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Luxury's Upcoming dilemmas: How to rethink what we thought we knew about luxury

ESCP Impact Paper No.2024-12-EN

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Abstract

This article highlights a series of emerging dilemma for the luxury industry. The exceptional growth and resilience of the industry over the past has overshadowed a change in the competitive and economic landscape. To thrive in the 2030s, luxury brands will need to adapt to new types of challenges.

Keywords: Luxury, Business Dilemma, Pricing, Marketing, Strategy

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The next luxury dilemmas: How to rethink what we thought we knew about luxury

Pricing challenges

The role of pricing in the luxury industry is evolving. In the world of luxury, pricing plays an important role. It helps to establish a product's place in the hierarchy of luxury. It covers the costs of creation and boutique operations. But pricing is a complex affair – and greed can be fatal. Price is a crucial part of the strategy that cannot be considered in isolation. The volume of products, distribution, quality, and of course style are other key elements. If the price is just right, it defines the brand's position in the eyes of the global customer, compared to its competitors. If it is too low, the brand may not be seen as a major player. If it is too high, it can marginalize the brand and create a negative perception among consumers, which could reduce sales for a significant period.

Some products can defy these rules. For a few iconic products, the usual rule that links regular price increases with similar decreases in volume does not apply. On the contrary, when associated with strong volume control, price increases can increase the value of a second-hand product, thereby increasing demand for this product.

In fact, price increase can be used to limit volume and therefore increase the desire for a product. This is an option given to all leading brands... But we have seen the risk for certain products like watches, sneakers, bags etc to become “monetary products” where the desire for the product becomes a financial one – that is, consumers buy a piece so that it holds its value in the future. This can create a false understanding of the real appetite of the consumer for the product.... And eventually drive actual consumers away.

Similarly, it may be tempting to make prices differ from one region to another. Price differences depending on geography (up to 30% higher in some parts of the world, such as Asia) can significantly boost your margins but also naturally lead to product transfers between regions. If you add to geographical price difference the fact that customers can get VAT refunds in some parts of the world, you can end up with 40%+ differences between Europe and Asia! In certain parts of the world, this price difference is often used by tourists to finance their trip to Europe, but also sadly by professionals who avoid paying import duties and taxes and launder money.

This leads to the question of whether luxury shopping tourism should be seen as a good thing or a bad thing. Tourism can have a positive impact on brands because it boosts the turnover of European boutiques, fills the shops in Europe with customers and consequently products, grants higher margins, helps investments to maintain the European shops at the top, maintains the image and desire of a brand locally and abroad, and better controls the inevitable transfer of products from a cheaper country to a more expensive one. It has been used by top brands to compensate for the self-limitation of their volumes and guide customers into a controlled environment versus the second-hand offer they can't control at the moment

Towards new retail realities

What about the new retailing equation? Has the centre of gravity of luxury boutiques changed at all since Covid? With the rise of local consumption after Covid, there is a greater need to balance the presence of boutiques towards the East. However, caution is

essential because a too high number of new outlets could lead to the trivialisation of the brand and weaken the original boutiques where the brand must be the strongest to keep its lustre.

It is increasingly crucial as luxury brands elevate the quality of their flagship stores in Asia, incorporating VIP floors designed to shield their most valued clients from the pressures typically experienced on lower floors. Consequently, they achieve service levels that are hard to match in Europe, potentially leading to disappointment for their Asian clients when they visit European stores.

We are also transitioning towards a new decentralised model, where customers have become a vital part of the brand network of tomorrow. Let's not forget that the past decade saw the emergence of phygital environments, social media marketing, retail media network changes, personal shopping and stylists. These are part of a commercial and new image reality. The world is changing rapidly. Even though digital commerce has returned to a more reasonable proportion, other forces are driving the industry to evolve: wealth moving East, the richest are becoming even richer and more demanding; and brands expanding their reach to new territories.

Communication and branding in the 2020s and beyond

When it comes to marketing communications, what is there to make of advertising and communication post Covid? Traditional advertising and PR strategies are still relevant, but they are now just one part of the equation. A few decades ago, the key was to create captivating advertisements and charm the press into talking about your brand. You were in control of most of the conversation around your brand. Today, you are dealing with multiple touchpoints, and even the best image or video only contributes a small fraction to the overall noise around your brand.

Consumers have lost faith not only in politics but also in advertising. How can you build a legendary brand image in a world that no longer trusts brands? People form their own opinions about brands and often base their beliefs on skewed realities. The truth must come from sources that are relevant to them. The new way of interacting with customers is still being written...

Small groups demand that a brand takes a stand on issues that matter to them, asking you to please them at the risk of displeasing others. If you give in too often, you slowly create a tangled situation where you contradict yourself over time, blurring your image. A brand will face tough choices to maintain a consistent image and remain attractive to a series of disruptive populations trying to lure them where they shouldn't go.

How should you react to the turmoil on social media? Should you go with the flow? Follow the trend? Or should you try to maintain a clear position and defend it against sometimes formidable pressure? How should you promote a brand today? Should you invest in new social media tools? Or should you develop a product that creates buzz? Should you invest in experiences that enhance the buying experience? Can you influence influencers, including clients and staff? These are only a few questions that brands will need to answer to be successful in the 2030s and beyond.

Often referred to as the cornerstone of a luxury brand and its image, the role of the designer / artistic director has always had a prominent place. This is changing too. Between the tyranny of judgemental social media and the arrival of artificial intelligence, is it possible to remain creative? At the core of fashion, there is a natural evolution. Successful Brands, as they grow, move first from creative to trendy.

Those who reach the next level finally tend to move from trendy to luxury as the only way to grow constantly. Brands start by attracting top fashionistas interested in fresh, different and creative brands. They then, if they survive, start to attract a larger public and become trendy, attracting the interest of the more global fashionistas who want new and different. The third step is to create a larger collection, develop other activities that makes more of margin.... In sum, you end up becoming a luxury brand in order to keep the income flowing.

The reality of tomorrow may be different though. A lot of us live in a world in which we follow tribes and don't try to understand or question the tribes' preferences. We end up judging before listening and tend to reject whoever doesn't follow our common beliefs.

We live in a world where A.I. is so performant that it could one day become better than humans if we become complacent... But because creation is an emotion, an intuition that is by nature imperfect, there is still hope... In sum, to survive in the 2030s, luxury creation need to be ever more daring, bolder and different than ever before.

Finally, we see the emergence of new business models (second hand, rentals...), which questions traditional rules of luxury and business models. This raises a lot of questions. For instance, will price still be the sole driver of growth? Are established brands inadvertently paving the way for younger competitors to challenge them? In terms of distribution and scarcity, which model will prevail: retail, wholesale, or concessions? Is there a future for a brand that offers luxury in everything?

The needs and desires of clients are evolving rapidly. What constitutes luxury today, and what will it be tomorrow? The richer one becomes, the more hectic life seems to get. Time, the only luxury one cannot buy, will be at the core of luxury tomorrow. If the client is at the centre, brands will all vie for their attention.

To survive, brands will need to expand their product offerings and the ways they interact with clients. This could include extreme luxury resort hotels, unique trips, luxury cars, private planes, unique house rentals, first-class flights, luxury real estate, exclusive department stores, luxury brands, concierge services, exclusive clubs, art galleries, auction houses, restaurants, cultural experiences, spas, health clinics, unique regenerative treatments, and even the return of spirituality or religion for its mental healing power.

In many cases, dematerialisation is already happening. A first-class ticket is as or more expensive than a Chanel bag. The unique experience could become as important as the product itself.

Brands may struggle to grow due to their obligations to reduce their carbon footprint and their promises to recycle and reuse. A new form of lease plus service could take a share, where usage will take over from ownership, potentially leading to the next significant growth of turnover and possibly leading to a certain dilution of their margin.

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