

LEADERSHIP *in the*
LUXURY INDUSTRY

ARE THE RULES CHANGING?



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Are the rules changing?

EXECUTIVE *summary*

During 2009, Spencer Stuart embarked upon some research into the background and experience of the CEOs who lead 100 of the world's most prominent luxury brands. Intrigued by this data we decided to interview over sixty chief executives and general managers in the luxury goods sector around the world, as well as several well respected industry observers, to find out what they believe will make a difference to their sector's fortunes over the next five years.

Impact of the recent economic crisis

The downturn forced luxury businesses to review priorities and act decisively to protect the two most important assets at their disposal — talent and brand.

The value revolution: redefining luxury

With the widespread reduction in disposable income a sizable tranche of luxury consumers disappeared. Today's consumers are highly discerning and understand value as a function of heritage and quality rather than price.

Understanding the consumer

The level of consumer insight in the luxury sector is generally poor. Consumer behaviour is changing and loyalty is diminishing. In order to invest wisely for the long term, luxury businesses must adopt more sophisticated relationship marketing tools and where necessary recruit the requisite skills from outside the sector.

Innovation and competitive advantage

With brands competing for fewer customers and some companies concerned about survival,

HIGHLIGHTS *from our* RESEARCH*

11%

of luxury CEOs
are female

11% of CEOs in our sample are female. This compares well to the FTSE EuroFirst 300, where only 1.3% of CEOs are female.

10%

of luxury CEOs
have MBAs

10% of CEOs in our sample are confirmed as having MBA degrees, versus 23% of CEOs of FTSE EuroFirst 300 companies.

51

Average age of luxury
CEOs in our sample

The average age of the CEOs in our sample is 51 — younger than the average FTSE EuroFirst 300 CEO by four years.

* The information was accurate to the best of our knowledge when we went to press in October 2009.

luxury businesses must invest in innovation — not just in product development, but in advertising and communications, improving the buying experience and raising service levels, and in embracing e-commerce and the Internet.

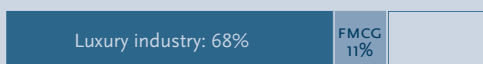
The leadership challenge

As the luxury industry becomes more complex, so does the role of the CEO. 68% of leaders in our survey of the Top 100 brands have spent the majority of their careers in the luxury sector. However, with a finite talent pool available, many businesses have started to hire leadership talent from other sectors. These successful ‘outsider’ executives bring brand management experience and an international mindset, adapt well to the idiosyncrasies of the luxury sector and know how to unlock the value in the business.

Growth markets

With revenues stagnant for many in the sector, luxury companies are looking to Asia Pacific and other emerging markets for growth. However, there is a noticeable lack of non-Western nationals in senior leadership positions in these markets, and to fully capitalise on the growth opportunities companies should be doing more to identify and develop local talent wherever possible.

CEO background



68% of CEOs have spent the majority of their careers in the luxury or related sectors (e.g. luxury retail, fashion). Of the rest, 11% came from FMCG

Other observations

7% of luxury CEOs are the son or daughter of the company founder

Leaders of apparel businesses should take note that all seven of the private equity-backed companies in our study are in the apparel sector.

CEO nationality



Three quarters of luxury leaders are Europeans, of which 30% are French, 20% Italian, 11% American, 9% Swiss, 6% German and 6% are British.

Nationality appears correlated to industry sector: jewellery and fragrances companies tend to be run by French leaders, fashion houses by Italian leaders and watch companies by German and Swiss leaders.

INTRODUCTION

DURING THE COURSE OF INTERVIEWS with over sixty chief executives and general managers in the luxury goods sector around the world, as well as several well respected industry observers, we were interested to discover the effects of strategic shifts in the luxury sector on leadership and talent management. We wanted to explore the skills necessary to lead luxury businesses through the crisis, and to understand the extent to which companies might need to look outside the sector to find leaders with the vision and talent to navigate the unique challenges that lie ahead.

A few years ago the luxury industry was riding high. An increase in global travel, a strong US economy and continued expansion across Asia meant that companies were reporting record profits. More recently there has been an expected decline in global luxury sales revenues of 15–20 per cent, according to a recent study by Bain & Co¹.

It is easy to understand the drop in revenues within the context of the overall global economic crisis, however there is much more for luxury businesses to do than patiently ride out the downturn and wait for recovery. The recession greatly increased the level of complexity faced by companies in the luxury sector. Their resilience and ingenuity has been tested to the limit. Declining sales have been the norm in mature markets, yet there are opportunities for significant growth in emerging markets. Consumer habits are changing, product portfolios are shrinking and brands have retrenched; yet the need for innovation and thoughtful investment remains as strong as ever.

The report that follows brings together insights on these topics from the many leaders we interviewed across several continents. We would like to thank each of them for their willingness to discuss these issues and for their fascinating insights.

¹ Bain & Co semi-annual update to its 'Luxury Goods Worldwide Market' study, 7th edition, 20 April 2009

EFFECTS *of the* RECENT ECONOMIC CRISIS

WHILE NOBODY EVER CLAIMED that luxury goods are immune to recession, the decade of substantial, often double digit, growth that ended abruptly in 2008 left some feeling that 2009 was the time to restructure, reconsider business models and take a fresh look at how the industry perceives itself. For many, this meant scrambling to review costs, hiring only very cautiously if at all, and reorganising in order to meet a smaller demand. Those who previously extended their brands into new and often marginal categories returned to their core products, which is where they focused their innovation.

During this recent period of sudden and dramatic decline, it is fair to say that all luxury companies took measures to rein back their plans, heeding the words of one luxury retailer who warned: “Vendors need to accept that a third of their business is gone and won’t be coming back soon.” However, the leaders we interviewed were clear about two aspects of their business that they must protect.

First, companies are determined not to lose talent. As one director, explained: “Talent retention is key here. We need to keep the best and motivate them despite no bonus or at least no salary increase.”

Second, with luxury fatigue setting in, protecting the brand is crucial. Leaders have been keen to reduce expenses, but only where such measures do not negatively affect the brand. The message is clear: renegotiate rents and manufacturing contracts, rationalise disparate training programmes, enact a hiring freeze ... but *don't touch brand*. Leaders are unanimous about the importance of protecting brand, even in the most dire economic circumstances. After all, it takes decades to build a brand in the luxury sector. Diluting the brand and compromising the perception of it — for example, by reducing quality or price or by chasing the aspirational consumer and going down market — is extremely hard to recover from.

“Core customers are not trading down, they are simply buying fewer things.”

In the West, the landscape of luxury has changed dramatically. The impact of the economic crisis was seen most clearly in the changing profile and behaviour of consumers. Large numbers of buyers simply disappeared. Market saturation, over-exposure of brands and ostentatious consumer behaviour gave way to the virtues of discernment, discretion, authenticity and sustainability. Value is the new mantra, not volume.

Elsewhere, from China to Brazil and from Japan to the Middle East, the mood varies greatly by geography and by segment, but can now be best characterised as “cautiously optimistic”. Later in this report we take a broad look at where the greatest market opportunities lie and how companies are seeking to adjust their leadership thinking and talent base to address these opportunities.

The value revolution: REDEFINING LUXURY

“The luxury sector and consumers’ approach to this sector are changing: more attention will be paid to quality and value for money.”

THE IMPORTANCE OF VALUE was reiterated by most luxury leaders we interviewed. Not discounting, but ensuring that there is perceived value at every price point. As one industry observer remarked: “The rate at which prices increased during the good years was not justifiable.” In this new era of reduced spending — whether due to the sudden fall in stock markets, reticence about conspicuous consumption, or concerns about sustainability and the environment — luxury consumers are becoming smarter and more discerning, preferring authentically conceived and crafted products over anything that appears ostentatious.

The dominance of a brand and its ability to consolidate and expand in difficult market conditions will depend on understanding value as a function of heritage and quality rather than price. This highlights an important distinction between true luxury and high-end fashion that was less evident during the recent period of market euphoria. As one senior executive put it: “Luxury is the unique mix of creativity, tradition, craftsmanship, design and a sense of lasting permanence. Fashion is essentially short term; over the long term it doesn’t matter. In crisis customers return to the lasting values of real luxury.” If people are going to spend money, so the argument goes, they will spend it on things that last, on timeless elegance.

When asked where their priorities lay during this downturn, many of the leaders we met used phrases like “returning to our heritage”, “back to basics” and “reinforcing the value proposition”. They expect some brands to disappear and those that remain to concentrate on differentiating themselves through improvements in quality and craftsmanship. Between the smaller, highly focused craft-oriented companies and the big multi-brand conglomerates with good leverage in the market and strong management processes there are a number of vulnerable companies that will have to think carefully about where their destiny lies and organise themselves accordingly.

UNDERSTANDING *the consumer*

IN THE LIGHT of reduced consumer spending, luxury companies need to be able to identify exactly where their revenues are coming from and focus their efforts accordingly. This means understanding consumer profiles, predicting behaviour and anticipating purchasing decisions. Most leaders we spoke to acknowledged the importance of these things while conceding that the industry as a whole has been at best lax and at worst complacent about having direct contact with customers and gathering data on them — a critical discipline that other consumer-oriented businesses mastered long ago. Of course there are exceptions, but the level of consumer insight in the luxury sector is generally very poor indeed. A recent Interbrand report refers to the challenge facing luxury brands chasing “elusive customers who are difficult to communicate with and even more difficult to find”, which only reinforces the importance of developing sophisticated and subtle tools for interacting with high net worth individuals and securing their loyalty.²

One explanation for the low priority given to consumer insight may be that historically luxury goods were sold only to a small and easily defined aristocratic elite who could afford them. Prices were well out of reach of the mass market, sales volumes were relatively small and competition less aggressive, making the collection of data less critical to a company’s success. As wealth has become more widespread and the luxury consumer demographic has broadened in both mature and developing markets, most leaders have found their businesses lagging behind other sectors in the application of technology and data to marketing. “They don’t understand the basics,” says one industry observer. “Like an Arcadia or a Procter & Gamble, luxury companies need to make use of customer information and glean critical insights in order to invest wisely.”

“Companies desperately need to develop listening skills; they must listen to local consumers and understand how they react to the brand and what they are aspiring to.”

² ‘The Leading Luxury Brands 2008’. Authors: Danet, Feldmeth, Ricca, Stucky and Hales, Interband

The proliferation of brands combined with diminishing consumer loyalty and significantly reduced spending power is a perfect storm for luxury businesses. Those brands that direct resources and talent towards acquiring and capitalising on consumer insight will be best placed to come out of this recession intact and emerge ahead of their competitors. There will always be luxury executives who rely on an intuitive sense of who their customers are and whose marketing efforts are driven primarily by instinct and flair, but we believe that in the future most brands, however niche, will best be served by adopting more sophisticated tools and developing strong capabilities in relationship marketing.

In the United States, still the leading market for many luxury companies, as well as across Europe, luxury companies are consolidating their efforts in the direction of more affluent, reliable purchasers. These high net worth customers, for whom a product's price matters far less than its exclusivity, rarity and longevity, are more resilient in troubled times than aspirant purchasers and therefore critical to look after. Yet there is a dearth of intelligence about who these people are, what drives their spending and how they relate to the brand. "There is an alarming disconnect between how luxury companies and luxury consumers view their relationship," said one commentator.

Leaders are clear that they must continue to focus on these high-end consumers, not only for the long-term revenues they can generate themselves, but because there is clear evidence that they set the trend for purchasing decisions made by less affluent, aspirational consumers who will undoubtedly return as the economy picks up. Companies must provide high-end consumers with custom-made or limited-edition, high-quality, luxury goods combined with an outstanding buying experience — or else they will risk losing their custom for years to come. This means continuing to innovate, even when the economic news is bad, and focusing on the buying experience, which should never be compromised.

INNOVATION *and* COMPETITIVE ADVANTAGE

IN A RECENT SURVEY, Spencer Stuart found that more than two-thirds of leading global companies across all sectors cite innovation as critical for long-term success. Although luxury businesses attract plenty of creative talent, truly innovative people are rare, as the authors of a fascinating Harvard Business Review article point out.³ Finding and nurturing innovators is just as important in luxury as it is in any other kind of business. In some ways the challenges are even greater, given that in the luxury industry, innovation has to rub shoulders with heritage and tradition. The rewards are evident: highly discerning consumers with diminishing loyalties respond well to innovation in everything from craftsmanship to service.

“We are timeless, our brand is not ‘of the moment’. But we need to continue to surprise people.”

In the luxury sector, innovation is often described in terms of product — using different materials, meeting new needs, increasing effectiveness or introducing new lines as an entry point rather than reducing prices. But industry leaders are also talking about innovation that is less directly associated with the product. For example, finding new ways to communicate a brand’s prestige and exclusivity through advertising; becoming more customer-centric; developing retail stores that express a mixture of wondrous invitation and intimidation into the luxury experience; or providing a truly exceptional level of service.

³ *Finding and Grooming Breakthrough Innovators* by Jeffrey Cohn, Jon Katzenbach and Gus Vlask, Harvard Business Review, December 2008

Indeed, the experience of purchasing a luxury product must be unique and unrepeatable, something that goes well beyond the ordinary experiences attainable by the masses. Since each purchase runs the risk of dampening the dream associated with it, the buying experience must be continually enhanced and the service maintained as unique and distinctive. As several CEOs pointed out, the luxury sector can learn a great deal from high-end service sectors such as hospitality and leisure, where creating a truly differentiated consumer experience is key to success.

“There must be no trade-offs on service, or you lose your top-end clients.”

Another area where innovation is needed is the Internet. For some, promoting and selling luxury products via the web, essentially a mass-market medium, is anathema. Others, including the newer players, are embracing e-commerce and finding interesting ways of marketing themselves online. “Technology is a low-hanging fruit,” says one industry observer. “The growth of e-commerce has been astonishing but it is a total missed opportunity for the luxury sector.” A generation of younger consumers are content to research — and even purchase — expensive luxury items online. The success of online fashion store Net-A-Porter bears this out.

Opening up the web for direct sales to consumers has implications for businesses operating multiple local pricing strategies, however this does not mean that those companies should shy away from what is potentially a highly lucrative alternative distribution channel and one that will only get more important over time. It is vital that luxury brands take advantage of what the web has to offer, which means having the right talent in place to align an essentially modern, democratic medium with a timeless, elitist message.

THE *leadership* CHALLENGE

IN RECENT YEARS, many luxury organisations have recruited senior staff with experience outside the industry. Gucci's Robert Polet was president of the ice cream and frozen foods division of Unilever before joining Gucci in 2004. LVMH has recruited several non-industry leaders, including Laurent Boillot, formerly of Unilever. Liberty plc hired Geoffroy de La Bourdonnaye, who was with Disney for many years before joining LVMH, while Dr. Bruno E Sälzer, worked at Beiersdorf and Schwarzkopf before becoming CEO of Hugo Boss. Stanislas De Quercize, president of Van Cleef & Arpels, started his career at Procter & Gamble.

“The professionalisation of the luxury sector has resulted in the need for talent drawn from a broader cross-section of business.”

As the luxury industry becomes more complex, so does the CEO's role. Leaders are required to understand the unique properties of the luxury experience, manage highly creative people, apply tougher management disciplines and be sensitive to the cultural nuances involved in running a global business. The focus on profitability is now extending across the portfolio to highly prestigious, loss-making brands, and the introduction of IFRS is forcing greater transparency in financial reporting by large groups.

In light of this growing complexity, we asked luxury industry leaders whether recruiting CEOs and other senior executives from outside the industry is likely to become more common in years to come. Here, as in many areas of our research, views were as diverse as they were passionate.

With creativity permeating every aspect of the luxury industry, some argued that executives hired in from more traditional corporate environments struggle to get the best out of craftsmen, designers and other talented individuals who are so central to the success of a business. One industry expert observed: “Since the arrival of managers from outside the luxury industry, a rupture has been created. Managerial types have a hard time integrating with creative executives.”

One senior figure made a strong case for industry insiders: “I do not see hiring from outside the sector for top positions. Luxury is about passion, style and emotion. It is not just based on facts and figures, but on gut feeling. These are things that cannot be taught — you have to be in the industry for a long time, to have lived the business, understand the life-cycle of products but be utterly customer-centric, more so than in any other business.” Others were blunter still, stating that outsiders have no “fashion flair”, no “passion and feeling” for the products.

“Our business is about creating products that will feel timeless thirty to fifty years from now, so we need to have leadership that looks beyond the immediate horizon.”

While some may feel that only insiders blessed with intuition and an aesthetic sensibility honed over many years should assume the leadership of luxury businesses, the majority of those we interviewed take a somewhat different view. There is certainly plenty of outstanding leadership talent within the luxury industry that needs to be carefully nurtured. Identifying, assessing and developing this talent should be a priority for every company in the sector. However, at the most senior levels in many parts of the world there is a shortage of talent with the skills, experience and vision necessary to navigate the crisis and steer luxury organisations through a period of transformation. The pool of talent within the industry is too limited not to consider outsiders and, in particular instances, the best solution to a leadership vacuum will definitely come from outside the industry.

While it is difficult to generalise, managers coming into the industry from outside tend to be more effective when joining larger businesses than smaller ones. Culturally and in other ways it is easier for larger companies to assimilate outsiders, but that is not to say that smaller companies could not benefit greatly from an infusion of leadership talent with experience of different sectors and global markets. The challenge is to find leaders who possess a high level of sensitivity and who recognise the importance of preserving the inherent value of a brand.

Many leaders are now open (if not always enthusiastic) to hiring senior executives from outside the sector, providing candidates have the humility to learn about the idiosyncrasies of the company and the sector as a whole and develop a “passion and feeling” for the product range. For those recruited from outside into middle-management positions, their lack of experience is less of a barrier, since they may have 5–10 years to develop an understanding of the luxury sector before stepping up to more senior roles.

“For a luxury brand to survive in the long term, it must be global in nature. A CEO must understand how to strike a proper balance between corporate culture and local market culture.”

It is clear from the range of responses to our question, however, that the industry is in a state of flux. Indeed, there seems to be little consensus on how to modernise the luxury industry, even in the most general terms. Those who defend exclusivity and brand coherence are equally passionate about adapting to, and meeting the needs of, emerging markets. Some state that distribution will be the key to success, and that new ways of doing business (such as e-commerce) are critical, while still arguing against employing mass-market tactics for fear of diluting that sense of exclusivity and even opulence that is the very hallmark of luxury.

TRAITS THAT OUR CLIENTS ARE SEEKING IN LUXURY BRAND CEOS

- > Understand the brand DNA
- > Sensitive to the creative elements of the business
- > Respect for the company culture
- > Able to establish a good rapport with the creative director and manage the creative process. No need to be the creator, the initiator or the inventor, but to see potential, have a strong commercial sense and be able to drive sales around the world
- > A great ambassador for the brand
- > Diversified experience from organisations with complex distribution systems
- > Multi-functional experience in different companies and in different markets
- > Able to manage cultural complexity
- > Entrepreneurship
- > Knowledge of retail and merchandising
- > Ability to adapt to new environments
- > Intellectual maturity
- > Recruit and develop great talent
- > Flexibility, humility and a willingness to learn from people more knowledgeable in certain aspects of the business
- > Desire to build an effective succession plan — leaving behind a strong business and quality team
- > Good team player, able to delegate

What, then, does this say about the kind of person best equipped to handle the seemingly contradictory elements of developing new markets, opening up new distribution channels, adapting to diverse cultural expectations and preserving exclusivity and brand coherence, while operating within a far tougher, more competitive commercial environment?

There are highly capable leaders in other sectors whose experience managing brands and whose international mindset could be invaluable to luxury businesses needing to operate more effectively in a globalised market place. The big question is how to identify those leaders who can bring new skills and a fresh outlook, adapt to the idiosyncrasies of the sector, empathise with the product and the consumer, manage the creative process and get the best out of existing talent, handle operational complexity, shorten the production cycle, and yet remain flexible and agile enough to respond to and run with innovative ideas.

GROWTH *markets*

WHAT HAS EMERGED from our discussions with luxury industry leaders is that for the foreseeable future they expect any growth to come from markets outside the U.S. and Western Europe, particularly those generally referred to as ‘emerging markets’, such as Brazil, Russia, India and China (the so-called BRIC countries), Korea and the Middle East. Gaining a share of global markets is an aspiration for every business, but in reality the demand for luxury goods differs greatly from region to region and from country to country. Not only that, but consumer taste and expectations vary, as does the availability of local talent.

Of the many dangers inherent in expanding into emerging markets, none is more critical than the dearth of local talent. Real, sustained investment in talent is required if companies are going to reach their potential in growth markets over the long term. It is interesting to note that of the senior figures we interviewed in the Asia Pacific region, almost all are European. The lack of Asian nationals in senior leadership positions across the Asia Pacific region may reflect a gap in managerial cultures between the East and West, or it may reflect a perceived lack of talent and experience. Whatever the reason, it is surely in a company’s long-term interests actively to identify and develop potential leaders from local candidate pools.

“It is critical to plan for the future by developing long-term staffing, career development and succession planning in local markets. The danger is that during the crisis companies will stop investing in their people.”

There is also a noticeable lack of women in top jobs in the region. HR has an important role to play in ensuring that Western-run organisations invest in training, developing and retaining a more diverse pool of talent. As one executive observed: “You need to focus on creating a viable career path for people in

emerging markets and make it visible, setting precedents proving that opportunities exist for other nationalities to ascend to higher roles in the organisation.” Another leader endorsed this priority, reporting that he had recently relocated an HR director from Europe to Hong Kong specifically to look for talent in the region. Another spoke of the value of developing talent by moving people from Asia Pacific around the organisation, giving them a chance to broaden their experience and test themselves in different roles and in different geographies.

Of the BRIC countries, Brazil has a relatively small elite who can afford true luxury products. CEOs we talked to believe that Brazilians will continue to buy luxury goods, although there is a tendency for them to do so outside their country. Lack of stability in the Russian market is making it difficult for luxury goods companies to capitalise on the pockets of extreme wealth in the country. India has enormous potential, but few people see the Indian market growing rapidly for a number of reasons, among them import tax issues, distribution difficulties and a fragmented retail sector.

“It will take time for revenues from newer markets to compensate for losses in more established markets.”

China, on the other hand, is universally recognised as a key player in the future of the luxury industry and for many companies it is by far the most important growth market. “Consumers are becoming increasingly savvy. Information flows are truly amazing and people learn about fashion trends incredibly fast. There are 300 million internet users in China, well over twice the population of Japan.” While China is no longer seen as an emerging market in business terms, it is still considered inexperienced from a human capital perspective: “We have difficulty finding staff who know how to talk about brand because they do not come from a strong brand culture,” said one CEO. However, given how far China has come in a very short space of time, the picture across the luxury industry will look very different five years from now — for manufacturers, distributors, retailers and consumers.

Several leaders commented that China should be viewed as an emerging market only in regard to human capital. One retail executive, for example, described the dilemma of trying to provide a quality service to demanding Chinese customers while staff attitudes are lacking and turnover is high. In the short term, luxury businesses are struggling to fill senior positions from within China, instead bringing in talent from overseas. In the longer term, the challenge will be to train a new generation of talent at middle and junior levels (for example in retail, merchandising, sales and finance) who will remain loyal to the organisation and provide the leaders of the future.

“Emerging markets are important, but there is also a lot of hype around them. We must have the right expectations and be realistic about some of the downsides, such as political and economic instability, bureaucracy and so on.”

Finding talent in more mature Asia Pacific markets is slightly less problematic (one leader described Hong Kong as a “talent reservoir”), although much still needs to be done to close the skills gap.

Japan remains a strong market on the whole, although the strength of the Euro has meant rising costs of importing goods. Described by some as “the most mature luxury goods market in the world”, changing consumer behaviours suggest that money is being spent more on ‘lifestyle experiences’ than material goods, and the big brands are not having it all their own way. There is a question mark over whether people will return to the luxury buying patterns that were evident before the recession. Changing demographics are having an impact, too. There is a decreasing population of 20–29-year-olds, the aspiring consumers of the future, and a marked increase in the retired population who have less disposable cash. As in Europe, the market for ‘affordable luxury’ is shrinking largely due to those with middle incomes losing their purchasing power.

Adapting to these changes calls for ingenuity and a deep understanding of consumer behaviour and cultural trends, but non-Japanese companies are finding it difficult to attract high-quality executives from the local population. The leaders we spoke to believe this is partly because Japanese are reticent about working for a foreign company during an economic downturn, and partly because they tend not to be sufficiently robust or willing to express a point of view, which is something they will need to overcome if they are to acquire sufficient credibility and influence when interacting with head office.

The lack of Asian nationals in senior leadership positions across the Asia Pacific region may reflect a gap in managerial cultures between the East and West, or it may reflect a perceived lack of talent and experience. Whatever the reason, it is surely in a company's long-term interests actively to identify and develop potential leaders from local candidate pools who are not only culturally attuned to the operational challenges and subtleties of brand-building in local markets, but also to the idiosyncrasies of the companies that employ them.

CONCLUSION

THERE IS A REAL POLARISATION OF VIEWS from chief executives in the luxury sector about whether future leaders should come from inside or outside the industry. While some feel that only insiders have the passion and aesthetic sensibility to lead these businesses, the majority concede that the sector is currently too inwardly focused and would benefit from the wider experience base of leaders who have worked outside the sector. Yet this seems to be too binary a view. Also highly significant is the lack of gender or ethnic diversity in the current luxury leadership pool.

The challenges that the industry faces in coming out of this recession are significant. Leaders are needed with the foresight to think differently about the buying behaviours of tomorrow's luxury consumers, who are increasingly sophisticated, discerning and global. These leaders must recognise that creating a truly differentiated consumer experience is the key to success.

Globalisation will have a marked impact on leadership within the luxury industry. In other industry sectors like automotive, electronics or telecommunications, world-class organisations have shifted their power bases to China and India, or are currently doing so. This has primarily been to capitalise on the entrepreneurial nature of people in these 'challenger markets' and to reflect fast-growing consumer demand. It is perhaps surprising to discover that many luxury businesses, rather than recognising the global shift and actively developing local talent, seem to be treating these regions as a training ground for expatriates to gain general management experience.

Given the increasing wealth in emerging markets, particularly in China and India, the luxury industry will need to think far more seriously about how it attracts and develops local talent in its global leadership pool. The industry needs talented leaders who truly understand the cultural nuances, distribution channels and buying patterns of their home markets.

From our study it is clear that although most of the leading companies within the luxury sector are grooming up-and-coming talent from within, we are likely in the future to see more future leaders coming into the industry from outside — people from diverse backgrounds, geographies and businesses, such as from the service-led hospitality and leisure sectors or from more entrepreneurial consumer businesses. Companies that can attract and retain truly outstanding people and build diverse international leadership teams will emerge as the winners in the future.

ACKNOWLEDGEMENTS

We talked to senior executives from many organisations during our research, including companies from each of the large global luxury groups, as well as family-owned and private equity-backed businesses . We also spoke to senior advisors, strategy consultants and industry analysts for the sector around the world. Our grateful thanks to those companies listed below and to the many other participants whom we were not able to list here.

Alaia	Harrods
Alfred Dunhill	Harry Winston Diamond Corporation
Alexander McQueen	HSBC
Altagamma	Jaeger-LeCoultre
Bank of America, Merrill Lynch	Judith Ripka
Bergdorf Goodman	L Capital Management
Blackwood Capital	La Rinascente
Bluebell (Japan)	Liberty
Bonpoint	Louis Vuitton
Boston Consulting Group	Luxottica
Bottega Veneta	McKinsey & Co
Bulgari	Merrill Lynch
Chandon Estates	Morgan Stanley
Coach (Japan)	Polo Ralph Lauren
Credit Suisse	Richemont International
Dolce & Gabbana (Japan)	Roger Dubois
Escada	Safilo
Fendi (Italy)	SDA Bocconi
Ferragamo USA	Theo Fennell
Geox	Tod's
Gianni Versace	Tom Ford
Giorgio Armani (Japan)	Van Cleef & Arpels
Gucci	Walpole
Hackett	Weston

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