

REAL ESTATE

## Convergence of tech and real estate in fashion

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*The Shoppes at Via Mizner, Boca Raton, FL: Boutiques offering designer couture, high-end jewelry, fine art and furnishings for homes. Image credit: Penn-Florida Companies*

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In these unprecedented times, fashion retailers will be challenged to adopt improved strategies and tactics for serving existing clientele, as well as developing new customers.

In the luxury sector, this becomes even more crucial, as the top 30 percent of your brand's customers may be producing up to 70 percent of total sales and the highest average gross margins.

It clicks

For many retailers, the challenges of developing and implementing a bricks-versus-clicks strategy started to accelerate in 2011-12. I regularly met with field managers, regional managers and senior corporate staff for numerous fashion brands across a broad pricing spectrum, including their CEOs, directors of stores, and directors of real estate during this timeframe.

I started to hear a pattern emerge in my conversations with many of these retailers, including those in the luxury sector, about their challenges with ecommerce, product distribution, inventory timing and availability, as well as margin compression from increasing costs.

At the time, I was the top field executive leading one of the largest retail real estate properties in the United States, with a "destination" portion of the property devoted to luxury retail, and comprising more than 500 operating retailers, restaurants and entertainment venues.

In early 2013, I enrolled in an MBA level certification program in supply chain management to learn more about the underlying issues from these retailer conversations and to better understand how this would alter the retail landscape in the future.

As part of my coursework, I pulled annual reports, MarketLine SWOT analysis reports, and other information regarding strategic priorities being pursued by retailers.

Many of these reports cited "Lack of presence in ecommerce platform" as a primary weakness and developing

"Better inventory management to improve gross margin expansion" as an opportunity, both of which rely heavily on technology.

Threats listed in many of the reports included "Intense competition in the retail environment," "slow speed to market with fashion merchandise relative to competitors" and "inefficient supply chains."

Based on a focus on these issues and subsequent investments in infrastructure, a number of leading luxury brands have launched highly integrated Web sites (Chanel), improved supply chain efficiency (Moncler, LVMH), and developed innovative ways to track inventory (Ralph Lauren). These technology improvements are well positioned to heavily serve aspirational customers as well.

Many of these improvements have allowed brands to reach customers in new ways, but also to manage their businesses more efficiently.

However, the ecommerce platforms also require the customer service, CRM and fulfillment components that work in tandem with the Web site, as well as technical support costs.

These additional operating costs have impacted overall profitability and, in many cases, remain separate functions from store operations.

Even when a store employee relies on an iPad to access inventory from another store or from the brand's ecommerce division, the teams and processes are likely in separate silos, so store employees are providing the "touch," while tracking down the product and getting it to the customer or the store relies on the "technology."

High touch, high tech

The next frontier for retailers will be to figure out ways to maximize the functions of high-touch, personal interactions and service that can be delivered best in a store environment, while also tapping into the efficiency and technology of the inventory and ecommerce backbone that is now in place for most retailers.

As physical locations for luxury brands continue to shift focus to the top 30 percent of customers driving profits, store formats, sizes and geographic locations will undergo a similar transformation.

In boardrooms worldwide, retailers are beginning to evaluate retail real estate options differently and are developing improved site selection parameters for stores in the fashion sector, aiming for improved profitability.

This has resulted in a reduction in the number and size of stores, a shift in retail formats from malls to more lifestyle, open-air and street retail destinations, and a deeper dive into how to best serve primary customers.

THERE IS A great divide between retail brands that serve the masses versus luxury brands that serve the few. The latter will be focused on bespoke locations with exceptional demographics and the other luxury attributes of a site, whereas brands with a mass-market approach can rely less on site dynamics and affluent demographics.

I would opine that the world's luxury brands will evolve the real estate side of the business similarly to the technological evolution that has transformed their ecommerce and inventory platforms over the past decade. After all, there is no limit to creativity in fashion.



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