Global Luxury Retail in the Digital Era

High-end brands adapt their business models for a younger consumer base

Abstract: This article evaluates the performance of the global luxury retail market and highlights the growing influence of younger luxury consumers—the primary engine of growth for this market in the coming years. The report looks at how Millennial and Gen Z luxury consumers are shaping the industry and what it means for bricks-and-mortar retailers.

The year 2018 represented solid growth for the global luxury industry, increasing by 5% to an estimated €1.2 trillion in sales, with most segments, particularly luxury cars, luxury hospitality, gourmet food, fine dining and luxury cruises, seeing strong growth in real terms. The market for personal luxury goods—deemed the core of the luxury retail market—climbed by 6%, reaching a record high of €260 billion, and is forecast to continue moderate growth of 3% to 5% annually to 2025.¹

According to Bain & Company, Europe remained the top region for luxury goods sales in 2018, accounting for approximately a third (€83.2 billion) of all global transactions. Despite this, Europeans purchased only 18% of global personal luxury goods in 2018, as the market is being driven by Chinese consumers who bought a third of these items, with 75% occurring outside the country.

This trend is expected to continue, though with Chinese luxury buying moving closer to home due to more favourable policies for domestic consumption. As a result, the share of global personal luxury goods sales in China is set to grow from 8% in 2017 to 22% in 2025 at the expense of sales in Europe and the U.S.

The continued robust demand for premium goods and services has meant that luxury retail continues to outperform the mainstream and value sectors in terms of sales growth and profit margins, as seen in Chart 1.

In the wider retail sector, store networks are consolidating but, conversely, some luxury retailers, such as LVMH and Kering, have doubled their European store networks over the last 10 years.²

Key Takeaways

- The global luxury retail market continues to outperform the value and mainstream sectors, driven by demand from Chinese consumers.
- The Millennial and Gen Z generations are predicted to be the primary engine of growth for the luxury market in the coming years, representing approximately 55% of the market in 2025.
- As a reflection of the Millennial and Gen Z digital mindset, brands are making huge investments in their digital operations, with many acquiring or partnering with e-commerce specialists to enhance their online distribution channels.
- Price-conscious younger luxury consumers are driving the rise of the affordable luxury segment and boosting the performance of the premium outlet sector.
- The importance of conscious consumption among the younger generations is driving growth in the second-hand luxury goods market and spurring new business models focused on luxury rental and subscription services, as access to luxury, rather than ownership, gains traction.
- Luxury goods and experiential luxury services are merging with acquisitions and collaborations that leverage the synergy between retail and hospitality.
- Price and quality are no longer the only indicators of luxury, as brands now provide a personalised service and premium in-store environment to generate added value to consumers.

The location of luxury stores remains a critical strategic decision for retailers. Brands are increasingly focusing on large flagship stores in prime locations in the core destination cities, such as London, Bangkok, Dubai, Hong Kong, Paris and New York, that serve as showcases and points of customer engagement. For some larger heritage brands especially, the average store size is on the rise.3

I. The growing influence of younger luxury consumers

Luxury consumers are becoming younger and more diverse and are predicted to be the primary engine of growth for the luxury market in the coming years. According to global management consultancy firm Bain & Company, Millennials and Gen Z accounted for 47% of luxury consumers in 2018 and for a third of luxury purchases and are expected to represent approximately 55% of the market in 2025.4

Indeed, a recent survey by market research company GlobalWebIndex revealed that among those who regularly purchase luxury items, the majority (67%) are in the 25–44 age bracket.5 Generation Z and Millennials also emerge as the primary demographic who purchase luxury items for gifts and special occasions—a third fall into the 16–24 age bracket and just under a quarter are aged 25–34. (See Chart 2.)

These younger audiences are changing the way luxury is defined and are reinventing the brand-consumer relationship. Traditionally associated with items like handbags or jewellery, ‘modern luxury’ also includes categories such as household/furniture items, cars/automotive products, travel, electronics, experiences (e.g. glamping,6 exclusive event access) and even food ingredients.7 Known for their desire for experiential retail and instant gratification, their individuality and sustainable outlook and their quest for an Instagram lifestyle, this younger generation of consumers requires a different approach if premium brands are to capture and maintain their attention. For that reason, traditional luxury brands are modernising their business models to adapt to the expectations of their growing Millennial and Gen Z consumer base.

II. How are younger luxury consumers shaping the industry and what does it mean for bricks-and-mortar retailers?

a) Omni-channel expectations driving digital investment

The Millennial and Gen Z generations are highly connected digital natives with elevated omni-channel expectations, demanding speed and convenience from retailers. They interact with brands extensively online and via social media, predominantly using their smartphones, which is fuelling the rapid growth of m-commerce. Smartphones rose from 3.6% of digital commerce in 2013 to 23.6% in 2018 and are expected to grow to 40.8% in 2023, according to market intelligence firm Euromonitor International.8 The luxury industry is looking to capitalise on this trend and Yoox Net-a-Porter has recently announced that it will become one of the first to launch a shoppable Instagram account, alongside luxury brands such as Dior, Prada and Michael Kors.9 In 2018, 90% of global personal luxury goods sales took place in-store—the majority of which were in monobrand stores—and online sales accounted for only 10% of the global personal luxury goods market, as seen in Chart 3. However, as the share of online sales accounted for only 10% of the global personal luxury goods market, as seen in Chart 3. However, as the share of

---

3 Marie Hickey, Anthony Selwyn and Oliver Fraser-Looen, ‘The Evolution of Luxury Retail, 2019 Outlook,’ Savills, 4 April 2019.
5 GlobalWebIndex, March 2019. The base consists of 928 U.S. and 1,049 UK luxury buyers and 353 U.S. and 426 UK non-luxury buyers aged 16-64.
6 Glamping is defined as a type of camping that is more comfortable and luxurious than traditional camping. The word is a mixture of ‘glamorous’ and ‘camping.’
8 Euromonitor International.
younger luxury consumers is set to grow, so too is the share of online sales, which is forecast to reach a quarter of the personal luxury goods market in 2025.

Much of this online sales growth, however, is a direct result of luxury bricks-and-mortar retailers investing in their omni-channel operations. For instance, all of the top 15 online luxury brands listed in a recent article in the industry publication Luxe Digital have monobrand bricks-and-mortar stores. Furthermore, online luxury retailers are increasingly opening physical stores, including luxury fashion e-commerce business Matchesfashion, which in September 2018 opened a flagship store, events and creative broadcasting space in the UK capital, aiming to ‘bring together the online shopping and content experience into one permanent London residence.’

In addition, enhanced technology, such as blockchain, is improving transparency and the authentication of purchases, generating greater confidence in buying online. For example, LVMH has recently announced that it is preparing to launch a blockchain system that will help consumers authenticate luxury products and trace their entire lifecycle, from source to original sale location and all subsequent points of ownership.

The growth of online luxury sales is also creating increased competition in the market. Indeed, Luxe Digital reports that luxury is no longer restricted to legacy brands and that digital-born players and niche brands are proliferating. These digital-first luxury brands do not have legacy systems and processes holding them back, which means they can innovate fast and are shaking up the traditional luxury market.

As a result, many are acquiring or partnering with e-commerce specialists to enhance their online distribution channels. This is exemplified by Swiss luxury brand owner Richemont’s full acquisition of Italian luxury ecommerce group YOOX Net-a-Porter (YNAP) in May 2018, and UK-headquartered luxury brand Burberry’s partnership with global omni-channel technology platform Farfetch to further strengthen and expand its e-commerce presence.

The trend towards greater digital investment also extends to marketing strategies. As the younger generations object to mass marketing and impersonal sales pitches, brands are more and more delivering their message by way of innovative digital campaigns and viral media using a storytelling approach.

Millennials and Gen Z consumers like to read peer reviews and product experiences and are heavily influenced by celebrities and social media stars. Luxury brands are capitalising on this online discovery process by working with influencers who raise awareness and promote products in a video or social media post.

Online video marketing is an effective way of engaging the younger shoppers, who avidly watch YouTube. Social media is also a key marketing channel, though brands are experimenting with new media formats, as Facebook and Twitter are relegated in favour of Snapchat and Instagram stories. Regardless of the channel, in order to capture the attention of Millennial and Gen Z consumers, promotional content needs to be bite-size and relevant, and contextualise luxury products in daily life, making them accessible to the new younger luxury consumer.

b) Outlet centres benefit from shift to affordable luxury

The younger generation of luxury consumers carefully considers affordability when purchasing premium goods and services. They regularly use their smartphones to compare prices between online and in-store options.

Often viewed as an oxymoron, luxury and affordability can actually go hand in hand. Luxury is about achieving quality at a price consumers feel is good value, and many brands provide more affordable price points for those seeking lower-priced but still premium options.

In this respect, the outlet sector seems to increasingly resonate with consumers and has been hugely successful in making luxury more accessible. In the UK, which has the highest floorspace of outlets per capita in Europe according to CBRE, the outlet sector is outperforming the wider retail market, recording almost double-digit annual sales growth between 2012 and 2017. The premium outlet sector, in particular, is performing strongly, with Bicester Village commanding high sales densities. The year 2020 will also see two new additions to the UK’s premium outlet market when designer villages in Cannock in the West Midlands and Scotch Corner in North Yorkshire open for business.

c) Conscious consumption driving new luxury business models

Linked to the concept of affordable luxury and accessing premium goods at a better price/quality ratio is the growth of the second-hand luxury goods market, which also has its roots in the circular economy and the desire to extend the lifecycle of products.

Second-hand luxury goods are a means of de-emphasising the ostentation traditionally associated with luxury, which is a key concern for the younger generations who are mindful of the values associated with conscious consumption. Almost two-thirds of Millennial and Gen Z ‘True-Luxury’ consumers (those who made at least two to four luxury purchases in the last 12 months) said that sustainability influences their purchasing behaviour, compared with 56% of Gen Xers and 46% of Baby Boomers.

Indeed, 57% of Gen Z and 50% of Millennial True-Luxury consumers consider the resale value when purchasing luxury goods, compared with only 35% of Gen Xers, 24% of Baby Boomers and 22% of Silvers. Furthermore, 54% of Gen Z and 48% of Millennial True-Luxury consumers already participate in the second-hand luxury goods market—a much higher proportion than their older counterparts. (See Chart 4.)

As a result, the second-hand market for personal luxury goods has grown 9% per year since 2015 to reach €22 billion in 2018—80% of which was in the watches and jewellery category with the remaining 20% in fashion and accessories. The trend towards resale is more prominent in Europe, accounting for 55% of the

---

11 https://www.matchesfashion.com/5carlosplace.
The growth of the luxury goods resale market has been supported by improved professionalism of second-hand trade channels, with marketplaces such as Vestiaire Collective and Vide Dressing providing buyers and sellers with greater confidence and protection. However, whilst the online second-hand market is indeed expanding, physical stores still accounted for 75% of the personal luxury goods resale market in 2018.17

Also connected to affordable luxury and conscious consumption is the greater importance of the sharing economy. With many consumers choosing access to luxury over ownership of it, new business models are emerging founded on luxury rental and subscription services, with companies such as Rent the Runway, TheRealReal, Rotarity, Armarium, Flont and Vivrelle looking to capitalise on this trend.

Although many luxury brands and retailers have feared that the rental market would dilute brand equity and cannibalise sales, an increasing number are warming to the idea that rental could actually support full-price sales and attract younger consumers who might try out the brand and build an affiliation before committing to a purchase.

d) The power of partnerships—the synergy between luxury retail and hospitality

Once considered a brand dilution, collaborations are now seen as a brand enhancement, providing continual newness and reinvention, driving awareness and giving traditional brands a modern edge as they seek to preserve their exclusivity and relevancy. Examples of unique partnerships in the luxury sector include Louis Vuitton and Supreme, Chanel and Pharrell, and Fendi and Fila.

In recent years, collaborations have not only been between luxury labels but also in conjunction with mass retailers to offer mainstream capsule collections built on limited inventory to create hype and a sense of urgency. This is particularly appealing to younger generations striving toward individuality. For Millennials in particular, scarcity equals desirability, and they would rather brands create regular small stock drops, rather than seasonal collections—an approach pioneered by streetwear brands.

An emerging strategy, however, is the development of partnerships between luxury sectors, as exemplified by LVMH’s acquisition of luxury travel and hospitality company Belmond in April 2019, including its signature hotels, cruise ships and trains. Through the acquisition, LVMH has significantly expanded its presence in the world of ultimate luxury hotels, adding to the hospitality offerings of Cheval Blanc Maisons (in Courchevel, Randheli, Saint-Barthélémy, Saint-Tropez and soon Paris, London and Los Angeles) and Bvlgari (with hotels in Milan, Bali, London, Beijing, Dubai and Shanghai).

LVMH’s investment in the travel and hospitality sector represents a growing trend for ‘experiential luxury,’ bringing together luxury goods and services. As a result, experiential luxury (hotels, restaurants, wines and liqueurs) is growing more and at a faster rate than personal luxury (clothing, accessories, jewels, watches, perfumes and cosmetics). The former was worth €590 billion in 2018 and is expected to grow by 5% from 2018 to 2025, while the latter was worth €330 billion and is forecast to grow by 3% over the same period.18

Luxury retail brands in the hotel sector is a logical combination, enabling clients to immerse themselves in their brand and to live their story. Indeed, Jack Ezon, founder and managing partner at Embark, a luxury lifestyle partnership that develops bespoke travel experiences, believes ‘Hotels are becoming hubs for future pop-ups, helping both the hotel and fashion brand position themselves…and to engage ultra-high net worth clients with brands’.19 This trend, he says, will be particularly widespread in secondary markets, where luxury consumer goods brands might not otherwise have a physical presence.

e) Growing desire for personalised in-store experiences

The relationship between luxury and experience is also instrumental in-store. Given that price and quality are no longer the only indicators of luxury, brands are providing a personalised service and premium in-store environment to generate added value to consumers. This is particularly important for price-conscious Millennial and Gen Z shoppers, so retailers selling high consideration purchases must invest in experience and deliver a range of unique services and events to meet their expectations and help them to justify any potential expenditure.

A notable example is World of Niche, an appointment-only footwear boutique in Lower Manhattan, New York, where visiting the store is shrouded in secrecy. After booking online, potential customers are met at the store by an opaque window display, which, when their appointment time comes around, de-mists, revealing a rose gold sphere. The door then opens and the concierge appears, handing the customer a pair of leather slippers to wear in-store. Inside, the space is built out of three principal materials—birch wood, rose gold and marble—and, once the customer is in position, the concierge pulls the rose gold globe

17 Ibid.
apart to reveal twin hemispheres, each containing three types of shoe in three colourways. Clients may then try on as many shoes as they wish, provided that no photographs are taken.

Also in New York, Chanel's new beauty concept store encourages guests to discover and play either on their own or led by an expert. The boutique features an appointment-only perfume bar entered through a black door. Inside, customers are invited to smell different scents whilst blindfolded to eliminate the influence of packaging.

For younger generations craving individual and unique experiences, personalised and highly experiential service such as Chanel's is crucial. As a result, bespoke made-to-measure and product customisation services are growing in popularity for high-end retailers.

**Conclusion**

The luxury retail market is forecast to continue to grow strongly in the medium term, driven by a new breed of Millennial and Gen Z luxury consumers. In order to adapt their business models to realign themselves with the values of the younger generations, high-end brands are reimagining what luxury is. New luxury goes beyond price and quality, delivering added value by way of a premium, personalised experience across both in-store and online channels and leverages the synergy between luxury retail and hospitality.

Additionally, the younger cohort of luxury consumers brings to the spotlight new forms of consumerism based on conscious consumption rather than conspicuous consumption, which has traditionally been associated with the luxury industry.

Looking to the future, in order to nurture market growth from the younger generation, the luxury retail industry will likely need to evolve to focus more prominently on an exclusive service with an inclusive price point, supported by a brand story that is grounded in transparency, authenticity and social responsibility.