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## Luxury ecommerce spending patterns are different now. Is your online store ready to handle the changes?

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The Twenties were supposed to start off strong for luxury goods sales. In 2019, management consultancy Boston Consulting Group (BCG) and Italian trade association Altagamma were predicting **up to 5 percent year-over-year growth for the global luxury market** through 2025, to reach \$1.5 trillion. But things have changed rapidly since then, and luxury merchants need to adapt as the ground beneath them keeps shifting.

As the decade began, millennials were expected to make half of the market's purchases, in spite of a reputation for frugality that was forged during the Great Recession.

Accenture projected that this generation's spending would represent **30 percent of retail sales in 2020**, \$1.4 trillion in the United States alone. Ten countries the U.S., Brazil, United Kingdom, China, Italy, Germany, France, Japan, South Korea and Russia accounted for 85 percent of the luxury retail market's revenue in 2019.

That meant that luxury retailers were selling to the largest generation in many parts of the world and enjoying a big and relatively stable customer base.

It also meant that forward-looking luxury merchants were already working to offer millennials and younger Gen Z customers the kind of **seamless digital experiences** that they have grown up with and expect from online stores. This focus on digital customer experience quickly became more important as 2020 went on.

The way things are: Less luxury spending overall, but some rebound shopping

As countries went into lockdown in the spring, consumers shifted all kinds of retail purchases from in-store to online. That resulted in an overall increase in online sales, but not all verticals benefited from the rapid change in shopping and spending habits.

Luxury is one of a handful of categories in which **online sales were lower** at the end of May than they were in mid-

March.

By late March, BCG had revised its **luxury retail projections to decrease** by as much as \$120 billion by the end of 2020.

In Latin America, shutdowns and continued outbreaks have **reduced overall luxury spending** by 30 percent or more, including in Brazil, one of the world's top luxury markets.

However, not every country faces the same challenges at the same time.

As different countries and regions move through different stages of the battle with the new coronavirus, pent-up demand is leading to more luxury sales in some areas.

The best example of this kind of local surge in spending comes from China, where so-called "revenge spending" on high-end goods ticked up after lockdowns were lifted.

CNBC reported that the **Herms boutique in Guangzhou** sold \$2.7 million in merchandise the day it reopened in April.

**Tiffany reported a 90 percent increase** in May 2020 sales in China compared to May 2019, and other top-tier brands have reported similar increases.

It is possible that pent-up demand will break through in other countries as lockdowns ease, too. But that possibility depends heavily on the state of public health and the economy.

Currently that varies by country, state and even from one city to the next, with major luxury markets including the U.S., Brazil and Russia struggling to contain infections.

As some areas re-impose lockdowns to bring outbreaks under control, it is clear that online shopping is the only option that will be consistently available to most luxury customers for the foreseeable future.

The way things will be: Emphasis on excellent digital customer experience  
How can luxury ecommerce merchants adapt to this new normal?

Three key steps are keeping tabs on the situation in your customers' home markets, demonstrating value beyond the luxury item itself, and providing an excellent customer experience while preventing fraud.

Why is it wise to monitor current conditions in your customers' home regions? You may need to adjust your marketing, messaging and spending based on the situation in different markets.

For example, an email campaign that promotes new shoes to wear out on the town might be effective in an area that is fresh out of lockdown, but it could upset customers in areas with quarantine rules still in effect.

Monitoring market conditions can also show you where your marketing dollars can have the most impact.

For example, if the country where most of your customers live is going through a difficult time, you may want to temporarily shift some of your spend to other regions where conditions are better.

Now is also a good time to revisit the messaging around your store or brand's values, to make sure customers understand your full value proposition.

BCG and Altagamma's 2019 True-Luxury Consumer Insight Report found that about 60 percent of the highest-spending luxury customers make purchases based on "environmental, animal and ethical manufacturing concerns."

If your store and the brands you sell promote social causes or benefit nonprofits, tell your customers how their purchases contribute to those efforts.

Finally, luxury ecommerce stores must be able to screen for fraud based on consumer behavior in different regions at different times of the year, based on local demand and known fraud patterns and to do so without delaying or rejecting orders by good customers.

In today's luxury market, good customers are more valuable than ever, and they have many other options for shopping if they have a bad experience with an online retailer.

Meanwhile, fraud in many forms, from credit card theft to account takeovers, keeps growing.

To keep legitimate shoppers happy while avoiding fraud-related losses, merchants should layer their fraud protection to spot the most obvious fraud, scan for more sophisticated scams and have on-demand expert review of

all flagged orders. This process reduces both fraud and false declines.

It is also important to adjust fraud controls for different CNP channels.

Mobile commerce needs a different approach from desktop online sales, and telephone sales need different tactics. It is smart to track your fraud and false-decline metrics for each channel so you can identify the areas where your fraud control is effective, where it needs to improve and where it might be hurting your customer experience.

Luxury's new normal, for now

Is it worth adapting your marketing and fraud screening for what seems to be a temporary challenge? Because so many analysts expect the luxury market to remain slow at least through the end of 2020, if not longer, embracing the new normal may be the best choice for merchants who want to minimize losses and remain competitive.

Give your customers a great experience, show them your values and be careful with your messaging to retain their trust and their business.

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