DIGITISATION AND THE DEMOCRATISATION OF LUXURY

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Luxury goods hold a fascination for executive search professionals because, more so than any other sector, when it comes to filling C-suite roles, there is no guarantee that success in one luxury goods company can be replicated in another, even in the same field. This has less to do with personal leadership traits than with the brands themselves. A luxury company that is vigorously pursuing new markets will have a completely different approach to a brand which requires a degree of connoisseurship to appreciate, such as rare whisky, white truffles, and side-locking shotguns. Understanding the vision for the brand, is therefore critical to the executive search process when it comes to the luxury space, which more than any other, is contingent upon context. The market for a $5.8 million Bugatti Divo Hypercar, a bottle of the 1811 Château d'Yquem at $120 000, or a Highclere Castle jewellery box from David Linley (a snip at $85 500), is very different to consumers who covet a Dior lipstick or an LV keychain. In this paper we explore the challenges and opportunities facing the personal luxury goods sector and specifically, how brands are managing the tension between maintaining exclusivity while ensuring strong future growth. This is especially true of the heritage marques whose status has been conferred by a long history of fine craftsmanship traditionally available only to the privileged few. Fast forward to 2020, and you have a shift in the market landscape, with a new segment of cash-rich customers willing to embrace brands that resonate with their values and world view. In return, they expect unprecedented levels of innovation, engagement and convenience. Finding the tech-savvy expertise to deliver on their digitisation strategies without adulterating their brand propositions is one of the key challenges facing this sector.

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If you would like to find out more about how AltoPartners can assist you with your leadership development or executive recruitment needs, or to discuss any of the findings in further detail, I would be delighted to hear from you.

With warm wishes,

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THE RARITY VS GROWTH PARADOX

Amid the gloom and despondency of global markets, the luxury goods business – contrarily – is booming. The sector experienced back-to-back growth in both 2017 and 2018, increasing by 5% per annum to an estimated €1.2 trillion globally, fuelled by millennials who are hitting their peak earning stride and the burgeoning middle class in China and India.

Ordinarily in the retail world, a groundswell of aspirational support would be cause for celebration. But the luxury goods sector is no ordinary industry, occupying as it does the penthouse suite of Maslow's hierarchy of needs. It trades in desirability, and growth based on middle class expenditure makes it particularly vulnerable to ripples in the global economy, and to over-exposure in the market.

The trend toward democratised luxury means treading a fine line between creating an immersive brand experience catering to younger fans while simultaneously protecting the mystique upon which the price point depends. This raises two leadership issues: maintaining brand integrity across multiple channels; and finding the technical expertise to build platforms to appeal to diverse audiences, many of whom will have had their experience of the brand shaped by their digital interaction with it.

HOORAY FOR THE HENRYS

This is particularly true for brands targeting an emerging customer segment that Deloitte's dubs HENRYs (High-Earners-Not–Rich-Yet). These are typically in their early 40s, although they span three generations, including Baby Boomers and Gen Xers, with the bulk of the online fire power belonging to the Millennials, some of whom quietly turned 38 this year. And they love online shopping. So much so, that analysts predict an uplift in online sales of between 25% and 30% by 2025. This puts particular pressure on brands to speed up migration from a siloed, multi-channel retail approach in which the company's online presence exists in isolation to its physical stores, to ensure that customers enjoy an integrated omnichannel shopping experience. Millennials and Gen Zee expect to be able to script their own journey across multiple touchpoints, switching seamlessly between mobile, e-commerce and in-store.

"The customer does not distinguish between the channels – they simply see the brand experience. It has to deliver on the brand promise." Sephora

BETTER LATE THAN NEVER

With a few notable exceptions, luxury marques were fashionably late to the digital party. Prada, famously, didn't have a website until 2007, almost two decades after the invention of the Internet. While some brands are still getting to grips with retro-fitting a coherent e-commerce strategy, others have already graduated to narrow artificial intelligence using personal shopper chatbots (such as Levi's virtual stylist) and machine learning software to make recommendations based on individual customer preferences using voice and image recognition.

Unsurprisingly then, all participants in this survey put digitisation at the top of the list of challenges currently facing the luxury goods sector. Even those who were satisfied with their current rate of integration from multi-channel to omnichannel, were concerned about the speed at which e-commerce platforms were evolving and the skills required to keep pace with competitors within the broader luxury goods sector, as well as challengers in the premium goods sector, and increasingly, grey market platforms such as LuxuryBazaaar.com, who sell premium brand watches at steeply reduced prices minus the warranties and guaranties.

Merging legacy POS systems with e-commerce platforms adds a new dimension of cost and complexity and is likely to require significant investment in technology as well as a sustained commitment to employee training and engagement. This is not just restricted to technical know-how, but to broader change management initiatives that address company culture and conditions of employment. For example, a renewed focus on e-commerce could be met with considerable resistance from sales staff who may resent losing commission-based sales if they anticipate that customers are browsing (or showrooming, to use the technical term) with the aim of purchasing online later.

Regardless of whether customers research online and purchase offline, or vice versa, digitisation is a two-way exchange, providing consumers with basic information (store locators; stock levels; opening hours; new ranges; exclusive offers), and in turn offering crucial digital feedback about individual purchasing habits and preferences.

AI & BIG DATA – THE HOLY GRAIL OF DIGITISATION

Companies are increasingly looking to use this data to deliver bespoke offers to an audience of one. Software that uses AI and Machine Learning to enhance a brand's personalisation strategy, is clearly the biggest opportunity for next-level customisation, with some brands choosing to develop their own tech incubators such as the Boyner Group, Turkey's award-winning luxury retail brand who has partnered with other connective technology companies to establish an R&D academy. This makes solid commercial sense given that in the next decade customers are expected to manage 85% of their relationship with a company without ever interacting with a human.

Even in emerging and frontier markets which are hampered by poor transport infrastructure and low connectivity levels outside of urban areas, digital is king when it comes to developing brand loyalty. Prune, which was founded in Buenos Aires in 1999, and now has a presence in Peru, Chile and Colombia with plans to expand into Mexico and Europe, were early digital adopters, using social media to communicate extensively with their 2.5 million customer data-base. This year online sales superseded in-store purchases for the first time since it launched its e-commerce site in 2008, although 70% of purchases are picked up at a store.

The race is on therefore to better leverage consumer data (such as individual shopper's profile, browsing history, abandoned carts, purchases and returns) to promote the right products at the right time on the right channel. Or allow customers to find exactly what they're looking for with the least amount of effort or inconvenience. Luxury multi-brand portal Farfetch, for example, uses image recognition to allow shoppers to upload pictures from anywhere to find a specific product or similar options. Users can select their own photos but also Instagram or Pinterest posts. Similarly, Sephora's online Visual Artist app allows potential customers to experience a virtual makeover by uploading a photo of themselves, while simultaneously making it easy to purchase any of the products 24/7.

Big data however brings big responsibilities. Brands need to ensure that customer data is rigorously protected. To do that, they first have to gain their trust, which has implications for levels of disclosure and transparency not just around data protection but business ethics generally.

"Ultimately, our role is to serve, not sell. We're getting better at observing clients' choices with big data/intelligent data and responding to client needs...., discreetly without bothering customers. That's how we build up our community and gain their trust." Sephora

BRICKS AND MORTAR REMAIN AS IMPORTANT AS EVER

As luxury brands extend their virtual runways to reach ever further and deeper into the digital universe, so the physical shrines to their products take on even greater significance - rising above the noise and embodying everything the brand stands for in one memorable experience. The roots of luxury's love-hate relationship with digital lie in the difficulty of replicating the ''magnificent encounter'' of the in-store experience, online. How much of the brand mystique is derived from the ritual of the gift wrap, or the attentiveness of a personal shopper? Or the chilled champagne? The private viewing? The sheer grandeur of a celebrity architect-designed space at a premium address?

One option is to partner with trusted luxury multi-brand portals such as Yoox Net-A-Porter in Milan, the UK's Farfetch and Munich-based MyTheresa, who are expert at replicating the 'white glove' experience online – from fashion consultants who are available 24/7 to literally turning your office or living room into a fitting room with a ''you try, we wait'' delivery service. Chinese e-commerce giant, JD.Com goes even further: any of its 292.5 million customers ordering luxury items will have them delivered the same day by a dapper courier sporting a smart black suit and spotless white gloves.

"How do you inspire a customer to buy a perfume online that they haven't sampled?" Sephora

KEEPING IT REAL

What is clear is that there is no magic formula for achieving digital integration; what works for one brand, may not work for others. Now more than ever luxury brands need to remain true to themselves by clearly communicating their distinctiveness and singularity and translating it into digital storytelling.

Finding better ways to engage with key audiences in a way that hooks their attention and resonates with their values, was a common theme in our conversations with leaders in the luxury brand space, many of whom have abandoned print advertising in favour of digital and social media. In this respect, the brand custodian has to be both shaman and strategist, tapping into the zeitgeist and adapting quickly and authentically to customer needs and desires.

This puts additional pressure on the need for content generation and curation, often happening across diverse channels in multiple time zones and in different languages. The custodians of the brand need to be hyper vigilant for false notes and tone-deaf messaging. But it's a fine line. Centralised communications can also put the handbrake on speed and agility, as observed by many country managers sitting far from digital HQ, who expressed frustration at watching smaller, more nimble start-ups stealing a digital march on their turf.

Respondents also agreed that they need to be better at communicating these values internally, so that employees don't feel left behind or betrayed by perceived inconsistencies or compromises.

FROM CUSTOMERS TO COMMUNITIES

Digitisation also allows brands to engage with a wider "brand community". It's a move strongly associated with disruptors who use social media to emphasise a sense of belonging and shared values among millions of followers and fans. Chanel for example has mastered the YouTube catwalk, with some 1.45 million subscribers.

While some financial analysts feel the need to sound a cautionary note about the adulterating effect of overexposure, it's worth noting that Gucci, with its dazzling social media presence (37.3 million followers on Instagram) and fashion shows on Facebook Live, saw profits rise by 42% to €6.2 billion in 2017.

While it's difficult to say what came first, a change in brand values, or the need to be more accessible to younger, more woke consumers, the fashion industry has found a lucrative market in the Gen Zees thanks to the meteoric success of the Streetwear phenomenon, that has made Louis Vuitton (Supreme), Ralph Lauren (Palace), Fendi (Fila), Dior, Gucci, Valentino and Balenciaga T-shirts, sneakers and jeans such coveted items among 14 to 24 year old "hypebeasts."

Similarly, in the summer of 2017, just two years after the appointment of Ian Rogers, LVMH's chief digital officer and former Apple Music executive, Louis Vuitton launched 24 Sevres (24S). In a radical departure from tradition, it offers not only its own brands but, also those of competitors. The site offers live, one-on-one video consultations with Parisian stylists, a "Style Bot" on Facebook Messenger to engage its more than 23 million followers and delivery to 75 countries. So, while it requires a certain degree of self-possession to walk into a LV Maison, 24S is a truly egalitarian space that takes visual merchandising to the next level, providing a unique interactive experience aimed squarely at Gen Zee, even allowing users to share products with Facebook friends and get votes on what to buy.

The lure of the disruptive was also evident at the recent opening of Balenciaga's edgy 4,400 square foot New York flagship store where on-site graffiti artists were on hand to customise handbags (new and vintage) with names, initials, or birthdates.

"24S which was launched in 2017 was designed to create an online experience in which everyone can share." LVMH

LUXURY AS SELF-ACTUALISATION

Ironically, one strategy for maintaining the mystique of luxury in an era of democratisation, is to put the emphasis on what money can't buy and lay claim to the self-actualisation space.

Brand guru Agnieszka Smektala, who spent eight years learning the trade at LVMH, goes further and believes that the next big challenge for luxury brands is to see who will stay at the forefront of the self-actualisation evolution: "Brands are a big force shaping the modern world. It is therefore crucial to treat the brand development process with mindfulness and love. The exciting question for me is: Which brands will help us realize our dream of becoming better humans? Which brands will be the first one to put their marketing budgets aside for growing their spiritual intelligence in the same way they invest now behind digital presence?"

Linking luxury to mindfulness could prove to be the most important marketing coup yet.

"Will luxury brands lead our planet to business enlightenment?"
Agnieszka Smektala, Inzpirea

From: Making Money to Having a Meaning
Chasing Status to Having the next Big Idea
Collecting Objects to Collecting Experiences

CONCLUSION

Luxury brands can no longer afford to rely on their reputations. The rapid digitisation of the consumer experience has put the spotlight firmly on an organisation's ability to support multiple, secure online touchpoints that reflect both the brand's values and the consumer's expectations of the brand. In particular, the use of machine learning and AI to track and interpret shoppers' digital footprints will be key to providing customised shopping and browsing experiences. This is a highly specialist area and we can expect to see more IT and Tech executives being inducted into the corner offices of the fashion capitals of the world. While the potential for clashes exist, of far greater interest is how brand shamans and tech gurus will collaborate to shape our experience of luxury in the next decade.

LUXE RECRUITMENT TRENDS WORTH WATCHING:

1. Increasingly companies are looking outside of the industry to hire not just tech skills, but also HR, Marketing and Communications skills.

"It took a bit of time, but they learned the industry and our Communications & Public Affairs Director was voted Best C&PAD 2018." L'Oréal

2. Promoting from within is a key trend. This has had an impact on HR policies designed to accommodate mothers with family responsibilities, while others have implemented internal development curricula and mentorship programmes. This has opened up more opportunities for gender diversity in senior roles, given that women dominate the lower and middle management layers in the industry.

"Women who have to fetch children at 16:00 should not be disadvantaged." L'Oréal

"We have extended a challenge to all employees to develop their full potential and are really investing in those who respond to the call to develop themselves professionally." Swarovski

3. In the search for a deeper customer connection, not only are companies looking outside of the industry to fill traditional roles, they are also looking for people that even two years ago would not have found a home in the personal luxury goods space, such as sociologists, semioticians, digital designers, brand soundtrack developers, curators, animators, app designers, ideation experts, data miners, and algorithm relationship managers.

4. Most sought after leadership qualities: Stamina; resilience; sincerity. An ability to lead from the heart. Engaged.

5. Top skill: an ability to thrive in a multi-cultural environment. Unsurprisingly, given the globalisation of supply chains and customer bases across age and geography, the ability to listen and encourage inclusivity at all levels was highly prized.

6. The employee as key stakeholder and brand ambassador: It's no longer about hiring people who merely 'look' the part. Brands are also paying more attention to their internal communications: becoming more attuned to what your employees think and working hard on their "employer'' brand by listening to what employees think and having a better understanding of what their brand offers to prospective employees.

7. Youth diversity: Boards are increasingly seeing the value of tapping into the cultural zeitgeist of Millennials and Gen Z (the latter alone is expected to account for 40 percent of global consumers by 2020). Expect to see more Shadow Committees, à la Gucci, of employees under 30 with direct access to the C-Suite.

SIX CONSUMER TRENDS IN THAT WILL AFFECT THE PERSONAL LUXURY GOODS SECTOR INTO THE 2020S:

1. Less flash, more cash. Middle class aspirational spending power means that "flashing some Louis" as the Gen Zees would say, is no longer the status indicator of yore and ultra-high net worth individuals are favouring more discreet ways to signal wealth. As a result, in 2017, spend on experiential luxury (furniture, food, wine, and hotels and exclusive vacations) accounted for 64% of total luxury spend in Europe. Increasingly the biggest luxury is being able to enjoy your wealth in secure, non-judgmental surroundings, which accounts for the appeal of by-invitation only private clubs, where a luxury villa or yacht or exclusive destination is part of the membership fee. The emphasis is not on ownership, but access to a secure, exclusive network. This extends the First-Class experience to wilderness retreats, golf courses, waterways and ski slopes, where queues, crowded parking lots and canteen food are banished in favour of lift attendants who greet you by name. The most famous examples of these include the Cimarron Mountain Club and Yellowstone Club in the US, and ultra-elite private game reserves such as Thanda Safari Private Game Reserve and The Royal Thanda Club in South Africa.

"We are masters at crafting experiences. We do not sell bottles of champagne – we sell luxury moments of togetherness and special celebrations." Moet Hennessey

2. Zen and the art of luxury – which is not to say that consumers are abandoning luxury. What has changed, is the move from hedonistic self-indulgence to a political act of self-care. From "you're worth it", to "you need this to grow as a person". The rise in meaningful materialism is a gift to luxury brands who know what to do with it.

3. From ownership to access – cheaper and greener: Oxfam's Second-Hand September is a direct consequence of the fashion industry failing to heed the sustainability cry, leaving retailers scrambling to become eco-friendlier. Growing awareness of the environmental risks posed by a throw away economy has seen a rise in the popularity of rental agencies as well as resale platforms such as The RealReal, selling everything from pre-owned clothing to jewellery, watches, fine art and home décor. Previously restricted to the high import tariff environments of emerging and frontier markets, second-hand retailers are gaining ground in the high street - growing 21 times faster than the wider retail market over the past three years, according to research complied by GlobalData for online retailer Thredup.

4. Getting Woke: sustainability gets a makeover. Shareholders and consumers are demanding accountability from their favourite brands, from disclosures on animal testing to ethical supply chain practices to sweat shop labour and carbon footprints. Expect to see more sustainability reports (Chanel published its first sustainability report at the end of June 2018) as luxury brands appreciate the need to communicate their values to stakeholders in clear and unambiguous ways. Big opportunities exist for brands who can embrace the circular economy, a system that endeavours to protect resources by using less, wasting less, and recycling more; as well as those prepared to leverage their considerable brand power to make a positive impact on society through active support for social and environmental issues all along the value chain.

"Clients expectations have changed – it's all about transparency - they want to know how cosmetics are produced. Did we try things on animals? Are the ingredients sustainably sourced?" Sephora

5. Data protection – how safe are your Cookies? Consumers expect brands to represent the best of the best, not only in terms of craftsmanship and quality but in terms of ethical decisions around creative integrity and data protection. For transgressors, social media retribution is often swift and brutal. As the push to mobile and e-commerce intensifies, so too do the risks associated with managing and protecting personal data. Brands will need to be more transparent about how they manage, use and protect data, requiring unprecedented levels of transparency from an industry notorious for its reluctance to share trade secrets.

6. The power of the flawed influencers – it's no secret that consumers (millennials in particular) prefer third party endorsement of a product or brand, hence the meteoric rise of the social media influencer. What's new though is the overwhelming consumer preference for authenticity over perfection (think Kim Kardashian and the Duchess of Cambridge). The best influencers are unashamedly true to themselves, no matter how provocative their views or actions. It's a risky all or nothing strategy that can have brand managers on a Twitter knife edge, but the numbers speak for themselves.

Get in touch. We'd love to hear from you.

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