The new consumers

By Shellie Karabell

BRIC nationals have money, status, information, a nascent sense of luxury lifestyle…now they are coming of age.

The U.S. is still the world’s largest domestic luxury market: consumers spent 48 billion euros on luxury last year. But this is fast being eclipsed by emerging markets luxury spending at warp speed.

To wit: personal spending on luxury goods in mainland China nearly doubled between 2009 and 2011 – to 13 billion euros, according to statistics from Bain and Company. And that’s not the whole picture: when you include Chinese shoppers in Hong Kong, Macao and Taiwan (where prices are lower) and Chinese tourists opening their wallets outside of Asia, the total Chinese luxury spend globally last year is nearly 40 billion euros.

China leads the pack but the rest of the BRICs are booming, too. Luxury goods sales in the Middle East increased 12 percent last year, Brazil saw a 50 percent increase, Russians bought more than 4 billion dollars’ worth of luxury last year. Consumption figures like these are not generated only by the super-rich.

"It's not only the wealthy customers who are driving these demands," INSEAD Professor of Organizational Behaviour **Frédéric Godart** told INSEAD Knowledge. "It's a sociological phenomenon – the rise of the middle class. That's when you start thinking of social status and what kind of goods you can buy to show your neighbour that you have some status. These customers want to express more: status and style."

Online and savvy

Increased communication and sources of information – through the Internet, global television channels, international publications and advertising and just plain travel - have escalated the pace of change and raised the level of sophistication of these new shoppers. "They are very curious and they have time to investigate," says Godart. "They know what things cost, what their friends have, what's in style."

And their bargain-hunting is not restricted to local stores. The Dubai Mall alone last year racked up 54 million visitors – more than the number of people who visited New York City. And here's where demand and supply join to create a new environment. Whereas most developing nation citizens need visas to enter France or Italy, (making shopping in the meccas of the luxury world complicated) the U.A.E. makes a quick shopping trip to the Dubai Mall nearly stress-free: BRIC nationals can get a 96-hour/4-day transit visa at the airport on arrival for 250 UAE Dirhams (about 50 euros).
Creative retailing

This demand has in turn led to a wave of activity in creative circles to come up with more, glitzier and commodious retail space. "The most creative retail innovations are now taking place in Dubai and in China," says Godart. " Local retailers have to adapt to these waves of customers arriving from China or from Russia, and elsewhere.

That means changing the retail space itself, architecturally at times. "In the Middle East, for example, people shop in groups. Men and women separately. They try stuff together, they discuss it before purchasing. It's a committee decision. So you need larger dressing rooms," points out Godart.

The brands themselves also need to adapt to these new customers. There, the challenge is how much adaptation is possible without diluting the brand: a balancing act between emerging market demand and old-world supply.

Godart points to the story of Berluti, an Italian men's shoe-maker whose classic shoes with laces just weren't making an impression in the sands of the Middle East.

"The distributor in the region (Dubai-based Chalhoub Group) worked with Berluti to create a sandal," explains Godart. "At first it was a challenge because the first model showed only two toes, which in this region is considered a model for women, and men weren't buying it. So Berluti made a model with more toes showing and it has been successful. This was a company that didn't make sandals until it entered the Middle Eastern market." Today, those popular sandals start at 780 euros per pair.

Tradition out of fashion?

This also speaks to merging fashion with tradition. The Cultural Revolution stripped away national Chinese dress from quotidian life, and created some pent-up demand for colours and style in the process, but in the Middle East, the abaya is still very much in evidence and can sometimes cover up thousands of dollars worth of Dior.

"The German philosopher Friedrich Nietzsche said 'You have fashion when tradition disappears and perhaps in China this is true, but in other places you have a mix of tradition and modernity," Godart explains. "In the Middle East you have the distinction between public space and private space. Fashion will be expressed in the private space, with family and close friends. That's also why accessories are very important in the Middle East: they are 'external'. Handbags and sunglasses, for example, can be a public statement without interfering with tradition."

It's not just the individual consumer in these markets who are buying luxury goods. The economic crisis – which has cut into the number of Western customers able to spend 5,000 euros on a Birkin bag – has meant the valuation of the luxury companies themselves has dropped. That's led to consolidation and acquisitions.

China's largest heavy industry group, Shandong, bought 75 percent of the world's largest builder of luxury yachts earlier this year for 178 million euros. Ferretti had gone bankrupt in 2008 when its sales plunged during the financial crisis. A Chinese and Hong Kong investment group bought 80 percent of France's Sonia Rykiel fashion house. Hermès, while fending off market moves by LVMH, entered a joint venture with the Chinese designer behind the Shang Xia brand that creates an old-fashioned pre-Maoist lifestyle and is set to open its first shop in Paris soon.

Revivals and the future

“The Chinese are in a position to revive old names that were around in the luxury world a hundred years ago,” opines Godart. “They could also create new brands, such as Shang Xia, but it takes time for a brand to mature into real luxury – maybe 25 years, though everything is moving faster these days.”

At least in China, the domestic market is so big and vibrant that even local luxury start-ups are likely to succeed…even more so if they are produced in Italy or France. This consolidation is at the root of Prada’s decision to list in Hong Kong rather than in Europe, after years of wavering about the timing, location and pricing of an IPO. Industry analysts say the European debt crisis could mean more luxury brands go to Chinese buyers seeking direct foreign investment in Europe at attractive prices.

But the driving force behind all this is something more profound, Godart believes. “The fact that societies outside the West want these products is a sign that these societies are becoming more equal,” he explains. “Ironically, today when you think ‘luxury,’ you think ‘equality’.”

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