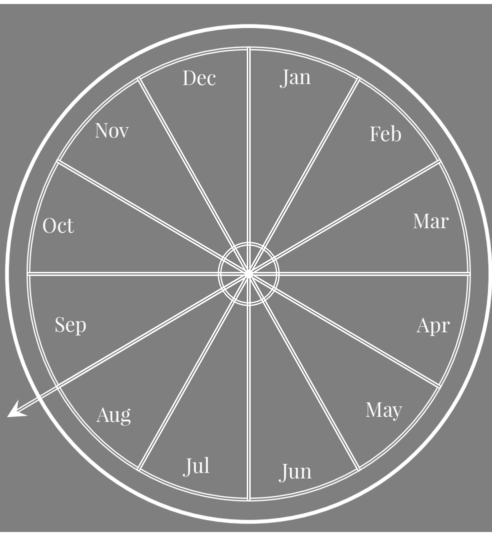
B



Volume 35: August 2022

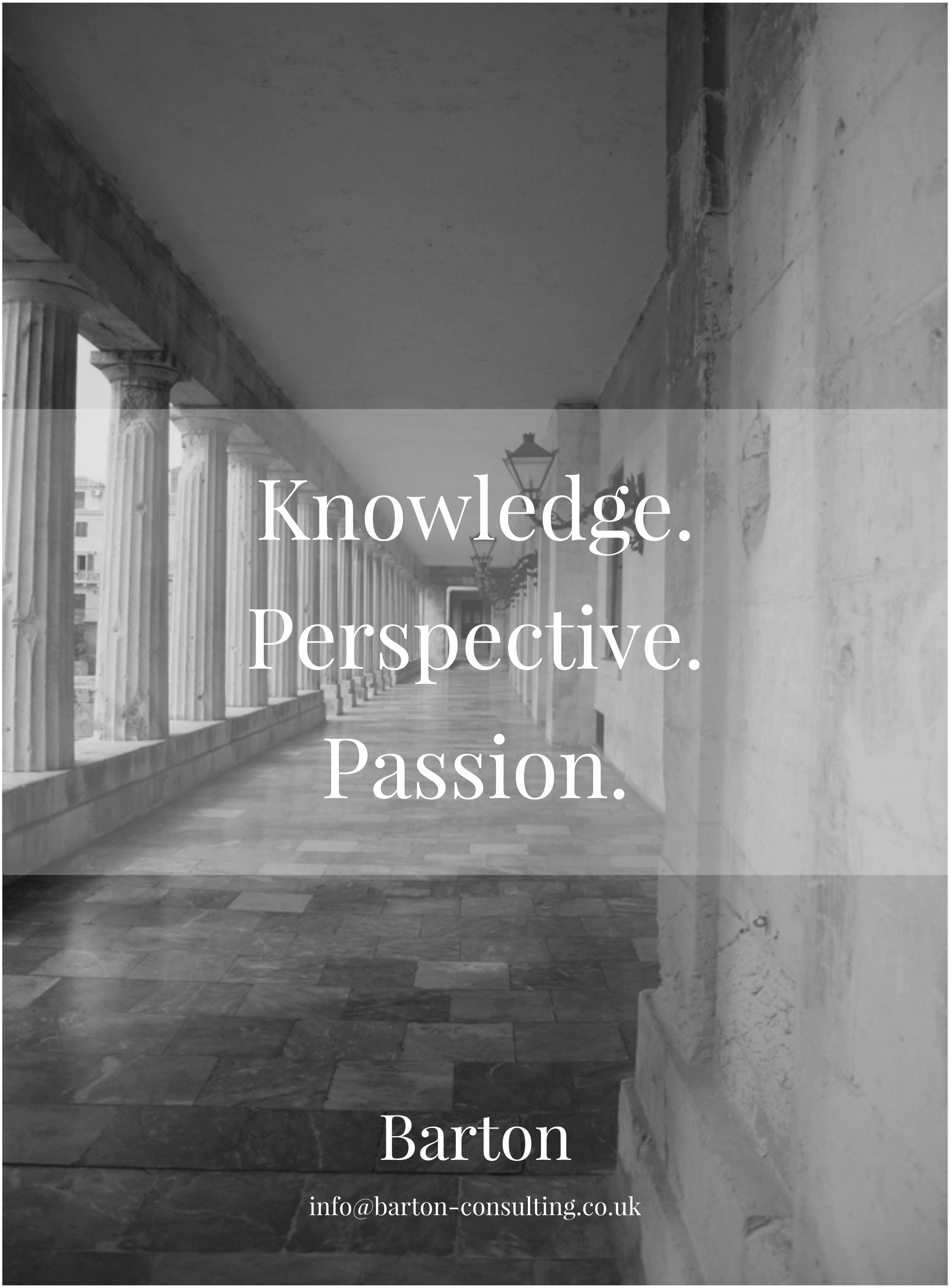
Notes

Rewarding luxury

The purpose of status

Sector updates

Recent news and commentary


Knowledge.
Perspective.
Passion.
Barton
info@barton-consulting.co.uk

REWARDING LUXURY

In the 21st century post-American international society, rewards are an expectation, not a privilege. We buy a large basket in a supermarket and expect 5% off the next one. We spend on a credit card and expect to receive air miles or cashback as a 'thank you' for doing so. The middle-class expectation of getting rewarded for using a brand more than once is now firmly set. 'Something for nothing' is a way of life, a way of gaming the system, which is rife across the mass market consumer world. But how do you organize a sensible, relationship-enhancing rewards system for discerning luxury consumers?

After all, the incentives that work for income-pressed families are not going to work for the ultra-affluent. Single-digit discounts for those spending hundreds of thousands (rather than merely thousands) each year with, say, a hotel brand, feel greasily insignificant. Vouchers are even worse, particularly when they have absolutely no impact on the recipient's motivation to engage in the first place: offering a 'money off' token for some undersubscribed activity to someone whose life is built around doing what *they* want to do, *when* they want to do it, *how* they want to do it is like inviting a Royal Duke to a free meal at Kentucky Fried Chicken.

Applying the same money-saving incentives to individuals whose biggest concern is not how to stop spending but how to spend more effectively in the time they have left on earth is one of the biggest mistakes made by brands. Yes, wealthy people don't like to be ripped off; they hate being taken advantage of for their resources and the assumption they are reckless and don't care at all about expenditure. But they aren't wedded to the same discount motivations. At the heart of understanding how to reward the most discerning is an appreciation that they value time and the way they use it above all other things.

This means that saving them time is always more valuable than saving them a small sum of money.

Too many things take too much time, and every minute spent held up with a service provider on a call or at a desk is a minute not spent doing something they want to do.

The airline industry is a great example of how wealthy luxury consumers require different incentives towards loyalty. It is a classic case study as it is one of the few examples where mass market consumers rub shoulders with high net worths.

For ordinary passengers, getting something for free is enough of a dopamine hit to satisfy them. The reason for this is that their expectations are lower as they have typically bought the cheapest seats and don't expect to receive any special attention at all. An onboard meal or a free bottle of wine are often sufficient to make them feel as if they have been appreciated. The next level up, you have more frequent travellers who have often acquired some level of status, which gives them a higher level of entitlement.

> “…how vital it is for all luxury providers to recognize the difference between loyalty to a brand which has been borne of receiving a positive experience and loyalty which is borne of a need to escape other inferior experiences.”

Their higher knowledge level of loyalty, what you can get for achieving a certain status level, makes them more expectant of reward. Their version of a return is something that will make them feel valued by the airline, and free food and drink isn’t going to cut it. They’re looking for cabin upgrades and gifts of air miles. Something that will make them feel they are accessing a better existence of travel.

Wealthy passengers are different, even if they’re also frequent flyers. They’re already travelling in the best cabins that give them lounge access, comfortable seats, fine wine and better food. So what do they want?

One of the biggest frustrations of airline travel – arguably worse since the pandemic completely gutted the industry – is the inconsistency and low level of service delivery. Hamstrung by safety regulations and operational challenges, most commercial airlines simply cannot deliver an experience commensurate with that which the wealthy individual has just had in their luxury hotel suite or catered villa, making them dread the experience of air transit.

And service *can* be a valued reward for loyalty. With airlines, it already is, but there are arguably greater areas to improve, not just for frequent *users* but high *spenders*. Whilst the security process has improved for wealthy clients flying premium cabins, the boarding process is often a let-down. Lounges may be larger and offer more services but they’re far more crowded than they’ve ever been. Crammed with status-seeking aspirational flyers, all but the most elite lounges (first-class only) often resemble a creche more than an exclusive retreat. Travellers without airline status – even if they’re flying in a business class cabin – may be shocked by the lack of exclusivity in the standard lounge blend of frequent flyers and genuine premium-cabin flyers. Their example shows how vital it is for all luxury providers to recognize the difference between loyalty to a brand which has been borne of receiving a positive experience and loyalty which is borne of a need to escape other inferior experiences.

There can be a place for both, of course, but few operationally recognize the subtle difference in these traveller types.

One of the biggest recent changes is that wealthy passengers were forced to turn to private aviation solutions during the pandemic given the cancellation of commercial options – and many are not turning back, particularly for short haul trips. Quicker transits and simpler processing have shown them a new way of flying and the fact that they are sticking with it, despite the huge difference in cost, is illustrative of the fact they value an improved service over saving money. Clearly, these solutions are not an option for many of those they have once shared a lounge with or sat next to on a flight.

Airlines need wealthy passengers. The costs of flying are high and premium cabin buyers are valuable. As more businesses turn to remote solutions, the packs of high-ticket-price corporate business travellers may reduce substantially.

Providing a superior service experience – irrespective of the cost – is the proven way to lure individually wealthy flyers. Not all of them would have (or wish to have) frequent flyer status with one airline or airline alliance, particularly if it gives them less flexibility. But if they don’t have top tier status, many premium cabin service experiences will unpleasantly surprise them. Clearly, rewarding people merely for being wealthy is not the aim here. But the idea of a ‘pre-reward’ which recognizes a customer’s potential value is an established concept. Accessing a special service – even if it’s an airline provided club that gives them a separate boarding process, a separate lounge or a concierge to cover the admin of travelling – can add value. It’s also something in future they would be very willing to pay for.

Sector updates

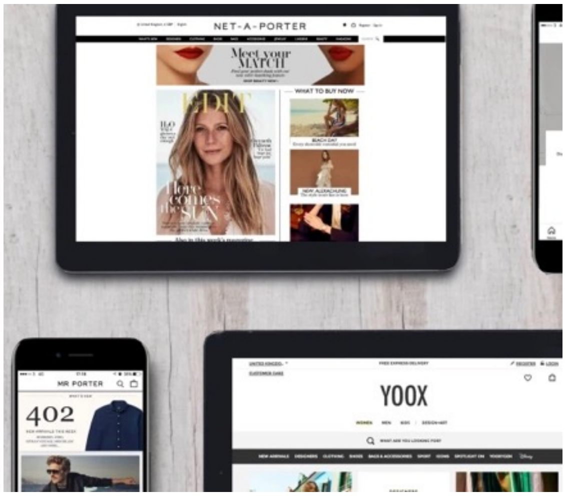


Image: YNAP

Yoox Net A Porter (YNAP), the original multi-brand e-commerce success story, is now to be 47.5% owned by its fiercest competitor, the mighty Farfetch. The deal leaves the London-based Farfetch with the ability to buy the remaining shares and take over the entire business. 3.2% was picked up by Symphony Global. Richemont, YNAP's former parent company, has struggled to turn the loss-making business around, despite luxury e-commerce experiencing a massive boom in recent years. Richemont is more closely associated with the hard luxury sector of jewellery and watches than fashion and has had few successes in clothing and accessories. Richemont and Farfetch have been seeking to do a deal for some time (since Q3 2021), but Farfetch's recent share price crash (down 77% this year) got in the way. Barton is naturally intrigued by the, ahem, intimate world of the luxury e-commerce sector, recalling that it was Net A Porter's founder Natalie Massenet who joined Farfetch as a non-executive co-Chairman in 2017 (leaving in 2020).

Earlier this month, it was reported that Estée Lauder was in talks to buy the **Tom Ford** brand in a $3bn deal. The Wall Street Journal reported that (surprise, surprise) it was 'especially interested' in its beauty division, for which it already holds the licence. 'Beauty' being a bit of a misnomer here for Barton as most of Tom Ford's beauty offering is fragrance. However, it is the entire brand – suits, shirts and all – that Lauder is considering. This has raised eyebrows, as it would mark a departure from its strict focus on skincare and fragrance, though it could be the first move towards Lauder eyeing itself as an LVMH. Despite being launched just over 15 years ago, when founder Tom Ford left Gucci, it has nevertheless become a byword for a particular style of luxury male fashion; formal and flamboyant with hefty fabrics – and hefty price tags. It has added womenswear, although to much more muted fanfare. In recent times, Daniel Craig as James Bond has been dressed in Ford suits, shoes and accessories whilst its distinctive eyewear has become as desirable and recognisable as market-leading brands such as Ray Ban and Persol.

Image: Tom Ford

Image: Aman

Aman New York opened this month to much ballyhoo and commotion. The opening is long awaited, ever since the hotel's developer OKO Group purchased the upper floors of the gold-tipped iconic Crown building on Fifth Avenue and 57th Street for $475m. Another $1.45bn has been spent restoring and converting the building into an 83-key Aman hotel and in the floors above that, 22 Aman residences, ranging from around $5m to over $100m per unit, most of which are already sold. Aman New York has already bagged the reputation of being the most expensive hotel in New York (with room prices starting at around $3500 a night) and it will probably easily be the most exclusive. Barton notes that public access to the restaurants and the glorious wraparound terrace – which makes the nearby Peninsula's Salon de Ning somewhat superfluous – will be restricted to hotel guests and members of Aman's new Aman Club ($200,000 joining fee), and only allow a limited number of non-residents inside. This is to maintain the peaceful 'island' effect that Aman is known for, but Barton knows it will infuriate many New Yorkers.