

IE Luxury Barometer 2015

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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 in luxury client behavior and the industry pace of adaptation. We have explored the meaning of memorable experiences and its 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 a support for action.

This research “from experts to experts” is based on the insight of industry executives, academics, investors, observers, Thanks to the panel of experts who has generously shared their insights into the keys that shape the priorities of luxury industry by answering our questionnaire and also participating in the face-to-face debate. Thanks to the support of Círculo Fortuny for giving a new valuable dimension to this research.

I would like to thank the individuals who helped make the IE Luxury Barometer 2015 possible. Thanks to my co-author David Millán for the rigorous work and expertise. Thank you, Luca Solca and Javier Fernandez-Andrino for joining us for the presentation of this paper and sharing your learnings and experience. Thank you, Andrea Dopazo, who - as IE’s Applied Research Director- guided us through the process. Thanks to students Tara Deighton, who edited this report and helped us improve it, and Iuliia Reznikova and Susana Herrera for the support in organizing the presentation.

We envision “IE Luxury Barometer” as a tool, valuable in the generation of knowledge for the premium and prestige industries. This second edition was both challenging and rewarding as it revealed interesting insights.



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EXECUTIVE SUMMARY

The aim of the study is two-fold:

- One objective is get to know the **point of view of professionals and experts of the luxury and prestige sector regarding the most important** issues and industry trends in 2015.
- The second is **to explore the implications that these aspects may have on the development of this sector** in the immediate future and in the long-run.

The study's methodology consists of two separate phases. In the first phase we carried out a quantitative study on a population of 50-people, all of whom are recognized for their knowledge of the luxury sector and market. The second phase consisted of a qualitative study, based on a roundtable discussion, meeting face-to-face with experts to discuss the results of the initial quantitative phase.

The 2015 Barometer offered luxury experts a selection of 30 hot topics to choose from (see Exhibit 1). These 30 topics were selected to create a list which was representative of the most important aspects influencing the market. These topics were also assumed to be a priority in the agenda of luxury executives.

In this year's edition of the Barometer, the selection of the 30 hot topics has been complemented with some additional topics that were not included in last year's edition. For starters, the 2015 edition sought to gain deeper insights into the digital transformation of luxury firms. Therefore, instead of considering one single topic about digital transformation of the firm, two independent topics have been considered, giving separate focus to the digital communication process and to the digital selling process.

Furthermore, the most relevant issues covered by the specialized media have also been considered. Two aspects got most of the attention. The first is the role of price strategy. In 2015 we saw turmoil that influenced the management of prices on a global scale, a topic so prevalent that it even appeared on the cover of main business media. The second is the role of growth, more specifically, whether or not luxury firms are reaching a limit in their ability to develop their global presence.

The **IE Luxury Barometer 2015** focuses on the 10 key topics for the luxury and prestige sector in 2015, as decided by the surveyed experts. Sorted by relevance, these key topics are:

1. Luxury brands create memorable experiences.
2. Online retailers becoming more relevant.
3. The role of talent and creativity.
4. Product personalization.
5. Environmental and social responsibility.
6. Protect exclusivity, aiming at absolute luxury positioning.
7. The need to balance management and creativity.
8. The role of digital: communicating and engaging with clients.
9. A time dilemma: reaching younger generations.
10. Growth opportunities are scarce.

The final results show some relevant insights into the real tensions behind the management of a luxury firm. The lessons that can be obtained from the 2015 Luxury Barometer can be summarized as follows:

- Creating memorable experiences is vital for luxury strategies. This topic is the undisputed winner of this year's Barometer. More than 80% of the expert panel selected it as a priority for luxury firms. It should be noted that this topic also held the first-place position in the 2014 edition.
- Some new trends appear in business development. In second place is the relevancy of online retailers, a trend which has impacted the way luxury firms compete in the market. This topic is perhaps even more relevant given that this is the first time it has been considered in the top selection.
- Creativity enhances the value proposition. Two topics of this nature appear in 2015's top ten. In third place is the role of talent and creativity, and in seventh place is the need to keep a well-designed balance between management and creativity. Together these two aspects show how creativity remains at the heart of any luxury organization.
- Personalization and protecting exclusivity remain at the core of the luxury business strategy. As was the case in 2014, these topics appear in the middle positions of the Barometer, a clear signal of how relevant these aspects are for a luxury firm.

- Corporate Social Responsibility (CSR) continues to gain relevance. In fact, among the topics considered in 2014, this is the topic with the most significant increase in importance in the 2015 edition. Companies are no longer starting to consider, nor beginning to explore the idea of CSR; given its sustained relevance, this topic now requires deeper consideration.

INTRODUCTION AND BACKGROUND

The luxury industry continues to grow. In 2015, the luxury market exceeded €1 trillion in retail sales value, representing a growth rate of 5 percent year-over-year (at constant exchange rates). Three segments, including luxury cars, luxury hospitality, and fine arts, are the key drivers of the growth according to Bain & Company reports. Personal luxury, one of the leading segments in the luxury industry, reached €253 billion in sales, representing real growth rates of 1-2 percent.

The Chinese consumer remains powerful in 2015. So powerful that they account for 31 percent of global luxury purchases. Americans follow in second, responsible for 24% of luxury purchases, and Europeans in third, accounting for 18%. Meanwhile Japan remains relevant thanks to a strong local market and the influx of Chinese tourism.

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 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"**.

In 2014's Luxury Barometer, we identified three main, interrelated forces that have impacted the dynamics of the industry. The first was the impact of the changing values of 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 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 internet and technology, and the need and the challenge to create meaningful experiences.

Following last year's methodology, we have updated the results to generate the **"IE Luxury Barometer 2015"**. In 2015, there were two additional topics that we identified as having had a deep impact in the luxury goods industry:

- a) China's rapid economic development has slowed. Although most projections indicate that Chinese consumers continue to make up the largest portion of luxury purchases globally, the Chinese market is no longer the locomotive for the luxury goods industry it once was. The market in China has been hurt by slower economic growth, as well as by measures taken by the government to control corruption. As a result, in 2015 we saw luxury brands make the decision to shrink their networks in China and Hong Kong.

b) Pricing in the luxury good industry has become increasingly challenging as a result of price transparency, currency evolution, and the importance of global tourism. The growth of e-commerce and global tourism have resulted in transparency of international price differentials. Faced with this new situation, luxury brands must review their price structure to ensure they are able to maximize local and global sales. In 2015, some initial moves were taken by industry leaders, such as Chanel who decided to standardize pricing of key products globally.

"IE Luxury Barometer 2015" is an approach, from the hand of experts and professionals, to summarize the key issues that have affected the luxury and prestige sector in 2015. 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 2015 and that will shape their priorities in 2016.

OBJECTIVE AND METHODOLOGY

There is a double objective in this study:

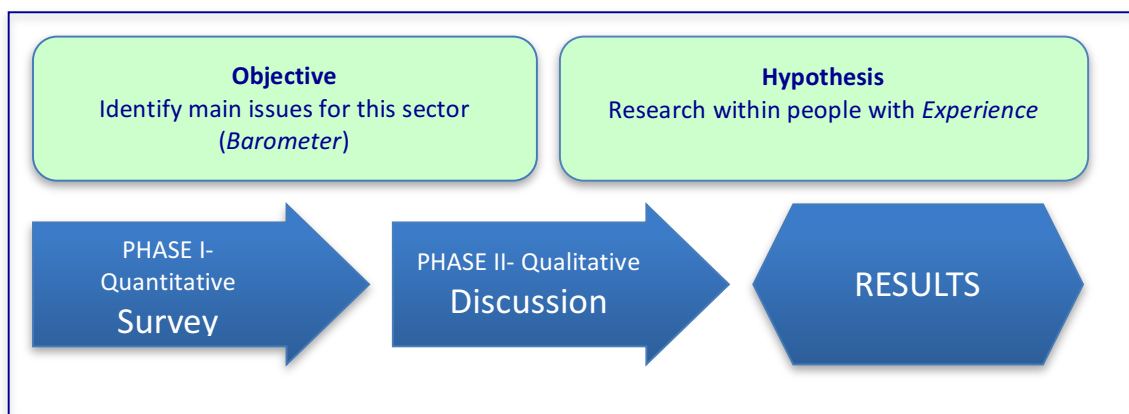
- One aim is to understand the **point of view of experts and professionals regarding the most important aspects and tendencies of the luxury sector in 2015.**
- The other is **to explore the implications that these aspects may have on the development of this sector** in the immediate future and in the long term.

The present study intends to supply some specific knowledge to help luxury companies with business development.

Initial hypothesis and methodology of the study

To achieve this goal, 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 recognized knowledge of the sector. Second, there was a qualitative study based on a roundtable discussion of the results from the initial quantitative phase.



Definition of the main topics for the quantitative study

A list of relevant issues was defined for the quantitative study. The sample population was then asked to choose those which they believe to be the most important issues, according to their criteria. In this section, we detail the process by which the aforementioned list of initial topics was defined (see Exhibit 1).

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 on which they could define the essential topics for 2014's study. Then, in 2015, they found there to be two additional essential topics to add to the list. The eight original topics, plus the two new additions, are shown and explained below:



The discussion carried out to define these ten essential aspects was also based on observation of the market and identification of examples that were considered representative and remarkable. A selection of these examples taken into account in order to do the initial selection of the essential topics are detailed below.

The Challenge of Growth

- While retail expansion has previously been key for the growth of luxury companies, 2015 saw the closure of retail locations, signaling the scarcity of growth opportunities and the challenging market conditions.
- Asian countries in particular are experiencing less growth potential than before. LVMH has closed 3LV stores in China, including the first outlet in Guangzhou. Burberry and Coach have scaled down in Honk Kong where rents are rising and Chinese visitors are decreasing.
- The slowing economic development creates a new landscape and firms need to work to identify new sources of growth such as fostering digital growth, identifying new locations, developing new products, target new clients, etc.
- It is still unknown what role the Indian market will play in terms of the future of the industry, and when the luxury market will explode.

- The focus on digital growth calls for leaders to rethink how they will achieve a seamless experience and how they can build synergies between digital and brick-and-mortar, including how they tailor product collections for online and offline retail. An interesting example is Marni, who features a different product collection on each distribution channel.

The Management of Price

- Pricing in the luxury good industry has become increasingly challenging as a result of price transparency, currency evolution, and the importance of global tourism.
- Currency fluctuations and different taxations systems generate disparity in prices. Price harmonization is a challenge faced by luxury brands.
- Transparency of international price differentials (a result of the growth of e-commerce and global tourism) has provided new challenges for the traditional pricing system that priced items sold in Hong Kong and China between 25% and 40% higher than in Europe, excluding taxes.
- With the euro falling by about 20% against the yuan in the past year, this price gap has widened to as much as 60%. Reducing price gaps should discourage gray market trading and protect branding.
- Some brands have taken initiatives to address the problem by standardizing prices of some core items worldwide. In 2015, Chanel took a leadership role and decided to harmonize pricing of some key products worldwide, reducing prices in China for several key items, while simultaneously increasing them in Europe.
- Other companies are rolling out more affordable luxury items for the Chinese market in an effort to reduce price differentials without impacting existing merchandise.
- The off-price channel has more than doubled to nearly €26 billion according to Bain reports. The increase of luxury outlets is further increasing transparency to international price differentials and eroding the credibility of brands. The Business of Fashion recently published an article, “Does anyone expect to pay full price anymore?” to address this topic.

Corporate Luxury and M&A

- Compared to previous years, Merger & Acquisition (M&A) did not play a substantial role in 2015.
- It was, however, the year when luxury start-ups achieved valuations of unanticipated size, such as Farfetch, which was featured in the Financial Times after it was valued at over \$1 billion in its final round of financing
- Conversely, Wall Street Journal reports that some start-ups and other private companies are struggling to live up to their once-soaring valuations. Gilt Group, formerly a darling of internet start-ups, has agreed to sell itself for \$250 million, a fraction its former \$1.1 billion value.

The Luxury Experience

- The term luxury experience refers to both the purchasing of experiences as well as to the experience of purchasing any luxury good or service.

- Research conducted by The Boston Consulting Group and Business of Fashion on luxury experiences and Deloitte’s report on “Global powers of luxury goods 2014” were a reference in 2014 Barometer to show that affluent consumers spend more money and give a far greater share-of-wallet to experiential luxury – trips and visits – as an alternative to luxury products.
- Regarding the experience of purchasing, research conducted by the IE Premium and Prestige Observatory identified technology, personalization, physical human contact and “wow moments” as the four pillars for building a memorable experience.
- Building the experience throughout the luxury client journey is a topic of relevance and interest that has generated research. In 2015 LuxHub also examined the consumer journey and found that luxury fashion companies need to focus on digital transformation in order to engage their target.
- Polarization of choices is the result of abundant information, broad access to luxury products, and the aim to be unique and differentiate. While economic slowdown has caused customers to become more price and quality conscious, they are less so when provided with customized service and meaningful experiences.
- Focusing on experiences as they are impacted by digital revolution, Altagamma-McKinsey Digital Luxury Experience Observatory conducted a global study in 2015 analyzing the omni-channel purchase decision journeys of luxury consumers. Their findings depict today’s luxury consumer as “highly digital, mobile and social”. These consumers also have extremely high expectations for a seamless, digitally enabled, multi-channel shopping experience.

Geography of Luxury and Tourism

- Urban tourism maintains importance due to the geographical concentration of luxury consumption. There is a competition among cities to become luxury capitals. According to Luca Solca, the top 25 cities account for about one-third of total luxury point of sales, while the top 10 cities account for 20 percent.
- Travel retail is increasingly capturing luxury consumers on the move. According to Bain’s October 2015 report, airport retail now accounts for 6 percent of the global luxury market, a growth rate of 29 percent in current exchange rates (18 percent in constant exchange rates). Extensions, improvements, and the launch of new airports contribute to the development of this channel.
- Findings from research by IE Premium and Prestige Observatory on key drivers of high-end urban tourism anticipate growth for urban tourism over the next decade beyond the increases in total tourism. Business-leisure, incorporation of mobile, and pre-booking of experiential activities provide opportunities for business growth within the urban category.

Polarization of Wealth and Consumption

- Often referred to the end of the middle class, the polarization of wealth was first described by Michael Silverstein and Neil Fishke in the book, “Trading Up: The New American Luxury”
- As described by Catterton investments, polarization drives consumer and retailer success at both ends of the economic spectrum, with luxury good

makers, restaurants, and retailers catering to one end of the economic spectrum, and value-driven marketers and mass-market retailers serving consumers at the "extreme value" end.

- The number of luxury consumers worldwide has more than tripled over the past 20 years and is expected to reach 400 million consumers by 2020.
- Polarization also impacts behaviour on social media, mobile, and the Internet, with low-income families focused on family-budget management, while high-income households are more concerned about time-management and convenience, and laying less regard to price.
- The arrival of new companies to the most selective part of the market can also be indicative of this polarization and, above all, of more demanding customers.

Digital Luxury

- Digital business was reaffirmed as a key component of business strategy for luxury brands. According to IE Observatory's past research, 78% of luxury clients would check online before making their purchase.
- The value of luxury searches grew in 2015. In terms of product category, watches was confirmed as the most popular. Also, the search for fashion items increased beyond the search for handbags and accessories.
- E-commerce grew to 7 percent market share in 2015, nearly doubling its penetration of luxury distribution since 2012, according to Bain report. Growth is only expected to continue, with forecasts suggesting that 50% of Chinese luxury consumption will be made online by 2020.
- 78 percent of shoppers use two or more channels during their path to purchase, according to Deloitte & Touche. Moreover, these multichannel shoppers have been found to be worth up to 208 percent more than single-channel shoppers. Mobile's substantial global penetration rate provides retailers with a huge commercial opportunity, and as such has become a fundamental component of omni-channel strategy
- Notable events in 2015 include the merger of the largest e-commerce sites, Yoox and Net-a-Porter, and Chanel's decision to sell online, starting with eyewear and sunglasses categories.
- Social media also saw new innovative initiatives in 2015. Burberry joined forces with Mario Testino for a Snapchat initiative. Instagram strengthened its position as a key social network for fashion and luxury. Instagram models (instamodels) has been highly successful based on visibility. This is exemplified by the success of Kendall Jenner, who has 44 million followers, and of 17-year old Lucky Blue Smith, a leader among male instamodels.

Innovation in processes and products in Luxury

- 3D technology is here to stay and is finding new applications in luxury fashion beyond customized jewelry and watches.
- Until recently, 3D printing was limited to conceptual items, such as those produced for Iris Van Herpen's haute-couture show. Chanel's use of 3-D printing for tweed pieces in their latest haute couture show suggests that the technology is beginning to impact the modus operandi on a larger scale and making its way into more wearable pieces.

- 2015 was the year of wearable technology. The iWatch was launched with a price range between \$350 and \$10,000. The premium position was reinforced by a collaboration between Apple and Hermès, to create a product that combines new technology with artisan tradition. LVMH executive, Jean Claude Biver, believes this is a positive sign for the future of the sector and that consumers habits will adapt, stating that "if you teach someone wear shoes, they never go barefoot again."
- In terms of product, another major area of innovation has been the the introduction of new product categories, such as active wear line for many brands. This follows after the success of the Stella McCartney and Adidas joint collection.

Strategy and Management in Luxury Companies

- Fashion and luxury are beginning to take their digital propositions more seriously, hiring Chief Digital Officers to better integrate digital strategy thinking into their core. For example, LVMH hired Ian Rogers, a Senior Director from Apple to lead their digital strategy. Alibaba also poached an Apple employee, bringing Matthew Bassiur onboard as their head of global intellectual property enforcement in an effort to fight counterfeiting.
- Digital developments have led to an abundance of data and challenges luxury brand managers to find the "sweet spot" that reconciles management based on analysis with that based on creativity.
- The role of Corporate Social Responsibility continues to evolve. 2015 saw the launch of an initiative called the Waste & Resources Action Program (WRAP). Europe alone produces 90.000 tons of textile waste. In order to tackle this and improve the environment, WRAP aims to reduce waste and the carbon footprint.

New Values & New Clients

- Millennials' desire for authenticity is increasing. The trend began with local music and hospitality, but has since gone mainstream. While it is a return to all that quintessentially luxury—passionate artisans and hand-crafted products—luxury brands must still be ready with offerings that provide consumers with intimacy and authenticity.
- Sustainability has become increasingly important when making a purchase decision. Luxury's newest generation of clients are global, educated, and discerning, and will demand that luxury brands be exemplary citizens, demonstrating both environmental and social responsibility.
- According to Business Insider, millennials increasingly prefer function and practicality over brand names. Their distaste for logos is causing major shift retail, a shift in which many retailers are winning.
- While their parents derived status from brand names and product ownership, Morgan Stanley has found that the millennial shopper prefers to spend on food, technology, and vacations.
- New business models are emerging to recognize the existence of a collaborative economy. These new models are based on the use of, rather than the possession of a product. Examples can be found in watches with Eleven, in

jewelry with Soleil d'Or, and in fashion with Rent the Runaway or Vestiare Collective, where consumers can rent products.

- Luxury firms are heavily promoting branded mobile apps, iPad catalogs, and mobile web sites in order to maintain customer relationships and to keep clients connected to their brands 24/7.

Based on the described study, the ten essential aspects of the industry have been broken down into 30 relevant topics for the luxury and prestige sector in 2015, as shown in the table below (a description in more detail of the survey can be found on Exhibit 1):

Table 1.- List of the initial 30 relevant issues in 2015

<ol style="list-style-type: none"> 1. <i>Access to key/scarce resources.</i> 2. <i>Protect Exclusivity, aiming at absolute luxury positioning.</i> 3. <i>Growth opportunities are scarce. Organic growth is more challenging.</i> 4. <i>The role of Macroeconomics and price disparity.</i> 5. <i>Luxury evolving into new product categories.</i> 6. <i>Online retailers becoming more relevant.</i> 7. <i>Increase size and reach. Conglomerates get bigger.</i> 8. <i>Private Equity more important player in the industry.</i> 9. <i>IPO show the value of heritage brands.</i> 10. <i>The need to balance management and creativity.</i> 11. <i>Product personalization.</i> 12. <i>Creating memorable experiences.</i> 13. <i>Innovation in the process.</i> 14. <i>Innovation with new product categories.</i> 15. <i>Innovation in the relationship with clients and stakeholders.</i> 	<ol style="list-style-type: none"> 16. <i>The role of technology.</i> 17. <i>Tourism reinforced as a key driver for growth.</i> 18. <i>Environmental and social responsibility.</i> 19. <i>New values and beliefs associated to the concept of luxury.</i> 20. <i>Wealth distribution and polarization.</i> 21. <i>Facing the arrival of new players.</i> 22. <i>The need of control. Distribution control & vertical integration.</i> 23. <i>The role of Digital: E-commerce and commercial aspects.</i> 24. <i>The role of Digital: Communicating and engaging with clients.</i> 25. <i>The role of Digital: Develop Resources and Capabilities.</i> 26. <i>New business models. New or evolved ways to compete in the marketplace.</i> 27. <i>A time dilemma: reaching younger generations.</i> 28. <i>New countries and destinations.</i> 29. <i>The role of luxury capitals.</i> 30. <i>The role of talent and creativity.</i>
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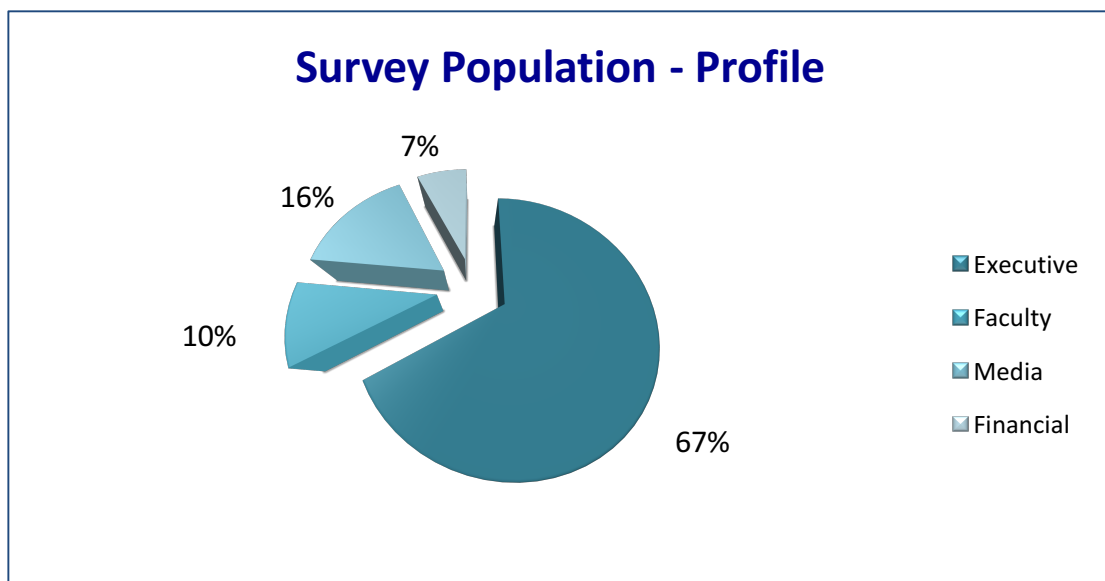
Quantitative phase of the study

As detailed in the previous section, the study participants received a list of the final 30 topics identified as relevant in 2015. 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 30. 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 is limited. The initial sample size was 50 people. It should be taken into account that such population size is not representative, and this is the reason why the survey results are

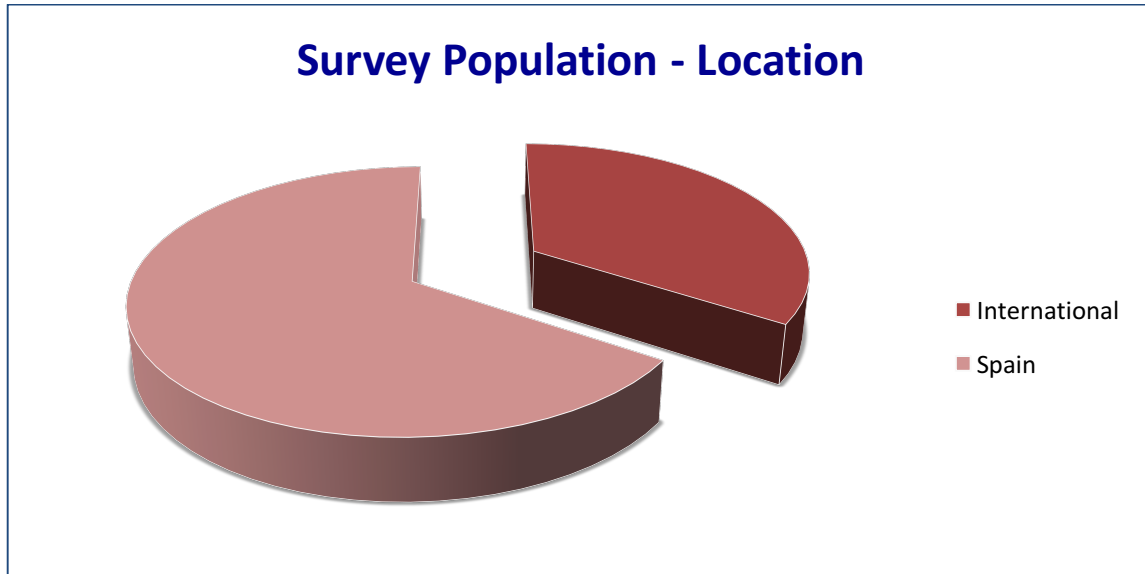
complemented with a second qualitative phase. To provide more diversity to the elements of the study we selected participants from four different profiles:

- **Executives.** Professionals with extensive experience in any luxury industry and with expertise on executive decisions.
- **Academic.** Renowned business school academician with expertise in this sector as well as with specialized publications.
- **Media.** Luxury media professional.
- **Financial.** Financial sector professional with expertise in the sector and involved in it (investors, analysts...).



For the 2015 Barometer, the Observatory reached out to members of Circulo Fortuny to complete the survey. Circulo Fortuny is a non-profit organization comprised of 46 partners, whose mandate is to unite Spanish cultural and creative brands to collectively promote their shared values. Circulo Fortuny is member of ECCIA European Culture and Creative Industries Alliance composed of the five national European luxury goods and creative industries organization.

The access they provided contributed in the completion of this study, and in increasing the relative number of executives participating compared to 2014. The Premium and Prestige Business Observatory would like to thank Circulo Fortuny for their participation.



Qualitative phase of the study

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

- To dig deeper into the results obtained during the quantitative phase.
- To validate the selection of the ten main issues and explore the reasons behind their relevance, something 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 differences with the results of the 2014 IE Luxury Barometer

The qualitative phase was organized as a 2-hour panel discussion, and included 11 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 allowed for an improvement in the understanding of each topic, a validation of the selection of the ten most relevant issues, and the identification of differences compared to 2014. The conclusions obtained from this phase are highly relevant as they identify the most important topics and explore their causes.

RESULTS

Quantitative Phase Results

The results obtained in the quantitative phase are shown in the following table.

TOPIC	ANSWERS	RESULTS	RANKING
Creating memorable experiences.	34	81%	1
Online retailers becoming more relevant.	25	60%	2
The role of talent and creativity.	24	57%	3
Product personalization.	22	52%	4
Environmental and social responsibility.	22	52%	4
Protect exclusivity, aiming at absolute luxury positioning.	21	50%	6
The need to balance management and creativity.	19	45%	7
The role of digital: communicating and engaging with clients.	18	43%	8
Growth opportunities are scarce.	17	41%	9
New business models.	17	41%	9
A time dilemma: reaching younger generations.	17	41%	9
Tourism reinforced as a key driver for growth.	15	36%	12
The role of Digital: E-commerce and commercial aspects.	15	36%	13
The role of Macroeconomics.	14	33%	14
The role of technology.	13	31%	15
New values and beliefs associated to the concept of luxury.	13	31%	15
New product categories.	11	26%	15
Innovation in the process.	11	26%	18
Access to key/scarce resources.	10	24%	19
Innovation in the relationship with clients and stakeholders.	10	24%	19
Private Equity more important player in the industry.	9	21%	21
Innovation with new product categories.	8	19%	22
Facing the arrival of new players.	8	19%	22
The need of control. Distribution control and vertical integration.	8	19%	22
The role of luxury capitals.	8	19%	22
IPO show the value of heritage brands.	7	17%	26
Wealth. Distribution and Polarization.	6	14%	27
The role of Digital: Develop Resources and Capabilities.	5	12%	28
New countries and destinations.	5	12%	28
Increase size and reach. Conglomerates get bigger.	3	7%	30

Furthermore, in this phase the surveyed individuals were asked to identify other topics that were not in the list. They added a total of four additional topics which are shown below as they were proposed.

- “Brands need to understand more about **styles** within the luxury market, most of the styles out there are either traditional, trendy, or glamour, but there are many other **consumer lifestyle segments that need to be explored** in terms of what luxury means for them and what products can be developed to serve their needs and aspirations.”
- “**Gastronomy** holds new importance in luxury times”
- “Successful firms are **increasingly focused** on just 1- 2 core products.”
- “Sustainable growth, digital business models, alternatives to opening stores and growing through service, **service design in luxury**”

Result Analysis. Most important issues.

The most important issues, identified by a clear majority of the survey participants are the following:

- The topic most frequently selected by the experts was the **creation of memorable experiences**, selected as a top ten priority by 81% of participants. This topic appears as a clear winner as there is no other response selected with similar frequency. While this topic was also ranked number one in the 2014 Barometer, this year's results suggest it has increased in importance, moving up 6% from last year's 75%.
- In second place is **online retailers becoming more relevant**, selected by 60% of participants. Closely following in third, and selected by 57% of participants, is the **role of talent and creativity**. These two subjects are both shown to be primary issues for most of the surveyed experts.
- Other prominent issues, although trailing with some distance, are **product personalization** and **environmental and social responsibility**, tying for fourth place with 52% of respondents having selected them. These topics were also featured in IE Luxury Barometer 2014's top ten.

Wide range of equal-relevance topics. Need further investigation.

The results also show a variety of topics with similar relevance indicated by sharing a similar response level. This is something to be expected since the number of survey respondents is relatively small.

Six more issues were selected by 40% to 50% of survey respondents:

- Protect exclusivity, aiming at absolute luxury positioning.
- The need to balance management and creativity.
- The role of digital: communicating and engaging with clients.
- Growth opportunities are scarce.
- New business models.
- A time dilemma: reaching younger generations.

Some (maybe) surprising results.

Growth has been a predominant issue in the news throughout 2015. Prior to completing this year's research, growth was a topic perceived to be a top priority for luxury executives. However, the topic "Growth opportunities are scarce" tied for tenth place, selected by only 41% of respondents.

One could have anticipated that it would have ranked higher. Its tenth place position is a clear sign that, while it is an important topic for executives, it is not one of the most important. This issue was discussed with the expert panel during the qualitative phase. Our experts mentioned that it was no longer a pressing topic for them, as in a certain way, they had already accounted for it and considered it to have been dealt with.

Qualitative Phase Results.

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

In order to do that, we met with a representative group of the surveyed experts at the IE Business School facilities on the morning of December 11th, 2015. During this phase there were 11 expert participants, including study authors Maria Eugenia Girón and David Millán Planelles. All of the participants have at least 15-year experience of maximum responsibility. Given their recognized 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: Round of personal evaluation of the results by each participant.
- Item three: Discussion about the participants' reflections when evaluating the results obtained as well as their motives.
- Item four: Comparison to 2014 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 has 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 allowed for a discussion about the reasons and rationale behind the selection of the top ten topics.
- **Discuss differences** with last year barometer result.

The Premium and Prestige Business Observatory would like to thank the expert panel 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 involvement in this study.

The list of experts who participated on our panel:

- **Inge Lehmann** - *Lehmann International, Founder & CEO*
- **Philippe Guillaumet** - *Consul Monaco., Independent Consultant and former General Director at Richemont Spain*
- **Candice Laporte** – *Dinhvan Spain, CEO*
- **Natalia Gamero del Castillo** - *Condé Nast, VP*
- **Sebastián Blanco Bonete** – *Magnanni, Founder & CEO*
- **Yolanda Regodón** - *Associate Communication Director at IE Business School*
- **David Millán** - *Associate Strategy Professor at IE Business School*
- **María Eugenia Girón** - *Executive Director of the Premium and Prestige Business Observatory at IE Business School*
- **Aranzazu Gómez** - *Castillo de Canen, VP International Expansion*
- **Felipe Conde** - *Luthier, Felipe Conde S.L, Founder and CEO.*
- **Itziar Armand** – *Navascués*

The relevant comments raised during the discussion stage are shown below:

QUOTES ON CUSTOMER EXPERIENCE:

“For our clients we build the experience at headquarters. The castle, the family home is the experience”

Aranzazu Gómez,

“Quality today means delivery in two hours?”

Natalia Gamero, Condé Nast

QUOTES ON EXCLUSIVITY:

“Apple watch is only sold in the Hermes store in Paris for example”

Inge Lehmann, Lehmann International

“We also customize the label of our bottles every year with artists”

Aranzazu Gómez, Castillo de Canena

“We work on demand without stock. We also do product personalization as some chefs customized our products.”

Aranzazu Gómez, Castillo de Canena

QUOTES ON NEW BUSINESS MODELS:

“Vestiare Collective is an example that the vintage theme has positive connotations.”

Natalia Gamero, Condé Nast

“New retailers have redefined the meaning of quality and excellence. Think of same day delivery, think connection to social media...”

Natalia Gamero, Condé Nast

QUOTES ON REACHING YOUNGER GENERATIONS:

“The bridge between the new generation and the previous one is the dream. How will luxury brands conquer the millennia? With a new dream!”

Philippe Guillaumet – Consul de Monaco en España

“The millennia have no interest in property. For example, the car is no longer equated with freedom. They do not want to have unnecessary restraints. They want to enjoy things but not necessarily to own them.”

Natalia Gamero, Condé Nast

“The millennials are not uniform. In the millennia there are many styles. Brands must learn to identify them. A hipster is a style of millennial, but there many other groups with different tastes”

Inge Lehmann, Lehmann International

“Today on several websites such as Vestiare Collective crocodile Hermes handbags are sold for 80000 euros. The millennials are buying online”

Inge Lehmann, Lehmann International

“Our Millennial clients do not seek our advice. They decide. They just want to be drawn into the dream, to fall in love with the dress... For us the network is Instagram. That is how we reach them”

Itziar Armand, Navascués

*“How will we conquer the millennials?
We need to be aware of the many changes in 2015.”*

Yolanda Regodón, IE Business School

QUOTES ON THE ONLINE CUSTOMER EXPERIENCE & THE ROLE OF DIGITAL:

“The online experience has redefined the physical retail experience for a brand.”

Inge Lehmann, Lehmann International

“Social networks help us to attract international customers. There is no doubt. The difficult thing is to convey the luxury craftsmanship process to them on line”

Itziar Armand, Navascués

“Online retailers offer an experience: product recommendations and production information as well as same day delivery and the direct connection to social networks. That is a great experience that redefined what we

Candice Laporte, Dinhvan

“Although our product, guitars, is unique and as we get more and more orders on line. We have developed products for this channel because we realize that what

Felipe Conde, Luthier, Felipe Conde S.L.

“When we receive orders on line, we explore online on the client to be able to personalize the product. We are looking for customer satisfaction. Selling online to Existing customers is not a problem because we already know them. We know what they want, how they play, what they enjoy...”

Felipe Conde, Luthier, Felipe Conde S.L.

QUOTES ON BUSINESS MANAGEMENT:

"The important thing is still making a real and authentic brand"

Sebastián Blanco Bonete, Magnanni

"Today in the management of the business is important to balance: the analytical management, working with data and metrics on one hand and creativity and intuition on the other. It is a key success factor."

Natalia Gamero, Condé Nast

"There is only one collection that Marno sells online. However, Marni customizes different collections, for each store in the world. Those special products will never be found online at a discount"

Inge Lehmann, Lehmann International

"The management of short and long term is a very difficult challenge today. Keeping existing clients while attracting news generations."

Inge Lehmann, Lehmann International

QUOTES ON USING DATA:

"How to create the dream? Only with data and statistics? it is necessary to anticipate to facts. We need to be able to generate and understand the data that a digital environment generates and build the

Natalia Gamero, Condé Nast

QUOTES ON GROWTH OPPORTUNITIES:

"There is still growth to come... India has not yet exploited for example. Additionally there is a market in Europe for a handmade product, by hand, custom made, personalized....Luxury brands have given up their European customers. They adapt their prices thinking only on customers outside Europe"

Philippe Guillaumet, Consul de Monaco en

"China economic situation is not so bad. As a example, Swiss watch exports have declined only 8% in 2015. What has fallen dramatically is Hong Kong. Growth with Chinese customers will continue to exist but will be more reasonable. Luxury brands just need to adapt"

Philippe Guillaumet, Consul de Monaco en

The evolution of main topics from 2014 to 2015.

This second edition of the Luxury Barometer can be completed with a comparison of the main topics identified in the previous edition, the Barometer 2014. This offers an interesting perspective to evaluate the evolution of the main topics, and how its relevancy might increase or decrease.

In the table below the 2015 and 2014 results are shown.

IE LUXURY BAROMETER 2015	IE LUXURY BAROMETER 2014
1. Luxury brands create memorable experiences.	1. Luxury brands create memorable experiences.
2. Online retailers becoming more relevant.	2. Luxury surrenders to the internet (ecommerce & communication).
3. The role of talent and creativity.	3. The challenge of reaching New Audiences and Generations. New Values of luxury.
4. Product personalization.	4. Protecting exclusivity, aiming at luxury positioning.
5. Environmental and social responsibility.	5. Product Personalization.
6. Protect exclusivity, aiming at absolute luxury positioning.	6. Innovation in the processes and product categories.
7. The need to balance management and creativity.	7. Tourism reinforced as a key driver for growth.
8. The role of digital: communicating and engaging with clients.	8. New values and beliefs associated to the concept of luxury.
9. A time dilemma: reaching younger generations.	9. Environmental and social responsibility.
10. Growth opportunities are scarce.	10. Access to key and scarce resources, including talent.

The most significant findings of this comparison are:

Topics that remain or increase in important

- While the relevancy of some topics might increase or decrease from one year to another, the creation of memorable experiences continues to hold the first position. This may be a signal that this topic is not based on the specific environment of a particular year.

- The topic that has increased the most in the ranking is Environmental and Social Responsibility. It has risen from the ninth position in 2014 to fifth place in the 2015 edition. This signals that companies are starting to embrace the idea that corporate social responsibility needs to be incorporated into the formulation and development of their business strategy.
- Protecting exclusivity and Product Personalization have middle position rankings, and have maintained similar relevancy year-over-year.

New topics in the Top 10

- It should be noted that in this edition (2015) the topics related to the digital transformation of luxury firms have been separated into e-commerce and communication. In this way we could obtain more details about their different importance. On top of that, another topic was included, the role of e-retailers.
- In this year's edition it seems that the consolidation of e-retailers, is perhaps the clearest signal of the digital transformation of the traditional business models. This new topic has achieved third place, which seems an impressive result for a topic that was not even considered last year. Companies like Farfetch, with a valuation of \$1 billion, is an example of how profoundly the industry is evolving.
- Two aspects related to creativity have reached the top ten. In third position we have role of talent and creativity. This topic reveals how important it is for luxury firms to be able to deliver a unique creative proposition.
- In the seventh position we have the second creativity related topic—the need to balance management and creativity. While this has always been an issue in the industry, the industry is now under a more restrictive growth environment. The ability to maintain a proper management structure which enhances creativity could be one way to compete successfully in the market.
- The final new topic to reach the top ten position is growth. The issue of growth has been a recurrent theme in the media throughout 2015. It is perhaps not entirely unexpected then to see it appear so low on this year's top ten list.

Topics that lost relevancy or have disappeared

- The relevancy of reaching younger generations has decreased in this year's study. This could signal that companies have already taken measures to deal with the issue, and that it is no longer a pressing matter from them. This topic has decreased from third to ninth place to place.

- Three topics have lost their top ten positions in this edition. Innovation, Tourism, and Access to Key Resources. As in the earlier topic, measures may have been taken to address these aspects and therefore their relevance has decreased. Such could be the issue of key resources and capabilities; while 2014 contained many examples of vertical integration activities (such as acquisitions or joint ventures), 2015 has fewer to show.

IE Luxury Barometer 2015

After the two phases of the research, we have come up with the ten most important aspects of the study. This set of issues has been defined as the IE Luxury Barometer 2015. The IE Luxury Barometer 2015 picks the 10 key topics for the luxury and prestige sector in 2015 that, according to experts, will shape their priorities in 2016. Sorted by relevance they are:

IE LUXURY BAROMETER 2015	
1.	Luxury brands create memorable experiences.
2.	Online retailers becoming more relevant.
3.	The role of talent and creativity.
4.	Product personalization.
5.	Environmental and social responsibility.
6.	Protect exclusivity, aiming at absolute luxury positioning.
7.	The need to balance management and creativity.
8.	The role of digital: communicating and engaging with clients.
9.	A time dilemma: reaching younger generations.
10.	Growth opportunities are scarce.

EXHIBIT 1 – LUXURY BAROMETER SURVEY

IE Luxury Barometer 2015

1. According to your perspective and expertise, please choose the 10 more important aspects that have influenced luxury firms in 2015.

Check all that apply.

- Access to key/scarc resources. Main resources like artisanship/craftsmanship, creative talent or raw materials are scarce and it become complex to reach them. This topic would also include the role of M&A to secure the access to such elements.
- Protect Exclusivity, aiming at absolute luxury positioning. Firms should protect the core luxury values. This topic might include, among others, higher priced products, reaching wealthier audiences, focus on selected distribution or use of scarce materials.
- Growth opportunities are scarce. Organic growth is more challenging given the market conditions (i.e. Asian countries with less potential for growth). This opens a new landscape, as firms need to identify new sources of growth (examples of this would be: foster digital growth, identify new locations, develop new products, target new clients...etc).
- The role of Macroeconomics. Currency fluctuations and different taxations systems generate a great disparity in prices that need to be handled (price harmonization). This topic would also represent the threat to profitability that this issue could represent.
- New product categories. Luxury is evolving into some new categories. These new categories, like wearables or eyewear, also represent a way to reach a new audience.
- Online retailers becoming more relevant. More and more we see new companies distributing and selling luxury online. This would include luxury specialist (i.e. farfetch) or e-commerce specialist entering the luxury market (i.e. Amazon).
- Increase size and reach. Conglomerates get bigger. Luxury firms need access to capital to secure a global dimension. New sources to fund global expansions and growth include private equity or the access to capital markets (i.e. IPO). Being part of a luxury conglomerate provides benefits over being an independent firm.
- Private Equity more important player in the industry. Luxury firms have become a clear target for private equity and investment funds. In the years to come we will see more examples of this type of acquisitions. This will have an impact on the luxury market and on the management of luxury firms.
- IPO show the value of heritage brands. Family based or independent companies still provide a competitive edge in luxury industry including. IPO's show the potential for value creation for independent heritage brands and family based firms.
- The need to balance management and creativity. To manage this balance is a key component for the success of a luxury firm. The dilemma whether one person can lead or the dilemma between management and creativity represents an strategic issue.
- Product personalization. Customization and bespoke product is a fundamental aspect for a luxury firm to consider in these days. This has been an essential way to create value for the high end for the market. Today it has reached other audiences.
- Creating memorable experiences. A luxury brand is not only about product, but also about creating experiences. The ability to provide experiences is a key aspect for a luxury firm.
- Innovation in the process. New way to conceive the work and organization of a luxury

firm.

- Innovation with new product categories. New categories, such as active wear or technological gadgets seem to increase their importance. This could be related to the values of younger generations.
- Innovation in the relationship with clients and stakeholders. The role of collaborative networks, sharing, crowd-funding is shaping the strategy of a luxury firm in the years to come.
- The role of technology. The development of new technologies, such as 3D printing, new textile and fiber development or new production methods is affecting significantly the industry. Luxury brands are starting to embrace these technologies to explore to what extent they create value in the luxury arena.
- Tourism reinforced as a key driver for growth. As a result growing importance of Duty Free as a channel of distribution and relevance of additional aspects associated to this like geo-localization.
- Environmental and social responsibility. It is now when luxury firms are embracing this issue as a comprehensive strategic tool to create value. This includes several aspects from environmental issues (e.g. operation, traceability or sourcing of raw material) to social issues (e.g. cultural sponsorship or foundations to support arts)
- New values and beliefs associated to the concept of luxury. As the society evolves and new generations start to consume luxury, the values and beliefs associated to luxury evolve as well. Luxury firms are realizing these changes and are taking action.
- Wealth. Distribution and Polarization. The polarization of wealth and the increase in the number of HNWI and UHNWI is affecting the strategy of luxury firms.
- Facing the arrival of new players. New designers, new entrepreneurs and/or companies from emerging markets are about to enter the luxury market.
- The need of control. Distribution control (i.e. DOS) and vertical integration becomes more important for luxury firms.
- The role of Digital: E-commerce and commercial aspects. E-commerce as a new channel of distribution for luxury. Omni channel is the new channel of distribution
- The role of Digital: Communicating and engaging with clients. Communicating with consumer through new ways and technologies (social media, mobile, tablets, but also virtual shows).
- The role of Digital: Develop Resources and Capabilities. As digital becomes an strategic issue, companies need to develop their skills to be able to compete accordingly. This issue would include, among other aspects, the recruitment of managers with digital expertise.
- New business models. Luxury firms face the arrival of new or evolved ways to compete in the marketplace. The digital transformation requires new resources and capabilities which eventually transform the way luxury firms compete.
- A time dilemma: reaching younger generations. New generations (Generation X, Y, Millennials) shape the strategy of luxury firms (understand new behaviors or communicate with them). This becomes a dilemma when serving a younger clientele affect the ability to serve the traditional clientele (If you choose this aspect, please be so kind to specify whether serving a younger generation is actually a dilemma)
- New countries and destinations. New geographical locations emerge as an attractive destination for luxury firms (Latam, Africa, ect). (If you choose this topic, please be so kind to mention the attractive new market identified).
- The role of luxury capitals. Luxury firms focus on specific luxury capitals. Traditional capital such as Paris, Milan, London or New York as well as new emerging capitals (If you choose this topic, please be so kind to state if you have considered any emerging capital).

The role of talent and creativity. Luxury firms need to secure their ability to provide a creative value proposition. This topic would include the complexity in getting talent, the need to invest in protecting core capabilities (i.e. develop or help in the creation of school of art, craftsmanship/artishanship, ct)

2. Comments and clarifications

In case you want to comment or clarify any of the topics that you have chosen, please be so kind to state it here.

.....

3. Adding new topics to the list.

In case you consider there are missing aspects from the list proposed, please be so kind to mention them.

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