The 2008 Luxury Briefing *Conference*

Emerging Luxury – Maximising the long term potential of the new markets

Luxury Briefing's annual conference was held in London at the end of November. Its purpose was to present an up-to-date view on some of the emerging markets from a range of experts. Against a background of a slowdown in traditional markets, their knowledge and experience were wlecomed by a large and interested audience. Here we summarise the main presentations and discussions

Sir David Tang | Founder, Shanghai Tang and the China Clubs

A personal take on China

Surveying the luxury market in China, David Tang concluded that in Shanghai and Beijing the clusters of luxury brands are the same as on any principal shopping street in the world. While this doesn't interest him, customers in emerging markets think that these brands are chic and want to see these names. China has potential over some of the established markets at the moment as there is a culture of saving – overall people haven't lost as much money as in other global markets. As a result of the emergence of a huge middle class, Tang advises, "Pitch it right and you can make a killing." When people become rich in China the first thing they want to do is "blow their lolly".

Looking at what the Chinese customer wants, he explained the confusing nature of the market: one element of Chinese society wants bespoke/personalised and anything already on display is not good enough. However some of these customers will then leave the tailor's label on the sleeve of their jacket to show where they had it made.

Tang observed that the only brands that are truly 'successful' in the Chinese market are those who are making a cash profit and repatriating that money. The RMB cannot easily be converted and profits have to be ploughed back into the country.

As a general observation, Tang believes that **brands have to do something different and not just be the same as everybody else**: far too many are too homogeneous. He thinks that good value is critical and that **craftsmanship is going to be given a fresh appreciation**. "It takes time and blood, sweat and tears to make something beautiful and that unless that investment is made by brands, they cannot justify high price tags on their products."

Richard Wildman | Managing Partner, Accenture

Facts & figures: what is happening in which cities, which brands, what numbers?

Emerging markets are increasingly critical for luxury brands. They drive most of the growth today and will be relatively less impacted by the global financial crisis. **Brands that wish to address emerging markets have to adapt to a two-speed world and tailor their strategies accordingly**. Key luxury consumer trends, around trading up/down, age and desires, are impacting developed and emerging markets differently and **brands have to balance the contrasting demands of a downturn at home and rapid growth abroad**.

At home luxury brands will seek continual innovation in core and selected growth areas, while managing margin pressures. In emerging markets they continue to seek a balance between high growth, scalability of operations and profitability. **Each emerging market is distinctly unique and a deep understanding of consumer preferences, lifestyle and culture, as well as an ability to sense how the market will develop, will guide expansion and brand building**.

In 2007 emerging markets accounted for almost a quarter of luxury brand sales. This is predicted to be 40% by 2010. It is notable that **30% of sales in developed countries are attributed to customers who have travelled from emerging markets and more than 80% of luxury goods bought by Chinese are purchased abroad**. China is currently a focal point for brands as poor infrastructures currently hold back India and Brazil. South Korea still has good growth potential given its similarity to the Japanese retail market. In India the expected size of the market by 2015 will be $4bn, making it the fastest growing of the BRIC economies.

As customers move up the buying chain, what they seek evolves. The primary phases are: ❶ Ostentation ❷ More mature customers linking to icons ❸ Consumption linked to experience ❹ Participation. Currently item-based luxury, eg watches and jewellery, are the categories with the biggest market share in emerging markets. In developed markets it is experience and lifestyle-based luxury that hold the largest market share.

Young customers dominate the luxury market in emerging countries and companies need to respond. In China 700m people are under 35, with 90% of luxury sales made to customers below the age of 44. In India 60% are aged below 30, a group that makes up more than 60% of luxury purchases in the region.

Developed markets are still necessary for their sheer size and predictability, but emerging markets need to be nurtured for future growth. **By 2015 sales in Russia are expected to grow by four times, China by six times and India by10**. This means that the key is to invest in management talent in these regions, integrate into local economies, get behind and understand the market. In developed economies it is necessary to manage a downturn by investing in your core and seeking cost efficiencies. The key is not to treat emerging markets as all one market. **Understanding your customers is imperative and you must know them by city as well as by country**.

Claire Kent | Luxury Industry Consultant (formerly Head of Luxury Research at Morgan Stanley)

The changing rules of luxury

The recent **15-year boom** has been driven by the financial markets, the increase in property values, low interest rates and helpful demographic trends. This led to a changing attitude to luxury, helped by the rise of the aspirational consumer and also '**womenomics**': women spending increasing amounts of money. Associated drivers were celebrity culture and the media, branded handbags which didn't really exist until the early 1990s and the general democratisation of luxury through Coach and other more accessible brands.

During this time there have been **many misguided acquisitions** as companies assumed that the boom would continue. This period also saw the beginning of the quoted luxury sector due to IPOs amongst luxury brands. The current crisis is different to past crises which have been travel-related (eg SARS and the Gulf War) while this time it is domestic.

Now the rules are changing: On a macro scale: ❶ An extreme financial shock to the world ❷ Shifting wealth patterns with a new wealthy ❸ A growing number of rich consumers in BRIMC emerging markets ❹ The emergence of a new, 'über-wealthy' class.

Consumer attitudes are changing: ❶ Clearly an element of luxury fatigue ❷ The need to redefine 'true luxury' ❸ Changing attitudes to the environment and also to work/life balance ❹ A dramatically different attitude to debt, particularly amongst the young.

The possible impact: ❶ Consumers become much more discerning, potentially spending more on fewer items ❷ 'Masstige' luxury suffers most ❸ Brands have to focus on innovation, creativity, exclusivity and service ❹ The bursting of the handbag bubble. The 'It' bag becomes an embarrassment ❺ Further trend towards small eco-friendly cars.

While consumers in the developed world are likely to become more discerning, **the emerging markets may see similar demand patterns for luxury as the developed world saw over the past decade**. In emerging markets China has a middle class of 250 million consumers with 300,000 millionaires, a culture of male-dominated gift-giving, the 'little-emperors' phenomenon due to the one-child policy. First luxury purchases tend to be watches and many of the Chinese are still first-time buyers.

In India there are 1.6 million households earning E70,000 and spending E6,000 per annum on luxury, and 70,000 millionaires.

In Russia there are 90,000 millionaires but 20% of the population live below the poverty line. The country has a high awareness of luxury relative to other developing markets and tastes are more European.

This is encouraging but it is important to remember that 75% of sales for quoted luxury brands still come from countries outside the BRIMC economies. **Brands should still consider the opportunities in the more established markets.** Areas with potential for growth are:

❶ **Jewellery:** brands with emerging jewellery offshoots will experience growth. Much of the jewellery sold today is unbranded, with the exception of pieces from Tiffany, Cartier and Bulgari. There are now more female buyers and the sector is also resilient in a downturn.

❷ **Men's shoes:** Undeveloped relative to handbags. The potential to combine traditional skills with contemporary design.

❸ **Men's grooming:** Already a growth category and will expand further in coming years as attitudes change fast. Few brands have yet put a modern spin on it, eg ayurvedic products.

❹ **Eco luxury:** Consumers' increasing interest in ethical issues. Increased sales of smaller eco-friendly cars as more 'cool' people drive them; eco clothing; grooming products.

❺ **African culture:** The election of Barack Obama will drive interest in African culture and style in US and globally.

❻ **High-end food:** There will be increased demand for healthy 'to go' food and takeaways. Customers will seek premium casual dining.

In conclusion: ❶ The next decade will not resemble the last ❷ Brands that have traded on the handbag bubble will suffer the most ❸ But opportunities remain for companies who understand the more discerning customer ❹ Growth areas (as above).

Imran Amed | Luxury Consultant and Founder, The Business of Fashion.net

What works where?

The psychological impact of the current situation will stop people spending, even if their wealth is not in equities. However emerging markets will not necessarily be the answer. While China is currently experiencing a 10-11% growth it is expected that this will fall back to 4-5% in the future. On the upside, the financial bubble effect is much smaller in India and China than in the EU and US.

Bain & Co has predicted a slowing of the luxury market, with overall growth of 3% for the luxury market for 2008 but a -1% drop for Q4. Neiman Marcus Group reported a 27.6% drop in year-on-year sales for October. One thing that may soften the landing for luxury brands, leading to flat rather than negative growth, is currency fluctuations which favour luxury brands for the first time for years. To succeed, brands need to balance growth and maintain market share in established markets as well as tapping into the potential of emerging markets. China has more than 415,000 HNWIs – more than the other emerging markets combined. China may overtake the Japanese as consumers of luxury by 2012.

The four critical factors when addressing emerging markets are: **INTEGRATION:** ❶ Many affluent Indian consumers are citizens of the world and shop in Paris or New York ❷ Western retailers often need to tap into volume, be innovative and drive prices down to succeed ❸ They need to respond to Indian culture: most Indians buy luxury for family occasions and holidays and the sari is still looked upon as chic and timeless. Muted Armani clothing would not work at these times, but integrating accessories and jewellery can ❹ Most Indian jewellery is unbranded so there is great opportunity here ❺ It should be remembered that India wants to sustain and nurture its own culture and affluent Indians are moving back to the country to be part of the regeneration ❻ In China there has not been the logo-frenzy predicted ❼ There has been a development of taste related to the collective memory of the country's artistic past ❽ Chinese design talent is emerging as a force in its own right and it has been proved through brands like Rêves des Fleurs that world-class design can be executed brilliantly in China. Chinese design is also vibrant and the country will soon be relying on its own design talent.

RETAIL: The Indian luxury market is 95% local but very disorganised – eg there are currently three fashion weeks. There are few luxury malls so brands end up in hotels where there is low footfall and high rents – Versace closed its unit in the Marriott in Mumbai for this reason. The malls that do exist are still wrong for India as they are grey and lack character.

In China malls can be cavernous and empty, offering luxury that nobody can afford. Brands addressing the market well include **Dunhill**. Its Shanghai *maison* has a travel and →

→ discovery room which educates consumers about the brand. **Lane Crawford** understands the market and is creating a sophisticated offering, with displays that change every three days and western staff brought in to train local employees.

DESIGN: In India there has been a revival of old crafts as well as the emergence of designers. Designer Sabyasachi is notable and now shows at New York Fashion Week. This gives brands potential to collaborate, as Hermès has now done.

COMMUNICATIONS: In China, foreign celebrities and Hollywood stars confer familiarity and authority. China has attracted international PR events like the Fendi catwalk show on the Great Wall. Unprecedented one-offs like this generate a lot of press. Local celebrities also have an impact but have to be used in a way that is true to your brand DNA. India gives the potential for leverage through Bollywood, the largest film industry in the world. Local celebrities who can also become global ambassadors for the brand and Bollywood gives potential for product placement in films and television.

India and China will have an impact in the long term but success requires a tailored approach.

Discussion group | Hazel Kay (Vertu), Sandra Halliday (WGSN), Irene Maguire (Caulder Moore) with Varun Sharma (Inside Luxury Travel)

Sandra Halliday advised brands to go in with partners. Some are arrogant and go solo but they don't often succeed. It is often best to link up with a retailer like Lane Crawford who knows what the customer wants and adds some magic to the brand.

Hazel Kay said that the Vertu brand has successfully gone into emerging markets with partners. It is particularly strong in Russia and is now adopting an east-to-west expansion. In the east you really need local know-how to deal with politics and bureaucracy.

Irene Maguire: Each brand has to have its own identity to survive. This has to be defined clearly so that the local partner can understand it. It helps if the partner is a fan of the brand as they already understand it.

Are there too many stores springing up?

SH: Yes. Brands who have opened everywhere are going to have a tough time and some of these stores will have to close.

HK: Visibility is important, but this is not just achieved through stores. Vertu now has a high recognition factor in Russia so it is making its communications more tailored to potential customers.

IM: Brands need to provide individual experiences in different locations and keep evolving.

What are your predictions for the future?

SH: I've seen four recessions and four recoveries. There is always recovery but whether the retail scene will stay the same is debatable. The next two years will be tough.

HK: We are opening a Bond Street store. People will keep buying. We are not bullish but we are working to understand who is buying and how to cater for their needs.

IM: The future for emerging markets is in smaller, undiscovered brands with stories to tell. People will be banging on their doors, desperate to take them to a broader market.

Paul McGowan | CEO (Global Clients), Added Value Group

Setting an 'emerging strategy' for your brand

To succeed in emerging markets brands need to embrace the DNA of luxury: exquisite product, heroic myth, unique identity and the power of cool/cult cachet. To create an icon the item must have an identity that transcends the product so that it is venerated like a sacred personage. To define identity, brands need:

❶ **Archetype**. A brand without a personality cannot be viewed as a brand

❷ **Paint a brand portrait**. Craft it like a character in a film or painting. Creative teams will then understand this personality

❸ Use this to **articulate how your product is different** and bring these differences to life

❹ Work out what kind of **emotional connection** you want to create

❺ Define the brand's voice and its dress code

❼ Define its **mantra** – for internal purposes at the brand

These components must be kept fresh. Brands exist within culture and cultural codes change. You have to **decode early signs of cultural change and react before the rest of the world updates its image of you** in the context of current times.

Even the most iconic brand needs to adjust its behaviour when entering emerging markets as each one is at a different stage of development. Iconic products can be difficult to localise but strategies for maximising the potential of markets include introducing locally-targeted lines, more overtly branded products, ensuring that fashion pieces are available in sizes appropriate to the local buyer. Bear in mind that communication is the most freely-adaptable tool and its use can be adapted in stages depending on the market. In retail, deep immersion in the local calendar is critical to respond to local holidays and festivals. Also adapt to customer expectations, which vary enormously throughout the markets. Think about introducing a concierge service in some to inspire loyalty.

Use the character of the brand to create your brand identity, then craft it, then refresh it continuously.

Discussion group | Priya Paul (Park Hotels), Guillaume Brochard (Qeelin) with Muriel Zingraff (Director, 3i Group, formerly Jimmy Choo and Harrods)

Priya Paul: In emerging markets people actually understand that beautiful things take time, money and craftsmanship as there is still a culture of having things made. The Indian customer is demanding so service can be difficult – especially if you have a lobby full of people wanting attention. There is a lot of pent-up demand for luxury goods as they relate to the showmanship of Bollywood and Hollywood.

Park Hotels has been successful as it started out with a collection of products that were different, fun, trendy and had nightclubs. Our identity is tied up with Indian culture so we communicated using video and installation art, dance, work with fashion designers. You can't assume that everybody knows what your brand is about so you have to educate with events.

It is also helpful to be connected with 'Page 3' people in India. They are not celebrities but appear in the gossip columns in regional newspapers. We don't have a big connection with Bollywood – although the stars come to our hotels – but if you are selling a product like watches or Coke you need this.

Guillaume Brochard explained that he had tried, but been unable to find an example of a traditional Chinese luxury brand. However the country has always been aware of status: during the Communist era social status could be identified by the cut of a coat or a collar. The Chinese are now looking for new ways of identifying themselves and want to buy things that define their new-found status.

Brands are not differentiating themselves enough in China. There are 15 main jewellery brands and they do not mark out their identities. Qeelin has created a branded boutique to define itself in China, but in mature markets the brand is happy to be in multi-brand boutiques like Colette in Paris.

In China you need a local ambassador. Hollywood stars are remote and when they work for lots of brands it confuses people. You have to have somebody they can relate to and who they don't feel are just doing it for the money. Brands like Montblanc are doing mass events with 4,000 people but Qeelin does private events for journalists or clients which are much more effective.

Alistair Green | Planning Group Head, Bartle Bogle Hegarty

Communicating luxury in an emerging market

Communication in emerging markets is about context over content. Establishing a brand takes time and money. Luxury brands are always highly context-dependent and there is considerable evidence that **collective societies, of the kind found in most emerging markets, are more sensitive to social context than more individually-focused consumers in emerging markets**. They react to casting, styling and location more than they do to product and their decisions are often related to the values of their group over the personal.

There are four factors to bear in mind to capitalise on this:

❶ **Size:** Big presence is a huge contextual statement. It is best to do a few things in big ways (eg Fendi on the Great Wall)

❷ **Status does sell:** Advertise the Mercedes 500SL, not the 3-series. Highly visible diamond/crystal encrusted pieces grab attention. This is less about craftsmanship. Pump up the status to pump it out to the masses

❸ **Symbols:** Communicate in subliminal ways. Symbolism can overtake the product. Develop a symbol and use it widely

❹ **Social:** The social context is more important than individual reactions as people are more loyal to their group than the brand. Integrate with the group through shared and shareable media, group marketing and loyalty programmes. Adapt to local tastes, behaviours and holidays

Emerging markets are constantly changing fast so don't repeat something just because it worked in the past.

Sheikh Majed Al-Sabah | Founder, Villa Moda

New High Net Worth hubs: creating environments for the emerging luxury customer

Creating an environment for an emerging luxury hub involves building a theatre to retail. Nobody needs another pair of shoes so you have to make the shopping experience enjoyable. The space must combine art, architecture and retail. At Villa Moda the architectural spaces are created first and then the brands invited in rather than the spaces being tailored for the brands.

At the new Villa Moda space in Bahrain, Marcel Wanders took the geometry of Middle Eastern architecture and adapted it to a modern design. It is also important to challenge the designers by making them create new ways to hang clothing and with details like handles. The Kuwait store takes a different tack, replicating a *souk*, while in Villa Moda Vilaggio in Qatar Moroccan mosaics have been adapted to a modern design.

In Doha, Villa Moda has been inspired by the concept of a major shopping street, like Bond Street which doesn't happen in the Middle East! The space has film footage of the most important shopping streets in the world projected onto the walls to reinforce the idea.

It is also important for retail units to be individual. Manolo Blahnik wanted to create a Villa Moda store influenced by the Middle East. We created a design influenced by mirror mosaics at the Golestan Palace in Iran. He loved it and said was like nothing he had ever seen before. This is what you need to do.

Luxury brands always want to know who is going to be beside them when they go into a mall. This didn't matter when we converted a 400-year-old stable in Damascus as the brands loved it so much that it was an easy sell. In difficult times we have to offer something different to inspire the clientele. We have limited-edition or one-off collaborations that they cannot get anywhere else like Prada kaftans or a men's *dish-dash* by Tom Ford.

Everybody talks about India and China but the purchasing power of the Middle East is huge. You need to take inspiration from what is going on in the street, mixing luxury and cheap goods, understanding and applying democracy. Also **give humble but wonderful service**. Villa Moda will fly 20% of its goods to a neighbouring country with two assistants and a credit card machine and do a trunk show. It inspires great loyalty.

Martin Raymond & Tom Savigar | The Future Laboratory

Emerging luxury talent: why western luxury brands cannot afford to rest easy

There has been a seismic shift in the location of wealth. The wealth of 'ascendant markets' has jumped from \$4tn in 2006 to \$9tn in 2006. The wealth of BRIC economies rises by 10% each year and there are more billionaires in Moscow than there are in London – 74 compared to 71.

The next markets to watch – the 'N11' – are Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, the Philippines, South Korea, Turkey and Vietnam.

Currently Gulf women control \$246bn, rising to \$385 by 2011. It is reported that 38% of Selfridges customers are Arabic. LATTE – local, authentic, targeted, trustworthy, ethical – matters as much in ascendant markets as developed ones.

For an expansion of this presentation, see page 23