

Luxury: Considered

Exploring the shift from conspicuous to discerning consumption and what it means for the luxury industry.

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Considered**

Acknowledgements

We are extremely grateful to our panel of senior executives from major global luxury brands, consumer trend commentators, non-governmental organisations (NGOs), fashion journalists and trade associations for sharing their insights and opinions with us.

Research Methodology

In-depth interviews were conducted with the panellists by telephone. The interviewees were chosen by Ledbury Research for their expertise and know-how, and spread across a number of areas and geographies to provide a more holistic understanding of the impact of current consumer trends.

Interviewees included senior executives from major global luxury brands, consumer trend commentators and authors, NGOs, industry-body representatives and fashion journalists. The majority of our expert panel has a deep knowledge of the luxury consumer and the luxury industry in the US and globally, and some have specific expertise in the emerging and dynamic markets of India and China.

In total 21 interviews were conducted during Q3 2008, with conversations lasting up to one hour. During the course of researching this report we also spoke to Peter Frankental, Economic Relations Programme Director, Amnesty International UK and Liza Lort-Phillips, Associate Director, Corporate Citizenship. The findings from all the interviews have been supplemented by secondary research on the luxury sector from a range of respected third-party sources such as Barclays Bank, Merrill Lynch and Globescan, the public opinion and stakeholder research consultancy.



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About De Beers Group

De Beers, established in 1888, is the world's leading diamond company with unrivalled expertise in the exploration, mining and marketing of diamonds. The De Beers Group, and its joint venture partners, operate in 25 countries across five continents employing around 20,000 people. From its mining operations across Botswana, Namibia, South Africa, Tanzania and Canada, the De Beers Group produces and markets approximately 40% by value of the world's supply of rough diamonds.

As part of the company's operating philosophy, the people of De Beers Group are committed to *living up to diamonds* by making a lasting contribution to the communities in which they live and work. The De Beers Group encourages sustainable working to ensure long-term positive development for Africa, and returns approximately US\$4.7 billion to the continent every year. For further information about the De Beers Group visit www.debeersgroup.com.

About Ledbury Research

Ledbury Research is the leading research agency that specialises in helping brands who market and sell to affluent consumers around the world. Ledbury has developed a unique expertise in connecting with these hard-to-reach, yet crucially important and influential individuals, and counts among its clients many of the world's top luxury goods brands and wealth management firms.

Aside from consumer research assignments, Ledbury's Industry Research team conducts extensive secondary and industry research projects, and produces *High Net Worth* – a unique monthly publication that provides a digest of data, trends, insights and opinions about the wealthy and the industries that serve them.

Ledbury has an unrivalled reputation within the luxury goods sector, where it is seen as a leading authority and 'go-to' firm for facts, figures and analysis of trends. It works closely with Corporate Citizenship, a research consultancy that provides the creative strategy, management consulting and two-way communications to enable companies to be a social, economic and environmental force for good.

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Foreword

The luxury industry has prospered in the last decade, fuelled by a wealth boom across the developed economies of the US, Europe and Japan and the burgeoning wealthy elite in China, India, Russia, Brazil and the Middle East. As the luxury industry prepares itself for harder economic times, it has never been more important to understand evolving consumer needs.

Luxury consumers are increasingly feeling the pressure and, in turn, becoming more discerning in their consumption. The age-old desires for the highest standards of quality and authenticity continue, but newer, more sophisticated demands for enhanced experiences and responsible business behaviour are emerging. Consumers are looking for the return they will get from the experience of owning, wearing or giving fewer, better things. 'Brand value' has never been under so much scrutiny.

This will have a profound and lasting impact on the way luxury companies do business - from the very large, global players to smaller niche brands and retailers. At De Beers Group we believe success will come to those who live up to the inherent luxury value of excellence through the way they do business and the products they sell.

We call this, simply, *living up to diamonds*.

Diamonds, for instance, have endured the test of time. They are symbols of permanence and indestructibility in times of uncertainty, and are revered for their physical and emotional qualities. Yet we cannot afford to be complacent. We continually strive to meet consumer needs and uphold the integrity of the diamond promise through initiatives such as the De Beers 'Best Practice Principles'.

This report was commissioned with Ledbury Research to provide an insight into the evolving demands of influential, top-tier luxury consumers in developed and emerging markets, especially within the context of the economic slowdown. While we acknowledge the importance of growth markets such as Russia, Brazil and the Middle East to the luxury industry, India and China are a key focus of this report. These countries have been identified as having significant potential for luxury in terms of growth and volume in the future.

The report brings together the views of a bespoke independent panel of leading commentators on luxury, responsible practice and consumer behaviour from across the US, Europe, China and India. It focuses on the transition from conspicuous to considered consumption ('what you wear' to 'who you are') and the growing consumer call for product traceability, supply chain standards, product authenticity and quality.

We hope the findings provide food for thought and insight into the evolving motivations of the luxury consumer of tomorrow.

Gareth Penny

GARETH PENNY
GROUP MANAGING DIRECTOR, DE BEERS

Executive Summary

1.

Despite the more recent shift into harder economic times, the last decade has seen the luxury industry treble in size. The number of wealthy individuals in emerging markets has been growing and these luxury buyers will have an increasing influence on the sector.
2.

As their numbers and fortunes have grown, the wealthy have become more sophisticated in their buying motivations, beyond the traditional conspicuous drivers of status and prestige to more discerning and considered factors. In emerging markets, consumers are increasingly being influenced by Western trends and their purchasing patterns are transforming rapidly.
3.

A growing fatigue with ‘fast’ luxury products means consumers are looking for products that provide them with ‘lasting value’ – the return they will get from the experience of owning, wearing or giving fewer, better things. This shift from conspicuous to more discerning consumption will be even more in evidence as economic conditions worsen and ‘brand value’ comes under greater scrutiny.
4.

The move to more discerning consumption by top-end luxury consumers is characterised by: increased scrutiny of product quality and value for money; renewed desire for ‘true luxury’; call for deeper brand experiences; a greater understanding of artisanship and fine craftsmanship and a heightened awareness of business, social and environmental responsibility.
5.

These trends are generally motivated by more introvert drivers such as peace of mind and experience, rather than extrovert drivers such as displays of status and power. This is a broad shift away from a model of ‘what you wear,’ to a more personality-defining ‘what you do’ or even ‘who you are’.



6.

This means luxury consumers are not only interested in the products themselves, but also whether the brand is upholding the luxury philosophy of excellence throughout the whole of its operations. This has implications for the way luxury players do business in the future – from large global players to smaller retailers.
7.

The return to exclusivity offers a business opportunity by creating a high-end market for more expensive and unique products. This presents a particular selling point for niche labels that are less accessible and can afford personalised levels of attention to detail.
8.

Luxury consumers have a growing interest in the details of the story behind their purchase – where the product was sourced, how it was made, etc. A deeper experience of the product can enhance the brand story and build customer loyalty through greater engagement. Service is a critical part of this experience and creates an ongoing dialogue with consumers, helping them to save time (the ‘ultimate luxury’ due to its increasing scarcity).
9.

Committing to exemplary sourcing and supply chain standards is viewed more and more as smart business practice and is an integral part of the luxury promise, helping to build brand value. Today, reputation is increasingly built through the way a brand operates and the quality of the products it sells rather than just what it says through marketing and PR activity.
10.

In the future, new industry standards are likely to emerge that will raise the bar on business, social and environmental responsibility, ultimately leading to a level playing field among competitors.

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



3. Implications for luxury brands and retailers

All the trends observed by our panel point to a more complex and discerning luxury consumer. No longer is it simply about the products at point of purchase: today, the entire brand promise is under scrutiny. This includes the guarantee of excellent quality, highest standards of materials, expert craftsmanship, exclusivity, responsibility and the impact of the purchase on wider society.

We live in an age of prolific and readily available information, where consumers need more reassurances about the things they buy. Building trust with consumers will be an important cornerstone of the future of luxury business. According to Michael Kowalski, CEO of Tiffany & Co, consumers “don’t spontaneously or easily articulate” when their trust has been broken, which means that often it is too late for brands to take redressive action. Maintaining consumer trust is an extension of the philosophy of excellence that is intrinsic to the luxury industry. As Pamela Caillens, Corporate Responsibility Director at Cartier, concludes, “Trust is quality, plus service, plus responsibility. Selling luxury is a dream, there should be no nightmare issues lurking behind that dream.”

While our panel agreed that this new discerning luxury consumer is more evident in developed economies, businesses need to be aware that emerging markets are not far behind. Conventional wisdom says that deeper consumer concerns emerge as the market matures. Indeed, Friedman agrees that, “In emerging markets, the first wave of luxury consumers tend to be interested in aspirational products that are more about status and advertisement of social achievement. Once they’re secure in that they move to the next level which is all about connoisseurship, value and integrity.”

This has implications for the way luxury players do business in the future – from the large global players to smaller brands and retailers in developed and emerging markets.

“As consumers demand product authenticity, they want credible substantiation of a brand’s promise. How does it do business? How are issues about the product’s production addressed?”

STEPHEN LUSSIER, EXECUTIVE DIRECTOR, DE BEERS GROUP





The return to exclusivity offers a business opportunity

As luxury has become more accessible, or “democratised” as Thomas puts it, the divide between the ‘top-end’ and the aspirational luxury consumer is growing. PPR Chairman and CEO, François-Henri Pinault, estimates that, by 2012, the very top-end of the luxury goods market could be worth around \$6.6 billion.¹⁹ Our panel believes this presents a real business opportunity for luxury businesses at the top-tier of the spectrum. As Murjani comments, “Brands, having reached multi billion dollar profit levels through higher sales volumes, will now have to work harder to attract the top-end, discerning customers and strengthen their positions.” According to Kasriel, “Some brands are saying we’re going to keep ourselves exclusive; we’re going to limit distribution and limit production.”

The wealthy are clearly willing to pay for the best and most exclusive items to set them apart and new products are being launched to satisfy their desires. The luxury industry has responded to the call for exclusivity by ‘premiumising’ its products, buying back control of its diffusion lines and carefully limiting its offerings. When Burberry’s exclusivity was threatened as a result of over-extending the brand into lower-ticket items such as baseball caps and scarves, it responded by launching Burberry Prorsum to reclaim its cachet as a luxury brand. Luxury phone manufacturer Vertu also launched only seven \$300,000 phones to celebrate Boucheron’s 150th anniversary.

“There’s going to be a big divide between the luxury customer and the aspirational customer and it’s growing. My sense is that there’ll be even greater demand at the luxury end for even better, more expensive and refined products.”

SIMONETTA MORRISON,
WORLDWIDE MERCHANDISING
AND MARKETING, WOMEN’S
LEATHER, SALVATORE
FERRAGAMO

¹⁹ François-Henri Pinault: quoted in IHT, December 7, 2006



However, Morrison’s ‘quality/price/value/longevity equation’ means brands need to strike the fine profit balance between, “the development costs of producing a high-end product and pricing it at a level that the consumer feels is justified.”

Interestingly, our panel felt that the trends of personalisation, quality control and exclusivity can create a particular point of difference for smaller players. Niche players, as Thomas points out, “can enjoy the attention to detail that bigger players simply can’t afford.” For example, niche producer of luxury sound systems, Steinway Lyngdorf, limits production to only 100 units, each of which is installed and ‘tuned’ to suit the room it is in. In the jewellery industry, Curiel notes, “There is a shift to more private and exclusive designers that bring chicness and desire from collectors.”

These opportunities are also in evidence in emerging markets. As more and more people become “moneyed” in Asia, Chadha believes the more sophisticated end of the market, or the “modern day maharajas”, will evolve and grow. She predicts a comeback of “haute couture” for the super-wealthy of Asia as well customised cars, yachts and planes.

In China, the trend is moving towards the avant-garde and different. Harilela thinks that despite the evident Chinese regard for logos, niche labels will emerge there that are, “more interesting and less accessible than the Pradas, the Chaneles.”

A deeper consumer experience enhances the brand story

The consumer demand for exclusivity is increasingly being extended to the whole brand experience. Morgan-Grenville confirms, “Brands need to give consumers the opportunity to engage with them at a more profound level.” This engagement needs to occur at every touch point with the brand, from product development to point of sale and aftercare.

For instance, panellists have observed increasing consumer interest in what Henderson terms, “construction factors” or the way a product is made. For example, Bentley allows its customers to visit the factory to watch their car being constructed. While the brand name is incredibly influential, Simonetta Morrison points out that alone it is not enough, “You actually have to show product attributes that make you better than your competition.”



“An emphasis on artisanship and craftsmanship can bring to life a sense of the person that made that object.”

TAMAR KASRIEL,
FOUNDER, FUTUREAL

Another fundamental part of a luxury product’s value is the skill and craftsmanship that goes into making it. While there has always been recognition of this among luxury brand marketers, businesses can now derive greater brand benefits by communicating the story behind a product’s creation. As Kasriel points out, *“An emphasis on artisanship and craftsmanship can bring to life a sense of the person that made that object,”* thereby making the product feel more exclusive to the luxury consumer. It can also, says MacDonald-Keir, *“communicate brand values to a consumer, without the need to shout too much.”* Vertu, for instance, highlights, *“It takes up to three years to master assembling a Vertu handset. Today there are only a handful of craftsman in the world who have passed this extraordinarily detailed apprenticeship.”*²⁰

This desire to have a greater understanding of how the product is made, extends to the consumer’s own desire for personal development. This means that brands have the opportunity to market skills or knowledge associated with the product to individuals. For instance, BMW, Ferrari and Porsche all provide performance driving schools, and high-end kitchen designer Viking runs a range of cookery courses for its customers. These add a further element to a brand’s positioning, enriching its story and increasing the consumer’s sense of belonging as a result.

20 www.vertu.com



For discerning consumers, the service offering surrounding the luxury item is as much a part of the brand experience as the product itself. This provides luxury businesses with an opportunity to improve and develop new service offerings as part of their brand promise. Friedman refers to these as, “the trimmings,” saying, *“[Luxury brands] are all working so much harder to attract their customers from creating clubs or putting on special events, or creating concierge services.”* Dunhill has responded to this trend by opening Alfred’s, a members’ club in the former home of the Duke of Westminster, where patrons can browse, shop, have supper in a private dining room, sample the wine cellars and even stay overnight.

The luxury store environment is also an arena where these changes are being played out. In the words of designer Tom Ford, the luxury retail store was once about ostentation: *“You walked in, everyone saw you, you saw them... it was a scene.”*²¹ Now the luxury environment has changed to become more individualised, intimate and private. This new concept aims to make the consumer more comfortable. In Ford’s case, stores are often furnished with items from his own home, providing another dimension to the brand experience.

Service at point of sale continues to be an absolutely critical part of the luxury experience, particularly for the Chinese market, says Harilela. Here, sales associates are increasingly required to be as much brand connoisseurs as product specialists. This presents a challenge for international brands. As Morrison notes, *“The question is, how can you reach the person who is in direct contact with the customers?”* Ferragamo, for example, writes a training manual for every collection, which covers everything from the origin of the leather, to why one leather is used for a particular product over another.

In difficult economic times, our panel believes it will become more important for businesses to create deeper brand experiences for customers. This is likely to create and maintain loyalty by, as MacDonald-Keir says, *“building up a reputation of trust with the consumer, having a dialogue with them and reminding them about the brand values.”*



21 Tom Ford: quoted in Time Magazine, October 6, 2008



Adopting responsible behaviour increases brand value

Our panel highlights that because luxury products and services are discretionary purchases symbolic of deep emotions, consumers require them to be exceptional in every sense of the word. Stephen Lussier, Executive Director, De Beers Group, believes, *“This is not so much about building reputation as it is about making sure your brands deliver what they stand for, be it expertise, design or creativity. It’s just good business sense to ensure your operations live up to the promises your brand makes.”*

Today, brand reputation is not only built through PR and marketing, but is also dependent on the quality of the product and the company behind it. A brand is the sum of all the perceptions held by a particular audience about a firm’s products or services.²² As Rae emphasises, *“Something that is beautifully made, finely crafted, made out of rare materials and well designed, will account for nothing if it is also equated in the public mind with human rights and environmental destruction.”*

Adopting responsible ways of working is viewed more and more as smart business practice. *“While you can’t prove the positive effects, you can certainly prove the negative impacts to business [of not acting responsibly],”* asserts Friedman. The reputational effect of being exposed as a company with a ‘bad record’ is clear.

There is also a wider business imperative at play. Friedman argues, *“Treating workers properly makes better [quality] shoes.”* It can also help attract a high calibre of people to the industry. As Rae puts it, *“People, particularly ‘Generation X and Y’, are becoming increasingly discerning about the companies for which they work. A company that has an appalling reputation finds it much harder to attract the best and brightest talent.”*

“ I think there is a temptation to say that if you are trading in developing countries you should meet the expectations of the consumer in those countries and if they don’t share the same values for social and environmental standards as we do in the US or in Europe, then you don’t have to meet such high standards. But this is a feeble excuse for poor environmental and social performance, and operationally it doesn’t work like that; for international companies it’s much easier to have the same standards all round the world – so you might as well work to the highest”

ASSHETON CARTER,
VICE PRESIDENT, CORPORATE
COMMUNITY ENGAGEMENT, PACT

Stella McCartney: the business of responsibility

When Stella McCartney launched her Care range of organic beauty products in 2007, she said, “I don’t see why the luxury element in a skincare line needs to be compromised in order for the organic element to be fully present.” At the time, there were several other organic skincare products on the market, however not all adhered to the same stringent principles governing what went into the product. Care is produced following strict guidelines and all sourcing, labelling, packaging, and manufacturing is checked. In McCartney’s words, “I expect to be able to trust it. I expect to know what’s in it and what it’s doing to my skin.”

Source: Ledbury Research

Panellists believe that luxury businesses need to take a leadership position in responding to these issues, and not rely solely on consumers and NGOs as driving forces. While there is little evidence to suggest that a significant number of consumers are entering stores and asking pointed questions about a brand’s social, ethical and environmental policy, Rae points out, *“It’s the number of people who never cross the threshold of your store because they anticipate that you don’t care about these issues at all who present the real challenge to luxury businesses.”* Certainly our panel agrees that consumers are, in the words of Morgan-Grenville, *“increasingly prepared to ask those difficult questions.”*

Being proactive is also vital. This is why, Chadha emphasises, *“it is about pre-emptively and pro-actively being careful about all these things [the way your business operates] so that nothing is left open to chance.”*

The need to be proactive also applies to smaller luxury brands and retailers. According to Kowalski, *“The battle is that the smaller players need to recognise how important these issues are and not presume that they should be left to the ‘big guys’ to resolve.”* Our panel agrees that, because independents and smaller retailers often trade on their reputation, upholding high standards is crucial to maintaining close customer relationships and positive word-of-mouth about their business. Curiel also makes the point that smaller players particularly need to make sustained efforts to maintain trust because *“younger generations will not have the same loyalty to them as their parents.”*

What needs to be done, according to our panel, is for luxury players to be responsible through effective management of the environmental, social and ethical aspects of the supply chain. According to Kowalski, this is a particular challenge for global companies with “fragmented supply chains.” Carter echoes this view, *“When you have global, complex supply chains it is difficult to always know what is going on in all the factories around the world; where your products or parts of your products are produced.”* The onus will be on the larger players to consolidate and manage their supply chains. Smaller businesses will need to ask their manufacturers and wholesalers tougher questions.

“ We want to be playing in a level market, where everybody is doing business decently. Then we want people to buy our creations because they like them better.”

PAMELA CAILLENS,
CORPORATE RESPONSIBILITY
DIRECTOR, CARTIER

“ Transparency is vital. Brands have a fundamental responsibility to provide accurate information so they can be comfortable with their purchases.”

STEPHEN LUSSIER, EXECUTIVE
DIRECTOR, DE BEERS GROUP

De Beers Group: upholding supply chain standards

De Beers Group introduced its Best Practice Principles (BPPs) in 2000 to underline how, in Group Managing Director Gareth Penny's words, "Corporate responsibility for business, social and environmental matters is part of day-to-day business in De Beers Group." The Best Practice Principles are the highest business, social and environmental standards in the diamond industry, designed to ensure that De Beers Group and everyone in the diamond supply chain working with the Group upholds industry best practice.

Source: De Beers Group



Our panel agrees that luxury businesses, large and small, need to adhere to the highest standards of responsible behaviour. According to Ng, "While it is not possible to cite a single standard that any company can follow, core principles exist in initiatives such as the UN Global Compact and ILO Conventions. Although these are not certifiable standards they provide a framework to build a company's programme." For a programme to be successful, Ng argues, "Processes must be embedded in the way a company behaves at all levels rather than a project that simply sits along the side."

To implement these high standards, it is critical for luxury companies to take a long-term approach and work closely with all stakeholders from employees and suppliers to consumers, shareholders and local communities, says our panel. This can be most effectively achieved through a consultation process during which all stakeholders can agree standards for what is a 'credible and honest' attempt at implementing responsible business practice. Inherently, working with NGOs and industry bodies provides reassurances for consumers that, in Kasriel's words, "everything is as it should be." Says Ng, "Successful partnerships with NGOs can be forged where mutual objectives can be agreed and a formal long-term working relationship can be established. Trade associations and industry-wide working groups can be useful too for engaging with NGOs where companies have concerns about the level of commitment required."

“ Processes must be embedded in the way a company behaves at all levels rather than a project that simply sits along the side.”

FRANKIE NG,
EXECUTIVE VICE PRESIDENT
CONSUMER SERVICES, SGS



Communicating responsible business practices effectively

1. Consumers are increasingly sceptical of 'green wash'. Don't over-claim. Substantiate any claims you do have with evidence.
2. Make sure you have your house in order before making any ethical claims about your product/service/brand.
3. Engage with stakeholders that will support or strengthen your credibility. Don't be afraid of constructive criticism from them. It will probably help you in the long run.
4. Encourage the principle of longevity so that consumers choose products that last rather than those that feed the need for 'fast fashion'.
5. Stay informed and ahead of issues that could impact your business, so you can address and communicate confidently on them. Take a lead and work to establish standards (if they do not already exist) with your peers and competitors to promote yourself as a thought leader.
6. Those who want to make responsibility a central brand proposition will need to establish and communicate the 'whole lifecycle' impacts of their products – from design through to disposal. Work to reduce the negative ones and enhance the positive.

Source: Corporate Citizenship

Going forward, our panel believes that the future will inevitably see the development of initiatives similar to the Forest Stewardship Council and Council for Responsible Jewellery Practices around different product categories. These developments will have "a snowball effect in cleaning up the whole [luxury] industry," says Macdonald-Keir. Ultimately, the panel hopes this will lead to a level playing field across the luxury industry. Ng emphasises, "Social responsibility can and should be taken out of the competitive arena."

But how should brands communicate their responsible credentials? Our panellists are divided on the best way to do this, whether it is about being vocal and proactively telling the story or subtly implementing the changes. They did, however, agree on the importance of transparency in communicating accountability and traceability in the supply chain. The standards of transparency are only going to step up a notch in the future, believes Carter: "We've had certification and labelling. The next wave will be the use of technology and the internet for the consumer to track and trace the products." In Asia, for example, "certification and guarantees need to be provided by a neutral, respectable third party that comes with impeccable credentials," says Chadha.

From a broader marketing perspective, humility is key. Communicating in a transparent and honest way can help to build consumer trust and safeguard the authenticity of the brand promise. In addition, research and consultancy group, Corporate Citizenship, stresses that to achieve this, any marketing claims must be fully substantiated, address consumer concerns at the heart of the brand or product and reflect a committed, ongoing approach to sustainable practice (for further information see adjacent panel).

As we have seen, the rise of a more discerning consumer has many implications for luxury players, from new opportunities to enhance the brand story to embedding standards which uphold the promise of excellence. This is changing the face of luxury and the way players will operate in the future.

4. Conclusion

There is a marked shift in the buying patterns of luxury consumers

The dramatic rise in the numbers and fortunes of the wealthy in the past decade has led them to become more acclimatised to luxury and increasingly sophisticated in their buying behaviour. From the days when luxury was purchased only to display status and prestige, our panel has seen the emergence of new, more complex and sophisticated motivations. This will intensify as the global economy falters. As luxury consumers put brand promises under greater scrutiny, they will spend on those that represent genuine value and are truly special and worthy of their high price point.

Luxury consumers are becoming more discerning in their purchases

According to our panel, the growing shift from conspicuous to discerning consumption encompasses elements such as; the promise of high quality, the rarity and exclusivity of the object, the discovery of something new and exciting, the understanding of the story behind the product and heightened awareness of the impact the product has on society and the environment. Buying luxury has evolved from being simply about indulgence and 'what you wear' to a more innate, value-driven expression of the individual.

This is also relevant in emerging markets, like India and China

Luxury buyers in developing markets are increasingly influenced by the consumer habits of the Western world, in that they too are becoming far more complex in their purchasing decisions. According to evidence from our panel, this transformation is taking place more rapidly than previously believed and is being driven by younger consumers in their 20s and 30s in emerging markets who are playing catch-up with the attitudes of their Western counterparts.

Brand value comes under closer scrutiny as luxury moves into harder economic times

As consumers move to fewer, better things and demand more from luxury, 'brand value' will come under greater scrutiny. For discerning consumers, this value perception will be increasingly affected by factors beyond the traditional aspects of the product such as retailing and branding to include assurances of authenticity and product traceability. The luxury promise of excellence will be expected to include exemplary sourcing and supply chain practices and these elements will become as central to brand strategy as exciting in-store environments, service, luxury personalisation and transparent and impactful communications.



Extending the philosophy of excellence to sourcing and supply chain

The panel highlights that luxury businesses need to take a leadership position in addressing sourcing and supply chain issues and not rely solely on NGOs and consumers as driving forces. A long-term approach to sustainability needs to be taken. While no single standard exists to govern the sourcing of raw materials and supply chain practices, adopting globally-recognised initiatives and involving stakeholders can help to build a framework for operations. Over time, new industry standards will emerge, taking social and environmental responsibility out of the competitive arena.

Communicating responsible credentials in a transparent and honest way can help build consumer trust and safeguard the authenticity of a brand or product's promise. However, this must be underpinned by ongoing efforts to drive accountability and traceability across the supply chain.

Changes point to a tougher competitive landscape for luxury players

Brands have already started responding to calls for exclusivity and deeper experiences in varying degrees, with product innovation, creativity and higher levels of personalisation. Over time, it is likely that more global brands will follow suit. Niche players will also emerge that have the ability and flexibility to capitalise on the evolving demands of more discerning consumers. The competitive landscape will intensify and success will lie with the brands that can drive customer loyalty by responding to the more complex demands of the new, discerning consumer.

“Luxury has long been associated with superior quality, design and craftsmanship. But the tide is turning with a new breed of consumers who are seeking style with substance. These new consumers desire something more meaningful than just an expensive piece; they want brands to live and breathe their values through the way they do business. Our future success is entwined with our ability to ride these new waves of change.”

STEPHEN LUSSIER, EXECUTIVE DIRECTOR, DE BEERS GROUP

