Luxury Strategy and the Year Ahead 2024

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Contents

03 Overview

04 The State of the Luxury Economy in 2024

9 Evaluations of Luxury Brand Strategy & Consumer Behavior

13 The Outlook for Luxury Tech & Innovation

17 Expectations for Luxury Sustainability

Overview

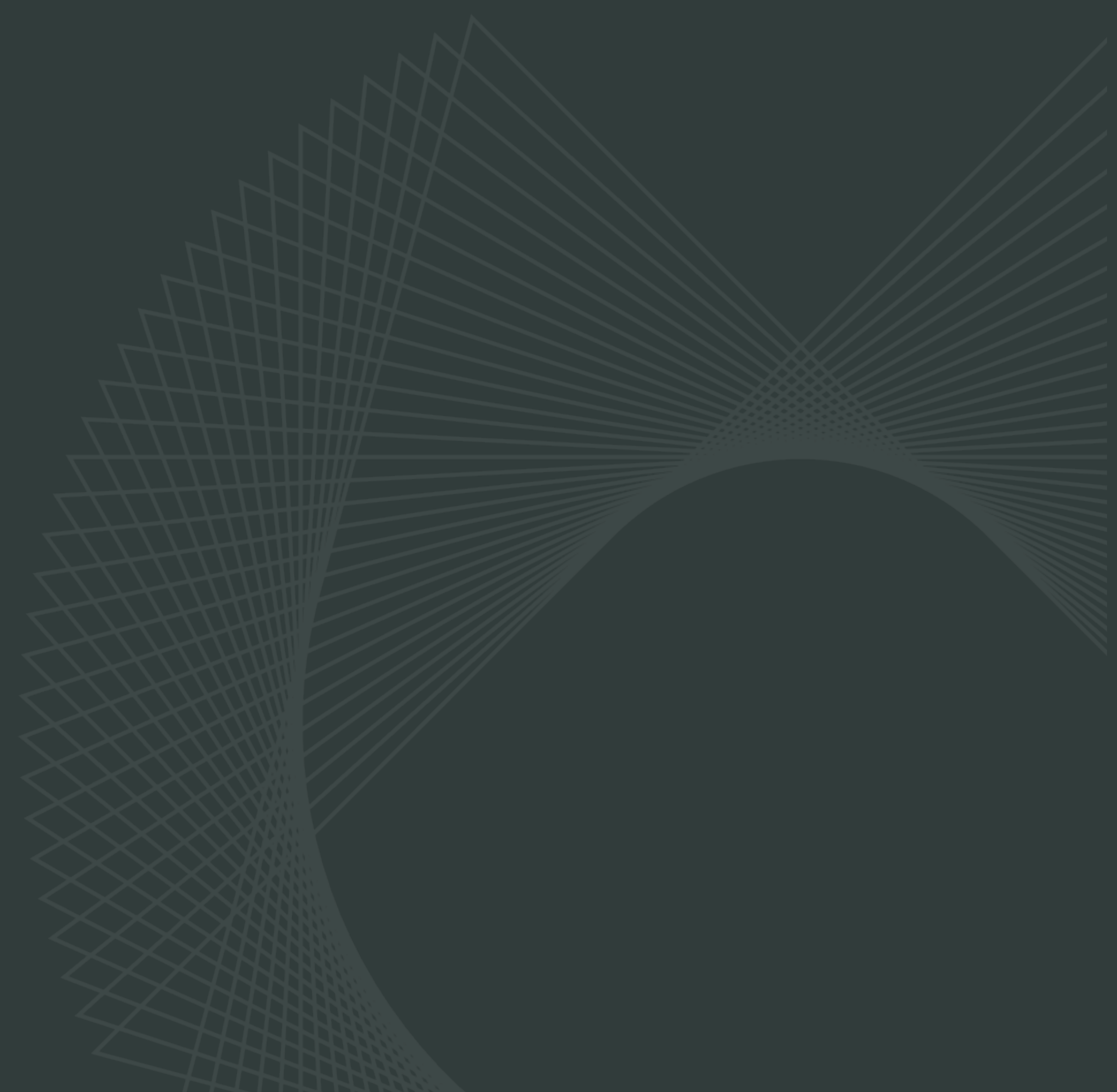
Each January, Fashion Strategy Weekly publishes Luxury Strategy in the Year Ahead, its annual preview of what we believe are the key trends that will challenge strategy-makers across the luxury industry over the next 12 months.

In keeping with FSW's themes throughout the year, the annual preview focuses on trends in strategy, technology, economics, and sustainability.

Previews and forecasts for the year ahead in any industry are always fraught with peril. Forecasting models—whether they be quantitative or qualitative—are informed heavily by the (recent) past. So to the degree that the future does not represent a tweak to the past, they go astray. Typically, forecasts get inflection points or big changes in trends wrong, which makes sense.

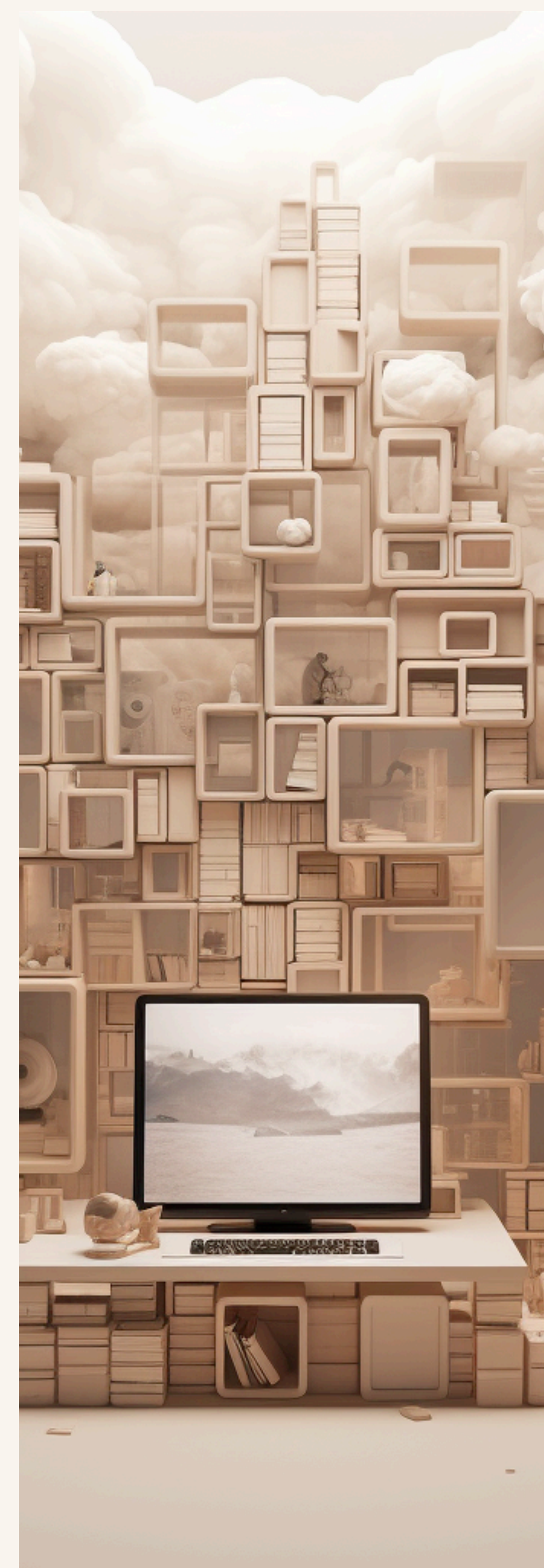
For our preview, we have leaned into some predictions of what may happen in the luxury industry in 2024. More importantly, we have laid out strategies for addressing the challenges posed by each forecast that we hope can be adapted to a wide variety of market settings, whether our forecasts are directionally correct or not.

The State of the Luxury Economy in 2024



Uncertainty & Volatility Will Continue

Though forecasting the future has never been more difficult than it is now, one can have some confidence in predicting that we will continue to experience volatility and uncertainty in commercial luxury markets in the next year.



Whether in global economics, politics, health, technology, or the uncertainty over how to balance commercial needs with sustainability imperatives, we have lurched from one generally unexpected event to the next over the past few years.

Few economists predicted the surge in global inflation from 4.7 percent in 2021 to 8.7 percent in 2022 with the attendant increases in global interest rates, the emergence of costs of living crises, and the squeezing of discretionary consumption for many aspirational shoppers. Most economists also thought that the U.S. would experience a recession in 2023 instead of continuing to grow by over 2 percent, powered by strong consumer demand. Many thought that the emergence of the Chinese consumer from Covid lockdowns in January would lead to a surge in demand and tourism but that has turned out to be only sort of true.

In other words, just in the field of predicting demand for luxury products, getting the direction of the trends right (up vs. down) has been hopeless. This is not a wonder given the wild gyrations in sales growth at luxury firms in the past year (Exhibit 1). And understanding what consumers will do in various economic environments is probably easier to forecast than the impact of new technologies and the need to adjust toward more sustainable business models. Understanding what will happen next and how to be best positioned for various potential outcomes will remain the key strategy imperative for luxury in 2024.

The slowing down in the rapid rates of sales growth in luxury firms in late 2023 and 2024 will increase the importance of getting strategy right amid the unpredictability of the market. The industry has grown by 25 percent since 2019 (again, who predicted this?) fueled by a successful industry-wide shift into more and better digital distribution combined with an evolution of aspirational consumer preferences (about 40 percent of the market) towards luxury ("revenge buying") and eventually strong economic growth in most countries to drive robust sales.

Though the benefits were not symmetrically distributed across luxury organizations and bigger brands tended to benefit more (apart from Kering), global social and economic trends lifted most boats. The industry shifted from being laggards in digital commerce to retail leaders and has even led the way in Web3 experimentation. Yet a slowing down into more normal rates of growth (Exhibit 1) increases pressure to keep the strategy evolution machine going at big and small luxury brands.

Exhibit 1. Organic Revenue Growth (y/y, %), Q1:2021 to Forecasted Q4:2023

Company	Q1.2021	Q2.2021	Q2.2021.1	Q4.2021	Q1.2022	Q2.2022	Q3.2022	Q4.2022	Q1.2023	Q2.2023	Q3.2023	Q4.2023
Burberry	32	90	6	7	7	1	11	1	16	18	3	15
Hermes	44	127	31	11	27	20	24	23	23	28	15	16
Hugo Boss	-8	133	40	51	52	34	18	15	25	20	15	13
Kering (x. Eyewear)	26	93	12	33	20	12	14	-8	-1	0	-7	7
LVMH	30	85	20	27	23	19	19	9	17	17	12	13
Moncler brand	21	118	27	20	29	23	13	16	28	32	10	16
Pandora	13	84	15	10	21	3	3	4	1	5	6	7
Richemont	36	129	29	32	27	14	19	5	22	19	7	13
Tod's	19	115	14	40	20	9	11	8	23	22	5	10
Average	**22**	**107**	**21**	**26**	**25**	**15**	**14**	**6**	**15**	**16**	**5**	**12**

Source: JP Morgan. Fashion Strategy Weekly.

One strategy model that seems appropriate for the unique qualities of the luxury industry is the need to build corporate ambidexterity, as developed by the Henderson Institute at BCG. Their team finds that many companies, particularly large and successful industry leaders, fall into a "success trap" of relying (1) too much on their current business at the expense of what is needed to compete in the future or (2) a "perpetual search trap" of investing too many resources into investing in the future at the expense of building profitability today.

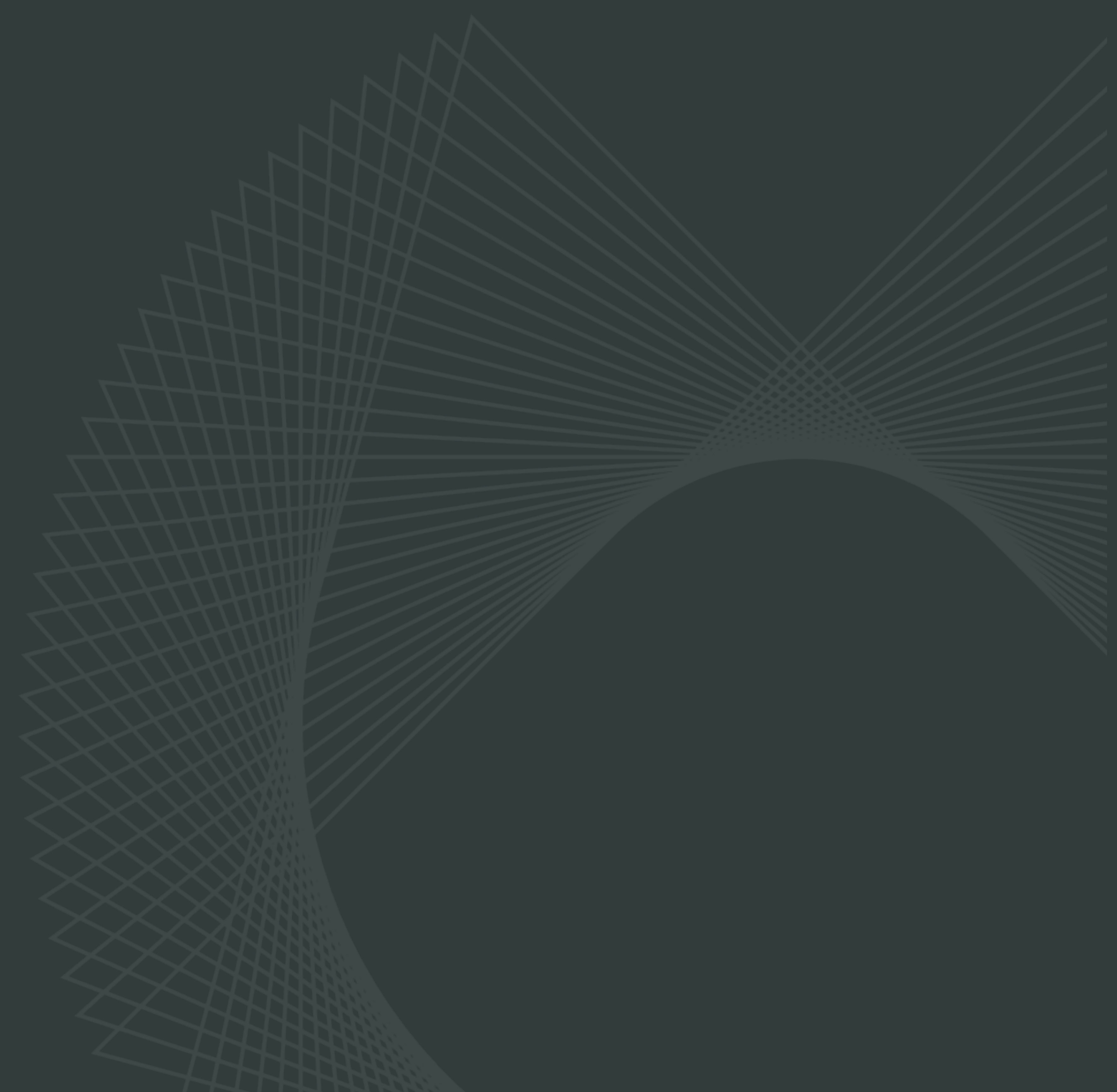
Luxury's enormous success since the pandemic came, in part, by turning their initial skepticism of digital commerce into a range of tactics that unlocked new channels of customer engagement. This began with catching up with other retail verticals in ramping up their Web2 style e-commerce and social media functionality just to support sales when IRL+ was not an option. It then evolved into investments in video games, Roblox instances, metaverse ateliers, and digital/ phygital collections. The laggard became a leader in digital commerce.

Yet, it is easier to churn out these sorts of efforts when revenue growth is in the mid-teens for many quarters in a row and the outlook is upbeat. Strategy is less important than execution when the going is good. As growth rates return to the single digits for most brands across most product verticals, the wild ride of tactical actions needs to evolve into the steadier tiller of strategy.

But which way should strategy now evolve given how difficult it is to predict what's next and the commercial environment remains so volatile and uncertain? How can luxury maintain the balance of not falling into either the "success trap" or "perpetual search trap", the latter of which seems riskier given the industry's rapid web3 experimentation? These are hard questions for any industry but are especially trickier for luxury given that it needs to sell the experience as a service, tell a consistent brand story, and maintain a sense of exclusivity to maintain pricing power.

Avoiding the trap seems to be about building the right capabilities. This includes success metrics that look at the success of their current business and those that measure the ROI from investments in the future of the business. It includes ensuring that staffing is sufficiently skilled and incentivized for short- and long-term success and with clear roles. It also requires ensuring that content production—after all the post-pandemic luxury industry is a content creation industry—is guided by a scalable strategy governed by a content plan so that content supports both near- and longer-term objectives.

Evaluations of Luxury Brand Strategy & Consumer Behavior



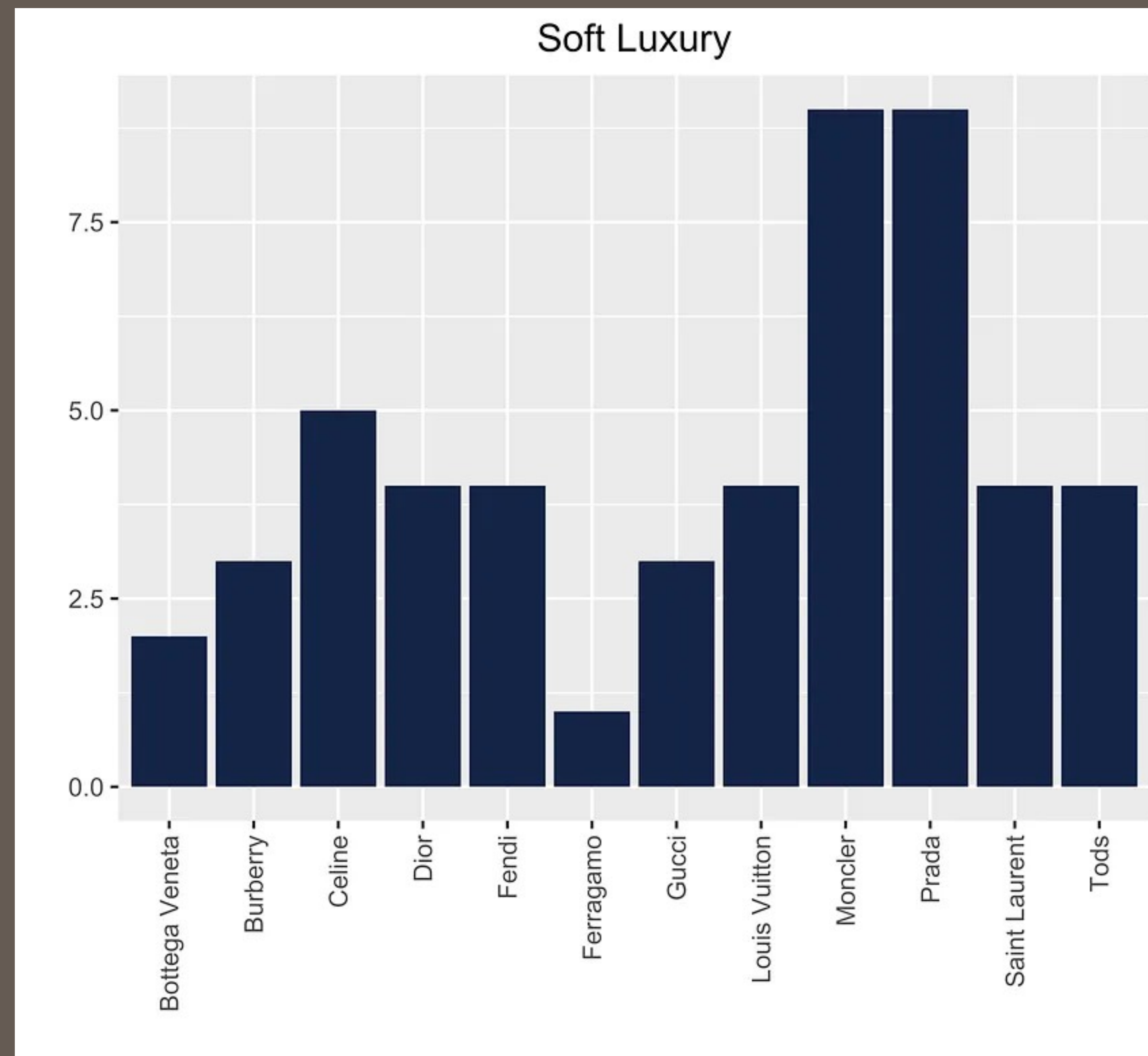
Luxury Brands Will Have Reduced Pricing Power

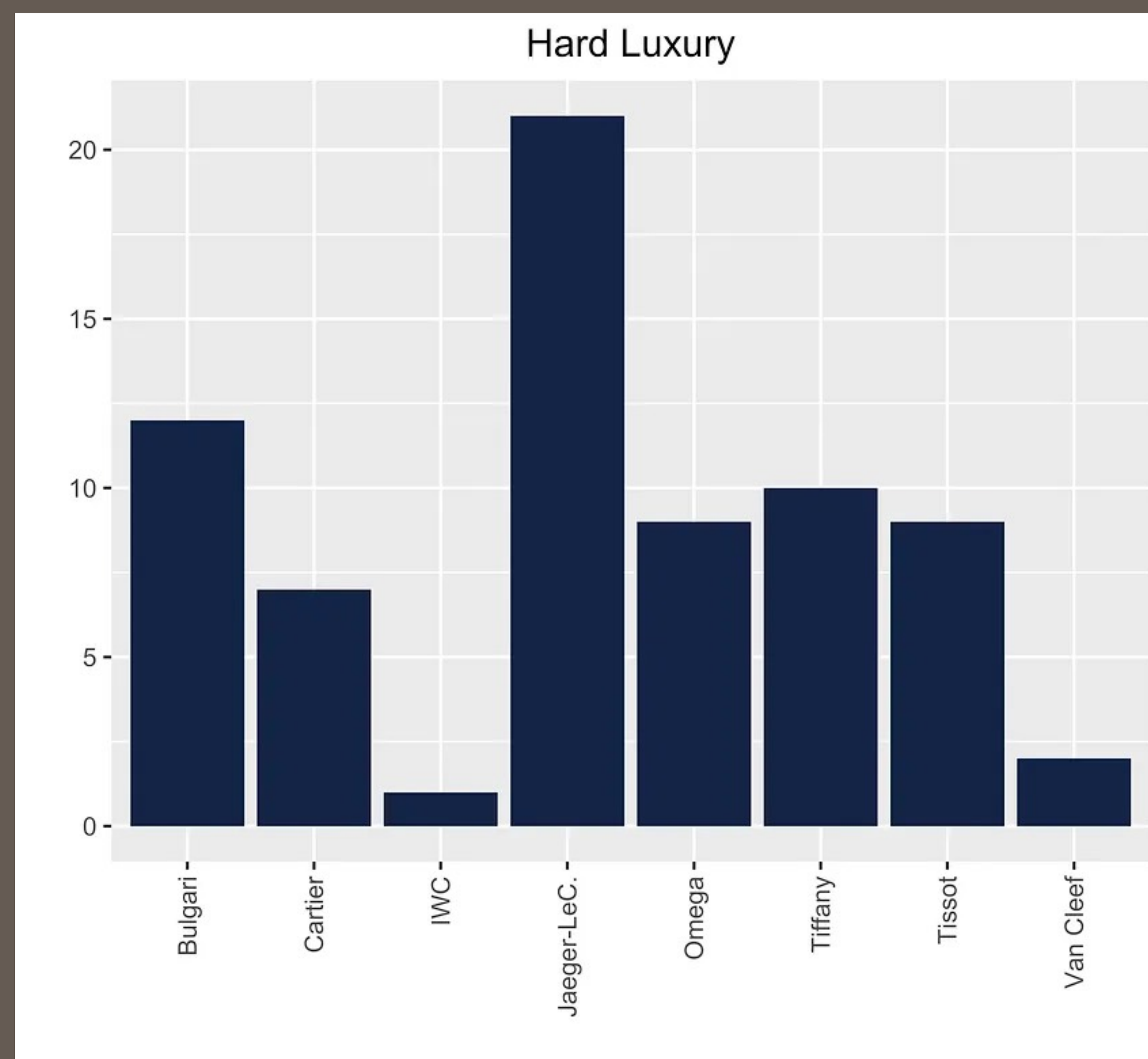
The post-pandemic luxury boom was driven by all three terms of the revenue equation: price, volume, and mix. The ability of most major luxury organizations to control pricing power while maintaining strong unit volume growth with a revenue-enhancing mix of products over the past few years has delivered strong sales and stable margins.

Exhibit 2 shows the total product price increases for major European luxury firms in 2023. In a year when eurozone inflation is expected, by the International Monetary Fund, to average 5.5 percent and end the year on 3.3 percent, brands specializing in "hard" luxury products such as watches and jewelry have increased prices by over 9 percent, including 18 percent increases in Japan, 10 percent for China and France, and 9 percent the U.S.

Other luxury categories increased prices by over 4 percent with 10 percent in Japan, 6 percent in France, and 4 percent in China and the U.S. Luxury firms were able to successfully defend margins by passing higher inputs costs on to consumers and add in a bit more.

Exhibit 2. Price Increases by Brand in 2023 (y/y, %)





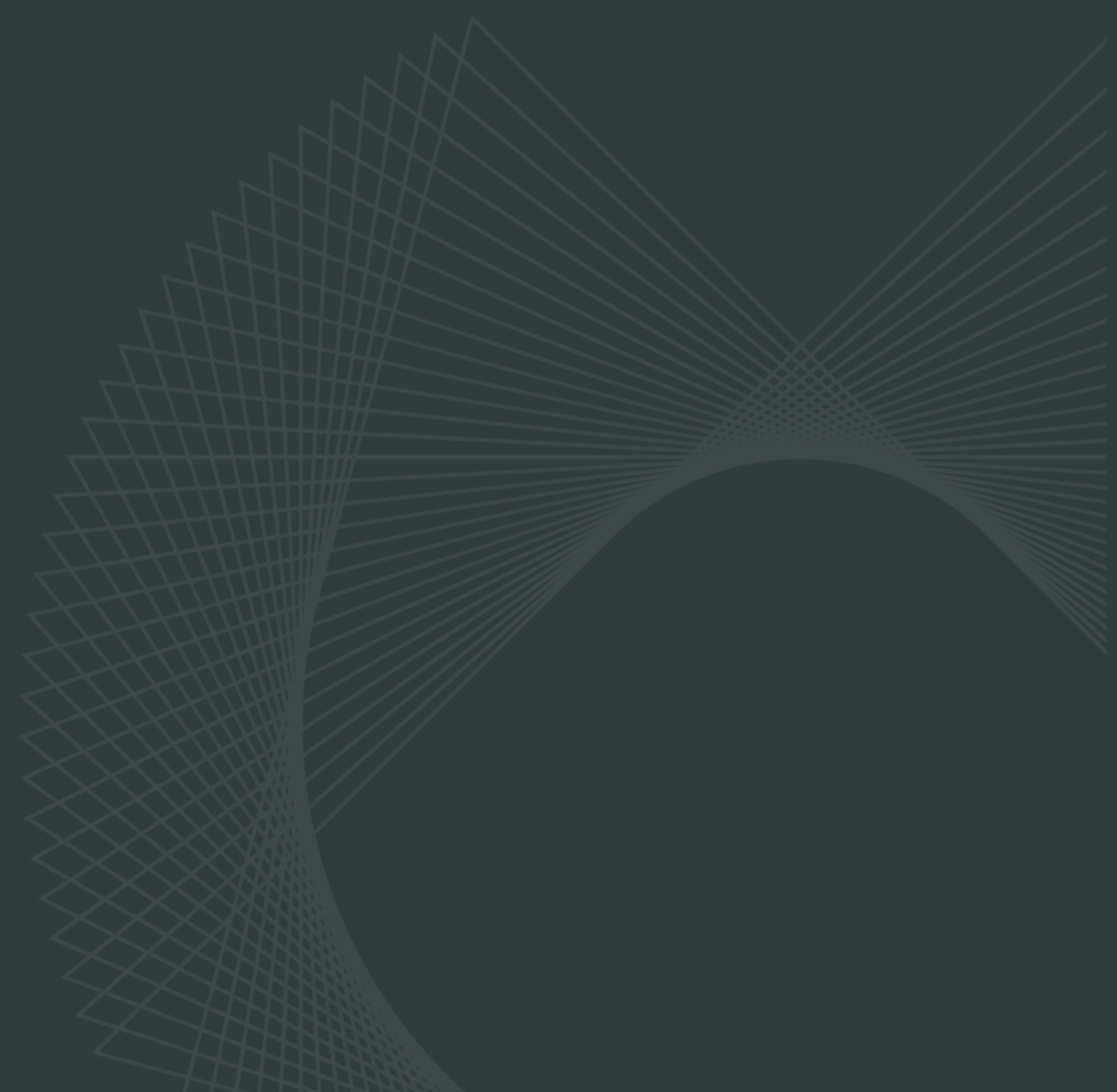
Source: JP Morgan. It's A Working Title LLC.

The sales equation is adjusting in a way that suggests that this H2 2023 foreshadows a weaker 2024. An assessment from RBC Capital Markets found that LVMH's sales equation during 2019-22 was 11 percent price, 3 percent volume, and 3 percent mix. This is adjusting down to a forecast of 2-3 percent price, 0 percent volume, and 5-6 percent mix over the next fiscal year. This is a pretty broad-based slowdown in the drivers of margins and points to a sharp slowdown in buying by aspirational customers and an increasing reliance on the higher income and net worth customer base (about 225 million or 60 percent of luxury customers). Concerningly, this is probably cutting out a lot of the Gen-Z and even some Gen-Y customers who collectively powered all of the industry's growth in 2023 according to Bain & Co.

Luxury firms should not allow this period of slower growth to go to waste. JP Morgan estimates that luxury downturns have occurred three times since 2010 and lasted six months, on average. There are reasons to think this time may be worse given slowing economic growth, high interest rates, and just general unease owing to the lurch of world economic and political affairs from one crisis to another over the past few years.

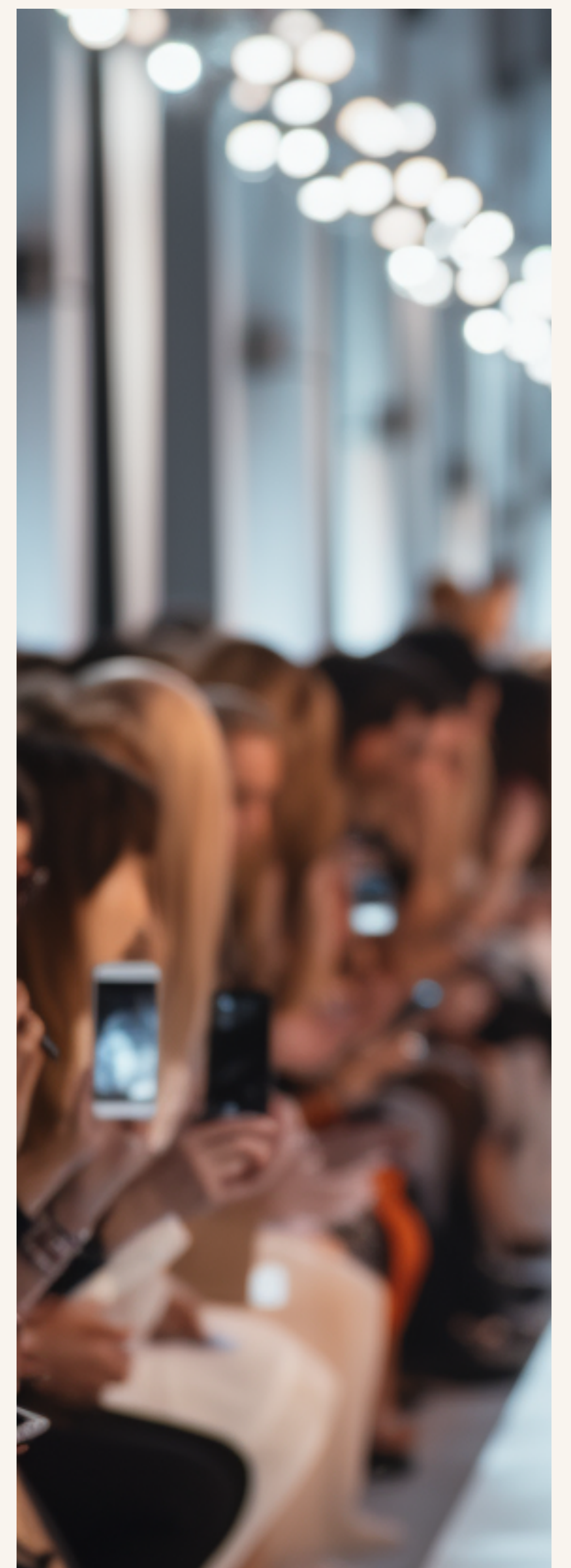
Then again, forecasting is never easy and is more difficult now, and not many expected luxury to have been as resilient as it has for the past year or so. However, it does seem reasonable to expect that the industry is slowing down from a period of rapid growth. This is a good time to begin evolving from the actions grounded in tactics to those resulting from strategy.

The Outlook for Luxury Tech & Innovation



Luxury Tech Will Start to Look Like Other Sectors

The last few years saw an explosion of innovation from luxury brands. After being slow to adopt digital e-commerce during the first wave of Web2, luxury invested heavily in the space during the pandemic, evening becoming pioneers in investing in immersive, metaverse-type experiences, video games, NFTs, and parallel physical and digital product offerings.



The near-term returns from many of these investments were not questioned nor even the point. These were experiments. These are creative industries and offering experiences in places like Metaverse Fashion Week provided an opportunity to engage and tell brand stories in a creative space. They were there to create a buzz and a splash and point potential customers toward the revenue-generating sides of the business.

We do not expect that luxury will be shuttering investments in digital experiences and products, but we expect that 2024 will see questions about ROI become more pointed.

As we noted after SXSW in March 2023, signs of slowing digital investments, particularly metaverse experiences, have been evident for

Investments in video games have seemed to hold fairly steady, but then this is less of a frontier technology. Yet, the buzz over luxury NFTs has collapsed and the second running of Metaverse Fashion Week saw audience levels plummet over 75 percent from the first edition.

Given the very rapid ramping up of hype for digital investments by luxury firms over the past few years (in the broader economy, SEC filings mentioning the metaverse surged from 300 in 2021 to over 3,000 in 2022), some correction should be expected. And we expect this correction to continue into 2024.

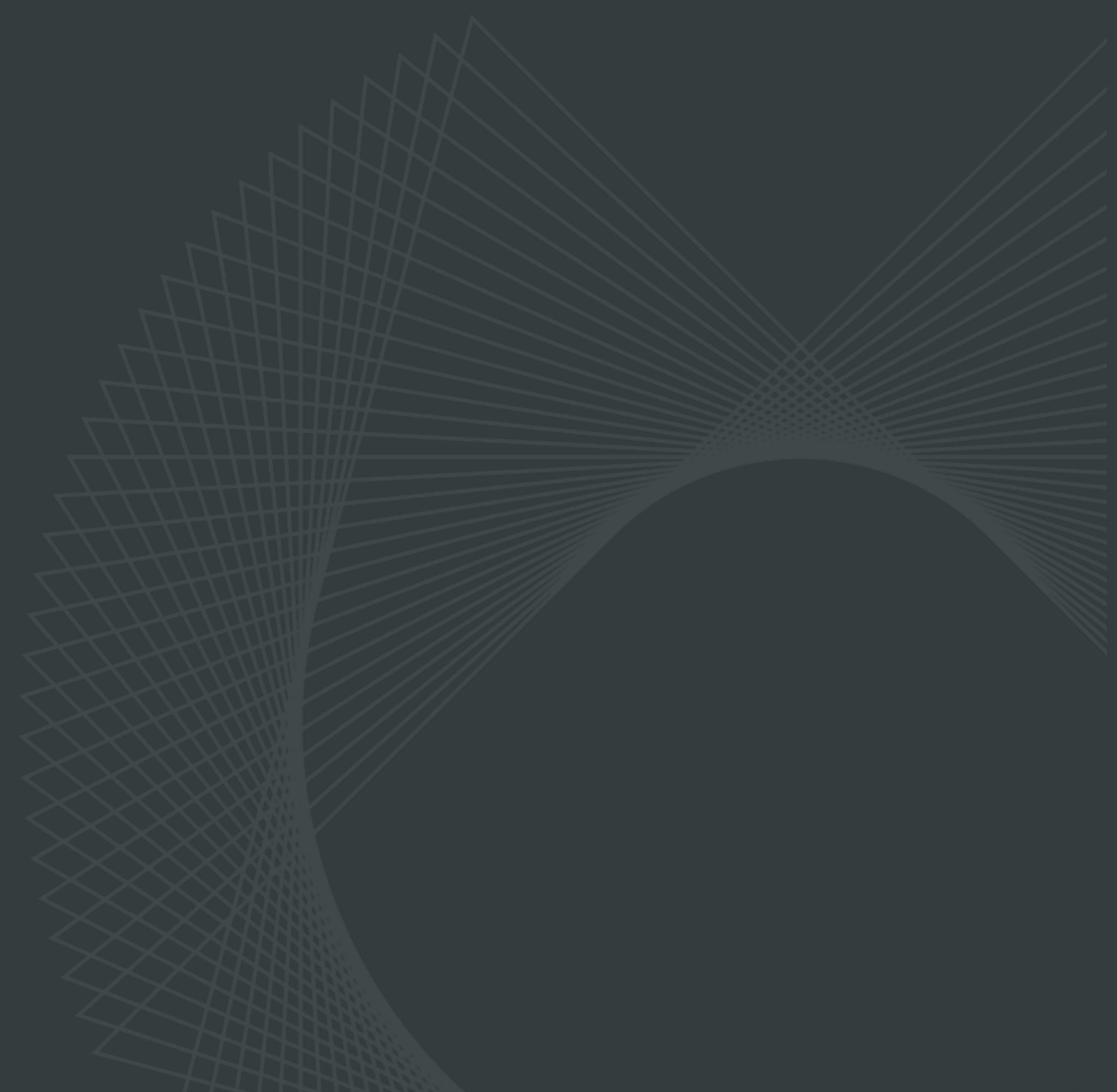
But more importantly, we expect luxury investments in digital tech to begin to mature. After the past few years, all brands want a digital presence. Every client-facing surface is a branding opportunity and a chance to increase long-term engagement, particularly among younger demographic (typically aspirational) consumers that luxury brands so heavily target.

While we expect spending on new digital products to be lower in 2024 than in 2021-2023, the more important trend is that we expect the discussion towards ROI. Metrics of success will move from focusing on short-term clicks to creating long-term brand engagement through digital platforms.

The right strategy tool to support this evolution is new forms of quantitative attribution models. An attribution model is supposed to provide an idea of which channel or combination of channels persuaded a consumer to buy or "convert." The goal of any type of client engagement is not clicks or one-offs by long-term loyalty that leave positive memories. Les Binet points out that empirical studies show that 60 percent of sales growth comes from long-term brand building with short-term activations generating 40 percent.

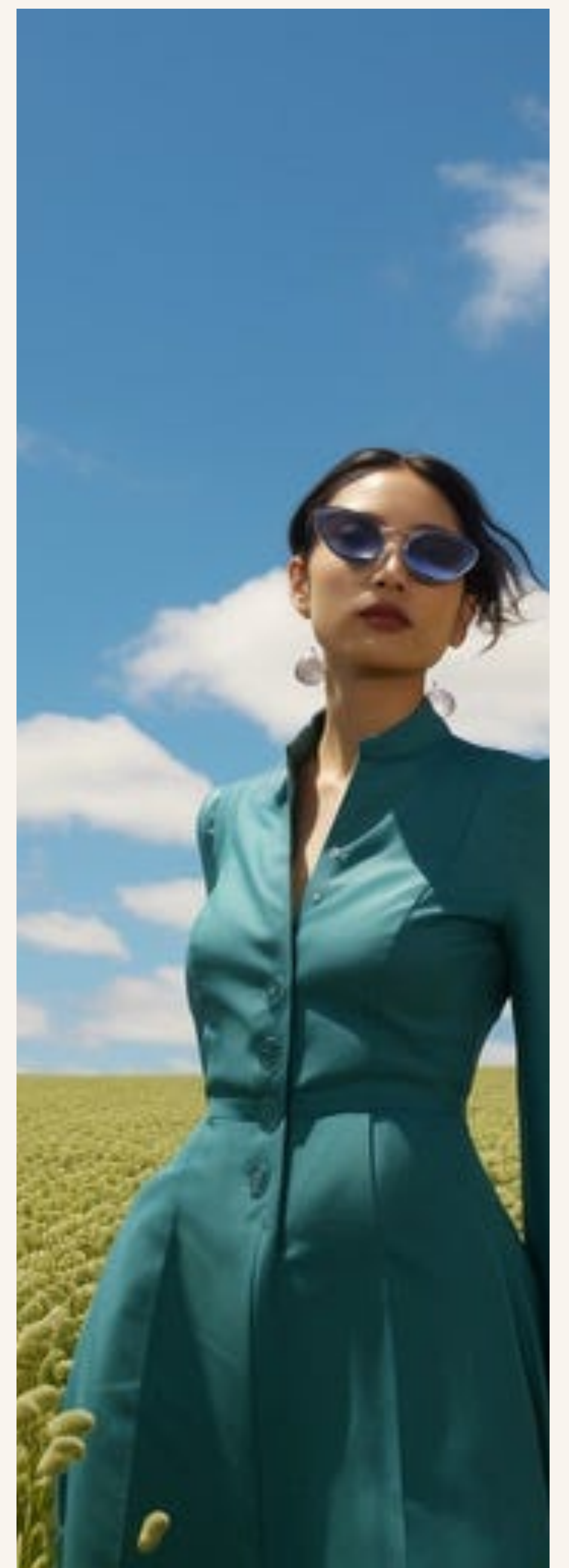
This is useful input for brands looking to shift their digital investments from short-term PR spikes to something more enduring. We believe that 2024 will be a transition year for luxury and digital investments. We may see few offerings and activations, yet will be more purposeful. If brands can build out the infrastructure to activation attribution models then their impact can be better measured and inform a true maturation of digital luxury in the years in late 2024 and beyond.

Expectations for Luxury Sustainability



A Year of Education But Minimal Action for Luxury

Everyone knows that the global luxury industry has a sustainability problem. How big is it?



Looking specifically at fashion, according to the World Bank, the $2 trillion fashion industry is responsible for 10 percent of annual global carbon emissions, more than all international flights and maritime shipping combined, and they will rise by another 50 percent by 2030. Around 20 percent of wastewater worldwide originates from fabric dyeing and treatment. Of the total stock of fiber created for clothing, 87 percent is incinerated or dumped in a landfill. Each year, half a million tons of plastic microfibers are poured into the ocean (the equivalent of 50 billion plastic bottles) and these fibers cannot be easily extracted from water and spread throughout the food chain for animals and humans.

In short, the fashion industry is not on the trajectory to meet its sustainability targets nor contribute to international standards such as the SDGs, Paris Agreement, or the Kumming-Montreal Global Biodiversity Framework.

As is broadly recognized, brands from high-end luxury to low-priced fast fashion and everything in between have long been under pressure to deliver collections much more frequently than the old seasonal periodicity. Some fast fashion retailers offer new designs weekly. The average person buys 60 percent more clothing than they did just 20 years ago according to the World Bank.

More wardrobe turnover translates into more clothes discarded, which is a major problem as less than 1 percent of clothing is resold or recycled despite the strong push by parts of the industry, such as The RealReal, to accelerate the trend. Global fiber production doubled from 2020 to 2021 despite commitments to reduce production growth.

Recognizing the scale of the challenge, particularly, given increased regulatory scrutiny, there have been numerous efforts to get ahold of the sustainability problem, particularly in the EU, California, and New York. However, these lack widespread impact and adherence and there is significant inconsistency across brands and countries.

Yet, to get an idea of some of the promising ideas out there, driven by changing consumer preferences and, in some jurisdictions, government action (beginning in 2023, France will require that all clothing sold in the country identify its climate impact), there are an enormous number of public and private sector initiatives to introduce new fabrics that are both less polluting and more durable to reduce waste and encourage recycling.

And everyone from the Ellen MacArthur Foundation to the UN to private sector initiates such as the 27 private sector partner initiative Cisutac Horizon Europe and countless others. There are numerous catalytic funds, such as the $250 million Aii Fashion Climate Fund, up and running to identify, scale, and measure verified impact solutions.

However, we do not believe that 2024 represents the year these and other efforts to put the industry on a more sustainable footing begin to make a big difference. A big part of decarbonizing and cleaning up the industry is supply-side oriented. Inefficient production processes on the upstream side of the value chain combined with poor forecasting lead to enormous overproduction. Ken Pucker calculates that between 10 percent and 60 percent of final production is wasted; for example, you could make another half to a full pair of sneakers with the material left on the factory floor.

But the more entrenched barrier to greater sustainability which is more difficult to regulate comes from the demand side. There is not evidence that we've seen that the velocity of demand for new clothing is slowing. Regular wardrobe refreshes are a part of the collective consumer neural pathways. This will not change in 2024.

Yet, this will be a year for learning. This will be a year where brands and their regulators deepen their exploration of what is takes to adjust industry practices and move from goals and regulations to actions and a discussion of trade-offs. It will not arrive at a place where we see huge changes, but then again these are huge changes and incremental progress is likely the most realistic that one can expect.

Our strategy advice is more geared to the demand side of the equation. Greater investment in communications is needed to begin aligning consumer preferences more towards sustainability. Making sustainability both clear and credible, so that consumers believe green labeling amid a constant flood of greenwashing, and making sustainability part of what is an attractive purchase must be the goals.

A communications strategy is a place to begin. In the summer of 2023, the UN Environment Programme (UNEP) released its Sustainable Fashion Communication Playbook, lead authored by Rachel Arthur. The UNEP playbook argues that fashion communicators (broadly defined to include marketers, brand managers, image makers, and FSW has argued CFOs) can help advance the sustainability agenda through four key avenues:

- Countering misinformation, including about greenwashing
- Educating about the true costs of overconsumption
- Redirecting aspiration towards sustainability rather than just acquisition
- Empowering consumers to demand better policy and actions from government, regulators, and the industry

These actions are about more than mandating changes in supply chains and transparency though those are important. It is also about modifying the narrative and storytelling that surrounds fashion and, in some ways, makes it unique from other businesses.

The pricing power and demand for fashion, particularly in the premium and luxury segments, is grounded in perceived scarcity and signaling, yes, but more importantly, in the experience that shopping, buying, and wearing these products create and the feelings that consumers take away from that experience.

Aligning consumer preferences towards more sustainable products therefore requires adjusting that story through narrative, visual images, and experiences—in short, content—so that sustainability becomes a key part of that vector of drivers of demand for fashion. This is a process and 2024 seems like a good year to start that process.

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