

Apparel, Fashion & Luxury Group

Digital inside: Get wired for the ultimate luxury experience

July 2015

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The authors would like to thank Altagamma Foundation, and in particular Mr Andrea Illy, Altagamma President, Armando Branchini, Altagamma Executive Director, for their valuable contribution to the research. Altagamma Foundation, which convenes the leading Italian luxury goods companies, supports the yearly Digital Luxury Observatory in conjunction with McKinsey & Company.

Special thanks also to all Digital Luxury Experience Advisory Board members for their participation in the research and significant contributions to the knowledge shared here. The authors are also grateful to Nicola Sandri, Alberto Mussa and Nathan Labat at McKinsey, who contributed to the development of this report.

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Foreword

The merger of Yoox and Net-a-porter, the increased visibility of platforms like Farfetch or Gilt, the recent conversion to e-shops of emblematic luxury brands ... E-commerce is one of the hottest topics of Spring/Summer 2015 for luxury brands. Indeed luxury sales realized online have accelerated in 2014 reaching 14€bn – a +50% from 2013. They now represent 6% of the global luxury market for personal goods. And it is likely it will continue to rise.

But as big as the luxury e-commerce opportunity is, it remains only the tip of the digital iceberg. A full assessment of the transformative effect of digital technologies on luxury consumers' attitudes and behaviors requires looking at the sum total of these consumers' digital activities – their texting, Instagramming, Facebooking, YouTubing, and web surfing. Our latest research shows that three out of four luxury purchases, even if they still take place in stores, are influenced by what consumers see, do and hear online. Digital, in other words, is now the engine of the luxury shopping experience.

The question is no longer if and when luxury brands should embrace the digital opportunity, but how they should go about doing it. Our findings, which are based on the ongoing work of the Altagamma-McKinsey Digital Luxury Experience observatory, reveal that the answer lies in understanding the complex and lengthy journeys that today's screen-staring, button-clicking luxury consumers embark upon when considering and making purchases.

Embracing this new digital reality calls for a complete shift of luxury brands' approach to engaging with consumers. This will require luxury brands to ultimately adjust many of their models of how they operate – their vision, governance, talents, culture, resources and tools. In this report we outline our latest findings on how digital luxury consumers have become and discuss the ways luxury brands can get wired to fully capture the enormity of the digital opportunity.

This year's edition of Altagamma-McKinsey Digital Luxury Experience observatory analyzed the omnichannel decision journeys of about 7,000 luxury shoppers across 8 geographies, 4 products categories and 3 pricepoints.

The paradox of digital luxury experience

Not only are wealthy consumers equipped with mobile devices, they are very well equipped. Nearly all luxury buyers have at least one smartphone – globally, the figure is 95 percent and in most mature countries, it's 100 percent. These figures reveal a much higher rate of ownership than that of the general population, where an average of 60 percent of US adults have a smartphone. But beyond that, a large majority of luxury consumers (75 percent) juggle multiple mobile devices, whereas only 33 percent of Americans own more than one.

This is a critical insight because smartphones are the first truly personal devices – much more so than our so-called personal computers. Smartphone, and sometimes tablets, are carried with us wherever we go and as a result, are driving the rapid development of new consumer behavior patterns, such as the “always on, anytime, anywhere, but only when and where I want it” attitude.

Luxury consumers are also highly social, in digital sense. Some 80 percent of these shoppers use social media on a monthly basis, whether it's Instagram, We-Chat, Facebook or Twitter. Half are weekly users and more than 25 percent are daily social media users. And they're not passive users. Two-thirds generate social media content – photographs, videos, product reviews or re-postings of content created by others – at least once a month. Fifteen percent do it daily.

In this way, luxury consumers are amassing more and more power relative to luxury brands. For each image that luxury brands post on their official Instagram account, for instance, there are on average 10,000 more that consumers have posted containing the brand's hashtag. This raises the inevitable question of who is creating the messages and information that define a brand's identity – the brand itself or its consumers.

This story of digital transformation is not just one of Millennials or of China, because these findings hold true across countries and generations. Generation Y luxury consumers and Baby Boomers own similar amounts of mobile devices on average and spend approximately the same amount of time on the Internet, around 15 hours per week – in addition to any work-related usage. The only little generational difference we see is in social media, where 87 percent of Millennials use it monthly vs. 71 percent of Baby Boomers. (Exhibit 1)

The results of our research paint a very clear picture of luxury consumers: They are highly digital, mobile and social, and because of this have extremely high expectations for what they want in a shopping experience. More so than most, luxury shoppers want a seamless, digitally enabled, multi-channel experience – one that unfortunately most luxury players are not yet ready to deliver.

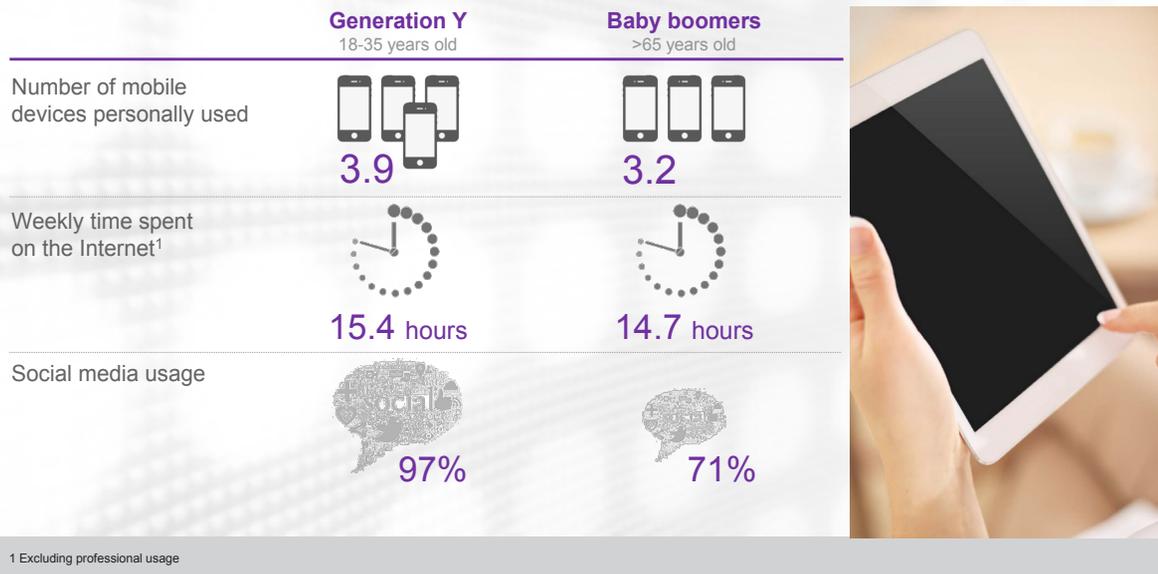
Luxury players have historically been very cautious about digital and e-commerce. The Internet and digital more broadly have been indeed once perceived by the luxury industry as a loss of control over its brand image and storytelling – combined with the challenge of tier distantiation towards customers. E-commerce has even more been seen as a threat: with CtoC platforms favoring the development of counterfeits and grey markets and with pure players becoming a conflicting channel with the brands' own stores.

In addition, new players from adjacent industries like Amazon, T-Mall, Best Buy or even Tesla are now setting the bar in terms of digital and omnichannel experiences. And it keeps raising...

This has created a gap between what shoppers are looking for and what brands are delivering. The good news is that most brands are growing increasingly aware of the need to embrace digital and bridge this divide.

Exhibit 1

This is not just a Millennials story



Luxury e-commerce is gaining traction

The acceleration of luxury sales realized online is a first manifestation of this growing awareness: they reached 14€bn in 2014, a +50% vs. 2013. The importance of the digital business opportunity makes it now a must for all players, and a key source of revenues growth.

Online sales of luxury goods consistently outperform those of the total global market. Over the past five years, they have grown four times faster – an annual growth rate of 27 percent vs. 7 percent for offline sales. Last year, in fact, nearly all of the €5 billion in luxury goods market growth came from e-commerce. This growth is coming primarily from two places: Luxury brands own websites, which represent one quarter of online luxury sales and are the fastest growing channel, and the online offering of leading department stores. Sales at multi-brand full price or off-price sites, on the other hand, have been less dynamic than in the past. Going forward we expect these trends to pursue. (Exhibit 2)

Exhibit 2



With €14 billion in 2014, Online sales of luxury goods represent around 6 percent of the market, up from 2 percent in 2009. This, of course, is the global average. We see strong differences in online penetration by country, category and brand price point.

- 2 countries out of the 8 analyzed stand out. The UK experienced the greatest digital shift, with 11 percent online sales penetration. This accelerated migration is likely the result of a confluence of three elements: a higher than average degree of digital savvy among UK consumers, online purchasing habits that have developed in other categories, and perhaps most importantly, the significant quality and quantity of online offerings. On the other end of the spectrum is Brazil's 2 percent online luxury penetration, a low rate that's due to the country's relatively young luxury market and lack of local online offer. The 6 remaining countries range between 5 and 7 percent of online sales penetration.
- Across price points, there are more significant variations, with online sales decreasing as prices rise. For foundational, high-end brands like Dior, Cartier and Chanel, the share of e-commerce is just 3.6 percent. For aspirational brands like Burberry, it jumps

to 7.5 percent and for more affordable luxury labels like Michael Kors or Longchamp, it's even higher – an average of 8.5 percent.

- Not all categories are equal either. The most active e-commerce categories are those of beauty products and ready-to-wear apparel, both with 7.2 percent of sales happening online, followed closely by accessories at 6.2 percent and eventually watches and jewelry with only 4.1 percent. These differences are certainly driven by price differentials but also by the extent to which there have been rich and compelling e-commerce offerings developed in the category. On this front, both beauty brands and fashion retailers have been dynamic in their innovation over the last few years. (Exhibit 3)

Exhibit 3

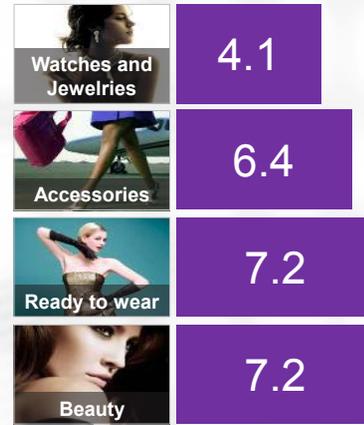
Online luxury sales penetration

Percent of global luxury sales

by Pricepoints



by Categories



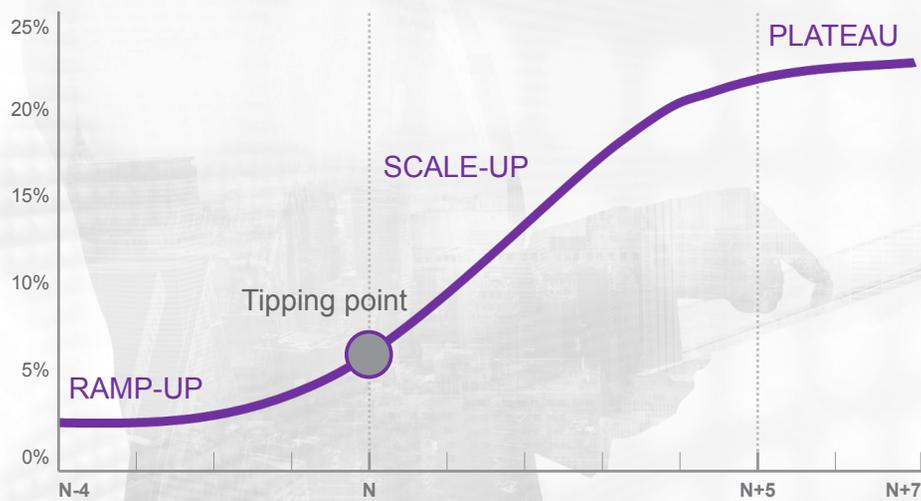
Luxury e-commerce nearing tipping point

How might luxury e-commerce develop over the next 5 to 10 years? To answer this question, we analyzed the online sales trajectories of over 50 luxury brands over the last decade. What we found is that luxury brands online sales trajectory most often describe a S-Curve that can be disaggregated into 3 steps. (Exhibit 4)

Exhibit 4

Luxury brands online trajectories

Online sales as percentage of brand total revenues



1. First luxury players investigate selling online either through partners with full-price/off-price/events platforms or through their own e-shop – at this point they tend to only offer a reduced product range and not advertise it much.
2. Then when they start to have sizeable revenue streams coming from e-commerce they reach a tipping point (around 6-7%) where they will scale-up quickly their e-commerce operations and launch full e-shop concepts. They will feature the majority of their products online and upgrade their websites while increasing their online/offline visibility. As it represents significant investments in IT, customer support, or supply chain (e.g. warehousing), e-commerce will be set as a priority by the top management. This activities and increased managerial focus will cause the share of online sales to boom up to 18-20% in the next 5 years.
3. Finally after passing the 20% threshold, online penetration growth tends to decelerate as the brand reaches a maturity level for its online operations.

Confronting this perspective with our extensive knowledge of other industries that are more mature in their digital development like Mass Fashion or Consumer electronics, we forecast the global luxury e-commerce market to follow a similar trajectory than the one experience by the brands themselves. We expect the share of online sales to double in the next 5 years – from the 6 percent today to 12 percent in 2020. And by 2025, it will triple to 18 percent, or €70 billion, making e-commerce the world's third largest luxury market, after China and the U.S.

Beyond e-commerce, digital influences every step of the journey

As impressive as the growth of luxury e-commerce story is, these online sales figures are not the most important facts to consider when evaluating a brand's digital luxury opportunity. There is so much happening before a consumer decides to actually make a purchase, and these critical points of contact, or touchpoints, define not just the outcome of their purchasing decision, but their overall shopping experience. On this front, digital, as mentioned earlier, is a critical driving force. In addition to the 6 percent of sales that are transacted online, another 68 percent are influenced by at least one online touchpoint. In other words, three-quarters of the total luxury goods market is influenced in one way or another by a brand's digital presence.

Many touchpoints along the luxury consumer decision journey

The key to leveraging this insight lies in understanding the increasing number of touchpoints, both online and offline, that luxury shoppers experience while making all those continuous, complex and non-linear decisions about what to purchase – or what we call the luxury consumer decision journey.

When consumers begin shopping for a particular item, they usually have a pre-selected set of brands in mind at the outset – an initial consideration set. In our research, we analyzed the decision journeys of luxury consumers across 21 different touchpoints – 11 offline (such as print media or store visits) and 10 online (such as search, social media and the online brand store).

Our findings reveal that in luxury this initial consideration phase is of particular importance because luxury consumers tend to purchase from brands they are already familiar with. More than three quarters of luxury purchases come from the few brands present in the initial consideration. This means that a brand that's in the running from the start set has a 25 percent chance of being finally purchased – which is twice the probability of a brand that's been added during the next phase of the decision journey, the evaluation process. In luxury, this active evaluation phase is much less relevant than it is for other categories. For instance, 42 percent of the computers purchased in the U.S. were in consumers' initial consideration set, compared to the 76 percent of luxury goods.

The implication here is that luxury brands need to continue building their preeminence over time in order to be at the top of a consumer's mind whenever a purchase occasion occurs. This process is more of a marathon than a sprint, requiring long-term building of brand awareness, reputation and category relevancy in a powerful and consistent manner.

The other major insight from our analysis of touchpoints is that luxury brands have no choice other than to be present everywhere. There are two important reasons for this. One is that since buying a luxury item is often a high involvement endeavor, it's not surprising that luxury buyers have long and complex decision journeys. On average, a luxury shopper will be influenced by nine points of contact with the brand he or she finally purchases. (Across the globe, this figure ranges from only 6 touchpoints in the UK to 13 in China, reflecting differing levels of luxury maturity, ecosystems and shopping habits that have developed over time.) The second reason luxury brands must be present everywhere is that each of the

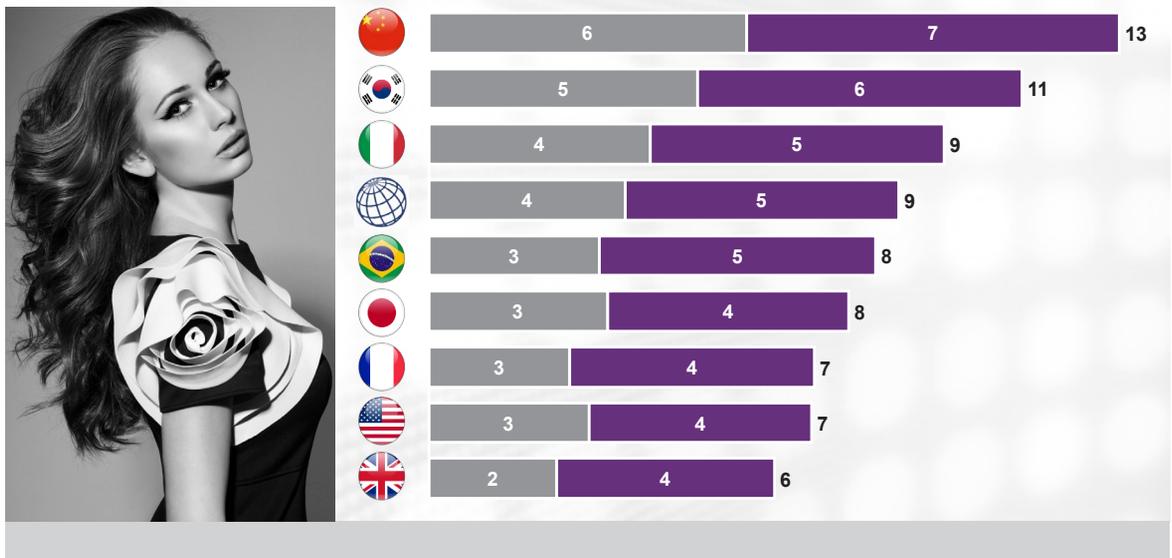
21 touchpoints we analyzed reaches at least one in five luxury buyers. Or to put it another way, at least one of every five luxury shoppers will be exposed to every piece of content you create – or that consumers create on your brand. Thus, players should leverage all possible touchpoints in order to increase their presence in the initial consideration set as well as convert customers throughout the course of their complex decision making.

Exhibit 5

Luxury decision journeys across geographies

Number of touchpoints experienced for one decision journey

■ Offline touchpoints
■ Online touchpoints



If this sounds like a considerable challenge, it is. The good news, though, is that, while brands must be everywhere, there are five particular touchpoints that are must-wins. These stand out across all geographies, categories and pricepoints. They are the most qualitative points of customer contact and have a clear impact on the final purchase decision at least two-thirds of the time. In short, they are vital for creating an outstanding luxury customer experience. (Exhibit 5)

Touchpoints: the five must have's

1. **The city store:** Even in the digital age, luxury customers are heavily influenced by what they see and experience in physical stores, so much so that it is the most important point of contact with luxury customers. Eighty percent of luxury consumers have regular contact with luxury goods stores, giving this touchpoint the highest reach and the greatest impact on sales. Delivering an outstanding in-store experience is a must, and digital offers a great opportunity to modernize and further enhance this critical meeting point between a brand and its customers.
2. **Person to person word of mouth:** Luxury shoppers care about what their peers think. Such interactions can be traditional conversations with a friend or more modern digital dialogues like emails, texts or Facebook comments. Half of luxury consumers have regular experience with this touchpoint.
3. **Online search:** Luxury brands invest tremendous effort and resources to create visibility in the offline world, starting with beautiful stores in the best locations. Being visible online is just as important. But since there is no natural traffic to a web site, the job of creating visibility falls into the hands of online search. Technology companies like Google and Amazon have set a high bar for what consumers expect when they hunt for something online. It is not about buying visibility, but earning it. Consistently elegant and reliable search is essential.
4. **Sales people:** A great experience with a salesperson can have a lasting impact on a customer, and vice versa for a poor one. The question is how digital technologies can help better train associates as well as enhance their interactions with clients.
5. **Brand web site:** A customer's experience with a brand's own site determines a great deal about how they perceive that brand. Does the messaging feel authentic? Is there enough information about products? More than half of luxury consumers interact with brand sites. Yet players still have a lot of progress to make in delivering an online luxury experience that exceeds consumer expectations set by the digital champions, beginning with mobile-enhanced web sites and ease of navigation.

Luxury brands must strive to be impeccable in meeting customer expectations within and across these five touchpoints. This means not only avoiding the common pitfalls like asking loyal customers who make a purchase in a store if they are registered in the brand's loyalty program, or having your search land customers on a different web page than the one they were looking for, or not having new products displayed online that are already available in the store. It also requires an understanding of how luxury consumers' expectations are escalating. Brands will need to be available whenever and wherever their customers want to have access to them. Yet how do brands successfully manage this omnipresence and deal with the proliferation of touchpoints? How can they be powerful yet consistent?

Navigating the granularity of touchpoints

Since the luxury consumer decision journey is fragmented and composed of multiple touchpoints that vary by country and category, granularity is the new paradigm.

Beside the five “must have” touchpoints, a set of another 5-7 can also have great impact on the purchase decision. These will vary by category and country, so players will need to home in on a detailed analysis of which ones are critical where.

Let’s take 3 examples to illustrate this:

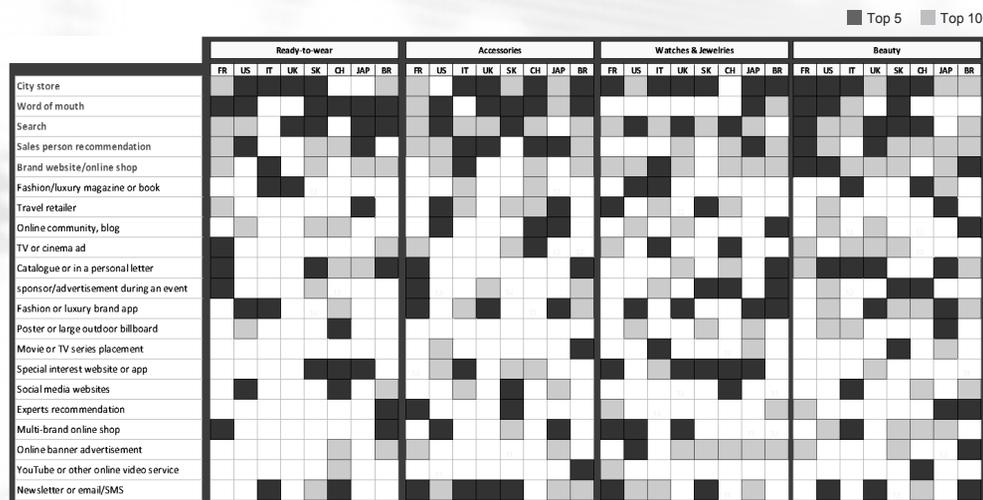
- If you’re a ready-to-wear player in Italy, for instance, you should probably focus on fashion magazines and newsletters and experiment with launching a brand app.
- If you’re a watchmaker in China, your emphasis should be on PR, social media and mobile website.
- A high end beauty player in Japan will want to prioritize expert recommendations, outdoor advertising and travel retail.

Thus, brands that focus their marketing strategy and investments on a few online and offline touchpoints (those that matter most to target consumers) can allow successfully differentiate themselves and stand apart from competitors. (Exhibit 6)

Exhibit 6

Granularity prevails to navigate the proliferation of touchpoints

Top 5 and top 10 touchpoints having a clear impact on the final purchase decision by products category and country



Three priorities for luxury brands to get wired for delivering the ultimate luxury experience

1. First, luxury brands must redefine what a truly excellent and distinctive luxury experience should be through innovation. This implies taking the best of both the online and offline worlds and in doing so, there are two elements to keep in mind:
 - **Leverage your rich assets.** Luxury brands have unique brand heritage, amazing talent and beautiful stores that should be the platform to design a truly distinctive experience. They are at the heart of your brand experience today and it should not change.
 - **Invest in redefining luxury experience standards to meet the expectations of the new consumers.** It's not about copying Amazon, but more about stealing with pride some elements from today's digital champions. Luxury players must also innovate to transpose online the unique experience they offer in their stores.
2. Second, as mentioned earlier, luxury brands must ensure their distinctiveness in the 5 "must-win" battles. It is about striving for excellence on each of these 5 touchpoints – implementing perfectly the new "standards" of your brand experience. It also requires ensuring seamless integration: it's not about having a great online experience that is completely disconnected from what is happening in your stores. Success will require complete seamless integration of the online/offline journeys of your customers.
3. Thirds, luxury players must radically rethink their consumer engagement strategy. The key here is to select a few local big bets that will truly make a difference and incorporate them in a comprehensive strategy across all touchpoints. Deciding which touchpoints you want to focus more or less on across geographies and categories, and making sure that you are rebalancing your efforts accordingly. And then maintain consistent communication anytime, everywhere.

How to make it happen

Brands must bring digital initiatives inside their operating model, and adjust it if needed. The days of putting digital aside in a sacred silo are over. It is only by bringing it to the core of daily business operations that the true acceleration can happen.

Luxury players must also proactively address the typical roadblocks of digital acceleration. One challenge is overcoming the natural stickiness of budgets and accepting, for instance, a significant budget reallocation from media buying toward the fixed costs of retaining talented people who can produce high quality marketing and branding content. Another hurdle is that of simultaneously recruiting and retaining the best digital talents while enhancing the digital skills of the entire organization in order to enable the necessary massive shifts. The third challenge revolves around technology, which is at the core of the digital revolution. Too often, IT becomes a bottleneck. Successful players learn to differentiate the long-term horizon of legacy IT management from the much more agile and short-term focus of the digital IT.

Finally brands need to design the digital acceleration approach that will fit with their culture. There is a natural tension between the luxury industry's long-term focus and aim for perfection, on one hand, and the short-term trial and error and risk taking necessary for digital development. Designing the perfectly blended approach that combines the high standards of luxury with the agility of digital is the key to unlocking future success.

Conclusion

Digital is redefining what a truly distinctive experience means for a luxury brand. With luxury consumers being already fully digital and their expectations raising year-on-year as new standards appear from outside the industry, the challenge for luxury brands is high. And it is even more complicated as these digital luxury consumers follow very distinct and fragmented journeys. However the opportunity is there: with a 14€bn online market today that could grow up to 70€bn by 2025. Furthermore with 75% of all luxury sales influenced today by digital (and which could go up to 100% by 2025), luxury brands have no choice but to embrace the digital era and become truly omnichannel. This will require them a radical rethinking of both their customer experience of their consumer engagement strategy.

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July 2015
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