

COLUMNS

Luxury's new direction as markets and consumers evolve

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Tiffany & Co. collaborated with Nike on a pair of special edition sneakers costing \$400. Image credit: Tiffany & Co.

By **Abhay Gupta**

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Over the past decade (2010-19), the luxury goods sector expanded at a healthy rate of approximately two times the global GDP growth.

Starting on a victorious note in a world just emerging from the subprime crisis, the decade ended with the historic onset of the COVID-19. A year of rude awakening for global luxury, 2020 saw a first-ever negative growth in several decades.

Per Bain & Company, the growth trajectory of personal luxury goods averaging at a CAGR of 6-plus percent through 1996-2019 was reversed to a negative 23 percent during the 2019-2020 period.

The emergence of innovative technologies, drastic consumer trend changes and a re-definition of true luxury forced luxury brands to adopt and service mankind selflessly.

The sector remained resilient through the various waves of the pandemic to emerge victorious and glorified.

In fact, the years 2021 and 2022 once again proved that the luxury sector has always been the last to enter, but first to recover from any kind of economic or geopolitical crisis.

The past year, in particular, has been anything but ordinary. The unnerving combination of war, inflation, energy scarcity and climate change was not what anyone expected as life was just beginning to move forward from the COVID-19 pandemic.

Despite all this, 2022 has also proven to be a year of resilience. In fact, 2022 has been a very spectacular year for global luxury. Not only were the 2019 levels reached, but crossed over. Ninety-five percent of luxury brands generated positive growth.

The global luxury market is set to grow by 21 percent to reach a size of 1.4 trillion euros revenue shopping with a vengeance.

In retrospect, although the luxury sectors have promptly recovered from COVID-19, going forward, they face

significant headwinds: growing geopolitical risks; over-dependence on a few markets; rising fears of impending global economic slowdown; supply chain disruptions; relentless digital disruption the latest being the metaverse; increasing pressures to transform for purpose and sustainability; and younger consumers expecting different approaches and showing different buying habits.

Going forward, what can the world of luxury expect 2023 onwards? What carry-over new trends and long-term changes can be expected?

Outlook 2023: Weakness at the bottom, strength at the top

Per the millionaire survey by CNBC, going forward, 80 percent of U.S. millionaires plan to cut back luxury spending due to impending recessions.

However, Milton Pedraza, CEO of Luxury Institute, explains how the luxury consumption phenomenon operates.

"In a luxury brand, the top 5 percent of customers provide 40 percent of the sales," he said. "The next 15 percent of customers deliver the next 30 percent of sales. That's the top 20 percent, who are true HNW and UHNW individuals, not mere millionaires.

"In total, they deliver a full 70 percent of sales. We are in continuous contact with our vast global network of HNW and UHNW individuals, and they tell us they will continue to spend despite some obvious investment losses.

"In contrast, the bottom 80 percent of customers who deliver 30 percent of the sales are always susceptible to the economic downdrafts. Those 80 percent have limited resources, their stock portfolios are down, and many are at risk in a white-collar recession that we have also predicted since January 2022.

"So, yes, batten down the hatches for 2023, establish an honest dialogue to understand the needs of your best customers, dramatically enhance the client experience, and train your transactional people to raise their emotional intelligence skills and start building high-performance client relationships.

"HNW and UHNW client retention and referrals will drive performance in 2023 and for that you need to execute now."

New markets of luxury

Per Bain reports, the United States luxury market is still strong.

Europe has managed to recover beyond the 2019 levels, thanks to solid local demand alongside an extra-boost from U.S. and Middle Eastern tourist shoppers.

However, the new markets of luxury consumption are surprising the industry. Southeast Asia and South Korea are winning in terms of growth and potential.

India and emerging Southeast Asian and African countries have significant potential as well.

Among the rising stars, India stands out for growth potential, which could see its luxury market expand to 3.5 times today's size by 2030, propelled by an increasing interest and evolving attitudes and behavior among young customers towards luxury goods.

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 be creative without being judged. Being exclusive, being something out of the ordinary, being more environmentally friendly, being socially conscious, being inclusive, top quality of service and product and being empathetic are values being sought for.

Resale is a raging and resonating force

By all accounts, resale is growing faster than first-hand goods.

As mainstream consumers have become more comfortable with secondhand fashion, and the stigma around resale has started to shift into aspiration, many brands and retailers have launched integrated resale platforms, from Isabel Marant and Balenciaga to Selfridges and Net-A-Porter.

Rolex, too, recently launched its own pre-owned collections.

Statistics reveal that an impressive three-fourths of consumers of all ages and across the socioeconomic spectrum participate in the secondhand market.

As per the 2022 Thredup Resale Report, the sector is expected to grow a further 127 per cent by 2026.

Bain reports that the \$32 billion pre-loved personal luxury market grew five times faster than the primary market from 2017 to 2021, up 65 percent as compared to 12 percent for first-hand personal luxury.

Further, according to the latest resale report by Vestiaire Collective and Boston Consulting Group, led by Gen Z followed by millennials, the resale market is now worth an estimated \$100-120 billion, three times more than in 2019. It is expected to grow between 20 and 30 percent.

McKinsey also estimates that off-price sales are likely to grow five times faster than full-price from 2025 to 2030.

Within the Asia-Pacific region, the concept of sustainability and secondhand is still growing compared to North America or Europe, with Australia being the most closely related to its western counterparts.

The idea is to build loyalty among sustainability-minded consumers, offer lower-priced options for new customer acquisition, and continue profiting from products long after they leave the shopfloor.

And it is not just fashion or luxury. The secondhand furniture market is predicted by Statista to more than double from \$13.4 billion in 2022 to \$27 billion by 2026.

Rental luxury is catching up

In a similarly green vein, many people are opting to rent items rather than buy them, particularly in categories such as fashion and jewelry.

Sustainability and tapping into the circular economy is at the heart of this growth.

Although only 10 percent are interested in renting clothes, it indicates that this growth might continue to be gradual.

Meanwhile, 18 percent say that they are interested in buying second-hand clothes, though this figure lags quite far behind in Asia where only 9 percent are interested.

The online apparel rental market size will significantly grow between 2021 and 2031.

The market was projected to be around \$1.8 billion in 2021. There is a projection that 10 percent of revenue by 2030 is going to come from models such as rent a luxury, buy now, pay later and reusable luxury.

Accessible luxury is under threat

As a resulting combination of all above trends, the brunt is being borne by the democratized lines of luxury.

Even fast fashion has been impacted with slowing demands.

In this world of instant fame and recognition, no one wants to be seen in the same ensemble ever again.

Besides, if one can either rent or buy a secondhand version of a higher-placed luxury item, why would anyone buy either fast fashion or even accessible luxury?

In the recent past, names such as Zara have been raising their premiumization index by introducing higher priced lines whilst luxury brands have been focusing more on their sophisticated higher versions of their collections.

Gilded luxury: Rarity reset

Thanks to the post-COVID K-shaped recovery in most countries, the lower end of luxury created especially for the aspirational class is facing a challenge.

The true luxury consumer is, however, moving to a much higher plane of personalization and experiences.

As the world enters a new era of global political and economic uncertainty, luxury brands are turning their attention away from the aspirational client and renewing their focus on their very important clients (VIC).

Big luxury brands are thriving, thanks to their VICs. VICs are the core consumers those who are not impacted by any kind of economic or political turmoil.

The cost-of-living crisis due to rising inflation does not affect their luxury spending. Brands such as Chanel have

built exclusive and prestigious experiences for these business-critical revenue drivers who spend top dollars with them.

Understandably, luxury brands are building deeper and meaningful relations with their VICs, which can assist them weather the economic storm.

Key to gilded luxury is not the usual 'by invitation' offerings but enhanced exclusivity via tiered level of access offering a multitude of benefits for the highest spenders.

According to research in China, the rich consumer segment accounts for only 11 per cent of total consumers, but contributes to nearly 40 per cent of the market.

Correspondingly, it has been observed that brands are paying even more attention to their VICs, launching services such as online one-on-one livestream consultations, offline value-added experiences, and even catering meals for VICs during lockdowns.

Expanding consumer base

Per Bain's latest report, the luxury market's consumer base is broadening with some 400 million consumers in 2022, with that number expected to expand to 500 million by 2030.

This market growth is driven by factors that go beyond just aspirational.

With consumers becoming more knowledgeable and choosy, and with intensified competition for loyalty and advocacy, the market dynamics seem to be shifting.

The higher- and top-end of the luxury market is also expanding at the same time and accounted for some 40 percent of market value in 2022 compared with 35 percent last year, with these consumers hungry for unique products and experiences, and putting brands' VIC strategies into overdrive.

Cultural, social, ethical and moral orientation

Luxury brands learnt the importance of localized cultural, social and moral values the hard way.

Not long ago, Dolce & Gabbana faced a massive backlash against its humor-oriented campaign depicting a Chinese model trying to eat a pizza with chopsticks.

The follow-up apology rendered was further considered insensitive and ingenuine. The impact on the subsequent sales and brand equity worldwide was a warning for all luxury brands.

The recent campaign by Balenciaga is another pointer in the same direction.

The unprecedented backlash against the campaign as well as the brand resulted in not only consumers but even celebrities and brand ambassadors such as Kim Kardashian parting ways with the brand.

Going forward, luxury brands will need to respect and be sensitive towards matters of cultural, social and moral values.

This shift to values-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 buzzword.

Diversity, inclusivity and heightened relevance of ESG

With 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 are now being run by corporates and investment houses. Consequently, 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.

Purpose precedes the brand

We all emerged from the pandemic craving more purpose, more meaning and more connection.

Shifts in the market have accelerated, resulting in luxury brands transforming from makers of products to purpose-driven actors in a 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 decisions.

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," said Claudia D'Arpizio, Milan-based partner at Bain & Company.

The age of the enlightened consumer is surely here and now. Brands that do not share consumers' values will suffer.

Tech-tonic shift

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

Technology is reshaping the global luxury. Virtual selling is real selling. During and after the pandemic, luxury brands have acknowledged the need for being digitally present.

A whole lot of tech adaptation was necessitated. From just 10 percent to 15 percent of overall sales being online, it is expected that by 2025, at least 25 percent of global luxury sales will be online.

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 at 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 more immersive experiences.

Fashion gamified

With the video gaming market estimated to exceed \$200 billion in 2023, luxury houses across the globe are shoring up efforts in gaming collaborations.

Both appetite and demand for digital fashion has soared. The advantage of not only drawing in the existing consumer, but also the future gamer. The sector is too hot to be ignored.

In 2021, Balenciaga teamed up with Fortnite to release a host of branded skins and cosmetics at accessible price tags ranging for \$2-\$12, thereby exposing themselves to a whopping 350 million global players.

Sure enough, Gucci, Burberry, Ralph Lauren, Christian Dior and others have entered the gaming sector.

Not to be outdone, Bulgari, Balmain and LVMH followed suit.

Going forward, presence in the gaming sector is a must for luxury brands wanting to tap into this unique, sustainable, low-cost digital fashion space.

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 a customer can create his or her own avatar and dress it with clothes he or

she prefers.

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, based on the customer's 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.

It is all about a unique experience, attitude and understanding of the customer which the luxury industry has been building for decades.

Nevertheless, these new tools are developing and trying to transform the impossible to understandable, acceptable and incredible.

Surely, the future of luxury is inseparable from technological innovations. This bond no doubt has immense potential.

Physical to phygital to omnichannel

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 online commerce space exploded during the pandemic, luxury resorted to a hybrid approach.

Brands will have to consider creating smooth and easily navigable integrated omnichannel experiences.

Companies will need to continue to blur the lines between physical, virtual and hybrid products and experiences to find the mix needed as many workers are work from home, the young generations are nearly all virtual, and digital penetrates every aspect of our lives.

However, 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.

Digital trust matters

Going forward, fostering digital trust is a big necessity for luxury businesses.

When it comes to their data, customers want to see an enduring combination that revolves around strong cybersecurity, policy and vigilance, all working together to protect their privacy.

A survey conducted by McKinsey of more than 1,300 business leaders and 3,000 consumers globally suggests that establishing trust in products and experiences that leverage AI, digital technologies and data not only meets consumer expectations but also could promote growth.

The research indicates that organizations that are best positioned to build digital trust are also more likely than others to see annual growth rates of at least 10 percent on their top and bottom lines.

Delivering on digital trust could provide significant benefits beyond just satisfying consumer expectations.

Virtual influencers are the new vogue

Virtual influencers represent a new world of opportunity for brands in terms of interactive and innovative collaborations.

A virtual influencer' can be defined as a computer-generated, fictional individual which is most often used for marketing purposes, especially social media-based strategies. They can range from independently created avatars to official brand personalities, representing a company in various aspects of the digital world.

Famous iterations of the trend include Gen Z-targeted social media influencer Lil Miquela, who boasts 2.9 million Instagram followers, and Brazil's Lu do Magalu, who counts a staggering 6.1 million followers. Both these virtual people have worked with a variety of brands, namely Prada and Dior.

However, their distinct dissimilarity to the typical influencer is that they are created by advanced tech companies. Going forward, this is a trend for which the fashion and luxury companies need to be on a serious lookout.

Luxury tourism

Travel continues to bounce back after being hit by the pandemic.

Sustainable/ethical travel will be at the heart of this recovery.

A majority of luxury travelers are likely to prioritize responsible travel in the future. Once again, the top of the list for purchasing penetration is travel and tourism.

With many affluent having slashed their holiday spends during 2020 and 2021, travel once again tops the chart of beneficiaries.

Glamping, undiscovered locales, money cannot buy experiences and adventures and family breaks will continue to be among the most resilient holiday types, reflecting the desire for many travelers to remain close to family and distanced from crowds and strangers.

Multi-generational trips, in particular, are now proving to be highly popular with the affluent.

Wellness holidays and retreats are also likely to continue seeing an uptick as wealthy individuals look to improve their physical and mental health after the stresses of the past two years.

It is important for brands to continue delivering user-friendly websites, particularly for smaller screens, as the popularity of online shopping should remain buoyant in the coming years.



Abhay Gupta is founder/CEO of Luxury Connect and Luxury Connect Business School

*Abhay Gupta is founder/CEO of **Luxury Connect** and advisor at **Fiexglobal**, Gurgaon, Haryana, India. Reach him at abhay@luxuryconnect.in.*