2017
PREDICTIONS
FOR THE LUXURY INDUSTRY

ADAPT TO SUCCEED

POSITIVE LUXURY

BRANDS TO TRUST

IN PARTNERSHIP WITH

FOREVERMARK

A DIAMOND IS FOREVER

PREFACE

With the global luxury market set to reach $326 billion by 2020, Positive Luxury delves into the factors that companies must consider to capture the hearts and minds of tomorrow's consumers. Positive Luxury's research highlights the challenges and opportunities faced by CEOs and industry leaders in the luxury lifestyle sector, serving as a bellwether for the future of the retail industry as a whole.

Are luxury businesses adapting fast enough to match changing consumer expectations? Do they need to? As predicting the future based on past trends becomes harder and harder, how can the luxury industry stay one step ahead?

ABOUT POSITIVE LUXURY

Positive Luxury connects brands and consumers that care. Our mission is to inspire people to buy better and influence brands to do better. Positive Luxury awards the Butterfly Mark to brands demonstrating positive efforts towards the craftsmanship, service and design of their businesses.

Positive Luxury was founded in 2011 by Karen Hanton, MBE, founder of toptable.com, and Diana Verde Nieto, pioneering sustainability expert and named Luxury Women to Watch 2016.

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INTRODUCTION

The past year saw political, economic and social shifts on a global scale, many of which will have a longstanding impact on the way consumers behave and spend. How, then, should the luxury industry respond?

Positive Luxury's 2017 Predictions for the Luxury Industry report draws on our own knowledge and that of the brands we work with. In compiling this report, Positive Luxury also spoke to business leaders, academics and the banking sector to discern and decode the 2017 trends that are most likely to influence the luxury sector.

We have found that businesses must be brave and willing to adapt if they are to succeed. For 2017, this is set to manifest in a willingness to engage on a more personal level with customers, to capitalise on social media data, and to collaborate with incoming content and delivery models, amongst other actions. We highlight the companies which have already started to do this, and identify pockets of opportunity for others to seize.

Quick pivots and new approaches can seem counter intuitive to luxury brands, many of whom have spent decades – if not centuries – growing and establishing their hard-won reputations. And so adaptation and evolution must, of course, be matched with careful husbandry of brand history and heritage. Our research shows today's consumers are as mindful as ever of the central pillars of luxury products – quality, craftsmanship, and effective storytelling.

Yet we live in a world where information, likes and dislikes, ratings and reviews are spread with growing speed. The luxury brands that succeed will be the ones that demonstrate their value using innovative methods and platforms that appeal to today's technologically adept, social media-fluent consumers.

This is not the first time businesses have had to learn how to adapt quickly amidst uncertainty. What can businesses do to drive positive change and build the best possible results for themselves?

The very best brands consciously use themselves and their products as agents of positive change and growth in society: they have purpose.

Our research identified the rise of a return to purpose for many traditional luxury brands, and charts the growth of newcomers to the market who are succeeding by sticking to their principles and providing solutions to pressing problems of societies.

As this report demonstrates, what makes a successful luxury brand today is different to what it was even a year ago. This report sets out the very behaviours, attitudes and understandings that are necessary to survive and thrive as a luxury retailer in 2017.

Diana Verde Nieto
CEO, Positive Luxury

FOREWORD

FOREVERMARK
A DIAMOND IS FOREVER

To successfully manage a luxury business in 2017 requires the ability to navigate a dizzying array of factors influencing the sector.

From changing perceptions of what luxury means, to communicating with a new generation of consumer, the industry is changing at speed.

In the diamond market, which is home to Forevermark, attitudes towards consumption are changing. Whilst the generation – the millennials - still value deeper relationships and the traditions of marriage, with diamonds as a symbol of their belief in love and forever, consumers are increasingly self-purchasing diamond jewellery to celebrate personal milestones and to express their own individuality.

Globally, another trend is clear; consumers care more than ever about the story behind their diamond. They are looking for a guarantee of superb quality, expert craftsmanship and a sense of responsibility from the brand. At Forevermark we are intensely aware of this, making long-term investments in communities around our mines through educational, medical, conservation and social initiatives.

Luxury is no longer just about exquisite materials, perfect production quality and superb creativity. Luxury is the reassurance that the brand behaves consciously, lives up to its values, and offers a deeper and more meaningful experience for consumers. Purchasing patterns are changing and consumers are now "looking under the hood and kicking the tyres" of luxury brands.

As this report demonstrates, the definition of luxury is evolving with time and across geographies. At the start of 2017, it is up to the industry to help shape this meaning and work towards a positive, dynamic future, for our consumers, our businesses, and for societies at large.

Costantino Papadimitriou
Senior Vice President, Brand Strategy and Innovation,
Forevermark, a diamond brand from
The De Beers Group of Companies

1/
2016 RECAP

2016 was a year marked by global political changes that many saw as a surprise: what the UK's Financial Times editor Lionel Barber called "a thundering repudiation of the status quo." [1] The consequences of these shifts in the luxury industry are already being felt.

The threat of terrorist attacks, the slowdown of China's economic activity, geopolitical instability and the exit of at least one country from the Eurozone have all grown as boardroom concerns over the past year, according to consultant McKinsey's survey of more than 1600 global chief executives [2].

Terrorism alone cast a long shadow on global trade in 2016. Key sourcing regions, such as Turkey, suffered from attacks, and at the other end of the shopping chain, fears of further terrorist activity dissuaded shoppers from visiting cities reliant upon tourism spending for growth.

Longstanding luxury retail hub Paris suffered in 2016 as the city saw a 16.6% drop in foreign tourists year-on-year. [3] Shoppers' responses to French unrest were particularly pronounced from Japan, with a 39% drop, and a 23% drop in Chinese tourists compared to 2015. [4] Elsewhere, despite multiple attacks, Germany's tourism grew slightly at 1.5% [3].

Fluctuating currencies meant some countries became unexpected tourism hotspots. The effect of the UK's decision to leave the European Union (EU) on 23 June, for example, created Sterling depreciation which made the UK a temporary haven for foreign shoppers in Q3 2016. As prices in dollar terms fell, relative spending power in UK stores increased, boosting tourism by 8% in H2 2016 compared to the first half of the year. [3]

PwC projects UK economic growth will slow to around 1.2% in 2017, down from 2% in 2016, [5] with regulatory and economic uncertainty dulling appetite for spending and investment.

Outside Europe, China's economic slowdown in 2016 was significant for the luxury sector, as a market that provided solid returns for many luxury houses after the 2008 financial crisis. Chinese GDP growth contracted to 6.7% in 2016, down from 7.3% in 2014 and 10.6% in 2010 [6]. Goldman Sachs predicts a further fall to 6.5% in 2017, amidst what it calls a trend of "bumpy deceleration" for the country [7].

Chinese citizens' spending has decreased in line with these figures. In 2016, China's share of the global luxury goods market total spend fell for the first time since records began, decreasing from 31% in 2015 to 30% last year [8].

In the United States, Donald Trump's rise from television personality to President-elect added to a volatile global political climate, as the world navigates the transition from the Republican's often inflammatory rhetoric to actual leadership and policymaking. In business terms, this has translated into a continued struggle for U.S. luxury brands, as they battled with a strong dollar and weak local spending. In contrast, Latin Americans chose to focus on local spending, maintaining an upwards economic trend for Mexico and helping to improve Brazil's economic prospects [8].

Wherever they were spending in 2016, shoppers wanted discounts, with cut-price products making for 75% of apparel purchase across all channels [9]. Outlet malls in China are set to double in number by 2020 [10], with the EU also demonstrating strong appetite for non-full price shopping.

OPINION : HELEN BRAND, UBS EXECUTIVE DIRECTOR, EUROPEAN LUXURY GOODS

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I think the biggest shift in 2016 was probably the move away from spending in Europe and internationally by the Chinese consumer and more towards spending in China, as the brands brought down the relative pricing between mainland China and Europe.

A second shift is consumer behaviour. We are seeing an increased focus on a desire for newness, and entry-level product, in a move away from some of the evergreen product.

The brands that are doing well are those that have constantly innovated.

The biggest question mark for next year is whether we see pricing return to the sector, because we’ve had no price increases for two years.
We think growth when we look forward will probably come from middle-class consumers, particularly out of China, so it’s about making sure you’re adapting your brand and your offer towards that consumer without denting your brand equity, which is difficult. It’s a question of how to capture that middle-class consumer.

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CASE STUDY

Climate change and the green economy

2015's COP21 agreement in Paris was a landmark for the green agenda. But while Donald Trump's anti-climate change views – he posted in a 2012 tweet that "The concept of global warming was created by and for the Chinese in order to make U.S. manufacturing non-competitive", told Fox News in January 2016 "I think that climate change is just a very, very expensive form of tax", and threats throughout his presidential campaign to withdraw the U.S. from the Paris climate change agreement – may sound alarming, they may be difficult for the President-elect to sustain in the long run.

Trump is facing a global wall of an opposing sentiment, as lenders, shoppers and politicians choose to invest in low-carbon technologies, products and policies.

Trump told the New York Times in November 2016 he will consider "how much it will cost our companies" and the effect of accepting climate change on American competitiveness. But many U.S. multinationals have already made their decision: Amazon, Facebook, Wal-Mart and Google are among the corporations which have invested in their own renewable energy projects and committed to reducing or eradicating their carbon emissions.

In Europe, coal consumption is at its lowest level since 1990 [11]. Since then, EU renewable power generation has tripled. It is also the only power source whose use continued to grow after the 2008 financial crisis. Bank of America, JPMorgan Chase, Citigroup, Morgan Stanley, Credit Suisse and Wells Fargo are among the banks that will no longer lend to coal-based projects.

The migration of the investment community, businesses, and political leaders towards carbon reduction, coupled with an upcoming generation of consumers educated in climate change, is indicative of a global low-carbon agenda, despite Trump's personal views.

Amazon Wind Farm US CENTRAL

Amazon Wind Farm US EAST

Amazon Solar Farm US EAST

Amazon Wind Farm FOWLER RIDGE

Above: As of April 2015, approximately 25% of power consumed by Amazon Web Services comes from renewable energy sources. They hope to be powered by 50% renewable energy by the end of 2017. (Source: Amazon)

2/

BUSINESS AS USUAL IS NOT AN OPTION

The Changing Face of Luxury


GLOSSYBOX
GLOSSYBOX

Luxury retailers must be prepared for and expect rapid change to shopping models in 2017. High-spend shoppers can increasingly discern between brands that are creating and delivering top quality service and product and those which are not, aided by constantly improving technology and access to always-available online browsing and comparison.

As a generation of digital natives emerges, these consumers have markedly different expectations to the consumers which have come before them. Time and ease are at a premium, and new business models are emerging to both please and meet the needs of time-poor, cash-rich consumers.

Subscriptions, reordering, and services that carry out or deliver activities or products seen as chores for young professionals – grocery shopping, cooking, laundry – are growing. Rental services giving subscribers access to a wide range of premium products are proliferating across sectors – the success of Netflix and Amazon's investment in original content in 2016 being one example.

The World Economic Forum has identified six retail models it predicts will gain traction over the next decade [12], and several focus on subscription models. It names them 'replenishment subscriptions' (steady deliveries of regularly bought products), 'surprise me' subscriptions (such as Birchbox or Glossybox), smart reordering (using sensors to gauge when a product or supply needs to be reordered to the customer), guaranteed model upgrades (upgrades to new cars, technology or luxury goods for an annual fee or trade-in), renting rather than purchasing goods, and 'do it for me' – paying for services like healthy cooking and laundry.

Beauty is a vertical which continues to see strong growth, and the subscription model has worked particularly well in this sector. Prestige beauty products doubled in growth post-Brexit, with sales up 6% in the three months following the UK referendum to leave the European Union, compared to 3% growth from January to June 2016.

The strongest post-Brexit beauty performers have been in the sale of niche fragrances (£125+) and super premium skincare (£200+), both of which reported double digit growth. Luxury subscription boxes, like the UK's Cohorted, have seen success offering customers miniature versions of high-end beauty products [13].

The global luxury market grew 4% year-on-year to €1.08 trillion in 2016. E-commerce was the strongest growth sector, and there was evidence that luxury consumers are directing their spending towards personal luxury experiences, such as luxury travel, food, wine and fine art [8].

The trend for convenient, on-demand product will impact the luxury sector. Opportunities could arise through developing new ways to market and deliver product. Crucially, the old guard must learn how to collaborate, rather than compete, with innovative, young delivery and subscription businesses.

6 EMERGING RETAIL MODELS

1/ REPLENISHMENT SUBSCRIPTIONS

2/ 'SURPRISE ME' SUBSCRIPTIONS

3/ SMART REORDERING

4/ GUARANTEED MODEL UPGRADES

5/ RENTING

6/ 'DO IT FOR ME'

The World Economic Forum, 2016

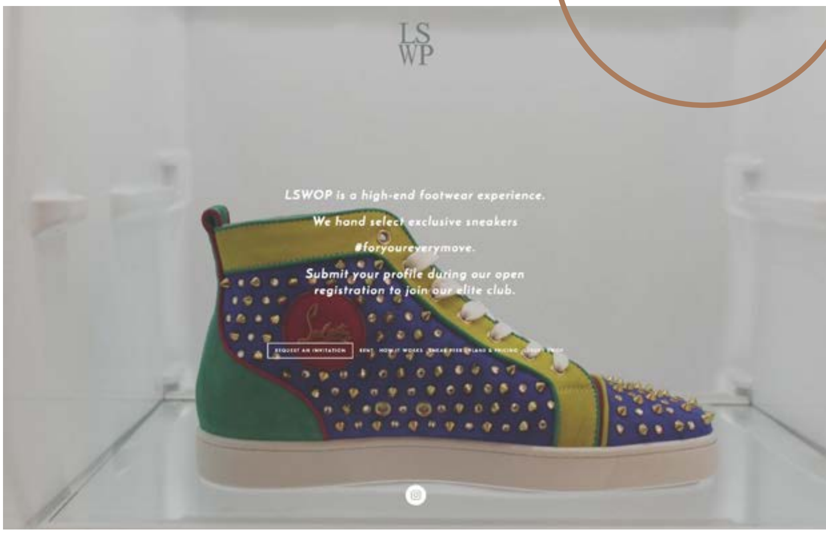
CASE STUDY

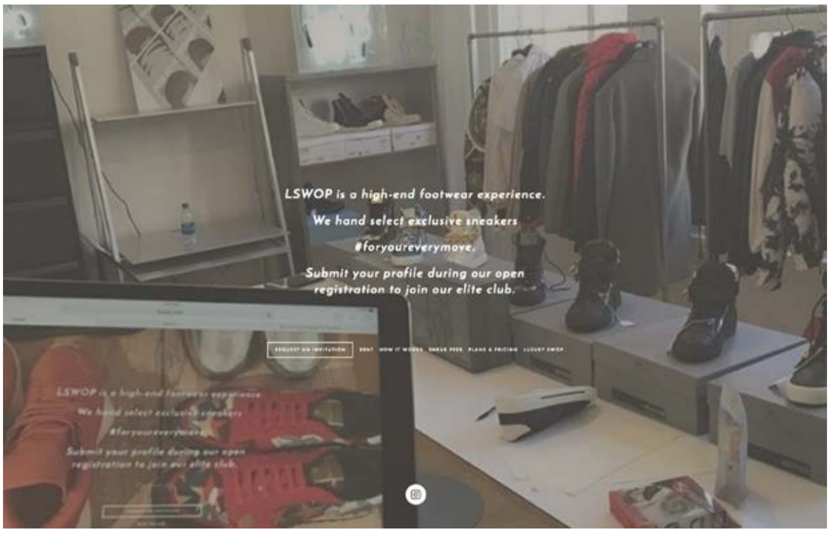
LSWOP: Luxury Sneakers to Rent

Fittingly for a generation used to renting, online luxe sneaker rental brand LSWOP – a portmanteau of 'luxury swop' – rents out high-end trainers to its millennial clients. In return for a $150 monthly fee, members can temporarily wear shoes by designers including Pierre Hardy, Rick Owens and Valentino.

U.S. founders Jinette Cordero and Jonathan Escoffery say the model "provides members access to a remarkable luxury experience, changing the meaning of ownership." [14]

The service allows traditional fashion houses to become associated with an emerging consumption model and delivery service. It also caters to a consumer that wants reliable, predictable access to a rapidly changing flow of luxury product: one of the new tenets of customer service in 2017.





3/

WELCOME TO THE MILLENNIAL WORLD

Uncertainty is the Norm

millennials – today's 17 to 34 year olds – are mercurial consumers, characterised by increasing scepticism, an acceptance of constant flux, and a willingness to travel.

The lives of this age group in 2017 look and feel markedly different to those of the generations that came before them. Solid institutions and markers of adulthood – from marriage to mortgages – are still desirable, but are being embraced at a later age. In the UK, owning a home has become a financial difficulty for many. The millennial age bracket spends £53,000 on rent by the time they reach the age of 30 - £44,000 more than their parents' generation. In contrast, 50 to 70-year-olds spent £9,000, in today's money. [15]

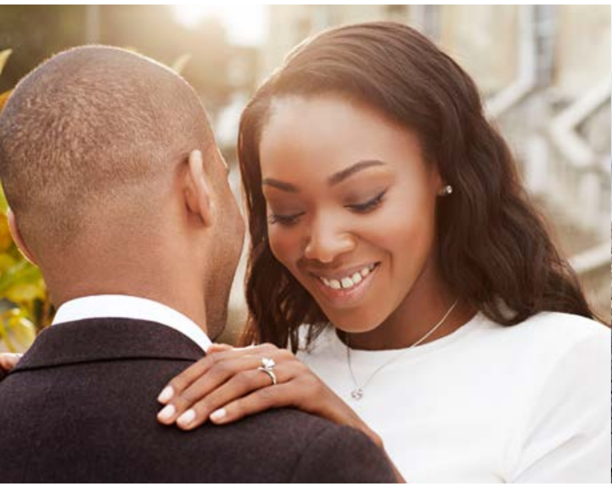
According to The De Beers Group's 2016 Diamond Insight Report, traditional institutions such as marriage and a home still prove to be major life goals for millennials. One of the most interesting characteristics of the bridal jewellery category, for example, is its ability to weather economic recessions better than other diamond jewellery categories. In the U.S., millennial bridal diamond jewellery has maintained growth since the late 1990s, irrespective of economic crises. The De Beers Group attribute this to the increasing affluence of newlyweds, as more marriages now occur later in life when people are better established and have higher incomes.

Yet in a culture of impermanence, a generation accustomed to uncertainty, whether it be political, personal or economic has emerged. A desire for travel, experiences, and authenticity from brands characterises millennial attitudes to consumption, a trend that was marked in 2016 in Asian markets. Agility Research and Strategy predict a decline in luxury retail in Singapore in 2017, after it recorded a 15% drop in millennial interest in spending more with luxury goods in the country.

A thirst for luxury travel, however, is emerging in Asia, with the wealthy millennials surveyed from China, India, Singapore, Malaysia, Hong Kong, South Korea and Taiwan all registering above 71% as being interested in foreign travel in 2017. [16]

Luxury which is immediate and ephemeral, such as fine wine, luxury groceries, travel and beauty is set to enjoy growth, as consumers favour experiences.

Social media is emerging as a deeply valuable source of millennial consumers' intent. Social image aggregator Pinterest,



for example, identified its top consumer trends for 2017 by analysing saved images and searches that had a considerable year-on-year increase in interest (25% and higher), critical mass (more than 500k saves on a topic) and a strong upward trend during the final three to six months of 2016.

Based on this data, the company made predictions for 2017 trends. A 333% spike in charcoal face masks in beauty, a +500% increase in sew-on patches in women's fashion, and a +1450% surge in images of cultural events saved as travel images were all recorded as indicators of millennial appetite in the coming year. [17]

This can help inform business decisions. Luxury watchmakers IWC, for example, opened a store in ski destination St Moritz in December 2016 – a timely decision, considering Pinterest posted a +300% increase in searches related to snow, rather than beach-based vacations for the last half of 2016. Agility Research and Strategy also noted a growing interest from affluent Asian millennials in skiing in late 2016.

A further opportunity for the luxury industry lies in the fact that in the past year, Pinterest said 75% of its content came from businesses. Some 55% of its 100 million users use the social image aggregator to look and shop for products, saving businesses' images and eventually clicking through to purchase them.

But to date, luxury houses have lagged behind when it comes to creating a relationship between themselves and millennials on social media. Engaging with social media allows luxury brands to learn about their existing and emerging customers. Yet data analysts Brandwatch discovered that 99.63% of Twitter conversation on the 32 luxury fashion brands it analysed came from actual and potential customers, rather than the brands themselves [18]. Savvy companies will need to increase their share of the current 0.37% of conversation in the future.

Bottom, left to right: Forevermark diamonds campaign; fashion editor and Instagram influencer Lucy Williams at Song Saa Resort (Source: Lucy Williams and Drea Sobieski); millennials have a thirst for travel and experiences; charcoal masks have become popular in the beauty industry; IWC's new boutique in ski destination St. Moritz in the Upper Engadine (Source: PPR/IWC).

CASE STUDY

Forevermark, a De Beers Group Company

Nearly seventy years after The De Beers Group of Companies coined the tagline "A Diamond Is Forever," diamonds still hold their appeal as a symbol of permanence, strength and beauty. But consumers are asking more questions and have higher standards for their diamond purchases than ever before.

Forevermark, part of The De Beers Group is a brand very much focussed on engaging with millennials who still crave the romantic symbolism of a diamond, but want to invest not only in the diamond itself, but in the livelihoods of the people and the land that produced it – a true lifetime investment.

When Forevermark first launched in 2008, the brand was determined to set new industry standards in responsible sourcing practices from rough to polished.

Going above and beyond the Kimberley Process standards, each Forevermark diamond is inscribed with a unique inscription number guaranteeing its traceability and integrity. Stephen Lussier, Forevermark CEO, says: "Younger consumers particularly want to know where that product came from, and want a lot more assurance that it has 'done good' on its way."

Each Forevermark diamond is sourced from carefully selected mines, and is cut, polished and manufactured in a responsible way by approved partners that can comply with its strict environmental, social and financial standards.

At the start of the supply chain, Forevermark as part of The De Beers Group invests in the environment. For every hectare

Below: Forevermark tracks and monitors every one of its diamonds throughout its journey from the moment it is unearthed. This ensures that every diamond is conflict-free, untreated and completely natural. As a commitment to integrity, a unique identification number along with the Forevermark logo is inscribed on each diamond, and can only be seen through a Forevermark Viewer.

Right: Forevermark positively contributes to the protection of the natural world through the Diamond Route, a set of 10 properties spread across South Africa, Botswana and Namibia. (Source: Annie Griffiths)

Left: Forevermark supports business initiatives in diamond producing countries. Launched in 2009 in South Africa, the Zimele Program helps people to start or grow their own businesses. Sophia Mphuthi, a beneficiary of the programme, runs her own driving school.

Right: The Diamond Route is about more than conservation alone. It supports local communities and economic development through tourism and education. Education and healthcare are priorities for all local communities surrounding the mining areas. They can access services such as schools and hospitals.

of land used for mining, five hectares is set aside for nature conservation. An example of this is a game park near a mine in Botswana, home to over a thousand animals and a cheetah conservation field unit.

Support is also given to a series of enterprise development funds, which create jobs in industries such as farming, jewellery, design, food distribution and other sectors in countries such as South Africa and Botswana. In 2014, over a third of the people who benefited directly from that funding were women.

At the other end of the process, as the final product, responsibly sourced diamonds are growing in importance to millennial celebrities and the stylists that dress them with red carpet fashion increasingly needing to reflect positive lifestyle and luxury values. For example, Forevermark's diamonds were worn to the 2016 Oscars by actress Margot Robbie and models Lily Donaldson and Martha Hunt.

OPINION: HELEN BRAND, UBS EXECUTIVE DIRECTOR, EUROPEAN LUXURY GOODS

We conduct surveys of the Chinese and US luxury consumer, and when we've cut the data for millennials vs. non-millennials, there hasn't been as much difference as you might perceive between their different consumption patterns.

The general theory is that millennials care more about experiences and less about luxury consumption. Once they're a luxury consumer however, there doesn't seem to be a huge difference in how they spend, but in 2017 it is a question of whether you can entice them in in the first place, or whether they want to spend more time on experiences and e.g. posting them on social media. I think brands probably need to do a little more work to target millennials.

Within online and digital, brands need to do more work to make that a luxury experience and adapt to how the millennial consumer is shopping. This area is driving much more activity in terms of how people research but also purchase products.

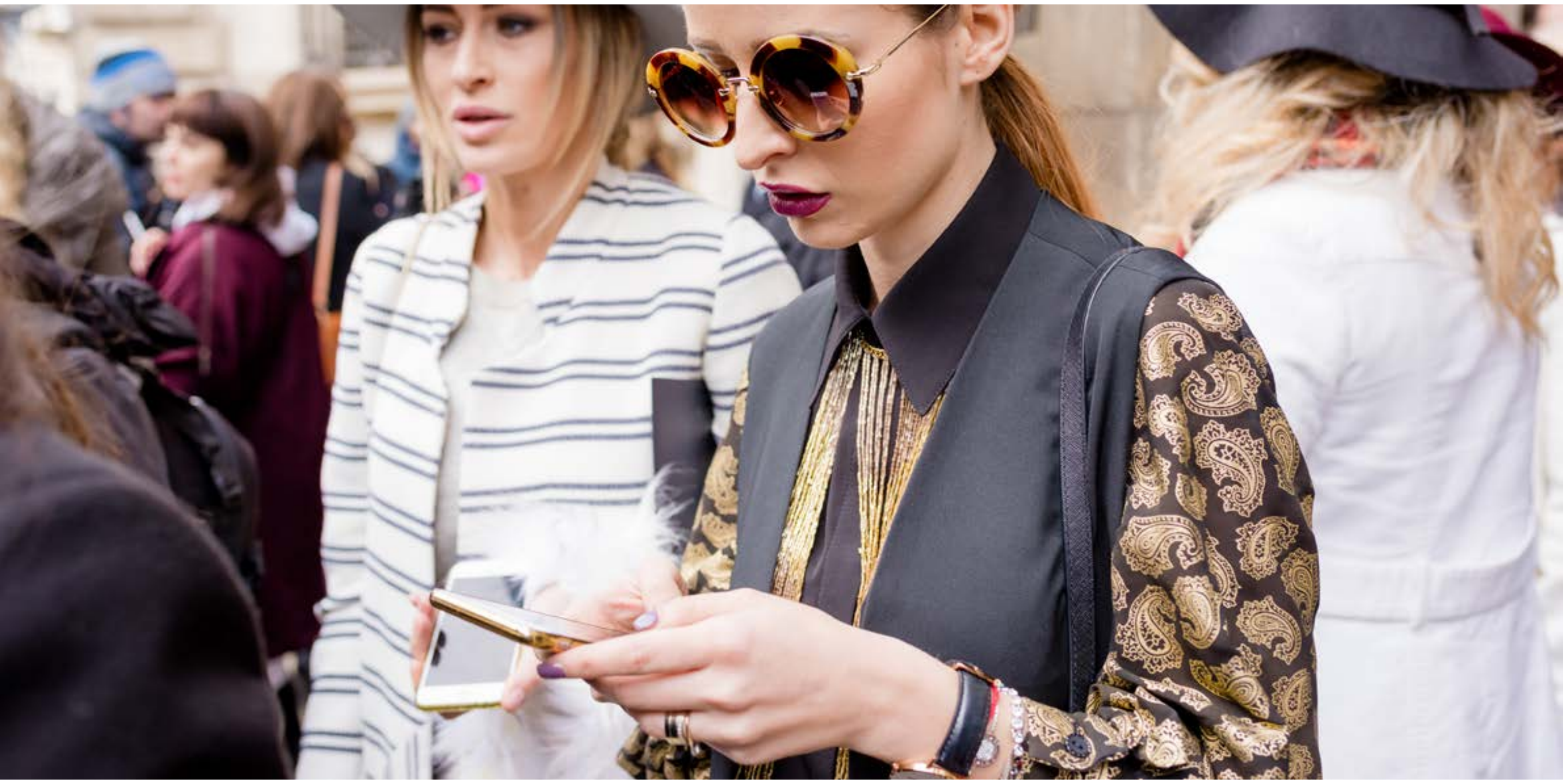
4/

FAST LUXURY

The 'Buy Now' Revolution

Source:


11:29 AM
Social
Facebook
LINE
Instagram
Twitter
Pinterest
LinkedIn
Tumblr
Flickr



In a world where a luxury coat can be ordered on a smartphone in the morning and couriered by bike to a customer's office in the afternoon, where information and communication is exchanged faster than ever via social media and messaging apps, timing is of the essence for the luxury market.

Production, design and delivery timetables are shifting. One of the biggest game changers of 2016 was the 'see now, buy now' season model introduced by Burberry, which saw the brand change its entire production schedule to enable customer to instantly shop runway shows.

Mobile messaging apps like Snapchat have been embraced by brands wanting to please young luxury consumers hungry for instant access to catwalk shows, ad campaign stars, and limited edition product. Brands have tapped into the ability of 'dark social', that is, non-public social formats like WhatsApp and Facebook Messenger, to create exclusive customer relationships. For example, Adidas has used WhatsApp to build private messaging groups with customers, sharing exclusive content and product with key 16-19 year olds before it reaches the brands' Twitter and Facebook channels. [19]

As ever, luxury brands must be careful not to erode their cache and must develop their presentation, sales formats and brand voice carefully before launching faster models of communicating and selling product. But engaging with customers in real-time, whether online or in store, seems here to stay.

Luxury houses must also protect their internal talent in the face of a faster and faster production culture. Raf Simons for Dior and Alber Elbaz for Lanvin are among the design chiefs that left their positions citing the demand for creating multiple collections back-to-back as a reason for leaving.

"The wholesale category is transforming, people's methods of exploring brands have changed tremendously since the commonality of social media,

and business globally is softening due to the uncertainties the world is facing. It simply is a daunting time," Rony Zeidan, founder and chief creative officer of fashion advertising and branding firm RO NY, said in 2016.

Of the numerous departures at big-name fashion houses, "Some of the reasons could be creative existentialism, and others could be misaligned goals with management," he said. "But needless to say, this malaise that is happening in the industry might trigger a great transformation. It has yet to be revealed." [20]

Post its shift to see now, buy now, Burberry chief financial officer Carol Fairweather said the move did not have a major impact on the British fashion house's bottom line when announcing its H2 2016 results. She did, however, note the move heightened the company's "brand reach, be it share of voice [and] magazine covers." [21] Other brands including Ralph Lauren, Tom Ford and Tommy Hilfiger have moved to the model in the past six months: their financial results over the coming year may give an idea of the financial success of the production model.

Above: Tommy Hilfiger's See-Now Buy-Now shoppable runway show at Southstreet Seaport NYC in September 2016 included top models and a collaboration with supermodel Gigi Hadid. The brand staged a carnival-like setup that also allowed guests to buy pieces from nearby pop-ups after the show. What do movements such as these suggest about fashion immediacy in our consumer culture? (Source: Ovidiu Hrubaru / Shutterstock, Inc.)

Opposite page: MILAN, ITALY - FEBRUARY 25, 2016: Fashionable woman attending models and vips using smartphone in the streets during Milan Fashion Week Women Fall/Winter 2016/2017 (Source: Eugenio Marongiu / Shutterstock.com)

CASE STUDY

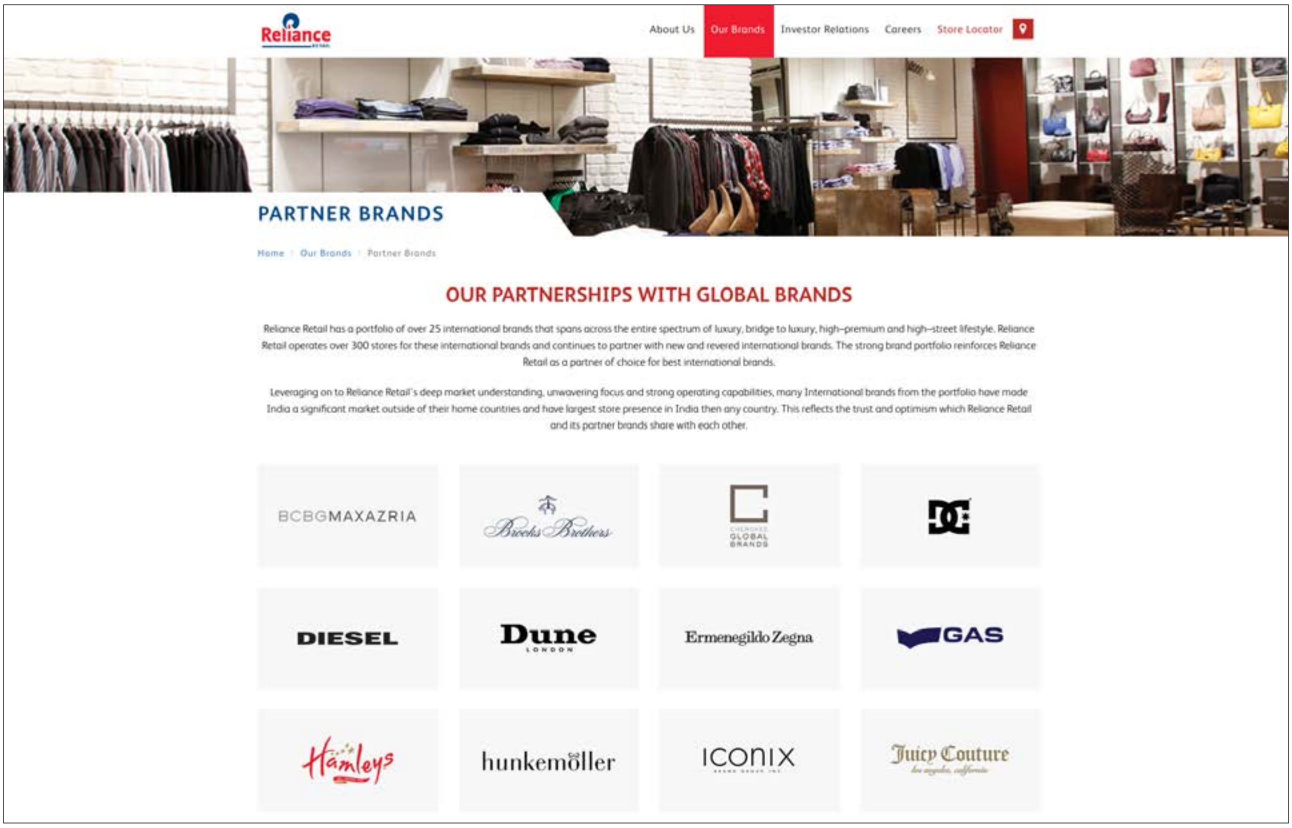
Reliance Brands

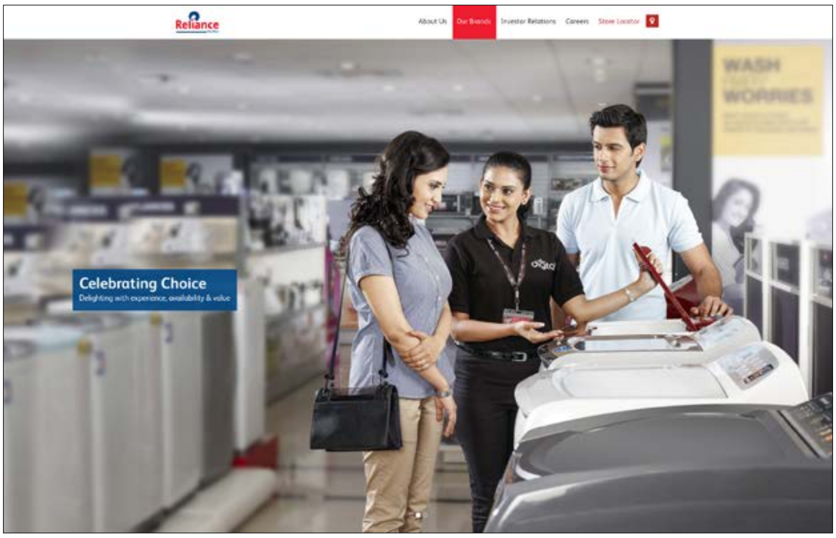
The burgeoning luxury market in India was estimated to surpass $18.3 billion in 2016, growing at a compound annual growth rate of around 25%, according to a study by The Associated Chambers of Commerce & Industry of India (Assocham). [22]

Reliance Brands Limited (RBL) brings global luxury brands including Ermenegildo Zegna and Kate Spade to the Indian market. It has been using Whatsapp as a messaging platform to build relationships with its affluent clients.

Based on customers' in-store shopping histories, RBL has used Whatsapp to send information on promotions, flag up new launches and share product pictures and videos. RBL assigns resources to answer customer questions via the app, conduct quick discussions and help clients decide between purchasing options.

It has also introduced a home shopping system for key clients, whereby executives make appointments with key clients and bring luxury products that match with customers' existing preferences in their own homes, all moves it says have boosted RBL's business volumes in the luxury segment.





Above: Reliance Brands Limited (RBL), part of the Reliance Industries Group, began operations in October 2007 with a mandate to launch and build international and domestic brand equity in the premium to luxury segment across apparel, footwear and lifestyle business. Reliance Industries is ranked #1 Indian company by profit and #215 based on sales revenue in Fortune Global 500 rankings (2016). *Source: Reliance Brands Ltd. LinkedIn*

5/

WHO I AM, NOT WHAT I HAVE

The Quest for Status & the New Consumer Landscape

A desire for conspicuous consumption, particularly in luxury accessories, has showed signs of decline. A 2016 report by market researchers NPD found 81% of millennials said it was important to them that the logo on their handbag be subtle. [23]

Individuality, instead, is more becoming more highly prized, and personalisation is an area that the luxury sector has historically excelled in. Products which offer customisable, interchangeable, or personalised options are performing well: Burberry's The Rucksack, which offers shoppers the chance to have their initials embroidered on the bag, was the brand's biggest bag seller in the last half of 2016. [21]

Luxury travel is set to become a $1.2 billion market by 2022, with an expected compound annual growth rate of 6.4% in the years 2016-2022. [24] This creates opportunity for associated product to serve these experiences – for travel, athleisure, beachwear and sports apparel.

Luxury businesses must monitor these evolving attitudes to luxury and adapt their product to fit.

Start-ups have already emerged to meet this need for discreet, personal luxury, particularly in the accessories and jewellery space. Australian handbag brand Mon Purse offers customers the ability to customise a handbag from over 6 billion unique design combinations and see their design virtually rendered in real-time.

Forevermark, part of The De Beers Group, has responded to the desire for discreet luxury through subtle branding and an invisible to the naked eye Forevermark inscription on its diamonds – privately reassuring the owner of their diamond's integrity. The inscription can only be seen through a special viewer and each inscribed number is unique to the owner.

Upscale British jewellery line Loquet London sells glass lockets set in gold, crystal and diamonds and allows its clients the ability to fill the lockets with made-to-order personalised charms. Luxury board game maker Alexandra Llewellyn offers backgammon sets which can be individually ordered and personalised with initials or messages set with semi-precious stones and brass playing pieces.

Left to right: Burberry's The Rucksack with embroidered personalisation; Alexandra Llewellyn's bespoke handmade backgammon board commissioned by chef and restaurateur Mark Hix, showing his favourite foods and his British restaurants.

CASE STUDY

Executive pay and big business

Luxury retailers, particularly in Europe, may have to be mindful of consumer perceptions towards wealth in the coming months. Early 2017 saw a flare-up in UK media coverage of corporate boardroom practices and executive pay. Branded 'Fat Cat Wednesday', 4 January 2017 was the day executives' pay for the year surpassed the average UK salary of £28,200, according to the High Pay Centre think tank. [25]

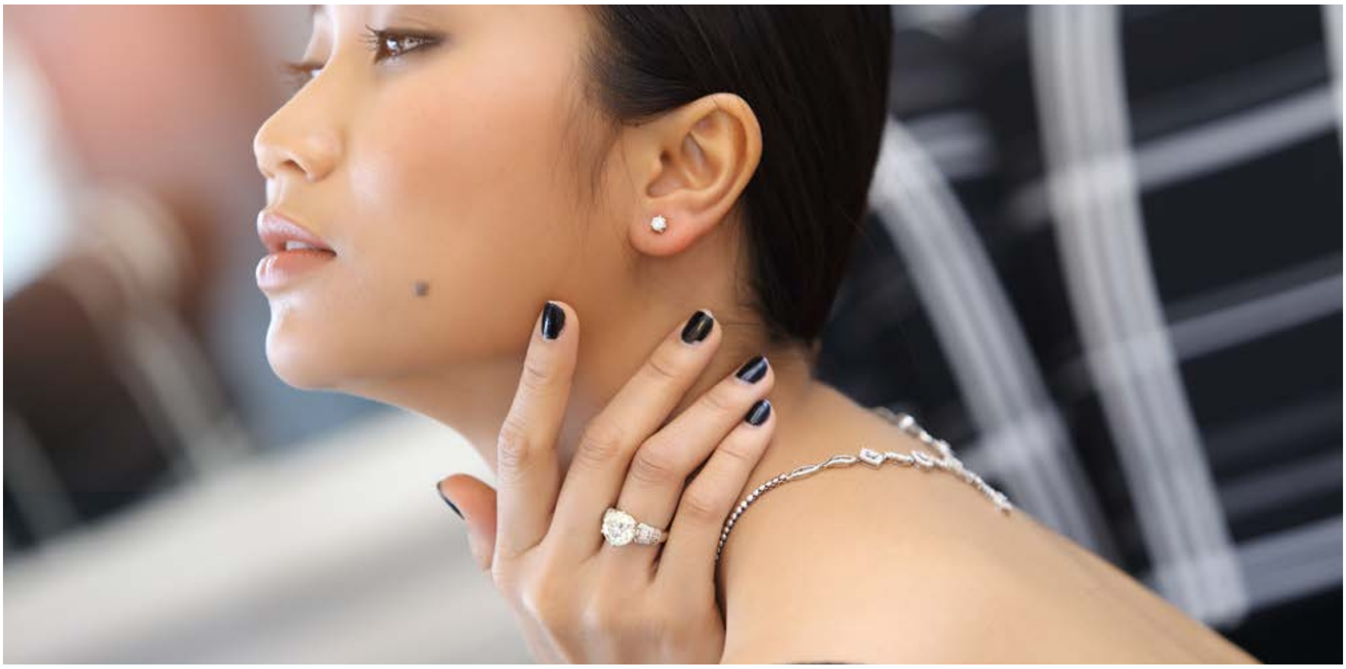
The UK government is considering plans to make firms disclose the pay gap between chief executives and average workers. If consumers continue to feel squeezed financially and marginalised by big business, this may be reflected in anti-corporate sentiment and changing attitudes towards wealth and spending.

In the United States, January saw the proposal of the Stop Subsidizing Multimillion Dollar Corporate Bonuses Act, which aims to close a loophole in tax law that allows corporations to claim commission and performance-based executive compensation as a deduction.

Also in January, bonus and pension packages for top executives at Volkswagen and Deutsche Bank were strongly criticised in Germany, leading to calls for legislation to create limits on boardroom pay. [26]

CASE STUDY

Millennials in China



Diamonds are one area of the luxury market that has experienced growth, particularly in India and China. Chinese millennials are spending more on diamond jewellery than any previous generation. They are increasingly buying diamonds for themselves, rather than as part of a couple, reflecting changing relationship values in the country.

In a study, 32% of Chinese millennials said they identified success as financial independence, and 40% said financial independence was more important than marriage. [27]

Globally, The De Beers Group said in its most recent 2016 market assessment that consumer preferences can be expected to change, with an increased focus on self-expression; as a result, design and branded jewellery will continue to increase in relevance. Consumers will grow in knowledge and will push for ethical products with assured provenance.

It predicts self-purchases to rise, especially among women, and demand for lower entry-point diamonds to increase as well.

OPINION : TIM JACKSON, LECTURER, BRITISH SCHOOL OF FASHION

for millennials, beauty as self-expression

“Notions of genderless beauty are entering the mainstream, as younger generations focus on individuality rather than binary girl/boy dynamics. Once marginalised LGBT and transgender groups have found their voice and influence, and freedom and the spirit of the individual is a strong trend reflected across fashion and beauty.

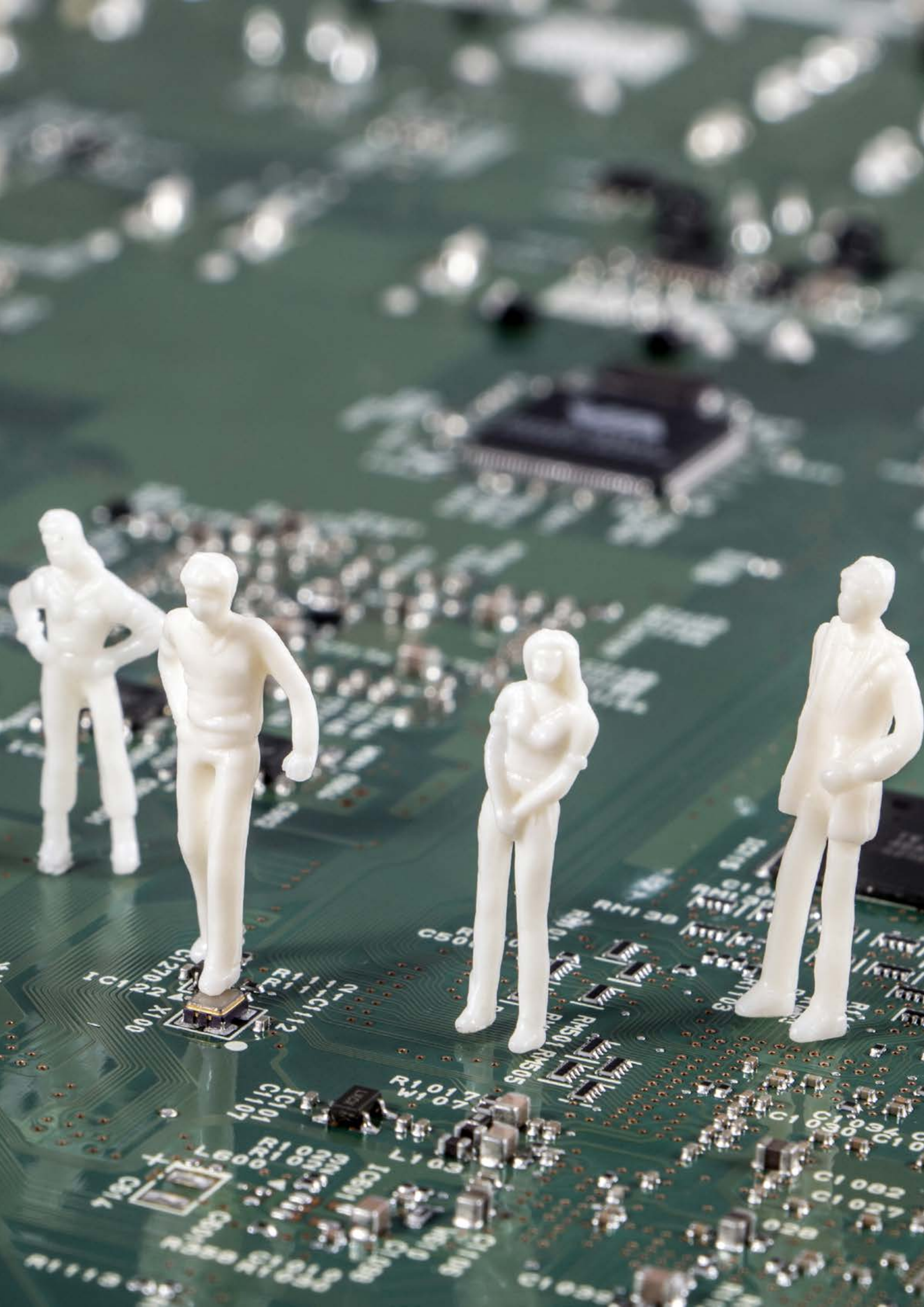
MAC Cosmetics pioneered this two decades ago with ad campaigns featuring RuPaul and k.d lang, but have more recently partnered with Caitlyn Jenner. Now even beauty giant L’Oreal’s mission statement reads that its goal is ‘reaching out to extremely diverse populations with a vision of universalising beauty’.

Blurring of gender identities is not new, especially in pop culture - think of David Bowie - and androgynous fashion, such as Calvin Klein’s designs, has long existed. But the trend has more traction now, and a much broader audience. U.S. designer Shayne Oliver’s Hood By Air label tries not to present distinctive men’s and women’s collections as clothing, and models are styled on catwalks in such a way that gender is bypassed. Model Cajsa Wessberg’s shaved head challenges traditional ideas of femininity, whilst Andrej Pejic and emerging Central Saint Martin’s M.A. graduate Matty Bovan do the equivalent for masculinity and perceptions of male beauty.”

6/

A NATION OF ROBOTS

Artificial Intelligence and its Impact on Economic Growth



Luxury retailers have traditionally offered high levels of human service and interaction with customers, to offer bespoke service and information.

The use of AI in retail customer service is still not widely adopted, but the digital assistant and chatbot industry is a market expected to generate $600 billion in revenues by 2020, with implications for both customer-facing and backroom operations. [28]

Customer Relationship Management (CRM) systems took a leap forward in 2016, with businesses Salesforce, Oracle and Base launching new CRM tools underpinned by AI technology. This technology is usually reserved for backroom sales processes, but the concurrent increase in digital assistants and chatbots to interact with both potential and established customers raises questions about the future roles of humans within retail.

AI can intelligently collate, store and interpret existing information and data, streamline processes and cut time. The use of AI on shop floors to provide store and product information, for example, means salespeople can devote more time to individual customers. Online, bots can be used in customer service to handle initial enquiries and simple requests, freeing up time for human customer service staff to handle more complex customer queries.

As with other sectors, the luxury industry will have to work hard to build trust with consumers and ensure that any transition from a typically human process to a bot-led experience is a seamless one.

Payment methods are evolving too. Contactless credit or debit cards now have a high acceptance among shoppers. The UK is the leading user of contactless payments in Europe, along with Spain and Poland, according to market research firm Euromonitor. The UK Cards Association reported there were 159.1 million contactless transactions in February 2016, the equivalent to about 63 a second. [29]

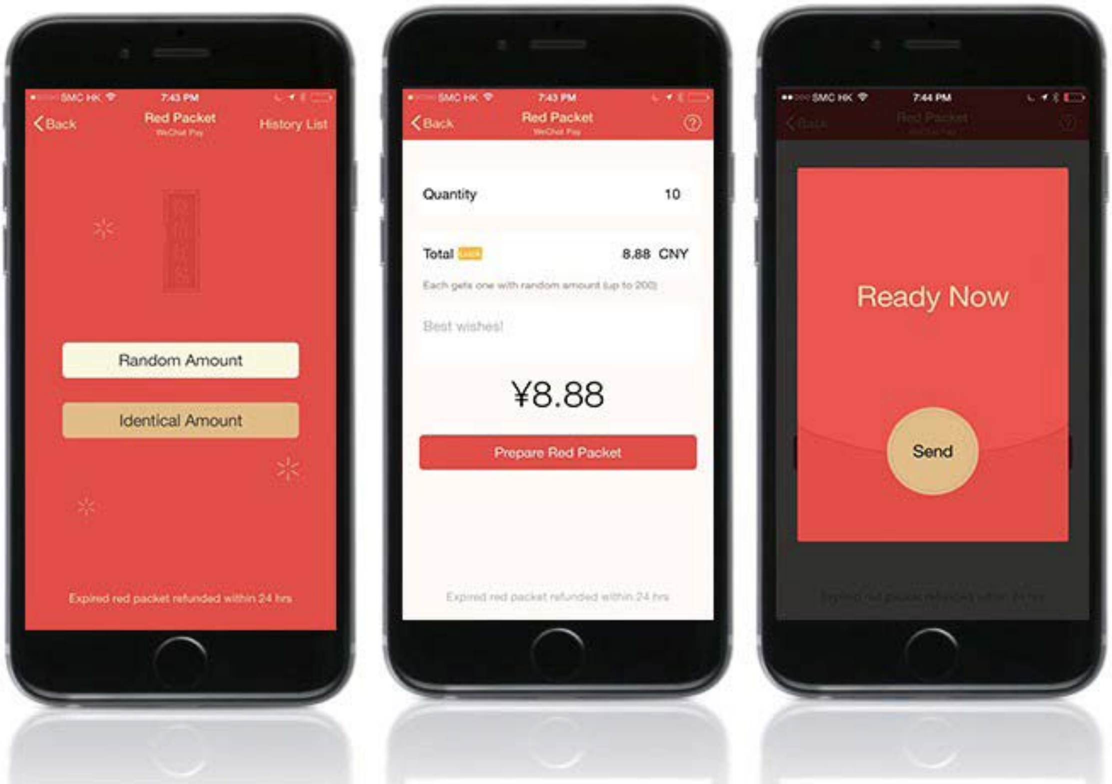
The British School of Fashion's Tim Jackson says that "growth in online shopping will drive innovation in payment methods and so have implications for the notion of money and how it is perceived; for example, digital money versus cash." Contactless payments in various forms are reducing the need for cash, with speculation that countries such as Sweden are moving towards cashless societies.

"In-world immersive lifestyle communities such as Second Life have long since had their own currencies, Linden dollars in the case of Second Life. Bitcoin is perceived by some to represent a possible future of money, and social commerce platforms like WeChat now use digital gimmicks such as WeChat's Red Packets to drive spending," Jackson notes.

Some retailers are abandoning notes and coins completely. In the UK, supermarket chain Waitrose and healthy food chain Tossed opened stores in 2016 which are entirely cashless.

Card payment providers Visa and MasterCard have agreed that all retailers will have to provide contactless to be able to take card payments by 2020.

Shoppers are also being encouraged to adopt wearable payment technologies. British company Kerv offers a wearable contactless-enabled ring. Bank Barclays already sells contactless wristbands, a key fob and a sticker – that can be affixed to whatever the customer wants – which enable payment from the customer's debit or credit cards. [29]



Above (top to bottom):
WeChat's Red Packets gimmick taps into the symbolism of this cultural tradition, and encourages digital payment habits to drive spending; Kerv's wearable contactless-enabled ring.

ROBOTS IN RETAIL

1/ CUSTOMER RELATIONSHIP MANAGEMENT SYSTEMS

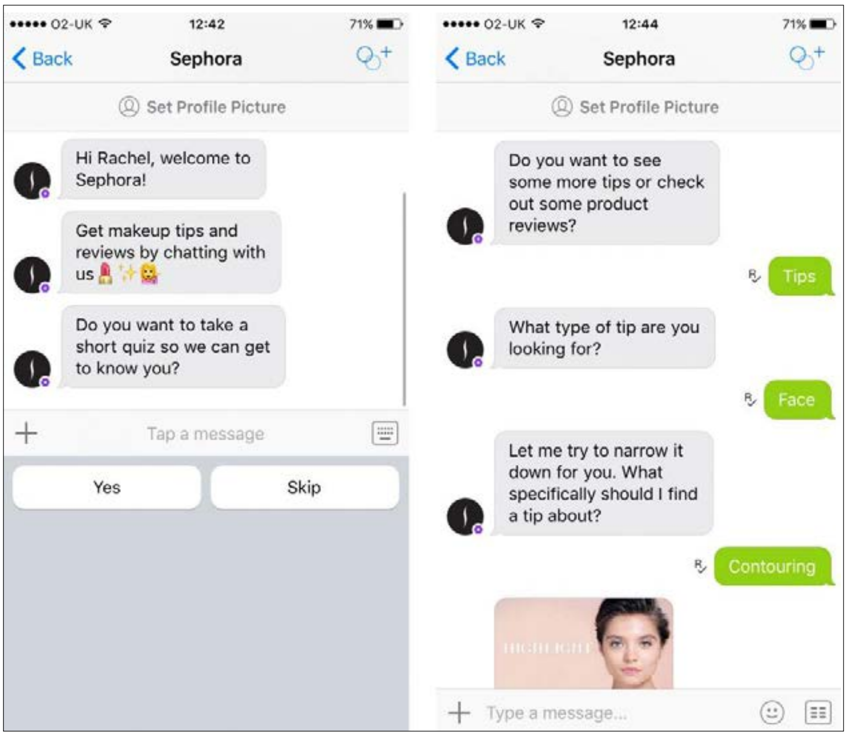
2/ PAYMENT METHODS

CASE STUDY

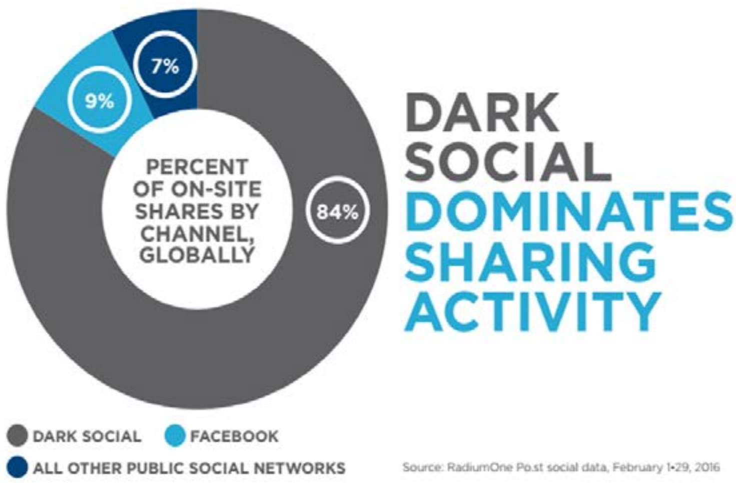
Sephora Chat

French beauty chain Sephora has started to communicate with its customers using chatbots on social messaging apps. Ontario-based Kik has an estimated 300 million users and its founders claim 40% of U.S. teenagers use the app. Kik users instigating a conversation with Sephora on the app are invited to give information about their beauty preferences, and in the ensuing conversation are offered tailored product reviews, beauty tutorials and tips linked to the Sephora mobile shopping site. [30]

'Conversational commerce', as taxi app Uber's developer experience lead Chris Messina dubbed it in 2016, is likely to increase as teen millennials who spend more time on messaging apps become consumers and improvements to the technology, allowing for more natural, personalised interactions, are made. Apps like WeChat, WhatsApp, Kik and Facebook Messenger are set to become increasingly important to brands looking to tap into younger markets – but the conversion rate from in-app communication to sales is yet to be seen.



Above: Sephora's communication with customers on the social messaging app Kik.



Robots and GDP

The World Economic Forum (WEF) says we stand on the brink of a 'fourth industrial revolution'. The first, in 1784, was steam driven. The second, in 1870, was marked by division of labour, electricity and mass production. Electronics and IT ushered in a third revolution in the 1970s, and we now, it says, are experiencing a fourth wave characterised by "a fusion of technologies that is blurring the lines between the physical, digital, and biological spheres." [31]

This industrial revolution is driven by billions of people connected by mobile devices, with unprecedented processing power, storage capacity, and access to information. This is coupled with rapid growth in artificial intelligence, robotics, autonomous vehicles, 3D printing, nanotechnology, biotechnology, materials science, energy storage, and quantum computing.

"There are three reasons why today's transformations represent not merely a prolongation of the third industrial revolution but rather the arrival of a fourth and distinct one: velocity, scope, and systems impact. The speed of current breakthroughs has no historical precedent," WEF founder Klaus Schwab said in 2016.

Automation and AI defines this revolution, and opinions vary as to the implications for the economy and spending. One theory, as economists Erik Brynjolfsson and Andrew McAfee have noted, is that the shift to a more automated world could create higher levels of inequality. This would be primarily led by its potential to disrupt labour markets.

As automation practices and robots replace human workers across the entire economy, the net displacement of workers by machines might widen the gap between returns to capital and returns to labour. Andrew Norton, director of the International Institute for Environment and Development, argues that low-income countries have historically achieved economic growth through industrialisation. [32]

Automation could mean workers who previously earnt wages and created spending power through a growing demand for labour are replaced by robots and automated systems, hindering GDP growth and moving manufacturing away to more developed, technology-driven nations. Harvard economist Dani Rodrik's research suggests automation has been cutting the need for more low-skilled jobs than medium or high-skilled ones, increasing inequality. [32]

An opposing theory is that the replacement of workers by technology for menial tasks will, in the long term, result in happier staff who are engaged in more productive and concept-driven work, which may pay dividends by diverting human talent away from repetitive, simple tasks towards ones which can create value. As the World Economic Forum points out, "the largest beneficiaries of innovation tend to be the providers of intellectual and physical capital."

CASE STUDY

A New Marker of Wealth: UN Sustainable Development Goals

The UN's Sustainable Development Goals (SDG) take a different approach to the traditional use of GDP as a measure of a nation's wealth. Launched in 2015, the goals were ratified and adopted by all member states of the UN General Assembly in 2015 and backed by global figureheads such as Pope Francis and Bill and Melinda Gates.

Spanning 17 measures of a progressive, healthy society, the goals are designed to offer a broader view of whether a nation is thriving or not. While GDP measures the monetary value of goods and services produced by a nation, the SDGs take into account factors including energy consumption, education levels, health innovation and quality of infrastructure.

The goals are particularly pertinent to the luxury industry. The fashion sector is a major employer of people in the developing world and its supply chain is deeply impacted by many of the goals – from the goal of eradicating poverty through appropriate pay, to gender equality in the workplace, with women making up 80% of global garment workers.

With the goals and targets in place, policy tools and frameworks are now being developed. This will lead to evidence-based policy backed up by existing data, and help nations benchmark and track their progress against the goals. Localised SDG networks and associations, under the overarching UN Sustainable Development Solutions Network, have been formed to foster the development of the actual metrics and provide education and training.

The goals were rebranded as Global Goals in 2016, and have seen strong recognition and uptake in the fashion sector and on social media.

Above: The UN Sustainable Development Goals, rebranded as Global Goals in 2016.

Bottom Left: Gillian Anderson, a Positive Luxury friend and actress in the film *Sold*, was on the United Nations Office of Drug and Crime (UNODC) panel, "The Role of the Arts in Helping to End Human Trafficking" in March this year.

Bottom Right: NEW YORK CITY - APRIL 21 2016: Actor & UN envoy Forrest Whittaker appeared before a special plenary segment of the UN General Assembly to discuss Sustainable Development Goals. (Source: A.Katz/ Shutterstock Inc.)

Opposite Page Left: NEW YORK, USA - Sep 27, 2015: President of Ukraine Poroshenko Petro delivers his speech at the UN Sustainable Development Summit in New York. (Source: Drop of Light / Shutterstock Inc.)

This page: Miles away from the digital inundation of urban cities lies the beautifilly tranquil Soneva Jani resort, part of the Soneva destination collective. Last year, Soneva released a Total Impact Assessment (TIA) for 2015-2016 that allows them to take a "planetary boundaries" view of all their social and environmental impacts. Tourism is one of the fastest growing industries, and sustainable tourism has been highlighted in Sustainable Development Goal target 12.b and 14.7. Tracking environmental footprint data with new technologies will be an increasingly popular method for transparency, and to make for "convincing conversation" with conscious consumers.

TOTAL IMPACT
$34,200,510

Key
Bars represent the scale of our impact

Green represents a positive contribution
- Direct
- Indirect

Red represents a negative contribution
- Direct
- Indirect

Definitions
Direct: Impacts from Soneva business operations.
Indirect: Impacts via our supply chain; human development improvements in social wellbeing; indirect CO_2 emissions such as guest air travel.

“People are starting to realise that every dollar they spend is a vote: a public demonstration of their values.”

Paul Dillinger
Head of Global Innovation, Levi Strauss & Co.

OPINION : SUSTAINABILITY PREDICTIONS

Angela Ahrendts, senior vice president of retail at Apple and former CEO of Burberry, said, “I grew up in a physical world, and I speak English. The next generation is growing up in a digital world, and they speak social.

“Today, when you ask CEOs and CMOs what is their long-term planning horizon, they will tell you that it is between 18 and 24 months.” [33]

Campaigner and co-founder of Fashion Revolution Orsola de Castro predicts the conversation around fashion and sustainability will become more concrete in 2017. “For years we’ve been skirting the true issues trying to make sustainability sound sexy, forgetting to explore the real terminology, ignoring the words that have meaning.

Prepare yourself to know all about collective bargaining, unauthorized subcontracting, non-compliance and industrial relations.

This is no time for a glosswash — transparency demands that we get to know the problem before we can resolve it. The language of sustainability may be grittier than what is normally used in fashion talk, but it makes for a more convincing conversation.”

Paul Dillinger, head of global innovation at Levi Strauss & Co, predicts 2017 will usher in more politically-motivated consumption. “Voting doesn’t just happen every two years in November.

People are starting to realise that every dollar they spend is a vote: a public demonstration of their values.

Each purchase we make can be a small vote for sustainable industry, or for irresponsible excess. It can be a vote for renewable energy policy, or for sustained reliance on fossil fuels.

Products, like politicians, represent a set [of] values. I predict that conscious consumers will become more mindful of these considerations and will expect more transparency from the companies who are “asking for their vote.” [33]

7/ CONCLUSIONS

In a difficult economic climate, luxury retailers must ensure they invest wisely in their people and practices in 2017 – keeping business stable after a turbulent 2016 and setting the course for a strong performance in 2018. Transparency was the watchword of 2016: purpose is what will drive growth in 2017.

Pollsters, global media and betting markets failed to predict the outcome of some of 2016's biggest political events – from Brexit to Trump. It has become increasingly clear that we are living and working in an environment where it is almost impossible to rely on or anticipate global government stability and clear leadership: individuals, and the businesses they work for, can only control their own actions. As governments are failing to address citizens' needs, companies are filling the role of solving some of the most global pressing issues.

There has been talk of the development of a corporatocracy in recent years. This refers to an economic and political system controlled by corporations or corporate interests, with negative connotations of chasing wealth at any cost. But business can be – should be – a positive, active agent of change in the world.

Positive Luxury found 83% of millennials it surveyed agreed with the statement "there is too much power concentrated in the hands of a few big companies".

The business winners of the future will be the ones who actively try to earn and retain their staff and customers' trust and respect, not those chasing profit at any cost.

There is nothing new in successful businesses taking the lead in solving a pressing societal need.

Acting with purpose has served as the engine for the development and growth of many of the world's most recognisable brands for centuries.

By changing and improving the way business was done, such companies revolutionised the fortunes not only of their company but of the lives of their staff and customers too. This was done through philanthropy, through creating a product that was indispensable, or democratising a service. Today, names historically associated with these actions – such as Cadbury, Burberry, Boots – represent powerful, profitable, influential multinational brands.

The changes they conceived and made changed the fabric of society. Such efforts were driven by a desire to change and improve, often in times of great political and social turbulence. Far from being a marketing device, behaving with purpose was an active choice made by founders and board members to make better workplaces, and by extension, better societies.

Today purpose remains as important to businesses as ever. We have found it profoundly affects company bottom lines: a strong sense of purpose empowers organisations to unify their staff and focus on a common goal.

The luxury market has a unique opportunity. Often working with rare, natural resources and local communities, this is a responsibility and a privilege which if handled with care and thought, can lead to productive, profitable, positive outcomes for companies, staff and customers, and ultimately society at large.

By taking control and responsibility for making a corporate policy, a product or a service better suited to today's needs, this can start to trickle down and have a positive impact across a business' entire supply chain and beyond.

Forevermark, as part of The De Beers Group, run hospitals in partnership with the Botswana Ministry of Health, which are not just for staff but serve as district hospitals, free and available to all, and a HIV and AIDS prevention, treatment and support programme for employees and family members.

For watchmakers IWC Schaffhausen, one action includes financially supporting the Charles Darwin Foundation's research into preserving the Galapagos Islands ecosystem via sales proceeds of a specialist diving watch. Another is helping to set up the Swiss branch of the Laureus Sport for Good Foundation, which connects children with sport through social projects.

For Belvedere Vodka, this means raising enough funds to provide 30,000 HIV-positive women with access to treatment that stops the transmission of HIV to their babies since 2011.

For Tiffany, this means setting goals in place to source all its energy from renewable sources, and actively opposing new mine development in pristine locations, such as Yellowstone National Park.

The research in this report suggests a luxury market that is facing profound shifts, which are changing the way luxury is perceived. These economic, political and social changes mean businesses will need to understand the hearts and minds of a more aware, questioning customer, and be able to demonstrate their value and leadership in an increasingly competitive global marketplace.

We live in a world where we cannot rely on politics and policy to drive societies forward. Key referendums, national elections and votes will continue. This year in Europe alone, leadership elections in the Netherlands, France, Germany and Norway among others could impact on economies and spending.

But businesses have the opportunity to hedge against the shifting sands of global politics by standing firm on their own convictions and beliefs. Companies that exemplify purpose and innovative, socially aware values will find themselves at the heart of social and economic change, meeting their customers' desire for progressive, inclusive vision and drive: qualities that will be needed in 2017.

Businesses have the opportunity to hedge against the shifting sands of global politics by standing firm on their own convictions and beliefs.

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