

KEEPING THE DREAM RELEVANT

Rethinking how to deliver
the luxury experience

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IPSOS VIEWS

GAME CHANGERS





What challenges does this 'new world' bring for brands aiming to deliver compelling luxury experiences...? ”

INTRODUCTION

Much has been said about how the world will be forever different after our collective experiences of the Covid-19 pandemic. How we work, how we socialise, how we engage with technology, how we spend our leisure time, and how we engage with brands¹ have all apparently been irrevocably changed. “The pandemic is like a doorway. Once you pass through, there is no going back.”²

What’s more, as we move into a ‘post-pandemic’ world, we’re facing yet more challenges: inflation and economic uncertainties, war, environmental challenges and a generally more anxiety-inducing sociological environment.

What impact has the pandemic had on the world of luxury and the brands that play in it? What has been the impact of emerging from a pandemic straight into a period of inflationary highs? And what challenges does our convergent commerce world bring for brands aiming to deliver compelling luxury experiences and value propositions?





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WHAT IS LUXURY?

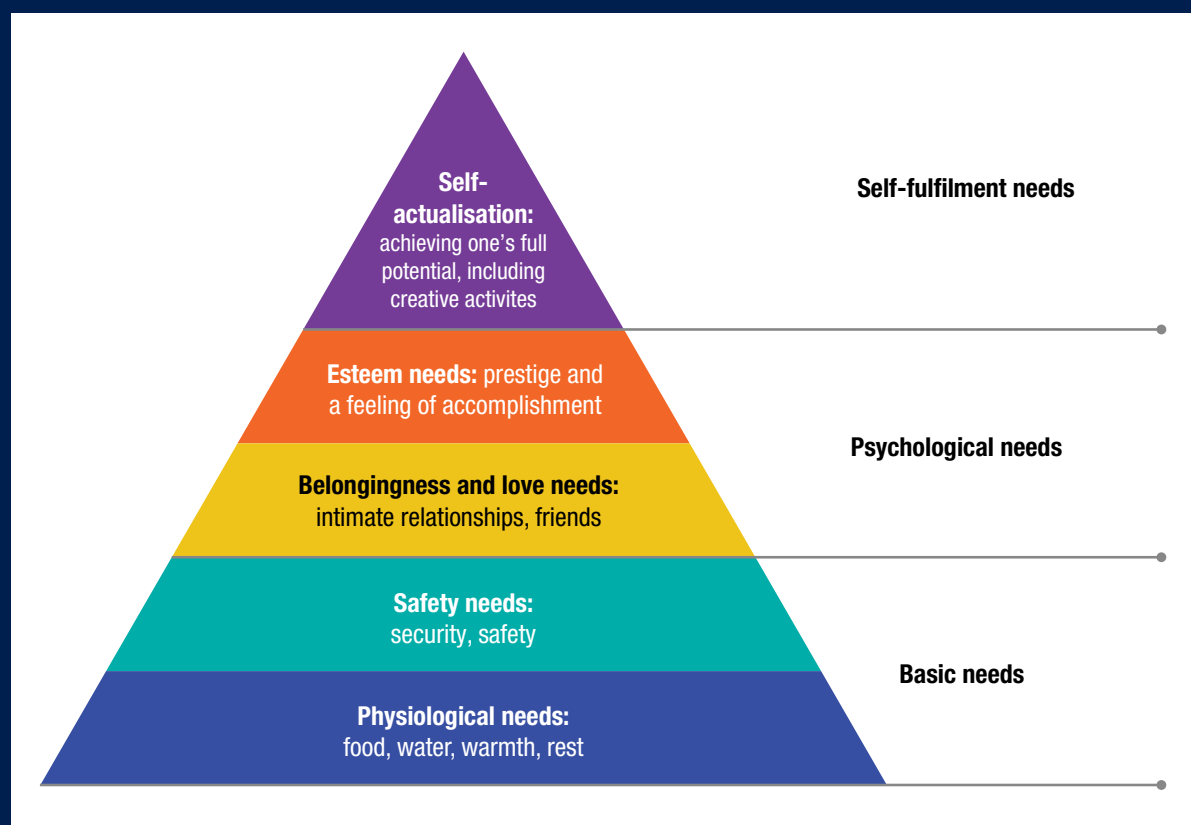
Starting with the basic question, what is luxury? There is no ‘one-size-fits-all’ approach to defining what luxury is: it’s an area that is culturally and sociologically relative. Unlike other industries, luxury cannot be defined by its functionality – if you simply want to be able to tell the time, you do not spend 5,000 euros on a watch.

Yet there are two dimensions that are common across luxury. First is the **aspirational** dimension: fundamentally, luxury is about making people dream, catering to the very top of the Maslow pyramid (Figure 1), fulfilling people’s need for self-actualisation. Self-actualisation, however, means different things to different people, requiring a variety of products or services to fulfil an array of dreams.

The second dimension is its **exclusivity**: luxury typically comes with entry barriers. Price is often one, making the product or service unaffordable to many. However, exclusivity can also be created through inaccessibility, limited editions, availability only in specific locations or via lengthy waiting lists. The exclusivity of luxury plays into its first dimension, its unattainability driving the aspiration.

The dimensions of aspiration and exclusivity exist in the context of a diverse consumer base, spanning geographies, generations, lifestyles and motivations – diversity that predates the outbreak of the pandemic. Luxury is always connected to the concept of the ‘dream’: its ability to inspire customers to dream, but also to make others dream too. Luxury’s ability to make people yearn for something unattainable that they can’t afford, access or otherwise obtain is the main driver of exclusivity.

Figure 1 Maslow’s hierarchy of needs



PUTTING MYSTERY SHOPPING TO WORK

Countless research studies show that brands that provide customers with a superior experience, compared to their competitors, achieve greater customer loyalty, higher profits and better returns for shareholders.

But a convergence of factors in recent years has made delivering an exceptional luxury customer experience increasingly difficult.

Against this backdrop, mystery shopping ensures that brands consistently deliver on the promises they make to customers; that standards are met every time and at every touchpoint.

Find out more at: <https://www.ipsos.com/en/designing-smarter-mystery-shopping-programme>



THE IMPACT OF INFLATION

At the time of writing, inflation is causing havoc across the world. What impact might this have on the luxury industry?

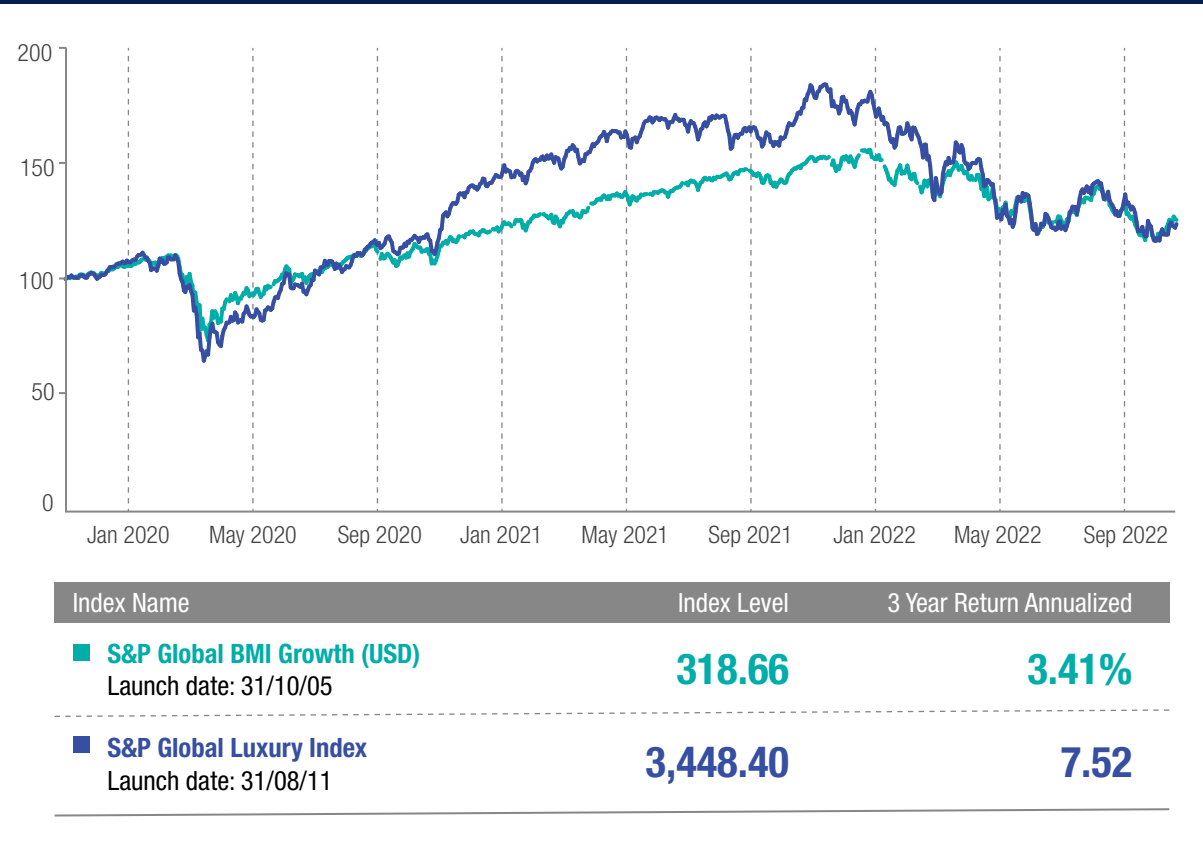
Ipsos' *What Worries the World* survey has tracked the rapid rise of concern about inflation.³ In December 2022, 40% of global consumers cited inflation as a top issue facing their country; this is double the level recorded at the beginning of the year.

However, this has led to only a very marginal decline in consumer confidence about making

big-ticket item purchases, although such a decline is more pronounced among Boomers and Gen X – established luxury buyers.⁴

This said, luxury is one of the most resilient industries there is because, as noted above, it speaks to the very human need for self-realisation. It's therefore one of the fastest to rebound after a crisis, as it did in 2021 after the peak of the pandemic. This was also reflected in how financial markets responded, luxury stocks being the first to rebound in 2021, surpassing the S&P Global Index's growth (Figure 2).

Figure 2 S&P Dow Jones Indices



Source: S&P Global

It is now essential for luxury brands to embrace digital channels or they risk losing customers who will shop elsewhere.”

More recently, and in the midst of the inflation crisis we are living through, key players have reported double-digit growth due to higher-than-expected demand across different regions. Hermès reported sales were up 24.3% in the third quarter of 2022, boosted by Asia and the US. Similarly, the LVMH group saw growth of

28% in the first nine months of 2022, fuelled by increased demand in the EU, the US and Japan. A soaring demand for luxury is also causing fears of a champagne shortage, as LVMH – the world's largest supplier of champagne – report that they are “running out”.⁵

WHAT HAS CHANGED?

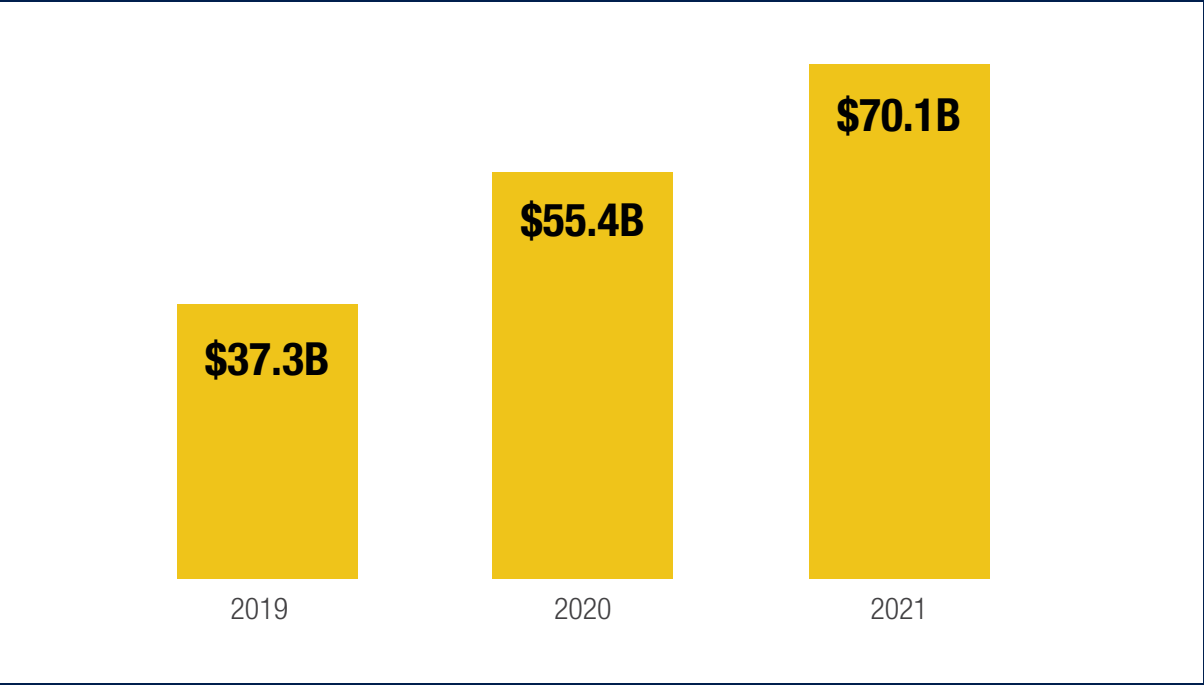
Three trends were emerging in the luxury industry before the pandemic, which have since been accelerated by the pandemic itself.

1. DIGITAL HAS BECOME A FUNDAMENTAL ASPECT OF LUXURY

Buying luxury is about more than purchasing an individual product or service, it's about the experience received throughout the customer journey. The physical store is an essential part of this,⁶ as it allows the brand to create a premium multisensorial experience for the customer that goes beyond the

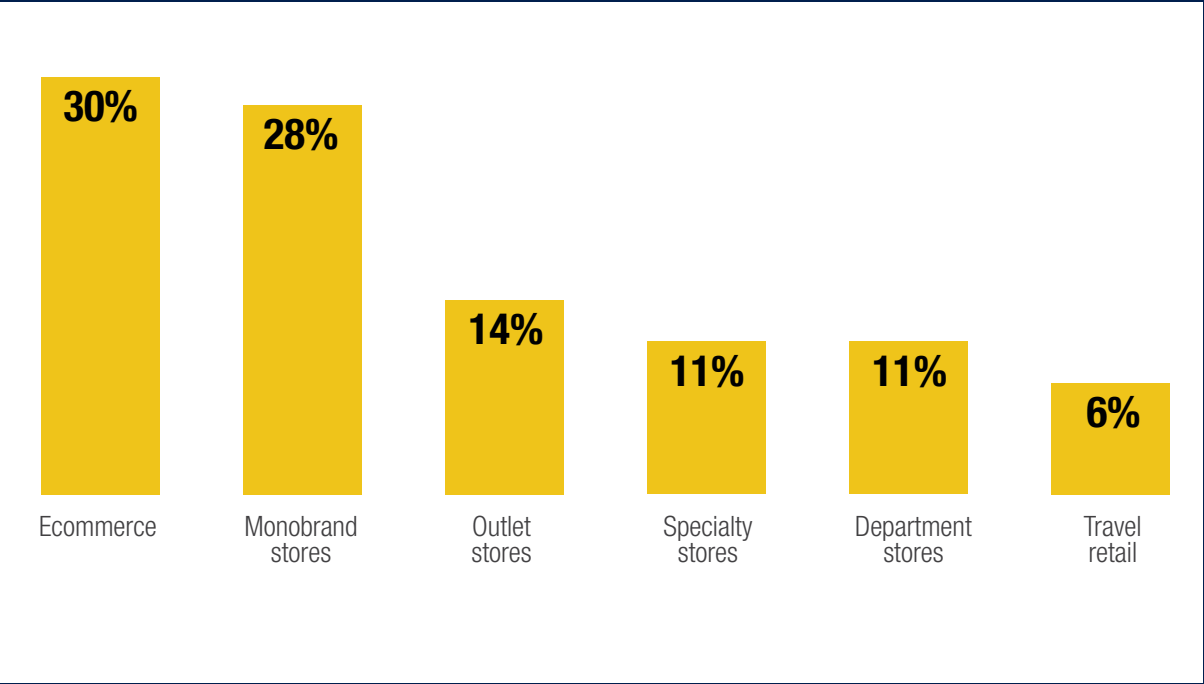
transactional; to create an emotional attachment⁷ – something that's been seen by many, in the past, as more difficult to reproduce in digital channels. As a result, before the pandemic, only a few luxury brands had embraced digital channels beyond a means of distributing information.

Figure 3 Online sales of personal luxury goods: share of total luxury sales



Source: Bain & Co, Luxe Digital

Figure 4 Forecast share of global luxury market by 2025



Source: Bain & Co

While the importance of digital channels had begun to grow before the pandemic, such channels became even more necessary as a result of restrictions on movement.

Within the personal luxury goods category, for instance, online sales almost doubled between 2019 and 2021 (Figure 3). In 2022, online luxury sales continued to outpace most other channels. Bain & Co predict that by 2025, ecommerce will have become the single largest channel for personal luxury goods, making up 30% of the global market (Figure 4). Even though brick-and-mortar points of sale will continue to account for the majority of luxury sales, there is no doubt that ecommerce will become a more important sales channel.

Established online luxury retailers have begun to take advantage of this growth by launching their own in-house brands, for instance Mr. P by Mr. Porter (part of the Net-A-Porter group) or Rêve Riche by Revolve.

Luxury brands must be where their consumers are and they are increasingly online. Therefore, it is now essential for luxury brands to embrace digital channels or they risk losing customers who will shop elsewhere. They also risk losing their visibility, and with it, their ability to create the ‘dream’.

2. TOUCHPOINT ECOSYSTEMS HAVE BECOME MORE COMPLEX

While many luxury brands were focusing the majority of their attention on their brick-and-mortar store experience, mainstream commerce has undergone a dramatic evolution. Retail has evolved from the siloed offline and online channels of multichannel, through omnichannel to convergent commerce.

Consumers now have greater expectations for a frictionless shopping experience with systems and processes that work for them. If retail environments are too difficult to navigate,

consumers will take their custom where it's easier to shop. Customer-centricity is therefore more important than ever, which is a new realisation for an industry that historically has prided itself in being product (or creation) centric.

Some luxury brands have been quick to adapt. Gucci has recently partnered with Snap Inc. to launch a set of augmented reality (AR) shoe try-ons on its platform. By using the Gucci lens, users are able to point their phone at their feet

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WHAT IS CONVERGENT COMMERCE?

Convergent commerce is the blending of physical and digital environments for retail, where a shopper may be using digital and physical touchpoints simultaneously. It is also the converging roles of touchpoints where a single touchpoint may simultaneously fulfil multiple shopper journey stage roles including awareness, education, and conversion.

Read the paper which includes a roundup of emerging and scaling commerce types and a discussion of changing shopper journeys.



CX Investment.⁹ The challenge for luxury brands is how to integrate digital touchpoints into the ecosystem and still deliver on the brand promise and luxury customers' dreams.

In the meantime, new luxury brands are emerging as a potential threat to more established players, leveraging this ecosystem and bringing it directly into their brand identity and aspirations.

Devialet, an audio technology company founded in 2007, built its brand narrative and experience strategy holistically, resulting in a fully integrated ecosystem. The narrative and experience are relevant across each and every touchpoint. Despite playing at exclusive price points, the brand has enjoyed double-digit growth over the years.

The store is – and will continue to be – the touchpoint where the brand can come to life in its full splendour because that is where a multi-sensorial, fully immersive experience can be delivered. ”

and virtually try on four pairs of limited-edition Gucci shoes. They can then go straight to purchase the shoes in the lens via a 'shop now' button, without having to leave the app. This effectively eliminates the search stage of the journey to focus on evaluate and buy.⁸

This has been taken even further as brands have begun to leverage the metaverse as a new engagement touchpoint. In 2021, Balenciaga launched a collection of its outfits and accessories virtually in the online video game Fortnite. Players can purchase the outfits with the in-game currency V-bucks (in turn purchased with real money), enter a virtual, in-game Balenciaga store and do a custom Balenciaga dance. The virtual collection corresponds with a physical collection later made available outside of the game in Balenciaga stores and online.

Balenciaga are not alone in diving into the metaverse. Dolce&Gabbana's Metaverse Fashion Week, Gucci's "Gucci Garden" event hosted by

online game platform Roblox, and Prada's first NFTs in partnership with Adidas, all serve as examples of the opportunities offered by the metaverse.

As a result of this integration of different channels, shopping journeys are becoming less linear and increasingly complex. Consumers now have entire ecosystems that are made up of their go-to touchpoints, channels, brands, and retailers. It's essential for luxury brands to take this into account as they develop their digital and wider experience strategy. Digitalisation has brought the need for luxury brands to make hard choices if they want to enter into a complex world of converging digital and physical environments and the need to be present across the consumer's ecosystem 24/7. At each node where the customer interacts with the brand, the experience must deliver on the 'dream' and on the brand promise, in order to drive the desired customer outcomes; to drive acquisition of customers, increased retention, share of spend and advocacy in an operationally efficient fashion - to drive ROCXI: a Return on





3. DIGITAL VS. BRICK-AND-MORTAR: NOT AN 'EITHER OR' QUESTION

If digital is now a fundamental, essential channel for luxury brands, does this risk the death of the physical store? Far from it, as we describe in our paper concerned with the 'morphing store'.⁶ Instead of being slowly made redundant, physical stores have been given the opportunity to transform from a place where consumers used to come and buy products, to a place where they can visit and use technology to immerse themselves in the brand's world. Indeed, technology can and should enhance the appeal of the store.

In partnership with Tmall, a Chinese ecommerce platform owned by Alibaba, Maserati has brought digital tools into its dealerships in China to help prospective owners learn more about its cars. By scanning parts of a particular Maserati model through a Maserati/Tmall app, customers can learn more about different features of the car. Then, once customers have scanned all the features, they receive a voucher to use in Maserati's flagship Tmall store.

Maserati also built an in-store VR station, with a modified car and a VR headset, where customers can try out the experience of driving a Maserati in virtual reality.

The store is – and will continue to be – the touchpoint where the brand can come to life in its full splendour because that is where a multi-sensorial, fully immersive experience can be delivered; the Maserati example described above is a clear example of the store's central role and how it can be enhanced through digital technology.

Ahead of the curve back in 2015, Ralph Lauren piloted 'intelligent mirrors' in its fitting rooms on its Fifth Avenue flagship store in New York. As the customer brings the item into the fitting room, the mirror identifies the item and displays an image of it. It also presents the option to request the item in a different colour or size, or else request a recommended item to complete the outfit, which a sales assistant then brings to the fitting room.

This creates a more personalised, enjoyable experience for the consumer but also provides the brand with invaluable data it can use to optimise its product assortment. Which items are frequently tried on but not frequently bought? Which recommended items are selling well?

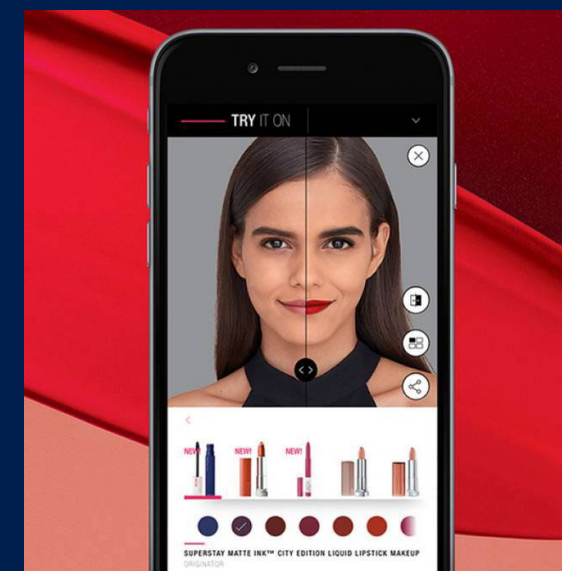
Other examples of digital and physical assets working together in partnership include L'Oréal's augmented reality ModiFace services, which provide in-store and online customers with the ability to try on makeup and hair colours virtually. Seeing the particular shade of hair dye or lipstick virtually prompts the consumer to imagine actually using the product and how it would make them look and feel.

Additionally, by integrating their Customer Relationship Management (CRM) data with their digital and technological assets, luxury brands can create persistent carts that bring the store and the online experience together. As a consumer enters a store, sales assistants can quickly look up their account on a tablet and see their transaction history, as well as items in their wish list. Consumers can view items in person with the sales assistant and set them aside digitally, in their cart or wish list. Then, when they log into their account online later, they can see the exact item they were looking at in store, with the precise colour, sizing, modifications and personalisation noted.

This brings added flexibility to consumers. Not everyone will be ready to make a purchase the moment that they walk into the store; some people are still in the consideration stage, doing their research. By creating a digital record of their in-store experience for them to come back to, it makes the transaction later that much easier. They don't have to wonder, is this the one I saw? Is it the right size?

As technology develops, the opportunities for richer in-store experiences also develop. And in the age of convergent commerce, there is a pressing need for the full integration of brick-and-mortar, human and digital assets.

Figure 5 L'Oréal's virtual makeup try-on



Source: L'Oréal

HOW TO STAY SUCCESSFUL GIVEN THESE CHANGES?

As noted at the beginning of this paper, one of the two essential dimensions of luxury is the ability to make people dream, whether they are potential buyers or not. Brands that focus on delivering this aspirational experience will continue to fulfil people's need for self-realisation at the top of Maslow's hierarchy of needs, and so remain at the forefront of luxury. To this end, they must ensure that their touchpoint ecosystem is customer-centric as well as on brand and distinctive, and most importantly, that each part of the ecosystem is able to work with all the other parts to deliver a consistent brand story and seamless, compelling experience.

1. CUSTOMER-CENTRICITY

With the rise in digital native luxury brands challenging established players, there is a greater need for brands to turn their customer-centricity into a competitive advantage. Given the vast diversity of both luxury buyers themselves, as well as the motivations for buying luxury,¹⁰ how can you tailor products to consumers' specific needs?

Customer-centricity involves understanding the context of the customer's world and empathising to ensure a deep understanding of their expectations and aspirations. The dreams and values of the luxury customers of tomorrow

will in some cases be drastically different from the customers' of yesterday: experience should inspire, influence and, indeed in some cases, follow these aspirations.

Placing customers at the heart of an organisation can be achieved, in part, by small touches, such as providing personal product recommendations tailored to their individual interests or sending personal follow-up messages (e.g., a handwritten thank you note to first-time or high-value clients, a follow-up email offering to answer any questions about a product they had been viewing in store or online). Displaying a human touch across the ecosystem ensures the luxury experience is felt at each touchpoint.

Customer-centricity may also lead to product ranges that cater to different budgets. A Gen Z woman who wants to be part of the exclusive Chanel community, but cannot afford one of the brand's cashmere tweed classic handbags, may still satisfy such an aspiration with a lipstick.

Personalisation is another form of customer-centricity. While the degree of product customisation varies widely across categories, some brands have made product personalisation an integral part of their offer in a simple and efficient manner; for example, TUMI, the luggage brand, with its monogramming service.



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2. KEEP YOUR EXPERIENCES ON BRAND AND DISTINCTIVE

Luxury brands must be able to remain exclusive in the eyes of consumers and customers, while ensuring that the extension of their brand narrative to other touchpoints delivers a homogeneous and consistent experience across the ecosystem. In other words, brands must focus on keeping the dream alive for customers consistently across the entire ecosystem.

To achieve this, luxury brands must re-evaluate their brand experience as a whole and decide what can be best conveyed across all touchpoints – new and old.

The specific challenge for luxury brands is: since your brand is not defined by functionality, how do you translate the aspirational, emotional experience delivered in the physical store across digital touchpoints?

If brands do not deliver on their value proposition at each touchpoint, the luxury experience will be diluted and consumers' perceptions of the brand damaged. A consumer who buys a luxury watch online, but who can only collect the watch at a local grocery or department store will miss out on the experience of the ceremony of having the watch brought over by a sales assistant in white gloves, having the watch fitted to their wrist and having the time set precisely. Forming a partnership with local luxury shops for delivery only, could allow brands to keep the delivery or collection experience more consistent with the experience delivered at other touchpoints in the ecosystem.

This must go beyond a simple update of the brand experience: touchpoints are evolving quickly (the metaverse epitomises this), as are expectations, so brands need to define their value proposition in a way that allows room for future evolution.

CONCLUSION

Three trends had begun to emerge in the luxury industry prior to the pandemic, which the pandemic itself has since accelerated. In a post-pandemic world, digital is fundamental,

touchpoint ecosystems have become more complex, and there is a pressing need for the integration of brick-and-mortar, human and digital assets.

CONSEQUENTLY, LEADERSHIP TEAMS AT LUXURY BRANDS MUST FIND ANSWERS TO IMPORTANT QUESTIONS, INCLUDING:

01

While exclusivity is a key definer of luxury, how can a luxury brand meaningfully engage a diverse consumer base, e.g. a Gen Z dreaming about making their first luxury purchase and a Boomer adding one more item to their luxury collection?

02

Digital technology involves a wide range of assets, from a corporate ecommerce platform to a micro-site on WeChat. How can all these assets be brought together in a coherent and compelling manner, allowing consumers to enjoy the same branded, distinctive experience regardless of which touchpoint they use to interact with the brand?

03

What role will brick-and-mortar stores play for the brand vis-à-vis other touchpoints? And within such stores, how can human and digital assets work together to bring the brand to life fully, so the dream is kept relevant?

There is no ‘one-size-fits-all’ approach to answering these questions, this will ultimately be determined by how the brand wants to position and evolve in a non-functional

environment. But to keep the dream relevant, we believe there are a few dimensions that must be considered.

LUXURY BRANDS MUST TAKE THE FOLLOWING INTO ACCOUNT:



The dream: Luxury meets people’s esteem and self-actualisation needs. What do ‘new’ challenges (e.g. inflation, sustainability) mean for the people who will be most impacted? Empathy is called for to understand the context of the ‘customer’s world’ and their expectations. Brands should continuously focus on understanding the dreams not only of its customers, but also of the broader market. Not all luxury consumers are created equal, so a meaningful and actionable segmentation is critical to success.



Customer-centricity: The paradigm has changed; customers are no longer adapting themselves to the brand universe; instead, they expect brands to address their evolving aspirations; to have them at the very heart of the experience. CX Service Design ensures the experience is designed and delivered to meet evolving aspirations and drive the right business outcomes.



Consistency: Aspirations, emotions and dreams are very sensitive to inconsistency. Luxury brands should continue to take bold decisions, positioning themselves in order to drive exclusivity and distinctiveness, but this must be consistent across the entire journey and across all touchpoints. If a brand plays on selective exclusivity, a customer should not be able to find them easily on alternative channels. This requires control over the full ecosystem. Mystery Shopping (among other tools) can play a key role in providing an objective measure of the consistency of the end-to-end experience.

THE ROLE OF CX SERVICE DESIGN

Understanding and empathising with customers and the context of ‘their world’ needs to be at the heart of luxury experience design.

In this paper, Ipsos shares best practice and service design guidelines for brands to create emotional attachment and drive the right behaviours; this shift will lead to increased retention, share of spend, advocacy, operational efficiency, and, ultimately, an improved Return on CX Investment: ROCXI.

Download the paper for a more in-depth look at Ipsos CX Service Design case studies, examples and actionable frameworks.



FURTHER READING:

Ipsos Affluent Luxury Segmentation

<https://www.ipsos.com/nb-no/affluent-luxury-segmenting>

Our motivation-driven segmentation identifies six distinct groups of luxury buyers.

The Future Luxury Customer

<https://www.ipsos.com/en/future-luxury-customer>

Key learnings from a roundtable discussion with experts from various luxury brands.

Welcome to the Metaverse

<https://www.ipsos.com/en/welcome-metaverse>

What is the metaverse now and what opportunities does it present for brands?

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GAME CHANGERS

