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Frank Müller

Disruption is king in luxury

Luxury, says Frank Müller, CEO The Bridge To Luxury, fascinates people. It's always there, drawing the consumers' attention, through advertisements in high-gloss consumer magazines, by full page ads in leading newspapers, but also by means of digital pop up ads, and of course through product displays in mono-brand boutiques.

The Bridge To Luxury (TBTL) was one of the first specialised consulting firms in the international luxury business sector. It assists companies that wish to grow, broaden and improve their market share in the retail and consumer markets for high-end luxury products and services.

Due to the luxury sector's highly visible profile, the management of premium and prestige luxury brands may appear rather simple. Nothing is, however, further from the truth. The luxury industry is actually one of the most difficult businesses due to a multitude of underlying conditions. These are, to name just a few, extremely differentiated markets, volatile currencies, the interference of the grey and secondary (pre-owned) markets, the nuisance and damage incurred by the copy-cat and knock-off products market, the temptation of diluting brand value by mass marketing, the high costs of communications, demanding customers, and last but not least, the fear of, and at the same time the embrace of, the internet as another marketing channel. And above all, luxury product managers are always trying to figure out how they can 'square the circle' between addressing the identity of the customer (key word status) while communicating the quality of their products' proposal and determining the right price.

Meeting these challenges requires careful strategic positioning, daring discipline in designing the offering, a very precise definition of the target groups, the creation of an integrated marketing mix, the distillation of adequate structures and processes, tight budgeting and tough controlling tools, plenty of opportunities for financing growth and a lot of courage to go international.

According to Müller, TBTL mission is to try and close the gap between the many questions the luxury business sector is facing and the answers needed to these, as well as to other strategic and operative management challenges that existing and potential luxury brands are coping with.

The *World Diamond Magazine* interviewed Müller on occasion of the launch of his newsletter and asked him to give us an idea where the luxury sector, including the gem and jewellery trade, is heading.

Recently, TBTL has launched a monthly e-newsletter focusing on the luxury industry's performance. Is there really a need for yet another luxury-related publication?

It is true that there is a flurry of newsletters and other online publications aimed at the luxury sector. But at the same time, it is a very fragmented scene, with many a publication covering a singular product category, and more often than not, it is also soft.

What is currently missing in the luxury news is a number - or indicator-based assessment - about the whole of the luxury industry's status and performance. Something that can be easily read and digested, as it offers just the essentials.

A kind of bird's eye view of the luxury industry?

You could say that! In my work as an independent luxury industry consultant, I get to analyse a lot of facts and numbers and I kept noticing that there are both similar and diverging developments in various luxury product categories. I therefore believe, that for professionals across this exciting industry, it could be helpful to share my ideas about these commonalities or deviations.

Could you give an example of this?

Take the business of high-end watch making, for example. Contrary to general belief, this industry's growth has been flat for the past six years, thus causing major pressure on the industry's players.

Why did this happen? For operators

in other, neighbouring luxury product categories, the answer to that question may give them insights that are relevant to the professional's own segment.

But to answer the question about the downturn in the luxury watch sector: one reason for the sector's underperforming is, among others, the manifestation of the smartwatch.



Therefore, if a substitute product is able to considerably shake up a very established business like the Swiss watch industry, it may also happen in, for instance, the diamond industry, right? Indeed, it makes a lot of sense to wonder to what quantitative and qualitative degree lab-grown diamonds, just to cite an example, will impact the diamond supply pipeline and the downstream jewellery industry in the long term?

Who are the target groups of the newsletter?

Those luxury sector professionals who do not have access to overall indicators or, more probable, do not have the time to collect and try make sense of them.

These are marketing and sales executives, brand managers, designers, production supervisors, store managers, controllers and so forth.

Anyone who needs to have a reasonable grasp of the industry's trends and developments so to be able to do her or his job successfully. Obviously, in the diamond industry, manufacturers, traders and jewellery brands get their local or in-house orientation from various sources, such as IDEX, Rapaport and a selection of other, exclusive industry info services.

But for the diamond, gem and jewellery industry, it is also of interest to know, for example, how the luxury car industry is doing in terms of production output or how share prices of fashion brands are evolving.

Unless you are a specialised analyst in the banking or investment sector or head of strategic planning at a major luxury group, you normally do not get an overview about the whole industry, which we believe is important.

Is the newsletter free and where do you get it?

Yes, TBTL's Luxury Industry Performance Index or just LIPI is free. It can be either downloaded from TBTL's website or sent to recipients via email.

So what is your overall assessment about the luxury industry's status?

We are losing sight of our consumers. I doubt whether we have followed-up enough on their evolution as human beings over the last decade.

What will be the consumers' dreams of the future - given the new social, economic or ecological conditions they will be living in - defining their happiness?

Consequently, what should be the offerings the luxury industry needs to create in terms of products and services?

The internet was embraced as yet another vehicle to widen the distribution platform to omnichannel presences.

What has not been said at these forums, or only has been alluded to, is that the internet is the chief disruptor, for simple reasons. At first, the disturbances caused by the internet were widely welcomed by the luxury industry. It was understood that the internet would not go away, and therefore, the internet was embraced as yet another vehicle to widen the distribution platform to omnichannel presences. And, of course, the internet has also been crowned as the new saluted tool to interact with customers more directly. The internet therefore was basically viewed as a commercial opportunity, not as an existential threat!

Is that bad?

Not necessarily. After all, consumers indeed get informed and buy online in growing numbers. But it seems to me that the internet is a distraction to avoid the necessary and painful

currently credited with keeping the luxury sector afloat, especially with the next 'gold rush' already happening: China online.

Indeed, the internet has triggered a commercial push and surge, with its temptations for exhaustive line-extensions and easy to feed parallel-markets. But, at the same time, it prevents the luxury industry from concentrating on its major mission and to focus on the basic task: the creation and sale of exclusive, refined luxury products and services to dreaming and aspiring human beings, by means of storytelling that matches the imaginative powers of William Shakespeare, Leo Tolstoy or Gabriel García Márquez. A tall order and a lofty one. The industry, however, prefers to milk the cow.

Besides the internet and a wrong focus, what are the other disruptive factors in luxury?

The demographic change - and ironically, it will be felt very strongly in luxury's currently all-absorbing sponge - China. Statistically, in the next 30 years past growth rates in luxury will be halved by the demographic factor. And if you add sustainability and other topics, darkening the consumers' mood, luxury will certainly be less dynamic and therefore will be a different business platform. There will be a necessity for more customer hyper-segmentation, a focus on elderly marketing, better streamlined businesses, enhanced organisational flexibility and speed, and so forth. The pressure on the industry to change will rise. But demographics are not even the most influential factor.

Which one is it, then?

The very nature of the consumer. For example: what does e-mobility in the luxury car industry tell us about the 'future' man?



The untapped fastest growing consumer segment? The elderly (Photo courtesy TBTL/iStock)

But there is a lot of discussion about the notion of disruption, isn't there?

Yes, that is true. There has been a lot of ink spilled on disruption and it has been the talk of the town at many luxury industry conferences. But these have been narrow, technocratic and rather opportunistic discussions.

discussion about other even more powerful disruptors as far as the luxury industry is concerned.

For example, the luxury industry's current focus on Chinese customers prevents us from working more diligently on solutions to maintain the consumer bases in the old world. If one looks at the numbers, China is

Will he be the same as in the past? And if not, will he have changed by his own motivation or external factors? A car that is self-driving and does not make any sound in accelerating does not need a James Bond as driver anymore. Hence, if James Bond continues to exist, what replacement will the car industry be able to offer him? And if, on the other hand, James Bond becomes extinct like dinosaurs what does this mean for the positioning of sport cars as they do not need to smell of an English secret agent's testosterone anymore?

And what about the jewellery industry in particular?

It is the same underestimated fundamental challenge: who is the future consumer and how will he or she evaluate the industry's *raison d'être*? If society, to give you just one example, is accepting a more casual outfit as a standard, then there will be fewer formal occasions for women to wear expensive jewellery.

Remember: what once in office culture started as 'casual Friday' is now casual throughout the whole week. Indeed, where have the suits, ties and cuff links gone? Take the sad development of Saville Row in London and assess then how this trend of casual wear has basically killed traditional tailors for bespoke suits. I am amazed about the slow and - in my view - far too modest efforts by the diamond industry to prepare for a perhaps very different future.

Which is why the diamond industry should look at outside benchmarks for insights?

Indeed. Such comparisons to other luxury product categories are important. If in the future, a high society woman doesn't need to dress up less elegantly to go to the opera or a classical music concert, or any other high-class event, there will be less of a need for a corre-

sponding expression of her personality and social status in terms of the carats hanging around her neck. The democratization of luxury, sustainability, the technical revolution creating opportunities for product substitution, the internet, of course – disruption has just begun.

To be frank in this context, I am amazed about the slow and - in my view - far too modest efforts by the diamond industry to prepare for a perhaps very different future. One

times painful. Decision makers should stop believing that the easy successes of the past can be prolonged into eternity. That's what the manufacturers of silver cutlery, fountain pens and the aforementioned tailors thought before their business started to decline. What we need is more modesty and a stronger sense of self-criticism to assess options realistically.

Secondly, we need to will ourselves to look at the numbers. Just because we sell emotions and dreams to consumers



Autonomous driving: will it appeal to the modern man? (Photo courtesy TBTL/iStock)

would expect, for instance, strong and coordinated measures among major industry players to finally get generic marketing campaigns running again, campaigns the jewellery brands cannot introduce on their level as they do not want to promote their competitors. In this complex world it is simple: We need to keep the consumers on board! Focus on their needs! Decision makers should stop believing that the easy successes of the past can be prolonged into eternity

What can be done to prepare for a secure luxury future?

First of all, we need a change of attitudes within the luxury industry. Yes, leaving one's comfort zone is some-

doesn't mean we must become naive dreamers ourselves. We are in business and businesses are based on numbers, nothing else.

So here we have come full circle: this is why TBTL has launched the LIPI newsletter to provide a useful tool to help evaluate the state of our industry. And finally, and most importantly, we need to create dreams that consumers believe are worthwhile to chase with their attention, with their emotions, with their reasoning – and with their money.

Dr. Frank Müller is the owner of The Bridge To Luxury, an international consultancy firm focusing on the development of strategic business models for companies of the high-end environment (www.thebridgetoluxury.com). Frank Müller can be reached via info@thebridgetoluxury.com.