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LuxForward

What's next for Luxury?

Innovation challenges & opportunities
for the Luxury sector

-spring 2021-

Content

Read this report to:

- Understand key pain points in the luxury industry.
- Learn about opportunities and implications of deploying innovative technologies in the luxury sector.

Intro

These are challenging times for the luxury goods industry. The sudden global recession, the digitalization of the shopping experience, the focus on sustainability, the need for cheaper production, and the new growth markets like China and India are forcing the industry to rethink its strategies.

Innovation, partnering with start-ups, and learning from other industries can bring a new approach to these challenges.

That is why Cognizant supports LuxForward - an innovation initiative that enables luxury industry executives to discuss future paths with their peers and explore new technologies and start-ups worldwide.

Although the luxury goods sales shrunk by more than a fifth last year, there is a growing optimism surrounding the sector.

New ideas and many initiatives arise in the luxury industry. The odds are that in the immediate future, the drive will be more entrepreneurial than ever.

Only those brands that prioritize innovation, build new strategies, and consolidate, will be able to maintain an edge in the increasingly conscious and demanding cultural climate.

This report is one of the first outcomes of workshops and functions as "food for thought" for anyone working in luxury. We hope that it helps the sector not only to look but also leap forward.

We hope you enjoy reading!

Best regards,
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(in)

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About LuxForward

LuxForward is a premium program, that takes the luxury industry pulse and aims at enabling innovation exchange based on the Delphi method.[1] It is tailored to enable luxury brands discover key innovations that could support their business goals. In essence, it is a peer-group cross-industry initiative, driven by the active participation of a dozen luxury industry leaders.

The LuxForward program consists of insight questionnaires, meet-ups, workshops, and start-up scouting tailored to the identified trends and developments.

This report summarises the insights gained in the first phase of the initiative, which focuses on discovering the challenges, ideas, and needs.

The structured, iterative process aims to create experts' consensus and pinpoint the forces that provide leavers to propel the industry forward.

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[1] The Delphi method is a structured communication technique originally developed as a systematic, interactive forecasting method which relies on a panel of experts.

The context

"Luxury will always be around, no matter what happens in the world." Caroline Herrera

As we are drifting into the second year of the global pandemic, the statement by Caroline Herrera, a fashion designer renowned for dressing various American First Ladies, appears more pertinent than ever.

Back in March 2020, financial forecasts for the fashion and luxury industry were particularly gloomy. Today, in the words of FT's fashion editor Lauren Indvik,[2] "that 'unprecedented crisis' looks more like a blip — especially at the higher end of the price spectrum."

Indeed, the Phoenix-like resilience of the luxury sector has been proven yet again. Having endured the initial pandemic stress-test better than many, the industry rose strongly towards the end of 2020 and stepped in 2021 with a certain optimism.

The fast recovery was primarily driven by three factors:

•   The surge of e-commerce, with the online share of sales in the luxury market, nearly doubling in 2020, rising from 12% in 2019 to 23% in 2020. As a consequence of this growing trend, the expectation is that digital will become a leading distribution channel for luxury by 2025[3];

•   Asia-Pacific markets, with Chinese and Japanese "revenge buying" and "reunion dressing" in mid-2020, a steady flow of purchases from mainland China throughout the year, as well as growth signals in India and Indonesia;

•   Digital adoption, with the leading brands demonstrating relative agility in keeping the ball rolling by quickly shifting to virtual showrooming and virtual fashion shows to compensate for the lack of travel and physical events.

2   Future of luxury: A look at the year ahead, Dec 31 2020 https://www.ft.com/content/d3dd2ba8-6df0-4dcb-bd55-25ec246bdbc0

3   Worldwide Luxury Market Monitor: Slow Motion but Fast Forward, Nov 18 2020 https://www.thediamondloupe.com/sites/awdcnewswall/files/attachments/Bain-Altagamma%20Luxury%20Study%2019th%20Edition.pdf

While e-commerce, China, and digital transformation have long been identified as macro trends in the Luxury industry, it is over the course of the last year that the global pandemic leapfrogged the entire industry into the future, significantly **accelerating the pace of change** and the level of challenges that go with it.

How pivotal the above triad is for the future of the Luxury sector is probably best demonstrated by recent investment, such as the one in Farfetch by the Chinese Alibaba and the Swiss luxury Richemont group and in Dufry retail by Alibaba. We can count more than 60 market entry initiatives in the China luxury retail segment in recent years.

Yet, the triad is just the tip of the iceberg.

While some of the digital transformation challenges in the luxury industry might be of an organisational or technical nature, a clear **shift in the luxury paradigm** per se has added a whole new layer of complexity. Namely, the luxury consumer's awareness of ethical and environmental causes has accelerated in recent years, posing a completely different set of expectations onto the brands.

Thus, arguably to an extent larger than ever before, luxury brands today are forced to juggle their short-term survival tactics and long-term strategy redefinition on the fly. Historically across sectors, it is from real needs and urgency that the best innovations and breakthroughs emerge.

All things considered, that moment has probably arrived for luxury.

The word from the industry

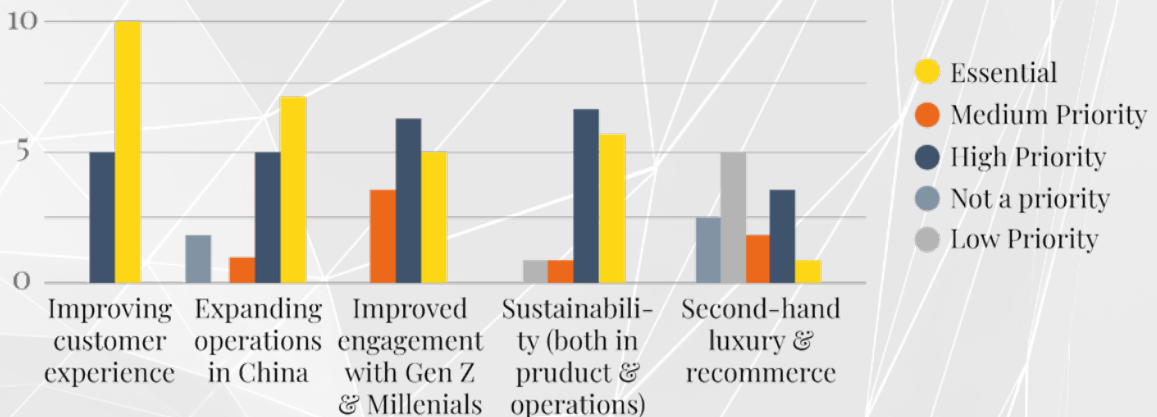Customer experience, new distribution channels, and sustainability are seen as the pillars of new luxury.

In the LuxForward survey, a dozen European luxury executives estimated the mid-term priorities for their brands as follows: delivering better customer experiences, deploying new distribution channels, and decreasing the environmental impact.

Those are closely followed by addressing specific customer targets, such as Chinese and Gen Z customers, while virtual fashion and second-hand luxury were given priority by several specific brands.

MID-TERM PRIORITIES
CX, New Distribution Channels, Sustainability

Mid - term, what priority do the following have for your brand?

Legend:
- Essential
- Medium Priority
- High Priority
- Not a priority
- Low Priority

Categories: Improving customer experience; Expanding operations in China; Improved engagement with Gen Z & Millenials; Sustainability (both in pruduct & operations); Second-hand luxury & recommerce

An insider's view on industry challenges

According to the LuxForward expert panel, several critical areas have been impeding the pace of growth in the luxury industry in the last years. In 2020, their impact was **amplified** even further due to the pandemic-driven financial strain.

Given the post-pandemic context, luxury brands are urgently pressed to tackle these pain points swiftly and effectively.

The truth is that — occasional successes aside — the pace of innovation in luxury is significantly slower than what it needs to be, if the industry is to hit the **moving target** of providing extraordinary customer experiences.

Traditionally, exclusive experiences have always been the Holy Grail of luxury. In the present context, delivering on that ideal seems more challenging than ever, as brands strive to delight their tech-savvy, environmentally-conscious, digitally-fatigued, and locked-down luxury customer.

While the mix of burning issues is probably specific to each luxury brand, there appears to be an overarching interplay of three **macro-topics**: dealing with internal legacies, the slow pace of digital transformation and the lack of operational excellence.

The word from the industry

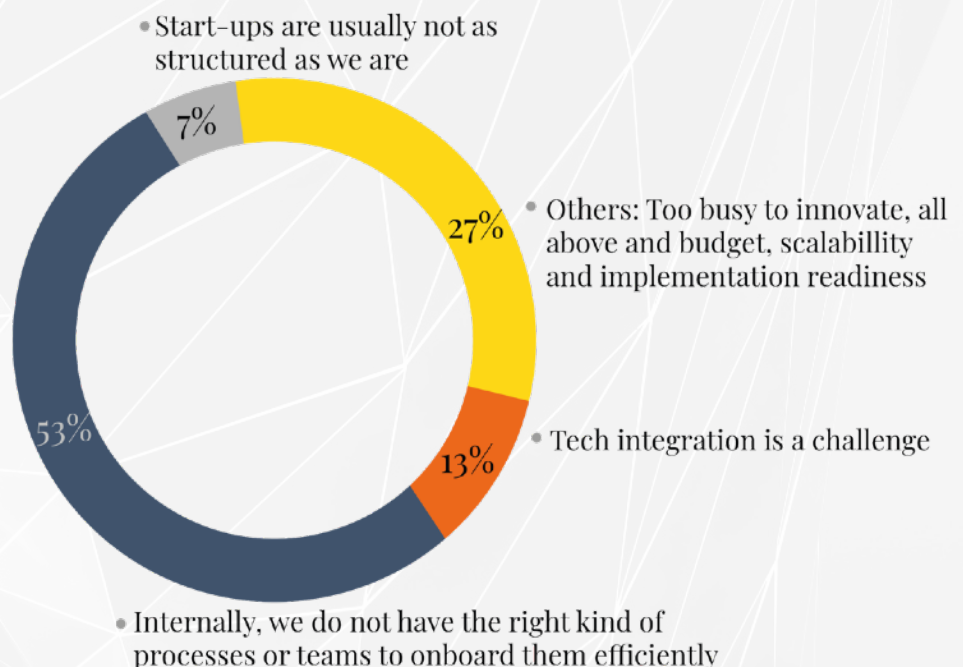Why don't luxury brands collaborate more with innovative startups?

Lack of internal processes and complexities of tech integration emerge as clear roadblocks to innovation in luxury. Most of the brands appear not to be internally structured to efficiently deploy innovation, which contributes to the slower pace of innovation adoption overall.

When it comes to the collaboration with innovative startups, our research shows that the main roadblocks are the lack of the internal structure on the brand side, lack of time and budget for such projects, as well as the challenges of tech integration.

INNOVATION CHALLENGE
Lack of internal process & challenges of tech integration

What challenges did you see across the organisation when integrating innovative start-up?

Start-ups are usually not as structured as we are

7%

27%

Others: Too busy to innovate, all above and budget, scalabillity and implementation readiness

53%

13%

Tech integration is a challenge

Internally, we do not have the right kind of processes or teams to onboard them efficiently

Challenge 1

INTERNAL LEGACIES INSIDE THE 'LUXURY BUBBLE'

According to industry insiders, the mix of legacies at play in the luxury business is three-fold: cultural, operational, and technological.

Somewhat elitist, corporate cultures in luxury have traditionally been built on the spirit of exclusivity and prestige. However, today markets and consumers reward openness and collaboration.

Among the LuxForward panel experts, there is a strong consensus that the luxury industry is quite inward-looking: benchmarking is mostly done against key competitors, and inspiration is rarely taken from other industries, let alone from brands that sit lower on the price spectrum.

From the operational perspective, the digital component—albeit an ever-stronger revenue driver—is frequently not completely integrated into the organisation.

Luxury businesses are still strongly driven by the logic of traditional retail, which often implies inflexible processes and a siloed culture that obstructs the delivery of impeccable and integrated end-to-end customer experiences.

The often-mentioned internal cultural resistance towards innovation, combined with the lack of internal digital skills, further results in a series of organisational inefficiencies. As a consequence, luxury brands struggle to adopt an holistic strategic approach towards business model redefinition, the deployment of alternative distribution channels, dealing with IT legacies, data, and stock silos, etc.

LuxForward findings unanimously indicate that self-referential corporate cultures, omnipresent in the luxury world, find it hard to fully embrace innovation.

"Most of our workforce, in a way, can be defined as 'the rich kids of' luxury growth. Namely, in the first 20 years of this century, luxury experienced only the positive cycle and only one aspect of the business: growth. The majority of our employees never needed to deal with a crisis. This is the first time they quickly need to cope with a scenario that is completely different."

Challenge 2

DIGITAL TRANSFORMATION

The luxury industry finds itself in dire straits between the ever-more digitally savvy consumer and market scenario on the one hand, and the slow pace of digital transformation, on the other hand.

Old processes and incomplete digital integration are strongly reflected in the siloed structure across organisations.

For instance, when it comes to data silos, oftentimes the data of the same consumer can be found in different 'buckets', resulting in brands not having a singular view of the customer. Similarly, siloed structure(s) among different channels is also strongly evident. Those two put together make the experience orchestration of individual customers very difficult, if not impossible.

In the given context, any attempt at large-scale personalisation, be it in the realm of cross-channel experience or product development, usually becomes an insurmountable challenge.

From the strategic perspective, there also seems to be a lack of focus when it comes to investing in innovation. LuxForward participants broadly concur on the omnipresent challenges in prioritisation of digital activities, and the lack of a clear digital leadership strategy.

As a matter of fact, in the margin-first luxury business, investments in digital technologies or digital business model variations need to be strategically driven from the top of the organisation to be justifiable.

Challenge 3

OPERATIONAL EXCELLENCE AND INTERNAL CAPACITIES

In their "business as usual," Luxury brands have been striving to improve the performance of their existing models of operation. In this respect, operational excellence stands for "ensuring that work is done as it ought to be to reduce errors, costs, and delays but without fundamentally changing how that work gets accomplished."

That is where operational innovation comes to play.

According to Harvard Business Review, "operational innovation means coming up with entirely new ways of filling orders, developing products, providing customer service, or doing any other activity that an enterprise performs."[4]

In parallel, however, as the industry is being dashed by the waves of fresh uncertainties and expectations, brands are also aware that operational excellence probably will not suffice.

The most growth potential, as well as business risk, are often concentrated at the intersection of achieving operational excellence and deploying operational innovation.

Bringing into play entirely new ways of doing business, while improving operations or as a result of that innovation, is a fine art.

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4 Deep Change: How Operational Innovation Can Transform Your Company, Harvard Business Review, April 2004. https://hbr.org/2004/04/deep-change-how-operational-innovation-can-transform-your-company

Digital skills & talent

Going hand-in-hand with the challenge of internal legacies inside the "luxury bubble", the lack of digital skills and talent is also impacting operational excellence. The latter should not only be seen through the prism of financial or technological achievements, but consider culture aspects too. The corporate culture needs to stimulate excellence by motivating teams to embrace continuous improvement and assume personal responsibility on that journey.

That mindset is rarely found within luxury organisations.

Additionally, the luxury industry—as many others—is a part of the 21st century's 'battle for talent'. The industry needs individuals with strong digital skills, who at the same time, possess a solid understanding of the luxury product and customer.

Over the last decade or so, brands went around this problem by outsourcing digital and e-commerce services. Today, however, the reverse trends of internalising omnichannel are placing a heavy burden on the HR departments of these brands.

"To succeed, we need an organisation that enables us to explore possibilities, not just to do what we already do."

The 'digital culture gap' within luxury organisations often impedes the successful delivery of objectives such as online sales acceleration, with product and budgets not being ideally allocated to different channels.

Innovation-wise, the digital culture gap also contributes to lost opportunities, with many innovative solutions available on the market and the lack of in-house staff with the right digital skills to assess them.

But it is not only about digital skills.

"This crisis will force us to apply a more 'ecological' approach to our brick-and-mortar distribution. People that got used to shopping online during the pandemic are not going to get rid of their devices. Of course, we all cannot wait to go out and explore. But I don't think that commerce will go back to what it was before Covid-19."

Channel consolidation and stock management

Luxury brands spent decades investing heavily in their brick-and-mortar distribution.

Now they are forced to reconsider both the distribution channel setup and the balance of profit and loss coming from different parts of that network. In addition, while a part of this assessment is operational, in some cases, it can have wide-ranging implications to the business model itself.

While experiential in-store retail will remain essential for luxury brands, digital channels will continue to evolve both as sources of inspiration and as sales channels – elevating ecommerce to a new level.

The role of digital channels in this context gains in importance. It also implies the deployment of new channels, such as concessions, as well as exploring new business models, such as rental or subscription.

With the proliferation of channels, handling inventory expansion and stock scarcity becomes a challenge.

It is probably in this area where the deployment of a robust technology is needed more than anywhere else across the brand value chain. The roadblock to that adoption is not the tech availability, but the complexity of integrating siloed data into a seamless system.

Brands report the need for a more robust stock management system, which would enable them to have a macro-view across channels, prioritize channels while ensuring the right product depth allocation, timely stock replenishment, frictionless returns, as well as consistent product information across the distribution network.

Ideally, it should not be only about stock management but also about planning and demand forecasting.

"For new revenue streams, one of the problems is finance, as we still do not have models that can fully recognise the value of new business models, such as subscription. Our commission and retribution models need to change."

Market opportunities: the backbone of tomorrow's luxury

There are a few macro trends in the luxury segment that have solidified over the last couple of years. How brands decide to tackle them and to which extent they succeed will undoubtedly shape the future luxury landscape.

Those include: discovering the luxury customer, embracing sustainability, as well as exploring new business models and distribution channels.

Unveiling the luxury customer: customer insight as the cornerstone of luxury experience

For decades luxury has been about the product: about its quality, beauty, exclusivity, the ritual of selling it and the prestige of wearing it.

Designers were the taste-formers. They were launching products into the world, following their aesthetic and commercial gut feeling, letting the trends catch on: no product testing, no focus groups, no A/B tests needed. They knew.

Enter: the Internet.

When shopping, today's savvy consumers have multiple commercial outlets at their disposal, both online and offline, together with a myriads of information sources for product research. As a result, they are far more difficult to catch and keep than was the case even a decade ago.

That is why, now more than ever before, luxury brands actually need to know who the individual customers are and what they want.

"The paradigm has shifted. Points of sale are becoming the points of experience. While all the touchpoints are becoming the points of sale."

Probably the most striking example of the lack of customer insight in luxury is the one regarding Chinese consumers.

Albeit an unprecedentedly strong revenue driver for luxury brands, the **Chinese customer** widely remains an unknown for luxury brands. The industry overall has no deep operational knowledge either about the consumer or the local digital ecosystem in China.

It does not end there.

Overall, LuxForward participants acknowledge a 'carpet' approach towards luxury customers globally, where the understanding of the customer perspective, behaviours and needs is not considered to a large extent.

This approach is problematic especially when it comes to dealing with a **new generation of customers**, whose expectations and consumption are completely different from those of their parents. They are digital natives, always online, who are used to and expect highly sophisticated digital experiences. To them, personalisation is no longer a benefit - it is a given and experiences are marred by its absence.

That is why brands need to act fast to fine-tune their product, communications and channel strategy in order to get in sync with, what will soon become, the largest segment of luxury buyers.

To win the young customers over, brands will need to find ways and new business models in order to come across as credible when relating to a generation which values experiences over possession.

It is not only about speaking their language, but about being able to deliver **digital experiences** that are far superior to what's available today. Gamification and different applications of virtual and augmented reality should be considered as viable approaches on that front.

Overall, there is an increased need for sophisticated customer segmentation that would help brands understand customer behaviour beyond the transactional and grasp consumer needs beyond the stated.

For that to happen, brands need to start collecting intelligence from diverse **internal and external data** sources. For example, monitoring more effectively what happens on social media platforms (social listening, social engagement, social commerce) is crucial. On the other hand, finding new data points within physical stores or showrooms could give valuable insights into consumer preferences (e.g. monitoring the number of times a certain item is touched and held in hand).

Solid **customer insight** is the foundation to create and deliver an impeccable customer experience.

Embracing sustainability: from aligning with the Paris agreement to creating new revenue streams

Sustainability has always been a challenge for the luxury and fashion industries.

The conundrum lies in the fact that while these industries effectively can control less than four percent of total greenhouse gas emissions, brands are still being pressed hard to demonstrate improvements throughout the entire **value chain**. Raw material production and textile production alone account for over 77% of estimated greenhouse gas emissions, and those are the areas unusually not under direct control of the brand. Similarly, clothing manufacturing, which may be in-house or outsourced, accounts for over twenty percent.[5]

The challenge of **collaborating with producers** on tracing raw materials on this journey has been expressed as one of the greatest roadblocks by LuxForward participants. While raw materials account for the lion's share of the carbon footprint of most items, the brands may have limited influence in monitoring or improving this part of their value chain.

For instance, tracing cashmere production, where Mongolia and China contribute to approximately 85% of the world's supply, is virtually impossible due to the restrictive regulations of the local governments.

Likewise, tracking and impacting the carbon footprint in an industry that has been driven to produce at a scale beyond the heritage of traditional luxury does come with its complexity, but with the technologies available today, tracing emissions across a significant portion of the value chain is feasible.

While the brands do have their hands tied in certain aspects, there is an abundance of areas where processes could be made more sustainable: **emissions, waste, recycling and circularity** being some of them.

Several industry initiatives which have the Paris agreement as their foundation are helping on this journey: the specialised industry guidelines in the UN's Fashion Industry Charter for Climate Action, several influential industry associations, as well as the Fashion Pact.

Next to certain regulatory practices coming into place, another important element nudging the industry from aspiration into action is the emergence of a more **socially and environmentally conscious customer**: the one that looks beyond words to deeds and, if not finding any that resonate with their values, is ready to move on.

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5 Fashion Industry Charter for Climate Action, https://unfccc.int/climate-action/sectoral-engagement/global-climate-action-in-fashion/about-the-fashion-industry-charter-for-climate-action

In this context, with the rise of re-commerce and the circular economy, brands are starting to recognise the opportunity by introducing circular offerings into the final part of their value chain, helping their consumers sell, buy or dispose of the product in a more meaningful way.

Technological innovation like blockchain and/or nano-chips are making authenticity verification easier as well as enabling platforms on which auditing suppliers and monitoring the entire value chain will become easier.

All things considered, abiding by the global sustainability standards—although a daunting task at the moment—will slowly become a hygiene factor across the luxury industry a few years down the line.

"Luxury is the one of the few segments that can truly treat sustainability as an opportunity. Simply because the price point in luxury is higher than in other industries, the costs of sustainability implementations could be amortised in the product price with a marginal impact on the customer."

That is why today luxury needs to move beyond considering investments into sustainability as an impact on margins, but rather an investment into the future:

- **strategically,** it can future-proof the brand aligning it with the raising importance the customer ascribes to sustainability;
- **financially,** it could open unexpected revenue streams, e.g. creating an independent solar grid for the brand headquarters could mean that surplus energy could be sold to others.
- **operationally,** it can be integrated with simultaneously improving operational efficiencies across the supply chain or in retail locations;

New business models and distribution channels: from fashion as a product to fashion as an experience

In moving from fashion as a product to fashion as an experience, change needs to happen on three levels:

a.   **Rebalancing the in-house 'omnichannel chimera'**, which brands created over the years by adding one sales channel on top of another without a holistic view. Today, this creates problems with product scarcity and with customer experience consistency.

Channel consolidation, is the only way of ensuring the desired experience for the luxury customer, even if it can have an impact on margins.

b.   **Redesigning the brand's distribution channels network** by finding ways of having more control of the brand image and sales. As already mentioned, multi-brand fashion platforms such as T-mall, Farfetch or Neiman Marcus, give little control to individual brands.

While trying to redeem that control in the multi-brand retail arena, brands could also explore new distribution channels that have already been used for years in other industries.

Those include numerous direct-to-consumer models, marketplaces and concessions, all of which offer direct control on brand image and pricing. Not only would this help boost revenues, but it would also provide for a higher customer experience consistency across channels;

c.   **Reimagining ownership models,** a clear business opportunity and a consumer shift driven by a growing customer desire for variety, sustainability and affordability. While the secondhand apparel market is expected to overtake fast fashion over the next decade[6], over the last few years, the confidence in the resale and second-hand luxury market has already been gaining momentum, leading to large funding rounds of the first-mover marketplaces in this space, such as TheRealReal, Depop, Fashionphile, ThredUP, etc.

With all of the big players in the arena currently being multi-brand platforms, individual brands need to accelerate the implementation of their 'shared ownership' strategies, including rental, lease, subscription, as well as their approach to selling digital fashion, gaming avatars, or similar. Missing this train would not only imply less revenues, but also a lost opportunity when it comes to a brand-new client engagement channel.

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6 Secondhand Could Supplant Fast Fashion in a Decade, ThredUp & The RealReal Are Leading the Way, Forbes, 26/03/2019 https://www.forbes.com/sites/sanfordstein/2019/03/26/resale-revamp-thanks-to-thredup-and-the-realreal/?sh=6475b0a41f3e

Driving innovation in the luxury sector

Innovation goes beyond technology.

For anything to be launched, monetised and adopted successfully, the right organisational, market and societal conditions are needed. Leveraging on those is what makes real innovation take place.

As shown in the previous chapters, key pain points in luxury gravitate around managing operational excellence, which is far more complex than simply deploying yet another technology. What makes a difference is how a given technology is integrated into the brand's organisational ecosystem, embraced by its people and put in service of the customer.

Unsurprisingly, the technology landscape in the luxury sector includes all the common place tech acronyms: AI, AR, VR, RFID, 3D, IoT, NFC, and the list goes on.

Some of these solutions are mature, ready to use and tailored specifically for the luxury industry. But the scenario is rarely one of plug-and-play: IT integration goes hand in hand with cultural and customer experience integration.

Indeed, deploying innovation requires an extensive cross-organisational effort.

With this in mind, LuxForward participants have identified a few innovation areas which, if approached cross-organisationally, could be game-changers for the industry.

"Nowadays, there are far more good technologies than good ideas."

Virtual fashion: digital and virtual asset management

Digitalisation of all the product-related activities across the value chain has an enormous potential in luxury. To name a few applications, this could include the usage of 3D technologies in virtual prototyping and sampling, virtual showrooming, usage of digital assets in contexts such as clienteling in the physical store, as well as on e-commerce or social commerce platforms.

Using **3d in virtual prototyping and sampling** works on two macro levels:

a. For a medium-sized global brand, the costs of prototyping and sampling usually amount to a few million euros. Moving prototyping and sampling to digital would allow brands to **cut costs, while at the same time enriching the user experience**. For instance, in a virtual showroom, not only are the costs of photography reduced, but the experience of the user is much richer when looking at a 3d-designed item, instead of a photograph.

b. Virtual asset creation also represents a **new business opportunity**, as brands are able to further sell them as virtual fashion products or digital skins in gaming, with marginal investments.

One of the core challenges in adopting virtual technologies in luxury is the *cultural shift* that needs to take place: starting from designers themselves, across marketing teams, all the way to the necessary investments in training and education of salespeople who would need to start using these new assets in their day-to-day clienteling activities.

"3D technology has the potential to revolutionise the industry and to future-proof it."

Reinventing the Luxury customer experience: tech-enabled personalisation as the ultimate Luxury service

At the moment, there is a powerful discrepancy between the Luxury brand positioning and the Luxury customer experience.

In order to be able to delight the customers in a personalised way, Luxury brands first need to get to know the customer much better, and only then redesign customer experience and engagement accordingly. It would not only mean opening up to the **voice of the customer**, but also creating a structure where that feedback is really actionable.

For an improved customer experience orchestration, the role of each touchpoint needs to be reassessed, in its form and content. Hand in hand, the way marketing, content and social media are used in this context becomes fundamental for an impactful customer experience.

There are multiple organisational implications that are a prerogative of delivering a **luxurious omnichannel customer experience**.

Those range from quality data capture and collection, including both internal and external data sources, across consumer data management in the light of GDPR and similar regulations worldwide, all the way to micros-segmentations and content creation.

"Looking at the finesse and sophistication of the product, there is a similar level of the attention to detail expected by the customer in customer service. It is an opportunity and a challenge."

Importantly, ensuring a coherent experience and brand image across channels is not always achievable also because of the lack of control. Especially on multi brand fashion platforms, individual brands do not have a full control over the product presentation, description or even the level and timing of discount.

With the blurring lines between physical and digital retail, amplified further by the pandemic, the moment is ripe to rethink the role of the physical store. This should come in parallel to boosting the digital online properties by, for instance, finding the ways of engaging all the senses, including touch.

In this context, it would be important to move towards 'Clienteling 2.0', by providing resources and training both for the physical store workforce and the UX teams.

On a different note, creating tailored customer experience approaches for certain geographical or generational segments that matter in the industry, such as Chinese customers or Gen Z, would also be a part of the overall customer experience orchestration.

"We assume that we can control the customer journey, but we cannot."

Product innovation: creating a product that 'speaks for itself'

Product innovation starts with materials. Climate change and pressure for transparency have been forcing brands to adopt more sustainable practices when it comes to sourcing, packaging, production and recycling.

What is more, technology has the potential to **enrich and amplify** certain product features and it can be efficiently used as a part of the brand strategy.

For instance, provided that the data quality at source is ensured, blockchain can be successfully employed in the service of traceability and transparency. That information can further be declined through marketing and communication materials aimed directly at customers.

Similarly, RFID and IoT technologies have proved extremely efficient in providing logistical information and product tracking.

Many of these technologies are mature and ready to be used.

At the moment, the introduction of new technologies and its correct mix highly depends on the creativity of brands, what they want the product to communicate and what data they would need to capture.

A look forward: a million dollar question for luxury

Following multiple discussions with the LuxForward expert panel, what emerges as the core—almost existential—question for luxury is: **what is the luxury product itself?**

Is it still that conspicuously branded bag? Any premium-quality item? A service that goes with it? A luxurious, personalised experience created for any customer, anywhere? Or is it something on the overlap of all of the above?

While there seems to be a shift from product to experience and **customer-centricity**, the industry is still cautiously exploring the edge between the two.

Some industry sources[7] see as an opportunity in the 'return to what made luxury great', being handcrafted, premium quality and lasting value. Others[8] foresee a radical change where the industry will turn into a market for cultural and creative excellence.

Eventually, the right mix of bricks, clicks, culture and tech are going to be idiosyncratic for each individual brand.

"Customer-centricity is a new concept in luxury. This industry was built on the mentality of being a trend-setter: designing upfront in line with our brand values and simply putting the product in front of the customer. Now the scenario has flipped and we realise we cannot be disconnected from our clients."

7 Luxury Turns From Conspicuous To Conscientious In 2021: Challenges And Opportunities Ahead, Forbes, Jan 21 2021.
   https://www.forbes.com/sites/pamdanziger/2021/01/10/luxury-turns-from-conspicuous-to-conscientious-in-2021-challenges-and-opportunities-ahead/?sh=53e4975a9bea

8 Luxury forecast for 2021, Luxury Tribune, 10 Dec 2020. https://www.luxurytribune.com/en/luxury-forecast-for-2021

Conclusion

The present LuxForward report is a result of a Delphi study, carried out during a series of workshops in the spring of 2021 in collaboration with a panel of experts from the luxury sector.

The goal was to explore the challenges and opportunities in the luxury industry, especially given the acceleration of innovation driven by the pandemic, but also highlighted some serious industry challenges and inefficiencies.

While the surge in e-commerce, the Asian consumer and digital adoption continue to drive the industry forward, there seem to be several important challenges that are deeply embedded within the industry and are endangering its future growth. As elaborated in the first section of this report, those include internal cultural and IT legacies, the slow pace of digital transformation, as well as the insufficiency of operational excellence and internal capacities necessary for a transformational change.

On the positive side, in the given market context, the luxury industry is presented by several opportunities which, if tackled strategically, will make a difference.

As outlined in the section about opportunities, those include an even stronger customer-centric approach, as the base of any luxury experience that a brand would like to tailor. It is followed by the possibility of turning sustainability into a business opportunity, along with a chance to explore new business models and novel distribution channels to re-accelerate growth.

As discussed in the chapter about innovation, industry insiders see a strong potential in LuxTech-enabled business processes, including digital and virtual asset management, personalisation and customer experience orchestration, as well as product design and product connectivity.

While the successful deployment of these solutions goes beyond technology and well into the realms of organisational excellence and corporate culture, one fundamental question remains: what is the luxury product going to look like.

It appears that the redefinition of what the industry wants to stand for in the future is underway.

LuxForward expert panel participants

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Alexandra Béhêtre Global Marketing CRM/Online Head at Dufry

Fulvio Benetti Corporate CRM & Sustainability Director at Zegna Group

Francesco Bottigliero iCEO at Brunello Cucinelli

Antonio Carriero Chief Digital & Technology Officer at Breitling

Francesco Cicognani Senior Vice President Apparel Products at Hugo Boss Ticino SA

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About us

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Loomish SA is a Swiss-based investment management firm specialised in Lifestyle Tech, with a focus on Fashion, Food, Travel and Design industries. We are committed to accelerating value creation for all the players within the lifestyle retail ecosystem: investors, digital start-ups and established corporations looking for innovative solutions. Find out more on LinkedIn @Loomish_SA and www.loomish.ch..

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-spring 2021-