

IE LUXURY BAROMETER 2018

By David Millán Planelles

ie
Premium and Prestige
Business Observatory

FOREWORD



We present **IE Luxury Barometer 2018**, the fifth edition of this annual research done at IE Premium & Prestige Observatory. We build “IE Luxury Barometer” as a pool among luxury industry experts and executives to identify their priorities and to measure what keeps them awake at night. We compare the results with those of the previous year and with updated data on the industry and we explore the differences in priorities for luxury experts and executives between Europe and the US. IE Premium and Prestige Observatory started in 2010 with the goal of generating and sharing knowledge about the premium and luxury market and industry worldwide. With the support of Mastercard we have done research on various dimensions of the premium sector and the premium market with a strong focus on premium tourism and premium travel. IE Premium Travel Barometer also on its fourth edition, is a tool to build applied knowledge about the premium tourism 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. This years’ edition of the Barometer shows how the luxury business is becoming more complex. It is the result of the need to manage several priorities simultaneously. On one hand, a Chinese market, main source of growth, changing very fast. New generations of customers with different expectations combined with the importance of experience after digital has transformed how brands connect with clients. The growing importance of environmental matters. All under the uncertainty caused by socio economic turmoil, such as US-China trade discussions or Brexit. The report is a guide to understand the reality of this fascinating, growing, global industry today.

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 in-depth interviews. Special thanks to the Luxury Education Foundation for being an active participant and to Ketty Maisonrouge, Chairman of LEF for making it possible. LEF participation allows us to have a deeper understanding of US luxury executive priorities. Thanks to David Millán, author of the research for his ongoing curiosity and dedication. Thank you, Luca Solca for joining us for the presentation of this paper and sharing your learnings and experience. Thanks also to Círculo Fortuny for their contribution one more year.

María Eugenia Girón

Executive Director IE Premium and Prestige Observatory

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ABOUT THE IE PREMIUM & PRESTIGE BUSINESS OBSERVATORY



The IE Premium & 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 in luxury client behavior and the industry pace of adaptation. We have explored the meaning of memorable experiences and its key drivers as well as key issues for the sector at IE Luxury Barometer.

We have developed tools to better understand premium tourism and the key drivers of our days. The Observatory has also supported premium and luxury entrepreneurship and has given visibility to sustainable Luxury entrepreneurs.

THE PREMIUM & PRESTIGE BUSINESS OBSERVATORY IS...



A platform to integrate all activities related to the premium and prestige business industry within IE Business School



An observatory of trends and new sources of growth



A hub for conducting relevant research on this industry of specific value to the Observatory's partners and the wider business community



A platform for organizing seminars, conferences, and other events and for promoting high value networking among industry professionals



An incubator for new ideas and business development within this industry

THE OBSERVATORY AT A GLANCE



Generating knowledge about the premium and luxury goods industry since 2010



A hub for premium and luxury international experts



Supporting sustainable luxury entrepreneurs and honoring leaders in luxury ecosystem since 2014



Academic cases published by Observatory team



Hosts events & presentations for industry experts every 2 months



+ 6000 registered industry professionals receive the bi-monthly newsletter



More than 200 features in national and international media online



The Observatory's long-standing partner 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.

ABOUT THE AUTHOR



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“MB&F the Management of creativity”. Best entrepreneurship case, EFMD 2018.

“Porsche AG: beyond the limits of luxury?”. Best executive case, IE Case Competition 2014.

“LVMH & Bulgari. Time for luxury”. Honor distinction – finalist. IE Case Competition 2013.

EXECUTIVE SUMMARY

The fifth edition of the **IE Mastercard 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 outlined below.

A more sophisticated (Chinese) consumer...

The role of China is consolidating as one of the clear priorities. This has a tremendous impact for two main reasons: a) obvious, China is the biggest market and b) strategic, the way to compete now is different. The traditional approach based on the retail store to sell iconic products has worked beautifully in the past but is no longer the way to compete. Luxury firms might need to readdress their approach, not only in terms of digital expertise but also with a more profound analysis of their whole value proposition. As Chinese consumers become more knowledgeable and demanding, sources of value may need to be fine-tuned to provide valuable luxury products.

...on a more complex market.

The Luxury Barometer has traditionally shown that the clear priority was creating memorable experiences. Today we do not observe one clear priority, but a combination of different topics becoming the main priorities. Luxury experts suggest that a likely explanation for this is the increase in complexity to run a luxury firm. New perceptions of value (role of environmental and social issues for consumers), new buying behaviors (reinvent the role of retail) and more competitive markets (the sophistication of Chinese consumers) signal a much more complex landscape. Today luxury executives should address different parts of their business model in order to understand the new difficulties faced with running a luxury business.

Socioeconomics and Political turmoil to shape luxury evolution.

For the first time, we see socioeconomics and political turmoil in the top 10 ranking. Luxury experts pay close attention to the current events, such as the impact of the US-China trade discussions or Brexit. The potential impact of political turmoil is to lower the consumer confidence which would have a direct impact on demand. However, still today this is a concern and there is no evidence of a real impact on demand.

An excessive emphasis on demand could backfire in the long run.

The lessons gained in the Luxury Barometer suggest an important transformation in the market both in terms of consumer behavior and market complexity. This is shifting the attention towards the demand side. There are powerful and meaningful reasons for that since this is where luxury executives need to take action.

The discussion with experts has also raised the potential concern of being too focused on demand issues. Luxury is not a demand-based business since consumers appreciate the proactive role of the brands. Hence a creative approach to business is what determines in the end success. While the transformation we observe in the market certainly requires attention, luxury experts also suggest that this can never undermine the leading role of creativity and sound luxury management in business.



*The % above indicates the percentage of experts that have selected the topic.

THE IE LUXURY BAROMETER

WHAT IS THE IE LUXURY BAROMETER?

The underlying idea behind the IE Luxury Barometer is to unveil the knowledge of luxury experts in order to identify the main aspects that influence the industry and its evolution.

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 is limited. To provide more diversity to the study, we consider four different profiles:



CEO & EXECUTIVES

Professionals with extensive experience in any luxury industry and with expertise in management decisions.



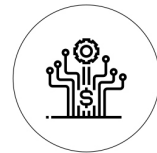
FACULTY

Renowned business school academics with expertise in this sector and with specialized publications.



MEDIA

Luxury media professionals.



FINANCIAL

Finance industry professionals with expertise and involvement in the sector (investors, analysts, etc.).

By identifying their top priorities, the barometer intends to measure the aspects that put more pressure on the evolution of the luxury industry and its firms. As a consequence, the study intends to offer some specific knowledge that may help luxury companies with their business development.

In short, the **IE Luxury Barometer** is a study with two main objectives:

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

METHODOLOGY. THE WAY WE BUILD THE IE LUXURY BAROMETER

The methodology of this study consisted of **two separate phases**.

First, we carried out a quantitative research study with a population of 100 experts with a recognized knowledge of the sector. The panel of experts received a list of 41 selected topics (the complete list of topics is provided in the Table below). Each participant had to select the 10 topics that they considered to be the most relevant from the proposed list of 41. They were also given the opportunity to add any one additional topic not previously listed.

EXTERNAL FACTORS: SOCIETY & ECONOMY

1. Socioeconomics and political turmoil to become an issue.
2. The role of Macroeconomics and price disparity

LUXURY MARKET: INDUSTRY & TRENDS

3. Private Equity becomes a more important player in the industry.
4. Financial and corporate activity.
5. Growth and M&A. Increase size and reach.
6. Tourism reinforced as a key driver for growth.
7. Environmental and social responsibility.
8. Wealth distribution and polarization.
9. Facing the arrival of new players.
10. Distribution control and vertical integration.
11. Reaching new countries and destinations.
12. The role of luxury capitals and city tourism.
13. The role of Outlet and to control discounts.
14. The role of China.

THE CONCEPT OF LUXURY

15. New technology driven categories.
16. The appearance of new luxury categories
17. New values and beliefs associated to the concept of luxury.

COMPETITIVE ISSUES

18. Access to key/scarce resources.
19. Protect exclusivity, aiming at absolute luxury positioning.
20. Creating memorable experiences.
21. Growth opportunities are scarce. Organic growth is more challenging.
22. The need to balance management and creativity.
23. Product personalization.
24. The role of talent and creativity.
25. The role of endorsement.
26. Reaching new audiences and generations.
27. Innovation in the process and cost control.
28. Going niche (*Luxury firms need to avoid generic (flagship) retail formats to provide exclusive, small and focused retail spaces*).

BUSINESS MODEL AND CHANGE

29. The role of technology.
30. Online retailers becoming more relevant - Potential (*They have become a partner as they enhance a luxury firm's strategy*).
31. Online retailers becoming more relevant - Threat. (*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*).
32. The role of Digital to Sell: Adaptation to E-commerce and new commercial activities.
33. The role of Digital to Communicate: Adaptation of the traditional communication activities to engage clients.
34. The role of Digital to Compete: Develop/acquire new resources and capabilities to compete on a digital era.
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*).
36. Reinventing the retail business model.
37. Focus on Omni-Chanel. The retail and the online spaces need to be integrated.
38. Re-imagine on-line service.
39. Payment systems.
40. The effect of the mobile phone.
41. Luxury is faster, the need to be constantly new.

Second, there was a qualitative study based on **individual in-depth interviews** with a selected list of experts to validate the results. In this 2018 edition we were honored to gain the insights from (alphabetically listed):

Ariel Adams, founder of a BlogtoWatch & Watch Industry Expert.

Hermann Elger, Managing Director and COO Baccarat Hotels and Resorts.

Lourdes Garzón Muñoz, General Director Círculo Fortuny.

Ketty Pucci-Sisti Maisonrouge, Investment Manager KFMG, luxury strategist and adjunct professor at Columbia Business School.

Rebecca Robins, Global Chief Learning and Culture Officer, Interbrand.

Thomas Serrano, CEO Havas Luxe.

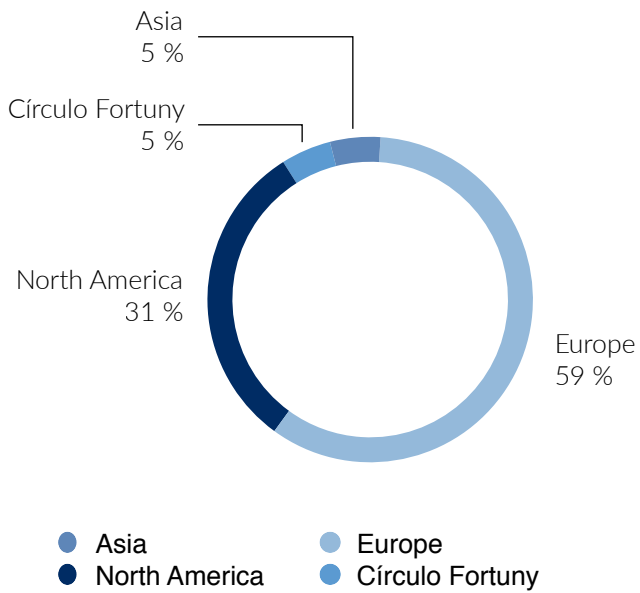
Luca Solca, Managing Director, Luxury Goods, Stanford C. Bernstein.

OBJECTIVE
Identify main issues for this sector
(Barometer)

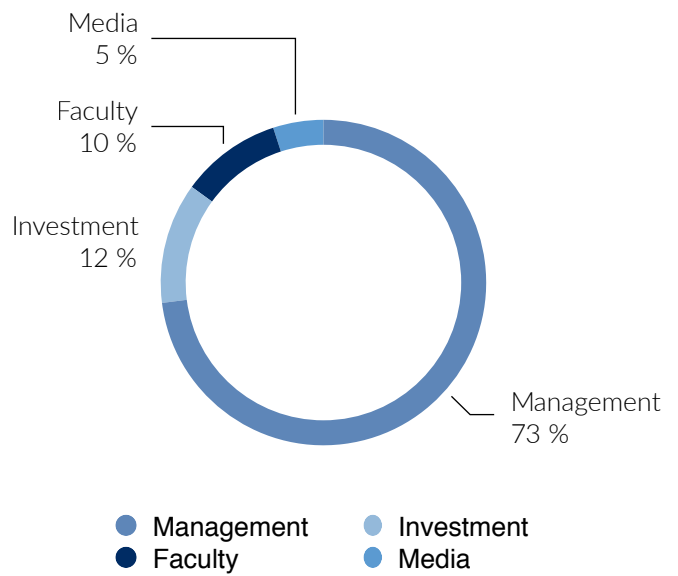
HYPOTHESIS
Research within people with
Experience



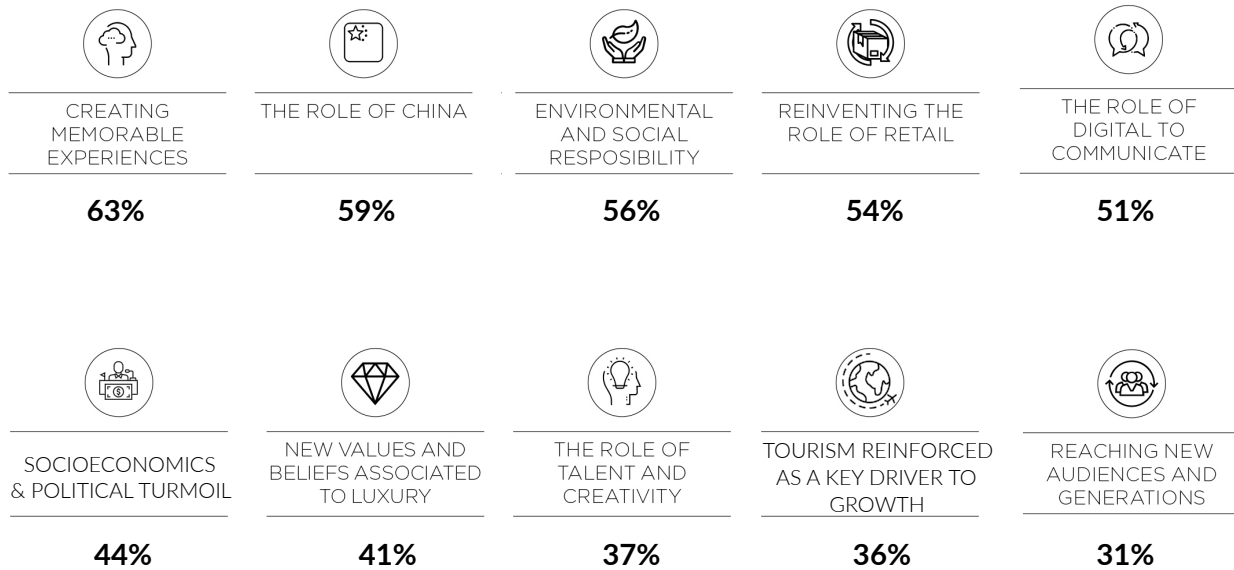
SURVEYED POPULATION LOCATION



SURVEYED POPULATION PROFILE



GLOBAL KEY FINDINGS



*The % above indicates the percentage of experts that have selected the topic.

The analysis of the results and the discussions with the expert panel provide the following findings:

The (Chinese!) luxury consumer is becoming more sophisticated and a proper understanding of its behavior becomes paramount.

China is a top priority for luxury decision makers. One evident reason is the size of this market. However this is not the only aspect to be considered here. The discussion with experts also highlights the change in consumer behavior. The Chinese consumer has become more sophisticated in their decision-making. What we witness today seems to be the evidence of the natural transition from status-based consumption to a more knowledge-based consumption. Just like we have seen in previous decades in Japan or the US.

Today targeting the luxury Chinese consumer is not anymore about nice stores with iconic products (the classic status-driven value proposition). Consumers demand trustworthiness and an innovative offering to stimulate their consumption. On top of that one would argue that it is not a coincidence and that we also observe the growth of relatively new Chinese brands going global.

“As we can see from Interbrand’s Best Global Brands study, Chinese brands are going and growing global. In luxury and fashion, it will be fascinating to watch the shift that takes place from ‘made in China’ to ‘created in China’, and the new brands that will emerge.” **Rebecca Robins.**

Competing in the luxury arena is far more complex today.

A close look at the top five positions seems to unveil a more interesting insight. The evidence is that there seems to be a difference between the five main topics and the rest. The first and the fourth topics are separated by 9%, while the fourth and the sixth are also separated by 10%. This means that the main five priorities are more condensed and somehow separated from the rest. What might explain this situation?, the discussion with the experts suggested a possible answer to this evidence.

We discussed above the relevancy of China and we will provide more insights into the role of CSR below. If we combine these two topics with the role of retail and the need to deliver memorable experiences we would encounter a narrative like this: Consumers, especially younger generations, have adopted (relatively) new decision-making drivers (CSR) and they have become more sophisticated (especially in main markets like China), this makes the job more complex. If this was not enough, the main technique companies have used to achieve it, the store, needs revision. What is the glue that brings all these topics together? Competing in the market is far more complex today, the principles to achieve success seem to have changed (*).

“Luxury firms need to offer new and relevant products if they want to convince clients to buy from them, especially among consumers that have already bought their icons.” [Luca Solca](#).

“Evidence I've encountered strongly suggests that watch brands today can no longer rely on pockets of new money and economic growth around the world to stimulate strong sales and promote increasing brand equity. To succeed selling luxury watches in the market, brands should shift their marketing focus back to existing customer bases. Seasoned wealthy customers are known to require more marketing effort and patience but do offer more brand loyalty than more novice luxury consumers.” [Ariel Adams](#).

Political turmoil becomes an (unexpected?) issue.

For the first time we observe political turmoil in the top 10 ranking. The combination of several factors (the US-China trade discussion or Brexit) has become an important factor for luxury decision-makers. Luxury consumption requires income for obvious reason, but it also demands confidence and motivation. The discussion with experts highlighted the fact that while consumption power is intact, confidence has been affected. Still we do not have evidence to correlate a decrease in demand, and firms should observe this aspect closely.

“Luxury consumption is linked to emotions, so that current political and social events have a tangible impact on customers' aspirations and behaviors which are in contradiction with the positive economic data.” [Ketty Pucci-Sisti Maisonrouge](#).

(*) We are aware that we hold a generic perspective to luxury and the store is not the only key technique. We acknowledge this as a limitation of our study, but we believe the underlying finding is still relevant.

Digital transformation is about the store.

The polarization between reinventing the role of retail (position 4) and other digital transformation base topics (role of digital to sell, to communicate...) shows a clear signal toward the priorities. If luxury decision making have to tell between the two, clearly the store is their priority. This is not to say that the role of digital to communicate, or to sell or omni-channel is less relevant. The bottom line here is that this is encapsulated into the relevancy of the store.

“Reinventing the role of retail suggests deeper importance since this impacts the rest of the activities (communication, digital networks...). The store is the center of the value offering and hence not only a selling approach is needed.” **Lourdes Garzón Muñoz.**

Firms are focused (perhaps too much) on demand issues.

As discussed above, many are the concern related to the consumers and its evolution. It has also been argued the complexity in doing business today and how firms need to adapt to a new competitive reality that is emerging. However we would also like to highlight that luxury is (or was or should) not be a demand-based business. The importance of the changes we see are obvious and the digitalization of a business model is something that requires attention and calls for action. Nevertheless, we observe too much emphasis on these matters. As some experts also have highlighted, attention needs to be directed to managerial decisions beyond the demand issue, especially in companies that are (or were or should) to be creative.

“The Luxury Barometer questionnaire results clearly reflect a position of weak overall strategy as well as a lack of effective manager incentives for necessary creative risk taking at most luxury watch brands. Companies must have visionary managers in addition to strong commercial skill in order to produce the next generation of demanded wrist watch products. Significantly adding to the problem is the wholesale lack of any accredited educational program in Switzerland designed to develop and funnel qualified managers into the watch industry. One can learn how to become a watchmaker but there is no school that will teach you how to be a watch brand manager. Effective watch brands today will either hire the rare modern-educated watch industry-manager or properly train new ones themselves.” **Ariel Adams.**

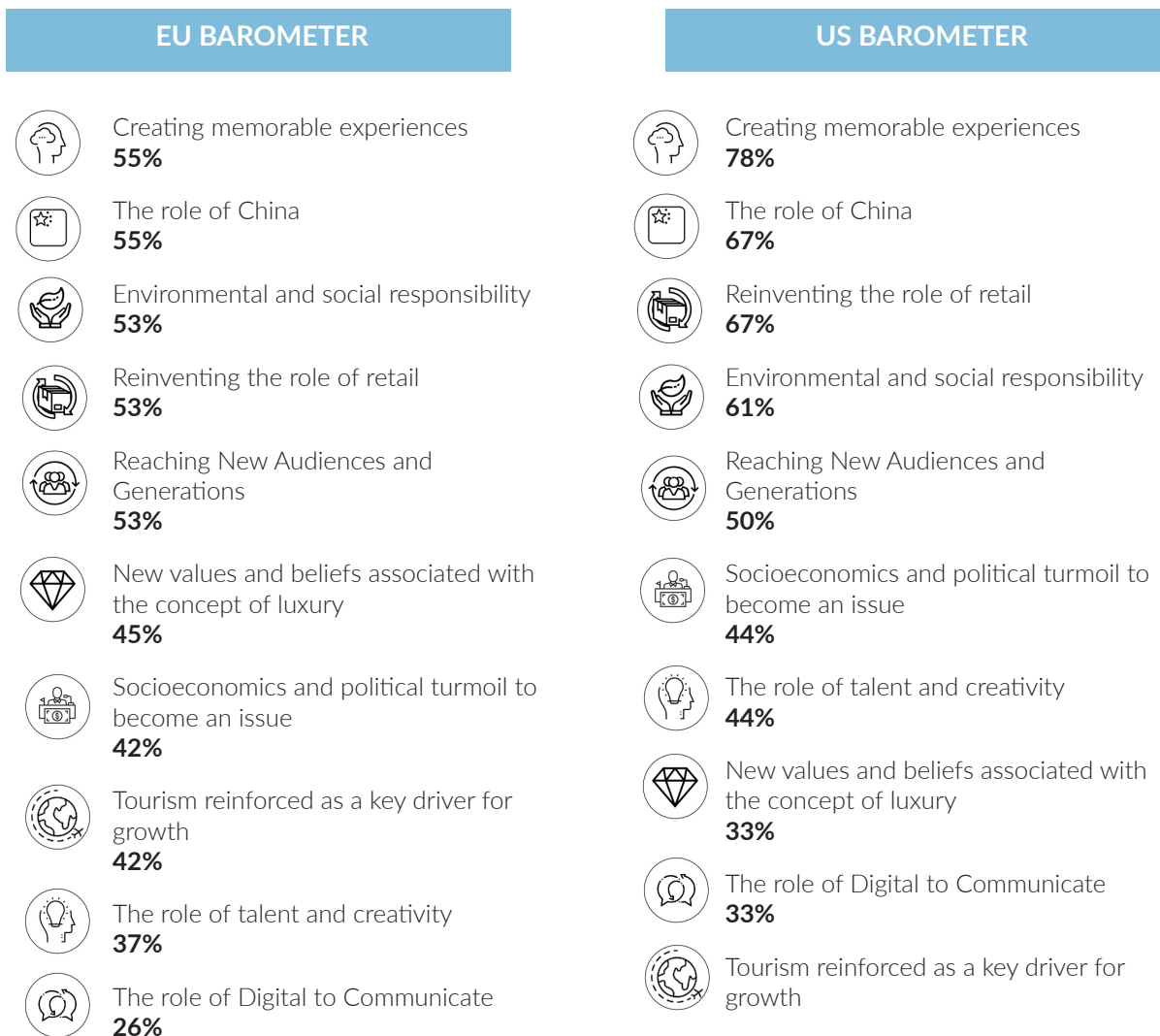
A challenging balance between short and long term shifted towards the short term, a potential risk?

There is another concern related to the previous consideration. The focus on demand might also bring a close attention to day-to-day issues. While this is obviously important, one would argue that long-term aspects should be part of the equation. Clearly this study does not have the evidence to support such a strong statement. What we observe is a potential risk in placing too much emphasis on short-term aspects.

“Brands need to deliver a meaningful value proposition. Consumers need to understand what the brand is and what they care about. We observe that many brands can remain irrelevant for consumers if they are not clear on what they are”. **Thomas Serrano.**

DIFFERENCES BETWEEN EU AND US

In this edition the surveyed population included a significant proportion of respondents from the US. Therefore it is interesting to observe the differences (*).



(*) It should be noted that the number of respondents is not equal. There are a total of 38 respondents in the UE, while 18 in the US. This difference in the total number of surveyed experts might be considered as a limitation in the analysis of the difference between Europe and the US. The % above indicates the percentage of experts that have selected the topic.

Global complexity seems to be present.

The four main topics are homogenous and there seem to be the same jump between the fifth position and the rest. While in the case of Europe the topics are more condensed with fewer differences, in the US we see the topic Experiences with an even more relevancy. This might evidence that the discussion provided above on the complexity of the luxury arena is found in both Europe and US. And as a consequence in both region we observe a similar perception about this complexity.

The subsidiary effect.

Like in our previous edition, some differences might be based on the specific goals of the US executives surveyed. While in EU there is a combination between global and country responsibilities, a majority of respondents in the US own a country role. This might be cause why the Barometer prioritizes more tactical issues in the US. The top priorities being reaching new audiences and generations and the role of retail are the clearest example.

EVOLUTION & TRENDS

Here we take a look at the evolution of the **top 10 topics** in the five editions of **IE Luxury Barometer**.

CSR a “must have” in your strategy.

One of the most significant changes in the evolution of the Luxury Barometer is the consolidation of Environmental and Social responsibility as a top priority. This was an important topic when we started this series of research back in 2014. However today this importance has increased and for the third consecutive year this is one of the clear top three topics.

Today luxury experts place the role of environmental and social responsibility among the main priorities. One would argue based on this fact that luxury managers need to consider carefully their approach towards environmental and social issues when crafting their strategies. Our study suggests that more and more consumers are sensitive towards this topic and expects luxury firms to provide them with a meaningful social and environmental value proposition.

Concentration of topics equals increasing complexity...

In the early years of our research the topic creating memorable experiences was clearly the number one priority. While the rest of the topics could be more or less concentrated, always this topic was “the” priority. Today we observe that there is not such great difference between the first three top priorities. Considering that the pool of experts is extraordinary in experience but limited in quantity, one could argue that today there is no single clear priority.

This might be due to several reasons. One possible explanation is what we observe in the interviews with experts. Today the market is becoming more complex and hence no single topic can become the most important aspect to consider. If we take a close look at the lessons we get this year from the Luxury Barometer and the information we get from other market studies we might find: new value perceptions of luxury, new buying behaviors, more competitive markets and limited growth potential. Apparently there is a correlation between the number of top priorities in the Luxury Barometer and the complexity experts face to run luxury firms.

...and an evolving market

Another aspect that we might notice when looking at the whole series is the change of what we could name “structural aspects”. The role of China signaling new complexity to address these consumers and the digital transformation provides a new picture of that one would get back in 2014. The importance of digital based topics (including reinventing the role of retail) suggests a market, which is in a phase of constant transformation.

One would argue that the role of digital transformation is not a priority, but a signal of how the business model of luxury is changing.

2018

PRIORITIES

1	63 %	Creating memorable experiences
2	59 %	The role of China
3	56 %	Environmental and social responsibility
4	54 %	Reinventing the role of retail
5	51 %	Reaching New Audiences and Generations
6	44 %	Socioeconomics and political turmoil to become an issue
7	41 %	New values and beliefs associated with the concept of luxury
8	37 %	The role of talent and creativity
9	36 %	Tourism reinforced as a key driver for growth
10	31 %	The role of Digital to Communicate

2017

PRIORITIES

1	62 %	Creating memorable experiences
2	49 %	Environmental and social responsibility
3	47 %	New values and beliefs associated to luxury
4	47 %	The role of talent and creativity
5	45 %	The role of China
6	45 %	Reaching new audiences and generations
7	36 %	Product personalization
8	36 %	Reinventing the role of retail
9	34 %	The role fo Digital to Sell
10	32 %	Tourism as growth driver
11	30 %	New Luxury categories
12	30 %	Focus on Omni-channel

2016

PRIORITIES

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

2015

PRIORITIES

1	81 %	Creating memorable experiences
2	59 %	Online retailers becoming more relevant
3	57 %	The role of talent and creativity
4	52 %	Product personalization
5	52 %	Environmental and social responsibility
6	50 %	Protect Exclusivity
7	45 %	The need to balance management and creativity
8	43 %	The role of Digital: Communicating and engaging with clients.
9	40 %	Growth opportunities are scarce
10	40 %	New business models.(New ways to compete + Digital transformation)
11	40 %	Reaching younger generations

2014

PRIORITIES

1	77 %	Creating memorable experiences
2	65 %	Protect Exclusivity, aiming at absolute luxury positioning
3	65 %	Reaching New Audiences and Generations. New Values of luxury
4	58 %	Product Personalization
5	52 %	Luxury surrenders to the internet/e-commerce
6	48 %	Innovation in the process
7	48 %	Environmental and social responsibility
8	45 %	Tourism reinforced as a key driver for growth
9	45 %	New values and beliefs associated to the concept of luxury
10	45 %	The need of control. Distribution and vertical integration
11	45 %	Luxury surrenders to the internet/communicating with clients

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