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Well-Healed?

HAS THE WORLD RECOVERED FROM THE FINANCIAL CRISIS OF 2008?
HONG XINYI LOOKS AT 10 WAYS THE LUXURY INDUSTRY HAS CHANGED
SINCE, AND WHAT THIS MEANS FOR THE HIGH-NET-WORTH CONSUMER

PHOTO: INMAGINE



IT'S BEEN FIVE YEARS SINCE THE 2008 global financial crisis left indelible marks on the economy. Today, recovery seems like an understatement. The recently published *Knight Frank Wealth Report* states that the luxury sector has increased by 64 per cent in value since the 2008 crash, showing double-digit growth for four consecutive years till 2012. Six experts tell us how the recession transformed the sector, and share their insights on the next phase for the business of luxury.

1 THE WEST'S CRISIS OF CONFIDENCE

The economic turmoil of the past five years may not have significantly dented the wealth of the typical luxury customer in the US and Europe, the traditional markets for luxury. But psychologically, these consumers have certainly changed. "There is a correlation between consumption and optimism – the feeling that one's situation will improve," says Denis Morisset, executive director of Essec Business School's International Luxury Brand Management MBA course. "Although consumers from emerging markets currently tend to have a comparatively lower standard of living, they are confident that their situation will be better, that they can make more money. In Europe, even when people have wealth, they fear that things will get worse."

2 THE RISE OF ASIA

The stagnation of mature luxury markets had actually started before the crisis, Morisset notes, "but the crisis accelerated the transformation of this map. In the past five years, the Asian luxury market has expanded in a way that has no precedence."

Leading the pack, of course, is China, which is expected to become the largest luxury goods market by 2015. "China has been forecasted to have a 214 per cent increase in billionaires over the next decade, and the *Hurun Report* states that as many as 64 per cent of the country's millionaires are building collections of luxury goods," says Viola Raikhel-Bolot, managing director, 1858 Ltd Art Advisory, a London-based international art consultancy that advises private and institutional collectors. "Asia-Pacific is now home to more HNWIS than any other region, hitting 3.37 million, and this number will continue to grow. This is a pretty sure indicator that Asia, with China at its forefront, will remain the leading consumer in the luxury sector."

The Chinese consumer is courted in myriad ways, from the prevalence of products and ad campaigns featuring Chinese motifs like dragons, to Mandarin-speaking staff in European stores. Asian consumers can also look forward to a growing number of new-to-market luxury brands.

THE EXPERTS



Denis Morisset, executive director, MBA in International Luxury Brand Management, Essec Business School



Viola Raikhel-Bolot, managing director, 1858 Ltd Art Advisory, a London-based art consultancy



Ravi Thakran, group president for South Asia, Southeast Asia and Middle East, LVMH



Lorna Hall, head of retail & strategy, WGSN, a global trend forecaster



Ruth Marshall-Johnson, custom research director, WGSN



Marc Dardenne, CEO, Patina Hotels & Resorts



The discriminating shopper today sees greater value in products customised just for him

3 EMERGING MARKETS ON THE HORIZON

Other regions are expected to become strong luxury markets as well, which means that, for the first time in history, a relatively wide variety of consumer tastes are set to influence the direction of luxury. Speaking to *Singapore Tatler* at the Asia Fashion Summit 2013 in May this year, LVMH's Thakran said: "I believe Southeast Asia can be just as strong a market as China. There is still not enough penetration in Indonesia, and Thailand, Vietnam and the Philippines are all big new frontiers."

The *Knight Frank Wealth Report* also forecasts that the HNW population in Latin America over the next decade will grow by 88 per cent, while the figures for Africa and the Middle East are 68 per cent and 58 per cent respectively. WGSN's head of retail and strategy, Lorna Hall, another speaker at the Asia Fashion Summit, compares the impending influence of these new luxury consumers to the "massive" impact of newly wealthy American consumers in the 1950s and 1960s. "There is the same confidence, and a passion for new things."

4 THE NEW DEMAND FOR BESPOKE

The demographics of these emerging markets mean that the new luxury customers tend to be younger than their Western counterparts. Technology has put more information at their fingertips, and they have very clear ideas of what they want. The discriminating shopper today sees greater value in products customised just for him, observes Ruth Marshall-Johnson, custom research director of global trend forecaster WGSN. "Just having a bag doesn't make a statement; they need the bag no one else has."

The hospitality sector is seeing the same rise in demand for more unique experiences "infused with bespoke service, art and architecture", notes Marc Dardenne, CEO of the six-star Patina Hotels & Resorts that is due to open at the end of 2014, and an industry veteran who was instrumental in the launch of Armani Hotel. "Post-crisis, we are noticing a shift in affluent customers' preferences. They are keen to break away from the traditional luxury chain hotel offerings. They want something that will excite them and differentiate their travel experiences."

A SEA OF CHANGE

FROM FAR LEFT In a nod to Venice's heritage in shoemaking, Louis Vuitton commissioned illustrations by Langley Hemingway when it opened its boutique in the city; among the brands courting the HNW Chinese customer is Bottega Veneta, with its new Tianjin Hisense Plaza store



FAST AND FURIOUS
CLOCKWISE
FROM LEFT Eurokars City Centre is a showroom for top marques like Rolls-Royce, catering to Singapore's rising numbers of HNWI; reissues and new designs inspired by their archives work well for brands like Gucci and Chanel



ASIAN COURTSHIP
FROM RIGHT Asia remains the new frontier for international brands, including CH Carolina Herrera in Singapore and Roger Dubuis in Bangkok



5 MORE MEN LOVE LUXE

Another demographic consequence of these new luxury markets is that male customers have become more significant. This may not last long, notes Thakran, as female customers tend to eventually dominate the market. But for the near future, at least, male customers are making their presence felt.

"There has been a real increase in men's apparel, accessories and beauty products," says Raikhel-Bolot of 1858 Ltd. "In China, the average luxury goods consumer is 29 years old and male. This is a huge shift from the traditional global luxury consumer demographic of a 41-year-old female. It means luxury brands are ensuring their products, environments and staff are in line with these generational changes. This segues relevantly into the fact that e-commerce continues to grow at 25 per cent across the luxury goods sector."

6 UPHOLDING CORE VALUES

Luxury's post-crisis dive into new markets has meant that many brands have had to rethink their business model. The ones that have been most successful, says Essec's Morisset, have bought back all the franchises in these markets and taken direct control of distribution, retail and marketing, ensuring that new consumers to these brands are presented with a great first impression in terms of brand image and product quality.



Controlling the brand is just the first step. More crucially, says LVMH's Thakran, a luxury brand must "stay the course" during a crisis. "It is an opportunity to pick up market share. Stay true to your core values, and don't dilute and cheapen the product – any brand that does that today is dead. Never do anything that is good for business, but bad for the brand."

He cites the example of luxury watch brand Omega, which introduced gold-plated watches a few decades ago – a brand-diluting move that weakened the company considerably.

The brands that are faltering today, notes Marshall-Johnson of WGSN, were the ones that responded to the crisis by "getting business managers to take the power away from the creative directors. Business became the priority. Now they need to be creative again, in order to become a market leader".

7 BANKING ON HERITAGE

A democratisation of luxury from 2005 to 2007 saw more affordable products launched to attract new aspirational customers. "The crisis showed there was a limit to this positioning," notes Morisset.

"Wealthy consumers want to feel special. A brand reaching too obviously to a large part of the population will not accomplish that."

Post-crisis, brands like Gucci and Balenciaga went back to their archives to seek inspiration, relaunching iconic products and re-interpreting innovative designs they had pioneered. Says Marshall-Johnson, "The brands who performed the best tightened their focus on their heritage. It's like buying gold during uncertain times – brands with long histories can present their products as life-time investments."

8 HEDGING WITH THE ASPIRATIONAL

The reality, however, is that few luxury brands can afford to ignore the aspirational customer if they want to grow. "One of the major difficulties for a luxury brand is to balance image and business," says Morisset. "They need to be perceived as a bit out of reach. But they cannot only sell the most expensive things."

He cites Van Cleef & Arpels as one example of a brand that is managing this balance well. "While clearly a high-end heritage brand, it is also trying to talk to the aspirational consumer with more affordable lines and fragrances that make the brand potentially accessible." Showcasing the brand's expertise in design in its fragrance bottles helps to reinforce its heritage. "No one will ever question that it remains a high luxury brand."

9 LUXURY AS INVESTMENT

With the global economy still jittery, luxury assets have also become a relatively safe place for investors to park their money. Raikhel-Bolot notes that over the past five years, classic cars have gone up by 115 per cent in value, followed by coins and art, which have gone up by 93 per cent and 92 per cent respectively.

"The same period has seen the value of equities fall by 6 per cent, highlighting perhaps the biggest change – that we have seen the luxury sector gaining more acceptance as a credible alternative investment market," she says. "There has also been an increase in revenue in the 'hard luxury' category comprising watches and fine jewellery, which shows consumers are seeking out more solid timeless collectibles."



10 WHITHER ASIAN LUXURY BRANDS?

While Asians are becoming major consumers of luxury, this does not yet translate into a similar confidence in their own capacity to create luxury. In these markets, luxury is still presently perceived as Western in origin. Morisset holds the view that consumers from emerging markets admire the Western cultures and lifestyles, and that gives rise to these products. Their attitudes towards their own cultures can be rather more complicated, not least because of decades of tumultuous history. This psychological factor makes it challenging for an indigenous brand to gain traction with emerging market consumers.

Creating a luxury brand also requires vision. The common factor behind today's successful Western heritage brands is actually innovation, he points out. "These brands made history because they created products that set new standards and new ways of being. They played a part in

the evolution of culture, be it women's liberation or the sexual revolution."

Asian brands seeking the same success must realise that "it is not enough to create a collection nourished by elements of past traditions. You must find a way to be a part of the innovation today".

Thakran is much more bullish on Asian luxury prospects. Like many Western conglomerates, LVMH has been acquiring stakes in Asian brands such as Singapore's Charles & Keith and Chinese casual-wear company Trendy International Group, through its private equity fund L Capital Asia.

"In the past, Asian consumers bought gifts from Swarovski and art by Picasso. Today, they are buying Liuligongfang and Asian art," he says. "Eventually, more Asian consumers will start moving to Asian brands, because these products have more affinity with their cultures. In my lifetime, I believe we will see many Asian luxury brands. It will not be just factories and consumers; a large part of value creation will reside in Asia." ■