



# LUXURY IS IN THE EYE OF THE CONSUMER

Shoppers are redefining what a luxury brand looks like

by FIONA SOLTES

**T**he most luxurious experience in Vandana Radhakrishnan's recent memory had nothing at all to do with price.

The partner at Bain & Company had ordered glasses from Warby Parker online — after trying a handful of pairs in her own home — and brought the ones purchased into one of the retailer's bricks-and-mortar stores for adjustment. The sales rep had an iPad, easily found her order, said the adjustment would take about five minutes and suggested Radhakrishnan visit the coffee shop next door during her wait.

"It was exactly as billed, and it was a lovely, personalized experience," says Radhakrishnan, an expert in Bain's private equity and retail practices. "That, to me, was luxury. It was an intimate experience. She knew who I was and what I needed, and got me in and out of there in a way that was exactly what I wanted."

And to be honest, she adds, she wouldn't expect an experience "even close to that" in a traditional high-end brand store.

These days, "luxury" is a loaded word, carrying a great variety of connotations. What once was accessible only to the privileged few is now more readily available to the masses — even if just on a rental or second-hand basis. Brands once able to define and deliver a clear core message are challenged by consumers wanting to share in telling those brands' stories.

And lines that once clearly defined luxury categories of affordable, aspirational and absolute are muddier than ever — particularly as distinctions between "authentic" and simply "expensive" arise.



“In our experience, it is becoming less and less relevant to talk about the overall sector of the industry,” says Antonio Achille, global head of luxury with McKinsey & Company. “Increasingly, it’s becoming the story of the individual company.”

The difference between industry leaders and industry laggards? Greater understanding of several things, the experts say: the digitally influenced shopping journey; the rise of the consumer-to-consumer economy and the ability to turn those consumers into brand ambassadors; the importance of providing an experience; the influence of multi-brand marketplaces; the effective use of technology from manufacturing through merchandising; the cruciality of personalization, intimacy and service; and, perhaps, a dose of humility.

“When I look at the luxury market and talk to people in the luxury industry, I find that they view themselves and their brands as leaders, that consumers will follow them wherever they go,” says researcher and consultant Pam Danziger, founder of Unity Marketing.

“They have this sense of, I don’t think it’s really entitlement, but more control. They’ve really ignored the fact that consumers in this age of Amazon have taken the reins, and are controlling the future for all of these brands.”

“The fact is,” Danziger says, “luxury isn’t some objective, predetermined category that’s out there that the luxury brands get to decide. Luxury is defined by the consumer.”

## EXPERIENCE MATTERS MOST

In recent months, a slew of reports have provided perspective on the state of the luxury industry. The good news is that no one is sounding a death knell in the manner of, say, a decade ago. In fact, with the economy going strong, industry analysts are downright optimistic about luxury’s future — with the caveat, of course, that the definition of luxury is an evolving one.

McKinsey, in its February report “The Age of Digital Darwinism,” said it expected online luxury sales — currently about 8 percent of the global luxury market — to triple by 2025. Bain & Company’s 16th annual global luxury study, released in late 2017, anticipates an estimated 4 to 5 percent annual growth rate over the next few years, with the market for personal luxury goods reaching \$370 billion by 2020.

Unity Marketing’s “State of Luxury 2018” found that 58 percent of luxury goods and services companies will invest more in advertising and marketing in 2018, a marked improvement over the

previous year — and, says Danziger, “an indicator of strength.”

But then there’s the Luxury Institute’s 2018 “State of the Luxury Industry,” which gives a hint of what affluent consumers in a variety of nations expect in return for all this growth. More than half (53 percent) say superior customer service is an “essential characteristic” of a luxury brand, second in popularity only to superior quality (67 percent). And that’s not just a Millennial thing.

“It’s important to note that, across all generations, experience matters most,” says Milton Pedraza, Luxury Institute CEO. “The product needs to be good, but the experience has to be great.”

Luxury today “has to provide an emotional connection, and really make people feel special,” Pedraza says. “And not just celebrities.”

About those Millennials: Much has been made of their impact in terms of attitude and expectation; marketers for years have pointed out how differently they do, see and buy.

“As they age, Millennials do things that look like older generations,” Radhakrishnan says. “There was a time we said they wouldn’t ever live in suburbs or buy cars, but all of that has proven to be wrong. They do own cars. They just bought them a little later.”

Millennials also have been most associated with digital behaviors, but that’s not the whole truth, either: Baby Boomers used an average of 3.5 mobile devices compared with four for Millennials, according to McKinsey they also spend 16.4 hours a week on the internet, compared with 17.5 for Millennials.

## AUTHENTICITY AND TRANSPARENCY

In the early 2000s — an era Achille terms “digital skepticism” — luxury considered itself immune to ecommerce. “The luxury industry was in denial, considering ecommerce as a tool for selling books or consumer electronics, but not luxury goods — a channel in which a luxury brand’s storytelling could never express its hypnotic power in full,” he says.

Brands eventually began to grasp the importance of digital, but still either segregated it or outsourced it — leaving them with a lot of catching up to do.

While they fell behind, customer expectations forged ahead. With a growing appetite for convenience and accessibility in all things, why shouldn’t luxury follow suit?

“I’m still surprised at the extent to which consumers have gotten so comfortable with buying big-ticket items online,” Radhakrishnan says. “I

Bain & Company sees the market for personal luxury goods reaching the equivalent of \$414 billion to \$428 billion by 2020.

## DesignerShare Takes Luxury Peer-to-peer

As consumers increasingly take the trajectory of retail into their own hands, it only makes sense that luxury would be picked up along the route.

DesignerShare, just past its first birthday, allows consumers to share clothing and accessories from Tory Burch through Prada with their peers, renting items by the week at a suggested rate of one-tenth of the purchase price (all pieces are worth \$200 or more). An additional \$5 lender protection fee helps cover the risk of human error such as rips or stains, and items are dry cleaned by Tide Spin.

The initiative started in Chicago, where door-to-door service is available, and now is shipping nationwide.

"This is something I was doing with my girlfriends in college all the time: Bonding over shared clothing," says co-founder and CEO Sarah Perkins, who started the company with Chairman and co-founder Bill Meyer. Women want to be in new items, but don't necessarily have the funds — or the space — for more. Couple that with increased acceptance of the sharing economy and a decreased eye toward consumerism, and the time for DesignerShare was right.

Perkins says so far, she's seen the supply side grow faster than expected. Dresses and handbags have been the site's "bread and butter." She's hopeful for a greater pool of sizes to fit more women, in addition to more consignment stores or department stores with overstocks signing on.

Fashion bloggers have used the site for photos shoots, she says; aspirational Millennials have rented designer bags as a method of "try-before-you-buy" and the company has just hired an in-house stylist to begin offering renters a personalized touch in finding what they're looking for. A booking system also is in the works for the company's bespoke platform, allowing users to reserve items in advance.

As for Perkins, she's in her new dream job after working in luxury publishing. Best of all, she can look great while she does it — having significantly expanded the circle of peers willing to share their clothes.

never could have imagined diamond rings, cars, \$30,000 bags or pieces of art."

Consumers have taken the lead about what they want, when they want it — and how. Not to mention how they want to learn more about it. There's an increasing thought of luxury as a consumer-to-consumer model, where shoppers are the "new marketing channel."

The McKinsey report shared May 2017 numbers from Instagram: Chanel made 700 official posts, but there were 48.8 million user-generated hashtags including the brand's name. The "volume of chatter about brands online," the report said, "is dominated by consumer mentions, not by company posts."

Achille speaks of Instagram as the new store window — and that includes the need to design items specifically to draw attention on the small screen of mobile devices, much in the same way luxury collections might have items geared explicitly toward catching the eye from the street.

He also speaks of a new "age of reverse omnichannel," in which the latest great online experience sets a high bar not only for other online experience, but also for offline ones.

Sites that sell only a single brand are having the most trouble. Success can't come solely through "more editorials or better pictures," Achille says.

Multi-brand sites like Farfetch, on the other hand, can win by offering carefully selected assortments, creating a sense of value.

One other current challenge: Luxury brands that try to attract in ways that aren't genuine aren't likely to get far. Today's consumers want — and expect — authenticity and transparency in all things, and at a level as never before.

Lexus, the "luxury" brand of Toyota, is coming out with a line of yachts, "and the strategy is to elevate the Lexus car model in the luxury sphere," Danziger says. "But when you talk to consumers today, they are completely clued in on marketing strategies. They can see and smell them. They're doing a sniff test, and they're finding that many of the luxury brands are wanting. They're heavy on marketing, but they're light on authentic luxury."

Today's affluent consumers, she says, are demanding fine materials, fabrications and detailing, items that are well-crafted rather than mass produced. This is especially so with the younger demographic.

That group also has been turning away from materialism and the sense of "acquiring and



owning things to have the sense of fulfillment,” and turning toward experiences instead. This attitude has progressed right alongside the luxury secondhand and rental markets, allowing access without a high investment — or contributing to further waste.

“I have formal dresses in my closet that I’ve worn once, and know I won’t wear again,” Danziger says. “Why go spend \$500 or \$600 or \$1,000 on a dress, when I can go rent one for a couple hundred, send it back, and not be hampered by the ownership? Today’s consumer is very smart, and knows all the tricks, and knows how to find value. The message here is that people don’t get wealthy by spending all of their money. They do it by saving it, and being shrewd consumers, and making reasoned purchase decisions.”

### ‘HERE’S WHAT WE WANT TO TELL YOU’

There are luxury brands doing things right. Gucci is a name mentioned more than once by the experts; Danziger notes Creative Director Alessandro Michele has helped the brand hit the right note with younger consumers. Michele, who is “young, hip and understands that luxury consumer,” has allowed the tweaking of the Gucci logo in ways that would be unthinkable for others.

Michele hired graffiti artist GucciGhost (real name Trevor Andrew) as an official member of the Gucci design team after seeing his unsolicited interpretation of its classic logo on the street. The result is a sense that the longstanding company is “not taking itself so seriously, and that’s capturing the attention of younger consumers who don’t, either,” Danziger says.

As for social media, capturing the attention there might also require a lighter hand and a lot less control.

Too often, Radhakrishnan says, luxury brands still think about social media as a communication tool akin to magazines in the past: “‘Here’s what we want to tell you,’ and not so much a two-way conversation,” she says.

“The extent to which it should be a two-way conversation is not entirely clear yet. You are buying these brands because they are an authority in a way another brand might not be. They are what they are because they’re an authority on luxury. I do think there’s more room for a two-way conversation, but not to the extreme you see in lower-price brands. It will be a slow evolution before they can get comfortable in that dialogue.”

Where does that leave us all in the meantime?

Pedraza, who still defines luxury as “the best of something, the best of a product or service and the experience around it,” sees that heritage and history are mattering less and less.

Humans were born to connect, he says, and luxury increasingly must involve the intimate and personal touch — especially as the world becomes more digital and technological. In-store, he speaks of quality luxury sales associates as “platinum-collar workers.”

“The emotional intelligence component of luxury is becoming critical,” he says. “That’s in the people you select, how you educate them and compensate them, how they work together and how they engage with clients.”

Looking across the industry landscape — both online and in-store — Pedraza says there are risks and challenges, “but that opens the door to tremendous opportunity.”

Naturally, the opportunities for North America are a bit different than those worldwide. It is impossible to ignore the ever-increasing appetite of the Chinese consumer for luxury; there, in some ways, the more mass-market accessibility to luxury might still work.

The United States is still by far the biggest market for luxury in terms of dollars and the number of consumers who can afford it, Danziger says. But when luxury brands don’t adopt a consumer-first approach, they won’t be bringing those consumers in.

“Luxury today is in the eye of the beholder,” she says. “The industry wants to prop up that concept of absolute luxury, whatever that is ... But the perception of the consumer is reality.” **STORES**

Fiona Soltes, a freelancer based near Nashville, Tenn., loves a good bargain almost as much as she loves a good story.

