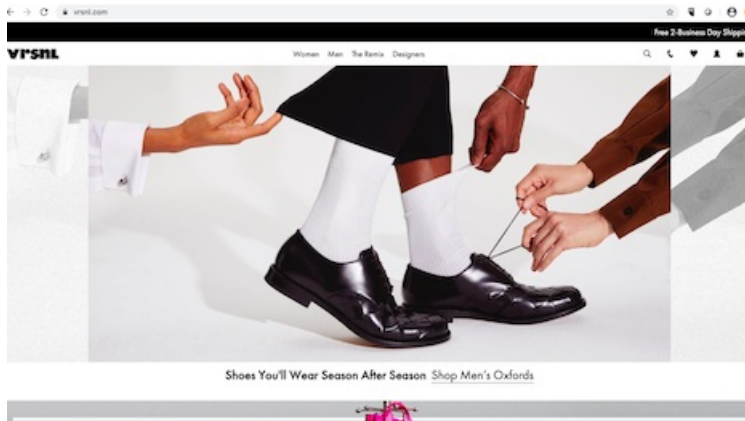


RETAIL

## Can Amazon succeed in luxury?

February 19, 2020



*Is VRSNL Amazon's stalking horse in luxury retail? Image credit: VRSNL*

By **Pamela N. Danziger**

Subscribe to **Luxury Daily**  
Plus: Just released  
State of Luxury 2019 **Save \$246 ▶**

No question, every successful entrepreneur has a certain amount of madness and the more successful they are, the madder.

Using that measure, Jeff Bezos, who dreamed a bookstore could become the world's largest retailer, must be the craziest of all as he tops the list as the world's richest person, just ahead of another mad man, Bernard Arnault, who leads the luxury juggernaut LVMH.

We have come to recognize that madness, in this case, is actually brilliance.

### Battle of the Titans

Earlier this month, Mr. Arnault knocked Bezos off his wealth pedestal for a short time after news of his acquisition of Tiffany boosted his stock value, while Mr. Bezos' Amazon shares dipped.

These two have repeatedly battled for the title of the world's richest person, which perhaps explains the surprising news Amazon leaked recently. It plans to enter the luxury market where Mr. Arnault is the reigning king.

Mr. Bezos refuses to be number-two in anything he does, but this move into luxury may finally trip him up. The news has the look of a personal obsession, not a traditional, well-thought-out business plan.

In my opinion, no self-respecting ultra-luxe brand would ever make itself available on Amazon.

Having said that, it is prudent to "never say never." I concede the point that who would have thought Mr. Bezos could become the world's biggest retailer by starting as a little online bookstore in 1994?

### Devaluing exclusivity?

WWD initially broke the Amazon luxury news, which Amazon refused to confirm, saying it does not comment on "rumors or speculation," yet *Business of Fashion* just reported that Amazon has been clandestinely operating a luxury site called **VRSNL** since September.

VRSNL (pronounced "versional") features limited selections from Rick Owens, Versace, Burberry, Bottega Veneta, Balmain, Prada, Alexander McQueen, Saint Laurent and Gucci. The site is based in Las Vegas, home to Zappos the

No. 1 online retailer of footwear and an Amazon-owned site.

According to *WWDs* reporting, the Web site will officially launch in the first half of 2020 with a digital platform showcasing 12 luxury brands initially.

Each brand will control the appearance of their section on the platform, select the products to sell and set prices following the department store model where luxury brands lease space and pay a share of sales to the hosting retailer.

Amazon will support fulfillment out of an Arizona warehouse it is building and reportedly will invest \$100 million toward a marketing campaign to get the luxury platform up and running.

"Amazon can throw a lot of money at this, for sure," said James Thomson, a former Amazon executive and now a partner in [Buy Box Experts](#), which helps companies control and grow their Amazon channel business.

"Every time Amazon announces it's going to enter some new space, everybody in that category says, 'The sky is falling' and their stocks tank," he said. "I don't see that happening now."

"I'm skeptical of its ability to sell \$2,000 luxury brand watches or \$2,000 women's dresses."

That is because Amazon is considered the evil empire in luxury circles.

"Amazon has been a thorn in their side for years because of the rampant counterfeiting that goes on there" said Jay Hakami, CEO of [Skypad](#), a cloud solution that transforms the way retailers and brands share, report and collaborate on sell-through performance data.

"Luxury brands demand complete and total control of distribution," he said. "They don't need Amazon to increase their sales. It would absolutely threaten their cachet, which they work so hard at maintaining."

Mr. Arnault has loudly, forcefully said no to Mr. Bezos about any of LVMH's brands going up on the planned site.

The problem for Amazon would not be demand who would not buy luxury goods on Amazon when they buy everything else there? but supply.

In my opinion, no self-respecting luxury brand would willingly supply their exclusive products on Amazon.

#### Regional luxury

While Mr. Thomson, Mr. Hakami and I agree that the European luxury brands would seem to be out of bounds for Amazon, we believe American luxury brands may be prime candidates.

Capri Holdings' three (Michael Kors, Versace and Jimmy Choo), Tapestry's three (Coach, Kate Spade and Stuart Weitzman) along with Ralph Lauren would make seven of the dozen brands reportedly coming online offering more upper-tier merchandise.

All of them are currently on Amazon, thanks to its third-party sellers platform that Bezos reported accounted for 58 percent of gross merchandise sales for a total \$160 billion in revenue in 2018.

And these companies are not hesitant to discount their products either. They are a fixture in the nation's discount outlet malls.

#### No cannibalization

"Any brand with any level of popularity is already on Amazon," Mr. Thomson said, who, in his previous life, recruited third-party sellers to the platform.

"Take Nike, which just ended its agreement to sell products wholesale to Amazon," he said. "Long before they set up a direct wholesale relationship with Amazon, there were piles of Nike products there."

Removing its first-party products from the site has made no dent in the availability of Nike products on Amazon.

"There are some 3,000 third-party Nike sellers on Amazon," Mr. Thomson said.

"Nike hasn't done a good job at controlling their third-party supply, and customers don't understand the difference between a third-party seller or first-party seller," he said. "They just want it cheap and fast and Amazon's no-questions-asked return policy protects them."

When Nike first made the deal with Amazon about two years ago, it was intended to fight the proliferation of counterfeit goods. Apparently, it did not achieve that goal, so Nike ended the agreement.

"Bezos repeatedly says, Your margin is my opportunity," and the fact is the more unauthorized sellers there are on Amazon, the greater the price and brand erosion," Mr Thomson said. "Most brands don't do a good job of controlling third-party supply."

Luxury does not fit

What Amazon does well sell lots of stuff cheaply is not what true luxury brands need, though the seven above named American brands could use a lift.

"Amazon is a fantastic buying destination," Mr. Thomson said.

"It is really good at offering the widest selection at low prices with fast delivery," he said, stressing that its stronghold is consumables, replenishment products such as beauty, and in the world of fashion, day-to-day basics.

"The last number I saw was Amazon sells over \$5 billion a year in apparel," Mr. Thomson said, and speculates it is much higher now.

"But it's sales of things like three-pack underwear, T-shirts and jeans," he said. "Levi's does crazy volumes on Amazon, but it isn't Hugo Boss suits, Louis Vuitton handbags or evening gowns.

"Amazon is built on the idea of channel loyalty to capture as much of the consumers' wallet as possible."

So, it makes sense that Mr. Bezos and company are toying with the idea of luxury, especially since its 112 million Prime members skew toward a higher-income demographic.

"Amazon has decided it wants a share of wallet that is going toward luxury goods purchases, but to be successful, they need to set up a completely different business culturally that is the complete opposite of everything that Amazon is and does," Mr. Thomson said.

Regarding the way Amazon will define luxury, Mr. Hakami thinks it simply means Amazon is moving more upscale and going after premium or bridge fashion lines but, "affordable luxury isn't luxury at all," he said.

Elevated platform

To be successful, Thomson believes Amazon must bring in talent from traditional luxury brand retailers and create an online platform that looks and feels luxury.

"That won't be easy," Mr. Thomson said. "But it will be an interesting experiment."

If Amazon can succeed in putting the right luxury spin on its planned platform, it will surely trip up in selection.

"Amazon is not trusted by luxury brands," Mr. Thomson said.

And the trend for luxury brands overall is to turn away from wholesale distribution altogether and lean into direct-to-consumer through branded boutiques and their own online Web sites.

"If this does happen, it's going to hurt the department stores, like Bloomingdale's, Nordstrom and others," Mr. Hakimi said.

"If you talk to any of these luxury brands, they don't want to be in department stores anyway, so why go on Amazon? I can't see how Amazon can succeed here."

HOWEVER, WE SHOULD not sell Mr. Bezos short. He has a prescient ability to anticipate what we want before we know we want it. He is largely responsible for fundamentally changing consumer behavior by being a student of human behavior.

But convincing the leaders of luxury brands that they want to partner with Amazon may be something that even Mr. Bezos cannot accomplish.

Of course, he might try to do an end-run around them with secondhand luxury goods platforms, such as The RealReal or eBay. But these companies have a problem gaining access to quality secondhand supply that can be fully authenticated.

As much as Mr. Bezos aspires to make Amazon a force in the \$310 billion and rapidly growing personal luxury goods market, it may prove a bridge too far even for him.



*Pam Danziger is president of Unity Marketing*

*Pamela N. Danziger is Stevens, PA-based president of **Unity Marketing** and Retail Rescue, cofounder of the American Marketing Group, and a luxury marketing expert. Reach her at [pam@unitymarketingonline.com](mailto:pam@unitymarketingonline.com).*

---

© 2020 Napean LLC. All rights reserved.

Luxury Daily is published each business day. Thank you for reading us. Your **feedback** is welcome.