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## How will the Farfetch-Alibaba-Richemont trifecta impact luxury ecommerce in China?

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*Is Farfetch the key to Richemont and Kering's ecommerce growth in China? Image credit: Farfetch*

By ELLEN KELLEHER

Online retailer **Farfetch** is teaming with Chinese ecommerce giant **Alibaba** and Swiss luxury group **Richemont** with the hopes of expanding its global reach, particularly in the world's largest luxury market.

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Alibaba and Richemont each plan to invest \$1.1 billion in London-based Farfetch, which will be launching on Alibaba platforms including Tmall Luxury Pavilion. The partnership will also further strengthen the ecommerce credentials of Richemont, which already owns online retailer Net-A-Porter.

"This deal will help bolster Farfetch as it will make it the leader in online luxury marketplaces," said Milton Pedraza, CEO of **Luxury Institute**, New York. "The deal essentially represents two luxury groups coming together to invest in an online marketplace along with the largest online mass marketplace, which is China."

"Farfetch is getting a tremendous amount of support from the brands," he said.

### Ecommerce ramifications

Farfetch will launch luxury shopping channels on Alibaba's platforms, Tmall Luxury Pavilion and Luxury Soho China's premier luxury and luxury outlet destination within the Tmall marketplace as well as Alibaba's cross-border marketplace Tmall Global.

The new channels will expand the reach of Farfetch's global luxury platform to Alibaba's 757 million consumers, providing luxury labels with new opportunities to elevate their brand awareness, while also significantly expanding their addressable market of luxury consumers.

Additionally, Alibaba and Richemont plan to invest \$600 million together in private convertible notes issued by Farfetch Limited. Alibaba and Richemont will also invest \$500 million together in Farfetch China, taking a combined 25 percent stake in a new joint venture that will include Farfetch's marketplace operations in the China region ([see story](#)).



*Cartier is one of several Richemont brands to have a flagship store on Tmall Luxury Pavilion. Image courtesy of Alibaba Tmall*

"Farfetch stands to gain substantially from Alibaba's enormous consumer base, as well as its ability to mine data and drive traffic across this broad consumer group," said Renee Hartmann, cofounder of [China Luxury Advisors](#). "Alibaba stands to gain additional foothold in the luxury sector, one that has been slow to grow on Tmall.

"2020 provides a fitting backdrop for this tie-up, given the changing structure of China's ecommerce landscape," she said. "Since Chinese consumers cannot travel overseas this year, we are seeing a portion of that spending shift to both domestic retail and online, as well as cross-border ecommerce."

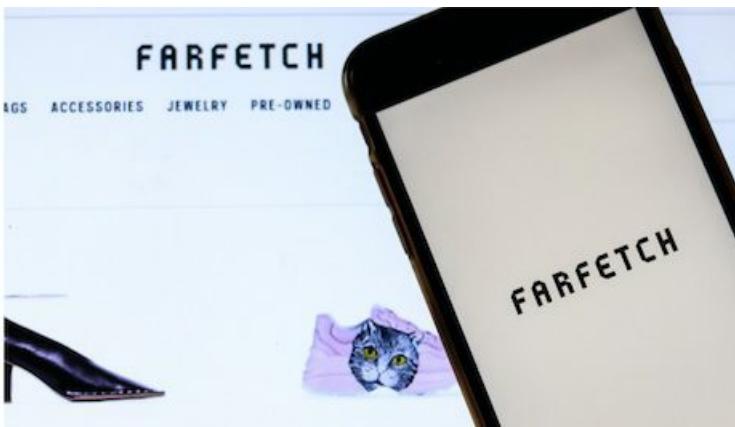
Once the deal is completed, Chinese luxury consumers will have more options for shopping high-end brands on Tmall, including the Farfetch integration or Richemont's Net-A-Porter integration on Tmall Luxury Pavilion.

Net-A-Porter launched on Luxury Pavilion in fall 2019, featuring 130 luxury and designer brands for men and women, including Brunello Cucinelli, Balmain, Jimmy Choo and Tom Ford, as well as Richemont brands such as Cartier and Montblanc ([see story](#)).

Farfetch has its similarities to Net-A-Porter, and carries luxury brands including Balenciaga, Fendi, Gucci and Versace. Notably, however, the marketplace also retails apparel, accessories and jewelry from hundreds of smaller boutiques from around the world.

Artemis, the investment vehicle and controlling shareholder of Kering, is also increasing its stake in Farfetch with a \$50 million purchase of Farfetch's Class A ordinary shares.

"In addition to great partners, Farfetch is getting the funds to support its rapid growth in Asia," said Marie Driscoll, managing director of luxury and fashion at [Coresight Research](#), New York. "Artemis and Richemont get access to Alibaba's and Farfetch's ecommerce and mobile platforms and their shoppers, and are partnering with leading luxury platforms in China."



China tech giant Tencent has also previously invested in Farfetch. Image credit: Shutterstock

At the core of the synergy is a Luxury New Retail (LNR) push, which will leverage both Farfetch's and Alibaba's omnichannel retail tech to meet the distribution needs of luxury brands.

This digitalization strategy emphasizes luxury expertise and will include ecommerce websites and apps, omnichannel retail technology and access to the Farfetch and Tmall Luxury Pavilion markets via one integration.

"Farfetch is the consummate luxury platform bringing more than 3,500 luxury brands to the world's luxury shoppers," Ms. Driscoll said. "Alibaba will benefit from access to these brand relationships and luxury brands will benefit from this strategic global partnership as they access the Chinese luxury shopper."

The Luxury Institute's Mr. Pedraza argues that in order for the deal to be successful, the troika of companies involved have to transform Farfetch from a high-growth business to one that also has high margins.

"Right now, it's a high-growth model like Amazon, but it's not a high-margin model and luxury does require some high margins to be sustainable," he said. "I think a lot of the success of this deal will depend on Farfetch's ability to gain new customers and to keep them in particular, the millennials and Gen Zers because the boomers are no longer as interested in apparel and accessories."

#### Farfetch's initiative

Looking ahead, it seems likely that Farfetch will be able to adjust its business model to meet the demands of the partnership. The platform has a history of introducing innovative programs to widen its market reach.

Last year, Farfetch extended its secondhand offerings for shoppers through a new alliance with donation service Thrift+. The partnership allowed U.K. consumers to give their unwanted fashion to charity in exchange for site credit, allowing them to do good and get rewarded at the same time ([see story](#)).

The initiative followed Farfetch's buy back program, which similarly seeks to offer a sustainable and circular alternative to used fashion. Farfetch Second Life accepts lightly used handbags in exchange for store credit, enabling customers to both give their unwanted goods a longer lifespan and invest in more fashion ([see story](#))

In August, Farfetch reported \$365 million in revenues during the second quarter of 2020, as it benefitted from widespread ecommerce luxury sales growth amid prolonged store closures as a result of the coronavirus pandemic. The company's revenue was up 74 percent year-over-year in Q2 2020 as online traffic grew by 60 percent during the quarter ([see story](#)).

A hurdle for Farfetch is its propensity to discount to woo customers, a practice that may have to change post its three-way marriage with Richemont and Alibaba.

"They discount because they have to acquire new customers and retain those customers," Mr. Pedraza said. "Now, they have a challenge."

"Can they reduce the amount of discounting dramatically, so that it really does feel like a full price luxury marketplace?"