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Luxe Redux

Raising the Bar for Selling of Luxuries

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Raising the Bar for Selling of Luxuries

Jean-Marc Bellaiche, Michelle Eirinberg Kluz, Antonella Mei-Pochtler, and Elmar Wiederin

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AT A GLANCE

The worldwide market for luxury goods and services has proved to be very robust despite the travails experienced by much of the global economy. But luxury providers cannot assume that past is precedent, according to new research from BCG.

The Shift to Experiential Luxury Is Accelerating

Spending on experiential luxury makes up almost 55 percent of total luxury purchases worldwide and has grown 50 percent faster than gains in sales of luxury goods.

Fewer Consumers Value Luxury in the Old Ways

Considerations such as value, family, and wellness have become much more important to consumers than traditional notions of luxury, such as status and wealth.

The World's "Luxury Map" Is Shifting

The market for luxury goods in BRIC countries will grow over the next couple of years. Yet luxury players must not underestimate the opportunity in traditional locations.

The Digital Revolution Is Well Under Way

Many luxury players have not yet fully grasped the impact of digital media. They still need to define strategies that incorporate digital media.

The uncertainties and worries that characterize most of today's economic headlines are nowhere apparent in recent reports on the world's luxury players, many of which are recording double-digit year-on-year increases and profit gains that provoke the envy of business leaders in other sectors. The results are as eye opening in luxury experiences as they are in personal luxury goods.

Overall, the worldwide luxury market has shown itself to be robust. The Boston Consulting Group's latest study—on which we worked in 2011 with research specialist Ipsos and the International Luxury Business Association to poll roughly 1,000 affluent individuals in eight mature countries (France, Germany, Italy, Japan, South Korea, Spain, the U.K., and the U.S.) and the four emerging BRIC countries (Brazil, Russia, India, and China)—reveals that aggregate annual spending on what those consumers describe as luxuries now tops $1.4 trillion. That figure far outstrips the sums usually cited for sales of luxury goods such as apparel, cosmetics, watches, and jewelry. Sales of luxury cars account for close to $350 billion of that total worldwide, and the business of luxury experiences—from art auctions to one-of-a-kind travel adventures—is already worth well over $770 billion of the total.

However, BCG believes that many of the economic and behavioral trends highlighted in our December 2010 global-luxury-market report are accelerating. As a consequence, luxury providers will have to sharpen their adaptive-strategy skills if they are to succeed over the long term. They must prepare themselves in particular for four areas where change is most apparent: the definition of luxury markets continues to evolve, consumer values are changing, new and very different markets are materializing in rapidly developing economies, and social media (and the Internet in general) are rapidly reshaping long-held perceptions of luxury and value.

Luxury providers will have to sharpen their adaptive-strategy skills if they are to succeed over the long term.

The report elaborates on those four areas of change and reveals where luxury providers' leadership teams must put most of their effort in the future.

The Shift to Experiential Luxury Is Happening Fast

Perhaps the most significant area of change in the luxury market is consumers' shift in preference from *owning* a luxury to *experiencing* a luxury.

"I love experiences that make me feel pampered," one luxury shopper told us. Our research shows that experiential luxury now makes up almost 55 percent of total luxury spending worldwide and, year on year, has grown 50 percent faster than sales of luxury goods. Even in brand-obsessed China, where personal luxury goods serve as a strong badge of status and success, with sales surging 22 percent annually, experiential luxury dominates, growing at 28 percent each year. (See Exhibit 1.)

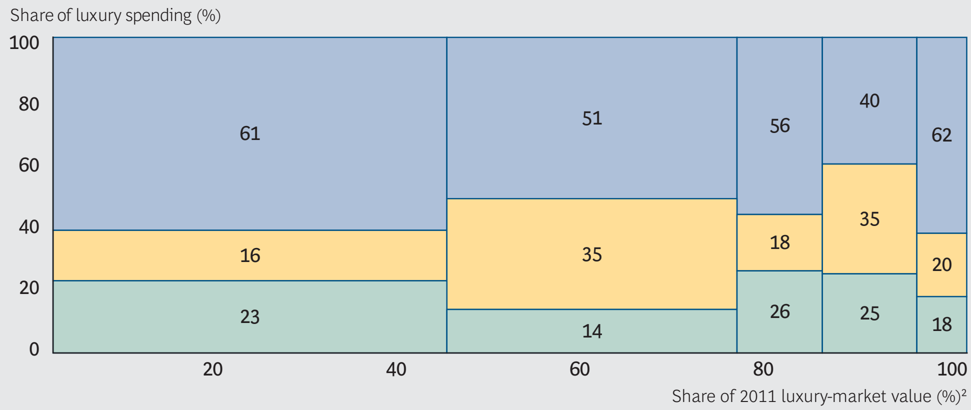
The business of luxury experiences is by no means limited to exclusive safaris and spas. More and more hospitals offer deluxe accommodations—with butlers, specialty chefs, and marble baths—while airlines offer private suites, and luxury high-rise apartment buildings feature movie-screening rooms and virtual-golf facilities.

Four forces are accelerating the move toward experiential luxury.

First and perhaps the most powerful of those forces is demographics. In developed economies such as Europe, the U.S., and Japan, consumers who drove the luxury boom in the 1990s are now beginning to retire. They are at a life stage in which they do not need or want to own new "things," so they are primary customers for experiential-luxury offerings.

Second, consumption patterns are changing as consumers' lifestyles mature. When middle-class consumers in rapidly developing markets become more affluent and first buy into luxury, they are drawn to long-lasting goods with reputable brands. But over time, they tend to move from accumulating material goods to buying new experiences—and this is reflected in recent growth rates for experiential-luxury spending. (See the sidebar "Meet Today's Luxury Shoppers.")

EXHIBIT 1 | Experiential Luxury Captures More Than Half of Luxury Spending in Most Countries and Is Growing 50 Percent Faster Than Personal Luxury Goods



CAGR 2009–2011 (%)	Average Europe	U.S.	Japan	China	BRI¹
Experiential luxury	6	9	6	28	27
Personal luxury goods	4	6	1	22	19

Experiential luxury Luxury cars Personal luxury goods

Source: BCG survey.
[1]Brazil, Russia, and India.
[2]The total 2011 market value for the countries and regions included here is $1.3 trillion.

MEET TODAY'S LUXURY SHOPPERS

The Experience Seekers

Barbara is a 34-year-old professional—an American living in Chicago on an income of more than $100,000 a year. When Barbara (not her real name) was in her twenties, she filled her days with shopping, stocking her closet with the latest lines from Yves Saint Laurent, Valentino, and Gucci. She adored buying from boutique brands such as Rick Owens and admits to "wasting hours" poring over sites such as Net-a-Porter.com.

Today, Barbara defines happiness not as acquiring more luxury goods but as career, family, friends, and relationships in general. Her main luxuries are now experiences with her friends—she kitesurfs, is involved with a local art institute, and volunteers in her spare time. While she still splurges on luxury goods—more than $5,000 worth in a recent month—the balance of her luxury spending has shifted to experiences.

Like Barbara, Jessie shopped obsessively in her twenties. As a young investment banker, she was quickly swept up in the competitive attitude toward luxury personal goods. "Everybody wore Cartier," she recalls. Today, at age 39, married with children and living in Westchester County, New York, Jessie (not her real name) no longer feels the need to "keep up with the Joneses." She says, "I'm less materialistic now. My family is the most important thing to me."

Jessie still shops for personal luxury goods once a week, but she spends more money on artwork and experiences such as spa days and Pilates classes. Vacations are now her biggest luxury. "We fly only business class now—even with the baby!" she says. Expensive hotels have displaced designers in her mind: "My luxury brands are the Mandarin Oriental, the Four Seasons, the Ritz. It's the decoration, the calmness, and cleanness of the experience," she told BCG.

The Collector

Julie grew up and lives in Shanghai. She is self-employed and married without children. She describes herself as obsessed with luxury goods and is slowly but steadily buying more and more premium luxury brands. Her early luxury repertoire was dominated by Burberry, a brand she sees as having "something in common" with her personality. Julie (not her real name) began buying Burberry's small handbags and

MEET TODAY'S LUXURY SHOPPERS
(CONTINUED)

shirts and soon moved on to its more expensive blouses and wind coats, most of which were bought through a friend in the U.K. and during travels to Hong Kong.

Julie's knowledge of luxury brands comes mainly from actual visits to stores—often outside China. She worked in Singapore for two and half years, where she started to expand into Mont Blanc, Fendi, Ferragamo, Cartier, Bulgari, Mulberry, and Tod's. She loves shopping while on vacation: recently, she bought a Loewe handbag and a Chopard ring while in Barcelona.

At the same time, members of Generation Y—today's late teens and twenty-somethings—tend to define themselves more by what they've done and experienced than by what they own. They are drawn to instant pleasure and lavish experiences—helicopter snowboarding in Alaska or a weekend shopping spree in Paris, for example.

The fourth point: consumers indicate that they are seeking a greater sense of purpose and satisfaction, and luxury experiences often fulfill those wishes more strongly than do purchases of luxury things. A recent study by Unity Marketing shows that U.S. consumers are more than three times as satisfied with their luxury experiences as they are with their purchases of personal luxury goods. That same study shows a steep drop-off in consumers' satisfaction with their purchases of personal luxury goods—declines of 5 percent and 16 percent, respectively, in a recent three-year period—whereas the same consumers showed a 3 percent rise in their contentment with their choices of luxury experiences. These findings corroborate BCG's recent consumer research: "I'd rather spend more on experiences than on clothes," one shopper told us. "Although experiences are more intangible than an item, they're more memorable to me."

Leading providers of luxury goods are starting to catch on—albeit cautiously. One example: LVMH is developing its Cheval Blanc hotel franchise; there's already one Cheval Blanc hotel in Courchevel, a French ski resort, and another in the Maldives, and LVMH plans to open locations in Oman and Egypt in 2012. LVMH is tiptoeing into the hospitality business: it will run the hotels under contract but will not own the real estate or finance its construction.

Other players are adding experience and services to current offerings. BMW was one of the first high-end carmakers to turn the experience of waiting for delivery of a new car from frustrating ordeal into fun-filled activity; buyers of BMW's Mini Cooper–brand vehicles receive new-owner updates about the assembly of their car and its journey from the factory. Similarly, Apple has turned shopping into entertainment in its stores: customers get to interact with "cool" technology in spacious, well-lit venues. In most Sephora stores, a "beauty studio" offers 90-minute personalized consultations as well as a wide range of core beauty services. And Swiss watchmaker IWC, which has a watch museum at its headquarters, promotes its Pilot's watches in its flagship store in Hong Kong by offering customers a "ride" in a flight simulator with an extra-large screen and surround sound.

Such initiatives are a good start. But if luxury-goods players are to capitalize on the "experience" trend, they have to move quickly and forcefully. To date, very few of them have been successful in adding experiential elements to their offerings, websites, or in-store execution. While the lack of such elements may not yet be hurting financial performance, it is a missed opportunity for enhanced financial performance.

Consumers' Values Are Not Standing Still

One of the most pervasive of the trends confronting luxury providers is the marked shift in what consumers truly value. Of course, there is no single universal product characteristic or service attribute around which global consumers rally. Tastes and preferences vary significantly on the basis of location, age of consumer, and many other factors. But traditional notions of luxury—related to factors such as status and wealth, for example—are in full retreat in the developed countries. In the rapidly developing BRIC countries, status is still important, but luxury, as a value in its own right, has declined in importance. In every country surveyed, factors such as value, family, and wellness have become much more important to consumers. We flagged the early stages of this shift in our December 2010 report. But now the changes have real and sustained momentum.

Of course, the shift raises the question of why consumers would place little value on luxury per se but still buy a lot of high-end goods and services. BCG believes, on the basis of our consumer research, that most luxury buyers, particularly in the mature markets, detest the old values conveyed by the word *luxury*—the idea of ostentation or the evidence of conspicuous consumption, for instance—yet they do want to treat themselves, to enjoy fine products and experiences for their own sake, and to share those products and experiences with family and good friends. Said one shopper with whom BCG spoke recently: "I used to come home with a purchase every day—expensive stuff from high-end boutiques. But although I have a strong personal style, I don't need to prove it or wear it anymore. I would love to bring all my friends together in a luxury beach house."

No doubt the financial crisis caused most consumers to question the importance of buying another handbag or pair of shoes versus saving money or spending quality time with people who matter to them—a shift from style to substance. But what else might be driving this shift in consumers' values? A crucial contributing factor is the fading boundary between luxury and mass markets; it's getting harder to convince people that spending more on luxury goods is worthwhile.

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That's painfully true when some luxury goods, or close cousins of those goods, sell for lesser amounts through different channels. One example: Costco, the bulk-sales chain, is the world's biggest retailer of many famous champagne brands. In a similar vein, the president of a major fashion brand recently told us that her company was facing a challenge because the quality of an accessory it was selling for $195 in its retail stores was not sufficiently greater than that of the related items the company was selling for $79 in its outlet channel.

This trend has been exacerbated in recent years as "name" designer houses have created capsule collections in collaboration with mass-market and fast-fashion retail brands, sparking a proliferation of products that look similar to luxury labels but can be purchased at more affordable prices.

Indeed, such capsule collections appear to be firmly embedded in the way that mass-market and fast-fashion retailers now do business. Jimmy Choo and Versace labels have been on the shelves at H&M, for instance, and Missoni was a sought-after label at Target for a while. A quick Google search for Karl Lagerfeld brings up photos of the designer himself at the Chanel runway show—and nearby photos of him promoting his capsule line for Macy's. Advertisements have further detracted from the appeal of some high-end brands, with the same celebrities modeling for both luxury and mass-market retailers.

Another challenge comes from some fashion magazines. For example, each month *Allure* pits the hottest runway pieces against their more affordable look-alikes in its "Lust vs. Must" section.

Also muddying the waters is the rise of new distribution channels for luxury goods at discount prices. One of the best known in the United States is the T.J.Maxx retail chain, which carries—and discounts—many premium labels found in full-price luxury department stores and boutiques. Others, such as Gilt Groupe and Vente-privee, create equally interesting "serendipity" shopping experiences, offering the thrill of the limited-time, limited-stock deal. The excitement engendered by this kind of shopping is hard to match in traditional retail settings or on a conventional retail website.

A change in marketing message is not sufficient to imbue luxury goods and services with a new sense of purpose.

Many luxury providers have started to adapt their marketing messages to restore clearer differentiation relative to the mass-market players and to play to the new consumer values. For example, we have observed over the last 18 months a shift of communication away from primal factors such as sex, status, and assertive, showy displays of wealth. Some luxury brands, like Patek Philippe, have published ads that appeal to heritage, using images of a father and son with ad copy that describes the father as the custodian of the watch for the next generation. Others have focused on their roots to bolster the value of the product; still others point to the fact that their products are hand crafted.

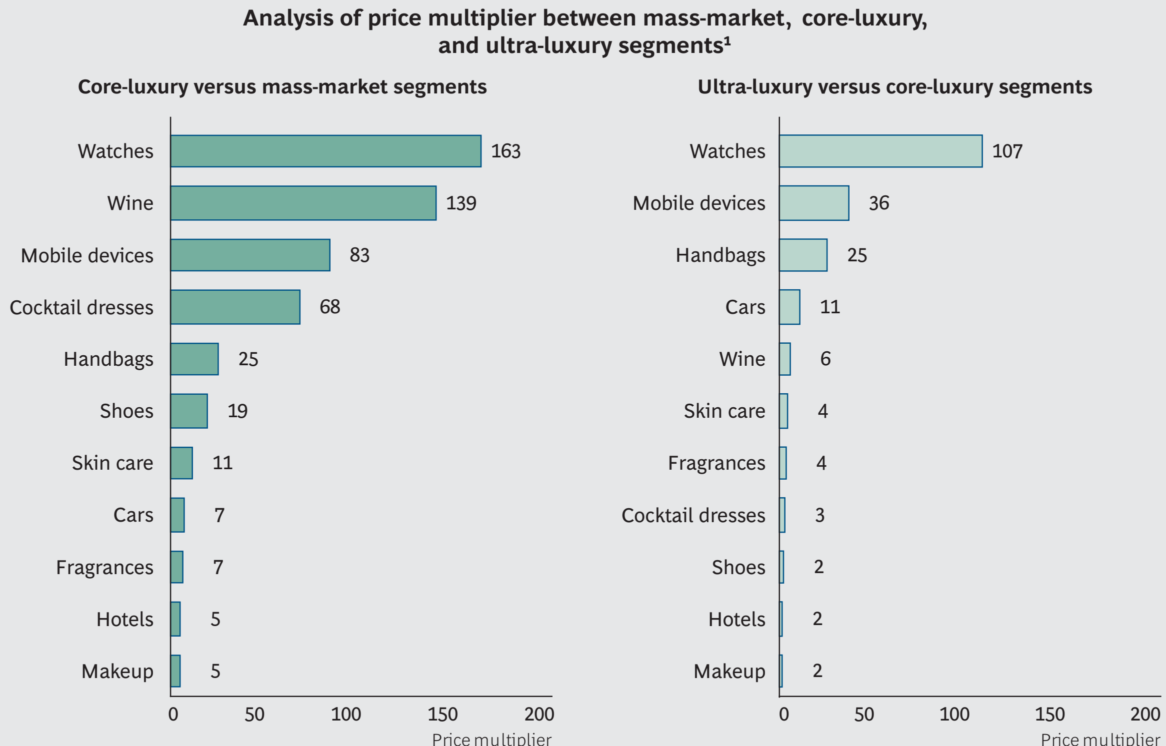
However, a change in marketing message, though important, is not sufficient by itself to imbue luxury products and services with a new sense of purpose. If the brand is to be believable, the message has to be authentic. Luxury brands must find innovative ways to add more value to their products.

Reinforcing the value of luxury products is certainly a defensive play to blunt the effect of many of the messages coming from mass-market players. But it will also provide major growth opportunities. Indeed, reinforcement of value may enable significantly higher prices.

A benchmarking of price gaps between mass-market, "masstige" (a term that means "prestige for the masses" and describes downward expansion of a high-end brand), core-luxury, and ultraluxury segments showed very different pricing levels across categories. In some categories, such as watches, providers have excelled at articulating a sense of value and have generated a significant luxury business, whose products are priced above $50,000, that coexists with a mass-market business selling $50 watches. But in other categories, such as cosmetics, the typical price difference between a luxury product and a mass-market product remains quite small. (See Exhibit 2.)

In such narrow spaces lies opportunity for differentiation and value creation to allow price stretching. For instance, designer Tom Ford, leveraging his experience from his turnaround of the Gucci brand to tap into the desires of affluent women who prize top quality and exclusivity, has teamed with Estée Lauder to make and sell products that are priced several times higher than other luxury cosmetic brands—never mind mass-market products. A Tom Ford–branded lipstick is priced at $48 (compared with $30 on average for core-luxury lipsticks), for example, and his Santal Blush fragrance, at $475, costs four times what typical core-luxury-equivalent products cost.

Exhibit 2 | There Is Room to Add Value and Stretch Prices, Especially in Cosmetics, Shoes, and Hotels



Source: BCG analysis.
[1]Based on analysis of average gross retail prices in the European markets for 20 illustrative products for each category . For example, in the fragrances segment, we looked at mass-market brands such as Adidas, Zara Basics, and Brut by Fabergé; core-luxury brands such as J'Adore by Christian Dior, Chanel No. 5, and Trésor by Lancôme; and ultraluxury brands such as Frederic Malle, L'Artisan Parfumeur, Serge Lutens, and Clive Christian No. 1.

The distinctions are crucial, as BCG's interviews with high-end shoppers confirmed. "I've always tried to get the best products; over-the-counter never appealed to me," said one woman. "The difference between shopping at luxury stores and mass brands is the feeling of exclusivity and importance."

By providing value-added products that change the lives of consumers, Apple has repeatedly demonstrated similar instincts about consumers' desires—enabling the company to achieve astonishing gross margins on products such as the iPad, iPhone, and iPod. The company's top managers spend extreme amounts of time and effort on the look and feel of the products and their buttons, on the user experience delivered, and even on the design of the packaging. The outcomes have been tangible in the midnight queues of consumers eagerly waiting for new Apple product launches—and in the profit margins that Apple has been able to sustain.

We strongly believe that there is more room for growth in the ultraluxury segment because consumers today are longing for something special in a world of mass production, and they place a greater premium on connoisseurship, quality, and authenticity than on status.

The World's "Luxury Map" Is Changing

New metropolitan areas are rapidly emerging as recognized centers of luxury consumption. Already, cities such as Shanghai and Dubai are known for their high-end shopping. (In our 2009 report *China's Luxury Market in a Post Land Rush Era,* we noted that Shanghai's market for luxury goods was as saturated as that in many other major international cities.) Most luxury players are expecting—indeed, planning for—strong growth in what today are called "emerging markets." A BCG evaluation of eight major luxury houses shows a 42 percent hike in the number of stores in Asia from 2008 through 2011, a 28 percent rise in Europe in that time, a 31 percent increase in the rest of the world in those years, but only a 5 percent rise in North America in the same period.

Consumers today place a greater premium on connoisseurship, quality, and authenticity than on status.

Of course, China's newly affluent consumers are making headlines for their avid consumption of luxury goods. In fact, the business leaders of some major luxury brands believe that as much as 40 percent of their global sales are already coming from Chinese consumers. Perhaps in response to China's increasing importance, Chanel has created a Paris–Shanghai collection in the past few years and has held special runway events in China. Some luxury purveyors have focused efforts in the big cities of Beijing, Shanghai, and Guangzhou, but some others, such as Dunhill and Burberry, have expanded into tier 2 and lower-tier cities. The fact that luxury-goods brands have presences outside the top cities is not surprising: we predict that by 2020, more than 330 cities in China will have the same level of disposable income that Shanghai had in 2010, and that by 2015, China will become the world's largest luxury market.

Big cities in the other BRIC nations are also becoming powerful luxury hubs. Brazil's affluent are making a big impact far beyond their own shores, bolstering real estate markets in Florida and buoying luxury retailers in Miami and New York.

BCG estimates that about half the total luxury spending by Brazilian and Chinese consumers comes from those traveling abroad.

Given the increase in outbound travel by citizens of emerging markets (26 percent more Chinese came to the U.S. in 2011 than just four years earlier, according to U.S. government statistics), global sales to customers from emerging markets will only increase. Leading providers are positioning accordingly. The pandemic of luxury-goods store openings has been well publicized; now some luxury companies are making bolder moves. Prada, for instance, has listed on the Hong Kong Stock Exchange.

Luxury companies should be prepared to face new local competition.

But succeeding in the new regional luxury hubs over the long term requires more. For instance, it is essential to consider how to tailor local in-store experiences and how to adapt customer-relationship-management (CRM) tools and processes to cater to local, as well as international, customers. Hiring staff with foreign-language capabilities is an obvious in-store move, but effective CRM and after-sales service are also critical factors. Can your CRM systems capture Mandarin characters, for instance, or identify and track people as they purchase across your global network? Can you track your customers across all potential touch points? Can your stores handle repairs, returns, or questions on purchases made in other countries?

Luxury companies should also be prepared to face new local competition. For instance, Chinese jewelry retailer Chow Tai Fook is already making headlines in Western media, drawing attention to its rapid growth and recent public offering. Serving fast-growing markets for luxury experience, the Jumeirah hospitality group, a Dubai company, has put its name on premium hotels and spas in the West in the last decade. And some high-end-services players are emerging in China: in the spa sector, premium chains include Herborist and Dragonfly, for example, and, in the hotel industry, Hong Kong–based Shangri-La is opening hotels all over the world.

Furthermore, there are questions about how best to organize and to get the right talent to serve emerging markets. Many global luxury companies have not yet adapted their management structure to suit the new markets; as part of our recent research, BCG surveyed 25 global luxury players and found that more than 82 percent of Westerners are working in their home countries. (See Exhibit 3.)

Putting it another way, managers from rapidly developing economies (and even Western managers who are based in emerging markets) are clearly underrepresented in the top management teams of the global luxury providers. Concomitantly, many luxury companies are overly centralized; their businesses are generally run from a headquarters office in Europe or the U.S. To bolster their future success, luxury companies must build and deploy truly international senior-management teams. They must also evaluate functions and responsibilities to determine which could be handed off to local teams in emerging markets or whether a centralized model would work better. If the latter, then they must make sure that the specific needs of emerging markets are well integrated into the operations of the center.

Luxury providers should certainly not develop and implement their emerging-market strategies in isolation. They have to address global markets in integrated ways, and they must continue to explore the untapped potential in established markets. That requires an understanding of definitions of luxury that differ greatly. For example, when consumers in the U.S. think “luxury,” they think “cars.” (See Exhibit 4.) A snapshot from BCG’s study: relative to other countries, the size of their

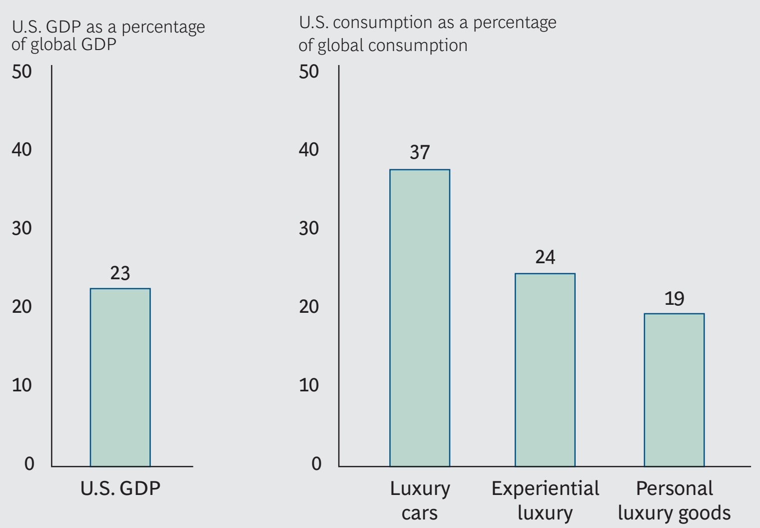
Exhibit 3 | Senior Executives of Luxury Providers Are Not Evenly Spread Worldwide—But Should Be

Review of 230 executive-committee members of 25 luxury companies

Current location of executive (%) \ Origin of executive (%)	Home country	Other Western country	Rapidly developing economy
Rapidly developing economy	0.5	2	0.5
Other Western country	0	5	0
Home country	82	9	0.5

Source: BCG analysis.

Exhibit 4 | In the U.S., Personal Luxury Goods Are Underweighted Relative to Global Patterns



Source: BCG analysis.

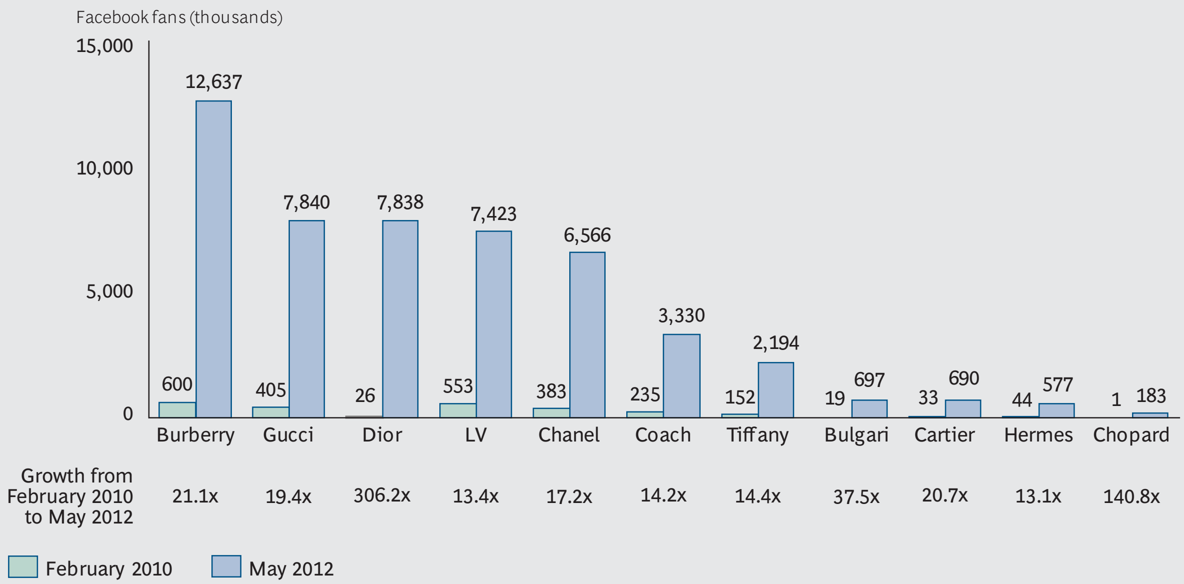
economies, and the presence of high-net-worth individuals, the U.S. and Germany spend far less on personal luxury goods, but both are home to committed luxury-car buyers. (See the sidebar "Rethinking U.S. Luxury Markets.")

The Digital Revolution Is Well Under Way

Many luxury brands have steadily built a digital presence over the past decade. And we've seen the emergence of digital pure plays—full-price, for example, Net-a-Porter.com, which offers editorial content alongside the latest luxury fashions, and off-price, for example, ruelala.com, which adds a sense of excitement with its limited-time, get-them-before-they're-gone offers. Overall, particularly in the past year, the focus on digital media has increased, with new integrated-media applications being launched. As a further example, the numbers of fans following luxury brands on Facebook has increased dramatically, as BCG has observed by tallying the Facebook fans of leading brands from February 2010 over more than two years. (See Exhibit 5.)

One of the leaders in the multimedia space is Burberry. Its Facebook following skyrocketed from 600,000 in February 2010 to more than 12 million more than two years later. Following its highly successful "Art of the Trench" campaign, in which users could upload their own photos, Burberry launched an iPad app that allowed customers to preorder select items during the retailer's spring-summer 2011 runway

Exhibit 5 | Growth in the Number of Luxury Brands' Facebook Fans Demonstrates the Increased Focus on a Digital Strategy



Sources: Facebook; BCG analysis.
Note: Numbers reflect fans of corporate pages; the May 2012 tally was as of May 1, 2012; numbers reflect rounding.

RETHINKING U.S. LUXURY MARKETS

The Sunday newspaper supplements regularly trumpet the newfound affluence of consumers in Shanghai, Rio, Moscow, and New Delhi. But they rarely shine the spotlight on one of the world's largest markets: the U.S.

The U.S. represents 23 percent of global GDP and is home to about 30 percent of the world's millionaires and roughly 40 percent of its billionaires. The nation's luxury market is driven more by the spending of millionaires than it is in any other country, and their wealth is focused along the coasts and in a handful of other metropolitan areas. The U.S. is also the world's biggest online-apparel-shopping market and has a higher penetration of social media than other countries. Yet department stores remain an incredibly important channel, despite their difficulties over the past decade.

A few other factors that distinguish the U.S.: the country's growing ethnic diversity must be taken into account, not only in terms of marketing but also with regard to product development in some categories. It is also a market in which consumers are more likely to be influenced by peers or opinion leaders, and, as a result, advocacy marketing is more powerful in the U.S. than anywhere else. And the size of the U.S. means that it comprises many regional markets; the merchandising and format strategies that work in New York City are unlikely to work in St. Louis or Austin.

At the same time, the U.S. is becoming a primary destination for more and more tourists—particularly from South America and Asia—who are starting to account for an increasing proportion of luxury spending.

Yet spending on luxury goods in the U.S. is distorted; asked to cite the top luxury brands, Americans name carmakers such as Lexus, BMW, and Cadillac. Not only is the U.S. mindset about luxury different from that in other regions (there is strong attention to price relative to other countries, for instance, so value must be clearly communicated) but actual spending follows a different pattern: the U.S. accounts for just 19 percent

show—responding to the way in which fast-fashion chains capture consumer spending on fashion trends that start before runway items hit the stores.

Nordstrom is another technology-savvy player. The retailer has not only created an iPad app for remote buying but also integrated iPad usage into the store, complete with Wi-Fi and charging stations to create a seamless multichannel experience.

In some cases, technology is enabling a new means of customer contact in the retail setting: cosmetic tips and tricks (such as those offered at Macy's) or a personalized fitting-room mood (offered by C. Wonder). Although some shoppers may be put off by the self-service nature of some of these technologies, the president of a major fashion label recently made a statement to the contrary: "The younger of the world's spending on personal luxury goods but 37 percent of global high-end-car buying.

When combined, these factors point to one realization: most global providers of luxury goods and services have a huge opportunity in North America. If U.S. consumers were purchasing the same volumes of personal goods as Italians do, the global market for luxury goods would be 40 percent larger than it is today.

So an immediate priority is to determine how best to re-educate U.S. consumers about luxury. BCG has found that success depends on the following:

- *Persistence.* There must be a commitment to success over the long term, with a willingness to fund and learn from multiple concurrent market experiments.
- *Appropriate Brand Presence.* Leaders will understand the appeal of their brands in tier 2 and lower cities and will adapt their assortments and retail formats accordingly.
- *Better Customer Relationship Management.* It will be necessary to augment CRM and micromarketing initiatives to better respond to demand from multiple locations.
- *Multichannel Integration.* Leaders will sharpen their focus on e-commerce and e-marketing, putting particular emphasis on advocacy marketing to steer consumers toward their brands.
- *Rethinking "American."* U.S. markets can now be segmented into groups that include high-net-worth women as well as Hispanic and Asian-American categories.
- *Understanding the Tourist Market.* U.S. luxury brands have strong appeal to growing numbers of tourists from South America and Asia (especially China), including in those visitors' home markets, which speaks to the value of establishing a global presence.

generation not only has a lower need for service, but they sometimes are repelled by it." The *New York Times* put it this way: "For a generation of shoppers raised on Google and e-commerce, the answer to 'Can I help you?' is increasingly a firm 'no,' even at retailers like Nordstrom that have built their reputations around customer service."

But while an integrated digital presence can help address offline issues as well as engage different customers, it can also raise tough questions for luxury brands. For example, how should they adapt to the democratization introduced by social media? How can a luxury brand be selective when it has more than 8 million fans on Facebook? Perhaps even more important, how can a luxury provider control its brand on the Web when context is so important to that brand? Imagine if a post for a luxury apparel brand appears next to a picture of a high school friend whose attire is more hobo than highbrow. Does that juxtaposition, however unintentional, dilute the essence of that brand?

Although some brands have tried a whole range of digital experiments, the efforts of most luxury companies still rely on a very bottom-up, test-what-works kind of approach rather than being driven by a vision implemented through a solid, well-prepared strategy. While the test-and-learn approach is still viable, providers of luxury goods and services should do more to tie their Web presence, digital-store concepts (such as blurring online and offline experiences for consumers), location-based services, and other digital initiatives into a single commercial platform.

The luxury sector will continue to grow as long as key players reinvent themselves in response to trends.

Also, spending on digital and social media must be bolstered by effective marketing techniques and measurement tools. And luxury providers should identify who will own "digital" in their organizations and then ensure that the digital operations, however nascent, are strongly supported with funding and executive sponsorship. Digital has to be seen not as a "sideline" function but as a central consideration around which in-store, merchandising, and other business decisions are made.

Looking Ahead

We remain confident that the luxury sector will continue to grow as long as key players reinvent themselves in response to the trends we have outlined.

We project that global sales of personal luxury goods will grow at about 7 percent annually from 2012 through 2014 (assuming no major new economic crises), with a worst-case scenario of 3 percent annually that could ensue from a 1.5 percent drop in GDP growth in Europe, the U.S., and Japan and a 3 percent GDP growth cutback in emerging markets. For luxury experiences, we anticipate growth of 12 percent per year over the next two years. Overall, the next few years will show slower growth for luxury goods and services than the 2010–2011 period, which saw a "catch-up" surge in sales following the 2008–2009 slump.

So what should be on the agenda at the next meeting of the senior-executive team? Providers of luxury goods and services must prioritize the following actions:

- Expand into the realm of experiential luxury—boost experiences as part of the overall offering, identify the emotional levers that matter, explore new experience segments, and develop and offer rich, exciting, and consistently satisfying experiences.

- Explore and develop new ways to add value to the brand, products, and services; communicate the brand's distinctiveness powerfully and authentically; and then set new price points that reflect the brand's higher value.

- Build truly global management teams—several layers deep—and give them spans of authority and responsibility that extend beyond their native countries and regions.

- Explore, evaluate, and develop new delivery models such as licensing, cobranding, and exclusive arrangements with select retailers, and be sure to adapt those models to different markets and nations. (See the sidebar "Seeking Value in Other Business Models.")

- Develop a new marketing platform centered on CRM and advocacy marketing. The platform should gauge all touch points with consumers, enabling the organization to gain a deep understanding of consumer desires and to create lasting intimacy with its customers. Properly planned and managed, "micro-CRM" platforms can help to do this, furthering opportunities for natural "brand apostles"—existing fans of a product or service—to spread the word to others in their social networks.

- Put digital at the heart of the company and rethink, in depth, the marketing and commercial approach accordingly.

SEEKING VALUE IN OTHER BUSINESS MODELS

In retail, makers of luxury brands have tended to control the brand experience through their own directly owned and operated stores, but we believe that alternative models can create significant value:

- *Licenses.* Some brands, such as Roberto Cavalli, have had great success with licenses because they maintain tight control of their operations. For example, research and development, design, marketing and communications, and store-design functions are all kept in-house.

- *New Concepts.* Concept stores, such as Collette in Paris, offer luxury lifestyle goods and services, replete with many exclusive designer collaborations, and philanthropic stores, such as Merci, offer consumers a sense of purpose through spending that benefits the less advantaged.

- *New Retail Formats.* Pop-up stores, cobranded stores, and "localized" stores take advantage of both local architecture and local tastes when creating merchandising plans. Louis Vuitton at Comme des Garçons is a good example of a cobranded store.

PURVEYORS OF LUXURY goods and services might be tempted to breathe a sigh of relief every time there is an uptick in the global economy. But they cannot—must not—assume that improvements in the economic vigor of the developed world and surging growth in many rapidly developing economies will relieve them of the need to do anything different.

Regardless of how successful they may be today, many players will have to sharpen their adaptive-strategy skills if they are to succeed over the long term as consumer values shift, as the nature of luxury buying changes, as new and very different markets materialize in rapidly developing economies, and as social media and digital in general reshape long-held perceptions of luxury and value.

These four trends are reshaping the business of luxury everywhere. They require that luxury providers take a dispassionate look at their strengths and weaknesses vis-à-vis the new markets they want to reach, the new demographics they now face, and the new channels and platforms through which they can attract and retain customers. They have to be able to determine, with certainty, the gaps between their current practices and industry best practices.

They must act now. After all, time is a luxury they can no longer afford.

About the Authors

Jean-Marc Bellaiche is a senior partner and managing director in the New York office of The Boston Consulting Group and the global leader of the luxury, fashion, and beauty topic area. You may contact him by e-mail at bellaiche.jean-marc@bcg.com.

Michelle Eirinberg Kluz is a principal in the firm's New York office and a core member of the luxury, fashion, and beauty topic area. You may contact her by e-mail at kluz.michelle@bcg.com.

Antonella Mei-Pochtler is a senior partner and managing director in BCG's Vienna office. You may contact her by e-mail at mei-pochtler.antonella@bcg.com.

Elmar Wiederin is a senior partner and managing director in the firm's Geneva office. You may contact him by e-mail at wiederin.elmar@bcg.com.

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For Further Contact

If you would like to discuss this report, please contact one of the authors.

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