

1. Luxury consumption today

Despite the more recent shift into harder economic times, the last decade has seen a wealth boom and a subsequent growth in luxury consumption

The luxury goods market has undergone a period of rapid growth over the past decade, having trebled in size to become a \$200-billion industry in 2007.¹ Much of this growth has stemmed from previously rising global stock markets and increasing levels of personal wealth.

While the effects of the economic slowdown on the whole luxury goods sector remain to be seen, today more than 10.1 million people globally can now be classified as millionaires.² The majority live in developed economies, with over three-quarters residing in the US, Europe and Japan. These countries have traditionally driven luxury consumption and combined account for 69% of the world's demand for luxury goods.³

However, this paradigm is swiftly changing. The number of millionaires in emerging markets such as Brazil, China and India has increased rapidly – at a rate of 19% in Brazil, 20% in China and 23% in India in 2007, far outpacing more developed economies.⁴ In India and China alone, luxury goods consumption grew by 18% in 2007 and is now worth \$21.4 billion.⁵ India and China are particularly interesting as they each have a huge population and an increasingly affluent middle-class, providing businesses with one of the most important growth opportunities over the next two decades.⁶

Such is the scale of this growth that Goldman Sachs predicts China will become the world's largest market for luxury goods by as early as 2015.⁷ Peter Frankental, Economic Relations Programme Director of Amnesty International confirms, "I think in terms of the very size of the market, clearly the luxury goods sector will be dominated by North America and Europe for the moment but, more and more, the sector will be influenced by consumer habits from the Far East and India."

1 Bain & Co., Luxury Monitor 2007 where luxury goods are defined as Jewellery, Watches, Apparel, Cosmetics, Drinks

2 Merrill Lynch CapGemini World Wealth Report 2007

3 Ledbury Research, World Bank, company accounts, Merrill Lynch, Economist, CIA, Knight Frank, MDRC, IMF and others

4 Merrill Lynch, World Wealth Report 2008. The global average growth for numbers of HNWIs in 2006-2007 was 6%

5 Bain & Co., Luxury Monitor 2007, figures are for Asia-Pacific excluding Japan. Exchange rates are 365 day average to \$ for 2006

6 Business Week, May 2007

7 Goldman Sachs Global Investment research, Analysis of Chinese Demand Potential 2004



As wealth and luxury consumption have increased, consumers have become more discerning

According to Mohan Murjani, India-based Chairman of the eponymous global brand retail group, "Luxury consumers have always been discerning, but the concept of luxury is changing in their minds." As their numbers and fortunes have grown, the wealthy have become more and more accustomed to buying luxury goods, and more sophisticated and discerning in their buying behaviour.

A few years ago, luxury was purchased in developed markets to primarily signify status and prestige. Now, more considered reasons are re-emerging as motivators: the discovery of something new, the rarity of the object, the promise of high quality and the pleasure of the purchase. The pace of this change is also accelerating as luxury spend comes under increased pressure with the global economic slowdown.

Indeed, our panel of experts believes these changes are taking place as part of a wider shift to deeper consumer concerns in developed markets. As François Curiel, the European Chairman of Christie's, highlights, "The world is moving towards more knowledge, understanding and transparency." Gaetano Cavaliere, the President of the World Jewellery Confederation (CIBJO), underlines this, saying, "The luxury market today is increasingly driven by trust, balance and legitimacy, integrity and honesty."

This trend is also emerging in developing economies

The rise of a more discerning and demanding luxury consumer is not exclusive to developed economies. Emerging markets, traditionally thought to be comprised of inexperienced consumers who principally buy luxury to communicate status, are also evolving. There is evidence to suggest that these wealthy consumers are also becoming more considered in their purchasing decisions.

Futurist Tamar Kasriel argues that this is because, “[consumers] are not existing in a hermetically sealed bubble of development, unaffected by what’s going on outside. They are increasingly becoming a key part of global trends that are shaping the luxury industry.” Trends in developed markets are inevitably going to have an impact on less mature luxury markets such as the Gulf States, Russia, India and China. As Divia Harilela, Fashion Editor of South China Morning Post, comments, “It all depends on education. If consumers are reading about movements happening overseas in the media, it’s going to trickle down [to Asia].”

There is a belief that this transformation is taking place more rapidly than many previously thought in emerging markets. As Radha Chadha, Hong Kong-based brand strategist, explains, “We used to say that it takes several generations before new money becomes old money, but this is changing quickly. You see the same person graduating very rapidly from covering herself up with logos to becoming a very sophisticated lady five years later.”

In times of economic slowdown, discerning consumption is even more in evidence

Although the panel has noticed continued resilience in the purchasing power of high-end luxury customers, economic pressures are likely to have an impact. With the global economic climate worsening, panellists predict that luxury consumers will demand even more from the brands they buy, purchasing those that deliver against a number of considerations rather than simply status or prestige. Vanessa Friedman, Fashion Editor of the Financial Times, notes “In more difficult economic times, customers make more informed and thought out decisions.” The products likely to do well, in Friedman’s view, are the ones that are special and truly justify their high price point.

“ We are seeing a move away from immediate gratification, and in tough times luxury consumers return to basics – to investment pieces that represent genuine value because they deliver on a promise and last. For us, this is a positive shift as diamonds have this inherent value – they are crafted with skills acquired over generations, are savoured over a lifetime and can be worn in multiple ways for multiple seasons.”

STEPHEN LUSSIER, EXECUTIVE DIRECTOR, DE BEERS GROUP



2. Consumer trends in the luxury market

The consumer trends evident among the wealthy top-tier of the luxury market often act as a barometer of the way the entire sector evolves over time. The jet-set pioneered the way for a major surge in international travel. Similarly, luxury spas that were once the preserve of a privileged few are now a more mainstream pleasure. This is due to the tendency of high-end customers to possess the means, education and knowledge to buy the best, and subsequently influence other groups.

Our panel of industry experts explored critical elements of the attitudes and behaviour of the wealthy top-tier of consumers towards luxury in such respects as: how are consumers’ demands and requirements of luxury evolving? What impact are these demands having on buying patterns?

The primacy of quality and value for money

Quality was seen by our panel as the most significant factor behind the selection of a luxury item. This was also evidenced in a recent report by Barclays Wealth, in which 60% of the wealthiest group of respondents cited quality as the primary motivation for buying luxury,⁸ making it a prerequisite for all luxury brands. In Curiel’s words, “Quality is not negotiable.” This extends not just to the product itself, but right through the supply chain – how raw materials are sourced, manufactured and finally sold to the consumer. Indeed, quality is something that should pervade every aspect of a luxury brand. Our panel highlighted that this is also the case for emerging markets such as India. Murjani says, “Consumers will demand first and foremost authenticity, which encompasses quality and design.”

⁸ Ledbury Research, Barclays Wealth, Insights, Volume 4: The True Value of Wealth, 2007



Tom Ford: the appreciation of quality

When Tom Ford and Domenico De Sole set up their own label in 2006, they were targeting a different consumer, in Ford's words, "A customer who is aware; men who are very appreciative of details and quality and style and cut." The entire ready-to-wear collection is based around the concepts of "quality and making the man's body look good". The move at the time was seen as risky due to its high price point, but has since been justified by rising sales, with 16 further stores scheduled to open in the coming year.

Source: Ledbury Research

The primacy of quality and value for money is, in part, a reflection of the make up of the luxury consumer. An increasing proportion of the world's wealthy are self-made business owners, who are very aware of the value of money, and the true worth of the things they buy. They expect high-end brands to go to greater lengths to justify their price points. Simonetta Morrison at Ferragamo Women's Leather Goods explains that, "Consumers are looking for better quality at a better price. It's all part of the quality/price/value/longevity equation which is becoming more heavily scrutinised."

Our panel predicts that even in a downturn, the wealthy will continue to spend on luxury goods that they feel are 'worth it' and long lasting, but will become far more selective in their choices. As Catherine MacDonald-Keir, the Editor of Luxury Briefing, notes, "A lot of people are choosing to buy one very expensive good quality piece, rather than lots and lots of more seasonal fashionable pieces."

A call for exclusivity

Deluxe author and fashion writer, Dana Thomas, points out that many luxury brands have diluted their exclusivity by bringing out new and more accessible lines to drive profits. The wealthy have responded to this trend by demanding ever-increasing levels of exclusivity from the brands they buy. This desire for exclusivity is especially important for very wealthy consumers, with 35% demanding it from their luxury purchases compared to just 18% for mass affluent consumers.⁹

Frank Rejwan, COO of concierge service Quintessentially, explains that, "Luxury has become a bit corporatised, and people want something different in order to stand out." Thomas sees this as a "backlash to the massification of luxury over the past decade," giving rise to a consumer desire for "true luxury" or a return to the historic definition of the word as signifying something handmade, with a personalised level of detail and genuinely exclusive. This is, in part, being driven by globalisation, according to Editor of Luxury Briefing, Catherine MacDonald-Keir, "The whole thing of being able to get the same things in every city all over the world now means people want something distinctive and unique."

“ People are very sophisticated these days. We see customers come into our store and scrutinise the labels.”

DOMENICO DE SOLE,
CHAIRMAN, TOM FORD

⁹ Ledbury Research, Barclays Wealth, Insights, Volume 4: The True Value of Wealth, 2007. Mass affluent consumers defined as individuals with greater than \$100,000 but less than \$1m in investable assets

Perhaps the most exclusive category of all is ultra or über luxury, which several expert members of our panel comment on. It has given rise at the high-end of the market to what Mark Henderson, Chairman of Savile Row Bespoke Association, calls the "one-by-one concept," where people have a growing interest in things that are "unique, made for them and a bit of an investment."

This call for exclusivity is also noticeable in India and China. Both are major markets for Savile Row Bespoke suits, according to Henderson. Harilela says, "We've got stores like *Comme des Garçons* and *Martin Margiela* opening up, which we wouldn't have thought possible five or six years ago. And because of that, brands are now starting to introduce a higher level of luxury like bespoke services or a tailored experience."

Engagement and experience across all touch-points

According to our panel, consumers are demanding greater engagement and a deeper experience of luxury at every touch point with a brand. It is no longer simply a question of what they purchase, but also how they purchase luxury items.

George Morgan-Grenville, Group Chief Marketing Officer at Abercrombie & Kent, notes a desire of consumers is to engage more deeply with the products that they buy. He says, "In terms of the physical experience, consumers now desire to immerse themselves culturally, socially and philanthropically – whereas ten years ago they were content to limit their involvement to a more general and less insightful encounter." The company now offers more authentic local experiences with the opportunity to give something back. Rejwan concurs that luxury is "not about having something that's nice and expensive, but about having an amazingly memorable experience."

“ We are shifting from an interest in just brand to an object or a product that is a bit more individual. This is driven by the need for exclusiveness and individualism, 'I am special, no one else has this piece, so I am different and I stand out.'”

FRANÇOIS CURIEL, CHAIRMAN,
CHRISTIE'S EUROPE



Luxury consumers are also beginning to place more value on acquired knowledge, skill and experience. Many panel members have noticed that the wealthy are increasingly interested in buying goods and services that bring them status through being better at something, and the story telling that stems from that experience.¹⁰ While US luxury consumers cut their budget for personal luxuries by 12% in 2007, they increased their spending on experiences by 5.2%.¹¹ In the Far East, over 42% of wealthy Chinese consumers want to develop personal hobbies such as photography, calligraphy and music.¹²

As one of the most tangible touch points with a brand, service has a vital role to play in enhancing the customer's luxury experience. Excellent customer service can help save people time, something that Kasriel describes as *"the ultimate luxury"* due to its increasing scarcity. Indeed, the British luxury trade group Walpole observed that service was one of the key differentiators between luxury brands in 2007.

This has continued into 2008 with many of our commentators citing the level and quality of service afforded to a luxury customer as a critical differentiator between luxury brands today. Despite this, and clear evidence that service can help to make a shopping experience pleasurable, research shows that 53% of luxury consumers are dissatisfied with the service they receive, often citing rude staff and poor resolution of issues as key concerns.¹³

10 www.trendwatching.com

11 Unity Marketing, 2008

12 HSBC and MasterCard, Insights: Understanding the Affluent Consumers of China, 2007

13 Luxury Institute, MarketWire, November, 2007



Focus on provenance and the importance of 'made how'

Luxury consumers have a growing interest in the details of the story behind their purchase – where the product was sourced, how it was made and what materials were used in its construction. Commentators such as Michael Rae, CEO of the Council for Responsible Jewellery Practices (CRJP), note that this concern is especially prevalent amongst younger consumers who *"are becoming more and more concerned with the provenance of the goods and services they buy."*

As more luxury goods companies move production overseas, consumers are beginning to pay more attention to the country in which the product was made. Studies in the US have found that over two-thirds of luxury consumers take the country of manufacture into account when purchasing luxury items, and these same findings show that China was perceived to be of lower quality than the traditional centres of luxury such as Italy or France.¹⁴ Asian consumers are also aware of the differences between foreign and domestic brands, with 56% of wealthy Chinese consumers preferring to buy world famous or foreign brands, compared to the 31% who choose domestic and local upscale brands.¹⁵

However, many of our panel maintain that it is not the country of origin that specifically matters, but the way in which the product was made. As Thomas argues, *"It is less about 'made in' for a luxury product and more about 'made how'."* She maintains that consumers are more focused on issues such as the quality of production materials and the integrity of the manufacturing processes. Luxury consumers will continue to be comfortable with their luxury purchases so long as the high standards continue to be maintained.

It is predicted that 60% of all luxury goods would be made in mainland China by 2009 as companies shift production to take advantage of the lower costs of production.¹⁶ The issue of 'made how' is likely to grow in importance alongside this, as consumers demand reassurances that the goods made continue to be of the highest quality.

“Asian consumers prefer their luxury brands to be made in Europe, because this has higher prestige associations. But going forward, 'made in China' will become acceptable in some areas if people are assured of the quality. In five to ten years there should be a significant change in perceptions.”

RADHA CHADHA, AUTHOR, THE CULT OF THE LUXURY BRAND

14 Luxury Institute, quoted in High Net Worth, March 2008

15 MasterCard, Brand Preference of China's Affluent, 2008

16 World Luxury Council, 2007



Interest in environment, ethics and social responsibility

In the past three years our panel has seen the responsible business agenda, i.e. concerns about environmental, ethical and social responsibility issues, begin to resonate more strongly with luxury consumers. This is being driven by NGO activism, media coverage and what Rae refers to as *“marked societal change in the business world”*. Our panel believes that while this is a global movement, the luxury industry is likely to feel these increasing concerns more than almost any other sector. Frankental explains this is because luxury today is typically high-profile and celebrity-driven and so under far greater public scrutiny.

Frankie Ng, Executive Vice President for Consumer Services, SGS, the world’s leading inspection, verification, testing and certification company, defines responsible practice as *“operating in a sustainable way that safeguards the long term future of your business and that of your partners”*. Our panel agrees that there is a strong business imperative at the heart of responsible practice. In the words of Thomas, *“Businesses generally don’t do things because it’s the right thing to do, they do it because it’s economically a good idea.”*

The consensus among our panel is that high-end consumers in developed economies take these issues equally seriously. In Europe, Japan and the US, *“about 30-40% of luxury consumers claim to be concerned with purchasing responsibly,”* according to Sylvie Benard, Environment Director, LVMH.

Consumer interest in these issues remains limited in Asia, but this is changing. Murjani maintains that environmental and ethical concerns are still relatively in their infancy in India. In China, says Harilela, *“things like carbon footprint and ethical work practices are not really on their mind. Right now it’s very much about buying a status symbol.”* Ng agrees that there is a *“perceived lack of concern in these countries [about responsible issues],”* but also believes that there will be *“a faster adoption of social responsibility at a local level with local civil societies in the future.”*

“ A few people always cared about the environmental and sustainable impacts of their purchases. But something happened one and a half to two years ago to make consumers more interested in these issues.”

**SYLVIE BENARD,
ENVIRONMENT DIRECTOR, LVMH**

“ When we conduct our own focus groups, consumers certainly express enthusiasm, confidence and willingness to reward us and others for their good work. Are we encountering it on the shop floor? There has been a small increase in the instances of people enquiring about this.”

**MICHAEL KOWALSKI,
CEO, TIFFANY & CO.**

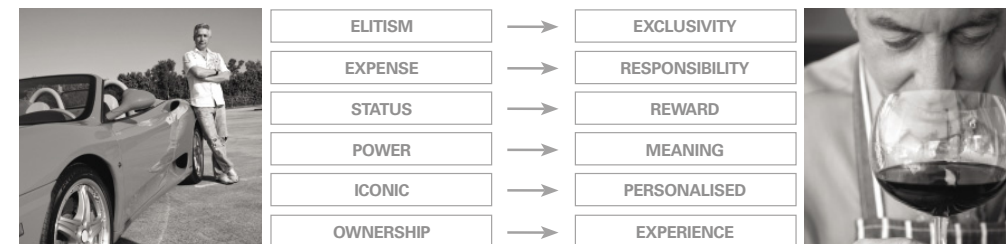
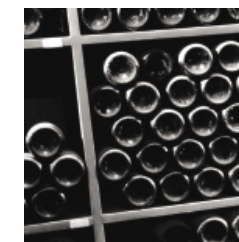
Our panel feels that changing attitudes in both India and China are being driven largely by younger consumers. Assheton Carter, Vice President, Corporate Community Engagement, Pact (an international NGO working on the supply chain of luxury goods), highlights that younger consumers in emerging markets *“are playing massive catch-up...though there’s not much interest amongst the older generation. What we are beginning to see in China is the younger generation in their 20s and 30s, who are not so attached to state programmes, who could bring about some real change.”* Indeed, data from research consultancy Globescan reveals that the ‘Mainstream Activist’ segment in China (i.e. those who are likely to respond to CSR issues) has now reached 18% of the population where, for example, 33% of UK consumers and 45% of US consumers can now be classed in this segment.

Globescan data also reveals subtle nuances in the issues close to the hearts of consumers in the different markets. Affluent consumers in the US are primarily concerned about companies treating employees fairly and the environmental impact of corporations. In China, by contrast, consumers care mainly about whether companies have a responsible supply chain and are generally trustworthy. Furthermore, many affluent Chinese consumers, like their US counterparts, say that they have actively “punished” a brand for poor social responsibility in the past year, and some claim to have “rewarded” a brand for positive behaviour. In India, there is currently far less evidence of consumers punishing brands. However, affluent Indian consumers are certainly actively rewarding brands that they view as having solid responsible practices.¹⁷

It would be wrong, however, to suggest that consumption of ‘responsible’ products is always because of a genuine concern for the issues. For some consumers, part of the motivation for purchasing ethical or environmentally friendly products is still one of status and being fashionable. That is, being seen to be buying the right thing, which remains a fundamental driver of luxury consumption generally. A well-known illustration of this is the case of Toyota Prius. Recent research¹⁸ has found that the top reason for purchasing a Toyota Prius is the fact ‘that it makes a statement about me’. The Prius has therefore become an iconic and visible symbol of this new, more discerning consumption with the result that its sales have soared.

The move to more ‘considered’ luxury consumption

All of the trends discussed in this first section can be described as being part of a shift towards a more discerning appreciation of luxury, where quality, authenticity and experience are increasingly important rather than extrovert factors such as displays of status and power. Rejwan summarises this as the shift from *“indulgent to considered luxury,”* away from a model of *“what you wear”* to *“what you do”* or even *“who you are.”*



The illustration above shows some of these changes and indicates where this more considered approach to luxury may be heading.

17 Globescan, Navigating Demands for Responsibility and Building brand Equity Through Integrity, 2008

18 CNW Marketing Research, 2007