LUXURY

DEFINITION:
The luxury category includes brands that design, craft, and market high-end clothing, leather goods, fragrances, accessories and watches.

WHEN PRICE IS NO OBJECT/ LUXURY BRANDS CHASE EVER-HIGHER RETURNS

KANTAR BRANDZ

LUXURY TOP 10:

Brand Value $ (US) millions

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LOUIS VUITTON	$ 124,273
HERMÈS	$ 80,323
CHANEL	$ 53,021
GUCCI	$ 37,887
DIOR	$ 10,534
CARTIER	$ 10,110
ROLEX	$ 9,042
SAINT-LAURENT/YSL	$ 6,805
TIFFANY & CO.	$ 6,718
PRADA	$ 5,642

Category Brand Value Year-on-Year Change **+45%**

Luxury Top 10 Total Brand Value **$ 344,355 m**

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The world's top luxury labels grew briskly in 2022, leveraging their elevated reputations and pricing powers in ways few other brands can.

On the surface, the past year may have seemed like a return to business as usual for Luxury brands. Stores reopened around the world, and in-person Fashion Weeks made their long-awaited comeback. Celebrity ambassadors, meanwhile, remained a major driver of Luxury marketing campaigns: major tie-ups this year included skier Eileen Gu for Louis Vuitton; actress Anya Taylor-Joy for Dior, and Beyoncé and Jay-Z for LVMH's newest acquisition, Tiffany & Co. (in a campaign that also featured artwork authorized by the estate of artist Jean-Michael Basquiat).

Limited-edition collaborations remained another surefire buzz-builder. The difference was that this year, the biggest collaborations didn't involve luxury houses partnering with artists, sports brands, or streetwear labels: Instead, major houses worked directly with *each other.* Hence the rise of "Fendace" (Fendi and Versace, pre-Fall 2022) and the Balenciaga-Gucci "Hacker Project" (which made up a portion of the latter's Fall 2021 show).

Many of the biggest developments in the Luxury category, however, have taken shape off the runway. Chief among these is the category-wide phenomenon of steady, incremental price increases. This upward adjustment strategy was pioneered last decade by Chanel and Hermès, two houses with especially strong brand equity; today, the price of the Chanel's signature quilted handbag is nearly double that of five years ago.

Since then, names like Louis Vuitton, Hermès, Dior, Balenciaga, Bottega Veneta, Gucci, Saint Laurent, and Prada have all followed suit in raising prices - sometimes multiple times in the same year. In part, this inflationary trend has been spurred on by supply chain stresses. Higher prices for raw materials have hit the industry even as luxury brands continue to move toward more vertical integration of supplies like exotic skins and cashmere.

But there are strategic concerns driving prices upward as well. Higher prices are *also* a natural outgrowth of luxury brands' efforts to move away from wholesale department store channels. Instead, luxury brands are emphasizing standalone boutiques and store-in-store concessions that grant them greater pricing control.

What's more, the world's biggest luxury conglomerates currently have big plans to build up a new crop of ultraluxury "mega-houses" that can compete at the top tier of price alongside the likes of Vuitton, Hermès and Chanel. At LVMH, the goal is now to grow Dior to match the sales and stature of Louis Vuitton, which is currently the world's most valuable luxury brand in this year's BrandZ rankings. At Kering, the aim is for Saint Laurent (and, eventually, Balenciaga and Bottega Veneta) to join Gucci in the highest echelon of revenue.

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To achieve these goals, LVMH and Kering have committed to making new investments in their target brands' real estate portfolio, manufacturing capabilities, and product development pipeline. Increased sales volume is part of the envisioned play for brands like YSL and Dior - but what those investments also aim to effect, is an enhanced ability to price goods at the top end of the luxury range.

In part, however, the industry is raising prices simply because it can. It turns out that luxury shoppers value top luxury brands so highly... that in earlier years brands were essentially leaving money on the table by not charging even more for their wares. (It doesn't hurt, either, that news of impending price hikes often juice luxury brands' earnings with a temporary sales spike, as the savviest shoppers rush to clear their wish lists before any increases go into effect.) Even the booming luxury resale market, which might be expected to dent the sales of top brands, actually reinforces the category leaders' pricing power: thanks to platforms like The RealReal and Vestiare Collective, consumers can now see firsthand how high-priced wares from the likes of a Chanel or an Hermès can, in fact, hold their value exceptionally well over time.

Elsewhere, for a category that fared better than most during the pandemic, the story of the past year was less about "recovery" and more about "redistribution" - of marketing spend, sales channels, and digital assets, to better reflect changes to elite lifestyles in the wake of COVID-19. In America, luxury brands are racing to expand their store networks in southern cities like Nashville, Atlanta, and Austin, Texas, that have grown in size. In China, Hainan Island has emerged as an important market for capturing the country's upscale tourism spend, which has moved onshore as cities like Paris and Rome remain out of reach for Chinese vacationers.

In the digital realm, brands like Hermès, Bulgari, and Fendi have opened digital flagships as a first foray into the metaverse. These activations anticipate the day when luxury purchases will include ownership of a digital copy of a garment, for use in myriad virtual realms - a technological advance that will be made possible by the blockchain.

Already, startups like the Aura Blockchain Consortium (supported by LVMH, Prada, and Cartier), and Eon (backed by Net-a-Porter founder Natalie Massenet) are working to pair every individual luxury product with a unique serial ID. In time, such IDs could also help to authenticate or track a garment's resale history across platforms like The RealReal and Vestiare Collective.

What's more, digital IDs could help consumers trace even farther back, into a garment's manufacturing history, the better to reveal a product's environmental footprint. Sustainability in the luxury industry is often discussed in the context of fur bans, or the use of synthetic and recycled leather – all of which are ongoing - but greater traceability is the key to unlocking a whole new wave of sustainability innovations.

In the here and now, luxury e-commerce has already entered a period of rapid transformation that prioritizes service and speed. When luxury stores closed in China at the height of the COVID-19 pandemic, luxury brands were forced to move their client outreach online, to platforms like WeChat. Suddenly, nearly every Chinese luxury customer – new or established – had their own dedicated sales associate, who could offer them personalized promotions, product exclusives, and fashion consultations.

As stores have opened back up in China, something interesting has happened: many Chinese luxury shoppers have found they enjoyed the connection, convenience, and attention that the digital outreach model provided. In an October 2021 survey of mainland luxury shoppers conducted by Oliver Wyman, 70% said they still used digital connections with sales assistants to facilitate purchases. What's more, 40% said they talked to their sales assistant at least once a week - either through WeChat, voice messages, or phone calls.

At the same time, the pandemic has also led luxury brands and retailers to embrace China's "super-apps" in new and lasting ways. Richemont-owned Farfetch made its debut last year on Alibaba's Tmall app, while Australian luxury platform Cettire inked a partnership with JD.com.

Livestreamed commerce is also now part of the mix, after some initial wariness surrounding brands' ability to maintain elevated and consistent messaging in this freewheeling format. Today, luxury brands have settled on the livestreaming approaches that work best for them. Burberry, for instance, has found success selling purses and jewelry in "big tent" livestreams on Tmall that can garner millions of eyeballs in one go; Dior, for its part, has held smaller, private livestreams for VIPs in China through its WeChat miniprogram. This is the cutting edge of luxury retail - and the rest of the world may not be far behind.

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BRAND SPOTLIGHT

LOUIS VUITTON

2022 BRAND VALUE

$124,273M

+64% year on year

HERMÈS PARIS

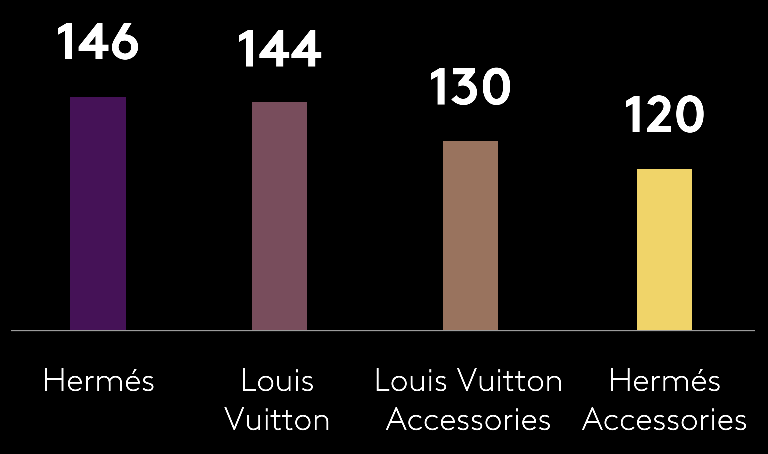
2022 BRAND VALUE

$80,323M

+73% year on year

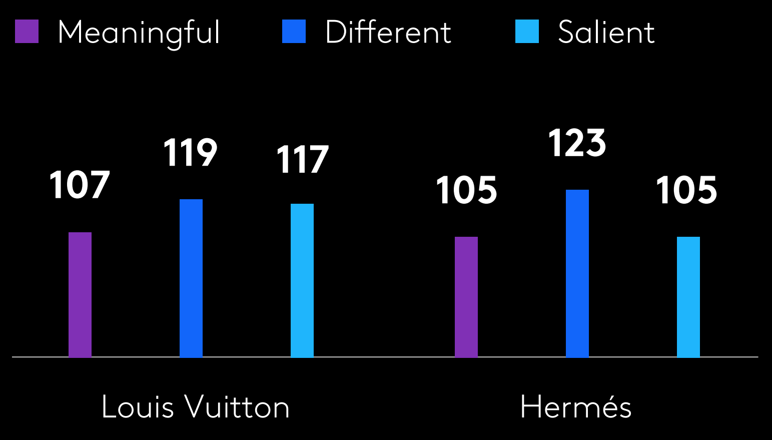
Kantar BrandZ brand asset scores

Brand Imprint database



Louis Vuitton and Hermès continue to capitalize on their recognizable assets to reinforce distinctive identities. Clear and consistent deployment of key logos, patterns, and products over decades has built clear brand identities for these luxury players.

Global brand equity profile



Source: BrandZ brand imprint study. BrandZ global data 2022. BrandZ China, US Luxury Accessories 2021

LUXURY

ACTION POINTS/ BRAND BUILDING

1

REDEFINE SERVICE

Today, luxury brands must be at the forefront of envisioning a new kind of high-tech, high-touch customer service culture: one that combines the agility messaging and commerce apps, with the personal relationships built by a brand's in-store sales ambassadors.

2

CRAFT EXPERIENCES

Over the past two decades, luxury houses have begun to branch out into designing experiences like branded hotels, museum spaces, and ultra-immersive flagship stores. Now, they are bringing all of these functions under one roof, to create multifaceted tourist destinations – miniature theme parks, really – that share DNA with experiential brand extensions like Dublin's Guinness Storehouse, or London's Harry Potter Experience. Dior's recently renovated headquarters at 30 Avenue Montaigne in Paris now includes three restaurants, a ticketed fashion museum, expanded couture salons, and an overnight hotel suite for VIP clients – plus, of course, scads of retail space.

3

LOOK BEYOND THE RUNWAY

While fashion shows remain an important publicity tool, during the pandemic, some brands pioneered new and audacious forms of luxury marketing. Balenciaga, most notably, collaborated on a shoppable episode of The Simpsons - and pioneered a new form of VIP outreach when they "dressed" both sides of the Kim Kardashian / Kanye West divorce during those celebrities' first public appearances solo.