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Luxury Consumers Want Brands to Take a Position

An Altagamma webinar tracked future trends, including high-end customers' increasing shift from purchasing personal goods to investing in experiential luxury.

By Sandra Salibian

MILAN — "All you need is love," chants the iconic Beatles song.

In a world experiencing heightened emotions, ranging from anger and fear to courage and solidarity, the sentiment is perhaps the key to navigating these uncertain times.

"The problem for our industry and risk is that we do not necessarily love people, we love product more than people," said Value Retail's founder and chairman Scott Malkin during a webinar hosted by Altagamma on Tuesday.


Scott Malkin, Courtesy

The Italian luxury goods association presented two studies analyzing the evolving behavior of consumers and future scenarios retail-wise.

As putting consumers at the center of all business strategies has become a given, the next step for luxury companies is be in tune with not only customers' preferences in terms of products and distribution channels, but also with their sentiments toward current and political events.

One key takeaway of the webinar was the shift firms should implement from being mere product sellers to value promoters and the need to step up their roles by communicating their beliefs and taking clear positions on social issues.

"Important and strong values are arising in the consumer. Just look at the Black Lives Matter movement, which has been sending key signals that we have to be able to read," said the association's president Matteo Lunelli. "Our brands should have the courage to express their opinions and where they stand in the world. This is a responsibility for sure, but it also heightens the role of what we do."

Sabina Belli, chief executive officer of the Kering-owned Pomellato jewelry house and vice president of Altagamma's jewelry division, underscored that putting customers at the center of business models is part of what being sustainable truly means, as it consists of paying attention not only to the environment, but also to people.

In this sense, according to forecasts of trends formulated by the Boston Consulting Group for Altagamma, sustainability will evolve into a wider concept of responsibility, as consumers will increasingly take into account firms' stance on environmental issues as well as on diversity and inclusivity before making a purchase.

Belli underscored that Kering's philosophy encourages its brands to step up for social issues and "to communicate who we are as corporate [citizens], not act just like industrials selling products."

"This implies to listen to the world and pay attention to all signals. In the next years we will witness a social collision due to inequality and we will be called to formulate opinions that will have to be authentic," Belli said.

The executive also retraced the phases the industry of luxury goods has lived through, going from an exclusive dimension "when people had to get close to brands" to a masstige phase, when this dynamic was reversed. "Now being a luxury company is not about knowing what to sell, but knowing what meaning you should give to products. Purchases have to become superfluous needs, which is challenging in the context of an economy shaken by the shaming of unnecessary purchases."

Overall, the coronavirus outbreak has caused consumers to rethink their priorities in terms of spending and accelerated a range of trends illustrated by the seventh edition of the "True-Luxury Global Consumer Insight" study compiled by the Boston Consulting Group for Altagamma. Conducted in two timeframes — in January (before COVID-19) and this month — the research focused on assessing the sentiment of luxury consumers, who account for 19 million people and only 5 percent of total global consumers.

The shift in consumer spending from personal goods to experiences was the focus. According to the study, 43 percent of high-end customers were said to be more interested in spending for experiential luxury rather than products even before the pandemic and 40 percent of them confirmed they will likely do so after the emergency, too.

Last year experiential luxury already accounted for two-thirds of spending. In 2020, it inevitably faced the biggest drop due to social distancing and travel limitations, down around 60 percent.

Purchases of personal luxury decreased 40 percent due to the virus outbreak. Even when the lockdown was lifted and commercial activities resumed, consumers remained skeptical, as 57 percent of those surveyed said they will avoid making significant purchases in the short term.

According to the study, Chinese consumers are the most pessimistic, as 65 percent said they will refrain from making investments. Yet 77 percent of them also said they were confident of a fast economic recovery, as the country is now ahead in the virus cycle, while European and U.S. customers were more cautions.

Within experiential luxury, the most affected categories will be the ones requiring more social interactions, such as hotels, cruises and nightlife locations. Conversely, the ones expected to rebound better all refer to a private and domestic sphere, including wines and spirits, fine dining, design, furniture and home tech, followed by yachts and private villas.

According to the research, consumers' preference for experiential luxury will be here to stay, as 88 percent of those customers said this kind of purchase provides greater satisfaction and exclusivity. The intimate, less ostentatious dimension of private experiences is another element that will boost the sector, as it is in tune with the current macro-economic scenario favoring more sobriety and less socializing.

Within personal luxury categories, casualwear, sportswear and cosmetics are expected to rebound faster, while leather goods, jewelry and watches will be impacted longer-term.

"Jewels have always been reassuring products because of their intrinsic value," said Belli. "So my mission today is to reignite the perception that buying a jewel you buy a safe, guaranteed value." The executive said since the reopening of stores, Pomellato sales have spiked, partly because of birthday and anniversary gifting that was postponed due to the lockdown and partly because consumers invest in more timeless pieces.

Chinese consumers' shift from global to local spending was another short-term trend forecast. Chinese customers will continue to represent a relevant part of total global purchases, accounting for 35 percent of the market. But if last year over half of those purchases were made during their travels, in the short-term these transactions will be finalized locally, having a significant impact.

"We have two locations in China and the recovery there is absolute. Business is stronger this year than last year, also because they approached COVID-19 to crush it rather than to manage it," confirmed Malkin. "Chinese consumers have a different energy, they are getting richer and are more optimistic. They look for authenticity, quality and total transparency, so that's a big opportunity for high-end made in Italy brands."

On a longer-term scope, Boston Consulting Group foresees a polarization of values and preferences between the West and China.

As Western consumers shift toward sobriety and a more discreet and timeless aesthetic, in China the coolness factor will continue to play a key role, as consumers' penchant for bold and recognizable products is expected to grow 14 percent.

"The world has moved with two different speeds in the past couple of years, but now it will move into two different directions, too," commented BCG's Filippo Bianchi. "This will lead companies to reconsider their strategies and choose if they prefer to serve perfectly the Asian consumers or refocus part of their budgets to match the more sober expectations of Occidental ones."

An evolution of clienteling will be pivotal in the future, as the massive recruiting of customers on digital platforms has impacted consumers' expectations in terms of shopping experiences. Shoppers now demand a seamless transition between the brick-and-mortar and digital channels as well as a more customized digital experience.

Overall, online sales are expected to increase, shifting from 12 percent of total sales in 2019 to 20 percent of sales in 2022. The secondhand market will continue to gain traction. It accounts for 8 percent of the total luxury market, but is growing four times faster than the sector of new products. For the first time, though, the luxury consumer expects brands to step up and directly control this segment, rather than relying on other retailers.

If consumption is expected to rebound in two years, the geography where transactions will be finalized will change. Italy, considered the first destination for Chinese and South Korean customers, is expected to now be the third one, surpassed by France, and paying the price of the more severe impact of the virus and of a communication that damaged the image of the country internationally.

"It will be essential to bring back these tourists in Italy but also, in the meanwhile, to work to attract the European ones, which will be more inclined to come in our country due to proximity," said Lunelli.

"We are collaborating with the government and working on a plan to relaunch the image of our country," he continued. "Tourism is key now more than ever, as 60 percent of the purchases of Altagamma members' goods are made by tourists. We will need to work deeply on repositioning our cities and repopulating them with more qualitative tourists. It's a trading up that the whole country needs to do."

The lack of international spenders due to travel limitations and the two-month lockdown had accelerated trends changing retail's paradigms.

According to the eighth edition of the Bernstein study "Altagamma Retail Evolution" also presented during the webinar, department stores, travel retail and outlets already started to dent the traffic in mono-brand stores before the pandemic. During the confinement, the number of users downloading apps of online multibrand shopping destinations boomed, letting customers discover a new way of purchasing. The risk is that they continue to be loyal to the digital channel, also encouraged by discounts and promotions. Plus, the increasing role of social media and influencers further endangers the need for physical shopping tours.

"To reduce the dispersion of traffic in their stores, big players including Louis Vuitton, have built a closed circuit," said Luca Solca, Bernstein's senior research analyst for luxury goods. "They try to limit the temptation for the customers to buy with discounts by limiting their wholesale presence and focusing on mono-brand e-commerce. They also have a strong social media presence, which of course comes with multiplied costs in terms of tracking and knowing which influencer to tap."

Activities enabling customers to spend more time in stores and visit them more frequently include events, temporary exhibitions and pop-ups, personalized services, VIP rooms as well as an increasing number of product drops and customized interior concepts for each location.

"There's no evidence that people prefer to be only on their devices, but what's sure is that the quality of service and goods must rise higher than ever," said Malkin. "Experience is what defines emotion and the first emotion is trust, so this is why the authenticity is so important. If a brand says a thing and delivers another in a store, especially a digital one, that's the end of the brand. The second, and strongest, emotion is love and for someone loving a brand there's no too hard a journey."

Yet brands are at a crossroads handling their spring 2020 collections and the risk of having surplus stock. According to Solca, to opt for discounts to save the bottom line might compromise the brand equity and cause an opposite reaction in consumers, who will be even less inclined to buy products at full price in the future. Therefore, many brands are opting to increase price points to limit the damage and preserve profits.

"In the best scenario, bigger players will have a 5 percent inventory overhang, but many will likely to have 10 to 20 percent," concluded Solca.