

European
Cultural
and Creative
Industries
Alliance

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THE CONTRIBUTION OF THE HIGH-END CULTURAL AND CREATIVE SECTORS TO THE EUROPEAN ECONOMY

The European Cultural and Creative Industries Alliance (ECCIA) is composed of five European cultural and creative industries organisations: Altagamma (Italy), Circulo Fortuny (Spain), Comité Colbert (France), Meisterkreis (Germany) and Walpole (UK), who between them represent more than 600 brands – mostly SMEs – and cultural institutions.

Based on art, culture and creativity, our work is underpinned by continuous innovation, a relentless focus on quality and craftsmanship, highly skilled employment and strong export abroad. Our members strive for excellence and the highest quality in all of their products and services, which includes the experience they strive to offer to consumers.

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KEY FINDINGS

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The European high-end cultural and creative industries are a key driver of growth and job creation as well as ambassadors of European values worldwide.

- Business generated by European high-end and luxury brands as a share of European GDP: 4%.
- Cumulated growth of the European high-end industries v. European GDP 2014-18: 32% v. 12%.
- Total employment generated by European high-end and luxury brands: 2.1 million people in 2018 with 300,000 new jobs created since 2014.
- Exports generated by the European high-end industries as a share of total European exports: 10%.
- European high-end and luxury industries as a share of the global market in 2018: 72%.

Following the publication of the first ECCIA report on the contribution of the high-end cultural and creative industries to the European economy in 2012, the European Commission recognised the high-end and luxury industries as a key driver of growth and jobs in Europe¹. This new report² demonstrates the continuity of such growth and job creation contribution. Based on culture and creativity, production in Europe and strong exports abroad, European high-end and luxury industries have been able to develop and maintain a unique leadership on the world stage.

Indeed, European brands continue to play a leading role in the global high-end and luxury industries, accounting for 72% of the global high-end and luxury market, sized at €1,112 billion in 2018.

The strong European performance reflects the continued competitive advantages generated by the European high-end and luxury business model, which remains distinctive compared to both the mass market and the high-end and luxury industries in other geographies.

The value generated by the European high-end and luxury industries far exceeds the direct contribution to the European economy. The aforementioned figures understate the full contribution of the cultural and creative industries to the European economy, insofar as they do not capture indirect economic and socio-cultural spillovers. For example, the European high-end and luxury industries contribute to the preservation and development of production clusters and centres of excellence, which generate both direct and indirect employment. They also contribute to the attractiveness of city

CONTRIBUTION TO THE EU GDP

INDICATOR	2014 VALUE	2018 VALUE
Global high-end and luxury market (retail equivalent value at current prices)	€875 billion	€1,112 billion
Business generated by European high-end and luxury brands ³ (retail equivalent value at current prices)	€604 billion	€796 billion
Business generated by European high-end and luxury brands as a share of European ⁴ GDP	3%	4%

CONTRIBUTION TO EU EXPORTS⁵

INDICATOR	2014 VALUE	2018 VALUE
Exports generated by European high-end and luxury industries (Wholesale FOB ⁶ value of extra-European retail sales at current prices)	€150 billion	€210 billion
Exports generated by European high-end and luxury industries as a share of total European exports	8%	10%

ecosystems, which congregate business, retail, education and tourism activity, and investments. Finally, high-end and luxury industries also act as ambassadors of Europe's social and cultural values, thereby reinforcing Europe's soft power throughout the world.

While this report highlights the high-end and luxury industries' continuous growth and reinforced competitiveness, it also aims to highlight the substantial investments that these industries are making in order to further improve the quality of customer experiences and the contribution to conversations and social change, as well as minimise the environmental impact of activities.

For instance, sustainability and corporate responsibility have always been at the heart of cultural and creative industries' businesses, not only because it is what their customers expect, but also because it is in their DNA to be here for the long run and to strive for excellence and exemplarity.

As a result, they have focused on supporting the complex environmental and social ecosystems from which they source the *matières nobles* for their products. The high-end and luxury industries constantly make significant investments in research and development (R&D) to reduce their impact along the value chain, among others in terms of carbon emissions, water and land use, and material sourcing and waste. These industries are also working hard to build a more sustainable retail model and explore circular design and recycling of their sales and promotional materials. In addition, high-end and luxury industries have demonstrated and continue to demonstrate a strong commitment to promoting the values that they embody – such as inclusivity, diversity, gender equality, education, entrepreneurship and culture – to drive social change. Concrete examples will be given throughout this report.

Over the past decade, high-end and luxury

CONTRIBUTION TO EMPLOYMENT IN EUROPE⁷

INDICATOR	2014 VALUE	2018 VALUE
Total direct employment generated by European high-end and luxury brands	1.2 million directly employed	1.4 million directly employed
Total indirect employment generated by European high-end and luxury brands	600,000 indirect jobs	700,000 indirect jobs
Total employment generated by European high-end and luxury brands	1.8 million employees	2.1 million employees

industries have also invested heavily in the digital economy, which currently represents the sector's highest source of growth. This encompasses online as platforms to connect with consumers, e-commerce as a distribution channel, and digital technologies as enablers of improved productivity throughout the supply chain and improved customer experience in boutiques. Indeed, while high-end and luxury brands and their ambassadors are today among the largest creators of online content and the most liked and shared brands on social networks, virtually all brands have developed their e-commerce activities, either directly or through their network of authorised resellers. Several brands have gone one step further, developing 'omnichannel' networks in which online and offline work together seamlessly, allowing their customers to engage with their brand at anytime, anywhere, and in whatever way they wish.

¹ European Communication on "Promoting cultural and creative sectors for growth and jobs in the EU", COM (2012) 537 final.

² Source (of figures): Bain Luxury Study, throughout the report unless otherwise noted.

³ Estimate of the retail value generated by European companies net of the distribution margin outside of Europe.

⁴ Refers to EU-28 members and Switzerland.

⁵ Exports figures have been restated owing to the different methodology used, which: a) excludes hospitality and restaurants, b) applies wholesale multipliers by sector (which are fundamental to the calculation of FOB), and c) assumes that production of cars (by European brands) occurs partly outside Europe so sales cannot be used as a proxy for exports. Source: Elaborations on Bain Luxury Study, expert interviews and Eurostat.

⁶ FOB refers to Free On Board.

⁷ Source: Elaborations on Bain Luxury Study, analyst reports, company annual reports, industry association reports and Eurostat.

STUDY ON THE CONTRIBUTION OF THE HIGH-END CULTURAL AND CREATIVE SECTORS TO THE EUROPEAN ECONOMY

1

FOREWORD, SCOPE AND METHODOLOGY

HIGH-END AND LUXURY INDUSTRIES: A EUROPEAN BUSINESS MODEL

The high-end and luxury sector is of major strategic importance to the European economy and its business model is fully integrated across Europe with a global customer and business and creative hubs from Paris, London and Milan to Berlin, Geneva and Madrid. The supply chain constitutes a unique European network of artisans and craftsmen with specialist expertise in clusters, from Grasse in France to Elgin in Scotland and from Basel in Switzerland to Tuscany in Italy.

The flow of talent is also European with both creative and management skills flowing between the major players who draw on a pool of highly talented creatives, business leaders and managers educated in world-recognised institutions such as the Central Saint Martins in London or HEC Paris, and who have honed their knowledge and skills in companies across Europe. For example, the creative director of a prominent French personal luxury goods brand is a British designer who studied at the Royal college of Art, and the creative director of a notable British personal luxury goods brand (who previously led creative teams at French personal luxury goods brands) was born in Spain and educated in Paris.

The distribution chains are also completely interwoven with a system of partners and retailers moving products across the capitals and cities to both stores and digital players. Particularly important for the high-end and luxury sector is the network of European capitals of London, Paris, Milan, Madrid, Geneva and Berlin, drawing visitors from across the globe to experience the appeal, culture and heritage of high-end and luxury brands in their countries of origin. Few industries are so inherently integrated across Europe with such a strong network of suppliers, craftsmen, distributors, talent and customers that cross national boundaries, and this is a sector that will continue to be predominantly European.

SCOPE OF THE STUDY

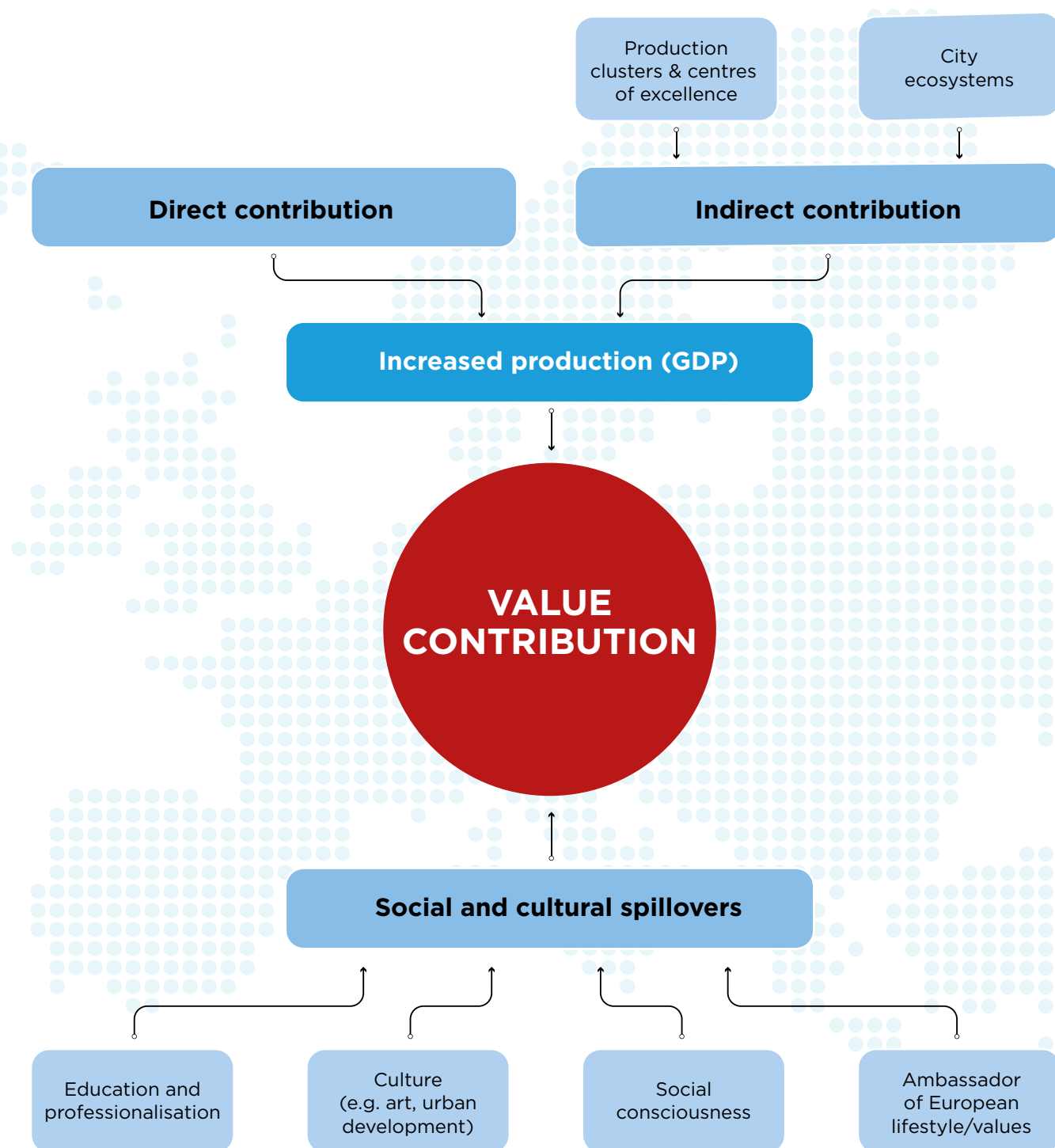
The high-end and luxury industries comprise a horizontal market including both personal goods (apparel, accessories, watches and jewellery, perfume and cosmetics) and non-personal goods (cars, yachts, hospitality, food, wine and spirits, and design).⁸

A number of key principles and features constitute the foundation for the unique business models and success of the European high-end and luxury industries.

- **Aura** refers to the combination of perceived cultural and creative authenticity, exclusivity and emotional content associated with the brand, heritage and quality of high-end and luxury products and services.
- **Craftsmanship and technical excellence** associated with both supply and manufacturing: manufacturers typically prefer long-term relationships with trusted and tested suppliers, which ensures quality – born of a particular savoir-faire – over low costs, and invest heavily in training to safeguard their own know-how. Particularly in some industries, craftsmanship in manufacturing is also combined with excellence in engineering and technical competence in industrial production. Manufacturers leverage new technologies such as robotics, 3D-printing, Internet of Things (IoT) and ultrasonic quality-assurance systems. The use of state-of-the-art manufacturing technology allows perfect production of flexible small series and a high-degree of personalisation according to special customer requirements.
- **Creation and innovation** associated with design creativity, manufacturing quality, digital content, and intellectual property related to branding, materials, skills and R&D.
- **Service and experience** refers to the quality and expediency of service, advice and emotional experience uniquely associated with high-end and luxury products.
- **Selective distribution** is central to maintaining control over the value chain by ensuring superior customer experience and advice throughout the entire distribution chain, which, together with the focus on product quality, authenticity and traceability both online and offline, differentiates high-end and luxury from mass market.
- **International visibility and recognition** stemming from the global footprint of European high-end and luxury companies as well as the global appeal of European high-end and luxury industries (for example, affluent and aspirational customers in the US and Asia).
- **Sustainability** associated with materials, practices, and social responsibility, as well as the longevity of relationships with artisans and of attachment to the local territory, all of which ensure endurance of high-end and luxury European products and brands over time.

ILLUSTRATION OF THE VARIOUS FACETS OF CONTRIBUTION OF THE HIGH-END AND LUXURY INDUSTRIES TO THE EUROPEAN ECONOMY AND SOCIETY

THE BOX SIZE DOES NOT REFLECT THE RELATIVE SIZE OR VALUE OF CONTRIBUTION



FRAMEWORK

The assessment of the overall value of the high-end and luxury industries takes into account:

- Direct and indirect economic value related to the production, commercialisation and consumption of goods and services.
- Social and cultural value of spillover effects on European knowledge-based competitiveness and soft power throughout the world.

METHODOLOGY

Market size estimates refer to the cumulated revenues at retail equivalent value of brands (by sector) recognised as belonging to the high-end and luxury industries by reputation and in compliance with high-end and luxury marketing standards and selective distribution, not just by price positioning (sales at retail price net of VAT, using the methodology of the Altagamma 2018 Worldwide Luxury Market Monitor). The size of the European high-end and luxury industries refers to the retail equivalent value generated by European companies or brands only. If a brand is originally from Europe and still based in Europe, it is considered European even if its holding is based outside of Europe. For hospitality, the location of the HQ of the holding company determines the geographical categorisation.

The GDP proxy refers to the retail value generated by European companies net of the distribution margin outside of Europe. Gross Value Added (GVA) is used as a measure of the contribution of European high-end and luxury companies to the European economy.

GVA is estimated as the value of the products and services sold minus intermediate inputs at purchased cost (such as raw materials).

Export figures⁹ refer to the Wholesale FOB¹⁰ value of extra-European (European Union and Switzerland) retail sales generated by European high-end and luxury brands. Such figures have been estimated applying wholesale multipliers by sector, and account for sector specificities: for instance, the hospitality sector does not generate exports, while automotive companies typically leverage global manufacturing platforms in that they do not export all products sold outside Europe (European Union and Switzerland).

Employment figures¹¹ refer to employment generated by European high-end and luxury brands in Europe, adjusted for the evolution of three factors: productivity (by sector), salary increases (in Europe) and retail prices of finished goods. Core activities employment is estimated on consolidated revenue; upstream employment is estimated on COGS, and downstream employment is estimated on sales generated in Europe at retail equivalent value using ad-hoc industry KPIs.

⁸ The quantification of the direct contribution to the high-end and luxury industries excludes art, antiques and publishing.

⁹ Source: Elaborations on Bain Luxury Study, expert interviews and Eurostat.

¹⁰ FOB refers to Free On Board.

¹¹ Source: Elaborations on Bain Luxury Study, analyst reports, company annual reports, industry association reports and Eurostat.

2 MAIN ECONOMIC IMPACT

2.1. SIZE OF THE EUROPEAN CULTURAL AND CREATIVE INDUSTRIES IN THE GLOBAL HIGH-END AND LUXURY MARKET

GLOBAL HIGH-END AND LUXURY INDUSTRIES

In 2018, the global high-end and luxury market was valued at €1,112B, having grown by 6% CAGR since 2014. This figure refers to the retail equivalent value¹² of the sales generated by the brands that are positioned and perceived as high-end and luxury across all products and channels.

Although the sectors included in this high-end and luxury perimeter share common traits, each should be

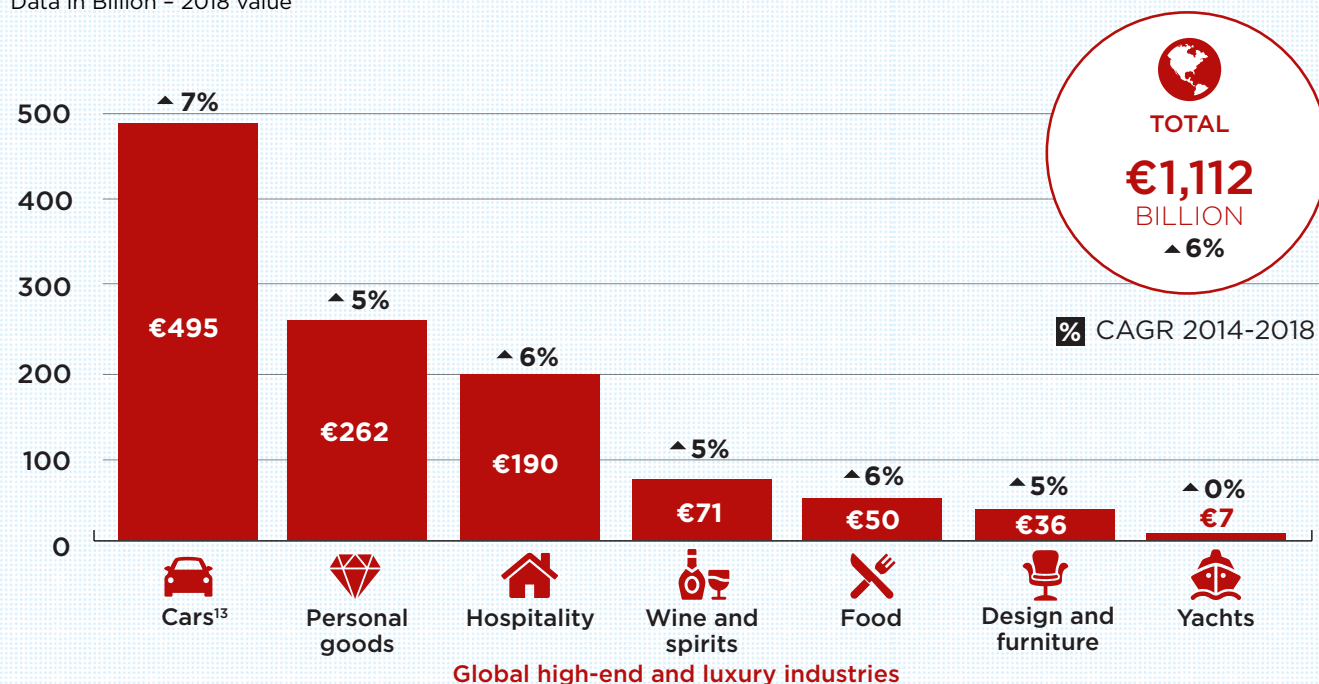
considered in terms of their own unique characteristics, which result from differences between sectors as well as between segments within in each sector. Indeed, the high-end and luxury market includes large sectors (and segments) with wide and varied consumer bases, as well as niche sectors with smaller and more homogenous consumer bases. Within each high-end and luxury sector, different segments may exhibit different growth trends, due to differing interdependencies with socioeconomic,

cultural and regulatory systems.

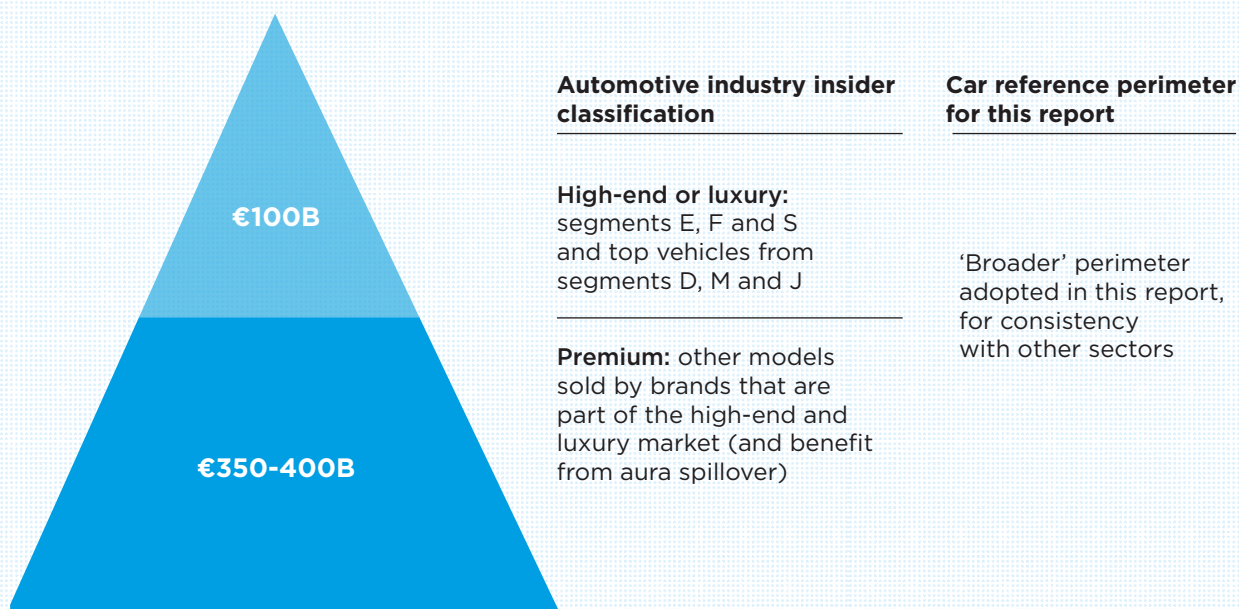
For the automotive sector, it is critical to mention that there is an existing model segmentation that is widely recognised by business experts and mentioned by the European Commission (A: mini cars, B: small cars, C: medium cars, D: large cars, E: executive cars, F: luxury cars, S: sport coupés, M: multi-purpose cars, J: sport utility cars) and determines a different perimeter than the one based on the approach adopted for the other sectors in this report.

GLOBAL HIGH-END AND LUXURY INDUSTRIES SIZE AND GROWTH BY SECTOR

Data in Billion – 2018 value



FRAMEWORK FOR EVALUATION OF THE CAR SECTOR



The vehicles in E, F and S segments and the top vehicles from D, M and J segments – named as 'high-end' or 'luxury' by business insiders – represent the standards of excellence that the industry can offer and have a market value estimated around €100B.

Some of these high-end and luxury automotive brands also sell models in other segments, which benefit from the aura of their top vehicles – in other words, from the spillover of positioning and reputation in the perspective of global consumers. The total market value for this more broadly defined car sector was estimated at €495B in 2018 (this figure includes both the 'true' high-end and luxury as well as 'premium' vehicles, according to manufacturer terminology).

While this method of calculation is widely used among experts, it has to be noted for the purpose of this paper that the members of the European Cultural and Creative Industries'

Alliance (ECCIA) usually operate within the 'high-end and luxury' segment of the cars industry. Consequently, the considerations and recommendations issued in this paper will focus on this segment of the market.

Between 2014 and 2018, the high-end and luxury car sector grew by 7% per annum, with growth across segments sustained by a strong acceleration of sales in Asia and online. In 2018, however, the high-end and luxury car industry was characterised by varied growth between segments, with aspirational cars – those between premium and high-end (based on industry terminology) – outperforming the rest. Although Asia continued to represent a key driver of growth in 2018, Europe and the US exhibited slow, single-digit growth.

Personal high-end and luxury goods accounted for nearly a quarter of the high-end and luxury market, with 5% CAGR since 2014. In this sector,

In 2018, the global high-end and luxury market was valued at €1,112B, having grown by 6% CAGR since 2014.

brands continued to broaden their product offering across the pricing axis, blurring the lines between traditional pricing segments, and tailor their strategies by product category (apparel, shoes, bags and so on). Moreover, high-end and luxury brands have adjusted their footprint strategy in response to the increasing relevance of Chinese consumers both abroad and at home.

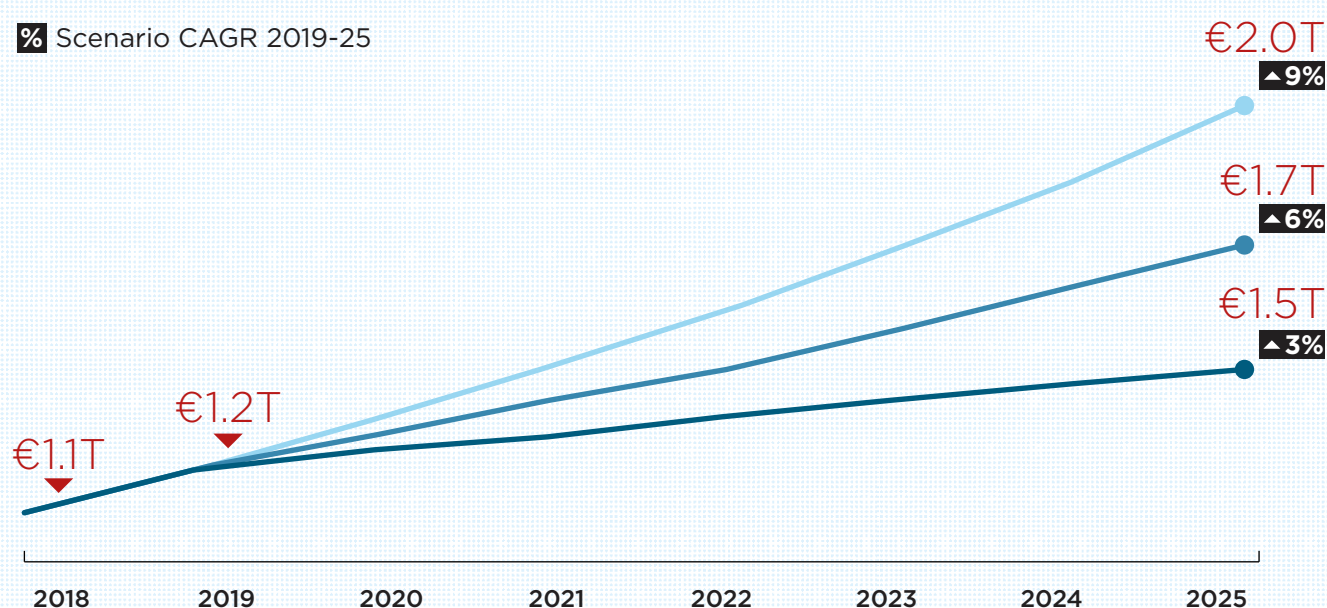
Hospitality represented the third category with solid growth (6% CAGR 2014-18), followed by wine and spirits and then food (5% and 6% CAGR 2014-18 respectively). In fact, hospitality and related industries have grown in large part owing to the so-called millennial mindset, according to which consumers increasingly value experiences (and experiential goods).

Recent hotel business growth has been driven in particular by top categories in North America and Asia (the latter region sustained by an increased trend of Chinese travelling intra-season in the region). Meanwhile, the wine and spirits and food sectors have been characterised by significant ‘premiumisation’ and category segmentation, with the rise of highly curated products for ever more sophisticated and demanding consumers (for instance, in crafted spirits, healthy and ethical food categories).

Design posted a 5% CAGR 2014-18 sustained by the progressive globalisation of the industry, as brands consolidated and invest to grow their (physical and online) footprint in high-end and luxury markets, with Asia emerging as fastest growing geographical region.

SCENARIOS OF FUTURE GLOBAL HIGH-END AND LUXURY MARKET GROWTH (AT 3%, 6% AND 9% CAGR 2019-2025)

% Scenario CAGR 2019-25



72%

Percentage of high-end
and luxury companies
making up the global
market in 2018

The growth trend of the high-end and luxury industries is expected to continue in the coming years, supported by strong fundamentals. The global market value is estimated to grow to more than €1.2T in 2019, with a year-on-year growth of nearly 9% (4-5% at constant rates). If this excellent growth rate continues through to 2025, such market value could reach €2T.

EUROPEAN HIGH-END AND LUXURY COMPANIES SIZE AND PENETRATION OF THE GLOBAL MARKET

European high-end and luxury companies accounted for 72% of the global market in 2018, clearly demonstrating continued European leadership in the high-end and luxury industries.

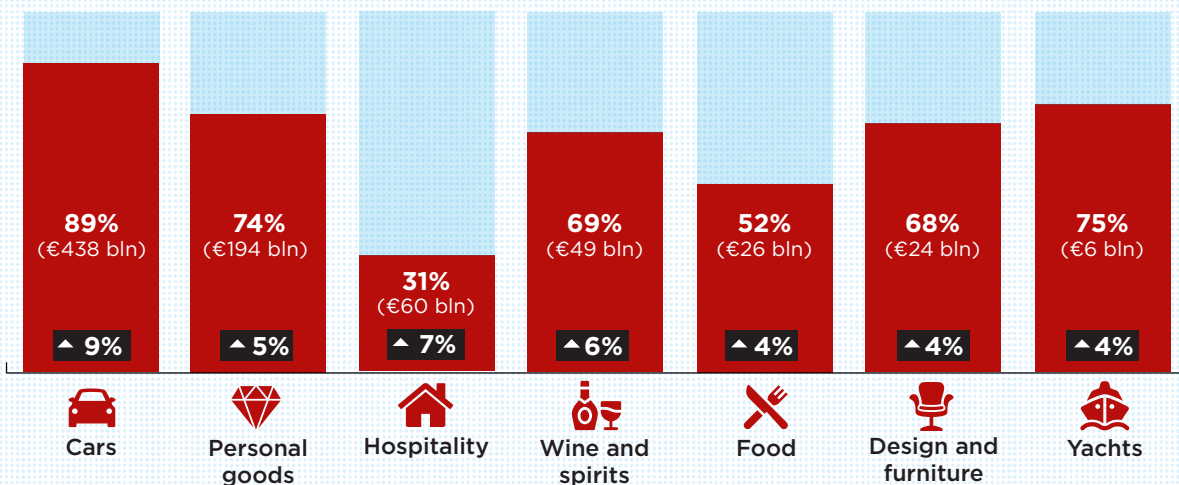
¹² Net of VAT and consumption taxes.

¹³ The cars sector includes the sales of all models (i.e. vehicles in E, F, S, D, M, J, but also A, B, C and D) of car brands positioned and reputed as high-end and luxury automotive brands.

EUROPEAN SHARE OF GLOBAL HIGH-END AND LUXURY INDUSTRIES BY SECTOR (2018)

Data in Billion – 2018 value

- Non-European brands
- European brands
- % CAGR 2014-2018



Global high-end and luxury industries

2.2. CONTRIBUTION TO THE ECONOMY

INCIDENCE ON GDP

The global market value generated by the European high-end and luxury industries (net of the distribution margin generated outside of Europe) was equivalent to 4% of European GDP in 2018 (an increase compared to the 3% incidence in 2014). Indeed, the European high-end and luxury industries recorded faster growth than the European economy overall (7%¹⁴ v. 3% respectively CAGR 2014-18), demonstrating their potential for growth even in a less dynamic environment. Furthermore, the European high-end and luxury industries generated €280B of GVA in 2018 (v. €210B in 2014).

CONTRIBUTION TO EXPORTS¹⁵

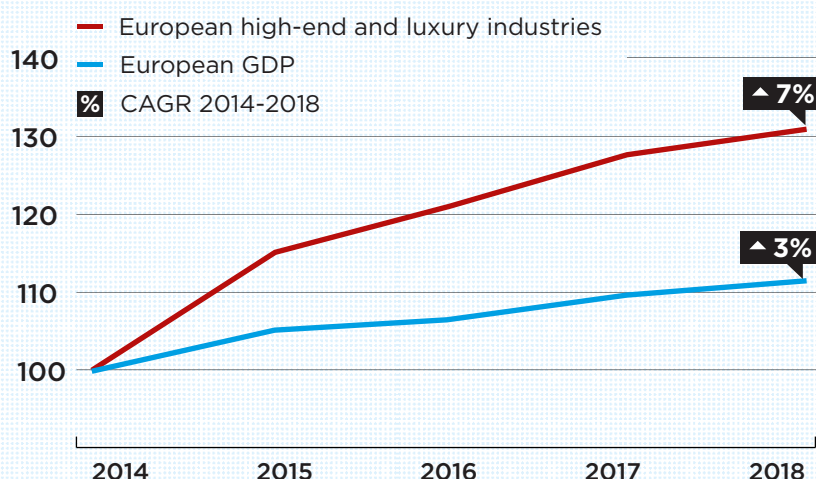
The capacity of the European high-end and luxury industries to grow faster than the European GDP reflects the former's orientation towards global markets. Indeed, European high-end and luxury brands attract significant tourist flows and high-end and luxury spending. In the personal high-end and luxury goods sector, for example, sales in Europe accounted for a third of the global value, even though European consumers accounted for less than a fifth of the global value: in other words, nearly half of the value of personal high-end and luxury goods purchases in Europe was generated by non-Europeans.

Looking at the global retail value of personal high-end and luxury goods produced by European players: 65% is sold outside of Europe and 80% is sold to non-European consumers.

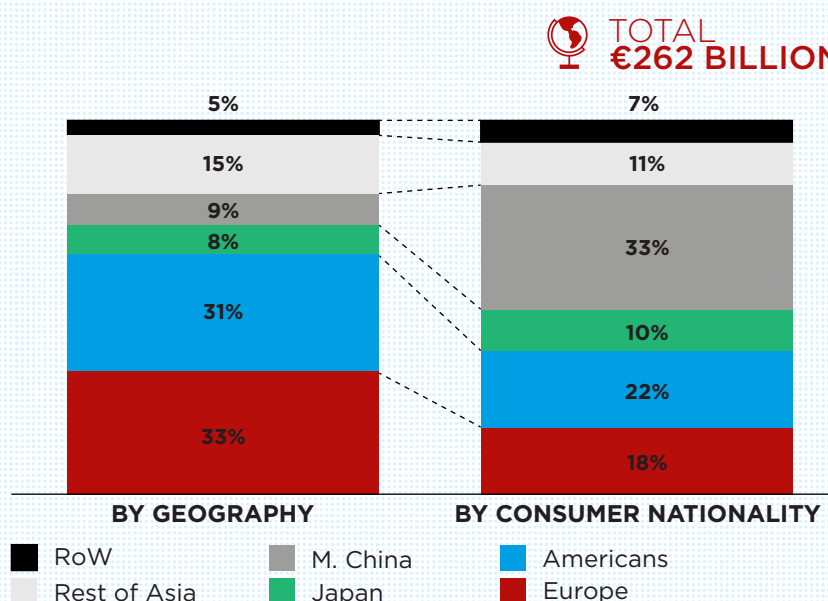
At the same time, European high-end and luxury companies contribute a sizeable share of European exports. In 2018, the European high-end and luxury industries generated €210B exports (which corresponds to a retail equivalent value of more than €300B), equivalent to 10% of total European exports in 2018 (compared to 8% in 2014), having grown by 9% CAGR since 2014, roughly two and a half times the rate of total European exports (4% CAGR).

COMPARATIVE GROWTH PERFORMANCE OF THE EUROPEAN HIGH-END AND LUXURY INDUSTRIES AND EUROPEAN GDP (INDEX = 2014)

Global retail value of European companies, net of the distribution margin generated outside of Europe



GLOBAL PERSONAL HIGH-END AND LUXURY GOODS MARKET BY GEOGRAPHY AND BY CONSUMER NATIONALITY (2018)



¹⁴ Refers to the global retail value of European companies, net of the distribution margin generated outside of Europe.

¹⁵ Source: Elaborations on Bain Luxury Study, expert interviews and Eurostat.

2.3. CONTRIBUTION TO EMPLOYMENT

As the European Union strives to create high-value sustainable jobs in Europe, high-end and luxury industries remain one of Europe's strong sources of employment and job creation, steadily growing in an otherwise stagnant labour market. In 2018, the European high-end and luxury brands employed nearly 2.1 million¹⁶ people directly and indirectly in Europe along the value chain, equivalent to nearly 1% of the total European workforce. Furthermore, employment generated by the high-end and luxury industries increased by 4% CAGR 2014-18, in the context of a stagnant European labour market (1%¹⁷ CAGR 2014-18). European high-end and luxury industries added nearly 300,000 jobs between 2014

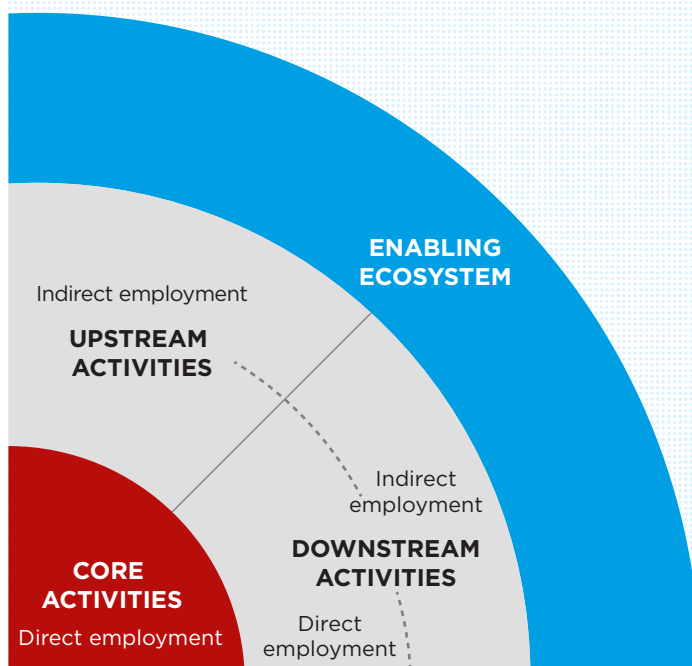
and 2018, even in a context of improved productivity resulting from significant investments in optimisation along the value chain. These figures underscore the extent to which the high-end and luxury industries generated jobs that require a range of human ingenuity and savoir-faire and are therefore difficult to relocate or to replace through automation.

As the report will note further on, high-end and luxury brands invest significantly in the training and professionalisation of employees, both their own and those of partner companies. In fact, industry insiders agree that high-end and luxury companies could employ, and benefit from, an even greater number of qualified talent than they do today.

2.1M

People employed directly and indirectly in the European high-end and luxury brand

SCOPE OF EMPLOYMENT GENERATED BY THE EUROPEAN HIGH-END AND LUXURY INDUSTRIES¹⁸



CORE ACTIVITIES

- Manufacturing of finished goods internal and outsourced (direct)
- Design, R&D and product development (direct)
- Marketing and sales (direct)
- Controlling, administration and other internal functions (direct)

UPSTREAM ACTIVITIES

- Supply of raw materials and semi-finished goods (indirect)

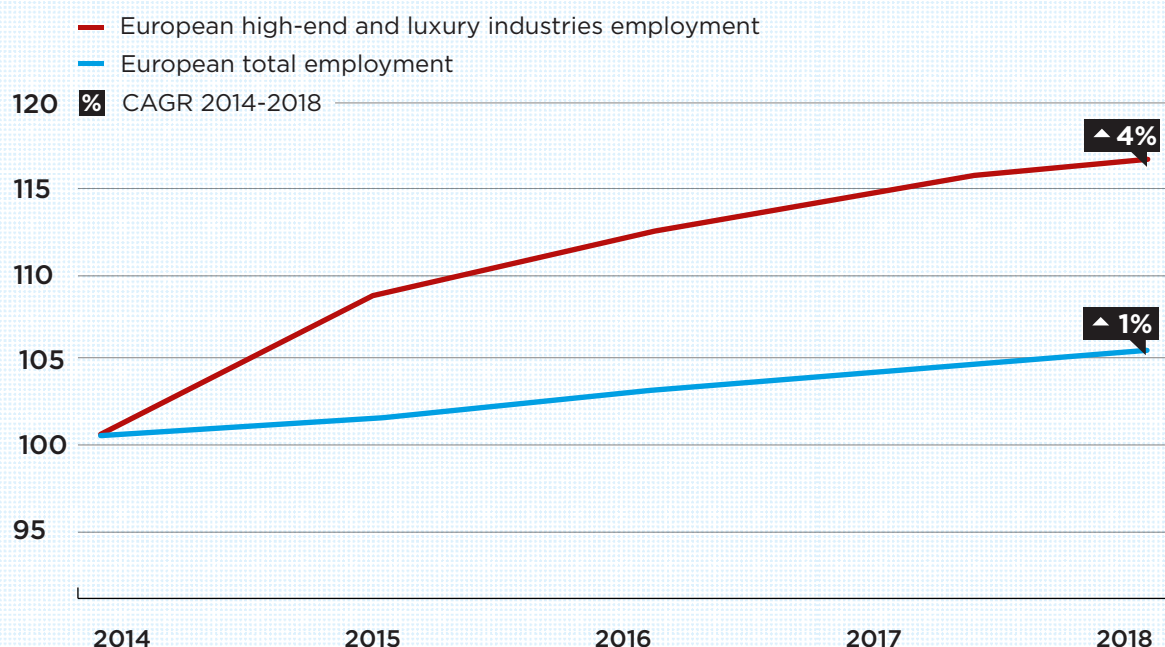
DOWNSTREAM ACTIVITIES

- Distribution through own network of DOS (direct)
- Distribution through franchises and third-party networks e.g. multibrand stores (indirect)

ENABLING ECOSYSTEM

- Professional services such as photographers and architects
- Media and communication system (including agencies)
- Hospitality and tourism services

COMPARATIVE PERFORMANCE OF EUROPEAN HIGH-END AND LUXURY INDUSTRIES EMPLOYMENT AND EUROPEAN TOTAL EMPLOYMENT (INDEX = 2014)



DIRECT EMPLOYMENT

Regarding direct employment, the European high-end and luxury industries created more than 190,000 jobs in Europe since 2014, resulting in a total of 1.4 million jobs in 2018.

Direct employment includes European high-end and luxury internal employees as well as outsourced employees involved in 'core activities' and distribution through directly operated points of sale (or directly operated hotels).

INDIRECT EMPLOYMENT

The European high-end and luxury industries generated more than 100,000 additional indirect jobs in Europe since 2014, resulting in a total of 0.7 million jobs in 2018.

This figure refers to indirect employment relating to the supply of raw materials and semi-finished products as well as product distribution through franchises and third-party networks.

¹⁶ Source: elaborations on Bain Luxury Study, analyst reports, company annual reports, industry association reports and Eurostat.

¹⁷ The total employment figure for the high-end and luxury industries includes core activities plus upstream and downstream activities, but excludes enabling ecosystems, which will be discussed in the following chapters.

¹⁸ EU-28 and Switzerland. Source: Eurostat.

As the European Union strives to create high-value sustainable jobs in Europe, high-end and luxury industries remain one of Europe's strong sources of employment and job creation, steadily growing in an otherwise stagnant labour market.

2.4. KEY ENABLERS

The key value enablers of high-end and luxury brands each play a distinct and critical part in constructing the overall high-end and luxury value proposition and derive in large part from the high-end and luxury features detailed earlier. The key high-end and luxury value enablers are detailed below.

AURA

This is perhaps the most composite value enabler since it encapsulates the creative authorship, emotional content and exclusivity associated with a brand and its heritage. To fully comprehend aura as a value enabler, it is necessary to break it down to its components.

- A high-end or luxury brand embodies both a past (its heritage) and a present (its current narrative). As such, a high-end or luxury brand can be considered a sentient being with a history and an identity, both of which are known to a brand's (wide or niche) consumer base.
- Creative authorship refers to the way in which a high-end or luxury good or service is designed with an aesthetic, material and functional point of view, within a given socio-cultural context.
- Emotional content refers to the psychology of a high-end or luxury product stemming from the way in which it informs the consumer's: a) connection with the brand history and narrative, b) perception of self in relation to the product's particular creative authorship, and c) experience of the good or service.
- Exclusivity is an intangible

by-product of the former factors, associated with the tangible object or experience, which thus transcends a mere price tag.

Aura is the cumulative result of storytelling, design and human subjectivity. Yet, how does aura evolve in an age in which mass companies try to reproduce high-end and luxury creativity at lightning speed, consumers have both a virtual and physical identity, and creative authenticity vacillates between inimitable design and repurposing – even *détournement* – of the cultural zeitgeist?

The most successful European high-end and luxury brands have fine-tuned the main components of aura to meet and anticipate today's consumer values (in light of the trends detailed previously in this report).

- Regarding the communication of brand heritage, European high-end and luxury brands have deftly responded to the changing (cultural) consumption model by engaging in conversations with consumers. It could even be said that brands are 'alive' more than ever before.
- For its part, creative authorship has become ever more polymathic and collaborative, a hybrid cultural and disciplinary exercise held to ever-higher intellectual standards, as the pressure mounts on human intelligence to differentiate itself from technology and given the increasingly cacophonous (cultural) landscape.

- As for the emotional content of high-end and luxury products, consumers increasingly demand that brands tackle notions of identity, community and value in greater depth.
- Finally, the notion of exclusivity has become more and more nuanced, in part because high-end and luxury brands increasingly sell emotions rather than things (or social stratification), and in part given a broader social context in which inclusivity seeks to address intersectionality.

CRAFTSMANSHIP AND TECHNICAL EXCELLENCE

European craftsmanship has always represented a distinctive characteristic of European high-end and luxury goods and services. But given shifting world geopolitics, the question arises as to whether said 'made in Europe' will continue to constitute a key value enabler for European high-end and luxury. In fact, some European high-end and luxury brands have already substituted European production for manufacturing elsewhere, either for cost reasons or to be closer to new consumer bases or to reduce their carbon footprint. However, the question needs to be asked: while today's Chinese consumers buy European high-end and luxury products in part because European craftsmanship carries the weight of European savoir-faire and culture, will tomorrow's Chinese consumers look inward and rediscover Chinese craftsmanship and culture?

The matter ought not to become motivation for protectionist policy, but rather an opportunity. A chance for European high-end and luxury brands to adapt to the realities of an increasingly global economy and heterogeneous consumer base, and to capture the full value of an international strategy, beyond global communication plans. In doing so, high-end and luxury brands can appeal, in a more targeted fashion, to a wider array of consumers, and position themselves at the forefront of their foreign counterparts, thereby ascertaining their future market leadership.

CREATION AND INNOVATION

Each European high-end or luxury brand possesses its particular archive of knowledge and experience built over time, as well as its own pool of talent, in terms of creativity, product development, manufacturing, marketing, and distribution, all of which intersect to create the high-end and luxury value proposition. The ability to safeguard and continuously innovate said intellectual property represents not only a competitive advantage for brands but also a prime source of consumer trust, and ultimately distinguishes top performing high-end and luxury brands from the crowd.

SERVICE AND SELECTIVE DISTRIBUTION

The service related to – and experience of – products is one of prime tangible difference between high-end and luxury, on the one hand, and mass, on the other. A high-end or luxury product exists

beyond the realm of tangible goods or functional services and includes a correlated experience, increasingly explicitly. In other words, the selling of a high-end and luxury product is not only about the product, but also about the experience of the product, the dream surrounding it, and the service delivered on said experience, which can only be delivered through sufficient control over distribution channels in order to ensure the given service.

(INTERNATIONAL) MARKET ACCESS

International visibility and access to foreign customers and markets are key success factors for the high-end and luxury industries. The faster growth of the European high-end and luxury industries compared to the overall European economy (7% v. 3% CAGR 2014-18) underscores the former's reliance on consumption outside Europe and by non-European customers.

SUSTAINABILITY

Sustainability represents a key enabler of the European high-end and luxury industries. On the one hand, the aura of European high-end and luxury brands rests on their ongoing connection to their heritage, roots and land, precious and delicate resources that must be protected and nurtured in the long term.

On the other hand, European high-end and luxury brands have increasingly integrated sustainability into their operating model as strategic advantage to increase value generation for customers and reduce operating costs and risks.

3

WIDER ECONOMIC IMPACT AND SPILLOVERS

Indirect employment is just one of many spillovers generated by the high-end and luxury industries. Upstream production clusters and centres of excellence as well as high-end and luxury city ecosystems (including shopping tourism) represent another important source of wider economic impact and inherent facets of the high-end and luxury operating model and competitive advantage. Production clusters are geographic concentrations of interconnected businesses in a particular field, in which resources and competences reach a critical threshold that leads to a sustainable competitive advantage compared to firms that are not part of the cluster. Production clusters, centres of excellence and high-end and luxury city ecosystems are examples of this phenomenon.

Production clusters include businesses engaged in the manufacturing and supply of raw materials, semi-finished goods and finished goods for high-end and luxury brands. Centres

of excellence are regions that are internationally renowned for an industry specialisation, usually with a long history, and home to some of the world's leading companies in this field. City ecosystems are typically characterised by retail clusters and agglomerated brand HQs or subsidiaries, the coupling of which in turn favours the concentration of interrelated businesses such as tourism and hospitality services, and other professional services (including education institutions, media and communication systems, architects and photographers). While production clusters and centres of excellence leverage mono-industry specialisation, high-end and luxury city ecosystems host direct and indirect business in multiple industries (such as fashion and design stores, hotels and restaurants).

The value of European upstream production clusters, centres of excellence and city ecosystems should be understood in terms of both the

output and employment generated, as well as the highly specialised excellence required by high-end and luxury brands, which in turn generate further value, such as:

- The development of unique knowledge and skills.
- Investments in innovation (to maintain competitive advantages).
- The distribution of numerous centres of specialised expertise along the value chain (as opposed to the concentration of knowledge in few companies), which enables the further distribution of value.

Such distribution of capital and profit represents the primary source of value in several regions and communities across Europe.

The following section details the role and relevance of production clusters and centres of excellence in Europe, and the section after outlines examples of key high-end and luxury city ecosystems.

3.1. PRODUCTION CLUSTERS AND CENTRES OF EXCELLENCE



Production clusters and centres of excellence related to the high-end and luxury industries are widespread throughout Europe. Examples of such economic ecosystems are present extensively across European regions and industries.

For instance, automotive clusters can be found in Bavaria and Stuttgart in Germany, Modena in Italy, and Oxfordshire in the UK; perfume and cosmetic clusters can be found in Lombardy in Italy, as well as Grasse in France; and glassware clusters can be

found in Småland in Sweden, Bohemia in the Czech Republic, Eastern France and Murano in Italy.

















The following is a non-exhaustive illustration of the distribution and variety of high-end and luxury production clusters and centres of excellence in Europe.

PRODUCTION CLUSTERS AND CENTRES OF EXCELLENCE¹⁹

CLUSTER TYPE	TOWN/REGION	COUNTRY
 Cars	Bavaria	Germany
	Modena	Italy
	Motorsport Valley (Oxfordshire)	UK
	Stuttgart	Germany
 Classical instruments/pianos	Spread across the country	Germany

¹⁹ Sources: elaborations on “ECCIA Manifesto: Securing the leadership of the European high-end and luxury industries in the digital era” (October 2017), information provided by ECCIA associations, expert interviews, cluster websites, online literature research.

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CLUSTER TYPE	TOWN/REGION	COUNTRY
 Design and furniture	Bielefeld and spread across the country	Germany
	Brianza	Italy
	Turku	Finland
	Vienna	Austria
 Glass and crystal	Bohemia	Czech Republic
	East	France
	Murano	Italy
	Småland	Sweden
 Home electronics	Spread across the country	Germany
 Jewellery	Pforzheim	Germany
 Kitchens and kitchen equipment	Spread across the country	Germany
 Lacemaking	Calais	France
	Lepoglava	Croatia
	Brenta	Germany
 Leather goods and shoes	Florence	Italy
	Igualada	Spain
	Northamptonshire	UK
	Santa Croce	Italy
	Ubrique	Spain
	Solingen	Germany
 Metal blades (knives, scissors etc.)	Cosmetic Valley	France
	Grasse	France
	Lombardy	Italy
 Perfume and cosmetics	Herend	Hungary
	Limoges	France
	Spread across the country	Germany
	Stoke-on-Trent	UK
 Porcelain	Bremen/Hamburg	Germany
	Highlands	UK
	Islay	UK
 Spirits	Speyside	UK
	Silicon Allee (Berlin)	Germany
	Station F (Paris)	France
 Tech	Tech City (London)	UK
	Biella	Italy
	Brianza	Italy
	Como	Italy
 Textiles	Elgin	UK
	Glashütte	Germany
	Watch Valley	Switzerland
	Bordeaux	France
 Watches	Champagne	France
	Mosel	Germany
	Ribera del Duero	Spain
	Rioja	Spain
	Tuscany, Veneto	Italy
 Writing instruments	Spread across the country	Germany
	Bremen	Germany
 Yachts	Dorset	UK
	Tuscany	Italy

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The following table illustrates a selection of KPIs that illustrate of the economic relevance of high-end and luxury production clusters in terms of employment

and output. This is only a part of the long-term value created to express the critical importance of these ecosystems in the fabric of Europe.

KPIs FOR SELECT PRODUCTION CLUSTERS

CLUSTER TYPE	TOWN/REGION	COUNTRY	EMPLOYMENT	OUTPUT	COMPANIES
 Cars	Bavaria	Germany	237K	+25% cars produced in Germany	1.1K
	Stuttgart	Germany	200K	€57.7B (+14% industry sales in Germany)	>500 ²⁰
	Modena	Italy	350K	n/a	70
 Glass and crystal	Murano	Italy	n/a	n/a	50
 Knives	Solingen	Germany	2.7K	+€1.2B	60 ²¹
 Leather goods and shoes	Brenta	Italy	n/a	20M pairs of shoes per year	500
	Santa Croce	Italy	13K	n/a	240 tanneries
 Perfume and cosmetics	Cosmetic Valley	France	70K	€18B	800
	Grasse	France	11K	€6B	130
	Lombardy	Italy	18K	65% of the worldwide	500
	Polo Tecnologico della Cosmesi (Crema)	Italy	2.7K	€0.7B	60
 Textiles	Biella	Italy	n/a	n/a	100
 Watches	Glashütte	Germany	1.8K ²²	€390 to 460M	9
 Wine	Champagne	France	30K direct employment, of which 16K winegrowers	€4.9B	320
	Bordeaux	France	6.5K winegrowers	5.3M hectolitres	n/a
	Ribera del Duero	Spain	n/a	n/a	288
	Rioja	Spain	14.8K	€2B	797

²⁰ Refers to companies that are at least partly involved in the automotive industry value chain.

²¹ Including suppliers.

²² In the watch industry. Thus, more people work in the watch industry than the core city (without the 14 districts) has residents.

The specific business models and competitive advantages that lie at the heart of the success of European high-end and luxury production clusters render them difficult, if not impossible, to replicate abroad or even to transpose within Europe. The production cluster business model includes the following characteristics, which will be outlined in more detail in the following paragraphs:

- Deep knowledge and dedication, rooted in the history and culture of particular communities and regions (and thus hard to create from scratch, sans heritage).
- Privileged access to exceptional raw materials, whether originating in the territory of the cluster itself or due to historical relationships and know-how.
- Proximity (geographic or relational) to high-end and luxury brands, which enables the mutually beneficial exchange of knowledge and creativity, and foster trust-based relationships between production cluster companies and brands.
- Agility in meeting change with innovation, deriving from mid-scale, customisable specialised excellence, which is hard to replicate on a larger, industrial scale.
- Entrepreneurship and passion, which motivate long-term investments v. immediate returns.

European high-end and luxury production clusters are founded on historical and cultural traditions deeply embedded within the fabric of particular communities and regions. Murano's reputation as a centre for glassmaking, for instance, dates back to the Venetian Republic at the end of the 13th century. Similarly, Solingen's knife-manufacturing tradition is more than 200 years old, while Glashütte's watchmaking prowess dates from 1845. European craftsmanship has been passed down across generations, not only by virtue of older masters training younger apprentices, but through the DNA and shared emotional experiences of communities.

European production clusters boast raw materials that are impossible to replicate. In some cases, such as the various European wine clusters, the raw material originates in the territory of the cluster itself, resulting from a particular ecosystem and relationship between man and land. In other cases, like the textile centre in Biella, cluster producers possess privileged access to raw materials (originating elsewhere, even outside Europe), resulting from longstanding relationships with material providers.

Furthermore, European production clusters typically benefit from their proximity to high-end and luxury (customer) brands, resulting in mutually beneficial exchanges of skills, creativity and trust built over time. High-end and luxury automotive companies, for example, often co-engineer custom-made innovation with their suppliers. In the Stuttgart automotive cluster, the geographical proximity of manufacturers with suppliers, engineering services, software providers and research institutes facilitates an ecosystem of close collaboration and knowledge exchange.

This heritage notwithstanding, the longevity of European production clusters reflects their forward thinking and spirit of innovation. For example, cosmetic companies in Lombardy (between Milan, Bergamo and Crema), which produce nearly two-thirds of worldwide make-up, spend 15% of their annual turnover on R&D. Automotive clusters across Europe render a particularly clear view of the sheer size of cumulative investments in R&D. For example, the Bavarian automotive sector accounts for almost half of all R&D investments made in the state. Similarly, companies in the UK's Motorsport Valley spend an average of 25% of their annual turnover on R&D, and benefit from close links with courses and laboratories at university institutions (such as the University of Oxford) and access to education and training programme (like the Oxford

Materials Characterisation Service). Likewise, the car cluster in Modena operates through the collaboration of over 70 companies, research centres and university laboratories involved in various stages of the automotive value chain, who have collectively built highly specialised IP in fields such as digital and advanced manufacturing, robotics and automation.

Finally, it is noteworthy that associations that formally unite companies in a given production cluster function as a further enabler of collective expertise and economic output. Take, for instance, the Comité Champagne, founded in 1941 to represent the interests of both Champagne houses and independent Champagne producers. The association seeks to stimulate economic growth through economic, technical and environmental development (for example, by keeping its members up to date with the latest R&D in vineyard management and winemaking technology) as well as marketing and protection of the Champagne appellation, among other initiatives.

Production clusters represent a defining facet of wider economic and knowledge spillovers of the European high-end and luxury industries. Put another way, European high-end and luxury brands participate in the preservation of European expertise and craftsmanship skills by actively supporting the development of small and medium-sized enterprises (suppliers, subcontractors, distributors, communication agencies, digital agencies and so on) based in Europe that often live exclusively from the services they provide to this industry.

3.2. HIGH-END AND LUXURY CITY ECOSYSTEMS

The high-end and luxury business model also generates significant spillovers in terms of economic ecosystems surrounding downstream activities. This phenomenon exhibits itself more explicitly – although by no means exclusively – in the case of the personal goods sector and cities characterised by a concentration of the sectors' headquarters and retail distribution. Stemming from the latter, there exist broader activities and services, such as:

- Tourism (including hospitality, restaurants and transport)
- Education institutions and ecosystems dedicated to the development of high-end and luxury managerial and creative talent
- Professional services (such as photographers and architects)
- Media and communication (such as publishers)
- Sector events (both B2C and B2B)

As mentioned previously, high-end and luxury spillovers in city ecosystems go beyond mere indirect employment. First, development and innovation of specialised skills is paramount to ensuring the continued creation and distribution of value added. Second, there exist economic spillovers in terms of tourism, related to high-end and luxury shopping, events, such as fashion weeks, and hospitality/restaurants. Third, educational institutions and high-end and luxury businesses attract significant international talent and knowledge to said cities. Finally, high-end and luxury brands invest in urban 'public goods', in other words in investments in such things as architecture, infrastructure and services that can be enjoyed by all, not just high-end and luxury consumers.

London, Paris and Milan are three of the most iconic – although certainly not the only – European high-end and luxury city ecosystems, and as such have been selected as examples to illustrate the value generated by said

spillovers. These cities generate an outsized share of national high-end and luxury business across various KPIs, as compared to their share of national population. London, for instance, captures roughly three times the number of British five-star hotels and Michelin-starred restaurants compared to the share of Londoners on the total UK population. Similarly, Milan captures twice the number of Italian Michelin-starred restaurants and four times the number of five-star hotels compared to the number of Milanese in the Italian population. Meanwhile, Paris captures a whopping six times the number of Michelin-starred restaurants and more than 10 times the number of five-star hotels compared to its share of Parisians in the total French population.

In light of the innovation-inducing congregation of high-end and luxury creativity, businesses, services and events, these city ecosystems have also become global reference points for cutting-edge creative and cultural education in the 21st century. London, Paris and Milan boast some of the most prestigious management and creative institutions, including fashion and design, which attract a diverse pool of talent from around the world.

The inherent multidimensionality of these city ecosystems is further fortified by the cultural vibrancy of a packed 'seasonal' schedule of global high-end and luxury events and fairs. These include three of the 'big four' global fashion weeks (Paris, Milan and London); Salone del Mobile (Milan), the largest trade fair of its kind; and other design fairs such as Maison & Objet (Paris) and the London Design Festival; motor shows, jewellery fairs, and many food and wine fairs. To render an idea of the sheer awareness of these events: London Fashion week has more Instagram hashtags than the Tate Modern, and roughly a third of

those of Big Ben; while Paris Fashion week is as popular on social media as some of the city's most iconic sites, with 75 to 80% of the Instagram hashtags of the Eiffel tower and the Louvre, and roughly seven times those of the Centre Pompidou.

The success of these events has grown over recent years, thanks to the increasingly coordinated collaboration between different parties, including high-end and luxury companies, sector associations and local administrations. Take the example of Salone del Mobile. In 2018, the trade show welcomed more than 400K visitors, of which an estimated 70 to 80% were non-Italians), on top of which the Fuori Salone events drew an additional 100K visitors, a total of half a million visitors to Milan. To put these figures into context, during the week of the Salone del Mobile, Milan hosted more than two to four times the number of visitors it does in an average week, and Salone del Mobile and its associated events account for 3.5 to 8% of the city's annual visitors.

European high-end and luxury city ecosystems are hotbeds for creativity, innovation and reimagining human value, interaction and emotion in a multicultural, digital age. The high-end and luxury industries provide a tremendous amount of timber for this fire. Beyond the direct and quantifiable contribution of high-end and luxury business and employment, high-end and luxury brands invest, energise and stimulate almost every layer, every interweaving web, of these multidimensional ecosystems, in ways direct and indirect, visible and unseen, immediate and long-term, to the point that the high-end and luxury industries must be considered an integral part of what makes London, London, what makes Paris, Paris, and what makes Milan, Milan.

KPIs FOR SELECTED EUROPEAN HIGH-END AND LUXURY CITY ECOSYSTEMS

SELECTED KPIs (2018)	LONDON	PARIS	MILAN
Population	8.8m (13% of UK)	2.2 (3% of France)	1.4 (2% of Italy)
Number of high-end and luxury personal goods monobrand stores²³	650	700	250
Number of five-star hotels²⁴	135 (40% of UK)	90 (40% of France)	25 (10% of Italy)
Number of Michelin-starred restaurant²⁵	71 (40% of UK)	113 (20% of France)	18 (5% of Italy)

GLOBALLY RANKED EDUCATIONAL INSTITUTIONS WITH PROGRAMMES AND COURSES DEDICATED TO THE FORMATION OF HIGH-END AND LUXURY MANAGERIAL AND CREATIVE TALENT IN BERLIN/MUNICH, LONDON, MILAN AND PARIS



BERLIN/MUNICH

- Berlin Weißensee School of Art
- ESMT Berlin
- Freie Universität Berlin
- Humboldt-Universität Berlin
- International School of Management Munich
- Ludwig-Maximilians-Universität Munich
- Munich Business School
- Technische Universität Munich
- Universität der Künste in Berlin



LONDON

- Central Saint Martins
- Chelsea College of Art
- Goldsmiths University
- Imperial
- Kingston University
- London Business School
- London College of Fashion
- London Metropolitan University
- Middlesex University
- Ravensbourne College of Design and Communication
- Regent's University
- Royal College of Art
- School of Fashion and Design
- University of East London
- University of Westminster



MILAN

- Accademia del Lusso
- Bocconi
- Domus Academy
- IED (Istituto Europeo di Design)
- Italian Fashion & Design Academy
- NABA (Nuova Accademia di Belli Arti)
- Politecnico di Milano



PARIS

- École Nationale Supérieure des Arts Décoratifs
- ENSAAMA
- ESMOD
- HEC Paris
- IFA Paris
- IFM (L'Institut Français de la Mode)
- EIDM (L'Ecole de mode Internationale)
- L'École supérieure des arts appliqués Duperré
- Le Studio Berçot
- LISAA (L'Institut Supérieur des Arts Appliqués)
- Mod'art International
- Mode Estah

²³ Source: Bain Luxury Study (2018).

²⁴ Source: Booking.com availability November 15-16 2019, accessed 28/03/2019.

²⁵ Source: Michelin-starred restaurants 2019, announced in 2018. Includes one-, two- and three-starred restaurants. Source: Guide Michelin.

TECH CLUSTERS

The high-end and luxury industries have rapidly moved to the forefront of European innovation in the new digital economy, having made significant strategic transformations and investments in digital capabilities, talent and services. The human factor – the human ingenuity, emotion and connection – that pumps the beating heart of the high-end and luxury value proposition, has required high-end and luxury companies to adapt, rethink and invent new models for human-centered digital technologies and experiences.

Indeed, high-end and luxury brands are pioneers in the multidisciplinary technological innovation, something other industries are only starting to recognise and which puts designers and programmers, artists and businesswomen, humanists and scientists, storytellers and inventors under one roof.

More concretely, high-end and luxury brands have injected technology – and continuous technological innovation – into every facet of their business, from

online consumer engagement to story-living and VR-enabled experiences, to e-commerce and omnichannel distribution, to digital technologies leveraged throughout the supply chain for improved productivity and sustainability. To this end, notable high-end and luxury companies have invested in, and work with, start-ups, on innovation in environmental and social impact.

In an increasingly globally competitive techonomic loop and landscape, European tech clusters which, though not focused solely on high-end and luxury activities and much broader in scope than high-end and luxury, can serve as sparring partners and sources of both collaboration and outside-in invention. Most notably, London, Berlin and Paris are home to the largest European tech clusters in terms of venture capital funding. In 2018, London received €5.4B from investors, followed by Berlin with €2B and then Paris with €1.8B (Amsterdam and Zurich followed with roughly €270M and €260M respectively).²⁶

4

SOCIAL AND CULTURAL CONTRIBUTION

The previous sections detailed the extent to which high-end and luxury brands generate a significant level of direct and indirect economic value, function as a prominent driver of the European success in the global market, and represent the foundation for numerous European economic centres, such as production clusters and city ecosystems. The following paragraphs outline the further value created by these industries as leaders in areas beyond the boundaries of their core business.

European high-end and luxury brands' engagement with social and cultural issues is underscored by

sizeable investments that can reach up to 8 to 10%²⁷ of annual revenue, although this figure clearly varies widely among brands owing to differing sectors and strategies. To start, high-end and luxury companies are highly committed to the development, preservation and innovation of talent, as demonstrated by the investments they make in both internal training and collaborations with primary education institutions. Secondly, on account of their creative DNA and relationship with local, many high-end and luxury brands also invest in cultural patronage initiatives which enrich city ecosystems, generating

benefits for the local community and stimulating tourism. Thirdly, a significant number of high-end and luxury brands contribute constructively to conversations pertaining to social consciousness, such as sustainability, diversity and inclusivity.

Finally, in light of their orientation to the global market, high-end and luxury companies act as promoters of European values and lifestyle throughout the globe, thus breeding awareness and admiration among a wide and diverse global audience.

²⁶ Source: Pitchbook.

²⁷ Results based on more than 50 respondents in the survey sent to members of ECCIA associations (2019).

4.1. EDUCATION AND PROFESSIONALISATION

The human factor is paramount to the high-end and luxury industries. Human-centred design lies at the heart of what differentiates high-end and luxury goods and services from their mass counterparts. A high-end or luxury product possesses the creative authenticity of its designer, the *savoir-faire* of its artisan, and the narrative heritage of its brand passed on through time. In other words, the human perspective is involved in all steps of the high-end and luxury process, and the consumer is top of mind. As a result, high-end and luxury companies – and the suppliers they employ – are anything but automated factories, but rather human organisations that meld vision with experience, empathy with data, craftsmanship with technology, and heritage with innovation.

European high-end and luxury

companies back a range of education and training programmes geared towards nurturing creativity, incubating talent, protecting craftsmanship and boosting management and digital skills. These high-end and luxury companies spend on average 0.5 to 1%²⁸ on education initiatives and 1%²⁹ on internal training programmes. Additionally, they contribute to the enhancement of talent and expertise of partner suppliers and distributors, both informally, through day-to-day interactions and exchanges, and formally, through quality requirements and ad hoc training programmes on, for instance, product characteristics and selling techniques. In so doing, the European high-end and luxury industries invest in protecting expertise and expanding talent and, by extension, in developing European competitive advantages.

European high-end and luxury brands typically invest in craftsmanship training programmes to ensure the passing on of relevant skills and values to future generations. Furthermore, high-end and luxury brands, especially digital companies such as personal goods e-tailers, make significant contributions to digital education. This includes skills training across the education lifecycle (from primary schools to vocational training) and partnerships with universities aimed at developing future talent. Select European high-end and luxury companies also back a range of arts education initiatives, such as joint creative projects with schools and universities, and sponsorship programmes that enable young people to explore and engage with the arts including visual arts, performing arts and music.

4.2. CULTURAL PATRONAGE

As the name suggests, the ‘cultural and creative’ industries necessarily operate within the bounds of art (understood broadly and to varying degrees between sectors). Select design and craftsmanship can secure its legacy in the European artistic and cultural legacy. Given this overlap, high-end and luxury business has long been an active supporter of European culture. Indeed, European high-end and luxury brands spend on average 0.5 to 1%³⁰ of annual revenue on initiatives pertaining to artistic and cultural patronage.

European high-end and luxury brands have a track record of funding restoration projects and – with a higher degree of visibility – building modern and contemporary arts foundations that have acknowledged the European voice

in the 21st-century arts conversation. Over time, several European high-end and luxury brands have invested in preserving, and thus elevating, the cultural richness of their ‘territories’. For instance, a Florence-based brand helped finance the restoration of a Florentine historical landmark, while a Paris-based brand contributed to the restoration of a major site of French heritage. In doing so, these brands protect not just a part of their own brand heritage but also the broader European historical and cultural heritage.

The more recent germination of arts foundations (funded and managed by European high-end and luxury brands) have served not only to reaffirm European high-end and luxury brands’ creative gravitas (*vis-à-vis* more nascent

high-end and luxury brands), but also to fuel continued European relevance in an increasingly global cultural playing field. In effect, these art foundations support European (and international) artistic creation and render contemporary art accessible to a wide audience through permanent collections, temporary exhibitions, artwork commissions and other multi-disciplinary events. In fact, such investments by European high-end and luxury brands can also function as urban redevelopment projects, initiating a chain reaction of interest, traffic and spending in formerly disused urban areas. Thus, select European high-end and luxury brands have become increasingly critical contributors to European cultural and social vibrancy and attractiveness in the 21st century.

²⁸ Average of respondents in survey sent to members of ECCIA associations (2019).

²⁹ Average of respondents in survey sent to members of ECCIA associations (2019).

³⁰ Average of respondents in survey sent to members of ECCIA associations (2019).

4.3. SOCIAL CONSCIOUSNESS AND SUSTAINABILITY

If innovation, creativity and imagination are inherent features of the 'cultural and creative' industries, then envisioning new models for thinking and being is often part and parcel of both the products and the storytelling of high-end and luxury brands.

Among social consciousness issues, sustainability is a central topic for high-end and luxury brands. European high-end and luxury brands spend on average 0.8 to 1.5%³¹ of annual revenue on sustainability innovation, and several leading European high-end and luxury companies are recognised in the Dow Jones Sustainability Index (DJSI), considered the standard for measuring corporate sustainability. In fact, European high-end and luxury brands have demonstrated their desire to become role models in terms of sustainable business strategy. Although sustainability is clearly a shared responsibility and priority across the broader economy – from agriculture to personal high-end and luxury goods and from construction to high-end and luxury cars – and although the volumetric environmental impact of the high-end and luxury industries is relatively small compared to other more polluting industries, European high-end and luxury brands have proven their willingness and capacity to leverage their share of voice and influence among consumers and suppliers along the value chain to impact positive change.

Specifically, many European high-end and luxury brands have: a) set a climate strategy to reduce their environmental footprint, in terms of energy (by setting targets for reducing direct and indirect carbon emissions and transitioning to green power in their direct operations), water and chemical use; b) increased their supply chain traceability; c) championed circular economies and closed-loop systems by recycling raw materials,

promotional and sales materials, designing solutions for upcycling and repurposing obsolete products, working to minimise the impact of their boutiques and other points of sale on the environment and human health through the use of internationally recognised certification mechanisms; and d) launched broader initiatives focused on ecosystem preservation to address endangered biodiversity.

To cite an example, several brands have worked together to develop a pilot project with a digital application to improve point-of-sale SPM recycling. The principle of the app is to make it easier for beauty and cosmetics retailers to arrange for the removal of old SPM displays at the end of campaigns at the point of sale. When a campaign ends, the salesperson simply posts his or her SPM on the application as ready for removal and recycling, whereupon it is then collected and sent to a designated recycling centre. This ensures that more SPM material enters the correct recycling channel and remains fully monitored by the company.

Furthermore, several high-end and luxury incumbents and disrupters have invested in sustainable material innovation via partnerships with universities, by building internal labs or by sponsoring start-up incubator programmes. For their part, European high-end and luxury retailers have also begun to recognise sustainability as a strategic priority, promoting sustainable brands and products and imposing stricter requirements on the brands they stock. Indeed, the European high-end and luxury sectors increasingly confront sustainability with a purpose that resonates beyond critical and thereby sets an example – and a new standard – for other industries.

Beyond sustainability, several European high-end and luxury brands contribute to conversations

and initiatives related to improving respect for human rights and serving local communities. In this way, high-end and luxury companies contribute to strengthening the European social fabric and collective empathetic intellect, as well as to Europe's continued perception as an exemplary – and enviable – model for freedom of thought and speech and, by extension, as a hub for creativity and innovation.

Notable high-end and luxury companies play their part in expanding equality and inclusivity in Europe and the rest of the world. A handful of European high-end and luxury brands have launched global awareness campaigns dedicated to gender equality and related issues, highlighting the contributions of women in a particular field or combating violence against women. At the same time, many European high-end and luxury brands have made internal organisational pledges to promote inclusion in the workplace through mentoring and professional development programmes, among other initiatives.

The personal high-end and luxury goods sector, in particular, is characterised by a fair – and rising – share of brand activism. Driven by increased consumer demand for companies to take a stand, high-profile brands increasingly contribute to conversations about controversial issues, whether by posing a question, providing a platform for new ideas and actors, or setting new social, economic and cultural standards. As a result, European high-end and luxury brands further enhance collective European knowledge and competitiveness.

³¹ Average of respondents in survey sent to members of ECCIA associations (2019).

4.4. EUROPEAN AMBASSADOR TO THE WORLD

Given their international business models, European high-end and luxury brands necessarily engage with a global audience and invest in expanding their visibility and footprint throughout the world. While promoting their own brands and products worldwide, European high-end and luxury brands inevitably display, celebrate and elevate the values, culture and lifestyle of their own home countries, reaching beyond their direct target customer.

The communication and storytelling undertaken by European high-end and luxury brands represent

some of the most important touchpoints – if not the first contact – with Europe, for many foreign (high-end and luxury as well as non-high-end and non-luxury) consumers. As such, European high-end and luxury brands play an active role in nurturing tourism in Europe, not just shopping tourism, but also experiential tourism of Europe's lifestyle and culture. Indeed, the European high-end and luxury industries do not merely attract high-spend tourists to high-end and luxury hospitality and shopping cities, but also broader tourism across Europe.

The particular nature of the criteria – aura, craftsmanship, innovation, service, experience and selective distribution – that define the European high-end and luxury industries, not only drive their aforementioned leadership (70%) of the global high-end and luxury market, but also function in unison as a powerful ambassador of Europe to the world. In other words, the European high-end and luxury industries act as some of the most powerful promoters of European goods, services and knowledge around the world.



European high-end and luxury brands necessarily engage with a global audience and invest in expanding their visibility and footprint throughout the world.

5

INDUSTRY TRENDS

European high-end and luxury brands possess a distinctive ability to combine tradition with innovation, heritage with creative invention. This reflects the European Renaissance spirit that remains a defining competitive advantage for European high-end and luxury industries. Indeed, high-end and luxury brands have proven particularly effective at capturing early macro trends and evolving their strategies to thrive amid change.

The following paragraphs evaluate the reference landscape with a 'future-back' approach to discuss how high-end and luxury brands already meet the demands of tomorrow. What will the market look like in five to ten years? How has this trajectory emerged today? How are high-end and luxury brands responding and anticipating these changes?

More specifically, the paragraphs will consider the following phenomena:

- The diversification of the high-

end and luxury customer base across nationalities, generations and cultures.

- The increasing pervasiveness of digital, which includes online content/marketing, e-commerce and the implementation of digital technologies across the value chain.
- Heightened social consciousness, especially among younger generations, and increased consumer expectations on issues such as brand sustainability.
- The rise of experiences (and services) over physical ownership.

CONSUMER DIVERSITY

Expanding diversity of high-end and luxury consumers is rapidly changing the name of the game. Traditionally defined as a relatively uniform (Western) elite, the high-end and luxury customer base increasingly encompasses emerging (non-Western) markets, younger generations (Gens Y

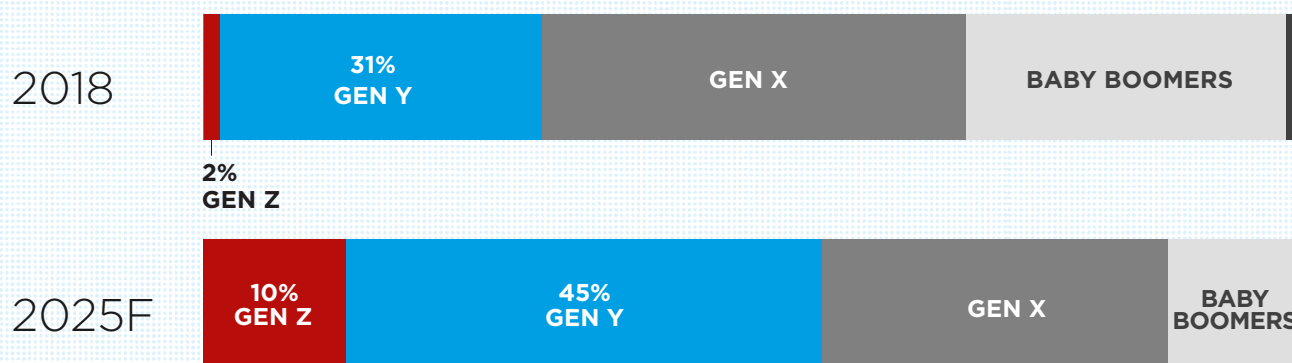
and Z) and heterogeneous cultures (and subcultures). To meet, and anticipate, these significant demand trends, high-end and luxury European brands have – and continue to – expanded their global footprint and engage with new customers, across geographies, ethnicity, race, sexuality and age.

The amplification of wealth in China and other emerging markets has altered the 'who' and 'where' of high-end and luxury consumption. In the personal high-end and luxury goods sector, for instance, Chinese consumers will account for more than 45% of value in 2025 (from over 30% in 2018), and domestic Chinese consumption will more than double to 50% of Chinese spending. Elsewhere in Asia, such as South Korea, Singapore, Thailand, and Vietnam, strong economic growth, bolstered by Chinese tourism, has driven increased local consumption.

Meanwhile, the arrival of new generations, specifically millennials



PERSONAL HIGH-END AND LUXURY GOODS CONSUMERS BY GENERATION (2018 V. 2025F)³²



(Gen Y) and more recently Gen Z, into the high-end and luxury arena has modified the ‘how’ and ‘why’ of high-end and luxury. Younger generations (namely Gen Y and Z) are disproportionately responsible for: a) the rise of digital (from engagement on social media, to omnichannel experiences and purchases), b) new habits and behaviours that prioritise experiences over physical ownership, and c) the increased pressure on high-end and luxury brands to adopt socially responsible practices. These consumption trends are rendered even more pertinent by the expansion of the younger high-end and luxury customer base. In the personal high-end and luxury goods sector, Gens Y and Z accounted for roughly a third of consumers in 2018, and are forecast to grow to more than half of consumers by 2025. Indeed, younger generations (Gen Y and Z) will deliver 130% of total personal luxury goods growth over the 2018-25 period.

On top of this, high-end and luxury brands increasingly cater to a wide array of consumption patterns. The high-end and luxury market has become progressively more representative across cultures, religions, and ethnicities, and inclusive of political ideas formerly deemed

separate or unrelated to the realm of high-end and luxury, as well as of social identities previously considered marginal for their variance with those of the dominant narrative. In the personal high-end and luxury goods market, for instance, a rising number of brands have replaced ‘male-gaze’ standards and stereotypes of femininity with multicultural, female-centric and empowering aesthetic narratives. Indeed, more and more high-end and luxury fashion companies celebrate a diversity of body shapes, and integrate a ‘modest’, skin-covering aesthetic within their creative point of view.

The diversification of the high-end and luxury customer base creates new layers of complexity for brands, which must cater to a spectrum of consumer needs, preferences and behaviours. High-end and luxury communication and products must be translated for relevance and cross-checked for sensitivity across regions, generations and cultures and standpoints. As such, notable European high-end and luxury brands have upgraded internal diversity to secure variegated consumer appeal: recruiting staff with broad cultural backgrounds and setting up diversity committees to augment their capacity for nuance and socio-cultural multidimensionality.

DIGITAL

As high-end and luxury companies meet and anticipate consumer needs, the prime role of digital – as a means of communication, as a driver of consumer engagement and as a distribution channel – will only accelerate going forward. By 2025 in the personal goods sector, digital will represent 25% of the market value, more than two-thirds of the market growth will be channelled through digital channels and 100% of customer journeys will comprise a digital component. Indeed, digital constitutes a central facet of the European high-end and luxury strategy, with brands investing on average 1.2 to 3%³³ of annual revenue on digital capabilities.

As a sales channel, digital is already very relevant. Between 2014 and 2018, global high-end and luxury e-commerce grew by 15% per annum, outpacing the 6% CAGR of total market sales, and therefore gaining share vis-à-vis physical channels. Although most high-end and luxury sectors posted single-digit digital penetration in 2018, their respective e-commerce growth rates (2014-18) were double-digit (above 20% CAGR 2014-18 for many high-end and luxury sectors). Meanwhile, hospitality already boasted a high share of e-commerce in 2018 of above 40%.

³² Bain proprietary knowledge.

³³ Average of respondents in survey sent to members of ECCIA associations (2019).

E-commerce is just one facet of the digital story. The aforementioned e-commerce figures under-represent the importance of digital content and consumer engagement in driving purchasing decisions. Digital increasingly affects every step of the customer journey, from brand awareness to product consideration and from purchase to brand loyalty. Take the example of high-end and luxury cars, where the widespread availability of online configurators has progressively enriched the customer experience via information transparency and customers' ability to drive the process. In high-end and luxury hospitality, online content plays a crucial role in consumers' selection of hotels or resorts, and grossly outweighs the +40% of sales conducted online. Similarly, online influences 90% of personal goods purchasing decisions, compared to 8% of sector sales conducted online.

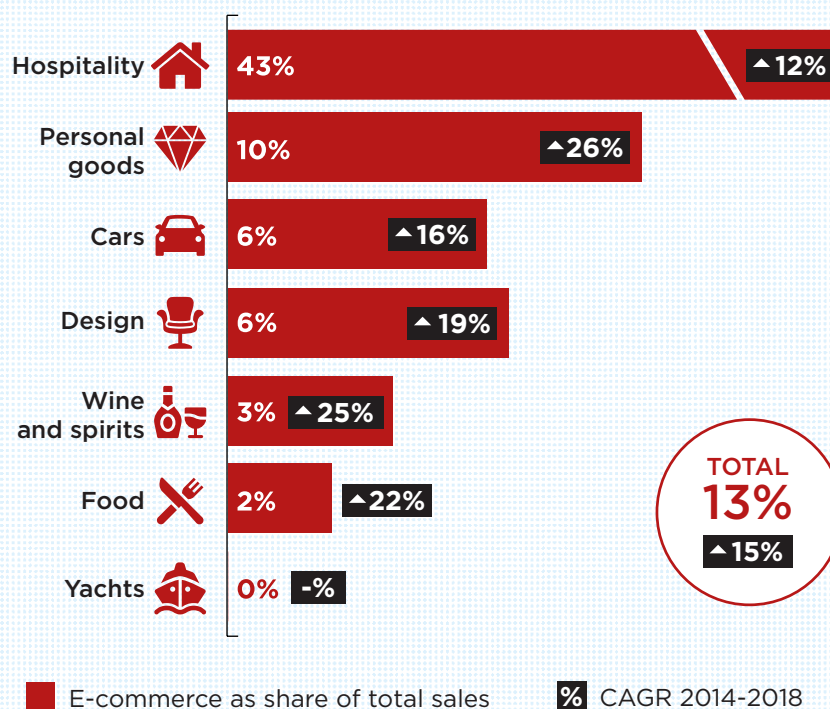
Given the importance of online content and customer connections, European high-end and luxury companies have taken significant actions to place themselves at the forefront of digital marketing. High-end and luxury brands boast an overwhelmingly effective presence and high following on social media platforms, including those specific to the Chinese ecosystem, such as WeChat. Social media has become increasingly central to high-end and luxury marketing strategies serving multiple functions, which include enabling high-end and luxury brands to: a) translate their standards of excellence in an online environment, and offer next-gen high-end and luxury services experiences to users (for example, receiving samples, live events, 360° videos, and podcasts); b) interact episodically with consumers via BOTs, Messenger, Community Management and so on; c) inform consumers about both product and heritage. In fact, best in class high-end and luxury brands increasingly integrate and converge digital content with

distribution, enhancing social media with e-commerce capabilities, while enriching e-commerce websites with editorial content.

Yet digital also permeates the physical realm. An omnichannel approach to communication and distribution (the integration of physical and digital) has become an integral part of many high-end and luxury business strategies, especially as 'born digital' consumers (those who grew up using the internet and mobile technology) expect digitally connected physical (namely retail) experiences in omnichannel settings. As a result, best in class high-end and luxury brands have begun consolidating their retail networks, transforming their stores from points of sale to points of touch and focusing on delivering increasingly personalised physical experiences to targeted consumer segments, both in-store and beyond. In fact, high-end and luxury

brands have developed unique human-computer interaction propositions along each step of the customer journey to safeguard – and reimagine – the inherent emotional component of high-end and luxury. It is also important to note the role of new technologies that enrich the traditional shopping experience and optimise steps along the value chain. Big data, for instance, has become increasingly relevant to drive retail excellence, to customise CRM³⁴ and CXM³⁵ by taste and touchpoint, and to fuel personalisation. Indeed, personalisation technologies such as 3D printing have become increasingly relevant, alongside online customisation tools, to deliver products co-created with consumers. Finally, predictive advanced analytics and automation have become a crucial means for optimising cost structure, supply chain and inventory, thus improving performance and efficiency.

GLOBAL HIGH-END AND LUXURY E-COMMERCE AS A SHARE OF TOTAL SALES, BY SECTOR (2018)



³⁴ Customer Relationship Management.

³⁵ Customer Experience Management.

In summary, the new digital economy has greatly altered the high-end and luxury landscape. Although the degree to which individual European brands have invested in and developed digital capabilities varies across and within high-end and luxury sectors, as a whole the European high-end and luxury industries have demonstrated their readiness to, and ingenuity in, leveraging new digital opportunities to adapt their value proposition to new realities.

SOCIAL CONSCIOUSNESS AND SUSTAINABILITY

Compared to their progenitors, younger consumers have demonstrated greater consciousness, towards themselves and the world around them. Regarding personal health and wellness, research demonstrates reduced consumption of meat, alcohol and tobacco by consumers under 30 years compared to those over 30. Regarding social consciousness, Gen Y exhibits greater concern towards the environment, animal welfare and social issues compared to Gen X and, in turn, Gen Z cares more about these issues than Gen Y – over 60% of consumers below the age of 30 are deeply concerned about climate change.³⁶

European high-end and luxury brands share the sense of urgency and need for change with regards to environmental consciousness and strive to be exemplary. Understood broadly as both a prescription to combat contemporary climate change and a more timeless respect for ecosystems, sustainability represents a central cultural value for most European high-end and luxury brands. In fact, several high-end and luxury brands have become role models in terms of their integration of sustainability and related science-based targets within their core business strategy.

As mentioned previously, high-end and luxury companies share an outsized sense of responsibility for greater environmental consciousness on account of their share of voice. In fact, compared to their mass counterparts, most high-end and luxury companies operate on a

relatively smaller scale, so the magnitude of their volumetric impact on the environment – for better or worse – is relatively modest compared to other industries. Nevertheless, European high-end and luxury brands leverage their visibility among consumers and influence on partners along the value chain, to impact discussion, debate and change regarding corporate sustainability.

It is noteworthy that via their increasing environmental consciousness and integration of sustainability as part of their core business strategy, high-end and luxury brands have and will continue to post improved overall performance. If done correctly, investments in sustainability can:

- Fuel innovation, retain existing and attract new customers, and drive end user demand, resulting in increased revenue.
- Generate cost reductions from reduced resource usage or waste, secure constrained resources, and reduce price volatility, resulting in cost and operational benefits.
- Stay ahead of the regulatory curve, earn regulators' trust and shape future policy, and protect corporate reputation, mitigating risk in the long-term.
- Energise and motivate employees, improving productivity, retention and recruitment.
- Attract investors that fully account for environmental, social and governance (ESG) criteria, and avoid being excluded by traditional investors due to these criteria.
- Indeed, across the high-end and luxury industries the most successful sustainability models are those with ambitious and focused targets, at the heart of – and not separate from – the core business strategy.

RISE OF EXPERIENCE

Customers increasingly prize experiences over physical ownership. This trend has clearly impacted the performance of the global high-end and luxury markets: high-end and luxury experiences (services such as hotels and restaurants) and

experiencing goods (products that are experienced, like cars, wine and spirits, fine food and beverages) have grown at a faster pace than personal goods (high-end and luxury products such as apparel and leather goods) – 9%, 8% and 6% CAGR 2010-18 respectively.

This phenomenon has bolstered the global expansion of European experiencing goods and experiences, or more specifically the export of European food and beverages, and the opening of European food, restaurant and hospitality concepts around the world. At the same time, the rise of experiences of ownership has motivated personal high-end and luxury goods brands to enrich their value proposition through enhanced communication content and services. Over recent years, European personal goods brands have significantly reimaged the quality of in-store service and broadened the programme of events and initiatives they offer out of store to increase physical and emotional engagement with consumers. In doing so, personal goods brands have not only reimaged consumers' experience of personal high-end and luxury goods, but also upgraded the quality of professionalisation of store personnel, increased the quantity and range of retail service providers (from store concept creative agencies to event PR agencies), and expanded the extent to which high-end and luxury stores and their surroundings have become public goods of aesthetic intrigue and experiential engagement.

A further aspect of this shift from high-end and luxury goods to experiences is the greater consumer propensity towards (shared) access over ownership. Consider, for example, the rise of the sharing economy (related to mobility, workspace and accommodation). The high-end and luxury industries have fully embraced this phenomenon of disruption as a stimulus for innovation, fuelling the birth of numerous initiatives and start-ups for shared goods and services, such as car sharing, fashion rental, and house and yacht sharing.

³⁶ Source: "Quantifying Goodness in Luxury" (2015), Bain & Company.

6

POTENTIAL CONSTRAINTS

As much as the enablers highlighted in section 2.4 are central to the ability of these industries to generate value, they are also ‘fragile’ and exposed to historical and emerging threats. Opportunistic operators who dishonestly exploit the aura and creativity of high-end and luxury brands, and exogenous economic dynamics can represent significant threats to the European high-end and luxury industries, not only to the extent that they directly damage high-end and luxury companies, but also in the way they undermine their ability to generate economic value for both the European economy and end consumers. Indeed, such risks can contribute to the loss of jobs, talent and know-how, as well as to the weakening of production clusters and the degradation of city ecosystems.

The global nature of the high-end and luxury market as well as the rise of digital, though central to the success of high-end and luxury companies, increases the risk of opportunistic, if illegal, activities such as parallel trade (exports) and counterfeiting. Such

activities represent a threat to the economic performance of high-end and luxury companies, and expose consumers to lower value returns on their purchases – if not because the product is fake, then because the service and experience is lesser or lacking as compared to that offered by high-end and luxury brands.

Furthermore, global demographic and economic trends put pressure on the inherent high-end and luxury industry *savoir-faire*, founded on the ‘human factor’ and human expertise. Indeed, high-end and luxury companies’ continuous investment in talent and professionalisation also serves to counter the risk of losing this intrinsic know-how, which is key to maintaining standards of quality for the consumer and sustaining professions, work systems and even entire communities.

International economic relations can also have a significant impact on European high-end and luxury companies, given their global footprint. In addition to the risks associated with

exchange rates, tariffs can significantly impact cost structure, which constitutes a potential disadvantage for consumers. Since tariff costs are reflected in window prices, in such contexts consumers often have to pay more to access high-end and luxury, without directly benefitting from the tariffs themselves.

Finally, it is noteworthy that while sustainability plays a central role in both the value system of high-end and luxury consumers and the corporate strategy of many European brands, the costs of sustainable innovation and of redesigning business models in a sustainable manner are significant. In fact, these costs can become burdensome, if not prohibitive for SMEs. The fact that the burden of sustainability – in terms of both cost and innovation – is borne principally by business certainly limits the extent to which high-end and luxury companies can generate benefits for the environment and European society.

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