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Can Amazon's new luxury platform challenge Alibaba's?

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Amazon has made it a habit to copy Alibaba's business ventures lately, but its most recent attempt an online luxury platform seems ill-fated for many reasons. Image credit: Shutterstock

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Bluntly put, Amazon is always one step behind [Alibaba](#), and its new venture into the world of luxury continues this trend.

In years past, [Amazon](#) tried to replicate and even reinvent Alibaba's model, but its track record has not been impressive.

From its Prime Day Amazon's copy of Alibaba's 11.11 festival to its failed live-shopping program, "[Style Code Live](#)," to its purchase of Whole Foods after Alibaba's Hema grocery success, everything Amazon is doing looks like an attempt to turn the platform into a cheap American version of the Chinese giant.

So far, Amazon's newest luxury endeavor has not taken off, with [Retail Touch Points](#) announcing that 12 brands have signed on to work with the platform.

Just to put things into perspective, [Net-A-Porter's Tmall flagship](#) launched with a catalog of more than 130 luxury brands, while Alibaba's Luxury Pavilion on Tmall is currently housing more than 80 brands.

So, why are luxury brands reluctant to partner with Amazon?

Amazon has a serious image issue

According to Charlie Gowans-Eglinton, senior fashion editor for the [Telegraph](#), the customer experience on Amazon "is quick and easy rather than special," and that is a problem because luxury is all about [specialness and exclusivity](#).

Furthermore, most consumers associate Amazon with bargains, low-priced goods, or [lifestyle basics](#). Nothing about that screams "luxury" or "extravagance."

A shift towards the high-end apparel market would require a bold rebranding process to create hype and attract young, affluent consumers.

But, so far, Amazon has been relatively silent on this front.

Amazon CEO Jeff Bezos might want to look to **Gucci** for inspiration.

Under the leadership of CEO Marco Bizzarri and lead designer Alessandro Michele, the Florentine brand resurrected itself after controversy by creating unique and quirky looks that appeal to **millennials**.

Chasing the wrong consumer

Amazon appears to be aiming its services at upper-income U.S. households and low-end consumers, while forgetting about luxury's ever-important "aspirational class."

In 2016, more than **70 percent** of U.S. households making more than \$112,000 of yearly income possessed a Prime subscription.

But since 2017, the American retailer began chasing lower-income households with its Prime memberships by announcing it would lower the cost of its Prime membership to \$5.99 a month for buyers who have "an electronic benefit transfer card, which is used for government assistance like the Supplemental Nutrition Assistance Program," according to *Business Insider*.

The same year, it also rolled out Amazon Cash: an initiative that targeted consumers without bank accounts or credit or debit cards.

Through Amazon Cash, consumers could walk into a partnering retail store and upload cash directly to their Amazon account.

But during its aggressive expansion, Amazon forgot about the middle class (a.k.a. the backbone of luxury consumption).

Since today's **moneyed elites have embraced new forms of luxury** while also becoming more discrete and less ostentatious with their spending, the United States' "aspirational class" is now the only segment still practicing conspicuous consumption.

The counterfeit problem

Research firm Gartner conducted a study on 321 brands that Amazon offered for sale from third-party merchants and discovered **"that one-third of their products had received at least one review by a customer reporting it as fake goods."**

Unfortunately, Gartner is not the only firm that raised the alarm on Amazon's counterfeit problem.

The Atlantic also reported that Amazon is "facing multiple lawsuits from brands who say it does not do enough to prevent fakes from being listed on its Web site."

Most big **ecommerce** sites such as Alibaba and eBay had to fight off accusations of making a profit from listed counterfeit items, but this issue is even worse in Amazon's case.

Smaller brands are more vulnerable to Amazon's counterfeit woes since they do not have the infrastructure or budget to engage in lengthy legal battles.

Inc. highlights how selling on the U.S. ecommerce site "whether as a wholesaler or via its third-party retail marketplace, is fraught with risks that Amazon has done conspicuously little to mitigate so little that many entrepreneurs believe Amazon's top executives see those risks as features, not bugs."

Conversely, **Alibaba's anti-counterfeiting efforts are starting to pay off**. The anti-counterfeiting alliance it created has expanded from an initial 30 members to 121 brands.

Moreover, in the fight against fakes, Alibaba has employed the "most sophisticated and comprehensive proactive detection technology to date," according to the company's latest Intellectual Property Rights Protection Annual Report. And this has generated a **"67 percent year-on-year decline in suspected fake product listings on its platforms in 2018."**

Because of these efforts, Alibaba claims that 96 percent of Alibaba's proactive removals in 2018 occurred before any goods were sold.

Amazon is big with U.S. consumers, but China still looms large

According to *eMarketer*, Amazon Prime memberships are available in 17 countries today, with Germany being the

company's biggest foreign market.

But Amazon accounted for less than 1 percent of China's retail **ecommerce** market in 2018, while Alibaba represented 58.2 percent of retail ecommerce sales in China that same year.

Amazon's failure in China is well-documented, so it is hard to understand why Mr. Bezos believes a novel **luxury** platform would gain traction unless he plans to ignore the Chinese market altogether while focusing on the U.S. and Western Europe.

Taking into account how **young Chinese consumers** are a growth engine for the luxury industry, this plan may prove to be a costly mistake.

According to research based on UnionPay transaction data used in last year's **McKinsey China Luxury Report**, "China delivered more than half the global growth in luxury spending between 2012-18 and is expected to deliver 65 percent of the world's additional spending heading into 2025."

Additionally, Chinese buyers spent 770 billion RMB (\$115 billion) on luxury items in 2018, which equals a third of global spending.

Looking at these figures, it is unlikely any retailer can conquer the global luxury market without the Chinese consumer base.

But if the target consumer is the U.S. luxury buyer, then Amazon has another problem.

The Trump administration has adopted protectionist policies, restricted trade with the European Union legacy luxury brands are manufactured in Europe and created a general state of insecurity that punishes not only European brands, but also American consumers.

In the foreseeable future, these policies will hijack prices, reduce demand, and destabilize the market.

As for U.S. consumer spending, the *Wall Street Journal* quotes data from the 2019 World Wealth Report by stating that "despite being home to 5.3 million high-net-worth individuals," getting them to spend on luxury products is not easy.

Forbes highlights a similar negative trend by concluding that "enthusiasm to spend on luxury is declining" in the U.S.

SO, UNFORTUNATELY, we estimate that Amazon's current strategy will not achieve its expected results despite a strong digital footprint and remarkable brand recognition.

Amazon would be better off finding and building a competitive edge rather than constantly developing knockoffs of Alibaba's initiatives.

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