Conscious, collaborative, connected

Making over the luxury business model

Executive summary

mazars

Contents

This executive summary is taken from the full report, '**Conscious, collaborative, connected: making over the luxury business model**', which can be found at mazars.com

Foreword

The luxury sector has always prided itself on offering consumers a chance to own pieces that are timeless and whose value and appeal will endure. But that doesn't mean that the way it produces and sells them should stay constant too. In fact, the opposite is the case; the luxury sector is at a crossroads.

Houses and brands that carry on doing what they have always done risk falling behind.

This report explains why.

First, the sector is increasingly selling to different people, in different parts of the world, and while they may all buy into the appeal of luxury, they will still hold subtly different tastes and expectations. Increasingly, they want products whose authenticity can be proven and certified. They have also grown up alongside movements for climate action, which have shaped their tastes and preferences. And, understandably, they want to be able to own, wear and experience luxury without causing undue harm to the planet.

Second, luxury is increasingly judged by new standards. For most of its history, customers have judged Houses[1] and brands according to the product and everything that goes with it, from the atmosphere and the experience in store, to the sense of exclusivity and the manner of shop assistants.

But that is changing. Today, the relationship between brand and customers is more important than ever. What happens before and after the sale – how the brand makes the customer feel and what it enables them to do – are crucial. Clients want to be able to find out about a piece, decide whether they want it, and purchase it in a way which is as delightful and sophisticated as the pieces themselves. They want to be impressed by digital experiences and visit online worlds worthy of the elegance and quality associated with the label. They want to be able to resell or recycle their pieces. Increasingly, luxury brands need to adapt to customers who are forming a view based on the service as much as the sale, the experience as much as the essence.

Traditionally, many luxury brands have been secretive, and have sought to retain their authority and mystique, seeing digital innovation as peripheral. But to compete on clienteling and the customer experience, they will have to change. The brands that make the most of this opportunity will be those that invest in the right technologies and contend strategically with the organisational challenges innovation brings. This is doubly true for those that want to change norms for the sector as a whole, for example on circularity or sustainability.

To ensure greater transparency, circularity and sustainability, brands will have to collaborate more than they have in the past. Take the Arianee project, for example. It's an entrepreneur-led coalition working to build global standards for digital certification of valuable objects, which offers owners an authentic, secure, digital certification.

The Fashion Pact is another example of collaboration: a global coalition helping major luxury Houses such as Burberry collaborate with smaller ones by offering brand-to-brand exchanges. In doing so they enable the circularity that consumers want.

In a sector that prizes heritage and tradition, all this will be a cultural challenge. For the Houses and brands that rise to it, however, it brings the opportunity to ensure that the savoir faire and timeless quality of luxury Houses and brands thrive in the twenty-first century.

1. Houses – or Maisons in French – are luxury companies that design and manufacture under an individual label or brand. Houses can be independent businesses, or they can come together as part of luxury groups, e.g. Kering, LVMH, Richemont. In France, the term 'haute couture' is protected by law, with only certain fashion houses being allowed to call themselves true Maisons.

Introduction

The luxury sector has long seen the in-person sale as central. Fashion Houses are used to being able to control how their goods are discovered and presented, and to tell their own story in their own way. They have traditionally focused on serving customers who expect to be seduced by the sensory thrill of feeling the fine leather of an Italian bag between their fingers or trying on a hand-sewn gown.

> "When they buy a luxury product, they look for heritage, savoir faire, and quality, but they also buy a product that plays its part in respecting people and preserving the planet."
>
> **Interview, Marie-Claire Daveu,**
> Chief Sustainability Officer and Head of International Institutional Affairs, Kering

Today, however, all that is changing. The global luxury sector is reconfiguring itself to the expectations and demands of patrons who may never set foot in their stores: high earners eager to demonstrate upward mobility, affluent Millennials and Generation Z-ers, and wealthy customers in China.

The expectations, shopping habits, and concerns of these cohorts are pushing luxury brands to change. Many luxury customers now expect to be able to browse and buy wherever they are. Brands like Hublot are rising to the challenge, allowing customers to set up an online appointment with a sales associate at its Fifth Avenue store from anywhere in the world. A customer browsing for clothes might 'try them on' by creating and styling an avatar of themselves using YooxMirror's mobile app. The online experience can seamlessly blend into the offline, too, as brands like Chanel have partnered with Farfetch to offer the opportunity to loyal clients to pre-select runway or pre-collection looks they can try on in front of high-tech mirrors fitted in the former brand's boutiques in Paris.

These new consumers also expect the ability to 'shop their values.' As Marie-Claire Daveu emphasises above, Millennials and Generation Z prefer brands that share their values on climate change, animal welfare, sustainability, and production and labour practices.

Covid-19 is likely to accelerate these shifts: there are early signs of this from China, where brands such as Tiffany are turning to video influencers more sharply than before the pandemic.

Luxury brands are also competing to get to know their customers better, using new, tech-enabled forms of clienteling. Brands stand to gain from client data by leveraging it to build loyalty, gain repeat sales and perhaps even let clients influence designs.

These developments shift how luxury firms operate and what they do, from a focus on the product to a focus on clients and clienteling, ongoing relationships with clients, and the data this can provide. They also improve the circularity of luxury products and the sector as a whole. Habits are already changing, and the most forward-thinking Houses are beginning to find interesting – even chic – ways to help their clients reuse, repair and recycle their luxury goods.

Brands are also increasingly adopting advanced supply chain technologies and forming strategic partnerships with retail platforms and technology firms to promote, distribute, and even recycle their pieces.

These shifts raise new questions for established luxury brands.

- How can they retain control of their story and image if they have less control over the sales platform?
- How should an industry built on longstanding supplier relationships decide who to partner with in the fickle, fast-moving world of technology?
- What new skills do they need in-house to foster a culture of digital innovation that complements their traditional strengths?
- Above all, given the urgency of climate change, might these new business models enable luxury companies to adopt more substantial sustainability and circularity standards?

Viewed strategically, these questions point towards important opportunities. This report introduces a number of them.

The luxury pivot: from products to experiences

Luxury has long been a product-driven industry focused on designing and manufacturing beautiful, unique and expensive objects that are marketed on their artisanal heritage. Luxury brands adopted digitalisation more gradually than others partly because of this product orientation. But in recent years, the industry has started to reconsider its approach to technology.

At the start of the 2010s, luxury customers were spending €4.3 billion online, with Net-a-Porter clearly in the lead. By the end of that decade, customers were spending almost ten times that amount. The spectacular success of third-party e-commerce sites presented luxury brands with a choice. Should they cede control to these sites, or try to regain control of their brand image, distribution and pricing? Should they continue selling as normal, or embrace the shifting digital landscape and join the digital revolution? Might they even be able to pivot towards customer experience while doing so?

Leading luxury brands have taken the customer experience path, finding ways to harness e-commerce opportunities. They have learned how to present their products online and keep their presence coherent across physical and digital sites. They have also become adept at telling their Houses' story digitally.

But the pivot to digital is not just about getting e-commerce and digital storytelling right. It is also about focusing more on creating a unique luxury experience with an online and offline continuum. Technological innovation is driving and supporting this pivot.

> "China is a very important market for us...In China, digitalisation has already happened. It is a cashless society for everyone."
>
> **Interview, Angie Au-Yeung,**
> Chief Digital Officer, Vacheron Constantin

Different dimensions of customer experience

Functional: This pivot to experience is partly functional - making it simpler for the customer to obtain product information, easier for them to evaluate the item and faster for them to purchase it.

Prada's dressing rooms are able to read the electronic tags found on each item of the brand for available colours, sizes, complementary items, and more.

YooxMirror's mobile application allows customers 'try on' clothes from the retailer's site by creating and styling an avatar that looks like them.

Gucci's 63 Wooster Street where customers are greeted by 'Gucci Connectors', whose role is 'to connect clients to Gucci in a new, emotional way to the House's latest products and collaborations'. The store features a 3D screening room and multi-sensorial space where musicians in residence perform.

Emotional: The pivot to experience helps luxury brands and retailers appeal to their clients on an emotional level, too. They are learning to use technology to address customers hedonistically, playfully, aesthetically and morally, to delight them and perhaps even surprise them.

Online shopping 'festivals' can be emotionally moving experiences too, especially in China where brands use games and contests to engender feelings of social competition, accomplishment and pride – leading to significant surges in sales.

Relational: Personal relationships have long played into the business model of the luxury sector. Houses have always provided a highly personalised and service-oriented experience to their Very Important Clients (VICs). Sales associates personally greet the VIC customer, often preparing for their visit and act as a personal shopper to propose products adapted to the customer's preferences and tastes.

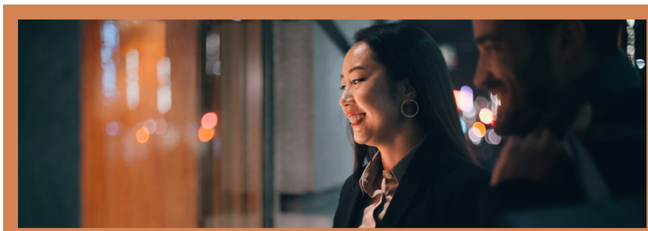
Our research shows that how far a brand has moved into customer-centricity depends mainly on their category within the luxury sector. Luxury clothing has moved farthest, whereas watches and jewellery are slower and not as far along this journey.

Luxury companies are largely following where their customers are going. This is leading luxury fashion from retail e-commerce into secondary markets, from live to digital and hybrid marketing and sales, and from a focus on luxury production to a 360-degree product value chain proposition offered to many more people than in the past.

The luxury pivot: from products to experiences

Driving the shift: new kids on the block

The new cohorts – China's wealthy luxury customers, HENRYs (High-Earners-Not-Rich-Yet), found in China and elsewhere, and Generation Z – are driving luxury fashion's market growth potential.



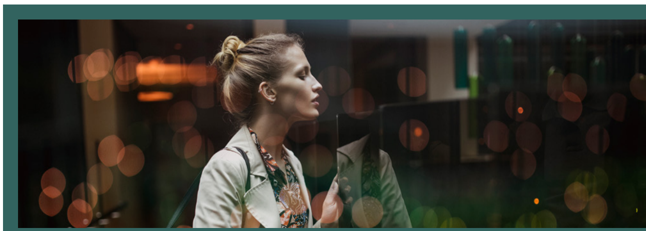
China's wealthy luxury customers

The Chinese cohort are younger than in the US or other countries (80% are Gen X, born between 1965 and 1980 or Millennials, born between 1981 and 1994). They are also typically far more comfortable with digital technologies and the use of digital platforms. China's customers stand out for:

- Their expectation to purchase and find information about luxury products wherever they are, day or night. They expect the right model and size to be available whenever and wherever.
- Their appetite to be owners or collectors of unique and valuable pieces. They also welcome certification of authenticity and value, as forgeries of luxury-brand products are more prevalent in China than in any other country in the world.

"In China nobody thinks online versus offline. You have a customer and a product. The engagement is global. You buy when you want, when you can, where you want."

Interview, Antonio Carriero,
Chief Digital and Technology Officer, Breitling



The HENRYs

The HENRYs, 'High Earners Not Rich Yet', are a global cohort of affluent Millennials and Generation X who earn between 100,000 and 250,000 USD per year. HENRYs love online shopping. As a group they tend to seek experiences over products, and to spend big on the former.

- HENRYs seek the unique in online and live experiences, and value being made to feel privileged and 'special'.
- HENRYs also place a high value on ethics and sustainability, seeking purpose in brands and making purchasing decisions accordingly.

"We are targeting the upper middle class – well-educated, urban fashionistas – a group that is growing everywhere, and even more in China. It is supposed to grow by 500 million in the next ten years to reach 1.4 bn people – provided you understand the needs of this clientele, you have a growth market."

Interview, Pierre-Arnaud Grenade,
Global CEO, ba&sh

Generation Z

At 15- to 20- years-old, Generation Z customers are luxury's youngest cohort and often considered the sector's future. Generation Z expectations are pushing luxury brands further into the experiential pivot in some interesting ways along all three dimensions - functional, emotional, and relational.

- Functionally, this is a cohort of digital natives – 98% have a smartphone.
- Emotionally, this cohort responds to luxury personalisation.
- Generation Z has an even stronger focus than HENRYs on ethical brand behaviour, ready to boycott brands they do not consider ethical and sustainable.

Technology, ecosystem partnerships, and circularity: shaping luxury services

Luxury sector leaders told us in interviews that clienteling services have become the leading edge in luxury's pivot to customer experience, especially services coming after the initial sale of a luxury product.

Leaders have now recognised the relationship-building opportunities with VICs and the new luxury cohorts, and offer initiatives that include:

- Take-back and recycling programmes for customers seeking sustainable consumption, for example, Eileen Fisher's pioneering programme, Renew.
- Partnerships with secondary market platforms such as Vestiaire Collective and Rent theRunway, which enable clients to reuse and resell their products.
- Upgrades to the brands' own repair services, or the launch of repair service partnerships with online providers such as The Restory.

Ecosystem partnerships

Technological transformation in luxury fashion is leading brands to le¬arn how to collaborate with technology partners and build ecosystems that deliver the innovations they need.

This often involves important cultural changes within companies themselves. In 2018, LVMH Chief Digital Officer Ian Rogers went on record to say that cultural transformation needs to accompany digital transformation for the latter to succeed. Many companies have responded to the need to leverage technological expertise by adopting an innovation ecosystem approach, forming strategic partnerships to develop, refine, and implement greater digital capabilities.

What brands get in return is the chance to achieve scale, particularly in the following areas:

- **Scale on social media**: partnerships to create online and hybrid content to draw in customers and tell the brand's story across different social media.
- **Marketing and sales scale:** luxury collaborations with retail platforms such as Yoox Net-a-Porter, Farfetch and Tmall. Luxury brands now see the market reach of the platforms and their ability to offer a brand-faithful e-commerce luxury experience.

A different cluster of ecosystem partnerships centres on how luxury brands can achieve scale against counterfeiting. Fake luxury merchandise is estimated to account for 60 to 70% of the €3.8 trillion of annual counterfeit trade flows.

Luxury authentications sometimes involve scientific techniques such as the Raman spectroscopy for gemstones, while some pilots combine these tools with blockchain solutions to create a secure data record of a product's provenance.

"What is new today is brands must be smarter with their interactions with customers, gathering meaningful customer data that can translate into business intelligence. For example, what is interesting about a person? Their birth date? Or whether they own a particular luxury purse as well as a pair of iconic sneakers?"

Interview, Pierre-Nicolas Hurstel,
CEO, Arianee

As they build out authentication solutions, luxury leaders also identify new clienteling opportunities. Many involve partnering with secondary market platforms, if not buying them (e.g. Richemont's acquisition of pre-owned watch platform Watchfinder). Luxury brands have been more likely to bring legal actions over trademark infringement and sales of luxury fakes than to associate with pre-owned luxury platforms. But their views are changing as the global second hand goods market has reached €31 billion annually, thanks to 12% average annual growth in the last five years.

Technology, ecosystem partnerships, and circularity: shaping luxury services

Circularity

Many resale platforms launched in order to encourage a sustainable approach to luxury consumption – a goal shared by many of luxury's new customers. HENRYs have been enthusiastic customers for luxury resale and rental platforms. Without true wealth, this cohort is ready to rent access to luxury or to buy it second-hand. What's more, second-hand sales are increasing three times faster with Generation Z versus other groups, with vintage leading.

Circularity and sustainability are also reasons why many luxury brands launch new services through ecosystem partnerships. Repairing, reusing, reselling, remaking (upcycling), and recycling are all part of economic circularity, although only recycling converts a luxury product into a new product, completing the circle.

> Luxury recycling innovators include leading brands like Gucci, which has partnered with the Mumbai-based NGO, I was a Sari, for upcycling materials to produce embroidery, and Prada, which is aiming to source all of its iconic nylon accessories from recycled materials by the end of 2021.

Hard luxury has also long maintained records of individual item production and ownership and repairs. This makes the new services in hard luxury oriented more towards collectors than consumers; towards improving repair processes and the client experience of having their valuable objects repaired; and towards modernising record-keeping of a client's 'most valuable object' by making it secure, complete and private, yet always accessible to the owner of the piece.

But in our interviews hard luxury executives also spoke about circularity as a driver for their new service offerings.

- We heard regularly that luxury employees increasingly expect their employers to advance sustainability goals and take action for luxury circularity. Another reason for luxury brands to make these engagements is to attract and retain young talent.
- Sustainability also increasingly appears to be a zeitgeist in the industry, with executives speaking not only about sustainability mattering to their clients and employees, but also how it is their brands' responsibility to take action for climate and sustainability.

"It's quite specific to hard luxury, but people tend to keep and transmit their watches or pieces of jewellery. It's already circular in the heritage. Our focus on sustainability is around how we can improve the environment they are made in and the performance of that, rather than trying to improve the end of life, which is clearly an issue for luxury fashion but not with hard luxury."

Interview, Antonio Carriero,
Chief Digital and Technology Officer, Breitling

"The Comité Colbert, France's association promoting luxury, recently gathered 50+ young collaborators from its member Maisons to work on concrete proposals for 'How to support environmental responsibility within a luxury Maison'. These young people are luxury lovers, consumers and actors. They call on us to pay attention and set an example when it comes to environmental responsibility in the luxury industry. It is worth noting that all of their proposals are digital and revolve around transparency and new experiences."

Interview, Bénédicte Epinay,
President & CEO, Comité Colbert

Looking ahead: key challenges and opportunities

This study was conducted during a global pandemic that has created enormous organisational and financial challenges for luxury companies. Even the most admired brands for customer experience have faced headwinds from Covid-19.

Despite prevalent issues, Covid-19 is only likely to strengthen luxury's pivot to customer experience. After all, this crisis has strongly reconfirmed online channels as a luxury necessity for all segments – jewellery and watches as well as luxury streetwear.

Lessons for luxury

- **Integrate digital thinking:** Luxury groups are best positioned to strengthen their experience innovations thanks to their financial means and the investments they have already made in data and IT infrastructure.
- **Catch up on the experiential pivot:** Some independent brands were born as digital natives focused on experiential marketing and customer-centric services. The majority are luxury traditionalists, however, with SMEs operating as manufacturers and wholesalers. They are now going to have to take on new systems and hire new talent to play catch up on the experiential pivot.
- **Invest in resale:** Covid-19 has given further impetus to the luxury resale market (though not luxury rentals), and so should drive investment in new services innovations. In North America and Europe, many of luxury's young and affluent customers have suffered a loss of buying power, making the resale market even more attractive to them. This also applies to China, where secondary markets are booming.
- **Look to the next wave of clienteling:** Luxury firms will need to do more to succeed in an increasingly competitive luxury market. They can also learn more if they are early adopters of on-the-horizon advances such as 'digital doubling' of products through digital certification, to create anonymised data pictures of clients which can be leveraged for increasingly tailored customer experience.

Looking ahead: key challenges and opportunities

360-degree circularity and sustainability

Could Covid-19 also help drive a rapid deepening of sustainability in the luxury industry? Leading luxury groups like Kering were already heading in this direction by working simultaneously on circularity in their brands' downstream and sustainability in the upstream. Smaller players are only now considering how to tackle environmental and social issues in their supply chains. Unless the industry giants help them, we would expect many of the lesser players to struggle to advance far along this path.

It is therefore promising to see new coalitions emerging, from global coalitions like The Fashion Pact to brand-to-brand exchanges such as Burberry's sustainability planning collaborations with small brands. This includes ecosystem partnerships like Mylo, the mushroom leather start-up.

The question is, will change come quickly enough for the planet?

The industry frequently compares the low levels of waste in luxury production compared to fast fashion. Luxury is indeed less wasteful and destructive than fast fashion. But for how long will luxury customers be reassured by such a comparison?

The economic crisis created by Covid-19 has fed into growing global movements for climate action and social inclusion. On the back of these movements, luxury brands could discover that customers expect more from them:

- HENRYs and Generation Z might well focus even further on second-hand luxury in response to these social and environmental trends.
- Luxury customers' expectations could also become even more divergent and extreme. For example, an anti-consumption movement could gain a following among HENRYs and Generation Z, especially in the Global North, which could lead to the majority of these customers significantly reducing, or even stopping, their consumption of luxury products.

"What could drive sustainability further into the luxury fashion sector? Consumers and changing consumer preferences, which count above all else in the luxury sector. Luxury companies have always responded first to their clientele, and this continues to be the predominant force for change in the industry. So, the question really is, how far will the sustainability movement go as a result of the purchasing pressure and power of luxury customers?"

Interview, Isabelle Massa,
Partner, Mazars

"When you work with your suppliers, you establish a long-term relationship with them. Our teams spend time to explain why sustainability is key, and how it is very much linked with their business. So that they are aware that if they implement more eco-friendly programmes, it can give them better results – then more and more companies will then ask them to do this as well. We put sustainability clauses in their contracts, and then we conduct audits."

Interview, Marie-Claire Daveu,
Chief Sustainability Officer and Head of International Institutional Affairs, Kering

Conclusion

‘Conscious, collaborative, connected’ reveals how and why luxury leaders have pivoted to customer experience. New luxury cohorts – high earners eager to demonstrate upward mobility, affluent millennials and Generation Z-ers, wealthy customers in China, and new and existing VICs – are driving change. They expect to be able to browse and buy online as well as in-store, to get instant and accurate information about a product’s sustainability and authenticity, and to be looked after following a purchase.

> “Luxury has mastered the art of questioning itself season after season, year after year...no matter what the obstacles on its path.
>
> **Interview, Bénédicte Epinay,**
> President & CEO, Comité Colbert

The eruption of technological change in the luxury space to meet these expectations looks set to continue. Companies are forming partnerships, building innovation ecosystems, and adopting new technologies. Many are oriented towards late lifecycle services and product circularity.

We see the brightest long-term future for luxury players who take seriously their clients’ desire for sustainable consumption. That starts with circularity and finding solutions for recycling luxury products.

Smaller independent players may not be able to leverage the resources of the industry giants and the brands they control. They can, however, succeed by adopting emerging industry best practices, advanced supply chain technologies, and new collaborative partnerships with technology firms. This is especially when it comes to sustainability, where luxury fashion is creating pre-competitive partnerships aimed at changing the industry, and even the world.

Despite the crisis introduced by the pandemic, there is no indication that the benefits the luxury sector provides – the opportunity to enjoy and display heritage, quality, and artisan skill – will decline. It will, however, be bolstered by the desire to minimise harm to the planet and be seen to do so. Pieces may be more likely to be discovered through a recommendation or a video online. They may be more likely to be owned by more than one person over the piece’s lifetime. But the luxury sector is evolving, culturally and organisationally, to meet these challenges, and its timeless appeal looks set to endure.

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Acknowledgements and references

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Methodology

This study draws from an extensive desk review of over 150 articles, reports and other sources, and in-depth interviews with luxury sector leaders and experts carried out between May and September 2020. All sources and references can be found in the full report.

This report was created and published in partnership with Arianee. Mazars is a member of the Arianee consortium.

List of interview

- **Angie Au-Yeung**, Chief Digital Officer, Vacheron Constantin | Christine Henke, Digital Program Manager, Vacheron Constantin | Guillaume Boilot, Chief Operations Officer, Vacheron Constantin | Stéphane Vuillemenot, Organization, Projects and IS Director, Vacheron Constantin
- **Antonio Carriero**, Chief Digital and Technology Officer, Breitling
- **Bénédicte Epinay**, President & CEO, Comité Colbert
- **Bertrand Weisrock**, Executive Director, Mazars
- **Charlotte Keesing**, Director of Corporate Affairs & International, Walpole | Helen Brocklebank, Chief Executive, Walpole
- **Irene-Marie Seelig**, Co-founder, AnamXR
- **Isabelle Massa**, Partner, Mazars
- **Manuel Mallen**, President & Co-founder, Courbet Jewellery
- **Marie-Claire Daveu**, Chief Sustainability Officer and Head of International Institutional Affairs, Kering
- **Pierre-Arnaud Grenade**, Global CEO, ba&sh
- **Pierre-Nicolas Hurstel**, CEO, Arianee

About Arianee

Founded in 2017, Arianee is an independent, non-profit consortium whose mission is to implement a global standard for the digital certification of luxury goods. The Arianee protocol makes it possible to associate each luxury product with its own unique, unforgeable digital identity. This digital "identity card" opens up a secure, permanent, and anonymous communication channel between brands, products, and owners. Powered by blockchain technology, this solution is open-source and decentralized. Arianee proposes the first SaaS platform, backed by the first mobile solutions that allow brands a comprehensive use of Arianee's protocol.

www.arianee.org

.arianee

Contacts

Isabelle Massa
Partner, Mazars
Isabelle.massa@mazars.fr

Bertrand Weisrock
Executive Director, Mazars
Bertrand.weisrock@mazars.ch

Pierre-Nicolas Hurstel
CEO, Arianee
pn@arianee.org

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