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MARKETING

Faster, higher, stronger, together: Why luxury records will be broken in 2022

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After a thorough reset in 2021, 2022 should see strong sales growth and, for many global luxury brands, record-breaking margins. Image credit: Shutterstock

By A LUXURY DAILY COLUMNIST

By Erwan Rambourg

As explained in my previous column, in hindsight, 2021 will likely be seen as quite a transformational year for luxury, one that will have supplied the canvas for the next decade of growth that I described in my book, *Future Luxe*, characterized by greater professionalism, a better knowledge of consumers, more thoughtful management and, yes, creativity and risk-taking being rewarded.

The rebound in sales and margins in 2021 was not a mere hiccup, certainly not a "dead cat bounce." Speaking of cats, the year of the tiger, which starts in a few weeks, should prove to be roaring further with sales, margins and optimism powering on. The sector has opened up, long-lived complacency has evaporated, records will be broken. Luxury will go faster, higher, stronger, together.

Faster

The luxury industry has been characterized by complacency. It was late to embrace online sales (remember the managers who told you a decade ago "we will never sell our products online?"), it is still late on environmental, social and governance issues, but the crisis acted as a wake-up call.

Now, luxury brands are on the ball in terms of diversity and inclusion matters, one of the quickest sub-sectors to adopt NFTs, taking more risks in terms of product designs, artist collaborations and alternative ways of selling and even, finally, making big hires from outside the industry (see the recent Chanel CEO appointment).

Forget the idea of "ivory towers" and arrogance, the luxury sector is living with its time and connected, part of the conversation, not as aloof as it used to come across as.

Higher

The debate between "exclusive" and "inclusive" has always been rhetorical in my view. Of course, luxury companies want to sell more and as a means to do so, address a broader audience, not just sell more to an existing elite.

The issue of scale historically has been ubiquity (you can quickly get fed up with seeing the same stuff over and over) but that has gradually been addressed by hyper-segmentation of product, services, communication and the reality of scarcity has come to the sector despite sales being much higher.

As I mention in my book, the next decade will be driven by female purchasers, Asian and notably Chinese newcomers to the brands and a powerful and engaged youth. This year should be particularly strong in terms of sales, as beyond those long-term elements of support, brands have gotten a lot closer to their end consumers in local markets, notably in North America and Europe, some they had disregarded for a long time as "nice to haves."

Now that tourists are a rare occurrence, they seem to be the cherry on the cake. The cake itself local consumers is set to contribute quite a bit more than it used to pre-COVID times. Given this, expect many brands to exceed their all-time sales highs this year.

Stronger

Marketing firepower, social media dominance and the recruitment of first-time purchasers and a tendency to "buy less, buy better" that is not specific to the luxury industry (premiumization is everywhere) will continue to favor the bigger brands in the industry.

And with increased scale comes operating leverage and also a shift in negotiation power. Bigger brands will get better media rates, cheaper leases and, of course, better locations. The margin rebound of 2021 is again not the end of the road.

Margins will go higher still this year across the board and outside of pure scale elements. It also helps that the euro is weak against most other currencies as the bulk of luxury brands produces in euros and sells across the globe. That also supports margins.

Together

The motto of the International Olympics Committee used to be "Faster, Higher, Stronger." And then six months ago, it added the word "Together" at the end.

Similarly, the luxury industry used to be very closed, secretive and competitive. It remains, of course, incredibly competitive but, as I have published on in the past (see "In this Together", May 9, 2021), "coopetition" has arisen and there are topics that are much greater than brands themselves and that most will not be able to deal with on their own.

Cooperation examples around blockchain technology, raw material sourcing, online joint ventures or other types of partnerships have flourished in recent times. The US Army War College coined the term VUCA (volatility, uncertainty, complexity, ambiguity) in 1987 to describe a complex post-cold war multilateral world.

In COVID times, a quarter of a century later, it seems like we are going through a period of VUCA on steroids and cooperation can only help.

In luxury, it is certainly a time of new business models and open-mindedness. On that optimistic note, may 2022 enable you as well to go faster, higher, stronger, together.

Erwan Rambourg has been a top-ranked analyst covering the luxury and sporting goods sectors. After eight years as a marketing manager in the luxury industry, notably for LVMH and Richemont, he is now a managing director and global head of consumer and retail equity research. He is also the author of "Future Luxe: What's Ahead for the Business of Luxury" (2020) and "The Bling Dynasty: Why the Reign of Chinese Luxury Shoppers Has Only Just Begun" (2014).

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