

EVENT REPORT

LONDON LUXURY THINK TANK

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London Luxury Think Tank

How are disruptors driving the future of luxury?

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Tim Jackson

Designer **Paul Smith** identified a key issue facing business ; 'Nobody needs anymore of anything. What I mean is that we are overproducing and with the automated future we are going to be producing more things that people probably don't want.' He qualified this by saying that although people may not need more products; 'It's our job to make lovely things which people would like to buy.'

Luxury has never been about need but more about indulgence and yet with the fast pace of change and diverse pressures facing the luxury sector, it may need re-defining.

Trevor Hardy, CEO, The Future Laboratory, argued that the term luxury has been debased as some parts are no longer connected with the core element of 'craft'. He emphasised that there is a tension between scarcity and excess availability of products ; 'One of the real tensions in luxury is that scarcity was one of the codes of luxury. How we grow as businesses and still retain some scarcity.' **Alexandra Palt**, Chief Corporate Responsibility Officer and Chief Sustainability Officer, L'Oréal also noted a shift in the way luxury is perceived ; 'A lot of luxury was about the secret and the whole fantasy of luxury. We now live in a generation where transparency and hyper-truth is the new demand that all millennials have.'

Millennials



Focus continues to be on the millennial generation as they are the most populous and divergent in both behaviour and values from previous generations.

Nathalie Gaveau, Founder and CEO, Shopcade, explained; 'The reality is that future consumers will be very different. They will be overloaded with information, be very demanding, probably a little bit less loyal, but they will be very smart about their data.' As such businesses will need to be much more agile. However, Hardy warned that there exists a danger in imposing one generation's values on another and that luxury should not forget the higher spending generations;

'We look and get fascinated with young consumers because they seem to be setting trends and disregard the older consumer who is still going to have the most disposable income and is evolving.'

Millennials ask that innovation makes a positive impact on the world according to Plat; 'You have a generation of young people, the millennials, out there who say 'we want that innovation serves progress, that it's changing something.' Plat also explained the importance to luxury of provenance and proximity to local production; 'Local is the new anchorage. It's a new form of 'scarce'. People want to know where it comes from, how it came there and how it's made.' This is especially important in luxury as consumers already expect high levels of integrity and responsibility in luxury products because of the premium prices; 'What is very interesting is customers think that we have all managed that. They think that when they buy a luxury product they do not have to worry about the environmental impact or any issue



in the supply chain because they expect as it's so expensive that we have done that job' Palt argued.

These expectations of luxury consumers mirrored research undertaken in six different countries by HEC business school and asking the question 'Given the price of luxury would you expect it to be sustainable?' according to **Anne Michaut**, Director of the LVMH Academic Chair, at HEC Paris. She revealed; 'The answers on a scale from 1-10 were, in France 70% of the consumers answered 10. In China 75% answered 10. So it means that although it's not an express requirement there is an expectation for luxury brands to be sustainable today.'

Palt explained that millennials believe they can effect change on a big scale; 'It's about a generation who want to change the world. When you ask millennials they think they can change the world. They don't think they are powerless. Also they are not anti-consumption. But they want to consume in a certain way and they believe in technological innovation and for them that's not a contradiction. Sustainability, innovation and technology all come together to solve the world's problems.'

Sustainability and responsible business

Great attention is paid to the values that millennials have and how those drive their behaviour and relationships with companies. **Tom Beagent**, Director for Sustainability & Climate Change PwC, pointed out that brands needs to evolve if they are to survive. He explained that millennials are looking for integrity in the brands they buy from and work for. There are social consequences of putting more products out into society which touch the entire value chain; 'In the digital age consumers are getting direct access to that (information). There is nowhere to hide anymore. Marco Bizzarri at Gucci said that millennials are looking for integrity in their brands.'



Diana Verde Nieto, CEO Positive Luxury, reinforced the connection between responsibility and successful business; 'The tension between responsible business practice and economic growth is no longer there. There is more than enough proof that responsible business practice really does deliver on the bottom line. In the long term future consumers do care about this more than you think.'

Nieto made the point that rather like 'Luxury' the term 'Sustainability' has become over used referring to it as the S-word. She said that consumers care less about the words and more about actions; 'The young consumers feel incredibly dispassionate about the whole concept of this 's-word'. Yet they do care about business behaves. And actually they are making choices more and more with their hearts.'

She made the point that consumers will see past 'green-washing' and so brands need to do more than simply publish a CSR report. Considering the importance of language and its meaning within modern business Nieto said: 'There is this expectation that sustainability has to be about perfection but it's actually about excellence.' Making a link to quality Nieto added that there is a slow shift to luxury in developed countries; 'Consumers are becoming a lot more mindful and their shift to luxury in some items is becoming clearer.'

Dax Lovegrove, Global VP Corporate Sustainability and Social Responsibility, Swarovski, reinforced the point about changing language: 'We are constantly looking to refresh our language. And the language we currently use in the media (when we put out responsible collections is 'conscious luxury', because it doesn't make any massive claim that these are sustainable products, because they never are, but they are at least mindful of people and nature.'

For many younger people brands fulfilling a civic role vacated by previously trusted institutions, including governments, according to Hardy: 'Increasingly the trust gap is being filled by brands and businesses.' He explained that there is an opportunity for luxury brands to fill this gap particularly in education, arts and culture; 'Re-engaging with community life, with consumers, to fill that trust gap and also play a more important role in society.'

Digital

Digital continues to disrupt the luxury goods sector providing a mix of opportunities as society is reshaped around changing values, attitudes and behaviours. **Luca Solca**, Managing Director, Global Luxury Goods, Exane BNP Paribas pointed out the benefits of a mixed stores and digital retail model; 'You could argue that many luxury goods businesses have become de facto retailers, with most of their invested capital in their stores. Digital brings the opportunity for these brands to have more frequent and profitable interaction with their customers. Our research shows that consumers who buy both online and in-stores typically spend 50% more than the instore only consumer.'

Digital also creates challenges as distribution channels need reconfiguring and markets are vulnerable as 'digital is accelerating category fragmentation', according to Solca. He revealed that for example fragmentation in the handbag category had resulted in Louis Vuitton market share dropping from 23%-16% between 2004 and 2016, while the 'other brands' including new entrants had increased from 38%-49% over the same period.

Evolving technology and its applications to shopping

For many people Yoox Net-A-Porter represents the luxury goods sector's most successful engagement with online retailing. **Bruno-Roland Bernard**, Group Communications Director, Yoox Net-A-Porter Group, explained that the original founders of the two businesses had noticed how new technologies were changing customers' behaviours; 'Technology was starting to revolutionise the way the customers were consuming luxury. They were looking at videos and digital images.' He added that today the main trend in their customers' shopping behaviours is the growing use of mobile; 'Customers are becoming mobile first. We exceeded 50% of sales on mobile in the first half (of this year).'



Innovation is the top priority and fear of irrelevance the greatest risk for managers according to a WGSN survey quoted by Michael Ward Chairman of Walpole and Managing Director of Harrods. Certainly the pace and scope of change in technologies and their use by consumers are no longer just about digital. The focus of technology now moves on to include artificial intelligence (AI) and machine learning together with the use of mobile.



After pointing out that it was only 10 years ago that first iPhone was launched Martijn Bertisen, Sales Director Google UK, stressed both; This next decade of tech innovation and disruption that is going to be fuelled and powered by AI and machine learning.' In light of these forthcoming changes he explained that Google have now revised their mission statement; 'We are now an AI first company. We've been investing in AI for about 15 years, but that pivot is now real.' Bertisen emphasised that machine learning and AI will have an impact on every aspect of what we do, saying that the effects of machine learning on digital applications and mobile devices used by consumers will be the 'new normal'. He predicted; 'Customers will expect the experiences that you put in front of them to be faster, smarter and more intelligent.'

Bertisen explained that brands need to focus on consumer facing experiences that will create delight; 'Create frictionless experiences by actually removing some of the 'pain points' from the journey, and actually sometimes removing the device from between the consumer and the experience they really want to have.' He added; 'As great as the metal device has been, it is also always between our face and the experience in front of us. I think we are moving to a world in which those experiences will become less frictionless and more seamless.' He provided the example of ASOS's image recognition technology, which enables a customer to upload a picture of a product, while the software attempts to match that with inventory on their site in order to suggest similar items.

The power of platforms

Jane Han, Global Creative Strategist for Luxury, Facebook and Instagram, focused on how the rise in the personal device has also shifted behaviours as people default to taking images with their phones or other mobile devices. 'In an age where everyone has a personal device, everyone also has a voice and a means of expression.' She illustrated how brands can leverage this with the example 'F is for Fendi' campaign; 'They (Fendi) have given this generation a platform to express themselves. What is interesting is that the content customers make on Instagram is now starting to influence the product itself.'



Han revealed that Instagram now has a shopping capability although it's only currently available in the USA; 'This came out of a need from brands that came to us and saying they had many customers coming into their boutiques and stores with phone in hand and Instagram on their screens saying where I get this?'

Chris Hirst, European and UK Group CEO of Havas reflected on the near term future and provided some insights into how AI is capable of radically changing branding strategies. He revealed; There

are three big things on our mind at the moment that are driving the way we are shaping our business. One is platforms and the massive changes in ecommerce that they are creating. Two, is the impact of mobile and how it's transforming businesses. The third thing which we've recently started talking about is Voice (interaction). When we think about search we think about Google. But actually with ecommerce search in the USA, Amazon is way more significant.'

Hirst went on to explain that Amazon's 'Alexa' intelligent personal assistant voice-search is a

game changer; 'The most popular acquisition request is 'Alexa buy me batteries'. Until a year ago the number one battery brand in the USA was Duracell. I hesitate to guess how much money Duracell spent building a number one market position in the USA for batteries. The number one battery brand in the US now is Amazon.' He stressed that the key lesson is that platforms aren't always neutral; 'Platforms aren't delivering what's in the best interests of you or your customers. The algorithms are delivering what's in the best interests of the people who own the algorithms.'

London and stores

London's unique mix of brands and blend of history and heritage makes it a key destination for tourists, 20m of who visit each year spending £12bn in shopping and dining, according to Ward. This contributes to a British luxury industry with a value to the economy of some £32.2bn. Louis Vuitton is the largest luxury goods company generating €36.6bn in revenue for 2016, followed by Kering at €12.4bn, Estee Lauder €11.3bn, Richemont €11.1bn and Luxottica at €9.1bn according to **Megan Higgins** Luxury sector and digital/ analytics specialist PwC.

Higgins revealed that London is the world capital for luxury retail with more luxury store openings, 41 in 2016, than anywhere else in the world; Paris 36, New York City and Dubai 31 each. Referencing a recent PwC piece of research she explained; 'A large proportion of customers said that some products online might not be genuine.' Making the case for physical stores, she drew again from the survey; 'They (customers) prefer the instore experience with a sales assistant rather than shopping online when they are spending a lot of money. And a huge proportion of customers said that they need to see and touch the products before they purchase it. So the bricks and Mortar retailing is still very important.'



Value Retail, owner of the iconic Bicester Village, was an original disruptor in the luxury goods sector providing a brand sensitive means of selling previous season's luxury products for luxury goods brands. They do it in a way that excites customers and even enhances the client brands' profiles. Sylvie Freund-Pickavance, Group Strategy and Business Development Director, Value Retail Management, explained that Bicester and the individual brands exchange data acquired through the day-to-day trading in the village; 'The point is that they are feeding us information and we are feeding data back to them. We are doing that in a more and more sophisticated way in order to service the customers. It's a real collaboration at every point.' She added that they change 15% of the brands each year.

In addition to enhancing the customer experience physical stores can act as a brand touch point helping raise awareness according to Higgins; 'From a brand awareness perspective they are your best advert and approximately 63% of luxury goods purchases take place in a physical store.' However, an Omni-channel experience helps to generate more loyalty; 'If customers shop instore and online they are stickier. If you can then get them to shop for an average of five times, you will retain them for life', according to Higgins.

The importance of the shop as a hub as a vehicle to showcase a brand's position on sustain-

ability was explained by **Nina Marenzi**, Founder & Director, The Sustainable Edge; 'It's about the experience shoppers have and the importance of the store. The way you can communicate to the customer and show the narratives behind certain materials is actually very engaging and inspiring. Consumers want to learn more. They want to know 'how is this orange fibre made?' To give that background is another opportunity. So there's an interesting connection here about how to communicate that using stores and digitally.'

China

The Chinese have gone from zero to one third of the Global Personal Luxury Goods market in 15 years (2% in 2003, 30% in 2016 and 33% estimated for 2017). Physical store retail expansion is unlikely in China now as most luxury brands look to trim back their store networks according to Luca Solca. He stated that Chinese consumers have brought two-thirds of the growth (in luxury) of the last ten years pointing out that early adopters were rich and didn't own many luxury products, which made it relatively easy for luxury brands to sell to them.

However, these consumers are now more demanding. The new Chinese consumers who come from the middle class have a much lower level of disposable income and so product innovation and price affordability have become much more important. The luxury industry is cyclical and Solca stated that there have been four quarters of rebounding luxury demand and the fact that Chinese consumer confidence is very strong is connected politics. Solca commented; '2017 was a very important year for the Communist Party. It's the equivalent of an election year and so the government has been very supportive of the economy. This action has also translated into a significant rebound in real estate prices, which we think are a very important driver of consumer confidence especially for the consumer segment that spends money on luxury goods products. So this cyclical peak is a very good opportunity for luxury goods companies to work on fundamentals.' However, Solca balanced this by stressing that the situation would not last, as a future priority of the Chinese government is to curb real estate prices in China.

Conference in numbers

Paul Smith has 260 shops in Japan and sells in 73 countries.

Paul Smith Max Whitlock (Olympic Gymnast) 'A Suit To Travel In' campaign achieved 600k hits; 40K travel suits sold.

Yoox Net a Porter: More than 50% of sales are from m-commerce in H1 2017.

Consumers who buy both online and in-stores typically spend 50% more than the instore only consumer.

Fragmentation in the handbag category had resulted in Louis Vuitton market share dropping from 23%-16% between 2004 and 2016, while the 'other brands' including new entrants had increased from 38%-49% over the same period.

'We are now an AI first company. We've been investing in AI for about 15 years, but that pivot is now real.' Martijn Bertisen, Google.

Amazon's own brand battery is the number 1 selling battery in USA due to its Alexa AI personal assistant platform.

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