

COLUMNS

Luxury market in crisis: Disruption, change and reinvention

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Pam Danziger is president of Unity Marketing

By **Pamela N. Danziger**

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Luxe is in flux. That is the Twitterverse headline for a new survey among more than 600 luxury executives about the state of the luxury industry. What is keeping these executives up at night are many and diverse, but it all boils down to this:

The disruptive effect of changes in the luxury consumer market that requires reinvention of the traditional way of doing things to get the industry and luxury brands back in growth mode.

We face a luxury industry in crisis.

The first thing to do in any crisis is a critical assessment of the situation. Fortunately, this publication and I collaborated to do that for the luxury industry, in the new State of Luxury 2017: The Insider report. It contains both detailed quantitative data such as descriptive statistics and qualitative insights with prescriptive assessment.

Here is an overview of the current state of luxury.

Disrupters: Market disruption's cause or effect?

Whenever consumers say the word disruption, they usually mean the actions of disrupters. That is, new age, Internet-powered brands are disrupting the status quo. As this insider quoted in the State of Luxury 2017 report said, "Digital marketing/social media is the most powerful trend. It has changed how customers get information and how they make decisions."

In other words, the market disruption is caused by the disrupters, or as another respondent 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.

Consumers are now driving, or more specifically demanding, disruption, especially the young HENRYs high-earners-not-rich-yet customers the face of the emerging luxury consumers.

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 immediacy and now, or as this insider expressed it, "A move towards show-now, buy-now, more accessible luxury for a wider audience and more responsive to trends and customer demands." That is the launch pad for many new-age luxury brands and the potential graveyard for the establishment.

Traditional luxury is under assault

Talk with HENRYs about what luxury means and you will hear words such as conspicuous consumption, indulgence, exclusivity, elitism, extravagance and only for the wealthy 1 percent. These are terms that have, in political speak, high negatives.

On the other hand, ask HENRYs what values they want luxury brands to have and you will hear a call for luxury that is more practical, functional, inclusive, good quality, affordable and democratic.

To succeed traditional luxury brands must bridge the gap between old luxury and new. Yet in our study, luxury insiders lack confidence that their traditional brands can, or at least have the willingness, to do that.

"There is no question that there is more money out there than ever before and it wants to be used, yet the name of the luxury game needs to change. It's not about the brands, it's about the people and how you make them feel. Status over others is so passe!" said one respondent.

Established luxury brands and the traditional role they have played in the market, that of leader defining better, more luxurious luxury is no longer needed in today's market where the customers have taken control, as this insider shared, "The idea that luxury matters less and less to young people is a concern, as they will define what luxury means versus brands defining it via marketing efforts."

What it boils down to is what the luxury brands want to sell is not what the luxury consumers want to buy.

Today, luxury is a mindset, not a brand or a price point. To established brands' frustration, the chances of getting traditional luxury back are nil. The very foundation of the market, our customers, have irreversibly changed. As a result, traditional luxury brands must adapt to the new style of luxury.

Fasten your seat belts: Change is coming at warp speed

"The pace of change is difficult to keep up with even for a company that specializes in digital (influencers, media, digital habits, competition online). We constantly need to adapt and rethink our strategies." Those are the words of an industry executive working in a digital marketing agency, the kind that many brands rely upon to be at the forefront of technology innovations. If the rate of change is even challenging digital natives, how can we ordinary folks hope to keep up?

And in the face of paradigm-shifting change, many insiders express concern that their companies simply are not equipped or inclined to adapt fast enough to avoid getting swept under. This luxury insider respondent expressed it succinctly:

"My concern is that the luxury industry doesn't adapt as fast as it should. Brands tend to hide behind the macro-economic factors such as oil price drop and currency fluctuations. With the changing demographics and digital usage of the new luxury consumers, the brands need to speak a different language."

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.

Luxury brands, with their heritage and tradition, may not be up to the task.

As Lawrence J. Peter, famous for The Peter Principle, said "In spite of warnings, nothing much happens until the status quo becomes more painful than the change." Based upon the insiders' survey, it may be that luxury brands have reached a tipping point where the "status quo is more painful than the change."

When asked about the current conditions in the luxury market, a near majority (45 percent) of the survey respondents said things are worse today than a year ago, way more than think things are equal or better. This is a dramatic call for action before it's too late.

Prescription: Find the balance between innovation and tradition

To guide luxury brands in finding new paths to growth, this insider gives clear direction:

"The change in how consumers define luxury and the new path to purchase is dramatically redefining the marketing strategy. Luxury brands must be very agile and innovative in order to gain the favors of the new luxury consumer. Finding the right balance between innovation and tradition is a challenge for many brands."

Indeed, it requires careful management oversight that is in tune to the needs, desires and lifestyles of the new luxury consumer.

Brand managers must respect the heritage of the brand and the traditions that have been fostered over the years. But they also must be poised to strike out in new directions with new tactics and strategies in order to stay relevant to customers.

True innovation, not just tweaks and minor adjustments to established protocols, is needed. And in some cases, it may require complete reinvention of the unwritten contract the brand has established with the customer.

IN THE FACE of the emerging luxury market, the stumbling block for many luxury companies may well be that they try to solve new problems with old ways of thinking.

Economist John Maynard Keynes said, "The difficulty lies not so much in developing new ideas as escaping from the old ones."

[Please click here for more details on the State of Luxury 2017: The Insider View report](#)

Pam Danziger is Stevens, PA-based president of [Unity Marketing](#) and a luxury marketing expert. Reach her at pam@unitymarketingonline.com.

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