

LUXURY WITHOUT COMPROMISE

# Robb Report

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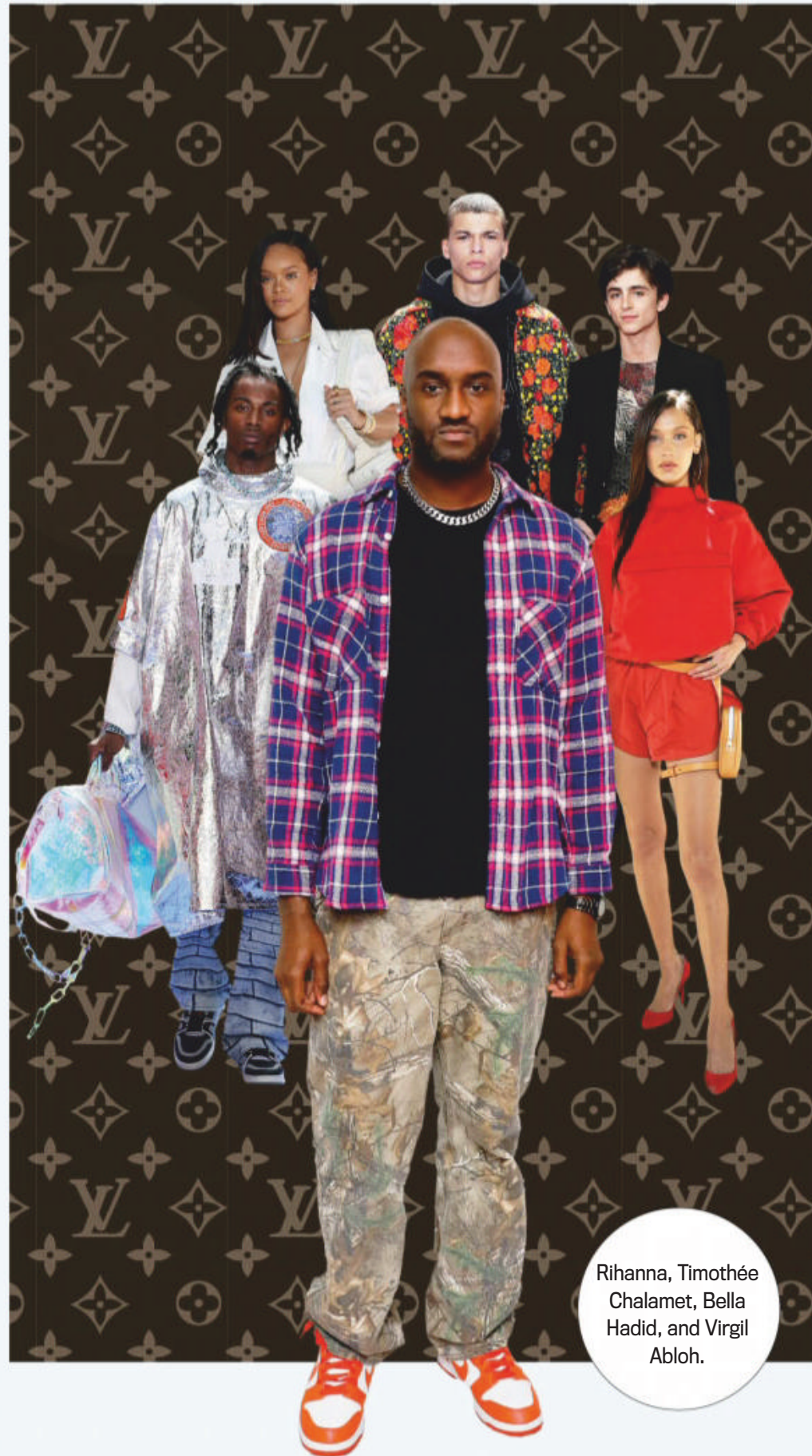
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# The Business



Left: Eddie Redmayne; front: Gucci's Alessandro Michele.



Rihanna, Timothée Chalamet, Bella Hadid, and Virgil Abloh.

## Chasing Youth: Where Does It End?

**SALES SURGE AT GUCCI AND LOUIS VUITTON WITH MILLENNIALS—BUT CAN THESE BRANDS KEEP UP THE PACE?**

By Jan Alexander

**I**t's official: Gucci and Louis Vuitton reign supreme as the most popular luxury brands among millennials in the United States and Europe, according to a recently released UBS report. The big question now is can these two cash cows, both heavily reliant on young trendsetters to sustain their businesses, hold on to the top spots—especially with so many competitors trying to knock them down.

Nearly all brands, particularly those in fashion, are chasing millennial consumers; but once they nail them down, the harder part is sustaining their loyalty when social channels are continuously plugging the next new trend or designer. There have been heated debates among industry executives about the influence of youth culture on luxury brands, but the real



proof is in the figures: The UBS survey found that 18- to 35-year-olds contributed a staggering 85 percent of the growth in the luxury market last year.

There is no doubt they have the purchasing power. In 2017, Gucci had sales of 6.2 billion euros (a 44.6 percent gain from the previous year), and for the first quarter of 2018, comparable sales were ahead 48.7 percent. What's more, roughly 55 percent of the brand's 2017 sales were made by consumers younger than 35. In 2017, LVMH, the world's largest luxury products group, reported revenue of 42.6 billion euros (it doesn't break down individual brand sales), an increase of 13 percent over the previous year. It was reported that the Louis Vuitton label was one of its best performers.





Among the secrets to Gucci and Louis Vuitton's success with young luxury buyers is their move into upmarket streetwear—which includes limited-edition sneakers, hoodies, heavily jeweled watches, and other paraphernalia with price tags that start at about \$500 and go high fast. In some ways the largest European fashion houses look almost indestructible, say industry analysts. Consider how the 164-year-old Louis Vuitton has adapted to changing times: The most successful street-fashion coup of the past year was Louis Vuitton partnering with Off-White c/o Virgil Abloh, “the hottest brand on the planet” according to the Lyst Index, then hiring that label's founder, the 38-year-old Ghanaian-American Virgil Abloh, as men's artistic director and granting him the artistic license to continue with other collaborations. “Virgil is involved with so much, it keeps him fresh,” says Rebecca Robins, global chief learning and culture officer at the brand consulting firm Interbrand.

Both houses have mastered the delicate art of “virtual scarcity”—making sure that no one item is ever too widely available, so that owning it affords a certain cachet. Louis Vuitton CEO Michael Burke told analysts in September that the company “plans tension in its inventory on purpose, always making one too few.”

They've even managed to make virtual scarcity appealing to the generation that loves streetwear, a fashion that by definition is meant to be trying to convey that *all* the cool kids are welcome to the

### THE WORLD'S MOST VALUABLE LUXURY BRANDS

This annual Interbrand ranking measures the brand name's value based on a consumer's willingness to pay a premium for it, the company's financial performance and future earning power.

1.		<b>\$28.2b</b>
2.		<b>\$20b</b>
3.		<b>\$16.4b</b>
4.		<b>\$12.9b</b>
5.	<i>Cartier</i>	<b>\$7.6b</b>
6.	TIFFANY & Co.	<b>\$5.6b</b>
7.	Dior	<b>\$5.2b</b>
8.		<b>\$5b</b>
9.	PRADA	<b>\$4.8b</b>

SOURCE: INTERBRAND

**“SHOPPING HAS TO BE AN IMMERSIVE AND FUN EXPERIENCE, BUT IT ISN'T FUN IF THERE'S ANY INCONVENIENCE.”**

tribe. “I like to call the practice of issuing limited editions elusive, not exclusive,” says Pamela Danziger, who runs the luxury consulting firm Unity Marketing. “Elusive isn't elitist—it just implies that you have to work at capturing that luxury item.” And as one 14-year-old who attends a Manhattan private school where Gen Z consumers also love Gucci and Louis Vuitton assures us, “If they were too easy to get, kids would lose interest. That's what happened to Michael Kors.”

All of this has helped fuel Oliver Chen's bullishness on both companies. As a managing director and senior equity research analyst covering retail and luxury goods at Cowen and Company, the New York-based financial services firm, he predicts that LVMH stock could rise to 336 euros (\$380) in the year ahead, above the 18-year high it hit in May 2017 of 302 euros (\$340) before the stock market correction. Chen doesn't follow Kering (Gucci's parent)—which reached an all-time high of 496 euros (\$558) in early June—but as an informal thumbs-up, he says he's been buying Gucci products personally. At 40, he's just a few years beyond being a millennial himself, and he says one of the things he likes about Gucci is that “they've done a really good job embracing the democratization of luxury.”

But recently Chen went into Nordstrom to pick up a pair of Gucci shoes he preordered. The store had such sophisticated digital capabilities that the salespeople knew when he was walking into the store and had his purchase waiting on the counter by the time he reached the shoe department. He saw that as a great convenience, and therein a risk: The luxury brands that are most popular with millennials haven't made shopping at their own exclusive brand stores quite that seamless. They have to be relentless to keep from falling behind as cool new boutiques and designers come up with still more technologically advanced, as-yet-unknown ways of shopping, including using artificial intelligence. “Shopping has to be an immersive and fun experience, but it isn't fun if there's any inconvenience,” says Chen. “Expectations continue to rise.”

**“I LIKE TO CALL THE PRACTICE OF ISSUING LIMITED EDITIONS ELUSIVE, NOT EXCLUSIVE. IT JUST IMPLIES THAT YOU HAVE TO WORK AT CAPTURING THAT LUXURY ITEM.”**



There is always a risk, as well, of consumer confidence waning in China—which, according to UBS, buys 30 percent of the world’s luxury goods—as a repercussion of the trade war with the United States. But the UBS study finds another worry for Louis Vuitton and Gucci when it comes to their millennial following: Neither is number one or even number two in that part of the market. “Interestingly, Chinese millennials show similar tastes to older consumers,” say the authors. Young adults and older ones in China rank Hermès as number one, followed by Chanel and Cartier. Gucci is at number four there, and Louis Vuitton number seven among millennials.

The biggest question mark for the future, though, lies in whether the world’s free-spending young adults will start changing their habits as they mature. Much trumpeted is the line that millennials prefer to spend their money on experiences rather than things—a trend UBS says continues to gain ground. For its study, UBS segmented millennial consumers in four countries: China, France, Italy, and the United States. It found that Chinese and Italian millennials plan to spend most of their purchasing power on luxury goods. Only the French rated experiences higher; they prefer to spend their money on foreign travel and rate owning property number two as a priority, and luxury goods number three. American millennials placed purchasing luxury goods at number two, behind owning property. “This is a surprising result, in our view: We would have expected a higher weight placed on experiences,” say the authors in discussing the U.S. findings.

Someday, however, millennials the world over might decide there are more economical ways to own luxury items. “Their relationship with luxury brands might shift,” says Robins. They might buy in the aftermarket, through such platforms as the RealReal, or realize that, as with cars, leasing makes sense, and acquire temporary use through sites like Rent the Runway.

Robins points to the British cycling lifestyle brand Rapha (full disclosure: the founder, Simon Mottram, was a director at Interbrand earlier in his career) as an example of an experience-focused brand. “Rapha has built fans and followers for its products around bicycle touring,” she says. “That’s where luxury is going; it’s about community and access through the experience.”

Louis Vuitton could, of course, lead the way by, say, offering vacation packages to the world’s most exclusive destinations—not such a stretch for a design house that made its name with luggage and now has luxury hotels in its portfolio.



## Flying Cars? They’re Just Around the Corner.

**PRIVATE-AVIATION PIONEER STEVE VARSANO PREPARES FOR THE NEXT BIG THING IN AIR TRAVEL.**

Ben Oliver

**W**hen Steve Varsano opened the world’s first—and still only—walk-in private-aircraft store, in London, it was a radical move and a risk. Would anyone really buy an aircraft from a shop? Varsano’s gamble paid off. He’s had a steady stream of sales, and last year his business had significant gains.

But despite the current boom at the Jet Business, Varsano has his eye on the next big thing in flight: urban air mobility (UAM). This means automated passenger-carrying air-transport vehicles designed to help alleviate the congestion in many cities. Serious investors have been piling into the UAM space recently. Google cofounder Larry Page has invested in two such start-ups: Kitty Hawk and Opener. Li Shufu, chairman of Chinese carmaker Geely and probably the car industry’s most dynamic boss, has acquired Terrafugia, started by five MIT grads. Its Transition is a two-seat plane-car hybrid—yes, a flying car—that converts from drive to flight mode. Uber, Airbus, and Bell all have advanced experimental UAM projects, and Varsano estimates that there are around 30 more in development. They range from single-seat recreational drones to Uber Elevate’s air taxis, which will have demonstration flights by 2020 and be in commercial operation in Los Angeles and Dallas by 2023, according to the company.

Varsano plans to establish a UAM showroom—the Flying Car Showroom—first in New York and then in London, where clients can see and sit in the aircraft, though no specific date has been established. “Until you sit inside a car, you can’t get that feeling of whether it’s for you. And that’ll be the case with flying cars and passenger drones. I want a showroom that will showcase a variety of them. You’ll need somebody to cut through the noise, which is what we do now with the jets.”

Some dispute the industry’s ambitious plans to see UAMs in flight in the next five years, citing regulatory approval and longer-lasting battery power among other hurdles. “UAM technology is decades away from



Lilium Jet’s high-speed, no-emissions electric vertical-takeoff-and-landing jet.



readiness,” says Richard Aboulafia of the aerospace and defense market analysis firm Teal Group. “There will be many billions lost. There will be no dedicated UAM air vehicles entering service in the next decade. Even 2040 is very aggressive to me, although not inconceivable.”

Varsano is more bullish. “They’re going to be flying much sooner than that. They’re already testing them now, and they’ll be ready within three to four years. The naysayers say the regulatory process is going to be the holdup, but I think in certain countries it may be accelerated or even put aside to match the speed of the technology.”

Delivery services and short-hop transport in island nations like Indonesia will be the first applications for UAMs, Varsano predicts. And he expects his walk-in millionaire and billionaire clients will be the individual early adopters who help develop UAM technology and economies of scale by buying the first, high-cost, low-utility offerings simply because they’re fun. Later, once regulations permit, they’ll buy luxury passenger

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drones to get from city center to airport. And eventually, he believes, they might even replace the jets he now sells.

Varsano, 62, says he’s traded more than 300 jets with a combined value of more than \$4 billion since getting started in the industry about 30 years ago. Lately, the Jet Business, with a showroom on Park Lane, is seeing a surge in sales as a result of President Trump’s tax break. It allows owners to write off the entire cost of a new or used jet in the first year. “This was a big incentive,” he says. “It’s been huge.”

Still, he believes that passenger-carrying drones will eventually take over that market. “They are in their infancy and have huge potential globally; they’ll be local, then regional transport. The current projects will replace helicopters. But eventually, their battery technology and speed will grow to where they’ll start taking over the corporate-jet market.” If that should happen, Varsano will be ready for the next evolution in flight.

## *Out of Office with* **WILL HARLAN**



**Will Harlan** is a long-term thinker. Two hundred years, to be exact. This enduring business philosophy was ingrained in him by his father, Bill Harlan, whose ambitious plan to create a first growth for California (with a level of prestige on par with Bordeaux’s greats) requires this abiding commitment that is passed down from one generation to the next. But the younger Harlan, 37, has shown he’s also an independent thinker and ready for a chal-

lenge. In 2013, he spearheaded the family’s Mascot label, a wine made from the newer vines of the Harlan domain. And, in 2015, he took the helm as managing director of what is the family’s latest and most ambitious venture: Promontory. Harlan uncorked the first vintage (starting at \$400 a bottle) in 2014, and it’s recently been pegged as the next cult Cabernet. Here, he defines some of the steps that help him stay focused on the long-term plan. *Jill Newman*

*What’s the one thing you have to do every day to stay sane?*

**Exercise. I’m all about the Peloton these days.**

*What’s your biggest pet peeve at work?*

**Emails that should have been phone calls.**

*What do you look for in an employee?*

**I look for a cultural fit. Competency is, of course, a prerequisite, but I really look for the potential to think long-term. They must share our curiosity and desire to continually evolve while staying aligned with the vision—so they’ve gotta believe in what we’re doing. I look for people who feel that their role with us is truly their calling.**

*How long should a meeting last?*

**Depends on what kind of meeting. We have some philosophical conversations that guide a good portion of our thinking, and those can**

**last for hours. When it comes to blocking and tackling, 30 minutes should be enough.**

*Email, phone, or text?*

**Each one has its place, but phone is my go-to.**

*What’s the one adjustment everyone can make in their lives to be more successful?*

**Prioritize sleep. This is highly personal, but important to figure out the ideal balance and quality of rest.**

*What’s the best advice you were given?*

**Risk is important; strive to keep the odds in your favor.**

*What would you tell your younger self?*

**Great ideas are rare, great execution might be rarer.**

*What’s one thing you want to improve in your work life?*

**Focus—and building a team that allows for that. ■**