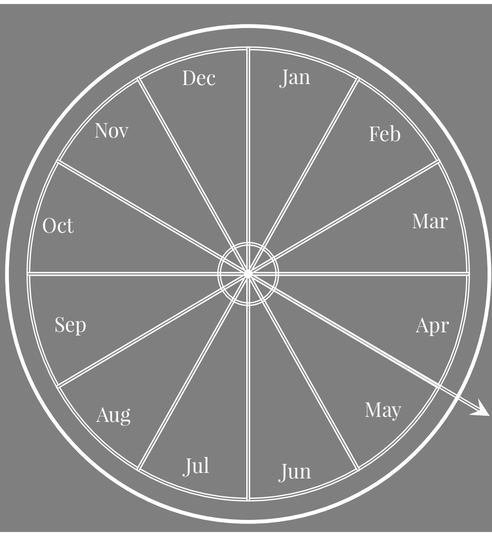

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Notes

April 2022

The world's second largest economy and most exciting luxury consumer market is in a bit of a rut. For so long, China has been not only a global economic powerhouse but also the single most important market for luxury goods, on which many brands have become increasingly reliant – even more so following their recent exit from the Russian market.

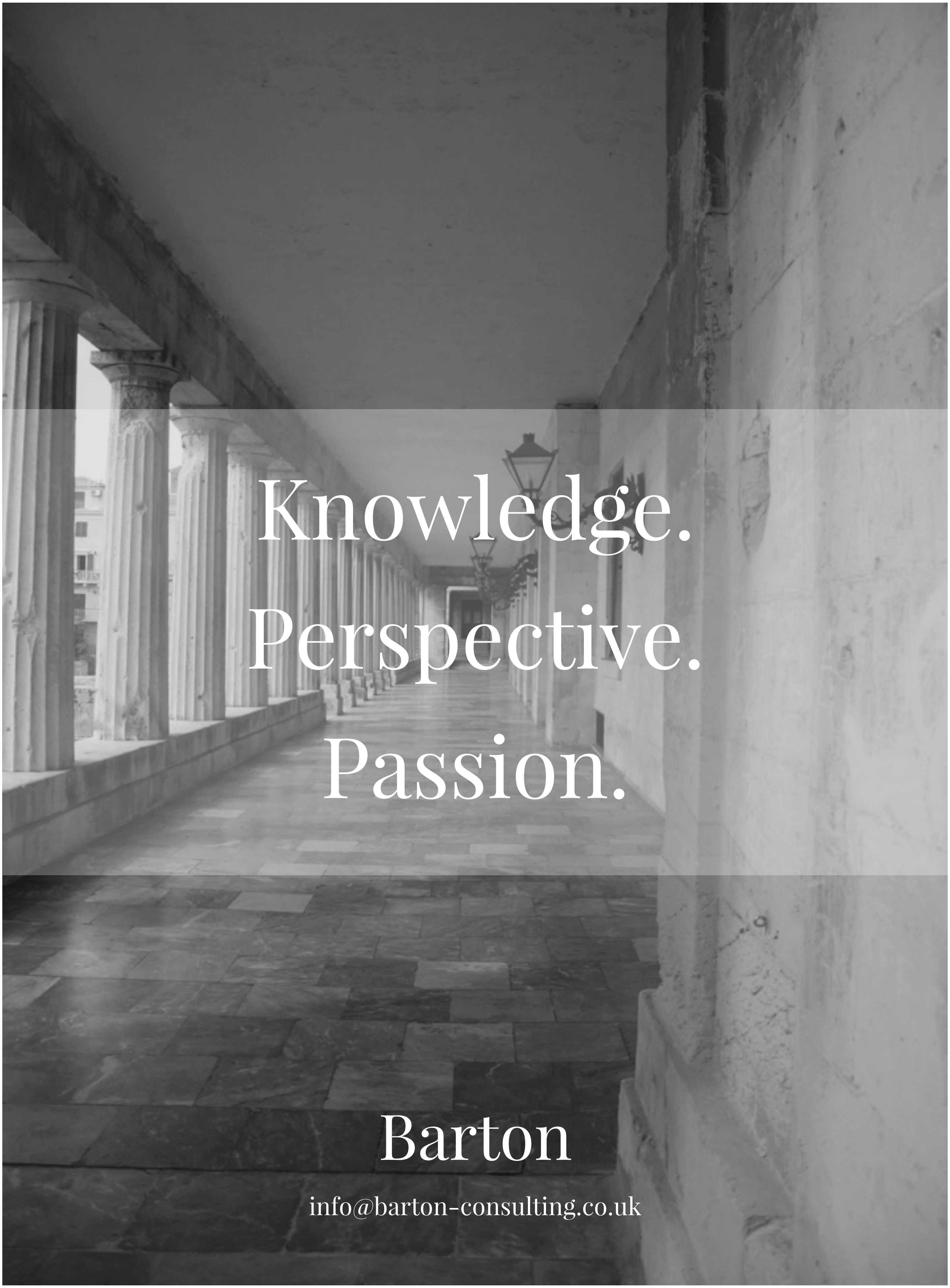
The latest reports indicate a big slowdown in the Chinese economy in the first quarter of this year – the result of ongoing draconian pandemic restrictions in pursuit of Zero Covid – which many analysts fear will extend into the second quarter and push the country into a technical recession.

Many are asking why the country is pursuing a policy that has such a direct and fatal impact on its economic vitality, but there we enter the realm of the Beijing Consensus; China's unique and strange hybrid of authoritarian rule and economic prioritisation. This exceptionalism of China, which has been so fruitful and attractive, is now the barrier to it resuming its pre-pandemic pathway. Yaok Institute, a Chinese luxury research firm, reported that though the luxury goods market will still grow in China in 2022, this will only be around 15-18%, which compares very unfavourably to 2021's 37% growth and 2020's 45% growth.

As shops have been shuttered in lockdown, even more luxury goods sales have moved online. And as most Chinese citizens cannot travel out of China, international shopping trips to Europe or America are off the cards for the forseeable future.

This obviously has had the greatest impact on the largest luxury sector of all – travel. For years, wealthy Chinese travellers have been targeted by luxury travel brands who saw the massive potential in the fastest growing wealth market in the world. In fact, all luxury travel projects Barton have been involved with have had a partial focus on Chinese consumers, because of this opportunity.

And yet whilst most of the rest of the world eagerly gets back on commercial flights (which are now maskless in the USA) and books far flung luxury retreats and adventures, China remains in limbo, still banning non-essential outbound travel and requiring on-return centralised hotel quarantine. McKinsey predicted in August 2021 that "scaled outbound flows [from China] are unlikely to resume before the second half of 2022, or the first half of 2023." It now may be even longer. This means at least another year of the pandemic-battered global luxury tourism industry doing without high-spending clients from the world's most populous country.


Knowledge.
Perspective.
Passion.
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THE OTHER SIDE OF WEALTH

There is an inextricable link in the public consciousness between wealth and luxury. For a lot of people, particularly those who are unfamiliar with the wealthy and their motives and attitudes, having a large amount of financial resources is all about having lots of expensive and fancy luxuries. This is why you have many anecdotal examples of shock when a wealthy person is discovered to own a cheaper brand or model of car or shun designer clothing for budget, utilitarian garments. Many simply cannot understand why someone with that level of wealth would not just buy the best of everything.

In most cases, these people are expressing their own intentions following wealth accumulation. This is completely normal and rational, as it relates to the way in which they have behaved as they have climbed the income and wealth ladder throughout their lives: the more they earned, the more they were able to spend on luxuries. Many studies amongst luxury buyers show that buying luxury makes them feel good, gives them a sense of reward and value and also provides them with a sense that they have a superior product which will endure.

Their understanding of serious wealth, or 'net worth', is therefore tied to this perception of wealth deployment. It is also the reason why many say they 'cannot understand' wealthy people who continue to work and live in a city instead of retreating to a remote paradise island. Again, their perspective is of the island as an ultimate "holiday", for which they long for but cannot have. 'If you didn't have to turn up for work every day', they ask, 'why wouldn't you be there all the time?'

This is a kind of entrapped thinking which, correctly, views the wealthy as human beings that they are attempting to relate to, but at the same time, fails to isolate and identify their motivations. The superficial side of wealth accumulation is easily comprehensible to them but the other side of it – the often unseen side – is not.

This was apparent when the world's (official) richest man, Elon Musk – who is worth around $260bn – decided to buy Twitter Inc from its shareholders for $44bn. Musk highlighted that he sees Twitter as the world's digital "town square" (although the number of global users is actually far smaller than competitors) and that 'absolute' freedom of speech is important for the future of democracy, something which he had become concerned with following his own investigations into account deletions and bans of users. Many were quick to paint this as disingenuous and part of

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the Tesla tycoon's plans to control Twitter to speech that *he* wanted, and that benefited him financially. Again, many of these assumptions about his motivations are based on a basic and underdeveloped understanding – that those who use resources in this way would only ever do so to increase their wealth, in order to indulge even more in the superficial side of it.

Musk is a remarkable and unique individual with few comparisons, but one figure which bears some similiarities in to him in this regard is Howard Hughes.

Hughes inherited much of his wealth, unlike Musk. Hughes Tool Company was the creation of his father, Howard Hughes Sr. However, Musk and Hughes are similar in that their utilisation of their wealth appears unorthodox or even eccentric to others, and that they pursue their incredibly varied interests with passion, vigor and massive financial investment. For Hughes, it was initially movie making and then aviation, followed by casinos and hotels – for Musk, he has focused on rocket science, space colonisation and now protecting freedom of speech.

Another similarity between the two is how much they focus on the future and the world of tomorrow. Whereas other wealthy archetypes wait for others to create this world so that they can buy it, their archetype gets down in the mud and gets on with making it. The paradise island mindset is, therefore, a million miles away from them.

This comes down to the fact that the character of a number of UHNW individuals is fundamentally different to others. Though many will happily admit that good luck has played a role in their success, they also refer to drive, vision and risk-taking. These are personal qualities they possess that often helped them become successful in the first place, but that also shape the way they want to use their wealth as well.

Musk and Hughes both belong to the 'Immortals' archetype. As the name indicates, these UHNWs want to be remembered, ideally for doing something extraordinary. There is a strong desire in this group to change the way something is done, to push beyond the known and to be able to say they have left their mark on the world through their achievements and discoveries – not their net worth.

Immortals see their wealth as a instrument to create an end, not an end in itself. As such, they are high-risk players and frequently make big bets on new ideas and often spend disproportionately to their net worth – Hughes famously drained the profits of his Hughes Tool Company to finance his other ventures, particularly aviation, in which he was far more interested and involved.

This is the crux of understanding the wealthy: their motivations and goals are not always comprehended through the simplistic prism of wealth accumulation. In many respects, their closest passions and interests are nothing to do with it. Only a more human and goal-led appreciation of why they do what they do will yield a better consideration of who they really are and what they want.

Sector updates

Image: Space Perspective

Space tourism is normalising alarmingly fast, and **Space Perspective**'s reveal of its 'lounge' for its 8-person "balloon" Spaceship Neptune makes the idea of space adventure even more familiar – albeit with a very Bond-villain feel. It has been dubbed "the world's first space lounge" (although Barton thinks it is very unlikely to be the last). Space Perspective has designed an interior distinct from typical spacecraft, with elements such as reclining and reconfigurable seats, plants and a small cocktail bar – to enjoy those stratospheric dry martinis. The lounge is wrapped in 1.5-metre-high panoramic windows that the builders claim are the largest windows ever flown to space, and which it claims will provide a view that appears seamless to the human eye. Space Perspective's 6 hour space flights will lift off from NASA's Kennedy Space Center in Florida in 2024, with tickets prices set at $125,000 per person. Places are sold out for the first year.

Farfetch, one of the biggest multi-brand luxury fashion and accessories online platforms, is making a signficant investment in Neiman Marcus Group. Farfetch is investing $200m to enhance Neiman Marcus Group's omnichannel performance. What this boils down to, as far as Barton can see, is Bergdorf Goodman applying Farfetch's Platform Solutions (FPS), reworking its e-commerce website and mobile application and expanding its digital presence. This has advantages for Farfetch as well, Barton notes, as both Neiman Marcus and Bergdorf Goodman will join the bulging Farfetch global marketplace of luxury stores and brands. On the announcement of the investment, founder and CEO Jose Neves said; "The accelerated digitization of the luxury industry highlights the opportunity to leverage the unique capabilities of the Farfetch platform, to extend our track record of capturing market share while delivering further profitability" – well and truly the Amazon of the luxury world.

Image: Neiman Marcus


Image: Reliance

Reliance Industries is building a shopping mall with dozens of outlets for luxury fashion brands in Mumbai, India. The Jio World Plaza mall, part of the $1bn Jio World Centre, is due to open next year and will have four floors and be the size of 10 football pitches. Despite India's economic advancement and wealth growth amongst an increasingly prosperous middle class, it has been overshadowed in its personal luxury goods market by China, which is 22 times larger. Barton recalls that retail infrastructure had long been one of the major issues facing luxury brands looking to sell in India. Many had been forced to set up shops within luxury hotels in India, as there was insufficient real estate outside of these locations suitable for their brands. If the Jio World Plaza mall works, it is feasible that more could be built by Reliance in other locations in India, driving up the points of sale and increasing the size of the Indian personal luxury goods market.