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RESEARCH

New! Luxury Daily's State of Luxury 2019 report: Prosperous year, but dark clouds

January 10, 2019

State of Luxury 2019 is produced by Luxury Daily and Unity Marketing

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This third annual State of Luxury: The Insider View report by Luxury Daily and Unity Marketing reveals:

- *Trends measuring the pulse of the luxury business from three years of consecutives surveys among ~600 luxury insiders from the luxury goods, services/experiences sectors and companies that provide advertising, marketing, consulting and other support services to luxury companies*
- *How insiders feel about the state of the luxury market in general and their business, in particular*
- *Details about distribution challenges, Internet ecommerce strategies, social media and its surprising ineffectiveness, advertising and marketing strategies, and future trends impacting the luxury market.*

A feeling of confidence is buoying the spirit of luxury brands and the people who work in them and those who work alongside the luxury industry in supporting roles such as advertising and tech, according to *Luxury Daily* and Unity Marketing's third annual State of Luxury survey.

This "rising tide lifts all boats" hope is propelling the luxury business forward into 2019, per the study that polled 600-plus luxury insiders.

The respondents' optimism is palpable, including both executives who manage the companies that provide luxury goods and service experiences to luxury consumers and the businesses that provide support services to the luxury industry.

Whereas only two years ago fewer than one-third (29 percent) of the roughly 600 industry insiders surveyed believed that business conditions in the luxury market were improved over the previous year, today a sizeable majority (56 percent) believe things are better now.

Looking to the future, a majority (52 percent) of those surveyed believe business conditions will improve again next

year.

Innovation in product and service offerings are identified by those surveyed as the trend that will be most impactful in realizing growth in the luxury marketing in 2019.

On the other hand, the trend giving insiders the greatest worry is political instability and macro-economic trends.

The negative impacts of these for 2019 got an early start at the close of 2018 as rumors of trade wars with U.S. trading partners are rife, sales in the once booming China luxury market are slowing and its tourists are spending less while traveling and, most especially, the political uprising in Paris.

In 2017 Paris was named the global capital of luxury retail by real-estate research firm Savills because it experienced the most luxury retail store openings in any city during that year.

But Paris today has become a battleground with yellow-vested protesters. Police have had to fire tear gas and water cannons to disperse the crowds and luxury boutiques have been boarded up to prevent looting. French finance minister Bruno Le Maire estimated Paris has experienced a sales decline between 20%-40% most recently.

The ripple effects of the Paris protests as well as a slowdown on affluent Chinese tourist spending are being felt in the stock market.

In November, The Savigny Luxury Index, compiling the stock values of 18 leading luxury companies, measured a drop in average stock prices, resulting in a level lower than at the beginning of 2018.

During November, the Savigny Luxury Index started out with a brief rally, but then tumbled by 11.3 percent to end the month at an average decline of 5.7 percent. This was the second consecutive month that 17 out of the 18 indexed companies' stocks declined.

French investment bank Societe General foresees similar trends, forecasting a "slowdown in the luxury sector has just started as concerns over the spending trend of affluent Chinese millennials and the impact of the yellow vest protest in France." Goldman Sachs concurs and dropped its forecast for 2019 luxury industry sales growth from a previous 7 percent to a more modest 5 percent.

It is unlikely that other luxury centers will experience such violent demonstrations as Paris. But the luxury market will become a battleground nonetheless in 2019.

Three other macro-trends for the luxury business in 2019

Besides market turbulence cause by political and macro-economic factors, the luxury business faces more challenges in the coming year.

The primary battles lines for the coming year will be competitors struggling for a shrinking share of consumer spending, even while the ranks of the wealthy rise.

Luxury brands will try to take charge of the digital revolution, which is a challenge they were slow to accept. And they will work aggressively to find traction with the younger digitally powered consumers that have come with it.

- Rising wealth, growing anxiety

What gives luxury brands hope is the growing wealth class. Those who can afford luxuries have more money than ever to spend on it.

Capgemini, in its World Wealth Report 2018, reported global high-net-worth individual wealth rose 10.6 percent in 2017 to surpass $70 trillion, the first time it has reached this level and following six consecutive years of wealth gains.

Capgemini defines the HNWI as those with investible assets of $1 million or more, excluding primary residence, collectibles, consumables and consumer durables. At its present rate, global HNWI wealth may top $100 trillion by 2025. https://www.capgemini.com/service/world-wealth-report-2018/

But cultural tides are turning, as seen most visibly in Paris. Where wealth used to be something the affluent wear proudly, today the wealthy are retreating into their cocoons, living behind walls and going increasingly inconspicuous.

As the rich get richer, everybody else has fallen behind. Income inequality is resulting in resentment growing among hoi polloi and rising anxiety among the wealthy.

What is happening in France is but a bellwether of things to come as the wealthy become less conspicuous, retreat from danger in the public square and act to secure their holdings.

The watchword for the wealthy in 2019 will be privacy and they have the means to achieve it. This will only make it harder for luxury brands to connect with them in the coming year.

- Continued digital disruption

After being slow to adapt to the digital revolution, luxury brands have made extraordinary investments to play catch up. With most brands now comfortable selling their luxe online, with the notable exception of Chanel, many of the luxury players are going deeper into the digital market.

Why? Because that is where the growth is. Overall, the luxury insiders surveyed reported they will spend ~8 percent more on digital advertising in 2019 and nearly 80 percent of the companies surveyed will focus on Web site enhancements in the coming year.

But as luxury brands have all eyes on technology, they have been slower to understand the human side of the digital revolution.

Using catch phrases such as omnichannel or channel agnostic, most organizations still run digital operations behind locked doors. That is because the technologists are the experts on translating the brand's DNA into computer code.

But while those technologists work to communicate the cues and clues of luxury via digital presentations, the digital revolution also calls on them to enhance the human experience, as it is humans after all who have to interact with the brands either digitally or physically to make a purchase.

Programming the human dimension into luxury brands' digital and in-store systems will require managers with skill sets acquired from anthropology or sociology, not from the computer science lab or the retail management track.

Then there is the continued digital disruption coming to advertising and marketing that supports luxury brands in their mission. The winners in 2019 will be digital advertising platforms, the losers will be print publications.

For example, Calvin Klein just announced that it will pull all advertising from print media starting in February in favor of a "digital-first, socially-amplified model."

While it is not expected that other luxury brands will make such an all-or-nothing move, rest assured that luxury brands will pick up the pace at which they pull money out of print and shift it to digital next year.

- New digitally-powered customers with new ideas about what luxury is

To grow luxury brands need new customers, and today that means millennials. The generation's sheer size, reputed to be at least as large, if not larger, than the baby boom generation, offers luxury brands a 20-plus year supply of new customers.

Looking across this vast generational cohort, defined by Pew as 73 million strong in 2019 and born between 1981 and 1996, there is but one segment in that cohort that is most important for luxury brands: the HENRYs (high-earners-not-rich-yet).

Compared with the rest of the millennial generation, the young HENRYs are better educated, more informed and set the trends that their lower-earning peers will emulate. And even more important for the long-term prospects of legacy luxury brands, most people who reach ultra-affluent levels of income start out as HENRYs. These are the customers that luxury brands need to identify now in order to nurture for their future growth.

Complicating matters for luxury brands is the fact that HENRY millennials approach the luxury market with new ideas about what luxury is, what it means to them and how they want to participate in it.

First and foremost millennial HENRYs place a higher value on experiences than tangible luxury goods.

For example, a recent Euromonitor International survey found that more than 50 percent of U.S. millennials prefer to spend money on experiences over things.

That means the concept of a luxury good as a status symbol is rapidly being replaced by that of a status experience

or an Instagram-worthy moment. Millennials want to start checking off the boxes on their bucket list by age 40, not wait till they are 70.

Turning to their material goods needs, millennial HENRYs are the most empowered generation ever and thanks to technology they have access to most of the products the world has to offer at their fingertips. They are also far more educated and informed consumers than any generation before and are able to suss out the relative value of their purchases to make the right personal decision.

"The biggest danger that the luxury business faces is irrelevance," said Mickey Alam Khan, editor in chief of *Luxury Daily*, New York.

"There is no other way to sugarcoat this: the luxury business is facing an unprecedented identity crisis," he said. "What is its product? How relevant is it to the quality-seeking consumer's wants, needs and lifestyle? How much sunlight to let in before the brand mystique slips out the backdoor? Is the product really made key to the authenticity credentials where the label says it is? Do its values resonate with its target audience?"

Increasingly, traditional luxury goods are not making the cut, as HENRYs opt for lower-priced but still premium options from brands such as Everlane, Gilt, Outnet.com (the outlet site for full-priced Net-A-Porter), membership sites including Rue La La, as well as Neiman Marcus' Last Call, Nordstrom's Rack and Saks Off 5th Avenue.

With experiences their focus, millennial HENRYs are increasingly choosing access to luxury over ownership of it, giving rise to the gently-used luxury market and the rental model, from Rent the Runway, The RealReal, Flont, Armarium, Zipcar, Airbnb and Uber that do not weigh them down with the high cost of ownership and maintenance.

Luxury brands are going to feel the conflicting push-pull from their traditional wealthy and older customers who want one type of luxury and their younger, less financially endowed customers and potential customers who want a totally different kind of luxury. Luxury's present fortunes hang on the one, and their future depends on the other.

"Luxury brands will face a complicated balancing act in 2019 and beyond," said Pamela N. Danziger, president of Unity Marketing, "as they are forced to navigate potential disruption coming at them from market turbulence caused by political upheaval and macro-economic trends, a rising wealth class that is retreating into their secure cocoons, impacts of digital technology on the sale and marketing of luxury, and the next generation of customers with growing financial resources who must be inspired to step up to true luxury instead of settling for poseurs or less privileged brands.