

COMMERCE

Will luxury brands embrace Bitcoin?

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By JOE MCCARTHY

Luxury brands have been notoriously diffident when picking up emerging technologies, acting only when the coast is fully clear, but Bitcoin may provide an occasion to change that reputation.

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Luxury Daily

Bitcoin's sudden surge has made it a household name regarded with varying degrees of praise and derision. As the prospects of Bitcoin's potential become more well known, luxury brands must decide whether integrating the currency is right for them.

"Bitcoin is hot," said Sebastian Jespersen, founder/CEO of [Vertic](#), New York. "I believe many brands will adopt Bitcoin to position themselves as hip and cool."

"It would benefit many traditional luxury brands to be associated with something modern and innovative," he said. "[However], there is no guarantee that Bitcoins will be around in the future or whether they will retain any value."

"Brands have to have a lot of trust that no one is going to manipulate that system. It's more volatile than regular currency, which is already volatile. There is no central bank behind Bitcoin regulating the system, which may scare some brands. This could be a high risk for luxury brands."

What's in it for merchants

Bitcoin's volatility has been a source of skepticism. Why would a merchant accept Bitcoin if the value of the received payment drops after the transaction?

First, the received Bitcoin payment can be extracted and converted to other currency after the transaction, thus mitigating the risk of loss.

Also, Bitcoin's volatility will likely simmer down. The more consumers and merchants opt into Bitcoin, the less need there will be for speculation and the more stable the value becomes.

Many startups are also popping up to improve Bitcoin's viability. For instance, tools such as [Shopify](#) provide retailers with an easy method for accepting the currency.

An even more fundamental question, why would a merchant accept Bitcoin in the first place? Does it not just add more steps and more confusion to the already delicate process of digital transactions?

As [venture capitalist Marc Andreessen argues](#), Bitcoin is straightforward, secure and conducive to a global market.

The currency is straightforward in the sense that it involves one party sending coded Bitcoins to another party without any personal information being disclosed. This feature obviously lends itself to security. If personal information is withheld, hackers have much less to seize.

Embedded Video: [//www.youtube.com/embed/Um63OQz3bjo](https://www.youtube.com/embed/Um63OQz3bjo)

What is Bitcoin?

Following [the massive security breach at Neiman Marcus](#), retailers are considering new options for upping security.

Bitcoin can be used in-store as well, which addresses the issue of lifted information from a swiped card that had plagued Target and Neiman Marcus. Instead of swiping, consumers take a photo of a QR code, Bitcoin reads the information and executes the transaction. If a consumer does not have a Bitcoin "ledger," her bank account can convert money to Bitcoin to make the sale.

"Bitcoin eliminates the risk of credit card fraud," Mr. Jespersen said. "Brands should be paying close attention to security issues specially with the recent news regarding Target's credit card hack."

"With Bitcoin, Target's credit card scandal would not have been possible," he said. "Many online merchants are forced to turn away 5 to 10 percent of incoming orders because their security systems mark as suspicious, whether or not they are actually fraudulent."

Mr. Andreessen also discussed the currency's ability to enfranchise huge swaths of the global economy. Countries that have previously been denied access to services because of deficient banking systems can now gain access.

"Bitcoin is a global payment system anyone can use from anywhere at any time," Mr. Jespersen said. "Brands are always looking to expand but reaching consumer in countries without a physical presence."

Relevance to luxury

A key component of Bitcoin is that it gets rid of intermediaries. Traditionally, every transaction executed online has some of its profit sheared away by banks processing the payments. For merchants that rely on slim profit margins, Bitcoin seems to be a sanctuary.

The POS service Square's decision to replace its flat-monthly rate for merchants with a per-swipe fee of 2.75 percent elicited a chorus of grumbles from merchants, [according to Mobile Commerce Daily](#).

"Transaction fees can also hinder brand expansion," Mr. Jespersen said. "Bitcoin is the first internet wide payment system where transactions either happen with no fees or very low fees."

However, luxury brands have enormous profit margins that render the need to squeeze every penny less significant.

Luxury publications will see the underlying balm, though. The battering effects of the Internet on print publications have been widely documented, with subscriptions plummeting and readers flocking toward free content. Publications can now address the dilemma of charging for articles with more flexibility.

The divisibility of Bitcoin and the lack of intermediaries lets publications charge in ways that would have been implausible before. Charging per article per hour are two possible examples.

More clouds

Enfranchising consumers in underdeveloped countries does not apply to luxury sales, since luxury consumers, by definition, have access to resources. Other industries with much lower price points have more of a stake here.

Perhaps the most compelling reason to join Bitcoin is that if it does become widely used, brands will regret missing out on a lot of business. Since entering the Bitcoin system poses little risk, brands may be asking themselves, why not?

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Overstock.com recently announced its Bitcoin-friendly status and saw a boost in sales, according to [The Mercury News](#).

The real watershed moment for the not-so nascent currency will be if Apple and Google sign up. Once, and if, Amazon gets on board, Bitcoin will likely be vaulted to a more prominent position.

That being said, Bitcoin has not yet proven itself as essential and retailers may prefer to wait and see if it ever truly catches on.

After all, consumers may be reluctant to learn the ins-and-outs of yet another payment method.

Plus, some brands and retailers may be discouraged by the reported criminal activity blighting Bitcoin's reputation.

Other alternative digital currencies are also jostling for position, which may deflate the rise of Bitcoin. Furthermore, it is difficult to imagine that governments will maintain a laissez-faire attitude toward Bitcoin, especially when it directly challenges the banking system.

"Bitcoin has got some bad press as a haven for bad behavior, for criminals and terrorists to transfer money anonymously with impunity," Mr. Jespersen said.

"Although we don't know if there is any truth to this, associating their brand with this bad press may lead to a bad brand image."

Final Take

Joe McCarthy, editorial assistant on Luxury Daily, New York

I thought on "Will luxury brands embrace Bitcoin?"

1. Mark Lightfoot says:

January 28, 2014 at 5:16 am

I take issue with what Mr Jespersen states – the perceived negative side to BTC. With a Bitcoin

merchant solutions company like Bitpay, there's no volatility to worry about. They offer guaranteed exchange rates. They worry about the price fluctuations so merchants and customers can get on with frictionless transactions, which is how it should be.

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