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Disruption: 6 insights to help luxury brands stay desirable

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Jean-Claude Biver is chairman of LVMH Watches. Image credit: Hublot

By Stphane J.G. Girod

These are disruptive times. Luxury brands are facing challenges from global, digital and consumer trends. So how can high-end brands differentiate themselves and remain desirable?

To address this, IMD recently held its first strategic forum for luxury. We hosted 48 participants from 40 brands in sectors including hospitality, automobile, luxury online distribution, watches and jewelry, and from as far afield as Japan and Europe.

Here are six insights we learnt from the event that could help your luxury brand to stand out this year.

1. When it comes to digital communications, lobby U.S. platforms to catch up with the Chinese
The rise of the Chinese Internet services giant Tencent is now well documented. But did you know that the percentage of mobile shopping in China is twice as high as in the United States? Or that the volume of mobile payments is 50 times larger?

Most luxury executives still think of Tencent's platform WeChat only in terms of its advertising potential, according to Andrea Ghizzoni, European director of Tencent.

However, in contrast to social media in the West, he says, less than 20 per cent of Tencent's revenues come from advertising. Most of the remainder comes from communications and commerce.

In China, the journey from pre-purchase to post-purchase is so integrated that businesses are no longer bothering with online-to-offline separation.

So what does this mean for luxury brands?

Partnering with WeChat is no longer a marketing choice: it is a business one.

Advertising, social communication, Big Data, sales channel, payment, virtual reality and CRM integration can all come together on one platform, providing great efficiencies for brands if they can integrate their own IT systems.

The main difference between the way WeChat operates and the way Western social media do is the control of data: in China, brands stay in command of the data between them and consumers via WeChat.

Brands can now set up mini commerce sites on WeChat. Cartier, for instance, is now successfully doing this. Mr. Ghizzoni adds that consumers are already comfortable paying prices of $3,700 to $4,900 for luxury items in this way.

Finally, WeChat is a key Internet of Things partner. The Linq, a Caesar hotel and casino on the Las Vegas strip, offers complete mobile interaction for bedroom lighting, heating, and mobile check-in and checkout through WeChat.

In 2018, my take is that brands should start pulling their weight to gain such benefits from American social media.

As the European Union hesitates, increasingly wary of the monopolistic power of these groups, now is the right time to unite and apply pressure on U.S. digital giants to give luxury brands what they need.

2. "Thank God for the Apple Watch": Turn disruption into opportunity
Crises are blessings in disguise, according to Jean-Claude Biver, chairman of LVMH Watches. This is because they eliminate brands that cannot adapt to the market.

For watchmakers, the Apple Watch has kindled an enthusiasm for wearable devices among millennials, so there is hope that these young people will want to buy mechanical watches as they get older. Hence Mr. Biver's comment: "Thank God for the Apple Watch."

If a luxury brand learns from disruption now, it can benefit handsomely in the future.

So what action should brands take now?

In 2018, luxury executives need to ensure that their brand is relevant to millennials, whose perception and consumption of luxury is changing.

Mr. Biver's advice is for every CEO to gather a board of teenagers his includes his son and some celebrities' kids to stay connected and learn from the younger generations.

None of this rejuvenation will take place unless business leaders most of whom were youngsters in the 20th century stay curious and learn from those who will shape the 21st century.

But in my opinion, executives will have to perform the balancing act of rejuvenating and nurturing the traditional customers simultaneously. It would make no sense if all brands started catering exclusively to the youngsters since that would leave no space for brand differentiation.

3. The new E.U. consumer data protection law: Go beyond simple compliance
It is ironic that as industry is catching up with Big Data and analytics, European law is becoming more restrictive.

A recent study by Ernst & Young shows that Fortune 500 companies will spend a combined $7.8 billion to comply with the new regulations by the May 2018 deadline.

The new law will mean that luxury brands will have to explicitly ask consumers' permission to use their data. Hiding behind complex terms and conditions will be harder.

Consumers will be able to ask for the deletion of their data and any breach will mean costly fines.

For luxury brands, it is time to appoint data officers with the right legal background.

It is also time to reconsider how customers agree or disagree to the use of their data.

If brands use cloud service providers, they will also have to check what they do to help them stay compliant.

However, it is even more important to work out how to demonstrate to consumers that there is value in consenting to data access.

Luxury brands cannot use consumer data in an obtrusive way. So the opportunities for consumer involvement through new sources of value creation along the stages of the consumer journey are even more crucial strategic considerations.

4. In response to the current counterfeiting boom, rethink your approach
The consumption of counterfeits is booming in the U.S. and Europe: it accounts now for 7 per cent of world trade, or $510 billion annually, according to the Organisation for Economic Co-operation and Development (OECD. This is 100 times more than in 1980.

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Some 20 per cent of fakes are sold online, according to a study that Roberto Fontana, director at business jet manufacturer Pilatus Aircraft, and I have recently completed.

Additionally, 20 per cent of online buyers of luxury goods are duped into buying fakes.

Our study shows that luxury brands have inadvertently contributed to the boom.

By offshoring manufacturing to low-cost Asia, many luxury brands have created double-dealers on the supply side, who work with the digital mafia orchestrating the global supply of fakes.

By markedly increasing their prices since 2000 and often eliminating access price ranges, luxury firms have also inflated the demand for fakes.

A recent IPSOS survey found that 65 per cent of Europeans complain that the prices of luxury goods have increased significantly without any real quality improvements.

When consumers lose trust in a brand and believe there is no risk in buying fakes online shopping and home delivery can give this impression they will easily buy fakes.

The good news for 2018 is that the European economy is in better shape.

Luxury brands can start to reconnect with the traditional European market that many have sacrificed on the altar of Chinese price distortions. But this will require that brands communicate better their meaning and sense of purpose to Europeans.

With the growth of startups showing transparency on prices, restoring the trust between brands and European consumers will be critical to curb the purchase of fakes.

5. Think unconventionally about marketing in the digital age
Social media are gaining a growing share of the advertising budget to build brand awareness at the expense of more conventional media.

But, according to Philipp Man, the 26-year-old founder/CEO of the online watch marketplace Chronext.com, brands should be careful not to rush into decisions before they have carefully analyzed the impact of their campaigns.

When Mr. Man looked closely at his own data, he discovered that television advertising in Germany was paying off much more handsomely than investments in Instagram. This came as a surprise.

At first glance, digital startups and TV seem worlds apart. In addition, Mr. Man found that other forms of conventional marketing, such as partnerships with Porsche and Lufthansa business class, were far more effective at building brand awareness than social media.

There are major differentiation opportunities here.

As the trend for authenticity grows, brands need to make themselves stand out through new types of content: content that sounds less like advertising and more like education and engagement.

In a world where the post-purchasing experience is increasingly important, brands should also consider whether they should harness the power of user-generated content and how.

6. Stay true to the essence of luxury: Play on radical creativity
As luxury executives increasingly focus on digital transformation, they should not forget that radical creativity should stay at the heart of luxury.

In the past 15 years, the ranking of the top 15 watchmakers stayed stable. Only two brands managed to break through Richard Mille and Hublot thanks to radical innovation.

Vincent Perriard, founder/CEO of luxury watch brand HYT, walks this path, too.

By mixing high technology HYT collaborates with a NASA supplier science (HYT holds 40 patents) and haute horlogerie (HYT partners with Audemars Piguet), Mr. Perriard has ventured where no one else could before him. HYT offers radically new watches that combine liquid and mechanical.

If brands do not continue to surprise consumers through interesting products or service innovations, startups will come to disrupt them.

In a digital world where millennials are after new experiences and respect startups at least as much as they respect heritage, entrepreneurs will be able to create desirable brands without opening stores in the conventional and very expensive high streets.

Digital platforms will help millennials curate their offerings in ways that will boost their brand awareness without hefty advertising budgets.

IN 2018, luxury brands' desirability will increasingly depend on radical innovation along each touch point of the consumer journey.

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