

The luxury opportunity

The evolving UK luxury consumer –
and how luxury brands can respond

Having navigated significant volatility over the past decade, luxury brands have an exceptional opportunity to continue to capture growth over the next.

In order to do so, they must truly understand their consumers – and recognise how they are changing. They are evolving in terms of their purchasing behaviours, the drivers of their decisions, and the way in which they want to be engaged with – most notably in digital channels.

In the ultra-competitive world of luxury goods, deeper insight on your consumers is an essential component to creating value, and protecting the brand heritage.

Executive summary

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Decision drivers

Impulse is still the dominant driver of luxury purchasing decisions. But behind this are additional drivers around trend, routine, and the change in circumstance of the high-earning consumer

- ⊕ Build excellence in customer insight and service
- ⊕ Challenge your existing consumer segmentation assumptions

Channels

The inevitable flow of the digital tide continues, and the real risk for luxury brands is that they are left behind if they cannot find the right place for e-commerce in their business strategy

- ⊕ Make the virtual window as luxurious as the physical window
- ⊕ Find mechanisms to make omni-channel value accretive and brand protective

Digital & Social

As the high-earning consumer continues to be digitally engaged, and the cohort of millennial luxury consumer grows, the use of digital marketing is an essential tool in the luxury brand armoury

- ⊕ Develop and innovate the 'digital frame' to deliver true value in the experience
- ⊕ Ensure alignment between brand and social strategy

Gifting

Buying for others is an essential component of the luxury consumer's share-of-wallet. Gifting offers luxury brands new entry-point opportunities and greater sales potential

- ⊕ Make the gifting strategy year-round – not just seasonal
- ⊕ Aim to develop one-to-one gift marketing to specific customers

The evolving UK luxury consumer – and how luxury brands can respond

The luxury opportunity

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Decision drivers

How luxury consumers make their purchasing decisions

Impulse is still the dominant driver of luxury purchasing decisions. But behind this are additional drivers around trend, routine, the change in circumstance of the high-earning consumer, and (whisper it...) the offer.

What it means for luxury brands

- Understand what you know, and recognise what you don't know, about the preferences of your evolving customer base – and serve them as uniquely as possible
- Invest in the capabilities and technology that will enable you to use data to improve your performance in specific areas (e.g. conversion, loyalty, desire)

Knowing what drives your customers' purchasing decisions can be a key source of competitive advantage for luxury brands. Leveraging the available, and often untapped, pool of data on your customers' behaviours, habits and decisions drivers can ensure that you know what your customers want, when they want it and how they want to experience it.

The challenge for luxury retailers is subtly different from fast-fashion and mass market consumer business – to drive future sales, while remaining unobtrusive, discrete and scarce. An example would be the increasing preference (and expectation) within the luxury consumer's brand engagement for sustainable business practices (e.g. Kering, L'Oreal, Stella McCartney).

Coupling the existing customer and consumer insights with additional, behavioural information on how the luxury consumers are evolving can help luxury brands build deeper understanding, and enable more tailored marketing – and ultimately improve longer-term value creation.

In luxury consumption, millennials are three times more likely to be driven by trend than older consumers.

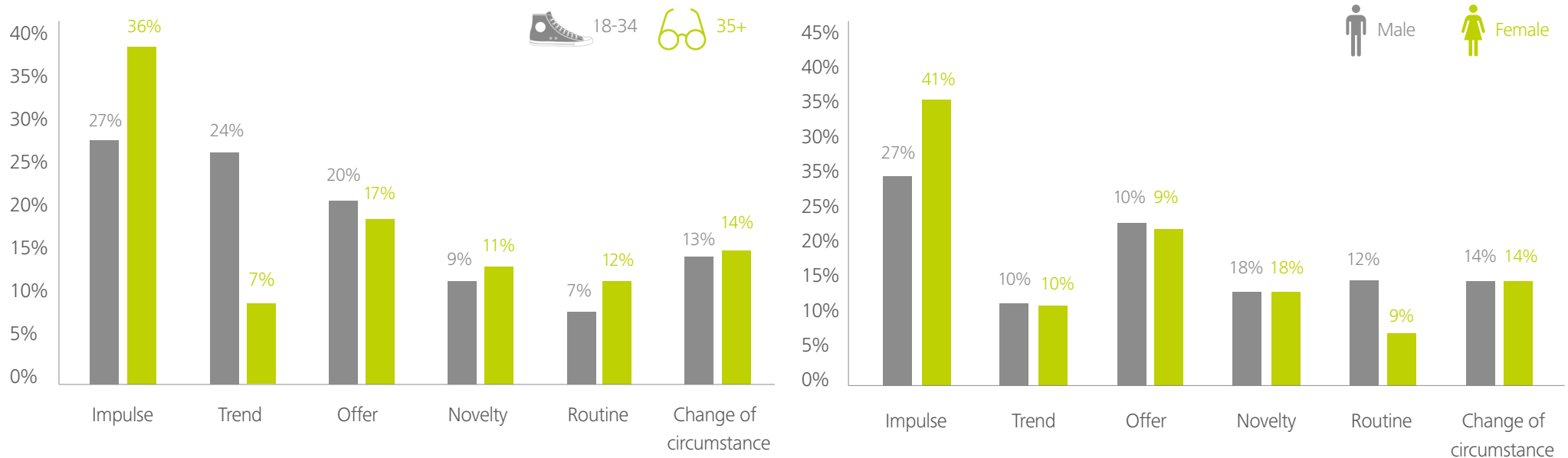


Decision drivers

Main reason for purchasing

The UK luxury consumer has a strong impulsive purchasing driver – more pronounced for female consumers, and for older generations. The millennials are markedly more trend driven and less defined by routine

What is the main reason luxury consumers purchase new items? (UK luxury consumers, cross category)



Bespoke markets

How luxury consumers differ across markets

The shopping habits of high-earning consumers differ notably across the major European markets, reflecting the need for luxury brands to position accordingly in different geographies.

It has long been appreciated that luxury consumers are not a homogenous group – they operate differently across cultures, regions and demographics. However, as the luxury consumer continues to become more international, and global travel numbers increase, developing an appreciation of how markets and consumers differ by region is vital.

The increasingly varied cultural and national desires and buying preferences within ‘home markets’ – driven by the international consumer – means it is increasingly challenging to target marketing, trends, and triggers at the optimal time, or ensure the brand is ‘front of mind’ the next time a prospective consumer goes on an impulsive luxury shopping spree.

For UK-market executives, part of this will involve building a richer understanding of the local, domestic market – as it evolves. But an equally important part is to learn from other markets: what is working (or not working) in those markets and why, so that the learnings can be applied to the international consumer in the ‘home market’.

What it means for luxury brands

- For international brands with UK operations, the UK leadership team should aim to understand what incremental insight and action could help the market outperform other developed markets
- In the UK, and London in particular, the luxury tourist is a fast growing one – and having clear strategy to capture the share-of-wallet will be essential



The **UK consumer** is the least likely to shop for new collections compared with the rest of Europe.

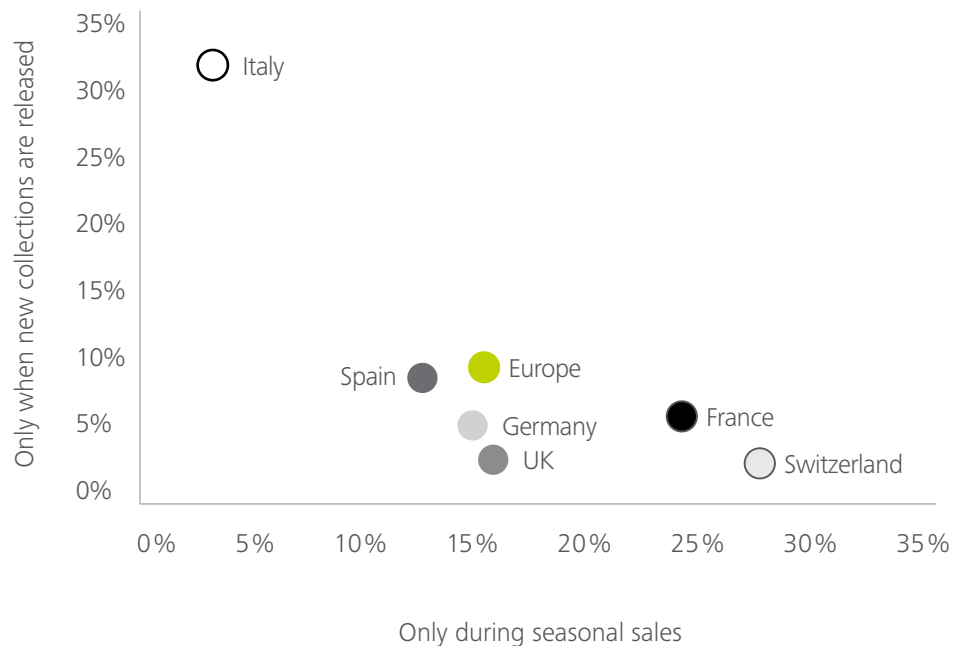
Bespoke markets

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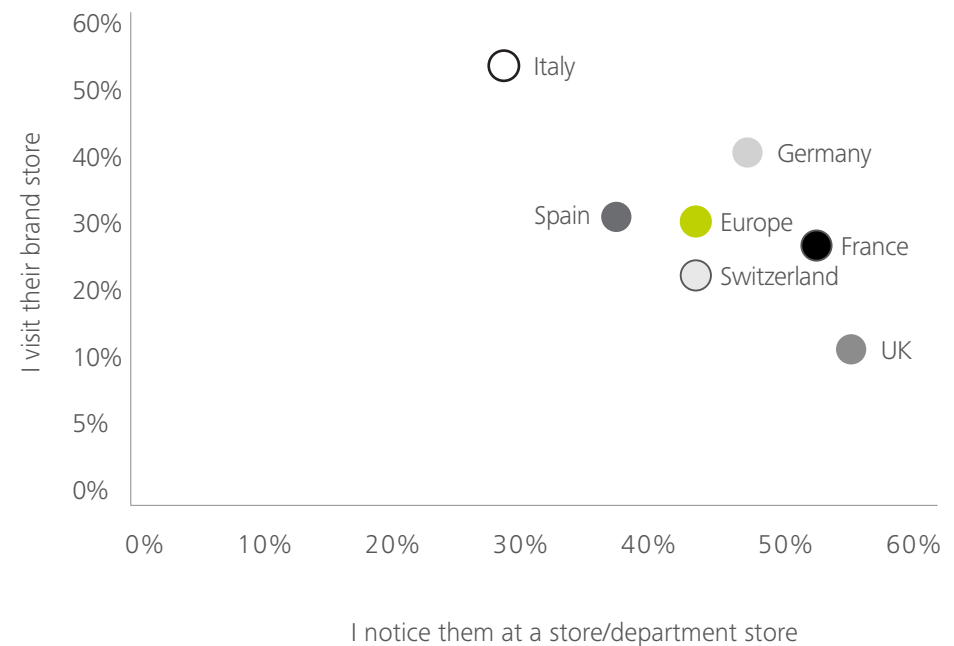
Retail market structures help to shape awareness and purchasing

The UK luxury consumer is driven less by new collections compared to the European consumer – and new brand awareness (in non-digital channels) is more likely to come from department store presence than mono-brand stores

When do luxury consumers buy luxury/premium products (for themselves)?



Where do luxury consumers tend to discover new brands?



Brand awareness

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How luxury consumers are shifting 'awareness channels' and embracing digital

As the high-earning consumer continues to be digitally engaged, and the cohort of millennial luxury consumer grows, the use of digital marketing is an essential tool in the luxury brand armoury.

🌀 What it means for luxury brands

- Luxury brands will need to carefully develop their 'digital frame' to ensure it offers the luxury consumer a truly valuable experience to create desire
- The opportunity to build a digital strategy which aligns with other components of the strategy (e.g. CRM, marketing strategy, etc.) is possibly the most essential step to get right

In the world of art and performance, it has long been realised that the value of the art is intrinsically linked to the context under which it is 'consumed'. For example, there is a rapid drop in the perceived value of a concert which is performed on the street versus a symphony hall. This concept has been described as 'art without a frame'.

The consumption experience around luxury retail has the same requirement for the frame. The frame helps create the value. They go hand in hand.

For luxury brands, the physical experience has always been the core of that frame (beautiful flagships, religious experiences). The ability to touch-and-feel the product, the relationship consumers have with staff, and in particular the knowledge and service that sales associates provide, are all part of that frame.

But as the frame itself becomes increasingly digital, luxury brands must consider what bold, innovative, and luxurious approaches can be adopted – e.g. Burberry, Gucci – balanced against protecting the core and the heritage of the brand.



Half of luxury consumers become aware of new brands when shopping around.

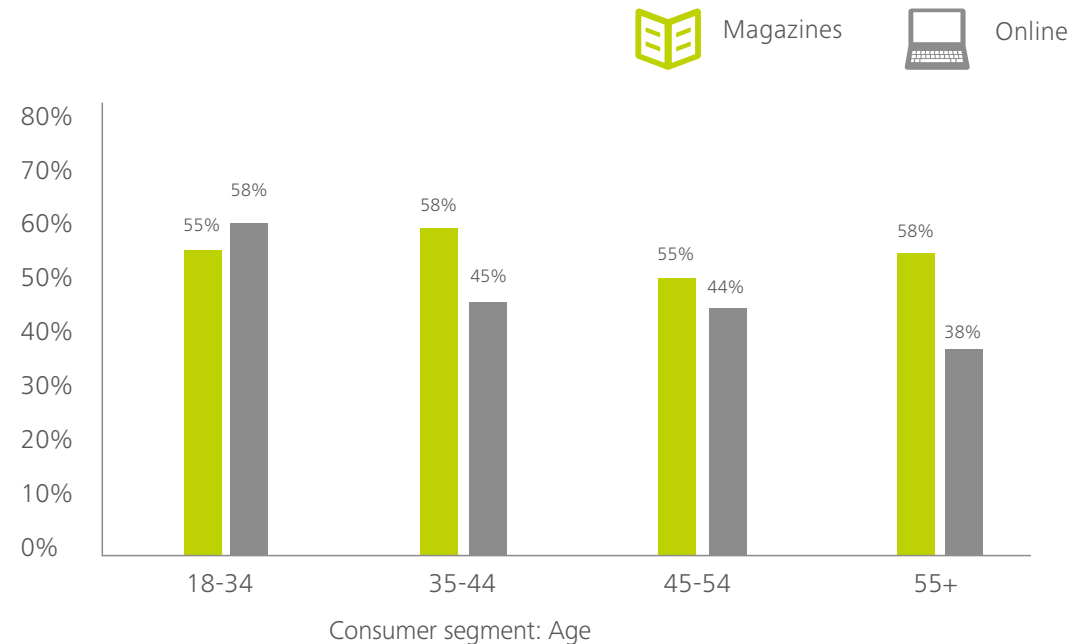
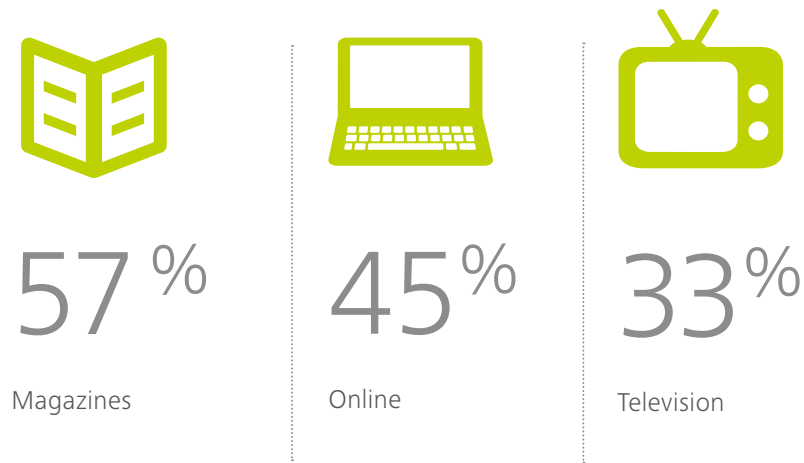
Brand awareness

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The adoption of digital is a generational shift

Among European luxury consumers, magazines remain the dominant channel for consumers to become aware of new brands – but for the millennials, online is edging ahead

Where do luxury consumers hear about new brands?



Omni-channel

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How purchasing channels are changing digital

The inevitable flow of the digital tide continues, and the real risk for luxury brands is that they are left behind if they cannot find the right place for e-commerce in their business strategy.

What it means for luxury brands

- The luxury consumer will direct more share-of-wallet to the e-commerce channel – finding mechanisms to make this value accretive (not cannibalising the core) is vital
- Treating e-commerce as a distinct business risks creating a wider divide, and making it harder to bridge – the consumer expects a connected and coherent experience, regardless of channel

In many ways, it is an unfair – but popular – criticism to suggest that luxury brands have been too slow to adapt to include e-commerce in their business. Whilst specific instances may indicate this, the need to protect brand heritage and to move with care and caution to ensure sustainable, long-term value creation, means this slower adoption has its basis.

However, it is absolutely clear that the consumer – the UK consumer in particular – is shifting their engagement and buying habits to online at a rapid pace (e.g. own brand websites, Net-a-Porter / Yoox, Farfetch). And so the time to respond is now.

An integrated omni-channel model can build wider brand reach, richer customer insight (from data) deepens, and – if executed well – can add supply chain efficiencies. If non-luxury markets are any guide, a joined-up channel approach will also drive more footfall in-store, higher conversion rates, bigger order values, and – crucially for luxury brands – improved brand loyalty¹. However, regardless of whether e-commerce is the right choice (and for many luxury brands it may not be), using the internet to sell the dream is certainly a requirement.

¹) Source: Deloitte: The Digital Influence in UK Retail

58%

of millennial luxury consumers
in the UK most often buy luxury
products through online channels.



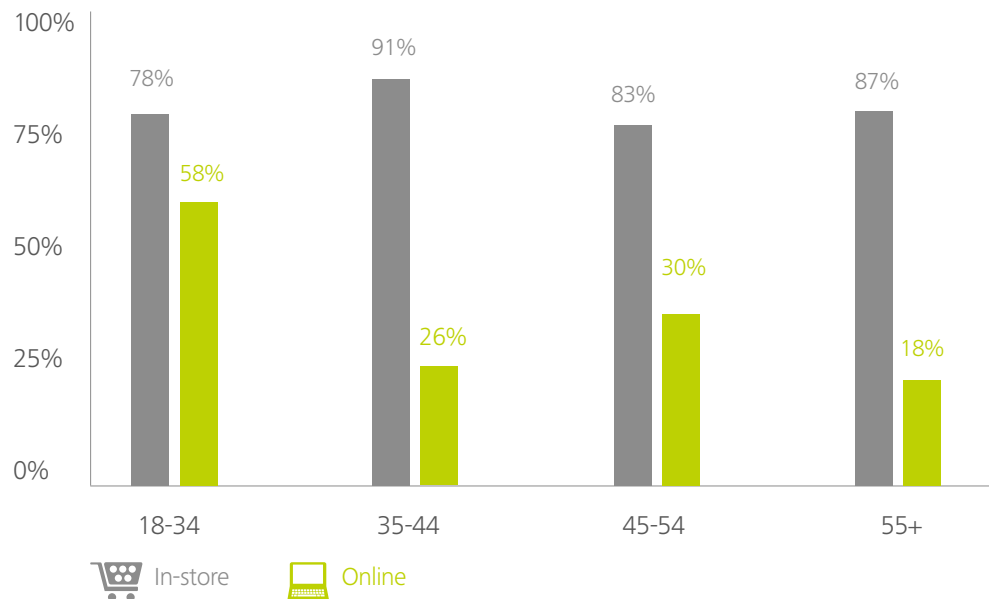
Omni-channel

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Millenials are driving the growth of luxury omni-channel

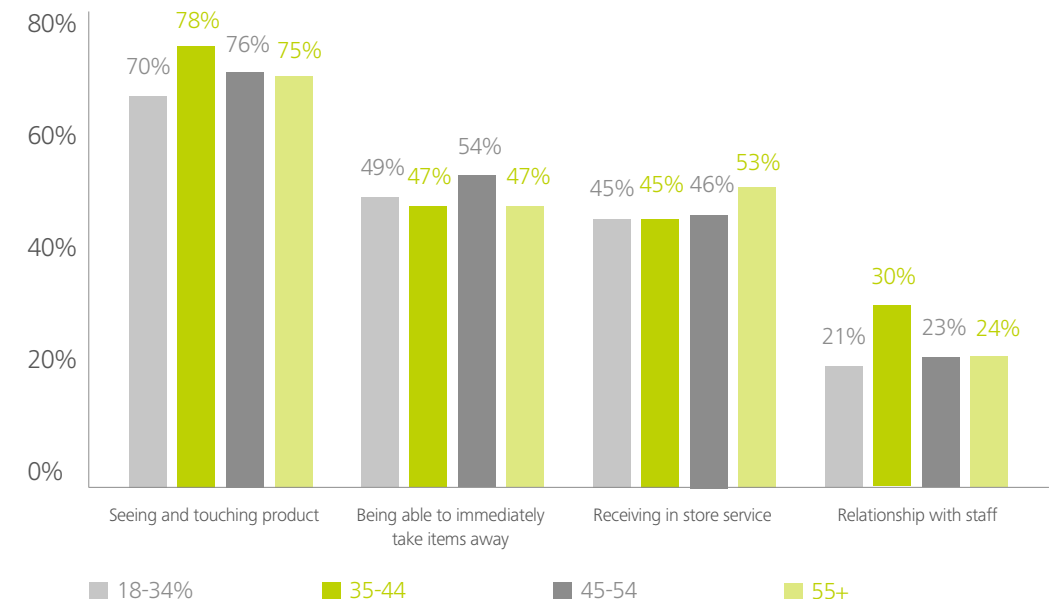
There is a clear generational shift occurring in luxury goods channel consumption – but the desire to see and touch products remains a key element of the purchasing 'value case'

Where do luxury consumers most often buy luxury products? (UK only)



In-store – summary of department stores, mono-brand stores and other physical (excluding airports)
 Online – summary of brand-own websites and online market-place channels
 (Customer segments can add to more than 100% as multiple options were available for answer)

What are the main benefits of buying luxury products in a store? (All Europe)



Social media

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How luxury consumers digitally engage with their luxury brands of choice

“When a brand uses social media, I like that brand more” – twice as many millennials believe this statement as non-millennials¹. This may seem trivial, but it’s not. It is often the start of their journey in a potential lifetime of loyalty.

What it means for luxury brands

- Social channels are opportunities for key future consumer groups to fall in love with luxury – and ways to provide luxury brands with immediacy and relevance
- Aligning the social strategy with the corporate and brand strategy will enable robust choices to be made on how to engage, when, and with what content, visuals, and messages

The days when providing outstanding in-store service was enough to secure your customers’ loyalty are gone. Luxury consumers want, and demand, more from their brands of choice. They want to know about the latest styles instantly, be engaged with the brand and have the option to purchase through multiple channels, while also retaining the bespoke in-store service that they have come to expect.

Social media has reshaped the way in which companies engage with their customers and the pace of change shows no sign of letting up any time soon – notably in the emerging generation of luxury consumers. For luxury brands, there is the added challenge of maintaining a constant focus and vigilance on protecting the brand equity, and managing the evolving risks.

But if they are used smartly, and with strategic and marketing alignment, the social channels can really offer a cost-effective mechanism to introduce beautiful, cost-effective, and innovative visions (e.g. Hermès “Tie Break” app) to continue to build the allure of the brand and the luxury lifestyle. And to build immersive, two-way dialogues with luxury consumers.

1) Source: Goldman Sachs Millennial Survey

85%

of luxury consumers use **social media** –
each using an average of three platforms.

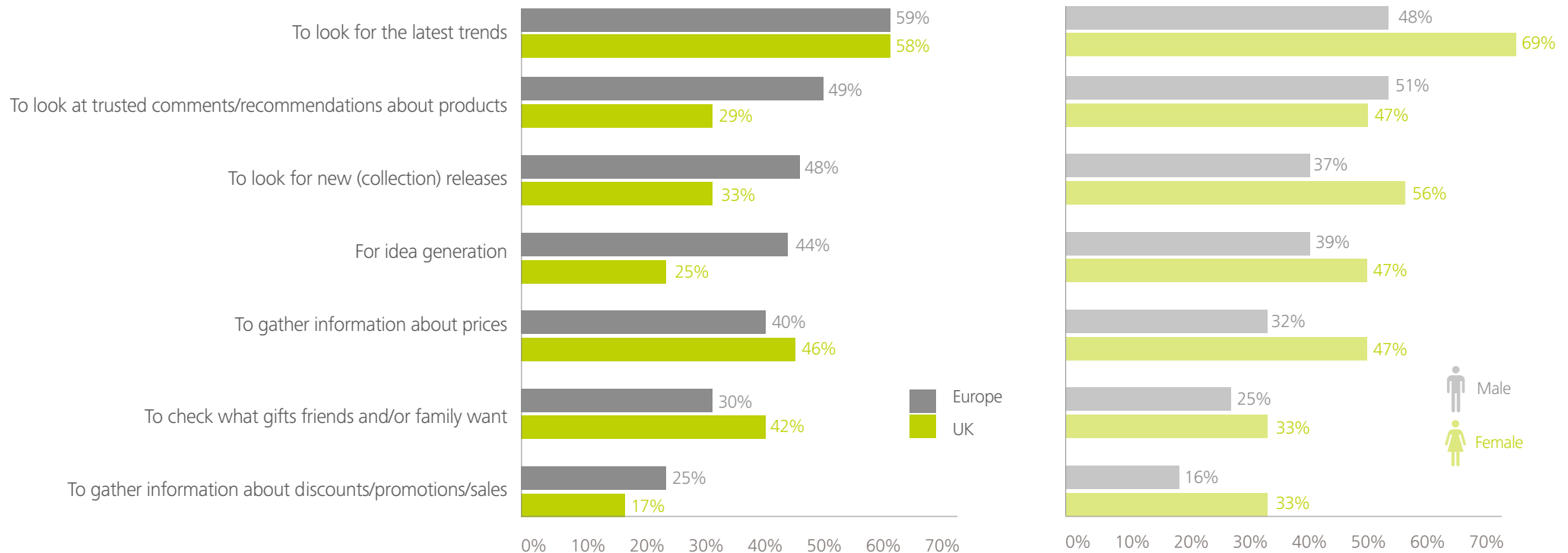
Social media

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Luxury consumers are socially engaged

Social media in luxury is predominantly used for ideas generation around trends and new collections – notably in the female consumer. In the UK, pricing information and gift ideas are two important uses of social media

What do you use social media for when browsing / gathering ideas?



Luxury gifting

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How luxury consumers interact with the intention of gifting

Buying for others is an ancient human trait – and an essential component of the luxury consumer's share-of-wallet. Gifting offers luxury brands new entry-point opportunities and greater sales potential.

Whether it is related to a festive holiday, a special event, or another gifting trigger, the opportunity for luxury brands to benefit from gifting requires careful consideration. There will be a different engagement required for a gift which will give the recipient their first entry point to that brand, compared with a 'repeat gift' related to the loyalty and love which an existing consumer may have with the brand.

The gifting channel also has subtle variations of timing: online shoppers – and especially those consumers who use social media to inform luxury purchases – tend to start end-of-year gift shopping earlier than luxury consumers who don't buy online. The implication for UK luxury brand executives would be to consider starting online campaigns earlier than physical ones – and make them positively enforce each other.

What it means for luxury brands

- The gifting behaviours of the luxury consumer base offers more opportunities to broaden the brand awareness and leverage 'experiential' preferences
- Within the UK, the seasonal gifting opportunities in luxury are now much broader than simply Christmas – brands should unlock the hidden value of the international consumer in the UK market



The average luxury consumer intends to spend **more on themselves** than others at Christmas.

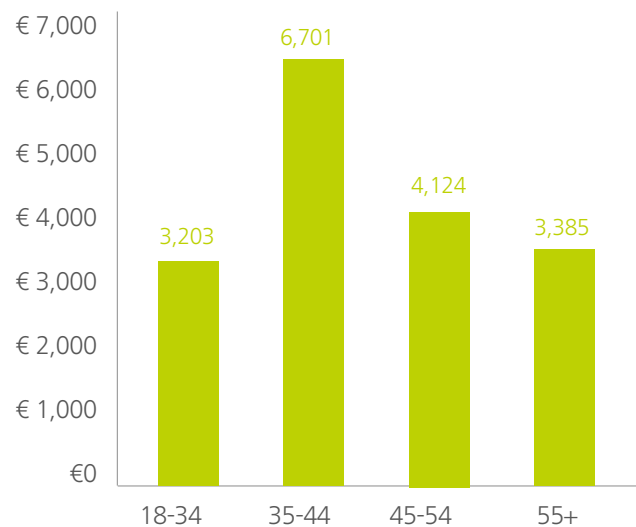
Luxury gifting

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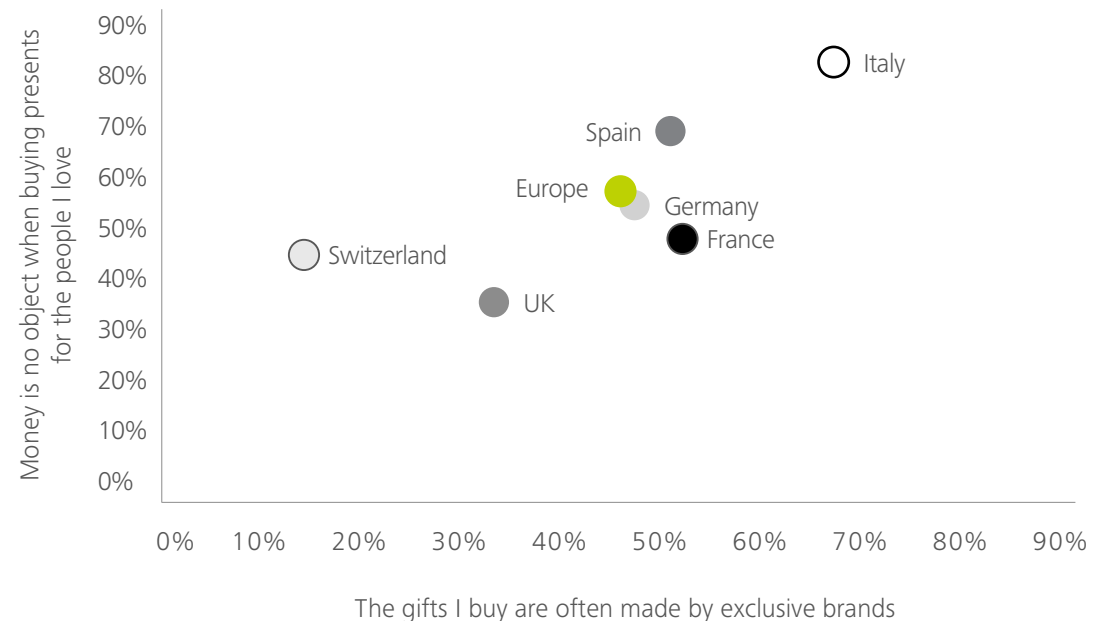
The gifting opportunities are significant in scale and varied in nature

The bulk of intended gifting spend is driven from middle aged consumers – but when considering luxury goods as gifts, the UK high-earning consumer is less likely to ‘trade-up’ to buy luxury brands than most European consumers

How much do luxury consumers intend to spend on premium/luxury gifts for others? (Christmas 2014)



To what extent do luxury consumers agree with the following?



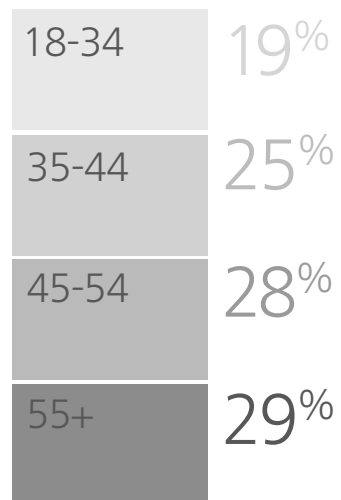
Survey details

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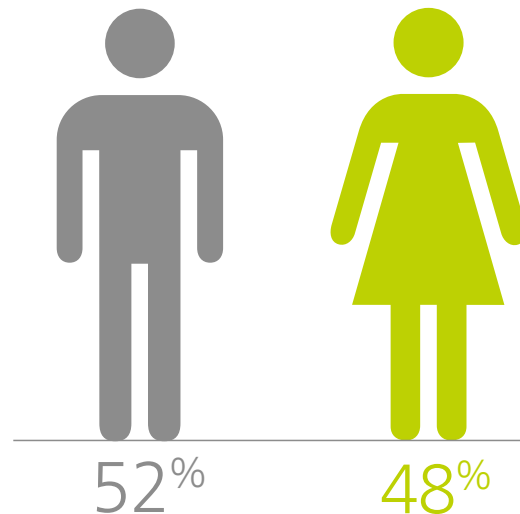
Deloitte's luxury consumer survey

Average annual income = €224,300

Age



Gender



- Study to explore high earners' general attitudes and luxury goods shopping behaviour, with an additional focus on the end-of-year festivity / key gifting period
- Fieldwork was conducted online in Nov / Dec 2014
- We concluded the study with c.1,300 participants who have a yearly household income (before tax) of at least £100k+, €100k+, or CHF150k+ depending on the market (average annual income = €224,300)
- The markets covered included: UK, France, Italy, Switzerland, Germany and Spain
- Approximately equal split of male/female and age of consumers
- A note on sub-group definitions used in this report:
Personal luxury categories investigated as part of study: clothes, shoes, handbags / leather goods, fashion accessories, jewellery, watches, fragrance / cosmetics, and wines & spirits

Contacts

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Our wardrobe

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