

Premium Brands: are you experienced?

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The Advisory Board

Consumers are no longer satisfied with premium goods alone. Increasingly, they want luxurious experiences too

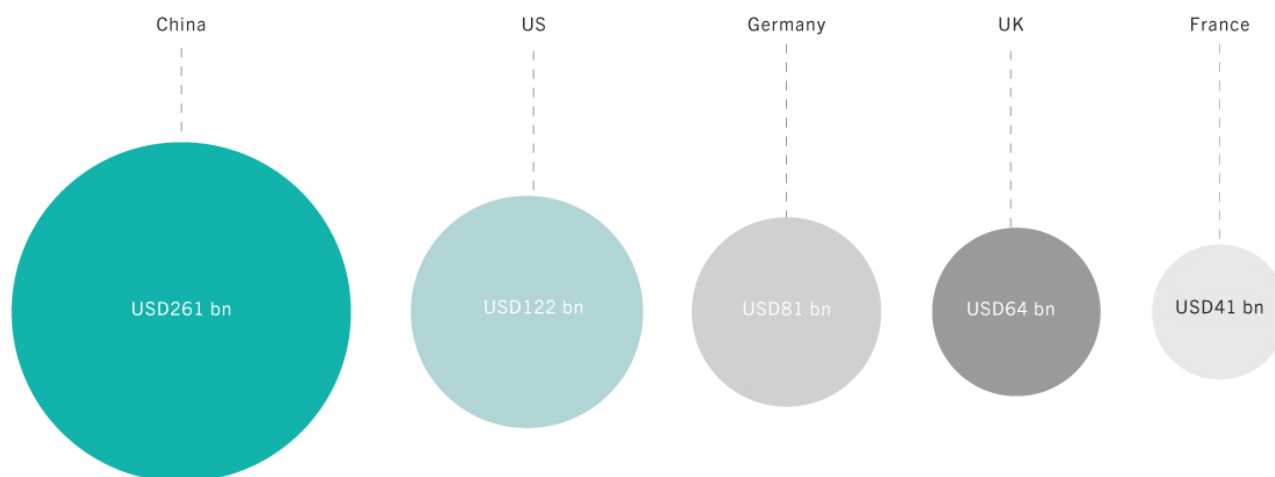
Luxury experiences are becoming at least as important as high-end goods to consumers. “Money spent on restaurants, travel and carousing can leave you with the most inflation-proof of assets: memories,” Financial Times columnist Janan Ganesh wrote recently.¹ And people, especially millennials and the youth of Generation Z, are devoting themselves ever more to creating such memories.

As such activities take up an ever larger fraction of consumers’ disposable incomes, not only will luxury goods manufacturers and service providers have to adapt, but so too will most other companies operating in the premium brand arena, according to experts from the Pictet Premium Brands strategy’s Advisory Board (AB). In part, this means offering bespoke luxuries – something the digital age facilitates by making it easier to better tailor goods and services to customers, be it through social networks or rapid prototyping and manufacturing in speedy, in-shop mini-factories. Indeed, shopping habits are becoming more experience-oriented.

Premium service

As increases in consumers’ disposable income supports demand for luxuries, tastes are also changing. Consumers are increasingly looking for experiences in preference to goods. So even where budgets aren’t growing, there has been a move to spending a bigger portion of what’s available on services.

For example, in the US, the proportion of household budgets spent on services rose by half a percentage point to around 18.4 per cent in the decade to 2015, while spending on goods dropped a percentage point to just under 16 per cent over the same period.²



Source: World Tourism Organization. Data as at 01.04.2017

This divergence can be seen most clearly among the young, such as in millennials' preference for experiences over luxury goods.

And the experiences they're seeking are increasingly high-end, AB members said. For example, premium travel is projected to grow at a rate of 6.2 per cent a year over the next decade against a 4.8 per cent annual rise in overall travel during the same period, according to Amadeus, which provides IT services to the travel and tourism industry.

On top of the usual rental car and hotel room upgrades, holidaymakers are seeking out niche experiences like culinary or wine-tasting vacations, wellness holidays, and multi-generational family trips.

Youthful experience

Family holidays, whether as large groups or simply grandparent-grandchild or one parent one child trips, are also increasingly popular. And the young are particularly influential in shaping the nature of these family trips. Rather than sticking to the same old destinations and traditional hotels, their hunger for unique or different experiences that they can then share on social media has fuelled demand for unusual destinations, active adventures and a preference for boutique or private residences. Extended families that include seniors and small children place greater importance on comfort, be it in transportation or hotels.

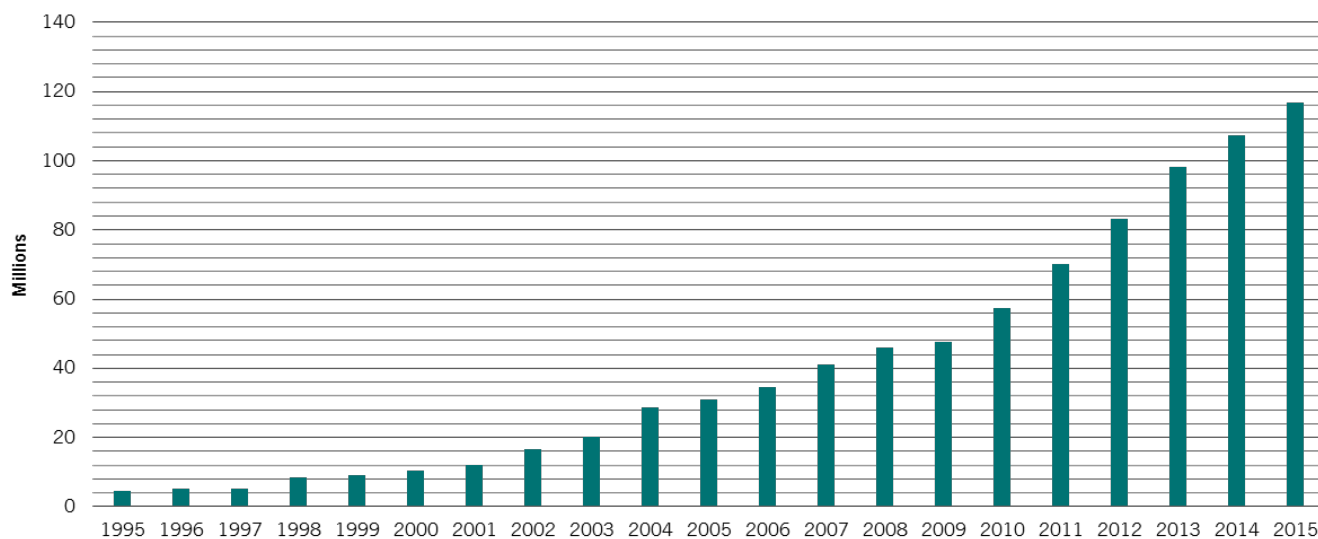
At the same time, those who travel for work are extending their trips to include a few days of holiday, often with spouses and partners. Some 60 per cent of business travellers have taken these so-called "bleisure" trips with more than half of those adding two days of holiday when away on business.³

The China shift

The US dominates luxury travel – in 2015 there were 12 million domestic first class flight bookings by North Americans compared with less than half a million for the next-highest region, Europe.⁴ But North America’s lead in international first class bookings, is narrowing and liable to be eroded further if demand in other regions grows as forecast – Amadeus sees North American luxury travel growth at just over 6 per cent per year through to 2025. By comparison Southeast Asian demand is expected to expand at 8 per cent a year and South Asian at nearly 12 per cent. China is expected to grow at 12.2 per cent, a slower pace than in the past but still one of the fastest in the world.

What makes the Chinese overseas travel market special is that it is changing dramatically. Holidaymakers from China are spending less on goods and more on experiences, which, for example, means better hotels and gourmet food – they are also much more open to world cuisine than they used to be. Two-thirds of Chinese travellers are millennials, aged between 15 and 35 years old. We expect the 74 million Chinese college students graduating over the next decade to further swell those ranks, further boosting demand for aspirational experiences.

WANDERLUST
Chinese tourist departures



Source: World Bank. Data as at 30.06.2017

Chinese travellers are also shifting from group tours to individual travel, which means they’re organising themselves differently. This is particularly true of the young: three-quarters of China’s independent tourists are between the ages of 25 and 44.⁵ They’re planning their individual journeys based on the experience they want to have, which makes what they can find online – their primary means of searching – key.

This dramatic change in Chinese preferences has occurred over a very short period.

A few years ago, the Chinese went abroad primarily to buy luxury, branded goods. They hardly cared about the hotels they stayed in as long as the price was right. That’s no longer the case. Now that they have been abroad, bought high-end goods, and become more knowledgeable, Chinese consumers can devote more time to experiential aspect of travel. The harmonisation of goods prices worldwide and lower tariffs, which have made it easier for the Chinese to buy premium foreign goods at home, simply reinforces this trend.

Firms will have to respond

The move from luxury goods to premium experiences is a challenge for all premium consumer companies. For instance, luxury hotel chains will need to ensure they do more than just provide comfortable rooms and efficient service. They'll also need to focus on offering a unique all-round experience to their guests, including tailor-made excursions, facilitating sports and providing added value, such as lectures and other cultural events – while also ensuring they remain socially responsible and environmentally friendly.

But it is the luxury goods brands that face the biggest challenge. Consumer enthusiasm for prestige brands fades as they become more widely available.

“ How do companies in the premium brand sector adapt? They need to become more bespoke...They need to be able to personalise their goods, offer experiences unrelated to what people are buying. ”

So how do companies in the premium brand sector adapt to a world where people favour individualisation and experience? They need to become more bespoke. They need to create loyalty programmes, communities and clubs, and a sense of belonging. They need to be able to personalise their goods, offer private shopping, concierge services, even experiences unrelated to what people are buying – a night at the opera, for instance, or a special concert. All the brands right now are having to move in this direction, even the most powerful ones.

For example, some of the top car makers have racetracks where drivers can legally push their high performance road cars to their limits. Nike offers a playlist for runners designed to match their heart-rate while Louis Vuitton has VIP apartments available to premium customers where they can shop privately or just relax while their goods are being personalised.

At the same time, premium brands are being confronted by the growing influence of social media. Instagram, Twitter and Facebook stars are becoming ever more important as sources of information and arbiters of taste. These “influencers” are particularly effective in China. It's not uncommon for their livestreaming sites to have integrated payment systems so that their followers can buy the product being discussed in real time with the touch of a single button.

The nature of luxury is changing. Premium goods no longer represent the pinnacle. Consumers increasingly demand premium experiences. Industry needs to adapt to these new needs.

[1] <https://www.ft.com/content/c9568af2-3bbb-11e7-ac89-b01cc67cfeec>

[2] US Bureau of Labour Statistics

[3] “The Bleisure Report 2014,” Bridgestreet Global Hospitality

[4] <http://www.amadeus.com/documents/future-traveller-tribes-2030/luxury-travel/shaping-the-future-of-luxury-travel-report.pdf>

[5] <https://jingdaily.com/how-chinas-independent-millennials-are-transforming-global-travel/34713/>

Premium Brands at Pictet Asset Management

- Our Premium Brands strategy invests exclusively in high-quality, sought-after goods from three main categories: experiential luxury; healthy living; and aspirational goods.
- These include seven sectors: travel; food and spirits; health and wellness; cosmetics; sporting goods; luxury and retail; and vehicles.

- Many of these prestigious brands enjoy powerful market positions, high customer loyalty, healthy balance sheets, superior profitability and strong pricing power relative to their competitors.

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