


# GLOBAL LUXURY RETAIL: A DIVERGENT MARKET

Is luxury immune to the  
**twists and turns**  
of the global economy?

**Luxury profiling**  
A close up on Lagos,  
New York and Mumbai

**Luxury retailing**  
Vital statistics



"Consumer Focus - luxury consumers  
of the future" in collaboration with:

( WE ARE THE  
collective )

A small international community of luxury  
consumers and fashion sector influencers  
created by We Are (The Collective). Exploring  
how the next generation of digitally-connected  
customers will be making their purchases.

[we-are.co](http://we-are.co)

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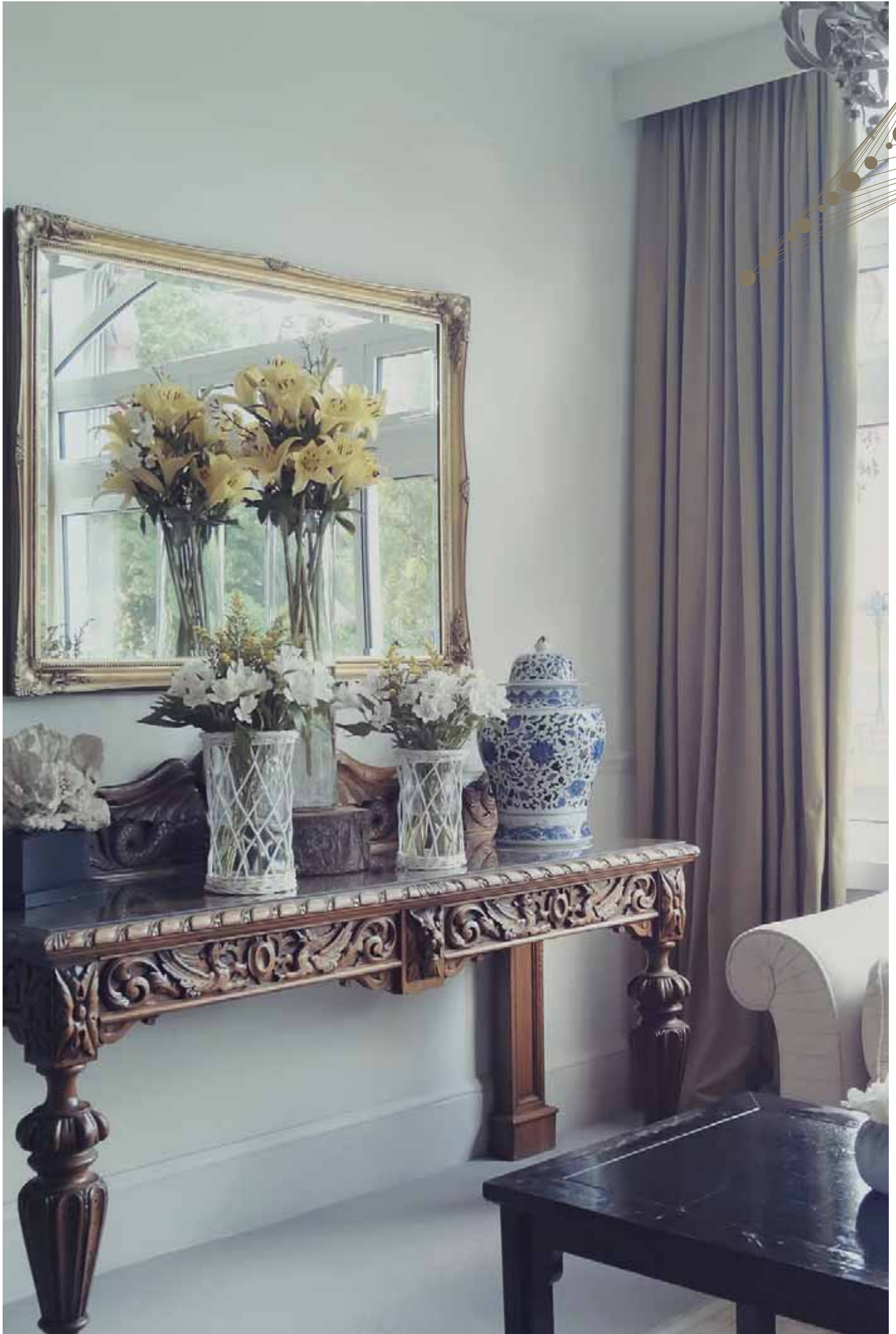
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# INTRO DUCTION

**The world of luxury continues to fascinate and intrigue. The brand names synonymous with luxury shout out to us from many locations around the world.**

CBRE has invested in research to get beneath the surface of luxury in three traditional cities across Europe: London, Paris and Milan. They are recognised as leading the way in terms of brand heritage and retailer presence, and the time spent with the consumers of luxury in these cities provides a fascinating insight into their lives, expectations and experience.

To expand the view of luxury we also engaged our market experts in New York, Mumbai and Lagos. With these three snapshots we chose to look at an established market, a developing one and a market for the future, to give you a view as to the presence of and future potential for luxury brands.

Whilst looking at individual markets is important, it would be remiss not to consider the wider global implications for luxury. As an industry that has, to a great extent, been immune from the chill wind blowing across other parts of the economy, we wanted to understand why that might be and what the future might look like.

One of the great challenges is in forecasting the dynamics within the Chinese consumer market; as spend from China now makes up more than a third of total global spend on luxury, a full understanding is critical. The fact that the Chinese consumer prefers to shop overseas is the factor that has major implications for the scale of brands' store estates in China. We explore what the changes in the global economy mean for luxury brands.

The conclusion of the findings has to relate back to where retailers are looking to expand; target markets are changing as the penetration of luxury in established markets reaches maturation. The new markets require distinct strategies as consumer requirements differ between countries and there is a divergence in how retailers choose to go to market in new countries; some choose the franchise route and work with local partners, whilst others want to own every element of their brand. There is no 'one' answer, the correct method very much depends on the brand and on the market being expanded into.

As more people aspire to engage with luxury brands, the topic of luxury will remain high on many developers, investors and, of course, retailers' agendas. An in depth understanding of how consumers engage is absolutely key and the approach taken in one market may not necessarily be appropriate for another: luxury is unique and requires a unique approach.

# IS LUXURY IMMUNE TO CHANGES IN THE ECONOMY?

“The Chinese consumer is now responsible for over 30% of global luxury purchases.”

The luxury economy had, until recently, seemed immune to the vagaries of global events. The overall downturn in consumer confidence in some markets and the slowing economies in others did not have an adverse impact on luxury spend; this lack of causal effect has changed quite dramatically in the past few months.

The fluctuations seen in the Chinese financial markets have created a ripple effect. Uncertainty as to what the downturn actually means has led to a fall in the share price of a number of established international fashion houses, and a belief that the economy in China is slowing has caused many institutions to review their own positions. Whilst the forecast Chinese GDP growth remains at a level that would be the envy of most western countries, it is lower than originally expected.



The Chinese consumer is now responsible for over 30% of global luxury purchases. According to a Bain & Company report in 2015, Chinese people consumed US\$75 billion of luxury products in 2014, but around 70% of their spend took place overseas.

In absolute terms, Asia has the highest number of luxury brand outlets in the world; between 2008 and 2011 we saw a 42% increase in the number of stores in Asia, compared to 28% in Europe and 5% in America, according to Boston Consulting Group. The growth in store openings that has been seen over the past five years is, however, slowing.

A number of brands are reviewing their store portfolios to ensure that they have the rights stores in the right locations. In terms of net growth over the next year, we are unlikely to see dramatic spikes in the number of stores opened; there is a growing recognition that luxury retailers have focused too much on the numbers of stores on the ground. The development of new layouts and design of stores, superb levels of service as well as an integrated online element will become increasingly more important.



## “The heritage and authenticity of luxury products is extremely important.”

Any change in the dynamics that impact the luxury consumer creates a state of nervousness across the industry. Many brands now recognise they expanded too quickly into the Chinese market, drawn by a belief – not fully materialised – that increased personal wealth would drive sales of luxury products within China.

The fact is that Chinese consumers prefer to shop for luxury products whilst abroad, a preference that has been recognised by the Government in the UK: Visas for Chinese visitors are now easier and cheaper to obtain; a visiting family of four would make a potential saving of almost £1,000. Even those customers who do not physically travel outside of China can take advantage of third party sellers that will make the purchase on their behalf: these ‘daigou’ circumnavigate the high import duties and deliver authentic products.

Luxury brands have differing price tiers depending on the region in question. China has been considered an immature market, with a resultant high price point. Complaints that the price differential could be as high as 70% has seen many consumers converting their Yuan to British Pounds, US Dollars or Euros and making their purchases overseas, where the prices are more attractive. There is a certain status afforded to a purchase of a Prada bag in Milan as opposed to Shanghai. The heritage and authenticity of luxury products is extremely important.

Earlier this year many famous brands reduced their prices in order to stem the flow of money leaving China. The timing of this was unfortunate as any benefit that had been hoped for was limited by the devaluation of the Yuan in August. Despite this catching the global market by surprise, the reasons for the devaluation are in line with market fundamentals (slower overall growth in China and a stronger US\$).

This, however, does not help the luxury goods brands in their attempts to increase sales in the Chinese market.

A further change that has been seen in the Chinese market is the Government ‘anti-extravagance’ legislation. In essence, this is aimed at reducing the purchasing of luxury items as ‘gifts’ for officials and business associates. This has had an impact on the number of purchases being made and there is now more focus on items for personal use as opposed to being purchased as gifts.

Whilst the aforementioned authenticity of the products is of course important, the price of the product is also critical to many. The growth in importance of outlet designer villages has brought luxury products to a wider audience.





Case study

## **Bicester village**

Bicester Village in the UK now attracts 6.3 million visitors a year looking for brands such as Balenciaga, Prada and Céline. Chinese visitors in particular seem to be attracted to Bicester, with it now being the second most visited 'tourist attraction' for them after Buckingham Palace. Three in four visitors to the UK from China visit Bicester Village. A combination of a Mandarin signposted train service from London's Marylebone station and 10,000 tour buses a year disgorging the shoppers to stock up on luxury brands. A new train station, called Bicester Village, opened on the 26th October this year; it is the first new railway line to link London to another British city for 100 years.

It will be interesting to see the impact on Bicester Village once a similar luxury outlet destination opens in Shanghai next year. Will the prices be at levels attractive enough to persuade Chinese consumers to spend their money within China? The site is in the same location as Disney Resort Shanghai and is anticipated to become 'one of the most important luxury destinations in Asia.' With 50,000 sq m of outlet and restaurant space it intends to service the anticipated 15 million visitors a year from both local and overseas locations.











The European and American markets are viewed as the most important for luxury brands over the coming five years. There is now a clear understanding that much of the luxury spend in these markets comes from overseas visitors. Alongside the Chinese consumer, Nigerian, Middle Eastern and nascent Indian lovers of luxury contribute greatly to the overall spend.

There is an appetite to expand to new markets and to reduce the overall share of global store numbers currently seen in the Asian market. The embryonic African and Indian luxury markets are of course of interest, however, there is perhaps more hesitancy being shown in opening new stores as a result of the large store portfolios now being reduced in China. As individual affluence increases, there is a great appetite for travel and many purchases will be made whilst on visits to Europe and America.

The spreading affluence brings increased access to the world of luxury products: many product lines from key brands are within reach of people who would not recognise themselves as being part of the luxury elite. The brand extension into tertiary product lines such as sunglasses, make-up and entry point accessories has democratised the luxury market. This does not detract from the overall appeal of a brand; it is a teaser, a taste of what might be available to a consumer should their income continue to increase.

The appeal of a luxury brand is in its ability to convince you of the need to make a purchase. The suggestion that a product is a 'wise investment' does not go unnoticed. Luxury products from the automotive and wine categories have seen an increase in value over the past decade to outperform any global stock market. Whilst an investment in a handbag may not be as financially astute as those other categories, it is still predicated on the fact that it's a wise decision.

**“The appeal of a luxury brand is in its ability to convince you of the need to make a purchase.”**

“The more aspirational a product is,  
the more desirable it becomes.”

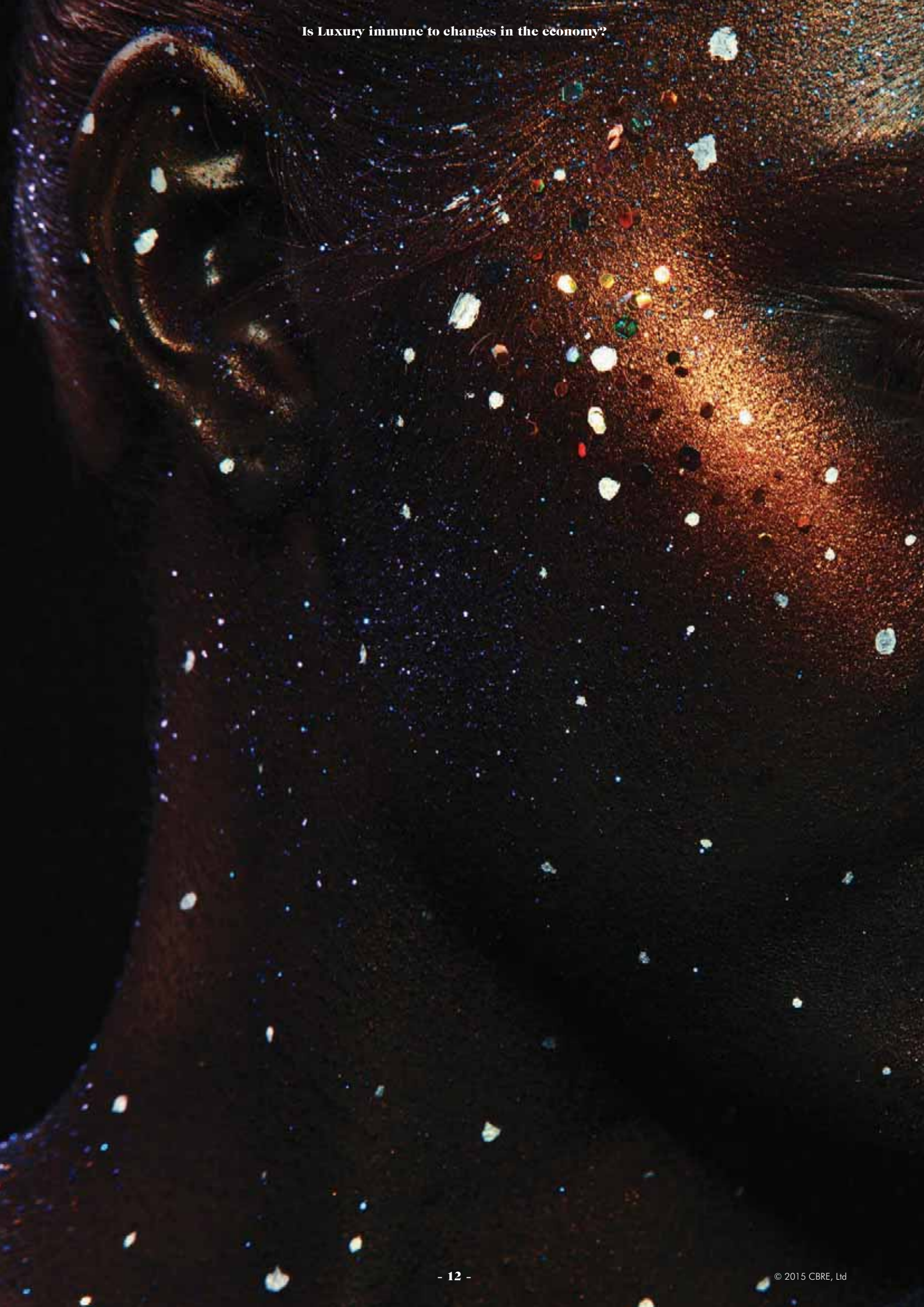
Although luxury products are available to all that have the means to make a purchase, there are individuals that crave exclusivity. In recognition of this, brands at the higher end of the luxury spectrum are creating ‘ultra-luxury’ products. Whilst a luxury handbag can be purchased for £2,000, there are also those brands that are expanding the £20,000 range of bags. The more aspirational a product is, the more desirable it becomes.

The increasingly number of Ultra High Net Worth Individuals (UHNWI) are being well served by the luxury industry. These 250,000 individuals (with personal investable wealth of US\$30 million each) have a combined net worth of US\$30 trillion; although accounting for 0.004% of the world’s population, they hold 13% of global wealth. The World Ultra Wealth Report produced by UBS and Wealth-X suggests that each UHNWI spends in excess of US\$1 million a year on luxury goods.

As the growth in individual wealth continues, it is important for luxury brands to recognise the requirements of people from different countries. Whilst the majority of UHNWI have homes in three or more cities, they have a view of the world founded in their ‘home’ city. The desire for certain brands and products differs and has to be carefully evaluated.









### Key takeaways

The opportunity for continued growth in the sale of luxury products is undeniable. However, there are a number of challenges to face:

#### Understanding the impact of the changes in different economies around the world.

— Differing economies develop at different speeds; an assumption that consumers in one market will behave the same as those in another is erroneous. The development of the luxury consumer is formed by experience, access and knowledge. It is paramount for the brands to ensure access to the products in a place that works for the consumer; this may be outside of their home market, as seen with the Chinese consumer.

#### Ensuring the experience resonates with the consumer and makes them want to continue to engage with the brand.

— Brands need to communicate the DNA of their proposition to the consumer. What is it that makes the brand desirable, why should the consumer buy this brand as opposed to another? Consumers are attracted to different elements; some by authenticity and heritage, others by celebrity endorsement and a number because of exclusivity. Brands need to understand what works for consumers across different markets.

#### Embracing digital, the appropriate use of online channels to promote and feature the brand has to be increased.

— Consumers are tech savvy; they are looking for information on the products they want to purchase and the first place many look is online. If a brand does not have a compelling web presence, they are missing an opportunity to engage with the consumer. The importance of the website tying in with the store, the look and feel of both giving an insight into the brand experience cannot be overestimated: the brand ethos has to flow across all communication channels.

# Luxury consumers of the future

Luxury retailing seems almost immune to the twists and turns of the global economy. What drives consumers decisions to purchase luxury goods? Why do they engage with certain brands? How important is authenticity and heritage and what inspires brand loyalty? These are some of the questions we set out to better understand. In Autumn 2015 CBRE commissioned We Are (The Collective) to conduct focus groups among luxury consumers in the fashion capitals of London, Milan and Paris to try and answer some of these questions and gain better insight into the mind of the luxury consumer. Here are some of our findings.

## Key takeaways

- New luxury consumers in Western markets care less about opulence and status, and more about transparency, quality and meaning
- Experiences are more important than objects
- ‘Reverse showrooming’ effect: most prefer to look online, then buy in-store
- Future is a clever blended digital/physical model – but demand for service remains front and centre

The growth of emerging markets has led to many bullish sales predictions for luxury brands, from a younger, more affluent and status-seeking consumer. But what about the next generation of luxury shoppers in established markets? We gathered three groups of luxury consumers in London, Paris and Milan, and asked about their shifting attitudes and expectations.

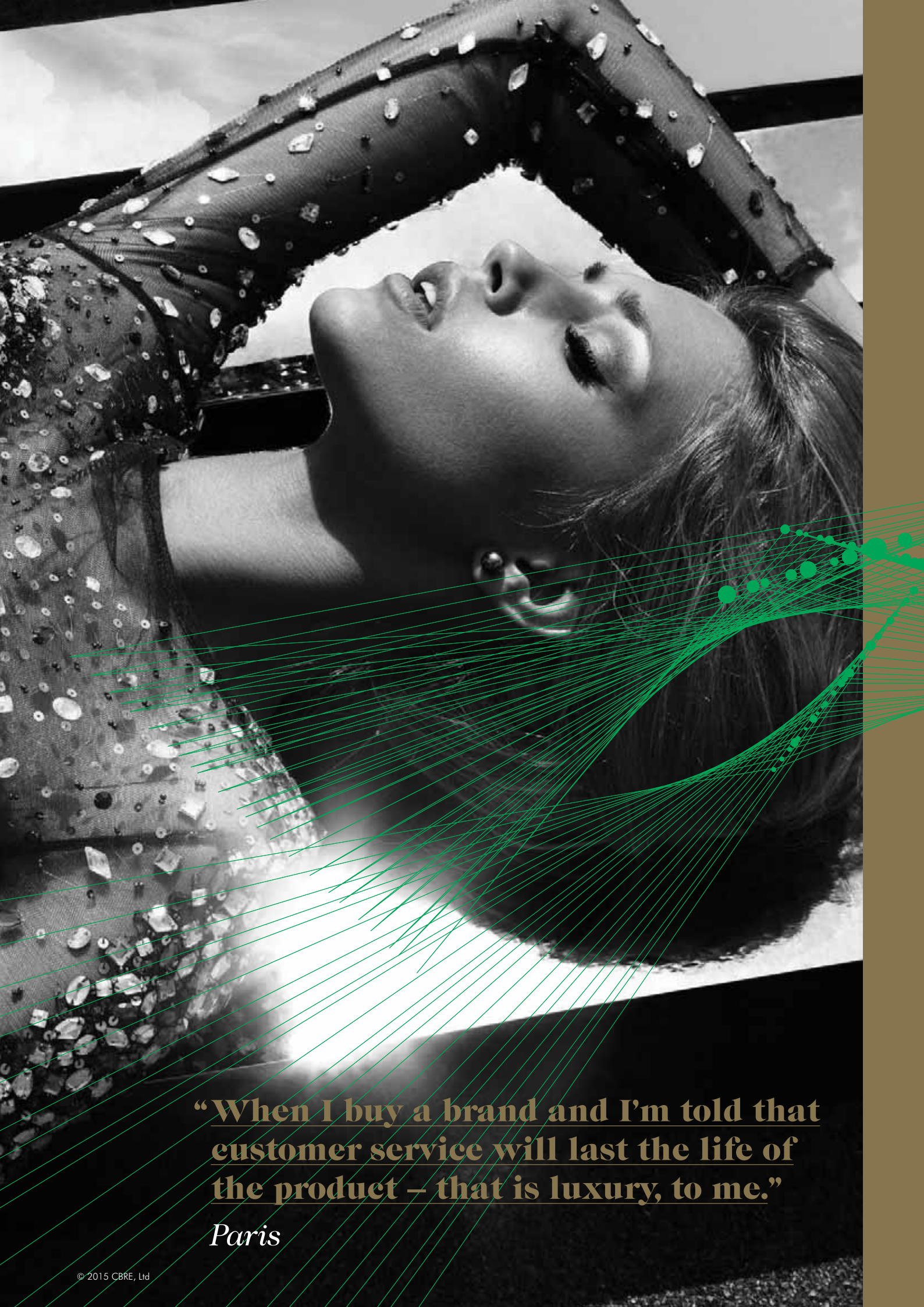
## Exceptional service is still the biggest maker of a luxury brand

Without exception, every attendee in all three cities, and across all age groups, was quick to recount a poor service experience, and how this impacted their affinity with the brand. “You can have ten good experiences, but that bad one is what you remember”, said one London member. However, several attendees had very positive experiences – in both London and Paris, members had inherited a vintage luxury good and been able to get it restored at no cost by walking into the shop.

Overall, the expectation of service was more associated with bricks and mortar locations. Several attendees thought this was because online made them less brand loyal; they would research items from many brands at once rather than on individual retailer sites, and thus, if something went wrong, the individual brands weren’t blamed.

While physical stores have the ability to create far more emotional affinity with a shopper, they’re also more open to criticism, relying as they do on the human factor which is both their greatest asset and vulnerability. This risk increases as more people travel and compare their experiences of brands abroad with the same brands at home. One famous New York jeweller was criticised for the discrepancy in service between its New York and London stores, from someone who had very fond holiday memories of the experience.





**“When I buy a brand and I’m told that  
customer service will last the life of  
the product – that is luxury, to me.”**

*Paris*







“If I’ve made an effort  
to go somewhere, and  
the service or the  
experience hasn’t been  
up to my expectations,  
I go: ‘No! I’m done’.”

*London*

## Paris

Less likely to use a personal shopper: felt that knowing your own style was part of the French woman's identity.

Preferred discreet luxury brands.

Preferred in-store to online purchase.

## London

Preferred in-store to online purchase.

Active on Instagram.

Expected luxury brands to innovate, as long as they remained authentic.

## Milan

The youngest group of consumers.

Cared about ethics of brand behaviour, not just quality of product.

Knowledge and authenticity seen as key to brand extensions.

Feedback differed between cities when it came to the level of interaction that was expected or desired from sales staff. Several of the women in Paris felt it was a part of their national identity to understand style and what looked good on them – they would therefore be less likely to engage the services of a personal shopper. In London, however, building a relationship with the sales staff and craftsmen behind the brand was one of the most appealing aspects of shopping.





**“With online, it makes you more sure of your purchase, whereas if I just go in store, I’ll often just buy something [impulsively]. Whereas if I’ve looked online I feel like I’ve thought about it, I don’t have that sense of buyers’ remorse.”**

*London*

One attendee in London says he can spend hours in store when shopping for a new suit or shoes, learning about the different tools and techniques being used. He described his Savile Row tailors as ‘friends’. “I’ve spent an entire afternoon with a shoemaker, just because it’s amazing and I love seeing the quality and the methods and all of the detail behind it. Which you don’t see online because there isn’t that personal interaction.” Another attendee said that a personal relationship with the staff would also make any future offers or sales more tempting – “if you feel like they really know you, and know what you like.”

### **Reverse showrooming**

Most of the attendees in all three cities preferred to buy in-store rather than online, but used online as a valuable research and discovery tool beforehand, whether that initial engagement was through search, email newsletters, or social media. The primary reason for this was the high price tag, which created more anxiety around getting it wrong in terms of quality or sizing. However, one attendee felt that online research was a valuable step in combating buyers’ remorse at a later stage. “With online, it makes you more sure of your purchase, whereas if I just go in store, I’ll often just buy something [impulsively]. Whereas if I’ve looked online I feel like I’ve thought about it, I don’t have that sense of buyers’ remorse.”

Where people were comfortable with shopping online was for repeat purchases, particularly for basics and lower priced items such as accessories or beauty products. “If I find something I like I will then stick with it and buy it online,” said one woman at the London session. “If I was buying white t-shirts, it takes me forever to find one that I like,” said a man in the same group. “But then I’ll buy ten of them, and replace them with the same when needs be. But for the initial purchase, you have to be able to touch it.”

## **Online is mostly transactional, but can be elevated in to an experience**

While all the attendees spent a lot of time researching future purchases online, they were hard pressed to think of when they'd had a particularly enjoyable, emotive or memorable experience. "All luxury brands have a very cold appearance online", said one Paris attendee, "while when you have a store experience you feel much more pampered". The London group agreed. "There's not much to try and get you in as a human", Shelley says. "It's more transactional." The lack of personal or experiential elements meant less of an emotional engagement with individual brands; online search behaviour was more likely to be motivated by price or simply searching for a particular look or item. "With online you can type in 'shorts' or 't-shirts' and you've got the whole range, you don't need to walk to the different brands", said a London attendee.

Expectations were primarily around functionality and seamlessness rather than having an experience. "If I'm on a site, if there's a lack of functionality there's immediately going to be a bit of a turnoff", says Ishbel (London). However it was possible to delight with exceptional service, whether that was prompt and attentive aftercare or surprising personal touches in the packaging and delivery. Several of the attendees had received handwritten or personalised notes when buying from smaller brands, which helped to break down some of the perceived barriers. And for the younger generation of luxury consumers, perceived coldness and standoffishness were a turnoff in an age of Instagram and brand personality.

"I love going on the internet as I know what I want, I know the brands and I love the experience that some websites can provide me with. That is pretty much luxury experience, with an experience in customer service." Paris

Clever use of technology also helped to make the online shopping experience more memorable. Several attendees in London mentioned the use of video – Trish McEvoy was praised for including 'how-to' clips for some of the more unusual products, removing any pre-purchase anxiety. However, there was cynicism about gimmicky uses of technology that did nothing for the customer experience. Overall, it was felt the online experience was not yet there. One Paris attendee said that if she had an issue with a luxury product, "I wouldn't think of writing an email, I would go in store. Because via email I'll get a standardised answer saying, 'We'll reply within 48 hours'. This transition is not yet achieved."







**“A very pretty package at home, with a note... that’s more personal already.”**

*Paris*

Case study

## **Sézane**

While not strictly a luxury brand, Sézane was mentioned by several Parisian attendees because of the level of service and experience it provided. The first French label to sell exclusively online, it also has an apartment which functions as a showroom and fitting room for prospective customers. Returns and delivery are free, and only two collections are produced a year.

[sezsane.com](http://sezsane.com)

**“Actually y  
your purch  
but as soon a  
a certain am  
buy in**



You prepare  
base online,  
as you exceed  
amount you'll  
store.”

*Paris*

**“When you travel you like to discover new things, you like to find specific things in the country, as if it’s customised and you have something very special.”**

*Paris*

Case study

## **Les Suites**

A Parisian boutique comprising three individually designed apartments, or suites, where shoppers can spend hours with a stylist trying on a combination of haute couture, pret a porter and accessories from established and upcoming designers. The focus is on the social experience – visitors are encouraged to make themselves at home, and can either reserve a suite in advance or drop in at their convenience.

[boutiquelessuites.com](http://boutiquelessuites.com)





# Collecting experiences not things

While the younger attendees saw marked differences within the Millennial generation in terms of willingness to share and engage on social media, they were all in agreement that experiences were a key part of the luxury encounter and factor in brand loyalty. They wanted to feel part of a community or tribe. Service is one element of this, but there were other examples given of how brands might offer something more than pure product.

The trend for home-like retail design was felt to add to the experience, and was popular with attendees in London who described stores like Paul Smith and Anthropologie as great examples of having a brand's unique personality reflected in the decor. "Say, for example, you've got a bookcase with different books and there's music playing that represents the brand, and there's so many conduits through which they can express themselves, as opposed to in a traditional store."

In Paris, home-like spaces were not expressly celebrated, although attendees noticed the impact of spaces that were comfortable and inviting rather than clinical and cold on the overall experience. "There's somehow a discretion aspect [at Lanvin]", said one. "Once they were called salons because you would feel good going inside, it was a place where you would be happy and make yourself comfortable." The effect was lessened at brand concessions in department stores. One man said "you don't have this kind of physical reassurance that you have when you're in the universe of the brand in the same way."

There were also opportunities for the shoppers to be actively engaged by a brand, rather than passively experiencing it in-store. London attendees mentioned the Jimmy Choo treasure hunt on Twitter as a memorable and exciting way to find product, and were very positive about Nike's community-driven attempts to give back to customers with a useful, expert source of support and activity. "Even from just going to a few [classes in store] I feel so loyal to the brand."

"We hold our spare time in higher value and so we want more from it. And so if we are in store we want a better experience, because we only have so much time to get to the store and spend in there." London

Other attendees were likely to seek out different experiences when travelling abroad and in more of a 'discovery' frame of mind. "Unlike a lot of women I'm not a big browser," said one. "When I'm away I spend more time looking around because I'm in a different sort of mood." They didn't want to see the same products when travelling as they could get at home, which was one reason for seeking out lesser known local boutiques. Architecture could also be a point of difference; one London attendee makes a point of visiting the Aesop stores in each city she visits, as she knows they're designed by a different architect.

A desire to see some authentic local identity was raised in Paris as well. "When I go to Shanghai and I see Vuitton, Chanel, Gucci...I don't feel like shopping there at all. Because I have exactly the same selection and products in Paris. I would expect some localisation." Parallels were drawn with the Gagosian gallery, who offered a limited edition artist sketch to dedicated art fans who had visited an exhibition at every gallery around the world.

# Meaningful investments

The ongoing relevance of heritage and timelessness were discussed in both Paris and London, although this is one of the few areas where generational differences were seen. The idea that you might be a caretaker rather than an owner of an heirloom for the next generation – as in the Patek Philippe campaign – enhanced perceptions of an object's or brand's value, but was not as much a part of purchase consideration with younger buyers. Some of the older Parisians spoke about the pleasure of adding luxury items to their collection, describing the pleasure of having "a nice object that will last in time, that has a whole history surrounding it and that we might be able to transmit, keep, tell stories about". For the younger members of the group, however, "luxury is not buying a coat that will last 30 years. I like to change."

Because the younger members of the group were less likely to consider handing down to the next generation, they looked for meaning either in the product itself, in terms of rareness, quality, authenticity and craft, or in the experiences surrounding it, as with Sézane. The label or price tag were increasingly irrelevant in whether something was considered luxury. The big brands that retained their aura all had a strong personality in common, described by one Parisian attendee as "a visionary, pioneer component from the founders". This imbued the goods produced with greater meaning and purpose in the eyes of the group. There was also a desire for transparency and consistency in how the brand expressed its values behind the scenes as well as in customer-facing environments. "At the end of the day", said one Milan attendee, "a brand is what it does, not what it says about itself."

One younger London attendee had recently spent almost a third of her decoration budget on a Venetian mask when travelling, after being seduced by the history and craft behind it: "I would much rather have a piece of art on my wall than an expensive sofa," she said. Luxury fragrance was another product mentioned by the groups. One person spoke about the search for her signature scent, specifically seeking out lesser known brands and trusting the expertise of the salesperson to "almost give me a personality quiz." When a purchase or experience was meaningful, price became less of a consideration.

## Sharing vs seeking sanctuary

Most of the younger group members were active on Instagram, which was their preferred channel for keeping in touch with a brand. One Londoner felt the social network had replaced magazines as a platform for luxury fashion. Another had purchased a limited edition pair of trainers from the Harvey Nichols website after seeing them on the platform. "I didn't really want anyone else to have them. I didn't want to miss out." Twitter was also mentioned, but this was seen as more of a communication than a content channel. One man in London had tweeted a vintage jacket purchase to the Thierry Mugler account, "to try and get it going", and was happy to be retweeted.

However, not all attendees enjoyed interacting with brands on social media. Discretion was important to several attendees – whether online, where they preferred not to broadcast their purchases, or in a physical retail environment. "I'm looking for a sanctuary where there won't be any interruptions and I can trust the salesperson and there isn't going to be ten screens and cameras broadcasting everything", said one Londoner of the digitally-enabled fitting room concept. "I wouldn't interact with any of that."



The other impact of the availability of digital knowledge mentioned by the groups was the enforced transparency brands now faced, allowing consumers to check everything from whether they're authentic to the ethics of their supply chain. This had impacted brand loyalty for some of the attendees. "Today, with social networks, the customer will not spend such an amount of money without knowing how it's made and what it is", said one Parisian. Similarly, in London, one member said they no longer bought a particular luxury brand because "I know how it's made, I know where it's made... I don't think it's value for money. Unless you go into the shop and have that whole trunk experience, something bespoke."

This increased transparency also led attendees to question the shifting role of the shop and staff. Before the digital era, the store was the "temple of knowledge, and the sales person was the warden of this knowledge. Today one can get the knowledge anywhere – what is the new experience and sales ceremony?", asked a Parisian attendee.



**“I think there’s a movement from young people that are going away from great luxury brands in Paris or Italy towards less famous brands for quality, for values, for transparency, for authenticity...All those things they don’t find anymore in brands that are becoming bling-bling and less luxury.”**

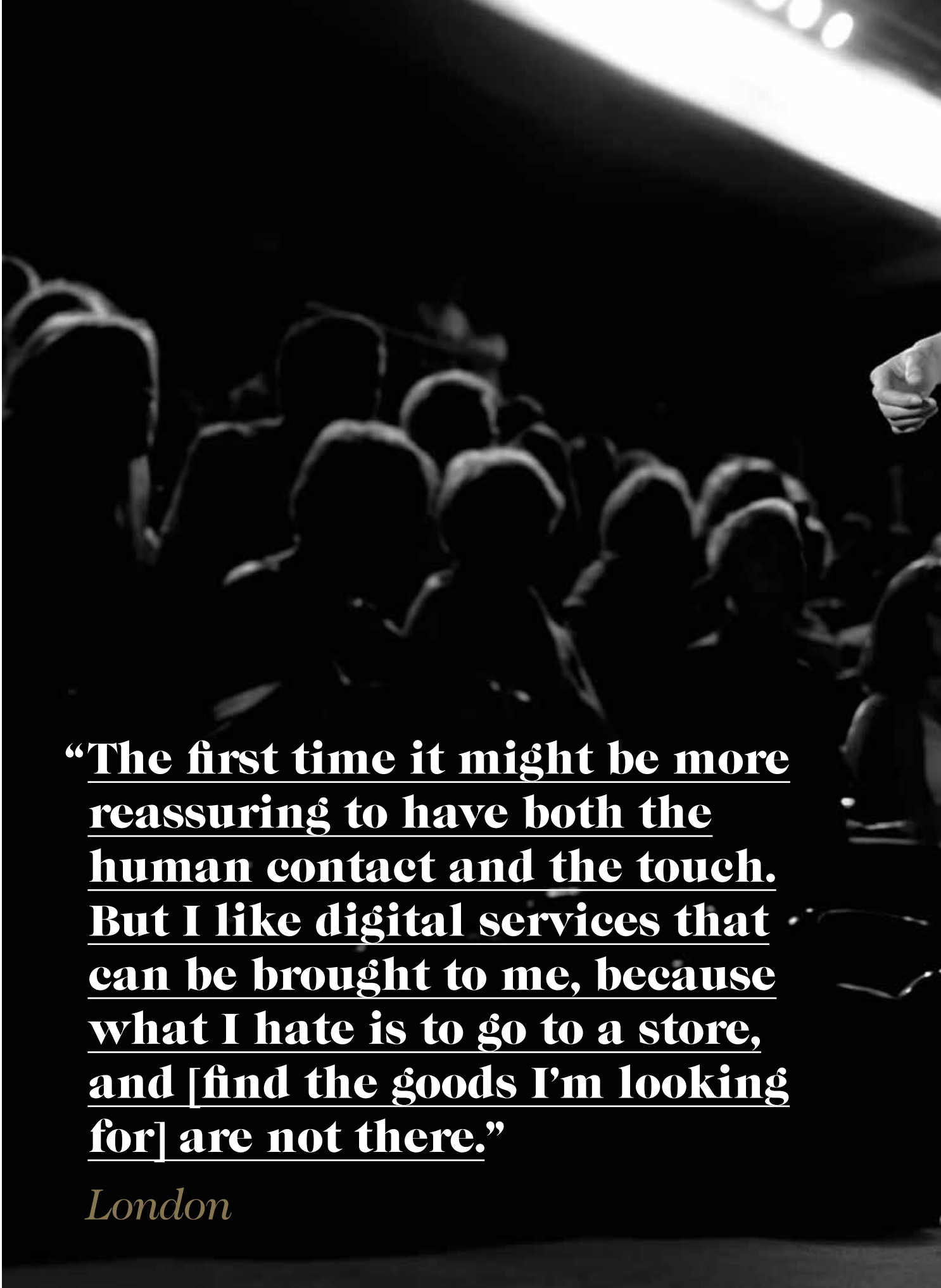
*Paris*

Case study

## **Provenance**

Provenance is a platform that allows brands to tell the story of their heritage and supply chain, and have it authenticated using the technology that powers digital currency Bitcoin (blockchain technology). It reflects the millennial mindset that “To know the origins and journey of a product is to understand its value.”

[provenance.org](http://provenance.org)



**“The first time it might be more reassuring to have both the human contact and the touch. But I like digital services that can be brought to me, because what I hate is to go to a store, and [find the goods I’m looking for] are not there.”**

*London*





**“I’m looking for a sanctuary where there won’t be any interruptions and I can trust the salesperson and there isn’t going to be ten screens and cameras broadcasting everything. I wouldn’t interact with any of that.”**

*London*

### **Where next?**

One Parisian attendee had the idea for an online concierge service: “I want to buy a Chanel bag and somebody calls me to make an appointment and comes up with the bags, shows them to me”. Several others in the group had already tried and praised new delivery service Igloo for successfully bringing the service element to an otherwise purely transactional experience.

The overall takeaway from attendees, many of whom worked in luxury or associated industries, was that the future lay in a blended retail model, which would bring the human factor to online without losing the experiential aspects made possible by having a physical space. Any solutions, it was agreed, should be driven by a ruthless focus on exceptional service.

#### Case study

### **Igloo**

A French app which will deliver between five and ten items of clothing for you to try on at home, at a cost of 1 Euro – even if you send everything back. Anything the customer decides to keep is debited from their smartphone via the app, anything they don’t want is collected by the same driver the next day at a convenient time for them. Around 60 mid-range and premium brands are currently offering the service.

[goodigloo.com](http://goodigloo.com)









# PERSPECTIVE A GLOBAL PROFILING LUXURY





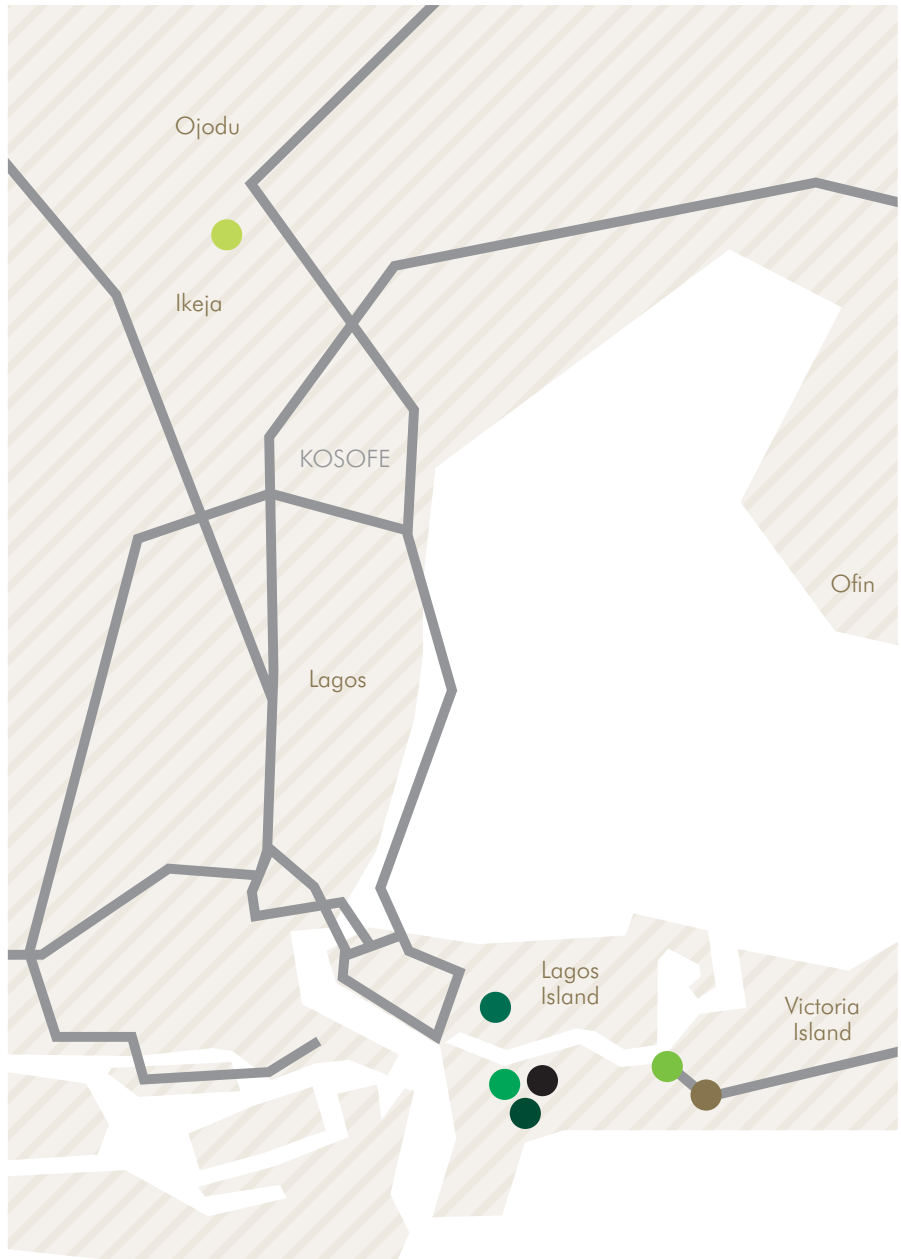
# LAGOS NIGERIA

## The island and the mainland regions



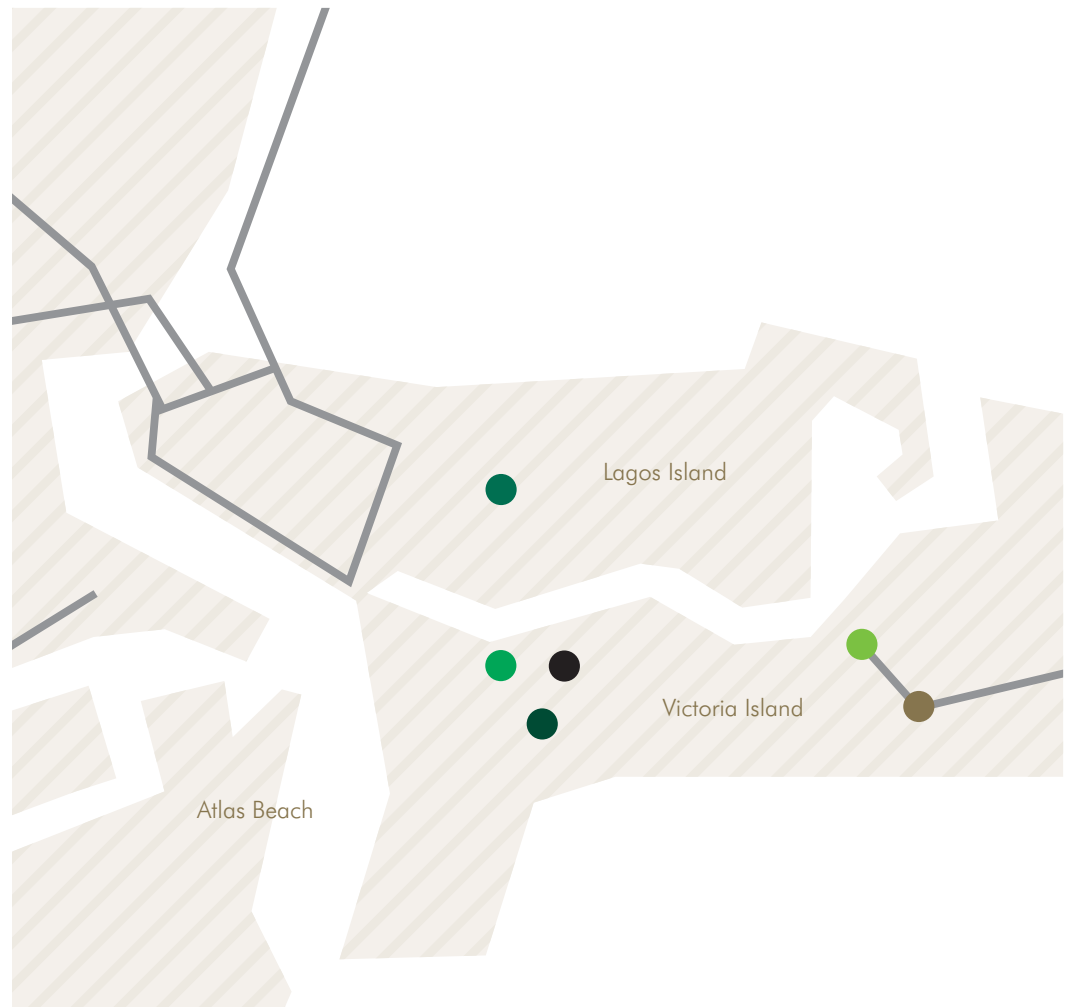
The inception of the formal retail market in Nigeria took place over 10 years ago through the development of the country's flagship shopping centre, The Palms Lekki in Lagos. This rapidly growing city is the commercial capital of Africa's largest economy, home to over two thirds of the country's economic activity, doubling as a hub for leisure and retail activities. Prior to the opening of The Palms, the average Lagosian did their shopping through informal street markets and small shopping plazas scattered across the city. Those who could afford it, travelled to Dubai, London, Johannesburg and New York to cater to their retail needs.

- Zegna
- Alara
- Modan
- Polo
- The Palms, Lekki
- Ikeja City Mall
- BoConcept



### The island region

- Zegna
- Alara
- Modan
- Polo
- The Palms, Lekki
- BoConcept



As of Q3 2015, for every 200 people in Lagos only one sq m of formal retail space was available, a stark statistic considering that there is roughly one sq m of retail space for every person in Johannesburg.

This large deficit, together with rapid urbanisation rates and a population that is over 17 million strong, has since attracted a number of local and international investors keen on providing formal retail in this growing city. Though some investors are looking further afield into second tier cities, Lagos is still a major focus for investors keen on relevance in the Nigerian retail growth story. Despite the growing pipeline of retail space in the city, more investors are still intent on entering the market, even if other retail projects are in close proximity.

The luxury retail market in Lagos has also seen some growth, however not as rapid as the overall retail market. Given the overall low income demographic in Nigeria, many retailers in shopping malls cater to the mid-low income segments. As a result, brands like Ermenegildo Zegna, BoConcept and official resellers such as Modan, Polo and Alara typically opt for stand-alone retail units on emerging 'high

streets' or in boutique hotels in Victoria Island and Ikoyi. Even though brands like Hugo Boss, Tommy Hilfiger and Lacoste are thriving in shopping malls, this model is not typical for the few upmarket/luxury retailers present in Lagos.

Existing brands in the city include Mango, Levi's, TM Lewin, Nike and Swatch. Others such as Pandora, Adidas, Celio, Jack & Jones, M.A.C Cosmetics, black|Up, Anne Klein and the aforementioned Hugo Boss, Tommy Hilfiger and Lacoste only entered the market in the past two years. As the available brand portfolio demonstrates, the variety of luxury retailers in Lagos is limited; however there is growing interest from a long list of global luxury brands to enter the market.

The typical mode of entry for these retailers is through franchisees, over 90% of whom are Nigerian. Persianas Retail and Smart Mark are among the franchisors with the largest brand portfolio present in Nigeria. Persianas Retail portfolio includes the likes of Max, Hugo Boss, Inglot, Puma, Lacoste and Hackett. On the other hand, Smart Mark's portfolio includes Swatch, Levi's, Converse, TM Lewin, Nike, Tommy Hilfiger, Thomas Pink and Hamleys.

The consumer base for these brands is usually limited to wealthy Nigerians. The tourist industry is almost entirely confined to business tourism, hence Lagos is not a typical retail destination in an African or even West African context. Many of the consumers of luxury retail in Lagos have visited these brands in other cities, such as London, Dubai and Johannesburg, while the others are interested in acquiring pieces they've seen on television, movies and in magazines.

# NEW YORK USA

Often described as the economic and cultural hub of the United States, Manhattan is home to some of the most exclusive real estate in the world. A booming office, residential and tourist community, has made the island an ideal location for luxury retailers to set up shop. Upper Madison Avenue, the Plaza District around Fifth Avenue and SoHo are some of the most prominent retail markets in the world, with asking rents ranging from \$900 to \$3,800 per sq. ft.

**Upper Madison Avenue**, characterised by an exclusive, elegant environment, features a diverse mix of the finest luxury brands, situated in brownstones or limestone French Renaissance Revival townhouses originally built as private homes. These retail townhouses are integrated into the residential community and cater to Upper East Side residents in addition to Manhattan locals, residents from the suburbs and European tourists. The stretch of Madison Avenue between 57th and 72nd Streets, which provides 15 contiguous blocks of retail, is considered one of the most prestigious shopping corridors in Manhattan, home to luxury and aspirational luxury retailers such as Ralph Lauren, Bottega Veneta, Fendi, Pucci, Valentino and Barney's.

**The Plaza District** is conveniently located, with easy access to almost every subway line including Grand Central Station. This corridor is one of the most densely populated districts in the city and is anchored by internationally renowned sites such as St. Patrick's Cathedral and Rockefeller Center.

Home to an enormous office community, as well as year-round tourism, Fifth Avenue from 42nd to 59th Street is one of the most expensive and sought-after retail destinations in the world, offering an unprecedented branding opportunity to display prestigious global brands in museum-like storefronts. Anchored by the luxury department stores Saks Fifth Avenue, Bergdorf Goodman, and Henri Bendel, the retailers here attract a swarm of shoppers consisting of international and national tourists, local employees, Manhattan locals and wealthy suburban residents.

**SoHo**, previously an art district known for its lofts and galleries, has transformed into a mecca for boutiques and fast-fashion retailers. The innate fashion-forward and trendy characteristics brought by the artist population from years prior, make the area a popular tourist destination that also satisfies those seeking beautifully detailed architecture and trendy retail. The neighbourhood's appeal resides in its capacity to provide a unique shopping experience that attracts a high volume of international tourism as well as local, affluent shoppers. The SoHo retail market differs from Upper Madison and Fifth Avenues because it includes mass market, teen, and fast-fashion retail as well as luxury tenants. Prince and Spring streets are the most prominent luxury corridors within SoHo and are home to retailers such as Coach, Moncler, Prada, Theory and Longchamp.

Although these districts are the home base for luxury retail in Manhattan, new developments at the perimeter of the island are also starting to attract luxury retailers. For example, Neiman Marcus will open its first Manhattan store at

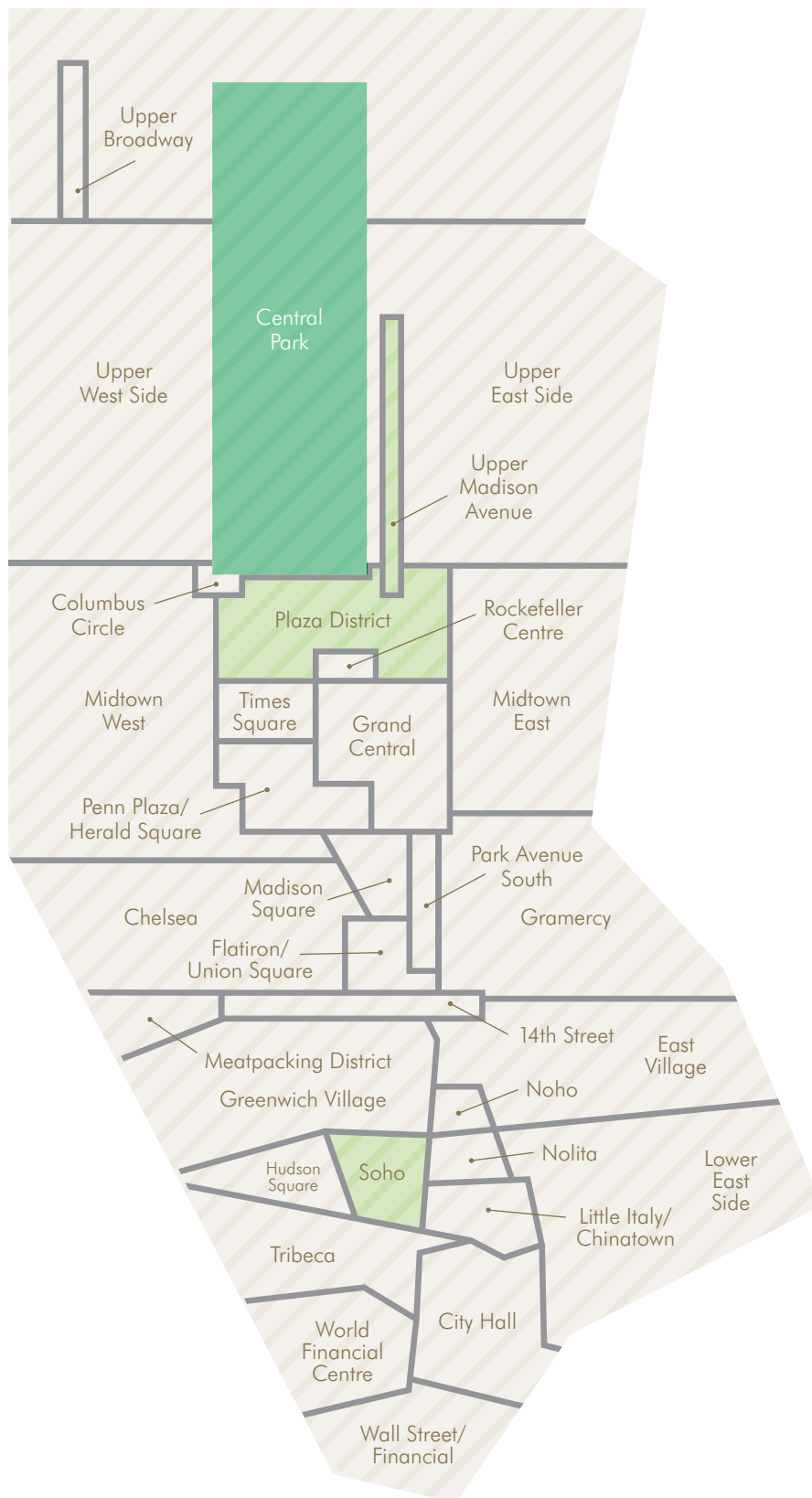
Hudson Yards, occupying 250,000-sq. ft. on 10th Avenue between 31st and 32nd Streets. A handful of luxury retailers have also debuted at Brookfield Place this past spring, including the likes of Burberry, Gucci and Salvatore Ferragamo.

Rents have grown aggressively over the past five years and sales volumes have failed to keep pace, causing an increase in availabilities and the length of time needed for leases to close. Rent growth will likely taper from what has occurred most recently as these submarkets continue to witness fewer lease transactions.





## Luxury zones in Manhattan



## Consumer profiles

**Upper Madison Avenue** – Wealthy Upper East Side residents, Manhattan locals, residents in the suburbs of NYC and European tourists.

Brands – luxury/aspirational luxury.

**Plaza District** – International and national tourists, local employees, wealthy Manhattan locals/residents as well as those from the suburbs. Grand Central Terminal, which is nearby, has direct links to wealthy suburbs in southern New York State (Westchester County) and Connecticut (Greenwich, Cos Cob, and Westport).

Brands – Fifth Ave (42nd-49th): mass market, fast fashion, lifestyle; Fifth Ave (49th-59th): luxury.

**SoHo** – Attracts a high volume of international tourism as well as local shoppers.

Brands – luxury, mass market, teen retail, fast fashion.



# MUMBAI INDIA




Mumbai has not only established itself as the financial capital of India, but is also amongst the world's leading financial centres. A changing demographic profile, flourishing services sector, home to the Indian Film Industry, and an increase in disposable incomes, has led to the prominence of Mumbai as a key retail destination in the country. Owing to the substantial presence of upper middle class, High Net Worth Individuals (HNWI's), foreign tourist influx as well as the diplomat and expatriate population, the city has emerged as one of the leading hubs of luxury-retailing in the country.

Mumbai is currently home to leading luxury brands, some of them having multiple outlets across the city. Prominent luxury retailers that have forayed into the city over the last few years include Louis Vuitton, Dior, Salvatore Ferragamo,

Ermenegildo Zegna, Versace, Jimmy Choo, Bottega Veneta, Mont Blanc, Burberry, Emporio Armani, Hugo Boss, Canali, Gucci and Hermes. Approximately 13% of the total brands that entered and expanded in Mumbai during 2012 to H2 2015 were in the luxury segment. In 2015 itself, the city has witnessed store openings by at least six luxury retailers such as Montegrappa, BCBGMAXAZRIA and Judith Leiber Couture amongst others.

Traditionally, luxury retail activity in the city was characterised by the presence of large stand-alone stores, or space take-up by brands in prominent five star hotels in the city, such as Grand Hyatt, The Taj Mahal Palace and The Oberoi targeting the expatriate/elite class frequenting these hotels. However, this space take up by retailers in hotels was largely on account of a lack of quality space elsewhere in the city. Increased exposure of the city's

### Mumbai centre

-  Mumbai Railway Network
-  Presence of Luxury Retail
-  Prominent High Streets



well-heeled to global trends and the growing interest of luxury retailers to set up base in Mumbai, demanded a ‘dedicated’ place for luxury retailers – resulting in the emergence of Palladium at Lower Parel – a high end/luxury retail mall. The development allowed luxury retailers such as Canali and Zegna amongst others, to relook at their operation/expansion strategy and shift base from five star hotels to the mall in order to tap the higher footfalls, better brand visibility and ambient facilities. In the recent past, brands such as the Italian luxury writing instrument retailer Montegrappa, Bobbi Brown, accessories retailer S.T Dupont, Hugo Boss, Paul Smith, TUMI, Canali, Burberry, Gucci and Bottega Veneta have either expanded their presence in the country with a store at the Palladium or opened their first outlet in India at the Palladium.

Most of these retailers have opted to operate via a joint venture or franchisee route as these brands tend to draw comfort from the presence of a local partner to manoeuvre the ‘not so simple’ stipulations/regulations of store operations in India.

As disposable incomes rise and luxury consumer base broadens (the younger population is more willing to spend money on luxury goods), the city will continue to remain on the radar of prominent luxury retailers planning an expansion or entry into the country. However, some impediments to growth, such as formidable real estate costs and high import duties (especially in comparison to Asian and Middle Eastern counterparts), will still remain. While the current dearth of luxury mall developments or suitable high-street options is likely to result in rental values in the existing luxury malls to further increase, however, two luxury malls planned in the Bandra

Kurla Complex area of Mumbai are likely to ease the pressure in the medium-long term. Also, as a significant proportion of the target population still purchases luxury goods on their visits abroad due to competitive pricing and service, localisation and consumer connect remains the key to tap the Indian luxury customer.



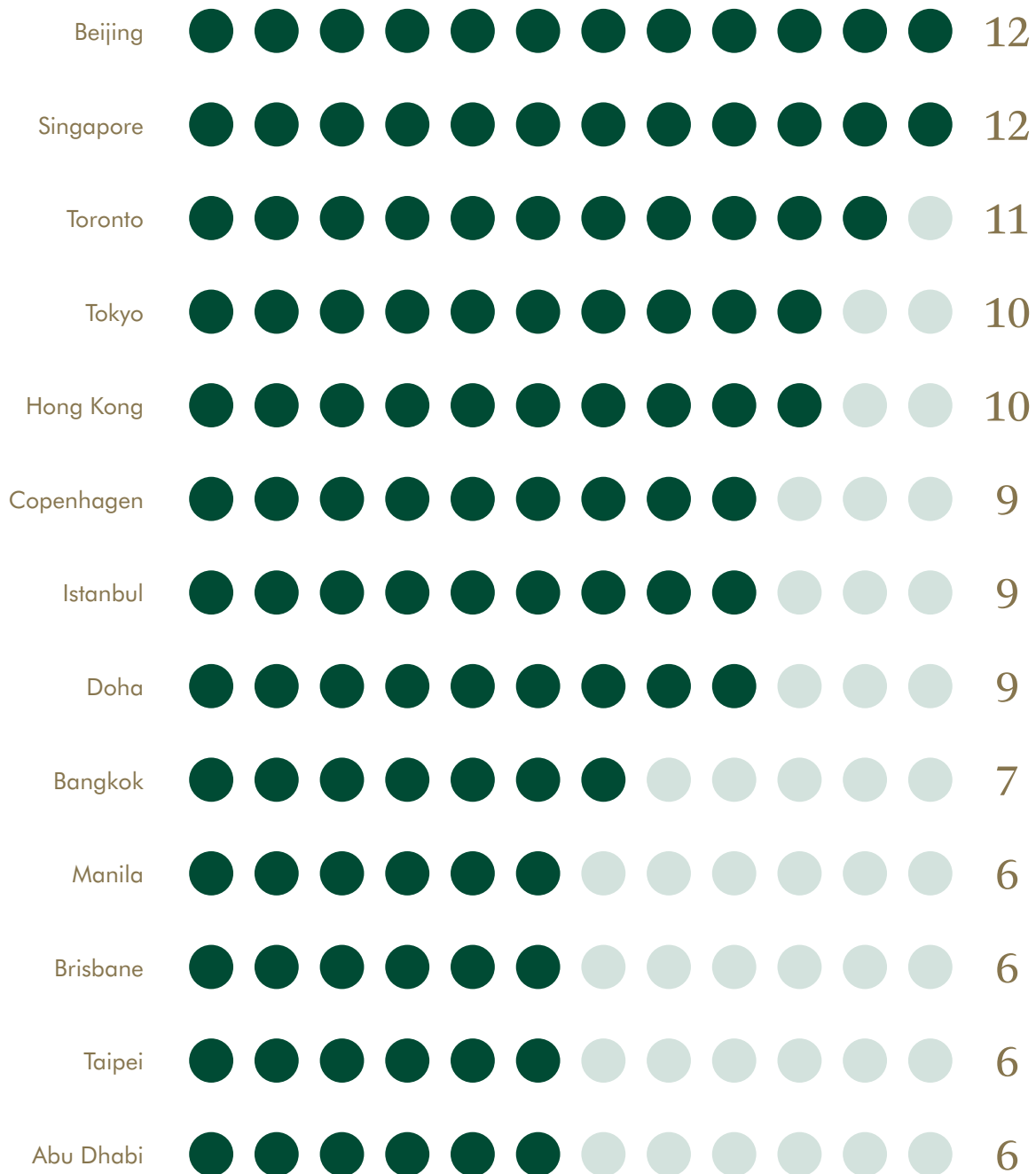


# R E TAILERS PERFOR M A N C E

Understanding retailers' behaviour is instrumental in our ability to advise our clients. Therefore CBRE conducts a number of projects each year to track the movement of retailers. Through our analysis we have been able to identify the markets which luxury retailers targeted in 2014 for new store expansion, as well as the markets luxury brands are targeting this year. Our ongoing monitoring of different brands and their footprints, also allows us to highlight the top markets for luxury brand presence.

# TOP TARGET MARKETS FOR LUXURY BRANDS

Figure 1: Number of new Luxury & Business Fashion brands that opened a store in 2014.



Source: CBRE 2015



## TOP TARGET MARKETS FOR LUXURY BRANDS EXPANSION

Figure 2: Percentage of Luxury & Business Fashion brands targeting the market in 2015.



Source: CBRE 2015

# WORLD'S MOST LUXURIOUS CITIES

Figure 3: Ranking of cities by presence of luxury brands.



Source: CBRE 2015

5 ➤ Japan

79%  
Tokyo

Level with 79% in 2013

6 ▲ Singapore

75%  
Singapore

Up from 73% in 2013

7 ➤ United States of America

73%  
New York

Level with 73% in 2013

7 ➤ Japan

73%  
Osaka

Level with 73% in 2013

13 ➤ South Korea

69%  
Seoul

Level with 69% in 2013

14 ▲ United States of America

67%  
Las Vegas

Up from 65% in 2013

14 ▲ China

67%  
Chengdu

Up from 65% in 2013

14 ➤ Taiwan

67%  
Taichung

Level with 67% in 2013

20 ➤ Malaysia

63%  
Kuala Lumpur

Level with 63% in 2013

20 ➤ Taiwan

63%  
Kaohsiung

Level with 63% in 2013

20 ▲ Thailand

63%  
Bangkok

Up from 62% in 2013

24 ➤ Turkey

62%  
Istanbul

Level with 62% in 2013

28 ▲ China

58%  
Shenzhen

Up from 56% in 2013

28 ➤ South Korea

58%  
Busan

Level with 58% in 2013



# RETAILERS' PERFORMANCE VITAL STATISTICS

## North America

Growth %  
(2012-2014)

|                        |       |
|------------------------|-------|
| Sales                  | +4.9% |
| Number of sites        | -2.2% |
| Selling space          | +0.1% |
| Average sq/m per site  | +2.3% |
| Average sales per sq/m | +4.8% |

## Western Europe

Growth %  
(2012-2014)

|                        |        |
|------------------------|--------|
| Sales                  | +13.4% |
| Number of sites        | +15.6% |
| Selling space          | -2.0%  |
| Average sq/m per site  | -15.2% |
| Average sales per sq/m | +15.7% |

### Asia

- Azerbaijan
- China
- Hong Kong
- India
- Indonesia
- Japan
- Kazakhstan
- Malaysia
- Philippines
- Singapore
- South Korea
- Taiwan
- Thailand
- Uzbekistan
- Vietnam

### Australasia

- Australia
- New Zealand

### Eastern Europe

- Croatia
- Czech Republic
- Estonia
- Georgia
- Hungary
- Latvia
- Lithuania
- Poland
- Romania
- Russia
- Serbia
- Slovakia
- Ukraine

### Latin America

- Brazil
- Chile
- Mexico

### Middle East and Africa

- South Africa
- UAE

### North America

- Canada
- USA

### Western Europe

- Austria
- Belgium
- Denmark
- Finland
- France
- Germany
- Greece
- Ireland
- Italy
- Netherlands
- Norway
- Portugal
- Spain
- Sweden
- Switzerland
- Turkey
- UK

## Latin America

Growth %  
(2012-2014)

|                        |       |
|------------------------|-------|
| Sales                  | +7.0% |
| Number of sites        | +6.8% |
| Selling space          | +7.7% |
| Average sq/m per site  | +0.9% |
| Average sales per sq/m | -0.6% |

\*Based on USD figures.

Eastern Europe



|                        | Growth %<br>(2012-2014) |
|------------------------|-------------------------|
| Sales                  | +18.0%                  |
| Number of sites        | +13.0%                  |
| Selling space          | +9.0%                   |
| Average sq/m per site  | -3.6%                   |
| Average sales per sq/m | +8.2%                   |

Middle East and Africa



|                        | Growth %<br>(2012-2014) |
|------------------------|-------------------------|
| Sales                  | +25.9%                  |
| Number of sites        | +26.1%                  |
| Selling space          | +11.8%                  |
| Average sq/m per site  | -11.3%                  |
| Average sales per sq/m | +12.6%                  |

Asia



|                        | Growth %<br>(2012-2014) |
|------------------------|-------------------------|
| Sales                  | -4.1%                   |
| Number of sites        | +14.9%                  |
| Selling space          | -2.5%                   |
| Average sq/m per site  | -15.1%                  |
| Average sales per sq/m | -1.6%                   |

Australasia



|                        | Growth %<br>(2012-2014) |
|------------------------|-------------------------|
| Sales                  | +0.7%                   |
| Number of sites        | +16.0%                  |
| Selling space          | +15.1%                  |
| Average sq/m per site  | -0.8%                   |
| Average sales per sq/m | -12.6%                  |

# THE FUTURE OF LUXURY







The impact of the global economy on luxury consumption is worthy of deep consideration. A luxury consumer is in many instances a global consumer; therefore it is key that we have an understanding of any elements that may change their consumption patterns. As the importance of different countries' consumers develop we have to look at the market in a different way. What is it that drives behaviour? What do they look for from luxury brands? Where do they shop? We need to understand the building blocks that make up their luxury DNA. If we have this knowledge, we can adapt to movements in the global economy and the resultant impact on consumer behaviour.

As discussed throughout the report, the luxury consumer resides in many different cities across the globe, the traditional markets in Europe of London, Paris and Milan, the highly penetrated market of New York on the East Coast of the USA, the developing markets in Mumbai and the nascent luxury city of Lagos. The needs of luxury consumers are developing and it is not enough to simply replicate the same model city by city. Each consumer is unique and each brand has a responsibility to understand what drives consumers to make a purchase.

As we've seen in the report, the penetration levels of luxury are increasing. Cities from across Asia are moving ahead of more established markets in Europe and the USA. We will see those cities joined by the likes of Lagos, Addis Ababa, Panama City and Astana, all of which are seeing a dramatic growth in Ultra High Net Worth Individuals and are experiencing spikes in consumer demand. Some of these consumers will, of course, visit and shop overseas, but many will also want the opportunity to shop closer to home. Therefore, as a brand are you comfortable that you have the right depth of understanding of the Kazak market? Do you know what brands consumers favour in Ethiopia? These are questions that need to be addressed in order to expand in the most effective manner.



### The future of luxury will be driven by a number of factors

#### The continued aspiration to partake of a luxury lifestyle

The desire of individuals to purchase luxury products is fundamental to the continued growth of this industry. The current view is that there is no likelihood that this desire will lessen in the near future. For all the talk of leading a simpler lifestyle, free of material possessions, there are still a growing number of people who aspire to access a lifestyle founded in luxury.

#### Global economic factors

There are very few occasions where changes have a global effect. Interestingly changes in the 'global' economy tend to have local impacts, but even when they do occur on a truly global scale, it does not tend to happen in each market at the same time. When there is a downturn in one market it often creates opportunities in the next.

#### Innovation

Luxury items tend to be either those that have a heritage and authenticity or those that are at the cutting edge of technological development. There is a reason why there is a waiting list for every new Ferrari that comes off the production line; it is in the brand heritage, but also in the technology and development that has gone into the new model. The queues outside certain technology stores when a new model phone is released are testament to this as well. There are a number of devices that will offer the 'same' functionality but it is the heritage of this brand and the innovation that pushes it high on any luxury scale.

#### Access

The physical store network is the core basis of the luxury retail industry. Consumers prefer to shop in stores, they like the experience and they are buying this as much as the product. However, it is remiss of luxury retailers to ignore the possibilities offered by the online channel. This is a route to consumers, it is a path that they take when reviewing and looking for product. With the website creativity that is currently available to brands it is foolish not to take advantage and to have a standout site.





### What do brands need to do to remain relevant in the eyes of the luxury consumer?

#### Avoid complacency

We often hear brands reinventing themselves and, while this is to be applauded, it perhaps would not be necessary if the brand had focused on continuous innovation. The brands that the consumers favour today will change, new brands will come to the fore and others will fade away. It is those that innovate and develop that remain relevant and grow.

#### Understand the market

This isn't to suggest that brands don't understand the market in which they operate. This is a reflection of the changing markets, the cities in countries that previously haven't been targeted: the best route to market, the potential partners, the best retail locations and operating practices – each market differs in all of those elements.

#### Understand the new consumer

The needs of consumers in developing markets are different: an expectation that one approach works for all is not appropriate. The brands that are recognised as leaders may, for one reason or another, simply not resonate in a new market with a new consumer. Whilst some consumers want restrained and understated, others are very much looking for a symbol of conspicuous consumption.

#### It's all about the experience

Shopping for luxury items deserves to take place in a luxury environment and to be an experience. The experience of being greeted and being shown the product, the chance to look at other items; the whole journey down to the packaging and the shopping bag given to carry your item home where you carefully unwrap it and gaze upon its beauty. All these elements make the luxury purchase about more than just an item.

#### Embrace technology

As discussed previously, the online opportunity is not one to be ignored; it goes further than having a beautiful, transactional website though. It is to do with how technology is addressed in the physical environment; it's about using technology to facilitate the best possible lighting in the fitting room; it's how ultra-high definition screens can take the place of mirrors; its about the ability of the sales associate to show you the range on their tablet. Technology has to be seen as an 'enabler', but it has huge opportunities in the luxury industry to facilitate sales and enhance the shopping experience.

**Luxury is a lifestyle decision;** The role of the luxury brands is to guide the consumer in their decision making and the consumer must be educated to understand the ethos behind the brand. A greater knowledge of the brand will lead to deeper levels of engagement and loyalty which will result in more money being spent.



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## What is Retail Science?

At the heart of the retail environment,  
lies the intersection of data and the consumer experience.

Where information and analytics come together to reveal market trends.

Where a deep understanding of consumer behaviour  
informs the physical experience.

Where ideas become actions that directly impact business success.

At CBRE, we are passionate retail experts.

We know how to leverage this powerful combination of data  
and consumer insight, unifying and mobilising them into  
outcomes that build true business advantage.

We call this **Retail Science**.



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