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# Only 40pc of luxury goods are purchased by "true luxury" consumers: BCG

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*Affluent consumers commonly trade up and trade down their purchases. Image source Rolls-Royce*

By DANNY PARISI

NEW YORK Many of the problems that caused luxury growth to stagnate over the last few years are challenges largely created by the business itself instead of outside forces, according to research from Boston Consulting Group.



Speaking at Luxury FirstLook 2018: Exclusivity Redefined on Jan. 17, an executive from BCG spoke about the differences between the generations when it comes to luxury shopping and behavior. What BCG found was that the concept of trading up and trading down was very popular among millennials as a means of purchasing products outside their normal range.

"Trading up and trading down is the concept of saying, 'I will pay more for a product or an experience in some categories and I will fund that by trading down and paying less in categories that I care less about,'" said Christine Barton, senior partner and managing director of Boston Consulting Group.

"It's not about taking on debt, its about managing spend to say I care a lot about shoes but not about handbags, so I will spend accordingly," she said.

*Luxury Daily produced Luxury FirstLook 2018: Exclusivity Redefined*

## Trading up

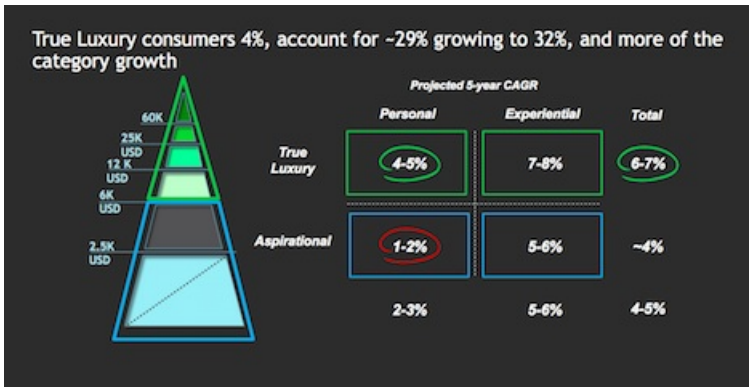
As millennials grow into their purchasing power, it is becoming increasingly important for luxury brands to understand the demographic's behavior.

One of the key elements of the current luxury landscape is that often, the people purchasing luxury goods are not what BCG calls "true luxury" customers.

A true luxury customer is someone who on average spends around $60,000 per year on luxury goods. But many luxury consumers, 40 percent by BCG's estimate, fall well below that line, yet still regularly purchase luxury goods.

This is thanks to the concept of trading up and trading down. Millennials are more likely than any other generation to willingly trade down on certain categories they do not care about so that they can splurge on expensive goods or

experiences.




*The division of luxury consumers. Image credit: BCG*

Indeed, BCG found that experiences are becoming far more prevalent among millennials than goods with categories such as travel and dining seeing growth in 2017 while furniture and other tangible goods were down.

The overall luxury market is healthy and while brands are doing well at anticipating millennials' desires, a significant percentage of consumers are planning on spending less on luxury. For those who are planning on dialing back on luxury spending, many of the problems come from the brands themselves.

"We only had about 17 percent of global luxury consumers say they were going to spend less on luxury," BCG's Ms. Barton said. "But 60 percent of the reasons they cited were things the industry did to themselves.

"It wasn't terrorism or geopolitical issues," she said. "It was luxury price increases, the shift to fast fashion or brands stretching too far outside of core categories."

Digital influence

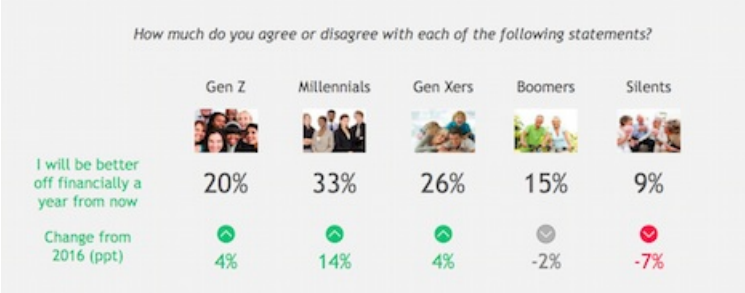
While millennials are important to the luxury market already, their importance will only grow in the future.

A recent study has shown that millennials are outperforming older generations in saving for their future, making the demographic a valuable future investment for luxury brands.

A report from credit line provider Discover has found that 81 percent of millennials are saving for the future compared to just 74 percent of Generation X and 77 percent of boomers. For luxury brands, this means that when millennials grow into their purchasing power, they will hopefully have more money to spend on luxury items (see story).

One of the key concepts that Ms. Barton spoke about is that no sector can do without an online component today. Even categories that traditionally required an in-person component such as cosmetics and perfume can now be bought online thanks to new experiential tools

For example, international auction house Sotheby's spent 2017 focusing on bringing new, innovative ways to its consumers so that they could bid on high-end items through digital means.




*Millennial confidence. Image credit: BCG*

These tools, ranging from online bidding to video to social media, have driven an unprecedented increase in online auction sales at the house, totaling more than $180 million in online sales for this past year. Sotheby's successful practices in 2017 are a great example of how the digital revolution has affected every corner of the luxury industry (see story).

"What is surprising about our online shopping data is that we are seeing categories that people always considered

protected from online such as beauty," BCG's Ms. Barton said. "That is not the case.

"One factor is repurchase behavior; if you find a good fragrance you can just repurchase it online without having to smell it again," she said. "New visualization tools, reward points and ease of returns make younger generations much more comfortable buying these things online."