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Disruption in luxury: Key trends – Luxury Memo special report

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Luxury is being pushed to adapt by disruptors. Image credit: Chanel

By SARAH JONES

Luxury brands are facing a number of disruptive forces as new competitors, technology and changing consumers put pressure on them to rethink business as usual.

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The traditional definition of luxury is being challenged, as exclusivity falls out of fashion for the affluent audience. In the midst of disruption, should luxury brands adapt or stay the course?

"We're at a point where the industry needs to rethink the concept of 'exclusivity,'" said Jasmine Bina, president of Concept Bureau, Santa Monica, CA. "The traditional notion of elitism has started to feel more like disconnect in today's world.

"A growing number of luxury consumers take pride in being connected, in being activists with their dollars and consuming high-end experiences that transform them instead of reassuring them that they are of a different class," she said. "What they increasingly want is an exclusive form of understanding about the world."

5 disruptive luxury brands:

Stella McCartney

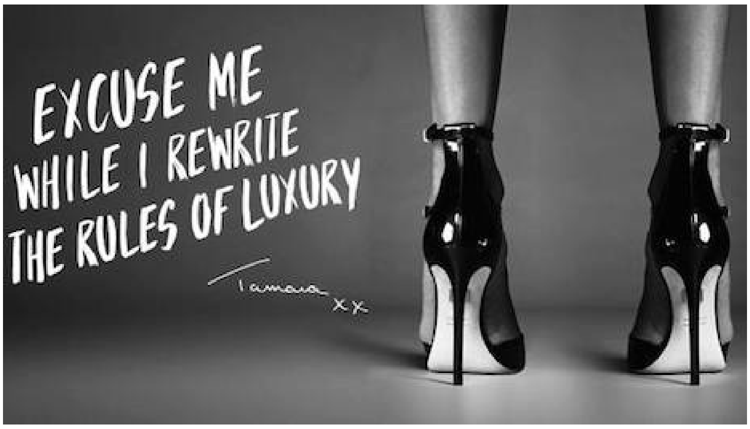
As a vegetarian label under the Kering umbrella, Stella McCartney was founded by the namesake designer in 2001. Without relying on materials that are falling out of favor with the eco-friendly set, such as leather and fur, Stella McCartney does not have to work around legacy systems to achieve a sustainable supply chain.

Tesla

Similar to Stella McCartney, Tesla was an electric automaker from its birth in 2003. Whereas many of its peers needed to figure out how to adjust their technology, designs and positioning within the electric automotive space, it is ingrained in Tesla's DNA. The brand's recent releases are also pushing automakers that were slower to adopt electric power to shift into production of greener models.

Tamara Mellon

The co-founder of luxury footwear label Jimmy Choo is now on a mission to change the rules of luxury. In 2016, the brand came back from bankruptcy with a rebooted model that focuses on a direct-to-consumer strategy. While the shoes the company sells feature luxury craftsmanship, they are missing the typical markup. The brand has also instituted payment plans to make its footwear more affordable for more women (see story).



Tamara Mellon's rebirth centers on changing the luxury rulebook. Image credit: Tamara Mellon

Sephora

Sephora is disrupting beauty retail, selling many of the same brands carried in department stores in digitally-fueled environments. Rather than the traditional beauty counters, Sephora opts for more interactive experiences, leveraging artificial intelligence and virtual reality. For instance, its TIP Workshops are a concept that makes heavy use of consultants and studios to give users a hands-on and curated experience with the products (see story).

The RealReal

Consumers today are more open to buying secondhand, with services such as The RealReal meeting the demand for pre-owned luxury. Along with offering an entry point to luxury for those who might not be able to afford luxury at full prices, these sites are also patronized by frequent luxury shoppers. The RealReal in particular has set up physical stores in recent months, making itself more of a competitor to traditional retail (see story).

5 non-luxury brands disrupting luxury:

Apple

Tech giant Apple has increasingly encroached on luxury's territory in recent years, with products that blur the line between technology and status symbol. Its Apple Watch put pressure on luxury watchmakers to create connected devices, while its iPhone helped usher in the smartphone revolution, changing how consumers engage and shop with brands.

Amazon

The ecommerce player has changed the retail game and consumer behavior. It was instrumental in shifting the purchase path online, forcing luxury brands to adopt ecommerce or be left behind. While Amazon today does not retail many luxury goods, it competes with luxury brands for the attention of the affluent audience (see story).

Airbnb

By providing travelers with easy access to villas or apartments, Airbnb is putting pressure on the luxury hospitality industry. Last year, the startup also announced it would be launching a high-end tier, tentatively called Airbnb Lux, which would focus on properties such as mansions or penthouses. According to research from YouGov, 39 percent of affluent travelers have stayed in a vacation rental this past year.

Audi partnered with Airbnb for a desert adventure experience. Image credit: Audi

Uber

Similarly to Airbnb, Uber is changing the game on car ownership by making ridesharing simpler. A Reuters/Ipsos poll from 2017 found that of the 25 percent of consumers who sold a car in the last 12 months, 9 percent chose to ditch a car entirely for ridesharing services such as Uber or Lyft. In addition to car sales, the company's UberBlack service takes on chauffeured rides with luxury vehicles from brands such as Rolls-Royce, BMW and Jaguar.

Facebook

With its 2 billion monthly active users, Facebook is the leader in the social media revolution. Its namesake platform and Instagram, which boasts 800 million monthly users, together have been key in changing how luxury brands communicate with consumers.

Luxury sectors facing disruption:

Apparel and accessories

Within the fashion industry, there is the potential for further disruption in production, as technology such as 3D printing is adopted by an increasing number of labels. Fashion brands are also disrupting the runway tradition, changing the format of fashion shows or opting out of them altogether in favor of alternative presentations.

Art

Technology is also poised to be infiltrated by tech. Sales are increasingly being conducted online, offering buyers around the globe the opportunity to bid on works regardless of their physical location. According to the Financial Times, while a human touch has often been central to art sales, algorithms and data may be set to take over from the experts.

Automotive

The auto industry is similarly being pressured to adapt and innovate. Automakers are racing to get self-driving cars on the road, changing the face of driving. Late adopters are also striving to transition to greener models, incorporating electric vehicles into their lineups.

Beauty

The beauty industry has undergone a major change over the last few years, shifting from a few large brands in a dominant position to many smaller indie brands taking over the scene. Part of what is driving this is the multi-brand format of beauty specialty retailers (see story). Consumers are armed with more tools for discovery and more brands to pick from, putting pressure on labels to lean on effective formulas rather than branding.

Financial services

Financial advising has traditionally been a high-touch field, but artificial intelligence is threatening to change this. Wealthy investors' desire for immediate results and their belief that financial advisors hold less value, has resulted in one in five affluents using an automated investment service, or "robo investing," according to a survey from YouGov (see story).

Jewelry and watches

One of the main pressures being exerted on the jewelry industry is consumers' desire for transparent, ethical sourcing. This has led to startups looking to disrupt the industry via lab-grown stones. Technology is also infiltrating the watch and jewelry industry, as consumers look for pieces that are functional as well as fashionable.

Michael Kors Access smartwatch. Image credit: Michael Kors

Media/publishing

While traditional print publishing still holds sway over an affluent audience, media companies are being pushed to embrace new forms of content and advertising. From social media platforms to advertorial placements, publishers are working with brands to get their messages to the digital channels where consumers' eyes have migrated.

Real estate

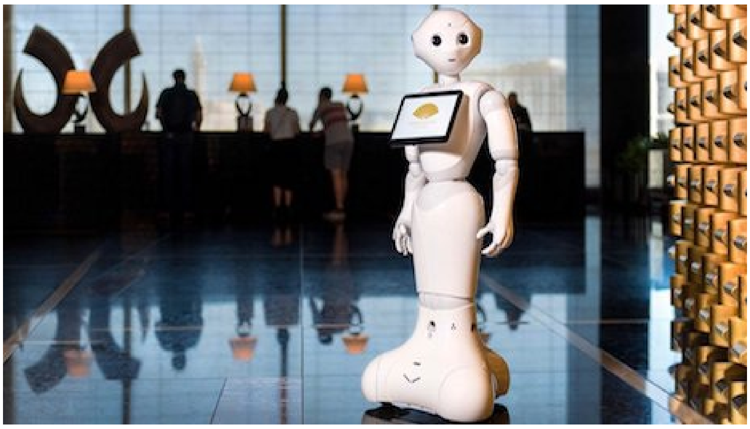
From data to digital tools, the process of buying and selling property is changing with the help of technology. A survey from Redfin found that a third of buyers in 2017 had made an offer on a property sight unseen, up from only 19 percent in 2016. Technology such as virtual reality and 3D interactive photography included with listings allow buyers to make more informed decisions without having to see a home in-person.

Retail

Digital has infiltrated the retail industry, and today most consumers' purchase paths include interaction with desktop or mobile devices. The bricks-and-mortar store remains a valuable touchpoint for luxury retail, but it too is adapting to consumers' increasingly digital habits with added technology.

Travel and hospitality

Similarly to a number of other sectors, the travel process has been altered through technology. Human contact is less necessary for booking, checking in and other services, which are now facilitated via digital touchpoints. Brands are also experimenting with artificial intelligence, testing if robots can take over some tasks from humans, freeing workers to handle more high-touch requests.



Pepper stands at 4-feet tall, can tell stories and help guests with a slew of inquiries. Image credit: Mandarin Oriental

Definition divide

Luxury has traditionally been tied to products and services reserved for a privileged few, with exclusivity a key component in the positioning of classic brands.

Evolving consumer tastes, however, are putting pressure on the notion of luxury as an ivory tower.

The vocabulary consumers use to describe luxury is evolving, with the term "exclusive" falling out of fashion, according to the Shullman Research Center.

The firm found that across all generations, consumers mention descriptors such as "quality," "name-brand" and "expensive," but different age groups show varied attitudes toward luxury, with boomers' "overpriced" more negative than millennials' "rich." As brands increasingly target millennials, who represent 50 percent of all luxury buyers, they need to alter their language accordingly (see story).

Among all American adults, unnecessary popped as one of the top 20 words used to described luxury in another Shullman Research Center report. Among those with incomes of at least $100,000, this term dropped out of popularity, however these consumers still used the term "non-essential" (see story).

Luxury is being pulled in a new direction. Image credit: Miu Miu

A 2015 Martini Media report similarly found that about two-thirds of affluent consumers think the definition of luxury is not the same as it was in 2010.

Nowadays, affluent consumers would much rather buy a luxury good that is elegant and minimalist over an item that is flashy or ornate. The same is true for experiences, with consumers seeking out rare, curated moments rather than something considered to be a prestigious or status-oriented event (see story).

"Many luxury buyers, especially the millennials, are now less focused on acquiring and owning luxury things," said Bob Shullman, founder and CEO of the Shullman Research Center, Greenwich, CT. "They also are more likely to define luxury in a different manner than the older generations.

"They are more into wanting and buying luxury services, 'experiences,' which is very good for those luxury brands that sell luxury services," he said. "Additionally, we are also noticing that many older luxury buyers are now less inclined to buy luxury products as they are telling us their homes are chock full of wonderful luxury things and now it's their time to go out and enjoy the fun experiences they have earned, especially if they are now 'empty-nesters.'"

For many consumers, self-expression now trumps status, forcing luxury labels to meet this need with design rather than resting on a logo or name. For instance, a man might prefer to drive a Mini Cooper instead of a Mercedes-Benz because it is a better fit for his personality (see story).

Some brands have been more successful than others in courting the luxury consumers of tomorrow.

According to a study from Hitwise, brands such as Michael Kors and Ralph Lauren are having trouble identifying with younger consumers, aged 18 to 24, but are not showing concern in this area. However, Gucci is significantly above the pack in attracting millennial consumers, which can poise the brand for long-term success.

Embedded Video: https://www.youtube.com/embed/ccylUiU1qJw

Gucci Cruise 2018 Campaign: Roman Rhapsody

Gucci has more than 50 percent of millennial visit share, which could be due to the brand always maintaining a youthful, edgy image. The label uses tools such as Instagram exclusives with models and embraces styles such as "granny-chic" florals and androgyny-forward styles (see story).

The definition of luxury is less centralized and more interpretive than it once was.

A survey conducted by Ipsos found that today, 90 percent of affluents are inclined to say that luxury holds a different meaning to each individual, while 47 percent note that the quality of luxury goods has declined. Despite these changing attitudes and the addition of new players to the luxury space, history still holds sway when it comes to consumers' preference for luxury goods, with about 80 percent picking classic over cool (see story).

Loewe's creative director Jonathan Anderson argued that the luxury business has become too mass and is in need of a rebrand, calling for marketing that establishes a distinct personality and sense of feeling (see story).

"Find meaning in your brand, real meaning, and be smart about how you communicate it," Concept Bureau's Ms. Bina said. "Brand is story - and that story is about the consumer, not the product.

"Heritage and craftsmanship are far less meaningful than stories of tribe and belief," she said.

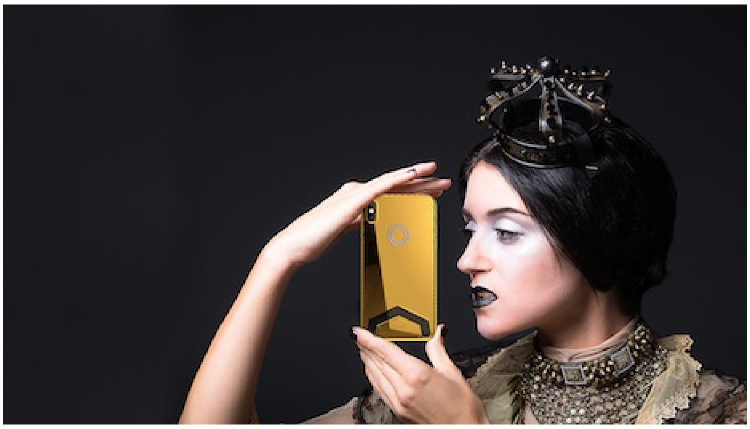
New competition

The United States may be in a post-recession period, but many of the spending values created during the time have stayed with affluent consumers, causing a hesitancy to spend, according to a report from Unity Marketing.

While counterintuitive, affluent consumers feel wealthier today, but are less likely to use their perceived wealth, causing a drop in consumption of luxury goods. This "luxury drought" has made high-income households reconsider their shopping habits, with a focus on finding good value rather than acquiring bragging rights through high-end brands.

Younger consumers are more apt than their older counterparts to shell out for high-end goods, but this group's typically more limited budgets lead to label mixing and matching (see story). For instance, a shopper might invest in a luxury handbag but buy apparel from Zara.

As the concept of what makes a status symbol has evolved, consumer tastes have shifted. Purchasing the latest device from Apple or finding an indie fashion label ahead of peers may give them more confidence than buying a new luxury handbag.



Brikk's iPhone X plays into the phone's luxury target. Image courtesy of Brikk

These factors combined have opened opportunities for premium players to challenge traditional luxury brands.

Casualization is also forcing brands and retailers to change their strategies, as high-end jeans and hoodies gain popularity over tailored attire. Rare sneakers have become as sought-after as the newest handbag, leading retailers such as Saks and Yoox to launch dedicated displays for footwear (see story).

The rise in streetwear has led to coveted releases in which brands use tactics taken from the luxury playbook: scarcity and exclusivity. For instance, Supreme releases new branded merchandise each week, with diehard fans scrambling to get their hands on it via its ecommerce site and physical stores.

Brands that were not luxury players have entered the game.

For instance, automakers Hyundai and Volvo have made forays into luxury production.

Hyundai's Genesis brand earned the third spot in Consumer Reports' owner satisfaction survey for 2017, placing behind Tesla and Porsche.

Meanwhile, Swedish automaker Volvo is looking to make inroads with the affluent Chinese consumer with a new model designed with the chauffeured businessman in mind. The S90 Excellence sedan has no front passenger seat, replacing it with a Lounge Console that allows a passenger riding in the back seat to relax (see story).

Mass retailer H&M, which has been a frequent collaborator of luxury labels such as Balmain and Versace, recently announced plans to create its own millennial-centric luxury brand. While price points will vary for the affordable luxury brand, the label is just another entrant to the premium category popular with the affluent set.

With the rise in premium labels, some luxury brands and retailers have embraced premiumization through new pricing strategies or lines.

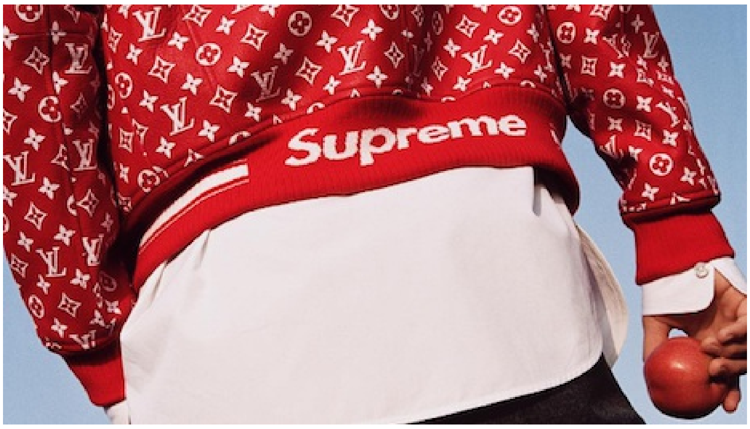
U.S. fashion label Marc Jacobs upped its focus on the leather goods and accessories category.

With a strategy modeled after Michael Kors, Marc Jacobs' goal is for handbags to account for 70 percent of its total sales. Following its move to consolidate its main line and diffusion brand under one label, Marc Jacobs released a collection featured new pricing, with 70 percent of items costing less than $500 (see story).

A number of luxury automakers have also launched entry-level options to better compete with premium marques, such as Jaguar's XE (see story).

Others have opted to join competitors rather than focusing solely on beating them.

Louis Vuitton worked with Supreme on a co-branded collection that received similar hysteria to Supreme's drops (see story). Diane von Furstenberg took a different approach, retailing athletic shoe brand Reebok and denim label Levis on its ecommerce site alongside its own collections, appealing to consumers' habits of building a high-low mix in their closets (see story).



Louis Vuitton x Supreme collection. Image credit: Louis Vuitton

Another tactic taken is acquisition of a competitor in the premium category. Estée Lauder scooped up millennial-centric lines Becca and Too Faced, and these new additions have been instrumental in driving its recent financial success (see story).

"It's so important for luxury to know the customers they have, and understand the customers that they don't," said Chris Paradysz, CEO of PMX Agency, New York. "The connection with the consumer and with audiences, more broadly, is a tremendous focus for luxury brands that are winning right now.

"The reason Louis Vuitton is doing so well is that they know their audiences, and they're able to identify the changes happening with them," he said. "They get the urban lifestyle, and they get the product development priority because they're listening intently to their audience. And so they're designing accordingly, and they're actually able to raise prices because they're making the product more exclusive.

"It's not about price cutting – it's creating the allure around a product that gets to the heart of who their customer is, and what they really want."

Digital disruption

One of the biggest disruptors for the luxury industry in recent years is the rise of digital channels. From marketing to retail, digital is changing how luxury brands operate and talk to their customers.

Luxury brands were typically slower than more mass players to embrace platforms such as social media, but today most are accessible on multiple networks. Rather than luxury's traditional top-down communication strategy, social media has opened up two-way, direct communication between brand and consumer.

The rise in social media marketing has also meant that brands today interact with individuals beyond their own customer base, as even those who might not buy from a brand follow and interact with content.

Consumers now check their phones upwards of 40 times per day, according to Deloitte. Image credit: Yoox

One of luxury's main challenges today is providing a level of access without sacrificing a brand's status.

A report from Fashion and Beauty Monitor found that nearly three-quarters of luxury labels still cite maintaining exclusivity as a top challenge. Despite concerns about keeping their elite image, luxury brands have overwhelmingly adopted influencer marketing, allowing personalities who have developed a large following to tell a story for them (see story).

Beyond morphing marketing tactics, digital has also changed how brands retail their goods.

Today, even ecommerce laggards are getting in on online selling. In the past few years, labels Céline, Prada and Fendi were among the brands that opened direct-operated online stores.

Compared to brands that have decades or centuries of history, newer luxury entrants born during the digital age do not have to adjust to technology.

For instance, Into the Gloss leveraged an existing online community surrounding its content site into the popular Glossier beauty brand. Meanwhile, pure-play ecommerce sites such as Farfetch and Net-A-Porter were selling digitally from the start.

"What has this new shopping journey done, especially to luxury brands?" Shullman Research Center's Mr. Shullman said. "They are no longer as exclusive as they once were as virtually all luxury brands now have Web sites and some of them now allow shoppers not only to search to search by word searches but actually buy their goods digitally.

"These digital shopping alternatives clearly are impacting the luxury marketplaces," he said. "The solution, we believe, is embracing the omnichannel approach and letting the consumer make the choice regarding how they prefer to search and then buy.

"If the only channel that a luxury brand offers a prospective customer is the 'bricks-and-mortar' store experience and that prospective customer doesn't care about the personal service that many luxury brands offer and cherish, those luxury brands that don't also offer a fully functional digital shopping experience are very likely not going to be 'in the game' in the future—unless, of course, they offer a truly unique product or service.

"We all know very few products and services are truly unique for a long time in today's rapidly changing world."

Changing consumption

Luxury is also facing disruption as consumers change their buying behaviors.

Consumers are adjusting their perspective on ownership, leading to the rise of alternatives to traditional purchasing in the fashion and beauty categories.

The convergence of consumers' thriftiness and desire for sustainability is creating new models for consumption, such as rentals and secondhand marketplaces, according to analysts from Euromonitor (see story).

The sharing economy has bolstered services such as Rent the Runway and Eleven James, which allow customers to borrow fashion and timepieces, respectively.

Beauty has also been rife with subscription models. Scentbird is billed as a Netflix for fragrances, offering trial sizes of perfumes from brands such as Tom Ford and Acqua di Parma (see story).

Membership-based beauty service Beauty Pie is based on the idea that luxury can be more about a state of mind than about the cost of a product, as it offers consumers luxury cosmetics at the factory price (see story).

Embedded Video: https://www.youtube.com/embed/f1sQqvwWUH4

Beauty Pie gives customers factory-direct prices

Along with providing a means for restless buyers to try out a variety of styles, these services also provide more affordable access to luxury goods.

Automakers are also entering the subscription game, with brands such as Cadillac and Porsche debuting alternatives to ownership (see story). Similarly, fractional jet ownership and charters have eliminated the need to own a plane to fly private.

Along with being open to temporary rather than permanent ownership, luxury buyers have shown their interest in buying secondhand.

The fashion market category that relies on consigning high-end apparel and accessories is witnessing a period of enormous growth, outpacing the full-price segment of its industry by 20 percent, according to a report from Fung Global Retail & Technology. The entire resale industry is expected to grow from $18 billion in 2016 to $33 billion by 2021 (see story).

Online marketplace The RealReal's fastest-growing market segment for the first half of 2017 is not millennials, but the coming-of-age Gen Z demographic who are outpacing their elder counterparts' sales by 35 percent (see story).

While traditionally associated with discounted goods, many of the purchases made on these platforms are big-ticket sales, as luxury shoppers hunt for the bags or shoes that got away.

Jewelry resale platform TrueFacet also reflects how consumers are showing a growing interest in pre-owned high-end jewelry with powerful growth in the past year.

Sales of jewelry priced at $25,000 or more on TrueFacet have seen an 18 percent monthly growth. The platform also saw a 34 percent growth in the value of average orders (see story).

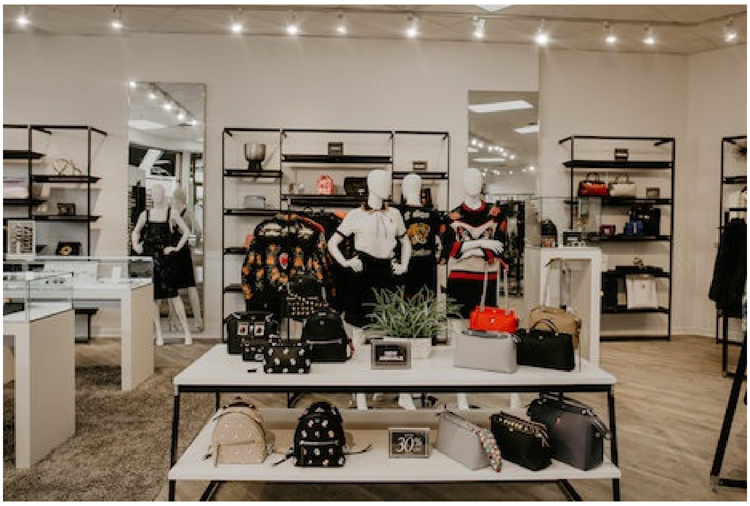
Post-recession consumers are also interested in getting deals on luxury goods, leading to a booming business of off-price chains.

For retailers such as Saks Fifth Avenue and Nordstrom, their discount Saks Off 5th and Nordstrom Rack outlets now outnumber their mainline stores. These off-price brands speak to a wider audience than the full-line chains, but many luxury buyers will also seek out bargains.

According to NPD Group, off-price customers account for 75 percent of all apparel sales across channels, and these discount chains have taken away sales from department stores.

In some cases, off-price is also getting a high-end treatment to appeal to luxury shoppers, which may further lure shoppers toward discounts.

MadaLuxe Group recently opened its first luxury off-price retail location in Los Angeles to offer consumers premier brands within a boutique setting.



MadaLuxe Vault in Los Angeles. Image credit: MadaLuxe

Since 2010, MadaLuxe Group has acted as a distribution partner for a number of luxury brands looking for a North American strategy to handle excess inventory. Now, instead of sending excess inventory off to a mono-brand storefront in an outlet mall, MadaLuxe Group's new retail banner, MadaLuxe Vault, creates a multi-brand boutique concept stocked with off-price merchandise (see story).

With more options available to shoppers, luxury brands across sectors will need to focus on building products and experiences that shoppers will want to pay for.

Taking responsibility

Consumers' growing attention to how products were made is changing how luxury brands are doing business.

For some apparel labels, such as Gucci and Armani, this has meant ditching fur in favor of faux alternatives as animal rights rise to the forefront.

Jewelers have faced pressure to be more transparent about the sourcing of materials, as consumers seek certainty that they are purchasing conflict-free stones. Gemfields, founded in 2005, centers its positioning on responsible sourcing, while De Beers' Forevermark diamonds are inscribed with serial numbers that identify the stones as responsibly mined.

Diamonds have been the focus of a call for ethical sourcing. Image credit: Forevermark

Luxury brands have also been pushed in greener directions.

Automakers are facing growing demand from consumers and governments for electric vehicles, as Norway, China and India announced plans to ban gas-powered vehicles in the future. Foresight Research projected that by 2020, electric cars will be the popular choice (see story).

Many hotels have also invited consumers to join them in being more eco-friendly, offering the option to keep linens for more than one day. Starwood Capital's 1 Hotels allows guests to track the energy or water usage in a room or property during their stay, offering a level of transparency (see story).

Climate change is poised to disrupt every sector of the luxury business. For instance, rising shorelines will change real estate, while cruise lines relying on navigable waters may also find challenges (see story).

Beyond sustainability, consumers today are highly focused on the values of brands behind products, and they are unafraid to speak their mind if they disagree.

Social media is giving consumers much more power over brands, where a mob-like mentality can influence the business practices and decisions of these companies, as well as their reputations.

Whether it is social issues, business practices or customer service issues, the Internet has given consumers the tools to hold brands accountable for their actions. Brands such as Hermès, Balenciaga, Valentino and Nordstrom are only a few of the luxury marketers who have fallen victim to the harsh reaction of social media, exhibiting how brands of today need to be more careful (see story).

As the consumer increasingly gains power in the conversation surrounding brands, luxury players need to be aware of how their values are shown through all aspects of their business.

"Luxury brands have to be the first ones to touch the customer, whether that be a prospective or current customer," PMX Agency's Mr. Paradysz said. "That first touch creates a perception about the brand.

"And while there's a notion that companies should be peeling back on their brand marketing and the focus on brand, it is really of critical importance for luxe," he said. "If luxury wants to retain their status, from a brand a product perspective, they're going to have to elevate and maintain the brand relationship. And of equal significance, the product relationship."

Best practices for luxury brands to navigate disruption:

- Jasmine Bina, Concept Bureau:
  - "Don't just study your consumer, empathize with them. It's easy to say, 'millennials want X,' but a lot harder to actually feel that desire yourself. Only from that viewpoint can you create something of value."
  - "Remember that the story that matters isn't about you, it's about the customer. As other smart marketers have noted before me, saying, 'This is what our product does' is very different than saying, 'This is who you can become with our product.'"
- Chris Paradysz, PMX Agency:
  - "Although it's disruptive, speed is crucial. Speed in everything –speed to market, speed to new product investing. Focusing on new product. But this doesn't necessarily signal digital-first. It's digital simultaneous. In luxury, digital needs to be as important as all the other distribution channels, including the stores."
- Bob Shullman, Shullman Research Center:
  - "Millennials are the largest generation in the luxury marketplace today and they are in many respects the force behind how shopping has been changing and is occurring today and how it will take place in the future. Notably many of them do not yet have the high incomes that tend to be associated with purchasing luxury products and services, but many of them undoubtedly will have high incomes in the future. How many of them prefer to shop matters and luxury marketers need to pay attention."
  - "Listen very carefully to your customers and address those customer annoyances that many times become problems from the customer's perspective that over time will undoubtedly drive them away form your brand."

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