

COLUMNS

Abounding luxury myths affecting brand performance

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The last time I published my luxury myths was 2019 a lifetime ago.

In 2023, luxury is going through another transformational phase.

The global economy remains volatile, and technology threatens to disrupt as much as it enhances.

In times of change, there is so much noise in the system that it is very difficult to focus on the true signal.

Myths abound with respect to the definition of luxury and luxury's best customers.

A great deal of mythology is making the rounds in luxury media and events from "experts" who have no empirical basis for their statements.

To disprove these myths, Luxury Institute continuously conducts insight-generating interviews with its global network of executives and expert members and high-net-worth and ultra-high-net-worth consumers across the world.

Myths are the greatest obstacle to high-performance. Here are the seven currently prevalent luxury myths directly from the voice of HNW and UHNW clients:

Myth #1: Time is the ultimate luxury

Return on invested time (ROIT) is the ultimate luxury. This was true in 2019, and remains true today, yet many luxury brands are still not acting on this reality.

When HNW clients invest their precious time, they not only expect, but require, an extraordinary experience with optimized functional and emotional elements.

Soulless grandeur and opulence are not enough. Sometimes simplicity rules.

Whether online, in a resort, a store, on a yacht, or restaurant, luxury brands need to make clients feel superbly special and loved.

Extraordinary client experiences require great venues, and the highest level of expertise in the brand's product or service category, but those are table stakes.

If luxury experiences do not deliver pure, unmistakable human joy from precious time invested in the brand, HNWs call it a failure.

Myth #2: Our compelling brand purpose and story are differentiators

Simon Sinek has inspired luxury brands to discover their why.' In turn, luxury brands hired agencies to create and communicate their why, whether authentic or not.

Currently, brand why' and purpose have achieved commodity status. While a nice touch, they no longer differentiate a luxury brand with highly discerning HNWs.

Even the goods or services brands that deliver cheap commodities, suboptimal products and poor service can tell a story that may bring a customer to tears.

HNW clients tell us that luxury brands can no longer use the brand story to tug at their heartstrings unless they also deliver extraordinary, high-value, 360-degree experiences.

HNWs are willing to entertain a brand's why, but they care far more about what' and how' a luxury brand delivers.

Myth #3: We maintain deep relationships with our HNW clients

When luxury goods or services brands are, at best, a premium commodity in disguise, HNWs do not care to build long-term bonds.

Many luxury brands today are simply not differentiated enough to earn relationship status.

HNWs may purchase, but they are not committed. Only luxury brands with an elevated, unique value-proposition combined with highly skilled, emotionally intelligent human beings who make clients feel special will cultivate a desire for a lasting relationship.

Brands need to continuously innovate to stay vibrant and compelling. And they need to attract, select, educate, reward and retain people who love to inspire genuine, deep positive emotions in others.

Brands need to run a reality check on their HNW client relationships.

Myth #4: The HNW are not willing to share detailed behavioral data

At any age, HNWs are the most educated, discerning and technology-aware individuals on the planet. They are fully aware that luxury brands have their demographic data, and they also know not much personalization can be done with demographic data.

With behavioral data such as location data and trip trajectory data, among other critical real-time data points, personalization and customization can scale.

HNWs are very willing to share behavioral data to receive personalization, and even customization. But only if they fully trust the brand. They do not just trust they verify. They want iron-clad guarantees.

Cybersecurity is table stakes.

First, they insist luxury brands only access the insights needed to personalize, and only when needed.

Second, they want luxury brands to guarantee their data will never be disclosed, sold or provided to any third parties.

Finally, they expect luxury brands to reward them for access to the data with truly personalized, unique, extraordinary, real-time experiences and other perks. Otherwise, they say, "What is the point?"

Myth #5: Our customer lifetime value metrics are accurate

Sadly, even in 2023, most luxury brands, if they even measure such a critical metric, still use frequency, recency and monetary value (RFM) to define clients, and extrapolate from there.

Luxury brands tend to leave out a huge part of the equation.

First, luxury brands assume HNWs will stop buying as they age. HNWs, who are living, working and staying healthier longer, say to that assumption: "Only when you ignore me and become irrelevant." That is a controllable factor.

Second, lifetime value (LTV) calculations never add high-value customer referrals to the equation. They fail to measure and connect the most critical driver of luxury goods or services results with the right customer.

Third, behavioral proxies have high predictive power and accurately measure LTV based on behavior such as granular engagement on a website and other brand engagement behavior.

Measuring LTV in today's dynamic world involves rapidly evolving science and data access. Sadly, most luxury brands live in the LTV Stone Age.

Myth #6: Generative AI delivers a competitive advantage

There is so much hype surrounding generative AI and ChatGPT that misled executives can be forgiven for being delusional. But it is still a luxury brand team's job to ultimately separate myth from reality.

GAI in its latest and greatest form will be available to everyone, everywhere, all at once. Just like the movie. It will be a commodity. Now that it is becoming available as open source, it promises to be even more ubiquitous.

The real drivers of competitive advantage are access to the most relevant customer data, the ability to use it creatively, and the innovation of extraordinary experiences.

For luxury brands, building direct, ethical and legal, key-insights-sharing relationships with their HNW and UHNW clients is critical.

Whoever has best data access and uses it creatively wins big.

The myth of AI competitive advantage is a heavy sell right now from every tech company that wants its stock market value to rise on hype.

A luxury brand's job is to protect, enhance and promote the best interests of its clients and shareholders not those of the mythologists.

Myth #7: Our training programs educate our teams to build HNW relationship mastery

Most luxury goods and services brands are excellent at product knowledge and sales training. But luxury brands are failing dismally to educate their people for the longest yard consistent and creative long-term relationship building skills that deliver joy, make clients feel cared for, and engender genuine, lasting emotional connections.

The luxury industry, given its high-value goods and services, should be leading the way for all other industries in emotional intelligence skills that build HNW customer lifetime value.

Instead, it lags even business-to-business firms in investing in the critically required human skills of emotional intelligence.

Great luxury products and services can generate short-term transactions. In sharp contrast, relationships can generate human connections, treasured memories and lasting joy that build lifetime loyalty, word of mouth and referrals.

LUXURY MYTHS ARE rampant today, and most of the pundits who deliver these myths have zero empathy because they have never experienced luxury from the HNW and UHNW client perspective.

Luxury is, and always will be, one of the greatest opportunities for innovative brands to deliver the best of something, with humanity and joy, to human beings.

If you are not serving the rapidly evolving stated and unstated needs and desires of your HNW and UHNW clients who account for 70-80 percent of your sales, you are destined for commodity status and irrelevance, especially in the Age of Generative AI. Milton Pedraza is founder/CEO of the Luxury Institute

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