iCrossing

The evolution of the luxury consumer: post pandemic

Contents

Executive summary

The COVID-19 pandemic has had a profound effect on both society and the economy, leading to a complex impact on the luxury market and consumer. But in most cases, the pandemic has simply accelerated trends that luxury brands were already grappling with, bringing the future closer.

We found luxury consumers have been resilient – even benefitted financially – during the pandemic. Although spend in some luxury categories declined (notably fine dining, hotels and experiences), resilience meant spend was re-distributed elsewhere in the sector.

Essentially, Covid altered the shape of the luxury market. But, overall, the brands can look forward with optimism if they're able to adapt and keep up; capitalising on new opportunities.

We've seen the luxury consumer segment grow throughout the pandemic and, as a result, it's become more diverse. High Net Worth Individuals (HNWIs) and Ultra High Net Worth Individuals (UHNWIs) are now younger and less likely to be from inherited wealth in the West. This diversity is creating new demands on what luxury brands should be. Even how they're defined.

The pandemic also shaped how and where consumers spend. Although most movement restrictions will be lifted, people are placing greater value on isolation and space – and those who are able and willing will pay for this. Luxury consumers at all wealth levels have also used the pandemic period as a time of reflection, with many now putting a greater focus on living in the moment and time with friends and family. And those larger purchases are happening sooner than originally planned.

As with the wider population, sustainability and brand responsibility – both of employees and how brands play a role in society – have come to the fore. This is exacerbated by a younger consumer, and there will be greater scrutiny on luxury brand credentials in this space – something we believe many will be able to capitalise on.


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Introduction

The Covid pandemic has been a seismic global event, disrupting the very fabric of our lives. And the luxury sector wasn't immune to its influence.

Even before the pandemic, luxury was evolving; from the growth of the Chinese market and focus on younger audiences, to the changing retail landscape caused by ecommerce growth and the vertical integration of luxury brands themselves.

Covid's impact on the movement of people, materials and health – as well as the psychological impact of lockdowns – has had far-reaching effects for luxury brands. So while much has been written about changes in consumer attitudes and purchase behaviour throughout the pandemic, we want to understand its impact specifically on the luxury consumer in the long term, as the world takes tentative steps back to 'normality'.

We've drawn upon several resources to paint a well-rounded picture, but the bones of this report were built from our parent organisation Hearst's Luxury Survey, as well as data from sources such as Global Web Index, Bain and Stylus.

Let's dive into the key themes we found from our research; particularly consumer changes, what they're buying and how they're buying it, and the effect these shifts will have on the luxury market.

Affluent audiences:

How has Covid impacted the luxury consumer?


DIOR
DIOR
DIOR
Lamborghini
FB-808-WA
DREAM CAR PERFORMANCE

The ‘luxury consumer’ is a more diverse concept than ever before

The idea of a ‘luxury consumer’ being Western, older, and upper-class has been challenged in the past decade, but the pandemic is disrupting that concept further, even at the high end.

HNWIs are emerging from the pandemic in a relatively strong place financially. They were less impacted by the economic fallout of Covid – job losses were three times lower amongst those on higher incomes. They’re also more likely to have saved, with 42% of high-income employed households saving more during the pandemic compared with 22% of low-income employed households[1] (Bank of England). Some purchases, of course, were delayed, with 70% of HNWIs delaying travel and 45% delaying flights. A lower proportion of 18% delayed luxury purchases in general – like designer clothes, shoes and fragrances – but this was due to restriction on movement rather than lack of money[2].

Although many people have struggled financially due to Covid, 2020 saw an increase in the number of millionaires worldwide, growing by 5.2 million to 56.1 million[3]. And more than 1% of adults globally became millionaires for the first time.

In the UK there are now 2.4 million millionaires – up 9% year on year. 20 years ago, 1.7% of the population were millionaires, but this now stands at 4.7%. That’s 1 in every 20 people, or the population of Manchester, Leeds and Birmingham combined.

This growth means millionaires can no longer be considered, or marketed to, as a small, exclusive group.

Naturally, as this group expands it becomes more diverse, and there’s less truth in the idea of a homogenous luxury consumer that is attracted purely by the traditional tenets of luxury brands.

The luxury shopper is becoming younger, but this group is different to older consumers. This younger group, often called High Earners Not Rich Yet (HENRY) have significant discretionary income. But due to tax and higher relative cost of property, they are taking longer to reach the ‘wealth’ older generations have. Fortune Magazine, which coined the term, referred to a segment earning between $250,000 and $500,000 a year[4]; high salaries, but not a level that makes you wealthy in expensive global cities such as New York, London, or Tokyo.

1 Bank of England, How has Covid affected household savings?
2 GWI, Coronavirus Research|April 2020
3 Credit Suisse, The Global Wealth Report 2021
4 Fortune Magazine, Look who pays for the bailout

These two groups will remain distinct as wealth growth continues to outpace wage growth. Whilst both have the income to purchase luxury items, there are clear differences in how and why they purchase them.

The younger cohort is very different from the more traditional wealthy group in ethnicity, gender, political views and personal values. And this diversity and fragmentation impacts the definition of luxury. Its definition has been consistent for a long time: products made from the finest materials, priced at the top of the market, obvious in quality, often with visible branding and sold only in high-service venues.

Our survey found age to be a defining factor in new definitions; younger consumers use more descriptors for what they consider to be luxury. Whilst all ages are swayed by traditional descriptors such as a sense of authenticity, younger groups are more likely to associate luxury with beautiful packaging and prestige over category and price point.

66% of HNWIs over age 45 expect luxury brands to be made of quality materials, yet just 35% of HNWIs under 35 agree. Instead, 42% of this group expect luxury brands to have strong eco and ethical credentials, and 28% expect the luxury brands to have a strong story or narrative[1].

Younger customers want their purchases to help define who they are but also reflect their own personal values. How they discover luxury brands is different too; younger audiences are six times more likely to discover new luxury brands through influencers, and three times more likely to follow an influencer than a brand's account.

With a more diverse group of potential customers, luxury brands' marketing approaches are changing and will need to continue to do so. Traditionally, marketing in the luxury sector has been brand and product-led; design, service and price attract the right customer, but brands need to be more open than ever before – not being accessible is no longer an option.

1 GWI: Zeitgeist June 2021: Luxury spending

The Covid pandemic created an ultra-rich elite

Throughout the pandemic, not only did the rich get richer, the ultra-rich did too. The number of billionaires rose 31% over 2020, and just like millionaires, this group is becoming more diverse as it grows[1].

Fewer billionaires than ever received their wealth through inheritance; now two-thirds (68%) of the ultra-wealthy population are self-made, and only 8.5% completely inherited their wealth[2]. The notion of 'class' being a factor in wealth is waning. Collectively, billionaires saw their wealth rise by $5 trillion to $13 trillion in 2020.

This is creating an ultra-level of wealth; Jeff Bezos, Amazon; Elon Musk, Tesla; Bernard Arnault, LVMH; and Bill Gates, Microsoft all now have fortunes of over $100 billion.

The combined wealth of the top 10 billionaires on the Forbes list is close to the gross domestic product (GDP) of Spain. Bezos alone has a net worth larger than the GDP of Algeria, a country with a population of 45 million[3].

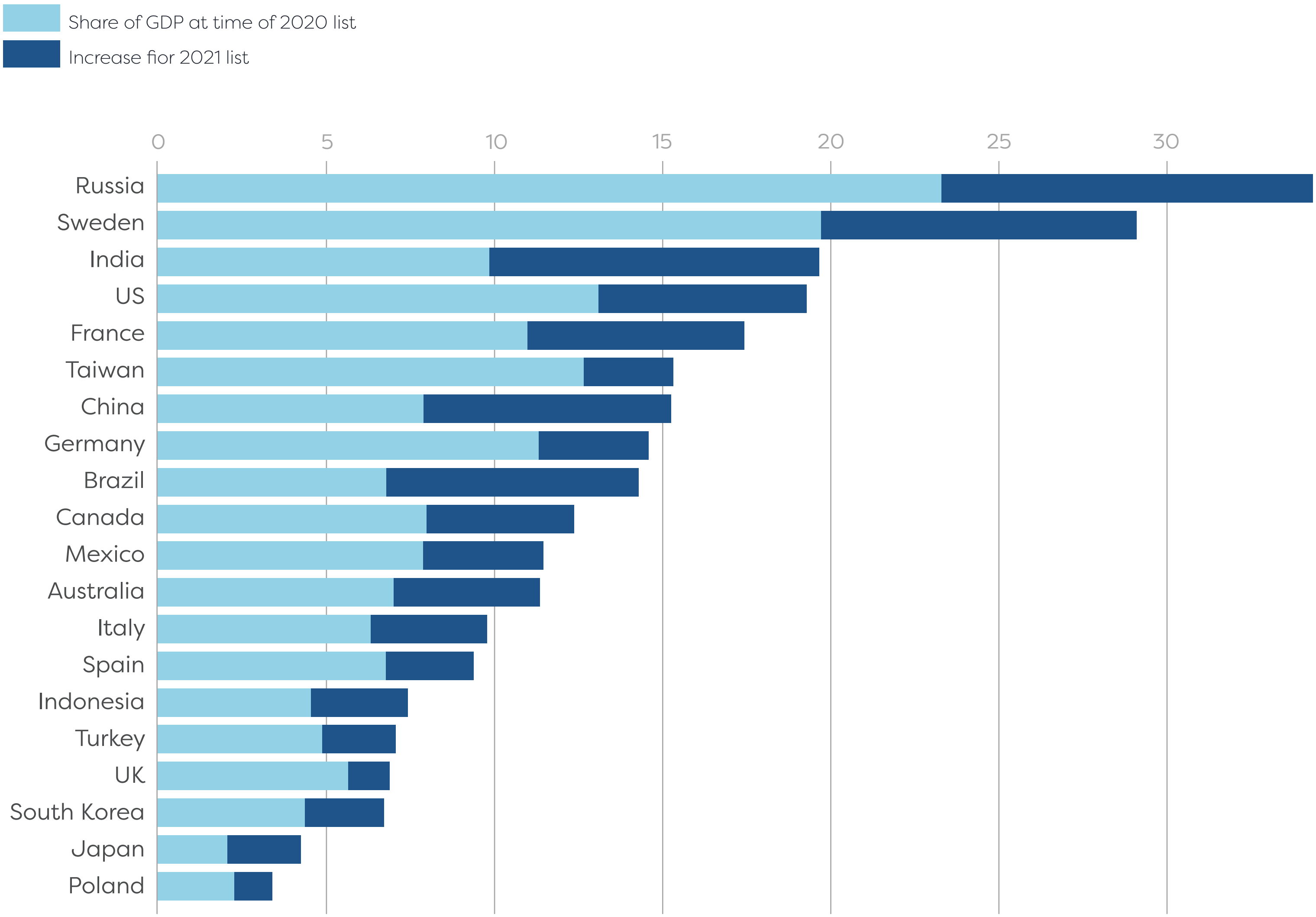
Pre-pandemic billionaire wealth in the USA totalled about 10% of GDP. By 2021, it was 15%. This is more extreme in Russia, where nearly 40% of the nation's wealth is now held by billionaires. In the UK, it's 7%, up from 6% pre-pandemic[4].

Whilst billionaires can't be considered a non-exclusive group as millionaires now are, their sheer level of (dis)proportional wealth changes the way we need to view them. Marketing directly to them isn't an option, but attracting them could bring a huge lift for many high-end brands.

1 Forbes, Nearly 500 People Became Billionaires During The Pandemic Year
2 WealthX, World Altra Wealth Report 2019
3 Forbes, The World's Real Time Billionaires
4 Financial Times, The billionaire boom: how the super-rich soaked up Covid cash

The super-rich have increased their wealth during the pandemic

Billionaires' wealth as a % of GDP



Spending:

The number of wealthy individuals is growing, but how are they spending that wealth?

Wealth buys isolation

Traditionally, luxury and beauty are resilient in the face of economic recession. The Lipstick Effect can be traced back to the Great Depression of the 1930s, when between 1929 and 1933 sales of cosmetics rose as industrial production in the US halved. In the recession of 2008-9 'small luxury' sales like mascara, nail polish, smoothies and single malt whiskey grew (see graph), whilst large ticket item sales fell.[1]

In harder times, consumers place a greater value on small luxuries at the lower end of the luxury market, while the extremely wealthy often aren't impacted, benefitting the top end.

Covid paused consumer movement, making the subsequent economic downturn different to past recessions. HNWIs and HENRYs were restricted, and cosmetics, luxury hotels and restaurants saw spending slow. Even L'Oréal's sales declined – although notably on-trend 'active cosmetics' grew by 13%. Without the ability to go out, beauty regimes were impacted as the number of outfits one needed or holidays taken sharply declined. 15% of regular luxury buyers simplified their beauty routine over 2020, with 13.4% using fewer skincare and beauty products than before[2].

However, 71% of HNWIs said the crisis would have 'little impact' on their spending power, with 55% confirming that they spent more, or the same, during lockdowns.

This group simply re-distributed their spending, often saving from experiences and spending a little more on physical items. Rolex saw a 13% increase in sales over 2020, and in January 2021, Bentley reported its strongest order book for 18 years.

11% of HNWIs began treating themselves to spa-like treatments at home. And with restaurants off the menu, there was a 17% rise in premium home dining experiences like cook-at-home or finish-at-home kits.

However, lockdowns didn't stop UHNWIs – they had the requisite spending power to avoid others completely. From Ireland to the Bahamas, real estate agents reported a rise in the sales of private islands, the number of private jet flights from Hong Kong to Australia and North America jumped 214%[3], and sales of luxury yachts over 30 meters (98 ft) in size rose 8% in the first nine months of 2021[4]. Isolation, or at least limiting contact with others, was available to those who could afford it.

Although vaccination numbers are rising and the world will return to 'normal' in 2022, concerns will remain and likely have a longer-term impact on the way the wealthy spend. Isolation and personal experiences have always had a premium, now there are more people who can and will buy them.

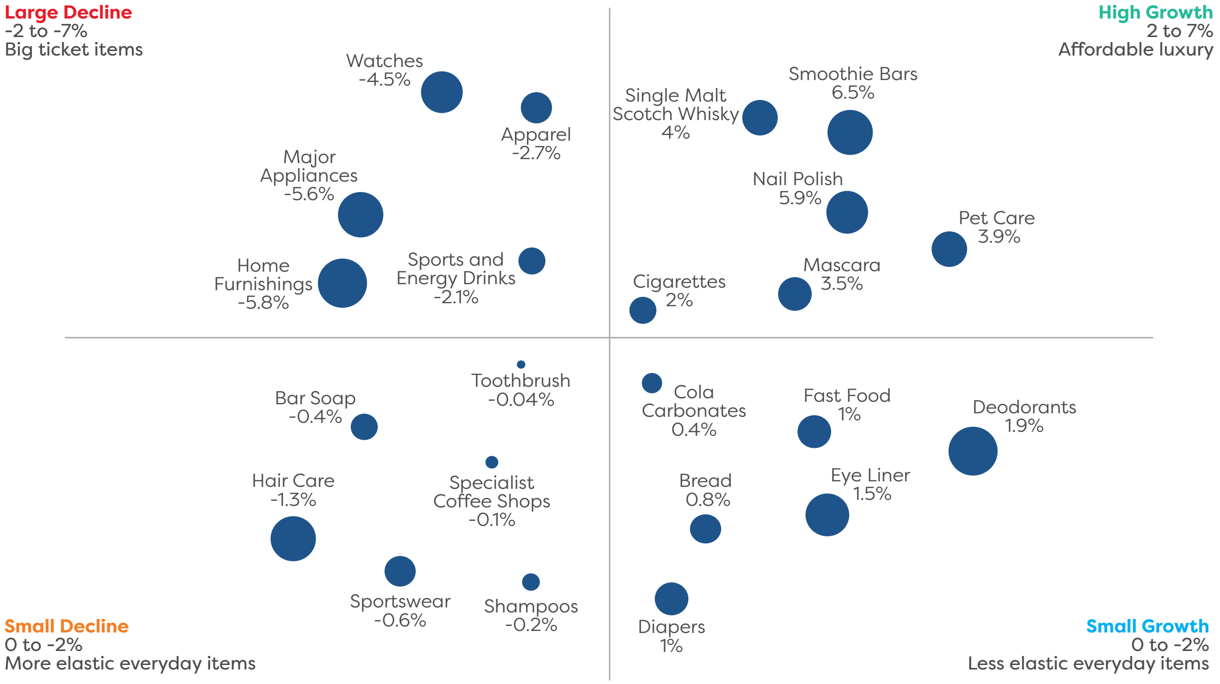
1 Euromonitor, Redefining the "Lipstick Effect" - Examples of Recession-Proof categories
2 GWI: Zeitgeist July 2021: Beauty/Fashion
3 Financial Times, Private jet demands surges in wake of coronavirus outbreak
4 Sky news, Superyacht sales soar thanks to pandemic and growing numbers of billionaires

We can expect continued uncertainty when it comes to travel; and this is where the wealthy are buying separation. 80% of UHNWIs intended to travel in the three months after lockdown eases and 79% are more inclined to travel via private jet than before[5]. If they survived the extended period with little or no income (which some – particularly restaurants – sadly haven't) luxury travel, hospitality and fine dining brands that were affected by the Covid pandemic will recover quickly, as the disposable income is there to win.

Many UHNWIs moved to country estates or even private islands, and are filling them with expensive art or furniture. Last year, one furniture auction house saw total sales of $2.5 million – roughly double what it did at the same sale a year before. Christies sold a NFT (non-fungible token) by artist Beeple for $69 million.

According to Alberto Galassi, chief executive of luxury yacht builder Ferretti, "The pandemic has taught us how fragile our life is. Postponing is no longer an option for those who can afford it". Indeed, our survey found 87% want to focus more on family and friends in 2022, and 45% feel they will no longer take anything for granted. After so much 'lost time' people are reassessing how they spend both time and money; 36% want to be more constructive about how they spend their time, a quarter want to have a better work/life balance and 19% care less about their career entirely.

The wealthy are spending their cash, and it's likely that the demand for isolation and space will increase. Those larger purchases, treats, or even once-in-a-lifetime experiences may happen sooner.



5 LUUX Media, Ultra Affluent Consumer Survey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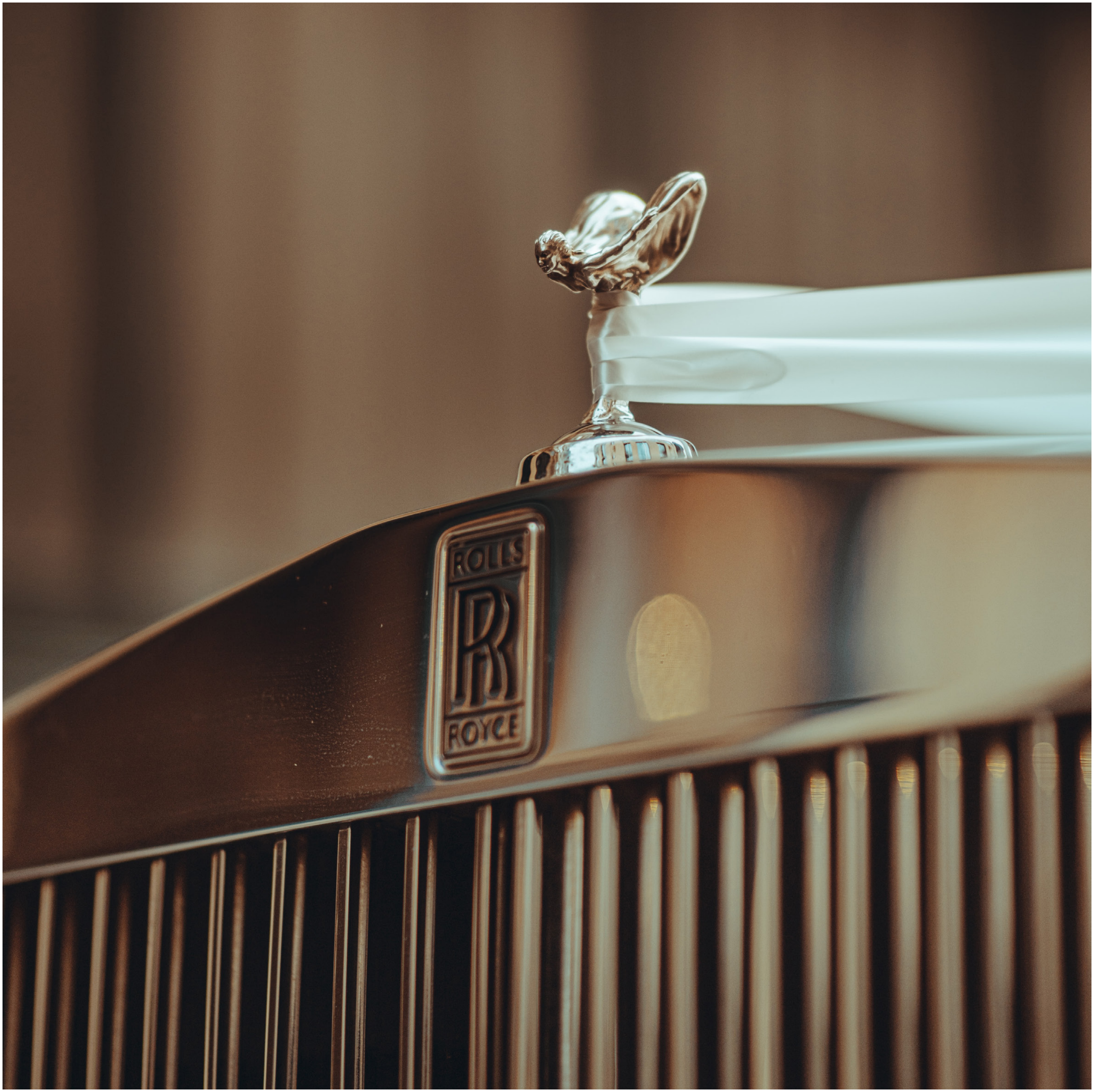
Conscious decision making is emerging

The annual Hearst Positivity survey found consumers are looking ahead to 2022 with positivity – 75% of ABC1s say they have a positive outlook on life – but also 51% believe the future will be better because of the new ways of living adopted during the pandemic.

There is a strong feeling that this is a moment for reflection and an opportunity for change. 78% acknowledged the importance of their mental wellbeing and 62% said they were considering ways to help others more.

This sentiment will further the rise of 'conscious capitalism'. 57% now say they're more likely to purchase from brands that share their personal values. This is particularly true of younger demographics who are far more likely to consider social and environmental impact, as well as values, in their decision making. According to Morgan Stanley, Millennials are twice as likely to invest in companies that have social or environmental goals. However, the pandemic has increased the focus on conscious purchase decisions for all luxury shoppers.

We believe this more conscious decision making will impact the luxury sector by accelerating three trends: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1. Sustainability

Material waste, caused by sourcing products from far flung locations, was once deemed the essence of luxury. Luxury experiences in dining, travel and leisure still often result in excessive waste and carbon emissions. However, these practices are coming under increased scrutiny. Conspicuous symbols of wealth and success are less attractive now than in the past.

The pandemic has proved an inflection point. 63% of HNWIs say they have recycled more since the start of the pandemic, and a quarter bought more sustainable products. Going forward, 78% want to be more environmentally conscious.

As private jet flights increased, so did the protests, with Farnborough Airport targeted on more than one occasion. Just 1% of travellers cause half of all global aviation emissions, and many have questioned the need for stars and sports teams to hire private jets given their proportional footprint.

Luxury brands are well-placed to address this scrutiny; they've always incorporated artisanal manufacturing and careful material sourcing, as well as naturally absorbing added costs of sustainable production into pricing. 42% of younger HNWIs expect luxury brands to have clear information on products and supply chains[1]. This should be positive news for brands that pride themselves on sourcing the best materials.

A response to this pressure could be seen in S/S 21 designer runway collections, where emphasis on sustainability increased by 214% on the previous season. Recycled jerseys, nylons and denims were promoted as responsibly-sourced fabrics, with Balenciaga using 93.5% certified sustainable and upcycled materials across its entire collection.

We can expect ultra-sustainable products that are still made from the finest materials and priced at a premium to become luxury, as consumers reflect their personal values in purchases.

1 GWI: Zeitgeist June 2021: Luxury Spending

2. Brand Responsibility

Covid brought greater awareness to how an individual's contribution can make a difference to a greater goal. Consumers increasingly want to know: if I buy this product, am I doing a good or bad thing for the world? They want to understand brands' attitudes towards workers, fair wages, local production, charitable giving, disadvantaged people and many other things. Half of HNWIs say that knowing a brand has sub-standard labour conditions would impact their purchase decision.

Luxury buyers are striving to add good into their consumption, and 57% say their purchasing decisions are influenced by a company's ethical and sustainability credentials. 86% think that brands should take a stand on social issues and the pandemic proved an opportunity for this – 54% of those asked could specify brands they saw support the fight against Covid.

Yet again, luxury brands should be well placed to address these concerns. With less pressure on cost and greater focus on provenance of materials, luxury brands should have a strong narrative. However, if high price purely means high mark-up, those brands will be exposed.


VOGUE ITALIA N. 922 FEBBRAIO 2019
VOGUE ITALIA N. 809 GENNAIO 2018
VOGUE ITALIA N. 811 MARZO 2018
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3. Second-hand Luxury

No matter what it's called – resale, re-commerce, luxury consignment or pre-loved – the second-hand luxury market saw a 65% increase between 2017 and 2021, versus 12% growth in first-hand luxury over the same period[1].

With scrutiny around waste and a younger consumer with different perceptions of luxury, we expect the pandemic to have accelerated this trend further. According to online resale platform Vestiaire Collective, its sales more than doubled in 2020.

Indeed, 48% of HNWIs under age 35 say they buy more second-hand fashion items now than a year ago[2]. The growing HENRY audience and more diverse HNWIs not only have different perceptions of what defines luxury, but also a growing demand for high-end fashion accessories at lower prices.

Secondly, increased working from home has grown second-hand markets in personal luxury, as fewer opportunities to go out meant people are unwilling to invest in higher priced items.

Traditional resale markets, such as alcohol and art, are growing as people invest in their homes. The price of collectable handbags rose 17%, and the value of fine wines grew 13% in 2020. Sotheby's (Knight Frank) saw a 97% sell-through rate at its pre-loved jewellery auction.

The secondary resale trainer market is estimated to grow from $10 billion today to nearly $30 billion by 2030[3] and the auction record for trainers has been broken multiple times since 2017, jumping from a little over $190,000 to the $1.8 million paid in 2021 for the prototype Nike x Yeezys Kanye West wore to the 2008 Grammys.

Finally, the rise of resales reflects perception change and thriftiness from luxury consumers, but also the ambition for more sustainable consumption. Brands are responding; both Burberry and Gucci have created marketing arrangements with second-hand seller The RealReal, and Arc'teryx launched 'ReBird', an ecommerce platform featuring both its Used Gear Program as well as upcycled clothing and repair services. And luxury fashion e-rental business HURR Collective even went physical, partnering with Selfridges on an in-store pop up. Since the launch in February 2020, the brand has seen memberships grow by 850%.

1 Bain, Luxury market rebounds in 2021 set to return to historic growth trajectory
2 GWI Zeitgeist: Sustainable fashion October 2021: Second hand items
3 QUARTZ, StockX, a sneaker sales site , is now worth $3.8 million


LORUS

The future is ecommerce

When shops closed during the pandemic, we saw a natural growth in ecommerce sales. But to what extent will this trend continue?

Ecommerce sales had been steadily growing, but Covid super-charged this trend. In the two years prior to the pandemic, online sales grew 42%. Between 2020 and 2021, that growth rocketed to 86%. Even as shops opened up in 2021, growth was at double 2019's levels (Bain). Due to this, Bain revised its forecast saying that ecommerce will account for 30% of sales by 2025, up from a 25% pre-pandemic prediction. So it seems ecommerce is here to stay.

The pandemic forced older, more traditional consumers to shop online, and many say they will continue to do so. Compared to 2020, 34% of HNWIs increased online purchase behaviour, with 80% of the older group saying they will continue to buy online post-pandemic.

Of course, many prefer the in-store experience for luxury – 52% intended to go into a store immediately post-lockdown. We can expect that this is mostly older consumers due to their expectations of luxury; 41% of HNWIs over 45 say great customer service is a defining factor of luxury brands, but this is far less important for younger groups, with only 13% who agree[1].

1 GWI Zeitgeist June 2021: Luxury Spending

If the growth of ecommerce is a sign of luxury becoming more accessible for a younger audience, the channel also has benefits for luxury brands to grow geographically. This chart shows how the shift to ecommerce in China during the pandemic attracted younger audiences as well as those from smaller cities[1].

Although China is larger in size, we can expect similar trends in the UK and Europe. Luxury stores and high-end fashion is concentrated in major cities, and within that, often a few global fashion hubs such as Paris, London or Milan. Ecommerce opens products up to wealthy individuals in other locations. In addition, as HNWIs begin to spend more time away from urban centres, luxury brands will need to shift geographic focus. And ecommerce has a key role to play.

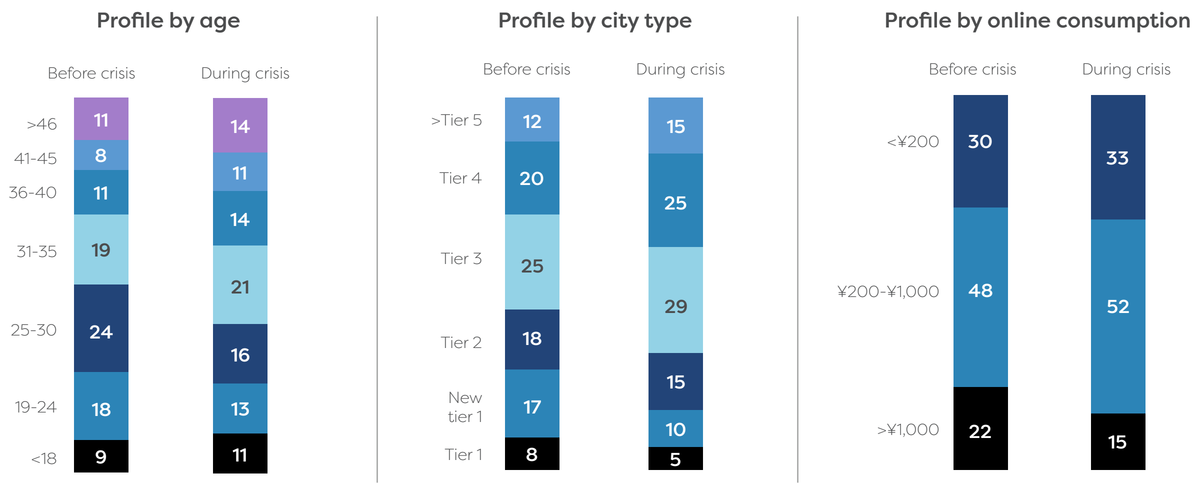
Since the start of the pandemic, over two thirds (69%) of HNWIs outside of London/South East England increased their number of larger value purchases made online, compared to 43% in those traditional areas of wealth (GWI).

This growing channel requires new tactics for brands as they hope to maximise potential, not least to balance storytelling and selling. But how can brands remain luxury yet be available to all online? Chanel famously doesn't sell products via its own site, using select, trusted third parties such as Farfetch (which Chanel owns a small stake in) and Net-a-Porter. Selling online doesn't mean being Amazon.

When attempting to achieve this balance, creating brand narrative and values is vital with younger HNWIs showing the way: 28% of them expect luxury brands to have a strong brand story.

In China, e-commerce user profiles shifted during the coronavirus outbreak.

E-commerce user profiles before and during COVID-19 crisis in China, %



1 McKinsey, Understanding Chinese Consumers: Growth Engine of the world

Conclusion

The luxury sector was evolving long before the pandemic, and we saw varying levels of growth across the field, as certain brands were unable to keep up with the rate of change. The Covid pandemic, and the changes brought with it, will amplify this polarisation.

Luxury consumers are increasingly younger and have a different idea of what luxury should be. They also have different personal values to older generations. The luxury brands that aren't looking at this audience today should remember that over the next decade or so, there will be a wealth transfer, with Millennials inheriting from baby boomers. By 2030, Millennials will hold five times the wealth they do today[1].

The changing concept of luxury will be a challenge for many brands, with the idea of exclusivity, excess, and in some cases even heritage, being challenged by new consumers. The definition of the term 'luxury' is no longer controlled by brands themselves. New audiences, new preferred sales channels and empowered consumers have a shared responsibility in this, if not democratising it entirely.

In summary, the next five years will involve even more change, and by 2025, the market will look very different. Chinese consumers will account for over 45% of global luxury purchases with mainland China as the largest luxury market; ecommerce will be the leading sales channel; and younger generations (Gen Y and Gen Z) will be the biggest luxury buyers, representing over two-thirds of global purchases[2].

Few other categories are seeing as much change as luxury, and, due to the Covid pandemic, accelerated trends brought what was always on the horizon here a whole lot sooner. The brands that don't take note and keep up won't survive. It really is that simple.

Key takeaways:

1. The HNWI and UHNWI audience has grown during the Covid pandemic, becoming more diverse with new demands on luxury brands.
2. The HNWI segment can no longer be marketed to as a small, exclusive group.
3. The pandemic is impacting how both HNWI and UHNWI spend their wealth, with greater focus on sustainability, fairness and personal space.
4. Ecommerce has been super-charged and will continue its ascent, opening up new audiences in terms of age and geography.
5. Above all, the pandemic has brought the future closer, with many researchers and experts revising previous predictions around the future of the category.

1 Forbes, Millennials Will Become Richest Generation In American History As Baby Boomers Transfer Over Their Wealth
2 Bain, China's Unstoppable 2020 Luxury Market

About the research

All figures come from multiple sources including Global Web Index, Bain, Stylus and Hearst Luxury survey.

About iCrossing

iCrossing is a digital agency that works with businesses who are ready to move faster in digital to create a real step-change. iCrossing is owned by Hearst, the world's largest independent media, entertainment, and content company. Being part of the Hearst family gives iCrossing access to Hearst audiences, data, consumer research and category experts which allows iCrossing to better spot new insights, trends and inform direction for its clients. iCrossing delivers Change. Made Simple.

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