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# 12 Rules for the 21st Century Luxury Enterprise

**Survive and thrive in the rugged luxury landscape**

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The luxury industry is experiencing unprecedented upheaval. A new landscape demands a reinvention of massive proportions. In 2009, in the midst of tumultuous change for the industry, the Luxury Institute reviewed five years of global proprietary luxury brand ratings surveys, fielded attitudinal and behavioral surveys with wealthy consumers, conducted intimate and candid discussions with dozens of luxury executives at all levels across the world, and studied business models and technological advances across several consumer industries. We have translated our findings and recommendations into 12 Rules for the 21st Century Luxury Enterprise.

Benefiting from the 12 Rules requires not simply a shift along the current innovation curve. It demands an upward shift in the curve itself. For many senior luxury executives, it requires a rewiring of their mental models of the luxury world. While many brands are in rapid transition mode, others continue to resist the inevitable change. Not all luxury brands will make the shift. In rough terrain, the rigid will become irrelevant. We call the new kind of luxury entity the '21st Century Luxury Enterprise', and we have coined the obsolete model 'Old World Luxury Co.'

Old World Luxury Co. (OWLC) is an inflexible enterprise. Its metaphor is a castle with high walls ruled by elites. It is a closed system whose leaders believe that their success depends on their creative genius and the knowledge of what is best for luxury consumers. OWLC is closed to continuous consumer feedback on the theory that it is the rightful curator of luxury taste to the growing number of uninitiated masses of new money around the world. To OWLC, business is a series of zero-sum games. All around them, OWLCs make false trade-offs between creative genius and customer feedback, failing to see the simple reality that most luxury business interactions are optimized by cooperation and collaboration with your customers.

In sharp contrast to OWLC, 21st Century Luxury Enterprise (21CLE) is an open system on a journey to discover what best suits luxury customers, no matter where the innovation originates. 21CLE's working metaphor for doing business is an ecologically-friendly rain forest; an organic and rugged landscape where sustainability depends on rapid, elegant adaptation and collaboration with the surrounding environment. As a commercial entity, 21CLE is committed to optimizing, not compromising, creative genius with customer-centric goals and objectives consistent with its luxury DNA. Yet, it is completely flexible as to how the objectives are achieved.

**Below are the 12 Rules that will enable true luxury brands to survive and thrive in the rugged luxury landscape of the 21st century**

## Rule #1

FROM: Arrogant and snobbish

TO: Welcoming and nurturing

Old World Luxury Co. is arrogant and snobbish. OWLC believes in its dominance over its luxury consumers. It dictates product and service terms to consumers in a one-way conversation. Take it, or leave it, is OWLC's motto. The fact that its products and services are often delivered by untrained, rude, poorly-compensated salespeople who lack expertise and trust is seen as inconsequential. OLWC believes that with a luxury reputation established through the ages consumers will surely remain loyal to its brand.

21CLE is welcoming and nurturing. It meticulously selects, trains, develops and compensates personnel to welcome consumers into its venues and aligns their goals with the customers' needs. 21CLE customers interact with trusted experts who educate them and build long-term relationships. It seeks to understand its consumers so well that it can address their unstated needs, and even anticipate their future needs. Three strong examples of 21CLE behaviors are Nordstrom's unconditional return policy, Lexus's after-sales service, and Ritz-Carlton's ability to use its powerful Mystique CRM system to anticipate customer needs seamlessly wherever they may travel.

## Rule #2

FROM: Brand validates customers

TO: And customers validate brand

Luxury used to be so simple. In the late 20th century many people with humble beginnings worked intelligently and tirelessly to achieve success. Self-made individuals became the vast majority of the world's wealthy. When they achieved significant levels of wealth, this 'new money' aspired to acquire and consume the best luxury goods and services. Once they did so, they felt validated. They were now official members of an elite club, and the brands they consumed announced to the world that they had arrived. It was a unilateral validation process.

In the early 21st century, with the rapid evolution of the Internet, social networking sites such as facebook and twitter, and independent ratings entities such as Consumer Reports and Luxury Institute, there is a transparent conversation taking place online and offline about luxury brands. While many luxury brands fear interjecting themselves into the flow of the conversation because they cannot control it, it is now clear that wealthy luxury consumers now validate brands as much as brands validate them. 21CLEs understand that the only thing they can control, the customer experience, must now be extraordinary, because it is definitely transparent. Luxury brand innovators that have engaged the conversation and validation with their own online communities successfully include IWC and Bang & Olufsen, and Mini Cooper.

## Rule #3

FROM: Price Premium is imposed

TO: Price premium is earned

Luxury pricing was once very straightforward too. Luxury brands delivered superb design, quality, craftsmanship and service in unique and exclusive products. Wealthy consumers understood the value equation and were willing to pay significant premiums for their heritage, pedigree and lasting value. During the last boom period, however, OWLCs reversed the luxury process. They had earned their luxury legitimacy. With demand so high, it was easy to take a sub-optimal product, use their prestigious luxury label, and price it at a significant premium.

The massive discounts required to flush out large inventories in order to survive the 2008 economic tsunami exposed OWLC. Today, luxury consumers have stated in no uncertain terms that they will not be fooled again. They demand the best in all aspects of luxury again in order to pay significant price premiums. Back to basics will not solve this problem. Luxury will have to shift the curve and reinvent the meaning of superb design, quality, craftsmanship and service before luxury consumers believe in price premiums again. IWC is a classic example of a 21CLE that earns its price premium with unique and exclusive products, with limited distribution, superb quality, hand-made craftsmanship, and impeccable service. This brand, rated number one by ultra-wealthy consumers in the 2009 Luxury Brand Status Index survey, and over several years, also uses a leading-edge online community of over 100,000 collectors from around the world to add value and earn its price premium.

## Rule #4

FROM: Command and control management

TO: Team-based innovation, testing and learning

Old World Luxury Co. is a command and control autocracy. In a well-intentioned effort to protect the creative integrity of the brand, many luxury founders surround themselves with a few trusted advisors and insulate themselves, even as they evolve into billion-dollar global brands. Beyond the tight-knit group, the executives on the front-line are expected to execute orders flawlessly with unquestioning loyalty, creating a one-way flow of communication. Innovative ideas from front-line employees, or consumers, rarely, or never, make it to the top due to the lack of a corporate process, or because they are dismissed as insignificant.

The rugged and rapidly-shifting landscape of the 21st century requires two organic innovations in luxury management: the first is team-based innovation that values and leverages the contributions of all the members of the organization; the second is rapid-cycle testing and learning with luxury consumers. 21CLEs understand that dictated business models usually under-perform adaptive business models, especially in turbulent times. As successful tests of its team-based innovations become apparent, 21CLE swarms its resources in support of the winners, and the enterprise takes shape around them. Combined, these two concepts allow the organization to optimize, not compromise, individual creative genius and customer-feedback into a powerful formula for commercial success. Apple is a case study of a brand that optimizes team-based innovation and testing and learning with its highly-adaptive customer-centric culture and its supporting systems.

## Rule #5

FROM: Key assets are bricks and mortar

TO: Key assets are people and relationships

Old World Luxury Co. is reminiscent of the Industrial Age. It is focused primarily on producing, distributing and selling luxury widgets. Bricks and mortar assets such as factories, warehouses, stores and products are its priorities. Employees, especially those who interact with customers, are easily replaced. OWLCs seek to expand bricks and mortar rapidly in order to compete despite ubiquity's damage to their luxury brand equity. Cost reduction and restructuring people are the main tools of choice, especially in times of economic hardship.

The 21st Century Luxury Enterprise is an entirely different organism. For 21CLE, the main objective is creating long-term trust and collaborative relationships with, and between, its customers, employees, suppliers, partners, and society-at-large. The richer, deeper and longer the relationships, they more value the enterprise generates for all of its constituents. These enterprises depend on constituents' ability to reciprocate high loyalty in booms or busts. Their ability to survive, and sometimes, even thrive, while competitors are falling apart all around them, is phenomenal. Though no brand is immune to severe downturns, Nordstrom, Lexus and Ritz-Carlton are examples of enterprises that survive by prioritizing people far ahead of bricks and mortar in order to traverse the rugged economic landscape.

## Rule #6

FROM: Economies of scale

TO: And economies of Customer Share

Since its priorities are brick and mortar assets such as factories, warehouses, stores and products, OLWC is focused on achieving economies of scale through rampant growth. The efficiency-at-all-costs mantra, a remnant of the Industrial Age, overrides the 21st century's requirement of effectiveness over efficiency. OWLC's focus is to wring out cost savings from size and improve margins via relentless cost-cutting regardless of the impact on customer relationships.

21CLE is a different species. It first seeks to achieve effectiveness. Instead of growing large for its own sake, 21CLE seeks to create, broaden and deepen customer relationships over a lifetime knowing that the supreme purpose of an enterprise is to gain and keep a customer for life. It nurtures customer relationships with a laser-like focus on customer retention, cross-selling and up-selling. It also generates loyalty that drives customer referrals. Bessemer Trust is an example of an enterprise that focuses primarily on economies of customer share and has been rated best-in-class over several years in Wealth Management by ultra-wealthy consumers in the Luxury Institute's LBSI survey.

## Rule #7

FROM: Me too products in multiple categories/segments

TO: Unique and exclusive products in few categories/segments of expertise

Old World Luxury Co. began as an innovator in one, or a few, related luxury categories and segments of expertise. Over time, in its blinding search for growth, it has expanded into categories and segments in which it has little or no expertise. It is no surprise, then, that most of its products in the outlier categories and segments are, at best, copycat products that provide no competitive advantage. Consumers quickly learn to discern between true and pretend luxury; they rate these brands and offerings 'neophytes' and are unwilling to pay significant premiums. Consequently, the true economic return on resources deployed on these categories is negative, although few brands ever bother to measure true profitability.

Instead, 21CLE recognizes that a tightly-knit focus on a few categories and segments is the key to success. It understands that this is a critical difference between luxury brands and premium and mass brands. Therefore, 21CLE is highly selective and surgical with regard to what categories and segments it chooses to enter. Luxury consumers, recognizing the highest quality of design, quality, craftsmanship, and service covet these 'neuro-surgeons' of luxury and are willing to pay significant premiums for lasting value. In severe economic downturns, these brands can gain market share since there is a flight to authentic luxury. IWC, Hermes, Chanel, Graff, Zegna, Brioni, Buccellati, Harry Winston, and Christian Louboutin are examples of truly focused luxury experts, as rated by wealthy consumers.

## Rule #8

FROM: Customers adapt to business processes

TO: Business processes adapt to customers

OWLC's business processes are dictated solely by the company. Sales, repair, refund and exchange protocols are determined with little, or no, customer input. Well-intentioned executives determine what is in the best short-term interests of the company. Often, this short-term thinking has a destructive effect on long-term customer relationships. More often than not, business processes are stacked in favor of the company and punish all customers for the sins of a few.

Instead, 21CLE continuously adapts its business processes to feedback from customers. Customer input and feedback enter into the design of all critical business processes. Testing and learning its way through business processes, 21 CLE aligns its own interests with the interest of its customers so that employees have no inherent conflicts of interest in serving customers. One glowing example of the execution of this concept is Nordstrom. At Nordstrom, if the department manager is not around to approve a decision, the salesperson can decide on the spot. In fact, salespeople are able to decide what is in best interests of customers at all times based on company values and good judgment. Nordstrom is also revered by customers in Luxury Institute surveys for its simple and powerful unconditional money-back return policy.

## Rule #9

FROM: Customer dialogue and metrics are feared and ridiculed

TO: Customer dialogue and metrics are embraced and acted upon

Most luxury brands focus on Industrial Age product-centric metrics such as sales per square foot and inventory turns. Customer metrics are not viewed as a priority. In poorly-performing luxury enterprises, customer feedback is often adamantly opposed for fear of having insiders and outsiders discover the truth regarding poor service levels. In many other luxury firms there is a great deal of positive conversation around customer metrics, but neither the required culture, new skills, nor the needed technological resources are ever put in place to deliver the customer insights to transform the enterprise into a customer-adaptive organism.

21CLE understands that customer dialogue and metrics are vital for the business, allowing the business to identify problems and opportunities and to respond quickly. 21CLE uses customer segmentation beyond demographics and attitudes; they use behavioral segmentation, particularly in understanding the lifecycle of the customer's relationship to the organization. Are they new, tenured, or a recovered customer? In addition to conducting frequent customer experience surveys, 21CLEs generate customer retention, cross-sell, up-sell metrics, and referral metrics across channels and time. Importantly, they can identify customer profitability by segment and individual. They also obtain ratings and reviews from trusted sources. Customer dialogue and metrics allow the enterprise to identify multiple opportunities for testing, learning and swarming of resources in almost real-time. Ritz-Carlton and Lexus are companies that are highly advanced in real-time customer dialogue and metrics that allow rapid adaptation, especially in severe economic downturns.

## Rule #10

FROM: Disconnected customer interactions

TO: Seamless customer journeys

Shop in two different stores in the same city of OWLC and you will get dramatically different customer interactions. Shop in different stores in different cities in the same country and the differences will multiply. Shop in different world capitals with OWLC and the differences will become exponential. Policies and service experiences will be dramatically uneven. OWLC sees nothing wrong with these disconnected interactions, arguing that the reason these differences in service exist is their ability to adapt to local cultures.

21CLE has a different approach. This organism has a corporate culture of delivering seamless customer journeys. The customers are recognized and treated to the personalized experience they expect wherever they may shop or stay globally. The history of their journey with the brand is available to all points of sale and service and their purchases and preferences are used to make them feel at home across the world. The culture, people, skills, processes and technology combinations required to create seamless customer journeys are a way of life for 21CLEs. For examples of leaders in this practice, luxury brands can look to Ritz-Carlton and HFS as brands that optimize resources, especially people, to instantly know where customers are visiting within their global networks and rapidly adapt to deliver seamless customer journeys.

## Rule #11

FROM: Traditional luxury marketing

TO: and word-of-mouth, referrals

To date, OWLC has relied mostly on traditional luxury marketing such as print, trunk-shows and sponsorships. Many luxury executives are still trying to embrace the new reality of the Internet, and all its derivative forms of marketing such as banner ads, videos, search engine marketing and optimization, and social networking. While a novel idea today, online marketing will become traditional luxury marketing in the next few years. Luxury brands will have to not only match the current skills of best online marketing practitioners, but to exceed them.

As they adapt rapidly to all the changes that are happening in the midst of this severely damaged global economy, 21CLEs understand that their most critical form of marketing will be their own customers' endorsements. Word-of-mouth and referrals are the ultimate form of marketing. It is virtually free; a by-product of having created seamless customer journeys. Many customers who are pleased with the experience will refer the brand to friends and family. A few will become staunch advocates, and this time their voices will be amplified exponentially via online and offline social networks. Ritz-Carlton is a brand that recently achieved the Platinum rating from the Luxury Institute's new Seal of Customer Approval certification program (LISCA) by significantly exceeding the requirement that at least 86% of recent customers be willing to recommend the brand to people they care about most in an independently verified statistical survey. This kind of authenticated endorsement from real customers will become the norm in a world cluttered with brand noise.

## Rule #12

FROM: Socially disengaged

TO: Socially responsible

OWLCs have yet to understand the rewiring of the luxury consumer brain stimulated by the global economic downturn. Countless unethical and illegal activities have occurred, especially in financial markets, and many wealthy consumers have been shocked and angered by their own loss of wealth and the even more negative effects on those truly in need. Combined with a growing awareness of environmental issues, these events have made most wealthy consumers much more socially aware, and many have become truly socially conscious.

21 CLEs recognize the need to adapt quickly to the social responsibility wave. They understand that in the 21st century, brands will need to be ethical and transparent in deeds, and in the minds of their constituents. They will have to be charitable in new ways that truly make a documented difference to those intended to be helped. They will also have to earnestly begin the journey of being eco-friendly across their entire value chain. For luxury goods that are not a necessity, it will be especially critical to prove social responsibility at the highest levels. While it may not be a critical purchasing driver for luxury consumers today, a luxury brand's social conscience will be in plain view, and luxury brands must adapt, or face serious consequences.

## 12 Rules for the 21st Century Luxury Enterprise

At the recent Luxury Interactive conference held by Worldwide Business Research in June 2009 in New York, we polled luxury executives from leading luxury brands on the relevance and importance of the 12 Rules. Below are some highlights of our findings:

- All luxury executives feel that all of the 12 Rules are relevant to the success of luxury enterprises going forward.

- The three most important rules for success as rated by luxury executives are: Seamless Customer Journeys (19%), Customer Dialogue and Metrics are Embraced and Acted Upon (18%), and Key Assets are People and Relationships (15%).

- The three most difficult rules to implement will be: Seamless Customer Journeys (30%), Customer Dialogue and Metrics are Embraced and Acted Upon (17%), and Business Processes Adapt to Customers (15%).

- One-on-one conversations with luxury executives revealed that the cultural changes, people, skills, and technological resources required to implement the 12 Rules will be challenging for many luxury brands and will cause some to fall short.

While the order of priority and difficulty of implementing the 12 Rules can be debated, one cannot deny that the luxury industry is at a defining moment in its history. For centuries, the luxury industry has essentially dictated tastes and terms to its customers. No matter what your views are on transforming into a customer-adaptive enterprise, engaging in the online conversation, creating seamless customer journeys, or embracing social responsibility, it is impossible to picture the luxury industry successfully traversing the rugged landscape by using a strategy of ‘back to basics.’

Leaders of the luxury industry, you need to imagine the future as you look into the faces of young and eager MBAs who desire to make a career in the industry. Picture them as the leaders in the industry 20 years from now looking back at you, and your leadership, in these times of dramatic change. Will your legacy and reputation be a case study in successful transformative leadership, or a case study of dismal failure to adapt to the tumultuous first decade of the 21st century? That is the opportunity, or the burden, before you. While you may have had a glowing career up to 2007, that is now a part of ancient history. It is the choices that you make in the next several months that will determine your legacy.

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No entity in the world conducts more independent and actionable research with more wealthy consumers, on more critical topics and more luxury brands, than the Luxury Institute. The Institute delivers a portfolio of quantitative ratings and research, qualitative research, and a comprehensive set of consulting services that deliver profitable solutions to the world's leading luxury goods and services professionals and brands.

## Voice of the High Net-Worth Consumer Research

### Luxury Brand Surveys

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### WealthSurveys

The Luxury Institute conducts proprietary quantitative research with several segments of wealthy consumers in order to examine and validate critical issues, opportunities, and best practices.

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