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Chinese Seen Boosting Spending On Luxury, but Challenges Grow

● BNP forecasts Chinese buyers will increase consumption on luxury goods 30 percent compared to the first half of 2016 while American shoppers are seen spending 23 percent more.

BY GORDON SORLINI

Chinese both at home and abroad are seen boosting their spending at sites like Hong Kong's Time Square mall.

MILAN – Luxury goods makers beware: your industry is changing faster than you think, from a massive shift in favor of casualwear (to the detriment, obviously, of formal wear) to increasing demand for customization and the need to soothe angry consumers who feel that the price increases of the past few years have gone a little too far.

These were some of the observations shared during Altagamma's Consumer and Retail Insight 2017 held here. Introducing the fourth annual "True Luxury Global Consumer Insight" – carried out with BCG – Altagamma vice president Armando Branchini set the pace with some key figures: in 2016 there were some 415 million luxury goods consumers in the world who spent a total of 860 billion euros, or $920.2 billion at current exchange. By 2023 luxury consumers are expected to total some 490 million and account for some 1.185 trillion euros, or $1.27 trillion, in sales.

More figures followed during a presentation titled Retail Evolution 2017 by Luca Solca, managing director global luxury goods at Exane BNP Paribas. "After one of the hardest years ever, the industry's stars are aligning. We are seeing almost all nationalities spending more – starting from the Chinese, who remain luxury goods' most important buyers, followed by Americans, Europeans and Russians," Solca said.

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But every silver lining has its dark cloud: protectionism (in the form of possible Trump administration actions on China and border adjustment taxes) and a breakup of the euro, should populists prevail – or make big headway – in national elections in France and Germany, are serious risks that could affect the industry. But even here, not everything is as obvious as it seems: a euro breakup, Solca said, could be good for luxury goods makers because most of the industry is in countries whose eventual post-euro currencies would likely benefit from more competitive exchange rates.

Solca also addressed retail, pointing out that while stores remain key in engaging with buyers, brands have to make their spaces unique. By way of example, Solca cited a recent effort by Moët-Hennessey called "secret apartment," a luxury apartment in a posh Paris residential neighborhood with a couple of salons and a modern wine cellar. Select customers are invited here to buy liquors and Champagnes that are not available in the traditional retail network. Over the first six months of this experiment, the average "secret apartment" ticket has been some 75,000 euros, or $80,250, generating a rapid payback on the investment and a "very high" return on invested capital, Solca said.

Enhancing digital operations is crucial. And Solca said BNP expects all brands to adopt digital "as a priority," with a focus on integrating physical and digital retail. After all, consumers who buy both in store and online spend on average 45 percent more with a brand than consumers who spend only in store, according to Exane.

Federico Bonelli, BCG principal, and Nicola Pianon, senior partner and managing director, then discussed findings in the "True Luxury Global Consumer Insight." In this year's edition, the researchers moved higher up along the luxury goods consumer food chain: the research target was consumers who on average spend some 36,000 euros, or $38,520 a person a year on "personal luxury" (handbags, shoes, etc.) and "experiential luxury" (hotels, wine and exclusive vacations). Compared to previous years' samples – which included consumers who spent an average 21,000 euros, or $22,470, on luxury – this year's sample represents some 17 million people from 10 countries who spent some 250 billion euros, or $267.5 billion at current exchange in 2016 – in other words, the top 4 percent of consumers who account for 30 percent of global luxury sales.

According to the research, "true luxury" consumers are seen increasing their spend an average of 6 to 7 percent a year over the 2016 to 2023 period, with consumption of "experiential" luxury growing a bit faster – at 7 to 8 percent a year – than "personal" luxury, seen expanding by 4 to 5 percent a year over the period. This performance beats that of more lowly "aspirational luxury" consumers, whose purchases are seen growing an average 4 percent a year over the same period.

Another first of this year's study, Bonelli explained, is that it measured a consumer's "appetite" (willingness to buy) for different categories of luxury goods. Here there is heartening and disheartening news for high-end brands: "Shoes remain the champion category," Bonelli said, "followed by perfumes and cosmetics" while appetite has decreased significantly for apparel, small leather goods and silk products. This is especially true among Millennials, the most sought-after market (or so it seems) for luxury producers.

"Shoes, perfumes and cosmetics are fundamental in bringing Millennials into a brand," Bonelli explained, because they offer a more accessible (not to be confused with "cheap") price point for entering into a luxury brand.

The good news? Some 83 percent of "true luxury" goods consumers are inclined to spend more this year than they did last year, said Nicola Pianon, while 17 percent say they will spend less.

But brands must beware, for these latter consumers – although perhaps not numerically threatening – have some serious gripes. They are not spending less because they can't; they are spending less on luxury brands because they feel cheated by constant price increases which render products too expensive when compared with their perceived worth. And how do these consumers – half of whom are American and Millennials – react? About 50 percent stop buying from the brand altogether or look for other, cheaper channels to buy the product they want. Another 40 percent of these super-rich consumers trade down.

"This [behavior] is massive in the U.S., where 80 percent of true luxury consumers do this," Pianon said. Of the 40 percent who trade down, Pianon said some 60 percent go to premium brands while some 40 percent go "two steps lower," to fast-fashion brands.

Another emerging trend is the reversal in travel retail's fortunes. Recently considered one of the main drivers of luxury goods sales, it appears that true luxury consumers have begun to buy more at home again. This is especially true among Chinese. There have been shifts in top shopping destinations, too, with London moving up the ladder – thanks also to the "cheaper" post-Brexit referendum pound – and Paris, still suffering from the terrorist attacks of last year, moving down a bit.

But brands shouldn't write off travel retail's prospects yet: in a brief panel discussion following the presentations, former Ferragamo chief executive officer Michele Norsa – who is now a strategic adviser to the Florence-based brand and to other luxury labels – said that he remains convinced of the value of travelers, whose spending grows some 6 to 7 percent a year. "I think that travelers and stores that cater to them remain the main drivers, even in terms of price."

In a final remark – which received a large round of applause – Norsa addressed another key issue for luxury goods makers in Italy: size. By not undertaking a serious effort to merge and grow, Norsa said that those companies that have the potential to become catalysts are making a big mistake: "Not taking this step over the next three to five years could greatly weaken the extraordinary creative and productive capability of 'Made in Italy' which – as we have seen – is still very attractive," he said.

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