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LUXURY MEMO SPECIAL REPORTS

Sharing economy in luxury: Luxury Memo special report

March 5, 2018

Luxury retail will have to focus on more efficient stores. Image credit: Armarium

By NANCY BUCKLEY

Owning luxury items is no longer the only option for consumers looking for the prestige and quality offered by high-end products.

Consumers are now offered the opportunity to rent luxury goods from cars to watches, as the rental market has expanded beyond real estate and offers a taste of the high-life to a wider range of consumers. However, the nature of the sharing economy negates the prestige and timeless intention of luxury goods.

"Luxury sharing and rental businesses, like Rent the Runway, have a bright future," said Pamela Danziger, president of Unity Marketing, Stevens, PA. "In today's experience economy, people are much more inclined to spend their money where they get the greatest return on investment as measured in happiness, and that comes from experiences, not acquiring more things.

"It is simple economics: why spend a thousand dollars or more to buy a formal dress needed for one formal event, when you can spend a couple hundred, wear it and return it," she said.

"Many think that young people rent rather than own because they don't have enough money to do so, but I think it goes much deeper than that. They value most access to luxuries, but don't necessarily feel the value of owning them. Doing more things, rather than owning more stuff, is the orientation of the next generation's affluents."

Top 5 trends in the rental market:

- Younger influences
    - Millennials have been surrounded by the sharing economy in non-luxury categories in everything from clothing sharing, through companies such as Rent The Runway, car sharing in companies such as Zipcar and home sharing with platforms such as Airbnb. The concept of sharing items previous generations typically only owned is engrained in the younger customer's way of consumption.
- Expansion of goods shared

    - Car rentals and long-term house rentals have been around for years, but the surprise in the sharing economy has been products that have emerged on the market. From watches to perfumes to private jets, it can seem like the possibilities of what will be shared in the future are endless.
- Time flies
    - The original rental industry for cars and homes was intended for travelers or long-term dwellers, but the nature of the industry has allotted for a new, short-term rental experience. Consumers can rent a home for a single night or share a car for an hour. The speed with which consumers interact with the products requires brands to make the experience as all-encompassing to the product and the brand as possible.
- A taste of the best may lead to lifelong consumption
    - The sharing economy may be counterintuitive to some brands' core philosophies, but it offers a chance to engage with a consumer on a trial basis, which is a marketing tactic that has previously been neglected in the luxury business.
- Growth is inevitable
    - The sharing economy is predicted to grow from around $15 billion in 2016 to $335 billion by 2025, according to PricewaterhouseCoopers. The expansion of this industry offers younger and less wealthy individuals a chance to dabble with luxury items previously unavailable. Consumers want to feel wealthy and want to be seen in luxury, and the sharing market allows that to happen.

Share, share, it is only fair

Humans are taught to share from their earliest schooling days, but when has the kindness and generosity in sharing gone too far?

Luxury brands have spent decades placing themselves as the ultimate consumer desire. The emergence of the sharing market has expanded the luxury goods business to those who cannot necessarily afford to purchase permanently but can now own for a short period of time.

The nature of this industry is counterintuitive to the core values of the many luxury brands that focus on heritage and passing heirlooms through familial generations.

Patek Philippe's record-breaking reference 1518 watch

The irony of some of these brands is that by focusing on passing luxury products through generations, the brands themselves initiated the sharing concept.

For example, Patek Philippe's tagline "You never actually own a Patek Philippe. You merely look after it for the next generation" has been the watchmaker's slogan for more than 20 years, long before the sharing luxury market, but it sparks an idea that maybe luxury does not have to be owned to be enjoyed.

How old are you?

Netflix opened its virtual doors in 1997, providing the world with one of the first online rental-based services. The concept of renting a DVD was not a new idea, but doing so on a subscription basis with a constant stream of movies being sent to one's mailbox was unprecedented.

Although far from being considered a luxury brand, Netflix sparked a subscription rental revolution that was translated to numerous industries.

Rent the Runway and other disruptors are changing the fashion game. Image credit: Rent the Runway

Rent The Runway was among the first mainstream apparel-sharing services, opening up its virtual shop 12 years after Netflix in 2009. It offers women the chance to have a different dress or purse for every occasion without breaking the bank.

Many female millennials were introduced to this sharing network at a relatively young age and it has now become a staple for weddings, cocktail parties and family functions.

The ease with which millennials adapted to the concept of renting clothes for special occasions provided a space for other industries to offer luxury goods on a rental basis.

The desire for millenials to own luxury items is often still a dream for the younger working professionals, but the chance to dabble with luxury through the sharing market makes the dream a temporary reality.

Eleven James women's collection

Although counterintuitive to most luxury brand morals, the idea of using a product for a short period of time is a marketing tactic that was previously untouched.

If a consumer participates in Eleven James' plan that offers four watches over a one-year period, he or she may fall in love with one of those four, choosing to purchase the watch and not continue with the subscription. A trial period is not a foreign concept to the consumer industry, but for luxury brands it is unprecedented.

Vroom to grow

Renting cars has been a concept that is common to most people, but now renting luxury cars goes far beyond airport rental lots.

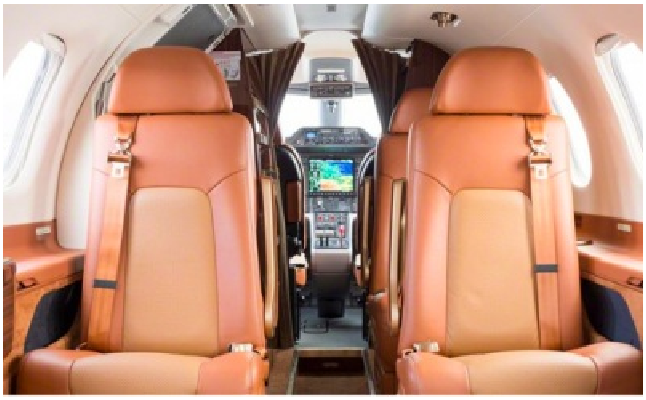
The idea of modern car-sharing was largely introduced by Zipcar in 2000. The concept allows consumers to have the benefits of a car without the expenses of owning one.

For luxury vehicles, consumers are allowed to interact with a brand without having to be able to afford the car, opening the market up to those dreaming of owning an esteemed brand one day.

Audi invests in Silvercar

In 2017, Audi increased its investment in car rental service Silvercar as it looked to further innovate mobility for changing consumer needs.

The investment built on an existing relationship that dates back to 2012, when Audi acquired the Austin, TX-based tech company that focuses on vehicle sharing. With renting and sharing replacing car ownership for many consumers, automakers are turning to alternative mobility developments to remain a part of consumers' daily lives (see story).



Flexjet Red Label Phenom 300

Recently, in January, Flexjet announced a partnership with Go Rentals, a service that specializes in getting private jet travelers behind the wheel. The company's "Carcierge" team takes care of the rental process for consumers from the moment they land (see story).

In 2015, Miami's Aventura Mall and Warren Henry Auto Group teamed up to bring consumers a luxury vehicle rental service that offers the option to rent or have a short-term lease on various high-end automobiles. Very Important Automobiles has a rental collection with Jaguar, Range Rover, Aston Martin, Bentley, Ferrari, Lamborghini, Maserati, McLaren and Rolls-Royce (see story).

Some automobile brands, including Cadillac, decided to cut out the middleman and create their own monthly subscription options for car shoppers, taking vehicle buying outside of the traditional purchase, financing or leasing model.

Cadillac's XT5. Image credit: Cadillac

Book by Cadillac gives subscribers access to a range of vehicles for a flat fee of $1,500 a month, allowing them to swap out their car for particular uses or needs. Other categories in the luxury sector have discovered an interest in subscription ownership, but Cadillac claims the spot as the first luxury automaker to test out this model (see story).

Porsche followed Cadillac with a similar service, which allows enrolled consumers to rent up to 22 different models through a mobile application, enabling them to cater their car choice to their needs (see story).

Porsche's Mission E will spearhead the brand's foray into EV

Other brands have taken to the Uber concept, offering consumers a chance to experience a brand as a passenger.

For instance, in 2015, Rolls-Royce Motor Cars brought an elevated experience to users of the car rental DriveNow application with a free chauffeured driving service in East London. Consumers could search for the Phantom, Wraith and Ghost models on the map, hidden under code names Sir Henry, Charles and Eleanor, as a form of Easter egg hunt (see story).

McLaren noted the importance of a consumer actually driving a vehicle and twisted the traditional Uber ride in 2015.

Uber users in Dubai were given a surprise when a McLaren vehicle pulled up to their designated location for their taxi pick-up. The British automaker gave Uber consumers another shock when they were handed the keys to drive the vehicle, leaving a user-friendly campaign that likely resonated with participants who unexpectedly interacted with the brand (see story).

Tasting the high life

Automobiles have long been rented, leaving consumers unsurprised that luxury brands would adapt to the car sharing industry. Sharing in watches and jewelry, on the other hand, come as a shock to many traditional luxury consumers.

Flont's business model lets customers rent and return or buy fine jewelry. Image credit: Flont

Companies such as Eleven James and Flont have emerged in the market targeting consumers with subscription-based services to experience the best.

Flont's mailing packages

In 2016, Flont emerged as a new startup that envisions "jewelry as a service." Flont allows customers to rent fine jewelry on a rolling basis, returning them when they are done or buying the piece if they like it.

The new company raised $5 million in capital investment within its first year, suggesting the sharing economy is alive and well in luxury (see story).

Similarly, Eleven James, founded in 2013, has raised more than $40 million to bring its founder/CEO Randy Brandoff's concept to life. On January 10, 2017, Eleven James announced that it had completed debt and equity fundraising efforts for $30 million of additional capital.

Eleven James women's collection

Eleven James offers two membership options. The first is $150 per month and offers four watches over one year. These watches are matched to the consumer through the collection he or she chose.

The second is $200 and the consumer receives two watches over six months or four watches over one year. The consumer chooses the exact watch he or she wants to borrow.

Flont offers three subscription opportunities. Unlimited is $249 per month for three months and offers unlimited borrowing. Another unlimited option is $299 a month for one month. The final option ranges from $99 to $329 and offers a three-day rental period, with the price depending on the jewelry value.

Compared to the price of purchasing a watch or piece of jewelry, a subscription offers a discount on enjoying luxury. The sharing concept is one that brands may be capable of marketing toward, considering that engagement with the brand could lead to future ownership.

However, the core of many luxury brands is heritage, and this is especially the case for watchmakers and jewelry designers because the nature of the product allows for generational sharing among families.

Home away from home

Renting a home for long-term rentals has been a concept around for centuries. Renting a home for a week or two for vacations was managed through real estate companies and booked months prior to the stay.

However, renting one's home for a night or two with limited notice has been made mainstream through Airbnb.

Airbnb listing in Bennett Valley, California

Airbnb has created a style of accommodation to which many modern travelers are becoming accustomed. While the company did struggle in the beginning stages, similar to how any other outlandish new idea usually fares, the founders took a look at how their customers were using their product to discover how to push forward.

Vacation Rentals By Owner (VBRO) also entered the home sharing industry, cutting out the real estate company. The concept of renting directly from the owner allows for a more personal experience.

Renting a home instead of a hotel room offers travelers a chance to experience the city like a local. Luxury hotels constantly focus on building experiences for their guests, but by staying in a home within the destination, travelers are creating their own experiences without the formality of a concierge.

Even the devil wears Prada

Even as younger consumers move away from Rent The Runway and are looking for luxury clothes for a plethora of occasions beyond formal events, renting everyday clothes has become a trend.

Armarium was first introduced in a pop-up in the St. Regis in New York, and has since formed a partnership with Net-A-Porter to balance renting and owning. The rental company offers designers such as Jimmy Choo, La Perla, Marc Jacobs and Salvatore Ferragamo.

More recently, Armarium invested in new high-end digital initiatives to better connect with luxury consumers via tailored experiences and refined customer service. It updated its portal to better provide innovative and intuitive experiences through its digital services.

The rental portal now includes the Armibot, a chat service that can create a look book tailored to individual users (see story).

Black Tux options

For male consumers, renting a tuxedo is not a foreign concept. However, renting a tuxedo from a luxury brand is rarer.

Nordstrom turned to rental services in 2017, as it partnered with online tuxedo rental service The Black Tux to give the digital-only shop a bricks-and-mortar presence.

Nordstrom customers will be able to come in for a consultation and rent The Black Tux's line of tuxedos for special events. Products such as the brand's seasonal tuxedos, shirts and accessories will be available for rental (see story).

Ready, set, go

In the luxury transportation world, possessing a membership card is more the norm than owning a private jet or yacht. Fractional ownership of a private jet is often the way in which consumers engage with the industry.

"Luxury sharing isn't new," said Cormac Kiney, CEO of Flont, New York. "In the modern sense, it started with NetJets way back in 1964.

"Even millionaires know that it's better to pay only for the jet you want when you need it," he said. "As for the future, luxury sharing is expanding, from vacation property to cars, and now apparel, jewelry and watches. Honestly, there aren't too many more ideal goods to share."

Consumers purchase a membership and in return receive a specific level of engagement with the mode of transportation.

Sentient private jet

Sentient offers a prepaid card that allots for 25 hours of travel. Fractional ownership is when the consumer buys a share of the plane and makes a multi-year commitment to the ownership.

Sharing a means of transportation, such as a private jet, was set up inherently by private jet companies because asking a person to buy a plane is not the most practical marketing tactic for most consumers. Private travel industry experts predict flying at least 400 hours per year is the acceptable amount of use for a person to own a jet.

Therefore, most travelers qualify more readily for a fractional ownership or jet card, which will better fit their needs.

The concept of establishing an in-house rental or sharing option may set a precedent for other luxury industries.

Trial size

Samples are a beauty counter draw, but now trial-size beauty products can be sampled in the comforts of a consumer's own home.

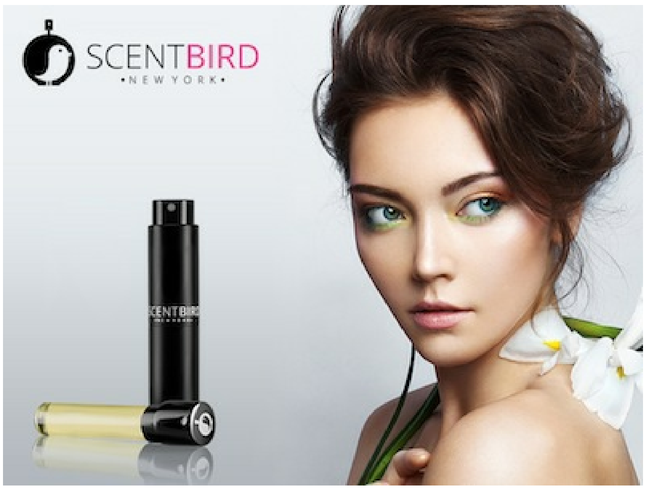
Subscription-based companies such as Birchbox have provided a space for luxury beauty brands to offer trials to consumers in hopes of a return engagement with the brand.

Birchbox x Vogue, a limited-edition box for the magazine's 125th anniversary

Birchbox is a monthly beauty subscription service that sends consumers an average of five trial-sized samples of innovative and talked-about skincare, cosmetics and fragrances.

In May 2017, Este Lauder introduced its brand to a younger generation of consumers by offering its skincare and cosmetics in sample sizes. Birchbox began sending trial-size Este Lauder products in its monthly boxes, while its online store started carrying 30 full-sized items such as the best-selling Night Repair line and cosmetics including the Pure Color Envy lipstick range (see story).

Similarly, Selfridges teamed with Birchbox to create a limited-edition beauty box in 2015 (see story).



Scentbird commercial

Launched in 2015, Scentbird aimed to eliminate the guesswork in shopping for a fragrance. Purchasing fragrances can be a daunting task for consumers due to the high number of options as the industry sector has become oversaturated with reinterpretations and new scents.

The subscription fragrance service creates an easier ecommerce experience when purchasing a fragrance by working with luxury brands to provide samples to consumers prior to committing to the purchase of a full-size bottle. Since fragrances are a personal and emotional selection, a consumer may not be able to truly experience the scent in-store and may not be able to tell if daily wear would match their style and personality through a test spray provided by an associate on their skin or a paper sample (see story).

"In the future, I expect sharing to blend more with retail," Flont's Mr. Kinney said. "Walking into a store and borrowing something that catches your eye is a great way to explore a new brand, and a great reason to return to the store.

"This is an experience that cannot be replicated online," he said. "We are developing that service for department and jewelry stores."

Best-practice tips for marketing to the rental economy

- Cormac Kinney, Flont
  - "The first best practice is curation. Clients want to find something special, quickly. They appreciate learning about true quality, style, original design and great curation does that.
  - "The second best practice is efficiency. We strive for same-day delivery, eliminate costs and create a great value for clients, for example, including insurance and FedEx. You can wear 12 different jewels all year, enjoying something new every month, for less than half the cost of one jewel. That comes from efficiency."
- Pam Danziger, Unity Marketing
  - "The industry needs to understand that the consumers today don't see the luxury industry through the same eyes or from the same perspective that industry insiders see it. And guess who's right? The customer, of course.
  - "The shift from a material-focused economy to an experience one is profound, but reflects the underlying motivations, priorities and values of consumers. Yes, surely some people will prefer to own and will still have a passion to acquire and possess. But the next generation of consumers live in a virtual world circumscribed by their cell phones, social media connections (many of which they've never met face to face) and Internet shopping so they don't need to even go to a store in the real world, Airbnb, Zipcar, et cetera. Luxury rental services tap this trend and it isn't going away."