

A woman with dark hair, wearing a dark sleeveless top, is sitting on a sofa and looking down at her smartphone. She is holding a credit card in her other hand. In the foreground, there is a stack of several white, rectangular boxes, likely luxury goods. The background is softly blurred, showing a patterned pillow and a wooden floor. The overall lighting is warm and intimate.

PARTNERSHIP

Fashion and finance: The new economic realities of luxury consumers

VOGUE BUSINESS FOR RAKUTEN

Record-breaking inflation rates have sent some of the world's largest economies tailspinning into chaos. The US witnessed a 40-year high inflation at 8.6 per cent this summer, whereas in the UK, inflation hit double digits.

Deeply disturbing the already fragile consumer confidence, the new macro realities have left luxury consumers with three distinct courses of action — cut down on designer dreams, do nothing, or exploit the fall of the pound (which hit a historical low versus the US dollar in September 2022) by indulging in pre-holiday splurging. In this whitepaper, *Vogue Business* partners up with Rakuten — the rewards-based e-commerce leader focused on helping retailers drive loyalty through strategic cashback incentives — to investigate the moods and wallets of luxury shoppers while the global economy braces itself for potential downturn.

Macroeconomic mayhem: What are luxury shoppers up to?

As the retail sector enters its golden holiday quarter, consumers seem to be tightening their share of wallet towards non-essential spend following unprecedented levels of inflation. In the twelve months ending August 2022, the Consumer Price Index (CPI), a measure of inflation, hit 8.3 and 9.9 per cent in the US and UK respectively. In the Eurozone, CPI peaked at 10.0 per cent in

September this year, up from 9.1 per cent in the month before.

Online holiday shopping in the US will potentially see its lowest growth in sales this year since 2015, according to a recent study by Adobe Analytics as reported by *Reuters*. With American consumers feeling the pressure of rocketing inflation and rising interest rates, online sales in November and December are predicted to jump by mere 2.5 per cent hitting \$209.7 billion, compared to the 8.6 per cent increase witnessed a year ago. Black Friday sales are likely to rise by just 1 per cent and Thanksgiving figures are expected to dip by 1 per cent, further rationalising the modest growth, the study reports. In Britain, consumers are predicted to spend £4.4 billion less on non-essential shopping during the Christmas season this year, down by 22 per cent from the same quarter in 2021, according to a study conducted by Retail Economics as reported by *Drapers*. In contrast, this is almost double the plunge observed in other European countries (14 per cent in Spain, 12.3 per cent in Italy, 11.5 per cent in France, and 9.4 per cent in Germany).

Although the expected drop in spend is natural among mainstream masses, luxury shoppers do enjoy slightly higher levels of cushioning against rising gas prices, mortgage rates and potential crashes in the housing market. As explained by Renée Paradise, senior



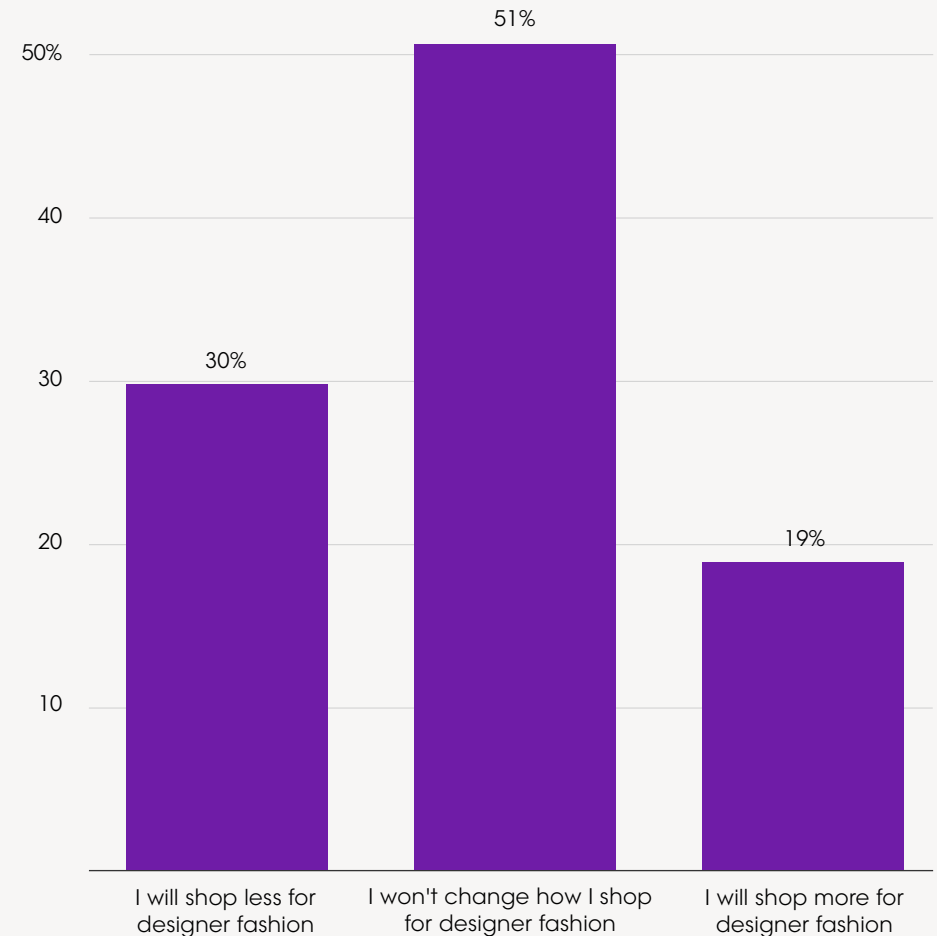
vice president of digital business and customer strategy of Neiman Marcus Group: “(At Neiman Marcus, we) serve a highly affluent, high-quality customer who is resilient in economic cycles”. According to a recent consumer survey by *Vogue Business* and Rakuten, more than half the luxury consumers in the US say they are unlikely to alter their spending on designer items in the next twelve months, despite any potential price hikes, thereby reinforcing the economic resilience of high-end shoppers amid economic uncertainties.

However, while most luxury shoppers can afford to continue indulging in designer deals, not all are immune to macroeconomic mayhem. Thirty per cent of luxury shoppers in the US said they would consider slashing their designer spend, with around 20 per cent anticipating a switch to less expensive products and brands over the next year. American luxury consumers are also likely to be more discount savvy, with 46 per cent expecting to hunt for sales and discounts to fund their designer purchases. “Historically, we’ve seen off-price thrive during previous periods of uncertainty. During these inflationary times, the value that off-price offers the consumer is unparalleled,” says Sara Griffin, senior VP of marketing at Saks Off 5th. “We start to see customers trade down from full-price stores in search of a discount.” In the UK too, for example, the sharp U-turn from the abolishment of tax

cuts for high earners, following criticism of former chancellor Kwasi Kwarteng’s mini budget, highlighted potential luxury shopping cuts among low- and mid-tier luxury spenders.

While the majority of US luxury shoppers either reported cutting back or no anticipated change in luxury spend over the next 12 months, 19 per cent said they would leap to more expensive brands and products, irrespective of potential price increases. With the pound crashing hard against the dollar, and 57 per cent of American luxury consumers expecting to travel abroad in the next 12 months, luxury consumers from the US could potentially be looking at the UK as a shopping haven. As reported by WatchPro, the fall of the pound has whipped up mega discounts valuing as much as 19 per cent for Rolex and other luxury timepieces, enticing luxury shoppers from the US for a destination Christmas in London. According to the report, given the plunge in sterling, “a steel Rolex GMT-Master II that sells for \$11,289 in the US can be purchased for \$9,293 in the UK with US dollars, a discount of 18 per cent,” and “a Rolex Cosmograph Daytona in white gold that sells for \$32,635 in the US, including 7 per cent sales tax, could be purchased for \$22,444 in the UK in US dollars when including the VAT rebate, a 31 per cent discount.”

Expected changes to US luxury shoppers' spending habits over the next 12 months



August 2022, n=1042

Breaking down the luxury budget

Luxury's share of wallet varies by demographic

30%
of men increased their budget for fashion in the last six months - **double the number of women at 15%**. Meanwhile,



75%
of millennials and Gen Zs either increased or reported no change in their luxury budget. Within this group,

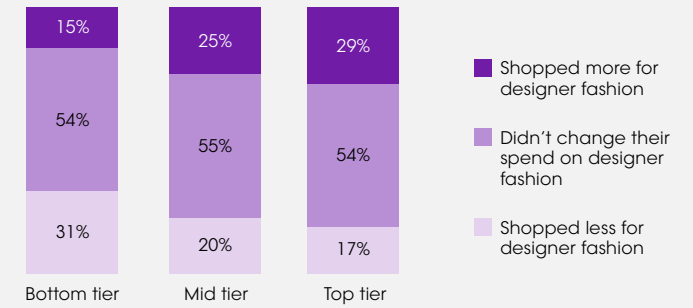
32%
of women cut back on their fashion budget.

1 in 4
shoppers slashed their luxury budget, while **about half reported no change** in budgeting over the last six months.

41%
of millennials and Gen Z respondents reported increasing their fashion budget.

Gap between top and bottom tier spenders is growing

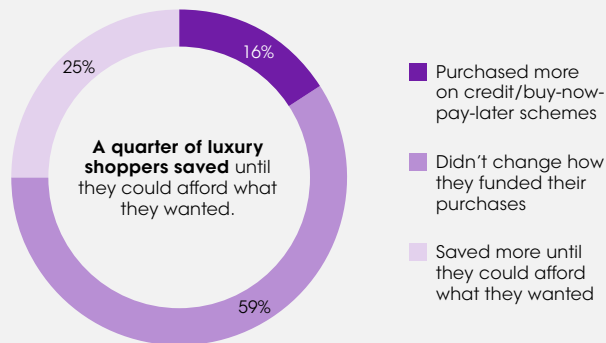
Luxury spend across top, mid and bottom tier shoppers



Top tier spenders (>\$5k p.a.) continued to spend more, while bottom tier (<\$2k p.a.) spent less, signalling potential drops in sales of entry-level luxury products, which are largely what lower tier luxury shoppers spend on.

Saver and discount mindset for the win

Changes in sources of funding of luxury purchases



39% of shoppers waited for sales or discounts to make designer purchases.

Macroeconomic realities are compromising luxury brand loyalty

Tendency to switch brands is skewed towards high-end brands



37% switched brands or products hinting at diminishing customer loyalty.

While majority of luxury shoppers reported no changes in choice of brands or products, **about 37 per cent switched brands or products in the last six months signalling the need for brands to bolster up on loyalty programmes.**

Mid-market players taking the lead

Top 10 luxury brands - 12 months ago

Top 10

1. Ralph Lauren
2. Gucci
3. Calvin Klein
4. Coach
5. Dior
6. Michael Kors
7. Tommy Hilfiger
8. Prada
9. Chanel
10. Burberry

Mid-market players such as Coach, Michael Kors and Tommy Hilfiger topped the charts, giving a fair fight to core luxury players, mirroring the cut-backs in luxury budgets and consumer shifts to less expensive brands.

Q. Which of these designer fashion brands have you bought apparel/accessories from in the last 12 months? Rank 1.

Amid the economic uncertainty, there is one thing high-end brands can be assured of — the impact of the crisis on consumers' luxury budget is varied, not uniform. For instance, in the past six months, about one in four US luxury consumers slashed their luxury budget, with more women (32 per cent) making the cut. While the majority reported no changes, 23 per cent of luxury shoppers increased their share of wallet for designer items, with 30 per cent of men citing the hike — double the proportion of women. About three-quarters of millennials and Gen Zs either increased or reported no change in their budgeting for designer splurges. Older generations, on the other hand, maintained a tighter grip on their wallets. Given such variations in budget across demographics, designer brands will have to let go of the 'one size fits all' approach.

As observed with most economic downturns throughout history, changes in consumers' luxury budgets over the last six months seem to be echoing a widening gap between the top- and bottom-tier spenders. Those at the top (who spend more than \$5,000 per year on designer fashion) continued to spend more, with 29 per cent reporting a hike in their share of wallet for luxury — almost double the bottom-tier spenders (spending less than \$2,000 per year) citing an increase. Conversely, consumers in the bottom tier spent even less, with 31 per cent reporting a dip in

their designer buys, compared to 17 per cent in the top tier.

Personal income was the main source of funding for designer purchases — true for 68 per cent of luxury consumers in the US. Top-tier spenders over-indexed on funding via personal income, with more than 75 per cent relying on their disposable earnings, again emphasising their economic resilience. Following personal income, consumers mainly shopped on credit (47 per cent) and savings (41 per cent). The number of credit shoppers was higher than those spending savings in the bottom tier, possibly as a result of indulging mostly in affordable luxury as opposed to consumers in the mid and top brackets, who would potentially want to put funds aside for high-value assortments. Around one in four luxury shoppers in the US used loyalty points to fund their purchases, mainly in the upper spending tiers, signalling not just high levels of brand loyalty, but also suggesting strong retention strategies put in place by brands for high spenders.

The uneven impact of the financial ballgame is reflected not only in how much luxury shoppers set aside to splurge, but also what they splurged on. Over a third (37 per cent) of luxury shoppers switched brands or products in the last six months, mirroring changes in their budget, and indicating a sizable shift in brand loyalty.



Conquering loyalty

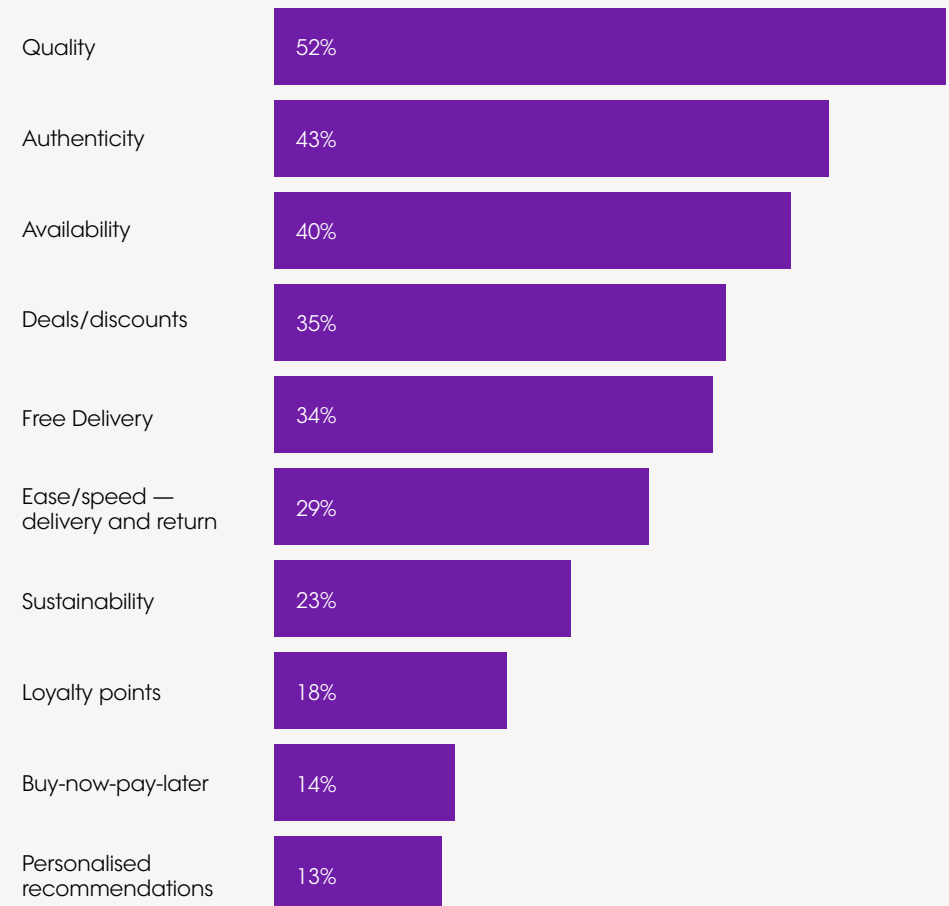
With consumers oscillating across price segments, macro-economic realities are making it imperative for brands to focus on customer loyalty. Conquering loyalty, however, presents different challenges, including a densely saturated loyalty landscape and plummeting engagement levels. An average customer in the US, for example, is registered with 17 loyalty programmes, according to a study by consultancy [McKinsey and Co.](#) The challenge is further aggravated by low engagement levels, with less than 50 per cent constituting active memberships. "With loyalty up for grabs, retailers investing in discounts and coupons as a form of discovery have the right idea," says Kristen Gall, president at Rakuten Rewards. "But, because there are so many options for consumers to save, simply offering a financial incentive isn't enough. Retailers need to be investing in rewards strategies that provide the value consumers are looking for in the short term, while pulling those shoppers into the brand's ecosystem where they can cultivate a longer term relationship."

For the luxury consumer, loyalty extends beyond conventional deals and points. Quality and authenticity, for instance, take the front seat as key purchase influencers among American luxury shoppers. More than half the consumers surveyed cited quality

as a key consideration for spending, accentuating core luxury values even in times of economic uncertainty. Authenticity also emerged as an important loyalty builder for over 40 per cent of luxury shoppers, potentially more so for pre-owned luxury consumers. Albeit from a smaller base, the proportion of luxury resale shoppers in the US is expected to hike by 54 per cent, with one in four women anticipating they will invest in pre-loved products over the next 12 months. "The foundation of our business is built on trust... that what is being offered on our marketplace is authentic and priced correctly," says Orr Shakked, chief marketing officer at The RealReal. The secondhand luxury frontrunner offers an early access loyalty scheme driven largely by the company's stringent authentication practice. "The Consignment Concierge team will happily share information on the authentication process, where an item is in the process, how and why an item is listed at a certain amount, all the way through to the commission payout. This team is designed to help boost trust in consumers who are apprehensive to buy and sell secondhand."

While the factors that drive luxury purchases are largely indistinct across genders, men seem to prioritise ease and speed of delivery slightly more. In the US, free delivery ranked higher, particularly for older customers (49 per cent) and low-tier luxury spenders (43

Factors influencing US luxury shoppers' luxury purchases



August 2022, n=1042

per cent). For comparison, 34 per cent of all luxury shoppers were keen on free delivery. Although not critical to all luxury customers yet, personalisation was a purchase influencer for audiences including men (16 per cent), millennials and Gen Zs (18 per cent), and top-tier spenders (18 per cent) against the average (13 per cent), suggesting the opportunity to expand personal shopping and concierge services to retain these shoppers.

Ever since the onset of the pandemic, online personalisation is slowly emerging as a loyalty driver, with luxury giants across the world championing high-tech personalised experiences. Coupled with product availability (desired by 40 per cent of luxury shoppers), personalisation can enable brands to optimise ROI from their digital touchpoints and drive differentiation in the highly saturated loyalty landscape. The Neiman Marcus Group, for example, announced plans to unveil its new Neiman Marcus app, which places its high-touch 'style advisor' at the centre of customer value, enabling shoppers to discover new arrivals, recommendations, inspiration and promotions by constantly learning from shopper behaviour. "Modernising our loyalty programme is a key initiative on the horizon that we believe will help bring new customers into the fold of the programme while continuing to deliver best-in-class service to our long-time customers," explains Neiman Marcus's

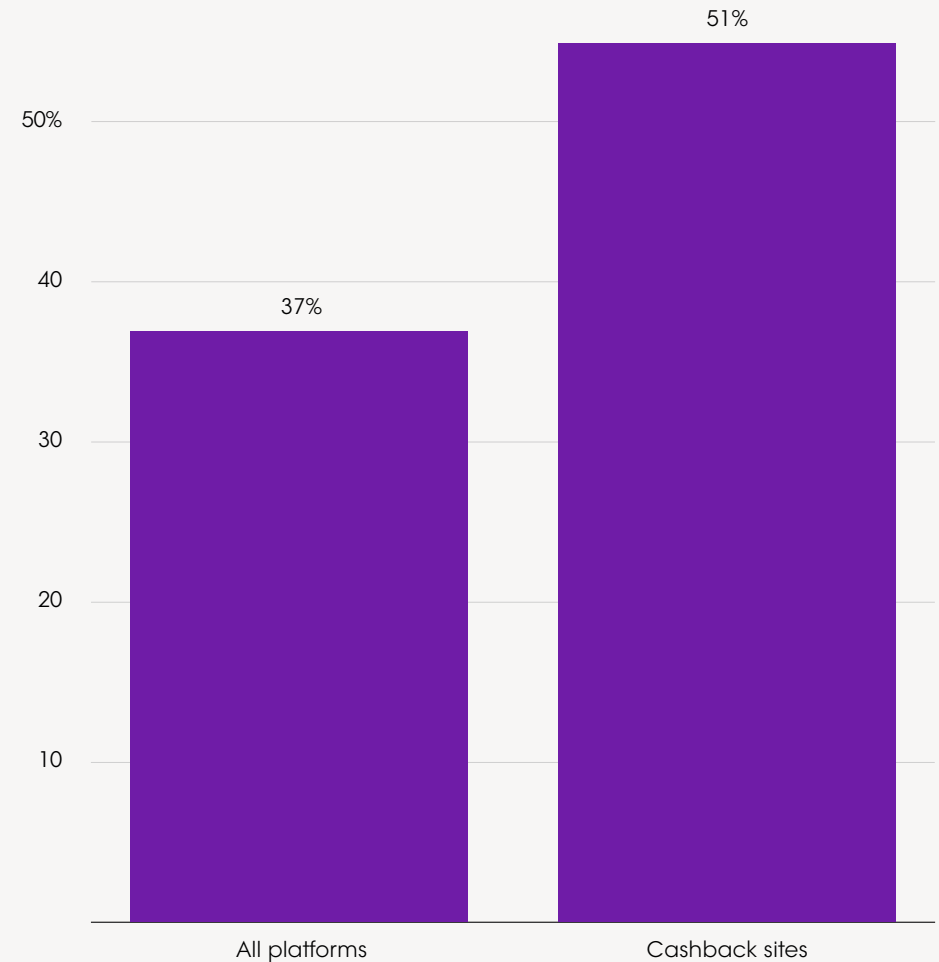
Paradise. "We continue to evaluate ever-changing customer needs to deliver the experience our customers expect and the rewards they look for. This approach also helps us to be competitive within the market."

Designer deals: Gearing up on discovery

Although over a third of all American luxury shoppers switched brands or products in the last six months, the majority of consumers reported no changes in their preferences, suggesting high levels of loyalty. Evidently, luxury frontrunners have managed to cultivate loyalty across platforms, stores and comms. As Paradise puts it, "(We are) meeting our clients (at multiple touchpoints) where they are already shopping with us and layering on value-adds to make their shopping experience even better." However, while advocating core luxury values and bolstering experiential loyalty can help brands navigate the saturation in loyalty programmes and overcome low engagement levels, there is another challenge brands need to address: discovery.

A key step to being found by shoppers is to be available in the right place at the right time. For designer labels keen on being discovered, this would mainly be online, as suggested by the 60 per cent of luxury shoppers in the US who

US luxury shoppers' propensity to switch brands



August 2022, All platforms n=1042, Cashback sites n=123

cited online platforms (including brand websites, online department stores, pureplay retailers, online resellers and cashback sites) as their first preference for high-end purchases. About a third of the consumers surveyed shopped online for designer fashion at least once a month. Online touchpoints are mainly popular among female shoppers and younger cohorts, with 35 per cent and 38 per cent shopping online at least once a month, respectively. Although shopping less frequently than women, the majority (42 per cent) of men shopped online for luxury at least once a quarter.

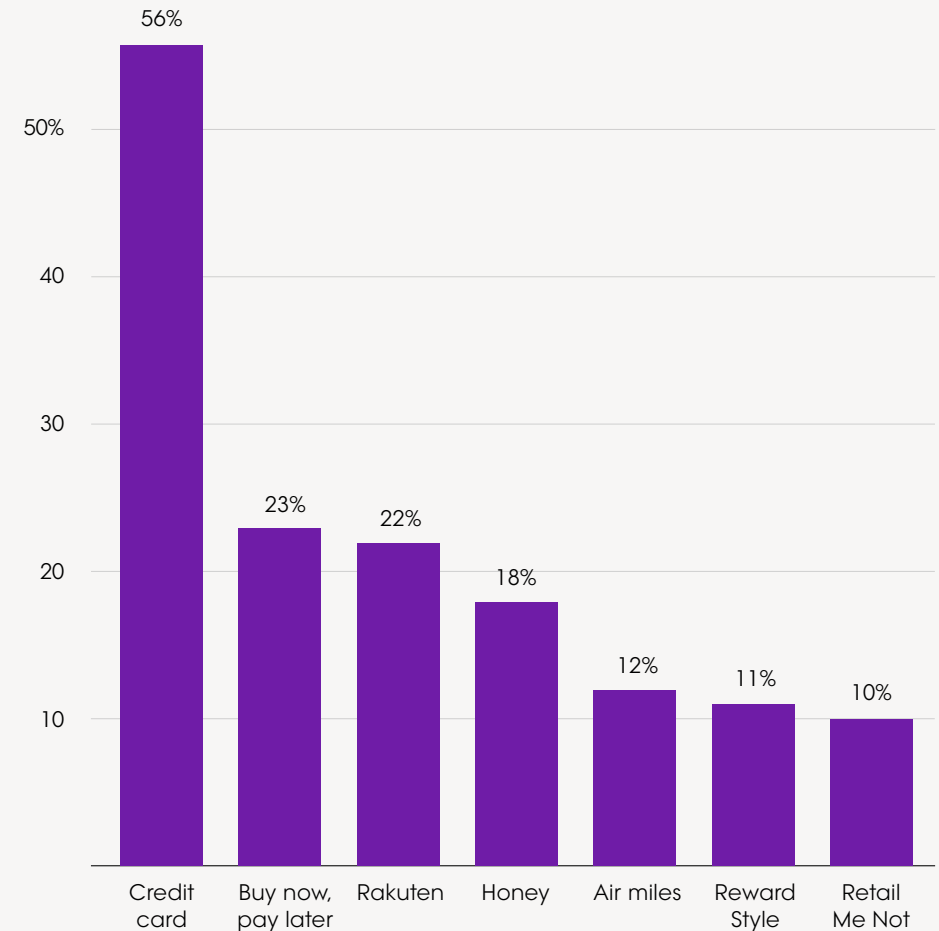
However, investing in strengthening a brand's digital touchpoints will do little to aid discovery if shoppers aren't interested in exploring new brands and products. By their very nature of housing several brands under one roof, online multi-brand platforms such as online department stores, pureplay retailers such as Farfetch and Net-a-Porter, and cashback sites such as Rakuten provide brands with an opportunity to be discovered by shoppers potentially interested in switching favoured brands. With one in three shoppers ranking these platforms collectively as their first preference for luxury purchases, multi-brand touchpoints can be successful in generating sufficient traffic for discovery.

Cashback sites in particular performed above average in terms of attracting shoppers with a tendency to explore new

brands and products. Over the past six months, 37 per cent of American luxury consumers across all channels had a propensity to switch brands/products. On cashback sites however, this figure jumped to 55 per cent, bolstering the proposition of these platforms as enablers of discovery.

With cashback providers acting as intermediaries, consumers have the opportunity to earn back a small fraction of their spend on purchases made through the provider's app or website. On Rakuten, for example, luxury consumers can expect returns of around 1 to 20 per cent of their high-end bills on qualifying purchases. Operating on a commission model, the portal offers shoppers a cut from advertising brands via its cashback programme. Called Cash Back, consumers can choose how they would like to receive funds towards the end of each quarter. Options include payout to their bank account, routed via a financial service like PayPal, or conversion to Rakuten points with an additional 20 per cent value added, redeemable on future purchases. "Rakuten helps retailers reward their shoppers — not just at the discovery phase, but throughout the entire customer lifecycle," explains Gall. "Our data and our technology allow us to use Cash Back as a long-term loyalty driver that can help retailers target shoppers with unique Cash Back offers at the individual level. You simply can't get

What deal or cashback sites have you used to shop for fashion in the last 12 months?



August 2022, n=1042

that level of accuracy or intelligence with coupons.”

In the last 12 months, a considerable proportion of luxury shoppers in the US employed alternative payment options such as credit cards (56 per cent), buy-now-pay-later schemes (23 per cent), and cashback sites such as Rakuten (22 per cent) to fund their designer dreams. Although the majority opted for credit cards during this period, 64 per cent of shoppers said they would consider funding their expensive buys via Rakuten in the next 12 months.

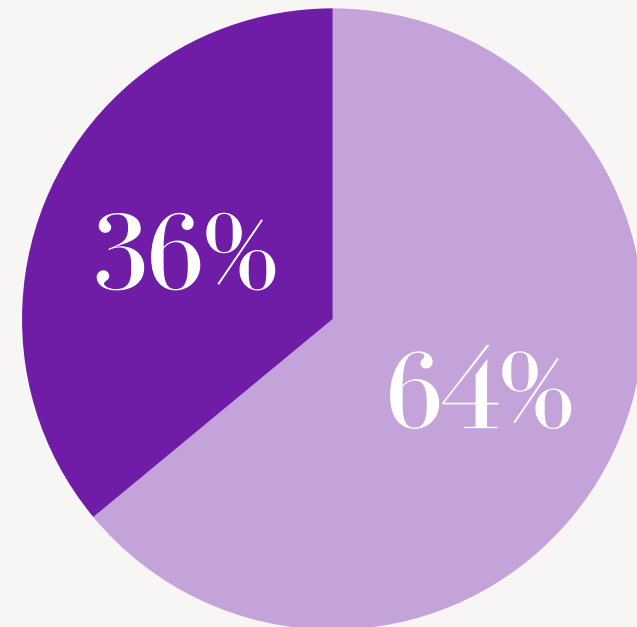
Presently, the use of Rakuten’s Cash Back is driven largely by a female audience. Over the coming year, however, a slightly higher fraction of men indicated that they are more likely to use the feature. Contrary to what one might expect, a greater chunk of mid- and high-tier spenders (as opposed to low-tier, discount-driven shoppers) purchased via Rakuten in the last 12 months and are likely to continue leading the trend. This could potentially be resulting from the larger payout received on higher spends compared to entry-level luxury purchases. In terms of age, the cashback giant has growing millennial and Gen Z luxury audiences, with just under a quarter (23 per cent) of luxury shoppers in this group engaging with Rakuten. This is only narrowly behind Gen X (c.37-45 years), where Rakuten’s penetration is strongest, at 27 per cent.

With thousands of designer deals on the line, Rakuten’s Cash Back programme has the potential to impact buying behaviour across the user experience funnel — right from discovery to loyalty. For luxury brands this translates into an opportunity to not only attract consumers with a propensity to switch, but also build long-term loyalty and increase customer’s lifetime value. Moreover with costs and competition heating up on other discovery channels such as Google Search, cashback sites such as Rakuten can help brands seek refuge on their ad spend.

The pandemic has completely altered the synergy between brands and tech giants in the digital ad space. With more and more brands competing to attract consumers digitally, costs for paid ads have increased more than twofold for major advertising platforms. For instance, last year the CPM on Google and YouTube soared by 108 per cent, while Facebook’s ad cost was up by 89 per cent, according to a study by performance marketing agency, [Hunch](#). Younger players such as TikTok and Snapchat also saw increases of 92 and 64 per cent in CPM, respectively. By operating on a post-conversion commission system, Rakuten earns its cut only after a purchase has been made, as opposed to other CPC or CPM models that require hefty upfront ad budgets irrespective of whether a purchase has been made or not.

Are US luxury shoppers anticipating to purchase via cashback sites in the next 12 months?

Yes No



August 2022, n=1042

By investing a portion of their marketing budget on alternate platforms like cashback sites, brands can therefore focus more on optimising their offer to attract and retain shoppers and worry less about their ad budget. However, given the elements that influence luxury purchases, designer brands will have to up their game on core luxury values such quality and authenticity even on these touchpoints. By educating consumers about how such discovery platforms work, validating the legitimacy of the high-end assortments retailed via such channels, and maintaining their brand identity seamlessly across all touchpoints, designer labels can create a more comfortable experience for customers considering shopping via cashback portals.

Beyond loyalty

In light of recent economic upheavals, although resilient, luxury consumers are likely to expect higher returns for their loyalty to retailers, demanding a mix of conventional rewards and experiential loyalty. The sky's the limit when it comes to delighting high-value clientele — whether its tiered loyalty programmes offering free delivery to lower spend customers and concierge services for affluent shoppers, or hyper-personalised e-commerce solutions providing a human touch such as the Net-a-Porter EIP (Extremely Important Person) loyalty programme (which includes perks

such as a personal shopper and early access). With saving and switching mindsets slowly on the rise, alternative discovery platforms such as cashback sites can aid brands to not only attract shoppers willing to trade on designer deals, but also establish long-term loyalty by learning from their buying behaviour and compensating them accordingly. “Designer brands need to think bigger than discounts and pricing to maintain loyalty going forward,” says Rakuten’s Gall. “At Rakuten, we’re helping our luxury retailers attract new and discerning shoppers to engage with their brand in different ways. Cash Back is a proven strategy that extends beyond audiences only looking for discounts. It helps drive loyalty, repeat purchases and maintain the integrity of the brand itself. Luxury brands can greatly benefit from the Cash Back platform, especially when integrating it as another layer in their loyalty strategies to increase customer fidelity and capture brand engagement.”

Boilerplate:

* *Vogue Business* surveyed 1,042 luxury consumers in the US, aged 18-77+ in August 2022. Consumers were evenly split across male and female and by age group (18-27, 28-36, 37-45, 46-54, 55-57, 58-76 and 77+). Respondents were luxury shoppers with a minimum spend of \$1,000 on luxury products over the last 12 months. Respondents were asked about their luxury shopping habits and their engagement with luxury retailers and cashback and deal sites.