WALPOLE

WALPOLE LUXURY SUMMIT 2016
THE AMERICAS

In association with Covington

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1. Introduction

Walpole is a unique alliance of 175 of Britain's finest luxury brands, including Burberry, Alexander McQueen, Rolls-Royce Motor Cars, Boodles, Harrods and Jimmy Choo. Our annual industry Summits bring together business and creative leaders, experts and practitioners from across our membership and further afield to discuss the key opportunities for luxury brands.

Last year, when we were looking at potential areas of focus for our 2016 Summit, two things were clear: we should return to the original Land of Opportunity, and that fresh perspectives on the New World would be timely.

The US is certainly at the top of everyone's agenda, as evidenced by our British luxury 'Key Growth Drivers' study with McKinsey & Co that we launched in March this year. As identified in the study, the growth potential of British luxury is significant (particularly when you reference the scale of the French and Italian brands), and that growth is primarily coming from internationalisation. When surveyed about which international markets are key, 75% of the study's respondents cited the US as a future growth market, while 79% said it was a current growth market.

But what of the New World? The Latin American markets – Brazil, Mexico, Columbia and Argentina – are offering great potential, but are not without very particular and sometimes prohibitive challenges, as well as shifts in customer behaviours and attitudes.

And so with the Americas in mind we set out to assemble speakers with unparalleled knowledge and expertise in markets across this vast continent, and – to give a truly global context – with a breadth of experience running businesses in Europe and Asia. During the summit, inspirational speakers from brands including Ralph Lauren, Armani, Gucci, SAKS, Halston, Jimmy Choo, Christie's, Mulberry, Hearst, Harrods – to name but a few – shared their collective insights, and also the wider ecosystem that is vital to the continued growth of the luxury sector – with speakers from finance, innovation, technology, media, management consultancies, future forecaster, agencies and advisors to give the full 360 degree perspective. (A full list of speakers is available at the end of this report.)

It was a pleasure to partner again with Covington; their knowledge and expertise is invaluable in shaping our Summits, and we are proud to highlight the key role they play in supporting the UK luxury industry.

So, please do read on for an overview of just some of the conversations that took place at the Summit; we are enormously grateful to Tim Jackson for creating this report, and we look forward to welcoming you to future Walpole thought leadership events.

2. In Numbers

US GDP growth of just **above 2% for 2016**

Economic growth in the range of **below 3% is going to be normal for the US** and much of the G7

70m people visit the US each year **spending around $1.5bn**

The **US is the UK's single largest export market** in the world with about **$65bn of exports**

The **UK is America's largest export market in Europe** with about **$55bn worth of exports**

The **UK and USA share the world's largest FDI relationship** valued at over **$1.1tn**

US household debt has **dropped from 13.2% to 10.1%.** US household net worth has increased by **$30tn (since 2008)** amounting to **$88tn today,** which is **five times US GDP**

America has **14 million households** with a mean **income of approximately $300k** and **assets of about $ 3m**

The top **10% (of population) have 27% of the income** (a little over $ 3tn) and **hold 75% of all the assets in the USA**

Across the **$277bn US luxury market,** spending is increasing in **Leisure travel and fine dining** categories. Spending on **fashion accessories, apparel, handbags, watches and jewellery** is **dropping by an average of 11%.**

Since 2013 the **number of millionaires in the US has grown by 1.6m** and **LA alone is a $ 6bn luxury market,** which is **double the size of the Russian market**

US Millennials are predicted to **increase their spending by 8% in 2016** compared with **1.1% Generation X** and a **fall (-5.3%) from Baby Boomers**

Total US Millennial spend at $49bn is around **half that of Gen X, £96bn** and a fraction of the **$117bn attributed to Baby Boomers**

Brazil is No. 2 for Facebook in the world, **No.2 for Instagram.** The average interaction online in the world is **3.8 hours per day, 3.6 hours in the US,** but the average in **Brazil is 9.8 hours per day**

Instagram is the No. 1 tool for retailers in Brazil

In 15 years' time 20% of the US population will be 65 years or above

US online has continued to grow at approximately **20% per annum for most retailers**, whereas **bricks and mortar growth has been hovering around 2%**

51% of all online sales last year in the US took place on the **Amazon platform**

3. US Market

Elizabeth Dibble, Deputy Chief of Mission U.S. Embassy in London, revealed that the US economy is picking up speed after a slow start this year and; "We are looking at GDP growth of just above 2%." Dibble added that US consumer and business sentiment are both strong with unemployment expected to be below 5% for 2016. She stressed that six years into the recovery; "It's clear that without a significant boost to productivity economic growth in the range of below 3% is going to be normal for the US and much of the G7." Dibble explained that markets are only pricing in one rate rise this year given the uncertainty surrounding Brexit, China's slowdown and a poor set of employment figures in May.

Anthony Collard, Head of Investments for UK Business Leaders, J.P. Morgan posed the question; "Can we get a 4%-5% growth rate going forward? The US economy is currently the strongest in the world and this position is accelerated because of the fact that Europe is having so many troubles. But the challenge we have is what happens with the (strengthening) dollar." Collard explained that a stronger dollar will affect tourism and there are already signs of a slowdown in Latin American tourism particularly in Miami, Las Vegas and Los Angeles. He stressed the threat to US tourism as 70m people visit there each year spending around $1.5bn.

The strength of the bi-lateral economic relationship between the UK and USA was illustrated by a range of data from Dibble; "The UK is our 7th largest trading partner in goods and our biggest partner in services and the UK is America's largest export market in Europe with about $55bn worth of exports. The US is the UK's single largest export market in the world with about $65bn of exports. There are over 42,000 American firms which export to the UK and over 7, 500 firms have a physical presence in the UK. She added; "There are roughly 1.2 million Americans who work for British companies in the United States and approximately 1m Britons who work for American companies here (UK). So across the board in terms of investment, exports and employment it is a very mature and deep relationship." The UK and USA are each other's largest foreign direct investment partner and share the world's largest FDI relationship valued at over $1.1tn.

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4. Brexit

Collard explained some revisions that J.P. Morgan has made to global growth post Brexit; "Our economics team looked at the potential impact of Brexit on growth across the world." Its prediction is for a GDP drop of 1% for the UK and 0.5% for Europe in 2017. Collard added; "The reason we worry is if you think about where we are in the global economy, we have had about six and a half years of expansion. Late last year we started to question that expansion. We had recessions in Brazil and Russia, oil prices coming off. There was just general slowdown in economic activity, which hurt last year's GDP and was a cause of the sell-off in January and February this year across stock markets."

He pointed out that Brexit questions the growth of Europe in particular over the next 18-24 months and that the UK economy had only stabilised after joining the EEC in 1973. Change from similar growth levels in Europe and the US to a Brexit induced growth differential has led to a strengthening of the dollar; "What traditionally happens when you have strong growth in the US versus weaker growth in Europe is that you get a stronger dollar. If the dollar strengthens again it will impact consumption in many ways" according to Collard.

Offering some specific insights into the mind set of American business, **Allyson Stewart-Allen, CEO International Marketing Partners**, stressed the importance of keeping things simple while also commenting on Brexit; "So if you really want to wind your American colleagues up use the word 'complex' a lot and watch the shutters come down. Be aware that complexity for us means time and therefore money. We are obviously now thinking about Brexit to some extent, and what that means for disrupting our preferred approach of consistent ways of doing business across Europe." Hinting at concerns associated with non-EU membership she added; "We are less interested than if it's presented as Europe is an easy place to do business."

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5. US Wealth Creation

However within the US market many economic indicators are strong. Private consumption growth is currently at 2-3% with a prediction that it will move to 4%. Real wage growth and disposable incomes are rising, household debt has dropped from 13.2% to 10.1%. US household net worth has increased by $30tn (since 2008) amounting to $ 88tn today, which is five times US GDP. Collard emphasised the robustness; "We have not seen this level of wealth creation versus GDP ever before and the people who have been benefitting the most are generally the top 1%-5% of the population."

US employment data indicates big drops in unemployment but this has not translated into significant wage growth; "In the past as unemployment has come closer to 4%, wages go up. But it hasn't happened this time. It's one of the challenges and paradoxes that most economies are battling with at the moment." No one really believes in the strength of the market. However, Collard added; "You can't have unemployment go much lower without some pricing pressures. From our US experience clients are starting to increase wages, especially in the small and medium sized companies."

Cara S. David Managing Partner, YouGov Wealth Practice revealed that America has 14 million households with a mean income of approximately $300k and assets of about $ 3m and 400,000 households with a mean income of approximately £1m and which have $20.1m in assets.

She explained; "In the US there is an asset gap like no other as the top 10% have 27% of the income (a little over $3tn) and hold 75% of all the assets in the USA." Despite the wealth, David pointed out that across the $277bn US luxury market, spending increases are only in the Leisure travel and fine dining categories. Spending on fashion accessories, apparel, handbags, watches and jewellery is dropping by an average of 11% as consumers buy experiences over products. **Steven Murphy, Founder and Managing Partner, Murphy and Partners**, confirmed that the US is a significant market for luxury spending; "There are more people buying luxury in America than any other place in the world. They are not the biggest spenders but there are more people spending, three times more than Japan. Since 2013 the number of millionaires in the US has grown by 1.6m and LA alone is a $6bn luxury market, which is double the size of the Russian market."

6. Consumption

Collard stressed the importance the American consumer to the health of the US economy; "The consumer represents 70% of the entire US GDP, so it's the consumers story that you all need to know about. The consumption story is extremely strong and to achieve over 2% growth shouldn't be particularly difficult."

David provided insights into the generational differences among US consumption. Millennials are predicted to increase their spending by 8% in 2016 compared with 1.1% Generation X and a fall (-5.3%) from Baby Boomers. However, she did also reveal that the total Millennial spend at $49bn is around half that of Gen X, £96bn and a fraction of the $117bn attributed to Baby Boomers. Other significant generational differences specifically relating to luxury included average age when they first experienced luxury and the associations different generations have with luxury products and brands. For example David explained that Baby Boomers typically had their first luxury experience at 33 years, which was paid for by them. By contrast the average age for a first Millennial luxury experience was 24 years with the majority of 18-29 year olds having it paid for by someone else.

The total Millennial spend at $49bn is around half that of Gen X, £96bn and a fraction of the $117bn attributed to Baby Boomers.

7. Latin America

Mexico and Brazil represent the largest markets in Latin America, although Mexico is bigger for luxury given its more open attitude to trade. **Philip Guarino, Co-Founder Partner, Emerging Market Luxury Advisors** said that there is a mixed set of opportunities for luxury across Latin America. He acknowledged that Brazil has a particular set of problems but others including Mexico provide cause for optimism. Guarino explained; "Mexico has fared well compared with the rest of Latin America because of its proximity to the US. It's also a very open market and it has the highest consumption of luxury brands imported from Europe." He added that recent political changes in Argentina should provide opportunities for luxury brands in the country since 99% of Argentinian luxury consumption current takes place outside. Guarino pointed out that Columbia also represents an opportunity as it is now a very open and stable economy, which is growing at more than 3% per year. He added; "Over the last 10 years Columbians have been one of the top three shoppers from Latin America in the US."

Brazil has 15 cities with populations in excess of one million people and despite recent political scandals there is a strong feeling of optimism and a trend to urbanisation with Fortaleza being one of the fastest growing cities according to **Olga Martinez Garcia, Partner, Amélie Strategy Consultancy.** Carlos Ferreirinha, Founder and CEO, MCF Consulting, stressed that Brazil's domestic market is very strong with increasing numbers of millionaires created by the huge agricultural based economy. The country has a strong reputation for service and hospitality; "Brazilians embrace opportunity. We love to shop, we love to have fun."

Ferreirinha explained that Brazil's small domestic market for luxury goods is a result of a protectionist culture, which is a hangover from its past military rule; "Until twenty years ago we had a military system in Brazil, a country that was not open to the market place at all. This is one of the reasons why the majority of you have never seen Brazilian brands." Despite this, Brazil offers huge potential in the long term given its size and the US style consumer driven nature of its economy; "Brazilians behave like Americans. The dynamics of consumption are very much American driven, but we believe we are Europeans and like the European lifestyle." Garcia reinforced this by explaining that luxury products provide Brazilians with a 'gateway' to the sophisticated lifestyle of the developed world. Social media is extremely important to Brazilians according to Ferreirinha; "We are number one Facebook in the world, number two for Instagram. The average interaction online in the world is 3.8 hours per day, 3.6 hours in the US, but the average in Brazil is 9.8 hours per day. Instagram is the number one tool for retailers in Brazil."

8. Differences across the generations

The percentage of the working population in the US is shrinking as the Baby Boomers retire noted Collard; "In 15 years' time we are going to have 20% of the US population being 65 years and above. The replacement of those workers needs to be the Millennials and immigrants." He raised the question of whether or not the next generation will make as much money (wages) as the Baby Boomers did; "It's hard to say. Right now the people who are replacing the Baby Boomers are making 60% less." Another challenge is the difference in both spending priorities and behaviours across the generations and specifically between Millennials and Baby Boomers. Collard explained; "Their motivations and desires are very different. What they want to do is maximise utility. To enjoy things as they always have done with their parents but do it in a way that's cheaper. The Millennials are much less trusting of banks. They don't necessarily use a bank in the same way as they might use crowding funding or peer-to-peer lending. They don't necessarily want to buy big ticket items like their parents did. The desire to own a car or a home is not the same. And with that comes the sharing economy. They don't necessarily need to own anything."

Murphy also commented on the relative importance of the Baby Boomers and Millennials; "The number one luxury buying generation in 2014 (in the US) were the Millennials who constituted 45% of luxury buyers, while Baby Boomers represented 26%. 92 million Americans are Millennials and of that group 11.8 million buy luxury."

David was more cautious about the Millennial impact pointing out that they spend a smaller percentage of their income on luxury than both Baby Boomers and Generation X. Other differences she identified were; Baby Boomers and Generation X luxury consumers appreciate quality and understand the meaning and value of luxury products whereas Millennials are more concerned with price, value and the status associated with a brand.

In 2014 (in the US) were the Millennials who constituted 45% of luxury buyers, while Baby Boomers represented 26%.

9. Emotions

Murphy explained that it is vital for brands to connect emotionally and resonate with luxury consumers; "There is three times the likelihood of a repurchase or a product being recommended to a friend if the customer is emotionally engaged." He added that customers are 52% more valuable if they are emotionally connected with a brand and stressed that WeChat in China and Snapchat in the US are important social media tools for making emotional connections. **Bonnie Takhar, President, Charlotte Olympia,** also emphasised the importance of emotions in branding stating that it is a critical driver of their business; "What we see in our stores and experience with the product is that the customer's emotional reaction to our product is what drives our business."

Garcia identified some fundamental factors for success in Brazil including being consistent, relevant and having social currency; "How do you do this in Brazil in a way that really touches Brazilians? For me it is pure emotion. If you don't touch people you don't get anywhere. It is the touching of the soul, you have to touch people deep down."

Stewart-Allen explained how to engage with North American consumers in particular; "The expectation is that you will deliver this fantastically engaging, immersive story-telling, historical, poetic, experience so that when I go back to my neighbourhood or wherever I can tell people 'guess what do you know that this fragrance, this perfume is made…, this leather is sourced from…, or, you know, this hotel's history is. It's those insights that we just love."

The customer's emotional reaction to our product is what drives our business.

10. Department Stores

There is debate about best channel to consumer in the US luxury market given the traditional strength of the department store model compared with online, digital and social commerce platforms. Department stores have typically allowed brands broad market access with relatively low investment and been critical for raising brand awareness and achieving fast sales growth.

Steven Webster, Founder and Creative Director of the eponymous jewellery brand, reinforced some of the commercial advantages of the US department store consignment model of distribution which involves the retailer selling stock prior to paying for it. He stressed this has cash flow implications for new brands and designers but can work well for established brands that have a good performance record with the department store. This is because the store will often pay an advance to secure likely high selling products.

Marigay McKee, Founder, MM Luxe Consulting, noted that department stores globally are facing enormous competitive pressures which she characterised around a concept called the three O's (Online, Off-price and Outlets). She explained; "You can't get away from the fact that in the US there is a very expensive off-price business, very expensive outlet business and there are many prestigious brands which have very productive and lucrative outlet businesses." Reflecting on the extent of online trading in the US McKee said; "Online has continued to grow at approximately 20% per annum for most retailers, whereas bricks and mortar growth has been hovering around 2%. In fact 51% of all online sales last year in the US took place on the Amazon platform."

Despite this McKee argued that department stores in the US are; "Still extremely important, still pivotal for a lot of people. When you look at a store like Harrods getting between 16-20 million visitors a year, it holds a pivotal role in retailing in the UK." McKee then identified opportunities for department stores, which she framed as the three E's, Experience, Environment and Emotion; "It was always about the experience, about the environment, about the emotion and the future of retail is founded on those three components. These all lead to engagement and the successful retail brands of the future are brands which engage with their consumers, do the right thing, are authentic, and are socially conscious."

Takhar explained that the US marketcan be challenging; "You can have great success or failure very easily. It was very important from the beginning to get the department store business right. Footwear is a very crowded space. It's very competitive and pricing is vital in the US." In providing advice to businesses entering the US market Takhar stressed; "You need to have integrity in your product. I believe pricing is a massive component to anyone's strategy and the value proposition has to be right around that. Have really good relationships with the right partners."

11. The future

The distinction between channels is more a concern for businesses than consumers who engage with both online and physical stores at their convenience. **Trevor Hardy, CEO The Future Laboratory**, referred both to Amazon's new physical store in Seattle and Samsung's 837 'Brandship' in New York, which carries no stock. Despite their different business models, both are examples of how the respective brands seek to enhance consumer engagement through brand experiences. Hardy reinforced the point by saying; "It is a front and centre demonstration that the debate between, digital, physical, mobile, wholesale, concessions, global stores and flagships is irrelevant. All the customer cares about is buying stuff."

This notion of stores communicating brand identity rather than stocking products was further illustrated by Hardy with the Sephora Concept store in Paris, which is a physical location but digital environment; "This idea of 'Phygital', the blending of physical and digital is something that's increasingly important for many brands. These stores are creating immersive, engaging and completely enveloping experiences for consumers which will ultimately help sell more stuff."

Maria McClay, Industry Head of Fashion, Google emphasised the significance of the smartphone to the way consumers shop; "At Google we say this has created the WWW Consumer. They know what they want, where and when they want it. They want more personalisation and want and actually use their phones in the store. 82% of people who are looking for a product in a store reach out to get their phone instead of going to a sales assistant." Speed and convenience are key elements of what consumers now expect when shopping. **Jamie Merrick, Head of Industry Insights, Demandware** stressed the importance of Apps in meeting consumers' needs for speedy access; "The mobile web is very slow in comparison with an App and the conversion is very low on a mobile website in comparison with other digital channels."

Hardy believes that digital and the Millennial generation will require luxury organisations to revisit their values and brand propositions. He quoted V&A curator Leanne Wierzba; "The shadow of the Twentieth Century is forcing this realisation that we have to form other types of values. These values are no longer centred around the individual, conspicuous consumption or having more or having the best." Hardy explained that changing values are challenging corner stone definitions of luxury; "A lot of us are struggling with re-defining these things. This notion of scarcity or rarity or exclusivity being a corner stone of luxury is being challenged quite a lot by digital and especially social (media and commerce)."

In predicting how consumers will be influenced in the future, **Avery Booker, Co-Founder and CEO Enflux,** emphasised the role of technology and in particular AI in retail. He explained; "Whether it's a shopping App or something else where an algorithm will select brands for the consumer. The consumer's not being influenced by friends and family as much they are being influenced by what's chosen for them by a program. This might be five years from now but that's going to be a thing that brands are going to have to reckon with."

Speakers & Moderators

Consuelo Blocker, Luxury & Fashion Lifestyle blogger
Avery Booker, Co-Founder & CEO, Enflux
Winston Chesterfield, Research Director, Wealth X
Victoria Christian, Brand Ambassador, Clive Christian
Anthony Collard, Head of Investments for UK Business Leaders, J.P. Morgan
Cara S. David, Managing Partner, YouGov Wealth Practice
Elizabeth Dibble, Deputy Chief of Mission, US Embassy, London
Sarah Evans, Partner, J Public Relations
Carlos Ferreirinha, Founder & CEO, MCF Consulting
Olga Martinez Garcia, Partner, Amélie, Strategy Consultancy
Philip Guarino, Co-Founder Partner, Emerging Market Luxury Advisors
Trevor Hardy, CEO, The Future Laboratory
John Hooks, CEO, Pacific Global Management
Charlotte Keesing, Summit Chair, Walpole
Maria McClay, Industry Head of Fashion, Google
Marigay McKee, Founder, MM Luxe Consulting
Steven Murphy, Founder and Managing Partner, Murphy and Partners
Louise Nash, Partner, Covington
Meribeth Parker, Meribeth Parker Consulting
Allyson Stewart-Allen, CEO, International Marketing Partners Ltd
Bonnie Takhar, CEO, Charlotte Olympia
Anne-Marie Verdin, Brand Director, Mulberry
Michael Ward, Managing Director, Harrods
Stephen Webster, Founder & Creative Director, Stephen Webster
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