

# Analysis of the Luxury Phenomenon



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## 1 Definition and Concepts of Luxury

David Bosshart

Luxury, it seems, is no longer elitist. A bottle of champagne, a Burberry scarf, or a night at a five-star hotel, a broad European middle class is able to afford this now and then. But when luxury is democratizing, the central question is what does this mean for its further development? Luxury is by definition the rare and therefore desirable. Consequently, when prestige becomes a commodity, a “masstige”: Does not luxury then disappear as a category?

At least nobody can escape the fascination of luxury. “Luxury is the inherent tendency of every human being to improve living conditions and, under certain circumstances, to do so in a concentration of consumption in a specific field,” says cultural sociologist Reinhard Knoll (2009). This raises the question of where this consumption will be concentrated in the future. Dana Thomas tries to become more concrete in her book “Deluxe: How Luxury Lost its Luster.” “Luxury is not how much you can buy. (...)”; Luxury is buying the “*right thing*,” she quotes a

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<i>The phases</i>	INFANTILE PHASE	ADOLESCENCE PHASE	MATURITY PHASE	SENIORITY PHASE
<i>The principle</i>	More is more	More is a must	More is less	Less is more
<i>The motivation</i>	Advancement and pent-up demand	Recognition and affiliation	Differentiation and Distinction	Devotion and self-transcendence
<i>The prototypical clientele</i>	young and hungry	performance- and status-oriented	mature and saturated	aging and sense seeking
<i>The appearance</i>	Kitsch and children's dreams	Status Objects and Positional Goods	Adventures and experiences	Indulgence, leisure and memories

**Fig. 1** The phases of luxury (source: Bosshart and Kühne 2014, p. 14)

knowledgeable luxury consumer (Thomas 2008, p. 363 f.). But what is the “right thing” today? And what will it be tomorrow?

The challenge is to bring together the various manifestations of luxury—in its purely material, ostentatious form as swank and splendor as well as in its (often) immaterial form as time and leisure. A step-by-step model seems obvious, as a first glance into the world of luxury has already shown that the understanding of luxury changes with increasing luxury exposure and experience.

**The Phases of Luxury**

In order to be able to orientate ourselves at all in the diverse world of luxury, to bring together the different manifestations of luxury, and to be able to better classify the changes in luxury consumption, we resort to an ideal–typical model (Cf. Bosshart and Kühne 2014). It is oriented toward the different phases of life—infantile phase, adolescence phase, maturity phase (see also Fig. 1)—and transfers them metaphorically to the world of luxury. Looking to the future, the next step is the seniority phase. It is important for the understanding of the model that the described maturing process describes on the one hand the change of the concept of luxury in individual biographies, but on the other hand also the change of entire societies.

– **The infantile phase**

The first phase of luxury development is characterized by a hunger for consumption that is satisfied with what is offered. Figuratively speaking, the child—or the small consumer—takes everything that is “fed” to him and what makes his eyes glow. The predominant principle: “More is more.” This consumption, which is marked by children’s dreams, can be observed in young, up-and-coming luxury markets. A backlog demand and the desire to rise is eminent. At the same time, there is a lack of knowledge about how and for what lifestyle the newly acquired wealth should be used.

– **The adolescence phase**

The next phase requires solvency but is dominated by increased competitive pressure (peer pressure). The dream of (further) social advancement increasingly

gives way to a fear of social decline. Now the “more” becomes the “must.” Goods with a signaling effect are gaining in importance: questions about how and where one lives, how big the car and the second car is or which school the children attend. The concern to be able to keep up, especially in the sense of comparison with neighbors or social peers (“Keeping up with the Joneses”), is driving a broad middle class, especially in the USA.

– **The maturity phase**

In this phase, luxury fatigue sets in. It is characterized by the decreasing marginal utility of the material products. Therefore, the realization that happiness when purchasing a product decreases the more often and without hindrance it is possible. Or in short: “More is (always) less.” Consequently, luxury consumption shifts from the product to the experience level. Because experiences can be infinitely increased—from a simple restaurant visit to a luxurious wellness weekend to the ultimate adventure trip. Today, the majority of saturated affluent societies find themselves in this phase of the luxury life. And a new phase is already in the offing. Because: Those who have everything long for less. All the more pressing the question: What is next?

– **The seniority phase**

If we continue the ideal–typical model, we are now on the threshold of the seniority phase. The term fits in two senses: what has long since become apparent are the demographic facts. Our society is inevitably getting older, increasingly so in the coming decades. In the figurative sense of the model, however, seniors also include those who, regardless of their age, have long belonged to the group of luxury consumers. This also includes younger generations of consumers who are characterized by material abundance, the possibilities of which they have quickly exhausted. Those who have carried out the experience of the preceding stages in their individual biographies, so to speak, in rapid succession and who are now wondering which target values should now be shaping their life. A stronger awareness of sustainability and dwindling tolerance of waste are two new, formative attitudes with which younger generations are growing up today. With digitalization, new questions will arise: How will increasing dematerialization affect our relationship to luxury products? What is clear is that rapid technological progress combined with economic and social change will significantly change our idea of luxury, our awareness and appreciation of handicrafts.

## 2 Understanding of Luxury in the Course of Time

David Bosshart

A glance at history shows that luxury has always been a versatile concept. The fact that the idea of what luxury is changes over time is not new in itself. What is considered luxury has always been dependent on the zeitgeist—depending on how rare a good was. In ancient times and the Middle Ages, the transport of pepper from

the West Indies was not only long but also dangerous; consequently, pepper was scarce and therefore precious and expensive. Today, pepper, like many other oriental spices, is a standard product in Western cuisines; distinction is possible through different varieties and quality levels alone. The development of salmon is similar: smoked salmon has arrived in the cheap range with large breeding farms and has lost its status as a noble luxury fish. Another parallel development from the exceptional phenomenon to the common good can also be found in technical devices such as refrigerators, cars, mobile phones, etc.

If one looks at the conceptual history, then the Latin term *Luxuria*, the “removal of old Roman austerity and the life of pleasure,” had the connotation of abundance and waste. In the literal sense, *luxuriare* also means “to be luxuriant” and “to grow luxuriant.” The French term *luxure* contains the moralizing component of desire and debauchery even more strongly. Common to all terms is the wastefulness that both the French philosopher Georges Bataille and the German sociologist Werner Sombart later emphasize. “Luxury is any effort that goes beyond what is necessary,” says Sombart. And continues: “Luxury in the quantitative sense is synonymous with the waste of goods” (Sombart 1992, p. 85).

The English word to luxuriate includes strolling, the French invention of idly walking, promenading. Thorstein Veblen (2007) also defines idleness in his “Theory of the Fine People” as central to the demonstrative expression of wealth. Veblen asserts the need for recognition and prestige and considers wealth not from the perspective of the rich but from that of others. Conspicuous leisure and conspicuous consumption are the two pillars of his distinction theory. The wealthy show their wealth through (ostentatiously) idle time or opulent consumption—and thus demonstrate to the outside what others cannot afford.

The idle pastime does not serve the experience, but according to Veblen (2007) is a strategy to make wealth visible—in the form of nonproductive time not dedicated to the acquisition of money. Other luxury theories, however, assume that in luxury the aspects of showing and experience belong together. Showing—that is: for others—has always belonged together with the experience—that is: for itself. However, with increasing maturity, the focus shifts.

What remains despite all the changes in the concept of luxury is people’s striving for recognition and belonging, but also for differentiation and distinction, for self-reward and self-realization. The classic motives of luxury consumption remain: the desire to indulge oneself, to impress others, to belong to the illustrious circle, to distance oneself from the bottom, and to underpin one’s social status.

The controversial discussion also remains about when the boundaries of morality and ethics are crossed, when luxury becomes wasteful, decadent, or even reprehensible. This question has a long tradition: the excessive lifestyle was supposed to be curbed again and again throughout history with luxury bans. In former times in Europe, the ban on luxury applied to nobility and clergy, in today’s China to politics and the military. This illustrates how morally charged the term has always been.

In Europe, the relationship to luxury did not ease until the eighteenth century. With the French Revolution, the dissolution of social class boundaries, and the emergence of a new class, the bourgeoisie, luxury suddenly appears in a new light.

With growing trade relations and the establishment of large manufactories, even “ordinary mortals” (i.e., non-nobles) can become wealthy, and so the attitude toward valuable and exclusive goods changed among many. The new science of political economy no longer puts the phenomenon of luxury under such a strict moral microscope. The British economist James Stewart, for example, already stated in his “Principles of Political Economy” of 1767 that luxury was a subtlety in taste and lifestyle (cf. Steuart 1848). Rather, the advantages of luxury as a driving force for demand, technological progress, increased employment, and the prosperity of society are emphasized.

### 3 Economic Relevance of Luxury Markets<sup>1</sup>

Antonella Mei-Pochtler and Hannes Gurzki

The luxury industry is a defining industry and an important driver of the European economy. The cultural and creative sector alone is a strong contributor. According to the European Cultural and Creative Industries Alliance, European high-end cultural and creative brands account for over 70% of the world’s market and create employment opportunities for over 1.7 million people in Europe (ECCIA n.d.). Moreover, they are a strong driver of promoting creativity, arts, crafts, cultural heritage, and setting standards across industry sectors with regard to quality and customer experience. Luxury brands contribute to setting high performance and quality standards, thereby they foster economic value added. They are also important cultural actors as they promote creativity and traditions. Without luxury brands, many artisans and their techniques would struggle to survive in a competitive market place. Moreover, the close relationship between luxury brands and art makes them an important cultural patron and driver of innovation.

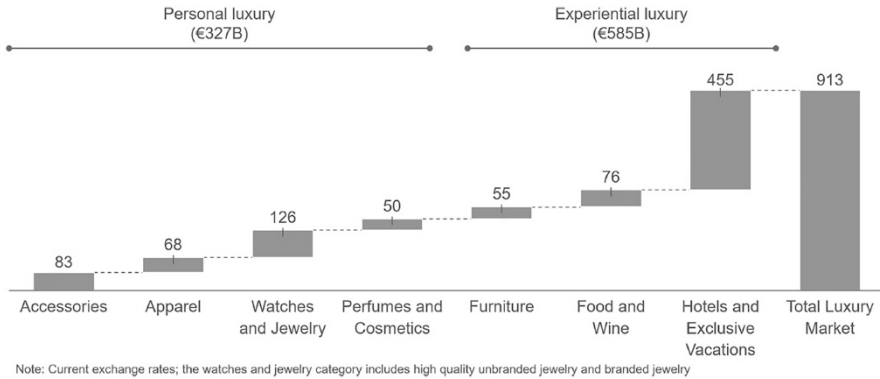
The global personal and experiential has an expected size of nearly 1 trillion € in 2017 serving over 400 million consumers. Driving this luxury market are 375 million consumers who regularly or occasionally purchase luxury goods (BCG 2018a). We will briefly illustrate five different perspectives to view the luxury market, highlight its economic relevance, and discuss current and emerging trends.

#### **Luxury Categories: What Is Being Purchased?**

In 2017, the core luxury market consisting of personal and experiential luxury was expected to be worth 913 billion €, with personal luxury making up 327 billion € and experiential luxury the remaining 585 billion €. Personal luxury consists of watches and jewelry (126 billion €), accessories (83 billion €), apparel (68 billion €), and perfumes and cosmetics (50 billion €). Experiential luxury includes hotels and exclusive vacations (455 billion €), food and wine (76 billion €), and furniture (55 billion €) (BCG 2018b).

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<sup>1</sup>All figures if not quoted otherwise come from BCG Global Consumer Insight Study (BCG 2018a).



**Fig. 2** The global luxury market (source: BCG 2018b)

Experiential luxury is growing fast and will account for two-thirds of the core luxury segments by 2024, significantly increasing its share from the current 50% (BCG 2018a). Experiential luxury categories such as high-end food and wine, luxury hotels, and exclusive vacations will be the main drivers. This increase is strongly driven by a maturation of the luxury market and a shift in consumer values from owning to being. Yet we also expect personal luxury categories such as accessories or apparel to continue their growth trajectory as they will remain relevant lifestyle categories, particularly for the younger generations. In addition, new luxury categories, particularly luxury tech will emerge and command their share of the luxury market (Fig. 2).

The economic relevance of the luxury segment is easily seen when we look at the price point that we use to qualify as luxury. For example, for handbags it is 1000 € per bag, for hotel stays it is 450 € per night, for restaurant meals 200 € per person, for cars 100,000 €, and for yachts 750,000 € based on European price levels. And the threshold is likely to increase over the next years.

### **Luxury Consumers by Spend Cluster: How Much Are Luxury Consumers Spending?**

Today, we have approximately 400 million luxury consumers globally, and the number is growing. The top spenders, the 18 million “true luxury” consumers spending more than 5000 € per year, make up 30% of the global luxury market spend. In addition, we also have a layer of ~20 million top aspirational consumers with around 7% of global luxury spend. The largest group in terms of consumers and spend are the 375 million other aspirational luxury consumers, making up more than 60% of luxury spend.

Looking at the expanding consumer base, the luxury market is poised for growth. We expect all spend clusters to increase over the next years to nearly 500 million consumers with a global spend of 1100 billion € by 2024 on personal and experiential luxury alone. The latest BCG research forecasts the number of true luxury consumers to be 23 million with a spend of nearly 400 billion € on personal and



**Fig. 3** Global luxury consumers by spend cluster (source: BCG 2018b)

experiential luxury in 2024. Similarly, the aspirational consumers are expected to grow significantly, making up a spend of nearly 900 billion € by 2024, driven by 445 million other aspirational and 28 million top aspirational consumers (Fig. 3) (BCG 2018b).

**Luxury Consumers by Age Group: How Old Are Luxury Consumers?**

Looking at the core luxury consumers in the key markets, spend is driven by Generation X, aged 36–50 years old. They account for nearly 40% of spend today, followed by Millennials with ~30% (aged 21–35 years), Baby Boomers with ~25% (aged 51–70). Older consumers and Gen Z consumers (aged 5–20) make up less than 3% of personal luxury spend each.

Yet this picture is going to change substantially over the next 5 years. In 2024, Millennials will account for 50% of the global personal luxury market and will drive 130% of market growth. This means that this generation will more than double their personal luxury spend from ~100 to ~200 million € within the next 7 years. This will be accompanied by slight increases in spend by Generation X and Generation Z consumers to compensate a lower spend by the older generations. In 2024, we expect baby boomers and older generations to account for 10, Generation X consumers for 35% and Generation Z for ~7% of personal luxury spend.

**Luxury Consumers by Nationality: Where Do Luxury Consumers Come from?**

It is important to distinguish the place of purchase from the consumer nationality for luxury goods. Many purchases take place abroad and consumers engage in luxury shopping trips globally. As the consumer is in the focus of our studies, we take a view of the consumer nationality rather than the place of purchase. Moreover, while shopping destinations often change due to fashion trends, personal travel preferences, or government policies, the consumer nationality is more stable over time and thus better suited to identify longer-term trends.

Spend today is driven by Chinese consumers (32%), Americans (22%), and Europeans (18%). Japanese consumers (10%), other consumers from APAC (11%), and other global consumers (7%) account for the rest of the market.

Chinese consumers are on the rise. Seventy percent of market growth will be driven by Chinese consumers who will account for 40% of the global luxury market by 2024. While consumers from all nationalities are expected to increase their absolute personal luxury spend, they all lose share to the spending power of Chinese consumers. In absolute numbers, Chinese consumers are expected to increase their personal luxury spend from ~105 billion € today to ~160 billion € by 2024.

The focus on consumer nationalities is especially relevant since the traveling and shopping behavior of Chinese consumers has recently changed. Whereas in 2013 Chinese consumers only made 30% of their purchases locally, the number increased to 65% of purchases in 2016. Before 2015, a strong yuan and a high price gap between purchases in China and abroad has led to a large number of foreign purchases. Phenomena such as Daigou, that is overseas personal shopping, have been a challenge for luxury brands in China. After 2015, with the more consistent implementation of global pricing, government initiatives such as duty rates and stricter border controls to fight illegal and non-taxed imports, as well as a weak yuan have led to a shift toward purchases in Mainland China. Moreover, with the introduction of anti-corruption laws in 2012, the luxury market has changed substantially. While particularly luxury watches have lost share directly after the introduction, experiential luxury has gained share. Today, digital is the new playing field in China, where China is leading the global digital revolution. Sixteen percent of the local purchases of Chinese consumers happen online and cross-border e-commerce is a new trend that emerged. Players such as Tencent and Alibaba are strongly driving the market and redefining the luxury consumer's path to purchase, for example, with social commerce.

### **Luxury Consumer Segments: Which Luxury Segments Are the Most Economically Relevant?**

BCG (2018a) categorizes the global luxury market into 12 luxury segments based on multiple behavioral characteristics such as their personality and lifestyle, their attitude toward luxury, or their purchase behavior.<sup>2</sup> The four largest segments, the Absolute Luxurer, Megacitier, Experiencer, and Social Wearer account for over 60% of luxury market spend and represent ~35% of all true luxury consumers. And they are growing: Between 2013 and 2016, nearly 100% of the personal and experiential luxury market growth came from these segments, thereby compensating the decline in spend from other segments. And we expect their influence to continue as these segments most strongly represent emerging market nationals and younger generations. The Rich Upstarter, Megacitier, #LITTLEPRINCE, and Absolute Luxurer segments represent 70% of Millennials' spend. Thus, luxury brands need to understand these segments in depth, in order to win with their brand within these target

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<sup>2</sup>For an illustration of the consumer segments see <https://www.youtube.com/watch?v=Jp1ARkFWBrE>.



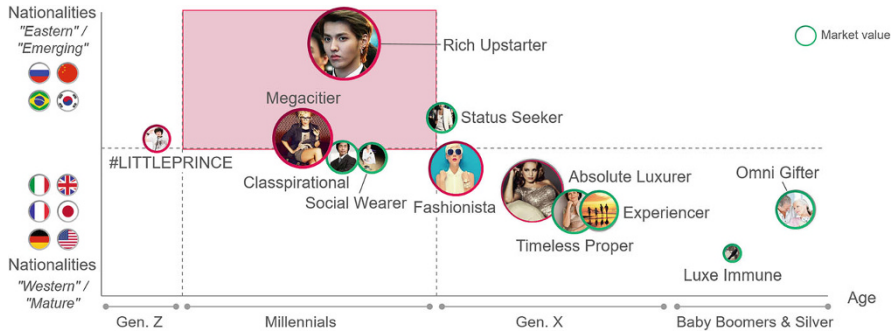


Fig. 4 Luxury consumer segments (source: BCG 2018b)

groups. Moreover, of the large and growing segments, most are strongly present in emerging markets. Rich Upstarters, Megacitiers, and Fashionistas make up for 55% of Chinese personal and experiential luxury spend. Only the absolute luxurer has a strong footprint in mature markets and among older customer groups. Nevertheless, also niche strategies targeting the smaller segments can be successful. For example, targeting the Fashionista segment in China with a focused approach using the local digital ecosystem, influencers, and social media can give brands an edge in a growing market niche. This positioning can have a positive halo effect on related segments, such as #LITTLEPRINCE or Classspirational consumers in the case of Chinese consumers (Fig. 4).

**Luxury Channels: Where Do Consumers Purchase?**

More than 60% of luxury purchases are digitally influenced today, a number that we expect to increase even further over the next years. While the store remains central in the overall path to purchase, only 40% of purchases are made only in-store without any digital touchpoints along the path to purchase. More than 80% of luxury consumers expect a seamless experience across channels, particularly the younger generations. And this is particularly challenging as they are digital natives and their expectations for luxury brands are the highest. Social media has become the key influence lever for true luxury consumers, followed by magazines and brand websites. For social media, particularly Instagram is gaining importance for Western luxury consumers, whereas Facebook and YouTube are losing share. In China, Wechat, Weibo, and QQ are the key social media platforms used to interact with luxury brands. Nevertheless, there is ample room for improvement in the digital and omnichannel approach of many luxury brands

Digital will drive future luxury growth, yet the store and personal experience will still remain a central element of the omnichannel experience of luxury brands. We expect 40% of the luxury market growth until 2020 to come from E-Commerce, thereby clearly outperforming growth in traditional channels. Moreover, we expect 60% of E-Commerce sales to be additional purchases that would not have taken place offline. In China the share is even higher with 70%, reaching to new customer groups with limited store presence or infrequent store visits. Monobrand websites

(33%), full-price multi-brand websites such as Farfetch (32%), and generalist market places such as Amazon or T-Mall (23%) account for nearly 90% of the online purchases. While mobile devices today account for roughly half of the purchases, the growing share of Gen. Z consumers and Millennials is expected to drive mobile adoption to 80–90% by 2024. The overall channel shift will continue and only those companies with strong online and Multichannel capabilities will thrive.

### **Outlook**

Luxury has been a strong driver of the economy since its inception. The market has been growing substantially over the last years and we expect this growth to continue. Yet the growth drivers for the future of luxury will be different from those of the past. Moments and memories matter more than material possessions across all age groups. Experiences will be driving future market growth with a growth rate of 5% until 2014, compared to 3% for personal luxury. In 2024, Millennials will account for 50% of the luxury market (29% today). Chinese consumers will account for 40% of the market (32% today). Megacitizens and Absolute Luxuriers will be key segments. Digital will further increase its reach and become a central part of the path-to-purchase and the consumer journey. Yet, the store will still be central to the physical experience of the brand. Technology will play a major role, for example through the ability to personalize experience through the use of artificial intelligence and data-driven personalization engines. In terms of the overall contribution of this sector to the identity and economic growth of Europe, we think that it will further be central and a major force into the future.

Particularly for luxury tourism, the outlook is positive. A growing and increasingly mobile group of luxury consumers is ready to embark on their quest for meaningful experiences. Sustainability and authenticity are values on the rise and particularly important for luxury tourism. And we are only at the beginning of a technological revolution that will continue to change the way we travel. While human touch will still be key for all experiences, complementing it by technology greatly increases the possibilities and opportunities to personalize the experience throughout the entire customer journey and foster a personal relationship with consumers in the moments that matter.

## **4 Future Scenarios of the Luxury Phenomenon**

David Bosshart

Let us return to our phase model of luxury. We remember that the majority of people in saturated affluent societies are in the maturity phase, but many are already on the threshold of seniority. To put it in a nutshell, you know where you want to go in the maturity phase, and you also know how to get there in the seniority phase. “Less is more” is the leitmotif here describing the change in luxury in its various aspects.

At first, this is a shift from waste to more simplicity. If we take “less” in the narrower sense, what counts here is not only a more informed view, which is able to perceive more nuanced in terms of quality, value, origin, etc. but at the same time also the introspection, which in the new phase is becoming more important than the display of luxury and the status image to the outside world. Or more precisely: it is no longer about being seen, but about the “art of seeing” (Führer 2008, p. 237).<sup>3</sup> The art of seeing also means the ability to see the other as something unique—and not in the boredom of abundance simply as more of the same, as a variation of what one already knows. Connoisseurship, knowledge, and skills will therefore become even more important. And finally, the art of seeing also encompasses the new question of meaning and the desire to see behind things—or in other words: the desire for enlightenment.

So what the seniority phase is about is the expansion of consciousness. It is marked by the desire to change. One does not want to find oneself in things, but to grow beyond oneself through means of things. The luxury experience should be a challenge: “However, a luxury product is not only expected to self-affirm, it should also expand the self by being emotionally and intellectually activating and inspiring. A luxury product also wants to be a muse”(Führer 2008, p. 237). In return, comparing oneself to others is no longer of relevance; the question of how others value what one does and consumes loses importance.

The “less” of the seniority phase refers to the essential in the sense of what has become rare: time, space, leisure. At the same time, it refers to the ability to derive maximum benefit from what is necessary and simple. More precisely, the ability to experience, decode, and enjoy the reduced and essential is what distinguishes this new phase. The (demonstrative) renunciation of their own car by many younger people suggests it: “The new status symbol, isn’t what you own—it’s what you’re smart enough not to own”(Jurich o. J.). Sharing is considered smart especially among younger people and therefore is cool.

The strategy of the new luxury is demonstrative renunciation—as a testimony to consumer criticism, modesty, or asceticism. Here lies the distinction between the experience in the maturity phase and the experience as it becomes more important in the seniority phase. Experience means that the expected comes true. It entertains, is pleasant, exciting, captures the senses. What it does not contain is the moment of absolute uncertainty. But this is precisely what makes the luxury product a muse, a source of inspiration. The muse does not do to me what I already know. It takes me into new territory.

But more precisely: What characterizes this new experience? The shift toward deceleration and renunciation of consumption, as can be observed in an accelerated present, can simply be described as a necessity: “The clever hedonist cannot help but live renunciation of consumption at many points in his life. We are on the verge of exhaustion and on the verge of the meaningful”. In the maturity phase, the strategy

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<sup>3</sup>Führer (2008) diagnoses this nuance: “In the new luxury, the art of seeing is more important than being seen.”

was to know how to deal with things, to keep up with the technical refinement of things. If there is no time for that, things stay foreign. At the end of the maturity phase, the foreignness of things becomes a basic experience. A new strategy comes into play. If you ask the people in Switzerland and Germany whether they prefer a break or an expensive purchase (car, home, yacht, etc.), the answer is clear. A majority (66%) prefers the break. In Switzerland, 73% (compared to 59% in Germany) would prefer free time (Cf. Bosshart and Kühne 2014).

So, the greatest luxury is time. But what expertise does it take to live it? The new luxury still clearly has a distinctive function, even if the signs have become much more subtle. In the seniority phase, the habitus comes into play: it is a matter of dealing naturally with the social rules of the game, codes, and cultural techniques, not of striving to follow them. The casual handling of status signs is important. For example, knowledge about eating and drinking has become not only a means of identification but also a distinguishing feature. The connoisseur, who knows about wine or tea, meat, or vegetables and can tell a story about every ingredient, is widely acknowledged today (Cf. Hauser et al. 2013). This also applies to data in the age of digitalization: We must first acquire the wisdom to deal with them. “Having the brains”—the “savviness”—will in the future become a testament of one’s own future viability. And thus the central prerequisite for advancement and recognition. But anyone who wants to acquire cultivated taste, education, or even sophisticated hobbies must invest: not necessarily money but in any case time. In this way, through cultural capital, time becomes a sign of distinction in the seniority phase.

What distinguishes this lifestyle from the previous lifestyle is the relationship it has to authenticity. This new foundation is particularly evident in the manufacturing of a product. The new major topic in the luxury industry is the design process—which today means transparency throughout the entire production chain. This longing for the genuine, unadulterated is not only evident in the manufacturing of luxury products, but also in retail, gastronomy, tourism—and last but not least in a survey conducted by our institute: “Would you rather spend a night in a trendy eight-star hotel or in untouched nature under the stars?”, was the question. The majority opted for the pure, ascetic version: the starry sky (Cf. Hauser et al. 2013).

What do people want to experience before they die? Or rather: Which luxury do they want to treat themselves to? Buy a Hermès bag, write a bestseller, or father another child? We also wanted to know this in the survey mentioned above and compiled a luxury “bucket list” from the answers—a list with the great wishes of life. It turns out that no matter how many years one still has ahead of oneself, one topic clearly dominates the wish list—travel (see Fig. 5).

**Fig. 5** “What luxury would you like to treat yourself to in your life?” GDI survey on luxury (10 top categories, *n* = 1003) (source: Bosshart and Kühne 2014, p. 4)

The „bucket list“ of luxury	
1. Holidays and travel	291
2. Housing and home furnishings	122
3. (Free) time	58
4. Mobility (car, bicycle, camper van, etc.)	54
5. Health and Fitness	30
6. A family, partner, children	15
7. Being financially independent	14
8. Work less / no longer	12
9. Education and training	7
10. Others	32

## 5 Study Results on the Travel and Booking Behavior of Luxury Travel Customers

Dorothea Hohn

The worldwide agency network *The Pangageanetwork*, which is represented in Germany by its founding agency Global Communication Experts GmbH, investigated the travel and booking behavior of luxury travel customers for the fifth time in winter 2017/2018. The survey of around 500 tourism experts once again showed the high relevance of this travel segment: luxury travel combines exclusive and unique experiences with personalized services. The buying impulse is first set by the destination, followed by the services offered on site and the accommodation—preferably an exclusive boutique hotel or international hotels on a high level. The number of high-budget trips is approximately three per year. These are mainly booked offline, with customers relying on the advice and recommendations of industry specialists.

The luxury travelers mainly consist of Generation X and are between 36 and 55 years old. They travel as couples, look for comfort and relaxation on their vacation, and attach great importance to special culinary experiences. Private excursions dedicated to nature and culture, as well as a reasonable price–performance ratio and a plausible added value have a higher priority than the price. They pay attention to ecological sustainability. Their decisions are based primarily on the advice of friends and relatives and online evaluations. The average budget is between 5000 and 10,000 euros per trip and person. In the coming years, they will be very demanding, informed, and sensitive to environmentally friendly travel solutions. In general, luxury travel is expected to increase by 6–10% over the next 2–3 years.

In 2017/2018, the market share of high-price luxury travel was 7%, with annual double-digit growth rates (Cf. Buck and Ruetz 2018). But: “My villa, my yacht, my sports car” is out. You do not show off your own wealth anymore. The luxury market is experiencing a blatant paradigm shift and is no longer defined by “bling bling” only, but rather by the demands of travelers for authenticity and exclusivity.

### **The Core Target Groups of Luxury Tourism and Their Travel Behavior**

The generation of the so-called baby boomers aged 55 and over is regarded as one of the most attractive target groups in the entire tourism sector and above all in luxury tourism: they have travel experience, are wealthy and healthy. The baby boomers have their own houses or apartments and an average net income of over 3600 euros per month. This generation is considered to be extremely pleasure-oriented. Primarily the youngest among them spend 80% of their income on consumer goods. But especially in their online behavior, the baby boomers are oriented toward the up-and-coming generation Z. The 16–22-year-olds are considered a luxury target group in their own right, still at the beginning of their careers, but they have an enormous impact on older generations. Generation Z is dematerializing luxury holidays: the goal is now to enjoy peace and quiet, strengthen health and find time for friends and oneself—expensive spa treatments and expensive gourmet restaurants are just a nice addition to a luxury vacation. This poses new challenges for luxury travel providers. Influenced by the younger generation, the originally conservative core groups now have a new requirement profile. The largest target group of luxury tourism, however, is the well-educated and ambitious generation X aged between 36 and 55 (62%).

This generation benefited from the economic development in the 1960s and 1970s, which was accompanied by a change in mentality—the baby boomers' credo of "living to work" became "working to live." The goal of the generation: a material security and being able to afford things. Generation X is striving for a high quality of life and attaches importance to work–life balance. All target groups prefer to travel with their partner: 73% of customers mainly travel as a couple. Family travelers are in second place (22%), travel with friends (4%) in third place. Only one percent travels alone.

### **Duration and Number of Trips Are Changing**

Germans like to travel a lot: in 2017, over 54 million German holidaymakers took around 69.6 million holiday trips (Cf. Statista 2018). Luxury tourists book an average of two to three trips per year, about one-third go on one long trip. Twenty-seven percent of the tourism professionals surveyed said that their customers go on one big trip per year and the remaining 26% said that luxury travelers travel four or more times a year. However, the number of bookings declined compared to 2012 and 2014. At that time, the majority of customers booked more than four trips a year.

About half of the respondents (49%) indicated an average length of stay of 7–10 days for luxury trips, while 34% reported eleven to 13 days. Ten percent of holiday trips last longer than 2 weeks, while 7% last less than a week. In the same study 5 years ago, 46% of all luxury travelers had an average travel time of 10 days. Twenty-six percent traveled for 1 week, 15% for 2 weeks. Compared to 2010, travel time has decreased in percentage terms, with travel under 1 week becoming more popular.

All luxury travelers have not only time but also the suitable budget: The costs for an individual luxury vacation vary from market to market, on average however the expenditures lie between 5.000 and 9.999 euros per journey. In particular travelers

from Spain and Scandinavia book in the lowest budget category between 5000 and 6999 euros. Travelers from the USA, the Netherlands, and Italy invest between 7000 and 9999 euros, while Brazil, Germany, Great Britain, and France spend between 10,000 and 14,999 euros per trip. More important than the price for many customers is the price–performance ratio, while for others the focus is on the added value for themselves: Consumers are increasingly spending their income on experiences rather than material goods. This leads to a paradigm shift within luxury tourism and the desire for extraordinary travel and offers.

Although, as already described, generation Z has such a significant impact on older generations and is very digital-affine, most consumers reject online sales of luxury travel. Despite digitalization, customers swear by travel agencies, specialized consultants, and their individual offers—87% of those surveyed said so. This figure appears to be rising, with only 54% of respondents saying in 2012 that the travel agency was the most popular booking channel.

Over 60% of online users use a desktop PC for their booking, while 38% use mobile technology. When booking on the Internet, travelers rely mainly on the websites of specialized agencies, as indicated by 43% of the panel. Direct bookings from hotels, airlines, and local service providers account for 32%, while the websites of large online agencies reach 21% of customers. The recommendations of friends and relatives are essential for 49% of luxury travelers. In second and third places are online ratings (36%) and prestigious awards (43%), which support the booking decision.

### **New Luxury: Opulence Was Yesterday**

The golden fittings in the marble bathroom have had their day. If you want to appeal to luxury travelers in 2018, you have to offer more than the opulence of the past days and instead concentrate on offering immaterial rarities (i.e., broadening the customers' horizons). Back in the 1980s, the top 10,000 defined themselves through expensive cars and brand clothing—luxury had an impact on the outside world. In contrast, the 1990s were dominated by the new “get stingy” trend. The withdrawn lifestyle of the billionaire Aldi brothers is the most extreme example. In recent years, a new way of dealing with luxury has developed. With the revaluation of high-quality products, unique items, and exclusive services, luxury today is also showing its post-material side: Consumers increasingly spend their disposable income on experiences instead of goods. This has a significant impact on customers' travel decisions. For 30% of the respondents, uniqueness and exclusivity are the key factors of a luxury trip, while 29% of the respondents state that services are being adapted. Thirdly, the quality of the hotels (21%) and fourthly the flight class (12%) are important. In general, there is an interest in quality products and exclusive, tailor-made services. The quality of accommodation (67%), privacy/exclusivity (62%), and the reputation of the hotel/destination (59%) were the three top criteria influencing luxury travelers in 2012. Spa facilities had gained in importance compared to 2010.

One element of the New Luxury that should not be underestimated is sustainability—fair tourism is booming. As the needs of target groups for exclusivity,

authenticity, and immaterial luxury are now more than bling-bling, eco-tourism, and corporate social responsibility are increasingly coming to the forefront. Just 5 years ago, 42% of respondents said that environmentally conscious tourism was not important, and 40% believed that it was important but did not affect travelers' choices. As a result, responsible tourism did not become a key factor for the luxury industry.

The experience-oriented requirement profile—which corresponds to the post-material mentality of luxury—also goes hand in hand with a form of focusing on the individual. The individuality-centered luxury traveler wants to feel good about what he does. No matter if consumers choose a villa on one of the Fiji Islands or a boutique hotel in a German nature park—the luxurious accommodations must be sustainable: collecting rainwater, planting vegetables, and supporting the local population. A kind of ecologization takes place, to which sociopolitical factors are contributing. If, for example, the catch of the day is served after the fishing excursion at the private dinner on the beach, this is exactly the kind of lasting and authentic experience that guests are longing for.

### **Motivation of the Luxury Customer**

The decision-making of luxury travelers is primarily based on the destination (74%), followed by the overall experience (20%). Accommodation is crucial for 5% of travelers and thus ranks third among the criteria. In addition to sustainability, luxury travelers are particularly looking for relaxation and comfort in absolute privacy during their holidays. Gourmet experiences, tours and cultural visits on a private basis, innovations in destinations, products and services as well as tailor-made excursions into nature are a great incentive for customers to choose a destination.

As the most popular luxury destination, the Maldives rank as the most trendy destination in the luxury travel segment. The resorts on the islands in the Indian Ocean also meet most of the criteria listed and the concept “one island - one resort” is still something unique. Asia, the USA, the Caribbean, and South Africa are also still popular. The focus is once again on classic and well-known holiday destinations, while 5 years ago, for example, Far East countries such as Myanmar, Bhutan, Vietnam, China, and Cambodia were in great demand. In 2010, the Indian Ocean or the Caribbean and French Polynesia were among the most popular luxury destinations.

The trend is also moving away from large luxury hotels to smaller, individually designed houses: Lifestyle, design, and the individual feel-good factor are the buzzwords here. Boutique hotels combine uniqueness with luxury standards—they offer travelers exclusivity due to the low number of rooms, can look after each individual guest personally, and yet travelers do not miss the luxury they know from the well-known resorts. In terms of the type of accommodation, the majority of respondents (65%) therefore consider exclusive boutique hotels to be the number one, followed by large international chains (21%). Other places include private accommodation (6%), castles and historic buildings (2%), and other accommodation (5%). In particular, luxury travelers look for relaxation and comfort in absolute privacy (51%) during their holidays. Gourmet experiences (50%), tours and cultural



visits on a private basis (49%) as well as innovations in the areas of destinations, products and services (45%), and tailor-made excursions into nature (43%) are an incentive for customers. Nevertheless, large international chains with good reputations are still popular and have a significant influence on 18% of respondents. A similar influence is achieved by specialized tour operators, travel agencies, and consultants with 15%. Their good image precedes them and the accommodation is often internationally standardized. Furthermore, it is especially important for Generation Z to be able to produce beautiful images for social networks. Hotels and destinations must be “instagrammable”: Guests want to show off where they are, what they are experiencing, and what they can afford—post-materialism meets virtual materialism. But it is also about the question: Who was there before me? And this can be looked up, in case of doubt, on Instagram. After all, contributions from influencers serve almost half of consumers as inspiration for their next journey.

### **Growth Market of the Future**

The luxury travel segment will continue to grow: Most respondents to The Pangaeanetwork’s (2017) study expect bookings to rise over the next 2–3 years, with 42% expecting bookings to rise by 6–10%. As time goes by, luxury travelers themselves are becoming more and more demanding: interest in new destinations, products, and services emerges. They identify with their destination and inform themselves extensively. In their search for unique experiences, they also react very sensitively to ecological sustainability, as well as advice from acquaintances and expert recommendations. On the other hand, luxury consumption is becoming more widespread. Due to the positive economic situation of the past 10 years, more and more people can afford luxury goods. The luxury market has already reacted to this. Cheaper fashion lines from established luxury brands or cafes offering hot drinks made from organic coffee beans at an affordable price open the market for exclusive consumer goods to the masses. Hotel groups are also establishing young and cheaper brands on the market. Thus, luxury is becoming more suitable for everyday use. By 2020, the management consultancy Bain & Company forecasts a growing market with around 400 million luxury customers worldwide (Cf. D’Arpizio et al. 2017).

### **Bottom Line**

“Luxury” is a term that cannot be precisely defined. What we perceive as luxury depends on our cultural, socialization-specific influences and is bound to our subjective perception. In addition, one can understand luxury as an orientation toward material goods or as immaterial if emotional needs are meant. In regards to this fact it is hard to agree on a concrete definition for the term “luxury travel.” It is clear that the understanding of luxury travel is changing over times. While in the 1980s people proudly showed off their possessions and went on holidays in the most renowned five-star hotels, today’s travelers attach way more importance to exclusivity and individuality.

Private excursions dedicated to nature and culture, as well as a justifiable price–performance ratio and a plausible added value have a higher priority than the final price. Luxury travelers are increasingly paying attention to what is ecologically sustainable. What is to be expected in the coming years: Travelers with high

expenditures will be very demanding, informed, and sensitive to environmentally friendly travel solutions. In general, luxury travel is expected to increase by 6–10% over the next 2–3 years. This means that the requirements profile of the customers and the required competence from industry professionals are also increasing and that the industry has to meet these challenges.

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