The luxury gap

Once upon a time, the main appeal of luxury brands was being exclusive and unobtainable. But online trading has changed this dramatically. Lucy Douglas looks at how high-end goods companies are coming to terms with modern-day marketing

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On 15 March, the world's largest luxury goods company, Louis Vuitton Moët Hennessy (LVMH), announced that it would use its perfume production to make hand sanitiser in order to help the fight against COVID-19. The factories that usually turn out famous fragrances under the Christian Dior and Givenchy brands would instead produce tonnes of hand sanitiser for French hospitals.

Other luxury brands have made similar announcements. In Italy, companies such as Prada Group and Giorgio Armani have made financial donations to support hospitals in addition to using their manufacturing capacity to produce gowns and masks for doctors and patients.

Meanwhile, the UK's largest fashion company, Burberry, offered 100,000 surgical masks for NHS doctors, fast-tracked through its supply chain. Burberry also turned its factory in Yorkshire over to make garments and masks for patients, and helped fund the University of Oxford's development of an emergency vaccine.

THE RIGHT MOVE

That is not to say luxury goods companies have been saviours in the battle against the global pandemic, but their altruism in this crisis could help them in the tough times ahead. The industry, worth €281bn globally in 2019, is set to contract by as much as 35% for the full year 2020, according to Bain & Co.

"What luxury fashion brands do during this pandemic will be one of the determinants of their success," says Dr Samantha Lynch, a consumer behaviour researcher and consultant. "Those sorts of actions that brands take, people don't forget that."

At the time of writing, stores in many key markets, such as Europe and the US, remain closed. International leisure travel - a key segment of luxury sales among Chinese consumers - is at a standstill. Economic uncertainty and high unemployment will hit spending power. Supply chains, often complex and spanning many territories, will be disrupted.

Lynch says that demonstrating support for partners and suppliers will also stand brands in good stead: "How brands respond in supporting those suppliers that help make their garments is really important. This is something they could be communicating as and when it's appropriate."

In an industry that relies heavily on the image and desirability of individual brands, good PR and currying favour with consumers will prove valuable once spending power returns.

"Companies will need to stay relevant to consumers," says Elio Milantoni, Financial Advisory Partner and Corporate Finance Leader at Deloitte. "The shift to online purchasing during the pandemic has highlighted the need for luxury goods manufacturers to unlock the full potential of omni-channel retailing and master digital marketing."

The luxury goods industry has always had to navigate the peculiar challenge of balancing business interests (growing revenue and profit) with the intangible concepts of brand image (remaining relevant, aspirational, etc). The brand must be valuable enough for consumers to willingly pay hundreds, possibly thousands, for a single item - whether it's a watch, dress or handbag. Companies must maximise sales while maintaining the allure of exclusivity; and access new consumers without appearing too accessible.

Today, the sector is dominated by a handful of conglomerates. LVMH, which made €53.7bn revenue in 2019, has 75 brands in its portfolio, including Christian Dior, Marc Jacobs and TAG Heuer watches. Kering, whose brands include Gucci, Saint Laurent and Alexander McQueen, made €15.9bn last year. Others include Diesel parent company OTB, Switzerland-based Richemont, and Italian companies Prada Group and Gruppo Aeffe.

HUMAN CAPITAL

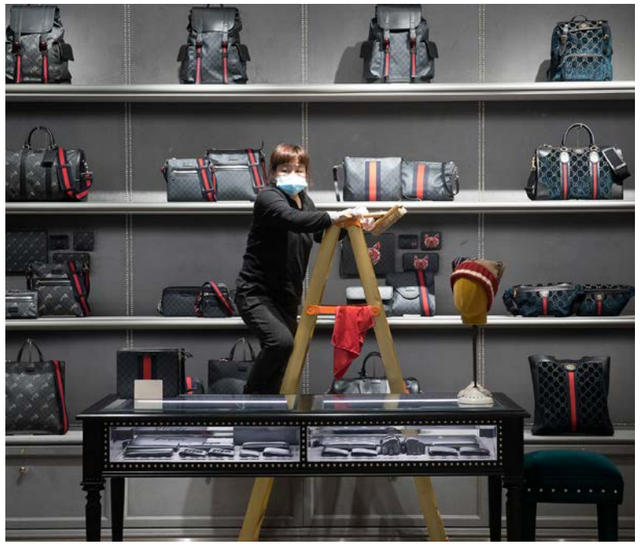
According to Milantoni, the big companies' taste for acquisitions is unlikely to change. "The idea is that by acquiring an emerging luxury brand, the company gains far more than a new brand to take to market," he explains. "They will be acquiring much-needed human capital, who will bring new blood, new ideas and new approaches into a more established company where it is needed the most."

For smaller brands, being acquired by the likes of LVMH can be an attractive business move, allowing them to take advantage of economies of scale and centralised operations in areas such as purchasing or technology, Milantoni adds.

And this strategy is clearly working. LVMH's total revenue was up 15% in 2019; Kering's 16%; and Richemont's annual revenue grew by 27%, according to its full year statement in May 2019. That's compared to a market average of 4%.

Clothes themselves in fact represent a relatively small percentage of sales - Kering's ready-to-wear category, for instance, accounted for 14% of the

Luxury goods companies such as LVMH – which owns Givenchy – and Giorgio Armani have contributed to help those in need during the global pandemic



Above: China is one of the key luxury markets hit by the coronavirus crisis. Right: Stella McCartney has led the charge for fashion houses to be ecologically conscious

group's 2019 revenue. A 2017 report by Exane BNP Paribas claimed that apparel, while "brand defining", was "hardly profitable" and that "high exposure to [ready-to-wear fashion] was a structural weakness" for businesses. Meanwhile, accessories, leather goods and beauty are the most lucrative product categories, according to Patrizia Arienti, Partner and EMEA Fashion and Luxury Leader at Deloitte.

And there are plenty of opportunities for growth. According to a report by Bain, published in February before the COVID-19 pandemic took hold, the market of luxury consumers will expand by around 60 million people by 2025. "This will further stimulate the luxury market at large, with a particular focus on entry-price segments, which in 2019 already represented a sizable part of the market (35% within leather goods and 30% in jewellery), as well as on the off-price channel, which reached €36bn in 2019."

New customers are coming from a growing middle class in emerging territories and younger millennial and generation Z demographics. According to Lynch, the brands that have been most successful in recent years have been the ones that have actively courted younger and digitally savvy consumers. Brands such as Gucci (Kering) and Dior (LVMH), she says, "have been very focused on teaming up with high-profile influencers; they've been really effective at creating excitement whenever they're launching products".

GOING DIGITAL

But luxury goods brands have historically been slow on the uptake of digital retailing. For many, the convenience of shopping online was not synonymous with the premium experience they wanted to give their customers.

"That model of going into a store and knowing the sales associate is only getting them so far," says Lynch. "That's not going to build a lot of lifetime customer value." She says luxury brands have been slow to build out omni-channel retail capabilities - serving customers when, where and how they want.

"As consumers, we have really changed how we shop," she explains. "We've become accustomed to shopping across all sorts of channels. Our expectations have increased quite a bit, which means we expect more from these luxury brands. Basic omni-channel experiences like being able to buy online but return in-store, or going on a live-chat to find out if there's stock in a particular store before you go in - with a luxury brand you really expect that to be a much higher experience, yet a lot of brands are not delivering on it."

According to Lynch's research, omni-channel consumers - those that interact with a brand on all platforms - are 20-30% more loyal. And although consumers may not be buying their luxury goods online (digital sales accounted for 12% of the total in 2019), three quarters of luxury transactions were influenced online.

Mastering omni-channel retailing requires focusing on different metrics than luxury brands have paid attention to in the past, Lynch says. Rather than the sales performance of individual stores, businesses should pay attention to how customers engage with a brand: how frequently and on which platforms.

Having oversight of each individual customer's entire experience with a brand - from a query made about a particular product on Instagram to sales made in certain stores - will help companies make better decisions about where to direct their marketing spend and create a more personalised experience for the consumer.

Implementing sophisticated customer relationship management technology across an entire company represents a big investment. However, Lynch says brands of any size should start simply by mapping out their customers' journey. "Understand how your customers are using your website, how they are using your store, so you can see quickly where you should spend your marketing budget, what your channels are being used for, and also which bits are the pain points," she says. "A luxury fashion retailer is only as good as the weakest point in its customer journey."

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In McKinsey's 2020 report, fashion executives cited sustainability as both the biggest challenge and the biggest opportunity facing their businesses in the coming year

FASHION REGENERATION

Before the COVID-19 pandemic jolted the industry into crisis mode, one of the key concerns for fashion brands was sustainability. According to McKinsey's *State of Fashion 2020* report (tinyurl.com/BAM-StateOfFashion), fashion executives cited sustainability as both the biggest challenge and the biggest opportunity facing their businesses in the coming year.

In 2019, fashion companies including Kering, Burberry and dozens more signed the Fashion Pact, a commitment to mitigating climate change and reducing impact on the planet and focusing on the "first mile" of fashion supply chains.

Reducing impact on the planet - whether by switching to more environmentally friendly textiles and dyes, offsetting transport emissions or adopting systems to reduce and reuse waste - is likely to be an expensive endeavour for brands with long and complex supply chains. But for consumers, it's becoming non-negotiable.

"Younger consumers are really keen on sustainability as a given - not as an exceptional thing," says Lynch. "This hasn't happened overnight, but now brands are realising that in order to protect the lifetime value of their brand and secure the future of the company, you have to be addressing sustainability."

Prior to the pandemic, the trend towards more environmentally minded consumption - buying fewer, better quality items - was working in favour of the luxury end of the market, says Lynch. This was certainly the case for smaller premium brands, such as Me+Em, a British, direct-to-consumer womenswear company that sells dresses for around £300.

Stella McCartney is one British brand that has been working with sustainability in mind since its launch in 2001. The company details the materials it uses in each collection, and how sustainable they are. Its sustainability credentials were cited as the reason for LVMH acquiring a major stake in the company in 2019. "A decisive factor was that McCartney was the first to put sustainability and ethical issues on the front stage, very early on, and built her house around these issues," LVMH chief executive Bernard Arnault says.

Meanwhile, areas of the market linked to sustainability are seeing strong growth. High fashion resale, from companies such as The RealReal and Vestiaire Collective, which sell luxury goods second-hand, are growing in popularity and (according to McKinsey) bringing new customers into buying luxury.

"I think that market is going to grow," says Lynch. "There's a huge opportunity there for luxury brands to acknowledge the success of some of the past collections. I think it's becoming cooler to buy these brands in that way - people saying they're being savvier with their money or more sustainable. And consumers feel good doing that. It presents a challenge for the retailers, but why don't they become part of it and protect their brand?"

Despite the impact the pandemic is set to have on the industry, some are citing it as an opportunity. "It presents the industry with a chance to reset and reshape the industry's value chain completely," says Milantoni. "Themes of digital acceleration, discounting, industry consolidation and corporate innovation will be prioritised once the immediate crisis subsides."

According to him, the sector is in a better position to withstand an economic downturn than it was in 2009: "Brands are less dependent on wholesale than they were a decade ago, and the rise of ecommerce has led to a more direct relationship with consumers and more control over their stock." ●