ALTERNATIVE VIEW

LUXURY SUSTAINABILITY: *the new normal*

Harriet Constable

After enjoying huge growth in emerging markets like China, the luxury industry is now rapidly slowing down. But this does not need to be cause for alarm; it is simply the "new normal" regarding future growth in the luxury industry.

Slower but steady is the "new normal for the global luxury market in 2014 and beyond", says Bain & Company, the world's leading advisor to the global luxury goods industry. Persistent economic weakness in Europe, and external factors such as the Crimean crisis and Hong Kong protests, looked set to thwart any sustainable long-term growth for luxury, but demand from China, the US and Japan have helped counter a potential downward trend.

Bain's annual global luxury study reflects back on the past 11 months for the luxury industry and outlines trends and predictions as we enter 2015. The report shows that the international luxury market is on target to reach €223 billion in 2014 – down just slightly from 2013. However, the numbers fluctuate greatly across geographies. Japan is the best performing market with 10% growth year on year, and the Americas are also driving strong growth at 6%. Luxury spending is slowing in China, showing a negative trend for the first time at minus 1% growth due to greater controls on luxury spending.

Meanwhile, South Korea strengthened its position as a trendsetter and influencer for fashion and luxury in 2014. In Southeast Asia, Malaysia and Singapore were hampered by the Malaysian airline accidents, but the rest of the region experienced a brisk pace of growth. Russian purchases were down by 3%, due to a slowdown of tourism and low consumer confidence in the political future of the country, but spending in the very high-end segment remained strong. Growth was up across Europe by 2% despite socio-political tensions and economic challenges.

According to the study, all markets are now strongly driven by tourist spending, bar Japan, China and South America. While luxury spending has slowed within China, Chinese consumers' spend abroad is more than three times what they spend locally, making them the top and fastest growing nationality for foreign luxury. Conversely, Japanese citizens make most of their luxury purchases at home with the Yen devaluating by nearly 30% since 2012. Tourists are also increasingly influencing the luxury market in the Americas, while tourists' behaviour in Europe is sharply changing with a slowdown of purchases by EU tourists and a change in purchasing behaviours across nationalities. In the Middle East, consumption was up by 11%, continuing on the positive path of recent years, fuelled by increasing tourism flows.

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"With such cross-pollination of luxury spending, it no longer makes sense to think only in terms of geographies. The focus is shifting to consumers, with local trends and tastes representing only part of the picture," said Claudia D'Arpizio, a Bain partner in Milan and lead author of the study. The findings represent a knock-on effect for the way luxury brands need to think and act as we enter 2015: "They need to think about their product offering from a more global perspective, with the concept of seasons, a key pillar of this industry, becoming increasingly obsolete."

Travel and tourism were found to be creating an appetite for luxury experiences ranging from high-end transportation like private jets (sales were up an impressive 9% year on year) and yachts, to luxury hotel stays, fine wines and more. In keeping with this trend, the luxury car market is experiencing solid growth at 10%, driven by emerging markets where luxury vehicles are strongly associated with status.

Personal luxury goods also greatly contributed to the global industry in 2014, capturing 29% of the total market. For the first time the growth of high-end shoes surpassed leather goods. On the flip side, hard luxury, specifically watches, suffered from the downturn in Asia, with many watch-makers cutting production levels. Bain & Company found that when it came to purchasing luxury goods, the preferred user experience varied greatly in person compared to online: "When it comes to a physical shopping experience, consumers prefer a monobrand environment – more than 50% of the market. Conversely, online, they love variety and assortment and prefer buying in a multi-brand e-environment."

Perhaps most interestingly of all, 2014 became the year of the luxury bargain hunter. More consumers were on the hunt for greater luxury value for their money than ever before. Mature consumers are capping their luxury budget, or downgrading to more affordable brands, and mid-income aspirational shoppers are driving the growth of upper premium brands and the second-hand market, which accounted for €16 billion in 2014.

"We are seeing strong polarisation among luxury brands and the fast growth of an 'alternative to luxury' segment – those upper premium brands 'winking' at luxury ones and promoting an image of status that exceeds that of their products. Recently, we have also witnessed a revamp of the second hand-market, fostered by an online revolution. While this market threatens new product sales, it is simultaneously turning luxury goods into durables with an increasingly defined re-sell price, thus increasing their value," said Ms D'Arpizio.

The Bain report suggests that for the remainder of 2014 and beyond, the luxury market remains sustainable, even with slower growth than experienced in previous years. It is clear, however, that significant changes are in store for the luxury markets as we look ahead to 2015. Brands will need to adapt quickly and act smartly, to come out on top.