

# IE Luxury Barometer 2016

*Time for strategy*

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# Foreword

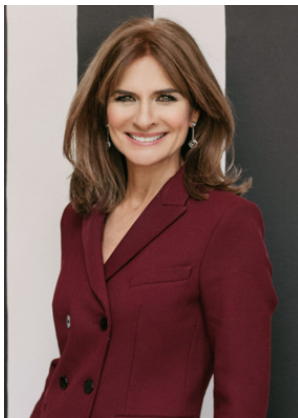
The IE Premium and Prestige Observatory started in 2010 with the goal of generating and sharing knowledge about the premium market and industry worldwide. With the support of MasterCard we have done research on the impact of the digital revolution on luxury clients' behaviour and the pace at which the industry is adapting, as well as focusing on the behaviour of the Millennials generation and the differences compared to baby boomers.

We have explored the meaning of memorable experiences and their key drivers. The Observatory has also supported premium and luxury entrepreneurship and has given visibility to sustainable luxury entrepreneurs. With the IE Luxury Barometer, the Observatory has created a tool to build applied knowledge about the sector and to provide support for action.

This "from experts to experts" research is based on the insight of industry executives, academics, investors, and observers. Thanks go to the panel of experts, who have generously shared their insights into the key themes that shape the priorities of the luxury industry by answering our questionnaire and also participating in the face-to-face debate.

I would like to thank the individuals who helped make the IE Luxury Barometer 2016 possible. Thanks to my co-author David Millán for his rigorous work and expertise. Thank you, Luca Solca and Carlos Delso for joining us for the presentation of this paper and sharing your learnings and experience.

We envision "IE Luxury Barometer" as a tool, valuable in generating knowledge for the premium and prestige industries. This third edition was about completing a full circle of identifying priorities for luxury experts and executives.



Maria Eugenia Girón  
Executive Director  
IE Premium and Prestige Observatory  
Co-author of IE Luxury Barometer 2016  
Madrid, 28 March 2017

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#### **About the IE Observatory**

By generating worthy research & insights in collaboration with industry partners the IE Premium & Prestige Business Observatory aims to be a global reference point and platform for pioneer knowledge for the premium market players in Spain, Europe, and worldwide.

#### **About David Millán Planelles**

Boards and top management advisor. Associate professor of strategy at IE Business School. Visiting professor at international institutions like INCAE in Costa Rica or the International University of Monaco. Published several case studies and articles on luxury strategy.

#### **About Mastercard**

The group is a world leader in payment solutions with the vision to use their unique expertise and technology to facilitate services in a world beyond cash. Mastercard launched the unique "priceless cities" program, offering cardholders one-of-a-kind experiences in cities around the globe.

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## Executive summary

The third edition of the *IE Luxury Barometer* by the *IE Premium & Prestige Business Observatory* investigates the issues that have the biggest impact on executives and companies in the luxury sector. In this edition the main results are as outlined below.

### **Disperse results anticipate future changes in the sector**

In the previous editions, the most important aspects were clearly differentiated in order of importance. However, in this edition we observe a highly disperse level of responses in the results as, other than the main priorities, there are a large number of subjects on the same scale of importance. The fact that the strategic priorities are not as clearly marked as in previous years may well be a symptom of changing environments that are characterised by uncertainty. For this reason, the greater dispersal of topics is associated with a situation that anticipates future changes.

This aspect was in fact verified during the breakfast with industry experts, where it was confirmed that ambiguity and the processes of change (digitalisation or new generations) hold the keys to understanding the industry today.

### **Experience remains an essential aspect**

The foremost aspect remains, for the third consecutive year, creating memorable experiences. It is significant how this aspect, against the current backdrop of change, remains a priority for luxury companies.

### **New priorities: CSR and tourism**

Two new topics occupy the most important positions in this edition. Following a growing trend over the past two years, in this edition Corporate Social Responsibility (CSR) is second in importance. As was already noted in the last edition, CSR has ceased to play a secondary role or be used merely for publicity, to become one of a luxury company's firm priorities. This is very significant, because it implies a strategic shift in organisations in the sense that they require new skills, processes and policies.

The second new development is the role of tourism as a growth agent, coming in third place. Against a background of stagnation in the industry, the role of tourism is considered as one of the most important avenues for development. It shows that growth, or rather the lack of it, is perceived as a key factor. In this sense, the return to the role of China in the most important positions is symptomatic.

## Conclusions – the problem of having an outlook that is more reactive than strategic

The most strategic aspects, such as the changes related to the business model and digitalisation, feature as less important. Added to this is the importance mentioned of a situation dominated by the lack of growth. Thus the results obtained appear to reflect a more reactive climate (tactical) than a proactive (strategic) one, pitched against the complexity of the market.

The most important aspects in the luxury sector display a status of uncertainty and somewhat reactive priorities. The dispersal of the basic topics shows signs of an environment that is facing a time of change. In this context, strategic vision becomes even more important.

The focus on growth now is possibly due to the higher levels of growth experienced in previous years. Against this background, the study seems to point to the fact that the diverse topics can be encompassed in two overall areas. The first is about maintaining the position of growth reached, and the second is providing the company with the resources necessary for them to deal with future challenges.

Ranking	Priority	Topic
1	61 %	Creating memorable experiences
2	54 %	Environmental and social responsibility.
3	50 %	Tourism as a key growth driver
4	41 %	Product personalization.
5	37 %	The appearance of new luxury categories
6	37 %	Reaching New Audiences and Generations
7	37 %	Re-inventing the role of retail
8	33 %	The effect of the mobile phone
9	33 %	The role of technology
10	33 %	Protect Exclusivity

# Objectives & methodology



## Introduction

While economic, social, and technological changes both affect and define opportunities in all business sectors, some have a special impact on the luxury industry. The search for an answer to the recurring question of how world issues impact the luxury industry, led us to undertake research in 2014 which resulted in a measurement of the ten most important issues for the luxury and prestige sector. We have called it the "IE Luxury Barometer: from experts to experts".

The third edition of the IE Luxury Barometer is an attempt by experts and professionals to summarise the key issues that have affected the luxury and prestige sector in 2016. A barometer is an instrument that measures pressure, a term that reflects what we wanted to highlight: the important issues that will mark and determine changes in the future and impact the agenda of luxury executives. As in the past, the list is neither exhaustive nor exclusive. Ten factors constitute a perspective. By delimiting the whole reflection, we were able to focus. However, we are aware that the list of topics does not finish here. It is an opinion given by experts to experts. Ultimately, they are the issues that experts agree have influenced their agenda in 2016 and that will shape their priorities in 2017.

In 2014, we identified three main, interrelated forces that have influenced the dynamics of the industry. The first was the impact of the changing values and expectations of younger generations, specifically the Millennials. The second force identified was the development of a digital economy that is transforming every market sector. E-commerce, social networks, social media, and platforms have had a deep impact on how businesses compete. Together, the generational change in expectations and the influence of digital are connected to the third driver – a growing desire for memorable experiences. These three forces can then be translated into three important, interrelated issues for the sector: new generations of consumers, the rise of the internet and technology, and the need and the challenge to create meaningful experiences.

In 2015, there were two additional topics that we identified as having had a deep impact on the luxury goods industry. The first was that China's rapid economic development has slowed and the second was that pricing had become increasingly challenging as a result of price transparency, currency evolution and the importance of global tourism. The results showed the importance of experiences, corporate social responsibility and online retailers.

In this 2016 edition we aim to continue identifying top priorities to be able to assess the fundamental aspects that shape the evolution of the luxury industry.

## Objectives

The two main objectives in this study are:

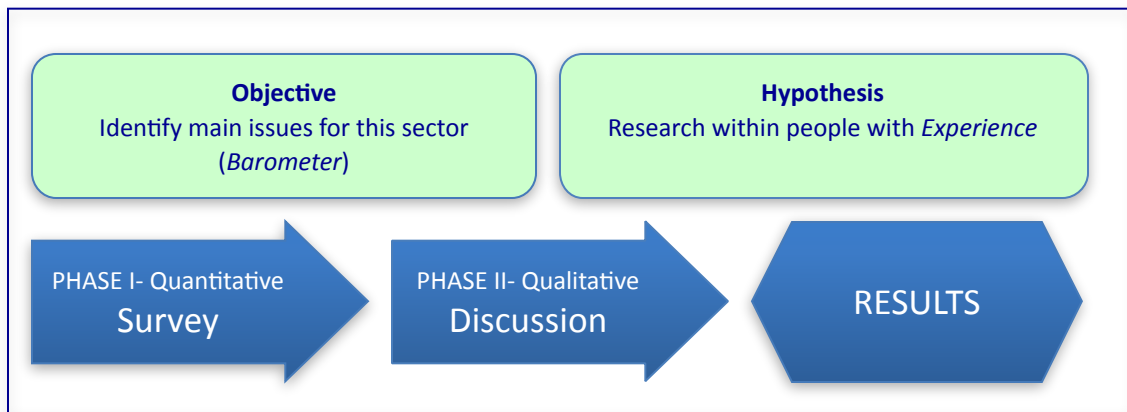
- to understand the point of view of experts and professionals regarding the most important aspects and trends in the luxury sector in 2016;
- to explore the implications that these aspects may have on the development of this sector in the immediate future and in the long term.

The study also intends to offer some specific knowledge that may help luxury companies with their business development.

## Methodology

To achieve this goal, as we have implemented over the past three years, the initial hypothesis we have formulated is that the ideal way to get this kind of knowledge is through people who have extensive and proven experience in this sector. This allows us to get direct knowledge about the current uncertainties and to forecast the potential relevant issues for the coming years.

The methodology of this study consisted of two separate phases. First, we carried out a quantitative research study with a population of 50 experts and professionals with a recognised knowledge of the sector. Second, there was a qualitative study based on a roundtable discussion of the results from the initial quantitative phase.



The essential aspects of the industry have been broken down into 40 relevant topics for the luxury and prestige sector in 2016, shown in Table 1 below (Exhibit 1 shows a more detailed description of the rationale behind this topic selection).

Table 1.- List of the initial 40 relevant issues in 2016

<p>External factors: Society &amp; Economy</p> <ol style="list-style-type: none"> <li>1. Socioeconomics and political turmoil to become an issue.</li> <li>2. The role of Macroeconomics and price disparity (e.g. the effect of the Brexit, taxes and trade barriers)</li> </ol> <p>Luxury Market: Industry &amp; Trends</p> <ol style="list-style-type: none"> <li>3. Private Equity becomes a more important player in the industry.</li> <li>4. Financial and corporate activity. IPO shows the value of independent and family heritage brands.</li> <li>5. Increase size and reach. Rivalry is shaped by size. Luxury firms need to become bigger as conglomerates and digitalization favors dominant players. This aspect also includes the role of M&amp;A.</li> <li>6. Tourism reinforced as a key driver for growth.</li> <li>7. Environmental and social responsibility.</li> <li>8. Wealth distribution and polarization.</li> <li>9. Facing the arrival of new players. Either small niche player or companies from emerging countries becomes a clear threat to traditional players.</li> <li>10. Distribution control &amp; vertical integration Given the Digital and vertical integration results in industry disruption (e.g. eyewear).</li> <li>11. Reaching new countries and destinations.</li> <li>12. The role of luxury capitals and city tourism.</li> <li>13. The role of Outlet and to control discounts.</li> <li>14. The role o China</li> </ol> <p>The concept of Luxury</p> <ol style="list-style-type: none"> <li>15. New technology driven categories. Luxury firms should focus on technology driven categories (e.g. wearable or internet of things: connected luggage, smart textile)</li> <li>16. The appearance of new luxury categories (e.g. athleisure or wellness)</li> <li>17. New values and beliefs associated to the concept of luxury. Luxury firms need to react to new demands and values associated to luxury</li> </ol> <p>Competitive Issues</p> <ol style="list-style-type: none"> <li>18. Access to key/scarce resources.</li> <li>19. Protect Exclusivity, aiming at absolute luxury positioning.</li> <li>20. Creating memorable experiences.</li> <li>21. Growth opportunities are scarce. Organic growth is more challenging.</li> </ol>	<p>Competitive Issues</p> <ol style="list-style-type: none"> <li>22. The need to balance management and creativity.</li> <li>23. Product personalization.</li> <li>24. The role of talent and creativity.</li> <li>25. The role of endorsement. Celebrities turned designers: a trend to engage with clients or create value.</li> <li>26. A time dilemma: reaching younger generations.</li> <li>27. Innovation in the process. Costs are evolving and require additional investment.</li> <li>28. Going niche. Luxury firms need to avoid generic (flagship) retail formats to provide exclusive, small and focused retail spaces.</li> </ol> <p>Business Model and Change</p> <ol style="list-style-type: none"> <li>29. The role of technology.</li> <li>30. Online retailers becoming more relevant. They have become a partner as they enhance a luxury firm's strategy.</li> <li>31. Online retailers becoming more relevant. They have become a potential threat to the traditional business model as they capture some of the value firms used to capture (they are faster and have a closer relationship with consumers)</li> <li>32. The role of Digital: Adaptation to E-commerce and new commercial activities.</li> <li>33. The role of Digital: Adaptation of the traditional communication activities to engage clients.</li> <li>34. The role of Digital: Develop new Resources and Capabilities to compete on a digital era</li> <li>35. New business models. New or evolved ways to compete in the marketplace, particularly adapting the traditional business model to compete on a digital era.</li> <li>36. Reinventing the retail business model. Luxury firms need to re-invent the role of the physical store (e.g. new ways to provide experiences, technology and digital interaction, balance off-line with online)</li> <li>37. Omni-Chanel. The retail and the online spaces need to be integrated.</li> <li>38. Re-designing on-line service. Speed, See-now buy now, Fast delivery, among other aspects need to be accomplished to provide an excellent online experience.</li> <li>39. Payment systems. Luxury need to adapt to new payment systems (e.g. mobile)</li> <li>40. The effect of the mobile phone. Mobile is essential for luxury firms (e.g. improve service, one to one relationships, apps providing additional services or payment)</li> </ol>
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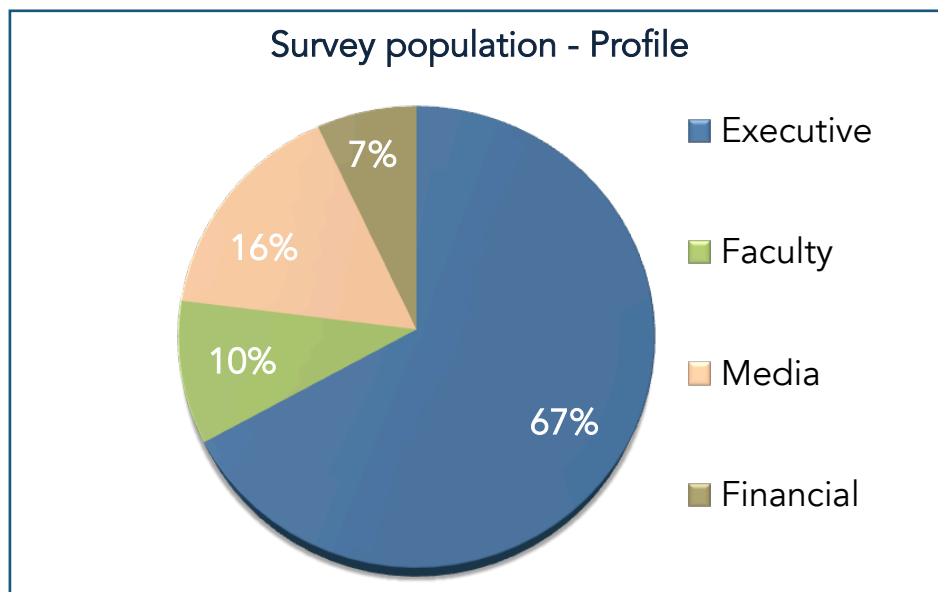
### Quantitative phase of the study

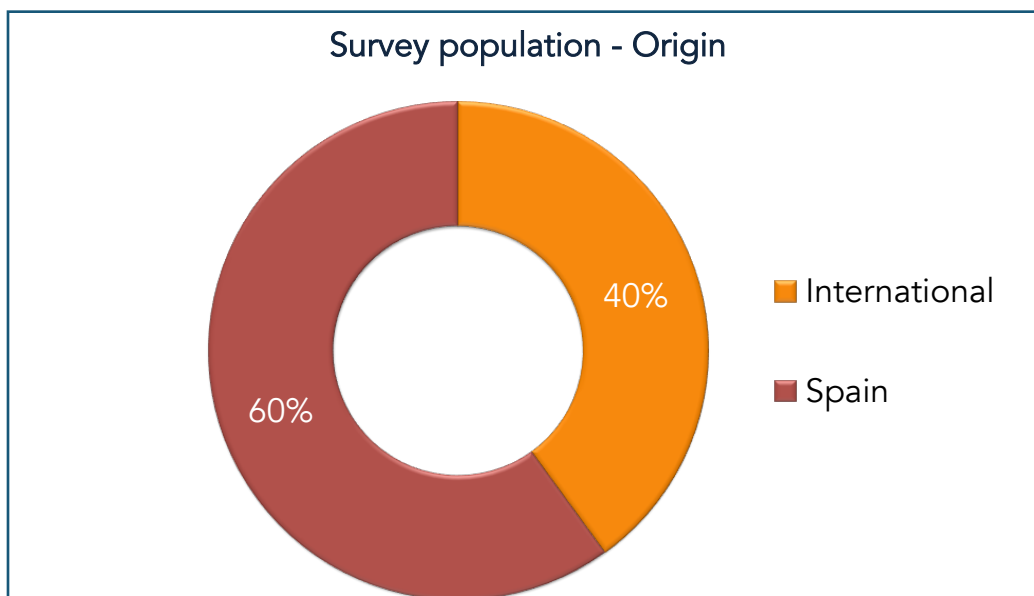
The panel of experts received a list of the final 40 topics. During the quantitative phase, each participant had to select the 10 topics that they considered to be the most relevant from the proposed list of 40. They were also given the opportunity to add any one additional topic not previously listed.

Due to the difficulty of accessing a population with the vast knowledge about the subject required for this study, the size of the population surveyed was limited. The initial sample size was 50 people. It should be taken into account that such a population size is not representative, and this is the reason why the survey results are complemented with a second qualitative phase. To provide more diversity to the study, we selected participants from four different profiles:

- Executive: professionals with extensive experience in any luxury industry and with expertise in management decisions.
- Faculty: renowned business school academics with expertise in this sector and with specialised publications.
- Media: luxury media professionals.
- Financial: finance industry professionals with expertise and involvement in the sector (investors, analysts, etc.)

The profile and origin of the surveyed population is shown in the tables below.





#### Qualitative phase of the study

The qualitative phase was multi-purposed. The objectives of this phase were:

- to dig deeper into the results obtained during the quantitative phase;
- to validate the selection of the ten main topics and explore the reasons behind their importance, something that is usually hard to do with highly quantitative studies;
- to distinguish between elements with a similar statistical weight, which is a highly significant aspect given the small sample size;
- to explore the differences with the results of the 2014 and 2015 IE Luxury Barometer.

The qualitative phase was organised as a two-hour panel discussion, and included 10 participants from the quantitative study. To establish a discussion about the suitability of each topic, each participant began by explaining the reasons behind their selections in the quantitative study. This discussion enabled an improvement in the understanding of each topic, a validation of the selection of the ten most important issues, and the identification of the differences compared to 2014 and 2015. The conclusions obtained from this phase are highly relevant as they identify the most important topics and explore their causes.

# Results. IE Luxury Barometer 2016

## **The top three priorities are clearly differentiated**

The creation of memorable experiences, social and environmental responsibility and tourism as a growth factor are among the most important aspects.

## **Few differences in the rest of the priorities**

The positions from 4 to 10 do not show any big differences in terms of importance. This is associated with a market situation characterised by a lack of growth and a high level of uncertainty.

## **The role of the new and featured topics**

Two new topics (reinventing the physical store and the role of the mobile phone) go straight into the top 10. These topics are indicative of a situation of transformation and change, which is consistent with the current situation of ambiguity and change.

## Quantitative phase results: survey.

The list of the results obtained from the first phase of the questionnaire can be found below:

	Priority*	Topic
1	61 %	Creating memorable experiences
2	54 %	Environmental and social responsibility.
3	50 %	Tourism as a key growth driver
4	41 %	Product personalization.
5	37 %	The appearance of new luxury categories
6	37 %	Reaching New Audiences and Generations
7	37 %	Re-inventing the role of retail
8	33 %	The effect of the mobile phone
9	33 %	The role of technology
10	33 %	Protect Exclusivity
11	33 %	The role of China
12	33 %	New values and beliefs associated to the concept of Luxury

(\*) By priority we mean the % of participants that put the topic within their Top 10.

Among the first 10 topics we can identify four levels in terms of importance.

- Firstly, and in a prominent position, are memorable experiences. This is the number one priority for executives in the luxury industry, as indicated by it having been chosen by 61% of the population surveyed.
- Social and environmental responsibility together with tourism are in second place with a level of 50%
- There is a third level which encompasses customisation, the new categories, reaching new generations and reinventing the role of the physical store (retail).
- Lastly, there is a fourth level that includes five topics of equal importance: the effect of the mobile, the role of technology, protecting exclusivity, the role of China and the new values associated with the concept of luxury.

The complete listing of the results is shown below:

Ranking	Priority	Topic
1	61 %	Creating memorable experiences
2	54 %	Environmental and social responsibility.
3	50 %	Tourism as a key growth driver
4	41 %	Product personalization.
5	37 %	The appearance of new luxury categories
6	37 %	Reaching New Audiences and Generations
7	37 %	Re-inventing the role of retail
8	33 %	The effect of the mobile phone
9	33 %	The role of technology
10	33 %	Protect Exclusivity
11	33 %	The role of China
12	33 %	New values and beliefs associated to the concept of Luxury
13	30,43%	The role of talent and creativity.
14	28,26%	The role of Digital: Adaptation to E-commerce and new commercial activities.
15	28,26%	Focus on Omni-Channel.
16	28,26%	Facing the arrival of new players.
17	26,09%	The role of luxury capitals and city tourism.
18	23,91%	New technology driven categories.
19	23,91%	Online retailers becoming more relevant. Potential.
20	21,74%	The need to balance management and creativity.
21	19,57%	New business models.
22	19,57%	Socioeconomics and political turmoil to become an issue
23	19,57%	Reaching new countries and destinations.
24	19,57%	Going niche.
25	19,57%	Distribution and vertical integration
26	17,39%	The role of Digital: Develop/Acquire new resources and Capabilities to compete on a digital era
27	17,39%	Access to key/scarcce resources.
28	17,39%	The role of Outlets and the control of discounts.
29	17,39%	The role of Digital: Adaptation of the traditional communication activities to engage clients.
30	17,39%	The role of Macroeconomics and price disparity
31	17,39%	Re-imagine on-line service.
32	15,22%	Wealth. Distribution and Polarization
33	15,22%	Increase size and reach.
34	10,87%	Online retailers becoming more relevant. Threat.
35	10,87%	Private Equity becomes a more important player in the industry.
36	8,70%	The role of endorsement.
37	6,52%	Financial and corporate activity: IPO
38	6,52%	Growth opportunities are scarce.
39	2,17%	Payment systems.
40	2,17%	Innovation in the process and costs control.

## Qualitative phase results: round table with experts.

Once the results of the quantitative phase were obtained and the most important issues were identified we moved on to the qualitative study.

We met with a representative group of the surveyed experts at the IE Business School facilities on 9 March 2016. During this phase there were 10 expert participants, including the study's authors Maria Eugenia Girón and David Millán Planelles. All of the participants had at least 15 years of experience, with the maximum responsibility. Given their recognised achievements and extensive experience in this sector, the expert panel is a guarantee of the quality of the results obtained.

The meeting lasted for two hours and it was structured as follows:

- Item one: presentation of the survey results;
- Item two: a personal evaluation of the results in turn by each participant;
- Item three: discussion about the participants' reflections when evaluating the results obtained, as well as their motives; assessment of differences in the top 10;
- Item four: comparison to 2014-2015 results, exploring the rationale for any differences;
- Item five: final personal round in which every participant shares their conclusions from the discussion.

The discussion, along with the exchange of opinions, has influenced the results of the study. The qualitative phase allowed us to:

- **give context to** the results obtained in the quantitative phase by providing examples and gaining greater clarity to better understand the issues;
- **obtain more depth:** the expert panel enabled a discussion about the reasons and rationale behind the selection of the top 10 topics;
- **discuss differences** with the results of last year's barometer.

The Premium and Prestige Business Observatory would like to thank the panel of experts for their courtesy and their efforts. To be able to gather together people with such responsibility within their companies for a whole morning is a significant gesture of their commitment to this study.

The list of experts who participated in our panel:

- **Enrique Valero** – CEO, Abadía Retuerta
- **Carlos Delso** – CEO, Suarez
- **Ana Carrasco** – Creative Director, Malababa

- **Susana Ibañez** – Marketing Director, Condenast Spain.
- **Vicente Bosque** – Partner, ONEtoONE Corporate Finance
- **Javier Plazas** – Coolhunter and Brand Manager, Vidorreta
- **Estefanía Berasategui** – DEIFONT Fashion Retail Advisors
- **Lala Herrero** – former Editor-in-Chief, Cosmopolitan
- **M<sup>a</sup> Eugenia Girón** – Executive Director, Premium and Prestige Business Observatory at IE Business School
- **David Millán** – Associate Luxury Strategy Professor, IE Business School

Key comments raised during the discussion stage are shown below:

#### **Lala Herrero**

“Sustainability is linked to the newer generations.”

“Tourism is influenced by the homogeneity of price on the internet.”

“Millennials reject waste, the squandering of water, demand that brands change their production processes.”

“Vestiaire Collective is also a great revolution as it is mobile. It plays a key role.”

#### **Carlos Delso**

“The very diverse answers demonstrate a great deal of uncertainty in the sector and that priorities are not so clear.”

“With social networks, now customers not only buy from you, they also follow you.”

“As we have had a bad year of sales in tourism in Spain, brands are concerned. It is a reactive response.”

“Luxury brands change, but they don't talk about it. Hermes began to sell online in 2001.”

“The reality is that with a GDP that does not grow, new generations will have lower disposable incomes. The luxury price point is changing.”

“#futureisnow, the change has already come”

#### **Enrique Valero**

“The mobile is a critical factor, not only from the perspective of sales. Millennials are born with a mobile in their hands.”

“The customer is more demanding in industries characterised by creativity.”

“One can never forget the role of talent and creativity.”

“Exclusivity and customisation, this is what comes out in our satisfaction surveys. It is what makes the customer feel special. Service is essential in this.”

#### **Vicente Bosque**

“Commodities are scarce. So there is movement in M&A to buy in suppliers upstream. The problem is raw materials and this is linked to social responsibility.”

“Today there are restrictions on currencies that Chinese tourists can take out. That has an impact on their purchases as a tourist.”

"Online sales through mobile phones in Europe are at 30%. In China, it's 60%. It is estimated that in 2020 it will be 80%."

**Susana Ibáñez**

"Access to a mobile can threaten exclusivity. The challenge lies among reaching the many through the mobile without losing the exclusivity."

"The relationship between mobiles and younger generations is essential."

"Luxury is a personal concept."

"The responses do not reflect the future; they reflect the concerns of today."

**Javier Plazas**

"Experience is being quick to respond, such as on Facebook."

"There is not so much talent. There are many qualified people. Talent is something else."

"Technology does not appear much in the top few positions; this reflects a conservative industry."

"What is important is to protect exclusivity in a different way. Vetements is an exercise in collaboration."

"In the Louis Vuitton and Supreme alliance, Supreme is the one that has become less exclusive!"

"The winner of the new prize of the new categories is sports brands. In five years Nike will be a luxury brand. Athleisure is a threat for luxury."

"In a globalised world everyone is seeking their own customisation. Moving from the macro to the ultra-micro."

**Ana Carrasco**

"People want to define their own idea of luxury. People do not want be told what is and what isn't luxury. Luxury cannot be imposed."

"Luxury supports customers' beliefs and not the other way round. The client sets the rules; brands cannot do this."

"We travel to find different things. If you go to Portofino you have go to the craftsman to buy the sandals."

"The least luxurious thing in the world is shopping without taking sustainability into account."

"A product made differently, that can stand to explain its own values, is what creates the value. That is the experience."

**Estefanía Berasategui**

"I believe in a luxury integrated backwards: new materials, sports fabrics, synthetic leather, sneakers... there will be a revolution."

"Luxury is reactive to researching new materials."

"We live longer, every generation wants to be different."

"Brands are trying to adapt to everyone and cater to very wide audiences. These are moments of uncertainty and volatility."

The main conclusions that can be drawn from the discussion phase are listed below:

- The role of sustainability as a strategic element is confirmed.
- There is a clear concern about how short-term issues and a lack of growth may limit the strategic discussion. This would explain the importance in 2016 of tourism as an essential lever for growth. Companies thus focus on a reactive vision of growth that reactivates and brings creativity.
- The climate of uncertainty is confirmed, displaying the greatest concentration of priorities in the ranking.

Furthermore, as a result of the discussion, the experts stressed that in view of the evenness in the results, the topics “the role of China” and “new values in luxury” were related to issues already existing in the top 10, so they were not considered in the final top 10.

## Results. the IE Luxury Barometer 2016

Finally the list of the 10 most important topics for the luxury industry in 2016 according to the IE Luxury Barometer are:

Ranking	Priority	Topic
1	61 %	Creating memorable experiences
2	54 %	Environmental and social responsibility.
3	50 %	Tourism as a key growth driver
4	41 %	Product personalization.
5	37 %	The appearance of new luxury categories
6	37 %	Reaching New Audiences and Generations
7	37 %	Re-inventing the role of retail
8	33 %	The effect of the mobile phone
9	33 %	The role of technology
10	33 %	Protect Exclusivity

The main conclusions that can be drawn from the list of 10 priorities are:

### **The top three are clearly differentiated**

The top positions are clearly differentiated in the priority ranking: in first place, the creation of memorable experiences; in second place, social and environmental responsibility; in third place, tourism as a growth factor.

In this respect it should be noted that experiences coming in first place is a repeat of previous years, while it is the first time that sustainability and tourism appear in such a prominent position.

**Few differences in the rest of the priorities**

From position four to ten there is not a big difference in terms of priorities. Thus 41% of the experts surveyed mentioned customisation, while in the final positions of the top 10, the topics are topics mentioned by 33% of the experts.

These differences are not very significant (and even less so if compared with the results from previous years as shown in the following section). As the round table discussion with the experts has shown, this may be indicative of a more complex market situation from the point of view of growth.

Moreover, this could also be indicative of a more ambiguous market situation. This would explain the greater number of topics in the top 10 with such little difference in their level of priority, since a greater number of topics on a similar level of importance is related to the complexity of setting clear priorities in the management of the company.

**The role of the new and featured topics**

Finally it should be noted that two topics introduced for the first time in 2016 have gone straight into the top 10. Firstly, we have the role of reinventing the physical store and the role of the mobile phone. The importance of these topics seems to indicate the situation of change and transformation in the classic competitive aspects of the industry. This would be consistent with the situation of ambiguity and change in the market mentioned in the previous point.

In the following section, these conclusions are complemented by an analysis of the evolution of the IE Luxury Barometer over the last three years.

# Identifying trends: IE Luxury Barometer results from 2014 to 2016

There is a correlation between the focus on the importance of the topics and the evolution of the industry. Thus, situations where the topics are concentrated are associated with a low level of growth.

Experiences feature as an unquestionable priority. Customisation remains in an important position.

Sustainability is the growing theme.

The topics that have gone down in importance are protecting exclusivity and technological innovation.

The volatility of the topics is linked to the volatility of the market.

## Evolution 2014 - 2016

The evolution of the top 10 topics in the three editions of IE Luxury Barometer is shown below:

Priority	2016	Priority	2015	Priority	2014
1	<b>61 %</b> Creating memorable experiences	<b>81%</b>	Creating memorable experiences	<b>77%</b>	Creating memorable experiences
2	<b>54 %</b> Environ. and social responsibility	<b>59%</b>	Online retailers more relevant	<b>65%</b>	Protect Exclusivity
3	<b>50 %</b> Tourism as a key growth driver	<b>57%</b>	The role of talent and creativity.	<b>65%</b>	New Audiences / New Values
4	<b>41 %</b> Product personalization	<b>52%</b>	Product personalization	<b>58%</b>	Product Personalization
5	<b>37 %</b> New luxury categories	<b>52%</b>	Environ. and social responsibility.	<b>52%</b>	Internet - E-commerce
6	<b>37 %</b> Reach New Audiences/Generations	<b>50%</b>	Protect Exclusivity	<b>48%</b>	Innovation in the process.
7	<b>37 %</b> Re-inventing the role of retail	<b>45%</b>	Balance Mngmt and creativity.	<b>48%</b>	Environ. and social responsibility.
8	<b>33 %</b> The effect of the mobile phone	<b>43%</b>	Digital - Communicate with clients	<b>45%</b>	Tourism a key growth driver
9	<b>33 %</b> The role of technology	<b>40%</b>	Growth opportunities are scarce.	<b>45%</b>	New values and beliefs of luxury
10	<b>33 %</b> Protect Exclusivity	<b>40%</b>	Biz. model (compete & digitization)	<b>45%</b>	Control – Distr. and Vert. Integration
11	<b>33 %</b> The role of China	<b>40%</b>	Reaching younger generations.	<b>45%</b>	Internet – Communicate with clients
12	<b>33 %</b> New values and beliefs of luxury				

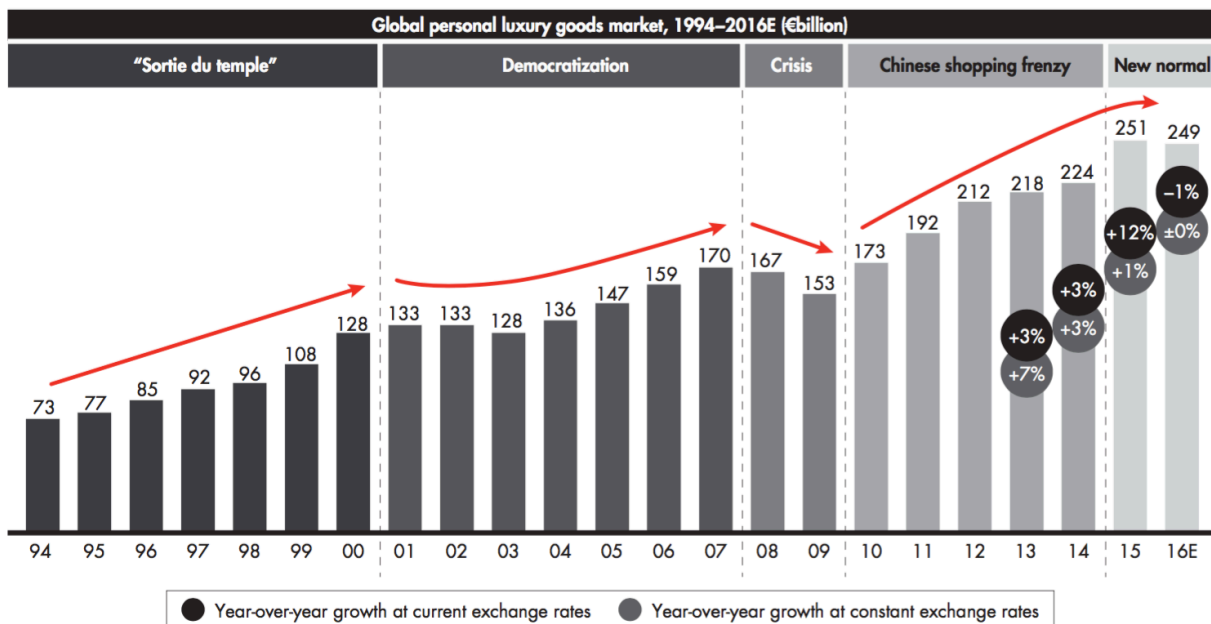
An analysis of how the IE Luxury Barometer has changed reveals the following conclusions:

### 1. Correlation between the concentration of the topics and the evolution of the sector.

The evolution of the sector in terms of growth (Altgamma & Bain, 2016) and the evolution of the concentration of the topics in the top 10 of the IE Luxury Barometer seem to be related. Thus, during the years of low growth, there is little difference in the priority of the topics.

So in 2014 and 2016, years of low to zero growth, IE Luxury Barometer priorities are concentrated, with a high amount of topics with a similar level of importance in the lower part of the top 10 (in green in the figure above). The top positions are also less different from the rest. This contrasts with 2015, which combines a high level of growth with a much clearer and differentiated order in the priorities identified.

	Priority 2016	Priority 2015	Priority 2014
1	61 % Creating memorable experiences	81 % Creating memorable experiences	77 % Creating memorable experiences
2	54 % Environ. and social responsibility	59 % Online retailers more relevant	65 % Protect Exclusivity
3	50 % Tourism as a key growth driver	57 % The role of talent and creativity.	65 % New Audiences / New Values
4	41 % Product personalization	52 % Product personalization	58 % Product Personalization
5	37 % New luxury categories	52 % Environ. and social responsibility.	52 % Internet - E-commerce
6	37 % Reach New Audiences/Generations	50 % Protect Exclusivity	48 % Innovation in the process.
7	37 % Re-inventing the role of retail	45 % Balance Mngmt and creativity.	48 % Environ. and social responsibility.
8	33 % The effect of the mobile phone	43 % Digital - Communicate with clients	45 % Tourism a key growth driver
9	33 % The role of technology	40 % Growth opportunities are scarce.	45 % New values and beliefs of luxury
10	33 % Protect Exclusivity	40 % Biz. model (compete & digitization)	45 % Control – Distr. and Vert. Integration
11	33 % The role of China	40 % Reaching younger generations.	45 % Internet – Communicate with clients
12	33 % New values and beliefs of luxury		



Source: Bain & Company

Source (Bain and Altagamma 2016)

## 2. Experiences feature as an unquestionable priority; customisation is maintained.

Despite changes in the market, creating memorable experiences is the indisputable priority for experts in the luxury sector. It should be noted, as pointed out above, that there is a correlation between the relative importance of experiences (% of experts that selected it as a priority) and the growth of the sector. In 2015, the year showing the greatest growth in the period, experiences became a more clearly marked priority (with a level of 81%).

Customisation (or personalisation) is the other aspect that remains in a stable and important position.

	2016	2015	2014
1	61 % <i>Creating memorable experiences</i>	81% <i>Creating memorable experiences</i>	77% <i>Creating memorable experiences</i>
2	54 % <i>Environ. and social responsibility</i>	59% <i>Online retailers more relevant</i>	65% <i>Protect Exclusivity</i>
3	50 % <i>Tourism as a key growth driver</i>	57% <i>The role of talent and creativity.</i>	65% <i>New Audiences / New Values</i>
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11	33 % <i>The role of China</i>	40% <i>Reaching younger generations.</i>	45% <i>Internet – Communicate with clients</i>
12	33 % <i>New values and beliefs of luxury</i>		

### 3. Sustainability, the growing theme.

Corporate social and environmental responsibility clearly stands out, with a sustained increase during the three-year period.

	2016	2015	2014
1	61 % <i>Creating memorable experiences</i>	81% <i>Creating memorable experiences</i>	77% <i>Creating memorable experiences</i>
2	54 % <i>Environ. and social responsibility</i>	59% <i>Online retailers more relevant</i>	65% <i>Protect Exclusivity</i>
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11	33 % <i>The role of China</i>	40% <i>Reaching younger generations.</i>	45% <i>Internet – Communicate with clients</i>
12	33 % <i>New values and beliefs of luxury</i>		

### 4. Aspects declining in importance: protecting exclusivity and technological innovation.

One topic that has clearly declined in importance is the protection of exclusivity. This area may be explained as the apparently complex issue for companies to combine two aspects that are essentially opposed to one another: growing the business versus the value of exclusivity that an inherent feature of luxury. However this drop may also be another sign to suggest that companies should give precedence to more strategic issues such as creating value rather than simply focusing on growth.

Another topic that has gone down slightly in importance is innovation and technology. In 2014, questions were asked about the role of innovation, while in later editions this topic has been reformulated into the role of technology in the production process. For this reason, both topics are related.

	2016	2015	2014
1	61 % <i>Creating memorable experiences</i>	81% <i>Creating memorable experiences</i>	77% <i>Creating memorable experiences</i>
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## 5. Aspects linked to market volatility.

There are a number of topics that have proved to be volatile as their position has gone up and down in the ranking over the three years of the study. These are:

- tourism as a key driver of growth;
- reaching younger generations;
- new values in luxury;
- the role of China.

This would seem to be another area that displays a correlation between growth and the importance of the topics. These themes seem to have a more direct relationship with sales and direct growth. However, it is true that the topic “luxury values” can also be understood as a long-term theme. Thus the relationship between the importance of the topic and a lack of growth is a direct one.

This is consistent with the correlation pointed out in the previous point between growth and the importance of the topics. It shows how, faced with a market struggling with growth, the topics related to promoting the growth of the company become more important.

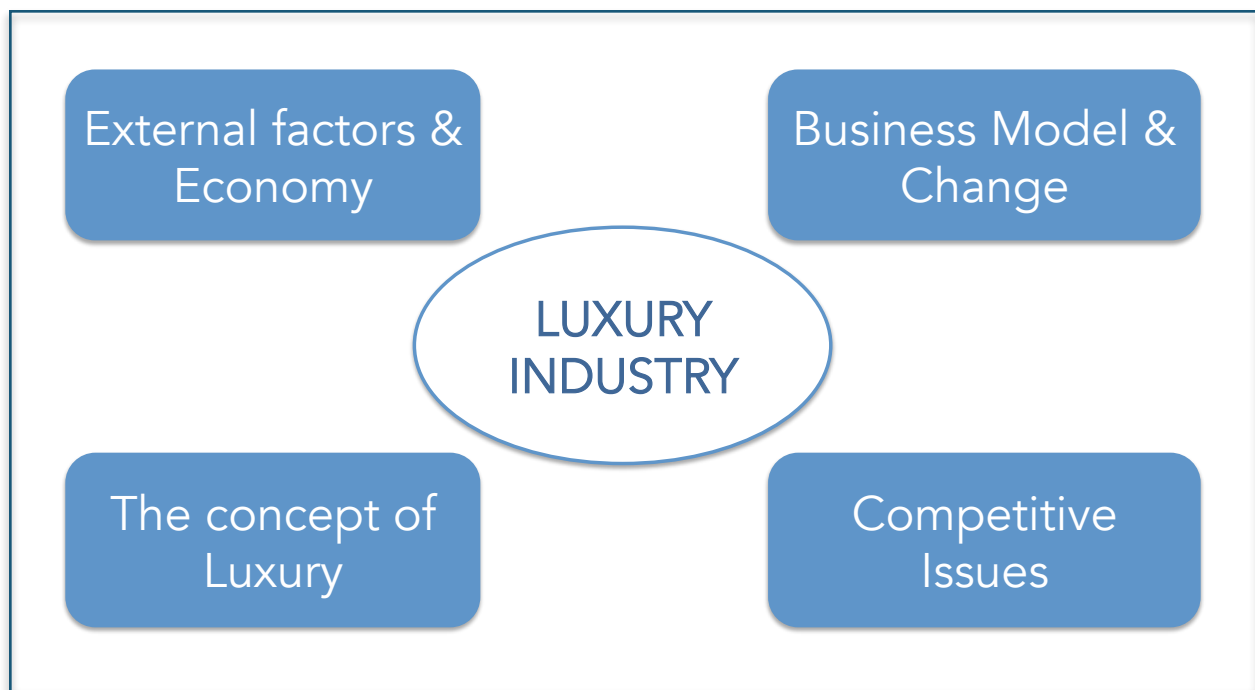
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# Exhibits & bibliography



## Exhibit 1.- Main topics definition

A list of relevant issues was defined for the quantitative study. The authors of this study, María Eugenia Girón Dávila and David Millán Planelles, based the initial identification of the relevant aspects for the sector on their professional expertise. During two joint work sessions they determined a list of eight issues of relevance from which they could define the essential topics for the 2014 study. Then, in 2015, two additional topics were added to the list. Similarly, in 2016 the original topics were considered and expanded based on the strategic approach to the market shown below.



The discussion carried out to define these four main essential themes was also based on an observation of the market and identifying examples that were considered representative and remarkable. A selection of the examples taken into account in order to make the initial selection of the essential topics is found below.

### **External factors & economy**

The aim of this theme is to pinpoint the external aspects that have an influence on how luxury firms evolve.

- The role of the Brexit – the potential impact on the UK and on the global market.

- The evolution of the Chinese economy, as in previous years, might affect the luxury industry. On top of that, the Chinese economy also has a direct relationship with the consumption of luxury goods by Chinese tourists.
- Brazil – in spite of the political turmoil, the industry was opening stores in 2016 (Polo, Versace, Cartier).

### **Business model & change**

Here, we aim to encapsulate the aspects that bring change to the traditional business model of luxury firms, particularly the digitalisation of the business model. This has provided several examples in different areas (communication, distribution, supply chain, service or payment among others). Here are some of the examples considered.

- Platforms (Amazon) versus e-tailers (Farfetch). Amazon is upgrading by selling ranges of jewellery, which is increasing rivalry in online channels;
- Expectations of service are re-defined: Amazon with its two-hour delivery is redefining online service, creating a customer service battle, with retail companies like El Cortes Inglés launching two-hour delivery in 60 cities in Spain.
- Second-hand luxury e-store development: TheRealReal in the US or Vestiare Collective in Europe.
- Becoming more and more omni-channel. Burberrys has set up their retail business as a theatre connecting real and virtual, which is an example of the possibilities that omni-channel represents.
- New distribution trends: see-now, buy-now is becoming more popular among luxury brands, with examples such as Burberry or Tom Ford
- The role of the sharing economy, which is becoming more popular in different industries (automobile: Daimler-Benz with Car2go, fashion: Vestiare Collective)
- The mobile phone is becoming more popular with the arrival of mobile apps that improve business at different levels. Chaumet's city guide app for lovers "You me Paris" has proved that communicating a company's values is not necessarily something that has to be done at the store. The Spanish high-end hotel chain Hospes has launched an app to engage, communicate and provided added services for clients.
- The role of new payment systems and the launch of new payment mobile apps.
- Several have seen the discussions on specialised media about the need to integrate online activities with offline activities. This shows the trend of real omni-channel systems becoming a priority for luxury firms.

### **The concept of Luxury**

The aim of this theme is to pinpoint the new trends and events that show and involve an understanding of the concept of luxury.

- Personalisation has become mainstream now: Lewis & Taylor shop ready to customise shirts.

- The arrival of younger generations like the Millennials is a subject that has been always considered in the Barometer.
- New categories associated with the concept of luxury. The evolution of “athleisure” is a clear example. Companies like Nike have been upgrading their product offering to reach a more affluent clientele. This has enabled luxury firms to enter relatively new product categories, for instance Louis Vuitton becoming very popular for their sneakers in Silicon Valley.

### **Competitive issues**

With this theme we include the evolution of the classical competitive aspects. Here we summarise the main examples in the areas of strategy, marketing, human resources, finance and operations.

- Eyewear is a signal of the dynamism in entry level categories. Relatively new players are becoming more popular (the likes of Warby Parker or Gentle Monster). Another clear signal of the competitive dynamics is the merger of main players like Essilor and Luxottica.
- Celebrities have become designers (Gigi Hadid & Tommy Hilfiger, Liv Tyler & Belstaff).
- Momentum for luggage brands fueled by Rimova.
- Well-being: “there is no point being a well-dressed corpse” article at BoF refers to a redefinition of life priorities.
- Social and environmental responsibility is becoming more important. A Guardian article in February 2017 was titled “Sex does not sell anymore, activism does. And don’t the big brands know it”.
- The role of social networks in delivering a value proposition is booming. Here we have considered the role of instagrammers/influencers working with luxury cosmetic brands.
- The Internet of Things (IoT) is expected to impact the market more significantly. This year we have seen news related to products such as smart textiles, smart luggage and of course wearables.
- Imperative to innovate. Alessandro Michele of Gucci allowed brand to surpass the EUR 1 billion mark.
- Niche brands growing fast as innovation is highly valued (Fendi, Moncler, etc.)
- The role of M&A. This year there has been quite a moderate approach to M&A, but we have still seen some examples, such as the acquisition of Rimova by LVMH.
- Growth and scale issues, e.g. mechanical watch companies like Richemont are downsizing.
- The role of outlets – new outlets opening (like The Style Outlet in Barcelona) signal the growth of this market.
- The retail format has shifted in 2016. Chanel has launched niche stores for shoes, signalling a trend against the homogeneous and big flagship concept.

Based on the described study, the ten essential aspects of the industry have been broken down into 40 relevant topics for the luxury sector in 2016. To avoid biased perspectives, the list has been sent without mentioning the four main themes.

<p>External factors: Society &amp; Economy</p> <ol style="list-style-type: none"> <li>1. Socioeconomics and political turmoil to become an issue.</li> <li>2. The role of Macroeconomics and price disparity (e.g. the effect of the Brexit, taxes and trade barriers)</li> </ol> <p>Luxury Market: Industry &amp; Trends</p> <ol style="list-style-type: none"> <li>3. Private Equity becomes a more important player in the industry.</li> <li>4. Financial and corporate activity. IPO shows the value of independent and family heritage brands.</li> <li>5. Increase size and reach. Rivalry is shaped by size. Luxury firms need to become bigger as conglomerates and digitalization favors dominant players. This aspect also includes the role of M&amp;A.</li> <li>6. Tourism reinforced as a key driver for growth.</li> <li>7. Environmental and social responsibility.</li> <li>8. Wealth distribution and polarization.</li> <li>9. Facing the arrival of new players. Either small niche player or companies from emerging countries becomes a clear threat to traditional players.</li> <li>10. Distribution control &amp; vertical integration Given the Digital and vertical integration results in industry disruption (e.g. eyewear).</li> <li>11. Reaching new countries and destinations.</li> <li>12. The role of luxury capitals and city tourism.</li> <li>13. The role of Outlet and to control discounts.</li> <li>14. The role of China</li> </ol> <p>The concept of Luxury</p> <ol style="list-style-type: none"> <li>15. New technology driven categories. Luxury firms should focus on technology driven categories (e.g. wearable or internet of things: connected luggage, smart textile)</li> <li>16. The appearance of new luxury categories (e.g. athleisure or wellness)</li> <li>17. New values and beliefs associated to the concept of luxury. Luxury firms need to react to new demands and values associated to luxury</li> </ol> <p>Competitive Issues</p> <ol style="list-style-type: none"> <li>18. Access to key/scarce resources.</li> <li>19. Protect Exclusivity, aiming at absolute luxury positioning.</li> <li>20. Creating memorable experiences.</li> <li>21. Growth opportunities are scarce. Organic growth is more challenging.</li> </ol>	<p>Competitive Issues</p> <ol style="list-style-type: none"> <li>22. The need to balance management and creativity.</li> <li>23. Product personalization.</li> <li>24. The role of talent and creativity.</li> <li>25. The role of endorsement. Celebrities turned designers: a trend to engage with clients or create value.</li> <li>26. A time dilemma: reaching younger generations.</li> <li>27. Innovation in the process. Costs are evolving and require additional investment.</li> <li>28. Going niche. Luxury firms need to avoid generic (flagship) retail formats to provide exclusive, small and focused retail spaces.</li> </ol> <p>Business Model and Change</p> <ol style="list-style-type: none"> <li>29. The role of technology.</li> <li>30. Online retailers becoming more relevant. They have become a partner as they enhance a luxury firm's strategy.</li> <li>31. Online retailers becoming more relevant. They have become a potential threat to the traditional business model as they capture some of the value firms used to capture (they are faster and have a closer relationship with consumers)</li> <li>32. The role of Digital: Adaptation to E-commerce and new commercial activities.</li> <li>33. The role of Digital: Adaptation of the traditional communication activities to engage clients.</li> <li>34. The role of Digital: Develop new Resources and Capabilities to compete on a digital era</li> <li>35. New business models. New or evolved ways to compete in the marketplace, particularly adapting the traditional business model to compete on a digital era.</li> <li>36. Reinventing the retail business model. Luxury firms need to re-invent the role of the physical store (e.g. new ways to provide experiences, technology and digital interaction, balance off-line with online)</li> <li>37. Omni-Chanel. The retail and the online spaces need to be integrated.</li> <li>38. Re-designing on-line service. Speed, See-now buy now, Fast delivery, among other aspects need to be accomplished to provide an excellent online experience.</li> <li>39. Payment systems. Luxury need to adapt to new payment systems (e.g. mobile)</li> <li>40. The effect of the mobile phone. Mobile is essential for luxury firms (e.g. improve service, one to one relationships, apps providing additional services or payment)</li> </ol>
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