does not keep consistency, since when associates leave a particular brand store, they take their customer information with them.

While retail has evolved with additional sales channels, the black book of client information has remained largely unchanged, according to an executive from Boston Retail Partners at the Luxury Insights Summit 2015 April 29.

Providing a high-quality shopping experience requires knowledge of a consumer's wants and needs, which can be aided and supported by technology. Centralizing consumer information and implementing systems that can recognize them across channels makes for a more consistent, agile purchase journey ([see story](#)).



*Burberry spring/summer 2014 campaign*

Part of getting to know consumers revolves around profiling, understanding who the individual consumer is and then figuring out what tribes they belong to and breaking them into manageable groups.

On the rise

Another main driver of change is the rise of emerging markets, particularly China, which represents one-third of the global market.

Chinese consumers are quickly learning, buying rapidly and looking for new ideas from brands, and these demanding shoppers will become bored if a brand churns out similar products year after year.



*Luca Solca on the right, with Elo Interactive CEO Craig Witsoe*

In the Chinese market, brands also have to control their pricing, as the alternative may be sending them to inauthentic channels.

A lack of pricing transparency is driving foreign consumers to the gray market, according to a recent report from L2.

Even with attempted price leveling, a Burberry trench coat is still 40 percent more expensive in China than the United States, and those that haven't made attempts to equalize price are even worse, with Calvin Klein women's jeans nearly triple the price. To better court a loyal global consumer-base, a brand needs to be consistent in its price offerings both through its own outlets and through a retailer ([see story](#)).

Brands should also be diligent about eliminating gray market merchandise.

Louis Vuitton turned itself around from about five years ago, when its monogram products were falling out of favor with Chinese consumers and there was a strong gray market on Taobao.

As two-thirds of Chinese demand is abroad, brands have to consider their distribution. If only using direct-operated stores, they may be able to just use boutiques in Europe to meet the Chinese customer. However, if operating under a wholesale model as well, lacking a physical boutique presence in China may mean their potential sales in the market are eaten by their retail partners.

"We see a lot of sophistication coming in emerging markets, and consumers learning very fast as they buy products more frequently than people do in the west," Mr. Solca said. "They go down the learning curve faster and they tend to become more demanding and tend to have higher expectations. So it's very important to recognize this transition."

Final Take

*Sarah Jones, staff reporter on Luxury Daily, New York*

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