Wealth and Luxury Trends 2014 and Beyond

A New Model to Increase Profitability

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Wealth and Luxury Trends 2014 and Beyond: A New Model to Increase Profitability: The luxury industry is closing out the final quarter of 2013 and preparing for another year of uncertainty ahead in 2014. Hyper-growth in the emerging markets since 2009 is showing signs of softening, while the year-over-year increases in U.S. sales are picking up steam. Europe, too, is on the upswing.

Looking ahead, brands are concentrating on existing stores, price increases, cost reductions, and emphasizing higher-profit products. Another area of focus enabling many of these initiatives is improving customer conversion and retention efforts.

Providing luxury goods and services to wealthy customers will remain a growth industry. Market share is the name of the game and competition is getting fierce in a slower-growth environment.

We work with dozens of top-tier global luxury brands each year. Based on recent experiences in New York, Milan, Paris, and London, here are seven trends that smart luxury brands need to address in 2014:

Trend 1: U.S. Brands Ditch CRM Vendors Who Fail To Deliver Measurable Results
The honeymoon is over. After investing heavily in CRM systems and consultants, leading brands are now beginning to divorce their initial CRM vendors. Many top-tier luxury brands, particularly those based in the U.S., are terminating their current CRM contracts or confidentially seeking alternatives. They feel shortchanged by empty CRM promises at the database and analytics levels. They are also disappointed with CRM consultants unable to execute simple reporting requirements to support marketing and front line teams on a timely, error-free basis. As CRM vendors continuously fail to deliver, look for the Europeans to stage their own revolts from underperforming analysts and systems.

Trend 2: Mystery Shopping Is No Way To Boost The Bottom Line
Luxury executives, mostly out of habit, have opted for mystery shopping as the preferred method for measuring sales team behaviors. It’s dawning on many brand leaders today that they are often getting reports that are clearly massaged by the vendors and/or the mystery shoppers, very much like fake online ratings and reviews. These are not real shoppers, nor are they even economically qualified to be luxury shoppers. Combine this with the fact that the number of data points does not equal a statistical sample, and you get a sense of the spurious conclusions that can be drawn from mystery shopping. The concept adds up to wasted resources and falls far short of the goal. Look for the leading edge brands to abandon mystery shopping as a relic of the last century that took years to wear thin. Customer experience surveys and customer metrics can take the mystery out of mystery shopping and be a better use of resources.

Trend 3: Attribution Model Retribution
Brands are eager to pinpoint which marketing and sales channels are most effective so they can invest accordingly. It’s not an easy task, so data scientists have come up with a concept called attribution modeling.

Attribution modeling attempts to determine which communication channels get credit when a prospect uses...
several of them before converting into a buyer. Data scientists analyze data and try to trace the customer purchase journey across touch points. They then weight the channel results using their own judgment to come up with an answer.

There are several challenges involved, including how to account for unknown offline influences, multiple device usage, and various digital touch points that may be a combination of social, display, video, referral, email and search. The inaccuracies are almost insurmountable. The process is biased from the start due to the fact that the most readily available data comes from online sources.

Predictably, the brand channel owner fighting hardest to get the credit also influences results. Today, data scientists build expensive attribution models that are very precise but highly flawed. Look for senior brand executives to demand full accountability from their teams and stop wasting money on inaccurate models that drive ineffective spending in 2014.

**Trend 4: Not Big Data, Relevant Data**
The Big Data hype became huge in 2013. Since most senior executives are new to data and analytics, they must act duly impressed by the promise of Big Data, or they will be accused of being out of touch.

The reality is that most collected customer data is simply exhaust and not relevant in making predictions about future spending behavior. The 20% of the data that gives us 80% of the predictability models gives us what we term “lift”, or a higher probability. This higher probability that a customer will buy an item is simply that, increased probability, not certainty. Timing is everything and even a good predictive model of what a customer might buy next may send the offer at the wrong time. Demand that your analysts prove to you which massive data they collect and analyze is relevant and why. Ensure that the data scientists verify the conversion "lift" of their models. Make sure that Big Data has a big return on investment. Sometimes just skip the propensity models and build strong customer relationships by simply contacting clients and asking how you can best serve them.

**Trend 5: Online Personal Shoppers**
Finally there is innovation in delivering a customer-worthy online buying experience, and it looks a lot like the offline experience. The human being is en vogue again. Online-only and multi-channel retailers are developing personal shopper teams aimed at supporting their most valuable customers (top 20%) who may require a guided or curated experience with a trusted expert. Masses of affluent tourists are a preferred segment since many can be retained online after the initial store purchase.

Brands are incentivizing their specially selected and trained personal shoppers to use digital channels to develop deep customer relationships based on expertise, trustworthiness and generosity. It is not cheap, but the low conversion and high attrition rates among key customers and wealthy tourists require innovation that yields high returns, even if it is boring, low-tech humanity.

**Trend 6: Luxury Outlet Saturation**
Recessions have a way of inspiring luxury brands to explore new opportunities for development. Luxury outlets are a growth engine right now. Many luxury retailers are reaching the point where discount outlets may soon outnumber their full-price stores. Right now, this strategy
Trend 7: Customer Culture is the New Profit Model

Like CRM, Customer Culture is a holy grail everyone discusses with passion, and can even cite the great culture-driven brands such as Zappos, Nordstrom and The Ritz-Carlton. Although most brands know their stores and websites are more like vending machines than relationship building centers, embracing Customer Culture is scary for many. Some will simply pretend they are customer-centric, while others do piecemeal work in an effort to create a client-focused environment.

Results from a 2013 Deloitte survey on culture and values show that companies with a purpose beyond selling widgets have much higher rates of profitability as well as customer and employee satisfaction. Luxury Institute’s own case studies reveal that data collection rates can triple and retention can double, especially for the top 20% of customers who drive 70% of sales. One automotive client recently won an award for CRM activities such as a 400%+ increase in lead follow-up.

Brand leaders finally understand that technology, big data, and analytics are rendered useless without empowered and inspired human beings that engage the customer daily. We predict an increased focus on Customer Culture in 2014 as brand executives are forced by fierce competition and slower growth to innovate.

Dramatic progress can be seen when brands think beyond products and channels and focus on customer relationship building. Even Apple has recognized the potential of further engaging the customer, bringing Burberry CEO, Angela Ahrendts, on board in a new role to oversee both retail and online stores. Customer Culture is the new profit driver in a commoditized and fiercely competitive luxury world. Only the enlightened will thrive.

Learn More: To hear Luxury Institute CEO, Milton Pedraza, speak more about the importance of relationship building with top clients, watch excerpts from "Bold Customer Culture: The New Profit Model" presented at the 2013 Luxury Interactive conference.
Luxury Institute utilizes industry expertise and affluent consumer knowledge to deliver customized solutions.

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