

W A L P O L E

WALPOLE SUMMIT 2019

Building the Future
of British Luxury

Tuesday 5th February | BAFTA,
195 Piccadilly, London



Introduction

The official voice for the UK's luxury sector, Walpole has been running expert thought-leadership events for nearly 20 years. Our inaugural 'Future of' British Luxury Summit explored both the opportunities and challenges facing luxury businesses, providing a forum for creativity, excellence, innovation and best practice and enabling attendees to build on their luxury knowledge and expertise.

The UK contributes £48 billion to the UK economy in sales, accounting for 2.4% of GDP

During the Summit we aimed to cover four main themes:

- A view of the wider world in which we are operating: The political and economic landscape and outlook for the luxury sector globally.
- Strategies and opportunities for growth: Hearing from brands and businesses whose ambition and creativity is driving enviable results.
- Exploring what the future of customer engagement looks like: Pinpointing key customer insights, and how they are informing communications and experience.
- And finally legacy: What is the legacy that brands are creating for future generations of customers?

We were joined over 20 inspiring leaders, creative thinkers, experts and practitioners who shared their experience on how – even in times of political and economic instability – we can secure the long-term success of the sector. Below is an overview of the key points discussed during the Summit, including key statistics and figures.

For more information on how Walpole supports the sector through its thought-leadership work, please contact charlotte.keesing@thewalpole.co.uk.

Tax Free Shopping generated £3.4 billion of sales to the UK in 2018

British Luxury

Luxury in the UK is very connected to its British roots. Despite a raft of potentially destabilising macro headwinds, from Brexit to Trump's trade war with China, the industry is performing well. Luxury in the UK has experienced a period of significant growth according to Helen Brocklebank, CEO Walpole: "In just four years luxury revenues have grown 49% from £32.2 billion to £48 billion. Traditional luxury businesses have been doing incredibly well. Rolls-Royce last year had their best year for 115 years, Harrods grew 6% to £2.1 billion and Penhaligon's has tripled in size in just three years."

£48 billion: The value of the British luxury sector in 2018

Michael Ward, Chairman of Walpole and Managing Director of Harrods, contextualised the foundations of the British luxury industry: "The appeal of British Luxury brands lies in the perception of heritage and uncompromising quality. Our products take years and great skill to produce. They are unique, innovative and made by some of the UK's most talented creatives and crafts people."

Ward added: "The UK luxury sector comprises numerous large global brands covering a diversity of business activities including car production, hospitality fashion and retailing. But it also comprises many small SMEs and

family run businesses, which when combined with the large global brands means that there are approximately 130,000 people working in the sector."

130,000 people working in the UK luxury sector

Michael Ellis, MP and Parliamentary Under Secretary of State at the Department for Digital, Culture, Media and Sport, explained that the government recognises the importance of the luxury sector to the British economy and its wider impact on the UK's global reputation and Soft Power. He stated: "The number one reason that UK visitors give for visiting is the shopping experience." Ellis reinforced the importance of luxury's contribution to reputation: "It's about quality. Luxury contributes to our soft power as a nation." However, he stressed that in a post-Brexit world outside the EU it would be even more crucial for luxury companies to invest: "We want to see equal ambition from the industry. Ambition to invest in training our workforces." He quoted Gieves & Hawkes as an innovative example of apprenticeship training.

Tourism

Jacques Stern, President and CEO of Global Blue, revealed that the UK is the second largest country for Tax Free Shopping, generating £3.4 billion of sales and second only to France. He added that the average spend in the UK per global shopper is now £1,850 and a disproportionately large part of this is from luxury consumers: "Looking into the details you see that the UK is where the Elite shoppers are visiting. An Elite consumer will spend almost £30,000 in the UK when they are travelling." Stern commented that luxury shopping districts and department stores are important factors which underpin the high-spending levels from these consumers. The mix of nationalities visiting the UK is different from some other European countries. For example, there are fewer Chinese visiting compared with France, Italy, Germany and Spain. However, GCC and SEA travellers visit and spend more money on Tax Free Shopping in the UK than anywhere else in Europe. He also stressed that visiting shoppers are especially looking to buy British brands when they visit the UK more so than the equivalent in other European countries. This supports Richard Carter's, Global Communications Director at Rolls-Royce Motor Cars, view about the importance of Britishness in luxury: "Britishness for Rolls-Royce is absolutely fundamental. We belong to Britain. We would never manufacture outside Britain."

However, Stern notes that the UK is behind other European countries in digitising its Tax Free Shopping systems, which results in a less than smooth shopping experience for consumers. As a consequence, despite Tax Free Shopping in the UK being 12% of the global total, 50% of worldwide

complaints arise from experiences at Heathrow in London. Stern also had a warning about the potential impact of a Brexit that requires UK visitors moving on to the EU, to have a visa. He revealed that although only 25% of all shoppers currently visiting the UK would be likely to visit a further European country (and so need an additional visa), the Elite luxury consumers form a greater per cent of those who will go on to visit another EU country. In fact he believes that as much as 70% of the Elite, high spending (luxury) consumers would fall into the category of a shopper expecting to visit another European country and so would be most impacted by the increased administrative burden.

The UK has 12% of the global Tax Free Shopping market, but 50% of worldwide Tax Free Shopping complaints

This poses a clear challenge as Under Secretary Ellis stressed the UK needs to harness its strength in soft power, a key element of which is tourism: "Our challenge is to turn our incredible soft power into hard cash." He added that a quality experience in the UK increases the prospect of inward investment by as much as 17%. Currently one in five people visiting the UK wants to invest in the country and Ellis believes there is potential to increase this.

Brexit

Concerns were raised about the proximity of 29th March in respect of the Brexit deadline for leaving the EU with or without a deal in particular, and the potential for a disorderly exit: "That is a challenge. British luxury doesn't run in its own bubble but it is closely and profitably aligned with European luxury and Europe in general. And the UK is a hugely important market for European luxury houses. It's fair to say that a 'no-deal' Brexit would be a real tragedy." Ellis added: "I recognise that businesses want certainty as a matter of priority. The biggest uncertainty of course is our forth coming exit from the EU." This sentiment was reiterated by Rolls-Royce's Richard Carter: "For a manufacturer like Rolls-Royce, Brexit is a nightmare. We have 36,000 parts in our product. We have always said that frictionless trade across the channel, complete open-access to markets, the ability to move product in and out of the UK, including parts, people and profits, is very important to us." He explained that they have made contingency for a 'no-deal' Brexit: "We've bought in extra parts and looked at various other ways of getting parts into the UK. We are spending quite a lot of money on preparing for something that may not happen."

4,107: Number of Rolls-Royce cars sold in 2018

Soft Power

Brocklebank noted the irony between problems of Brexit and the fact that Britain's international reputation is on a high as she quoted Portland's Top 30 Soft Power list 2018, which is topped by the UK. She explained: "The UK maintains an incredibly well balanced set of soft power assets, all of which operate completely outside politics." She also revealed positive data from research into US consumers about the UK: "Research that Walpole conducted with Brand Finance in the autumn of 2018 shows that customers in the US are 73% more likely to buy British than they were two or three years ago."

The global perspective

Bain & Company revealed that combined global luxury markets were valued at €1.2 trillion in 2018 representing a 5% growth in real terms. Personal luxury goods (PLG) demonstrate continued strong growth having nearly doubled from a global crash low of €147 billion in 2009 to €260 billion in 2018.

Global luxury market was worth approximately €1.2 trillion in 2018

Federica Levato, Bain & Company Partner, noted the recovery of Personal Luxury Goods following a shift to spending on experiences: "After the 2008 financial crisis luxury experiences overtook the physical product but in the last 18 months physical products and companies of PLG have recovered their growth." However in the period following 2008, luxury goods growth largely came from the newly emerging Chinese market. Core US and European markets were overlooked as was creativity and innovation as brands focused on the exiting product: "This caused a disconnection of the luxury customer who didn't recognise any more the price value equation for these industries and it caused two years of flat growth in 2015 and 2016." She explained that big brands had to rethink their strategies "to rebuild their credibility with customers."

In 2018 the online penetration of luxury was 10% although this is expected to grow to 25% by 2025. Levato explained that online was complementary as opposed to replacement for luxury and would combine with the physical to form a channel ecosystem for luxury brands: "Online will play a very important role, not only from a transactional perspective but also from an influence perspective. Already today 70% of luxury transactions are in some way influenced by an online interaction. It will become 100% by 2025. Also, more than 50% of luxury transactions will be digitally enabled, through IoT, VR, mobile payments and other technologies."

Levato explained that a variety of strong macro trends will mean: "In a few years luxury will not look the same. It will be a different place. China is set to drive future growth." She predicted that Chinese consumers will account for 50% of personal luxury goods consumption by 2028 although up to half of their consumption will be in China as opposed to while travelling.

50% of the global PLG market consumption by Chinese consumers expected 2028

Macro headwinds

The luxury industry faces a series of unpredictable trading conditions over the next year as various macro forces emerge to affect consumption, international trade and existing business models. Rosie Blau, Editor of *1843* magazine, commented: "In 2019, countries accounting for more than a third of the global population will hold elections." This includes India with a population of 1.3 billion people, Indonesia and Nigeria with 200 million people each. Unexpected election results could bring about shifting priorities for new governments and lead to further uncertainty in respect of global trade.

2019: Countries representing 1/3 of the world's population will hold elections

Blau pointed out that the trend to anti-establishment candidates and subsequent disruption to normal politics may not yet be over. She noted that 2019 also brings a clutch of anniversaries in China that includes 30 years since the 1989 Tiananmen Square protests. Blau argued this could create tensions within China: "All of this anxiety is of course happening at a time of increased tension between China and the USA and worries about the slowing of the Chinese economy."

2019: 30 years since Tiananmen Square protests. Chinese government worried about anniversary protests

She added: "In China there is a danger for the leadership that public anger against USA will turn against the regime itself. But the trade war is the most visible manifestation of a deeper geo-political rivalry." Blau argued that further international disruption could occur as President Trump may look to assert his foreign policy if he can't gain traction with policies at home due to the impasse with the Democrats in the House of Representatives.

Shifts in attitudes fuelling current activism in social issues including feminism and veganism are set to continue and challenge brands to articulate a point of view as part of their market positioning: "People are caring far more than they once were about where their stuff is from, who makes it and what values are attached to it. We will see a greater emphasis from firms on who or what they are aligning themselves to and a greater sense among consumers that they may punish or reward brands depending on what values they are associated with."

Millennials and shifting behaviours

Millennials are at the forefront of demanding and reflecting social changes in their communications and shopping behaviours. They think and act digitally first, utilising technology wherever possible and expect brands to keep up and reflect a host of social values, which match their own. IoT and social media have facilitated and provided platforms to those who in the past have been marginalised or unheard. What used to be niche concerns such as Veganism have gained critical mass and are shaping the way some brands convey values and brand messages. Blau noted: "There has been a growing interest in Vegan food. This is an interesting trend to watch as it could turn out that some modern behaviours will be condemned by future generations and meat eating could well be one of them."

Aleksandra Szymanska, Art Director at The Future Laboratory, reinforced the notion of changing consumer attitudes among the well-off: "We are seeing a growing

group of HNWIs who are increasingly uneasy about how their moral worth is linked to their (financial) wealth. This is really what's driving a major reassessment of what's appropriate when it comes to owning, investing and showing." She referred to research from the USA that indicates luxury consumers are worried about being judged. Blau also commented that Western societies have become more aware of the dark side of wealth and the increasing gaps between very rich and poor people. The perception of inequality is perpetuated by statistics including '1% of the people control 82% of the world's wealth'.

Purpose, Values and Emotion

Al MacCuish, CEO of Sunshine, made the point that luxury brands must evolve their strategies in line with the changing luxury consumer. Using Gucci as an example he stressed: "If you look at the success of Gucci under Alessandro Michele, it's not 'the rich' (consumers) driving the success of that business that's a huge new audience of people who are using whatever economic power they have got to access that creative world that he has built."

Under Michele Gucci demonstrated how effective it is to connect the brand's purpose with issues and values which connect emotionally with their (modern) luxury customers. MacCuish explained how PPR had invested in philanthropic projects that supported some of the challenges faced by women and girls: "He (Michele) made a really bold decision to use the power of the Gucci brand to elevate that subject matter at a mass scale." MacCuish made the point that many businesses now recognise that they have a responsibility at a social and cultural level.

Millennials value openness and engagement with brands as opposed to exclusivity and elitism. Tamara Ralph, Creative Director of Ralph & Russo, explained that the DNA of their couture house is all about youth, inclusivity and service: "At the start of the brand we wanted all our customers to feel part of a family. Customer service at the end of the day is free. It was one way in which we were able to compete with the (larger) luxury brands." The house dispels the belief that couture is primarily an older woman's market: "We realised when we started couture that there was a shift in the market. I think a lot

of people assumed that couture was a dying industry and we saw the opposite."

This philosophy reflects a deliberate strategy to be modern, relevant and re-shape how luxury is communicated and sold. Michael Russo, CEO of Ralph & Russo, explained: "There's a lot of arrogant luxury in the market at the moment. One of the key points that really made the brand stand out was the experience we created and the ability to make people feel at ease when they come to the House. People forget sometimes how important the experience is in parallel with the product. And that was a real focus for the brand."

Commenting on the reasons for its London base Michael Russo pointed out that London is a hub for global travellers and customers were more comfortable visiting London. He pointed out that there were some initial difficulties in finding talent: "Right from the beginning it was challenging to find the people to work, with the right skill set." This was also stressed by Ralph: "The skills, the craftsmen we need to build the company – it was very limited when we first set the brand up here. That's now completely changed. We have almost seen a return of the youth wanting to learn the craft as opposed to just wanting to be a designer."

Emotion is an important element of achieving customer engagement by a brand. MacCuish stressed: "All of our decisions are emotional whether we are conscious of it or not. We all have a moral universe and a value system

Ownership

and luxury is ultimately about identity." Emotion could also be an outcome of an exquisite experience and Michael Russo underlined the effectiveness of excellent customer service: "People never forget how you make them feel." Kristina Blahnik, CEO of Manolo Blahnik added: "With social media it's about allowing people to smile. Because if they smile you're emotionally connecting with them and that's a human moment."

There is a 154% boost to brand value if people see your brand as both creative and disruptive

The concept of ownership is once again under pressure as focus switches to usage and convenience rather than outright ownership. The Future Laboratory's Szymanska suggested that luxury car manufacturers can learn from business models emerging from the sharing economy. The *Bentley On Demand* service illustrates an extended service offer to existing owners who want to drive a different Bentley or for a specific occasion such as travelling abroad. Customers effectively rent a Bentley using the App. This notion of usage rather than ownership is taken a step further by both *Book by Cadillac* and *Care by Volvo* products, which use a subscription based revenue model. Volvo is also launching a new electric performance car brand called Polestar. Szymanska explained: "Polestar will only be available on subscription and you will only be able to buy it online, you don't need any deposit. Also, the brand is designed as a digital first product. So all of the interactions, both with the brand and the car, will happen via mobile." She added that the car will have a digital key: "Which means that you can unlock the car just with your phone and you can also share it with a friend or partner."

Discovery

Discovery commerce is the most recent evolution of online shopping or Ecommerce. The latter has already adapted to mobile and incorporated many aspects of social media behaviours. But with so much choice put in front of consumers some retailers have realised the power of facilitating the thrill of discovering a product they didn't know they needed or even wanted. Lisa Yates, client partner Facebook, explains that brands are using Instagram to target passive or light users of products and drive them to discover their products and services: "We see upwards of 35,000 new businesses appear globally on our platforms every day. Most won't go on to be a success but those that do may disrupt their category." She added that 30% of their audience discover a new brand on Instagram.

35,000 new businesses appear globally on Facebook Inc platforms everyday

Yates stressed that it's a wake-up-call for businesses as: "These disruptors are raising expectations of future brands by setting new behaviours among the new audiences. They all have one thing in common: they are built on discovery. Discovery has always been a key part of shopping but the internet and smartphones in particular are supercharging that behaviour." She revealed that on average the luxury

January 2019: 500 million accounts are using Instagram Stories and 60% using sound (not scrolling text)

consumer is following 2.5 times more accounts and consuming five times more content than the average Instagrammer. They are using Instagram for inspiration. "By following brands and influencers this provides them with a curated feed full of inspiration, for new trends new collections, hotels and destinations" she explained.

Instagram users consume content within 1.7 seconds in their news feed

Luxury consumers on Instagram are influential with more followers than the average Instagrammer. The average luxury consumer is following 2.5 times more accounts.

500 million people visit Instagram every day: Luxury consumers on Instagram have an average age of 35, use it seven days a week, and spend more time on the platform than any other group.

China

Despite concerns over the Chinese economy its GDP growth for 2018 was 6.5%, and still represents great opportunities for luxury according to Chloé Reuter, CEO of Reuter Communications. Chinese consumption of personal luxury goods is increasing both home and abroad. She noted Bain's prediction of Chinese consumers accounting for 50% of PLG consumption by 2028 and that Chinese billionaires' wealth currently amounts to US\$ 1.12 trillion. She stressed the importance of Chinese travellers to the luxury industry stating that only approximately 6% of the Chinese population currently have a passport and that is expected to increase to over 10% by 2020. "Even if you're not in China, China needs to be in your business strategy." She noted that 15 years ago there were no ski resorts in China, but with the 2022 Winter Olympics being held in Beijing, Club Med have predicted that by 2025 China will be the fourth largest ski market in the world. Reuter explained that definitions of what now constitutes luxury to Chinese consumers have changed in the last 20 years. She referred to research jointly conducted with International Luxury Travel Market (ILTM) into the attitudes of affluent Chinese travellers towards sustainability. Findings indicate that in each case over 70% of respondents considered a hotel's commitment to sustainability, availability of wellness programmes for families and organic food for children to be very important when making choices. This shows that Chinese luxury consumers are both interested in services and also require organisations to act responsibly. Reuter explained that the 'Little Emperor' metaphor demonstrating Chinese parents' indulgence of their children has extended into wellness: "There's a

lot of attention going on this child, making sure they are given every opportunity possible." She noted that Dior's best performing store globally is the Baby Dior store in Chengdu, Sichuan province.

Reuter connects the increase in luxury consumers spending on experiences with a desire to enhance the lives of their children: "At the top level of luxury in China, people are spending so much on clothes, education, anything to improve the lives of their child and give them a better chance of success. It's incredibly competitive. You have 7.5 million university graduates every year finishing university in China and looking for jobs."

This drive to provide the best for their children extends into food as Chinese luxury consumers are prepared to pay more for products that have organic ingredients and insist on hotels' kids clubs providing organic food. Reuter stressed the fact that these consumers will research hotels and restaurants before they travel, adding: "They look for experiences including cultural experiences for the child, Chinese speaking staff and quality organic food. Organic is really important. Five years ago we would never have seen such an emphasis on organic. People are really conscious about what they are eating, what they are putting into their bodies and how they are living. So organic, even across beauty is really important." She added: "So much of the research that Chinese travellers do before they leave China, about where they are going, what they will be buying, what experiences they will be seeking, they do in China. They are incredibly well researched."

End comment

The global luxury industry has in large part grown in line with increases in global wealth. However, it seems as though the party maybe over as Levato pointed out: "In the last 20-25 years industry growth has effectively come for free. Because there has been an enlarged customer base, new customers, including the Chinese who were new to this kind of consumption. From now on, growth will not come like this 'for free' anymore." The message is that future growth will need to come from taking market share away from competitors.

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