BCG

THE BOSTON CONSULTING GROUP

# From segmentation to hyper-personalization

**Il Sole 24 Ore – Luxury Summit**

**Milan, May 24th, 2017**

# The evolution of Luxury Markets

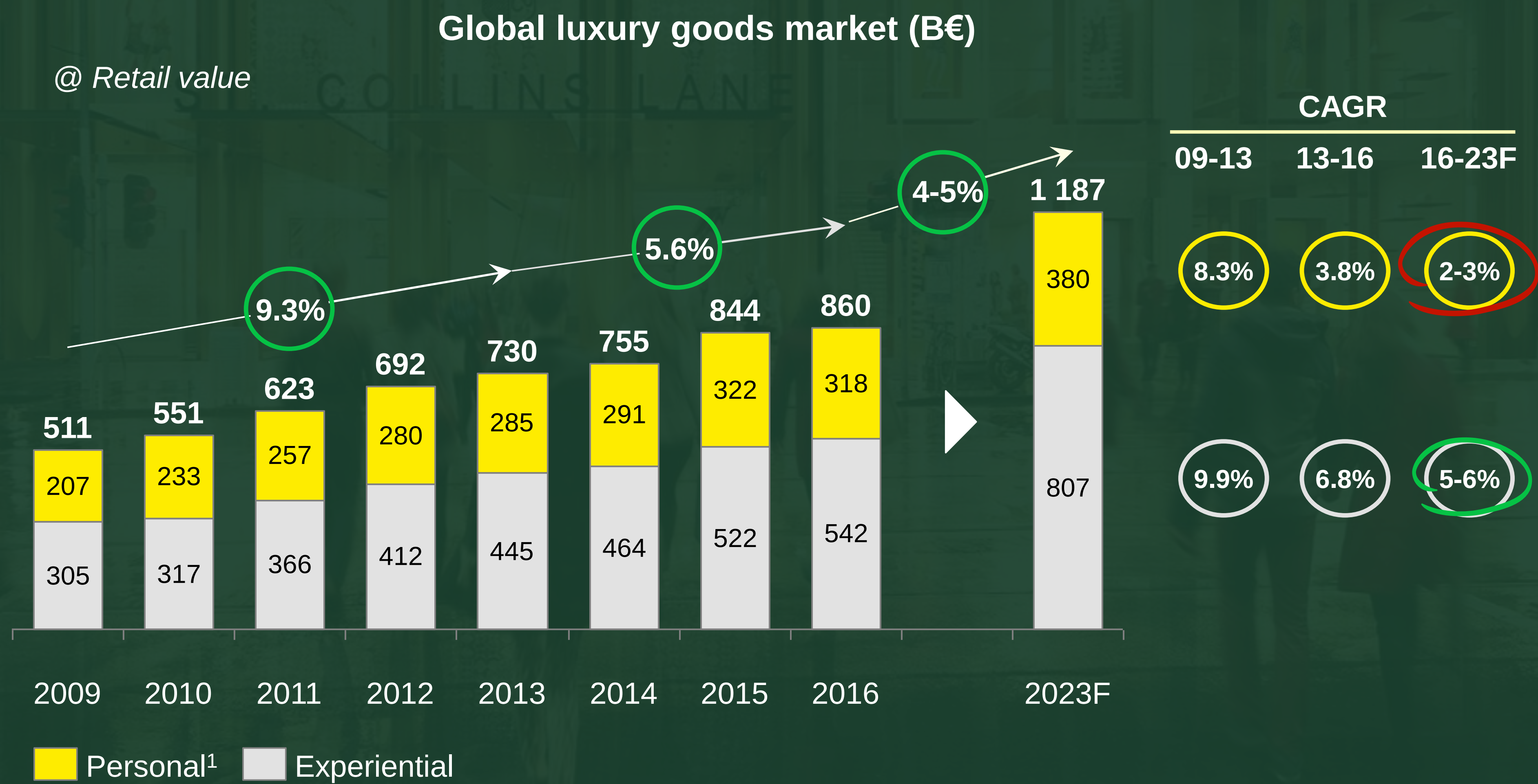
Drive towards profound personalization of relationship between Consumer & Brands

- **An overall Luxury market slowing down in terms of growth**
- **A plafond reached by the physical Retail expansion , with Luxury going more and more omni-channel**
- **The fundamental need for Luxury Companies to understand in a much profound way their Consumers**
- **The demand of Luxury Consumers for more and more customization, of product, of services**

- **Segmentation and targeting as a crucial activity and know how**
- **The new frontier: From personalization for few Consumers to a scalable and broad personalization of the relationship with Luxury Brands**

# Global luxury market slowing down

Especially Personal goods, growth expected to flatten even more in the next years

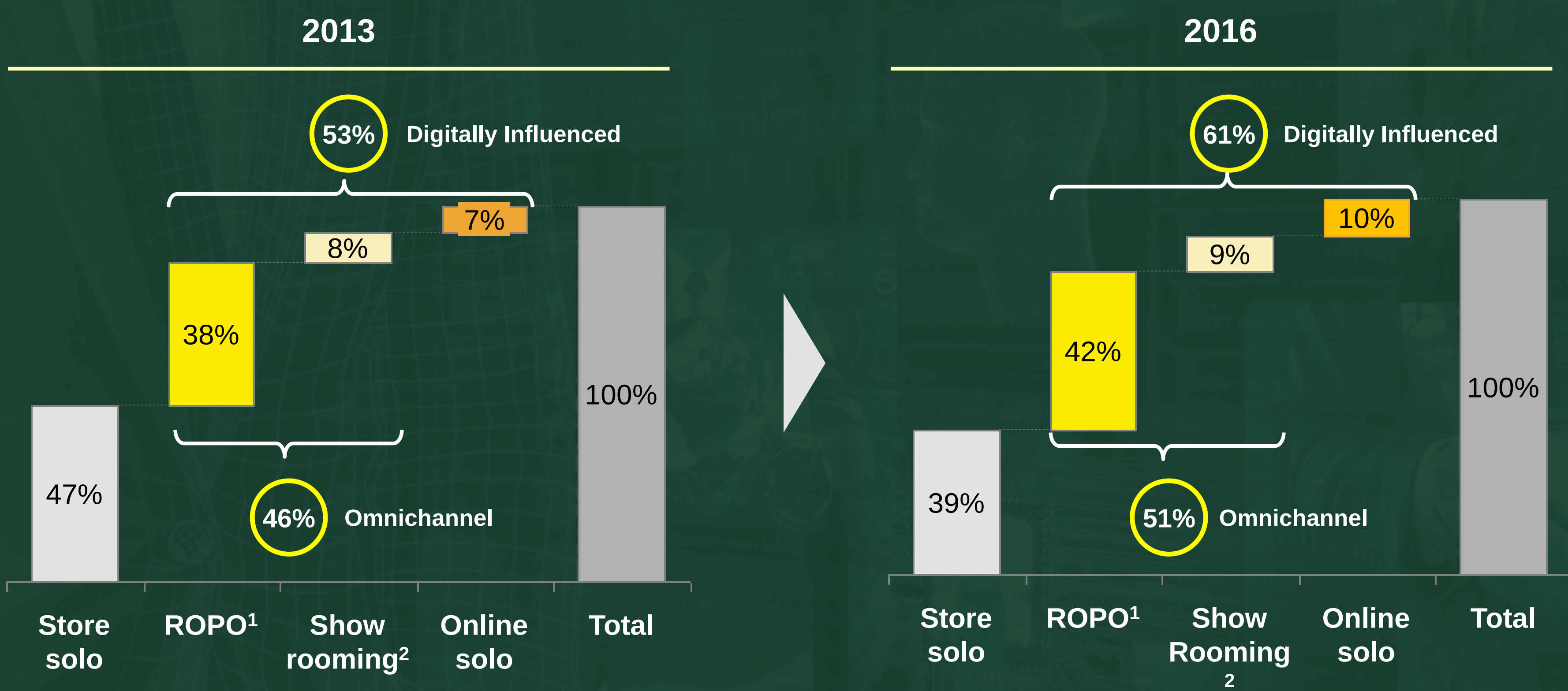



1. Expenditure includes personal luxury (e.g. handbags, shoes, sunglasses and other accessories, clothing) and experiential luxury (e.g. hotels, wine and spirits, exclusive vacations). Excluded cars, yachts, smartphones & tablets
Source: BCG Luxury Market model

# Physical Stores solo sales decreasing and omni-channel the real trend vs. online solo sales

***"Where have you bought your last luxury item? Where have you researched it?"***

*% of respondents on last purchase*



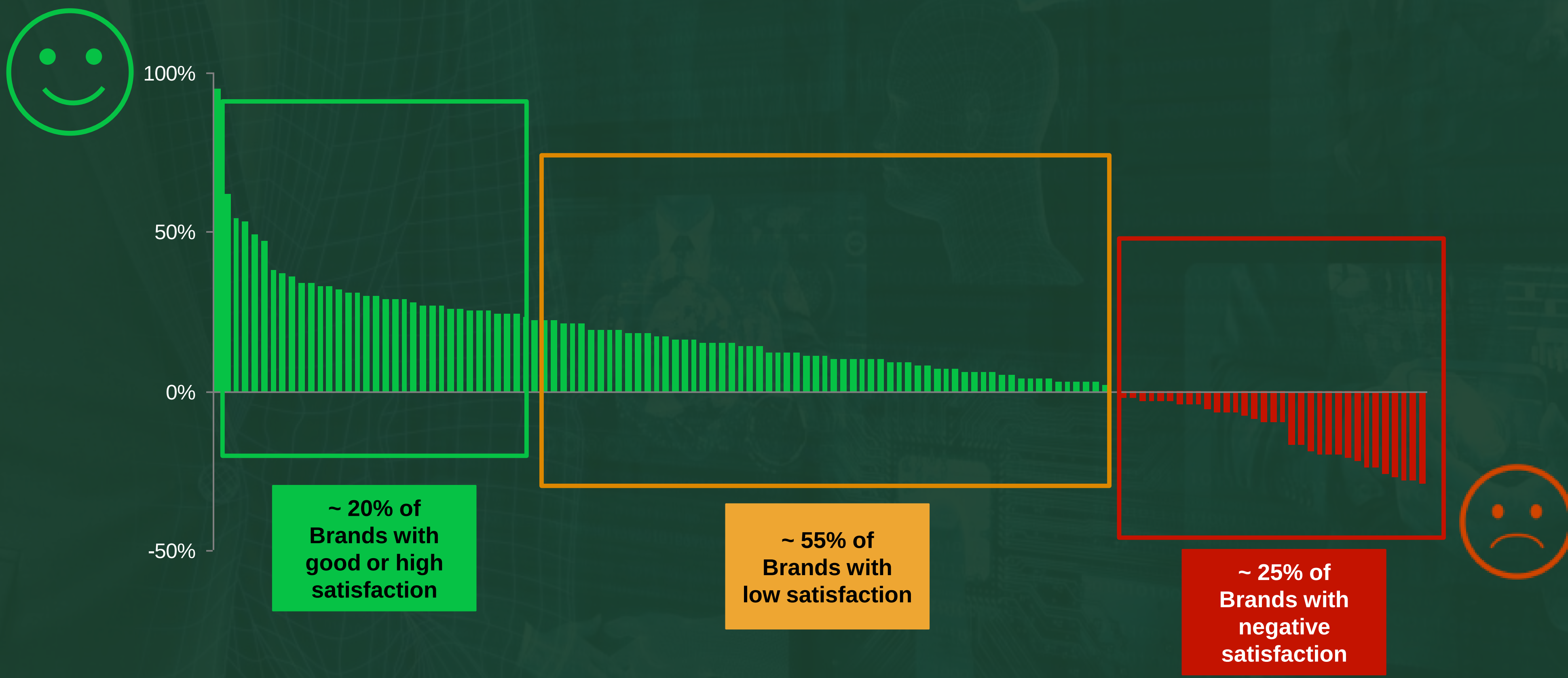

1. Researched Online, Purchased Offline 2. Researched Offline, Purchased Online
Source: BCG 2016 ad hoc study (12,000 respondents in 10 countries)

# Luxury Brands not yet matching Luxury Consumers omni-channel expectations

*~130 brands included in the analysis[1]*

## Luxury Brands' satisfaction distribution (2016)

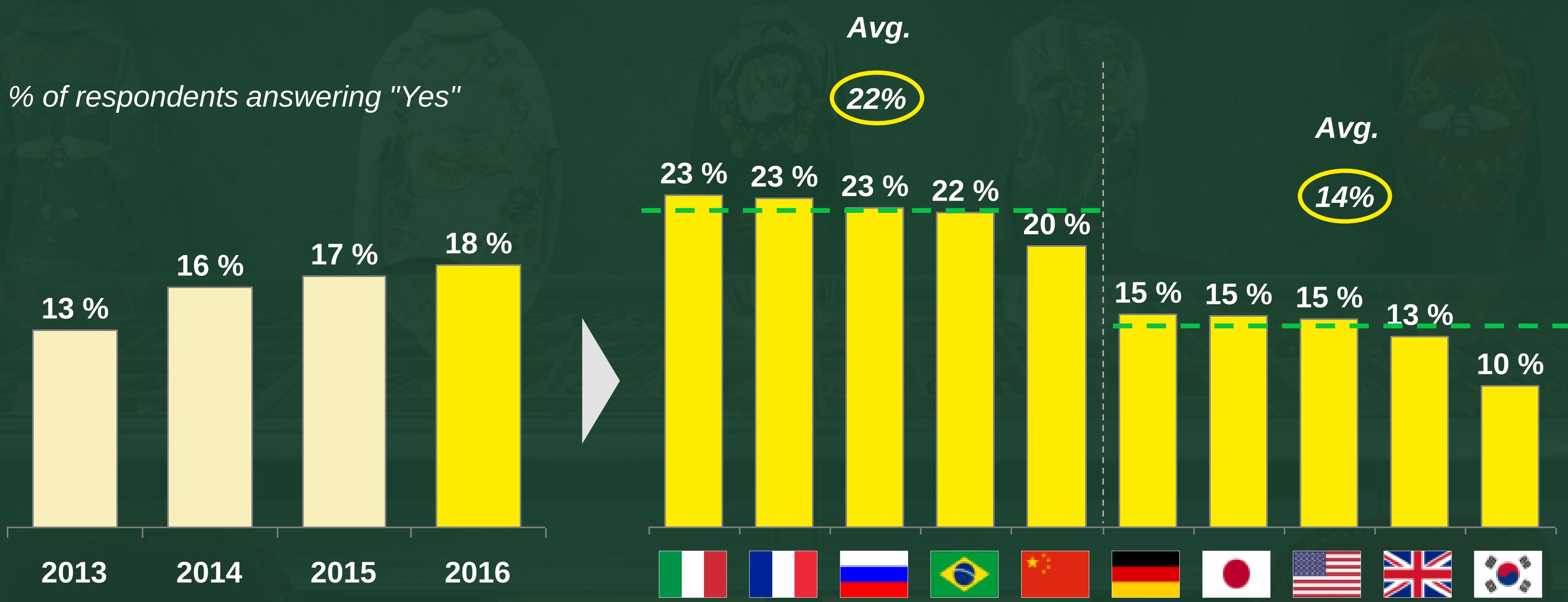
*Omnichannel Satisfaction Index = (People mentioning as the best brand – people mentioning as the worse brand)*




1. Only personal luxury goods, Included only brands with statistical significant observations in total satisfaction
Source: BCG 2016 ad hoc study (12,000 respondents in 10 countries)

# Growing demand for customization among Luxury Consumers

*"Is customization relevant for you when purchase luxury?"*




Source: BCG 2016 ad hoc study (12,000 respondents in 10 countries)

# Customization features of Product and Services most desired by Luxury Consumers

***"Which are the elements of customization that you value the most?"***

*% of respondents considering each customization aspect relevant*

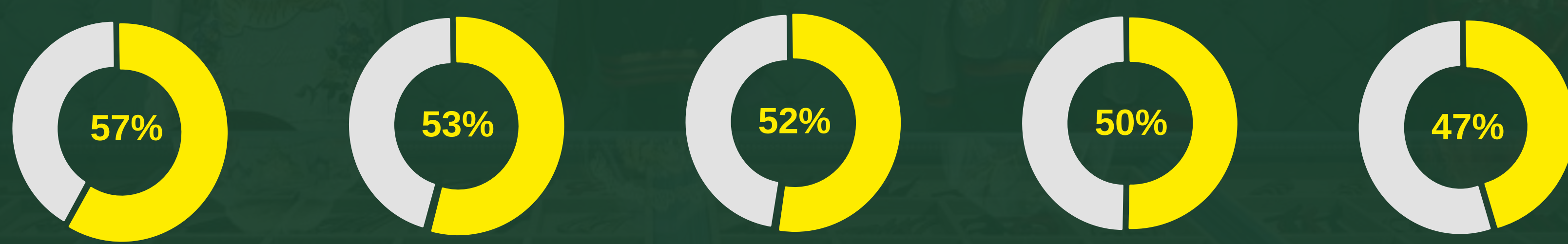
**#1** | **Bespoke products**

**#2** | **Product configuration**

**#3** | **Service**

**#4** | **Made to measure**

**#5** | **Initials or writings**

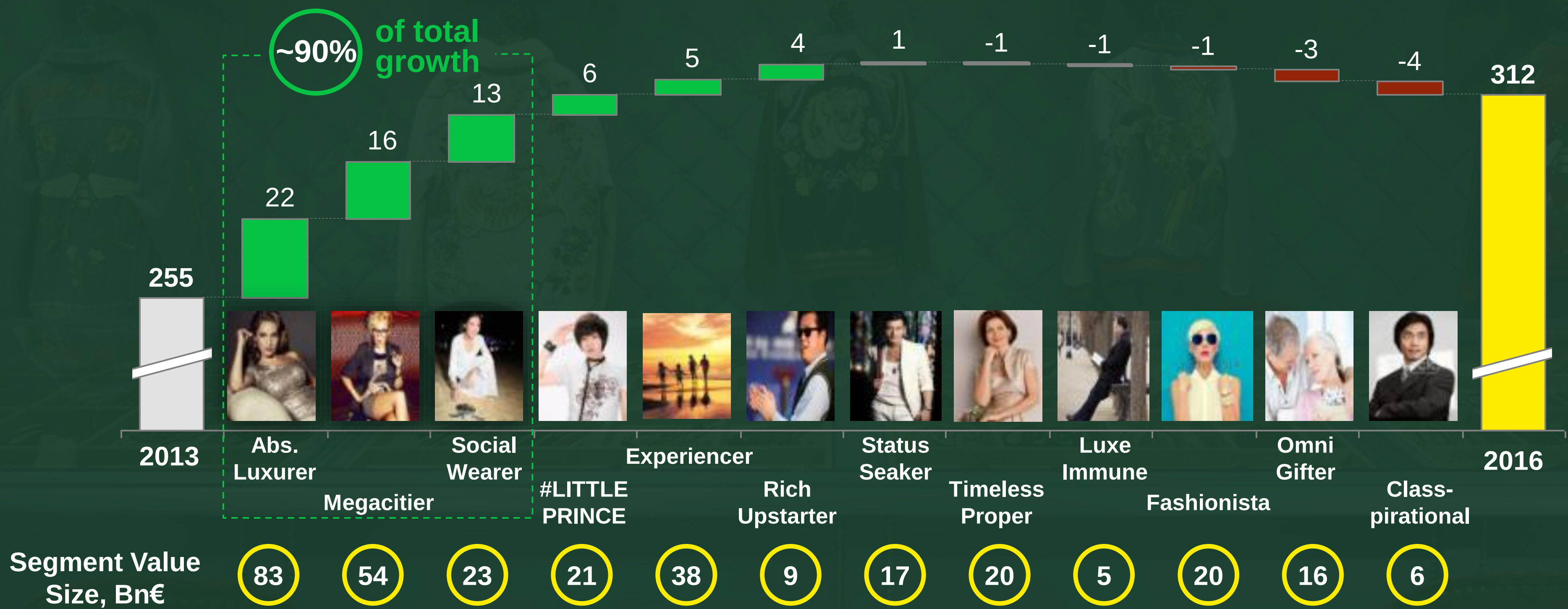



**1st category by relevance**

Note: multiple options answer (ranking of three reasons)
Source: BCG 2016 ad hoc study (12,000 respondents in 10 countries)

# Understanding in a profound way their Consumers is a fundamental need for Luxury Companies

***BCG Proprietary Segmentation ,Contribution to luxury mkt size & growth by segment (2013-2016,** Bn€ **)***




**Segmentation and targeting as a crucial activity and know how**

Source: BCG 2016 ad hoc study (12,000 luxury consumers in 10 countries)

# Example: Brand successfully changing its consumers mix towards more attractive segments

*Example for an high-end personal luxury brand*

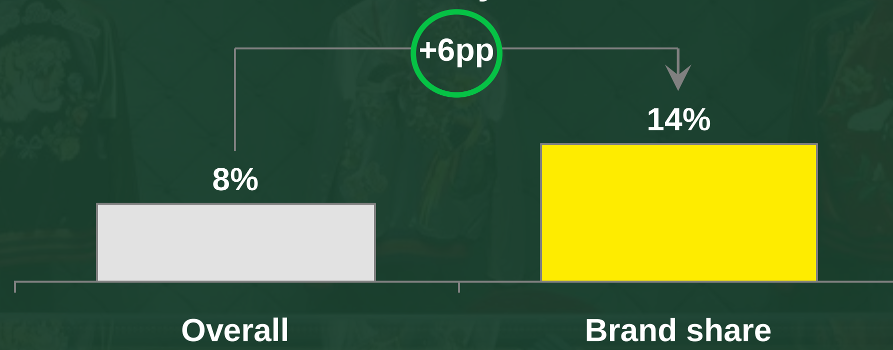
**Segment with highest penetration vs. segment with lowest penetration for a successful and growing brand**

*Segment*

*Share of # of luxury consumers, %*

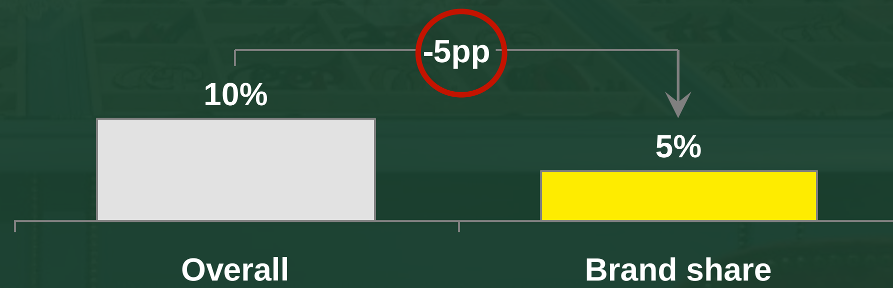
**Absolute Luxurer**

- Avg. Spend **40k€**
- Growing[1] **+11% p.a.**
- Tends to be **very loyal**




**Classpirational**

- Avg. Spend **3k€**
- Diminishing[1] **-15% p.a.**
- **Less loyal** to a brand




**The luxury brand here represented achieved a + 16 % revenue growth p.a. in the last 3 years**

1. Segment Generated Market

Source: BCG 2016 ad hoc study (12,000 luxury consumers in 10 countries)

# What's next? Hyper-personalization

Delivering the right experience to the right customer at the right time

**For the customer, this means...**

- I get a curated, concierge experience
- This company really knows *me...*
  - My interests and preferences
  - My current context
  - My journey with this brand
- I trust them with my information and they respect my boundaries
- Messages are seamless across channels
- I can communicate and they listen

# What's next? Hyper-personalization

Delivering the right experience to the right customer at the right time

**For the company, this means...**

- We engage with individuals rather than segments
- We have a comprehensive, cross-channel picture of each customer
- We can tailor messages and experiences at almost 1:1 level
- Our customers often tell us what they like
- We don't waste resources sending irrelevant messages to customers

# Today it's possible to deliver personalization at scale

*True personalization feels like...*

**... dining at a three-star Michelin restaurant**

**... getting a haircut from the barber who has known you for 20 years**

**... going shopping for clothes with your best friend**

*... Data and technology unlock 1:1 relationships in a scalable way*

**Remember and act on customer preferences, bringing the three-star experience to 3,000 restaurants**

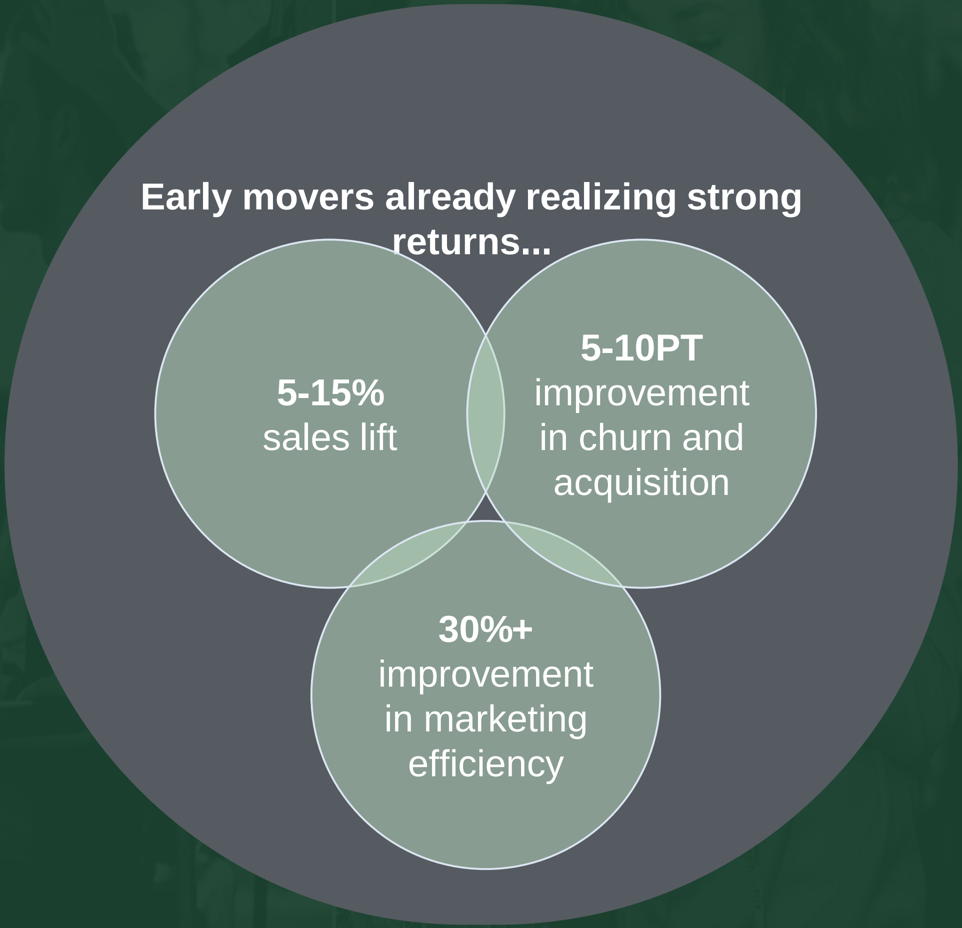
**Make the barber they've known for 20 seconds as knowledgeable as the one they've known for 20 years**

**Provide personalized fashion recommendations for millions of customers – without employing millions of sales reps**

# Personalization yields significant financial impact...

**Value levers**

- Brand engagement
- Frequency
- Ticket
- Customer acquisition
- Marketing efficiency
- Margins / mix
- Pricing precision



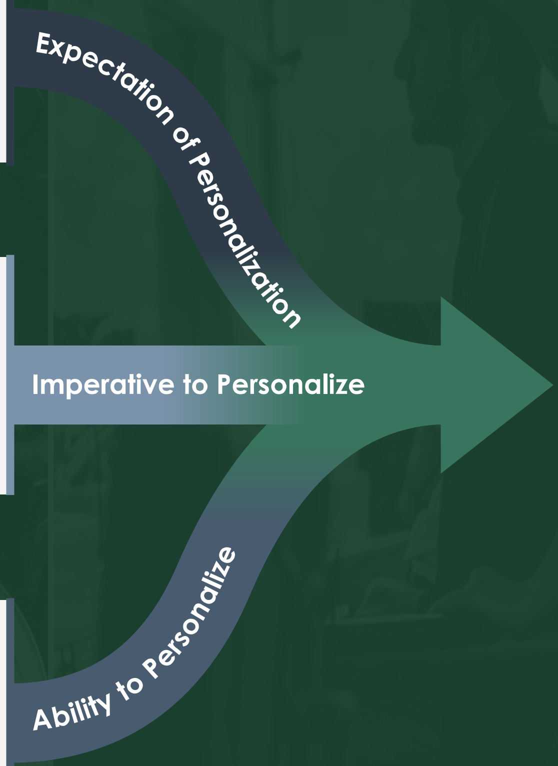
# ...but why now?

Rapid advancement in personalization expectations, competition, and ability

**Consumers** increasingly willing to share information, expecting personalized experiences in return

**Competitors** (online and digital natives) on the verge of taking over customer relationships

**Technology** trends are unlocking 1:1 personalization




**Personalization Today:**
Using technology to tailor messages and experiences at scale

- **Core source of competitive advantage for early movers**
- **Now possible for all companies (not just digital natives)**

# Consumers increasingly seek individualisation and immediacy

| | Consumer in the past | Consumer of the future |
|---|---|---|
| Loyalty drivers | **Brand, Store,** main driver of loyalty | Seeking **superior multi-channel service and a relationship** |
| Shopping behaviour | Targeted and untargeted browsing in store; **online still small** | Interactions often **start digitally**, mostly **mobile** |
| Personalisation | **Mass product offering** ('push') | Seeking for **personalised content** |
| Content | **Content** shared in **traditional mass channels** | Seeks **relevant and entertaining** content |
| Interaction | **Only select interaction** with brands and retailers | **Always on - interacting** with friends, influencers /bloggers, retailers / brands |
| Immediacy | Used to wait and **accepting limited accessibility** | Expectation to have **access whenever and wherever** |
| Convenience | **Effort** required to identify right product | Get the **right product** delivered anytime with limited effort |
| Transparency | Not caring much about **sustainability** | Care about **where and how products are produced** |

# Companies need to deliver on four dimensions to be successful

**Strategic design**

*Personalization in all channels and customer journey steps*

**Data and Analytics**

*Extensive use of real-time data; deep learning and AI analytics*

**Consumer Behavior Change**

**Technology & ways of working**

*Scalable technology platform; Omnichannel 1:1 offering*

**Communi-cation & media**

Tailored
Multi-media
Starting from digital interactions, mostly mobile

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