

EXECUTIVETRAVEL

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ET Luxury Report

For the one percent, opulence and status are out, while craftsmanship and experience are in.



Look back to the early '90s and it's easy to see how the modern luxury sector has evolved: Tom Ford just joined Gucci to reinvent the brand, Prada opened its second store outside of Milan and fashion house Versace held a runway show for the first time. The multithousand-dollar handbag was still on the horizon, and the overwater villas of the Maldives were a decade away. With the idea of luxury now delineated in almost every sector, much has changed. "Consumers now spend on luxury goods with much more sophistication," says Jean-Marc Bellaiche, a senior partner and leader of luxury, fashion and beauty at Boston Consulting Group, a management consulting firm.

Rather than purchasing the next "it" bag or shoes, consumers are swapping brand loyalty for more quality craftsmanship. "In the early 2000s and '90s too much of the business was about the logos, but [companies] were using low-quality raw materials," says Bellaiche. Now the idea of luxury has spread into areas beyond retail to encompass anything from status-driven travel destinations to high-end condo finishes.

Changing Philosophies

Compared with the luxury environment just five years ago, it's not a one-size-fits-all approach. Rather than purchasing the same kind of high-end car or watch, consumers impacted by the recession are increasingly asking for individualized bells and whistles to differentiate their purchase (and make sure other luxury consumers can't boast about the same one).

When real estate clients come to view multimillion-dollar Manhattan apartments, they are pickier than ever, says Emily Beare, managing director at Core Group Marketing, a luxury real estate firm in New York. Buyers are looking for specifics that signal luxury: radiant floor heating, high-end fixtures by companies such as Waterworks and quality marble; many even want to know the name of the building's interior designer, she says. During the

real estate boom of 2007, simply having a sleek-looking apartment was enough to sell it. Now buyers are seriously looking at the details that truly make it luxurious, Beare says. “It used to be all smoke and mirrors—[the apartment] looked beautiful but five years later it’s falling apart.”

Post-recession, the word *luxury* brings mixed feelings. “Luxury is a dirty word in this cultural climate, and nobody wants to be showy anymore,” says Pam Danziger, president of Unity Marketing, a Stevens, Penn.-based firm that provides insight on affluent consumers.

Experiential offerings are another way to be less showy for those eager to have one-of-a-kind experiences without purchasing more material goods. Spending on experiential luxury now makes up 55 percent of the total luxury spending worldwide and has grown 50 percent faster than sales of luxury goods, according to Boston Consulting Group’s 2012 *Luxe Redux* report, which examines luxury trends. Consumers worldwide now spend \$770 billion on experience-related luxuries or events such as art auctions, the report notes. Over time, older consumers have also moved away from purchasing luxury goods to paying for more unique experiences. “They may already have 15 [luxury] bags, so it doesn’t make much sense to buy bag number 16,” says Bellaiche.

Luxury Redefined on the Road

When it comes to investing in luxury experiences, travel is key. And many are heading off to more nontraditional “adventure-oriented” destinations such as Myanmar, Bhutan and Chile, says Robert Warman, president of Capella Hotel Group, a luxury hotel chain with properties in Washington, D.C., and Cabo San Lucas.

The business traveler is also less defined, says Danziger. “The line between business and personal travel is not clear cut anymore,” she says. “You can’t tell the business traveler by the way they dress.” This means that even business travelers now pay attention to luxury amenities previously reserved for the leisure traveler.

Executives are looking for new airline and hotel amenities, craving the unique luxurious experiences they find in both real estate and retail. They are opting for a travel experience that’s more customized—be it through a personal on-plane chef or the hotel’s personal stylist.

At Etihad and Turkish Airlines, onboard chefs prepare foods that might include medium-rare rack of lamb and fresh eggs, says Christian Reisenegger, head of the flying chefs for Do & Co. a catering company that partners with Turkish Airlines. “We make sure it tastes just as it would in a restaurant,” he says.

Business travelers are no longer focusing solely on intricate design, says Warman. “They have moved past the physical aspects of a particular hotel,” he says. To entice luxury consumers, Capella hotels offer personal assistants round-the-clock. In the new Washington, D.C., location, guests can take advantage of private after-hours shopping tours at stores such as Christian Dior, Neiman Marcus and Saks Fifth Avenue through the hotel’s

resident stylist, April Yvonne. "It's no longer about the soft goods, it's how we in the hospitality industry make our guests feel," adds Warman.

Hotels are also focusing on more individualized demands to convey a sense of luxury, points out Thomai Serdari, a luxury brand strategist and adjunct professor at New York University's Stern School of Business. For example, the Sofitel So Singapore, opening in July 2013, will have a logo designed by Chanel's Karl Lagerfeld and will allow guests to have their breakfast preferences on file and have full control of their stay through an in-room tablet. "You don't have to utter a word; your experience is completely seamless," Serdari says.

New Demands: From Craftsmanship to Retirement Homes

While conglomerates like Paris-based Louis Vuitton Moët Hennessy (LVMH) and PPR Luxury Group (owner of brands such as Gucci and Brioni) still make up a huge chunk of luxury goods, that's changing because consumers are starting to look for products rather than focus on brands, explains Serdari. In the coming years, there will be less consolidation among firms, and consumers can expect to see smaller firms with a focus on craftsmanship emerge and countries such as the U.S., Germany, Brazil or China becoming both manufacturers and buyers of these products. "People want to see things that are handcrafted, that have quality and are authentic," Serdari says. And of course the consumer has gotten savvier: "We are used to seeing beautiful images that are well designed," she adds. The larger brands will need to work even harder to keep up.

These days, both millennial and baby boomer consumers are dictating where luxury is heading. As the luxury consumers of the 1980s and '90s age, the idea of extravagance is trickling to less likely places such as hospital rooms with marble baths and butlers, luxury high-rises with movie-screening rooms and virtual golf capabilities, and airlines with private suites, according to BCG's *Luxe Redux* report. "There will be some luxury retirement home businesses that will be very successful," says BCG's Bellaiche. Meanwhile, millennials are making more tech-focused demands and urging luxury brands to ramp up their online sales and social media presence. And that's good news for consumers, who will soon have all kinds of luxury options at their fingertips.

Luxury's New Look

- **Younger Consumers:** Asian luxury travelers are 20 to 30 years younger than what luxury marketers have been accustomed to in the past, according to a 2012 International Luxury Travel Market Leaders Forum.
- **Travel Bug:** Twenty percent of U.S. respondents are planning to increase the amount of money they spend versus last year on both weekend getaways and vacations, according to American Express Publishing* and Harrison Group's 2012 Survey of Affluence and Wealth in the U.S.
- **Gen Y Wealth:** Thirty-four percent of Americans ages 18 to 33 have been wealthy throughout their lifetime as compared to less than 10 percent of all other

generations, according to the American Express/Harrison Group survey, which polls applicants with a minimum of \$100,000 of discretionary income.

- **Travel Picks:** River cruises through Europe and Asia are gaining in popularity alongside more traditional luxury cruises bolstered by baby boomer travel, according to the *2013 Virtuoso Luxe Report*.
- **Emerging Destinations:** Adventurous travelers will be heading to Cuba, Myanmar, Bhutan, Chile and Vietnam this year, according to Virtuoso.
- **Fashion:** Gen Y consumers increased spend on premium luxury fashion by 33 percent in 2011 over the year prior, according to data from the 2012 American Express Publishing Luxury Summit.
- **Deep Pockets:** Aggregate annual spending tops \$1.4 trillion for what affluent consumers worldwide describe as luxuries, according to a poll of 1,000 people worldwide for BCG's *Luxe Redux* report.
- **Online Bargains:** Seniors led all other age groups in spend growth for online luxury flash sale websites such as Gilt and Ideeli during 2011 at 28 percent, according to data from the 2012 Luxury Summit.
- **Tech Meets Luxe:** Elite consumers are more digitally savvy than their middle class counterparts, according to the 2011 Bright Young Things Workshop in Cannes, France.
- **Experience Trumps Goods:** U.S. consumers are more than three times more satisfied with the purchase of luxury experiences as they are with the purchase of luxury goods, according to a Unity Marketing report.
- **Boom in China:** Some luxury brands say that as much as 40 percent of profits are now coming from Chinese consumers, according to BCG.