

LUXURY 2022:

HOW LUXURY BRANDS
ARE ADAPTING HIGH-
TOUCH ENGAGEMENT IN
A DIGITAL-FIRST WORLD

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SPECIAL REPORT



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INTRODUCTION

In the past, luxury brands relied on the mystique of their exclusivity to drive demand. That required retailers to offer high-touch and personalized services, primarily through brick-and-mortar stores. As a result of this physical-first mindset, the luxury retail business had been slow to adopt digital tools, but then the COVID-19 pandemic forced all retailers, including those at the high end, to embrace digitalization as a way to maintain customer contact.

While luxury retailers may have worried that always-on accessibility would negatively affect their brands and weaken hard-won relationships with shoppers, many have discovered that incorporating digital tools can actually enhance personalization. Additionally, 3D imagery and other digital storytelling enhancements allow retailers to highlight **what makes their products special**, while NFTs can create the scarcity that drives much luxury consumption. Even the metaverse can have a luxury component, helping attract the next generation of luxury consumers.

The numbers reflect luxury retailers' (and consumers') enthusiasm for online shopping. **Coresight Research has estimated** that ecommerce sales of global personal luxury goods grew **21.2%** to **\$72.5 billion** — or **21%** of worldwide luxury sales — in 2021, with growth projected to slow only slightly, to **20.7%**, in 2022.

“Technology as a tool enhances luxury retailers to connect with shoppers on a more intimate basis, by incorporating learnings from online behaviors and addressing the shopper in a personal way that reflects current interests as expressed with their online visits,” said Marie Driscoll, Managing Director of Luxury and Fashion at Coresight Research in an interview with *Retail TouchPoints*. “A single view of the consumer is optimal, capturing intelligence from all consumer-luxury brand interactions, making relevant product and service suggestions and anticipating future needs.”

Digital luxury retailing requires the same (or higher) levels of product and customer knowledge and high-touch care for online interactions as in-person encounters.

“Consumers are expecting flawless execution that they know and believe in with luxury,” said Nora Kleinewillinghoefer, Principal in the Consumer Practice at **Kearney** in an interview with *Retail TouchPoints*. “This is where luxury brands versus some of the lifestyle brands have a significantly elevated challenge. The consumer expects that level of quality, execution, premium delivery and experience at an elevated level across all channels.”



“One of the pain points that luxury retailers and brands must address in the digital environment is the **reduced loyalty** and the **increased difficulty in creating relationships**. High-touch in a digital-first world includes **quick response time in live chats**, with real people who are **knowledgeable about the brands and relevant culture**, and engaging in **livestreaming and one-to-one live shopping strategies**. Digital follow-ups to engagements, conversations and purchases go far to develop consumer-brand-retailer relationships.”

— Marie Driscoll, Managing Director of Luxury and Fashion at Coresight Research

Some luxury brands have found that embracing digitalization can actually help them add new customers to their base. “2021 confirmed the very strong performance of ecommerce and the continuation of digital strategy based on a very broad range of offerings and a number of web-to-store services,” said Axel Dumas, CEO of **Hermès** during an April 20, 2022, shareholders’ meeting. He added that “**78%** of new ecommerce clients are new clients for us, and the group had also been able to take up that challenge of strengthening online sales and adapting to changing patterns of use with flexibility and success.”



TODAY'S LUXURY CONSUMER: YOUNGER AND MORE DIGITALLY SAVVY

While luxury consumers' expectations of being presented with the highest quality goods through personalized service have not changed, the makeup of this group has, according to Kleinwillinghoefer. Key shifts include:

1

Millennials and Gen Z now comprise approximately 70% of luxury consumers, but older generations still exert significant spending power — for now;

2

Adoption of digital across all demographics and consumer segments, with significant increases among the more mature consumer segments; and

3

Less luxury tourism by Chinese consumers, who represent a **3X** higher spend per individual than consumers as a whole. Forced store closures and travel restrictions over the last **two years** saw many online players, such as **Tmall**, move in to satisfy their needs.

Additionally, premium brands are realizing that a luxury consumer is defined not only by disposable income but also by a discerning eye for quality and craftsmanship.



THE FUTURE OF LUXURY RETAIL

By Greg Flinn, Director of Business Development, Oracle Retail

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As the major impacts of the pandemic start to wane, luxury retailers are in an ideal position to create growth for years to come. The last **two** years brought an increased focus on digital commerce, while shoppers had limited store access and were relegated to working from home. As the world opens back up, luxury retailers must be laser-focused on a multi-faceted approach to customer service, engagement and satisfaction.

The luxury industry must watch pricing closely. It would be easy to continue to raise prices as demand continues to grow and pad margins in the short term. But there is a fine line between a price that establishes an air of exclusivity and a price that has a negative impact on demand. Finding that line will be critical to ensuring long-term **customer loyalty**.

With constrained **inventory**, luxury retailers must recognize and react quickly to significant changes in demand by location. Brick-and-mortar retail is far from dead, contrary to many experts claiming its demise over the last **10** years. Identifying those locations that provide significant growth or decline in some cases will be what differentiates success from failure. Additionally, a continued focus on data gathered from digital purchases will help identify category opportunities in geographical regions.

Sustainability is no longer just an industry buzzword in the era of **omnichannel retail**. Now brands and retailers must maintain a stance regarding how their business approaches will be environmentally friendly. From offering more narrow **assortments** to recycling materials for their own use or someone else's, and working toward a net-zero carbon footprint, luxury retailers are in a unique position to continue to offer exclusive products while contributing to the health of the planet. **Oracle Retail's latest consumer research** finds that **57%** of global consumers say it's important that a retailer's brand values, such as sustainability and ethically sourced materials, are aligned to its own personal values.

Certainly, there are challenges that are unique to brands and retailers, but understanding how customer demand is impacted by fluctuations in **retail price optimization**, availability of **inventory** and a sustainable governance model will be some of the keys to success in the short and long term.

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ONLINE LUXURY RETAIL TURNS TO 3D IMAGERY AND NFTS TO ADD SPARKLE

By incorporating advanced digital storytelling solutions, brands can convey the distinguishing characteristics of their goods as well as what makes them worth a premium price. Additionally, many brands have launched limited edition product drops to drive demand. By enhancing these initiatives with 3D tools and NFT incentives, luxury brands can maintain the levels of scarcity that often drive this category.

“Luxury shoppers span most age groups and income ranges,” noted Coresight’s Driscoll. “The luxury industry, like most consumer industries, must cultivate the next generation of customers, and in the case of luxury, they may not (yet) have the income level to buy luxury goods. Planting desire early in the metaverse is a viable strategy to begin luxury brand engagement with the next generation of luxury shoppers.”

“Not all of your products are in 3D today, but maybe you host a special event for a limited-edition drop that promotes the lucky **100** or **500** people to purchase the NFT of the 3D version of a purse,” said Ashley Crowder, Co-founder and CEO of **VNTANA**, in an interview with *Retail TouchPoints*. “You can also then be **first in line to the trunk show or gain early access to the spring collection**. People are getting really creative about what value these NFTs give in the real world. It’s about that exclusivity and being special.”

Providing virtual shopping sessions featuring digital try-on options, and video styling appointments with associates, also can elevate the online luxury shopper journey.

“In 2020 Gucci launched a personal live call shopping service, where a sales advisor presents new handbags to the clients and explains specific details about the products,” said Swarooprani Muralidhar, Senior Analyst at Coresight Research in an interview with *Retail TouchPoints*. “The advisor’s environment resembles that of a store, and the experience replicates a high-touch clienteling interaction digitally.”

LVMH is among the brands leveraging virtual events as a way to reach luxury consumers in new ways, as it did to mark the return of its beauty experience through its Sephora brand. “Sephoria: Virtual House of Beauty,” which launched in September 2021, provided an experience that relied on a metaverse-style environment with a foundation in 3D and 360° game atmosphere. Attendees could explore the beauty house and also purchase an Experience Kit to receive by mail.

“[A] key trend that’s here to stay is digital, which is how most of our customers stay informed, share and shop,” said Antonio Belloni, Group Managing Director of LVMH in the company’s **2021 Annual Report**. “That’s not about to change, even with the return of the in-store experience. To leverage this trend, our brands must be able to cohesively express their unique values and their creative identity across a range of customer touch points, both physical and digital.”

“First-movers, such as LVMH with its blockchain consortium, will tend to have a competitive advantage over rival firms,” noted Muralidhar. “Retail tech innovators that can specialize their offering for luxury will be in demand, such as using [the] language, terminology and imagery that luxury brands use, and adapting their data dictionary accordingly to enable easy deployment with luxury brands’ systems.”



SATISFYING THE LUXURY CONSUMER THROUGH HIGH-END FULFILLMENT AND PACKAGING

Q&A with Brady Berg, VP of Sales, Radial



Retail TouchPoints (RTP): How is the luxury category adopting its omnichannel strategies?

Brady Berg: The points of differentiation we see in our clients that make their products available online would be personalization and customization, such as **higher-end packaging, handwritten notes and sealed envelopes with consumer information.** With the packaging, presentation and on the product itself, it is the ability to put on a monogram and use digital printing options. Retailers like **Away** luggage have gone the way of engraving digitally printed or stenciled hard-sided suitcases or embroidery on their tote bags for logos and inspiration pieces.

RTP: What are some offerings the luxury consumer expects that might be different from the typical shopper?

Berg: One element of it is around the carrier selection and transit expectations. Whether buying online or in a store, the luxury consumer is accustomed to a personal experience. For example, those that have a collection of handbags might want the next bag [for their collection] in two hours, while others want it delivered in two weeks because they are traveling. Carrier delivery options up and down the chain are important.

RTP: What omnichannel strategies are helping luxury brands evolve to become more accessible without diluting their heritage?

Berg: The luxury consumer is fairly mobile with multiple homes, vacations and work travel. **Those with a higher amount of disposable income want to buy when they want to buy and where they want to buy.** If that's in a living room, a galleria in Las Vegas or on Rodeo Drive, all the options need to be available. If you're going to provide an online transaction for them to purchase, the experience needs to be in line with the expectations of the consumer and it can't block the identity of the brand. They have to stay on brand through the fulfillment experience.

RTP: Where does sustainability fit within today's luxury business?

Berg: If your brand has a sustainability or Environmental, Social and Governance (ESG) component, that experience better follow suit. You can't say that you're a sustainable brand but provide somebody with **packing peanuts or superfluous material** that will either get incinerated or go to the landfill.

RTP: What element is most crucial in providing high-touch engagement in the luxury category?

Berg: Packaging is important, such as receiving your receipt in an envelope at the store or folio from stores such as **Tom Ford** or **RIMOWA**. When I bought a RIMOWA suitcase, it came in a dust bag and a well-protected box so the luggage itself was not compromised. It included a customized luggage tag and an envelope with my warranty with a nice note thanking me for my purchase. My wife was able to open it up and say, 'Oh, my God that's amazing!'



BRICK-AND-MORTAR REMAINS A CRITICAL COMPONENT OF LUXURY RETAIL

Many of the same brands exploring digital luxury also are investing in physical store enhancements.

“In 2021, operational investments have continued in the stores to highlight our collections with local customers,” said Hermès’ Dumas. “We have continued the extension of the network in Shenzhen, China; Tokyo; and Detroit, and carried out a number of store renovations and extensions. As of the end of December 2021, the group has **303** stores, **two-thirds** of which are owned stores.”

Doubling down on physical stores, **LVMH** celebrated the June 2021 opening of the Paris department store **La Samaritaine Pont-Neuf** following its **15-year renovation**. By restoring the retail center, a fixture of the city since 1870, to a grand space that houses approximately **600** brands, LVMH emphasized its commitment to in-person retail.

“Luxury brands are creating more engaging in-store experiences that offer shoppers a way to connect to the brand and build brand affinity (with the goal of a future purchase),” said Kristen Gall, President of **Rakuten Rewards** in an interview with *Retail TouchPoints*. “Some luxury retailers are creating what amounts to a small museum exhibit in their flagship stores; they’re developing **beautiful long-form content on their social platforms**, and even setting up a **super high-end pop-up restaurant** at a luxury car dealership.”

Brands must keep in mind that any digital strategies they adopt must align with in-store experiences, both to reconnect with existing clients and to cultivate the next generation of luxury consumers. The methods by which luxury brands are adapting their offerings and shopper journeys to a younger clientele, as millennials and even Gen Z move into their prime earning years, must tie together a story of heritage, quality and individuality.

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Dorothy covers the retail industry at large with a focus on design in store and as an element of omnichannel strategy.