

STRATEGY

## The Internet Luxury Memo special report

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*The Internet has presented new opportunities and challenges for the luxury world. Image credit: Bloomingdale's*

By DANNY PARISI

The rise of the digital age has presented opportunities and challenges for luxury as it seeks to redefine what its industry means in an era when consumers can order anything on Amazon and desire constant and immediate gratification.

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While the Internet has undoubtedly had huge benefits to the luxury business, most notably in the areas of social media and influencer marketing, it has also presented unique challenges, such as navigating the balance between convenience and exclusivity. Luxury brands rely on the unique and personal nature of purchasing their products, which is at odds with the looser and more informal nature of the modern digital landscape.

"The issue I see facing the luxury industry is two-fold," said Casey C. Gannon, vice president of marketing at **Shopgate**, Butzbach, Germany. "Consumers are buying luxury products because of the experience with the brand, not just the product.

"Buying an expensive luxury item online misses the appeal of going into a store and having a 'moment' with the brand," she said. "Luxury retailers lose the ability to connect their brand identity with their consumer over digital platforms.

"Secondly, consumers typically want to touch and feel the luxury product they are buying prior to paying a premium. Retailers in this industry need to find a way to overcome this challenge by enhancing the consumers' online experience."

### Strengths and weaknesses

The Internet has provided the luxury industry with a wealth of new opportunities, from easier ways to reach customers, both from a marketing perspective and commercial perspective, to creating entirely new services that are only possible through digital means.

The strengths of digital for luxury are manifold. Customers are more in tune than ever, meaning that there are far more opportunities for customers to engage with luxury brands, rather than the scant options available in the past, primarily through print magazines and catalogs.

Now, social media plays a massive role in the luxury marketing sector, with much of it coming from influencers.

Given luxury's status as an aspirational market, influencers play a crucial role. Influencers build up a lifestyle that their fans want to emulate, with luxury brands as indispensable tools in achieving that lifestyle.

It is also now far easier for customers to purchase luxury goods, since they can do so through online stores.

But herein lies the problems of the digital age. A major selling point for luxury brands historically has been the experience of consumers entering the store and picking out goods while being waited on by attentive and knowledgeable sales associates.

Luxury goods, by virtue of being opulent and extravagant, are expected to be of the highest quality and sold in a setting that befits the product.

But with the rise of Amazon and ecommerce, luxury brands are struggling to keep up with a company that has essentially perfected the art of buying goods online.

With little room to innovate or compete with the likes of Amazon, luxury ecommerce has not been able to do much to stand out.

However, there are still ripe opportunities for luxury brands to make use of digital tools to improve the buying experience for their customers.

With the biggest threat coming from Amazon and other dedicated ecommerce outlets, luxury brands will have to turn to digital tools that make use of mobile and social media to complement the buying experience, and not try to supplant it.

"I'd say that the luxury industry is still struggling with creating an inviting ecommerce experience and fully translating their brand message and identity into a cohesive online presence," said Brian Lee, associate director of luxury retail at [L2](#), New York. "A lot of luxury brands miss the opportunity to capture consumers through their Web site experience.

"Chanel, for example, lacks any real path for online purchases of its ready-to-wear collections. Simply put, many traditional brands are still stuck in old ideas of exclusivity and scarcity and have not adjusted to the new digital reality," he said. "They rely more on online retailers and department stores to do the heavy lifting for them."

#### Digital commerce

Luxury ecommerce is in a tight position. There are a plethora of platforms dedicated solely to ecommerce, and no matter how much they innovate, luxury brands will almost always have too much else to focus on to hope to beat those online retailers at their own game.

"The biggest issue facing the luxury industry in terms of digital/internet continues to be ecommerce," said Donnie Pacheco, principal of [Clean Channel Consulting](#), Seattle. "While many brands have started to adapt it, they are woefully slow and many do not have clearly a defined strategy.

"Many continue to focus on their brand and what they want instead of what their customers want, which is convenience," he said. "Scarcity can be a key component of what defines a luxury brand, but selling online and scarcity are not mutually exclusive."

Instead, many luxury brands are beginning to work with those platforms in an attempt to bypass competition altogether. One of the most notable players in this regard is Net-A-Porter.

Many brands have already struck deals with Net-A-Porter and are even debuting goods via the retailer's platform.

Richemont-owned Cartier released its revived Panthre de Cartier timepiece on Net-A-Porter prior to a launch at its own points of sale.

Cartier teamed with Net-A-Porter for an exclusive pop-up shop May 2-31 to bring the 80s classic back to market. As jewelers and watchmakers continue to warm to online selling, Net-A-Porter has emerged as the go-to partner for exclusive launches, working with Chanel, Tiffany & Co. and IWC, to just name a few ([see story](#)).

*Video content produced by Net-A-Porter for the Panthre de Cartier pop-up exclusive*

Elsewhere, those online retailers have begun developing their own luxury services, such as the high-end delivery service offered by Chinese ecommerce giant JD.com

JD gives the online luxury shopping experience a more personal touch.

For its JD Luxury Express, the retailer has trained a special team of employees who will shuttle luxury purchases to consumers' doors in style. Designed to more closely replicate the individualized experience expected from bricks-and-mortar stores, JD's service aims to ensure that luxury products are handled in a manner that reflects the brand ([see story](#)).



*JD.com's white glove service. Image credit: JD.com*

Other brands are cautiously choosing to establish their own ecommerce platforms.

LVMH-owned Berluti is the latest luxury brand to embrace direct-operated ecommerce.

Along with the launch of a new Web site on July 13, Berluti promoted the debut of online stores for France and Monaco. While not the brand's first foray into online, this marks the brand's entry into retailing directly to consumers through ecommerce, reflecting the luxury industry's growing acceptance of digital sales channels ([see story](#)).

But there are perils involved in this process, as was recently learned by media group Cond Nast in June.

Cond Nast abruptly closed Style.com in June after the company struggled to manage the editorial and commerce sides of the site simultaneously.

While many publishers are entering the ecommerce business as a means to combat falling revenue, this move by Cond Nast suggests that running a commercial site is more difficult than some publications may have expected. Nevertheless, the fact that Cond Nast is still in the ecommerce game through a partnership with Farfetch suggests that the market for editorialized shopping is still there ([see story](#)).



*Cond Nast Britain is continuing its investment in digital. Image credit: Cond Nast Britain*

For brands that are looking to extend their ecommerce options across international borders, localization should be a major priority.

Successful international ecommerce strategies go beyond translating a Web site into consumers' local languages, according to a recent report from L2.

Cross-border ecommerce opens up brands to shoppers in countries that are growing more rapidly than established, saturated markets such as the United States and Europe, but retailers should do their due diligence before making a move. To make headway with global consumers, localization efforts should deliver both market-specific content

and commerce features ([see story](#)).

"Product can be presented and sold online where customers research and shop, but in limited quantities to create a sense of urgency, exclusivity and scarcity," Clean Channel Consulting's Mr. Pacheco said. "The key is to ensure that customers, whether they choose shop online or offline, are not neglected.

"Additionally, many sites are optimized to what the brand wants or how they want to present themselves to the customer," he said. "Luxury customers want a beautiful presentation, but not at the cost of ease of use.

"The more a brand makes customers work to find and purchase product, the more likely they are to lose them with each additional step."

The mobile connection

The worlds of digital and mobile can no longer be talked about as separate concepts. Today, mobile is digital.

This holds true for the luxury as well. Any digital tool is expected to be identical between desktop and mobile versions. In many ways, mobile is even more important for luxury brands and retailers than desktop, since it is the channel through which customers will be interacting with the brand digitally while they shop in-store.

The use of mobile devices in-store is one consumer behavior that luxury brands should be, and are, paying attention to with urgency.

Retailers in fashion and elsewhere need to realize that shopping is actually a streaming activity for many of their consumers.

Shoppers want to check inventory levels before venturing out to a store, browse the latest collection, or even place an order to pick up in the store. They might request the items be available for pickup by a certain time, or they might expect a well-versed sales associate to walk alongside them like a personal assistant, setting up the items based on a pre-loaded awareness of their tastes ([see story](#)).

"Luxury retailers have the opportunity to use all of the contextual and sensor data within their consumer's phone through a branded application," Shopgate's Casey Gannon said. "An app offers these retailers the opportunity to maintain the direct connection with their consumers that they crave.

"Instead, retailers these days are typically just shooting out emails and not taking advantage of what mobile apps can offer," she said. "Imagine the possibilities when building a brand experience on an app, using tools like segmented, relevant push notifications and in-store capabilities."

Many brands and retailers are taking this to heart.

Beauty marketer Lancme, for example, has garnered a 17 percent increase in conversions on the mobile Web, thanks to an accelerated mobile page program.

The luxury beauty manufacturer is now seeing more traffic via mobile Web than through desktop after it launched its Progressive Web App. Lancme has seen a 53 percent spike in mobile sessions on Apple mobile devices as well as an 8 percent increase in cart abandonment recovery through push notifications ([see story](#)).



*Lancme's #MiracleontheMove campaign. Image credit: Lancme*

Online retailer Moda Operandi relaunched its mobile app, debuting a new design meant to make the online process as high-quality as the products being purchased.



The redesign has allowed Moda Operandi to focus in on improving the experience for their customers as much as possible. This strategy is one unique to the luxury industry, where catering to a small, select group of dedicated customers is more important than trying to capture new ones ([see story](#)).

Even companies in the hospitality industry are beginning to take notice.

Members of Marriott International's loyalty program will now be able to check in to a large number of hotels through a mobile app, streamlining the check-in process for the hotelier's preferred customers.

The new mobile check-in feature will be available for every customer who is a member of the Starwood Preferred Guest program. Global rollout of this new mobile feature is expected to wrap up around the end of 2017 ([see story](#)).

"So many retailers fall short when it comes to presenting their products in video and in lifestyle images, which could make it easy for consumers to realize the value of their product even though they can't physically touch or see it," Shopgate's Ms. Gannon said. "Retailers can also create an impressive showroom to showcase all of their items while consumers walk through and complete purchases on their app.

"In addition, stores can arm their sales team with mobile devices that provide them all of the information they could possibly need at their fingertips, making them tech-enabled product experts," she said.

### Going social

Social media is one of the largest digital opportunities for luxury brands. Social media provides brands with a window into people's lives outside of traditional advertising formats and allows for the presentation of goods as part of a cohesive lifestyle.

In a study from HRC Retail Advisory, findings showed that word of mouth is still the main avenue for consumers looking for recommendations on products. However, the channels in which these recommendations are delivered to consumers have shifted toward the digital world with YouTube tutorials and social media feedback, especially for the beauty industry ([see story](#)).

This has already had a powerful effect on the industry.

The founder of footwear label Aquazzura attributes the brand's ability to have an immediate worldwide reach to the popularization of social media and Instagram, which connects women all over the world.



*Aquazzura's Wild Thing sandal. Image credit: Aquazzura*

During a conversation at the Cond Nast International Luxury Conference 2017, brand founder Edgardo Osorio explained that social media was extremely helpful for the growth of Aquazzura. Street style popularity on Instagram has given brands the ability to reach a wide audience, no matter the size of the brand ([see story](#)).

Social media is also affecting the tone and style of luxury ads, which now catered to the younger, hipper social media generations.

Italian fashion label Versus Versace, for example, took a candid approach for its spring/summer 2017 campaign, centering the effort on real relationships.

Opting out of overly produced imagery, the brand instead tapped Instagram-famous model Gigi Hadid as photographer, asking her to capture raw shots of her pop star boyfriend Zayn Malik and model Adwoa Aboah throughout one night. Photo-centric platforms such as Snapchat have made consumers accustomed to authentic imagery captured and posted in the moment, making this ad campaign an opportunity to speak in the language of

social media ([see story](#)).

Where social media's strength is most obvious for the luxury world is through influencers, ranging from Hollywood starlets to fashion bloggers.

Luxury has always been about selling a lifestyle and making customers feel as if a product is a necessary addition to create their desired life. Influencers are the perfect vehicle for these aspirations, as consumers see them and model their own lives on social media celebrities.

For example, hospitality group Rosewood Hotels and Resorts is further establishing its authority on all things travel with an assortment of in-the-know influencers via a new content hub.

"Rosewood Conversations" is an online destination aimed at creating a community for those interested in luxury travel. The content hub will feature weekly features from celebrities and experts ([see story](#)).



*Rosewood is looking to be the source of conversations on travel. Image credit: Rosewood*

Similarly, British department store Harrods got to the heart of contemporary men's style through the perspectives of four fashion personalities.

"Anatomy of Style, the Masters of Menswear" gathered four voices in male style for a candid conversation on their wardrobe tips. While in-store style experts still help consumers navigate their style decisions at point of sale, this digital content enables Harrods to provide inspiration to its audience before they shop, whether in-store or online ([see story](#)).

Overall, while influencers are clearly having a major effect on how luxury markets, brands still need to remain up to date on the rapidly changing landscape of social media, bringing content to new channels and platform features, such as Instagram Stories, as they become popular.

"In general, being first to adopt advertising on emerging social channels such as Instagram Stories and Snapchat will keep your brand top-of-mind with the younger, more modern demographic," Shopgate's Ms. Gannon said.

"Luxury brands should not be hesitant to try new channels, both organic and paid," she said. "Wherever your influencers are the most popular is where your brand should be showcased."

## Net neutrality

One issue that should be on the mind of any business that relies on the Internet to reach customers is net neutrality.

In the simplest terms, net neutrality is the idea that the Internet should be classified as a utility and that all content creators and Web sites are given equal opportunity with no limits on bandwidth.

There has been a concerted effort in recent years to subvert this idea, creating a situation where Internet providers would control access to sites and could throttle speed for some sites or create "fast lanes."

The upheaval of net neutrality would be bad for everyone, consumers and businesses alike, aside from Internet service providers (ISPs). But now, United States President Donald Trump's appointment of anti-net neutrality figures to powerful positions, such as Ajit Pai as chairman of the Federal Communications Commission (FCC), the threat in the U.S. is very real.

Luxury brands would be in a tough situation without net neutrality, having to shell out money to ISPs to ensure that their sites are not in the "slow lane," which would discourage customers from visiting.

"At its core, net neutrality is meant to provide a level playing field for all content providers on the Web," said Andrew Lustigman, a New York-based attorney at [Olshan Frome Lowosky](#) specializing in advertising and regulatory law. "If net neutrality is curtailed, marketers will be increasingly subject to ISP's in terms of restricting bandwidth for their sites.

"As a result, the power to have full access to Internet traffic will be eliminated in favor of an ISP's discretion," he said. "For example, a marketer may not be able to obtain the level of traffic it has generated because of a bandwidth restriction that slows site load time if the ISP is not in favor of that marketer, or if the marketer has not paid for additional access."

The Amazon problem

Finally, no conversation about digital commerce or retail is complete without addressing the \$430 billion elephant in the room: Amazon.

The company is an absolute juggernaut in the ecommerce space, and has been pushing brands and retailers out of every new sector into which it expands. From books to groceries to apparel, Amazon's infrastructure is so powerful and entrenched that it is able to outperform other online retailers that are dedicated to a single sector.

"While many luxury brands do not see Amazon as a threat, they are," Clear Channel Consulting's Mr. Pacheco said. "Amazon's relentless focus on the customer is what drives innovation and keeps them ahead of their competition.

"If luxury brands do not shift their thinking to servicing the customer where they want to shop, they will lose out," he said. "Most customers now start their purchasing journey on Amazon.

"While luxury brands may not yet be selling on the platform, Amazon is getting better at serving up and directing customers to brands that are available. This can be a direct competitor's brand, another brand that they may not see as a direct competitor or even an expanded private label offering."



*Amazon Prime Wardrobe allows consumers to try on more than 1 million items. Image credit: Amazon*

Of the 67 million Americans who consumed luxury in the past 12 months, 60 percent are also Amazon customers. While Amazon is not a major player in the luxury space, it has been called a disruptor in retail, setting expectations for consumers.

According to a report from the Shullman Research Center, Amazon has successfully listened to consumers, working to remove any friction or obstacles to their shopping experience, including competitive prices and free, speedy shipping. About three-quarters of the 151 million U.S. consumers who have shopped at Amazon rate the marketplace as superior to other retailers, and about two-thirds shop with Amazon at least once a month ([see story](#)).

Amazon is also beginning to pose a threat to the fashion industry.

The online retailer is continuing to undercut the traditional bricks-and-mortar model with the introduction of a try-before-you-buy service.

Amazon's latest disruption is dubbed Prime Wardrobe and is currently in beta testing and available only to Prime customers that the retailer has selected to pilot the program. During an era where traditional department stores are facing declining sales and consumer disinterest, Amazon has only upped the ante on its fashion division's happenings and service programs ([see story](#)).

But there are ways that luxury brands can work with Amazon.



*Amazon Echo. Image credit: Amazon*

Consumers who purchase the new Amazon Echo will have the ability to receive fashion advice in regard to their outfits through the device's camera and its artificial intelligence solution. Fashion designers will likely have an avenue in the future to further connect with consumers through this feature ([see story](#)).

"The better Amazon becomes at shifting customer's to brands they do have, telling those brand stories and keeping them on the platform, the more they will eat into luxury brands' sales," Clear Channel Consulting's Mr. Pacheco said. "A tremendous first mover advantage awaits the first luxury brands that join the platform.

"Lastly, with all of the advances that Amazon makes with ease of use, ordering and technology, such as Amazon Echo, they become top of mind for customers and they want to buy only from Amazon," he said. "If brands do not figure out a way to partner with them, they will continue to cede sales to them.,

### The digital age

The rise of the digital world has made retail and marketing orders of magnitude more complicated.

Seemingly every week there are new innovations, platforms and technologies for businesses to keep track of as they attempt to negotiate the digital world.

But there are a few constants. The Internet has made everything immediate, and luxury brands need to keep that in mind when designing campaigns.

This may be antithetical to luxury brands, who are used to delivering a high-quality and feature-rich commercial experience.

But now luxury brands have the added responsibility of providing the same level of quality, but faster and with more personalization.

The tools provided by the digital age can help those luxury brands achieve that goal. Through the use of social media and influencers, ecommerce and the mobile channel, luxury brands can fully enter the information era.

### Best-practice tips:

- Brian Lee of L2
  - "Understand the role of digital in the purchase funnel. While online ecommerce may not be a goal for every brand, it is important to understand that the majority of conversions are influenced by online research in some manner. This means that digital is just as important, if not more, as TV or print in influencing consumers' purchase decisions. Investing in strong site experience and online reach through digital marketing is key in making sure your brand message hits possible buyers."
  - "Invest in social media, particularly Instagram. L2's recent Insight Report 'Fashion: Resale Disruptors' mentions that fashion shoppers are the most active on that channel, browsing Instagram 15 times more often than the average user. This channel has also been key in helping luxury disruptors see huge growth,



with brands such as Daniel Wellington growing 4,000 percent over a three-year period through strong influencer marketing and social media messaging."

- Casey C. Gannon of Shopgate
  - "Always provide the unexpected. Always. Make the digital experience just as immersive and exciting as your in-store experience. From chatbots to dynamic, contextual discovery, every search and app launch should be exciting. Blending the digital and in-store experience is imperative to keep the digital experience alive after your consumer leaves the store. For example, you can use image recognition to send product data to a consumer's phone or have an in-store display that scans product information so that consumers can watch videos and learn more. Whatever the strategy, these experiences must be fluid and let consumers shop on their own terms."
- Donnie Pacheco of Clean Channel Consulting
  - "One best practice for luxury brands when it comes to a digital strategy is do not treat all platforms the same. Individual campaigns, or at least modified content, needs to be developed for each platform. While there may be some overlap between platforms, for the most part, each caters to a specific set of customers and content must be tailored to ensure it engages that customer."
  - "Another best practice is to ensure that brands truly know their customer, where they are and how they are consuming their campaigns and content. Knowing which customers are on each platform is part of the equation, but it is also important to know the product that interests that customer and serve up appropriate campaigns and information. The days of creating a single campaign and simply posting it everywhere are over. Creating customized content about relevant product for each platform is essential."
  - "Luxury brands are not doing enough to make the best use of mobile. At the most basic level, many sites are not optimized for the mobile customer. Customers consume data differently on mobile and luxury brands continue to be more concerned with how they want their brand to be perceived and presented instead of making it easy for mobile customers to easily access the information they seek. Mobile is different from other digital channels in that customers want a more direct path to both product information and to making purchases. Additionally, mobile presents a unique opportunity for brands to customize content for their best customers and speak to them directly. This can be done through SMS and even creating site content that is sent to, and accessible by, a specific set of customers."