AN INTERVIEW WITH MILTON PEDRAZA, FOUNDER AND CEO OF THE LUXURY INSTITUTE ON LUXURY MARKETING

With Lawrence F. Cunningham, Managing Editor, Journal of International Marketing Strategy (JIMS) on October 12, 2018.

Larry: Milton, it is good to talk to you. Tell me about your background and how you became interested in luxury.

Milton: I was a corporate executive for approximately twenty-five years at big multinationals and consumer goods companies Pepsi, Colgate, and Citibank. I ran the core banking business in Venezuela for Citibank and launched the first global CRM project for Citigroup.

Subsequently, I went to a conglomerate called Cendant. It owned Realogy, Budget/Avis, RCI and Wyndham hotels. There I was asked to launch a luxury hospitality division. That inspired me to conduct extensive research on the luxury industry. That ultimately led to the founding of the Luxury Institute around 2004.

After the 9/11 tragedy, the company said they thought luxury was over. Given my research, I disagreed; it was clear to me that luxury would be a high growth industry for the foreseeable future globally. I believed that luxury had a great future internationally because all the former communist countries were becoming capitalists. I had lived in Romania, Prague in the Czech Republic, as well as in Slovakia. I traveled throughout all the former communist countries. I could see the patterns of transformation, good and bad, into capitalism. It was evolving into both legitimate capitalisms as well as crony capitalism. Either way, it was clear that the number of affluent, wealthy consumers would continue to grow. Luxury would grow too. That growth continued strong through 2007. After the great recession, it evolved and continued.

I formed the Luxury Institute between 2004 and 2005. Initially, we developed a research firm. We pioneered many surveys related to the Internet habits of the wealthy, the wealthy and social media, and other emerging trends. Our research also included ratings of luxury handbag, watch and jewelry brands, and dozens of other luxury goods and services categories. Brands purchased them for the insights they generated.

We became very well known for our objective and independent research. From there, we started conducting custom research for clients. We also started conducting business solution advisory work. We also did a lot of engagements, presentations, and interactive workshops. We began to participate in many luxury conferences. We also worked on the cultural transformations of brands such as Intermix, Bottega Veneta and Gucci throughout the years.

We became passionate about learning how brands can create positive, constructive, compelling, emotional experiences for employees and clients using neuroscience. We used neuroscience to teach executives and front line associates how to build and maintain high-performance relationships with peers and clients across all channels. We created a methodology we called Luxcelerate, which is a program that helps the company management, and most especially, the front line people, to transform from being disengaged transactors into passionate, ethical high-performance relationship builders.

Larry: When you serve as a guest lecturer or speaker, what are some of the themes that you stress regarding luxury?

Milton: One theme I stress is that the brand culture is critical. Brand culture essentially defines the good purpose and values of the company. How does a brand create value for others in the world with its products and services? What are the values and behaviors, that brand people need to live consistently daily to create a unique identity and be a force for good?

The brand purpose has to be beyond a great product or service. Those are table stakes. You have to create a compelling emotional experience for the client through your engagement via all channels and touchpoints. It is a complete environment that you create, not only from a visual and multisensory perspective but also in how you engage humanistically with customers. You have to touch the minds and the hearts of your consumers so that they decide it is worthwhile engaging with you and purchasing your product or service. These tasks are a major challenge today.

The other luxury requirement is that you have to be unique. You have to be genuine. You cannot be a copycat in the luxury market. It doesn't work in the long term. It is not profitable long-term.

Larry: What do you think is the role of culture in luxury? Is luxury defined differently in each culture?

Milton: I will give you a great example. We just surveyed Chinese consumers, and their willingness to be swayed by influencers is huge. In the United States, this is not as prevalent. Celebrities easily influence approximately 30 percent of the U.S. consumers versus 75 percent of the Chinese consumers. Another example is the desire to go to a store. In China these days, it's less of a desire. They are so digital, and the stores are marketing venues more than they are places to buy. In Europe and America, people still want to come to the store. So there's no question that local culture and habits play a major role. Consumers feel that you need to speak their language. Chinese consumers and their growing travel habits are making travel retail in major cities a growth opportunity.

Another example is Korea, and how digital the market is, and how well educated people are. How do they like to interact? This is important due to the nature of how that country has developed from a technological, educational, and cultural perspective. And so you have to adapt to the local marketplace. A company such as Apple tries to maintain a very respectful culture, yet also a very consistent global experience when you go to the Apple store in Hong Kong, Shanghai, Paris and New York. You just have to figure out how to optimize, and not compromise, on your client experiences across countries and cultures. It's a fun puzzle to solve.

Larry: What is the most challenging issue facing luxury firms right now? Milton, I'm sure you have thought about this many times since this is the thrust of your business. Would you like to share some perspectives?

Milton: I think the biggest challenge for luxury brands right now is to how to remain relevant? How do I stay relevant and compelling to all the evolving generations and cultures? And some brands try to approach it from a mindset as opposed to a demographic. And so what I would say is you need to stay adaptively iterative. You adapt, and you iterate, and you're testing and learning. You do things that make it safe for employees to experiment and to fail because you need to stay relevant.

Today the ability to start a brand is dramatically improved. So for example, there are brands out there such as Supreme, a clothing and accessories brand, or Glossier, which is a cosmetics brand, that has risen from zero meteorically. It's not so much about the product. And it's so much easier today to develop products quickly. It's more about the culture or positive cult following of these brands. So there are a lot of brands that are starting up today and achieving success. It's never been easier to have an idea, engage a celebrity, get the venture-funded, and not even know where the products are coming from immediately. It's never been easier to get funding for a great idea. And it's never been easier for social media to gather a crowd, gather followers and, therefore, eventually customers. So how do luxury brands that have long histories, and are more traditional, such as Chanel and Hermes, and Ferrari stay relevant? That is the biggest challenge in a world that has tremendous change. Think of this change regarding startups. If you picture a garden, plenty of flowers and weeds are coming up. And by the way, only a few of those weeds become beautiful flowers and grow — many die. You have to operate differently than you ever did before because the ability of companies to disrupt you and wipe you out in a flash has become a reality.

Larry: Let me move on to a couple of things such as how millennials view luxury versus the baby boomers. Jean-Noel Kepferer talks about millennials and baby boomers and the convergence between the two. So he would argue, he said, well, right now they are different. But they are converging. I'm sure you have a view on this, and it may not be the same as Kepferer.

Milton: I have deep respect and admiration for Jean-Noel. I think there are several ideas here. We are in an interesting time in luxury in that we have an overlap, but it's an interesting overlap. On the one hand, if you look at millennials as an entire group, there is only a smaller percentage of millennials who have a lot of money. The majority of millennials have jobs that do not pay well. They have a lot of college debt, and they have not inherited money yet, because the boomers are living longer and healthier. So many millennials still have limited disposable income.

Meanwhile, everybody is going toward consuming services and experiences. All generations are going from goods to experiences, and they count technology products as an experience. Baby Boomers are living longer and are going to have to spend money that they would give to their kids on assisted care, travel, and other innovative new services? Some are working longer. You have this very interesting situation where the growth engine of luxury, which should be the millennial generation, is not earning as much. They are not creating households as quickly. They do not have children as quickly in the US, Western Europe or Asia. It is an interesting time because that hyper-growth in luxury that should be led by the millennials isn't happening yet. And let's see how it how much it happens because demographics do matter. GenXers can not make up for that because they are a small number.

At the same time, there is this redefinition of luxury. And I think part of it is by necessity. The definition of luxury is becoming much more about luxury services, such as having my makeup, or hair, done by an expert, at home. Getting fit and pursuing wellness are popular across all generations. Even education and health care have their growing luxury segments. And real estate and wealth management are huge industries and will remain so.

Also, the shared-access economy is affecting luxury sales. Richemont just acquired Watchfinder, which is about selling vintage watches. Millenials use Rent the Runway profusely.

So the main idea is that we're in a time of major flux, where what we used to view as assumptions are no longer true. We have new assumptions about what luxury means and how luxury is consumed. There is more emphasis on experiences such as food and wine and travel. The cruise line industry is very healthy. Riverboat tours are growing. Categories that we might not have thought particularly important previously are doing very well. It's a tumultuous time, and luxury brands must become adaptive and agile, or get left behind.

Larry: What are some of the fundamental differences that you see between marketing luxury brands that are products and those that are much closer to services. Hence, what are the differences between marketing a luxury watch and a hotel? I would anticipate placing this question and response as indicated in the attachment.

Milton: the differences are becoming blurred because products are evolving into services and experiences, and all offerings, whether a handbag, a car, or a hotel stay, all require deep emotional elements, not just functional value. The way to approach both goods and services is to think of them as human experiences and relationships from beginning to end, and focus on delivering value, ease of use, and make the client feel special across every single interaction. Build a long term dialogue and relationship regardless of the luxury category.

Larry: Let me move on to the next issue, which is the white papers. You touched on this in your initial response, but I was wondering what do you think is the most significant of the white papers? Or maybe you want to summarize the most significant thoughts in the white papers?

Milton: The most important ones are the white papers that share actionable insights about deep emotional intelligence and how individuals and brands need to deliver emotional intelligence to remain relevant in this technological world. One white paper we published in May 2018 is about the caring jobs revolution. Tech experts are predicting that AI is going to devastate all the jobs, but I don't believe that for one second. I think what AI will do is take all the rote, boring, yet, important tasks, such as analytical data processing, and jobs that require analytical elements in any profession, and automate most of them. Whether it's diagnosing a disease, coming up with a strategy for a legal case, developing an investment portfolio, all these tasks will be automated to a large degree. However, there will always be humans who will work alongside that AI who will provide the critical judgment, creativity, and emotional intelligence elements and relationship building that humans crave to survive. The human element in luxury and the need for skilled emotional intelligence will only grow in demand and will continue to make luxury relevant beyond the product or service.

I look forward to seeing how creative individuals continue to innovate the customer experience in the luxury industry.

Larry: Good thoughts. And this may be a good place to end. Thank you for your time and many thoughts.