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COLUMNS

## How luxury retailers can retain their edge as mass-market rivals embrace advanced tech

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*Timothy Derr*

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Players in the luxury retail market must act now to gain advantage in the post-pandemic moment. By focusing on four key elements, these retailers will better harness emerging trends.

While the retail industry has been in a perpetual state of transformation for decades, the acceleration of digital commerce during the pandemic has forever changed consumer expectations.

Nowhere is this truer than in the luxury market, where retailers and brands must constantly stay ahead of the mass category to continue offering a differentiated experience.

How does a luxury retailer retain its edge, even as mass-market retailers embrace advanced technologies?

We have identified four interconnected factors which will drive transformation of the luxury industry: the employee-to-customer experience, technology, ESG (environmental, sustainability and governance) and sustainability, and Gen Z market impact.

Employee-to-customer experience starts with genuine connoisseurship

Currently, a seamless online experience is table stakes. It is therefore incumbent on luxury retailers to offer a higher quality experience.

Making the luxury shopping encounter special goes far beyond ensuring end-to-end customer satisfaction.

To invite customers into their rarified world and keep them there, retailers need to embrace bold creativity beyond what is available in the mass market world.

In broad strokes, it is built out of two key components: an enhanced digital experience and in-store elevation.

On the digital side, the online experience must match, albeit in a virtual realm, the luxury in-store experience.

What is the feeling you want the customer to experience when they enter one of your bricks-and-mortar luxury stores?

Elevating a website and ecommerce experience where it matches that of visiting a luxury store needs to be a heightened blend of art and science, a place where the esthetics are as breathtaking as the technology is seamless it is both form and function.

The in-store experience also requires a significant production values booster to elevate it above mass.

Nothing gaudy, artificial or theatrical it revolves more around communicating excellence. It could be heritage, craftsmanship or the underlying the value imbued into a product, whether a leather good or a cotton shirt with an exquisite drape.

This boils down to the "why" of a customer willing parting with multiple more dollars than they would for a mass market counterpart. But luxury retailers cannot rely simply on the excellence of their products.

This excellence has to be communicated via a fierce fealty to the brand, an understanding of the craftsmanship behind the product, and a knowledge that goes beyond what the customer could find out by simply googling the product.

That presents a mandate to develop talent both in terms of soft skills and tactical abilities. It is as much about developing skills in customer communication as skills to incorporate social media platforms with the shopping experience.

Talented, knowledgeable and enthusiastic staff are the key to connecting with all demographics, requiring effective recruitment across corporate and store roles.

Hand in hand with that recruitment comes the importance of building collaborative teams with cross-functional skillsets.



*Franziska Neumann*

Technological pressure and advantage

A macro-level tech consideration for retailers is the shift from Web2 to Web3 the move toward a decentralized, blockchain-powered Internet.

Whereas Web2 has been based on exchanging of information via centralized server-powered hubs, Web3 comprises peer-to-peer interactions that allow for reading, writing and other activity, including commerce in short, a version of the Internet where machines read and understand the information the way humans do.

The metaverse, perhaps the most commonly referenced manifestation of Web3, will usher in remarkable possibilities for luxury retailers if they are able to harness the power of personalized, intelligent interactions.

Instead of visiting a webpage and selecting items based on photos, consumers are immersed in a virtual shopping experience.

Through an avatar, they journey through a virtual storefront to examine, customize and even simulate using potential products and services.

This immersive experience and the technology powering it presents retailers with challenges. There will be struggles associated with real-world laws, such as trademarking.

With rising democratization of data and decentralized exchanges, ensuring propriety of intellectual property will be an increasingly complex challenge.

Likewise, there are anticipated challenges with the implementation of NFTs and crypto assets.

Scalability and accessibility present two additional challenges.

Due to the current blockchain size, Web3 is difficult to scale.

Because Web 3 adoption is not currently accessible on a large scale, it is difficult to incorporate it across the market.

If luxury retailers can address these challenges strategically and mitigate them, they will succeed in ushering consumers into a transformed luxury shopping experience and keep them coming back for more.

This section on technology would not be complete without mentioning Gen AI, but it is such a big subject, we will address it in a separate article.

Gen AI will transform the consumer experience and how companies operate. This type of DNA needs to be embedded throughout the organization and pragmatically.

Sustainability and brand values

More than ever, consumers are factoring sustainability into their purchases.

While apparel manufacturing is a major polluter, therein lies an opportunity for luxury brands to differentiate themselves by elevating their sustainability practices and communicating that priority to consumers.

How can luxury retailers effect transformation where ESG and sustainability are concerned?

Much of the strategy will lie with improving traceability.

If the retailer can develop better visibility into its supply chain, this will enable better understanding about sourcing and upstream sustainability so companies can exert tighter control.

Innovative practices can provide retailers with tools to promote more sustainable practices for example, a system for donating and repurpose used clothing that rewards customers with incentives.

Companies also should aim to develop products with longer useable lifespans. This ties directly into opportunities within the resale market by developing longer lasting products, retailers can use innovative approaches to tie into the resale market and incentivize sustainable practices among customers while bolstering their brand loyalty.

Sustainability-minded consumers will be drawn to a luxury retailer that repurposes long-lasting products rather than sending them to landfills.

Evidence suggests the luxury retail industry is behind others in terms of ESG aspirations, so it is imperative that organizations build a playbook for measuring and improving addressing this part of their transformation.

Ironically, many of the same consumers who have the financial means to patronize luxury retailers are the ones

able and willing to pay a premium for sustainable products and services.

Luxury retailers can also collaborate with governments and the public sector to bolster sustainable practices.

For example, as governments exert increased regulatory control over the sale and use of certain materials e.g., fur, exotic leather and wood from endangered trees the luxury industry can step up action and advocacy. Such collaborations are good for both the planet and the bottom line.



*Alex Wang*

### Gen Z market impact

While our observations apply to all demographics, it is vital that the industry gets as close as possible a read on their customer of the future: Gen Z.

These highly visible, highly influential consumers are setting the pace in many ways.

As many studies have shown, this generation is vastly different from their millennial predecessors. They are financially savvy, ambitious, hungry to learn and be mentored. They understand the value of money and do not part with it easily. But they value quality and authenticity, two qualities that luxury embodies.

It is imperative for luxury retailers to understand what makes this generation tick and engage with them on their plane. They are influencers, so start by influencing them, by being attentive to their desires, preferences and aspirations.

Gen Z consumers are not just buying top trends anymore they have grown up a bit and they are not brand loyal.

The reality is, they buy what they want and, in so doing, they set the tone for what's "in." And here is the catch: what's "in" does not have to be luxury as traditionally defined.

Even be prepared for them to redefine what constitutes luxury. Appealing to them requires focus.

For this digitally native generation, beyond seamless ecommerce convenience and engaging, immersive content, when it comes to products, luxury retailers have another imperative: they need to be both "style-setters" and "function-setters."

Notably, as they work to engage Gen Z, luxury retailers should consider how to do so without losing the values that appeal to their existing, older customer base.

Key impact: Inventories

Transformation along the four paths outlined can also address the inventory challenges we have seen lately:

- *Employee-to-consumer experience*: By engaging more effectively with both employees and customers, companies can have better control over inventories.
- *Technology*: Investment in and implementation of evolved technologies can integrate demand sensing into operational planning. This data stream is key to the type of visibility described above.
- *ESG/sustainability*: Intentionality is key to sustainability. Companies who are more intentional about their inventories can, in turn, achieve better sustainability practice and vice versa. By doubling down on what consumers most genuinely desire, waste and excess can be eliminated, driving sustainability goals while also improving inventory management.
- *Gen Z market impact*: As the new trendsetters, Gen Z should be a major focal point as luxury retailers look to understand shopping choices and determine their in-store and online inventories. Knowing what Gen Z is looking for is key to predicting demand.

By focusing on these four dimensions, companies can position themselves better for day-to-day inventory management, while better preparing them for unplanned events, such as a natural disaster, a period of political unrest, or even a pandemic any of which could have substantial inventory ramifications.

DISCERNING CONSUMERS WILL not remain loyal to luxury retailers that fail to maintain a leading edge, hence they must transform.

The time for this is now, and the imperative is to ensure that everything about luxury retail remains distinctive. That means retaining product excellence while offering new levels of immersive shopping experiences that engage the latest technologies to drive both form and function.

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