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2024 INDUSTRY TRENDS:
LUXURY RETAIL

T The luxury retail industry is expected to grow more than 3% per year from 2024-2028. As younger demographics gain purchasing power and online luxury retail is solidified, brands can expect consistently strong demand to exist in this market. Retailers must also respond to emerging trends, like second-hand markets and a push for digital transformations. In doing so, the traditional shopping experience for customers may change rapidly, and brands will need to recognize the increased desire for a luxury experience – not just a luxury product.

In this report, we highlight key 2024 luxury retail trends, ranging from experiential luxury to the rise of cultural capital, that we expect to transform the market in the years ahead.

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1 YOUNGER SHOPPERS REDEFINING LUXURY RETAIL

While millennials still dominate the market, Gen Z is also increasingly entering the spotlight. With $360 billion in disposable income, Gen Z's preferences are becoming important considerations for luxury retailers. Together, millennials and Gen Z are projected to account for 70% of global luxury goods sales by 2025.

These younger shoppers are beginning to create or bring back their own trends. One prominent example is quiet luxury, a fashion ideal that has recently regained popularity. This more subtle luxury is defined by low-key luxury goods as opposed to prominent logos. Another is the rise of streetwear collections in luxury retail such as baggy pants, jackets, and sneakers.

Retailers should also take into account how younger consumers prefer to buy their products. Given the rise of social media, Gen Z and Millennials have easier access to the top brands and thus over 70% follow at least one. These young consumers, however, prefer more sustainable brands and will shop accordingly. They prefer to buy in a way that matches their preferences, which certainly extends to an additional desire for personalized experiences. Luxury retailers that hope to remain relevant must take the preferences of younger generations seriously.

Together, millennials and Gen Z are projected to account for 70% of global luxury goods sales by 2025. – SOURCE

2 A SHIFT FROM “THINGS” TO EXPERIENCES

The wheels of luxury retail turn slowly, but eventually do catch up. Firms are finally catching on to customers’ desire for experiences and are adjusting accordingly. One major example is the opening of the Louis Vuitton Hotel in Paris. By extending its brand into an experiential service sector, the luxury goods giant may open the door to other diversified future streams of revenue.

Dior similarly has entered the world of experiential luxury with plans to open a restaurant, the Monsieur Dior. Luxury retailers should take note and consider other experience-based alternatives for advertising, physical stores, and brand immersion. This may include pop-ups, activations, and even partnerships with events such as award shows and festivals.

Experiences allow luxury retailers to integrate shoppers into the brand further. Throughout any experience, the brand has the potential to cross-sell and upsell individuals likely to spend on the brand. Additionally, retailers can develop key relationships with customers and collect data to better understand their preferences. Finally, experiences can serve as a marketing platform for partnerships and collaborations as well as an avenue to personify the brand’s values.

3 THE RISE OF CULTURAL CAPITAL AS AN ASSET

Cultural capital essentially refers to non-financial, intangible assets that a company may have. This may include skills, unique talents, or even the social presence of a brand. Luxury retailers are increasingly leveraging cultural capital as an asset to distinguish themselves from competitors. Louis Vuitton, for example, has launched collections with Pharrell Williams and Virgil Abloh to make use of the weight that the figures hold in fashion. Pharrell's latest show had a media impact of over $42 million and had record viewership.

Another example from Louis Vuitton is their video campaigns with Lebron James and Rihanna. By embracing a diversity of celebrities, Louis Vuitton extended their advertising penetration. Additionally, the video campaigns leaned heavily into the importance of storytelling and thus created a more authentic message. Other luxury brands have also utilized cultural relevance through Hollywood and music to remain in the spotlight, such as with Hermès' Birkin Bags and K-pop and hip-hop music. We expect to see the continued rise of cultural capital as an asset for luxury retailers in 2024 and beyond.

4 COMPANIES INVESTING IN SECONDHAND RETAIL

The luxury secondhand retail market is expected to surpass $70 billion by 2032. This means that luxury retailers can no longer afford to ignore the value in reselling their products. Rolex, for example, has recently launched their certified pre-owned program, which allows their retailers to resell used watches. This will bring in additional revenue for the luxury watchmaker and address the growth of counterfeit sales.

Pushes for authenticity in resale markets has bolstered reputable luxury retailers' ability to pull market share from unverifiable third-party sellers. For example, eBay has opened a secondhand store in Los Angeles focused on reselling rare and collectible sneakers. Retailers must be careful, however, to properly authenticate any goods that they choose to sell. Gucci recently accused and sued Sam's Club, Lord & Taylor, and Century 21 for promoting and selling fake Gucci products. Luxury retailers may also begin to utilize blockchain technology to track the lifecycle of a good, further demonstrating this increased focus on investing in secondhand retail.

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5 LUXURY RETAILERS AND THE DIGITAL TRANSFORMATION

The digital age of shopping was cemented by the pandemic, but oftentimes customers still prefer to shop for luxury goods in person. This may be attributed to wanting to see an item in person before making a large purchase or the treatment received in luxury stores. Recent advancements in technology, however, are pushing luxury customers to shop online.

The increased power of AI chatbots may soon begin to surpass the abilities of in-store employees. By pulling from large databases and customizing exactly to a customer's preferences, these chatbots may provide a more tailored service. This is potentially one step in developing an omnichannel retail experience in which shoppers can integrate online and in-store advantages. For example, shoppers can purchase or check in-store product availability and pick up in person.

Additionally, AR and VR capabilities like virtual fitting rooms diminish the importance of traveling to a store for trying on clothing. Firms like Tommy Hilfiger are even making use of video games like FashionVerse to enable people to experience luxury retail online. Finally, luxury brands are also making a push for customer data platforms to better process and leverage customer insights. In doing so, they can create a digital experience that is reflective of the brands' values by developing the proper technology stack.

6 CUSTOMER-CENTRIC FOCUS

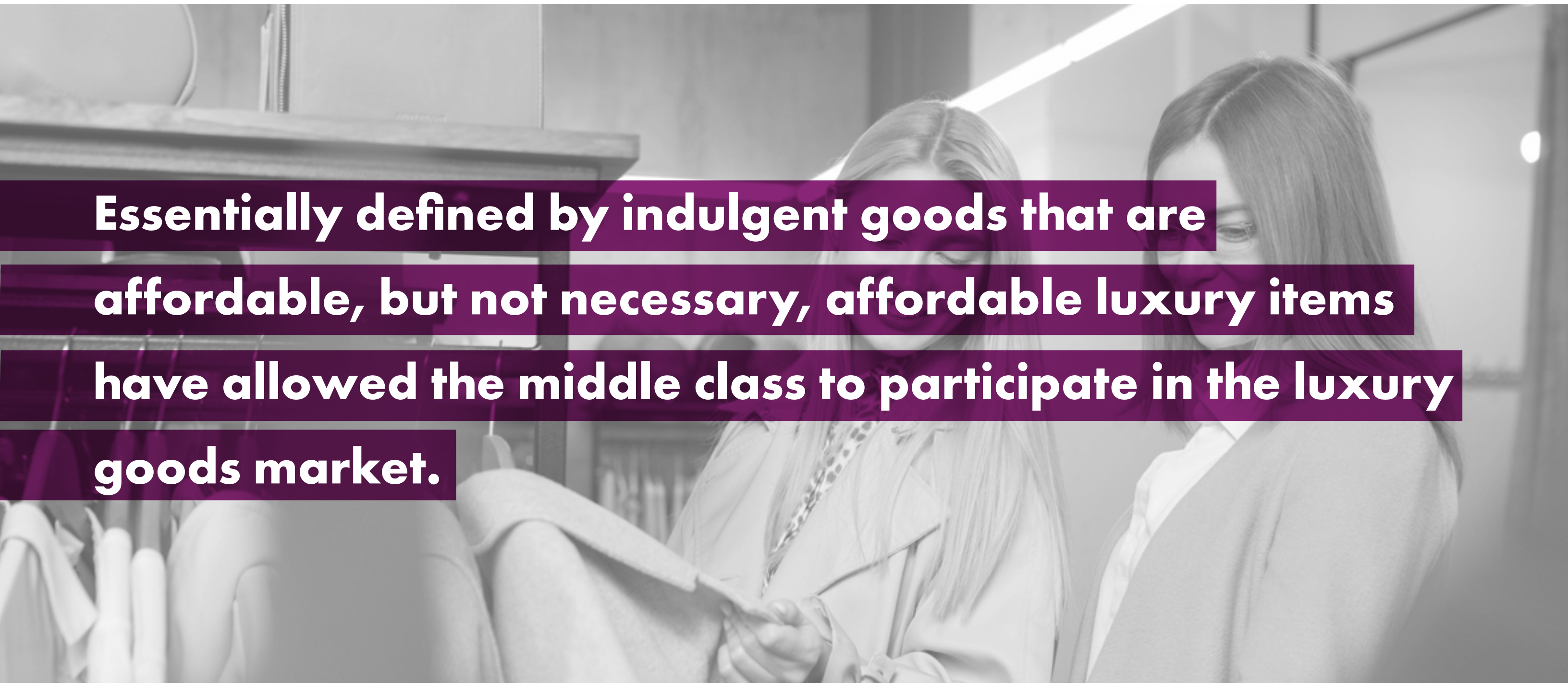
Personalization has become increasingly important in recent years and will only become more so in 2024. 84% of Gen Z, for example, defines their favorite brand as the one that treats them like an individual. Whether in store, as associates are trained to personalize their selling approaches, or online, as AI is used to better understand the customer, luxury firms are transitioning to tailoring their retail experiences. By incorporating innovative technologies like mobile POS systems, retailers can create a more intimate in-store experience by placing data at customers' fingertips.

This will mean a continued focus on direct-to-consumer (DTC) strategies, as shoppers can more easily find their exact preferences online. Luxury brands that historically have depended upon secondary retailers to sell their goods in-store can focus more heavily on their online platforms. Brands that still want to retain physical presences, however, will need to strategically utilize brick-and-mortar locations in key markets.

7 SHIFT TO SUSTAINABLE GROWTH VS. RAPID GROWTH

The luxury retail market often follows market cycles closely as disposable income waxes and wanes. While luxury goods are historically seen as recession-proof, they’re not immune to fluctuations in demand. A potential 2024 white collar recession could lead to decreased spending, which would have the most significant impact on “affordable luxury” items. Essentially defined by indulgent goods that are affordable, but not necessary, affordable luxury items have allowed the middle class to participate in the luxury goods market.

Businesses in 2024 should carefully consider their growth strategy and whether it’s viable in a recession-possible year. The luxury goods market has demonstrated rapid growth recently, but firms such as Farfetch have faced the consequences of overestimating demand. An acquisition by Coupang ultimately bailed out the eCommerce marketplace, but it should serve as a warning for other luxury goods retailers going forward.



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LOOKING AHEAD

Luxury retail is poised to become stronger in 2024 and beyond. While the specifics may change in response to the preferences of a younger and more digital world, it's likely that customers will increasingly shop for luxury goods while also expecting the luxury experience as part of that shopping journey, too. For luxury retail brands, it will be vital to budget and plan properly to avoid the pitfalls of assuming evergreen sales and monitor any changing dynamics in the market.

If you are looking for guidance in the luxury retail space or want to know more about these emerging trends that will impact the market in 2024 and beyond, let's chat.

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