

THE TRANSFORMATION OF LUXURY

In 2019 the luxury market grew by 4% to an estimated **€1.3 trillion globally**, with positive performance across most segments (*Bain & Company, 2020*).

As part of this growth, fine wines and spirits both saw 5% market increases, with spirits continuing the significant upward trend seen in recent years, and gin, in particular, outperforming.

The luxury hospitality segment was experiencing lower growth than previously seen (up only 2%, compared with 5% last year), with a consumption shift back to luxury products, rather than luxury experiences, as these have been seen to be growing less than previously. Also at this time, the online, off-price and airport channels continued to outperform, growing respectively at 22%, 11% and 11% in current exchange rates. Throughout 2019, the online channel continued to gain share, and ended the year accounting for 12% of the global market. As part of this, we have seen a significant amount of luxury transactions influenced by the online channel, and up to 25% of purchases were digitally enabled.

In line with the growing market trend, we have seen a rise in the number of luxury consumers globally – there are around 15m High Net Worth Individuals (HNWIs), with more than half of these people living in the United States. And, more recently, a new wave of luxury consumers have emerged who, for them, luxury is a mindset – they are experience seekers, influenced by social media, and constantly searching for meaning and purpose. And whilst the HENRYs (high earning, not rich yet) have been around for almost two decades, with the term first coined in 2003, within the last few years we have seen 100% of market growth coming from Gen Y and Gen Z (*Bain & Company, 2018*). Indeed,

clothing and footwear to entertainment and travel are notable purchase areas for millennial ‘HENRY’ Y consumers, with the majority of purchases being made online.

And then, as the global pandemic started to take its hold in early 2020, global travel was grounded and many of the foundational aspects of the luxury industry as we knew it were challenged to change.

“This crisis may be transforming the luxury industry for good, but it could also be a transformation for the good.”

Bain & Company



Resilient under pressure. The luxury industry has already shown significant resilience in crises, and has previous proven experience of thriving in eras of major cultural and societal change.

So while the S&P Global Luxury Index – comprising the 80 largest publicly-traded companies engaged in the production or distribution of luxury goods, or the provision of luxury services, including Daimler, Nike, LVMH-Moët, and BMW – reached a three-year low in March 2020, down by 15% on the year prior, it will close the year at a 10-year high.

With over 200 years of experience, and despite 2020 challenging the definition of what luxury is, staggering records were set in the eye of the pandemic storm. Reuters reported that Tesla's car sales in China were 450% up during March, as the overall car market rapidly declined, and fashion industry trade journal WWD reported that Hermès took a colossal \$2.7m of sales at its second largest flagship store in the Chinese city of Guangzhou on the day the store reopened after the pandemic.

Some luxury brands have been quick to adapt, evolved their positions and embraced values that resonate with customers. The brands that have demonstrated real connection with their customers and continued to provide perceived 'value' without interruption will undoubtedly emerge stronger. Gucci stood with its global community to fight the Covid-19 pandemic by making two separate donations of €1m each to crowdfunding campaigns.

At William Grant & Sons, we continue to be proud to play our part in the worldwide fight against coronavirus. As the situation unfolded, it became clear to us that we had the ability and capacity to make a difference so we diverted our technology and the skills

of our people to produce ethanol and hand sanitiser across five of our sites in Scotland, Ireland and New York State. Overall, we will produce at least 20 million 500ml bottles and, so far, have donated hand sanitiser to more than 1,000 organisations including hospitals, churches, nursing homes, personal protective equipment suppliers and many more.

THE CHANGING 'TRUE LUXURY'

Luxury has always been an emotionally-driven industry. While we talk about HNWI's and HENRY's, there is not one type of luxury consumer, because luxury means many things to many different people. At the heart of it, luxury enables people to celebrate and to treat themselves and others. But there are also consistent, core values which resonate with people: an element of rarity and limited access; quality and attention to detail; and the ability to grow in value and create long-lasting memories over time. And actually, in 2020, the true luxury suddenly became about doing the simple things we liked to do pre-pandemic and how much we can connect and build our own experiences.

Ready for its reopening in December 2020, Glenfiddich Grand Cru created an end-to-end experience with Harvey Nichols in London's Knightsbridge, built around shopping, gifting, tasting and treating. A custom-designed personalisation station has been set up for people looking for the perfect gift this Christmas and New Year, with an individual gold plaque added to



the beautiful packaging. And, for those needing some additional thinking time before they purchase, they're able to head up to 'Glenfiddich Grand Cru Celebration Terrace' on the fifth floor to try an amazing Grand Cru cocktail for themselves. The Fig Fashioned, created by Anna Sebastian from The Langham's Artesian Bar, recently featured in Vogue, comes highly recommended.

Pivot, please. We all had to pivot: brands, companies and individuals. In the past six months alone, most of the luxury houses have pivoted to accelerate their e-commerce presence, bringing a range of new opportunities for luxury, for those brands and organisations brave enough to accept the challenge.

In a move to excite and unite fashion and tattoo fans worldwide, William Grant & Sons' spiced Rum brand Sailor Jerry and London-based jewellery brand Hatton Labs revealed a brand new, limited edition six piece capsule collection, honouring the legacy of Norman 'Sailor Jerry' Collins, in December.

Available exclusively online, Sailor Jerry's vivid colour, bold iconography and sheer artistic ambition to create a new type of tattooing has been emulated by the Hatton Garden-based jewellery house in the set of unisex pendants and rings, featuring five of Sailor Jerry flash icons cast in precious metals and set with opulent coloured gemstones. Each flash icon in the jewellery collection has been meticulously selected by Hatton Labs Encapsulating classic Americana culture, while also nodding to the underground, modern day subcultures that are prevalent today. The range is priced from £185 to £7,500.

In September, after months of speculation, Amazon launched its Luxury Stores experience, partnering with Oscar de la Renta to create a 'shop in a shop' on its mobile app for eligible Prime customers (of which there are 150m). With Amazon customers ordering over one bn fashion items on mobile in the last 12 months, the concept from the world's largest online retailer was built on customer feedback, and focuses on being able to engage with customers wherever they are comfortable shopping, creating an elevated and inspiring experience.

"Our customers share with us that when they're shopping for luxury that they'd like it to be an immersive, inspiring experience. Increasingly they're looking to understand not only the product itself, but the story of the brand, the craftsmanship, the make."

Christine Beauchamp
President
Amazon Fashion



NAVIGATING A NEW ERA

We are moving into a new era of luxury which has undeniably been shaped by the pandemic. But it is also a response to changing consumer needs – from price points to mindset, and a cult status of 'having' to experiential and 'being'.

- *Luxury is a time and a place for me*
- *Luxury is indulgence for me*
- *Luxury is meaningful to me*

For centuries, the 'traditional' value of luxury has been in perceived exclusivity, both in price and location. And now purpose is emerging as a hygiene factor because consumers, especially the rise of a younger luxury market, are expecting more from brands. They expect them to step up and do more, being clear about who they are and what they stand for, moving away from just product to product with action. In these unprecedented times people align with and will be loyal to brands which display values and outlooks resonating with their own.

Premium tequila brand *Clase Azul*, of Clase Azul Spirits, is just over 20 years old and the fastest growing luxury tequila in the US. Each bottle of spirit is packaged in a handcrafted ceramic decanter which is a key point of difference for the brand. The hand painted bottle provides uniqueness and quality attributes, and the ability to

reuse the bottle after the product has been consumed means that not only can people enjoy creating more memories by upcycling, it is waste efficient. The beautiful bottles are made in the mountainous Mexican town of Santa Maria Canchesda and 80% of the employees are female artisans who grew up in poverty with little formal schooling. Every day the employees are provided with two meals, transport, childcare and school tuition, supporting Clase Azul's ultimate purpose of celebrating the magic of Mexican culture and artistry, while transforming lives through positive engagement.

"Our measure of success is happiness. Our measure of success is sharing. Our measure of success is creating. And because of that we're going to make it, and I know that once we have that done, there's going to be just one luxury tequila and the rest."

Arturo Lomeli,
CEO and founder,
Clase Azul

LUXURY CONSUMER SUB-TRENDS ARE ACCELERATING

With the pandemic forcing radical shifts in individuals' routines and work patterns, decreasing social spheres, and increasing adoption of 'local, community' values, the new expectation is for individualised luxury omnichannel experiences at people's fingertips – wherever they may be. The rapid manifestation of a number of luxury consumer sub-trends has occurred throughout 2020, which all have positive implications for brands to enjoy an extended reach into their markets.

FEWER, MORE MEANINGFUL CONNECTIONS

With the non-essential workforce staying at home and metropolitan consumers retreating to countryside homes or rental properties, social circles and spheres of influence have shrunk to a community level. Social interactions have greatly diminished and the limited time spent with friends and neighbours within these spheres has become incredibly valuable. This has accelerated the home premium category, as consumers aim to replicate luxury experiences in their own homes.

INDIVIDUALISED, IMMERSIVE AND INNOVATIVE DIGITAL EXPERIENCES

Luxury consumers are prioritising their health and that of others, so are unlikely to rush back to cities until 'normal life' is within grasp. Inaccessibility to consumers through established routes paved the way for shareable, virtual experiences for consumers to enjoy within their communities. Brands providing infrastructure, products and entertainment to reach consumers in their homes have added considerable value to peoples' lives, and deliver brand presence at a relevant local, community level.

SELF-ACTUALISATION INFLUENCING LONG-TERM SHIFTS IN PURCHASING DECISIONS

The pandemic has been a shared experience with a democratising effect. Regardless of pre-existing social structures, everyone has been subject to restricted movement and many have had time to get in touch with 'who they are'. Accelerated by social media, purchase habits are no longer necessarily a reflection of what one can afford, but reflect who they perceive themselves to be. Personalisation rose in popularity and demand years ago, but true product customisation grows more pertinent every year.

What's evident is the changing consumer and significant behavioural shifts in 2020 has resulted in a decentralisation, humanisation and democratisation of luxury, extending from the products we see to purpose and values. Today's luxury consumers want it all: inclusivity, cultural relevance, transparency, a point of view, online presence. For those brands prepared to continuously reinvent and adapt, the future of luxury is an exciting path to travel.

