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Why luxury brands must embrace digital outlets ASAP

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Online luxury sales are forecasted to reach $91 billion by 2025, and almost 20 percent of all those personal luxury sales will take place in the digital realm. Image credit: Shutterstock

By Adina-Laura Achim

The luxury world is now very dependent on Chinese consumers, but the COVID-19 crisis is revealing the cracks in that once rosy relationship.

When an industry puts all its business eggs in one basket, it can be a recipe for disaster, and major luxury players have perhaps gotten too comfortable focusing on younger, affluent Chinese urbanites over the past few years instead of looking for innovative ways to branch out into the global market.

UnionPay transaction data used in the 2019 McKinsey China Luxury Report shows that "China delivered more than half the global growth in luxury spending between 201218 and is expected to deliver 65 percent of the world's additional spending heading into 2025."

Furthermore, the same report highlights that in 2018, Chinese consumers spent $115 billion (770 billion RMB) on luxury goods, equaling roughly a third of worldwide luxury spending. This is undoubtedly a powerful consumer segment, but what happens when a crisis like COVID-19 strikes?

A silent panic is spreading around the luxury world due to the current epidemic, and it is forcing executives to search for a strategic framework that puts new, innovative concepts at the forefront.

One such idea that has become popular is to fully embrace a digital transformation while focusing more on digital outlets.

Because of profitable multi-brand Web sites such as Farfetch and Net-A-Porter, the luxury world knows that digital retail can become a smashing success. Yet this trend was slow to reach discount luxury stores and premium outlets.

As Luxe Digital mentioned, online luxury sales are forecasted to reach $91 billion by 2025, and almost 20 percent of all those personal luxury sales will take place in the digital realm.

Given the ever-higher quality of mobile technology and the unparalleled reach of online platforms, it is not

surprising that pioneer mall operators such as the Simon Property Group are establishing an online path for their business.

According to a company statement, buyers can save up to 65 percent off full retail prices via its ecommerce Web site.

The *Indianapolis Business Journal* highlights how Simon generates 48 percent of its net operating income from U.S. malls and 42 percent from outlet malls, and the company also has an ownership interest in real estate projects across Asia.

However, Simon Property has underperformed in China.

Retail in Asia reports that Simon Property entered into a joint venture to build shopping centers in China in 2005, but sold its stake in the venture to its partners in 2009 for $29 million.

Following the sell-off, Simon Property told analysts that the second-tier cities where these malls were built had a deficiency in middle-income consumers, so it felt the endeavor could not be turned into a profitable business.

Simon Property argued that the group had lost $20 million in the venture. In 2012, Simon and the Chinese retail conglomerate Bailian Group agreed to jointly develop a premium outlet center in Pudong, Shanghai. But, according to *Retail in Asia*, that partnership failed.

The case of Simon Property shows how a company that is thriving in the West can still misjudge the Chinese market.

Nevertheless, recent developments show that the group is now paying closer attention to China's "New Retail" model, and *Forbes* reports that, as of the third quarter of 2019, Simon Property had refurbishment and expansion projects happening in more than 30 properties across the United States, Europe and Asia that amounted to roughly $1.8 billion.

The focus on sustainability and digitalization has helped Simon Property connect with digital-first consumers, while the launch of the online outlet platform could be a tipping point in its relationship with young, Chinese shoppers.

Why should luxury brands embrace digital outlets?
In a 2018 study, McKinsey reported that 80 percent of luxury sales are influenced by the Internet.

Underestimating the importance of the digital sector could kill even the most successful brand, so creating a progressive digital strategy is now a requirement for the Chinese market and elsewhere.

It should be noted that most luxury brands have already embraced the omnichannel experience by having online platforms in place.

Consequently, those digital outlets can become an extension of digital brand strategies, which can easily be incorporated into long-term business plans.

This feature would give them the upper hand because retailers will eliminate partnerships with local department stores, helping reduce business transaction costs.

Moreover, by engaging with the aspirational class in its own habitat, digital outlets can win the battle against local, entry-level luxury brands that already have a strong online presence.

Florentia Village, for instance, does an excellent job using digital technologies to convert Web traffic into foot traffic.

The ecommerce platform is also backed by a widely successful WeChat Mini Program that features reward offers, a membership program and information on ongoing promotions.

Question of timing
In business, timing is everything, and the COVID-19 crisis has presented an opportunity for retailers to enter China at a moment when the market equilibrium is changing.

Now that the Chinese government has locked down the Hubei province keeping about 60 million residents indoors while encouraging even more to work from home the local population has turned to the Internet for entertainment.

The founder of the consultancy firm Style Psychology, Kate Nightingale, told *Vogue Business* that stressful circumstances such as this outbreak can increase consumption.

"Customers can become more impulsive in their purchases when reminded of their mortality," Ms. Nightingale said.

Ms. Nightingale added that similar events took place in the wake of 9/11 and the London attacks of 2006. Chinese buyers cannot satisfy their consumption needs outside, so they must rely on digital platforms for their daily indulgences.

Meanwhile, digital designer outlets are also responding to the unique considerations of Chinese consumers.

Since China has extended the Lunar New Year holiday, *Fortune* reports that an increasing number of private companies "have cut wages, delayed paychecks, or stopped paying staff completely."

As a result, designer and factory outlets with lower price points and bigger discounts are becoming more appealing than top luxury labels that sell at full price.

In fact, smart digital outlets would be wise to introduce a feature that is similar to one the discount shopping site Zulily has, which shows buyers exactly how much cheaper its prices are compared to big companies such as Amazon and Walmart only if their prices are better, of course.

Outlet shopping centers such as Bicester Village in Oxfordshire, England have perhaps been hit the hardest by the COVID-19 crisis, and they should embrace digitalization as soon as possible.

According to the *BBC* and the *Retail Gazette*, Bicester Village lost around 85 percent of its consumers over the last two weeks because of travel restrictions related to COVID-19.

Prior to the crisis, Bicester Village attracted more than 7 million visitors a year, according to *Market Watch*, and in 2018, the Village reported sales of $334.9 million (259 million).

Today, however, the streets of Bicester Village have been emptied, and once-thriving luxury stores such as Burberry are feeling the pinch.

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