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Can Amazon become a prime competitor for luxury fashion retail?

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Amazon is reportedly launching a luxury vertical. Image credit: Amazon

By SARAH JONES

Ecommerce giant Amazon is reportedly building a platform to sell luxury, with eyes on capturing a greater piece of the growing high-end fashion retail business.

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According to *Women's Wear Daily*, Amazon will debut a luxury platform in the U.S. during the first half of this year with a concession model that will give labels more control over the look and feel of the shopping experience, including pricing. Historically, Amazon has struggled to attract luxury brands, but its new venture could mark a turning point and give luxury retailers and brands a new competitor.

"Amazon has been looking at different ways to get into the luxury business for a long time because they understand how big of a business it is and that it is ripe for reinvention and innovation," said Donnie Pacheco, founder of **Donnie P. Consulting**, Seattle. "This can mean a couple of different things for brand-operated luxury. First, it can be another outlet for them to sell and reach customers.

"Second, it can be a way for them to dip their toes into online selling if they aren't already and/or learn from one of the best online retailers to improve their own online business," he said. "For multi-brand stores, it means a potential new competitor that they will need to differentiate themselves from and work to solidify their own customer loyalty."

Mr. Pacheco is not affiliated with Amazon, but agreed to comment as an industry expert. **Amazon** was reached for comment.

Luxury launch

Per WWD's sources, Amazon is working with about a dozen brands for its luxury venture.

Within the new platform, brands will be able to benefit from aspects such as Amazon's logistics, including shipping. However, with a concession model, companies will be able to control aspects such as the visual identity of their shops and pricing.

"If Amazon builds its luxury platform, it represents a tremendous opportunity for luxury brands," Mr. Pacheco said.

"That said, brands must approach this opportunity with eyes wide open and think it through from start to finish.

"Amazon approaches the business very differently than most retailers, particularly luxury. Customer obsession is Amazon's top leadership principle, and while many luxury brands say they put the customer first, they really put their brand first," he said. "This, along with how Amazon approaches the business, will require a major shift in thinking and how the business is approached for luxury brands.

"Brands cannot approach this thinking they will simply dip their toe and see if it works. If they want this new platform to succeed, they need to take it seriously, be willing to think differently and devote sufficient resources to support this new business. If luxury brands do not take the opportunity seriously or structure properly to internally support the business, hire the right people, have the support of senior leadership to change internal processes or be willing to test new ways of doing business, they will not succeed."



Amazon's Echo Look. Image credit: Amazon

The retailer is reportedly working on a new Arizona-based fulfillment center to power the luxury platform. It is also said to be investing \$100 million in a marketing campaign around the launch.

In response to an inquiry from *Luxury Daily*, an Amazon spokesperson said, "I can't comment on rumors or speculation."

While Amazon does currently have partnerships with some affordable labels including Michael Michael Kors and Coach, it has historically struggled to attract higher-end fashion houses.

Part of luxury's hesitation about Amazon is tied to its issue of knockoff goods.

Luxury brands have also stayed off Amazon due to the heavily promotional retail environment and the positioning of the site as a place to get a discount.

In 2016, the chief financial officer of LVMH Jean-Jacques Guiony told investors, "We believe the business of Amazon does not fit with LVMH full stop and it does not fit with our brands. There is no way we can do business with them for the time being."

"Luxury and apparel brands have historically been hesitant to sell on Amazon," said Nicole Amsler, vice president of marketing at **Formation**, San Francisco. "There are many reasons for this, but one of the big ones is that much of Amazon's promotional strategy centers around discounting, which can diminish brand value and train shoppers to expect a lower cost for brands' merchandise.

"With this reported separate luxury vertical, Amazon has an opportunity to build a platform that is better suited to brands whose value is tied to status and exclusivity and could allow these brands to better avoid the brand image issues associated with discounting," she said. "As for multi-brand stores, there are customers that will still be interested in the upscale, in-store experiences those brands provide. Retailers won't lose the customers engaged with that in-store experience to online shopping."

While Amazon has struggled at attracting luxury brands, it does have a significant affluent audience.

There is also a strong overlap between luxury consumers and Amazon shoppers. According to 2017 data from Shullman Research Center, of the 67 million Americans who had consumed luxury in the past 12 months, 60 percent were also Amazon customers ([see story](#)).

Another Shullman report found that the percentage of consumers who consider Amazon to be better than

competitors is highest among those making at least \$250,000. By contrast, only 1 percent rate it worse than competitors, despite the fact that that income level is significantly more likely to shop for luxury or premium goods ([see story](#)).

Amazon may also be the key for luxury brands to tap into the rising younger luxury consumers.

According to the [2019 U.S. Forecast on Apparel Shopping Trends](#) from Elite SEM's CPC Strategy, the majority of millennial and Gen Z shoppers are purchasing apparel from ecommerce giant Amazon more than any other Web site. While many luxury fashion brands have steered clear of Amazon, the platform is becoming a bigger player in apparel retail, particularly among younger consumers ([see story](#)).

In earlier investments in the fashion category, Amazon has launched offerings such as the try-before-you-buy Prime Wardrobe purchase option and a styling service ([see story](#)).



Amazon recently launched a personal shopping service. Image courtesy of Amazon

While there was much skepticism about the migration of luxury retail to an online environment, the ecommerce segment of luxury is now growing at a faster rate than the overall business.

As this channel grows, Amazon's move could become a competitor with multi-brand online stores such as LVMH's 24S that was launched in 2017, as well as earlier platforms such as Farfetch, Yoox, Net-A-Porter and Matchesfashion.

"Luxury brands should consider how joining an Amazon marketplace would impact the customer loyalty they have already built," Ms. Amsler said. "If a brand has fostered a following by emphasizing the customer experience or by creating hype through limiting access and supply, then joining an Amazon platform could devalue the brand in the eyes of those who are already loyal.

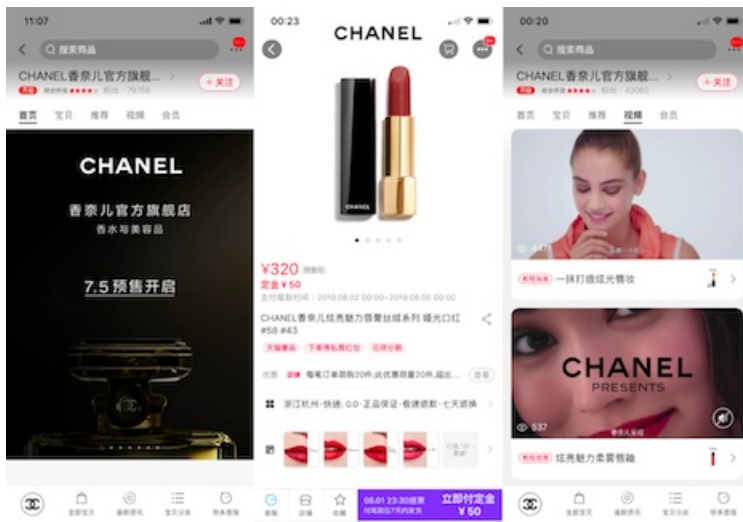
"If anyone can just get it on Amazon, why bother? Brands that do join should consider the products they sell on the platform," she said. "Rather than offering up everything in their catalogue, potentially devaluing the brand, they could use the platform to put entry-level products in front of new customers. This could draw more customers into the brand's wider world of luxury products."

Lessons from China

Chinese ecommerce retailers Tmall and JD.com, which both have a similar marketplace concept to Amazon, have both seen success at driving luxury purchases through dedicated platforms, respectively Luxury Pavilion and Toplife. These verticals were differentiated from the rest of these marketplaces with elevated exclusivity and services, with Toplife including white-glove hand delivery for purchases and Tmall an invite-only platform open to Alibaba's most affluent shoppers.

Toplife has since shuttered, as the platform merged with Farfetch for luxury ecommerce in China, but before it closed it had added brands including Mulberry, Oscar de la Renta and Saint Laurent ([see story](#)).

Amazon's reported concession model is closer to the format of Luxury Pavilion, which offers brands the chance to have full control over their shops.



Chanel store on Tmall's Luxury Pavilion. Image credit: Alibaba

"I think the success of this platform depends on what types of luxury brands Amazon targets with this platform," Formation's Ms. Amsler said. "Consumers will go to Amazon to shop luxury if there isn't a larger experience built around the brands.

"Take Coach for example. This is a brand with products that are luxurious and expensive, but Coach hasn't built a brand-defining in-store shopping experience around the products," she said. "Partnering with luxury brands that are product-centric and less focused on experience will likely be Amazon's sweet spot."

Whether or not Amazon can duplicate the success of China's mega marketplaces in luxury also depends on investment.

"Launching a new, standalone platform is a massive undertaking, even for a brand like Amazon," Mr. Pacheco said. "They will essentially be starting from scratch to drive traffic and gain brand recognition. Such new endeavors do not always work, so it will take time, investment and resources to make this work.

"The one advantage that Amazon has is that they generally take a long-term approach to investments and will not shutter it if it doesn't have immediate success knowing that this will likely take time to gain traction," he said.

"Depending on the platform itself, Amazon can absolutely attract luxury brands.

"Many luxury brands have been in talks with Amazon for years and have been wanting to find a way that made sense and was on-brand to work with Amazon. In order to make this work, Amazon is going to have to continue to obsess over the customer and find a balance between the customer and making the brands themselves happy. It will also take patience and investment to make this endeavor successful."