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BCG: Four trends driving the new age of luxury

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By TRICIA CARR

NEW YORK – The managing director at Boston Consulting Group said during the Luxury Roundtable: State of Luxury 2013 conference that specific trends are driving changes in the way that marketers do business.

During the “Lux Redux: Reshaping the Luxury Sector” session, the presenter discussed the new approaches that marketers should take for their business and when approaching consumers. The luxury market will likely continue to grow at 7 percent in line with the last three years and brands can drive sales among eager consumers by being experiential and not just product-driven.

"It's a new game and luxury players need to adapt to this new environment," said Jean-Marc Bellaiche, senior partner and managing director, Boston Consulting Group.

The Luxury Roundtable: State of Luxury 2013 conference was organized by Luxury Daily.

Beginning of change

There are many commonalities in the definition of luxury across global markets.

In Collins English Dictionary, luxury is "indulgence in rich and sumptuous living” whereas the American Heritage Dictionary defines it as “something inessential but conductive to pleasure and comfort. Expensive and hard to obtain.”

The translated definition from French dictionary Larousse is “what is costly, refined and sumptuous. Expensive pleasure one can buy without true necessity." And on Italy’s Wikipedia it is “habit to consume high-quality and expensive range. Rare, non-necessary products to ornate own body or home.”

In Japanese dictionary Daijisen, luxury is “to use money or things for a certain purpose above the necessary level. Not to spare money nor things.”

But on Russia’s Wiktionary, the definition is “external splendor, wealth, opulence. Extravagance in living comfort and pleasure, with a wasteful abundance," which could carry a negative connotation.

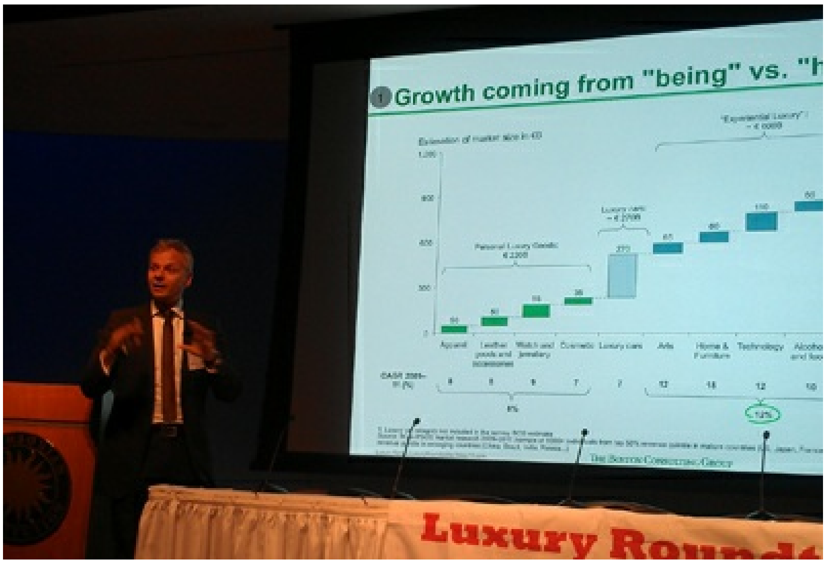
To help marketers target consumers of luxury from market to market, Boston Consulting Group identified two main drivers of growth: the emergence of a middle class and the growth in the of number of millionaires.

Among the emerging middle class, the “aspirational masses,” also called the "trendy metropolitan,” comprises 330 million consumers and 25-27 percent of the luxury market; and the “rising middle class,” made up of “the proud business woman," is 70 million consumers and 25-27 percent of the market.

There are also two types of millionaires: new money and old money.

New money, also called “the loan trader" or “the Russian climber,” is 7.5 million people and 30-35 percent of the luxury market.

The old money crowd can be generalized as the “noble Italian entrepreneur.” This group is 2.5 million consumers and 10-15 percent of the luxury market.



Mr. Bellaiche

No matter the segment, there are consumer attitudes and outside factors that are bringing about a new age of luxury and some key trends are changing the rules of the game.

1. New consumer values

The growth of certain categories of luxury such as alcohol and food, and travel, hotels and yachting signal that consumer values are transitioning from having to being, from extrinsic to intrinsic and from conspicuous to meaningful.

The market as defined by consumers is $1.4 trillion with travel accounting for $390 billion and automotive accounting for $352 billion.

Luxury spend represents 15-30 percent of gross domestic product accounting for spend structures that differ by country.

Spend on experiential luxury tops luxury cars and personal luxury goods in each market. China has the closest race among categories – 40 percent of total luxury spend per approximately $1,301 of GDP is experiential, 35 percent is cars and 25 percent is personal luxury goods.

This brings the "having to being" frame of mind among affluent consumers to reality.

There are fundamental differences between luxury goods and luxury experiences, but there are also items that fall into the hybrid category, or a mix of the two.

Personal goods fulfill consumers' need to have something for them and are usually visible to others and are purchased for mid- to long-term use. These include watches with diamonds, jewelry, bags and apparel.

In contrast, experiential luxury fulfills the need to be something. These experiences – such as those at luxury hotels and resorts, high-end restaurants and spas – often involve others, are not always visible and are an instant pleasure.

Between the two are hybrid products that offer a mix of goods and experiences. These are tablets such as the iPad, high-end kitchen appliances, high-end furniture and others.

Consistent with this renewed focus among the world's elite is their changes in values that matter to them.

In the U.S., luxury consumers said that money, saving, stability, family, wellness, their home, calmness, locally grown products and ethics are important, while the least important values are status and luxury. These responses are similar among consumers in the European Union and Japan.

However, consumers in the emerging BRIC markets – Brazil, Russia, India and China – value status about the same amount that they value money, stability, family, the environment and convenience.

Consumers in these regions also value luxury more than those in other areas of the world. Even the most sophisticated consumers enjoy showing their status.

These changes in values among luxury consumers are also a result of blurring the boundaries between luxury and mass-market items.

Mainstream brands are beginning to market their products in the same way as luxury brands. For instance, a campaign from clothing company Mango looks strikingly similar to a past Louis Vuitton campaign.

Presentation slide

In addition, luxury marketers are collaborating with mass retailers to offer mainstream collections. Examples include Missoni for Target, Jil Sander for Uniqlo, Stella McCartney for Adidas, Jimmy Choo for H&M and Lagerfeld for Macy's.

2. New epicenters of luxury

Another trend in the new age of luxury is new epicenters.

Chinese luxury consumption accounts for $156-169 billion and this market segment is heavily skewed toward “having."

Since China became a luxury hotspot, consumers from the country have been known to purchase luxury goods overseas. Forty-two percent of luxury goods bought by Chinese consumers are purchased on mainland China; 33 percent are purchased in Hong Kong, Macao and Taiwan; and 25 percent are purchased in other foreign countries.

Shopping is also the main spend for Chinese consumers outbound travel – 40 percent of their spend is on shopping, 21 percent is on accommodation, 19 percent is on meals and 19 percent is on entertainment and other expenses. Therefore, marketers must welcome these Chinese travelers who will buy.

There are three distinct segments of luxury consumers in China that are each very different.

The successful entrepreneur is most likely a man age 30-45 with high assets and high income from any Chinese city who spends and travels a lot.

This consumer’s attitude on luxury is ostentatious and status-oriented with a low knowledge of luxury brands. He likely purchases big-ticket items such as watches, cars and bags.

Second, the newcomers are men and women of medium-income level who live in tier three and four cities. This consumer also has a low knowledge of luxury brands and tends to go for big brands as well as cosmetics and accessories.

The last segment of Chinese luxury consumers is the "Sugar 2" generation – younger men and women and inherited high assets in tier-one and -two cities. This shopper is discernment, knows luxury brands and will go for niche brands, but is still status-oriented and a big-spender across all categories.

Aside from the Chinese market, there also seems to be room for growth in mature markets for traditional luxury brands.

When asked “When you hear the word luxury, what are the first three brands that come to your mind?” consumers in the top 50 percent of the revenue population in the U.S. said Mercedes-Benz, Lexus and Hilton.

Consumers in Germany said Rolex, Ferrari, Mercedes-Benz; consumers in Britain said Rolls-Royce, Harrods and Hilton; consumers in Italy said Ferrari, Cartier and Valentino; consumers in France said Christian Dior, Chanel and Louis Vuitton; and consumers in Japan said Chanel, Louis Vuitton and Hermès when asked the same question.

The U.S. personal luxury goods sector, for example, is underweighted.

The weight of U.S. personal luxury goods consumption is 19 percent of that globally. In comparison, 37 percent is luxury car consumption and 24 percent is experiential luxury consumption in the country.

3. New business models

Luxury brands and retailers are following new business models – licenses, co-branding, new retail formats and others.

Uncontrolled licenses can hurt a luxury brand if they do not follow its values. But there are ways that marketers can create value with new business models.

With licensed products, there must be very tight control of the licensees' activities. Long-term partnerships are beneficial so the licensee can get to know the brand.

Also, luxury marketers can explore new retail formats such as pop-up stores, co-branded stores and localized stores to find out which one works best to trigger sales.

Additionally, there are the digital-pure players, such as Net-A-Porter, that run their business with an online-only approach.

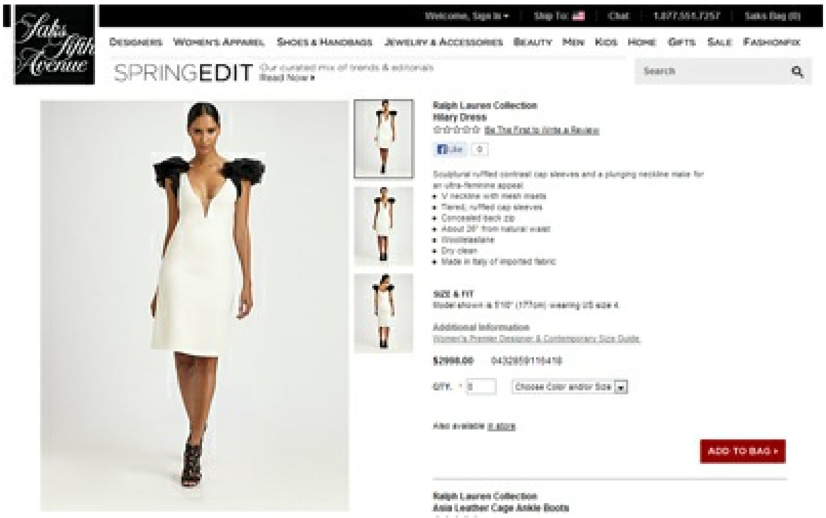
4. New platforms

Finally, the excess of new platforms is resulting in the multiplication of consumer touch points and the digitalization of luxury brands.

Luxury marketers are already integrating ecommerce, but the best Web sites address the 3C's: commerce, content and community.

Marketers are also facing new competition among likeminded brands and department stores.

For instance, though a brand such as Ralph Lauren presents its product line authentically on its own site, retailer Saks uses technology to engage the customer with the product such as additional items from the brand, product reviews, image zoom, video and a size guide, creating competition between the two.



Ralph Lauren on Saks.com

There is also new competition with Amazon due to its massive offering, countless reviews, partner retailers, discounts, free shipping and ease of purchase. But luxury retailers such as Nordstrom are present on Amazon to tap its draw among affluent consumers.

In the social realm, luxury marketers need to address their strategy beyond how many Facebook fans they have since many brands have substantial digital communities to engage – take Burberry that leads the pack with more than 15 million followers.

Pinterest is one of the most influential social channels since a recent study shows 33 percent of online shoppers made purchases after seeing products on Pinterest.

Again, Burberry displays a wide range of Pinterest content to its 41,000 followers.

Take Action

Mr. Bellaiche concluded by outlining 10 calls to action for luxury marketers:

1. Do not consider that the industry is "back to normal." Things have changed in depth.

2. Expand into new experiential categories versus traditional personal goods, and boost experiences as part of traditional offering.

3. Reinvent new codes versus mass players, and make sure you deliver a unique luxury value added and in product and experience.

4. Stretch your pricing accordingly.

5. Invest to understand the aspirations and frustrations of various consumer segments.

6. Attack specific segment – for example, women self-purchasers or senior segment.

7. Do not forget to farm in mature countries while hunting in emerging ones. Chase the globetrotters from China to Brazil Build fully international executive teams with senior talent from China as well.

8. Consider new business models, consider licenses and co-branding, while maintaining control and develop new distribution format and create surprises at point of sale.

9. Increase your bond with consumers by developing more intimacy and CRM.

10.Create a real Web presence for the brand with ecommerce, branding, blogs and social media to digitalize your brand. Up your ambition level online.

"The generations of consumers are so complex," Mr. Bellaiche said. "You need to understand your consumer much better and target them with appropriate messages."
