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Megacities and Globalization of the Luxury World

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Al viaggio che mi ha portato fin qui,

a chi è sempre stato al mio fianco.

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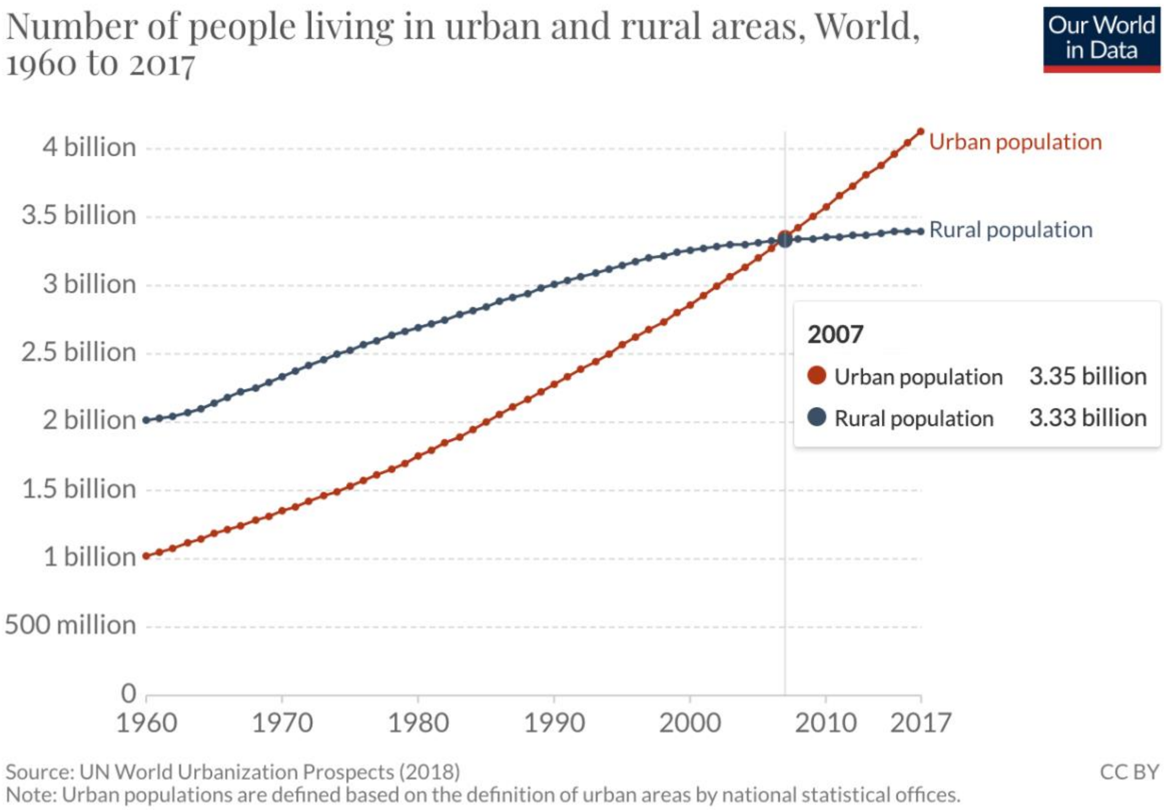
INTRODUCTION

In this thesis I will describe the main characteristics of the Megacities with a focus on the relationship with the luxury world and the globalization path. Megacities represent a growing reality for the urbanization pattern of the planet and play an important role in the political, social and economic development of many countries. Using a literature review approach, I will determine what are the aspects that a luxury firm should take into consideration when dealing with a megacity and why it is important to focus on megalopolis and megacities instead of macro-region or countries. In the first two chapters, megacities will be described in depth and the most important megacities and megalopolis, in regard to the luxury world, will be particularly explained, with a focus on socio-economic aspects. Then, the relationship between luxury and megacities will be described by two different point of view: the one of consumers and the one of companies. Finally, after highlighting the unique challenges that these urban giants face and some alternative models, I will draw general conclusion on the importance of megacities in regard to their role of global influencers and huge luxury consumption pools.

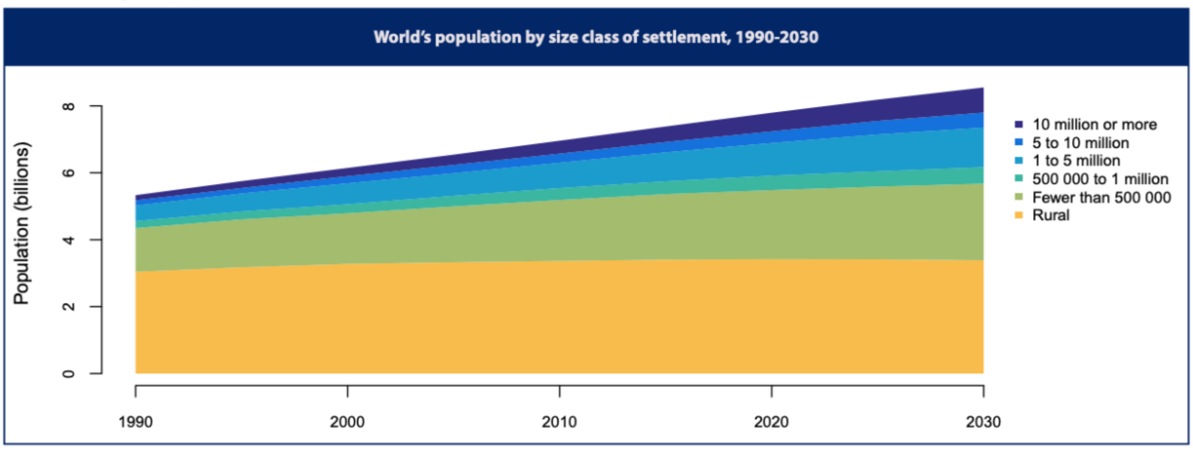
CHAPTER 1 – DEFINITION AND DESCRIPTION OF MEGACITIES AND CITY CLUSTERS

Megacities and Megalopolis definitions

2007 is the year in which the world observed an absolutely novel shift in the population pattern: more than half of the 6,6 billion people living on earth at the time were living in urban areas, and rapidly growing over the stable rural population [1].



Moreover, the urbanization didn't come alone: people tended to favor bigger cities, with cities of over 10 million citizens experiencing the fastest growth of population in the period 1990-2020 and they are not projected to stop [2].



The cities with a population of more than 10 million people are the so-called Mega-Cities, according to the United Nations Department of Economic and Social Affairs [3]. The 6,9% of the world population in 2018 (529 million) lives in these huge urban agglomerates and it will reach nearly 9% by 2030 according to The World's Cities in 2018 Report by the UN. There exist other lists of cities that starts from 5 or 8 million people living in them, but in this discussion, I will stick to the UN definition.

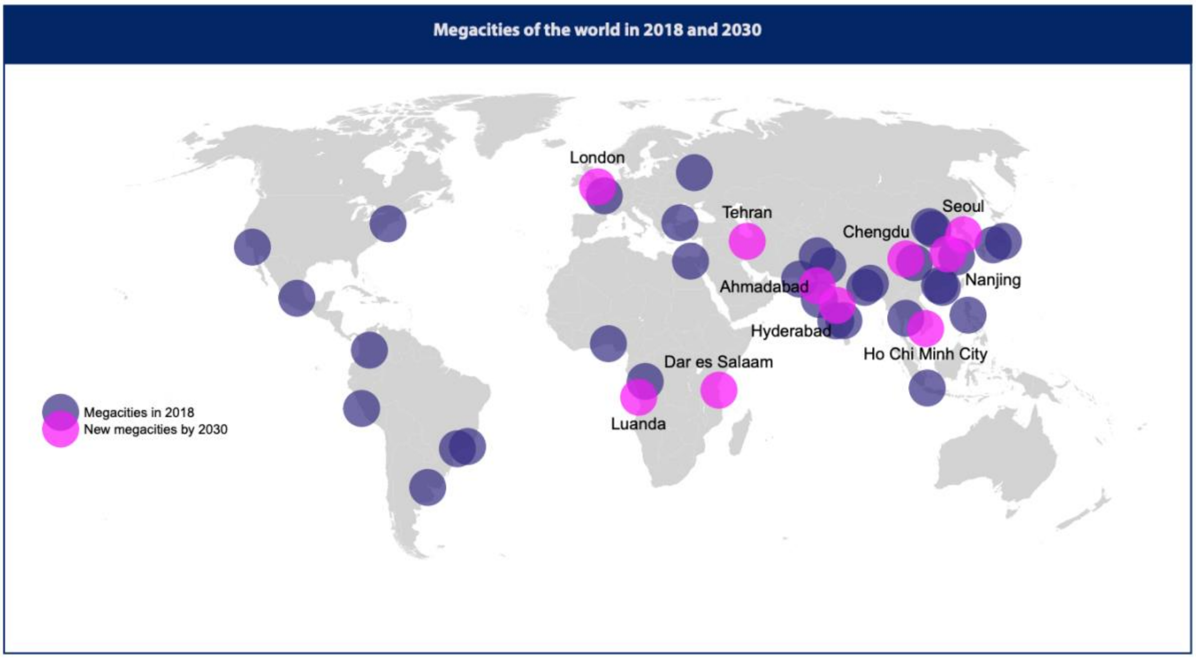
While cities are generally bounded by their respective administration, and thus are easily identifiable, other larger urban conglomerates may be identified by looking at tight socio-economic relationships between them. When two or more big cities grow so much that their outskirts bridge the gap with another city, that phenomenon creates a City Cluster or Megalopolis. The term Megalopolis was first popularized by the French geographer Jean Gottmann [4] that defined their population at 25 million people. There are, just as in the case of the megacities, other definitions that use the population dimension as the basis for establishing a megalopolis provided by Doxiadis [5] and the America 2050 association. Other studies [6] assessed the importance of the economic weight of this clusters to identify them as a proper Megalopolis. Finally, another fundamental characteristic of the city clusters is the quantity and quality of connections that they share inside the cluster and with the rest of the world. In particular author Parag Khanna stresses the importance of the digital and economic connections inside the clusters, equating it with the importance of physical network such as railways, highways and harbors [7]. In this thesis, given the focus on the Luxury market, I will consider Megacities and Megalopolis not only for their aforementioned dimensions of population, economic weight and connections, but also for their impact on and affinities with this peculiar market; so the reader should permit a certain elasticity in the definition of Megacity and Clusters. Identifying the right megalopolis to study can be a tough quest but considering that 20 megalopolis of the world generates 35% of the global GDP [6], there are all the incentives to fully understand their characteristics.

The most important Megacities of the world

Cities are the most stable and unchanged way for humans to organize social life, even today the characteristics that defined cities millenniums ago continue to define cities today. High population density, symbolic function and planned urban development is what define New York City as much as Kuala-Lumpur. While there is proof (or at least legend and myth) of cities as old as Jericho, Lebanon or Aleppo, Syria, dating back to 9000 BC [8] the world waited the Roman empire to see its first proto-Megalopolis with its first "Megacity": Rome. At its peak, the Roman Empire counted between 70 and 100 million people living under the influence of its capital. Rome is allegedly the first city to reach 1 million citizens at the end of the first century BC [9].

After the collapse of the Roman Empire, it wasn't until 1801 that Europe saw another city reaching one million people: London, as confirmed by the Greater London Census of that year [10]. Then, another 150 years later the first Megacity appears: New York City and its surrounding reached a population of 10 million people in 1950 [11]. Shortly after, during the 60s', Tokyo Greater Area became the first Megacity reaching 20 million inhabitants and in

2018 is still the most populated city in the world with 37,468,000 citizens [3]. During the 20th and 21th centuries other cities joined the list of the United Nations, that now counts 33 cities and is projected to count at least 40 in 2025 [7]. In 2018, out of 33 megacities in the world, 27 are located in the so called “global South”, what is considered to be the less developed part of the world.



Delhi in India is projected to be the most populous city in the world in 2030, and currently the metropolitan area produces circa $370 billion, 85% of it in the tertiary sector and growing annually at 7.3% [12]. China has six of the world’s 33 megacities that when combined in megalopolis can reach more than 88 million people each. Following the UN DESA 2018 list and definition of megacities, Shanghai is the third most populous megacity of the world and the first in China, with over 33 million citizens [3]. Since the 90s the city is identified as the flagship of the Chinese skyrocketing economy: it is an important financial and logistic hub, being home of the Shanghai Stock Exchange, the fifth in the Global Financial Centres Index [13] with a capitalization of $4.02 trillion [14]; Shanghai is also home to the busiest container port of the world, reaching the record breaking volume of 37.133 million TEUs in in 2016 [15].

Shanghai is the most expensive city to live in China [16] and generating a PPP GDP of $1.091 trillion is certainly an attractive destination for investments, cultural events and tourism [17].

The first western city to be found in the UN list is New York City with its 22 million people living in its metropolitan area. It is the most densely populated city of the United States and the most populous [18]. New York City checks all the characteristics of a Megacity: highly and densely populated, an incredibly high GDP, cultural influence all over the world and it is at the center of communication, financial, diplomatic and economic networks. The natural capacity of being an excellent harbor favorited the immigration of people from all over the globe during the 19th century, making NYC the city with the largest foreign-born population of the world: 3.2 million residents that speaks overall as many as 800 different languages [19]. Being home to 8980 Ultra-High Net Worth Individuals in 2018, growing at an annual +1,3%, NYC is the city with more ultra-rich persons in the world [20].

Moving to Europe, there are only 2 megacities: Paris, France and London, UK. The French capital counts in its region 18% of the population of France [21], or 12 million people. Paris is probably one of the most famous cities in the world thanks to its iconic monuments, museums and for being home of the most recognized fashion and luxury brands. It is also the most densely populated city in Europe, and the 5th most expensive city in the world [22].

São Paulo, Brazil with a PPP GDP in 2018 of $687 billion [23] has the largest economy by GDP in Latin America, and the 11th largest GDP in the world, projected to be the 6th by 2025 [24]. It is important to mention, anyway, how the uncertainty in the country's politics could jeopardize the 3,3% annual grow (CAGR 2020-2023) of the luxury market [25].

In Southern and Central America there are other 5 Megacities: Mexico City, Bogotá, Lima, Buenos Aires, and Rio de Janeiro. While these cities share most of the characteristics of the aforementioned cities, they lack, an economic relevance compared to other megacities [26].

Moreover, the defining characteristics of the internal market of these cities and their countries doesn't allow for the development of a robust luxury market [27].

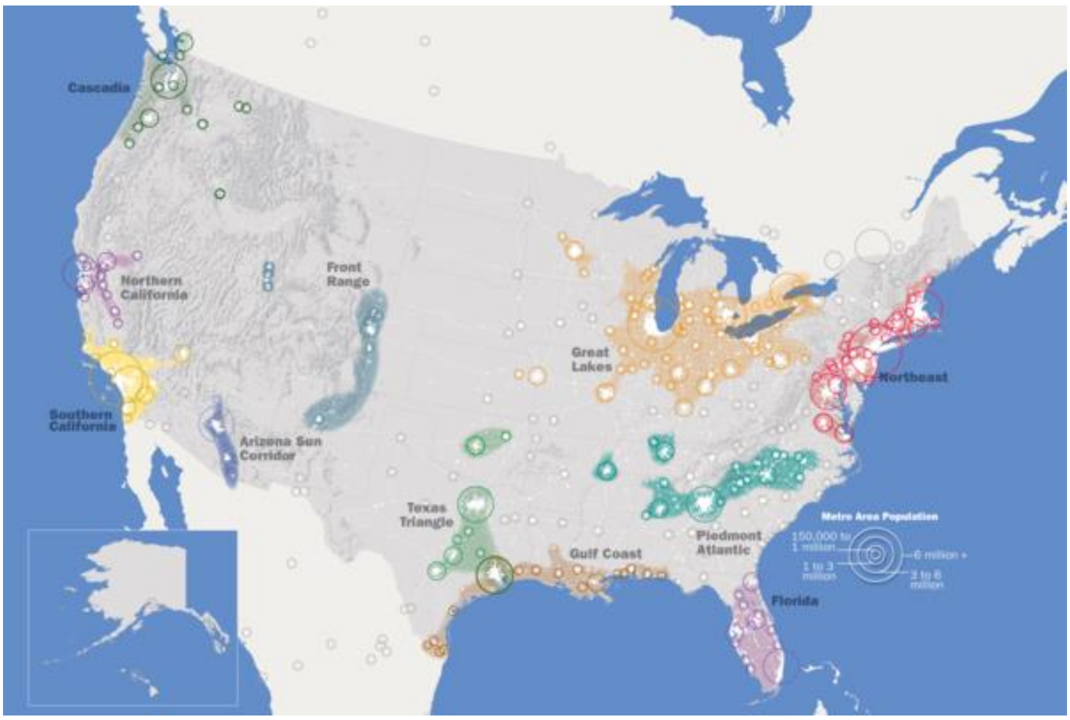
The other megacities worth mentioning when analyzing their affinity with the luxury market are Seoul, Hong-Kong and Singapore. Of the triplet, only Seoul is considered a proper megacity and even if its population is just below 10 million, its GDP of $895 billion [28] overcompensate the deficit and puts Seoul as the 4th city by GDP in the world. The Korean capital received more than 12 million tourists in 2015 [29] and, judging by the tourism revenues, the city does know well how to monetize on this huge flow of people: Seoul is the 4th largest earner in tourism in the world [30], with the big majority of its tourists coming from China and Japan, the biggest spender on luxury goods in Asia.

While neither Singapore or Hong-Kong classify as megacities for the number of citizens (respectively 5,6 and 7,4 million), they can be considered similar in characteristics to the other cities mentioned. Both cities are part of the Alpha+ Cities list [26], a list that rank cities based on the international connectedness and together produce a PPP GDP of over a trillion USD. Moreover, they are constantly on the podium of the most expensive cities in the world [31] and in the top 5 countries with more UHNWI per capita [20]. Finally, while some megacities are considered to be nation-like entities, both Singapore and Hong-Kong are in fact two city-state.

The list of megacities is still long, and while some of them have the potential to be considered as key player in the luxury market (e.g. Istanbul, Mexico City) they either share the same key features of other cities in the same continent (Mexico City with São Paolo or Beijing with Shanghai) or lack the retail requirements to be really considered as an emerging luxury market (e.g. Lagos, Nigeria with its 60% import fees on luxury goods and no street level retail infrastructure [32]). Anyway, in this thesis there will be an appropriate focus on the megacities of the future and the challenges they pose.

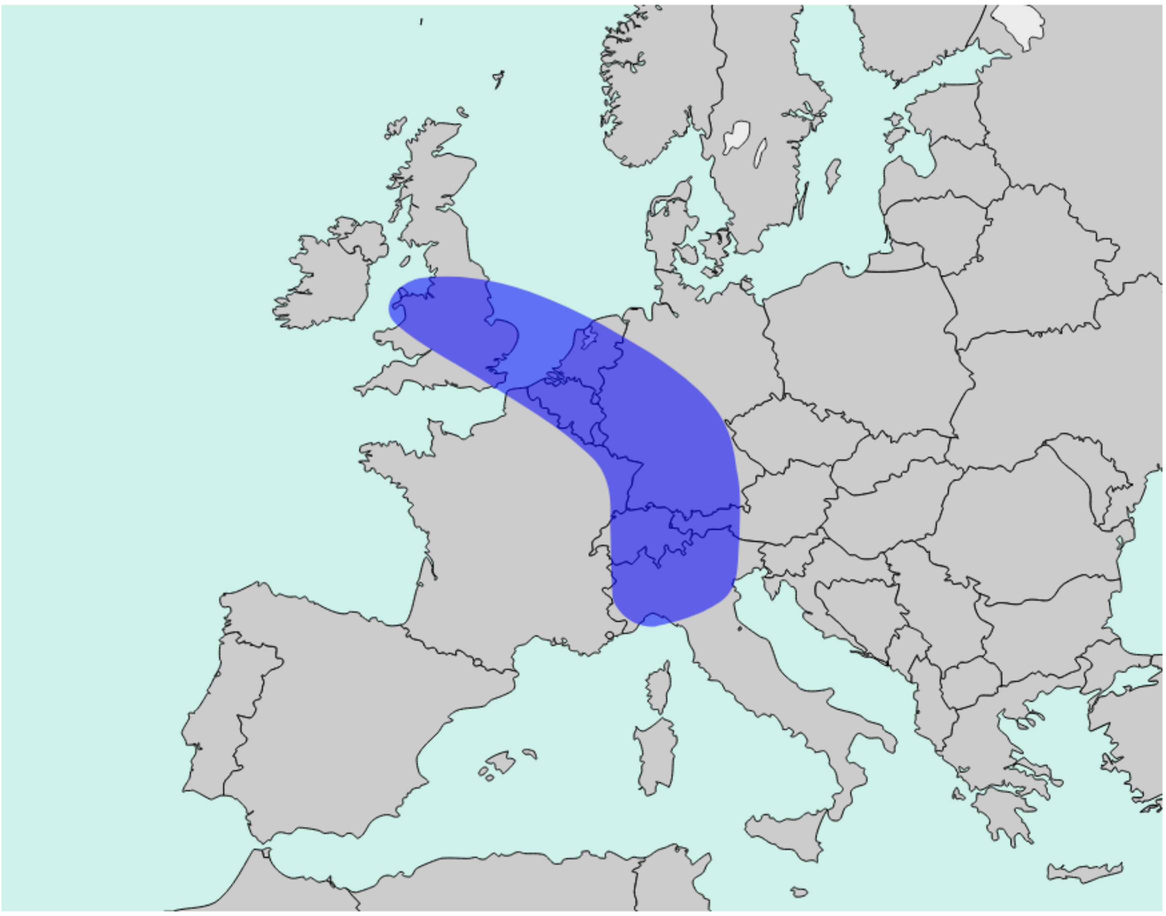
The most important city clusters

The 2018 UN Report on Cities highlights how there is a tendency for megacities to become more in number and also more populous. Cities are expanding both in terms of population and GDP and in terms of geographical size and thus experiencing the phenomenon of conurbation. This term was coined by Patrick Geddes in 1915 in the book Cities in Evolution to describe large urban agglomeration such as Greater London or the New York - Boston area that is now called the Bos – Wash Megalopolis. Bos – Wash is the megalopolis with the highest GDP ($4,5 trillion) and the 4th if considered against proper countries, even larger than Germany [6]. This Megalopolis is also called the Northeast Corridor and comprehends Boston, New York, Philadelphia and Washington between the others.



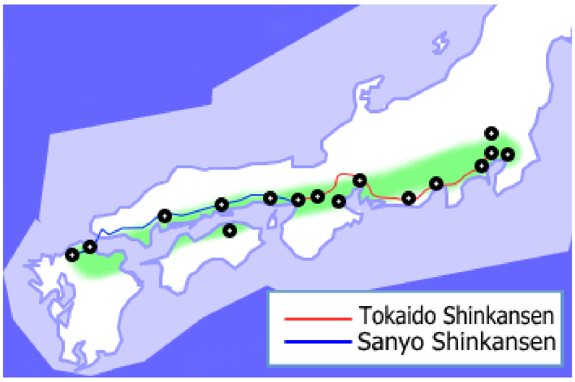
The academic, financial and political hearth of the United States is in this corridor, and it has always attracted a conspicuous number of wealth with Loudon and Fairfax County being two of the wealthiest counties in the US.

If the East-Coast has its concentration of “old-money”, at the opposite side, on the West-Coast, in California from north to south it’s possible to encounter some of the highest priced real estate property in the United States [33]. California contains two mega-regions: Northern California and Southern California. In the north is situated the famous Silicon Valley, between San Francisco and San Jose, home of the tech-giants Google, Apple, Uber and many others. The region is included in my analysis because of the huge concentration of wealth in it: depending on how one measures it, Silicon Valley’s $128,308 per capita GDP it’s the highest in the world, higher than the one of Qatar [34]. The Southern Region runs north of the megacity Los Angeles, south to San Diego and Tijuana and West until Las Vegas. There is no doubt that “SoCal” combined with Las Vegas can attract millions of tourists every year with numerous theme parks, beaches and casinos; combined with its robust industry, the region is a cash-machine that in 2017 generated a trillion USD just in the Los Angeles-Orange County [35]. It is in Los Angeles that is found one of the most famous (and most expensive) zip code of the world: 90210, Beverly Hills along with Bel Air and Calabasas [36]. Finally, since the 70s Rodeo Drive in Beverly Hills is an international renowned luxury hub and strategic spot for all the players in the market.



On the other side of the Atlantic Ocean, there is the so-called European “Blue Banana”. First described by the French geographer Roger Brunet in 1989, this long corridor spans from industrial cities in northern England (Leeds, Manchester, London), throughout the Netherlands, Benelux, Germany down to Northern Italy. It is considered to be the hearth of Europe and contains some of the most important international hub of the old continent: Rotterdam Port, Frankfurt Airport, EU Parliament and ECB. Comparing it to the Bos – Wash corridor, the Blue Banana is home to more than double the people, with 111 million European living in this area, and producing a relatively smaller GDP of 2,1 trillion USD [37]. For the sake of an analysis of the luxury world it is important to note how the particular shape of the cluster is an effect of the deliberate exclusion of Paris. Think-tanks and economic planning committee wanted to highlight the isolationism of France from the other European countries; this intent is no longer relevant as in the 90s, thanks to the single market of the EU, and thus when talking about the Blue Banana, it's important to maintain a certain degree of flexibility. Indeed, this model is no longer considered accurate, as other clusters emerged (the Yellow Banana in Southern Europe and the Green Banana in Eastern Europe) and the consensus now prefer to refer to the Blue Star, to stress the importance of conurbation and urban expansion in Central Europe. Moreover, Paris can't be excluded in the context of the European Luxury Market for the huge footprint the French capital has on the worldwide fashion and beauty market. Finally, Statista 2018 data [38] reveals that in the Old Continent lives almost 800 billionaires, 40 more than in the US.

The megalopolis in the Eastern Hemisphere are even more impressive: Tokyo was the second megacity to appear in the world, but the greater area of the Tokaido Corridor is certainly the best example of a modern megalopolis. This cluster spans 1200 km from Tokyo to Nagoya to Osaka and connect the cities in its area with the Shinkansen high-speed train. The Tokaido Corridor has a population of over 80 million people and account for the majority of the GDP of the country. It is difficult to find a city cluster as much connected both inside and to the outside as this one, with Tokyo being part of the 8 world's Alpha+ Cities [26]. Moreover, with Japan being the second largest consumer of luxury goods in the world [39], the Tokaido Corridor is already in the development plan of the major luxury players [40].

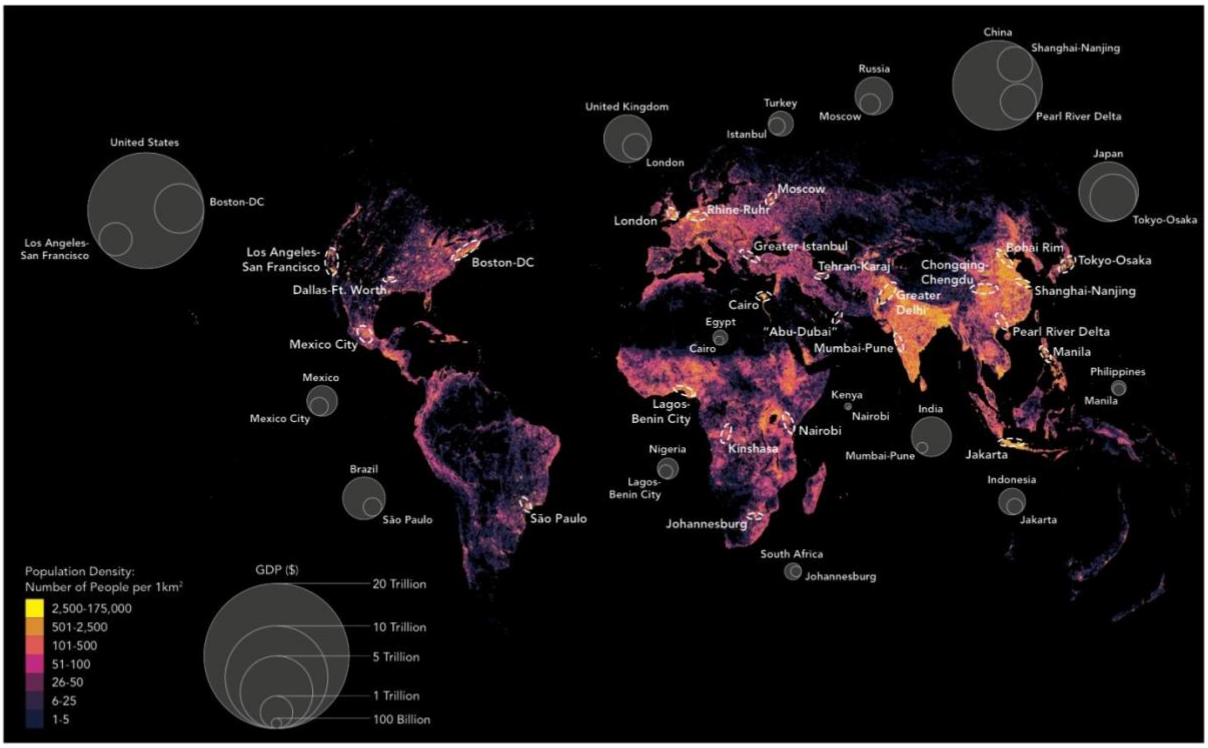


Japan's big neighbor, China, is taking the issue of Megalopolis to a whole different level: the National Development and Reform Commission officially recognize city clusters or megalopolis at a national level, and strongly emphasize the use of this model of development, so much that it has its official name 城市群 (chéngshì qún), literally meaning "city group" [41]. What really differentiate Chinese city clusters from other megalopolis is their planning: the Chinese government set ambitious policy goals for these regions and coordinated their development with a series of top-down infrastructural intervention. This kind of organization, that will further be discussed later, is a key difference especially respect to the other South-East-Asian cities or South American cities, that expanded in a chaotic conurbation process.

The most productive cluster is the Yangtze River Delta Agglomeration (YRD), with a population of about 105 million people (depending on the measurement it reach 140 million) it contains 1/10 of China's population and 1/5 of the country's GDP or about 4.12 trillion USD (PPP) [42]. In the YRD Cluster the most important city is Shanghai, the third most populous city in the world, which was already mentioned before in this thesis. The other two important clusters are the BeiShangGuang cluster with Beijing and the region of Hebei, and the Pearl River Delta or Greater Bay Area, including Guangzhou, Hong Kong, Macau and Shenzhen. The latter is of great relevance for a luxury market analysis: between Hong Kong, the casino-island Macau and Shenzhen the concentration of wealth and luxury consumption is astonishing, and being active in the area represent a *conditio sine qua non* for every major luxury firm.

Megalopolis, or city clusters, are arising all over the world, usually around a huge megacity that expand until it embraces other nearby cities; their borders are often blurred, and their identification is rather dependent on the kind and number of connections it has with other areas. Identifying new megalopolis and using new way to spot them is an important tool to better understand the global supply chain equilibrium and the market reaction to external stimuli. For the sake of our analysis I am going to focus on the aforementioned clusters and cities, because they are tightly tied to the luxury industry by different factors: exceptional consumption of luxury goods, buyer-supplier relationships, financial flows and global cultural affinity.

Differences between Eastern and Western Mega Cities



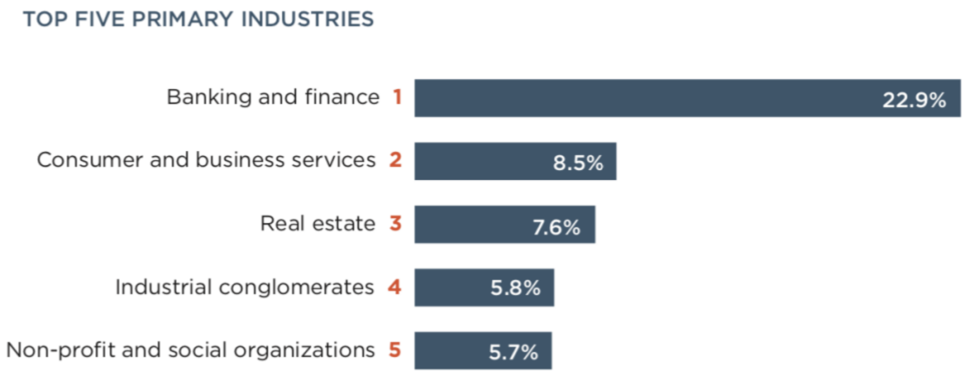
This image is taken from Connectography [7] and is utterly useful for an analysis of one of the main differences between cities in the "South" and in the "North". The concentration of people is highlighted by lighter colors and points out that in Africa, Indian sub-continent and Asia (excluding China) there is the vast majority of the population density. As a matter of facts, in the top 20 megacities for population only one is located in the so-called "North" of the world (New York city at the 11th place). Oppositely, the circle represents the GDP of the country with an inner circle representing one or more megacities in that country. This map confirms high level of population density in the eastern and southern cites, that registers the lower per capita GDP as confirmed by Statista 2018 data [43].

Aside from the canonical differences between mature and young socio-economic systems, it’s important to note how the growth rates of urbanization in the developing countries are by far superior to the ones of the developed: Africa, for example, will grow the fastest and is expected to reach 59% urbanization in 2050 (from 43,5% in 2020) [44].

The globalization process will smooth out cultural differences between countries, especially in interconnected megacities, thus creating a new class of cosmopolitan citizens from New York to Bangkok that use the same vehicle sharing app, similar consumption patterns and similar cultural references.

CHAPTER 2 - ECONOMIC AND DEMOGRAPHIC PECULIARITY OF MEGA CITIES

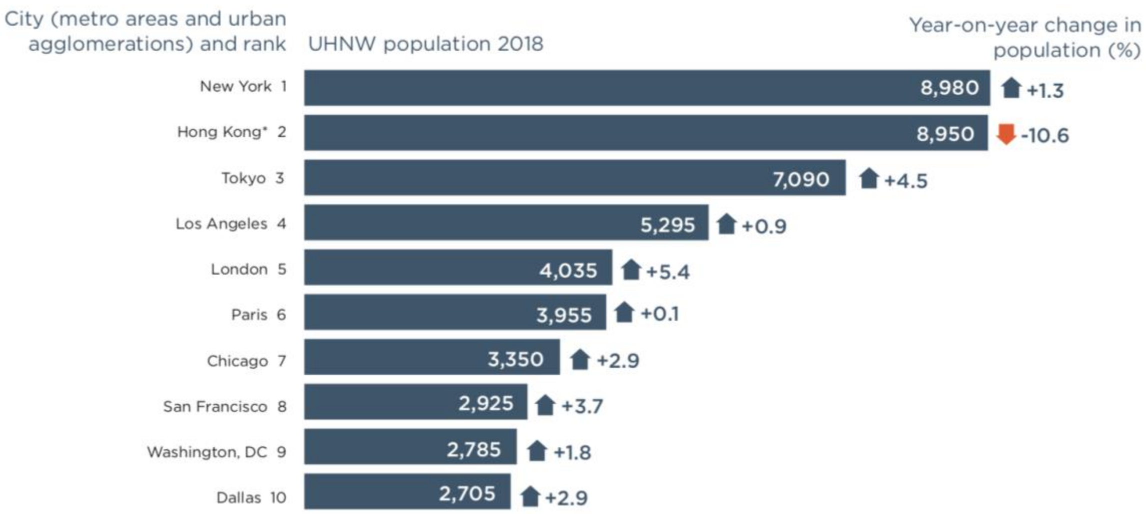
High value-added production



[20]

The value added by services as a percentage of GDP is steadily growing around 3% every year, reaching 65% of global GDP in 2018 [45]. Megacities are often a strategic hub for the most important services: banking, insurances, utilities, consulting, tech, telecommunication, media and many others. The labor market in mega cities is usually very large and allows companies to meet their demand both for skilled and non-skilled employees. A glaring example of the easier match between job and jobseeker is the so called “on-demand work”: digital platforms such as Glovo and Uber help matching supply and demand in many cities around the world, and they are most efficient where population density and a “service society” are present, it is saying in urban environment [46]. To better understand how megacities can create an ecosystem that allows for a fast development of the economy, is useful to analyze the developing plan for Shenzhen, China: Shenzhen is part of the Pearl River Delta megalopolis, but once it was just a tiny village of fishermen. During the 80s and 90s, with the “open and reform” plan of China, Shenzhen became a central hub for the global tech supply chain. The city was the first special economic zone of China [47] and thanks to this policy, many companies from all over the world decided to place their production line in this area. The huge concentration of innovation-driven production lines in a first time boosted the rise of numerous copycats of western technology, while in the last years earned the city the name of the “New Silicon Valley” [48]. Shenzhen exploited on one hand the vast presence of electrical components in the market (due to all the suppliers of western companies) and on the other hand the availability of many young people with high degree of education that connected together to create a network of innovative companies, such as Huawei, OnePlus and DJI [49]. The effects of economies of scale and networking can be seen in other megalopolis such as North California (Silicon Valley), Bos – Was with Wall Street, London as a global financial centre but also in “smaller” cities like Singapore and its logistic importance in global supply chain. The top20 richest cities are today home to more than 75% of the largest companies of the world, a money-making machine that runs on capital, talents and services [7].

Finally, looking at the cities with the biggest UHNWI population they are all megacities or located in city clusters, further confirming the economic weight of these urban agglomerates [20].



Cost of living

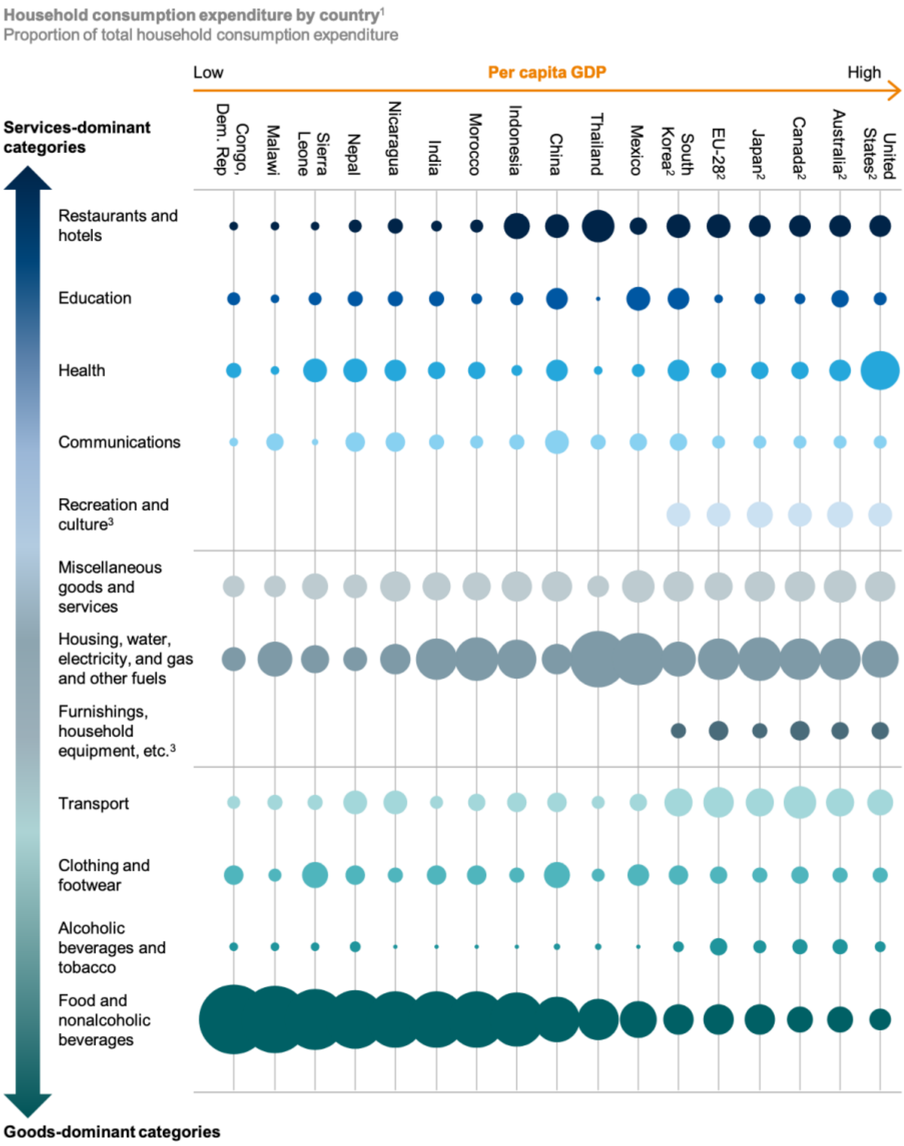
The Cost of Living Index [50] uses New York as the benchmark against which other cities are ranked and uses a mix of dimension such as Rent, Groceries and Restaurant prices. The top10 is completely composed of Swiss and northern European cities, while NY is 11th immediately followed by San Francisco, Washington DC is 17th followed by Tokyo. We can consider the top10 to be an exceptional case, since it is totally composed by cities within a niche and particular socio-economic background. As a matter of fact, in the top50 we can recognize numerous megacities or cities in megalopolis: Seoul, Paris, Boston, Singapore, Hong Kong and others. On the other side of the spectrum, some megacities such as Karachi, Pakistan and Delhi, India occupies some of the lowest position of the 440 cities list. So, while it appears that there is no correlation between cost of living and being a megacity, it is certainly true that some megacities have experienced a process of gentrification that contributed to move the poorer class of the population on the outskirts of cities (thus contributing to the expansion of the borders) and raised the rent prices in the downtown centers.

An example of this process is Mexico City: the city, that has always been one of the most populous of the world, experienced a massive process of reconstruction and redesign, wanted by both the government and private organizations, speaking of which, the 80% of all national firms of Mexico have their headquarters in the capital [51]. While this process may seem necessary for development of urban areas capable of attracting investors and high-income population, it has the effect of moving low-income families to the edge of the city, where informality is much more present and thus not necessarily representing a step forward for the overall condition of the country.

The cost of living, finally, is an interesting proxy of the luxury-consumption attitude of a city: since restaurants are included in the Cost of Living Index, we can say with confidence that the high Restaurant Cost of some cities could represent the willingness to splurge on non-necessary spending of its citizens.

Consumption behavior

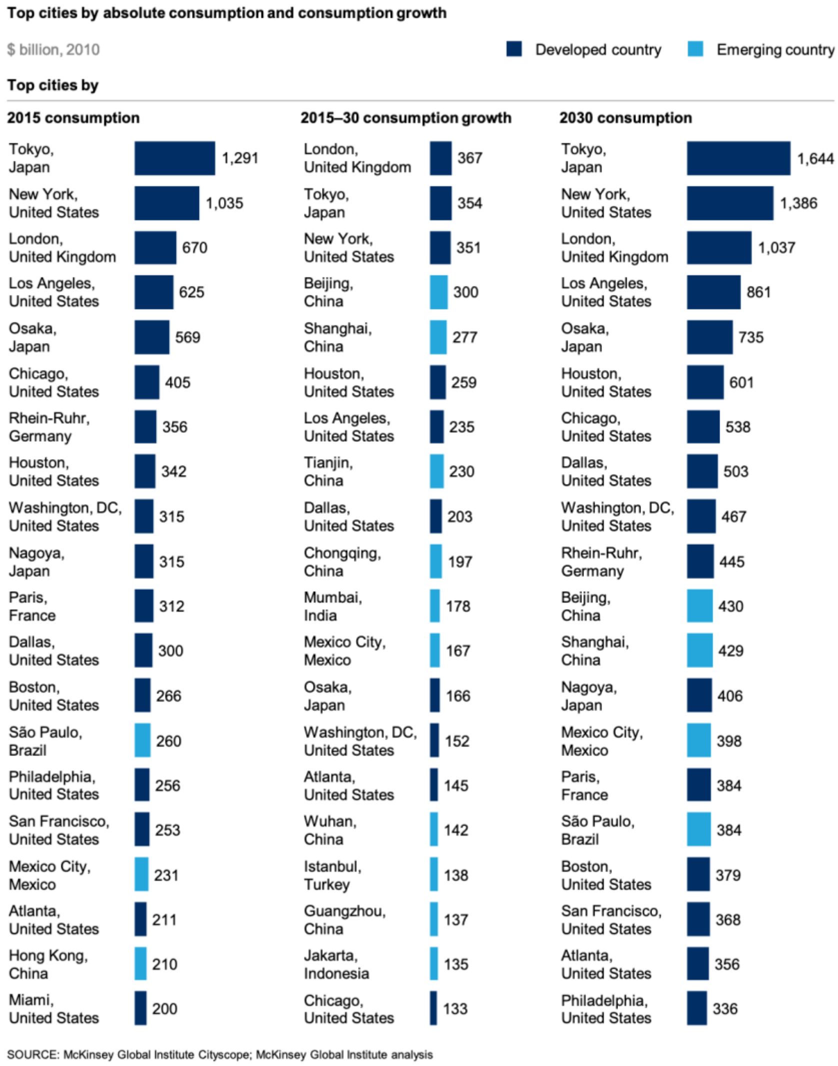
In the period 2015-30, 91% of the global consumption growth will be generated by people living in cities [52], and most importantly, it will not be formed by population growth (25%) but by per capita consumption growth (75%). Where this new wealth will be created, and most importantly, where it will be spent, is of fundamental importance.



McKinsey 2016 ©

This pattern of growth faces a double threat: on one hand the population growth is slowing in many developed countries (and starts to plateau also in China), on the other hand the generational turnover guaranteed by rural to urban migration is plateauing. The world has always been mostly reliant on population growth to achieve its impressive economic results, but it is not necessarily a threat: relying on individual's growth of wealth, could also signify a relief for the global ecosystem that is stressed from the overpopulation phenomenon [53].

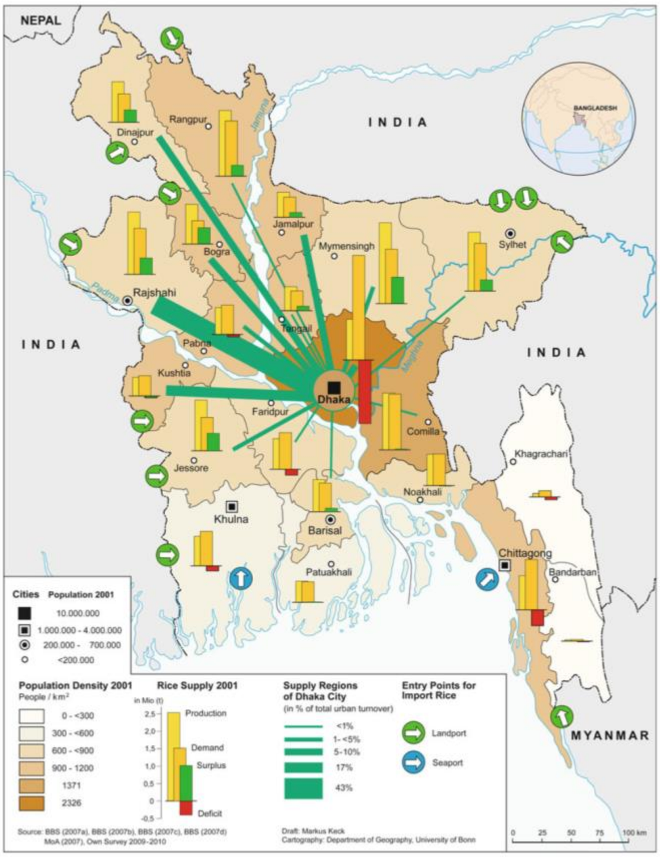
Understanding the geographies of consumption patterns is utterly important especially for companies that want to enter a new foreign market, and given the potential of some emerging market, it becomes simply necessary. Megacities (especially from developed countries) confirmed again to be the Goliath of consumption: every city in the top20 cities by consumption in 2015 [52] is either a megacity or part of a megalopolis. Looking at the consumption growth, some emerging megacities registers high level of growth: Jakarta, Mumbai and Istanbul are in the top20 for projected consumption in 2015-30.



Delocalization of production

The primary and secondary sector of the economies of megacities are becoming less important as times goes on: tertiary and quaternary sector are the locomotive of these cities economies, and the pattern suggest that this will be even more obvious in the future. The consequence is that megacities become reliant on import (from the outskirts or from other countries) of food, energy, water and other goods of primary necessity.

In support of this idea, in the book "Megacities, our global urban future" by Kraas et al. [54],it has been analyzed the case of Dhaka in Bangladesh, the fastest growing city in the country, with a concerning issue of food security. The 20 million citizens of Dhaka satisfy their calories demand with a diet composed of 65% of cereals (mostly rice) [55]. Bangladesh has been a net importer of rice until 1999, the first year in which the country managed to cover the demand for the cereal for the first time. However, as the chart shows, the flows of rice from the most far areas of the country are made possible only by recent infrastructural update of roads, telecommunications and technology, and the production capacity increased thanks to new and modern agricultural techniques. This relationship between the modern and developed central authority in Dhaka and the rural peripherical areas of the country mutually benefits both the player: the capital can satisfy the food necessity of its citizens and offers, at least in theory, better condition of life to the people outside the city. The limit of this developing model is the growth rate of the population: if the city continues to grow at the current rate (+500 thousand people per year), the food security could be not guaranteed anymore, and the country might need to go back at importing rice from other countries. [54]



I will let others discuss about the drawbacks of the centre-periphery model, and will just point out the importance of megacities in this system: the centre-periphery theory usually applies to countries and\or societies that lives in different conditions (capitalistic and developing) and focus on how the exploitation of developing countries doesn't allow the latter to effectively develop a market economy. However, when considering megalopolis like Chongqing in China with a bigger surface than the one of Austria [7] the focus isn't anymore on "western vs eastern" or "U.S. vs China", it can literally be that a city like Dhaka directly expose citizens of its same country to the risk of underdevelopment and exploitation, creating a situation of huge complexity for its own government. How the flows of people from the periphery to the center will be managed will define the society of the future megacities, that demonstrates again to influence the world on multiple levels.

Connections between megacities and globalization path

Taylor (2001) argues that cities are interlinked in a so-called World City Network; their centrality in the network derives from their connections with other important cities. The role in the network can be very different based on the city government's choices: in a case study of the GaWC (2018) the role of Singapore and Jakarta in the upstream oil and gas market is analyzed. [56]. Both cities are considered to be megacities, but they end up having a very different role in the market, due to the characteristic of their globalization path. By interviewing an oil and gas firm that operates in the Asia Pacific market, the study shows why the majorly globalized Singapore has been chosen as regional headquarter while Jakarta is home only to the national head offices. The executive director of this firm described Singapore as a "no man's land", in the sense that there is no oil production in Singapore, nor there is really a geographical large nation to serve with their product, but there is access to the global network of hydrocarbon businesses. Finally, the author suggests that when looking for the relevance of a city in the World City Network, a qualitative analysis of its link and ties with the market is necessary and can explain more than a qualitative analysis. When analyzing megacities, it is useful to assess if they are “mega” but also “global”, this study suggests. This differentiation explains why at the beginning of this study I did not included some of the biggest megacities (the Indian and African ones for example) in the list of “interesting” cities for luxury market development: global cities and countries are the wealthiest, and often less-than-global megacities are only regionally significant [26]. On the other hand, megacities in developing countries are where big corporations that defines the globalization path use to place their headquarters, so in a way these cities show a potential for development higher than non-mega cities in the same country. However, we will see that in the intraregional competition of the megacities, some second-tier cities in China registers very high levels of growth and of wealth creation [57].

Sustainability aspects

As discussed earlier, given that megacities rely greatly on import of goods and export of waste products there are additional impacts on the environment that contribute to enlarge the ecological footprint of big urban conglomerates. Megacities have impacts on different levels, from local to regional and even global scale. The ecological footprint of a system is the area required to sustain the system’s population, it is saying the area required to produce food, energy, products and to process wastes [58]. For example, the metropolitan area of Tokyo would require 237,402 square km (almost two third of the surface of Japan) to sustain itself [59]. Even if there is some uncertainty in numbers to evaluate the biocapacity of a city, due to local conditions and ecosystems, the ecological footprint remains a useful tool to evaluate the impact of a city on the environment. While there are a variety of waste and pollutants produced by megacities, a focus on pollutants in the form of trace gases and aerosols can explain better the global-scale effects on the environment. Drawing on the study of Folberth et al. [60], we can observe that while megacities hosts circa the 10% of the world population, they are responsible for 12% of the emission of CO2 (in 2005) and this number is projected to grow by a 112% in 2050 (in line with the world emission growth).

Species	2005		2050	
	Base	Megacity	Base	Megacity
Long-lived greenhouse gases (long-lived climate forcers, LLCFs)[a]				
CO_2 (Tg yr^{-1})	32,250.0	3870.0 (12%)[b]	68,280.0 (+112%)[c]	8194.0 (+112%)
CH_4 (Tg yr^{-1})	312.4	22.5 (7%)	676.8 (+110%)	47.4 (+111%)
N_2O (Tg yr^{-1})	8.0	0.3 (4%)	20.1 (+150%)	0.8 (+151%)
Short-lived climate-active pollutants (short-lived climate forcers, SLCFs)[d]				
NO_x (TgN yr^{-1})	43.4	2.0 (5%)	37.1 (–15%)	0.8 (–60%)
CO (Tg yr^{-1})	1080.4	35.8 (3%)	948.3 (–12%)	23.0 (–36%)
SO_2 (TgS yr^{-1})	28.5	1.5 (5%)	13.2 (–54%)	0.5 (–66%)
BC (Tg yr^{-1})	6.6	0.3 (5%)	4.5 (–32%)	0.1 (–66%)
OC (Tg yr^{-1})	34.2	1.0 (3%)	28.0 (–18%)	0.7 (–30%)

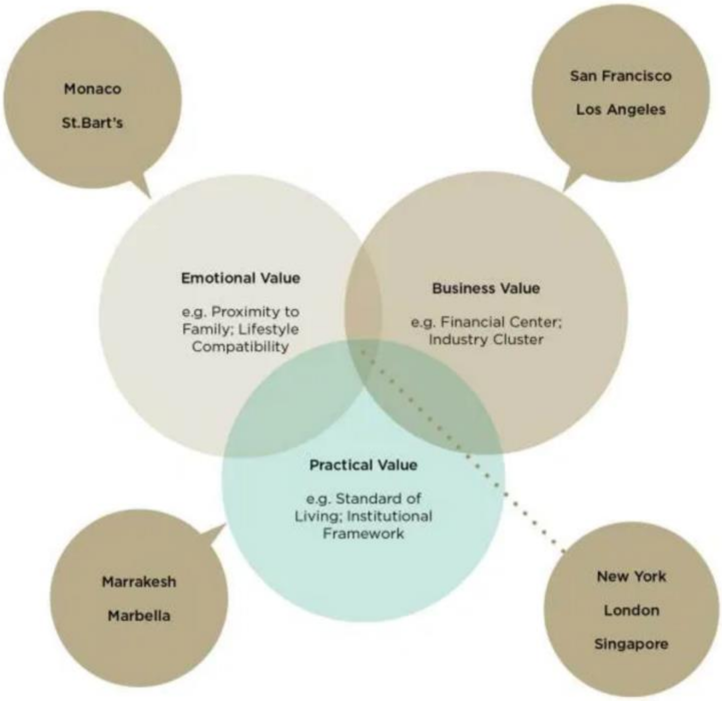
It appears that this evidence is in contrast with an OECD study [61] on 1100 cities that analyzed the density of spaces, discovering that the 60% of spaces are low-density and as such more demanding on the environment. Megacities, indeed, have the capacity of creating economies of scale and network effects that can use the resources better and produce greener outcomes, so, how comes this divergence between density and CO2 emission? Many of the megacities are situated in emerging countries and as such the use of innovative solution may be limited and the attention to the sustainability of the development plans may take second place in favor of wealth creation. However, as China demonstrated in the last years, economic growth often is limited by the social and environmental sustainability of itself: record-high pollution level, crowded transportation systems and inadequate housing may jeopardize the effort of the administrations. According to a McKinsey report [62] to tackle the complexity of large urban centers with expanding population, city management must operate according to four principles: (1) funding for infrastructure; (2) modern, accountable governance; (3) proper planning horizons that span 1-40 years; and, (4) dedicated policies in critical areas such as affordable housing.

Hopefully, the size of megacities may be exploited in their favor: collecting large set of data with ease is helping in the development of city-scale operating systems that will allow to manage the city in a smarter way, thus enabling for a sustainable development of them.

Chapter 3 – Luxury and Mega Cities, a demand side focus

UHNWI in Mega cities, who they are and what they like

Individuals with a net worth of at least 1 million USD are considered to be (by financial institutions) High Net Worth Individuals (HNWI), at least 5 million USD are required to be a Very High Net Worth Individual (VHNWI) and 30 million USD to be part of the most exclusive club of the Ultra High Net Worth Individuals (UHNWI). In this paragraph I will focus and briefly describe the basic characteristics of the UHNWI, where they live, what do they like and from where their wealth come from. WealthX Report of 2019 will be the main source of information as it is really comprehensive and shows relevant data about cities. It is estimated that there are 265,490 ultra wealthy individuals in the world, slightly more than the previous year, with a combined wealth of 32,305 billion USD. They are located mainly in three areas: North America (35%), Europe (28%) and Asia (28%). Ultra-wealthy people represent the 1,2% of the millionaire population and detain the 34,3% share of wealth of those. Looking at cities, as already mentioned, they seem to love megacities: New York and Hong Kong fight for the first place at almost nine thousand individuals then Tokyo and Los Angeles follow. A possible explanation on this love relationship between megacities and ultra-wealthy individuals is provided by "The Global Luxury Real Estate Report 2015" by WealthX and Sotheby's [63]: "*Real estate is an investment, an asset and a lifestyle. These individuals typically not only own a residence in their primary business city, but also own secondary residences outside this home city and often outside their home country. Numerous UHNW individuals also have utilized real estate as an investment vehicle to increase their wealth, but these properties continue to have a primary purpose: first and foremost, they serve as residences*." They choose the cities according to three main criteria: Emotional value, Business value and Practical value. When a city meets all of these criteria, it is chosen by a great number of wealthy individuals, as the following chart shows.



Source: THE GLOBAL LUXURY RESIDENTIAL REAL ESTATE REPORT 2015

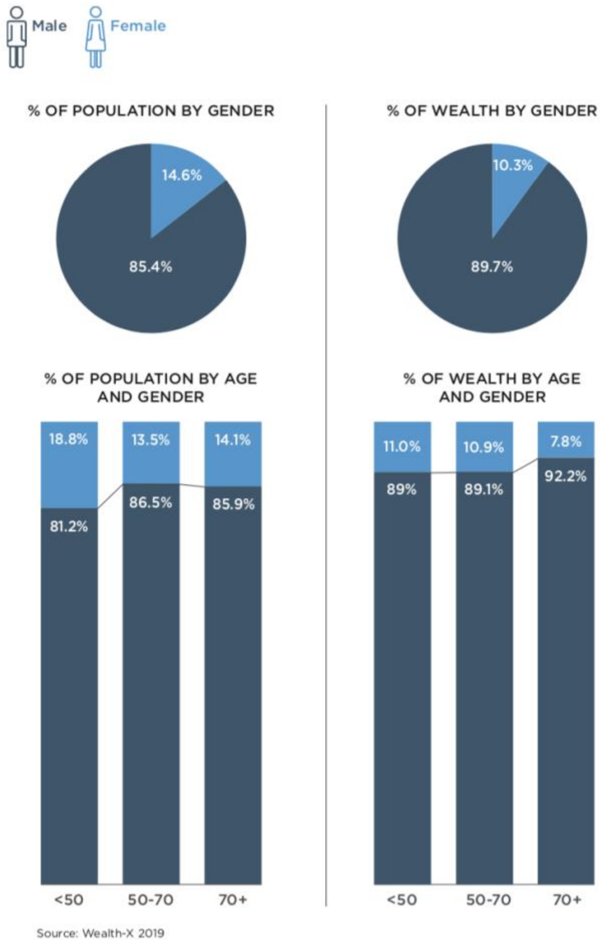
On the other hand, small countries are on the podium when talking about UHNW countries per capita: Hong Kong, Switzerland and Luxembourg show the higher percentage of UHNW.

The 6.2% of their wealth is allocated in real estate and luxury assets, an interesting percentage when considering the huge spending power these individuals have.

22.9% of UHNWI come from the banking and finance world, 8,5% from consumer and business service, 7,6% from real estate and only 5,8% from industrial conglomerates, the last of the top5 sector is the non-profit and social organizations.

Thanks to structural drivers of growth across the world, advances in technology and increasing sophistication of many emerging countries, we can observe a majority of wealthy individuals

(67,7%) that are self-made, while the others are a mix of self-made and inherited or just inherited. Asia and Middle East are the areas that most of all contributed to the growth of the self-made category with their dynamic expansion and broadening of opportunities for business: China especially is in the process of a huge intergenerational wealth transfer that contributes also to the lower age of Chinese wealthy individuals.



The division by gender highlights a huge disparity between male and female individuals, but there are promising indicators of women becoming everyday more present most of all in the <50 years old population. This age group represents only the 13% percent of the overall wealthy population, inheritance plays a slightly more important role for this group that is focused mainly in building commercial enterprises. They usually come from technology, hospitality and entertainment industries. <50 Individuals are more likely to allocate their asset in real estate and luxury than any other group (9,1%). This group shows interest in: Sports (41,5%), Technology (28%) and Travel (18,5%).

The largest group is the one with age between 50 and 70, with 148,375 individuals and the biggest combined wealth. They are the most likely to be self-made and comes mainly from banking and finance. This group shows interest in Sports (35,5%), Philanthropy (35,4%) and Aviation (14,8%).

Finally, the over 70-s group shows some interesting characteristics: they are the group with the highest average wealth ($155m per individual); the highest proportion of liquid assets in their portfolio; they tend to move over the private sector and decide to devote a large part of their time to philanthropy.

The older group, perhaps with more leisure time and more wealth than the other groups, are the one with more affinity with the highest affinity for luxury with 43% of the individuals that showed an interest in either art, collectibles, travel, fashion, vehicles or aviation. In the <50 group 35,8% showed affinity for luxury, while in the 50-70 the 37%.

This group shows a variety of differences, mainly based on age, but also on nationality, primary industry and source of wealth, so it is not easy to develop an archetype that fits well for everyone. However, one can choose the 50-70 age group that is the most populous one and the one with some similar characteristic of the younger and older group to have an idea of who really is the typical UHNWI. This population is very optimistic and pro-active, perceive themselves as leaders, takes risk and is happy to pay a premium for luxury as believed to reflect the true value of a product. Moreover, they are aligned with a wealthy international community more than compatriots (Festa, Cucco 2019) [64].

Looking at the Wealth-X report about High Net Worth Individuals for 2019, the differences between HNWI and UHNWI are so small that the notion learned on the latter will be applied to the former.

Globalized customers

Globalization has been made possible by the falling costs of transportation and communication since the invention of the steam engine [65], then by the air-transportation price drop and finally by the internet connection. Many megacities are the center of different flows: some are logistic hub for goods and raw materials with their huge ports and airports, some are international financial centres and others are home to the biggest communication providers of the world; without doubt they contribute to the globalization path more than any other city thanks to their infrastructure and their people. The citizens of megacities, living in the most connected areas of the world, are themselves drivers of globalization: they have access to goods coming from all over the world, they are more likely to work for an international organization, they are more likely to be involved in global social dynamics thanks to the proximity of political decisional institutions, they are more likely to experience first new technologies. Even the citizens of developing countries are more and more connected to distant markets (like US and EU) due to the delocalization of the production and the increasing trade involvement [66]. Thus, is totally rational to think of the megacity's citizen as a cosmopolitan citizen and a global customer. While multinational firms always existed, they are now shifting their scope and becoming global firms that serves a global market. Multinational corporates are the one that operates in different markets and adjust their production and marketing practices according to regional differences. However, with the access to information being available in New York City as much in Manila, customers are asking for global modern goods, services and technologies; companies will no longer be able to market older technologies in developing countries, for example, or to extract profit from different markets using different pricing strategies as the markets are converging in a unique global market according to the researchers at Harvard Business Review [67]. The firms that will emerge from this transition process will be no more multinational, but global and will threat the world (or mega-regions of it) as a single entity, standardizing the production and the communication, giving to the customers of every country the same access to global products. The most obvious case of companies threating the world as whole and not using market research to tailor products to different markets, is the Japanese companies in the tech industry: they did not look for the differences between markets, but for the one great thing all markets have in common; an overwhelming desire for dependable, world-standard modernity in all things, at aggressively low prices. Clearly, the wider the reach of a firm the greater will be the number of local differences and preferences; some of these must be accommodated, but generally speaking, if well executed, global strategy can be successful with just little tweaks. Moreover, local strategies can be difficult to manage and the chances for fiascos are very high when attacking a very cultural different market: the case of Dolce and Gabbana in 2019 [68] is a perfect example of an unnecessary attempt at accommodation that resulted in PR nightmare for the Italian firm. One of the main driver of luxury consumption for the Chinese consumer is not the affinity of a brand to Chinese culture, but the brand-wearing representing the membership to a global club of cosmopolitan citizens, a characteristic emerged from the liberalization and openness plan of the PRC in the last decades; the same phenomenon was observed in Russia after the collapse of the URSS.

According to the Harvard researchers, many of the local peculiarities of consumers are not endogenous, but they are imposed by multinational corporations that wrongly thought to know what the consumers wanted and are doomed to disappear once the global corporation mentality becomes the standard.

Pervasiveness of luxury brands in daily life

According to Cushman & Wakefield [69], 5 out of the 6 most expensive retail streets are in megacities (with Via Montenapoleone, Milan being the outsider), at it should not surprise at all: megacities are not only densely populated but also heavily visited by tourist from all across the globe, thanks to their ability to receive them in the biggest airports in the world, host them and move them around the city with huge networks of public transportation. For example, Paris's Avenue des Champs Elysees (the fourth most expensive street in the world) receives every day more than one hundred thousand visitors, of which only around 2% are Parisians [70] . On one hand, being this street a global destination for fashion and luxury, it gives any brand the potential to showcase their identity to people of all nationality, on the other hand some brands use these kind of streets to commit themselves to some cities, and not necessarily the ones associated with their headquarter or creation. For example, Louis Vuitton is associated unequivocally with Paris, but their branding strategies often shift the focus to other global cities that better fit the global luxury identity LV wants to achieve: the store in Champs Elysées is considered the cathedral of luxury, it is an entire building on the odd numbers side of the street, far from the competitors on the even numbers side; this is a strategy to differentiate LV from the others and maybe to fit the stereotype of the Parisian, classy and a little snob. Completely different is the strategy adopted in Los Angeles to present the exhibition Louis Vuitton X: the exhibit was all about showcasing the collaborations between LV and artists of every kind, a declaration of love to creativity and experimentation. It's not a coincidence that Los Angeles was chosen to host this exhibition: the city has always been considered the home of all creatives in US, from filmmakers to painters to street artists [71] . Again, the massive store in Marina Bay, Singapore, completely made out of steel and glass with its futuristic shape, perfectly fit the skyline of the modern city-state and project the Parisian brand into the future [72] . The three buildings aforementioned are very different from one another, but they share a common role in the branding strategy of LV: on one hand, they signal the world the brand's global player status, on the other hand they indissolubly tie the brand to the city culture and people. The latter objective is crucial for citizens in megacities: there are plenty of pop-culture references that refers to some stereotypical citizens, one of the most famous is the New York City citizen. This "almost legendary" character is clearly not easily impressed living in the most famous city of the world and so LV needed to find a common territory to dialogue with him: if for years the 5th Avenue's myth helped luxury brand sell themselves to New Yorkers and tourists, nowadays a pop-up store in the more "popular" Lower East Side [73] was a winning strategy that attracted visitors from different background and reached virality on social media with ease.

Moreover, megacities are often home to international events: the Formula One Grand Prix of Singapore, Shanghai, Sao Paolo and Mexico City; the most recent and future Olympic Games of Beijing, London, Rio de Janeiro, Tokyo, Paris and Los Angeles; the fashion weeks of Paris, London and New York but also of Shanghai and Jakarta. These events spread pride in the citizens and make them appreciate more being member of an exclusive "club", and as such they may value more the luxury brand over another.

Finally, megacities often value arts and culture of different forms more than other cities: a consistent part of the most important museums of the world are in megacities [74] and much of the top 10 cities for number of Michelin Stars are megacities too [75].

Drawing a profile of the typical megacity's citizens is not easy as megacities can be as different as San Francisco and Jakarta, but there are some common points to note: 1. They are used to the strong presence of luxury brands in their daily life; 2. They are proud to be part of an important club of cities and want the brands to recognize their unicity; 3. They understand and value the finest things in life, such as arts and fine dining, more than other cities' citizens.

Citizens of megacities and their culture often inspire luxury brands to take the most diverse initiatives, its then important to keep being inspired by a culture and not try to push stereotypes into the public.

How the luxury demand shapes the city development

We already covered the topic of luxury firms' branding strategies in the previous paragraph, highlighting the indissoluble relationship between peculiar citizens' attitudes and firms' initiatives in the cities. In this paragraph I will show that this relationship effectively shapes the urban environment of cities, radically imposing the presence of luxury in the city's landmark places. Before analyzing how luxury is present and how it transforms cities, I want to point out how "luxury" is used as a general reference, not limiting itself to retailing spaces but including an heterogeneous system of places that allow for production, consumption (e.g. hotels or premium residential blocks) and shared spaces used by luxury to attract people.

Luxury enclaves, such as Via Montenapoleone in Milan, are the heritage of a pre-industrial European way of urbanization: the center of the city, with its churches, squares and other public spaces, was the hearth of the city, the place where the citizens did their businesses and where decisions were made, but most importantly, after the industrial revolution, it was the place where the growing upper-middle class lived thus becoming an obvious proximity advantage for luxury producers. This model of being near the urban life, especially for fashion companies [76] has been also exported to the U.S. where luxury clusters like the 5th avenue in New York City or Rodeo Drive in Beverly Hills were born in spite of the very different urbanization pattern of the United States of America. This shows the potential of luxury brands and consumers to shape the image of a city with their offering or demand for luxury lifestyles. In the last years, however, new trends are emerging: luxury players recognized the importance to be sensitive to places and context in which the citizens develop their tastes and create their narratives; so, when luxury interact with these spaces it affects the lifestyle and routine of all the people who lives nearby, not only of the premium consumers. This aspect is particularly clear when considering the operations of regeneration or requalification of existing neighborhoods (for example Hackney Walk in London) or buildings (Palazzo della Civiltà in Rome): in these cases, the companies decides to repurpose space with a mixed used of offices, retail and culture in an attempt of contributing to social innovation. Luxury and urban life are going together since many centuries, but both changed radically: luxury became one of the most transversal market, offering goods, services and experiences of all kind; at the same time urbanity evolved, from towns to metropolis to megalopolis, and I will now try to explain how its relationship with luxury has evolved too.

Following the reasoning of Alain Bourdin (2018) in "Making Prestigious Places" [77], luxury was originally linked to the European courts, then in the 19th century it expanded to "cities of consumers" and in a smaller measure to the biggest cities. The association between big modern cities is more recent and is originated by the development of "urban tourism". The new elite of luxury consumers wants to experience new things, to test innovation and to experiment with customized goods. These requests can be best accommodated by megacities because they have a system of service providers and subcontractors that can make it work: when a critical mass of customers is reached, it is easier to put all of the players in a network capable of satisfy these customer's needs. Moreover, megacities are almost always hubs of different flows of people, information, ideas and goods that combined allow for innovation to flourish. For these reasons, innovation is often found in megacities, that usually have a florid creative economy and it generates a virtuous cycle of demand for new products, innovation and luxury consumption. However, this mechanism is far from spontaneous: cities and their governments compete with others to attract luxury operators and offer tempting conditions to those companies, with the hope of attracting wealthy citizen and further develop the city's economy. Moreover, ostentation plays an important role in the shift of luxury from towns to megalopolis: historically, luxury was displayed in specialized places isolated from the mass, such as castles, clubs or restaurants situated in exclusive places (e.g. French Riviera), but now, with the rise of the jet set and social media, visibility is the key to luxury ostentation; luxury is not displayed anymore to a few selected individuals that understand it, but to the whole world. The case of the *paseo* in Spanish cities is interesting: it was a street but considered a stage by the elite that wanted to show off to the collectivity to point out the social hierarchies.

While this model worked for a long time, nowadays luxury ostentation is more fluid as the whole society is: it wants to express vibrancy and social inclusion more than hierarchies and separation. Moreover, the pace at which luxury institution are changing does not allow for fixed infrastructure like the *paseo*, but it demand that luxury players are constantly up-to-date and ready to present themselves with new proposal and re-shape them according to new emerging meaning. For this reason, operations like pop-up store, exhibition, cultural events, sponsorship and innovative local marketing techniques are more effective in megacities than in other urbanity. At the same time, megacities have the resources to create the right environment in which luxury can flourish: high-end building blocks, scenic city centers, innovation-driven policies and a critical mass of luxury consumers.

CHAPTER 4 – LUXURY AND MEGA CITIES, A SUPPLY SIDE FOCUS

Retail Value and Challenges

As already mentioned in Chapter 1, Megacities account for a huge part of the global consumes and the urbanization pattern is pushing people more and more into cities. Moreover, the luxury market is even more affected by this shift, since the desire for upscale and sophisticated things push consumers to search for them in cities, where the supply is more variegated. According to McKinsey [52], the top600 Cities will account for the 85% of growth in the luxury-apparel market in 2025, 66% for the luxury beauty and 40% for consumer packed goods; this shows how the less basic a product is and the more there is demand for it in big cities.

Top 20 cities based on forecast 2025 market size

Fashion	Spirits	Beauty
Paris	New York	Hong Kong
Tokyo	Los Angeles	Tokyo
Milan	Chicago	London
London	Washington, DC	New York
New York	Houston	Moscow
Moscow	Dallas	Shanghai
Osaka	London	Beijing
Los Angeles	Mexico City	Paris
Rome	Shanghai	Los Angeles
Seoul	Beijing	Taipei
Singapore	Moscow	Singapore
Dallas	Philadelphia	Osaka
Chicago	San Francisco	Seoul
Madrid	Miami	Chicago
Nagoya, Japan	Boston	Shenzhen
Miami	Atlanta	Madrid
Sydney	Seattle	Dallas
Mexico City	Phoenix	Milan
Washington, DC	Tokyo	Dubai
Saint Petersburg	San Diego	Rhein-Ruhr, Germany

However, it must be considered that while emerging cities (in “Next 15” countries) will account for the 90% of the growth of the global luxury growth, mature markets are still absolutely dominating the top20 luxury market size by city. For luxury players is then important to focus equally on capturing the growth of the emerging markets and expand their market share in developed megalopolis such as Osaka, Boston and Paris.

Cities have always played a central role in the history of retailing: first with open-air markets, then bazaars up to department store and independent little start-ups; cities always provided a place, a public and the financial resources to retail [78]. In recent years however, we assisted to tumultuous times in the retail market especially in U.S. with historical retailers like Barneys New York filing for bankruptcy [79] and malls closing at a fast pace. The causes are many and some of them can be seems as inevitable (e.g. growth of online shopping and over-supply of shopping malls) while others can be tackled down and seen as an opportunity for growth and innovation by many players. In particular, megacities pose some peculiar challenges such as the logistic management of inventory and product supply in densely populated and congested areas that can be solved by implementing smart solutions both front and back end.

An example is the Marui Group department store in Tokyo: the management experimented with an innovative formula that allows customers to look at products, try on and get advice but without buying the product in the store; the store collect data about the consumer that can buy online even customized products, since he/she have all the measurements saved. The store changed also its layout, giving more space to experiences such as restaurants that provide higher margin to the overall business.

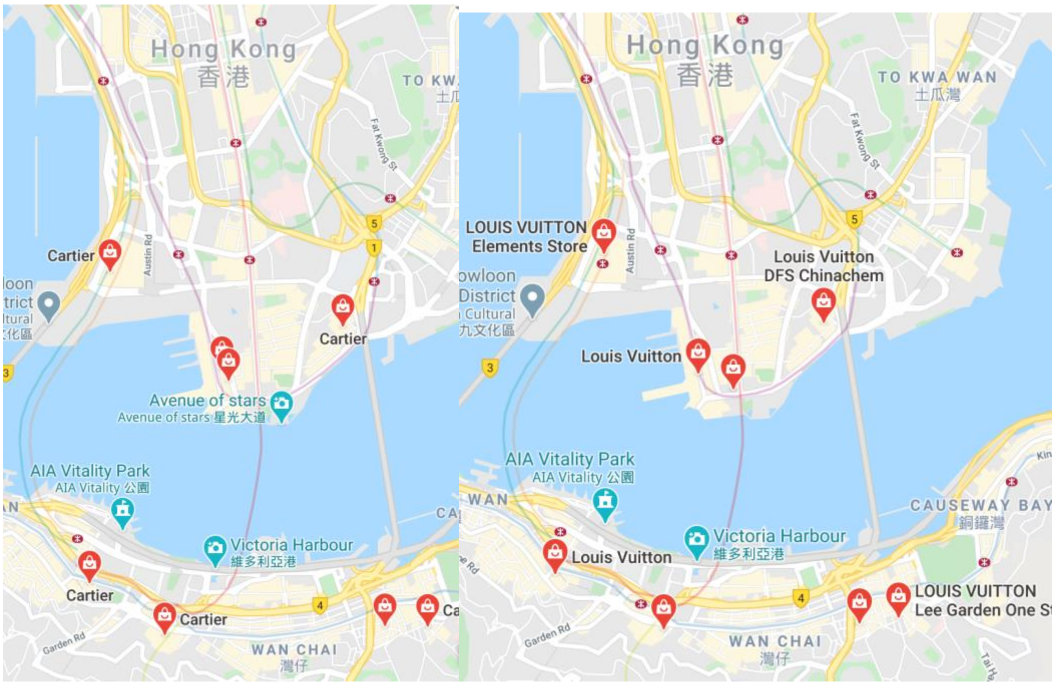
Citizens of megacities, especially the youngers, often doesn’t own a car and that makes a travel to a shopping mall on the outskirt of the city inconvenient, if not impossible.

Convenience, according to a Facebook study, is the reason 85% of consumers decide to shop locally; in the fashion category, more than 70% of purchases are still made offline and it jumps to 87% for luxury purchases. It seems that a local shop could be a solution or a necessary shift for many chain retailers if they want to survive in megacities [80].

Rent incidence on sales

One of the reasons for recent failure of department stores is the rise in rents experienced globally. For luxury store this issue is more important than any other kind of store as they are almost always situated in premium locations in cities, whether it is the central street of an historic city or a high-end shopping mall. Information about rent contract is not easily available, especially for the secretive luxury brand, but there are some cases that got into the news to better understand the huge incidence of rent for luxury stores: in April 2019 the Burberry boutique in Via Condotti in Rome closed after a confrontation with the noble families that owns the prestigious building of the 18th century. The rent was about 3,5 million euro per year, with a renovation clause of 6 million [81] . Rome is not even the most expensive city, nor is Via Condotti one of the most expensive streets for luxury retailing, but still the rent due can be considered huge even in absolute terms.

So, why do luxury brands still invest huge amount of money into renting prestigious places even with lower and lower margins? The answer is: to keep prestige of the brand against the competition. Some streets in the world, especially in megacities where flows of people from all around the world are present every day, are like a global window for luxury brands and they use them to show their participation in the game and show-off to customers. Indeed, branding purposes are strong in deciding the location and surface of stores: having the bigger store in top-notch location can temporally position a brand over another in the mind of consumers, even if sales numbers and intelligence reports place them differently and make a brand more relevant. Being constantly present physically is the go-to strategy in these luxurious streets, and when a competitor opens a store, other brand should follow if they want to be taken seriously by consumer: not being in a luxury street can immediately remove a brand from the mind of the consumer in the moment of shopping. Often, the agglomeration of these stores creates clusters of luxury in cities; these clusters have the potential to hugely raise the real estate value of an area and attract government investment in infrastructure to serve all the potential customers, as in the case of Hong Kong shown below.



Expanding Network

The economic boom of China tested the ability of luxury players in expanding and managing an ever-growing network of stores, offices and logistic chains. In the last 20 years, LVMH almost double the number of store globally, from 2545 to 4915 [82], many of the new ones in China [83] , according to the percentage of growth that this market represent for the luxury industry. For sure, a 111 billion USD luxury market value of China [84] is a strong incentive for players to develop strategies and innovate their management systems. However, as shown before, managing a retail network of luxury stores does not come cheap: renting, refurbishing, filling inventories and training personnel represent costs that for the same definition of luxury retailing are much higher than normal high-street stores. There are reasons to add more locations to a network, but as much as they serve a strategic purpose, they raise the risk associated to the financial sustainability of the brand, as demonstrated by the bankruptcy of famous luxury retailers such as Neiman Marcus or Barney's.

Expanding a retail network until the dimension observed before in Hong Kong seems counter-intuitive to someone who studied the principle of luxury marketing and branding: accessibility should always be limited, and locations must be carefully selected to highlight the prestige of the brand. In fact, in recent years we are experiencing a so-called "democratization" of the luxury market, with many brands becoming more accessible to the general public with strategies of product line (e.g. beauty, streetwear) and thus differences between absolute, aspirational and accessible luxury are increasing.

This expanding process is inevitable in megacities: globalization means that Russian consumers are not necessarily wanting anymore to travel to Italy to buy their Gucci bags [85] if they can pay almost the same price in St Petersburg; smarter cities means that is easier to travel the city without a car, so luxury malls can't anymore be so distant that a customer need to choose between one or the other, and as such the central malls compete for the primacy; megalopolis are densely populated, so customers could experience a packed store or long lines to enter, both of which are not luxury customer experiences at all; these and more challenges linked to the expansion in megacities will be analyzed in the next chapter.

CHAPTER 5 – CHALLENGES FOR THE LUXURY PLAYERS

Branding: global vs local strategies

Recalling Chapter 3, globalization led many multinational companies to rethink their international strategies, shifting from strongly locally adapted strategies to standardization and universal branding. Some peculiarity of luxury branding should be understood before dealing with the complexity of megacities: first of all, luxury brands are global brands, they convey an image that is universal, even if they are strongly associated with the country of origin (Italy, France etc) they tend to be relevant for the same reasons in the US as much as in China; most luxury brands are used by consumer to signal a "global citizenship" status, in fact many brands associate their image with travelling and with the "jet-set"; luxury is not sold in the same way across the globe and the differences are especially large between mature markets and emerging markets (e.g. Chinese customers still wants to haggle on the price and thus buying in bulk); finally, there are some traditional differences in markets and while some of them are doomed to disappear, some other may have a longer life (e.g. Van Cleef & Arpels stopped using black boxes in China due to superstition).

Finding an equilibrium point between proposing global values and be accepted by peculiar market is a modern quest for luxury players that traditionally presented themselves to the world with a strong European or North American image. Communication has been a tool used by luxury brands to present their image differently according to the target market: from censor women in ads for the Arab countries to choosing famous testimonials, for years those brands managed to differentiate their message and get to the hearth of consumers. However, medias are becoming more and more globalized and universal, with social media influencers and streaming platforms sharing the same contents all over the world. This phenomenon strongly impacted multinational companies that adopted different strategies: some of them for example created dedicated social media pages for specific countries, but this strategy still jeopardize the overall brand image because the content from a specific country is still accessible by everyone in the world; the potential for inconsistency is very high. Other brands adopted a smarter strategy: they reformulated partially their message to be relevant to everyone interested in the brand from all over the world. Still, it is not an easy job to make people from every country agree on something, so this strategy must be operated with greater wisdom.

Still, some differences remain and it is naïve to think that a global image can solve them all; luxury brands should always consider what the local culture is and embrace it with respect, letting the store and the people be inspired by it, avoiding PR stunts that could be perceived as non-spontaneous or even disrespectful. Understanding a specific megacity in this sense can be an important tool for the luxury companies to adapt to local contingencies: citizens of a megacity share proper values of the country they are in with global values, so they are already a more or less balanced mix of local and global preferences.

Brand loyalty, effect of global citizenship

Megacities' citizens have a typical characteristic of being disloyal to brands: they can experience many innovative things; they are surrounded by alternative choices and are naturally prone to change. Moreover, luxury goods and services suffer competition from inside the market and outside because of their unique characteristic of being a non-essential good. The key to get to the hearth of luxury consumers is to build unique customer experience for them: stores should execute their selling ceremony perfectly, offering a personalized journey to every customer and building durable relationships with them, while always trying to offer innovative experiences.

One example of a luxury business experiencing above-average loyalty is in the restoration business: the exclusive, high-end Japanese restaurant Zuma tends to have many regulars and counts many locations around the world. The business shares the same characteristic of a luxury fashion brand: high-end offering, locations in the most exclusive places of the world, high-spending consumers, aspirational value for many, exceptional service, handcrafting [86] . The key of its success stands probably in offering a globally valued service, in an exclusive setting but with an "home feeling" that only a restaurant can offer, especially in an alienating setting of a huge metropolis; the choice of Louis Vuitton of including a restaurant in its new location in Osaka may not appear so trivial, after all [87].

Increasing cost of rent and of marketing

Megalopolis are destinated to become bigger and bigger, hosting more people every year. The surface expansion of the city asks for stores that are much more spread around town, covering new urban areas and serving people that want to move less and value convenience. Clusters of luxury stores and services naturally are born, and they contribute to the increasing cost of rent.

On totally the opposite side of the spectrum, we are assisting to a trend of "migration" outside of the city, especially in developed economies: smartworking and remote working are allowing more people to choose to live far from the headquarter of a company, and that is especially truth for professionals and tech workers, that constitutes a large part of the luxury consumers [88]. These two opposite situations both must be taken into consideration when luxury players analyze the potential size of a market and when they elaborate a strategy. Some city clusters are expanding, some are lowering their population density in favor of a more dispersed population on the area and this phenomenon can even happen at the same time. Thus, considering a megalopolis' dynamics in spite of a country's dynamics can heavily increase the effectiveness of luxury player strategies.

Studying these dynamics is becoming more and more complex, increasing the cost of marketing research and management of marketing campaigns. Combined with the increasing costs of digital marketing campaigns, efficiently targeting a geographical customer pool is a real challenge nowadays and can jeopardize the margins for luxury players.

Increased dependency on mega cities

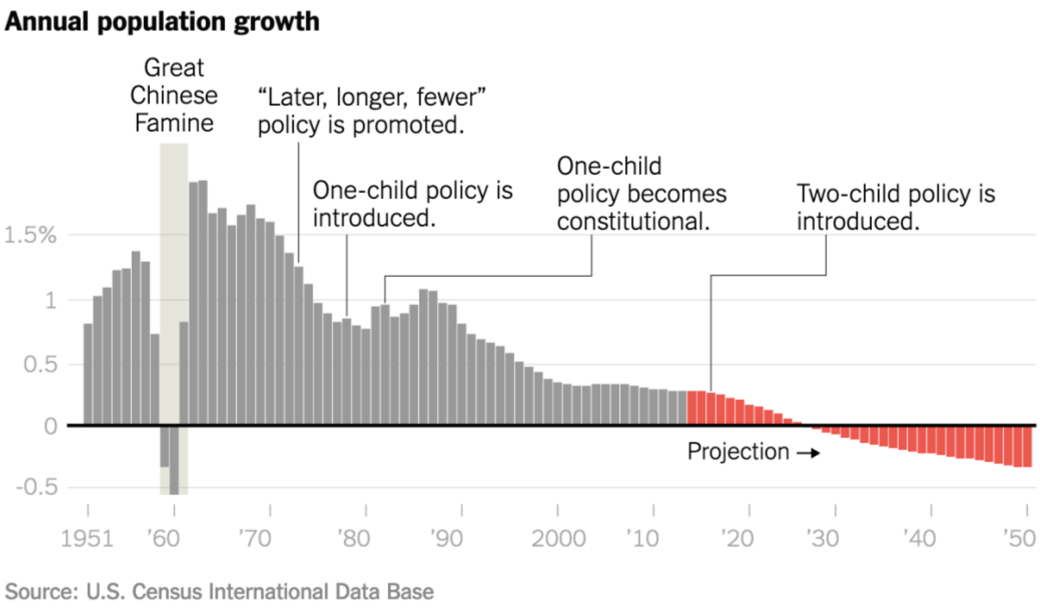
Megacities are complex and interconnected networks, they are ecosystems allowed to live and prosper by their ties with the global flows of goods, services, people and money. The more interconnected a system is and the more it is exposed to structural risk and chain effects. For example, the North California megalopolis, containing the Bay Area, is heavily reliant on the tech sector, with the average technology worker (there are 830,000 people employed in this industry in the San Francisco Bay Area) earning 56% more than even a financial worker in New York City; according to a recent survey, the 66% of the respondents would leave the areas to live in a more affordable zone and work remotely. The consequences of this hypothetic migration for a market heavily reliant on physical purchase made in the area, could be devastating both for the area itself and for other megacities connected with it (e.g. Bos – Was Megalopolis reliant on financial service would experience severe loss).

Even though there exist risks of this size, the dynamics of economic reliance on megalopolis seems unstoppable, with urbanization rate and urban wealth creation experiencing the fastest grow ever. Luxury players should try to find strategies to lower their exposure to these risks, for example implementing online channels, protecting their supply chain and diversifying their offer and their portfolio of investments.

China dependency

Looking at the Altagamma & Bain report on luxury goods for 2018 [89], every information point to a growing relevance of the Chinese consumer: purchases made in Mainland China are forecasted to grow their portion of the market and reach 22% in 2025 (vs 8% in 2017) and at the same time purchases made worldwide by Chinese nationals are projected to grow to 46% in 2025 from 32% in 2017. The risk deriving from having almost half of a market consumption deriving from only one country is evident, even if analysts are confident in saying that the peculiar Chinese development must be exploited and threated as a one-time event.

China is not only a demand-side player in the luxury game: Chinese entrepreneurs and conglomerates are looking into buying western luxury brands for some times now [90] with mixed results most of the time [91]. However, given the impressive rates of growth achieved in the country, it's not absurd to think that in some years a Chinese owned conglomerate of luxury brands may emerge and compete with the European giants. The interest in fashion and luxury for Chinese people is not just showed by buying products or stakes of luxury brands, but also in a rising phenomenon of home-grown fashion brands: they have the potential to compete seriously with western brands especially after the crackdown on corruption and the trade wars with the US, consumers with a smaller disposable income could prefer to buy cheaper product of Chinese brands [92].



The country is facing different risks that can led to a stop of its growth: first of all, after abandoning the one-child policy in favor of the two-child policy, the country is still waiting to see an effect on its aging population [93]; macroscopically, China experienced in 2019 a little slowdown of the growth, that remains nevertheless high compared to mature markets, but may be a signal of the maturity that the country is reaching [94]; US-China trade war affected the global supply chains, jeopardizing the efforts of international cooperation of other countries and posing a risk to GDP growth; finally, recent events such as the protests in Hong Kong or the COVID-19 epidemic have demonstrated their huge potential of disruption all across the globe.

Supply chain risk: country of origin effect, coronavirus, HK protests etc.

One of the main advantages of globalization is the ability to spread the production of a good across the global supply chain, exploiting with low cost of transportation the differences in productivity, labor cost and comparative advantages. While luxury has always been associated to handcrafted products made in Italy, Switzerland or France, things are rapidly changing even for this peculiar market. To face the booming demand following the outstanding expansion of the luxury market, firms started to increase their production (along with steepening the prices of the products) and de-localize their supply chain [95]. According to the European Union's regulation, the country of origin is where the final operations are made and where the real value is added to a product: some luxury players decided then to adopt "controversial" policies, like producing most of the product in a EU country, shipping it to Italy, France or Spain to impose the logo and do the quality controls; other players (e.g. Balenciaga with their top-selling sneakers Triple S) totally skipped this process and transferred the production from Italy to China, changing the indication on the tag from "made in Italy" to "made in China" with no consequences on the market. This can be interpreted as a shift in the values and meaning that customers search for in luxury products: global customers are used to global supply chain and are not influenced by the country of origin effect as they were before. In the next sections this issue will be approached more deeply, highlighting the effects of globalization on labor markets and production.

The futuristic metropolis of Hong Kong is the best example to analyze the interconnection between countries and shows how they are made clear during crisis periods. The 15th of March 2019 was the first day of a protest that would continue in the following months and is still up in June 2020, when this essay is written. Without entering into a political discussion, I will describe it as a clash between the pro-democracy citizens of Hong Kong and the Chinese government. For the sake of describing the effects of this protests on the luxury market is only important to know that almost every day for more than a year (up to 2020) Hong Kong experienced violence and chaos on the streets and thus almost every retailer of any kind were forced to close for long period of time or even saw their stores destroyed [96]. The effects of a megacity like Hong Kong effectively "shutting down" are evident in the tourism sector, real estate, financial sector, logistics services and unemployment rates. For the luxury industry it means that the most visited city in the world, counting 30 millions tourists a year according to Euromonitor 2018 [97], lost the potential sales of more than 1000 stores that deal with some of the highest spending customers in Asia [98]. To give a measure of the impact: Hong Kong accounted for between 5% and 10% of global luxury sales, down to 2% after the protest; sales for watches and jewelry decreased by 47,4%, with HK accounting for 11-12% of global sales for Swiss watchmakers conglomerates. According to analyst Luca Solca from Bernstein, “for those groups that have a well-developed retail network across Asia, the Hong Kong protests do not necessarily mean losing money”: it means that if a brand has the ability to relocate HK’s purchases across several different locations (Mainland China and Japan mostly) it can counteract the effects of lost sales, but the costs of managing and maintaining the stores are still present, inevitably representing a sunk cost for the firms [99]. This event shows that while megacities provide unique opportunities for critical mass of consumers and economies of scale, they have the potential to collapse under their own weight.

Another risk that megacities face that can hurt the global supply chain is sanitary: informality, dense population, inadequate waste management systems and under dimensioned public healthcare are all factors that can lead to the insurgence of epidemics. The most recent one, the one the world is still experiencing in 2020 is COVID-19. A virus similar to SARS-2 that attack the respiratory tract and originated in China in the city of Wuhan, a big megacity. Coronavirus, at the day this thesis is being wrote, is still present around the world and many countries are adopting “quarantine” measures and locking down their borders, causing huge delays in global supply chain. Moreover, the only firms allowed to open and operate physical facilities are often only the essential ones, and still they operate at a slower pace than usual. This epidemic strongly hit the world economy and is projected to erode major economies’ GDP by at least 2.4 percent, slowing the global growth from 3% to 2,4% [100]. The situation is still unclear and complex: while some analysts believe in the “revenge shopping” of customers that want to indulge in unnecessary goods and service after being unable to do any activity that was not considered “essential” [101] these cases may just be temporary and not reflecting a global situation of economic slowdown, unemployment and even more consciousness of consumers in regard to their money and the environment. It is too early to draw conclusion about the effects of this epidemic, but the existence of it demonstrated that megalopolis must be carefully administrated and monitored: because of their unique social characteristics they represent a perfect machine for the outbreak and spreading of disease.

Supply chain effects on labor and production in Italy

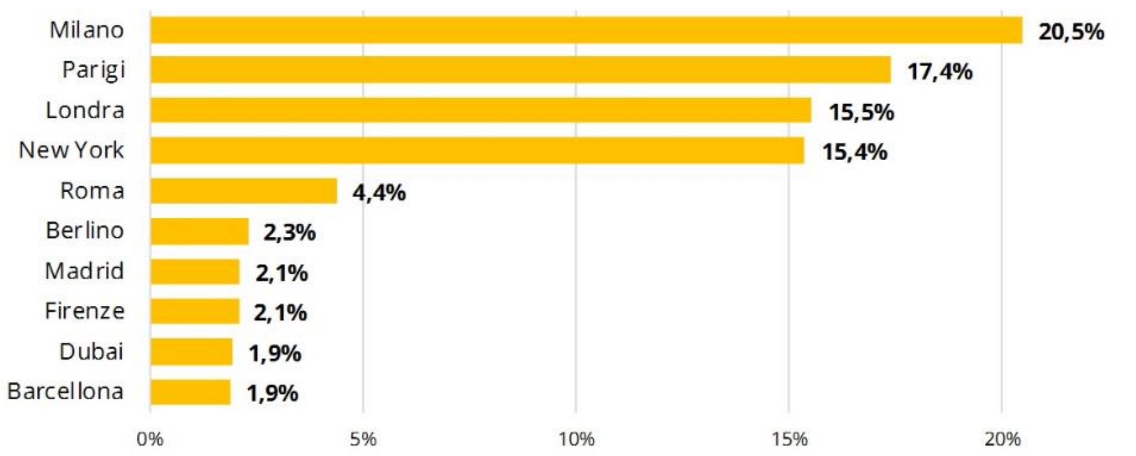
Italy has always been a productive pole for the luxury and fashion industry thanks to its capacity to organize a production into districts that allowed for precision and adaptability; high-end fashion needs to be produced in small quantities with changing models every season. Economies of scale were not pursued by these districts because the market size of their products was relatively small compared for example to technology or automotive industries. The advent of the globalization process, starting in the 80s, called for an internationalization of the Italian high-quality manufacturing industry that started to outsource parts of their production (especially semi-manufactured produced by non-skilled workers) to countries with lower wages [102]. In the period 2007-2015 the manufacturing industries in Italy lost almost a million workers (-21,4%) while Italian multinational firms grew their workforce by 12,5% (94 thousand unities) [103]. The manufacturing industry is the engine of the post-crisis Italian economy, with a value added growing 5,6% in four years (2011-2015), more than services and construction. Megacities played an important role in this scenario: cities like New York City or Tokyo initially created an agglomeration of luxury consumers in a “limited” area, generating the opportunity for an expansion in rich markets without expanding the store and logistic network too much; when Asian megalopolis started to arise, not only there was an effect due to the growing number of people wanting to buy luxury Italian products, but also an effect due to cities' location around the continent. Luxury conglomerates, after the opening of the Chinese market, experienced a long period of astounding growth both financially and operation-wise that has been made possible by satisfying an ever-growing demand. Clearly, workshops and ateliers in Italy could not possibly increase their production capacity immediately, so luxury Italian manufacturing companies started to delocalize partially (and in some cases totally) their production in nearby European countries (e.g. Romania, Portugal) or in Asia (China, Vietnam etc), but never got back on their steps and returning the production in Italy: in fact, the economic incentive of low labor cost and avoiding huge investments has been enough to change the status-quo of the "made in Italy" from a vertical integrated system to a globally outsourced model.

CHAPTER 6 – THE ANTI-MEGA CITIES

In this final chapter I will shift the focus from megacities to smaller locations and the online world, to see if there are alternative patterns of luxury consumption that can resist to the uprising economic weight of megalopolis, representing an opportunity and an alternative.

Italy: Milan, Venice, Rome: shopping tourism on the rise

According to Shopping Tourism Italian Monitor tourists represents the 70% of retail footfall and 54% of purchases in Italy, with foreigner spending more in ¾ of the stores interviewed.



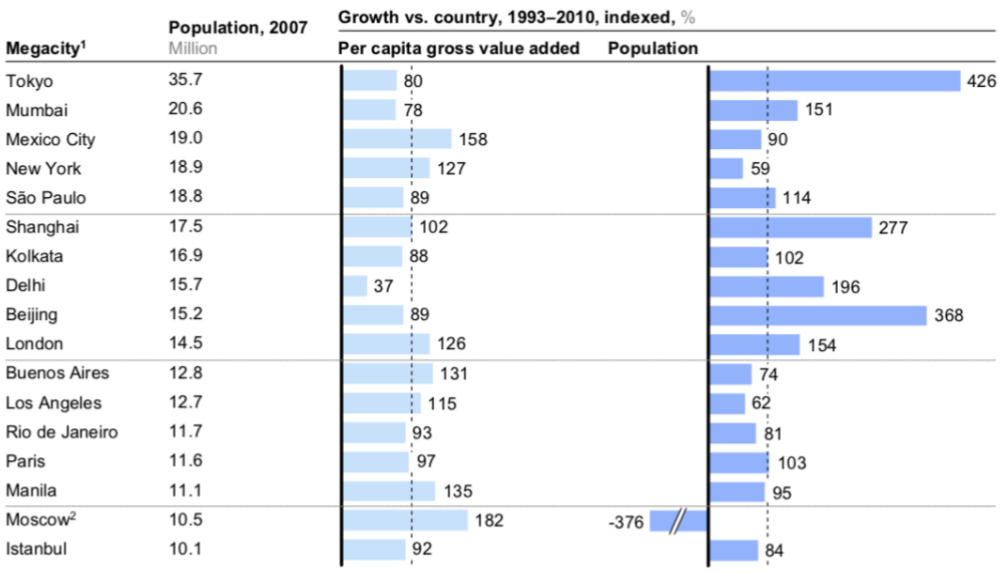
Fonte: Risposte Turismo. Shopping Tourism Italian Monitor (2018).

According to the data collected from STIM in 2018, Milan is the most cited city in the world by shopping tourists, followed by three megacities, with Rome and Florence being in the top10 [104]. There are 1,5 million tourists that every year visit Venice, Rome, Milan and Florence with the major reason being shopping, averaging a daily expense of 112€ composed mainly by jewelry (18%), apparel (16%) and arts\design (13%). Moreover, those shopping tourists fit very well with the characteristics of a luxury consumer: they are used to travel (80%), interested in arts and culture (50%) and by offering and prestige of a shopping destination (13%); however they also exhibits a strong propension to choose a place based on discounts (32%), this preference is reflected by the fact that Italy represents also an opportunity for many to access designer outlets or tax-free shopping.

Other destinations for shopping tourists have born in the recent years, increasing the competition for being the top destination: a recent study showed how Dubai is perceived as a top destination for luxury thanks to several factors such as a wide range of retail services, high-quality modern shopping malls and a general infrastructure that permits the existence of luxury tourism and consumption mixed with the strategic position of Dubai as a central airport hub [105]. However, this kind of location has an opposite relationship with the luxury world: luxury brands add prestige to a place (e.g. a shopping mall, a five-star hotel) by choosing it as part of their network, in an almost one-way direction, incentivized and supported by local governments. In Europe, where most of the luxury brands are born, the relationship is much more symbiotic, with a location and a brand mixing their DNA to create a special place in the collective imaginary. This relationship can help to explain the central role of Italian (and French) cities in the luxury shopping market and support the idea that an alternative opportunity for luxury exists outside megacities.

Middle-Weight Cities

There exist evidences that many megacities exhausted their opportunities to exploit economies of scale, network effects and attractiveness due to reaching a plateau dimension.

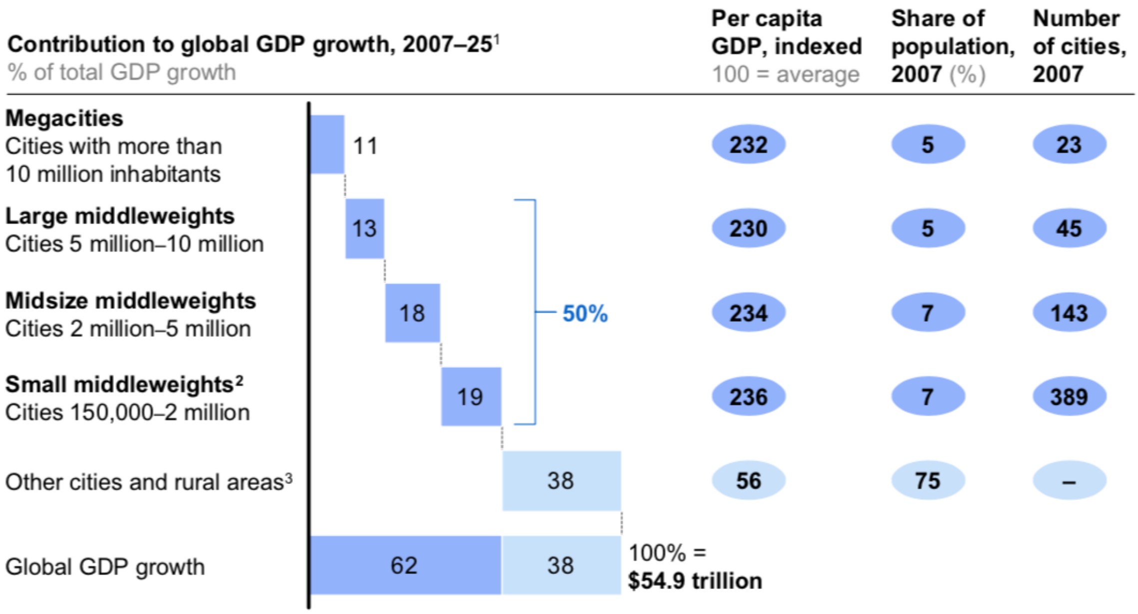


1 Analysis for megacities where data were available (17 out of 23).
2 Population compound annual growth rate 1993–2010 was 1.1 percent in Moscow and -0.3 percent in Russia.
SOURCE: Brookings Institution Global Metro Monitor; McKinsey Global Institute Cityscope 1.0

Many of the megacities on the above list are no longer outgrowing their host country GDP growth and their population growth also slowed. The reason for that must be found not in physical limits that cities encounter, but in the growing complexity and demanding management needs: many cities' government are not prepared or skillful enough to keep up with the growing population and city expansion and they not necessarily know how to cope with problems like waste management, pollution, traffic congestion and generally over-population. If a city is not well managed, then the advantages of its big dimensions can be outweighed by a deteriorating quality of life and loss of economic dynamism.

Megacities are not doomed to failure, nor are they destinated to stop growing by any means; they face problems that if well solved may create the opportunity for innovation and higher quality of life for everyone. Still, there are competitors cities that are thriving and growing (maybe until reaching the dimension of megacities eventually) in the City600 list. The 577 middleweight cities in the list, with a population of between 150,000 and 5 million, are contributing the 50% of global GDP growth to 2025.

The City 600 will contribute 60 percent of global growth to 2025, and middleweights will account for 50 percent of growth



1 Predicted real exchange rate.
2 Smallest city in terms of 2007 population has 208,000 inhabitants (Asan, South Korea).
3 Cities that do not belong to the City 600; small cities and towns and rural areas.
NOTE: Numbers may not sum due to rounding.
SOURCE: McKinsey Global Institute Cityscope 1.0

On the three dimension of city growth (demographics, households and incomes) these middleweights are going to outperform most established megacities. The companies that focus their effort and try to catch the growth of these cities while they are still rapidly expanding will have a huge advantage and could outperform their peers, according to a McKinsey study [106]. Drawing conclusions and contextualizing the 2011 study from McKinsey, the fastest growing cities at the time are now all megacities with more than 10 million citizens; this suggest us to follow the growth dynamics of cities that are most likely to become megacities in the following years if we want to catch the value of an expansion plus the economic advantages of a megacity.

Online Shopping

Online shopping has been the chimera of luxury and fashion companies since the digital revolution happened in the last twenty years. Initially, firms were confident that a virtual environment could not substitute the unique experience customer enjoyed in the stores, but inevitably (as many other industries) even those companies revolutionized their channels to accommodate the needs of their customers. Digital channels truly represent the anti-megacity because they are in their very essence globalized, modern and offer the greatest variety of products (and services) possible, with no physical touchpoints. Online channels will account for 25% of purchases of luxury goods in 2025 and digital technologies will enable 50% of them [89]. While online channels can potentially reach any customer in the world, there is a trend of integration of online and offline channels into a unique omnichannel. The omni-channel re-connect consumers to stores and other physical facilities to make them experience innovative customer journeys, interact more with the brands and make them more loyal [107]. City stores in this way are becoming even more relevant: they are shifting from a point of sale role to a point of touch.

Being a point of touch means that a brand has the occasion of interact with customers in a more meaningful way, whether it is pure entertainment or offering a personalized customer service. Online channels and digital technologies should be seen as a strong allied of city stores in the path of innovation and in capturing city’s growth.

Conclusions and Recommendations

After deeply analyzing the subject of Megacities, their globalization pattern and their relationship with the Luxury world, we can draw some conclusions.

Megacities are an ever-evolving concept: they started to appear in the 50s with New York City and Tokyo, representing a futuristic way of intending life, with their skyscrapers, transportations systems and industrial hubs; then they started to appear all over the globe, especially in developing countries, generating huge urban agglomerates affected by informality, pollution and over-population; nowadays, megacities are again an urban window on the future, with clusters like the Silicon Valley or the Pearl River Delta dominating on the global technology market.

When two or more megacities expand until they reach the borders of nearby cities they agglomerate themselves in a process called conurbation that creates the so-called Megalopolis, enormous clusters of cities that share flows of people, goods and services on an every-day basis and are interconnected by networks of transportation and communication technologies.

These peculiar giants hugely impact the world in an economic, political, social and environmental sense. They are most likely to be Alpha cities in the globalization classification, meaning that they are tightly coupled with the international economic dynamics. Moreover, according to different researches, these cities tend to host a huge amount of wealthy and ultra-wealthy citizens that choose them as their home because of an exceptional mix of emotional, business and practical values. These individuals choose cities that offer the right infrastructures to enjoy the life they think to deserve, is saying buying and consuming luxury goods, services, experiences and real estate. Thus, luxury players follow the flow of these wealthy individuals in a symbiotic manner: on one hand luxury targets where wealth already exists to serve it, on the other hand luxury players among with authorities and investors try to create the right environment and infrastructure to attract wealthy individuals.

In a megacity is fairly easy to experience innovation, participate in an international event, be part of a global community, thanks to their attraction factor for wealth, technologies and people. For these reasons, conquering the hearth of consumers is becoming more difficult and loyalty levels are low, with customers constantly desiring to experience the newest trend, innovation or experience they can. Luxury players reacted to these new preferences by adopting a so called "*glocal*" strategy: a mix of global meanings and local values. In fact, recent studies showed how the multinational model of companies that highly differentiate their offer according to geographies is no longer effective, due to globalized customer desires; however, some differences between cultures still exists at a microscopically level, and people generally value certain aspects of their culture, so respecting and interacting with it in a mindful and creative way is a winning strategy for companies that want to establish a footprint in a local community.

When deciding to enter the retail luxury market of a megacity, a brand faces different challenges: first of all, the infrastructure of a city may be a barrier to enter, traffic congestion, pollution and over-population are sustainability aspects that can't be ignored by luxury players; then, these cities show high level of retail concentration, with their famous and landmark streets having the most expensive rent around the world. Megacities represent a challenge for luxury player even on a macroscopically level: they are mostly concentrated in Asia and especially in China, thus increasing the dependency on this country; they host the most globalized citizens, with low level of brand loyalty and strong desire for innovation, a costly combination indeed; their huge population wants more and more products that must be produced and sold in an efficient and large scale way, the risk for dilution of luxury brands is very high; finally their attractiveness and consequently the huge relative reliance on them puts players at risk of domino's effects such as the ones seen in the Coronavirus pandemic or in the Hong Kong protests.

The "antagonists" of megacities are many: on one hand luxury tourism destination such as Milan, Venice, Dubai etc that with their unique atmosphere serve the important role of ambassadors of a brand's values, still represent an important part of revenues and will forever be the most important asset to give value and prestige to the brand; on the other hand, middleweight cities around the world are on the rise, exhibiting growth rates that exceed the ones of megacities and of their own countries, however, often the fastest growing middleweight are soon-to-be megacities, highlighting an “inevitable” destiny for this category of cities. Moreover, online channels could be seen as a virtual megacity, in which the variety is at its peak and consumers from all around the world experience a global customer journey. In reality, digital technologies are helping to integrate online and offline channels in a unique omnichannel that is expected to perform well in innovative and smart megacities.

Megacities certainly pose some unique challenges to luxury players, however, the opportunities they enable are countless and the world is leaning towards urban life more than ever. Economies of scale, network effects, momentum for innovation and cultural diversity are some of the enabling factors of the success of megacities. No physical limits were found to the growth of megacities, the only limit is in the capacity of its government and its citizens to manage the complexity and continuously innovate, really showing the world their status of global leading cities.

The size and the unicity of each megacity and megalopolis are the reason why a shift in focus from regions to cities is needed: luxury-driven companies must concentrate their resources in understanding the opportunities for growth at a city level, developing strategic plans to conquer this huge and powerful markets.

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