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55pc luxury spending now experiential purchases: BCG

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By TRICIA CARR

Luxury in the form of premium experiences are seeing the most action in terms of spending, while high-end goods are lagging in comparison, according to new findings from a study by Boston Consulting Group.

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The key finding of BCG's Luxe Redux report is that there has been a shift in spending habits, where 55 percent of spending comes from luxury experiences rather physical goods. In addition, experiential luxury purchases grew 50 percent faster worldwide year over year than sales of luxury goods.

"It is important for luxury brands to reinvent themselves and we believe that the recipes of success in the past few years will not be the recipes of success for the next few years," said Jean-Marc Bellaiche, New York-based senior partner and global leader of BCG's luxury, fashion and beauty practice.

"The industry has moved from 'to have' to 'to be,'" he said. "To have or to own or to buy a product is now to be and to experience service and we believe that is a big trend.

"I think we are seeing a shift to a more meaningful purchase, and now experience can meaningful."

BCG surveyed approximately 1,000 affluent people in eight developed markets including France, Germany, Italy, Japan, South Korea, Spain, Britain and the United States, as well as the four BRIC markets for the Luxe Redux: Raising the Bar for Selling of Luxuries report.

Experiencing luxury
Consumers are spending more on luxury experiences than luxury goods.

Total annual luxury spending reached $1.4 trillion in 2011, which included more than $770 billion spent on luxury experiences and approximately $350 billion spent on luxury cars. The remaining went toward personal luxury goods such as watches, handbags and shoes.

For example, experiential luxury sales in China rose 28 percent year over year, while personal luxury good sales rose 22 percent.

The study found four areas of change to explain the increase in experiential spending. Marketers that adapt to these changes could see more success in the long term, per BCG.

The luxury demographic has changed in developed economies such as the U.S. and Europe.

Consumers spending more during the luxury boom in the 1990s are now retiring and at a stage where they do not want new items. They are now consumers who should be targeted for experiential luxury, per BCG.

Next, consumption patterns are changing as consumers mature. They will buy new experiences rather than accumulate material goods.

Also, consumers in Generation Y are defining themselves more often by what they have done instead of what they own and are drawn to high-end experiences.

San Fernando restaurant at The Luxury Collection's Hotel Alfonso XIII in Seville, Spain

Lastly, consumers reported that they are looking for a great sense of purpose and satisfaction in life, which indicates that they may seek experiences rather than goods.

Meanwhile, BCG found that the global economic uncertainties have had little effect on luxury spending.

To capitalize on experiential luxury spending, it is important for brands to use storytelling, per Kate Sayre, New York-based partner and core member of BCG's luxury and marketing and sales practices.

Using marketing to convey the vast story behind the brand and its products and services can help reach these modern consumers.

However, experience-related marketing is not strictly for travel brands. Many luxury labels are creating and marketing branded experiences for their consumers.

For example, British fashion label Burberry began its large-scale event series in Taiwan to ignite its global campaign focused on fashion, weather and the combination of physical and digital channels that could redefine the brand experience going forward (see story).

Burberry's Beijing event video

New business

In addition to consumers seeking experiential luxury, BCG noted three more changes in the luxury market.

First, afluent consumers' ideals have shifted to value, family and wellness from the traditional notions of luxury such as wealth and status.

In addition, the luxury map is changing. High-end marketers should continue to focus on the BRIC markets that are expected to grow in the next few years, but should not abandon traditional markets.

The U.S. is often a missed opportunity for luxury players, per Mr. Bellaiche.

Forty percent of the world's ultra-high-income consumers who have more than $30 million in assets reside in the U.S., as well as 30 percent of the world's millionaires. Approximately 20 percent of the global gross domestic product comes from the U.S.

Luxury brands should also take note of tourist spending.

"While the markets in China and Brazil is growing, these new consumers are buying a lot in their own country but they are also buying a lot while traveling," Mr. Bellaiche said.

"For companies that are strong in the U.S. and Europe, this is becoming a core part of their business," he said. "It needs to be addressed that the traveler is becoming a big topic."

One-bedroom suite at The Four Seasons Hotel Cairo at The First Residence

The last major change is that the digital revolution is underway as 3 percent of the total luxury market is now online. Some retailers are doing 20 percent of their business online.

Brands should incorporate digital channels in their business strategy to meet the demands of the new consumer, per BCG.

“I will be brave in saying so, but I think we are still at the beginning of the journey,” Mr. Bellaiche said.

“Ecommerce is going fast and it is relatively underpenetrated in luxury,” he said. “This will continue to grow as affluent people get more online and more connected.

"The boundaries are merging between online and offline because now people might check products online, but buy offline.”

Final Take
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