

European  
Cultural  
and Creative  
Industries  
Alliance

SECURING THE LEADERSHIP  
OF THE EUROPEAN HIGH-END  
AND LUXURY INDUSTRIES  
IN THE DIGITAL ERA

The European Cultural and Creative Industries Alliance (ECCIA) is composed of five European cultural and creative industries organisations: Altagamma (Italy), Circulo Fortuny (Spain), Comité Colbert (France), Meisterkreis (Germany) and Walpole (UK), who between them represent over 400 brands – mostly SMEs – and cultural institutions.

Based on art, culture and creativity, our work is underpinned by continuous innovation, a relentless focus on quality, highly skilled employment and strong export abroad. Our members strive for the highest quality in all they do, from products and services all the way to the experience offered to consumers.

# INTRODUCTION

From ancient times and across Europe, sophisticated societies have produced extraordinary craftsmanship. The rich history of the continent and the diversity of its many cultures is the foundation stone of the high-end and luxury industries in which Europe today leads the world.

These industries drive important economic and reputational gains for the continent. Europe is by far the largest market, largest producer and largest exporter of high-end products and services in the world. 18 out of the 25 leading luxury brands in the world are European and 75% of the sector's exports come from Europe.

34% of the total luxury sales in the world are made in Europe<sup>1</sup> and 5 of the top 10 luxury markets are European countries - Italy, France, the UK, Germany and Spain are respectively the 3rd, 4th, 6th, 7th and 9th largest markets worldwide, notably through tourism<sup>2</sup>.

The strong results of the high-end and luxury industries – contrasting with Europe's phenomenon of deindustrialization over the last decades – have been made possible by a sector that has unique characteristics and benefits from exceptional backgrounds.

The European high-end and luxury industries have both tangible and intangible values.

The products are made of precious materials and are manufactured using traditional craftsmanship

techniques inherited from the past, as well as contemporary cutting-edge technologies.

The production and services benefit from a very specific 'aura', a mix of both historical and contemporary factors that inspire the sector; culture, reputation, legacy, and in addition creativity, art and imagination.

This combination of tangible and intangible values is the basis of the unique economic model of the sector, and this model has become more relevant in the digital era; the intangible values of the sector can be particularly well emphasised online, as evidenced by the success of the high-end and luxury brands in e-commerce activities and social media engagement.

The following analysis presents Europe's natural advantage in the high-end and luxury industries, as well as the benefits that the sector brings to Europe in terms of employment, innovation, competition, tourism, foreign investment, export and soft power. Recommendations of how to maximize these benefits are made in the last part of this document.

## **GUILLAUME DE SEYNES**

*Chairman ECCIA*

*Chairman Comité Colbert*

*Executive Vice-President Hermès*

<sup>1</sup>Statistics for the whole personal luxury goods sector, Xerfi, "La Haute couture et le prêt-à-porter de luxe", 2015.

<sup>2</sup>Deloitte, "Global Powers of Luxury Goods 2014 In the hands of consumer", 2014, p. 4.

The following analysis focuses on European industrial players who share common values and who are committed to promoting them globally. These values include exceptional quality, craftsmanship, creativity and culture.

Each of these industrial players sells quality goods and has its own brand universe, or own imaginary worlds, particularly appealing and recognized by customers: these players are characterized by both tangible and intangible values.

As a consequence, industrial players of the sector decided to come together in a common entity, the European Cultural and Creative Industries Alliance (ECCIA). Since 2012, the European institutions have acknowledged that these industrial players belong to the European Cultural and Creative Industries (CCIs).

This very specific industrial sector is regularly studied and quoted in academic literature, as well as in consultancy or industry reports. However, the definition, the perimeter and the positioning of the sector varies constantly from one analysis to another. For example, the academic work of economists Lionel Fontagné and Sophie Hatte, 'European High-End Products in International Competition'<sup>3</sup> processed customs' data and defines the sector as the upper segment of 12 crafts (crystal, decoration, faïence

and porcelain, fragrance and cosmetic, gastronomy, gold and precious materials, haute couture/fashion, hospitality, leather goods, publishing, silver and bronze, wine and spirits), while, the industry report of Bain, 'Luxury Goods Worldwide market study'<sup>4</sup> considers a perimeter which includes more than 300 defined leading luxury goods companies and brands in the personal goods sector. The consultancy report of Frontier Economics for the ECCIA, 'The European high-end cultural and creative industries' contribution to the European economy'<sup>5</sup> analysed the situation of the members companies of ECCIA, and considers a perimeter which includes more than 250 European high-end brands in the personal goods sector.

In consequence, the generic term 'high-end and luxury industries' will be constantly employed in the following analysis to avoid any ambiguity. The reader may refer to footnotes for further details on the sources of figures.

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<sup>3</sup> Lionel Fontagné and Sophie Hatte, *European High-End Products in International Competition*, G-MonD working paper n°37, 2013.

<sup>4</sup> Bain, *Luxury Goods Worldwide market study*, fall-winter 2016

<sup>5</sup> Frontier Economics report on *"The European high-end cultural and creative industries' contribution to the European economy"*, December 2014.

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# AN ASSET TO EUROPE

A MAJOR PLAYER IN THE EUROPEAN  
ECONOMIC AND CULTURAL DYNAMISM

The European high-end and luxury industries combine tangible and intangible values to create unique business models that rely on culture, reputation, legacy, but also creativity, art and dream.

The dynamism of these European brands on the international stage brings many advantages to Europe in terms of employment, innovation, competition, tourism, export and soft power.

## A COMBINATION OF A TANGIBLE PRODUCT OR SPECIFIC SERVICE WITH AN INTANGIBLE ASSET

**High-end and luxury products are the result of a creative process, combined with a cultural heritage,** supported by a powerful story. They have a strong emotional appeal to consumers who perceive that they do not only buy a tangible product, but also acquire part of the reputation, history, legacy, excellence and imaginary world of the brands.

This intangible component offers “a moment of happiness” to every customer – who fully enjoys the experience and feels

unique thanks to the special attention provided by salespeople in a beautiful and dedicated retail environment.

The high-end and luxury companies create durable products and services of exceptional longevity sometimes even passed down to the next generations of owners. Building an affective relationship with the customers, the brands offer the opportunity of long-term personal stories and providing much more than ephemeral experiences. ■

### PASCALE LEPOIVRE

*CEO Loewe (Fashion, Spain)*

“ I think a fashion house would not have much future in the long run without the drive of an extraordinary creative director. Magic needs to be there. Quality is a prerequisite. At Loewe, it comes from a long tradition of leather expertise, but this is not enough. If a well-executed product breathes the marketing formula, lacks creative sharpness or is not in alignment with the largest history of the brand, it will eventually fail. ”

### MUCH MORE THAN A BAG

At first glance, women handbags may seem ordinary items in modern society. However, European fashion houses not only created workshops manufacturing bags using the finest materials and the highest craftsmanship techniques but also transformed their businesses into dream factories, with products having exceptional “auras” deeply appealing to consumers.

They have created iconic products whose success has remained undimmed ever since. Cherished by owners through the years, passed down from mother to daughter, their incredible history and design make them timeless handbags, part of a common heritage and imbued with emotion.

Among the most famous of these iconic products: the Chanel 2.55 created by Mademoiselle Chanel in February 1955; the *Lady Dior* paying homage to Lady Diana; the Gucci *Jackie* favorite bag of Jackie Kennedy; the Hermès *Kelly*, popularized by the Hollywood actress then princess Grace Kelly; the Prada *Galleria* recording the first Prada shop in Galleria Vittorio Emanuele II in Milan.



## **B** A CREATIVE INDUSTRY DRIVEN BY INNOVATION

**Creativity and innovation are at the heart of the high-end and luxury industries** and are the driving forces for the manufacturing of products of excellence.

The sector is a constant driver of innovation, with long-term strategies and high investments into product and services innovation. These innovations are made in a wide range of areas that can be put into three main categories: innovations in the artistic crafts; innovations in creative activities, design and style; and innovations originating from scientific research.

The sustainability of this model, a strong competitive advantage of Europe

globally, relies deeply on the protection of creativity and innovation, which can only be guaranteed through a strong implementation of intellectual property rights.

In order to foster innovation and creativity in Europe, the high-end and luxury industries invest heavily in education training, facilities, and business development in Europe. These investments allow the creation of new profiles combining both business-administration skills and creative skills and therefore bridging the gap between education and the needs of the industry. ■

### COLBERT INTERNATIONAL DESIGN WORKSHOP

The Colbert International Design Workshop is a collaborative education program which gathered in 2015 UdK, Meisterkreis, ENSAAMA and Comité Colbert. The goal of this program was twofold: enhancing the international profile of European schools of design and applied arts and enabling young future designers from Germany and France to learn the specificities of high-end and luxury companies.

**The enforcement of intellectual property rights is key to preserve Europe's creativity and innovation. Youth education in the field of creativity is key to Europe and must be fostered.**

### HENRYK ORFINGER

*CEO, Dr. Irena Eris  
(Cosmetics, Poland)*

“High-end and luxury cosmetic companies are among the main industries applying patents in Europe. For our cosmetics house, Dr. Irena Eris, founded in 1983 in Poland, research and patents are at the core of the business model of our company. With our Center for Science and Research, we bring together a team of biologists, pharmacists, chemists, biochemists, biotechnologists and dermatologists involved in conducting advanced research on skin cells and models.”

### PAOLO ZEGNA

*Vice President, Altgamma (Italy)*

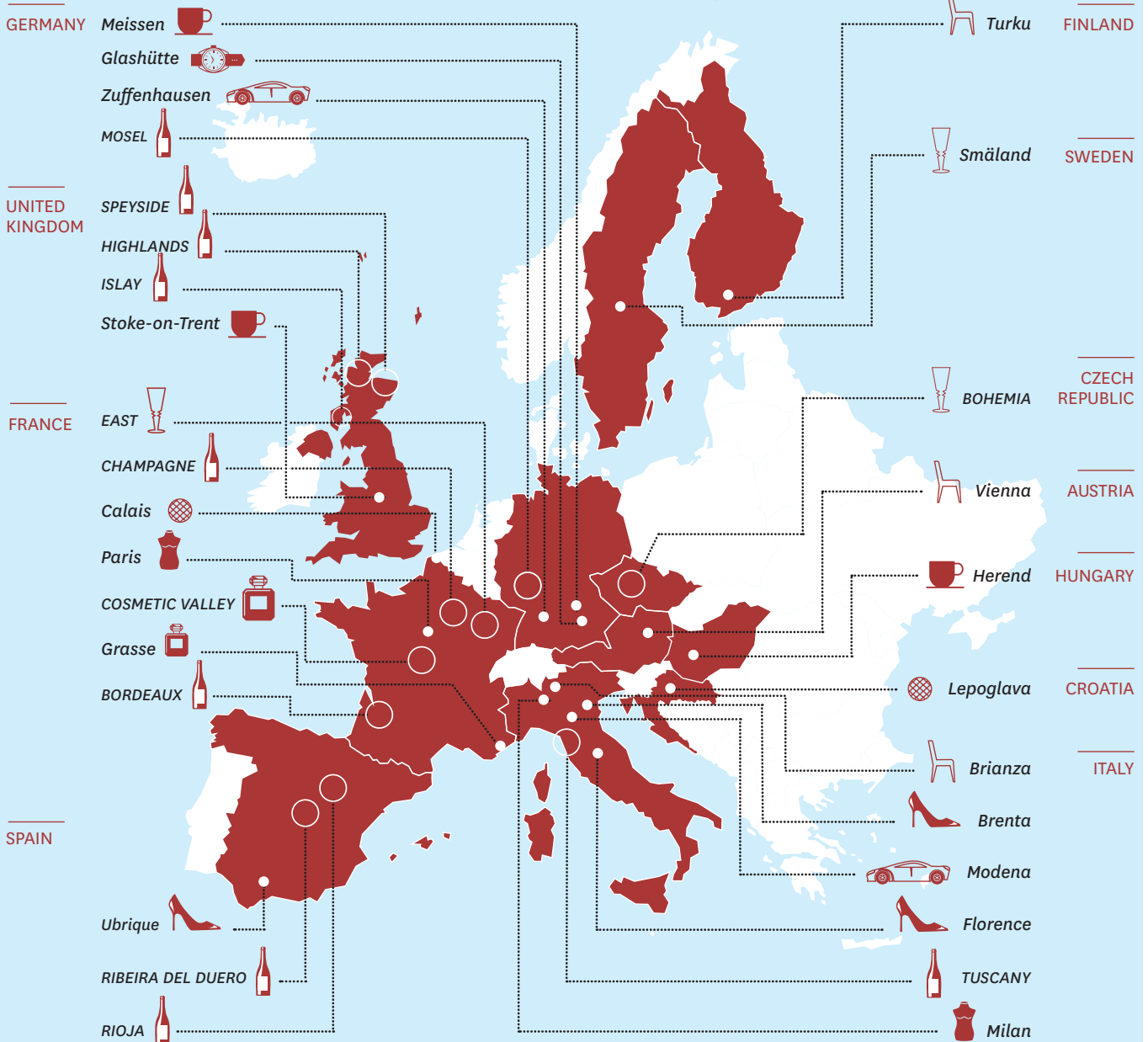
“To be successful in the medium-long term our companies have to combine intellectual and manual work, products and services, master creativity and technology, and achieve the best combination to serve and communicate to very demanding markets.

Companies need to develop rapidly changing professional roles, capable to interpret the requirements of fast changing clients.”

EXAMPLES OF HIGH-END AND LUXURY EXCELLENCE CLUSTERS IN EUROPEAN REGIONS

BY SECTORS

○ Town ○ REGION



- CARS
- DESIGN AND FURNITURE
- FASHION
- GLASS AND CRYSTAL
- LACEMAKING
- PERFUMES AND COSMETICS
- PORCELAIN
- SHOES AND LEATHER GOODS
- WATCHES
- WINES AND SPIRITS



## AN INDUSTRY BASED ON TRADITIONAL KNOW-HOW THAT NOURISHES REGIONAL ECONOMIES AND CULTURE IN EUROPE

The high-end and luxury industry, more than any other industry, is a European specificity and a crucial asset for its economy. The strength of Europe in the sector can be explained by its tradition of luxury, its strong artistic culture, the exceptional craftsmanship inherited from the past, as well as its high capacity for innovation and creativity.

The sector constitutes a large ecosystem of both international groups and a majority of SMEs. It is a key contributor to the creation of sustainable jobs and growth. Apart from own-investments, they participate in the preservation of European expertise and craftsmanship skills by actively supporting the development of SMEs (suppliers, subcontractors, distributors, communication agencies, digital agencies,...) based in Europe which often live exclusively from the services they provide to this industry. This leads to the creation of excellence clusters supporting the economy of European regions and Member states. ■

Sustainable high added value jobs combining goods and services are key to the development of European regions. These regional territories of know-how constitute an incentive to attract tourists.

### FRANTISEK SCHNEIDER

*CEO, Moser (Glass and Crystal, Czech republic)*

“Clusters of excellence craftsmanship based on traditional know-how have become a significant aspect of European regions history and cultural heritage and high-end and luxury industries play an important role in the vitality of these clusters.

Czech glass was always regarded as an excellent article of trade and as an artefact it has become synonymous with business skills, inventiveness and high quality to become “the product of its country” – Czech Republic.

Moser Crystal manufactory with its 160-year old tradition of producing unique luxury crystal objects of the highest quality significantly contributes to the prestige of the Bohemian region. Moser is also a leading member of the Czech Art of Glass association, a platform gathering glass companies, glass schools and top class glass designers and whose goal is to support the export, international cooperation, hand made glass production development, creativity excellence, education promotion and employment stimulation. ☺☺

### ANDREA ILLY

*Chairman, Illycaffè (Gastronomy, Italy)*

“Our industries are creative and innovative “par excellence”. From products to processes, from manufacturing to distribution, from communication to business model.

And they are cultural industries because they redefine the tastes and the lifestyles of the world’s most sophisticated consumers: more than 400 million people, trendsetters who create an imitation process for an even larger share of the population. Our companies shape the world’s contemporary material culture, modelling the future.

For these reasons, our products are very close to contemporary art. We’ve been mostly referring to the civilization that was born and evolved in the Mediterranean area and in Europe.

New consumers demand creativity and innovation, but also a profound change in the languages.

That’s why intensifying our relationship with contemporary art will allow our companies to be extraordinary interpreters of the zeitgeist, as well as to be creators of our society’s future. ☺☺

# D AN OPEN AND COMPETITIVE SECTOR WITH NEW ENTRANTS CREATING SUSTAINABLE JOB OPPORTUNITIES

The European high-end and luxury sector is an open sector characterized by little concentration and high competitiveness – the main players having a small market share which enables the emergence of new entrants.

Competitive positions within the sector are constantly evolving and create a permanent challenge for the existing players. Brands are continuously renewed and diversified through new business models and new product segments, feeding their competitors’ quest for excellence through innovation and creativity for the ultimate benefit of the consumer.

This fair competition environment is a driver of employment in Europe: new jobs are created by the arrival of new players and sustainable jobs develop through the preservation of subcontractors – independent European SMEs specialized in the production of components of high added value. ■

## SUPPORTING PROMISING COMPANIES

The European Cultural and Creative Industries Alliance (ECCIA)’s members implement policies to support the young and promising high-end cultural and creative businesses.

IN ITALY, Altagamma through its program *Premio Giovani Imprese* encourages the development of new emerging cultural and creative businesses. On a yearly basis, six emerging brands are chosen to benefit from the support of one or more Altagamma members through mentorship.

IN THE UK, Walpole mentoring and development programmes, *Brands of Tomorrow*, *Crafted* and *MBA Programme in Luxury Management*, work to create a pipeline of economic growth for the sector. Established British high-end brands invest their time and talent into developing the business skills of the next generation of brands, artisans and business leaders respectively.

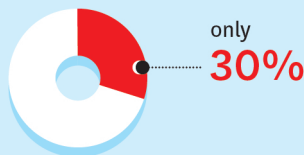
IN FRANCE, the Comité Colbert pursues a policy of welcoming young houses such as Lorenz Bäumer Joaillier (1992), Pierre Hermé Paris (1996), Pierre Hardy (1999) or Maison Francis Kurkdjian (2009), thus showing that French luxury is constantly open to renewal and new entrants.

### HIGH-END AND LUXURY INDUSTRIES, A HIGHLY COMPETITIVE SECTOR

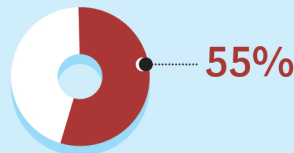
MARKET SHARES OWNED BY TOP 5 PLAYERS, BY SECTOR

TOP 5 PLAYERS IN...

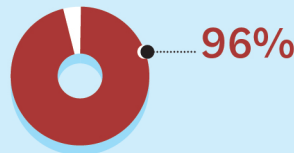
... HIGH-END AND LUXURY INDUSTRIES



... MOBILE PHONE INDUSTRY



... DESKTOP AND LAPTOP OS



Source : Data Euromonitor and press 2015-2016, our analysis

INFOGRAPHIC CLAIRE OLIVÉS © COMITÉ COLBERT

The high-end and luxury sector is open to new entrants, creating a positive dynamic benefiting the consumers who are offered a large variety of products and services. This dynamism relies on a fair competition in order to promote sustainable jobs creations.

## E AN EXPORT CHAMPION THAT DRIVES EUROPEAN GROWTH

The European high-end and luxury sector is the world's foremost exporter of luxury goods.

European companies – a myriad of family-owned SMEs coexisting with groups gathering many SMEs with a largely autonomous management – have carried out extensive export strategies over the last decades and are present on all continents. The quality of the products and the level of export of a company are strongly correlated: high-end and luxury companies export more products,

penetrate more markets and reach further destinations than companies proposing goods of lower quality.

Thanks to its strong export capacity, the sector is a significant asset for Europe in a difficult international trade context. Whereas, the EU countries have seen their share in the international trade reduced dramatically in the last decade, the EU high-end and luxury sector was able to demonstrate the resilience and the important adaptive capacity of its business model. ■

### VERÓNICA FISAS

CEO, Natura Bissé  
(Luxury Skincare, Spain)

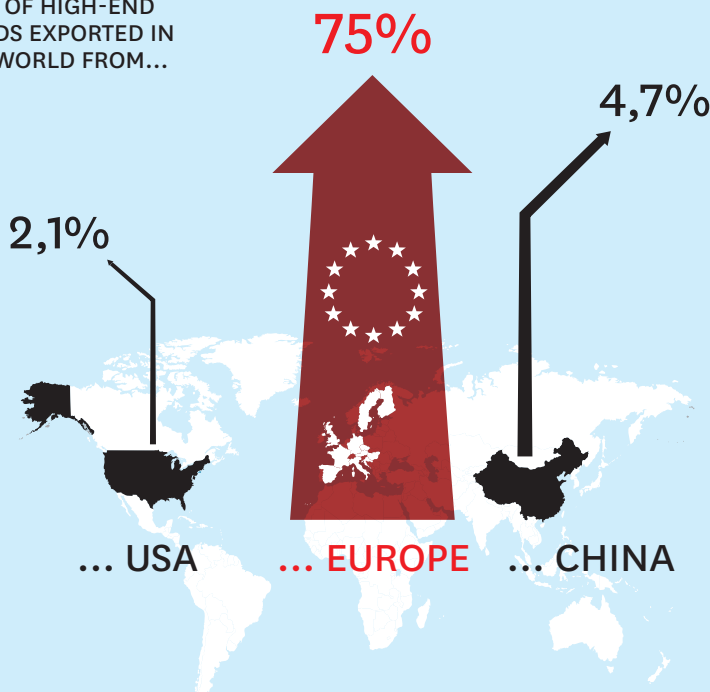
“Natura Bissé exports 77% of its production to over 35 countries. Foreign markets are key to our company's growth. Year after year, the awareness of our brand grows and new markets are won over. Outside of Europe, our products can be found in the most prestigious spas, beauty centers and retailers for instance in the USA, Mexico, Middle East or Hong Kong.”

A fair access to foreign markets is key to the development of the sector abroad.

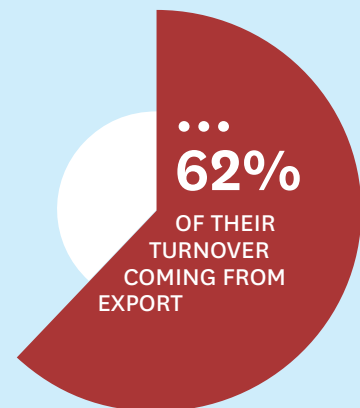
### EUROPE : NUMBER 1 EXPORTER OF HIGH-END AND LUXURY PRODUCTS

BY THE END OF 2000S

PART OF HIGH-END GOODS EXPORTED IN THE WORLD FROM...



EUROPEAN HIGH-END CULTURAL AND CREATIVE COMPANIES ARE EXPORT CHAMPIONS WITH...



Source : Lionel Fontagné and Sophie Hatte, European High-End Products in International Competition, G-MonD working paper n°37, 2013

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## F A CONTRIBUTOR TO THE EUROPEAN SOFT POWER AND A DRIVER OF TOURISM

**The European high-end and luxury products are praised and purchased worldwide.** The brands spread their core values – quality, excellence, craftsmanship, creativity, culture, and history – and their international aura contributes to the European soft power abroad.

The international reputation for excellence enjoyed by the European high-end and luxury industries attracts foreign investment and has a spillover effect into all European Union exporting industries.

Europe is the first touristic destination and it is a source for growth and employment. The high-end and luxury sector plays a key role in its attractiveness as many foreign tourists visit the European high streets where the brands flagship stores are concentrated in order to purchase high-end and luxury products as part of their travel experiences.

This contribution is beneficial to European economy as a whole through the triggering of many spillover effects (employment, sales, taxes, etc.). ■

**The current European retail system – a driver of high-end products shopping – is key to attract tourists in Europe.**

Gallery Vittorio Emanuele II, Milan, Italy



PHOTO PAUL BICA. FLICKR.COM/PHOTOS/DEXXUS  
CREATIVE COMMONS CC BY 2.0. CREATIVECOMMONS.ORG/LICENSES/BY/2.0/

### FRANK MARRENBACH

*General Manager, Brenners Park Hotel & Spa, Baden-Baden (Hospitality, Germany)*

“Urban Lifestyle in the countryside is the promise of picturesque Baden-Baden with its unique, complex and highly appealing surroundings evoking an aura that rarely escapes any visitor. Now very 21st century, the historic spa town on the edge of the Black Forest unfolds a striking ensemble of art and hospitality, culture and nature. To find a distinct place for contemplation and inspiration has never seemed more valuable as today.”

# AN INNOVATIVE BUSINESS MODEL

A MAJOR DIGITAL PLAYER SUCCESSFULLY  
COMBINING ONLINE AND OFFLINE  
CONTENTS AND COMMERCE

In line with the ambitions of the Digital Single Market, European high-end and luxury brands have created unique and innovative business models. They have taken full advantage of the opportunity of digital and have transformed and adapted their business models to the growing digitalised environment.

Relying on their singularity and demonstrating their agility, they have become major digital players and initiated many innovations for the ultimate benefit of the consumers.

## A SINGULARITY AS A BASIS FOR A SUCCESSFUL ECONOMIC MODEL

**Building on its specificities and unique characteristics** as a cultural and creative industry, the high-end and luxury sector has invented its own culture of the digital world. This singularity is based on the assumption that digitalisation is a profound cultural change and not a technological innovation *per se*.

It is the singular vision of each brand that makes its business model a success. Each company develops its own complementary strategy on- and offline to maximize the customer's experience of the brand's universe. The distribution channel is a constituent part of this singularity.

Mastery of distribution is key to the coherence of this strategy and its individual consumer appeal. ■

2/3

To benefit the consumer and offer him the greatest liberty of choice, High-end companies require their distributors to supply a large variety of commodities. Often as much as two-thirds of products in a same product range are required to be available in the retail locations, whether on- or offline.

### FRÉDÉRIC MALLE

*Founder, Editions de Parfums Frédéric Malle (Luxury Perfumes, France)*

“Our perfume house has a very singular vision of fragrance creation. Our successful business model is based on the one of publishers: we give total freedom to perfumers and the perfumes are sold under their real names, without marketing operations. Our e-commerce website is part of our retail strategy to directly connect customers with our creations.”

### DR. OLIVER BLUME

*CEO, Porsche AG (Cars, Germany)*

“Many companies can build fast and beautiful cars. But few brands have the strength to inspire people like Porsche does. Porsche has always been different – in our products, in the way we do things and how we tick as a team. The best example is the two-seater roadster built by our company founder shortly after the war. Others would not have done this but Ferry Porsche wasn't deterred and was extremely successful with this idea. We perpetuate his inspiring example in our work to thus form the future of the sports car.”

### NERIO ALESSANDRI

*Chairman & CEO, Technogym (Fitness & Wellness, Italy)*

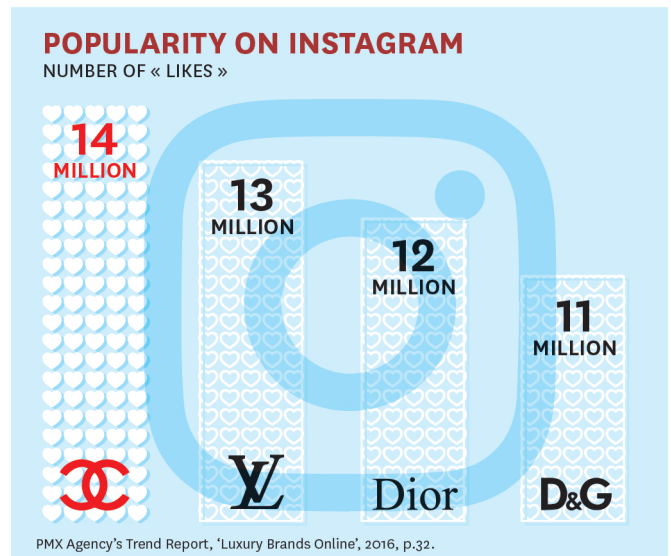
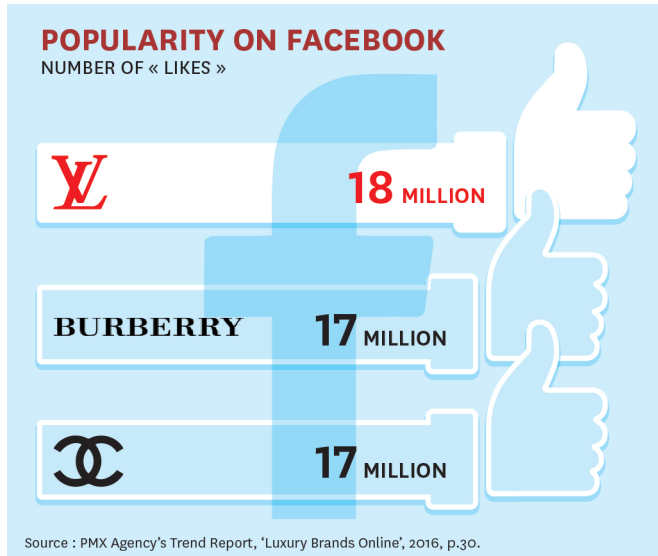
“At Technogym, over 20 years ago, in an industry dominated by the stereotype of fitness, we shaped the concept of “Wellness”, a profoundly Italian lifestyle with its roots deep in the ancient Roman saying of “Mens sana in corpore sano” and aiming at improving people's overall quality of life.

Defining a lifestyle means being able to integrate rational and emotional, that's why by keeping the human being at the center, we have created a unique business model integrating Health, Digital Technology, Design and a High-End brand.”

The prosperity of the high-end and luxury business model relies on the singularity of each brand. The brand's liberty of choice regarding its online image and the quality of its products distribution is key to its development.



**B** A MAJOR CONTRIBUTOR TO THE INTERNET AND SOCIAL NETWORKS WHOSE ONLINE CREATIVE CONTENT STRENGTHENS INTANGIBLE VALUE



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**In line with the objectives of the Digital Single market strategy**, high-end and luxury industries have become major digital players, applying their standards of excellence to an online environment to create exceptional services.

The sector has been a pioneer in using digital solutions, introducing digital communications as soon as the late 1990s and e-commerce websites in the early 2000s. Brands invested heavily in online digital experiences such as content-rich internet platforms, mobile applications, direct interactions with sales associates, bespoke website designs.

The quality of online high-end and luxury services has boosted consumers' confidence in e-commerce. The overall service of high-end e-commerce is noted by consumers for its commitment to creating a secure environment for the purchase of authentic products. Over the years, this has resulted in a steady growth of online sales.

High-end and luxury industries have also pioneered online creative content creation, becoming a major digital player in this area, notably on all social media platforms where users are able to discover the universe of the brands, helping fulfil their expectations. ■

**PIERRE HARDY**  
*Founder, Pierre Hardy (Luxury Shoemaker, France)*

“ Social media have the advantage to be easy to use and powerful tools to reach a large audience. Small high-end cultural and creative houses like us do not necessarily have the funding to sustain large traditional communication campaigns in the same way big corporations do, and social media have consequently become for us a powerful substitute to create a community of interest and a platform where we can promote our goods. ”

Being able to control brand image and reputation online is key to the success of the high-end and luxury sector's business model.

## C A CHAMPION OF OMNICHANNEL TO MAXIMIZE THE CUSTOMER'S EXPERIENCE

**Building on its creativity and the unique nature of its products**, the high-end sector has become a champion of omnichannel combining a strong physical retail presence (brands own-shops and/or a network of authorized resellers), with an online distribution network that meets the high-expectations of its customers.

Omnichannel delivers against consumers' desire for innovative products

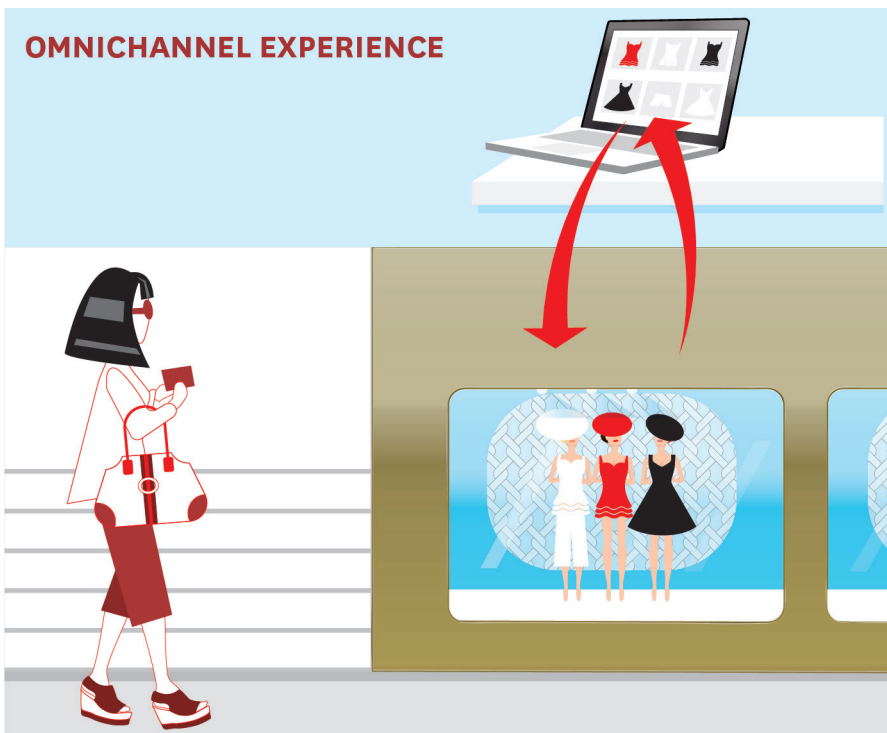
and their wish to immerse themselves in the universe of a brand. It also allows the complementary development of both online and offline commerce

Omnichannel benefits business: offline and online channels work together to create a mutually supportive effect resulting in increased sales.

This complementarity stems from the coherence of the distribution channels of high-end and luxury brands. ■

### BURBERRY AND DIGITAL INNOVATIONS

The definition between offline and online retail channels is blurring and luxury brands have revolutionised traditional retailing by the digitisation of their stores, but also entering e-commerce, via specialist apps and social media. Burberry reports that 70% of their sales made across their retail network are influenced by their digital channels. Using social media for e-commerce, Burberry recently sold select products exclusively on Chinese social media platform WeChat and utilised Pinterest's visual recognition technology to allow consumers to scan a product using their phone's camera to receive product information.



INFOGRAPHIC CLAIRE OLIVÉS © COMITÉ COLBERT

The prosperity of the high-end and luxury business model relies on the singularity of each brand. The brand's liberty of choice regarding its online image and the quality of its products distribution is key to its development.

# POLICY RECOMMENDATIONS

A COMPLEX ECOSYSTEM REQUIRING  
ROBUST POLICIES IF EUROPE'S  
LEADERSHIP IN THIS SECTOR IS TO BE  
PRESERVED

The regulatory environment is key to strengthening the global leadership of the European high-end and luxury sector.

To maximise the benefits of this dynamic sector for EU citizens, member states and other businesses, the sector needs the European institutions to ensure, much more than financial support, a coherent and robust regulatory environment which recognises the specificities of its business model.

## A SECTOR WHICH CHALLENGES CONVENTIONAL ECONOMIC MODELS

The high-end and luxury sector is a specialised industry; it challenges the conventional wisdoms of economic and business models applied to other industrial sectors. Indeed, it is characterised by counter-intuitive rationales, and it is these that allow the European high-end and luxury brands to be so globally successful in the 21st century.

Thanks to a subtle combination of tangible (high-quality products) and intangible (cultural heritage, powerful brands, storytelling) assets, the high-end sector has outperformed many other economic sectors in Europe. It has also surfed on the wave of an emerging wealthy middle-class in newly industrialised countries. This new class of wealthy consumer markets has been hungry for luxury goods, and European luxury houses have capitalised on this boom.

While tough competition from emerging countries has hit many businesses hard in high-wage countries, the exceptional performance of the high-end market shows how globalisation can be a plus for premium products that combine high prices with quality and tradition. The sector is selling a greater variety of products to a wider range of countries and to more distant destinations than other exporters, even in sectors which face stiff competition from low cost producers

(eg garments, leather, tableware, etc). Interestingly, neither distance from markets nor higher prices seem to limit the ability to sell these vertically differentiated products, offering the promise of favourable prospects as more and more emerging nations integrate into the global economy.

Product – and sales service – differentiation is the basis of creating added value in sectors otherwise characterised as disadvantaged in high-waged countries. This differentiation also has a dynamic dimension; the sector not only combines leading word-class groups with numerous SMEs with a strong local attachment, it also offers a competitive environment where incumbents are constantly challenged by newcomers. Such intense competition drives ingenuity so that new brands and concepts emerge, and offer new modes of differentiation, whilst the competitive environment creates a constant pressure on existing brands to ensure they deliver ever increasing levels of excellence.

Such extreme degree of sophistication is unique yet fragile. Different challenges are faced on the three key segments of the value chain: creation, production and distribution:

- Creation is expensive and financed by producers' margins. It is the condition of steady leadership in a sector where

ideas, styles, fashion are ingredients of success. Hence the profitability of the sector is instrumental to the sustainability of its original business model.

- On the production side, skills are very specific, localised and could well simply disappear. The high-end and luxury sector currently capitalises on a workforce that handcrafts its goods, more than 200 years after the mechanical and industrial revolutions. This exceptionally gifted workforce located in Europe has to be maintained. To do so, the sector must offer attractive opportunities to workers as well as engage in costly training programmes.

- As for distribution, the threat of massive sales of counterfeit products devaluing the sectors' intangible assets is not new, but is amplified by online sales. Beyond the obvious issue of intellectual property protection, the original model of omnichannel distribution – online services and presence in high streets – has been shown to be successful, unlike most sectors where online sales substitute for offline sales. Attempts to challenge the exception granted to selective distribution would put this model at risk.

To preserve this unique sector, and maximise its success, European institutions need to ensure an adequate regulatory environment. ■

## **A** INTELLECTUAL PROPERTY RIGHTS

**Intellectual property rights play a vital role for the high-end and luxury industries** whose businesses rely directly on the value-add of their innovations and on the tangible and intangible values of their products and services.

Counterfeiting is in constant geographical expansion and its scope is now comparable to the strongest European industrial sectors. The high-end and luxury industries are among the most affected sectors with watches, eyeglasses, leather accessories, handbags, perfumery and cosmetics being the most counterfeited goods.

Besides which, the development of the internet has led to new practices with counterfeit products increasingly available online thus contributing to the exponential growth of the phenomenon and amplifying its harmful impacts on European consumers, businesses and Member States.

A strong and efficient legal framework both offline and online is key to both ensure EU citizens security and to preserve the growth and investments capacities of European businesses relying on intellectual property rights.

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### **POLICY RECOMMENDATIONS**

#### **Strengthening the enforcement of intellectual property rights in EU legal framework**

Fake goods are mostly produced outside of the EU but EU brands and EU citizens

are the main targets of counterfeiters. Therefore, European institutions have a strong role to play to strengthen the legal enforcement framework both within the Single Market and internationally.

Inside the EU, the legal framework should:

- include tougher sanctions against counterfeiters;
- improve the damages and compensations awarded to right-holders;
- take concrete actions to improve the training of judges and create specialised courts.

The context of bilateral and multi-lateral negotiations on free trade agreements is a good opportunity for EU institutions to set high standards with third countries. The intellectual property rights chapter in trade negotiations must be considered as a priority.

#### **Calling for an active involvement of the intermediaries in the fight against online counterfeiting**

In order to restore consumers trust, undermined by the growing availability of fake products online, and to increase legal certainty for European companies engaging in the digital environment, the responsibilities in the fight against online counterfeiting should be rebalanced among all the stakeholders in the value chain.

To fight against this phenomenon and in the interests of the consumers, the high-end and luxury industries are one of the most involved sectors, through long

term collaborations with the customs and the political authorities, and through extensive communication campaigns raising public awareness.

The intermediaries, which often enjoy a privileged position in the value chain, should therefore take an active part in addressing this issue and should join forces with others against illicit goods. This essential co-operation is currently rejected by a number of intermediaries. That is why right holders have been advocating in favour of the introduction of a specific obligation for all actors along the value chain to take appropriate and proportionate proactive measures in order to protect consumers and intellectual property right holders against the promotion, marketing and distribution of counterfeit products.

In practice, the introduction of such an obligation would not affect the limited liability regime applying to – under specific conditions – intermediary service providers: it merely requires their cooperation in the fight against counterfeiting through an obligation of means. In other words, they would not be held liable for the presence of counterfeits in their ecosystem, if they can show that they are taking proactive, appropriate and proportionate measures to stop the growth of counterfeit products from being shown, sold and delivered to consumers. It would be left to the decision of the courts (if needed) to determine whether appropriate and proportionate proactive measures have been taken. ■

## **B** E-COMMERCE AND SELECTIVE DISTRIBUTION

**To participate in the Digital Single Market development, high-end and luxury companies have created exceptional omnichannel services** and strongly invest in digital experiences to meet the high-expectations of consumers in line with the universe of their brands.

These exceptional services would be at risk should a high-end or luxury brand lose control of its distribution strategy. For example, if one of the distribution channels was not consistent with the quality standards of the brand, this could potentially entail an irreversible loss of brand image and of reputation-brand image and reputation being some of the most valuable intangible assets of these brands.

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### **POLICY RECOMMENDATIONS**

#### **Safeguarding the brands liberty of choice regarding their online image and distribution**

In Europe, the ability for high-end and luxury industries to master their distribution channels is guaranteed by the selective distribution principle in the context of the Vertical Block Exemption Regulation 330/2010.

The recent report by DG Competition following an e-commerce sector inquiry has shown the steady progress of e-commerce in a fair and competitive environment and the validity of the selective distribution principle when it is used appropriately - which is the case for high-end and luxury industries.

This demonstrates the effectiveness of the current rules which allow the entire European high-end ecosystem to thrive for the benefit of EU consumers.

European institutions should ensure the development of this efficient system which leaves to the brands – among which many SMEs – their liberty of choice regarding the way they wish to be present on the Internet and their ability to control their online image and the quality of their products distribution. ■

### MARKET ACCESS

**The export of the high-end and luxury industries positively contributes to the EU current economic situation** and the sector is a strong asset for Europe in a difficult international trade context.

Thanks to their unique specificities, the high-end and luxury industries have been able to set up successful export policies and a strategic market positioning. However, the gradual increase of tariff and non-tariff barriers could severely harm the export of the high-end and luxury industries – in a context in which luxury products are often the subject of specific taxation from third countries.

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#### **POLICY RECOMMENDATIONS**

##### **Taking into account the specificities of the sector when negotiating with third countries**

The EU is strongly committed to the development of a fair market access with third countries through the implementation of global, bilateral and multilateral agreements, notably through free trade agreements.

In this regard, negotiations with third countries should focus on the following particular points:

- the reduction of tariff duties, the high-end and luxury products being often subject to specific taxation in third countries;
- the reduction of unfair trade practices. Standards are important to protect consumers safety and guarantee their satisfaction. However new standards should not be deliberately implemented in order to create market distortions. In this context, the EU should focus on WTO-compatible tools in order to tackle unfair trade practices and notably non-tariff barriers – now in increasing numbers in specific third countries regulations – which significantly impede access to many foreign markets;
- the introduction of a strong intellectual property rights chapter in order to protect the European consumers against counterfeit products and to foster international excellence standards in this regard. ■

## D SAVOIR-FAIRE AND SKILLS

**High-end and luxury industries rely on highly skilled workforce** based on European traditional savoir-faire. Currently, even in a context of rising unemployment in Europe, high-end and luxury businesses often have difficulties in recruiting talented and qualified staff, especially in their workshops, leading to concerns regarding the preservation and transmission of know-how.

It is essential to address the gap between sector needs and the availability of highly-skilled workforce at EU level. In this regard, actions should be implemented to:

- secure the preservation of traditional European savoir-faire;
- raise the value of vocational training and highly-skilled workforce to attract and create talents;
- raise awareness about career opportunities in manufacturing jobs through awareness campaigns and policies promoting the transmission of knowledge.

### POLICY RECOMMENDATIONS

#### Creating a European title of “Master of Art”

Inspired by the Japanese concept of “living national treasure”, France created in 1994 the title of “Maître d’art”, which rewards craftsmen who detain a specific and rare know-how and who have contributed to the development of their craft through the development of innovative techniques.

Once obtained, the title of “Maître d’art” is valid for life. It engages its holder in the transmission of its craft. In order to

do so, he gets the opportunity to choose an apprentice and receives funding to ensure the transmission of its craft (through a three-year training process).

The creation of a title of “European Master of Art” would have several benefits. First of all, it would strengthen the links between the different existing clusters of craftsmanship that exist in Europe. In addition, it would contribute to raise the value of European craftsmen by awarding them recognition at EU level. Finally, and most obviously, it would help preventing the disappearance of certain traditional, precious, and rare know-how, which lie at the heart of Europe’s cultural heritage.

#### Creating a European network of Design/Applied Arts/Fashion schools working with the high-end and luxury sector

This network would function as an exchange platform in order to disseminate best practices of collaboration between the education sector and the industry. Such collaboration is truly crucial in order to align the teaching of skills with the true needs of the industry in terms of professional qualifications. ■

## E TOURISM

**In an international competition context**, Europe has to build on its successes and promote its assets to remain the first destination in the world.

### POLICY RECOMMENDATIONS

All the factors that can strengthen Europe’s leading position as the first worldwide touristic destination can be tackled by EU institutions and by EU member states, as tourism is a supporting competence of the EU.

#### Facilitating the arrival and circulation of tourists in the EU

The quality of the touristic industry and the quality of transport infrastructures (notably airports) need to be continuously improved for Europe to stay at the highest levels of international travel standards.

Coherent touristic policies (i.e.: regarding visas deliveries), extensive work with international organizations in order to address concerns over tourist safety, and improvement of touristic infrastructures are some of the measures that need to be implemented to drive tourism.

#### Promoting the attractiveness of high-streets in European cities

The importance of shopping of high-end products by extra-regional tourists as part of their travel experience in Europe has also been highlighted. It is therefore crucial to preserve a distribution system which allows for the development of high-end shops in high streets in Europe in order to continue to attract tourists. ■



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Graphic Design  
Sophie Laurent-Lefèvre

# European Cultural and Creative Industries Alliance

[www.eccia.eu](http://www.eccia.eu)