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The New World of Luxury

Caught Between Growing Momentum and Lasting Change

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The luxury goods industry seems to have shrugged off the damage done by the Great Recession faster than many people expected. Companies remain cautious about the outlook for growth, but major brands recently reported strong gains in revenue and profit, defying all the signs of a difficult market, including weak consumer confidence, increased savings rates, and lingering doubts about the stamina of the recovery.

But these signs of a revival do not augur a return to business as usual. The Great Recession was more than a drag on demand. It was the tipping point for several trends—including profound changes in consumer behavior and the competitive landscape—that threaten to erode the mystique of luxury. In this new world of luxury, being iconic and exclusive is not enough to make a brand grow, and fewer consumers are willing to blithely accept high prices as the mark of luxury. They need better reasons to buy.

To respond to these changes, luxury goods companies will need to resolve conflicting priorities in every major aspect of their business: target markets, consumer segments, product portfolios, and distribution channels. Companies that skillfully manage these tensions will find opportunities for growth in both mature and rising markets.

Has Luxury Lost Its Mystique?

True luxury means different things to different people, but for most consumers the term connotes rarity, quality, and refinement. These attributes apply not only to the two traditional categories of luxury—hard luxury (such as watches and jewelry) and soft luxury (such as fashion and clothing)—but also to experiences. In the eyes of most consumers, luxury also extends to alcohol and food, as well as to travel, hotels, spas, technology (for example, smartphones), and cars. The global market for luxury, based on this broader definition, is close to €1 trillion—far bigger than most estimates, which typically range from €150 billion to €180 billion. (See Exhibit 1.) Exclusivity may be a defining characteristic of many luxury categories, but together these categories represent a massive profit pool.

One of the quintessential traits of luxury has always been its superiority to the ordinary. The mystique extended beyond craftsmanship, service, and image to include elements of business performance. Before the financial crisis, high margins and strong growth were the norm, sometimes even during downturns. Demand was driven by wealthy consumers for whom luxury was an irreplaceable source of self-indulgence and distinction. And indeed, the strong performance of major luxury-goods companies in 2010 suggests that the industry remains apart from ordinary retail.

But the quick turnaround in demand masks significant challenges facing the industry. Over the past several years, four trends have devalued the concept of luxury: changes in tastes and buying behaviors, the rise of new markets, the blurred definition of true luxury, and the advent of new media. Long after the recession has faded, these trends will continue to exert pressure on the industry.

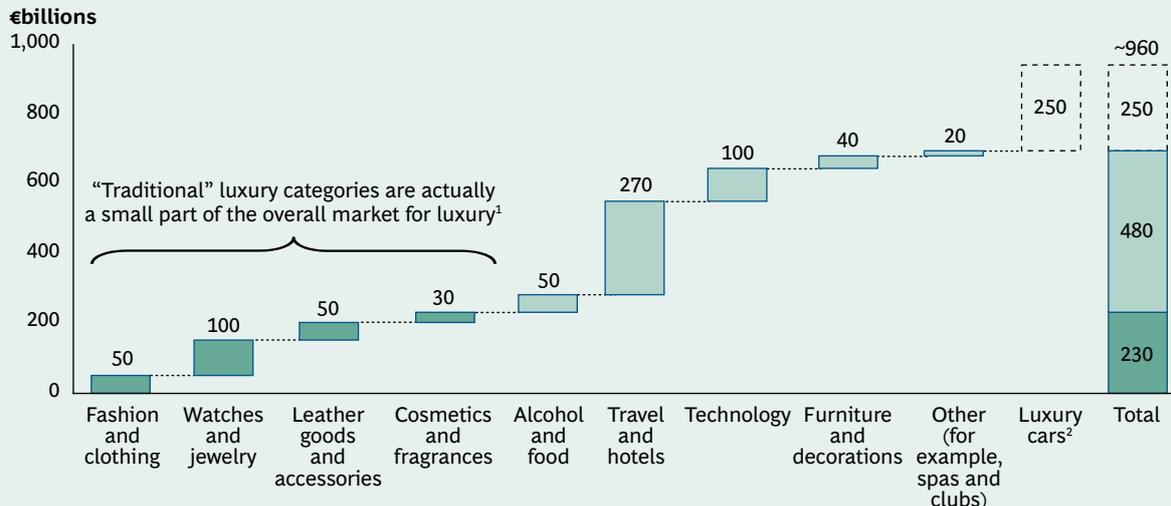
The Stigma of Conspicuous Consumption

Conspicuous consumption was in full swing in the late 1990s and the early years of this decade. Many consumers thought of luxury goods largely in superficial terms; brand image sometimes mattered more than quality. Consumer behavior began to change in the middle of the decade, however, as the availability of information made it easier to learn about and compare products. People started to become more discerning.

The crisis sent this trend into overdrive. Luxury consumers became less interested in acquiring status

Exhibit 1. The Global Market for Luxury Is Close to €1 Trillion

The consumer's perspective: the estimated size of the global market for luxury goods and services, based on a survey of what people spend on luxury



Sources: Ipsos market research, based on a sample of 7,496 individuals who are in the top half of luxury spenders in seven developed countries; BCG analysis.

Note: Global estimates were based on an extrapolation of data from seven countries that represent about 75 percent of the global market for luxury.

¹Most estimates of the traditional luxury market range from €150 billion to €180 billion. Consumers see it as a larger market, mainly because of what they perceive as “luxury” in the jewelry category.

²The luxury car category was not included in the research; the size of this market is based on a BCG estimate.

symbols and more interested in the actual worth of products, for two reasons. First, the crisis cracked the foundation of their financial security. Like many other consumers, they became more aware of the value of money. Second, they were reluctant to splurge when so many people were facing financial hardship. Even with the recovery taking hold, many consumers continue to prefer subtle brands over flashy logos (though this trend, as described later in this paper, varies among different segments). The emphasis on substance over style will affect demand in two important ways:

- ◇ The volume of “inconsiderate consumption”—purchases that are unabashedly impulsive and extravagant—may not return to anywhere near its precrisis peak. This kind of consumption is excessively indulgent, even by the standards of luxury.
- ◇ Conspicuous consumption will remain subdued for as long as the economic outlook remains gloomy, but we expect it to grow as markets recover. Even then, however, consumers are going to need more of a reason to buy high-end goods. People will continue to shy away from garish displays of wealth or overt one-upmanship. Companies will need to position their brands to appeal to the discreet connoisseur.

These changes dovetail with a growing appreciation for experience-based luxury. Consumers want something genuine, even meaningful, from their luxury purchases and have become more willing to pay for services or experiences that make them happy. This shift has a lot to do with demographics. Millions of baby boomers have reached retirement age (and millions more will follow soon). Many have had decades to enjoy materialistic luxury and will be more interested in experience-based luxury.

The Captivating Rise of Emerging Markets

Luxury has always been closely associated with rich deposits of demand in London, New York, Paris, Milan, and Tokyo. And while mature markets still account for the lion's share of sales, there has been a shift toward nontraditional markets, notably China and Russia. The change was evident before the crisis, but the events of the past two years have lent even more weight to developing markets. (For more on China, see the sidebar “The Surge of Luxury Demand in China.”)

The Surge of Luxury Demand in China

China is expected to become the world's largest luxury market in the next five to seven years, as its sustained economic growth continues to provide people with both the appetite and the means to indulge. In 2009, for example, China had 670,000 millionaire households; only the United States and Japan had more, according to The Boston Consulting Group's 2010 Global Wealth report, *Regaining Lost Ground: Resurgent Markets and New Opportunities*.

As attractive as this opportunity seems, however, luxury companies face hurdles to building a viable presence in China. Several of these challenges were highlighted in a BCG study of China's luxury market, *China's Luxury Market in a Post-Land-Rush Era*, which was based on a mix of client work and consumer interviews.

- ◇ *The competition is intense.* From 2006 to 2009, the number of luxury outlets in China more than doubled. Shanghai and Beijing have as many luxury outlets per capita as New York and Chicago.
- ◇ *Qualified help is hard to find.* The store managers we interviewed said that sales associates consid-

er luxury sales a temporary job rather than a respected career. As a result, many lack experience. To a great extent, a company's ability to grow in China will depend on its ability to attract, train, and retain qualified sales staff who are capable of creating an in-store experience that reinforces a luxury brand.

- ◇ *Brand identity should not be taken for granted.* One of the biggest challenges is consumers' lack of familiarity with luxury brands. When asked to name at least three luxury brands for a particular product, few consumers could name more than two. Only 3 percent of the women we interviewed could name more than four apparel brands; about half could name only one. Many consumers also misidentified mid-tier brands as top luxury brands. For some companies, this lack of brand awareness provides an opportunity to gain share; for many others, however, it underscores the danger of assuming that advantages in other markets will carry over into China.

The financial crisis set the stage for the development of a "two-speed world," with the growth of mature markets lagging the growth of rapidly developing economies. The former were hit particularly hard by the crisis; their problems stemmed from entrenched issues such as unsustainable levels of household debt. The latter, for the most part, were affected indirectly. As a result, many developing economies maintained or have resumed their strong growth.

While these new markets hold tremendous potential for luxury goods companies, their growing prominence could have two potentially corrosive effects, both of which are related to the overextension of brand identity:

- ◇ Companies that devote too much time and effort to penetrating emerging markets could end up de-emphasizing their presence in the traditional centers of demand, thus missing out on surprising opportunities for growth. Some of the most iconic brands, for example, have a relatively weak top-of-mind presence among consumers in Germany, the United Kingdom, and especially the United States. A recent Ipsos survey asked affluent consumers to name top luxury brands. Of the top three brands named by consumers in mature markets such as Japan and France—including Louis Vuitton, Dior, Chanel, and Hermès—*none* were among the top three brands named by U.S. consumers, who generally cited carmakers.
- ◇ Companies that are enamored with emerging markets risk sacrificing some of the core traits of luxury—namely selectiveness, refinement, and service—in the rush to establish a foothold. They might overlook important differences in consumer tastes and behaviors, for example, rather than adapting their offerings and retail presence to suit specific markets. As a result, their brands might not be visible to some of the more important consumer segments, like the avant-garde or the trendsetters.

The Blurred Boundary Between Luxury and Ordinary

In the run-up to the crisis, mass-market competitors made a concerted effort to elevate their brands using the same tactics employed by luxury companies, such as celebrity endorsements, trendy logos, and relationships with well-known designers. In doing so, they began to blur the boundary separating their offerings from luxury goods. The problem became more acute during the crisis, when retailers—mainly

department stores—slashed the prices of high-end goods. The middle ground became crowded, and consumers were left even more confused about the delineation between luxury and ordinary.

Even as discounts are phased out, the boundary will remain permeable. Many luxury-goods companies have widened their product and price ranges in order to reach more consumers. In addition, nonluxury companies will continue to push their products upward, making “trading up” more affordable to mass-market consumers and “trading down” more palatable to consumers who remain skeptical about the true value of luxury or are worried about their finances. Moreover, online aggregators, such as Gilt, will continue to muddy the waters by offering high-end brands at substantial discounts. Similar online sites have made a mark even in Japan, which is regarded as one of the most traditional luxury markets, and where high prices have long been considered *de rigueur*.

The Advent of New Media

As recently as a few years ago, the communication of luxury remained a dictate—a top-down directive from brands to consumers. With the proliferation of new technologies and communication platforms, however, luxury has become more of a dialogue. Amateur bloggers sit in the front row at fashion shows of major couture houses, sending out real-time commentary to fans around the world, while magazine editors and celebrities tweet to followers outside fashion’s elite circles. In these and other ways, the new media are giving consumers everywhere a virtual seat at a table once reserved for a handful of illustrious, well-paid image-makers.

Luxury companies have no choice but to reinvent how they communicate with consumers. Indeed, 2009 was an inflection point for the influence of technology on the luxury market. From viral advertising to virtual dressing rooms, and from Facebook fan pages to live streaming of seasonal runway shows, luxury brands are building awareness among, and catering to, new audiences. Some of the savviest brands are embracing technology and online media to break typical selling cycles and reach consumers months before products would otherwise have become available.

Lasting Changes in Consumer Behavior

Most of the challenges associated with the new world of luxury share a common denominator: they cannot be overcome unless companies have a better understanding of consumers—and, in particular, how spending behaviors and tastes have changed. Most consumers are no longer shopping for the sake of shopping. Figuring out who is buying what—and why—has never been so important.

To this end, BCG and Concept M (<http://conceptm.eu>), a European market-research company, analyzed buying behaviors in six mature and developing markets—Brazil, China, Europe, Japan, Russia, and the United States—which together have about 150 million luxury-consuming households. We segmented these households, which accounted for about 90 percent of global luxury spending in 2010, mainly on the basis of their wealth and how much they spend on luxury items each year.¹ (See Exhibit 2.)

- ◇ *Aspirational mass-market households* accounted for four out of five luxury-consuming households in the six markets. They have annual incomes of at least €55,000 in developed markets and €18,000 in emerging markets. The consumers in this segment, who could be typecast as trendy metropolitans, tend to have average jobs and backgrounds, but they aspire to an above-average lifestyle. They are not big spenders: before the crisis, they spent an average of €400 per household on luxury goods each year. As a group, however, they are significant. We estimate that this segment accounts for approximately 30 percent of traditional global luxury sales—or about €45 billion to €50 billion.
- ◇ *Rising middle-class households* have annual incomes of at least €110,000 in developed markets and €35,000 in emerging markets. Consumers in this segment come from a middle-class background but have

1. The luxury spending figures cited in this section include wholesale sales of goods in the traditional categories of hard and soft luxury; they are not based on the broader definition of luxury, which sizes the total market at about €1 trillion. Moreover, the estimates for luxury spending in this section are based on a narrower definition of luxury than the one shown in Exhibit 1, which was based on consumers’ views of what constitutes luxury.

well-paying jobs. This segment accounts for about one-fourth of global luxury sales—or €35 billion to €40 billion.

- ◇ *New-money households* spent the most on luxury goods—they account for about €55 billion to €60 billion, or more than one-third, of traditional luxury sales. This segment consists of high-net-worth households, which have at least €725,000 (\$1 million) in bankable assets. They earned the wealth themselves, through both investment and business activities.
- ◇ *Old-money households* are also high-net-worth households. Unlike new-money consumers, however, they inherited—rather than generated—their wealth. The youngest are at least second-generation millionaires. Some are related to aristocracy; others derive their affluence from family-owned businesses. This group accounts for roughly €10 billion, or about 7 percent, of traditional luxury sales.
- ◇ *Beyond-money households* are similar to old-money households. What sets them apart is their complete indifference to status. Whereas old-money consumers are likely to purchase luxury goods not only because of their value but also because the brands match their lifestyle, beyond-money consumers avoid ostentatious displays of wealth. Their disdain for conspicuous brands is, in a way, an affirmation of their elite status. This group accounts for about 5 percent of traditional luxury sales.

The spending habits of the three least-established segments—the aspirational mass-market, the rising middle-class, and the new-money households—have undergone a profound change. In the 1990s and the early years of this decade, consumers in these segments viewed luxury items as status symbols. More recently, however, many of these consumers—especially those in mature markets—began to question why they buy luxury goods. The crisis only intensified this trend. Most of these consumers have become more frugal, while those who continue buying high-end products are looking for understated brands and products that have true value.

This trend was less evident among old-money and beyond-money consumers. Consumers in these groups never felt the urge to telegraph their status. Rather, they tend to buy luxury goods because of their intrinsic value; they may even view such purchases as investments. They prefer authentic brands—ones enriched by a combination of heritage and quality—and they generally buy products on the basis of their personal interests.

Exhibit 2. The Least-Established Segments Spend the Most on Luxury



In the developing markets, in general, the crisis had a far less dramatic impact on the spending habits of luxury consumers. Many remain status oriented when it comes to luxury brands; conspicuous consumption has not gone out of fashion.

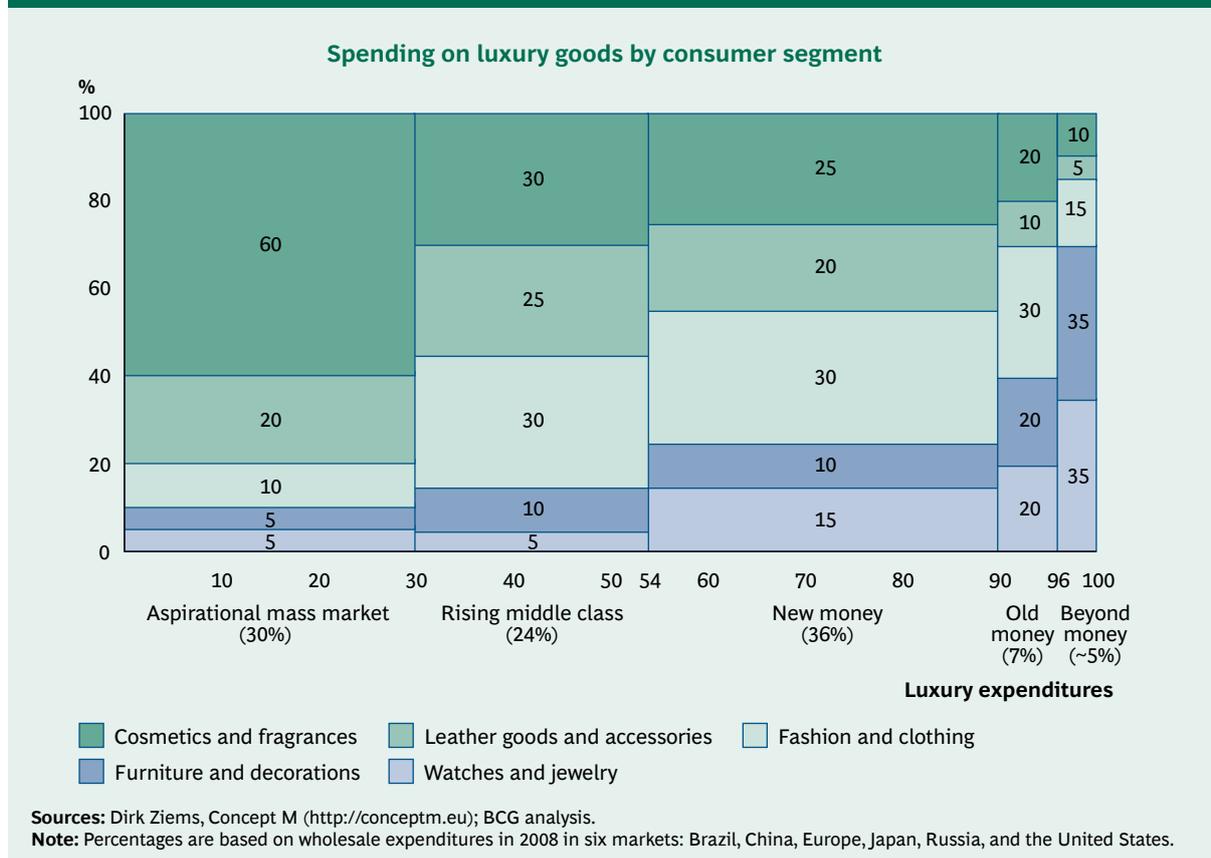
Despite its impact on consumers' buying behavior, the crisis barely changed the categories of luxury goods that each segment prefers. These preferences will likely remain the same as they were before the crisis.

- ◇ Aspirational consumers spend about 60 percent of their luxury budget on cosmetics and fragrances. Among other consumer segments, this category accounts for between 10 and 30 percent of luxury spending. (See Exhibit 3.)
- ◇ Aspirational consumers spend 20 percent of their luxury budget on leather goods and accessories; it is their second-largest category.
- ◇ Beyond-money consumers spend 35 percent of their luxury budget on watches and jewelry, and 35 percent on furniture and decorations.
- ◇ Fashion and clothing is a sizable category for rising middle-class, new-money, and old-money consumers; it accounts for 30 percent of their luxury spending.

Strategies for Competing in the New World of Luxury

It is important for companies to recognize that the full return of demand—whenever it comes—will not mark the end of the luxury industry's challenges. A set of fundamental and lasting changes is redefining

Exhibit 3. The Pattern of Luxury Spending Varies Widely Across Consumer Segments



what it takes to thrive in the new world of luxury. The changes will affect all major aspects of the business: markets and consumers, products and services, marketing and distribution, and the corporate culture.

Markets and Consumers

The trends affecting products and services, as well as marketing and distribution, point to a growing need to connect with the consumer. Companies should also recognize new growth opportunities arising from changing demographics and market dynamics.

Bond with your customers. Consumers remain hesitant to purchase goods on the basis of something as superficial as a brand image or the urge to show off. Demand will need to be triggered by something more meaningful.

Customer relationship management (CRM) is becoming essential to client retention. Successful loyalty programs can help drive traffic, influence repurchasing, facilitate cross-selling and up-selling, generate referrals, and provide media exposure. Initiatives include special events, in-store promotions, after-sales services, and customer-tracking systems that promote individualized recommendations. Even the best CRM systems, however, are no substitute for a personal touch. Luxury companies should aim to establish relationships with their best customers. Special offers and services can help create stronger bonds, but companies also need to retain experienced salespeople to ensure that their top customers are recognized when they step into a store.

In addition, most luxury companies could stand to benefit from a more rigorous approach to market research. BCG's studies have shown that consumer-facing companies, in general, are not doing enough to learn about their customers. (See the sidebar "Hearing the Consumer's Voice.")

Do not overlook older consumers. Major luxury markets are growing older. From 2008 to 2020, the number of people aged 65 to 80 is expected to grow by a factor of 1.5 in the United States and Canada, as

Hearing the Consumer's Voice

At a time when many consumers are being more deliberate in their buying decisions, it is critical for businesses to know as much as possible about the gears that turn demand. There are few business decisions that cannot benefit from a deeper understanding of consumer behavior.

But while most companies recognize the importance of the market research function—commonly known as consumer insight—many struggle to unlock its value. This was one of the findings of a recent BCG study that benchmarked the consumer insight capabilities of 40 global companies. The study included a survey of more than 800 executives across a range of industries. (See *The Consumer's Voice—Can Your Company Hear It?*, BCG report, November 2009.)

About one-third of the executives described their consumer-insight capabilities as best-in-class. Frustrations were evident among the recipients of market research—the line managers—and those who generate output. Only 34 percent of line managers said that their companies' consumer-insight teams "consistently answer the question 'So what?' about the data they provide," while only 41 percent of insight staff thought that the business leaders in their

organizations could pass a pop quiz on important facts about consumers.

If companies are not hearing the consumer's voice, it may be because they are following a hemmed-in approach to market research. The study identified four stages of a company's consumer-insight function. At stage 1, the function is walled off from critical business decisions about pricing or marketing. At the other end of the spectrum, stage 4, consumer insight helps drive competitive advantage by influencing cross-company decisions such as acquisitions, the prioritization of brands and markets, and resource allocation. Almost 90 percent of the companies in our study were still at stages 1 or 2.

To capture the full potential of consumer insight, companies must focus on two factors. First, they need to involve senior managers and expand the scope of the function. On average, only 20 to 35 percent of a company's market-research budget is devoted to strategic studies. Second, companies need to improve the performance of the consumer insight function by upgrading capabilities and talent and focusing the team on the right activities and deliverables.

the group swells from 45 million to 65 million. By comparison, younger segments of the population are expected to grow only slightly. Populations in Western Europe will grow older as well, and the situation in Japan is even more acute. In Japan, the segment of people 80 or older is expected to grow by a factor of 1.7 over the same period, while the segment aged less than 65 will decrease by 12 percent in absolute terms.

Even beyond the sheer size of this group, there are good reasons for luxury companies to target consumers aged 60 or older. Compared with previous generations of older consumers, this generation is still young at heart. Most of these consumers are in good physical shape, live longer, and—in Western countries, especially—are accustomed to buying luxury goods. They were the ones who fueled the explosion of luxury markets in the 1990s. The trends that are reshaping consumer tastes—notably the importance of value and the growing appreciation of experience-based luxury—will be even more pronounced among these consumers.

Focus on what women want (and why). We estimate that women, on average, influence 80 percent of a household's spending on luxury goods. A growing proportion of this spending is devoted to purchases for themselves. Companies should align their marketing messages with the tastes and behaviors that drive women's spending decisions. BCG and Concept M identified four groups of defining characteristics:

- ◇ *Leisure Class.* Women in this group want to relax and enjoy the finer things in life. Their friends are important to them, so shopping is sometimes a social activity. Their purchases are meant to connote something special—a spark of creativity, for example, or a sense of natural authenticity.
- ◇ *Eternal Beauties.* These women are defined, in large part, by their health and physical strength. They will follow the latest fashion trends to feel fresh and dynamic. Self-indulgence is not a guilty pleasure but a reward.
- ◇ *Kids on Board.* Women in this group believe that “the best is not enough for my babies.” Some of them lavish attention on their children as a way to compensate for not spending enough time with them. Others believe that love and care are the hallmarks of great character. And there are those who believe that trendy kids befit a trendy mother.
- ◇ *Nesters.* A woman in this group might be inclined to say, “Show me where you live, and I will tell you who you are.” Their homes are an expression of their identity.

Luxury companies should use these concepts to shape their overtures to certain consumers, bearing in mind that the concepts are not mutually exclusive. They must also recognize that the concepts are relevant to all segments, not just wealthy ones. Someone from a rising middle-class household might identify with, and aspire to, the characteristics that define, say, the leisure class.

Hold your ground in the epicenters of luxury. The luxury sector will continue to revolve around developed countries, which account for the vast majority of luxury sales. Moreover, some of the most established luxury companies, as mentioned earlier, still have significant opportunities to create brand awareness in large, mature markets, especially the United States.

As they consider opportunities to expand in new markets, companies must not lose sight of the importance of these traditional centers of luxury. In most emerging markets, a presence is more of a long-term investment—a down payment on future growth—than a hedge against the next downturn. But the opportunities are nonetheless compelling. A recent BCG study found that consumers' intentions to trade up are stronger in developing economies. In the study, 37 percent of survey respondents in China and about 25 percent in India and Russia plan to trade up, compared with only 13 percent of respondents in Europe and 18 percent in the United States. (See *A New World Order of Consumption: Consumers in a Turbulent Recovery*, BCG report, June 2010.)

Products and Services

There has been a shift from conspicuous consumption to considered demand, driven by consumers who know value when they see it. There is also an ongoing shift from material to experience-based luxury.

Demonstrate the value. The downturn gave consumers reason to question the value of products and services. In the second half of 2008 and the beginning of 2009, retailers like Saks Fifth Avenue heavily discounted luxury goods—sometimes by as much as 80 percent. The discounts underscored not only the severity of the crisis but also the size of the profit margins on luxury goods. Luxury companies, in general, will have to work much harder to convince people that their products and services are worth the price.

By reemphasizing the quality of their goods and highlighting the rich creative process that designers and their teams undertake for each collection, companies can distance themselves not only from ordinary retail but also from their competitors. Indeed, the inherent value of luxury is very much a function of the uncompromising standards of its creators, who, by insisting on superior design and craftsmanship, can help make their brands unique and authentic—and thus help restore the mystique of luxury.

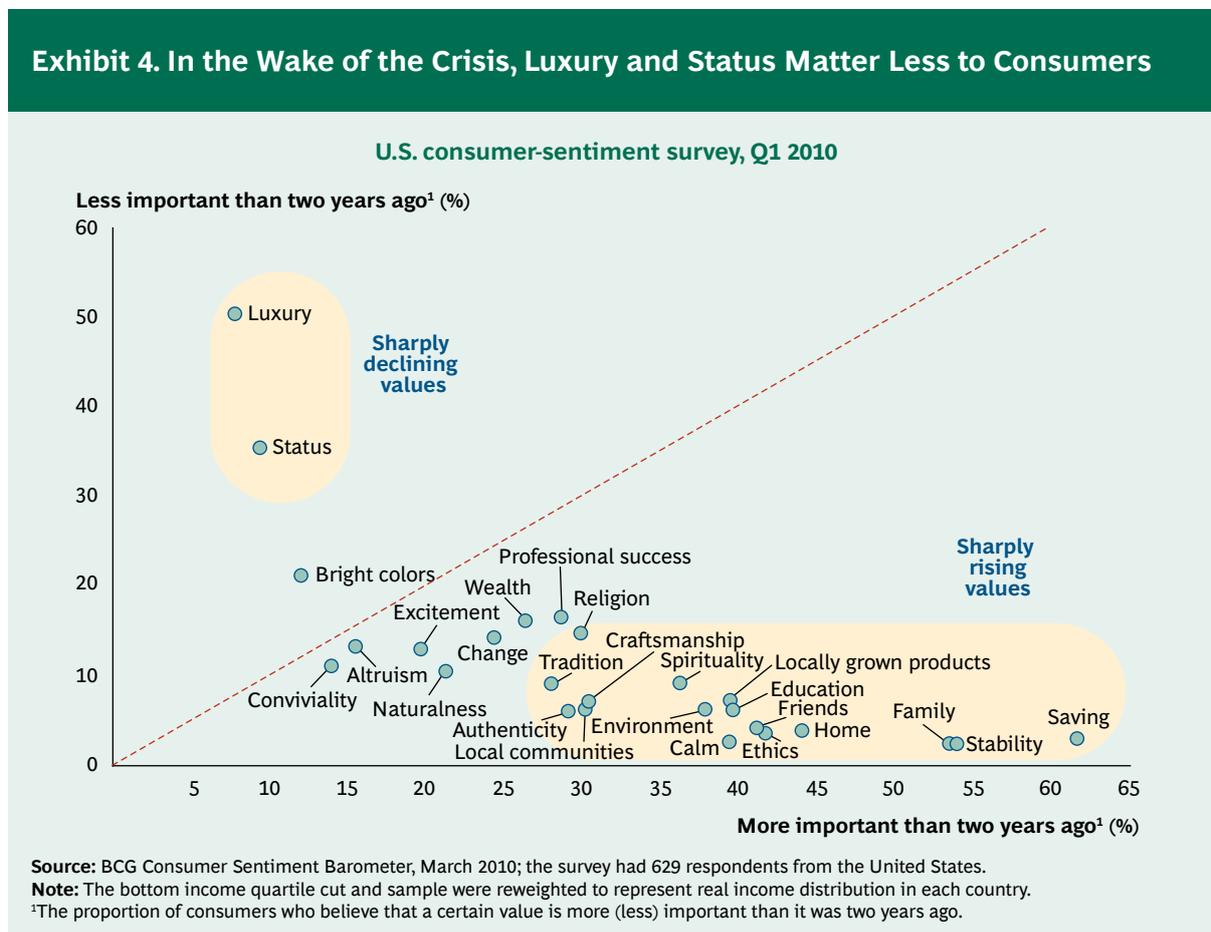
Provide a luxury experience. Recent BCG surveys of consumer sentiment—not just in luxury but across a range of industries—show that values such as stability, family, home, and spirituality became more important as a result of the crisis, while luxury and status became far less important. (See Exhibit 4.) Luxury consumers, specifically, are moving to a more introverted kind of consumption that involves family, friends, and living well. In the new world of luxury, consumers are looking more to “be” than to “have.”

We expect these trends to fuel the growth of experience-based luxury, particularly in spas, hotels, and travel. Some companies are expanding directly into these categories. In early 2010, Armani opened a luxury hotel in the world’s tallest building, in Dubai. But companies can also capitalize on this trend by providing value-added services such as delivery, custom tailoring, personal shopping, small in-store gifts or amenities (like coffee and chocolates), or concierge services. Companies can also add a participatory dimension to their brands by sponsoring events and activities, perhaps involving the arts or philanthropy.

Marketing and Distribution

There has been a shift from a push strategy, with companies and media outlets calling the tune, to a pull

Exhibit 4. In the Wake of the Crisis, Luxury and Status Matter Less to Consumers



strategy, with consumers more willing and able to decide what's desirable and what's not. In addition, it has become more critical for companies to differentiate their brands and retail offerings.

Embrace new media. There was a time when luxury companies felt entitled—even obliged—to sequester their products from the mass market. Fashion shows and product launches were open only to an elite group of reporters and buyers. Exclusivity was central to the brand. Over the past several years, however, the rise of new media, such as social-networking sites and mobile applications, has led to a revolution in the fashion world. Consumers do not want to be walled off from their favorite brands. They want to help shape them. As Suzy Menkes, the head fashion editor for the International Herald Tribune, said in a January 2010 interview, “The world changed when fashion, instead of becoming a monologue, became a conversation.”

Luxury companies need to embrace these changes soon or risk falling behind. In 2009, major brands such as Louis Vuitton, Dolce&Gabbana, and Yves Saint Laurent, together with a number of smaller brands, showcased new online-commerce portals, live fashion-show feeds, consumer-generated visual content, and a flurry of blogging. The pace of change shows no signs of slowing.

Elevate brand building as a core objective. Financial targets are critical, but companies should also measure their progress against brand metrics. They can do this by introducing more brand-related KPIs, such as brand attribute scores and brand funnel metrics. The latter measure the percentage of consumers who advance through six progressive stages: brand awareness, consideration, preference, trial, purchase, and repurchase.

Refresh the retail experience. Luxury companies have spent years developing retail networks that reflect a monolithic, global identity. This model needs to be updated as consumers seek out experiences, cultural relationships, and unique product discoveries that bond them to a brand.

Studies have shown that while consumers know on sight whether a piece of merchandise appeals to them, the probability of their making a purchase increases if they spend more time in a store. The hooks that draw consumers into stores will vary from market to market. Understanding these nuances will be critical to getting the most from retail networks, which face increasing competition from online aggregators and discounters.

Luxury consumers, in general, will be drawn to stores that exude a sense of authenticity and originality. Companies could, for example, create or remodel stores using different concepts, layouts, or collections, depending on the city. They could also open stores in conjunction with other brands or artists. Second-tier luxury brands, in particular, can make inroads by partnering with local trendsetters. Creating such surprises will help engage consumers while showcasing the relevance of the brand itself.

Companies will need to be just as creative and thoughtful in their approach to the online world. The luxury goods industry, in general, has been extremely slow to recognize the potential of an online presence. With more and more luxury consumers being drawn to online retailers that aggregate brands (and that often provide substantial discounts), the industry cannot afford to underestimate the significance of this channel—as both an opportunity and a threat.

Find new ways to differentiate the brand. Corporate social responsibility is gaining ground in a range of industries, as companies begin to see that social initiatives can contribute to both the common good *and* the bottom line. They can help raise a brand's profile, build customer loyalty, and attract and retain talent. Some of the most innovative initiatives, such as green products, can lead to higher margins and greater market share.

Luxury companies can differentiate their brands by stressing their ethical values through close associations with humanitarian or environmental causes. In 2009, LVMH invested in Edun, which describes itself as a “socially conscious clothing company” that aims to foster sustainable employment in developing countries. Other companies are taking steps to reduce their energy consumption and use environmentally friendly packaging. Several companies have already launched their own lines of sustainable products in response to consumer demand.

The Corporate Culture

For the leaders of luxury companies, the challenge of competing in the postcrisis world is complicated by the thorny task of having to manage both business and creative imperatives—and talent.

Balance the two hemispheres. Luxury companies are divided into two hemispheres. One has left-brain characteristics: it is logical and process oriented. The other has right-brain characteristics: it is artistic and creative. Balancing these two halves is critical. Luxury companies need to manage the creative teams and personalities that design the products and set the brand image, and they also need to manage “the business,” which includes everything from finance and IT to procurement and marketing. The business side of luxury has arguably taken on more importance, in part because the downturn forced companies to search for new efficiencies but also because companies are starting to recognize the value of becoming more agile and retail oriented, which often requires an overhaul of operations.

A handful of luxury companies have leaders who are known as much for their business acumen as for their creative talent. This combination is rare. Most luxury companies need to find leaders who are steeped in the fundamentals of business in general and of luxury companies in particular. In other words, they have to understand merchandising and trend spotting as well as they understand finance and accounting.

Strong leaders will recognize the importance of embracing, rather than isolating, the company’s creative team. Close collaboration between the business and creative sides will be essential. Leaders should cultivate an inclusive approach to strategic planning by combining the perspectives and priorities of both business and creative managers.

Conclusion

Luxury has lost much of its mystique. The challenges posed by this conceptual shift will prove to be more fundamental and lasting than the challenges that arose from the crisis. A strategic view is critical to striking the right balance among a number of imperatives. To position themselves to thrive in the new world of luxury, companies must manage conflicting priorities in every major aspect of the business.

- ◇ Expand into small but high-growth markets while protecting the foundation in the epicenters of luxury.
- ◇ Emphasize or diversify into the most promising product and experience categories while maintaining the core values of luxury.
- ◇ Serve the traditional consumer segments while reaching a much larger group of individuals who aspire to become luxury consumers.
- ◇ Maintain the iconic look of a luxury brand (young and beautiful) while appealing to older consumer segments.
- ◇ Control distribution while leveraging opportunities associated with multichannel distribution and new media.

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