Altagamma DIGITAL LUXURY EXPERIENCE 2017 - DLE3

DIGITAL LUXURY: FROM OMNICHANNEL TO "REVERSE OMNICHANNEL"

E-commerce reaches €20 bn, +25% in one year, with 78% of sales "digitally influenced". The challenge: invert the ratio of digital to physical shop

Altagamma Digital Luxury Awards: Burberry, Fendi, Louis Vuitton and Chanel

Milan, 25 May 2017. The fourth edition of the **Altagamma Digital Luxury Experience - DLE3** (e-commerce, experience and enterprise), organised in partnership with **McKinsey&Company,** identifies agility towards change as the true critical success factor. "Run faster than the bullet" is the imperative for companies. And with "Reverse Omnichannel", the physical store integrates the digital one.

The **Altagamma** conference on digital luxury also involved **Exane BNP Paribas** with the study on the Digital Frontier for Luxury Goods and **ContactLab for assignment of the Altagamma Digital Luxury Awards.**

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Luxury consumers are increasingly digitalised, particularly through their mobiles. The points of contact with Customers are growing, the expectations of a personalised relationship with brands and products are increasingly widespread and the tools to create it are ever more accessible to companies. However, only a few companies have managed to complete the digital development process.

The topics of luxury digitalisation were discussed, with the coordination of **Armando Branchini**, Deputy Chairman of Altagamma, by **Antonio Achille**, Senior Partner of McKinsey&Company, with the study analysing Digital Luxury in terms of experience, companies and future prospects, and by **Luca Solca,** Head of Luxury Goods at Exane BNP Paribas, with an analysis of the integration of physical and digital retail and through discussions with **Massimo Fubini,** CEO of ContactLab, **Chris Morton**, CEO of Lyst, **Carlo Alberto Beretta** Chief Client and Marketing Officer of Kering and **Dante D'Angelo,** Chief Digital Marketing Officer of Valentino.

At the end of the conference, the **Altagamma Digital Luxury Awards** were assigned, awarding the best brands for their digital performance, based on **ContactLab** data: the awards for **Best Digital Offer** (globalisation of the presence and location of content) were given to **Burberry** (Best in Class 2017) and **Fendi** (Best Improver 2015-2017); the awards for **Customer Relations** (digital customer experience) were given to **Louis Vuitton** (Best in Class 2017) and **Chanel** (Best Improver 2015-2017).

According to Armando Branchini, Deputy Chairman of Altagamma, "*the sudden growth in the digital segment is significantly changing the organisational and operational logistics of luxury companies. In the phase of contact with the end customer, this has already occurred; now it's time for all other phases and functions of the company: from design to production and distribution*".

Antonio Achille, Senior Partner and Global Luxury Head of McKinsey highlights that *"the Digital channel is no longer just for sales or communication. It must become a continuous test to which the entire company subjects itself in order to verify which opportunities to grasp and to what risks it is exposed. I'm not speaking only about the most evident elements, such as distribution and communications, with regard to which companies are now well equipped. The new competitive advantage will be gained by those who succeed in making their company digital, with regard to the aspects directly impacting consumers, as well as those linked to the internal production processes. We are entering the era of* reverse omnichannel*, where digital becomes central and dictates the* *choices for the rest of the brand's offer: thinking about how one's product can capture customers' attention not only in shop windows or in magazines, but on an Instagram page; how storytelling can become collective storytelling, animated and enriched by consumers, which in the "reverse omnichannel" have a co-primary role, not only as paying public."*

Luca Solca, Head of Luxury Goods BNP Paribas, adds: "*The luxury sector has now recognised the strategic importance of the digital realm. Theoretically, e-commerce should provide benefits to the industry, thanks to its positive impact on productivity of space, margins, return on capital invested and, consequently, on yield for investors. This essentially occurs only for brands with good control over the physical distribution of their products. In fact, for those who depend highly on the wholesale channel, e-commerce acts as a magnifying glass, highlighting their weaknesses (poor price discipline, excess distribution, parallel) that once could have been forgiven".*

DIGITAL LUXURY EXPERIENCE – DLE3 (Altagamma-McKinsey&Company)

TODAY'S DIGITAL EXPERIENCE

Digital is THE channel: €20 bn in "pure" online sales in 2016 (8% of the total), driven by a number of players that recorded higher than average growth in the last 3 years (Lyst, Farfetch and Yoox-NAP above all). **Online sales will grow up to €74 bn** in **2025** (1/5 of total consumption).
Exclusively offline sales amount to €56 bn (22%), while offline sales influenced by online amount to €178 bn (70%). **Some 74% of total sales of luxury goods for individuals are therefore influenced by digital.** Among the main luxury markets, **digital penetration** is the highest in the UK (approximately 12%) and lowest in Brazil (3%).
China is the main online retail market (€543 bn for products in every segment), although the risk of knock-offs and fraud cause Chinese consumers to be wary of online purchases of luxury goods: only 16% of Chinese luxury consumers expect to increase their online spending over the next year.
The **Accessible segment** and **beauty products** drive the digital luxury market.
Online sales in 2016 were driven by single-brand sites, online department stores, multi-brand e-retailers and flash Sales.
The Mobile is the new desktop: in 2018, consumers will spend 4 times more from their mobiles than their desktops. Some 98% of luxury consumers own a smartphone (compared to an average of 65%) and 77% of them own more than one device (average of 35%). Therefore, we need to develop 12x7cm storytelling: the smartphone screen is becoming the main communication channel, as well as the shop window.
The customer journey is fragmented, going from 9 touch-points in 2015 to the current 15.
Darwinism of the business model: tomorrow's winners are not today's protagonists; new players are emerging, agile and with a strong degree of scalability and technologically advanced.
Speed is essential: creation of value in the digital segment requires annual growth of over 50%.

THE STRATEGIES OF COMPANIES

Luxury 4.0: tomorrow's champions are those who transform their business model today, optimising on ground-breaking technologies and complex data. Connectivity for the "Internet of Things" and costs for data collection are expected to decline drastically over the next 3 years.
Digitalisation is penetrating every phase of the value chain in the clothing sector in particular, from design to production (3D printing) to marketing.
Proximity to the consumer: paradoxically, the use and advanced processing of Big Data increase the authenticity and relevance of the relationship with the consumer, in an increasingly selective market. By interpreting the preferences of individual clients, customised proposals can be defined for each.
Luxury ecosystem: in order to achieve success, partnerships must be stipulated in order to keep skills up to date and to acquire the next competitive advantage (the ecosystem allows the web site, app, social network, consumer profiling, retailer, wholesaler, logistics segment, etc. to revolve around the brand).

THE FUTURE (UPCOMING)

Inverting the omnichannel: Instagram is the new showcase. The importance of the online channel is growing and, consequently, we need to redefine the physical shop - and the very collections – as complementary to the digital image.
Spotifycation of fashion: from Brands to products, from possession to use: is this the end of luxury as we know it? Will DrexCode, RentTheRunaway, TheLyst, etc. be for fashion what Spotify has been for music? (2000: physical products in physical shops, possession of the product; 2005: physical products with digital distribution; 2010: physical products shared through digital distribution, fixed fee).
The dark side of the network: does the mitigation of control risk undermine the luxury brand experience? (prices not consistent on various platforms, debasement of the brand image, etc.).

THE DIGITAL FRONTIER FOR LUXURY GOODS (EXANE BNP PARIBAS)

The study presented by Luca Solca analyses the actual level of digital development by companies in the luxury segment, particularly with regard to integration between physical and digital shop.

The analysis highlights **five different levels of digital development**: from a base level, in which the brand aims to achieve better visibility online, to a maximum level, which envisages full integration of CRM activities between the physical and digital channel.
A critical point (the Holy Grail) is the **integration of physical and digital distribution**: offering customers the possibility (only apparently trivial) to buy on the internet and return to the shop, to buy online and pick up in the shop, and to buy in the shop from stock not physically present at the point of sale.

Many Luxury Brands have reached the base levels, while few have become leaders in the more complex aspects of digital development.

Presence on social media is often the first step, because it responds to PR logic that is already widespread, although with different "celebrities". **Implementation of e-commerce by pioneer brands is stabilising**, at least with regard to the number of products available for purchase on the internet. Indeed, brands that have delayed their implementation of e-commerce are catching up to those who joined early.
Improvement is highly concentrated and comprised of a limited number of brands that have made a huge jump in quality through their web sites.

In short, the surveys of Exane BNP Paribas show that **the purchase experience on the internet can still highly variable –** with a few doing very well or very badly and the majority in the middle.
Very few brands have succeeded in integrating the physical channel with the digital one.
The tools to interact with customers are still relatively rudimentary, in a world where "intelligent and industrial" Customer Relationship Management systems are still taking their first steps.