Conscious, collaborative, connected

Making over the luxury business model

mazars

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Foreword

The luxury sector has always prided itself on offering consumers a chance to own pieces that are timeless and whose value and appeal will endure. But that doesn't mean that the way it produces and sells them should stay constant too. In fact, the opposite is the case; the luxury sector is at a crossroads.

Houses and brands that carry on doing what they have always done risk falling behind.

This report explains why.

First, the sector is increasingly selling to different people, in different parts of the world, and while they may all buy into the appeal of luxury, they will still hold subtly different tastes and expectations. Increasingly, they want products whose authenticity can be proven and certified. They have also grown up alongside movements for climate action, which have shaped their tastes and preferences. And, understandably, they want to be able to own, wear and experience luxury without causing undue harm to the planet.

Second, luxury is increasingly judged by new standards. For most of its history, customers have judged Houses[1] and brands according to the product and everything that goes with it, from the atmosphere and the experience in store, to the sense of exclusivity and the manner of shop assistants.

But that is changing. Today, the relationship between brand and customers is more important than ever. It's not just about the sale. What happens before and after – how the brand makes the customer feel and what it enables them to do – are important too. Clients want to be able to find out about a piece, decide whether they want it, and purchase it in a way that is as delightful and sophisticated as the piece itself. They want to be delighted by digital locations, experiences and visit online worlds worthy of the elegance and quality associated with the label. And they increasingly want to be able to resell or recycle their pieces in ways which add to their value.

Increasingly, luxury brands need to adapt to serve customers who are forming a view based on the service as much as the sale, the experience as much as the essence.

For many brands, winning in this environment means taking on new capabilities, strategies, and cultural change.

Traditionally, many luxury brands have been quite closed and secretive, and have sought to retain their authority and mystique, seeing digital innovation as peripheral. But competing on clienteling and the customer experience means that will have to change. The brands that make the most of this opportunity will be those that build or acquire distinctive capabilities: the ability to think deeply about which new technologies to invest in and contend strategically with the organisational challenges innovation brings. For large groups, it will mean ensuring they bring their constituent brands along with their progress. For smaller brands and disruptors, it will mean figuring out how to collaborate without losing agility. This is doubly true for those that want to change norms for the sector as a whole, for example on circularity or sustainability.

To ensure greater transparency, circularity and sustainability, brands will have to collaborate more than they have in the past. Take the Arianee project, for example. It's an entrepreneur-led coalition working to build global standards for digital certification of valuable objects, which offers owners an authentic, secure, digital certification. Above all it gives brands the chance to give their customers the certainty they want – but only if they are willing to work together.

1. Houses – or *Maisons* in French – are luxury companies that design and manufacture under an individual label or brand. Houses can be independent businesses, or they can come together as part of luxury groups, e.g. Kering, LVMH, Richemont. In France, the term 'haute couture' is protected by law, with only certain fashion houses being allowed to call themselves true *Maisons*.

Foreword

The Fashion Pact is another example: a global coalition helping major luxury Houses such as Burberry collaborate with smaller brands, by offering brand-to-brand exchanges. In doing so they enable the circularity consumers want. Mylo is another example: a material that mimics the look and feel of leather but is made from mushrooms which could only have been produced through a partnership, in this case between biotechnology start-up Bolt and big brands such as Stella McCartney. In all these cases, sustainability goals can only be achieved when brands and new initiatives work together.

In a sector that prizes heritage and tradition, all this will be a cultural challenge. Industry bodies like the Comité Colbert, which counts major luxury players including Balenciaga, Chanel and Louis Vuitton as members, are helping Houses and brands to move forward. For the Houses and brands that rise to it, and move forward together, it brings the opportunity to ensure that the savoir faire and timeless quality of luxury Houses and brands thrive in the twenty-first century.

The report's coverage of the luxury sector

This report focuses on the upper echelons of the fashion market: haute couture, luxury, bridge brands, diffusion, but not high street, fast fashion, economy.

The report differentiates between hard luxury, which includes jewellery, watches and other timeless pieces, and soft luxury, which includes clothing, bags, leather accessories, and other luxury fashion items.

Isabelle Massa
Partner, Mazars

Bertrand Weisrock
Executive Director, Mazars

Pierre-Nicolas Hurstel
CEO, Arianee

Introduction

"Can not speak highly enough of [brand name] online. Ordered a brique saffiano leather bag on the Monday evening. Got confirmation straight away. Tuesday morning got another confirmation to confirm my order has been accepted. Had a message from [the brand] and DHL with shipping saying my bag would be delivered today and it was.

Packaging was lovely in a black box and when I opened it there was a store bag with ribbon on the handle and inside my bag was enclosed in a dust bag. Also my leather strap had a second dust bag for it. Nice touch. My receipt was enclosed inside a blue, branded envelope...

If you can not get into a boutique then order online, you will not be disappointed."

Trustpilot review, brand name anonymised

The luxury sector has long seen the in-person sale as central. Fashion Houses are used to being able to control how their goods are discovered and presented, and to tell their own story in their own way. They have traditionally focused on serving customers who expect to be seduced by the sensory thrill of feeling the fine leather of an Italian bag between their fingers or trying on a hand-sewn gown.

Today, however, all that is changing. The global luxury sector is reconfiguring itself to the expectations and demands of patrons who may never set foot in their stores, like the Trustpilot reviewer above, and millions of others who have not been high on their radar in the past: high earners eager to demonstrate upward mobility, affluent Millennials and Generation Z-ers, and wealthy customers in China.

The expectations, shopping habits, and concerns of these cohorts are pushing luxury brands to change. Many luxury customers now expect to be able to browse and buy wherever they are. Brands like Hublot are rising to the challenge, allowing customers to set up an online appointment with a sales associate at its Fifth Avenue store from anywhere in the world, at which they can compare watches' movements and specifications from all angles. A customer browsing for clothes might 'try them on' by creating and styling an avatar of themselves using YooxMirror's mobile app, or have their avatar visit the launch of a new collection at a sumptuous villa or desert oasis – all online, of course. The online experience can seamlessly blend into the offline, too, as brands like Chanel have partnered with Farfetch to offer the opportunity to loyal clients to pre-select runway or pre-collection looks they can try on in front of high-tech mirrors fitted in the former brand's boutiques in Paris.

"When they buy a luxury product, they look for heritage, savoir faire, and quality, but they also buy a product that plays its part in respecting people and preserving the planet."

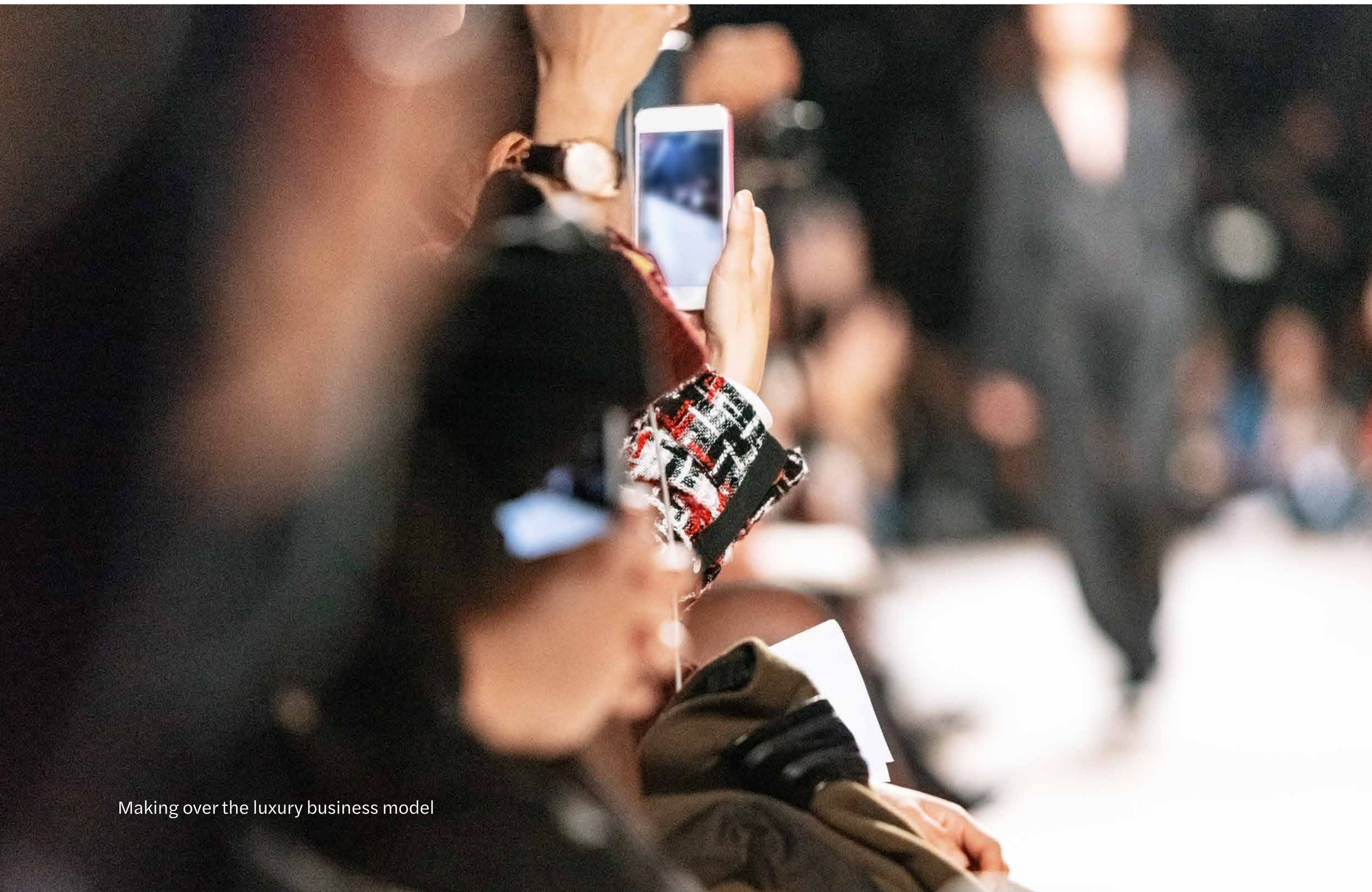
Interview, Marie-Claire Daveu,
Chief Sustainability Officer and Head of International Institutional Affairs, Kering

These new consumers also expect the ability to 'shop their values.' As Marie-Claire Daveu emphasises above, Millennials and Generation Z prefer brands that share their values on climate change, animal welfare, sustainability, and production and labour practices. That puts the onus on brands to provide more and better information about their products. Their new customers, in particular, want to know about their authenticity, impact, and sustainability when they browse.

Covid-19 is likely to accelerate these shifts, just as SARS hastened the transition to digital commerce in the regions affected most severely. There are early signs of this from China, where brands such as Tiffany are turning to video influencers more sharply than before the pandemic. The prize? The opportunity to achieve scale across all marketing and sales channels, including social media, and to dominate growing 'mass luxury' markets.

Luxury brands are also competing to get to know their customers better, using new, tech-enabled forms of clienteling. Collectors and clients seeking sustainable consumption are welcoming the new services being offered. Brands stand to gain from client data by leveraging it to build loyalty, gain repeat sales and perhaps even let clients influence designs.

> "Our Maisons' focus until now has been on selling products, and once the transaction was made that was it. By moving towards digital we have realised the importance of relationships past this point... Our clients want a relationship, and they want a status piece that connects them with something bigger."
>
> **Interview**, a luxury group executive



Introduction

These developments shift how luxury firms operate and what they do, from a focus on the product to a focus on clients and clienteling, ongoing relationships with clients, and the data this can provide.

They also improve the circularity of luxury products and the sector as a whole. Habits are already changing. Generation Z increasingly mixes luxury streetwear with vintage luxury, with second-hand sales increasing faster with this cohort than with any other group. In response, the most forward-thinking Houses are beginning to find interesting – even chic – ways to help their clients reuse, repair and recycle their luxury goods. The luxury consumers of the future, it seems, are comfortable buying and selling from each other and will reward brands that enable them to do so. Other companies are going further and developing new materials and production processes that are less carbon-intensive and harmful to the climate.

Brands are also increasingly adopting advanced supply chain technologies and forming strategic partnerships with retail platforms and technology firms to promote, distribute, and even recycle their pieces. Gucci, for example, recently partnered with US luxury consignment platform The RealReal to build a branded e-store to carry items consigned by the platforms' users and those brought in directly by Gucci. The partnership incentivises customers who buy or consign items on The RealReal by offering to plant a tree through One Tree Planted, a reforestation non-profit. A similar collaboration between Burberry and The RealReal offers customers a personal shopping experience at a Burberry store. The most progressive brands are even building their own innovation ecosystems.

These shifts raise new questions for established luxury brands. How can they retain control of their story and image if they have less control over the sales platform? How should luxury Houses, which have traditionally articulated their distinctiveness in terms of quality and ancestral manufacturing methods, communicate to a new cohort of consumers more likely to be swayed by influencer recommendations, social media likes and customer feedback? How should an industry built on long-standing supplier relationships decide who to partner with in the fickle, fast-moving world of technology? What new skills do they need in-house to foster a culture of digital innovation that complements their traditional strengths? Above all, given the urgency of climate change, might these new business models enable luxury companies to adopt more substantial sustainability and circularity standards?

Viewed strategically, these questions point towards important opportunities. This report introduces a number of them.

In the next section, we present the pivot from products to experiences and its effect on customer experience, and the new customer cohorts driving this shift. We then examine the new luxury business model that is emerging around ecosystem partnerships and product circularity. Finally, we discuss the new challenges and opportunities these changes present.

The appetite for the traditional virtues of the luxury sector – beautiful, unique and artisanal objects – shows no sign of slowing. To serve it, and fully embrace the opportunity to serve the writer of the review above and millions like them, luxury brands look set to transform. The luxury sector is getting a make-over.

The luxury pivot: from products to experiences

Luxury has long been a product-driven industry focused on designing and manufacturing beautiful, unique and expensive objects that are marketed on their artisanal heritage. Luxury brands adopted digitalisation more gradually than others partly because of this product orientation.

Trying on a hand-sewn gown or feeling the fine leather of an Italian bag was, after all, an in-person experience. In the first years of the digital transformation, e-commerce could not provide customers anything close to that experience. But in recent years, the industry has started to reconsider its approach to technology.

At the start of the 2010s, luxury customers were spending €4.3 billion online, with Net-a-Porter clearly in the lead. By the end of that decade, customers were spending almost ten times that amount. The spectacular success of third-party e-commerce sites presented luxury brands with a choice. Should they cede control to these sites, or try to regain control of their brand image, distribution and pricing? Should they continue selling as normal, or embrace the shifting digital landscape and join the digital revolution? Might they even be able to pivot towards customer experience while doing so?

Leading luxury brands have taken the customer experience path, finding ways to harness e-commerce opportunities. They have learned how to present their products online and keep their presence coherent across physical and digital sites. They have also become adept at telling their Houses' story digitally. And they have learned to build presences online that communicate the rarity, high quality of goods and ancestral manufacturing methods that make them unique. Some are also crafting fresh narratives to introduce their heritage to a younger, more social media-centric audience.

But the pivot to digital is not just about getting e-commerce and digital storytelling right. It is also about focusing more on creating a unique luxury experience with an online and offline continuum. Technological innovation is both driving and supporting this pivot. Luxury brands are investing in immersive capabilities, 'smart' and 'connected' retail technologies, and digital certification systems, to improve customers' experiences throughout the sales cycle and afterwards.

The eruption of digital and related technologies into luxury generally focuses on addressing customer experience across three different dimensions: functional, emotional and relational. These can be the main focus of an innovation, or bundled together for multiple effects (for example, in a flagship store's collection of retail technologies and in-store digital storytelling).

> "China is a very important market for us...In China, digitalisation has already happened. It is a cashless society for everyone."
>
> **Interview, Angie Au-Yeung,**
> Chief Digital Officer, Vacheron Constantin

The luxury pivot: from products to experiences

Different dimensions of customer experience

Functional: This pivot to experience is partly functional, making it simpler for the customer to obtain product information, easier for them to evaluate the item and faster for them to purchase it.

Luxury brands and retailers are drawing on a cluster of new digital technologies, such as chatbots and radio frequency identification (RFID) tags, to speed up and smooth the customer journey.

Emotional: The pivot to experience helps luxury brands and retailers appeal to their clients on an emotional level, too. They are learning to use technology to address customers hedonistically, playfully, aesthetically and morally, to delight them and perhaps even surprise them.

Gucci's 63 Wooster Street concept store in New York is billed as 'a new way to experience the eclectic and creative philosophy of the House'. Customers are greeted by 'Gucci Connectors', whose role is 'to connect clients to Gucci in a new, emotional way to the House's latest products and collaborations'. The store features a 3D screening room, library and multi-sensorial space where musicians in residence perform. Using a dedicated in-store augmented reality app, customers can point a provided device at a Gucci product, customise it virtually and see it in the real-world setting of the store.

That starts in the stores themselves. Some stores weave in live experiences such as a concert, cocktail reception or art preview, linking them to customers' social media use and, as a result, to their followers.

Stores are drawing heavily on digital elements as well, such as virtual and augmented reality, 3D video, and interactive screens to create a hybrid and immersive customer experience.

Prada's dressing rooms are able to read the electronic tags found on each item of the brand for available colours, sizes, complementary items, and more.

Hublot's digital technology platform for its New York 5th Avenue boutique allows customers from anywhere in the world to set up an online appointment with a sales associate. The associate prepares for the appointment with videos on different watch models' movements, and technical specifications, as well as laying out items to show from all angles to the customer via high resolution camera.

YooxMirror's mobile application allows customers 'try on' clothes from the retailer's site by creating and styling an avatar that looks like them.

The luxury pivot: from products to experiences

Brands are learning how to create immersive experiences online too. Some luxury brands transport their consumers to new 'experience worlds', while others create digital content that encourages customers to identify their own story with the brand story.

Chanel's digital strategy has been carefully crafted to centre on creative videos that tell the brand story over and over and give behind-the-scenes narratives that are imaginative, playful and aspirational. Chanel videos generate hundreds of millions of views on social media platforms.

Irene-Marie Seelig's Silicon Beach (Los Angeles) start-up, AnamXR, provides luxury brands with next generation virtual reality (VR) "world-creation" capacity for online and physical contexts. If a brand wishes a digital store to become a sumptuous villa positioned on the cliffs overlooking an ocean, this experience can be delivered in vivid texture, colour and sound across an array of smart devices (no VR headset required) – and with avatars that are equally customisable for a "squad shopping" experience. Seelig ties AnamXR's services directly to creating new experiences for young luxury clients, and to "circular systems thinking and planet-centric design principles."

Online shopping 'festivals' can be emotionally moving experiences too, especially in China where brands use games and contests to engender feelings of social competition, accomplishment and pride – leading to significant surges in sales.

"In China, the surge in livestreaming and interactive e-commerce, which relies on experiences... paves the way for a new alternative to commercial websites."

Interview, Bénédicte Epinay,
President & CEO, Comité Colbert

Relational: Personal relationships have long played into the business model of the luxury sector. Houses have always provided a highly personalised and service-oriented experience to their Very Important Clients (VICs). Sales associates personally greet the VIC customer, often preparing for their visit, act as a personal shopper to propose products adapted to the customer's preferences and tastes, and actively assist them with delivery and other services.

Digital innovation opens up possibilities for luxury brands to radically extend the relational aspect of their service. They can deliver better clienteling to VICs and give special attention to many more luxury customers. When luxury brands invite database-registered customers to book store appointments, join special sales, or enjoy privileged access to capsule collections, they are using new digital tools to enable 'mass luxury' clienteling.

Technology extends the relational aspect beyond sales to facilitate luxury customers' participation in second-hand and rental luxury markets and to enable recycling of their luxury products too.

Our research shows that how far a brand has moved into customer-centricity depends mainly on their category within the luxury sector. Luxury clothing has moved farthest, whereas watches and jewellery are slower and not as far along this journey. Hard luxury (e.g. watches, jewellery) produces the most expensive, time-consuming and durable products. This makes it less necessary, as well as more difficult, to move away from product-centricity.

"In hard luxury, the key elements are still the longevity of the product and the focus on its craftsmanship... Developing a watch or a piece of jewellery is a long journey – you cannot have the same pace as for fashion."

Interview,
a luxury group executive

The luxury pivot: from products to experiences

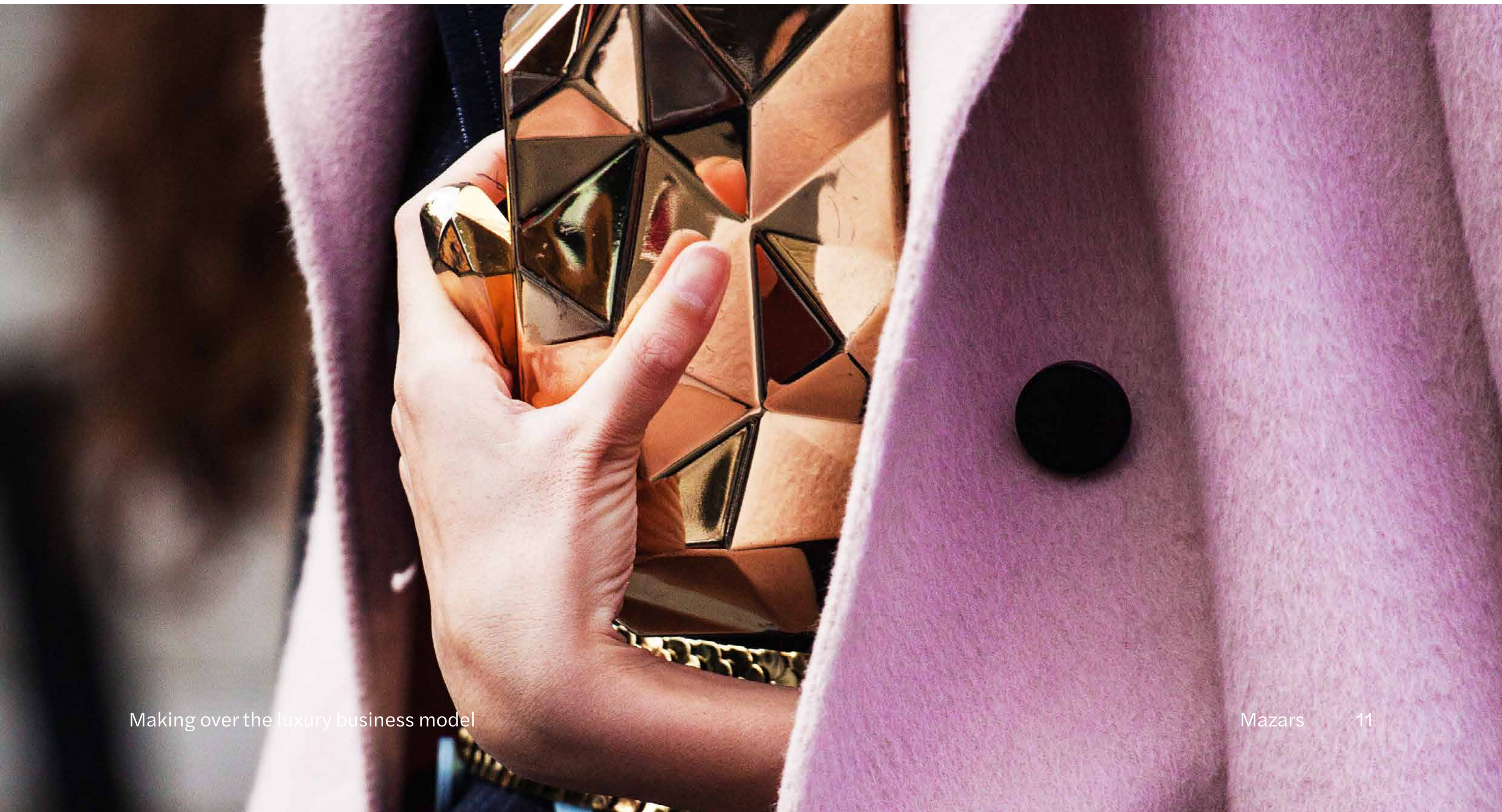
While there are important exceptions like Cartier or Tiffany, hard luxury has generally held on longer to the traditional wholesale-retail division of labour. This has made it less important (at least until Covid-19) for hard luxury brand manufacturers to focus on engaging customers emotionally or relationally.

Luxury clothing brands, in contrast, follow a seasonality model in which levels of production are far below fast fashion but also far greater in unit terms than luxury watchmakers or fine jewellers. Faced with digital platforms disrupting their traditional retail channels, this segment was first within the luxury fashion world to move into e-commerce and digital experiences. The frontrunners now have millions of followers on social media and are taking a warmer and more accessible approach, inviting everyone who aspires to €800 sneakers, or at least a tube of luxury lipstick, to participate.

Ultimately, every luxury brand will have to adapt to the changing expectations of customers, many of whom are young and digitally savvy. Customers increasingly want multiple ways to consume luxury products and relate to brands. Luxury companies are largely following where their customers are going. This is leading luxury fashion into secondary markets, from live to digital and hybrid marketing and sales, and from a focus on luxury production to a 360-degree product value chain proposition offered to many more people than in the past.

Vacheron Constantin is piloting blockchain-enabled digital certification in partnership with Arianee through Les Collectionneurs. For this collection the company buys back selected 20th century timepieces, restores them, and offers them for resale with digital certificates authenticating the watches and recording their ownership and upkeep histories.

For **Guillaume Boilot**, **Chief Operations Officer, at Vacheron Constantin** the resale market "is small but it will become an important market... the information you can get from a digital certificate will enable you to validate your choice between watch A and watch B. The watch with more documentation will have a higher value." Boilot anticipates that the Vacheron Constantin certificates will anonymously advise customers about watch servicing options as well as suggest other new services.



The luxury pivot: from products to experiences

Driving the shift: new kids on the block

It is not just that luxury's clientele has changing expectations. Luxury's customer cohorts themselves have changed.

The new cohorts – China's wealthy luxury customers, HENRYs (High Earners Not Rich Yet), found in China and elsewhere, and Generation Z – are driving luxury fashion's market growth potential. Each new cohort brings its own distinctive opportunities and pressures for client-centricity. Taken together, these new cohorts give luxury Houses many reasons to pivot towards customer experience.

China's wealthy luxury customers

China is luxury's number one growth market. It is home to millions of wealthy customers eager to buy top-end luxury goods. Using 2019 estimates, there were already 14.4 million Chinese millionaires, compared to 18.6 million in the United States.

The Chinese cohort are younger than in the US or other countries (80% are Gen X, born between 1965 and 1980 or Millennials, born between 1981 and 1994). Having come through the digital transformation in Asia driven by reactions to SARS, they are also typically far more comfortable with digital technologies and the use of digital platforms. In luxury fashion's pivot to digital experience, Chinese customers stand out in a few ways:

- Functionally, these customers expect to be able to purchase and find information about luxury products wherever they are, day or night. Until Covid-19, they tended to research online and buy offline, especially while travelling. They expect the right model and size to be available whenever and wherever they (or a member of their staff) pass by to get it.
- Relationally, China's wealthy luxury customers are strong candidates for post-sales concierge services, being owners or collectors of unique and valuable pieces for their status and as investments. They also welcome certification of authenticity and value, as forgeries of luxury-brand products are more prevalent in China than in any other country in the world. As a result, this new cohort welcomes post-sales experiences that enhance their trust in the provenance of their purchases.

"In China nobody thinks online versus offline. You have a customer and a product. The engagement is global. You buy when you want, when you can, where you want."

Interview, **Antonio Carriero**,
Chief Digital and Technology Officer, Breitling

The luxury pivot: from products to experiences

The HENRYs

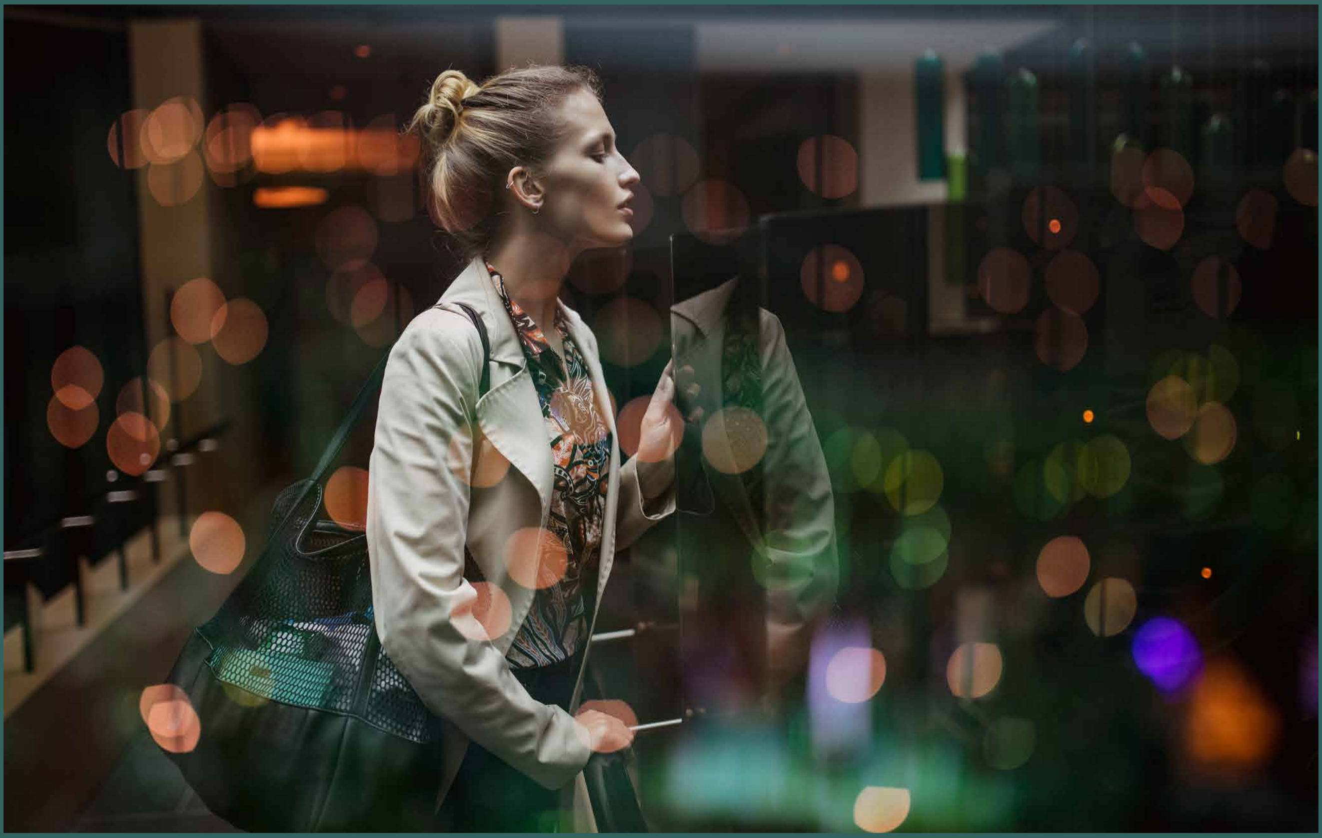
Emotional experiences have always been part of luxury retail. What is new is the strong effort brands are making to create emotional engagements for all customers, across all platforms.

This development owes much to the emergence of HENRYs - 'High Earners Not Rich Yet' – as a new cohort of luxury consumers. The HENRYs are a global cohort of affluent Millennials and Generation X who earn between 100,000 and 250,000 USD per year. HENRYs love online shopping and as a group they tend to seek experiences over products, and to spend big on the former.

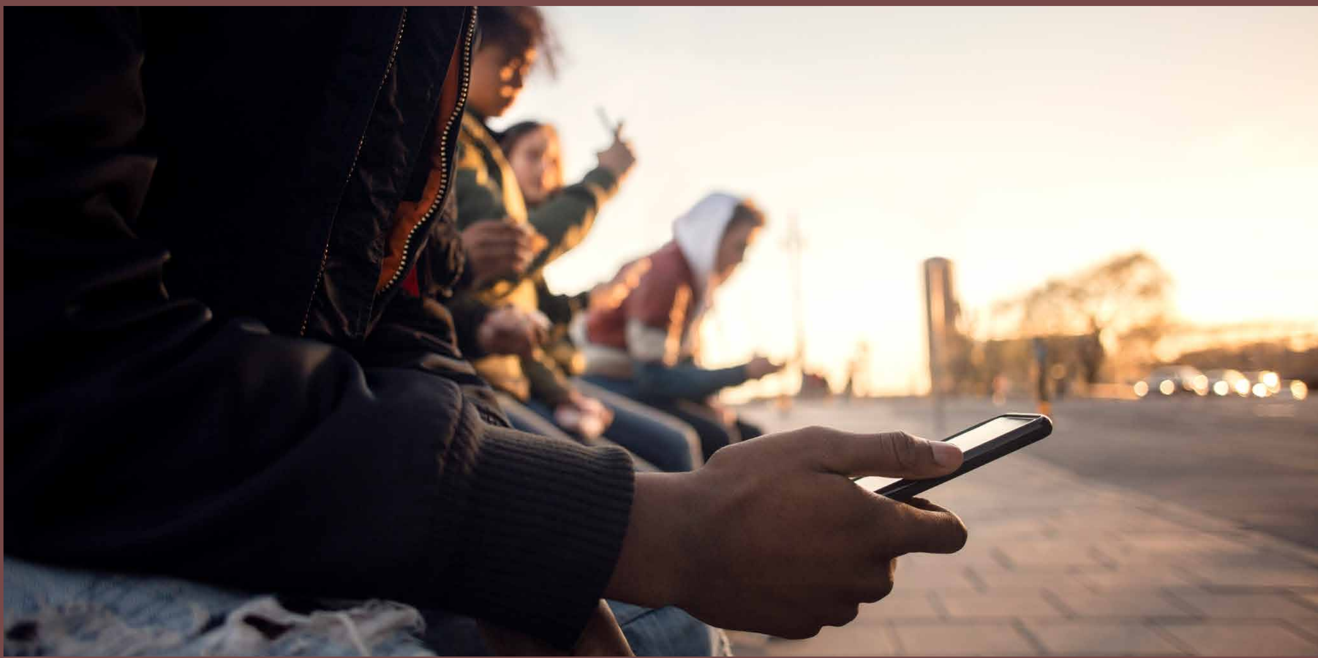
- HENRYs seek the unique in online and live experiences, and value being made to feel privileged and 'special'. For example, this is a group that has taken strongly to concept store live events, especially when they are small and exclusive.
- HENRYs also place a high value on ethics and sustainability, seeking purpose in brands and making purchasing decisions according to how they perceive a brand's attitude and actions around the environment, animal welfare, sustainability, and production and labour practices.

"We are targeting the upper middle class – well-educated, urban fashionistas – a group that is growing everywhere, and even more in China. It is supposed to grow by 500 million in the next ten years to reach 1.4 bn people – provided you understand the needs of this clientele, you have a growth market."

Interview, Pierre-Arnaud Grenade,
Global CEO, ba&sh



The luxury pivot: from products to experiences



Generation Z

At 15- to 20- years-old, Generation Z customers are luxury's youngest cohort and often considered the sector's future. Yet Generation Z is already a current group of luxury consumers when it comes to products like capsule collection goods that combine luxury and streetwear. For example, it is with Generation Z firmly in mind that Louis Vuitton recently collaborated with skateboarder Lucien Clarke on a skate shoe.

Generation Z expectations are pushing luxury brands further into the experiential pivot in some interesting ways along all three dimensions: functional, emotional, and relational.

- Functionally, this is a cohort of digital natives – 98% have a smartphone – that takes for granted omnichannel capabilities and efficiencies. They find brand websites and digital marketing too old-fashioned and look instead to influencer recommendations, social media likes and customer feedback, before buying a luxury product.
- Emotionally, this cohort responds to luxury personalisation, to play into their personal brands. They are also enthusiasts for luxury fun – games and competitions – especially if these involve new technologies like virtual reality.
- Generation Z has an even stronger focus than HENRYs on ethical brand behaviour, being ready to boycott brands they do not consider ethical and sustainable. This sets up new relational risks as well as opportunities.

"Luxury is not what it was 30 or 40 years ago... We indeed moved on from a familial vertical transmission – parent to child – to a horizontal transmission between friends, peer groups and collaborators within the same company. What does that mean for luxury brands? With the decline in that generational relationship, there is now a great need for narratives and storytelling for the Maisons to reach younger consumers."

Interview, Bénédicte Epinay,
President & CEO, Comité Colbert

Technology, ecosystem partnerships, and circularity: shaping luxury services

Luxury sector leaders told us in interviews that clienteling services have become the leading edge in luxury's pivot to customer experience, especially services coming after the initial sale of a luxury product. Many of these services used to be slow and information-poor, including for VICs.

> "The website says, "built to last", my bag broke after four months, within the guarantee period. However, I have been waiting five months for a repair. Nice bags but not worth the money and the quibbles/time over repairs."
>
> **Trustpilot review of a luxury handbag repair service**

Leaders have now recognised the relationship-building opportunities with VICs and the new luxury cohorts. Across the board – from top-end jewellers to affordable luxury dressmakers – frontrunners are experimenting with clienteling innovations. Some examples of such initiatives include:

- Take-back and recycling programmes for customers seeking sustainable consumption, for example, Eileen Fisher's pioneering programme, Renew.
- Partnerships with secondary market platforms such as Vestiaire Collective and Rent the Runway, an online luxury rental service, to enable clients to reuse and resell their products.
- Upgrades to the brands' own repair services, or the launch of repair service partnerships with online providers such as The Restory, so that clients can maintain their luxury goods in pristine condition, keep them longer, and sell them on at better prices.

With these innovations in place, luxury Houses obtain ongoing contact with many more of their customers. For those still acting first as manufacturers, this offers access to useful information about their end clients, such as what they seek to repair or replace and to whom they sell or give their product. Others farther along the retail path anticipate 360-degree client data that can drive repeat sales and potentially influence design decisions. For luxury clients and brands alike, these types of service innovations also promise an effective means to combat counterfeiting (more on this overleaf).

> "What is new today is brands must be smarter with their interactions with customers, gathering meaningful customer data that can translate into business intelligence. For example, what is interesting about a person? Their birth date? Or whether they own a particular luxury purse as well as a pair of iconic sneakers?"
>
> **Interview, Pierre-Nicolas Hurstel,**
> CEO, Arianee

Technology, ecosystem partnerships, and circularity: shaping luxury services

Brands are not just developing these relationships to capture data. They are also changing their product orientations to include more of the product lifecycle and to create late lifecycle services to satisfy customers and win loyalty. This is part of an ongoing shift in the luxury business model, in which luxury brands collaborate with technology firms, retail platforms, and others. But in contrast to the partnerships of the past, this wave of collaborations is also driving product circularity and brand sustainability. This may be where some of the biggest opportunities of the future are to be found.

Affordable luxury brand ba&sh is in the process of launching a digital service to facilitate clients reselling ba&sh products. The "smart button" application, under development in collaboration with a tech start-up, will enable the customer to advertise their dress or handbag on multiple resale platforms and websites by filling out a simple form and uploading a few pictures. It will even propose a price for the seller to consider. Meanwhile, resale buyers will receive a blockchain certificate guaranteeing the product's authenticity, and, in the words of **ba&sh's Global CEO, Pierre-Arnaud Grenade**, "We can invite you to join the ba&sh community. We will offer the sellers an incentive – either they can cash in directly and deduct the commission to the platform, or they can have more value for the same money." For Grenade this new business model is aimed at understanding who the buyers and sellers are and creating 'some circularity at the end of the value chain'.

Technology, ecosystem partnerships, and circularity: shaping luxury services

Ecosystem partnerships

Technological transformation in luxury fashion is changing more than how brands interact with their customers; it is driving systems and culture change as well. Brands are learning how to collaborate with technology partners and build ecosystems that deliver the innovations they need.

This often involves important cultural changes within companies themselves. In 2018, LVMH Chief Digital Officer Ian Rogers went on record to say that cultural transformation needs to accompany digital transformation for the latter to succeed. Indeed, it is a major cultural change for companies and brands (many of them small and medium-sized) with a heritage orientation and decades or centuries of history in "how to" operational practice.

Many companies have responded to the need to leverage technological expertise by adopting an innovation ecosystem approach, forming strategic partnerships to develop, refine, and implement greater digital capabilities.

Meanwhile, there are major luxury players increasing their manufacturing output and some are bringing together disparate manufacturers to shape the industry's future. As Bénédicte Epinay optimistically notes, "Next year in Pantin, close to Paris, Chanel will gather numerous companies in a new headquarters for craftsmanship dubbed 19M. As for Hermès and Louis Vuitton, they are consistently opening new manufacturers in France, where the luxury industry employs directly and indirectly one million people."

For luxury brands accustomed to controlling every detail of their brand equity, such partnerships are a significant modification of the underlying business model. Luxury's supplier relationships are typically long-standing; tech partnerships, on the other hand, are new relationships. Luxury brands have had to cede a degree of control to reduce the risks and costs of their technological transformation.

What brands get in return is the chance to achieve scale, particularly in the following areas:

- **Social media:** partnerships that create online and hybrid content to draw in customers and tell the brand's story across different social media. Burberry is often cited as an iconic brand that has succeeded in its digital storytelling transformation through evoking tradition together with whimsy, romance and celebration. Burberry has not done this alone; recent collaborations include Snapchat, Google, DreamWorks Animation, Instagram, and Apple TV.
- **Marketing and sales**: luxury collaborations with retail platforms such as Yoox Net-a-Porter, Farfetch and Tmall. Luxury brands now see both the market reach of the platforms and their ability to offer a brand-faithful e-commerce luxury experience. In the case of China, luxury's top growth market, the platforms are the best means to manage a digital market that is completely different from Europe or North America in localised payment methods, communication channels and social plug-ins.

Net-a-Porter founder Natalie Massenet was able to convince luxury labels to appear on the site by offering luxury presentations of the brands and their products, including in a new digital format via the glossy magazine Porter. Also important in brand decisions was Net-a-Porter's ability to offer VIC-level services such as personal shopping support available 24/7, 365 days a year, and rapid delivery to more than 170 countries. In London and New York, this includes rush orders delivered via black-and-white vans staffed by delivery men allegedly hired for their appearance and manners.

A different cluster of ecosystem partnerships centres on how luxury brands can achieve scale against counterfeiting. The luxury industry has waged a battle against counterfeiters for years. Fake luxury merchandise is estimated to account for 60 to 70% of the €3.8 trillion of annual counterfeit trade flows. In response, luxury brands have been litigating, tightening their supply chains and distribution channels, pressuring governments for regulatory change, and more forceful implementation of existing laws, and investing in systems to authenticate their products.

Luxury authentications sometimes involve scientific techniques such as the Raman spectroscopy for gemstones, or technological solutions, such as hard-to-remove holograms or RFID tags woven directly into a textile or label. Some pilots combine these tools with blockchain solutions to create a secure data record of a product's provenance, from its initial listing through to whenever and whoever makes changes to that record over time.

Technology, ecosystem partnerships, and circularity: shaping luxury services

"The promise of blockchain would be for the actual luxury object to deliver all the information... But that is a dream, not the reality for the moment."

Interview, Bertrand Weisrock,
Partner, Mazars

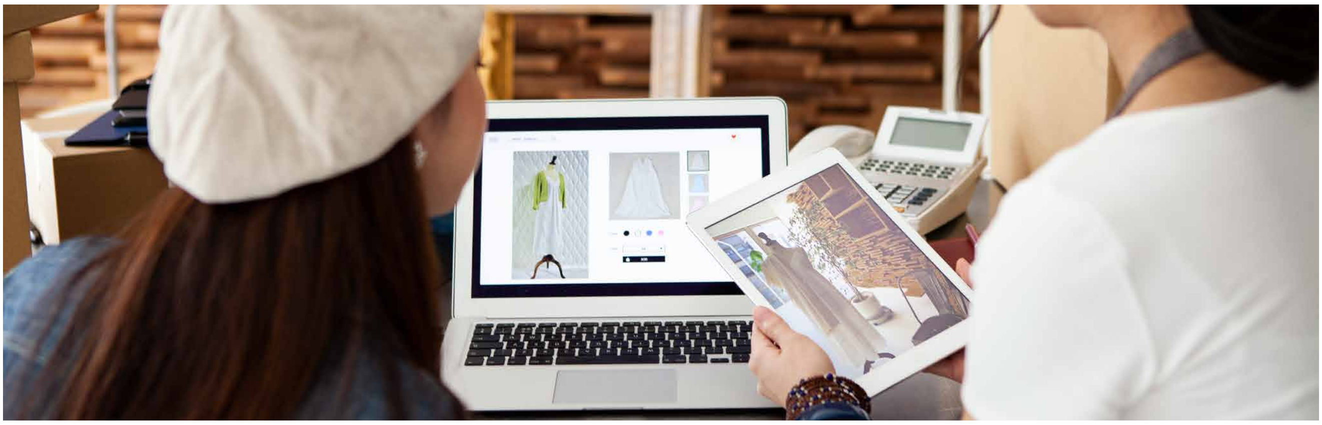
Ulysse Nardin's blockchain warranty certificate, launched in 2019, is sub-contracted to tech start-up Woleet, who provide an identification server as well as different applications for record keeping and verification. Woleet notes on its website that this "dematerialisation" of a warranty and ownership certificate is "extremely useful for the after-sales service (a reliable transaction history) or when it is offered as a gift or resold (used market). It becomes an extremely reliable alternative to the physical guarantee card."

Ecosystem partnerships can bring together not just technology companies, but also suppliers, retailers and even other brands. De Beers Group, for example, may be the leader of the diamond-tracing Tracr pilot, but it is running the platform as an association including blockchain platform Ethereum, involving diamond suppliers such as Alrosa – the world's largest diamond mining company – and retailers including (as of May 2020) Signet Jewelers – the world's largest retailer of diamond jewellery.

As they build out authentication solutions, luxury leaders also identify new clienteling opportunities. Some of these involve truly innovative add-on services, for example Breitling's digital passports, which will soon offer watch owners the opportunity to subscribe to insurance for loss of theft.

Many involve partnering with secondary market platforms, if not buying them (e.g. Richemont's acquisition of pre-owned watch platform Watchfinder). Luxury brands have been more likely to bring legal actions over trademark infringement and sales of luxury fakes than to associate with pre-owned luxury platforms. But their views are changing as the global second hand goods market has reached €31 billion annually, thanks to 12% average annual growth in the last five years. It also matters that the pre-owned platforms are themselves creating or joining innovation ecosystems to combat counterfeiting and authenticate the products they offer for sale.

Burberry became a partner of US luxury consignment platform and bricks-and-mortar retailer The RealReal in 2019 based on an arrangement for customers who consign Burberry items on The RealReal to be offered a personal shopping experience at one of 18 Burberry stores in the USA. This partnership, and others like it with Stella McCartney follow The RealReal's success in creating an authentication process recognised as rigorous by luxury brands as well as The RealReal's consignment clients. "High risk" items with a higher probability of counterfeiting are assessed by a member of The RealReal's team of '150+ brand authenticators, gemologists, horologists and art curators' while "low risk" items with clear authenticity markers are sent to be evaluated by copywriters trained in product authentication. Behind the scenes, the company is working with Arianee, also a luxury identity consortium, and other technology partners to drive automation of a safe, reputable marketplace. Looking forward, the company plans to draw increasingly on machine learning and AI for its pricing and, eventually, other steps in the authentication process.



Technology, ecosystem partnerships, and circularity: shaping luxury services

Circularity

Many resale platforms launched in order to encourage a sustainable approach to luxury consumption – a goal shared by many of luxury's new customers.

From early on, HENRYs have been enthusiastic customers for luxury resale and rental platforms. Without true wealth, this cohort is ready to rent access to luxury or to buy it second-hand. HENRYs have also been drawn to secondary luxury markets because

> "Social and environmental performance is a key part of brand trust. When customers buy luxury products, they trust the social and environmental commitments and performance of the brands. Millennials and Generation Z luxury customers are more sensitive but also, they trust the brand, they follow designers on social media and how they communicate their values, and once that brand trust is established, they do not need to question the ethical and environmental attributes of each item."
>
> **Interview, Marie-Claire Daveu,**
> Chief Sustainability Officer and Head of International Institutional Affairs, Kering

they offer more sustainable consumption and the opportunity to contribute to economic circularity.

Second-hand sales are increasing three times faster with Generation Z versus other groups, with vintage leading. Along with the access this gives to otherwise unaffordable luxury goods, circularity and sustainability are powerful drivers for Generation Z to buy and sell in these alternative markets.

Circularity and sustainability are also reasons why many luxury brands launch new services through ecosystem partnerships. Repairing, reusing, reselling, remaking (upcycling), and recycling are all part of economic circularity, although only recycling converts a luxury product into a new product, completing the circle. There are fewer recycling initiatives underway as compared to the other 'R services', but interest is growing.

Luxury recycling innovators include leading brands like Gucci, which has partnered with Mumbai-based NGO I was a Sari for upcycling materials to produce embroidery, and Prada, which is aiming to source all of its iconic nylon accessories from recycled materials by the end of 2021. Also of note are large suppliers like Asian-based knitwear company Cobalt Fashion, which in 2019 shipped over 1.6 million garments designed and produced from recycled fibres. Yet two main reasons cited by luxury companies for their meeting only 21% of the 213 sustainability targets set after the 2017 Copenhagen Fashion Summit are their difficulties in increasing the amount of recycled material used in their clothing and the lack of scalable recycling options.

> "It's quite specific to hard luxury, but people tend to keep and transmit their watches or pieces of jewellery. It's already circular in the heritage. Our focus on sustainability is around how we can improve the environment they are made in and the performance of that, rather than trying to improve the end of life, which is clearly an issue for luxury fashion but not with hard luxury."
>
> **Interview, Antonio Carriero,**
> Chief Digital and Technology Officer, Breitling

Waste is a more prominent issue for soft luxury, especially clothing brands. The result of soft luxury's market growth in recent years has been many more soft luxury products in circulation. Top-end luxury watchmakers, on the other hand, still only produce a few hundred units a year. Their products are guarded as investments and inheritance, to be handed down or resold and then further reused.

Hard luxury has also long maintained records of individual item production and ownership and repairs. This makes new services in hard luxury oriented more towards collectors than consumers; towards improving repair processes and the client experience of having their valuable objects repaired; and towards modernising record-keeping of a client's 'most valuable object' by making it secure, complete and private, yet always accessible to the owner of the piece.

Technology, ecosystem partnerships, and circularity: shaping luxury services

But in our interviews hard luxury executives also spoke about circularity as a driver for their new service offerings. More generally across the luxury industry, actors agree that new luxury customer expectations are driving a brand quest to become more circular and sustainable. We see in this a likely prospect for luxury brands to go even further in their sustainability journeys.

We heard regularly that luxury employees increasingly expect their employers to advance sustainability goals and take action for luxury circularity. Another reason for luxury brands to make these engagements is to attract and retain young talent. Sustainability also increasingly appears to be a zeitgeist in the industry, with executives speaking not only about sustainability mattering to their clients and employees, but also how it is their brands' responsibility to take action for climate and sustainability.

> "Internally, the average age of our employees is c.30. They are personally committed to sustainability and demand the same level of engagement from their company."
>
> **Interview, Pierre-Arnaud Grenade**, Global CEO, ba&sh

> "The Comité Colbert, France's association promoting luxury, recently gathered 50+ young collaborators from its member Maisons to work on concrete proposals for 'How to support environmental responsibility within a luxury Maison'. These young people are luxury lovers, consumers and actors. They call on us to pay attention and set an example when it comes to environmental responsibility in the luxury industry. It is worth noting that all of their proposals are digital and revolve around transparency and new experiences."
>
> **Interview, Bénédicte Epinay,** President & CEO, Comité Colbert

This study has been conducted during a global pandemic that has created enormous organisational and financial challenges for luxury companies, including supply chain breakdowns, store closures and bankruptcies. Even the most admired brands for customer experience have faced headwinds from Covid-19.

- Luxury retailer Neiman Marcus is closing its Hudson Yards flagship store in New York following its bankruptcy declaration in May 2020. With an arts facility and an interactive sculpture-staircase, Hudson Yards has been called the ultimate shopping experience. Neiman Marcus itself promised a 'customer-centric shopping experience throughout three levels of luxury fashion, digital innovation, and delectable dining.'
- Burberry, often cited as an industry leader for its customer-centric digital strategy, saw retail revenue fall by 48% through July 27. It closed 38 of its stores, 1 in 10 of its network.

Navigating through the pandemic

Despite losses like these, Covid-19 is only likely to strengthen luxury's pivot to customer experience. After all, this crisis has strongly reconfirmed online channels as a luxury necessity for all segments – jewellery and watches as well as luxury streetwear. The importance of Chinese customers – wealthy, HENRYs, and Generation Z – has also been reinforced for luxury's recovery and beyond. All brands are expanding their digital presence; distinguished brands such as Hermès and Tiffany are adopting digital marketing tools such as livestreaming, which they had rejected in the past.

> "Even if we are client centric, the Maison is the authority. Part of the client's expectation is that they are able to trust the Maison. You always need to consider what the client wants and what the Maison is willing to define as their parameter."
>
> **Interview,** a luxury group executive

- Integrate digital thinking: luxury groups are best positioned to strengthen their experience innovations thanks to their financial means and investments already made in data and IT infrastructure. Yet many are still in the process of integrating digital thinking and action into their structure and processes. Each of these is its own proud and unique House, with the group facilitating, not dictating, change. Now the group-owned brands will need to move more quickly and be more agile. In the face of unprecedented shock, some may struggle to develop their skills base and institutional knowledge and adopt appropriate business processes.
- Catch up on the experiential pivot: Some independent brands were born as digital natives focused on experiential marketing and customer-centric services. The majority are luxury traditionalists, however, with SMEs operating as manufacturers and wholesalers. They are now going to have to take on new systems and hire new talent to play catch up on the experiential pivot. The financial demands of doing this in the Covid environment could be too much for many of these companies. Those who can manage are well advised to learn from others and seek organisational change management support.
- Invest in resale: Covid-19 has given further impetus to the luxury resale market (though not luxury rentals), and so should drive investment in new service innovations. In North America and Europe, many of luxury's young and affluent customers have suffered a loss of buying power, making the resale market even more attractive to them. This also applies to China, where secondary markets are booming. In addition, wealthy Chinese cannot currently travel (or have others travel) to make their luxury purchases outside of the country. This has brought many more wealthy Chinese into the second-hand luxury market. Luxury brands

are already taking action. One trendsetting example mentioned earlier in this report is Gucci's partnership with The RealReal, announced on Oct. 5 as a "Circular Economy Partnership" to create an online shop featuring pre-loved Gucci items and promote circularity in luxury fashion. Other platforms championing pre-owned luxury goods are Vestiaire Collective and Videdressing.

- Look to the next wave of services clienteling: Luxury firms will need to do more to succeed in an increasingly competitive luxury market. They can also learn more if they are early adopters of on-the-horizon advances such as 'digital doubling' of products through digital certification, to create anonymised data pictures of clients which can be leveraged for increasingly tailored customer experience.

Looking ahead: key challenges and opportunities

360-degree circularity and the sustainability agenda

Leading luxury groups like Kering were already heading in this direction by working simultaneously on circularity in their brands' downstream and sustainability in the upstream. Kering's upstream strategy, like LVMH's, is based on rigorous analysis and target setting to create transparency and advance supplier practices in different luxury supply chains. It is thanks to these systematic efforts that a group like Kering is now in a position to pilot projects using blockchain and forensic science methods to trace luxury materials '[from the farm to the consumer]'.

Smaller players are only now considering how to tackle environmental and social issues in their supply chains. Unless the industry giants help them, we would expect many of the lesser players to struggle to advance far along this path.

> "What could drive sustainability further into the luxury fashion sector? Consumers and changing consumer preferences, which count above all else in the luxury sector. Luxury companies have always responded first to their clientele, and this continues to be the predominant force for change in the industry. So, the question really is, how far will the sustainability movement go as a result of the purchasing pressure and power of luxury customers?"
>
> **Interview, Isabelle Massa,**
> Partner, Mazars

Customisation is a service that could be transformational for luxury sustainability if it can be brought en masse to the luxury industry. The roots of luxury brands are in making tailor-made products for wealthy customers according to their distinct preferences, tastes and budgets. Yet, except for some VICs (and some products like bespoke suits or select jewellery), most luxury brands now provide standardised product offerings.

Personalisation has entered the picture, but mainly in terms of selecting or filtering products for customers, for instance in the way that Chanel has partnered with Farfetch to offer an augmented retail experience, and a few options for choice, such as offering the chance to choose a logo or colour. It would be a 'back to the future' revolution for luxury brands to move into large-scale customisation, both from a service perspective and from the sustainability standpoint of minimising the volume of raw materials used in production processes.

It is therefore promising to see new coalitions emerging, from global coalitions like The Fashion Pact to brand-to-brand exchanges such as Burberry's sustainability planning collaborations with small brands. This includes ecosystem partnerships in the materials downstream such as the collaboration announced in October 2020 between Mylo, the mushroom leather start-up, and Adidas, Stella McCartney, Lululemon and Kering.

> "First and foremost is that you have to get your house in order, and lots of businesses are working on this... But there are challenges – think about trying to track an individual cashmere herder."
>
> **Interview, Helen Brocklebank,**
> Chief Executive, Walpole

The question is, will change come quickly enough for the planet?

In the face of the challenges involved – and depending on the luxury segment – some brands may be tempted to continue focusing on circularity at the expense of upstream sustainability initiatives.

The industry frequently compares the low levels of waste in luxury production compared to fast fashion. Luxury is indeed less wasteful and destructive than fast fashion. But for how long will luxury customers be reassured by such a comparison?

Looking ahead: key challenges and opportunities

"When you work with your suppliers, you establish a long-term relationship with them. Our teams spend time to explain why sustainability is key, and how it is very much linked with their business. So that they are aware that if they implement more eco-friendly programmes, it can give them better results – then more and more companies will then ask them to do this as well. We put sustainability clauses in their contracts, and then we conduct audits."

Interview, Marie-Claire Daveu,
Chief Sustainability Officer and Head of International Institutional Affairs, Kering

The economic crisis created by Covid-19 has fed into growing global movements for climate action and social inclusion. On the back of these movements, luxury brands could discover that customers expect more from them:

- The HENRY cohort and Generation Z might well focus even further on second-hand luxury in response to these social and environmental trends.
- Luxury customers' expectations could also become even more divergent and extreme. For example, an anti-consumption movement could gain a following among HENRYs and Generation Z, especially in the Global North, which could lead to the majority of these customers significantly reducing, or even stopping, their consumption of luxury products. Even if an anti-consumption movement does not take overall hold, customers could reject products made from materials like leather and cotton, which are increasingly viewed as unsustainable.

"Sustainability and technological innovation are part of our DNA", says **Manuel Mallen, president and co-founder of Courbet**. The French luxury House applies traditional techniques and craftsmanship to jewellery made entirely from lab-grown diamonds and recycled and 100% traceable gold. "We were the first jewellery brand to allow customers to shop with bitcoin in store and online, thanks to our partnership with crypto-currency payments provider Lunu. Luxury businesses working with others that share their values and vision will help drive disruption further and faster. For all of us operating in luxury, partnerships hold the key to transforming the business model. Without them, we will not be able to respond effectively to what customers want around the world."

Conclusion

This report presents how and why luxury leaders have pivoted to customer experience. New luxury cohorts – high earners eager to demonstrate upward mobility, affluent millennials and Generation Z-ers, wealthy customers in China, and new and existing VICs – are driving change. They expect to be able to browse and buy online as well as in-store, to get instant and accurate information about a product's sustainability and authenticity, and to be looked after following a purchase.

The eruption of technological change in the luxury space to meet these expectations looks set to continue. Companies are forming partnerships, building innovation ecosystems, and adopting new technologies. Many are oriented towards late lifecycle services and product circularity.

We see the brightest long-term future for luxury players who take seriously their clients' desire for sustainable consumption. That starts with circularity and finding solutions for recycling luxury products. But it also means going further, to develop new materials and production processes that do not harm the planet.

Smaller independent players may not be able to leverage the resources of the industry giants and the brands they control. They can, however, succeed by adopting emerging industry best practices, advanced supply chain technologies, and new collaborative partnerships with technology firms. This is especially true when it comes to sustainability, where luxury fashion is creating pre-competitive partnerships aimed at changing the industry, and even the world.

Despite the crisis introduced by the pandemic, there is no indication that the benefits the luxury sector provides – the opportunity to enjoy and display heritage, quality, and artisan skill – will decline. It will, however, be bolstered by the desire to minimise harm to the planet and be seen to do so. Pieces may be more likely to be discovered through a recommendation or a video online. They may be more likely to be owned by more than one person over the piece's lifetime. But the luxury sector is evolving, culturally and organisationally, to meet these challenges, and its timeless appeal looks set to endure.

"Luxury has mastered the art of questioning itself season after season, year after year...no matter what the obstacles on its path... [The crisis] questions our way of selling and sourcing our raw materials, of manufacturing locally and sustainably, and in what quantities. Nothing new for our Maisons though, they have been aware of these issues long before the pandemic occurred!"

Interview, Bénédicte Epinay,
President & CEO, Comité Colbert

Acknowledgements and references

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Methodology

This study draws from an extensive desk review of over 150 articles, reports and other sources, and in-depth interviews with luxury sector leaders and experts carried out between May and September 2020.

This report was created and published in relationship with Arianee.

List of interviews

Angie Au-Yeung, Chief Digital Officer, Vacheron Constantin | Christine Henke, Digital Program Manager, Vacheron Constantin | **Guillaume Boilot**, Chief Operations Officer, Vacheron Constantin | **Stéphane Vuillemenot**, Organization, Projects and IS Director, Vacheron Constantin

Antonio Carriero, Chief Digital and Technology Officer, Breitling

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Isabelle Massa, Partner, Mazars

Manuel Mallen, President & Co-founder, Courbet Jewellery

Marie-Claire Daveu, Chief Sustainability Officer and Head of International Institutional Affairs, Kering

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About Arianee

Founded in 2017, Arianee is an independent, non-profit consortium whose mission is to implement a global standard for the digital certification of luxury goods. The Arianee protocol makes it possible to associate each luxury product with its own unique, unforgeable digital identity. This digital "identity card" opens up a secure, permanent, and anonymous communication channel between brands, products, and owners. Powered by blockchain technology, this solution is open-source and decentralized. Arianee proposes the first SaaS platform, backed by the first mobile solutions that allow brands a comprehensive use of Arianee's protocol.

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