

LUXURY MEMO SPECIAL REPORTS

## Art and science of merchandising Luxury Memo special report

April 25, 2019



*Retail has faced disruption. Image credit: Neiman Marcus*

By SARAH JONES

Merchandising is evolving in the ecommerce era, as retailers need to consider multiple channels and consumers' heightened bricks-and-mortar expectations.

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The way in which products are displayed both online and in-store now requires a mix of both art and science, as data-driven strategies meld with creativity to surprise shoppers. From using shopper insights to plan an assortment to creating window displays that engage and attract attention, merchandising is highly consumer-centric.

"I think the biggest impact on merchandising in recent years is that many retailers are becoming more savvy and maturing their online and digital channels," said Courtney Albert, practice leader at **Parker Avery Group**, Marietta, GA. "In recent years, the management of channels has moved from multichannel to cross-channel to omnichannel, and this shows the perspective of how the industry views the importance of integrating all.

"There will probably be a new buzz term in the coming years we've already started to hear retailer-specific ones but the biggest takeaway is that instead of being managed in parallel, there is a natural ebb and flow between channels," she said. "An example of this is the ability to move inventory between channels or banners.

"However, for many retailers this is still a constraint."

### Top 5 trends in luxury merchandising

- Data-driven approach

Rather than relying on instinct, buying today is often led by data.

- Cross-channel curation

Retailers are breaking down silos between their digital and bricks-and-mortar buying teams to create more synergy between channels.

- Social media inspiration

Social media is influencing how stores create visual displays and pick products.

- Exclusive appeal

Brands are launching collaborations and limited-edition merchandise to draw shoppers to stores.

- Retail theater

Both windows and in-store displays are playing key roles at driving footfall and engagement.

### Digging into data

Retailers today are using data to drive their merchandising strategies, from choosing which products to stock to which sale prices will prompt purchases.

Gleaning insights from sources including forecasts, past sales data and even social media, brands can get a better sense of what will resonate with shoppers during a particular season.

Despite the potential of leveraging consumer insights to guide merchandising decisions, many retailers are failing to effectively incorporate shopper data into their planning stages.

According to a report from Boston Retailer Partners, 54 percent of retailers are looking to better integrate consumer data into their planning process, making it the top priority for 2019. As retailers look to deliver the assortments and seamless shopping experiences that consumers crave, being able to mine real-time data from a wider set of sources can help stores drive sales and loyalty in a competitive environment.

While retailers tend to use information from transactions, customer relationship management systems and forecasting to plan, it is less common for them to mine social media data or customer segmentation insights. There is also room for growth in incorporating real-time customer feedback into planning ([see story](#)).

United States-based retailers are also missing out on billions of potential full-price sales, as miscalculated merchandising decisions and unexpected external factors lead to markdowns.

A report from Celect and Coresight Research found that markdowns are costing U.S. non-grocery retailers \$300 billion, equivalent to about 12 percent of total sales for these retailers. About 53 percent of unplanned markdowns are tied to inventory issues such as overstocking and buying the wrong merchandise.

Retailers who use manual forms such as spreadsheets to plan inventory are more apt to mention issues with overbuying or underbuying ([see story](#)).



*Sales outside of planned promotions could be prevented with data. Image credit: Nordstrom*

Another factor that can have an effect on sell-through is weather. Retailers can use forecasts to help determine supply and demand for climate-specific items such as heavy coats or swimsuits.

Using analytics can also help retailers create campaigns that are targeted toward clientele in particular areas, based on their relative reactions to changing weather patterns ([see story](#)).

"Traditionally, retailers have planned and managed two to four seasons: fall/winter and spring/summer with maybe a couple of smaller seasons spliced in for example, holiday," Ms. Albert said. "Now, retailers across the board are pushing to keep up with consumer demand, outdo their competitors and respond to the fast-fashion effect.

"For retailers this means making their product development calendars much shorter, working diligently with their suppliers and logistics providers, managing inventory to prevent markdowns and training store associates," she said.

Along with data, technology is being integrated into the planning process, taking retailers' buying process from spreadsheets to cloud-based or online programs.

For instance, Nordstrom has linked with NuOrder, a B2B wholesale buying platform, allowing the department store chain to handle its buying through a cloud-based process. The company insists that its platform allows for convenient collaboration between the buyer and manufacturer in addition to assortment selection, greater product details and insights and a complete view of planned merchandise to buy for the upcoming season ([see story](#)).

Canadian department store chain Holt Renfrew is similarly mobilizing its wholesale buying process through an exclusive partnership with digital data exchange Joor.

Through the Joor platform, buyers can browse and place orders from brands, making the wholesale experience faster and less prone to error. Along with Holt Renfrew, Joor works with a number of luxury brands including Neiman Marcus, Printemps and Harrods ([see story](#)).



*Joor's mobile application solution for retail buyers. Image credit: Joor*

A growing number of retailers also see the power of harnessing the Internet of Things, especially as a way to improve store operations and inventory management.

According to a report from Retail Systems Research, 69 percent of retailers believe IoT will drastically change the way they do business, up from 53 percent in 2017. The interconnectivity of devices from smartphones and cars to home appliances and more is already having an impact on consumers' everyday lives ([see story](#)).

A recent [report](#) from McKinsey argued the need for "next-generation" merchants, who use data to drive their decision-making.

Merchants today spend the majority of their time crunching numbers, but McKinsey sees the potential for more automation of data insights, freeing up merchants to focus more on strategy.

Some of the areas that would be automated are replenishment and promotional pricing. Meanwhile, activities such as negotiating with vendors or sourcing would still be driven by a human touch.

For luxury brands, data is not everything, and there is still a need for high-touch curation to determine if a brand or product is the right fit. Even if something is trending, it might not warrant space on a sales floor or ecommerce site.

#### Multichannel mindset

Merchandising for most retailers today is an omnichannel operation, as brands need to consider how they are allocating and presenting products both online and in-store.

"The current period is extremely exciting as we are creating a profound blend of two worlds brick-and-mortar and digital," said Olivier Moisan, founder and creative director of [Lab:OM](#), Hong Kong. "I remember a few years back when some guys were telling me that my job as an interior designer was almost over as ecommerce is killing brick-

and-mortar business.

"Now this is the turn of most of promising or successful ecommerce companies to open brick-and-mortar stores to make their business sustainable," he said.

"The greatest thing happening right now is the seamless channel integration, where we can clearly feel the blend between offline and online, where most successful brands are blurring the boundaries of these two worlds. And this is especially why brick-and-mortar stores are not going to die tomorrow."

Mr. Moisan also noted that there has been a growing convergence between travel retail and domestic storefronts.



*Lab:Om created a storefront for Giorgio Armani Beauty at T Galleria by DFS, Macau, Shoppes At Four Seasons.*

*Image credit: Lab:Om*

Often, the selection available in different store environments is varied, taking into account who the local shoppers are. Meanwhile, ecommerce might serve as a showcase of a wider range of styles.

With ecommerce, retailers are also afforded more flexibility with what they physically carry in a bricks-and-mortar environment. Brands can opt to limit their store inventory for particular items, instead prompting online fulfillment driven by showrooming or in-store touchpoints.

In the other direction, online availability can be bolstered by a retailer's stores, as inventory available on a sales floor can be shipped to customers anywhere.

Despite the broader push towards having seamless customer experiences across channels, planning processes are still often separated by channels. And as retailers deal with legacy systems, breaking down silos can be a challenge.

Rather than looking at buying and merchandising as a cross-channel effort, teams are often split between bricks-and-mortar and online.

According to data from BRP, less than half of retailers say they have integrated their organizational or merchandising planning across channels, and 39 percent say their planning systems are cross-channel. Most of the retailers who have undergone these efforts admit that they need improvement.

This prevents retailers from leveraging learnings across channels, putting them at a disadvantage ([see story](#)).

Brands also need to consider tactics to ensure that their ecommerce sales do not cannibalize their in-store traffic.

One omnichannel tactic that can drive footfall to stores is having select iconic items solely available at bricks-and-mortar locations.

For instance, Herms sells many of its handbags online, but consumers need to visit a store to buy a Birkin bag. Similarly, jewelers often keep their couture pieces to the bricks-and-mortar channel.

Meanwhile, some brands have chosen to drive online activity through ecommerce-only selections.

For instance, Italy's Gucci launched an online-only capsule collection of womenswear and accessories.

The "Gucci Garden" collection sold solely via the brand's ecommerce site, but was limited to the markets of the United States, Canada, continental Europe, United Arab Emirates, Japan, South Korea and Australia. Women living in

these markets who wished to shop in-store could do so via iPads placed in Gucci's bricks-and-mortar locations, with items then being shipped to either the boutique or the consumer's home, but only if she lived within the territory ([see story](#)).

"The biggest opportunity for companies managing merchandise in an omnichannel environment is technology specifically merchandising solutions for financial planning, assortment planning, item planning and enterprise resource planning," Ms. Albert said. "Many companies are still operating with either homegrown or legacy systems and have not yet taken advantage of innovation and best practices that these tools can offer."

"At the same time, one of the biggest challenges is connected to this: it is the change that is involved in business processes and user adoption," she said. "Many times, we see companies who try to force the system to 'do it the way we've always done it' and won't let the solution 'do the work' and use the analytics involved."

"We always say that retail and luxury is an art and science, and it definitely is. However, sometimes merchants are hesitant to trust the science component."

## Social media

Platforms such as Instagram are changing how brands buy merchandise and create store displays. Data and insights about what products consumers are engaging with can help to drive strategies around assortment.

Pinterest in particular has become an extension of marketers' merchandising strategies.

Even if brands believe they do not have a Pinterest strategy or presence developed, they are on the platform involuntarily as customers pin items they love to their own accounts, which then spread through further shares. Tapping into what is popular on social media, particularly Pinterest, can help a retailer market and sell its products to an audience that is predominantly female.

In addition to selling merchandise, Pinterest is also a way for brands to conduct market research. According to an executive from Rebecca Minkoff, if the brand sees that a particular handbag from multiple seasons ago is trending on social media, it might use that information to reintroduce or update that style ([see story](#)).

"Consumers are in many instances, more knowledgeable than sales associates because of access to data," Ms. Albert said. "As a consumer, I can typically see if an item is in-stock at a particular store, examples of others using it thanks to social media, when it will be available in a new colorway, when there is a promotion or markdown, etc."

"This has created an environment where retailers have had to become more sensitive to shopper's desires and shopping habits when they are in exploration versus expectation mode," she said.

Instagram, meanwhile, is adapting how brands approach in-store visuals. Window displays and the in-store environment are being designed to encourage posting with Instagram-worthy backgrounds.

Last year, Harrods hosted a pop-up for a cause with a strategic social media setting.





*Harrods' pop-up was made in millennial pink. Image credit: Harrods*

The pink-hued outlet rotated merchandise on a daily basis. While the popular millennial-favorite hue is one of the NSPCC's corporate colors, Harrods head of visual merchandising Alex Greco Wells told *Women's Wear Daily* that the design for the space also factored in Instagrammability, looking to attract social media buzz for the initiative ([see story](#)).

Saks Fifth Avenue similarly extended its retail footprint in New York during Fashion Week with an experiential pop-up.

For four days, the Saks It List Townhouse translated the magalog editorial feature to a physical display in Greenwich Village. Curated by Saks, the townhouse's environment was aimed at being social media friendly, prompting visitors to snap selfies. Included within various rooms are ball pits, a lit up ping pong table and fake snow ([see story](#)).

Department store chain Barneys New York's month-long Thom Browne takeover spanned in-store activations and digital content, allowing both bricks-and-mortar and ecommerce shoppers to get in on the action. Kicking off around New York Fashion Week on Sept. 5, this storewide event included both retail and experiential elements to engage consumers.

Among the experiences was a Self Portrait Project that enabled consumers to take hands-free photos of themselves in situations that resemble a brand film or a moment from the brand's fall/winter 2018 runway show ([see story](#)).



*Thom Browne hosted a takeover at Barneys New York. Image credit: Barneys*

"Instagram moves quickly," said Christoph Stelzer, managing director of **Dfrost** Retail Identity, Stuttgart, Germany. "The onus is on the retail sector to keep up with its constant, fast-paced changes. Generating unique moments is key ordinary stories don't stand a chance on the gram."

"To have the greatest possible impact on the platform, you need spatial textures, colors and enormous design momentum as well as integrated products and brand messages," he said. "Be aware of trends that interest your target group and attract their attention promptly that's the whole trick.

"Users who produce the right aesthetics for their audience are in an excellent position to act subjectively, send clear messages and present their goods as artistic compositions rather than a mere portfolio of items that fulfill certain needs...Ultimately, you want to turn your store into a unique location, encourage your customers to immerse themselves in your individual lifestyle scenarios and unique aesthetics.

"Make shopping a memorable experience. It's the backdrop that counts."

### Rethinking retail

The way in which products are displayed is evolving, as stores seek to encourage discoverability and turn shopping into more of an experience.

A number of department store overhauls have sought to respond to consumer needs.

For instance, Saks Fifth Avenue recently remodeled its flagship store in New York to provide a more intimate shopping environment for its beauty and jewelry collections. Both of these categories were moved off the ground floor, making way for a leather goods department ([see story](#)).



*Saks Fifth Avenue's innovative store design. Image credit: Saks*

Selfridges has played with the traditional notions of departments by bringing categories together in conceptual areas.

The retailer's Body Studio combines all merchandise for women that touches the skin, including lingerie, activewear and sleepwear ([see story](#)).

Meanwhile, the Designer Studio stocks streetwear, high-fashion and contemporary brands in the same space, allowing for new conversations between labels to form on the sales floor. Part of Selfridges' \$394 million investment in its future, the studio is designed to enable flexibility within the retail environment, letting the store keep up with and adapt to fashion's fast pace ([see story](#)).

Storytelling is also becoming a key tactic for merchandising, as retailers turn to themed pop-ups to show a point of view.

Nordstrom's Pop-In, curated by Olivia Kim, features an array of products centered on one idea, with a typical range in price points. This has included everything from a South Korean-themed selection to foodie finds.

Bloomingdale's is also taking an editorial approach to retail with the debut of an evolving concept shop-in-shop.

Launched Sept. 6, The Carousel at Bloomingdale's features an eclectic mix of products picked by a curator based on a specific theme. Creating newness, the pop-up will evolve every two months as a different tastemaker takes over ([see story](#)).

In addition to editorializing, retailers are giving their stores a more interactive touch.

British department store Debenhams joined the throng of retailers looking to reinvent the beauty shopping experience through a revolutionary concept in partnership with Este Lauder Companies that breaks down barriers between brands.

#BeautyHub has been designated as beauty playground, where counters for specific cosmetic brands have been replaced with a cohesive, multi-brand experience. Located at Debenhams in Stevenage, England, the hub features a variety of experts and technology to help find beauty fans the best product of them, instead of steering them towards separate brands.

The #BeautyHub is fitted with a series of testing stations and offers tutorial screens for consumers to learn more ([see story](#)).

Bloomingdale's is offering a "beauty happy place" for cosmetics-lovers with a new boutique called Glowhaus. The boutique will specialize in beauty products from a number of brands and will give customers a place where they can freely try out and test different combinations and products in a casual and freeform environment ([see story](#)).



*Bloomingdale's Glowhaus at South Coast Plaza. Image credit: Bloomingdale's*

The retailer also recently updated the beauty department at its flagship store to be more interactive ([see story](#)).

"Bloomingdale's believes shopping is a 360 experience and visiting in-store is a reflection of this," said Erica Russo, vice president and fashion director for accessories and beauty at [Bloomingdale's](#), New York. "When shoppers enter the store, our goal is to take them on a journey not only through our merchandise but provide an opportunity for them to interact with product in new and exciting ways."

"Interactive experiences can be found across our beauty floor including digital mirrors by Tom Ford that let you try on different shades of lipstick in an instant and at Lancme by customizing and creating the perfect shade of foundation...Bloomingdale's new Beauty Stylist program allows shoppers to go on a journey with brand-agnostic sales associate who are able to help shoppers mix and match brands to help find that perfect item."

"Open-air spas by Clarins allow shoppers to experience product firsthand and receive an educational foundation for future skincare routines. To encourage interaction with product, gone are the days of the traditional department store beauty counter. Products are accessible for shoppers to pick up and try themselves, making for a more inclusive experience."

Technology is often at the center of interactive experiences.

For instance, Le Bon March's "Geek mais Chic" initiative is a new concept that joins luxury, technology, postmodern elements and experiential shopping throughout an omnichannel experience. Via partnerships with Armarium, an online luxury rental service, Jaeger-LeCoultre, Smartwater and others focused on technology, the long-term pop-up shop will showcase cutting-edge products and unique in-store services.

During the campaign, consumers can interact with a robot, take part in a virtual reality experience or try on makeup in magic mirrors ([see story](#)).

Taking a more traditional approach to interactivity, Harrods has turned its Food Halls into educational environments where consumers can watch bread being baked or coffee being roasted ([see story](#)).





*Harrods' roastery. Image credit: Harrods*

## Exclusivity

Retailers are putting the focus on exclusive merchandise as they look to spur loyalty and business.

Exclusivity is particularly important in ecommerce, as consumers are bombarded with discount offers and the best price often wins the conversion.

In the competitive online retail environment where price tends to be the determining factor of where a consumer shops, luxury brands are faced with a discount dilemma as they look to drive sales without damaging their positioning.

According to a keynote presentation from a Perrin Paris executive at Luxury FirstLook 2019, while brands that operate primarily in bricks-and-mortar have significant control over their pricing, labels that sell online face fierce competition from wholesalers for consumers' business. As the sales seasons grow longer, luxury brands need to find creative ways to engage shoppers and spur full-price conversions ([see story](#)).

Neiman Marcus Group recently created a new senior executive position to focus on product innovation and differentiation.

Ed Burstell was appointed as the inaugural senior vice president of product innovation. Mr. Burstell came to Neiman Marcus after a long career in retail, experience that is sure to assist the department store chain as it works to develop new merchandising ideas and retailing concepts ([see story](#)).

Lately, the retailer has credited its success partly to its relationships with established and emerging labels on exclusives ([see story](#)).

Neiman Marcus has been giving a select group of niche apparel brands their first major bricks-and-mortar point of sale through a new boutique-style edit.

Aimed at attracting a younger audience, the retailer's Luxe Labs debuted in the Fine Apparel department at 14 of Neiman Marcus' stores, with a corresponding online presence on its ecommerce site. Department stores pride themselves on the ability to scout out unique fashions, which helps them to differentiate themselves in what has become an increasingly crowded retail field courtesy of ecommerce ([see story](#)).



*Neiman Marcus' Luxe Lab encourages consumers to mix vendors. Image courtesy of Neiman Marcus*

In 2014, Bloomingdale's debuted its "100 percent Bloomies" campaign, which had 100 designers with 1,000 exclusive items at one store. The campaign was further enhanced through designer capsules on the store's Web site that feature the exclusive items from the 100 designers ([see story](#)).

The retailer has continued this exclusive concept in ensuing seasons.

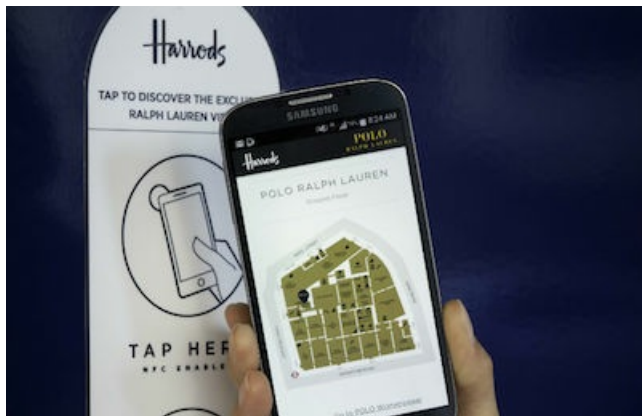
#### Retail theater

Retailers today need to do more to draw consumers in the door, and visual merchandising plays a key role in driving foot traffic.

From window displays to in-store installations, visual merchandising is becoming more interactive and photogenic.

For instance, British department store Harrods helped U.S. fashion label Ralph Lauren gain attention for its first Polo line for women with a mobile-enhanced window display.

Using mobile proximity technology, the displays let passers-by unlock exclusive and interactive content. Going beyond the traditional window display enables a brand to expand the customer experience through multiple channels ([see story](#)).



*Ralph Lauren's Polo windows at Harrods had mobile integration. Image credit: Ralph Lauren*

Windows are also turning shoppable, becoming an extension of the store.

In 2015, fashion ecommerce platform Farfetch made holiday shopping accessible 24/7 with shoppable window displays at more than 100 of its boutiques around the world.

Leveraging QR codes, the displays allowed passersby to purchase the items seen in the window regardless of whether the shop is open. This effort was poised to reach local consumers who may not usually be accustomed to shopping these boutiques online, sending them to a new channel to buy ([see story](#)).

The same year, French jeweler Cartier brought the bricks-and-mortar experience online with a digital holiday window display.

On the brand's ecommerce site, consumers could peek into interactive panes, which enabled them to see items in close-up, 360-degrees and shop from the display. While consumers are increasingly warming to the idea of ecommerce, bringing a little bit of retail theater online can help create to elevate the shopping experience ([see](#)

story).

In other cases, retailers have used their windows to highlight not just their merchandise, but their service.

In 2017, New York department store Bergdorf Goodman let its sales associates decorate its famed window panes for the first time as a testament to their internationally recognized expertise.

Bergdorf Goodman invited 25 of its sales associates, both from its men's and women's wear stores, to style its legendary windows. Part of "BG Style Experts," the department store's spring campaign, the effort also included social media activations, in-store displays and editorialized content featured in Bergdorf Goodman magazine, in print and online ([see story](#)).



*BG Style Experts window display at Bergdorf Goodman; Photo by Ricky Zehavi*

"Display windows still constitute a large and relevant marketing space, especially in urban areas," Dfrost's Mr. Stelzer said. "Their high footfall and appeal to an extraordinarily large target group earn them a place in our age of multichannel advertising.

"Even as part of a contemporary customer journey, they are an important method of familiarizing the public with your product. Windows are highly relevant touchpoints," he said. "Just like in-store presentations, they offer a three-dimensional, multi-sensory product or brand experience, which the digital channels cannot achieve to the same extent.

"Multi-sensory, spatial experiences will always be a key way of expressing your brand. Sending a clear message and addressing an increasingly narrow target group can determine the success of your campaign. High production quality and convincing narratives are everything."

Best practice tips for luxury merchandising:

- Courtney Albert, Parker Avery Group:
  - "One opportunity for companies is the creation of merchandising centers of excellence or innovation teams. These are internal teams who identify and manage transformation initiatives. These teams allow retailers to quickly respond to potential opportunities. Again, the challenge that is related is not having the right leadership in place that is willing to try and potentially fail and continue trying and testing new things. So many times if there isn't a big win straight out of the gate, leaders lose faith."
  - "The best practice of luxury merchandising will continue to be customer experience. Luxury consumers also have access to an incredible amount of information, so the opportunity becomes more about the

emotional connection and 'sparkling joy' and the onus is on sales floor associates.

- "Another, is exclusivity, which has always been a core tenant for luxury. However, many brands have launched lower-priced lines or collections. This strategy has to be managed carefully so that it does not devalue the brand's image. One way to do this is to continue to provide and market these items as limited-edition or only available at flagship locations, for example."
- Erica Russo, Bloomingdale's
  - "Luxury merchandising goes beyond the product itself. It's about listening to what the customer wants out of their shopping experience and being able to present that. Some customers want a personal shopper to be there on their style journey from start to finish while others want to be able to run into the store and shop on their own. I think luxury is defined differently for each shopper, so it is about being able to accommodate the customers' needs for a seamless, memorable experience."
- Christoph Stelzer, Dfrost
  - "Good display window marketing is a lot more than the mere combination of decoration and product advertisements. Back in 2017, IWC Schaffhausen recognized that Christmas offered them a great context for their brand presentation. They even gifted the products showcased in their windows in this case, tin toys attached to a glamorous Christmas carousel to their customers as classy Christmas tree decorations. Other brands, including Luis Vuitton, adopted the same approach later. Remember the campaign featuring their highly sought-after Louis Vuitton Christmas tree decorations? Tiffany & Co. also launched a successful luxury merchandising concept in Brick Lane in London. They used extremely eye-catching merchandising to transport a vintage luxury product to the present and effectively address a modern audience."



*Dfrost's window displays for IWC Schaffhausen. Image courtesy of Dfrost*

- Olivier Moisan, Lab:OM
  - "We can clearly see brands working hard on the emotional benefit factor versus 'just selling products on shelves.' The brands also with the millennials in mind, then the Gen Z, want to create the strongest emotional connection possible with their current customers but to also recruit or attract new ones."
  - "Surrounding shopping is also [becoming] an important retail factor, or how to increase traffic through an experience surrounding the brand. By organizing an event around the brand like a DJ set, coffee shop, art exhibition, performances, crossover/collaborations, food everything that will reinforce the bond between the customer and the brand. Of course, all of the above is linked with KOLs and social media."
  - "I would also say that instead of just being a brand, brands are working on making the store, through its retail design/visual merchandising/digital, a destination by itself more than just another brand."