

The Future of Luxury Retail

Eight Trends That Will Define 2022





Summary

Hope and resilience are beginning to emerge all over the news. Jean-Paul Agon, CEO of L'Oréal, recently promised the market that the “Roaring 20's” are just around the corner: “Like a flower after winter, beauty is ready to blossom as soon as COVID goes away.” Is it time for a renaissance in the retail sector -- and is this the case for luxury?

As vaccines are rolled out globally, luxury retail markets have begun to reopen with some markets like China showing double-digit growth. With pent-up shopping demand potentially bringing teeming hordes hungry for tactile shopping experiences back to stores sometime this year, how can luxury retailers prepare to meet these new challenges?

There is an enormous opportunity for luxury retailers to start over with a fresh, bold, innovative approach – to shed the past waste and inefficiencies that brought many a hallowed brand into the dustbin of history, and embrace new models that tightly align the needs of brands’ customers and talent.

Bringing together insights from some of the most influential leaders in the industry, find out what the future holds for luxury retail in this report on the eight biggest industry trends in 2022.

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Written by: **Marie Merien**

1 The “Bling Dynasty” is Back and Exceeding Expectations

“Through the Covid-19 pandemic, we have seen the global luxury goods market shrink, as economic and social considerations have limited access. However, the mainland China market has rebounded post-lockdowns due to four engines: further repatriation, Millennial and Gen Z shoppers, continuing digitalization and the Hainan duty-free stores – a new factor with a key role in this year’s growth.”

Bruno Lannes

Senior Partner, Bain & Company

Recovery is expected to be led by Chinese consumers, who will account for almost half of global spending on luxury goods by 2025, up from a third in 2019. The Chinese market is seeing a quick market rebound, explained by its large customer base of repeat and first-time luxury buyers.

In Mainland China particularly, luxury brands reaped the benefits of post-quarantine shopping, returning to pre-COVID offline activation levels as soon as July 2020.



Local purchases boomed due to limited travel and the Chinese government has reinvigorated the nation’s strong growth spirit. In fact, the share of domestic purchases reached 80-85 percent in 2021 and is expected to remain high at 65-70 percent in China and the broader Asian region.

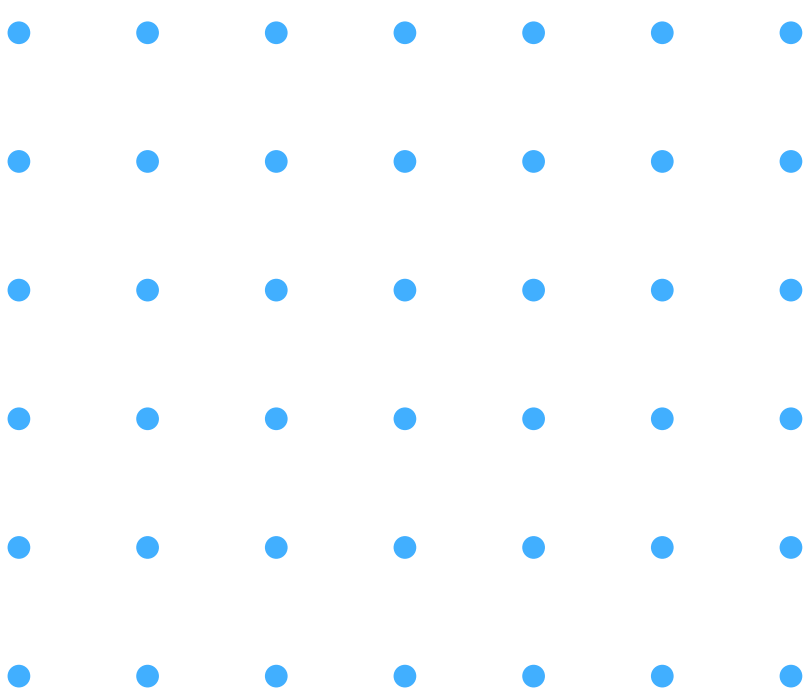
Luxury brands are rushing to open more stores in China and expand their online offering on platforms such as Alibaba’s T-Mall Luxury Pavilion. The biggest so far is a \$1.1bn deal between Alibaba and Richemont investing in the online fashion platform Farfetch to expand e-commerce in China.



“Over the next few years, we [Tmall] need to engage in deeper discussions with the big groups — LVMH, Kering and Richemont — about our three-dimensional model of online and [physical] retail. We are not only focused on digital growth: we would also like to make offline stores a more interactive, elevated experience. This would involve cooperating on many fronts, from content to social media to B2C to supply chains and consumer behaviour.”

Mike Hu

Alibaba Group Vice President & General Manager
at Tmall Luxury, Fashion and FMCG



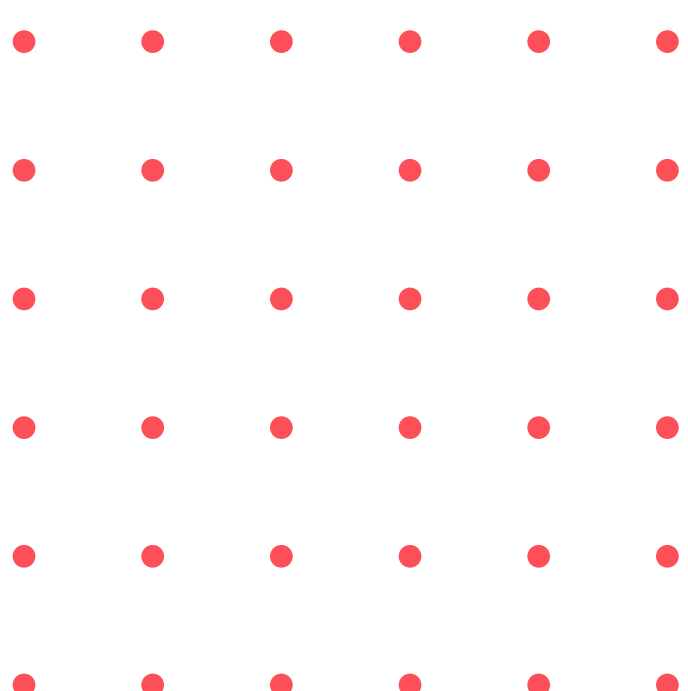
2 The Outlook for the US Luxury Market Is Rosier Than One Would Expect

“It’s especially important now that teams are empowered to develop those local relationships, and to provide local services that are really unique to each geography. For example, a store's needs in China will differ greatly versus a US-based store in Chicago or Dallas. The environment may change, but the ownership of the decision and the ability to take action at the local level is going to be something that will make a huge difference.”

Benjamin Zenou
CEO, SimpliField

In the US, there is hope for a strong rebound: as equity markets have remained at all-time highs, wealthy individuals sheltering in place have continued to accumulate wealth and are now feeling emboldened to reward themselves.

This phenomenon was coined by the Biden campaign as a ‘K-shaped recovery’: those at the bottom part of the K are sadly in worse situations today, but those in the upper part are relatively relaxed. Although this situation won’t last forever, it does mean the US market rebound will be swifter than expected.



The North American luxury market is expected to see 14 percent growth and remain solid as positive signals show early increases in purchasing luxury goods. Plus, unlike Europe, US luxury isn’t as reliant on travel retail with an offer more tailored to the local American market. The map of luxury consumption has however been redrawn to move away from city centers and large department stores.

"The growth in America is historical right now. In my 40 years in this industry I’ve never seen that — and this is on major numbers. A major part of that is onshoring. Nobody’s travelling, so whatever brand has developed local customer bases is doing well."

Michael Burke
Chief Executive at LVMH

3 Local Empowerment is Critical for Recovering European Markets

“For an emerging brand like Erborian, in-store and online visibility through our differently sized and positioned retailers are key to reaching peak growth and gaining market share, and will depend on our ability to build market-tailored strategies.”

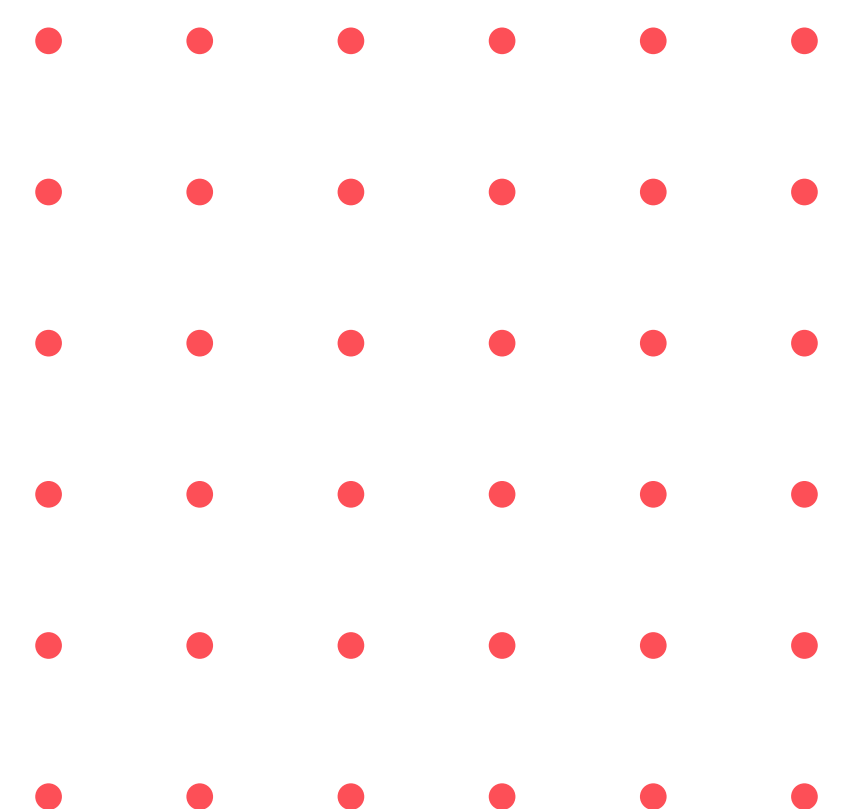
Alexis Deledda

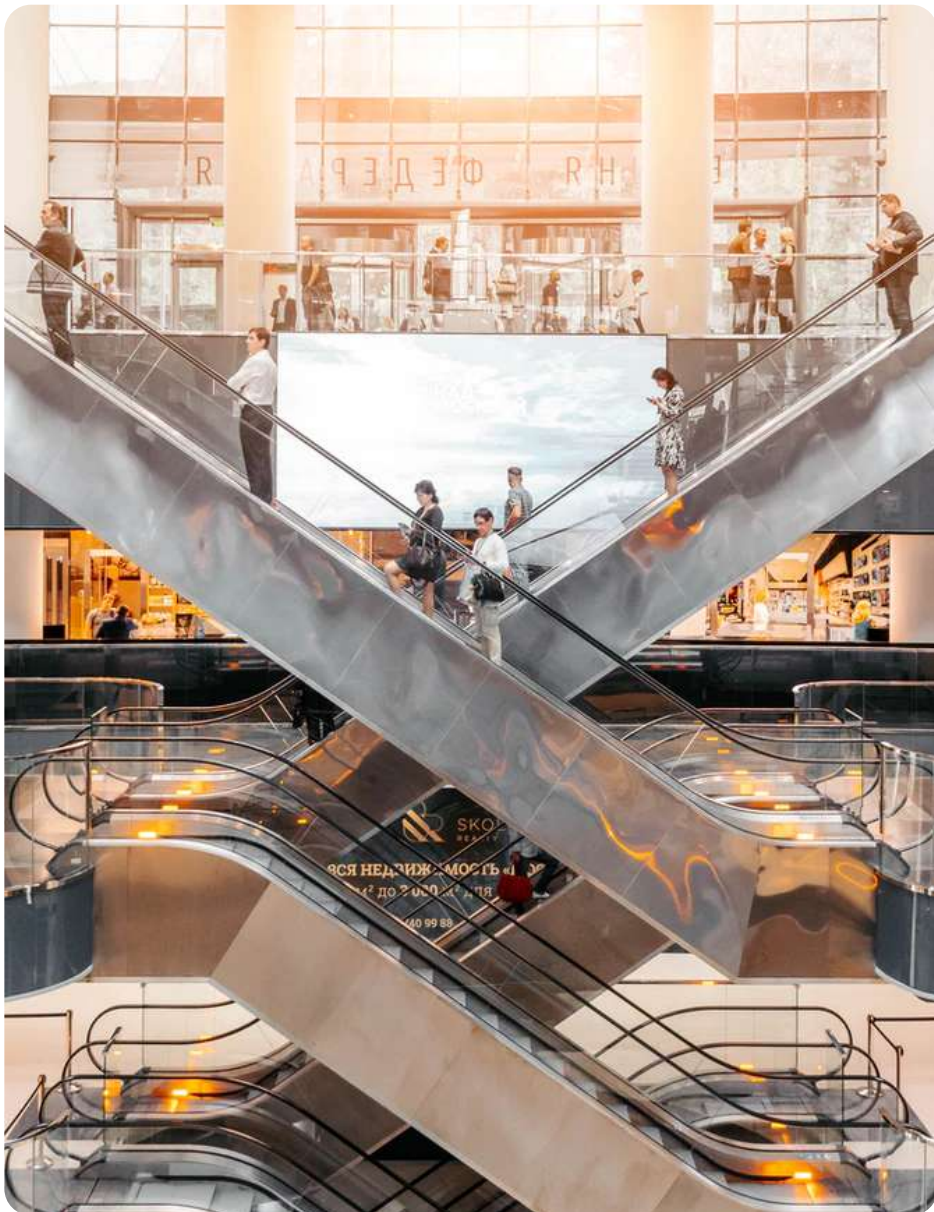
Erborian Sales Director, L'Occitane Group



European luxury markets are under immense pressure as tourism flows evaporated at the outbreak of the pandemic and are still timid today. Most recently, EUROSTAT revealed that EU tourism dropped by 61% during the pandemic, with Europe accounting for half of the world's tourist arrivals.

Unfortunately, the European luxury industry is complacent, with some brands doing 80 percent of their business from tourism, which just hasn't reached pre-pandemic levels since early 2020. Plus, according to Euromonitor data, Europe's personal luxury market will not reach pre-pandemic levels until 2023.



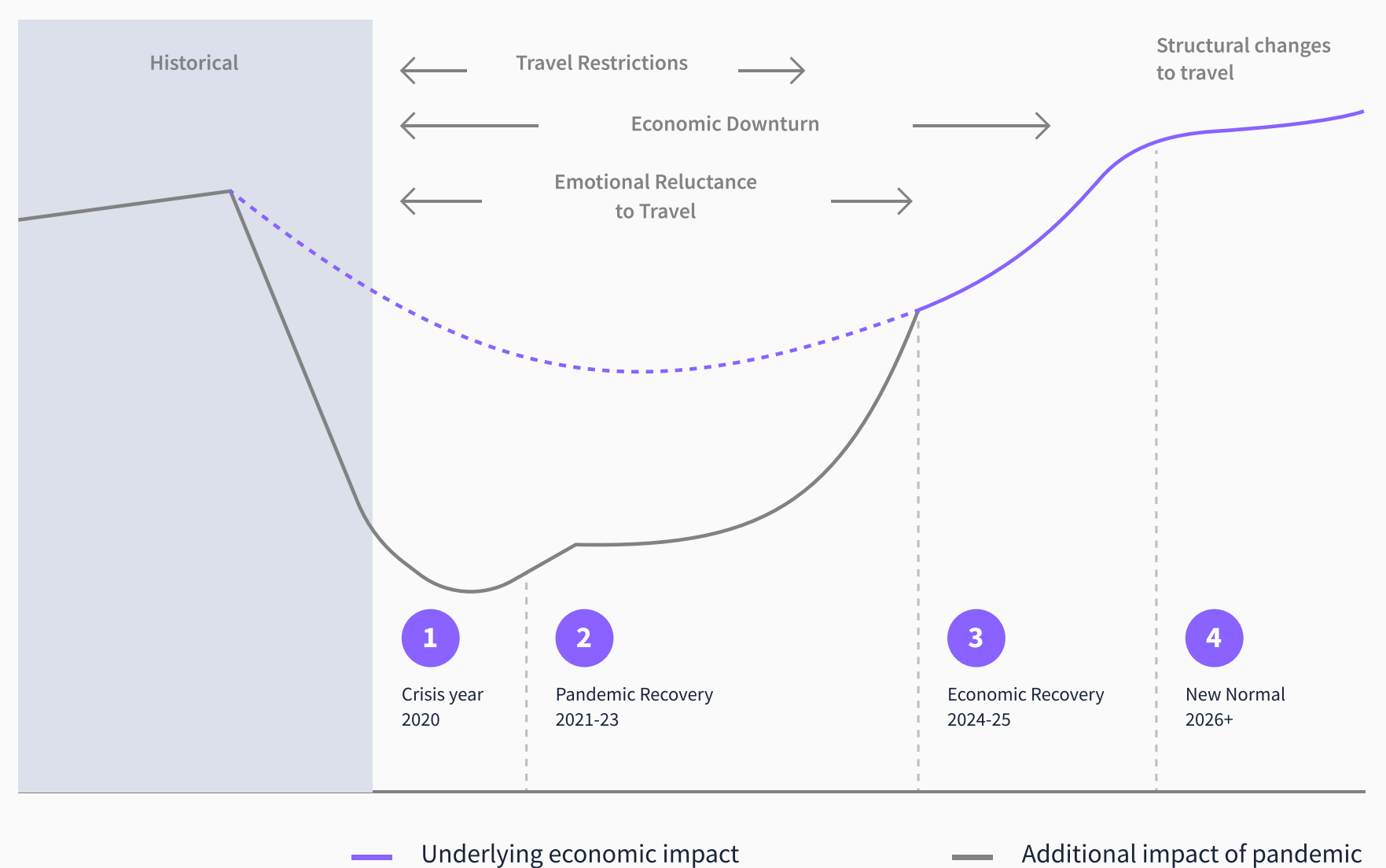


In comparison, Vincent Vuillaume, International Retail Director (Luxury Watch Industry), points out that stores in other markets “were relying a lot on the local customers. [...] if you have a good database, if you have a good relationship with your local customers, of course, the rebound will be much quicker than if you’re just waiting for your customers, or if you have to find your local customers and start fresh.”

Localization to develop better relationships and provide valuable local services will be key to staying relevant and attracting local European customers. Plus, with uneven and repetitive confinement measures put in place across Europe due to COVID-19, retailers must now efficiently and effectively incorporate health and safety regulations if they want to optimize sales.

Travel recovery is expected to evolve across four stages, with both economic and health factors reshaping the market

- 1 Crisis Year**
Peak pandemic accompanied by systematic lockdowns, consistent travel restrictions and reluctance to travel.
- 2 Pandemic Recovery**
Governmental restrictions gradually ease as outbreaks are contained, and consumers slowly regain trust in safe travel.
- 3 Economic Recovery**
Restrictions on travel have mostly disappeared and public confidence in travel is back to normal. The economy slowly recovers.
- 4 New Normal**
Return to normal for the majority of travelers. Some sectors remain affected by secular shifts in consumer behaviour and preference.



Source: McKinsey Tourism Recovery Model. McKinsey Travel Logistics and Infrastructure Practice

“What was super challenged before is definitely not going to survive. What was good before probably will, but we will have to reimagine the way we do retail, reimagine the way we sell, reimagine our business models completely, if we’re going to respond to all of these changing behaviours.

Anne Pitcher
Managing Director, Selfridges Group

4 The New Luxury Buyer is Female and Younger Than Ever

“Long-term, what feeds the positivity is this idea that you’ll have way more consumers being involved in luxury. In fact, the new luxury buyer is female and younger than ever.”

Erwan Rambourg

Managing Director and Global Head of Consumer & Retail Equity Research at HSBC, author of “Future of Luxury”

The new luxury shopper is no longer just the active, rich, European or American male, but increasingly female, younger, international, more diverse and inclusive. Some also speak of the emerging dominant luxury segment as the ‘HENRYs’ (High-Earners-Not-Rich-Yet) -- in other words, those luxury big spenders are aged 43 on average, with an income of over US\$100,000 and investable assets of less than US\$1 million.

Referring to the concept of ‘Women-omics’, Rambourg highlights the fact that emerging markets are not just about tapping into access growth, but that “the future is female.” In fact, Singles’ Day clearly reflected that the key emerging clientele for luxury was the single Chinese woman. Even online, luxury ecommerce demographics are now close to an equal gender split with 53.4 percent female and 46.6 percent male shoppers.

Women also have more means today: couples marry later, the salary gap is narrowing, and employment participation rates are going up. “I think women will move the needle significantly for the usual suspects of female-driven sub-segments...But beyond that, you can also think about a lot of male-driven sub-sectors that will get a huge boost from female purchases,” said Rambourg.

The luxury buyer is also getting younger: by 2026, Millennials and Gen Z will make up more than 60 percent of the spending. Plus, they are more affluent, making 30 percent more luxury purchases than the overall luxury population. This means brands are targeting a massive digital-savvy audience, which will have impacts not just on online purchasing, but also ranging from brand building to PR communication, which are all happening online. Plus, younger consumers today have yet again proved they’d rather prioritize experiences over purchasing goods.

Gen Z

have a unique set of behaviors and values, and brands should start understanding them better

Purchase collaborations	67%	Purchase items from collaborations <ul style="list-style-type: none"> vs. 60% Millennials vs. 50% overall True-Luxury consumers
Growth lever for 2 nd -hand	57%	Consider resale value when purchasing luxury goods <ul style="list-style-type: none"> vs. 50% Millennials vs. 44% overall True-Luxury consumers
Influenced by sustainability	64%	Influenced by sustainability when making purchases <ul style="list-style-type: none"> vs. 64% Millennials vs. 59% overall True-Luxury consumers
High social media interaction	95%	Use social media to interact with luxury brands, bloggers or social media peers regarding luxury brands and products <ul style="list-style-type: none"> vs. 92% Millennials vs. 81% overall True-Luxury consumers
Embrace mix & match	56%	Have partially shifted spending from traditional luxury brands to premium, fast fashion, niche or sports brands <ul style="list-style-type: none"> vs. 92% Millennials vs. 81% overall True-Luxury consumers

Source: BCG-Altagrama True-Luxury Global Consumer Insight Survey Dec 18 / Jan 19

“If you look in the stores, look at the store managers, it’s very diverse and it represents the client base. If you go in the studios, it’s extremely diverse. White, heterosexual, middle-aged men are the minority. So it’s happening. Does it still have a way to go? Yes. Can we accelerate? Yes, but it’s happening.”

Michael Burke
Chief Executive at LVMH



5 The Awakening of Conscious Luxury

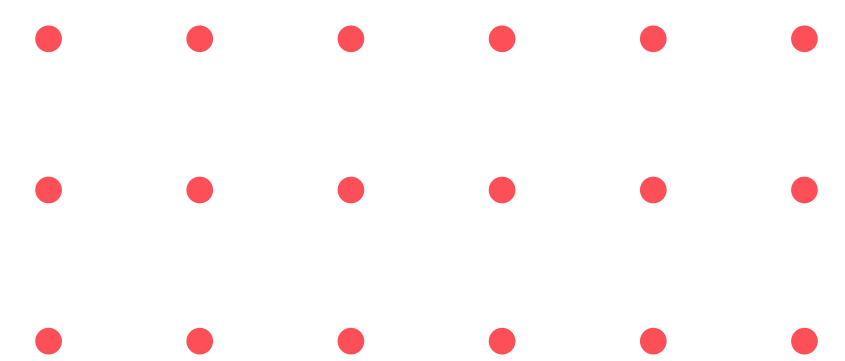
“We need to move beyond just ingredients or the magic formula or whatever, and towards meaning, more than ever. People are looking into company cultures, what they’re projecting, what they stand for, and into what the meaning of their purchase is.”

Catherine Roggero-Lovisi

Former President, North America at Revlon

Brands will also need to reshape themselves internally to better align with this new customer base: “The fundamental shift, and one that should have the boards, the executive committees and the management teams in luxury change eventually, is more women, younger consumers throughout, and obviously minorities as well,” said Rambourg.

Vuillaume strongly emphasizes that there are also important longer-term customer concerns to be addressed by the luxury industry today beyond the pandemic, including climate change and manufacturing practices: “COVID-19 is a small wave that's overtaking the world right now, but right behind it you have social change and climate change coming. It's true that this younger consumer, she's asking more questions than we would have asked at her age around ethics, how products have been manufactured and what your brand is doing for the community.”



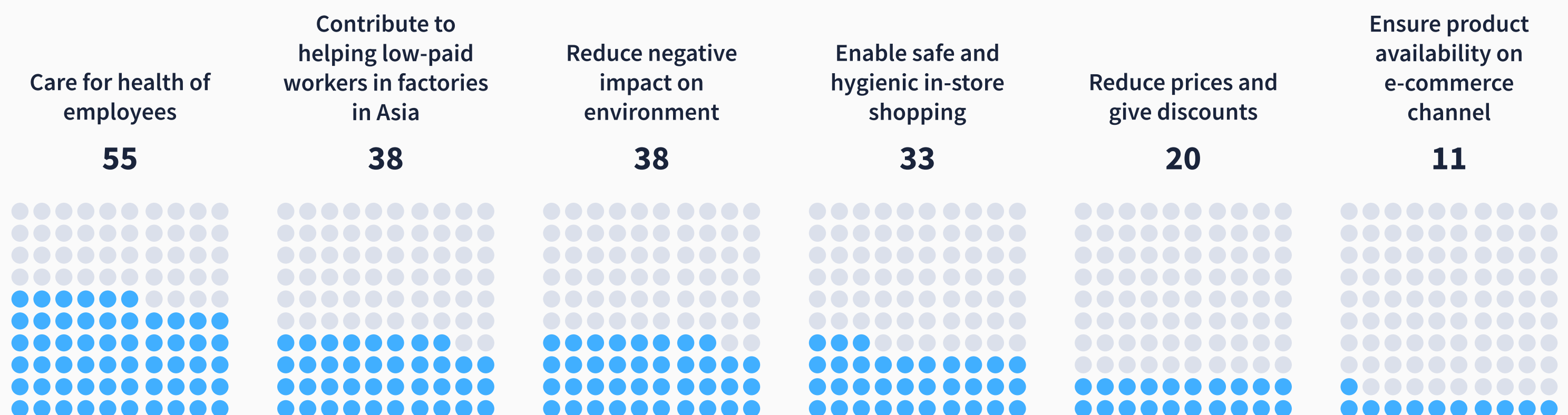
Consumption is going down for financial reasons, but also because customers have realised that every purchase they make can also be aligned with what they stand for in political, economical, social and environmental matters. Roggero-Lovisi states: “A company that is going to be remembered is a company that is not going to push you to buy one more item, but that is going to push you to buy a better item. Less is going to be more.”

The secondhand luxury market is booming, dominated by online marketplaces like TheRealReal, Vestiaire Collective, ThredUp and Poshmark planning to go public. Pilot projects with some of the most popular luxury brands, usually skeptical to resale, are ramping up: for instance, Gucci and Burberry have already invested in developing reselling via TheRealReal platform.

Consumer expectations of brands are dominated by social and environmental responsibilities.

McKinsey
& Company

Actions for fashion brands to help society deal with impact of COVID-19 crisis, % of respondents selecting action as top 2 priority (n = 2,004)



Source: <https://www.mckinsey.com/industries/retail/our-insights/survey-consumer-sentiment-on-sustainability-in-fashion>



“The transition from product-centric to human-centric luxury along with a fundamental change of the definitions of precious materials and perfection, is shifting the focus from craftsmen to influential talent and transforming luxury leadership to focus on creating new value - such as belonging and impact.”

Dr. Christian Kurtzke

Former CEO Porsche Design Group & Founding President of the German Luxury Association

6 Amazon Luxury: Major Brands are Taking a Wait and See Approach

“To me, luxury is all about emotions. We’re selling emotions. We’re not selling functional products, and it’s quite difficult to sell emotions through a website like Amazon. However, that being said, now all brands are selling online, whether it’s their own website or through pure players. I would not totally discount Amazon, especially because they have huge power in terms of logistics, data, and marketing.”

Vincent Vuillaume

International Retail Director (Luxury Watch Industry)

Online luxury sales are skyrocketing due to the pandemic: when in 2019, 12 percent of luxury sales were online, predictions show that by 2025, these will represent a third of luxury sales.

But major brands are still very much taking a wait-and-see approach to the brand new Amazon Luxury e-commerce. Unlike Oscar de la Renta, most luxury brands are developing a learning curve on online shopping, with some working strictly with their own retailer or .com, and others relying on wholesale or multi-brand platforms. Many restrictions exist for luxury brands on those channels, particularly in terms of brand messaging based on a very fine balance between exclusivity and accessibility.

In fact, for his just released book, Rambourg interviewed many luxury brand leaders: “Although the luxury sector has a lot to learn in terms of service to consumers and of data, potentially from Amazon, I do believe that the more recent move from luxury brands has been really to tighten control...There’s been a move towards cutting physical wholesale and cutting multi-brand online wholesale.”

Only time will tell, but it seems the luxury store experience is still essential to luxury shopping and that brands are not currently losing any sleep over this announcement.

“We’ve focused on tools that aren’t visible to our clients, which augment the performance of our sales associates. We want to leverage that human contact as opposed to digital for the sake of digital.”

Grégory Boutté

Chief Client & Digital Advisor at Kering

7 The Relationship Between Your Talent and Customers is as Important as the Stores

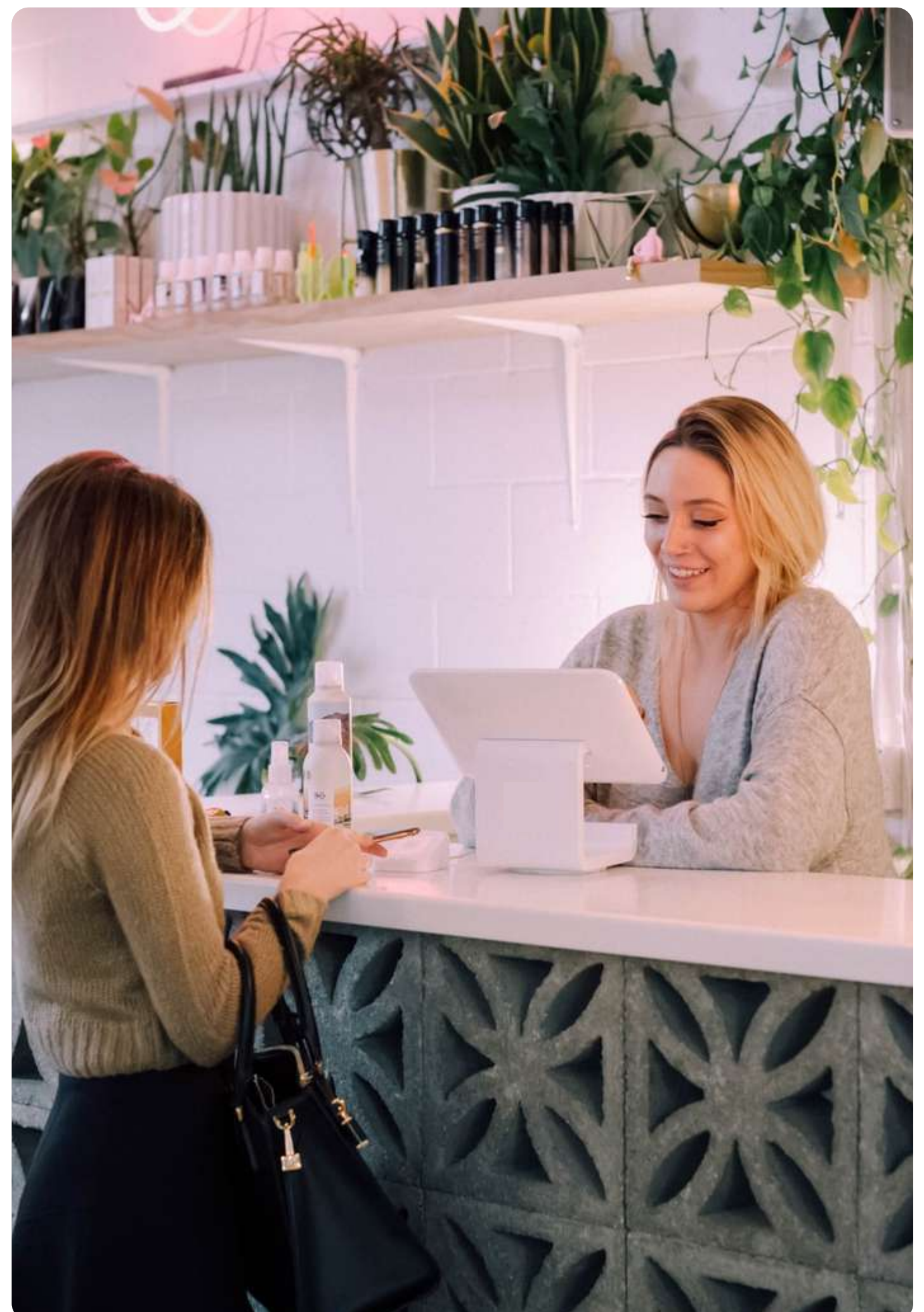
"Our top priority is to...adapt our salesforce to new customer behaviors. We really want to perfect personalisation for individual-adapted customer journeys."

Vincent Palasse

Business Intelligence Director, Dr. Brandt Skincare

The truth is that the success of luxury stores relies on great customer experience, and that great customer experience relies on talented and empowered sales associates.

As Rambourg puts it: "There was an interesting quote from Michael Burke, the CEO of Vuitton. He was asked, 'What are your 400 and some stores going to become?' His reply was to say, 'I have 12,000 stores, which are actually the sales associates.' During the crisis, where stores might be shut, or operating on restrained hours, it's important to empower your talent to really go after that more intimate relationship, that better service, and around building that emotional tie. Hopefully that will help consumers come back to that given brand."

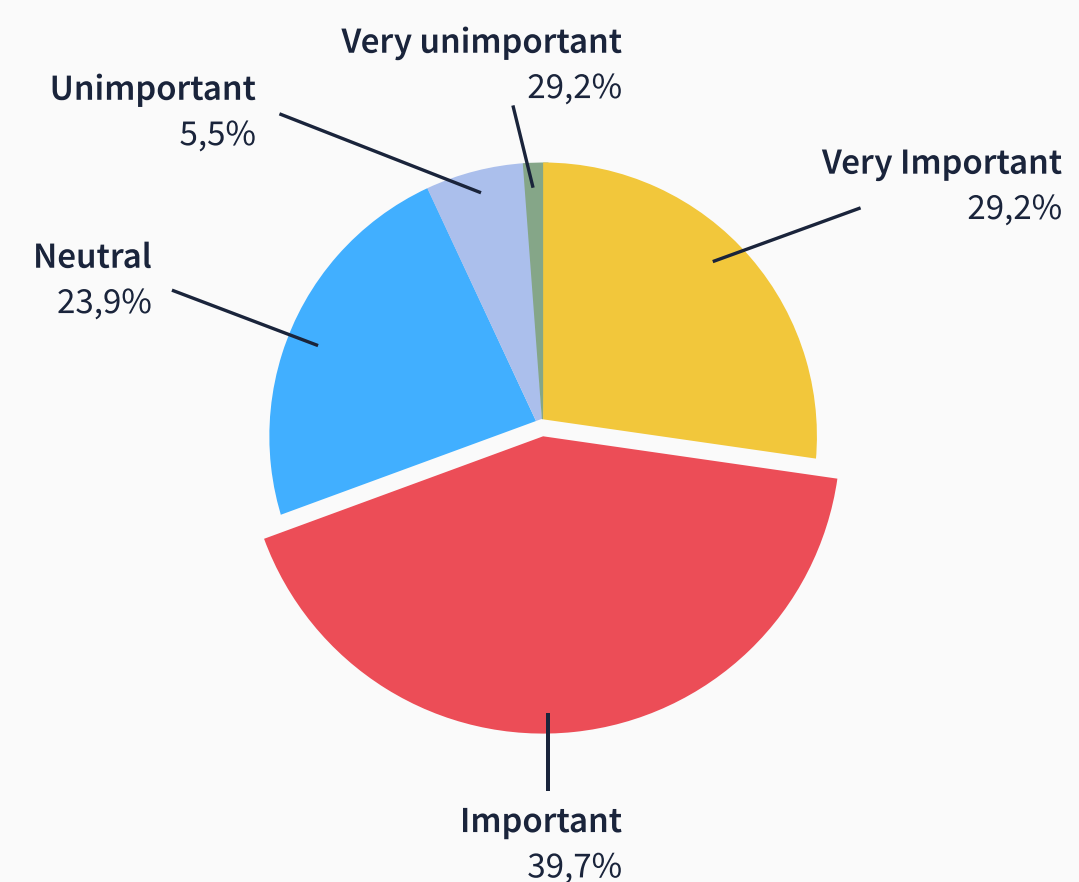


What's the primary reason you prefer to shop at a physical location?



For those who shop offline, all groups named the ability to see and touch products (40,4%) as their top factor, with the experience of in-person shopping taking a close second (38,4%)

How important is the in-store experience for you when shopping at a retail store?



Data source: Deloitte Global Powers of Luxury Goods 2020

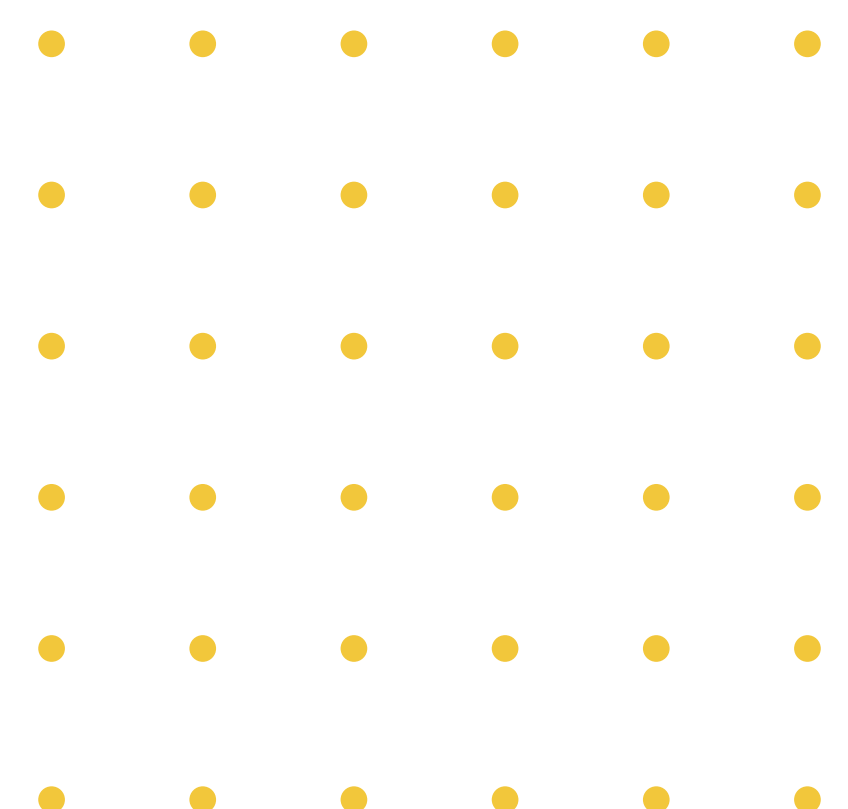
Vuillaume echoes that, “At the end of the day, what we expect them to establish is the relationship with the customers and make them become their number one go-to person every time the customer has a question about luxury. Sort of like a luxury concierge. Customers should be able to call them and ask for the best places in town, and make them become part of the family. That’s obviously in an ideal world, but that is part of the goal.” Not only will this engender positive brand image and word-of-mouth, it can potentially increase basket size in a time when foot traffic is low.

Providing support and training today is even more important for sales associates to simultaneously ensure compliance to health and safety regulations, apply new sales methods and offer excellent customer service: “Going back to the field and to the teams that are in the trenches to write the future is extremely important. If you have somebody on your team, it means that you trust them to make a decision and to represent your company or your brand. And it also means that they have the intellectual capacity to do it and the training to do it,” said Roggero-Lovisi.

“The world has become very complicated... but conglomerates are going to get too big. There is going to be some consolidation between mid-sized companies that are more family- and culture-driven and less corporate.”

Elsa Berry

Founder of luxury M&A advisory firm Vendôme Global Partners



8 Brands Continue to Consolidate and Innovate As Categories Shift

“Needless to say, brands need to constantly innovate and reinforce the online customer experience, but they also need to bring innovative B2B interactions in training or even sales with the use of new technologies.”

Alexis Deledda

Erborian Sales Director, L'Occitane Group

More than ever, luxury consumers are looking for timeless luxury products. Skin care, makeup, footwear and leather goods are better positioned to rebound as they are less tied to trends or seasonality and show strong online sales. However, luxury watches and jewelry, which are still very reliant on retail sales and international travel, are still stagnating.



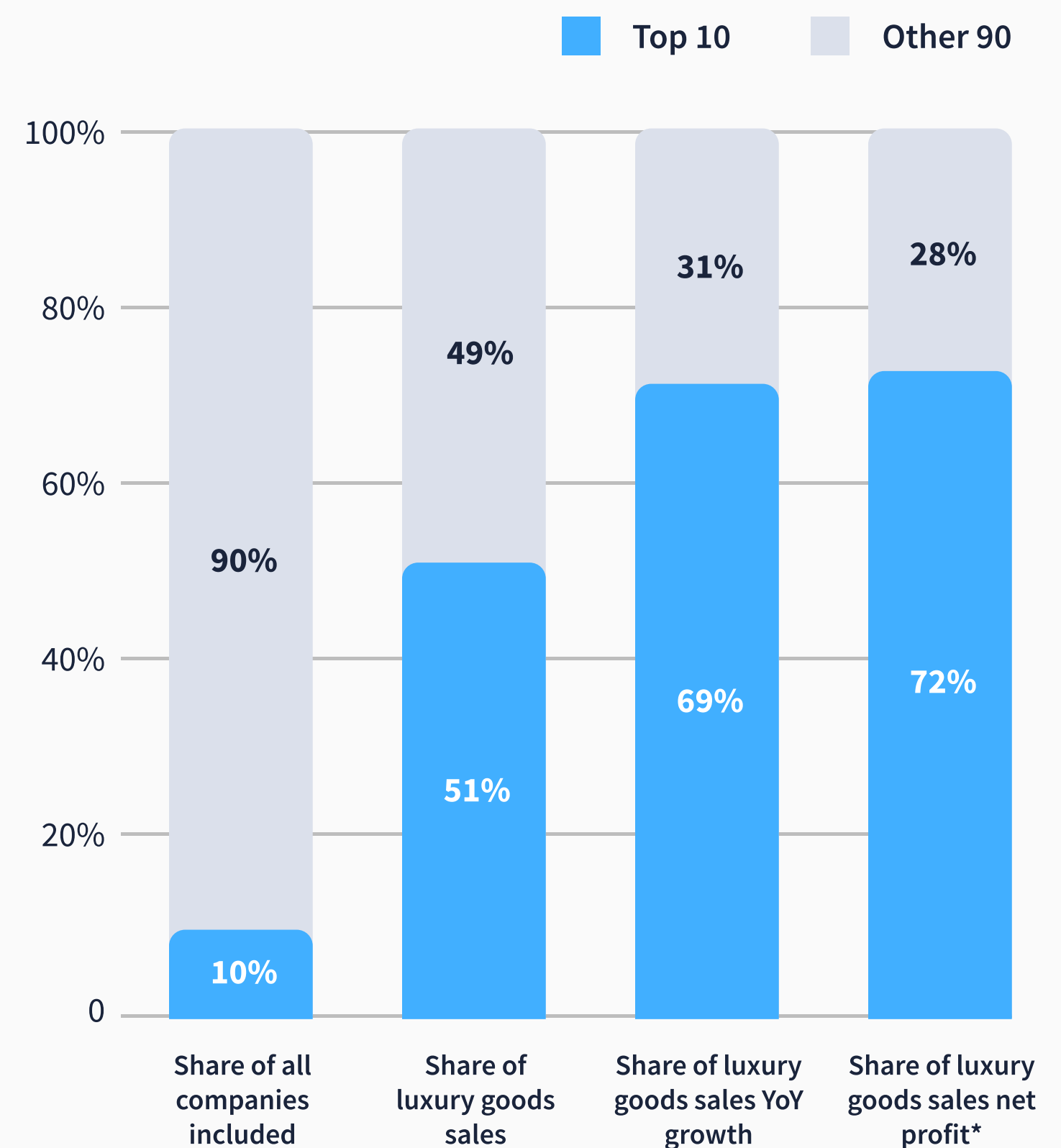
The trend towards luxury classics is reflected as large luxury groups continue to consolidate and lead the way. Already in FY2019, Deloitte found that, for the first time, the Top 10 luxury companies contributed more than half of the total luxury goods sales of the Top 100 companies. Among these, companies like LVMH, Kering, Richemont and Chanel were also among the Top 10 highest net profit margin companies.

This consolidation is bound to pursue beyond 2020, following the footsteps of LVMH acquiring Tiffany & Co. with a concluded record deal of \$15.8bn.

This does not mean leading brands have stopped innovating. On the contrary, many industry leaders are looking up to brands like Gucci and Vuitton, impressed by innovations such as ‘Gucci live’ (a new digital approach to omnichannel sales) and new monogram logo designs (including Virgil Abloh’s collection in Shanghai redefining Vuitton’s DNA for younger customers). Rambourg reminds that, just like Moncler’s innovative shop windows, luxury brands must always look to surprise their customers: “They might hate it. They might love it, but whatever happens, they’ll notice it, and that’s the purpose.”

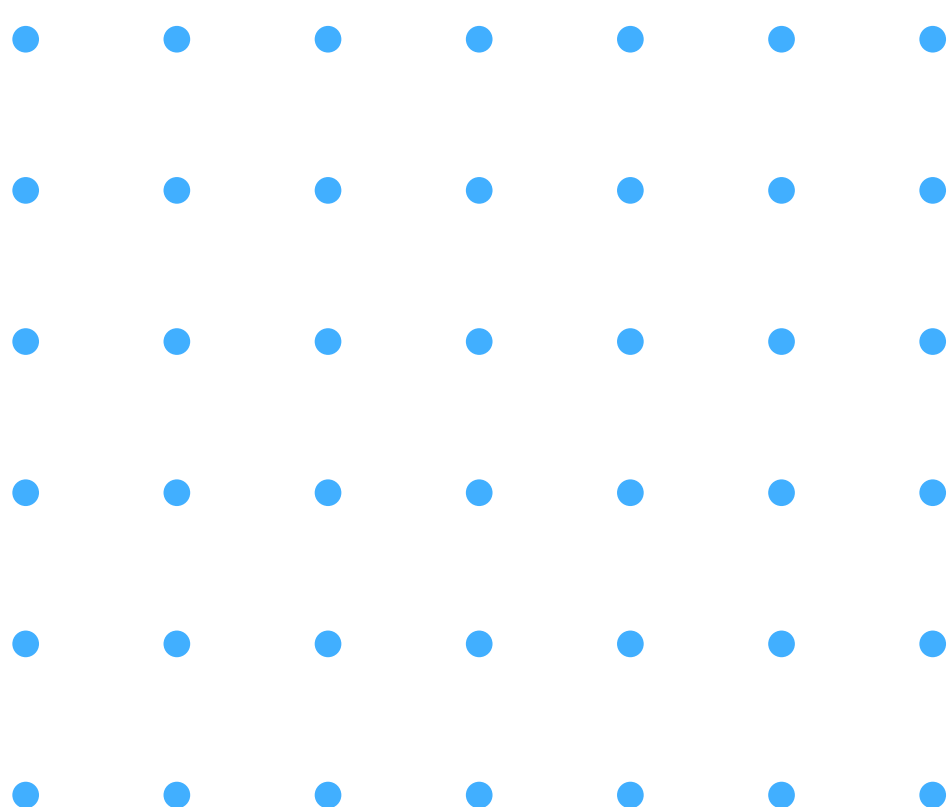
In terms of product categories, the strongest growth will be in leather goods (+16%), followed by cosmetics (+15%) – and within that segment, skin care performs better than make-up.

Top 10 luxury goods companies dominate sales, growth and profit in the sector



*Only 79 of the op 100 companies report net profit with nin companies in the top 10 doing so

Data source: Deloitte Global Powers of Luxury Goods 2020



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