

COLUMNS

5 things to restore luxury back to a path of growth

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The luxury industry is hitting a wall. Recent studies from global leaders covering luxury market growth testify to it. Deloitte, which studies only the top 100 largest luxury brands that are the industry's best and brightest, sees these companies' growth slowing over the next five years, as compared with the last five.

Euromonitor reports that while the luxury goods market will grow in 2017, it will do so slowly, with particular weakness in Western Europe and North America markets.

Bain & Company, in association with Fondazione Altagamma, forecasts growth in experiential luxury, while the personal luxury goods segment contracted 1 percent due to a shift in exchange rates, and was flat at current exchange rates.

More troubling, Bain reports the Americas declined 3 percent from 2015-16 and Europe by 1 percent.

Bain's report said: "This is the third consecutive year of modest growth at constant exchange rates, and it represents a new normal in which luxury companies no longer benefit from a favorable market and free-spending consumers."

Meaning?

Consumers are putting the brakes on luxury spending because their idea of what luxury is has changed, according to an industry insiders' survey conducted by Luxury Daily and Unity Marketing, entitled [State of Luxury 2017: The Insider View](#).

"The definition of luxury is so watered down, we need to completely redefine the category," explained a luxury industry executive in that report.

The gap is growing between what the customers believe luxury is and what the industry thinks it is.

The opportunity for renewed growth lies in bridging that gap, as this insider said: "There is an opportunity for luxury brands to re-examine their roots and re-think their offerings and messaging to reflect what the consumer is looking for."

Luxury brands need to align with their customers' new perspectives.

"With the consumer leading the way, the idea of the luxury market will evolve forward to reflect where the consumer demand will be, and in the process, redefine the very definition of luxury itself," as this insider expressed it in the report.

Luxury marketers must reset by accepting that the consumers, not the brands, are now in control.

Shifts in the demographics and mindset of today's luxury consumers have brought about profound changes in the way they shop and buy and how luxury fits into their lifestyle. Not to mention new competitors are fast and furiously emerging which are not bound by the traditions prevalent in the luxury industry, and which hamper established brands in this increasingly disrupted luxury market.

So here are five things that will set luxury brands back on the path to growth in 2017.

Out with Old Luxury, in with New Luxury

The traditional ideas about luxury that have been the cornerstone of so many heritage luxury brands have taken on a negative taint in a cultural climate that demonizes the excesses of the rich and wealth.

Say the word "luxury" and negative, rather than positive images are evoked, such as conspicuous consumption, indulgence, exclusivity, elitism, extravagance, status seeking and the wealthy 1 percent.

What is more, other positive values that luxury brands have traditionally filled quality, style, workmanship, design are increasingly being satisfied by premium and lower-priced brands.

This calls on luxury brands not to abandon those positive traditional values and compete at a lower level, but to communicate the positive side of luxury in a brand-new style.

Brands must find ways to make their luxury relevant to the customers, not just using luxury it as a label, but to convey true meaning and value to the customers.

Ecommerce for exponential growth

Many luxury brands were surprised by the rapid rise of the digital age.

While many understand the power of the Internet, usually as a branding and marketing strategy, too few have fully embraced the concept of omnichannel strategies.

The Luxury Daily/Unity Marketing State of Luxury 2017 study found that fewer than 60 percent of the 600-plus luxury goods and services marketers surveyed sell over the Internet.

Among those that have an ecommerce presence, an average of 34 percent of company revenues were made through online channels. That is an awful lot of money for any non-Internet enabled brand to leave on the table.

The Internet has pulled back the curtain of the luxury industry and the brands that participate there. It has changed how customers get information and how they make decisions.

A powerful ecommerce presence is no longer optional for luxury brands.

Due to the rise of the digital world, luxury brands' heritage and tradition has given way to immediacy and now. That is a critical component of the new luxury that today's Internet-powered customers demand.

Meet the HENRYs (high-earners-not-rich-yet), the next generation of new customers for luxury brands

In the Luxury Daily/Unity Marketing State of Luxury 2017 study, luxury insiders identified finding new customers as their biggest challenge to growth.

But while many luxury brands are focused on the millennial generation the largest consumer cohort in history there is a much narrower demographic band of customers that is critical for luxury brands to focus on now: the HENRYs (high-earners-not-rich-yet).

These HENRYs are well-educated, well-paid consumers with discretion one rung down the income ladder from the traditional ultra-affluent consumers that are the target for luxury brands. This where 29 million U.S. mass-affluent consumer households live, as compared with a mere 4.2 million ultra-affluent households.

In particular, young HENRYs represent the best potential luxury customers of the future. That is because most ultra-affluents, the top 2 percent to 3 percent of high-income customers, start out as HENRYs.

Ambitious, aspiring young HENRYs on the road to ultra-affluence are the doorway to the next-generation customers for luxury brands.

However, older HENRYs should not be overlooked either, as they can be persuaded to trade up to luxury, if the right value proposition and meaningful branding messages are communicated.

More prescriptive consumer research, less descriptive

Over the last several years, marketers have been focused on Big Data as their primary source for consumer insights, using quantitative data to try to target the specific needs of the customers.

But that quantitative data cannot provide perspective on the future market, future opportunities, nor the future needs of the customers.

Big Data tells about the past, which is important, but increasingly cannot predict the future, because consumer buying and shopping behavior is changing so fast and unpredictably.

More companies are discovering the failure of such rear-view mirror, Big Data consumer research. What they need is more prescriptive market research that can be a roadmap to future consumer needs and desires.

The solution is to study the psychology of the consumers and that requires qualitative market research. Big Data answers the who, what, where and when, but only qualitative market research can answer the why why people shop and why people buy and that is where the future lies for making market research actionable.

The fact is people shop logically, but they purchase emotionally.

Luxury brands need to understand those emotional drivers for purchase so more "qual," not "quant" data, is required.

Innovate or die

One of the critical calls to action for the luxury industry in the Luxury Daily/Unity Marketing insiders' study was an urgent need to innovate. This industry executive shared:

"The change in how consumers define luxury and the new path to purchase is dramatically redefining the marketing strategy. Luxury brands must be very agile and innovative in order to gain the favors of the new luxury consumer."

While the industry suffers no lack of creative talent to tackle the innovation challenge, luxury brands with their longstanding heritage and tradition face unique barriers to change, as this insider expressed: "Finding the right balance between innovation and tradition is a challenge for many brands."

Confronting the need to balance innovation and tradition, many luxury brands opt for small baby steps and modest tactical shifts, rather than the dramatic reinvention and innovation called for by the rapidly changing priorities and mindset of today's luxury consumers

LUXURY IS A mindset, not a brand or a price point.

To established heritage brands' frustration, the chances of getting traditional luxury back are nil.

The very foundation of the market our customers has irreversibly changed. As a result, traditional luxury brands must adapt to the new style of luxury for which their customers are hungry.

[Click here for more information on the State of Luxury 2017: The Insider View report](#)

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