

From Tradition to Technology: Exploring the Evolution of Luxury Retailing and the Digital Frontier

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Abstract. In the luxury fashion industry, it was previously believed that participating in e-commerce, especially selling through multi-channel, was only suitable for brands in lower and middle range. However, this perception has been changed by digital transformation happening in all industries in the recent years. Through a circumspect analysis on existing literatures and modifications that have been made among the luxury retailers, this research seeks to provide a comprehensive review of challenges being faced by the physical stores, prevailing situation of digital luxury marketing, and future opportunities in the virtual environment. So far, luxury brands have built various distribution channels to integrate into the rapid growing digital environment. In order to resolve the “Internet Dilemma”, luxury retailers established a new marketing strategy, which is called Omnichannel marketing. Omnichannel marketing aims to integrate online and offline as a coherent integrity, combining advantages from both channels, such as convenient information gathering on the web and in-store exclusive customer experience. The robust technological developments also indicate future pathways in the digital world for luxury brands, including utilizing big-data analysis to offer hyper-personalized marketing and deployments of high-technologies.

Keywords: Digital transformation, e-commerce, luxury, omnichannel, retailing.

1. Introduction

As the emergence of globalization and the Internet, the rapid development of digital technologies has been changed drastically. Certain industries have found unprecedented opportunities in digital market, while the luxury industry is adapting digital transformation in a slower pace as the industry’s conventional wisdom is subverted in some respects. The distinction between luxury brands and traditional retail brands lies in the former’s proficiency in crafting and nurturing profoundly emotional connections with their customers. These connections are established on experiences that are unique, comprehensive, socially distinctive, and impressive [1]. In this era where these experiences proliferate within the digital environment on a broader scale, and as customer relationships evolve through a diverse array of virtual and physical interactions, it becomes crucial to reassess the function, interpretation, and operating direction of high-end brands.

The strategy of integrating virtual and physical resources brings new opportunities to the luxury retailers, enabling brands to establish various touchpoints that offer different services and establishes unique customer experiences. Omnichannel marketing is one of the increasingly favored approaches gaining prominence in the luxury sector, since it effectively addresses the issue of restricted physical engagements between customers and products and limited presentation of luxury brand’s perceived values, while it offers customers extremely convenient process without constraints on date and venue.

This work will review existing literatures in a large extent combining with practical cases and reports, to discuss the current situation of luxury brands in the online environment and their future opportunities. Start with introducing the basic nature of luxury goods and what they symbolize, this passage will further examine the interconnections between traditional luxury retail market and emerging digital market, the present luxury e-retailing approaches and distribution channels, and finally explore the future deployment of innovative technologies in the online market of luxury industry.

2. The Digital Evolution of Luxury Brands

2.1. Deciphering Luxury Brand Characteristics

In the world of luxury, the conventional business wisdom is turned upside down: demand can grow with product price, consumers are not only paying for functional performance of a product but its extraordinary values, and brand diffusion can bring negative impacts [2]. The ECCIA, a coalition comprising six European national organizations in the cultural and creative high-end industries, enumerates five key features of business model in luxury industries: The first element is “Aura”, which stems from a product's quality, status, and cultural heritage, along with highest-level of service [3]. The second characteristic is “Craftsmanship and Creative People”, which stands for maintaining high-level quality of products and developing highly skilled employees. The third element is “Intellectual Property and Innovation”, referring to considerable investment on innovation, design, product development, and protection of intellectual property. The fourth criterion is “Selective Distribution”: Strictly managing product distribution to ensure direct control of value chain and the aura of a product. Lastly, is the “Orientation towards Global Markets”, which includes using craftsmanship and culture to expand into emerging markets globally, with travel related sales fostering “Shopping Tourism”. These dedicated motifs of luxury good marketing have rooted in the industrial sense for over two centuries, but they are now experiencing major challenges from past two decades due to the substantial impact brought by digitalization.

2.2. Challenges of Digitalization on Luxury Brands

From luxury retailer's side, it is difficult for the brands to guarantee the protection of their intellectual properties. While luxury brands striving to present every detail of their products on the internet to provide their customers as much information for reference as they can, these resources are also accessible to counterfeit suppliers. In fact, the counterfeit market, which associated with cheap imitations and heavy discounting, has always been one of the top concerns for luxury retailers since it seriously damages the perceived value of luxury brands. The challenges from the online shopping environment are not only limited to fake products, but also constraints on presentation and accessibility of products. From consumer's perspective, purchasing luxury goods online grants absolute convenience and extensive accessibility, while it also comes with myriad fraudulences and potential transaction risks. As the continuous emergence of all kinds of shopping channels, identifying authentic products is becoming considerably more difficult. For instance, consumers normally receive hundreds of results, mixed with authentic and fake products, whenever they search online for specific luxury good. However, since the Internet has become the primary approach to acquire information for most people, the online channels enable luxury brands to connect with different consumer groups more easily without physical restrictions.

2.3. Luxury and The Online Retail Market

The Internet is a considerable channel to connect luxury brands with consumers. According to Luxe Digital, the sales of global online luxury market is forecasted to reach \$91 billion USD by 2025, and approximately 20 percent among all personal luxury purchases will be completed online, indicating that online market development should be the prioritized strategy for luxury brands [4]. Due to the expeditious technology growth and expansion of global market, Luxury brands have already responded rapidly to the digital transformation in the past few years, including use of new technologies, engagement to social media, and value creation for new customer groups, etc. Although numerous luxury brands have started exploring their way to survive in the digital economy, the majority of companies are still struggle between the difficulties of reshaping brand's value proposition and transforming channel of distribution. Through several years of exploration, most luxury companies have perceived the feasibility of performing primary constituents in the digital world, such as exclusivity and scarcity. Currently, the critical consideration for luxury brands would

be how to provide exclusive brand experience in the digital world, thus sustaining its intrinsic characteristics of high-end quality, service, and status.

3. The Current Strategies of Luxury E-tailing

3.1. Mono-brand Websites vs. Poly-brand Websites

Generally speaking, brand websites are commonly categorized into two main types: mono-brand websites and poly brand websites. According to Radón, several most distinctive feature of brand websites are their online sales presence, the comprehensiveness of their product range being presented, and the extent to which the website communicate the brand and story of the company [5]. Mono-brand website is defined as single luxury brand's official website, including online shop and all-encompassing information about the brand, such as dior.com and Hermes.com. Poly-brand website are basically online stores established specifically for sales and distribution, which can be official websites showcasing information by luxury groups like LVMH, digital exclusive department store such as Neiman Marcus, or online retailers offering wide-range of brand selections such as NET-A-PORTER or FARFETCH. In the case of high-end brand, single-brand e-commerce site is the most ideal option to maintain absolute control of brand image. As mentioned by Radón, the most substantial distinction between single-brand websites and integrated online retailers is whether the websites have intention to establish communication channels with consumers [5]. Based on Radón's inspection, luxury single-brand online channel basically obtains three crucial characteristics: (1) aesthetic communication, (2) brand story, and (3) dynamic interaction [5]. These three premises ensure luxury brands to maintain the sense of exclusivity while achieving the balance between generating considerable profit and breaking the 'rarity principle'.

3.2. Design Strategies for Luxury Brand Website

In order to stand out from conventional online retailers, the design of luxury brand homepage should diverge from traditional e-commerce sites. Traditionally, web experience is primarily impacted by three major determinants: contents, utility, and Psychology [6]. Balasyan and Casais proposed three main categories of important online engagement elements in the sector of luxury, which are (1) Brand interpretation and aesthetic design, (2) User experience, and (3) Interaction features [6]. The dimension of brand identity and aesthetics includes fundamental features around products, such as price, design, service quality, information consistency, communication, etc. Usability comprises the user experience when they browse the website, like rapidity and accessibility. Lastly, interactivity provides consumers to engage with online communities and communication with the brand. Kluge et al. suggests that the environment design and personalization are decisive to online channels, whereas they remarkably influence online customer's sense of uniqueness and prominence [7]. Taking the advantage of increasing presence of the luxury brands on the Internet, online brand communities are expanding rapidly, allowing consumers to connect with each other and the brand without physical restrictions.

3.3. The New Paradigm: Omnichannel Retailing

The industry traditional wisdom initially postulated a distinct separation between online channel and physical channel, while Verhoef et al. stated that the recent consumer's online shopping behavior has led business to integrate channels and transform from multichannel to omnichannel [8]. Multichannel was a traditional retailing mode which typically operates online store and physical store independently, which offers customers a separate experience with limited interaction between two channels, while omnichannel approach represents channel integration that involves numerous channels and touchpoints to offer customers a seamless experience [9]. For example, such seamless channel integration enables customers to browse information of a product through the brand's website on their personal computers, then make the purchase later on their mobile devices. Rosengren et al. stated that there exist certain discrepancies in the two strategies: The multichannel retail management

mainly focuses on coordination, conversion, and combination of channels, while the omnichannel retail management is characterized by synergies, holistic customer experience, and concentration on the brand and its touchpoints [10]. Although the multichannel approach also enhances customer experience by inspiring customers to discover suitable shopping mode for themselves, the increasing reliance on the internet and evolving technologies has decided that the leap from isolated shopping channels to the omnichannel approach is irresistible.

With the help of integration on online and offline channels, luxury retailers are enabled to elude what Kapferer has been defined as “Internet Dilemma”, inferring to the Internet’s two-sided nature regarding luxury retail, which involves both deficiency in convey sophistication and emotional engagement in high-end products and the potential of rapid information dissemination to wider range of audiences [11]. In fact, Louis Vuitton has played the role of creative innovator for omnichannel retailing, which launched an accessories collection cooperating with League of Legends and allowed game players to purchase on the internet then collect items in physical stores. Similarly, Gucci enables Pokémon GO players to buy The North Face x Gucci collection for their avatar at PokéStops Worldwide virtually for a limited time period in 2021. Both events have illustrated how omnichannel approach offers holistic customer experience to enhance brand value for current and new customer groups.

In the meanwhile, even the expansion of digital market is luxury brand’s top priority, physical store still plays a pivotal role in the omnichannel strategy. It facilitates establishing successful relationship between the brand and its consumers, especially in certain product categories such as apparel and perfumes, which direct engagement with products and in-store service experience are still influential to purchase decision-making of majority of consumers [9].

4. Conclusion

The luxury industry is now experiencing a transformation from mass market to integrated market, where each consumer will be treated as an individual and provided with personalized shopping experience. In 2020, on account of COVID-19 pandemic, there was a significant and rapid increase in the adoption of hybrid lifestyle, such as working, learning, and shopping. Indeed, hybrid shopping has become the primary approach for 27% customers among all. Also, thanks to rapid technological innovations, the luxury online retail market is now developed into a new stage where reduction, multi-channel integration, personalized advertisements, cost and greater accessibility could be achieved simultaneously. Consequently, omnichannel marketing arises as a solution for luxury brands to survive in this era of digitalization. Through incorporating physical stores and online market, luxury brands provide their consumers numerous touchpoints to shop anytime and anywhere.

Based on the analysis on current strategies of luxury brands and their restrictions, future developments on hyper-personalization, which is also referred as one-to-one marketing, is strongly suggested. Luxury brands would be able to provide more unique experience for each customer according to interactions through both established online and offline touchpoints, even create perceived value of the brand for different individuals accordingly then discover potential customers. Opportunities always appear with challenges; the digital environment provides chance for traditional luxury retail to connect with massive potential consumers, while their limitations are also amplified. Retailers in the luxury industry need to be aware of the necessity of well-managed representation on the Internet and ensuring concordance of multiple channels in the online market.

The limitations of this study occur in the lack of quantitative research and first-hand data due to restrictions on time. However, this study primarily serves to provide a comprehensive analysis based on an integration of existing research. Future research will be focused on deploying new technologies, such as artificial intelligence and virtual reality, on the luxury brand marketing strategies and how will they benefit the luxury industry. Furthermore, by conducting appropriate quantitative research in the future, develop a generalizable theoretical framework is committed.

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