

LUXURY MEMO SPECIAL REPORTS

Artificial intelligence's role in luxury: Luxury Memo special report

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Pepper stands at 4-feet tall, can tell stories and help guests with a slew of inquiries. Image credit: Mandarin Oriental

By BRIELLE JAEKEL

Artificial intelligence is becoming a driving force within luxury retail and marketing, with many experts predicting that all aspects of affluent consumers' lives will be run by AI in the future. But customer apprehension is something that brands must consider.

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AI has completely transformed the way businesses interact with their customers, often streamlining customer service, creating greater personalization and solving problems, supporting the notion that it will never go away. Luxury marketers as well as technology platforms are pushing forward in AI, especially for data acquisition, but customers' concerns need to be assuaged meticulously.

"AI is going to be transformative in our business, as much, if not more, than the Internet," said Andrew Keegan, group director of technology at [Team One](#), Dallas, TX. "The Internet brought us data, AI will bring us insight."

"We're experiencing an exponential growth of data, and there would be no way to manage it or get value out of it without AI," he said. "AI gives us the ability to churn through data, see patterns, create insights. It will democratize data."

Five trends with artificial intelligence:

- Technology platforms lead the way

Platforms are leading the way in artificial intelligence innovation, with Facebook, Google and Apple creating unique interpretations of how to use to it.

- Personalization innovation

Marketers and retailers are tapping all forms of artificial intelligence to create better personalization efforts tailored to each consumer.

- Customers' fears of AI

Retailers and marketers need to be wary in being too "creepy" with their use of AI and data, as consumers are wary of privacy invasion.

- Communication through AI

Brands are tapping AI to better manage communication and leverage a two-way interaction with consumers without exhausting their manpower.

- AI used in problem solving

Some of the most important uses of artificial intelligence is the less flashy stuff that happens behind the scenes, where companies use these solutions to help fix problems and better their business.

AI and business

Brands are now able to manage almost all aspects of their company through the use of AI. These solutions can even help them decide where to move forward with product development.

For instance, *Women's Wear Daily* has been working with IBM's Watson to discover product trends. Watson searched through 467 images from the runways during New York Fashion Week last March.



WWD tracks trends with IBM Watson during New York Fashion Week. Image credit: Ralph Lauren

The experiment discerned what the dominant colors and patterns of the season were, along with style trends.

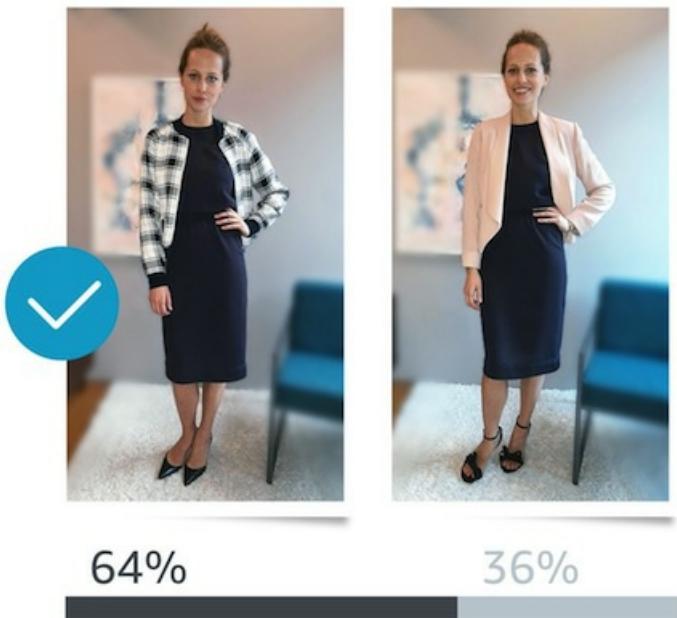
This type of use of AI helps to lift the burden of human workload as well as speed up the process. It can also help determine what trends businesses should follow.

"The fundamental challenge of the luxury goods market is borne in the products themselves," said Guy Yehiav, CEO of **Profitect**, Burlington, MA. "Fundamentally, most luxury goods, such as Rolex, Cartier and Louis Vuitton, are slow-moving items and don't create the normal data signals that a fast-moving item, including grocery, CPG, hard goods and fashion, would create."

"Being able to understand and affect future purchases, or increasing the basket with less data, is how AI changes this paradigm," he said. "Using AI to cluster consumer shopping habits and combining machine learning techniques is giving luxury retailers added value, including being able to predict when, where and what will be purchased and even recommend other products that may satisfy customer needs, regardless of how much or [how] little data is available."

Internet retail giant Amazon might be changing the manner in which consumers interact with fashion now that its new AI-driven personal assistant device Echo has been outfitted with a camera for style advice.

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



Data-mining offers marketers plentiful information on consumers and the retail/service industry, but AI is what helps brands act on it.

For instance, online art destination Artsy acquired data science startup ArtAdvisor to provide deeper understanding of the current and future art market.

ArtAdvisor, a New York-based art technology startup, analyzes data about artists to glean insights about the individual's work in the larger cultural landscape. Data analytics is becoming a common practice across sectors, including luxury retail, as brands aim to create more personalized experiences for consumers in the online space ([see story](#)).

"Luxury marketers are currently using ANI, or artificial narrow intelligence,' to target exactly the right customer segments," said Amy Webb, adjunct professor of strategic foresight at [NYU Stern School of Business](#), and founder of [the Future Today Institute](#), New York. "Mining and refining customer data, and using that alongside consumer behavior in a variety of circumstances allows marketers to more accurately predict which products will sell, at what volume and within which geographic areas.

"There are lots of examples of ANI being used during the luxury design process itself," she said. "IBM's Watson platform has partnered with Marchesa on dress design, while Autodesk Research has been developing a generative design system that allows brands and consumers alike to incorporate AI into product design."

Personalization

Through data-mining and AI solutions, marketers and retailers have the tools to completely customize their businesses for consumers.

Personalization is more than just a buzzword in marketing right now. It is vital for brands, especially luxury brands, to survive. As consumers become inundated with choices in quality and convenience without the hefty price tags, luxury brands need to focus on creating personalized structures to continue providing a high-end experience.

"We're seeing more and more retailers and marketers implementing AI across the entire customer journey in order to gain competitive advantage," said Jeremy Miller, vice president of marketing at [Sentient Technologies](#), San Francisco. "Gartner has noticed this trend, predicting that by 2020, 85 percent of retail interactions will involve AI.

"From chatbots that help with customer service inquiries, to AI that can determine which are the right combination of messages to show your online shoppers to get them to checkout, to AI that can personalize product recommendations with no prior customer history and get shoppers to the products they want in two or three clicks, AI is increasingly taking a central role in the retailer's tool box," he said.

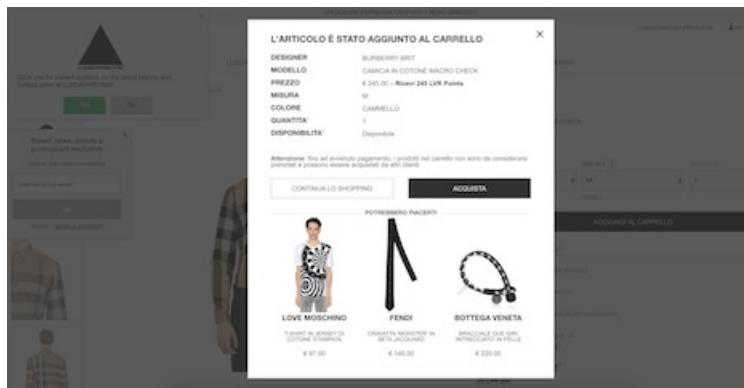
Sephora has made personalization one of its goals for its online shopping experience and has enlisted the help of

Dynamic Yield, a platform that provides the kind of tech needed to make personalized online stores work smoother to get it done.

The beauty retailer now has a total of 82 features powered by Dynamic Yield and focused on personalization and individualized shopping experiences. The two companies claim that an initial pilot saw six times more engagement based on recommendations alone ([see story](#)).

Italian department store Luisa Via Roma's ecommerce personalization tactics have also boosted the retailer's sales.

Bringing upselling to the online channel, the retailer is working to serve up tailored recommendations at various points in the purchase path. Beyond providing a customized experience for shoppers, this initiative yielded an uptick in both conversions and order value ([see story](#)).



Luisa Via Roma product page. Image credit: Luisa Via Roma

"Some of the top trends in AI are personalization understanding the consumer's journey," Team One's Mr. Keegan said. "What we've seen through personalization is that it greatly increases customer satisfaction if you do it in a way that becomes a white-glove experience."

"All the trends in AI are interconnected, like having a 360-degree view of consumers, communicating with them one-on-one, moving them through the purchase funnel, personalizing the message," he said. "AI will start working in more creative spaces, helping to create mass amounts of content we need to be able to personalize experiences for consumers."

Chatting with bots

Chatbots are a huge influencer in the AI world, allowing brands to communicate with numerous consumers without exhausting their manpower.

The AI communication tool is being used by marketers and retailers for a wide range of reasons in connecting to consumers including driving sales, creating interactive content and helping customer service.

Some brands have created chatbots just as a fun way to bring their content to life and include consumers in interactive storytelling, making them a part of the story.

British *Vogue* launched a Messenger bot to personalize fashion news for fans. Through the British *Vogue* official Facebook and Facebook Messenger account, users can interact with the bot to receive up-to-date information regarding fashion.

The chatbot makes a more impactful impression on readers, as publishing becomes excessively overcrowded and consumers' attention spans get shorter ([see story](#)).

Many retailers and marketers also use chatbots to intertwine editorial content and products to drive sales.

For instance, Matchesfashion.com unveiled a new interactive and curated guide called The Style Daily. The feature combines elements of chatbots, editorial content and online shopping into a unique stream of recommended products ([see story](#)).



The Style Daily is Matchesfashion.com's new curated content feature. Image credit: Matchesfashion.com

Dior launched a comparable experience via Facebook Messenger called Dior Insider. Similar to other brands' strategies, consumers interested in learning the latest Dior news or who have questions regarding a product can interact with interactive chatbot software ([see story](#)).

Brands also use chatbots as a way of providing an interactive tailored purchasing or gift guide. Swiss watchmaker Jaeger-LeCoultre introduced a chatbot to Facebook followers that acts as an out-of-store associate.

Interested customers on Facebook are able to interact with Jaeger-LeCoultre to find the perfect watch for them. The chatbot recommends suitable watches based on users' responses to questions, a strategy that greatly differs from traditional watch brands that usually rely on their name to carry them ([see story](#)).

Meet us in messenger and ask the Jaeger-LeCoulre Chatbot to find the watch in your own image: link in bio.
#JaegerLeCoulre #Chatbot

A post shared by Jaeger-LeCoulre (@jaegerlecoultre) on Nov 25, 2016 at 4:56am PST

Travel retailer DFS Duty Free, Saks Fifth Avenue and Nordstrom are a few of the luxury retailers who are helping holiday shoppers with gift finding as well as customer service ([see story](#)).

In a less flashy use of chatbots, retailers and brands are often leveraging AI messaging solutions to help with customer service inquiries, similar to an automated voice solution on a call line.

Brands have flocked to Facebook Messenger to implement their chatbots, but Twitter is hoping to draw in more branded chatbots by making the creation process easier.

Twitter released a bot builder in which brands such as idea sharing platform Evernote and the United Kingdom's Monarch Airlines are using to answer customer questions. Through direct messaging on Twitter, these bots help answer these issues and direct the query to the correct department ([see story](#)).

Perils with personalization

While consumers look for a personalized experience when interacting with a brand, it is a fine line between helpful and creepy.

The onslaught of data a business can acquire on an individual is frightening and is bothersome to many consumers. Marketers need to be mindful of personalization that can be taken too far.

"Consumers have privacy issues, rightly so, and brands need to be very cautious about using the information they have," Team One's Mr. Keegan said. "They need to communicate the right thing at the right time. Basically, know when not to be creepy."

"Before someone buys your product, for example, you may already know them, but you don't want to be overly familiar with them," he said. "If you say, Hey John, would you like to buy this product?" that can be weird.

"After he's bought it, you can say, Thanks for your purchase, John, here's how the product will enhance your life."

During ad:tech New York in early November, Havas' global head of marketing innovation explained that it is important to establish self-regulation. The industry itself needs to come together and determine what is and is not acceptable when it comes to AI and data exchange.

Above all else, marketers need to be sure that the brand is protecting the consumer.

Brands also need to operate with transparency. Informing consumers on how these algorithms work and allowing them the option to opt in and out as they see fit, in a way that also benefits that customer is how to move forward ([see story](#)).

"Customers' primary fear is that their information will be shared with other people or companies without their approval," said Profitect's Mr. Yehiav. "Open policies on data collection and usage will go a long way towards assuaging those concerns."

"Europe is ahead of the United States with very strong compliance on sharing PII data," he said.

The European Union is preparing to enact the General Data Protection Regulation law next year, which will have profound impacts on the way brands and advertisers collect and use consumer data.

Under the new regulation, consumers will have the power to opt out of data collection and have more power over how their data is used. But rather than seeing this as a burden, brands should embrace the renewed sense of power and independence that the regulation is intended to give to consumers ([see story](#)).

Who is winning AI?

Technology platforms seem to be the driving force in AI innovation, with companies such as Intel, Apple, Microsoft, Facebook and Google becoming dominant players. The ways in which these companies are leveraging and advancing AI are significantly vast, with many having divisions dedicated to doing so.

Two years ago, Google launched its new program that uses machine learning to help target consumers that are most likely to be receptive to advertisers' goals.

Reflecting the program's growth, Google is moving all of advertisers' AdWords application install campaigns to its Universal App Campaigns, ensuring that a wider range of advertisers can benefit from machine learning ([see story](#)).

Google's AI assistant

Google has even determined that machine learning can be used to predict molecule make-up.

Facebook's FAIR division is devoted to AI in a variety of ways including marketing and beyond. Recently, it has made the news for developing an AI method that can find suicidal users based on their posts and hopefully be able to step in to help.

Apple and Google are both experimenting with smartphone privacy through facial recognition AI.

Apple's new iPhone X will allow users to unlock their phones with simply a facial scan, and Google is working on a solution that will let a consumer know if someone is spying on his or her phone.

Twitter acquired the machine-learning company Magic Pony Technology last year. IBM has been continually pushing its Watson technology forward.

Even Turing Robotic Industries, a San Francisco-based company focused on mobile technology, is releasing a new high-end smartphone that comes with a built-in concierge service ([see story](#)).

All of these tech giants use their AI solutions in the way that consumers use their products and to help marketers become more visible to receptive users.

But it is not just the tech giants who are innovating in AI.

Many luxury brands are making partnerships and investments into advancement in machine learning.

For instance, luxury goods conglomerate LVMH Mot Hennessy Louis Vuitton awarded French startup Heuritech with the inaugural LVMH Innovation Award.



Virtual reality at LVMH's Luxury Lab during Viva Technology in 2016. Image credit: LVMH

Founded in 2013, Heuritech leverages artificial intelligence to detect trends online. Heuritech's technology understands consumer tastes, which can be useful for online retailers working to push appropriate product and content on their sites ([see story](#)).

Auto and AI

Automotive brands have been innovating in AI from the start, with headline-catching innovations, especially in driverless technology.

Most recently, German automaker Audi made significant steps forward in keeping up with the race for autonomy with the release of its A8 model.

Revealed at the Audi Summit in Barcelona, Spain on July 11, the Audi A8 has been created as a luxury automobile with significant advancements in driverless piloting. Alongside a new, more natural voice control operating system,

drivers will be able to make use of driverless features such as its AI Traffic Jam pilot ([see story](#)).

Mercedes-Benz is anticipating the future shift to autonomous driving with a trip around the world while gaining insights on intelligence technology along the way.

In what the brand called the first automated test-drive around the world, Mercedes' "Intelligent World Drive" visits five continents. A series of video installments documented the travels online ([see story](#)).

5 continents in 5 months. Mercedes-Benz starts the "Intelligent World Drive", 1st automated test drive around the : <https://t.co/e7ePC12juP>

Mercedes-Benz (@MercedesBenz) [October 8, 2017](#)

"Auto manufacturers have been first to the AI ecosystem, which is why we're now seeing many luxury vehicles with voice-systems, some autonomous features and more advanced dashboard media centers," NYU's Ms. Webb said.

"We're also seeing some experimentation in luxury hybrids, such as high-end, fashionable wearables," she said.

Beauty automation

Marketers in the beauty industry have been strongly embracing AI and have been making headway for many other luxury industries.

Cosmetics and personal care group Shiseido Americas invested in its sector's future use of AI through a technology firm acquisition.

Shiseido Americas, a subsidiary of the Tokyo-based Shiseido Company, acquired Giaran, which develops artificial intelligence platforms to heighten consumer experience and personalize beauty purchasing.

The terms of Shiseido's Giaran purchase were not disclosed, but the acquisition reflects the beauty sector's embrace of digital technologies as selling tools ([see story](#)).



Shiseido's Matchco app

The beauty industry dominates in augmented reality and product matching. Many beauty brands have adopted AR strategies that allow users to try on products through a virtual portal in real time.

Este Lauder looked to drive more confident purchases by incorporating ModiFace's automatic facial analysis technology into its ecommerce platform, allowing shoppers to view makeup on their faces in real-time ([see story](#)).

Tom Ford allows users to use a similar technology in its stores in its recently opened beauty boutique ([see story](#)).



Consumers can use AR to try on Tom Ford lipsticks. Image credit: Tom Ford

Sephora's Virtual Artist feature launched in 2016 ([see story](#)) and has been continually updated and pushed forward since then. One update has even included a way in which users can upload a photo and it will recommend a product and shade based on a photo upload.

Augmented reality beauty experiences can drive sales for brands, with a study on app YouCam Makeup finding that try-on features double conversions. While the use of augmented reality apps drives purchase intent across younger age groups, the benefit drops off at 30 years old ([see story](#)).

Traveling through chatbots

The travel and hospitality industry has developed a variety of ways to make the travel process easier on consumers through AI and chatbots.

Many brands have brought concierge services and booking processes to chatbots.

The Mandarin Oriental, Las Vegas has even appointed a humanoid robot as the newest member of its staff.

Developed by Softbank Robotics Europe, a French Socit par Actions Simplifie" company, Pepper will work as a technical ambassador at Mandarin Oriental's Las Vegas hotel property. Nearly all industry sectors have begun to toy with AI-powered tools and services to better engage with, and respond to, consumers and their needs ([see story](#)).

According to "Are bots worth the bother?," a recent report from EyeforTravel, the cost of creating chatbots is lowering, which means it will be more accessible for brands and become more of a standard. Travel is a sector that could be significantly affected by chatbots in a positive manner, as they can make booking and other tasks much simpler ([see story](#)).

"Luxury hotels with concierge-types of tools are doing some interesting work in understanding and surrounding the customer," Team One's Mr. Keegan said. "In years past, you'd go to a five-star hotel and mention to the staff that you liked certain chocolate or coffee and the next time you visited they'd have it for you. They're giving you a seamless experience."

"Now that can be done with AI, where marketers can give the end-customers an amazing experience in a way that they couldn't do on a mass scale before," he said. "You'll start to see more mainstream brands having a luxury touch and approach because the technology will allow it."

5 tips for implementing artificial intelligence

- Guy Yehiav, CEO, Profitect
 - "Use pragmatic models, and leverage deep learning and crowd sourcing to enable the models to better 'themselves' over time, while still keeping the use of human feedback such as of thumbs up and down ratings that combine with sentiment analysis of free text feedback. Full usage disclosure and awareness of the usage of AI are critical best practices to ensure the optimal result."
- Jeremy Miller, vice president of marketing, Sentient Technologies
 - "Know what business problem you're looking to solve for and then look at how AI can solve it. Look for small problems to solve first and then steadily increase the complexity of the problems. Don't be put off thinking AI is too complex or expensive for your organization, there are many companies offering great, simple to understand and affordable solutions."

- Amy Webb, adjunct professor of strategic foresight, NYU Stern School of Business, and founder of the Future Today Institute
 - "Brands should pay very close attention to voice interfaces, which is a key component of the future of AI and content. My models show that by 2023, 50 percent of the customer interactions in the industrial world will be with their voices. Not typing but talking. This has enormous implications for brands. Think about what will happen once consumers are asking about brands and products as part of their natural conversation, rather than typing their queries into a search window or asking their friends on social media. Brands shouldn't wait. I recommend cross-industry collaboration between luxury brands and developers."
- Diaz Nesamoney, CEO, Jivox
 - "The key to successfully using AI in digital marketing is educating the marketer, so they understand that AI is not a 'flip a switch and it will work' kind of technology. AI requires thoughtful assessments of training data sets, robust models, and sufficient data and time devoted to training the models. Continuous improvement and investment in models are also critical as new types of data become available."
- Andrew Keegan, group director of technology, Team One
 - "It's an emerging technology, so the sooner you get in and start using it, the sooner you'll learn how it will impact your business. Start small and build into it rather than changing an entire marketing campaign to be AI-driven. It's a nascent time, so start experimenting, and start small. Don't shoot the moon, and make sure you're not over-promising."

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