McKinsey&Company

Digital Luxury Experience 2017

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Introducing DLE^3

Experience

E-future

DLE^3

Enterprise

Introducing DLE^3

Win consumer with a superior digital relationship

DLE^3

The tomorrow which is already happening

Transform your brand to survive and prosper

Experience

Experience

DLE³

Experience

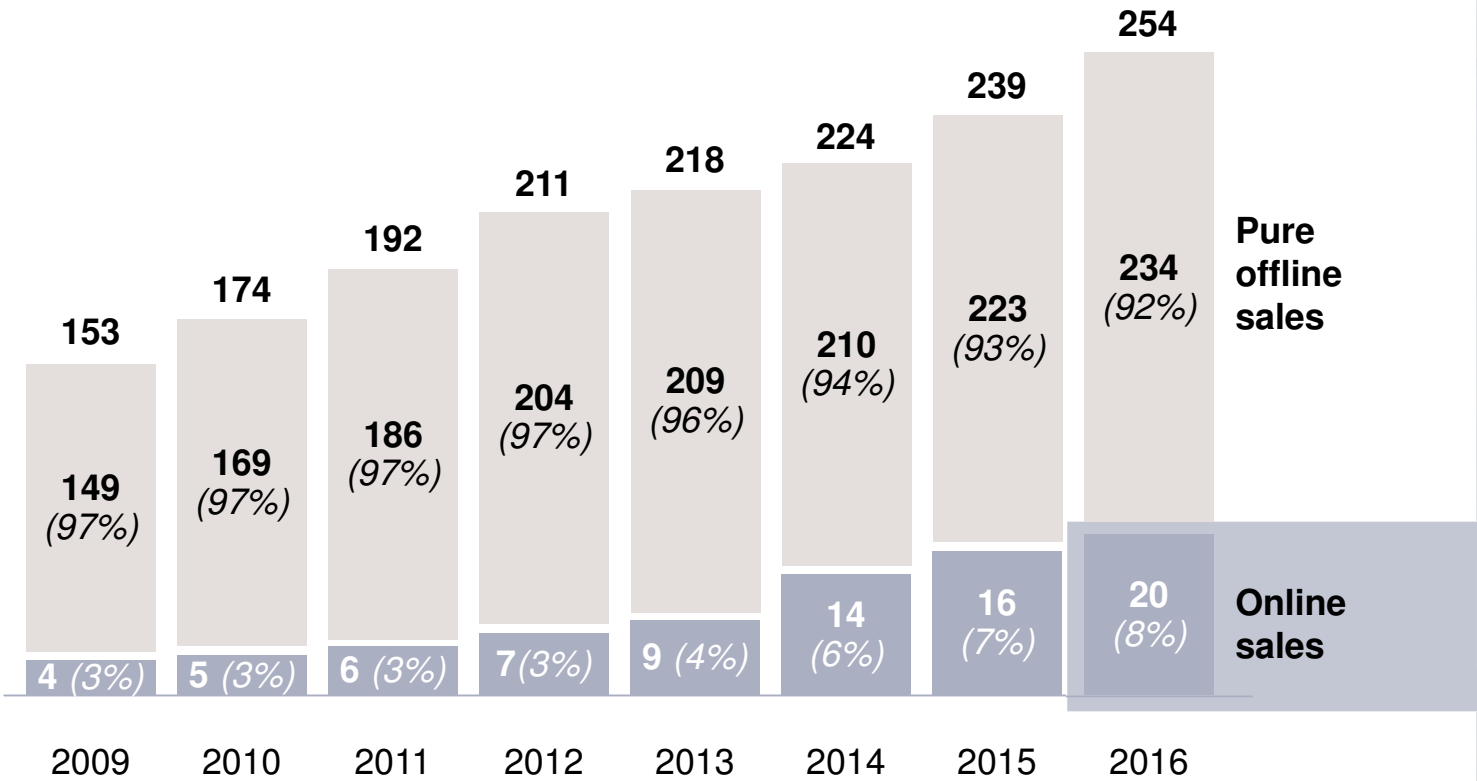|	
Digital: THE channel	€20 billion of pure online sales in 2016 to reach **€74 billion by 2025,** with penetration raising from **8** to **19%**
Mobile is the new desktop	By 2018 consumers will spend **4x more time on mobile devices** than on desktops
Customer journey blown to bits	Up to **15 touch points** in a fragmented journey vs ~9 in 2014
Business model Darwinism	Tomorrow's **winners** are not today **heroes:** more scalable, agile and technology-savvy players are emerging
Run faster than the bullet	**Sustained** value creation requires yearly growth of >**50%**

Online: 8% of total personal luxury market in 2016
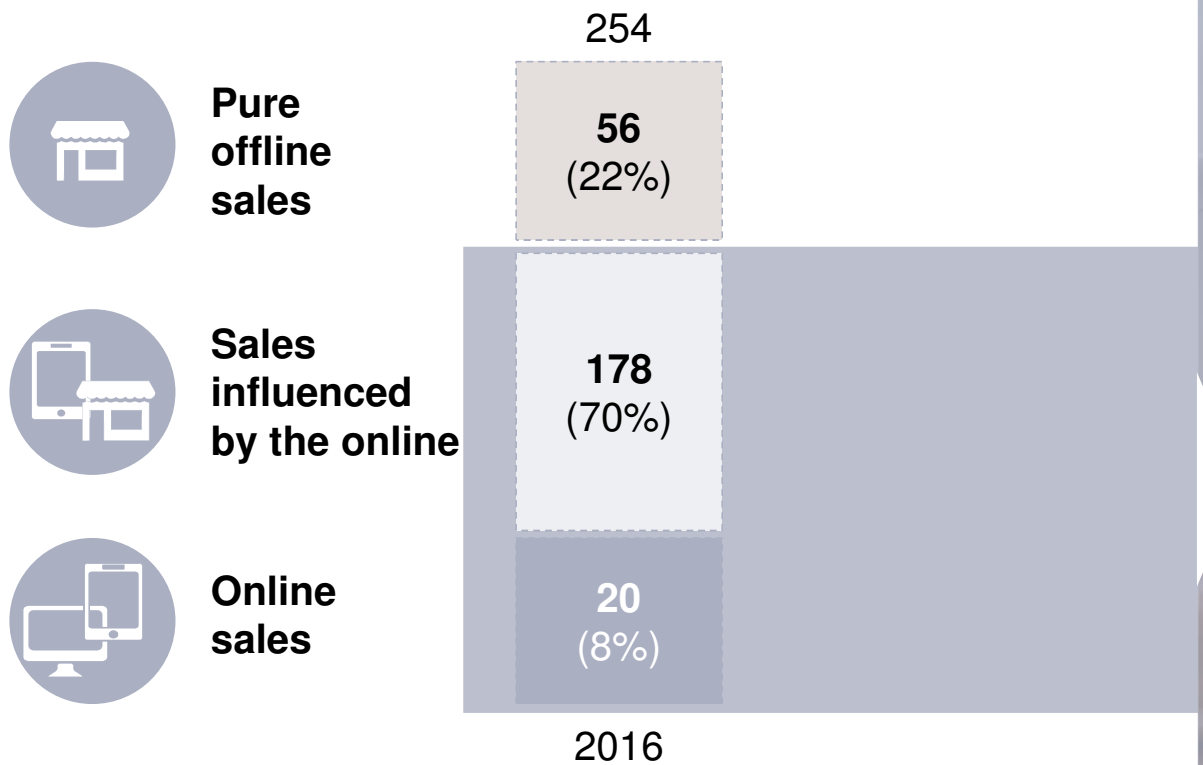
Sales of personal luxury goods[1], € billions

254

239

234
(92%)

Pure offline sales

223
(93%)

224

218

211

210
(94%)

16
(7%)

20
(8%)

Online sales

192

209
(96%)

174

204
(97%)

14
(6%)

153

186
(97%)

€20 billion sales online in 2016

169
(97%)

9 (4%)

149
(97%)

7 (3%)

6 (3%)

4 (3%)

5 (3%)

| 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |

In 2016, 78% of sales influenced by the online

Sales of personal luxury goods[1], € billions

Pure offline sales
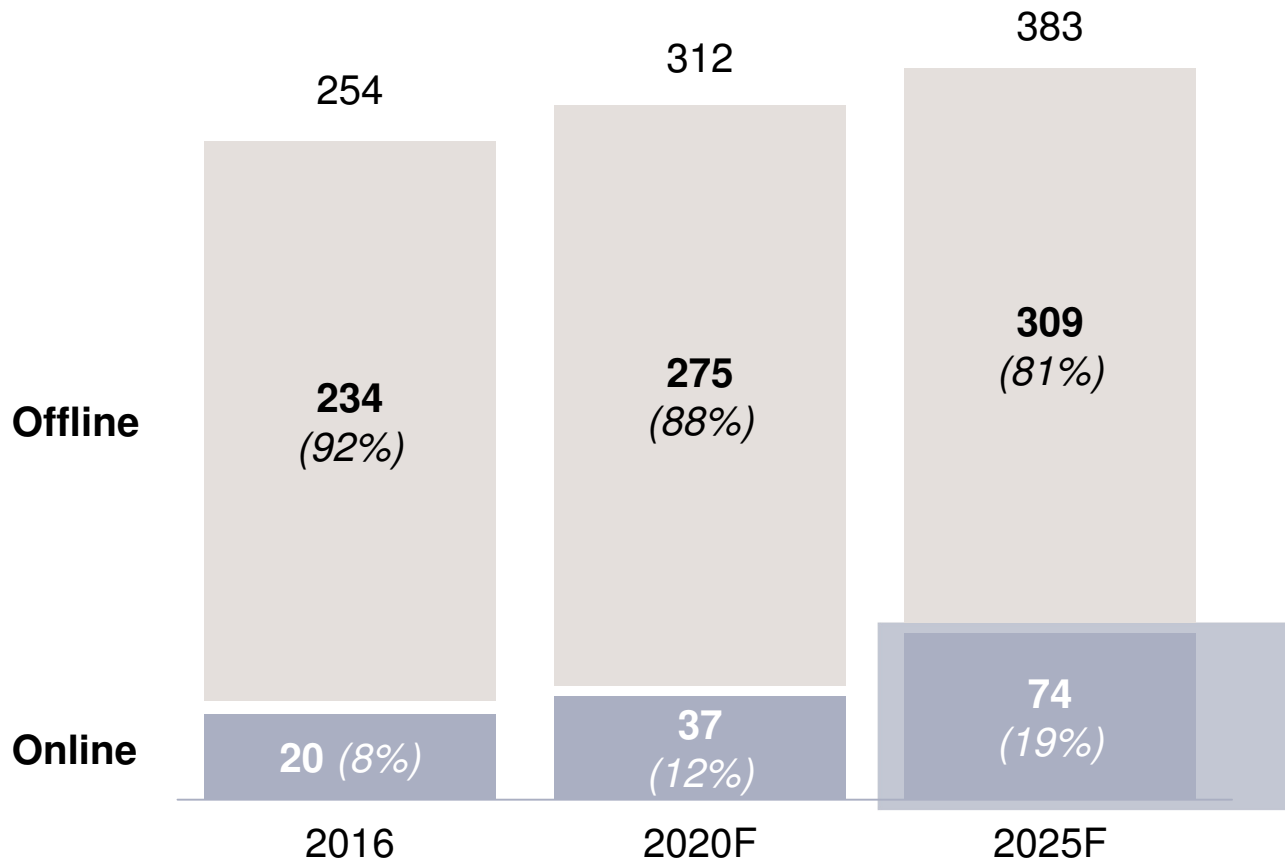
Sales influenced by the online

Online sales

254

56
(22%)

178
(70%)

20
(8%)

2016

~€200 billion of sales **influenced by the online** in 2016

1/5 of the luxury market will go online by 2025

Sales of personal luxury goods[1], € billions

254 312 383

Offline

234 (92%) **275** (88%) **309** (81%)

Online

20 (8%) **37** (12%) **74** (19%)

2016 2020F 2025F

€74 billion in 2025

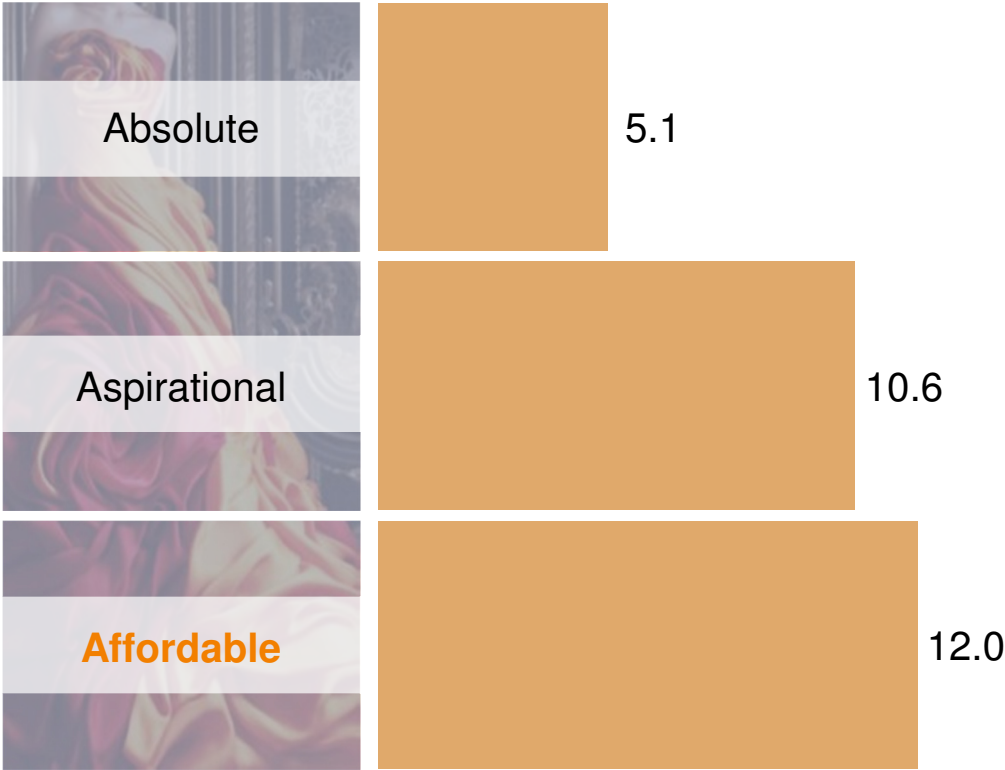1 Apparel, Footwear, Accessories, Jewelry & Watches, Leather Goods, Beauty & Perfumes

Affordable segment and beauty products are driving online luxury sales…

Online luxury sales penetration, Percent

■ 2016

Price points

Absolute — 5.1

Aspirational — 10.6

Affordable — 12.0

Categories

Watches & Jewelry — 5.3

Accessories — 8.2

Ready-to-Wear — 8.7

Beauty — 9.2

...and are also the segments with the highest growth

Online luxury sales penetration, Percent

Legend: 2014 | Delta 2014-2016

Pricepoints

	2014	Delta
Absolute		1.5
Aspirational		3.1
Affordable		3.5

Categories

	2014	Delta
Watches & Jewelry		1.2
Accessories		1.8
Ready to Wear		1.5
Beauty		2.0

Mobile is the new desktop…

Luxury consumers are more smartphone-oriented than other consumers

98%

luxury consumers smartphones equipped

vs an average of 65%[1]

77%

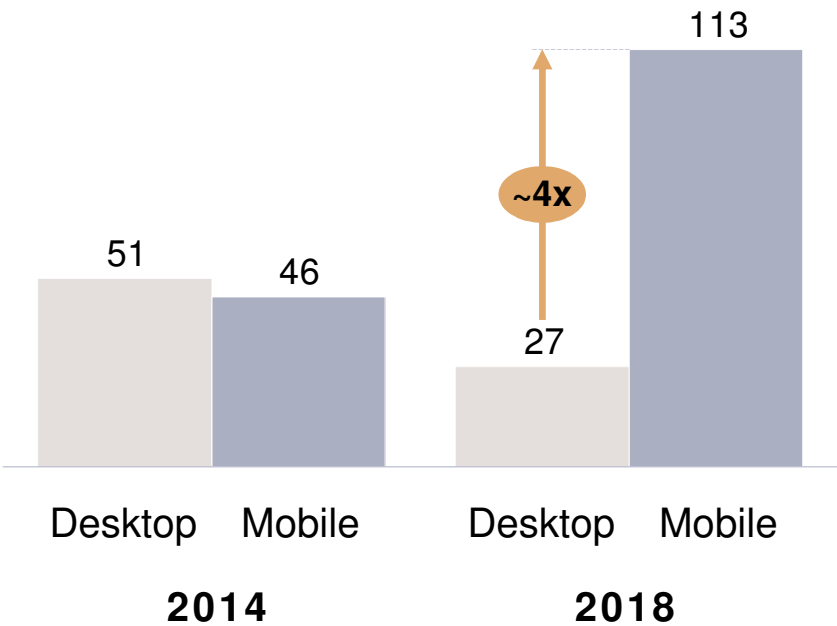luxury consumers owning multiple devices

vs an average of 35%[1]

By 2018, time spent by consumers on mobile 4x higher than on desktops

Global Internet consumption, Minutes

	2014		2018	
	Desktop	Mobile	Desktop	Mobile
	51	46	27	113

~4x

…and this is not just a millennials story

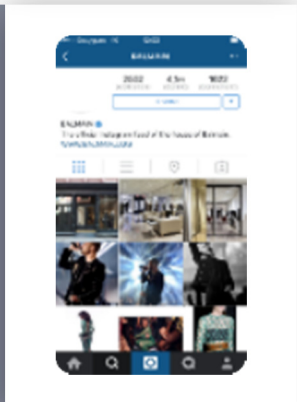|	**Generation Y** *18-35 years old*	**Baby boomers** *>50 years old*
Number of mobile devices personally used	4.0	3.5
Weekly time spent on the Internet[1]	17.5 hours	16.4 hours
Social media usage	98%	75%

Consumers are becoming the new marketing channel

Chanel
700 official posts
48,800,000 #[1]

Valentino
4,890 official posts
24,140,000 #[1]

Vuitton
1,970 official posts
25,380,000 #[1]

Balmain
3,660 official posts
5,690,000 #[1]

1 Hashtags, i.e., number of user generated content with the brand's name

Experience – Key takeaways

The online race in Luxury continues…78% of sales is digitally influenced
- 'Pure' online sales today account for "only" 8% but is expected to grow to 20% by 2025

China: if brands could manage to **win the "authenticity challenge",** digital could become a real overdrive to secure growth in a complex market

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Catch me if you can: the **journey** of luxury consumers is becoming **more articulated and unpredictable**. Brands will need to be more flexible and inclusive to secure and measure results

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Story telling 10x6cm: what happens when the **smartphone** screen becomes **your communication channel and store window?**

Online is increasingly a **C2C economy**: the consumer is central from advocacy to sales (market place)

Competition to conquer the luxury e-shopper **is fierce**: new heroes with a tech-based value proposition are emerging
- Brands will need to distinguish their friends and enemies in a much more articulated ecosystems

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Run faster than the bullet: value creation in digital implies **CAGRs** higher than **50%**

Enterprise

DLE^3

Enterprise

Enterprise

Luxury 4.0

Tomorrow's winners are transforming **today** their business models using technologies and data

Customer intimacy

Big Data and machine learning to bring back authenticity and relevance in customer relationship

Luxury ecosystem

Partnerships to upgrade and maintain relevant the set of competences needed to succeed

Industry 4.0 is enabled by disruptive technologies

Data, computational power, connectivity
- Sensors
- Machine-to-machine
- Cloud technology

Analytics and intelligence
- Automation of knowledge work
- Big Data and advanced analytics

Industry 4.0

Human-machine interaction
- Touch interfaces and next-level graphical user interfaces
- Virtual and augmented reality

Conversion to physical world
- Industrial automation (e.g., collaborative robots, AGVs[1])
- Additive manufacturing (e.g., 3-D printing)

1 Automated Guided Vehicles

The new customer intimacy relies on four pillars

INTIMACY TO MANY
▪ Comprehensive customer information
▪ Enriched database

MADE TO DESIRE
▪ Personalization of product and services

The new Customer Intimacy

CONTEXTUAL MARKETING
▪ From many, to "segment of one", to YOU in the moment

PROACTIVE LOYALTY
▪ Interpretation of desires and needs at an early stage

E-future

DLE^3

E-future

E-future

Reverse omnichannel

Instagram becomes the new store window: brands to ensure digital compliance in all directions

Spotification of fashion

The end of luxury as we know it? Drexcode, Rent the Runway, etc. are the vanguards of something bigger?

The dark side of the Internet

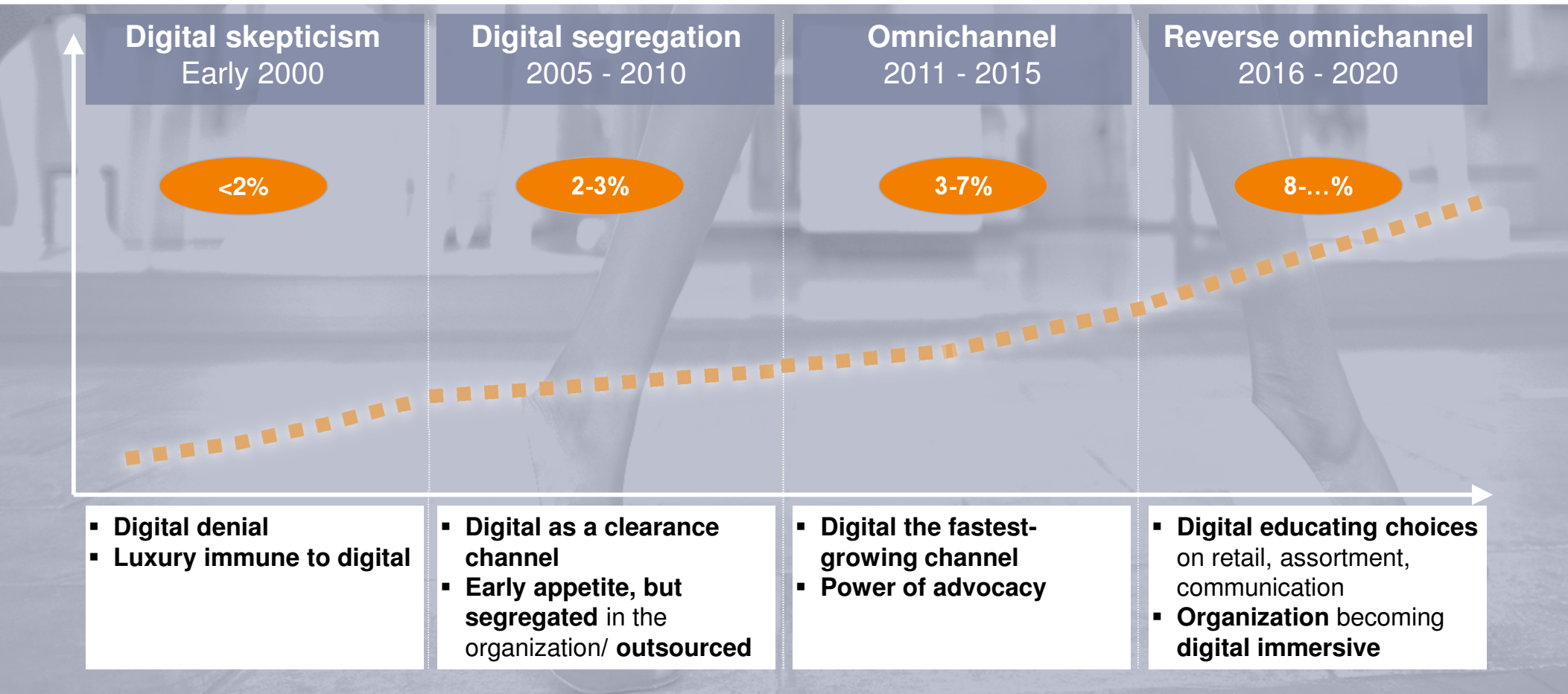Can **a lower degree of control** undermine the brand experience in luxury?

From omnichannel to "reverse-omnichannel"
Online sales, Percent

Digital skepticism Early 2000	Digital segregation 2005 - 2010	Omnichannel 2011 - 2015	Reverse omnichannel 2016 - 2020
<2%	2-3%	3-7%	8-...%
▪ **Digital denial** ▪ **Luxury immune to digital**	▪ **Digital as a clearance channel** ▪ **Early appetite, but segregated** in the organization/ **outsourced**	▪ **Digital the fastest-growing channel** ▪ **Power of advocacy**	▪ **Digital educating choices** on retail, assortment, communication ▪ **Organization** becoming **digital immersive**

Enterprise and E-future – Key takeaways

Digital is penetrating the **business model** of **brands and retailers**
- Being able to master internally, or through the creation of ecosystems, the needed capabilities will be a key source of competitive advantage

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It is not a matter of efficiency only: digital can support brands to become more relevant and authentic in their customer relationships

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Advanced analytics and Big Data are the key to **secure organic growth** in a more selective market. An additional **competitive advantage** for multibrand luxury groups?

Reverse omnichannel: inspire and ensure digital coherency of key choices and investments of a brand in the "real" world (stores, collection, etc.)

Spotification of fashion: from brands to products, from owning to using

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The **dark side of the Internet** lies still: how to **protect brand magic and coherency** in an uncontrollable environment?

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