

# Challenges & Opportunities Facing the Luxury Industry



## The Luxury Panel

The luxury industry has undergone a series of dynamic changes in the past 20 years. Economic trends, digital transformation and evolved consumer habits are slowly creating a new competitive landscape where traditional strategies will not be enough to maintain healthy growth and profitability. Selling a dream, representing a lifestyle and neglecting the power of digital media are no longer the keys to leading a successful luxury brand.

To understand and harness these challenges facing the luxury industry, Stones International decided to start a new initiative, “The Luxury Panel.” We have analyzed relevant trends with insights and support from three experts who are respected Professors from leading international business schools including: ESSEC, IE and SDA Bocconi. Each panelist is well known for pioneering research projects and programs focused exclusively on these challenges facing the luxury industry.

## About the Author

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Mirko Petrelli is a Principal with Stones International, specializing in the luxury, fashion, automotive and FMCG sectors. Mirko plays a key role in the recruitment, engagement and development of senior management. Prior to joining Stones International, Mirko was Head of Human Resources, Asia Pacific, at Tod's Group and led the implementation of all HR and training activities for retail openings, expansions, staff training, as well as the set up of operations in China, Macau, Korea and India.

A special thank you to Professor María Eugenia Girón, Professor Sonja Prokopec and Professor Stefania Saviolo for their participation. Special acknowledgment should also be given to my colleagues at Stones International for supporting this initiative.

# The Luxury Panelists



Executive Director for the  
Instituto de Empresa (IE)  
Business School

Teacher at IE Business School

Member of the Board of  
Trustees for IE University

## Professor María Eugenia Girón

Ms. Girón has over 18 years of experience in premium and luxury goods companies. She has successfully led as a CEO to turnaround luxury brands and has advised numerous luxury companies on strategic development, global brand building and expansion into Asia. She led the acquisition Le Chateau and subsequently served as Executive Chairman of the leading French brand. Le Chateau was the initial investor of the Silvercloud Fund, for which Ms. Girón was an advisor. In 1999, Ms. Girón led the management buy in of Carrera y Carrera, and transformed the company into a global luxury brand. Her previous experience in the luxury sector was at Loewe, a leading Spanish company. While attending Harvard Business School, Ms. Girón served as a Consultant for the Guggenheim Museum and the Estee Lauder Company. She is committed to entrepreneurship and is currently involved in several early stage investments.

Ms. Girón is a member of the International Board of OCEANA, a leading environmental organisation and member of YPO/WPO. She also serves as Chairman of Fundación para la Diversidad, and is a member of the board of directors for Real Fábrica de Tapices. Ms. Girón is the author of “Secretos de Lujo” (Inside Luxury), published in 2009. She is the Director and co-author of the “Dictionary for Luxury and Responsibility,” published in 2012. Ms. Girón writes a biweekly blog for Forbes Magazine Mexico and is an active lecturer, teacher, and advisor at various Universities and Business Schools. She was the recipient of the Best Women Executive of Spain Award in 2004. Ms. Girón has an undergraduate and masters degree in Engineering from ICAI Universidad Pontificia de Comillas, and an MBA degree from Harvard Business School.



LVMH Chair Professor –  
Luxury Brand Management

Associate Professor of  
Marketing  
ESSEC Business School

## Professor Sonja Prokopec

Professor Prokopec’s research examines consumer judgment and decision making with a specific focus on the role of mental budgeting in decision making and self control. She is also studying the factors that affect brand perceptions of luxury brands. Her research has appeared in the “Journal of Consumer Research” and the “Journal of Consumer Psychology” among others. Ms. Prokopec’s studies and research findings have also been featured in a variety of media outlets including: “Psychology Today,” “The Huffington Post” and “Business Times Singapore.”

Professor Prokopec was named the ESSEC LVMH Chair Professor of Luxury Brand Management in 2010, and therefore responsible for a specially designed management program dedicated to luxury brand management issues. This elite course is only offered to 20 carefully selected MSc in Management students.

In addition, Ms. Prokopec teaches consumer behavior in the ESSEC MSc, Global MBA, MBA Luxury Brand Management and PhD programs as well as market research in the ESSEC MSc program.

# The Luxury Panelists



## Professor Stefania Saviolo

Ms. Saviolo is currently SDA Bocconi Senior Professor of Business Policy and Lecturer of fashion and luxury management at Bocconi University. She graduated from Bocconi University in 1989 and holds a Ph.D. She has been Visiting Scholar at the Stern School of Business at New York University.

In 2001 at SDA Bocconi, Ms. Saviolo founded the International Master in Fashion, Experience and Design Management (MAFED), in partnership with Fondazione Altagamma. She has served as a leader for European Projects to promote networking opportunities between higher education institutions in the EU and China. In 2013, she was appointed Director of the Luxury and Fashion Knowledge Center at SDA Bocconi.

Since 2014, Ms. Saviolo has served as a member of the board of directors at Natuzzi Group and TXT e-solutions. Her areas of expertise and research includes management in fashion and luxury companies, strategic brand management, management of creativity, and Chinese strategy. She has published many books and articles about fashion and luxury.

SDA Bocconi Senior Professor of Business Policy

Lecturer of fashion and luxury management at Bocconi University

Ph.D, Bocconi University

Visiting scholar at the Stern School of Business at New York University

## About Stones International

Stones International is a search firm dedicated to assisting some of the world's most distinguished companies and brands in identifying and securing senior management talent and business partners in Asia, through retained executive search and M&A services.

Stones International offers far more than the tactical skills and experience of a traditional executive search practice. We center our approach on the power of our people. Drawing on the strengths of our management, we put distinctive yet complementary skills, experience and personalities to work for each of our clients, fostering a dynamic culture that leads to focused strategy and flawless execution.

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# Is low single digit growth a permanent trend or just a phase?

## Professor Sonja Prokopec:

Considering the current trends (i.e. dampening Asian consumer enthusiasm due to an anti-corruption campaign, falling property prices in China, sanctions against wealthy Russians, overall geopolitical instability, etc.) it appears that the stellar growth that characterized the luxury industry for the past decade is unlikely to continue. There will be niche markets that will create opportunities for growth, but while some emerging markets will continue to generate double digit growth, increased spending by wealthier consumers in small southeast Asian and sub-Saharan African countries is not enough to replace China's former vigor. Furthermore, there are issues beyond the geopolitical and economic reasons behind the slowdown. The power of digital media and the increasing sophistication and diversification of consumer tastes has caused fragmentation of demand, adding yet another challenge to the luxury industry.

## Professor Stefania Saviolo:

Overall, most analysts agree on low single digit growth being the "new normal" for the future, but there is not a unifying trend. Growth will be strongly differentiated by brand, price range, product category and business model.

Brands with well established authority status in particular categories will perform better, as well as brands in ultra-luxury and experiential categories (hotels, cruise, private jets, etc.), and personal goods for example: leather goods, shoes, fashion, precious jewels and gourmet food will better perform than watches or apparel.

## Professor María Eugenia Girón:

From my perspective, the luxury industry will keep on growing as world wealth grows. As people have access to more resources they aspire to a better life, education, better environment, safer food, and better products and services. Once we try a better product, there is no way back.

Single or double digit growth will depend on trends and geopolitical dynamics as well as its impact on tourism, among other factors. What is important is that growth in the luxury industry is a permanent trend and this cannot be said of too many industries.



**Is the word “luxury” still compatible with brands that have sales in excess of several billion Euros, hundreds of directly operated stores and a supply chain that is spread across the world?**

**How do you maintain a brand’s DNA, if possible?**

**Professor María Eugenia Girón:**

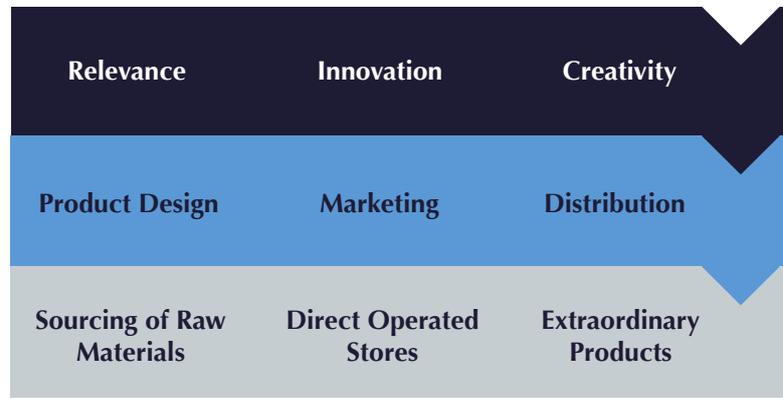
Creativity, the ability to innovate, being relevant to the client, obsession for quality and detail, and the beyond expectation retail experience. All of these define the DNA of a brand.

If they are maintained and the brand remains authentic, it can be global and grow beyond one billion.

**Professor Sonja Prokopec:**

Luxury brands do not necessarily have to be small to be considered exclusive. Brand DNA is best maintained if the brand keeps control over the entire business, from the product design and sourcing of raw ingredients to distribution and marketing. Having complete control of where and how a product is sold is essential. Many brands are shifting towards opening more directly operated stores because that allows them to control how the product is displayed and presented to the final consumer, ensuring that all aspects of the brand DNA are properly transmitted. However, the idea that small is beautiful has not been lost on the luxury conglomerates - big luxury groups are looking to invest in early stage brands with growth potential.

Maintaining the DNA of a luxury brand:



**Professor Stefania Saviolo:**

If luxury means scarcity, then it is not consistent with the global power brands up to now. For some brands, there has been too much visibility and accessibility in the product and retail strategies and, too often, a lack of value for money.

Maintaining a luxury DNA means going back to extraordinary products (in terms of style, quality and performance) with the plus of extraordinary experiences and fascinating narratives.

# Will Europe, US, China and Japan brands continue to dominate the luxury industry?

## What other markets will emerge?

### Professor María Eugenia Girón:

Today, 70% of luxury brands are from Europe and 70% of luxury clients are from outside Europe. In the future and as we are already seeing, new luxury brands will emerge in other markets beyond Europe. It will take time because building a luxury brand is a long process.

For these new luxury brands, looking deep into the country's own culture, roots and traditions is key to develop world class innovative concepts, like Shang Xia is doing in China under the leadership of Hermès.

### Professor Sonja Prokopec:

The US represents the largest luxury market, but also the biggest growth opportunity over the next decade because of spending by locals as well as tourists. Europe and Japan are more mature markets with less potential for growth while China is still growing but growth has significantly slowed down.



*"The US represents the largest luxury market, but also the biggest growth opportunity over the next decade..."*

This has had a very strong impact on the overall growth of the luxury industry. Russia, India and Brazil were previously considered to be the emerging markets with highest potential for growth, but now we are seeing some changes with respect to that as well. Russia was ranked as the ninth largest luxury market in 2014, but is experiencing a slowdown due to worsening relations with the West, uncertainty due to sanctions and capital flight. In 2012, Mexico overtook Brazil to become Latin America's biggest luxury goods market. India is still a promising luxury market but less than was initially thought. Among other challenges, Indian consumers buying habits aren't necessarily conducive to luxury spending. Other promising markets have emerged that include Malaysia, Indonesia, the Philippines, and some Sub-Saharan African countries such as Nigeria.

### Professor Stefania Saviolo:

Luxury is associated with "art de vivre" and an aspirational lifestyle. So far it has been deeply rooted in national cultures and knowledge, Europe in particular. Countries that can draw on a cultural heritage, tradition and superior craftsmanship skills can become home to new luxury products and brands. For fashion and personal goods in general I'm thinking Middle East and India.

There is also a more experiential and innovation driven side of luxury goods and services (retail concepts, hospitality, transportation, etc.) that will see old and new markets and players competing in Asia and Americas.

# How will the management model evolve in terms of organisational structure, critical skills and people management techniques?



## Professor María Eugenia Girón:

Luxury industry management today needs to understand the dreams and values of Generation Y and Millennials—who are digital natives. Managers need to be comfortable and effective in managing diversity, because markets and clients are diverse. They need to combine these skills with the indispensable ones native to this industry: being able to reconcile creativity and profitability, and the ability to grow while maintaining exclusivity.

## Professor Sonja Prokopec:

There has been a strong focus on improving the retail experience, which can be achieved by having a well-trained sales force. The sales force is the essential element in the transmission of storytelling and the brand DNA to the final consumer. Several brands have introduced in-house training programs where they have hired MBA and Masters graduates for various retail positions, with the possibility to evolve into more regional roles. However, many brands have experienced difficulties in sourcing and retaining local talent, especially in many emerging markets, such as China and the Middle East. Strengthening the retail core worldwide will be of the utmost importance to luxury brands in the future.

## Professor Stefania Saviolo:

Luxury companies should position creation, innovation and excellence at the very heart of their business process with full respect and support to both creative and technical profiles. The network of skilled suppliers must be considered as a key asset in luxury and backward vertical integration is becoming common among true luxury brands. For instance, French conglomerates are now securing manufacturing assets in Italy and abroad. At the same time the “execution” downstream is crucial to deliver the luxury proposition to heterogeneous markets, execution referring to retail management, customer journeys and communication strategies. In terms of roles and skills I see:

- A variety of roles with higher specialization & narrowing scope
- Soft skills & team work / leading capabilities as a must (also in technical roles)
- A demand for transversal knowledge & awareness of processes as a whole (cross-functional communication)

# What will be the essential skills for the future CEO of a luxury brand?

## Professor María Eugenia Girón:

- ◆ Global vision to manage diversity
- ◆ Flexibility to manage uncertainty
- ◆ Empathy to connect with values of new generations
- ◆ Sense of responsibility towards people and the planet
- ◆ Lateral thinking to be innovative

## Professor Sonja Prokopec:

The future of the luxury industry is showing rapid shifts in consumer preferences. One of the most important skills would be to stay connected with the younger consumer base, as they are the ones that will have the most significant influence on the industry trends.

## Professor Stefania Saviolo:

CEOs are now orchestrators of a pull of competencies and resources and managing the delicate balance between efficiency, performance, creativity and innovation in a context where still many luxury companies are family businesses. Essential skills to me are:

- ◆ An international profile with multicultural sensitivity
- ◆ Capable to deal with Big Data and interpret these trends to design and drive the luxury value proposition



“Luxury brands must be capable to deal with Big Data and interpret these trends into design and drive the luxury value.”

- Professor Stefania Saviolo

# How can independent luxury brands use E-commerce to compete with the large groups?

## Professor María Eugenia Girón:

The good news is that technology and e-commerce can be disruptive and alter the status quo within an industry.

We have witnessed how Burberry took leadership in technology (virtual catwalks, 3D, art of the trench, Burberry bespoke, etc.) to reposition the brand as a reference for new generations.

## Professor Sonja Prokopec:

Consumers are spending increasingly greater portions of their day online and are connected with smart phones and tablets. The digital sphere has become essential in the discovery of brands and their path to purchase. E-commerce continues to be the fastest growing channel overall. However, luxury brands were late to internet retailing with many assuming that the aesthetics of their selling experience in the flagship 'maison' would be difficult to replicate on the internet. Today, there are some luxury brands still reluctant to sell their products online but rely exclusively on their brick-and-mortar stores. Independent brands that do not have the resources to open stores everywhere can still be accessible to consumers all over the world through e-commerce.

## Professor Stefania Saviolo:

As a premise I would say that e-commerce has to be managed carefully by luxury brands as it's not that easy to offer an experience and make the act of buying a ceremony. Only select kinds of luxury product categories are easy to sell online. A different situation applies for what is defined accessible luxury. That said, independent brands with a limited size willing to make themselves visible thanks to the online channel can approach multi-brand luxury and fashion e-tailers and partner with them for special projects / capsules that are limited editions with a lot of editorial coverage.



Luxury brands were late to internet retailing with many assuming that the aesthetics of their selling experience in the flagship 'maison' would be difficult to replicate on the internet...

- Professor Sonja Prokopec

# How is social media affecting communication strategies for luxury brands?

## Professor María Eugenia Girón:

Social media is all about a two way conversation. This was unthinkable in the luxury industry in the past. As social media cannot be ignored and cannot be avoided by the luxury industry, it has to be managed.

Burberry's "Art of the Trench" is a fantastic example of how to turn the perceived risk of social media into an asset for a luxury company.

## Professor Sonja Prokopec:

While social media has empowered consumers with a deeper discernment for luxury, it has also had an unintended consequence for luxury brands. Historically, the communication from the luxury brands to the consumers was provided through tightly controlled traditional media channels (e.g. print, TV) to influence the conversation of the few who had the means to purchase the luxury products. Social media has opened doors to give more consumers access to both information and products previously unavailable to them. It has given consumers a new voice, allowing for communities of both advocates and critics to arise.

Luxury brands have spent the last few years exploring the risks and opportunities that existed for them on social media and e-commerce. "Should a luxury brand have a Facebook page? How should brands translate their brick-and-mortar experience to an immersive internet site?" The potential loss of exclusivity and the prestige

associated with going digital are hurdles that can be difficult for luxury brands to overcome, but they are manageable, as some brands have shown by clearly embracing technology.

Ultimately, luxury brands, like most consumer facing brands, need to deliver an engaging, exciting and efficient shopping experience to all their customers regardless of channel. Social media allows the opportunity to issue short but frequent messages, which works really well for luxury brands as their products and image are inherently aesthetic - so their message carries well in this format. For example, the visual nature of Instagram, the social photo and video-sharing app, makes it a natural platform for luxury and fashion brands. In addition, the space-constraints force the brands to be more conversational and approachable, which is an excellent way to engage fans and to reduce the perception of coldness, sometimes associated with luxury brands.

## Professor Stefania Saviolo:

Social media is key to support a conversation with customers and develop the brand story in a rich and interactive way. Social media can also create reputational issues if it is not well managed. Overall social CRM is quite under-developed in luxury and few brands seem to perform in social engagement and interaction. Maybe on purpose.

