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2022: The luxury phoenix moment

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The phoenix was a mythical bird of ancient Egypt which reputedly burned every 500 years and rose rejuvenated from its ashes.

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Associated with the sun, a phoenix obtains new life by arising from the ashes of its predecessor. Some legends say it dies in a show of flames and combustion, others that it simply dies and decomposes before being born again.

The most startling of the phoenix's abilities is its ability to regenerate itself. They can heal/regenerate from any and all non-fatal injuries.

Likewise, time and time again, the luxury sector has risen from deep dungeons and surprised market analysts and trade, in general.

Just when the world was beginning to heave a sigh of relief from the pandemic, disaster struck once again this time in the form of a highly contagious COVID-19 variant, the Omicron.

Since its detection in early December 2021 in South Africa, this new variant has spread to more than two dozen countries not only in Europe and the United States, but also Asian nations including Sri Lanka, India, Japan, Malaysia, China, Singapore and South Korea.

The variant is already threatening to disrupt supply chains, international travels, retail, manufacturing, hospitality and life, in general.

Hospitals are overcrowding once again, fears of the deadly Delta variant tragedy surface back and impact consumer sentiments all across the world.

In 2022, a lot of questions hence surround businesses, in general. However, the luxury industry need not fret just yet.

After all, this industry has time and time again proven to be one of the most resilient and buoyant sector in all kinds of natural and economical calamities of the past.

Even during the recent pandemic, whilst early projections of 2020 forecasted a rebound by 2022, the sector surprised one and all by matching the 2019 sales as early as in first-quarter 2021.

Another exciting take away is the fact that not only has luxury bounced back to pre-pandemic levels well ahead of the forecasted dates, Bain & Company expect the sector to grow 1 percent over the 2019 levels, to reach $325 billion, thereby ending the year 2021 on a positive note.

Additionally, it is also estimated that the luxury market is likely to reach $412 billion to $433.5 billion by 2025, with a sustained growth of 6-8 percent annually.

What is the luxury sector expected to look like in 2022?

Luxury brands have faced two years of tremendous turbulence, but the industry has come out of the crisis with more strength, resilience and agility than before.

Profitability has already recovered to pre-COVID-19 levels. Major trends which are likely to carry forward into 2022 could be summarized as below.

Luxury has a new meaning: The current millionaires are mainly concentrated in the 18-44 age bracket, a mixed cohort of millennials and a rising population of the Gen Z.

Luxury takes a new meaning for this cohort. From simply being more of a brand-led status symbol, luxury today is more health besides just wealth.

Luxury is freedom, luxury is being able to do what one wants to do, to step out, to be able to travel, be with friends, and being creative without being judged.

Being exclusive, being something out of the ordinary, being more environmental friendly, being socially conscious, being inclusive, top quality of service and product and being empathetic are values being sought for.

Purpose precedes the brand: Shifts in the market have accelerated and luxury brands are transforming from makers of products to purpose-driven actors in the push for a more sustainable, diverse and equal society.

As the world emerges from the pandemic, a permanent shift towards "purpose" and "brand values" remain central to purchase decision.

The purpose of the brand, its contribution towards mankind and social issues, inclusivity, environment and nature play center stage.

However, going forward, a brand that operates with heightened value and transparency, sincerity and commitment is most likely to be rewarded with lasting customer loyalty and trust.

"Where once it was all about status, logos and exclusivity, luxury brands are now actors in social conversations, driven by a renewed sense of purpose and responsibility," says Claudia D'Arpizio, partner at Bain & Company.

The age of the enlightened consumer is surely here and now.

Closed loop recycling, upcycling and reusability are essential cores: The long spells of the lockdown periods renewed the thrust and ask for a green environment.

The shutting down of polluting factories, total stoppage of any form of polluting transports and smoke emitting power generation stations, showcased the benefits and advantages of a clean and green living.

As a result, the young, the restless, the I-generation do not just want to *buy more buy cheap, but buy less and buy good*.

This shift to value-based consumers can be daunting for brands with outdated business models, or having a bad reputation. Ethics, sustainability and transparency move into the design room from being just another marketing buzz words.

Traceability is the top objective for business of luxury today and vertical integration is a way to achieve it. Luxury moves from being conspicuous to being conscious and sustainable.

The great logistical logjams: According to *The State of Fashion 2022* by *The Business of Fashion* and McKinsey & Co., fashion's supply chains will continue to face deep disruption ahead from logistical logjams, materials shortages and rising costs.

To further complicate matters, customers have become accustomed to super-fast delivery, both online and in stores. With delivery delays putting a strain on customer satisfaction, trends such as accelerating demand for sustainable materials are putting additional pressure on supply chains. The Omicron variant is not helping.

In fact with many factories undergoing a renewed lock down phase as well as lack of skilled human resources, the logistical deadlock does not seem to ease during the coming times.

Tech-tonic shifts: Technology is reshaping the global luxury.Virtual selling is real selling.

Despite the worldwide economic slump, the global luxury market is estimated to be worth more than $2 trillion.

As consumers become wealthier, they have a greater desire for uniqueness and exclusivity. Statistics are a confirmation to the fact that luxury sales adopted newer means, platforms and technology in a highly accelerated pace.

One would believe that the pandemic was a dress rehearsal for a new, more technologically turbulent world. Simple ecommerce has reshaped into a more immersive experiences.

Metaverse mindset: As consumers spend more time online and the hype around the metaverse continues to cascade into virtual goods, fashion leaders will unlock new ways of engaging with high-value younger cohorts.

To capture untapped value streams, players should explore the potential of non-fungible tokens, gaming and virtual fashion all of which offer fresh routes to creativity, community-building and commerce.

Digital environments are transforming from linear and transaction-focused spaces into multi-dimensional, experiential and collaborative virtual worlds.

Tech-savvy and younger cohorts are spending increasing amounts of time in these spaces.

From social media and gaming to virtual realities, they are adopting multiversal identities along the way.

At the vanguard, digital assets in the form of virtual fashion and non-fungible tokens (NFTs) are offering new ways for consumers to shop, exchange goods and inhabit those identities.

Much of the excitement around virtual environments is directed towards NFTs, which have seen an explosion of interest over the past year.

By experimenting with NFTs, gaming and virtual fashion, brands will continue to unlock value streams in the metaverse that engage young consumers and will find new routes to creativity, communities and commerce.

The next-generation of social shopping: As customers, unable to visit stores or socialize in-person during global lockdowns spent more time at home scrolling through their feeds, the use of social media to discover and shop for fashion gained traction.

A majority of consumers are now more influenced to shop via social media than before the pandemic. Social shopping has gained a global foothold and is poised to grow in the year ahead as social media giants from Facebook and Instagram to YouTube and Snap Inc. invest heavily in shopping features and take advantage of new functionalities.

As per a research by *BoF*, by 2027, worldwide social commerce sales are set to reach over $600 billion.

Tech for customer experience: Where did it all begin? From a hesitant acceptor of the digital medium to today a digital innovation leader, luxury brands have come a long way.

Innovative solutions came with evolution: AI, IOT, VR, AR, blockchain, 3D printing and mobile commerce. These terms have become a crucial part of the fashion and luxury industry currently experiencing significant transformations.

A 3D avatar is becoming a reality where in a customer could create his or her own avatar and dress him with clothes he could like.

These 3D avatars can enter the favored games developed by luxury brands such as Ralph Lauren, Gucci and others. A virtual trial room can assist in choosing the perfect fit basis your 3D avatar.

By 2030 digital will play a much bigger role. Brands would have to win the digital game by content differentiation and by being relevant through brand content.

Omnichannel commerce: The pandemic catapulted luxury brands into the age of digital at an unforeseen pace.

Bain estimates that more than 85 percent of luxury purchases were digitally influenced in 2021.

While the on line commerce space exploded during the pandemic, luxury resorted to a hybrid approach. Brands will have to consider creating a smooth and easily navigable integrated omni channel experiences.

Besides, the physical evidence cannot be discarded as a whole, since the human touch in luxury remains undaunted.

Whether in-store or remotely, these interactions will play a critical part in maintaining customer loyalty.

The brands that prioritize this hybrid approach to bricks-and-mortar and online will be set for success in the year ahead.

Global luxury adapts to new travel trends with cautious confidence: The Omicron is likely to derail the global travel comeback. Travel restrictions liftings initiated in mid- to end-2021 are likely to slow down once again. International tourism is not likely to fully recover until 2023.

Luxury players need to rebalance their global footprints and also increase investments in domestic consumer base. Before the COVID-19 pandemic, 30 percent to 40 percent of luxury sales were generated by shoppers in transit and abroad.

However, international travel flows plunged to new lows at the height of lockdowns. By 2021, global tourism spending had been cut nearly in half.

With tourists set to stay local in 2022, consumers and brands alike must double down on domestic luxury shopping.

Diversity, inclusivity and heightened relevance of ESG: With more and more awareness of ethical standards, employee well-being, gender equality, diversity and inclusivity, brands can no longer be simply profit oriented.

Most designer led brands now being run by corporates and investment houses, the governance model towards environmental and social practices plays a key role.

Indian-born Leela Nair being appointed as the global CEO of Chanel is the latest addition in this direction.

Black Lives Matter is another strong peg in the thrust for inclusivity. The global cry for this and the passing of Louis Vuitton menswear designer Virgil Abloh showcase the brands response towards such matters. LGBTQI+ is not taboo any more since mutual respect has set in.

Co-existence is the new defining undercurrent. Going forward, most luxury brands will have a focus on such matters with a chief diversity officer playing a key role in the brand governance models.

From ownership to experience and back again: In the past few years, the luxury consumer across generations had begun to prefer "experiences" over "products."

However, the pandemic seems to be reversing the trend once again towards more classic, more expensive, more carry on iconic products over experiences.

Luxury spending adjusted to 2021's constraints, with a shift from experiences to goods and experience-based goods.

Luxury products, in general, were first to recover to their 2019 levels, driven by the loosening of pandemic restrictions and by lockdown-inspired home upgrades and blended living and working spaces.

Experience-based goods such as fine art, luxury cars and yachts almost fully recovered to 2019 levels due to positive consumer traction across segments.

The value proposition of Instagrammable products over high-end hotels, resorts, cruises and restaurants seems to be switching back.

In broader luxury markets, consumers are indulging on products rather than experiences.

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