How Generation Y will impact the future of luxury

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The world’s most well known luxury brands - many of which hold on to tradition – have to adapt to the changing market trends of the fashion industry. Luxury brands have to change their long existing business processes to develop into more contemporary, inventive, and more immediate brands. Advanced technologies and new market strategies are not the only changes driving the luxury industry. The essential changes of the market are striking shifts in the values as well as changing consumer behavior and brand perception of the evolving new generations.

The free-thinking, individualistic members of Generation Y are the most important future consumers of the luxury fashion industry. For the evolving Generation Y, luxury has to be an experience, which offers innovative products at the highest quality standards. In fact, luxury brands have to adapt to the young adults of Generation Y to keep up in a constantly changing luxury market.

‘Luxury is an industry like no other’

(Kapferer, 2015, p.1)

The luxury industry is known for its unique and exquisite products as well as its excellent service (Lane, 2007). Luxury brands offer fine products that are created at the highest standards of manufacturing and offered at the highest mark of the industry as of the quality and price (Deloitte, 2014). The products are associated with exclusivity, craftsmanship and prestige.

Nowadays luxury brands have to adapt to the globalized modern world and need to focus on their heritage at the same time. Luxury brands face the challenge to modernize and optimize their business processes while staying traditional and limited. Strong tradition and continuous adaption are two sides of the same coin for the successful luxury brand of tomorrow.

In the meantime, a generational shift has taken place, which puts the evolving Generation Y into the spotlight and makes things even more complicated. The globally connected “Gen Yers”, born between 1980 and 1996, is considered to be the largest group of the global consumer market (Yazıcı, 2016).

It is important for luxury brands to take the evolving generation into consideration regarding their luxury perception and attitudes towards luxury goods. They have to embrace the personalized values of Generation Y consumers to develop new products and create new market strategies. Therefore, it is foremost important for luxury brands to understand the decisions and motivations of Generation Y consumers. They need to adjust their functional strategies and communicate directly with their customers of the future.

On top of that, they need to reconsider the importance of their traditional luxury concepts and how this has to be modified towards Generation Y consumers and their luxury aspiration (Rowe, 2015).

The information given in this article is based on current research and a recently conducted online survey, collected from 158 members of Generation Y, aged 20-37 years. On top of that, experts working in the luxury fashion industry were interviewed about their experience with Generation Y consumers and their thoughts about the future of the fashion industry. The goal is to understand the perception of Generation Y towards luxury brands based on their personal desires and purchasing intentions and to draw a conclusion how luxury brands can adapt to these perceptions.
How has the luxury industry changed?

Many of the luxury brands, which are well known today, were built from visionaries and artisans, concentrating on the unique craftsmanship of exceptional products. They were founded in the eighteenth and nineteenth century and were owned by a single person or kept within the family over generations. Today, some of the well-respected luxury brands of ancient times are still known by their founder’s name but most of them are now owned by powerful luxury conglomerates and managed by business tycoons.

Accordingly, luxury products used to be considered as exclusive and exceptional products which were reserved for the upper class.

Over the past years, luxury brands have undergone tremendous internal and global changes. Thus, the industry has reached a ‘maturing point’, challenging luxury brands to rethink their market strategies and company processes (D’Arpizio et al., 2016).

In order to compete with the fast growing market, luxury brands have developed new market strategies to profitably grow and approach new customers. Consequently, luxury products have become more accessible and available to a bigger group.

Digitalization has also opened up new opportunities for luxury brands to approach their customers and to launch new products. Today, anyone can access luxury products through online stores and social networks. As a consequence of globalization and digitalization the customer’s perception of the core concept of luxury has changed.

Furthermore, luxury brands have experienced a generational shift, changing the focus of their target customers. Members of the evolving Generation Y are now entering the global economy market and are considered to be the most important target group for the luxury industry (Danziger, 2015). Accordingly, they are predicted to have a higher spending capacity compared to previous generations (Kane, 2017).
Generation Y: Who are they?

The emerging generation is called Generation Y (Gen Y for short) (Lyons, 2016), encountering all consumers born between 1980 and 1996 (Van den Bergh & Behrer, 2013). There are several other names describing the evolving generation, such as 'Echo Boomers', 'Internet Generation' or 'Digital natives' (Van den Bergh & Behrer, 2013). Members of Generation Y are currently aged between 20 and 37 years and are mostly starting college or entering the working class.

They are described to be very loyal and respectful amongst each other. Besides that, they are known to be a cooperative, innovative and ambitious group.

Generation Y consumers are self-confident and open-minded towards changes as well social and ethical differences. Gen Yers are very individual human beings, focusing on their personal needs while searching for new challenges and changes. Therefore, they always seek for new opportunities and desire a good work/life balance in order to attribute to a family life and a successful career.

Next to that, they grew up in a technology-developed environment and had early access to all sorts of online media. The unlimited access to the digital world keeps Generation Y consumers closely connected to social networks and social media (Young & Hinesly, 2012). This is why Gen Yers are also referred to as the children of the cyber revolution. In today's society, they favour to communicate through online and mobile devices.

Within the fashion industry, they are referred to as 'Henry’s', an abbreviation for 'high earning, not rich yet' consumers, who are starting to enter a new era in the global economy (Rowe, 2015).

It becomes apparent that the evolving Generation Y is challenging the luxury industry and luxury brands (Kane, 2017). Luxury brands need to expand their market strategies and customer service approach to capture the attention of Gen Yers.

Aroche, 2015
How do they react towards luxury brands?

According to Canon (2017), the luxury aspiration of Generation Y is shifting from personal luxury goods towards luxury experience such as traveling, leisure and luxury cars. Generation Y consumers desire to have an experience when purchasing luxury products, which can add value to their life (Sherman, 2016). Additionally, they expect functionality and high performance from luxury products that justify the high price (Sherman, 2016).

Gen Yers are interested in innovative brands, which incorporate novelty and history into their market strategies. The authenticity, the uniqueness and the exclusivity of a luxury product are at the centre of their attention (Yazıcı, 2016).

Gen Yers are very confident and attentive customers, who are well aware of their investments (Yazıcı, 2016). They have high expectations of the customer service offered by luxury brands which they believe is essential to distinguish one luxury brand from another (Olshan, 2013). The unlimited access to online media gives Generation Y consumers the opportunity to interrogate luxury brands and their public appearance, whether the ethical identity of a brand is trustworthy.

They also favor individuality and tend to combine different brands at different price points, in order to differentiate themselves from the mass rather than to fit into a certain group (Del Prete, 2017). Yet, Generation Y consumers are still image driven and are expected to spend more money on clothing than previous generations (Kane, 2017).

What is most important to them when it comes to luxury products?

Gen Yer desire products that are authentic, unique and unparalleled to any other goods. They highly value the fashionable designs, which distinguish luxury products from other products. Excellent quality and the attention to craftsmanship are also considered as very important value to Gen Yers. However, they are not easily convinced that the high price of a product justifies good quality. It indicates that luxury brands have to work on the esteem of their products.

Besides that, they are interested in brands that represent novelty and luxury ideals through social media and online marketing tools. Their first contact with a luxury brand and product occurs through online platforms and social medias. Generation Y consumer find it important that they can trust a brand’s promise and public appearance. Luxury brands need to establish a relationship with their target customers’ through their brands and products.
What drives Generation Y consumers towards luxury consumption?

Generation Y consumers value innovation and the story telling of a luxury brand, which they can connect to – especially when it comes to advertisement. They approve of companies they can engage with and favour brands that acknowledge the needs and desires of each customer. In addition to that, physical stores still play an important role for Generation Y consumers, in order to make physical contact with products and experience exquisite service. In fact, Gen Yers focus on a particular use of a luxury product and rather spend their money on a luxury product than on their rent (AdAge Insights, 2012).

They have high expectations towards luxury brands, focusing on the perfect product- unlike a purchase of an ordinary product. Gen Yers are highly brand aware and therefore highly value transparency of the company processes. They prefer brands that value them and advocate their individual values. Besides that, they focus more on themselves and less about social status.

‘Physical stores add something unique and different to the growth that’s beneficial to luxury business’

Fernandez, 2017
All over the world, digitalization has become the topic of conversation for the luxury industry. Throughout the past year, luxury brands started to integrate digital tools into their retail and marketing strategies (Constanze F., 2016). Informative websites as well as fully serviced online stores have been introduced by luxury brands to offer their customers the opportunity to experience a brand online as well as offline. Consequently, more customers are eager to investigate luxury brands and to create a desire for exceptional products.

Besides the integration of online stores, luxury brands are targeting their customers through social media and online marketing. Generation Y consumers utilize social networks and online platforms to inspire themselves and their luxury aspiration, whereas luxury brands use social networks to advertise their products and to connect to their customers.

Gen Yers are known to be tech savvy and affected by social networks, which plays a major role in their luxury fashion consumption (Anonym, 2017). They are constantly connected to their mobile devices and therefore permanently exposed to digital advertisements of luxury brands.

As a matter of fact, the downside of digitalization has shown that Generation Y consumer are much more price sensitive (Doran, 2011). The unlimited access to online shops has encouraged them to constantly seek digital information to compare prices and search for bargains such as private sales, rentals or second-hand platforms (GregfromParis, 2015). The access of information challenges luxury brands to sell their products at the original retail price.

Nevertheless, according to the American Express Business Insights, Generation Y consumers already represent a stronger luxury purchasing power than their predecessors (AdAge Insights, 2012). Digitalization means a change of mind-set which luxury brands can benefit from by generating data and analyze their customers’ behavior. On top of that, it enables luxury brands to create engagement and to reach out to their customers along their journey and deliver personalized experience. The future of the fashion industry is no longer only stationary and needs to adapt to the digital world.

‘There is an increasing need for luxury providers to diversify in new and alternative directions’

Aroche, 2015
In order to satisfy the needs of Generation Y, luxury brands have to be aware of their target customers and understand their luxury perception. Consequently, they need to adjust their business models, products and communicate directly with Generation Y consumers to comfort their luxury needs.

Luxury brands have to focus on their content, offering something new and fresh and an innovative adventure, while maintaining the brand’s identity.

The main interest of Generation Y consumers is to satisfy their individual and basic needs regarding the style, the uniqueness and quality of a luxury product. These are the most important features driving their luxury consumption. They tend to buy luxury products based on the materials and craftsmanship as well as the satisfaction of experiencing pleasure with luxury products, notably when it comes to special occasions.

Furthermore, Gen Yers are highly brand aware and believe that digital marketing and online advertisement influences their buying decisions. They want immediate access to desired items, which is why luxury brands have to provide them with digital platforms to communicate their unique brand identities. This way, Generation Y consumers are able to engage conveniently with their target brands on a digital and personal level.

This relationship, however also works in favour of luxury brands as they have an amplified platform to communicate their unique brand identities. Additionally, luxury brands have to concentrate on excellent customer service and consumer guidance in physical stores as well as online.

Due to the fact that Gen Yers are highly critical looking at a brand’s value proposition and do not accept price as a guarantee for quality, luxury brands have to make sure, they satisfy their customers not only on an emotional level, but also on a durability level.

Next to that, Generation Y consumers are highly attentive and expect innovative ideas from luxury brands. To capture the attention of Gen Yers, the content of the brand has to be authentic and original at the same time. Furthermore, luxury brands have to build customer relationships based on the brand’s core philosophy while continuously suggesting innovation and desirability.

Generation Y consumers are focusing more on individual needs and on their personal aspirations of luxury products and less on social influences. Therefore it is foremost important to luxury brands to make each customer feel individual by offering personalized products and an exceptional experience.

Moreover, luxury brands should adapt to the digital, personal and authentic needs of the evolving Generation Y. In order to do that, they have to develop a new level of fashion experience to embrace their target customers and find a balance between being present and still remain exclusive.

Many luxury brands have started to adapt to the needs and desires of Generation Y and successfully manage the narrow ridge between keeping the traditional values of the brand and customize the products to future market needs. Luxury brands need to implement new concepts to react to changes in market demands in the future.
Sources


‘Luxury brands should appear as timeless and yet as entities associated with change and trying to create a better future.’

LuxeAvenue, 2012