Industry Research Report

The Luxury Retail Industry

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Luxury retail supergiant Hermès sells its signature Birkin bags for anywhere from $9,000 to $500,000.[1] With such an extreme price tag, it is no wonder that the image that most often comes to mind when one hears the words "luxury retail" is one of products of the highest quality, reserved for only the most exclusive clientele: celebrities, influencers, and the upper echelons of society. While this may be true of Birkin bags, which are exclusive enough that many people who own one have the bag offered to them rather than purchasing them, other luxury items are much more commonplace amongst millennials and GenZ. In fact, luxury goods are so popular that as of March 2022, Americans had already generated $74,670 million (USD) in revenue.[2] Luxury retail is a large industry with rich history and powerful competitors, though its growth has been impacted by COVID-19 and it is currently undergoing many significant changes.

History

Luxury goods have not always had such a prominent role in society. In early civilizations such as Ancient Rome, people were so concerned about the disruptive power of luxury and excess that they created legislation limiting what individuals could spend. In Ancient Greece, even the consumption of meat was shunned as it was an expensive commodity. In fact, it wasn't until the 17th Century and the establishment of international trade routes that luxury became more accepted and sought after by noblemen and women.[3] The Industrial Revolution in the 19th Century brought with it a boom in luxury goods, and the first luxury retail company, Hermès, was established in Paris in 1837.[4]

The luxury retail industry continued to grow through the 1920's, reaching members of every class due to advancements in technology such as assembly lines and other means of mass production. The demand for luxury goods grew through the 20th Century, primarily for large items such as automobiles. However, World War II changed the luxury goods industry drastically. Consumers could no longer afford larger items, and as a result, companies began producing the smaller items that make up the market as it is known today: shoes, handbags, luggage, sunglasses, etc.[5]

In today's market, the United States is the number one country for luxury retail, with consumers spending $64,120 million in 2021.[6] Stores can be found everywhere, from suburban shopping malls to Rodeo Drive and Fifth Avenue. There is also a greater emphasis on reinventing and redefining luxury. While typically luxury has been focused on possessions or things, consumers are now motivated by emotional connections to their purchases. According to former *How to Spend It* magazine editor Lucia Van Der Post, people are motivated by ideas of being 'emotionally touched by their experiences' and 'sustainability and ethics.'[7]

Competitors

Moët Hennessy Louis Vuitton

The top-ranking luxury retail company is Moët Hennessy Louis Vuitton, more commonly referred to as LVMH Group. The company is known primarily for its fashion house, Louis Vuitton, and sells items such as luxury leather goods, handbags, clothing items, and other accessories.[8] Despite the COVID-19 pandemic, LVMH has continued to grow. While net profit did experience a 63.66% decrease from 2019 to 2020, it has rebounded drastically, and net profit increased by 256% in 2021 (Image 1).[9] This is in part due to LVMH Group opening 88 new stores between 2019 and 2020 alone, as well as their strong online presence. In 2020, LVMH had the most Facebook followers of any luxury brand, at 24 million followers. They also boasted 8 million Twitter followers, 39 million Instagram followers, and a 12.8% market share in terms of online visits.[8] Due to the brand's popularity, strong online presence, and continued growth during the COVID-19 pandemic, LVMH Group clearly dominates the global luxury retail market.

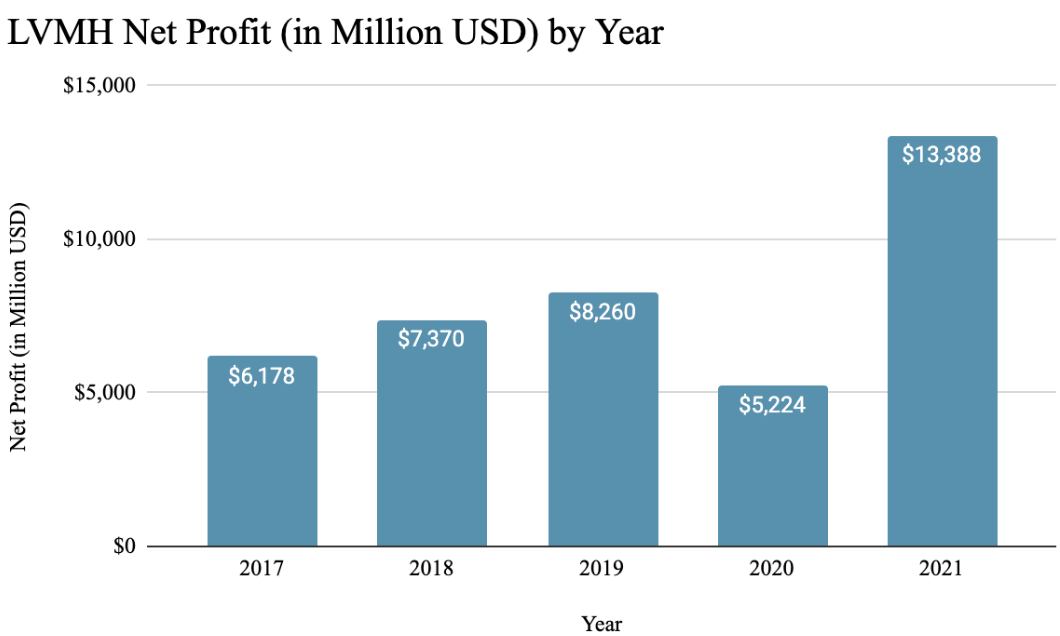

Image 1: LVMH Net Profit (in Million USD) by Year

Kering

Kering is a wide-ranging conglomerate that includes food distributors, fashion retailers, watchmakers, and beauty product manufacturers. Prominent companies owned by Kering include Gucci, Saint Laurent, Balenciaga, and more. Worldwide, Kering earned $18.60 billion (USD) in revenue in 2020. Gucci, the most successful brand in their portfolio, accounted for 55% of that revenue.[10] The company was hit hard by COVID-19, with comparable revenue growth dropping from 13.3% in 2019 to -16.4% in 2020.[11] The company has since recovered, however, and earned record revenue in 2021, up 35% on a comparable basis from 2020. In a 2022 press release, the CEO of Kering, François-Henri Pinault, attributed this to the company's "ability to blend authenticity with bold creativity" and expects to "extend last year's momentum in 2022 and in coming years."[12]

Estée Lauder

Estée Lauder is the third ranking luxury retailer and operates primarily in the manufacturing, marketing, and selling of beauty products. They sell quality skin care, makeup, fragrance, and hair care products under company names such as Estée Lauder, Clinique, Michael Kors, and more. Their skin care products are the most popular, making up 58% of their net sales in 2021.[13] Worldwide, Estée Lauder generated net sales of $16.22 billion (USD) in 2021. The company has grown steadily in the past few years, up from net sales of $13.68 billion in 2018, $14.68 billion in 2019, and $14.29 billion in 2020.[14] With 2 million U.S. women using the brand's nail polish and 5 million using its mascara, it is no surprise that Estée Lauder is one of the companies dominating the global luxury retail market.[15]

Growth and COVID-19

Industry Growth

Luxury retail has rebounded from the effects of COVID-19, increasing to levels above even that of the pre-pandemic market. Annual luxury goods revenue increased from $305.47 billion (USD) in 2019 to $349.08 billion (USD) in 2022 (Image 2). Revenue is projected to reach $407.26 billion (USD) in 2026, with a compound annual growth rate (CAGR) of 3.72%.[16] This growth was driven by a resurgence in Chinese spending, and the increasing dominance of millennial and GenZ consumers in the market.[17]

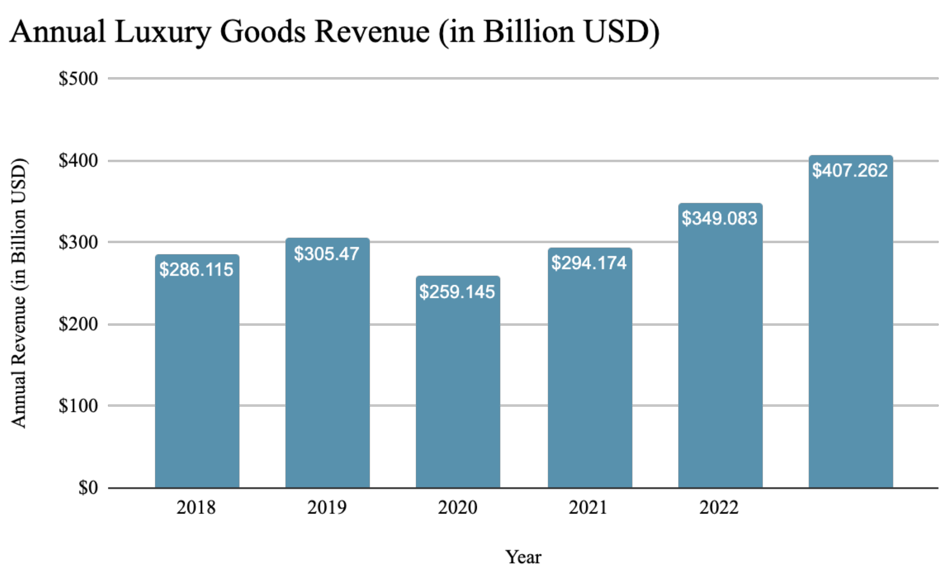

Image 2: Annual Luxury Goods Revenue (in Billion USD)

COVID-19 Pandemic

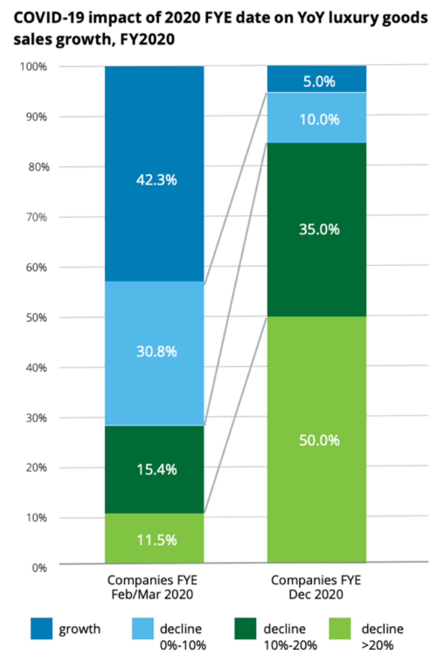

Image 3: COVID-19 Impact of 2020 FYE date on YoY Sales Growth

Luxury retail was greatly impacted by COVID-19; Deloitte reports that greater than 80% of the Top 100 luxury companies reported lower sales in 2020. Due to decreased consumer purchasing power, enforced store and factory closures, and travel bans, demand fell greatly. Further research done by Deloitte shows that companies were impacted differently depending on when their financial year end (FYE) date was. Out of the Top 100 luxury brands, 27 have FYE dates in February or March and 60 have FYE dates in December. Companies with FYE dates earlier in the year were generally better off as they experienced the impact of the pandemic only in their fourth quarter, and 42.3% of the companies saw year-on-year growth. In comparison, companies that reported in December saw the impact over the full course of the year, and only 5% saw year-on-year growth. (Image 3).[18]

The industry was able to survive the pandemic largely due to e-commerce. Previously, luxury retailers have been reluctant to sell their products, however worldwide store closures and an inability to shop in-person forced many companies to reevaluate. Companies across the Top 100 shifted their focus to online retail, either increasing their pre-existing digital marketing or allowing retail partners to sell their products online for the first time.[18] Bain & Company, a leading global consulting firm, reports that online shopping for luxury goods doubled its share of the market, increasing from 12% in 2019 to 23% in 2020.[19] As brands continue to recover from the impact of COVID-19, it is likely online retail will continue to make up a large share of sales.

Industry Changes

Demographics and Location

Luxury retail demographics are shifting towards younger clients, with millennial and GenZ consumers (ages 18-34) acting as the current drivers of today's market. In 2018, Bain & Company reported millennials and GenZ accounted for 47% of luxury consumers.[20] By 2021, they reported 63% and are estimating younger customers will make up 70% of the market by 2025.[21] The impact of consumers becoming younger can be seen in how companies are adjusting their business models to fit the new demographics, including greater social media usage, increases in e-commerce, and younger, more modern product designs.

Industry demographics are also changing as companies branch out and open stores in new locations. Historically, demand for high-end retail has centered around major consumer cities such as New York, Los Angeles, and Chicago. However, as Americans have moved during the pandemic, the demand has moved with them, bringing luxury retail to new cities such as Scottsdale, Cincinnati, and Nashville. Retailers have also shifted away from confining their storefronts to Fifth Avenue in New York or Rodeo Drive in Los Angeles; now, they are expanding into malls and neighborhoods in suburban settings.[22] This provides them with a whole new demographic of younger customers who may have wanted to purchase luxury goods before but could never make it to large cities such as New York and Los Angeles due to obstacles such as travel costs and school or work requirements.

Changing Definition

In the past, luxury retail has had a strict definition of top-quality products, high status consumers, and the best in-store experiences. However, as demographics have shifted to include younger consumers, bringing with them new values and different desires from luxury goods, the definition of luxury has had to shift as well. Futurist Jared Weiner spoke at a luxury conference in Los Angeles about the new definition of luxury and introduced what he calls the “Three T’s”: time, truth, and trust. Time refers to consumers desire to use time more wisely post-pandemic, and have shopping experiences that are efficient, convenient, and easy. Truth refers to consumers desire to buy unique products that reflect their personal values and sense of self. The final T, trust, is centered around authenticity of information, ingredients, and practices. While there are certainly consumers who believe in the classic definition of luxury, brands that shift their focuses to providing personalized, efficient shopping will create unbeatable shopping experiences and are guaranteed success as consumers continue returning to their store.[23]

Sustainability

While luxury products are renown for being durable products, the practices that have gone into making, distributing, and selling them have not always been environmentally conscious. When the market was driven by baby boomers, discussions on sustainability were deemed unnecessary due to this idea of durability. There were, of course, some brands such as Patek Philippe and Stella McCartney that took up sustainable approaches. For the most part, however, companies and consumers alike were content not to address sustainability. But as consumer demographics and the definition of luxury change, the topic of sustainability has become increasingly prevalent. Younger consumers are more inclined to purchase from companies that align with their personal values, so brands have had to make a greater effort at sustainability practices.[24]

Industry wide, strides are being made towards sustainability. Over 200 companies have joined The Fashion Pact, a global coalition of fashion and textile brands that are committed to mitigating climate change, restoring biodiversity, and protecting the oceans.[25] Many brands, such as Kering, are phasing out the use of fur across all labels. In 2020, LVMH introduced a major plan called LIFE 360, which sets specific goals for 2023, 2026, and 2030 regarding topics such as transparency and circular services (i.e., repairs, upcycling, etc.).[26] There is still much work to be done in the implementation of these initiatives and programs, however the industry is beginning to take the necessary steps toward practicing sustainability and protecting the planet.

Conclusion

Although the industry was hit hard by the pandemic in 2020, it has since recovered in 2021 and into 2022. Driven by spending by millennials and GenZ, the industry has grown to levels that exceed even those of pre-pandemic. However, questions remain about the industry's future. Can companies follow through on their promises to practice sustainability and maintain their young customer base? Will in-person shopping have a revival and dominate over e-commerce once again, or has brick and mortar shopping seen the end of its days? Can companies provide customers with the unique, personalized experiences that they crave, or will they begin looking elsewhere? Only time will provide the answers to these questions, however as of now, the luxury retail industry continues to grow on a global scale.

End Notes

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