

LUXURY AND TECHNOLOGY

What is the role of technology in supporting,
advocating and reinforcing the luxury experience?

WALPOLE

CBRE



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EXECUTIVE SUMMARY

Walpole is delighted to work with CBRE, our Strategic Partner, to bring you our latest report into luxury and technology. This report marries CBRE's expertise and experience of the global property market with Walpole's unique insight into Britain's high-end sector, as the official body for over 250 of the UK's most exquisite luxury brands.

Although the UK retail market has faced uncertainty over the past year as a result of the EU referendum, the luxury sector's performance remained strong. According to Euromonitor, UK 'Luxury Retailing' has grown 33% from £3.4bn in 2012 to £4.5bn in 2017. The UK's high-end creative and cultural industries also account for over 2.2% of the UK GDP (Walpole, 2015).

While the result of the referendum hit consumer confidence and spending power in the UK, the favourable pound has sparked an influx of tourism and has contributed to an increase in luxury spend. Deloitte also noted in Global Powers of Luxury Goods (2017) that although almost half of the luxury purchases are carried out in foreign markets or while at the airport, the appetite for purchasing luxury goods in the domestic market increases with age. This would imply that in part purchasing behaviour is also linked to age or a specific generation.

The report explores the generational differences in the use of retail technology and how luxury retail is using technology in-store and online to enhance exemplary service provision. Catering for generation-specific customer behaviour, many luxury retailers take advantage of the breadth of retail technology to enhance the existing, exceptional in-store services for their customers. One important element of this is e-commerce. A survey by McKinsey and Walpole (2016) found that 42% of Walpole's members saw the expansion into e-commerce as an important driver for growth between 2010 and 2015 and 57% believed they had suffered from an underinvestment in e-commerce.

While the advancement of retail technology is a fantastic opportunity for luxury retailers and the wider industry to enhance their existing service provision in-store, retailers need to strike the right balance between complying with the desires of each customer and staying true to what the brand stands for. It is important to tailor in-store retail technology and online presence to align with the in-store experience and the brand strategy.

E-commerce and the in-store experience should not be considered as separate entities, but collectively. Some retailers embrace the breadth of retail technology to increase their reach. However, other luxury retailers have consciously made the decision not to sell their products online and remain solely in the physical store. For the majority of luxury retailers, e-commerce is gaining importance as a channel that complements the in-store experience. And though the customer cannot touch the products, many brands and multi-brand retailers have found significant success selling online.

The analysis conducted for this report aimed to identify the role of technology in supporting, advocating and reinforcing the luxury experience. It becomes clear that we are only at the beginning of exploring and understanding how technology can be utilised best to enhance the customer experience and it will take time for luxury retailers to find the right balance of traditional in-store experience and the implementation of technology. And while some luxury retailers include retail technology and e-commerce in their store operation, others see them merely as a separate way of purchasing the product or refrain from selling their product online at all.



KEY FINDINGS



Retailers will continue to face challenging times. However, the luxury retail sector has performed well over the past five years and is expected to grow further partly due to the favourable pound and increased demand by overseas tourists. Many luxury retailers have identified e-commerce as one of their main priority areas over the next five years.

Many luxury retailers have recognised the importance of providing in-store retail technology and e-commerce platforms to cater for the next generation of luxury customers. However, it is important to be selective about which retail technology to use in-store, to provide a high-quality e-commerce website and to extend the brand's presence to social media platforms. This will ensure that the brand will remain authentic and can stay true to what it represents.

The use of retail technology and e-commerce in the luxury sector has huge potential, but also poses challenges for luxury brands. Showcasing products online might encourage counterfeit activity and lead to a perceived loss of authenticity of the product. Some luxury brands therefore deliberately choose to not sell their products online and only showcase their brands in the physical space.

Providing retail technology including e-commerce is an important element to attract and retain the next generation of luxury customers who will spend less on luxury in the short term, but will overall be a larger segment of our society over the next decade. It is therefore crucial for the luxury industry to incorporate technology to create a seamless omnichannel environment while staying true to brand.

The physical store is an important element for luxury retailers to showcase their brand and helps to create a connection to the customer. Opening a store in the right location is therefore key to successfully showcase the brand.

THE PERFORMANCE OF THE LUXURY RETAIL SECTOR

The UK retail industry is expected to face continued challenges. Consumer spending is set to slow due to rising inflation and Brexit uncertainties. While local retailers feel the pressure, those international retailers exporting outside of the UK will benefit. While domestic spending is set to weaken in 2018, the favourable pound is expected to draw overseas tourists to the UK. This will have a positive effect on retail sales, allowing tourists to spend more.

According to Euromonitor, 'Luxury Retailing' increased 33% from £3.4bn in 2012 to £4.5bn in 2017. Part of the growth in 'Luxury Retailing' can be attributed to increased tourism spend, due to the favourable pound. According to Visit Britain, visits from 'Rest of World' (excluding Europe and North America) increased by 30% in October 2017 year on year, which was a record increase. Purchasing luxury goods abroad is often favoured by customers in emerging markets, as customers are able

to access a broader range of products or luxury goods which are not available in their domestic market. Statistics from Deloitte's *Global Powers of Luxury Goods* (2017) show that the majority of tourists from emerging markets purchase luxury products when travelling at the airport or abroad.

International air travel is expected to double over the next decade to 7.8 billion according to the International Air Transport Association, and this brings a whole new consumer base into close contact with luxury products. Increased tourism supports the need to be in the right location with easy access and to offer a great experience. The latest statistics from Global Blue (2018) suggest that for both Bond and Sloane Street, Chinese transactions made up the largest proportion between January and April 2018, with 22% and 12% respectively. For the West End, the share of Transactions of Chinese tourists was 14% between January and April 2018.

FIGURE 1: WHERE DID EMERGING MARKETS PURCHASE LUXURY GOODS?



Source: Deloitte, *Global Powers of Luxury Goods*, 2017

The UKCVA (2018) further noted that Chinese tourist numbers rose by over 150% between 2012 and 2017.

Changing consumer behaviour

Many retailers are utilising the breadth of new technological innovations to enable a seamless omnichannel retail experience for their customers. This development will have a significant impact on the retail real estate industry as retailers will adapt the way they operate, which will ultimately have an impact on their store requirements. This might include the rollout of 'showroom' type stores where customers can experience the product first. Customers are then able to purchase the product online in-store and would be able to get the item delivered at home.

Customer behaviour and increased expectations are driving the implementation of retail technology. Retailers use technology to enhance the customer experience in store and create an additional way of showcasing the brand. The next generation of luxury customers will currently spend less on luxury products, but they are likely to purchase higher volumes of more affordable luxury goods and will prefer to use technology to carry out their purchases. It is therefore important for luxury retailers to understand the next generation of customers in order to leverage their purchasing power and to increase brand loyalty for when they are able to afford their high-end products.



FIGURE 2: SHARE OF TRANSACTIONS BY COUNTRY JANUARY - APRIL 2018

Bond Street | Sloane Street

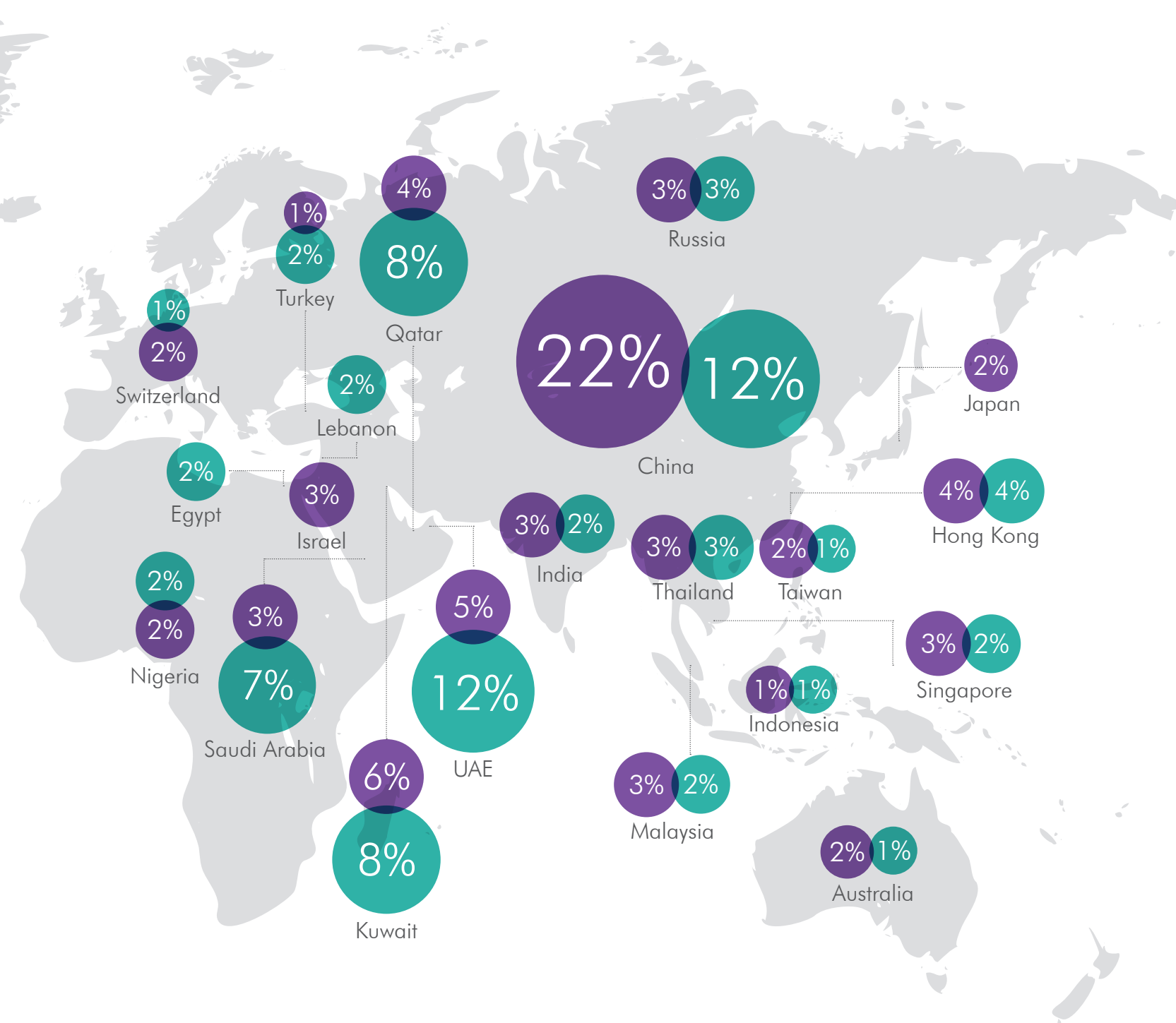
The next generation of luxury consumer

The next generation of luxury shoppers is currently in their 20s and mid-30s and therefore does not yet have the financial means of the highest earning households. But their market share is considerably larger than that of the very affluent segment of the UK society, which makes this group a very valuable customer to the luxury industry. This segment is expected to increase their earnings significantly in future and become an important customer for the luxury industry in future (Cegit, 2016). So brand loyalty becomes an important aspect at an early stage.

Two demographic cohorts - Millennials and Generation Z (Gen Z) – should be considered as the next generation of luxury shopper. To understand the impact that these groups might have on the luxury sector, it is important to explore the main characteristics of Millennials and Gen Z.

Even though Millennials (born between 1981 and 1996) have experienced the evolution of technology, they generally prefer to carry out their purchases in-store. They want to see, touch and try out the product before the purchase.

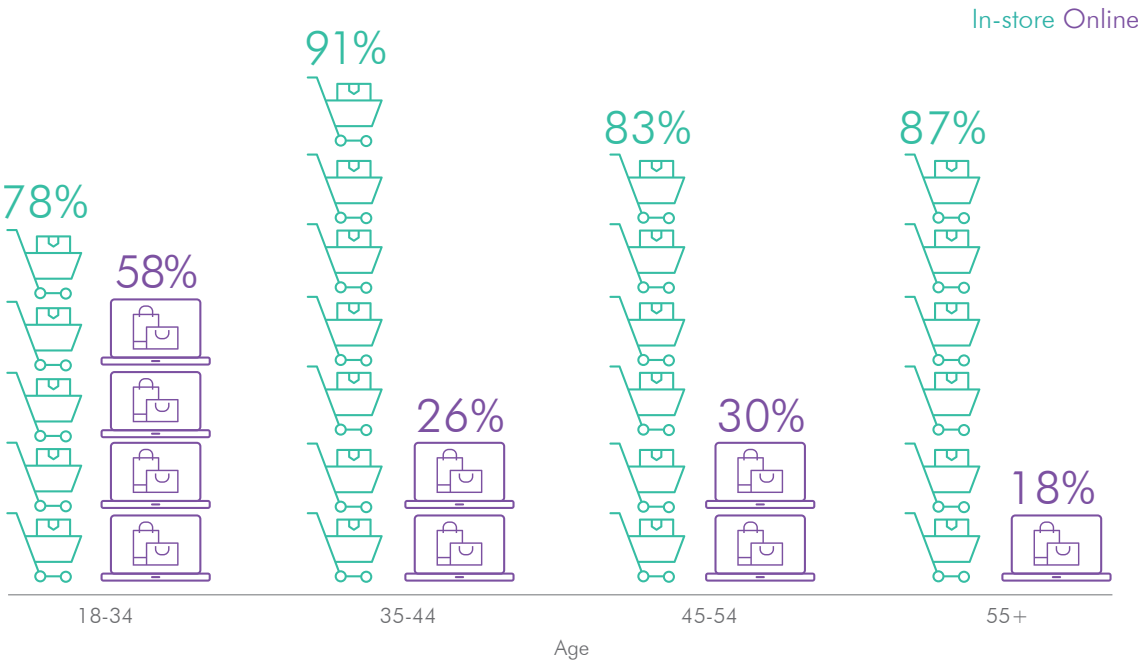
This age group also sees shopping as part of a leisure activity and therefore expects an experiential environment when they shop. Store design and position will therefore become increasingly important to facilitate an experiential environment for their customers who use technology to suit their lifestyle. Millennials also expect a convenient shopping environment as part of the service provision in-store. They want to try and return items quickly, not have to wait to pay and be able to order items in-store (CBRE *'Millennials Myths and Realities'*, 2016). This purchasing behaviour of Millennials also applies to luxury goods. They purchase 58% of luxury goods online and 78% in-store, which indicates



Source: Global Blue, 2018



FIGURE 3: WHERE DO LUXURY CONSUMERS MOST OFTEN BUY LUXURY PRODUCTS? (UK ONLY)



Source: Deloitte, The Luxury Opportunity, 2015
Note: In-store – total of department stores, mono-brand stores and other physical (excluding airports)
Online – total of brand-owned websites and online market-place channels

the significance of providing a seamless retail environment across both (Deloitte, *The Luxury Opportunity*, 2015). However, the store remains the main mode for luxury purchases.

Millennials were exposed to the evolution and development of information technology, Gen Z have been connected to this technology since they were born.

Gen Z (born between 1997 and 2010) has been connected to information technology since birth and the fast changing consumer technologies have strongly shaped the behaviour of this generation. The development of devices and information services have shaped Gen Z's expectations to have instant access to knowledge and allows them to purchase an unlimited range of goods from wherever they are and get

them delivered to wherever they want (*Fung Global Retail & Technology*, 2016). While Gen Z has an expectation to be able to access anything instantly and harnesses the breadth of technology to achieve this, the majority of Gen Z will still make their purchase in-store. A reason for this could be Gen Z's limited access to card payments. While 19 to 21 year-olds purchase 84% of their goods online, 13 to 15 year olds only purchase 69% online.

Looking at the next generation of luxury customers, it will be important for luxury retailers to provide a shopping environment with enhanced mobile functionality. It will be important to provide a purchase experience, where Gen Z can interact with the brand based on their preferred activities and lifestyle. Stores will need to provide an experiential environment

that exceeds Gen Z's expectation and simultaneously allows them to shape their own experience. Luxury retailers could also harness Gen Z's interaction with technology to advocate their brand through social media. This would allow luxury brands to connect with the next generation of luxury consumers and create brand loyalty (National Retail Federation 2017).

It is important for luxury retailers to strike a balance between staying true to themselves and what their brand stands for and simultaneously accommodate the customer's expectations and behavioural changes. Understanding what their expectations, aspirations and behaviours are is therefore crucial to attract the next generation of luxury shopper.

THE ROLE OF TECHNOLOGY IN THE LUXURY RETAIL SECTOR

Technology within luxury retail can be split into two main areas: the utilisation of retail technology to improve the in-store experience, and e-commerce platforms. Both must be focused on providing the very best customer service, optimising the purchasing process and providing the most convenient fulfilment options. We examine both of these aspects below.

In-store technology to enhance customer experience and service provision

Maintaining a physical presence is particularly important for luxury retailers with the in-store environment a key facet of the luxury brand experience. Technology can be, and is being, used to develop this experience, encouraging customers in-store, showcasing the story behind the brand and justifying the higher price points. Luxury retailers are mostly found in the busiest locations with many potential customers passing each day. The clustering of luxury retailers at key locations such as Bond Street and Sloane Street means that a greater proportion of passing shoppers is likely to be able to afford the products on show. However, this means that each retailer must work hard to differentiate its store experience from

the surrounding shops. Utilising in-store technology is a key way to do this. Burberry repositioned itself as an 'end to end' digital enterprise, leading the way in utilising in-store technology.

Its flagship store on Regent Street is a unique audio-visual experience. Floor-to-ceiling screens display catwalk footage, supported by hundreds of surround sound speakers. Screens and mirrors, dotted around the store, display tailored multimedia content as people approach – such as catwalk videos or more extensive product displays. The use of these screens enables retailers to place fewer items on the shop floor, creating a minimalistic display while adding to the exclusive feel for the brand. Meanwhile, all store staff have tablet devices that can display a customer's purchase history and therefore help them to provide advice on suitable products. These initiatives all add to the personalised store experience, supporting the luxury nature of the brand through the use of technology, and reinforcing consumer desire to visit the store. In 2015 the brand announced that its personalised customer management programs led to a 50% increase in repeat customers (Forbes, 2017).



Harrods has also embraced technology and incorporated it in its bricks and mortar store. The luxury department store launched its store mobile app in 2011 and has since continuously developed the offering. The latest version features beacon technology which helps customers to navigate through the store whereby they can enter a destination and the app would then show the route to the product. Harrods is also partnering with Quividi to be able to anonymously track customer responses to digital advertising. This helps the advertiser to identify who the audience are for each campaign and provides Harrods with information on who is visiting its store and which brand they are interested in (Insider Trends, 2016). As part of their £200m ongoing revamp, and in recognition of the importance of Chinese customers, Harrods introduced Alibaba's digital payment system, Alipay and plans to introduce Tencent's WeChat Pay this year.

“Part of our next generation investment is moving from a simple cash-and-wrap to a totally experiential process. That means, we will still be selling online, but shouldn't forget that there is still a place for that customer who wants the ultimate experience.”

Michael Ward,
Managing Director of Harrods





“Gaining insight into the emotional side of the customer journey will be crucial in how physical and digital experiences are transformed. Innovative luxury businesses are already experimenting with technology that recognises and measures biometrics, including facial recognition, emotions and even the subconscious. We have always been aware that significant parts of purchase decisions are irrational. The years ahead will bring the ability to track, measure, analyse customers’ feelings and I believe that emotional data will prove to be more valuable in optimising experiences than demographic or transactional data.”

**Trevor Hardy, Chief Executive,
Future Laboratory**

“At Farfetch we are looking at how people will shop in 5, 10, 20 years’ time and working towards building the omni-channel experience of the future; where both online and offline shopping is connected and the customer experience is in the centre. We are reinventing the retail experience of the future. With Store of the Future, we are developing a wide range of technological solutions which can be completely tailored to the needs of each brand or retailer and their customers. It’s about seamlessly merging a fantastic physical experience with subtle and meaningful technology to deliver a completely personalised and connected customer journey.”

**José Neves, Founder,
Co-Chairman & CEO of Farfetch**

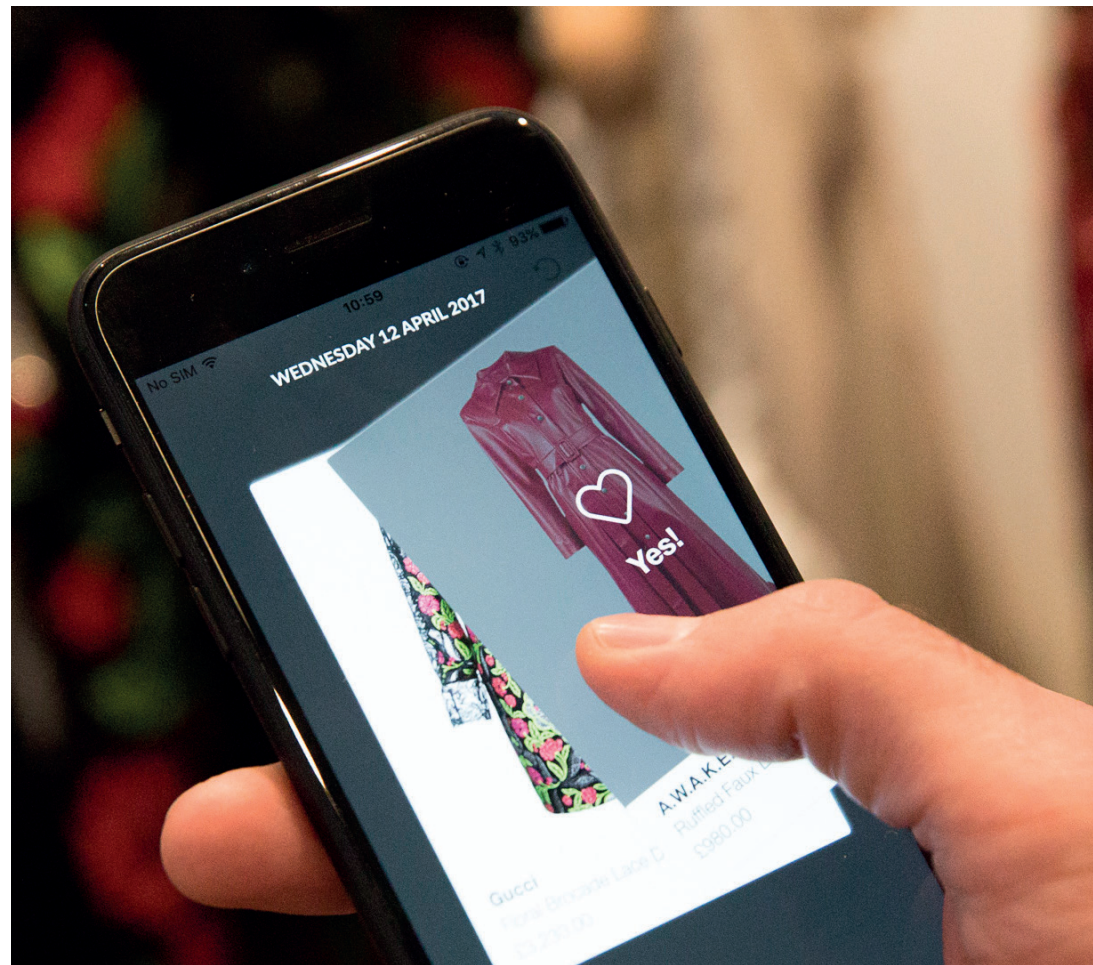
Finally, the luxury retailer Farfetch earlier in 2017 showcased its beta version of ‘Store of the Future’. The beta version included connected clothing racks where RFID recorded items enabled customers to store details on their smartphones; and mirrors were equipped with digital touch screens, which had a sign-in function that would allow the retailer to use customer data collected online in-store. Another example of ‘Store of the Future’ technology that was shown was a scanner where customers could ‘log in’ in-store which would allow shop assistants to view customer profiles and the items they bought. The beta version also featured a holographic display where customers could create and order custom shoes (Farfetch, 2018 and Bloomberg, 2017).

Collecting data to understand customers is an essential way for brands to improve the in-store experience and create a customer-centric environment. The data can also be used to combine customers’ online shopping habits with those in physical stores. In-store beacons and Wi-Fi hotspots can be used to help track who is coming into the store, as well as their movements once inside. Not only will this information help brands understand what consumers are most attracted to in-store, but it will help build up a profile for each shopper. Luxury brands will have a smaller number of regular shoppers than mass-market retailers, meaning they will be better positioned to understand each individual customer. Sending updates to store staff as customers come into stores, which analyse previous purchasing habits both online and in-store, will help staff provide more effective advice and enhance in-store service provision.

Meanwhile, other luxury brands such as Celine still choose not to provide a transactional website. This is something we think will change in the future, as brands come under pressure to meet consumer expectations, including a greater number of shoppers becoming accustomed to spending significant sums of money online.

Luxury brands embracing convenience as part of service provision

For some luxury brands, such as Gucci, technology is being used to improve customer service and to diversify the way in which it reaches potential customers – while maintaining the premium service that the brand and price represents. Gucci teamed up with Farfetch in 2017, announcing a ‘store to door in 90 minutes’ fulfilment guarantee, spanning ten major cities including Paris, Milan, New York, and London.



“Customers want to experience brands on their terms, whether from their mobile, desktop, or in the store. Whichever they choose, great service and high quality, personalised content is the key point of differentiation. Today, that means delivering a beautiful online and offline retail environment that reflects the brand’s personality, and most importantly, connects the physical and digital experience. This is especially important in luxury where the digital experience needs to embody the same level of exclusive service customers come to expect comparative to multi-brand retailers.”

Paolo Mascio, President, Online Flagship Stores,
YOOX NET-A-PORTER GROUP

A fully transactional website is crucial

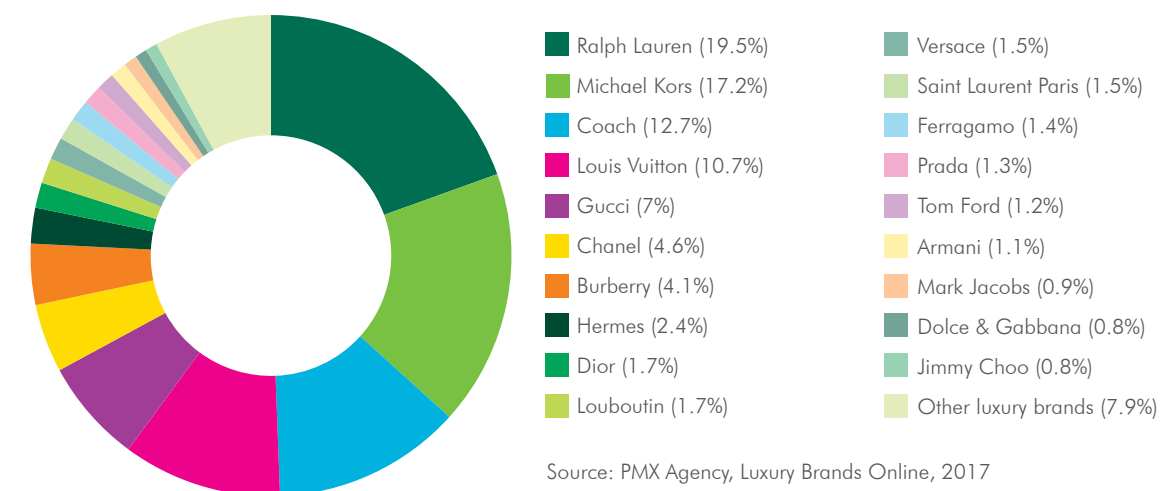
E-commerce is the major growth channel in retail; CBRE expects it to increase its share in the UK to around 19% of all retail sales at the end of 2021. Therefore, despite wanting to maintain brand exclusivity, and trying to encourage consumers to make the most of the in-store experiences that come as part of the luxury brand experience, retailers who choose to avoid providing at least a fully transactional e-commerce platform might alienate themselves from shoppers. This is particularly the case with younger, more tech-savvy consumers who complete an increasing amount of their shopping online, with particular growth expected through mobile purchases.

According to the PMX Agency’s *Luxury Brands Online* (2017) report, Ralph Lauren and Michael Kors are the most popular websites by visits. Burberry is

seventh, Mark Jacobs 17th and Jimmy Choo 19th for the most visited website. The top eight luxury brands account for 78% of luxury category traffic.

The almost unavoidable requirement to have an e-commerce platform means all luxury retailers must, at the very least, consider the launch of a fully transactional site. This should be completed with the core focus being to provide a simple process from browsing through to delivery. One example of this was the relaunch of Fortnum & Mason’s website to be a fully responsive e-commerce site in 2015. The relaunch centred on reinforcing the in-store experience expected by customers coupled with a relentless focus on user experience. The success of their redeveloped website has in part contributed to online sales growing 78% in three years according to Zia Zareem-Slade, Customer Experience Director, Fortnum & Mason.

FIGURE 4: ONLINE MARKETSHARE BY BRAND



“Our view is that the search function will become more and more relevant to this – anything that will allow a retailer to understand each customer’s individual preferences in order to personalise the online experience from the moment he or she lands on the page. AI is and continues to be a powerful differentiator in achieving this.”

**Paolo Mascio, President, Online Flagship Stores,
YOOX NET-A-PORTER GROUP**

There does not need to be a compromise between authenticity and luxury on the one hand, and simplicity and functionality on the other. The minimalistic style we would expect from luxury brands in-store can be reflected online using hidden banners and interactive displays. Product descriptions can be used to convey the quality and luxury of an item. Videos can be used to display products in optimum environments, using the best lighting, and allowing the consumer to feel like they are viewing the product from every angle. Editorial content and social media must be utilised to ensure the brand’s image is reflected outside of the store. At a functional level, the user interface should be easy to navigate, the payment process must be kept simple, and the fulfilment and returns options should be made clear.

YOOX NET-A-PORTER GROUP (YNAP) is the online luxury fashion retailer behind NET-A-PORTER, MR PORTER, YOOX and

THE OUTNET. YNAP also runs a division called Online Flagship Stores which manages the e-commerce and fulfilment for over 30 leading luxury brands and is increasingly offering brand partners omni-channel services such as return in-store. In 2017 the Group had over three million customers, received over 840 million visits worldwide and took over 9.5 million orders, accounting for net revenues of €2.1bn. The Group sees omni-channel retail as essential in creating a seamless and personalised experience for customers.

It is therefore focused on developing Artificial Intelligence (AI) tools, such as an AI-enabled virtual personal stylist tool which offers recommendations based on personal preferences, local surroundings and image recognition. As over 50% of the visits to YNAP’s websites are made via mobile devices, providing a frictionless customer experience across this channel is a key focus.



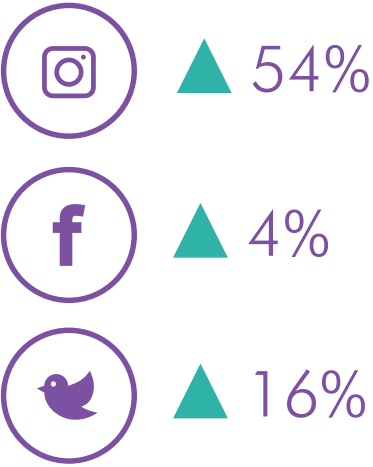
Challenges selling luxury products online

The perceived loss of luxury due to counterfeit products, and returns, pose major challenges for selling luxury products online. When luxury retailers allow their products to be sold online, particularly through third party vendors, they increase the possibility for counterfeit items to be sold more effectively through the same or similar sites. Some of the largest online marketplaces in the UK have come under heavy scrutiny to prevent the sale of such counterfeit items. However, in December 2017, the European Court of Justice (ECJ) ruled that suppliers of luxury goods are not breaking European Union law if they ban distributors from selling their products on websites that are deemed not to ‘preserve the luxury image of goods’. This was a major step for luxury brands, safeguarding them from overexposure through large online marketplaces that could damage the all-important feel of exclusivity and authenticity that retailers work so hard to create. This means that luxury players can remain unencumbered by the rapid growth of some online marketplaces that are causing significant disruption to almost all other retail sectors.

The return of products poses another challenge for retailers. Being able to purchase products online anytime and anywhere and fast deliveries within a day offers customers convenience. However, Clear Returns estimates that returns cost retailers £60bn a year out of which £20bn were for items purchased online. Although returns still pose a major challenge for selling luxury products online, retailers could mitigate this challenge by offering in-store returns for products which were purchased online. Providing high-quality images of the product and sufficient information on the product also helps to reduce the number of returns (Invesp, 2017). Utilising Augmented Reality and virtual fitting tools will help customers to visualise and determine the size of the product prior to purchase and helps to reduce returns.



FIGURE 5: SOCIAL MEDIA PLATFORM YEAR ON YEAR GROWTH



Source: PMX Agency, Luxury Brands Online, 2017

Another element to reduce returns and create a unique experience is the customer service aspect within luxury retail stores and is a vital part of the transaction process. This often includes a free glass of champagne upon arrival and the personal connection between brand and consumer effectively communicated through store staff.

Social media opportunity

Utilising social media platforms such as Facebook, Instagram and Twitter, is how retailers will truly capture the younger generation of shopper, and learn intricate details about how these people interact with retail on a daily basis. Supreme, the skateboarding brand which collaborated with luxury retailer Louis Vuitton in 2017, has used the hype that can be created on social media to its advantage, creating an aura around its products and brand name.

According to PMX Agency’s ‘Luxury Brands Online’ 2017 social media followers of 80+ selected luxury brands rose by 27% since 2016 and have had a combined total of 564 million ‘likes’ and followers across social media platforms Facebook, Twitter and Instagram. Instagram increased their audience between 2016 and 2017, surpassing Facebook and Twitter.

However, the luxury price tags and insatiable consumer desire for Supreme labelled clothing has resulted in many counterfeit businesses attempting to replicate products. Supreme recently won a court ruling which concluded with the seizure of 120,000 counterfeit items from companies in San Marino. There is the additional issue of those fortunate enough to purchase items through Supreme Drops and then resell the items online. Similarly, when the Supreme Drop happens online, there have been reports of people using custom-made online shopping bots to make purchases in split-seconds. These present major issues with maintaining authenticity and exclusivity while catering for the expectations of younger generations.



Balance between in-store experience and online

One way of maintaining exclusivity and authenticity, while continuing to drive footfall at physical locations, would be to provide a limited supply of goods online. Withholding the most exclusive products so that they are only available in-store would maintain the exclusivity of the brand while expanding its reach to a wider customer base.

The battle between what consumers have come to expect in terms of a multi-channel approach, and retailers' desire to maintain what the brand represents in terms of authenticity, is one that the consumer looks likely to win. The growth of luxury spend attributed to online sales is going to continue, and retailers who choose to embrace this will see the greatest revenue growth.

However, for now, the store is still the key battleground. The majority of luxury revenues come through in-store

purchases and therefore retailers need to ensure that the experience in their store overshadows that of their competitors. It is also extremely difficult to quantify the additional online revenue that a store generates online. This is an issue faced by store managers across retail who are seeing footfall falling and sales moving online, but are not necessarily being accredited with the impact their store had in the purchasing process.

Stores have a vital part to play in generating online sales. They keep the retailer at the forefront of people's minds, can be used to create an aura around the brand, and can increase the feel of exclusivity. Research firm Global Data (2017) finds that 84.4% of total retail sales in the UK involved a physical store in 2016, including the browsing or collecting of items. For luxury brands in particular, the store is vital as consumers are more likely to want to touch and feel high value items prior to purchase.

WHAT ARE THE IMPLICATIONS OF CHANGE IN LUXURY FOR THE PROPERTY SECTOR



Whilst retail technology and online retailing is gaining importance, the simple truth is that luxury brands need stores. Having a store in the right location has never been more crucial. And while the growth in online is important, people still have a desire to touch, try and see products. Whilst online is an excellent communication channel and a very effective functional medium, it is not yet as engaging for a consumer as a store.

Online presents a challenge for experience-oriented retailers

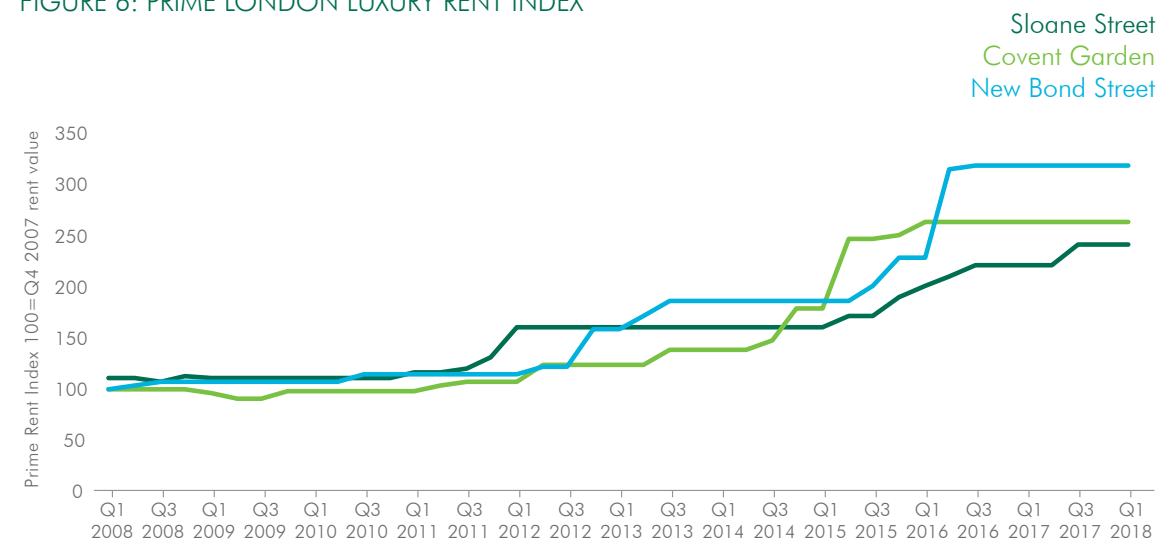
Much has been written about the experience economy (a term first used in 1998 by B. Joseph Pine II and James H. Gilmore to describe the next economy following the service economy). The premise is that businesses can charge for the value that is created by the 'transformation' that an experience offers. Whilst the initial thinking was not founded on the luxury sector, the general principle still applies. A business focused on products charges for the

tangible item whereas a business that focuses on experience charges for the feeling consumers get by engaging with the brand. Luxury brands sell items but they are primarily selling an experience. The component parts of the items purchased do not justify the price in and of themselves; the value of the product is in the brand equity being bought into. A website can provide a great user experience but it's much more difficult to create a luxury experience which creates this additional value.

While Tiffany & Co. has embraced digital technology and online retailing, bricks and mortar stores have remained a crucial element of their strategy. Their aim is to create an environment where their customers are able to interact with the brand in whatever guise they want. The retailer therefore added click and collect in 2016. And while most of their customers shop either in-store or online, the luxury jewellery and speciality retailer has seen an increase in online sales in London, where they currently have seven physical stores. For Tiffany & Co. the presence of the store will continue to be fundamental. This is especially the case since the price points within the luxury industry are higher and customers therefore want to see, touch and feel the products before the purchase.



FIGURE 6: PRIME LONDON LUXURY RENT INDEX



Source: CBRE Research, Q1 2018

Likewise, Fortnum & Mason, the renowned food brand, currently has three physical stores in the UK, including its flagship store in Piccadilly. The brand also has strategic partnerships in key territories and representation at stockists worldwide. Providing an exceptional customer experience across all channels is key to the success of Fortnum & Mason. Zia Zareem-Slade, Customer Experience Director at Fortnum & Mason confirmed in an interview with CBRE that maintaining the brand's heritage and tradition of its history is a vital part of creating an experiential environment for their customers where they can connect with the brand. And while e-commerce and retail technology are of importance, they should be used appropriately to enhance the customer experience and provide additional service and convenience for the customer, rather than being implemented for the sake of it.

The role of the physical store is changing

The role of the store in retail is changing. The optimum strategy is no longer to open a series of stores to cover as many relevant consumers as possible. For many retailers, their online store is now the biggest single outlet they

have. The over-riding aim should be to link the stores and the online platform to deliver a seamless experience. The challenge for luxury brands is how they can position a website to reflect the essence and integrity of an incredible store. Online remains a 'look don't touch' environment.

Stores are about an experience and about quality of service. Luxury retailers aim to ensure that from the moment the consumer walks through the door they should be greeted with an experience that makes a clear statement about the brand in question. This is one of the main reasons that stores are so important in the luxury sector. Many industries are nervous about the potential negative impact of automation and robotics. The luxury industry is one where the presence of a trained sales associate will be hard to replicate. People like to engage with people and they want to be part of a luxury occasion. The purchase of a luxury item creates a story; it's a memory of a point in time. The people who work in luxury brand stores will be trained so they are 'the' point of difference. They know all about the products, all about the brand and they are part of the experience.



The continuing allure of specific luxury retail locations

The key luxury streets in the UK retain their prestige and allure. Bond Street, Sloane Street and Covent Garden are incredibly important in the development and growth of a brand. Representation through a store in one or more of these locations is a statement about what the brand stands for and what the consumer should expect. The competition for these locations means that rents are relatively immune to the vagaries of economic cycles.

Streets that are recognised for their luxury tenants are unlikely to decrease in importance in the short to medium term. However, new areas will also become

known for luxury brands. One example of this in London includes Covent Garden which has been revitalised over the past decade. Since Capital and Counties' first major purchase of the Covent Garden Estate in 2006 their proactive asset management strategy has modernised the area whilst maintaining its historic features. Changes included a new blend of retail. Over the past seven years, Burberry Beauty, Mulberry, Jo Malone, Chanel Beauty, Dior Beauty Boutique, Armani Box and Tom Ford opened in Covent Garden. The revitalisation of the area has led to 40 million customer visits per year in 2017, of which 41% were international. This has attracted luxury retailers to open new stores.

Despite the ongoing structural changes described in this report, the real estate industry is in a strong position with regards to luxury. The luxury sector is less likely to be damaged by the growth of online than many others. The reasons for this are clear:

- People want an experience and a store is best able to deliver this
- The products being sold are not commoditised. Stores are equipped to offer a tailored experience and to promote the rarity value of an item
- A store is possibly the best marketing vehicle for a brand – the location and presence of peer brands makes a clear statement of what the brand represents
- Logistics (delivery and returns) are a major part of online retail; the luxury experience in store can be managed from point of entry to purchase and beyond. When buying online, the delivery process is convenient but could not be described as luxurious

Luxury retail brands need stores. Luxury consumers like to visit stores. Whilst stores are about delivering the experience and a memory, online is often best placed to communicate and to educate the customer about the product and brand.

Selecting the right store location is crucial

Recognising the importance and power of showcasing their brand and products in a physical store environment, it is crucial for luxury retailers to understand proposed new store locations. Acknowledging the need for both retailers and landlords to make informed strategic decisions, the CBRE analysis tool, uses anonymised data captured from mobile phones to understand consumer movements at a macro level. Calibrate provides insight on consumer behaviour with a focus on several key pillars including; demography of consumers, level of tourism, where consumers live and work, the level of cannibalisation between retail destinations and understanding how consumers interact with multiple retail spaces.

CBRE CALIBRATE



“Ultimately the data and insight behind Calibrate allows us to help our clients make more scientific investment decisions. In an increasingly competitive retail market the need to make the correct location decision is more important than ever. Clients require deeper, more robust, fact based analysis, which is where Calibrate can add that extra layer of rigor making sure our clients find the best location.”

Martin Summerscales
Head of EMEA Retail Analytics, CBRE

CONCLUSION

While some luxury retailers such as Burberry and Gucci have embraced technology and used it to drive sales and brand awareness internationally to connect to a new generation of customers, others across the sector have been reluctant to capitalise on its capabilities.

Although luxury retailers recognise the power of technology to enhance customer service and improve brand recognition, some are concerned that it will erode the authenticity of the brand.

However, the new wave of shoppers is driven by tech-savvy millennials who are more accustomed to making high value purchases online, meaning luxury retailers must invest in technology and fulfilment processes if they are to remain competitive in the increasingly challenging market.

OUR APPROACH

Our Approach

To answer the question what the role of technology is in supporting, advocating and reinforcing the luxury experience, we deemed it appropriate to examine the economic challenges and opportunities for the luxury sector, the influence of the changing customer behaviour and expectation, and how in-store technology and e-commerce can support the customer experience and pose challenges for the luxury sector.

1. Primary research

Interviews were carried out with five Walpole members to establish their views on the role of retail technology and e-commerce in the luxury industry. We included a number of questions for the interviewees to shed light on the decision-making drivers for offering in-store retail technology and e-commerce platforms, the type of retail technology used in-store as well as the impact of retail technology and e-commerce on luxury retailers’ performance.

CBRE’s expertise and knowledge of the retail real estate market was used, including prime retail rents, to determine the influence of the changing luxury industry on the property sector.

2. Secondary research

A literature review of existing research was undertaken, covering more than 25 articles and publications to support our analysis.

ACKNOWLEDGEMENTS

We would like to thank Walpole and its members for their participation in this report. In particular we would like to thank the following members of the Walpole community:

Trevor Hardy Chief Executive, Future Laboratory	Zia Zareem-Slade Customer Experience Director, Fortnum & Mason
Charlotte Keesing Director Public Affairs & International, Walpole	Kimberly Urbanik Marketing Sales Manager, Global Blue (UK) Limited
Paolo Mascio President, Online Flagship Stores, YOOX NET-A-PORTER GROUP	Michael Ward Managing Director, Harrods
José Neves Founder, Co-Chairman & CEO of Farfetch	Barratt West VP Managing Director UK & Ireland, Tiffany & Co

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