



Journeying to Luxury's New Frontiers

Luxury used to be reserved for a single elite; now the elite is plural, changing, and global.

This article was originally published in South China Morning Post.

With a double-digit growth and global revenues approaching US\$250 billion, the future of luxury industries could not look more promising and full of opportunities.

In the next two years, luxury goods revenues are expected to grow 50 percent faster than global gross domestic product. Importantly, luxury markets in developing countries, and particularly in Asia, represent an increasingly important part of the overall growth and develop on average twice as fast as luxury markets in developed economies.

While these figures might fill luxury leaders and managers with optimism, they also reflect fundamental changes that are going to break and reshape the "frontiers" of luxury, forcing the players in the market to completely rethink their strategies.

Together with Mathieu Trepanier from Tsquared Consulting Partners, I have aimed over the past five years to understand what will be the new frontiers of luxury, how to predict them in different markets, and what they imply for effective brand building and communication strategy. Overall, three frontiers will significantly affect the future of any luxury brand. We call them the 3S frontiers: the Status frontier, the Separation frontier, and the Societal frontier.

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They capture the most important needs or expectations of consumers, the general public, and more widely, the business environment that will need to be managed to build tomorrow's winning luxury brands. Let me walk through each frontier, and offer some insights into how to manage them.

First, luxury used to be reserved for a single elite; now the elite is plural, changing, and global. For instance, there are now almost as many ultra-high-net-worth individuals (UHNWI) in Asia (42,895) as in North America (65,295) and Europe (53,440); perhaps for the first time in history, the "elite" has different values in different territories and does not share the same ideal of aesthetics.

As a result, the new global elite's common thread is the need for status to showcase one's rank in the social hierarchy and more specifically among peers. The growing importance of the status motive comes, in part, from the fact that there are 10 times as many Henry consumers - high earnings, not rich yet - than there are ultra-affluent consumers in the world, according to a Unity Marketing report. These consumers are more likely to make comparative purchases to signify to others they have climbed - at least partly - the social ladder.

How to respond to the Status frontier? Several major players such as Gucci and Louis Vuitton have responded by shifting upwards and raising their

prices. While this conservative strategy can be effective in protecting the brand, it is only one of many possible responses.

In fact, the Status frontier bears a dilemma. On the one hand, luxury brands should keep at heart not to dilute their value by becoming too "conspicuous". On the other hand, it is difficult to resist adopting "premiumisation" strategies given the possibility to access untapped markets and sources of revenue.

At the heart of this challenge is the extent to which luxury consumption is "self" vs "other" oriented, and how brands communicate vis-à-vis these two orientations. The greater the status need, the more other-oriented the consumption will be. In this case, luxury should move away from producing purely "individually unique" products and instead focus on attributes that maximise the product's social value (such as, how it will be shown and shared with others).

Importantly, while this frontier represents a threat for luxury brands, it also represents a tremendous opportunity for new brands eager to move up on the luxury ladder and it partly explains the success of aspirational brands like Couronne in Korea or the impressive success of some of Diageo's alcohol brands in Asia such as Johnnie Walker.

Second, luxury used to be hidden, scarce, separated from consumers and only accessible to those who "deserve it". Seeing a piece of art was a chance, luxury had to keep its mystery. Modern consumers have less patience for such games.

Partly responsible for this trend, new technologies and social media make it easier for consumers to share their thoughts and feelings on brands in real time. While these new communication channels can bring substantial benefits, luxury brands should take great care not to discard the role that "distance" can play as part of the essence of luxury.

The recent opening of the Floating Louis Vuitton Store at Marina Bay Sands in Singapore perfectly responds to this duality of needs: while easily accessible and connected to the surrounding shopping areas, it signals its distance by occupying a unique position - an artificial island.

How to respond to the Separation frontier? Obviously not every brand has the means to do what Louis Vuitton has done. It should also be highlighted that all brands need or will need to address this frontier across communication channels. For most brands, dealing with the Separation frontier will entail carefully engaging with social media. While some brands aim to keep a certain distance with their consumers, others, such as Burberry, have decided to open up to them and share at least part of

the dream.

Third and finally, the last frontier - the Societal one - is about moral judgments. Those of the consumer, the group she belongs to, as well as to the "others" she is signalling to. Importantly, societal values evolve with time. Consider the decline of fur consumption in the 1990s, following a change in values partly due to the rise of animal rights groups.

Interestingly, after a few difficult decades, global fur sales rose again about 70 percent between 2000 and 2011 and now reach almost US\$15 billion per year. Why? Because the fashion industry took a concerted effort to reframe fur as natural and sustainable, values of rising importance today.

In Asian countries, luxury managers will also need to understand how to manage evolving societal concerns. For instance, with the current waves of investigations of highly ranked officials (such as in China), the acceptability of "gifts" such as luxury watches may come under pressure. Put differently, the luxury watch industry might be facing a moving societal acceptability frontier in China with the current anti-corruption drive.

How to respond to this frontier? Emerging societal issues that can influence public opinion need to be viewed as more than PR challenges that should be minimised and dealt with as quickly as possible. Instead, such challenges often present substantial strategic threats and opportunities.

The first step is to establish a systematic process to discover emerging debates and issues as well as the (potential) players involved. Managers can then devise strategies to mitigate the threats and, perhaps most importantly, to identify the hidden opportunities.

The fur industry's comeback provides a great example of the power of such an approach. Luxury brand managers in Asian markets and elsewhere need to learn how to use it for maximum effect.

Overall, what is the watchword for the future of luxury? Measure, measure and measure again. There are a wide variety of indicators - micro and macro - that can reliably predict any change of nature or scope in these three frontiers and empower managers to seize new opportunities. In all cases, deciphering the 3S frontiers will be part of the fundamentals of establishing tomorrow's luxury brands.

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