INSIGHT REPORT

The omnichannel playbook

VOGUE BUSINESS

Foreword

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In May 2020, *Vogue Business* launched its first *Vogue Business* Index. The *Vogue Business* Index is the only index available today that, twice a year, analyses and compares individual brand performance with such an extensive breadth of data, categories and unique consumer insight.

The data included covers consumer sentiment, financial performance, digital, ESG and omnichannel. It is an objective scorecard for businesses and the industry to understand brand performance and ultimately make better decisions.

As a number of fascinating insights were sacrificed in the Index for the sake of brevity, we decided to create a series of reports based on the *Vogue Business* Index, each focusing on a different topic. The aim of this and future insight reports is to deep dive into the most pressing issues impacting the luxury fashion industry, drawing from quantitative and qualitative data. This report precedes our next *Vogue Business* Index update — expected in November 2020 — that will provide objective data (currently being collected) on the impact of the Covid-19 crisis, including developments in omnichannel capabilities — the topic of this report.

Covid-19 has made omnichannel capabilities even more critical for luxury fashion brands to weather the storm. Store closures meant that e-commerce was the only way for consumers to continue purchasing. Brands with developed omnichannel capabilities are at an advantage, and those who are lagging are rushing to make up the lost ground.

This report aims to answer the following questions:

- Where are the current opportunities for brands to invest in omnichannel? What features do consumers value most?
- What is the state of retailing in the US?
- What new technologies can help reduce the cost of returned goods from e-commerce sales?

About *Vogue Business*

Vogue Business is an online fashion industry publication launched in January 2019. Headquartered at Condé Nast in London, we offer a truly global perspective on the fashion industry, exploring how cultural trends and global patterns will impact fashion businesses. Harnessing insights from technologists, trend forecasters, futurists and innovators in other sectors, *Vogue Business* is the leading source of information on how new technologies will shape the way products are developed, marketed and sold.

Vogue Business has also quickly established itself as a leading provider of insights, research and data for individuals and companies operating in the global fashion, beauty and luxury industries.

While sharing the *Vogue* name, *Vogue Business* is operated as a wholly separate entity with an autonomous editorial team, developed with its own distinctive voice. So while we utilise the intelligence of Condé Nast teams around the world, our journalism is completely independent.

Executive Summary

China is relatively underpenetrated in terms of e-commerce presence by luxury fashion brands. Expanding their e-commerce presence in China, including social commerce, should be a strategic priority.

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Ensure consistency of omnichannel features across markets. According to luxury consumers globally, brands should prioritise in-store returns over click-and-collect.

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Test AR commerce to continue to engage and convert consumers during store closures and to reduce returns from e-commerce.

Covid-19 has created an acute response to what would have happened regardless, such as store closures in unprofitable locations and increased investment in e-commerce.

Brands have paused flagship store openings in developing cities such as Mumbai and Ho Chi Minh — where only 46 and 52 per cent of brands respectively have a store, according to the *Vogue Business* Index — and other investments in their store network. But as these brands rethink their store experiences, they must up their game to ensure customers feel safe, limiting friction to their return to stores.

E-commerce is the first area of focus as lockdowns have led to a rise in first-time fashion e-commerce buyers — up 14 per cent in the US and 17 per cent in China.[1] Players with an already developed e-commerce infrastructure have reaped the rewards. Of the luxury companies that have disclosed financial results, all have cited e-commerce as a key growth channel, in part offsetting overall revenue decline. Farfetch registered an astonishing 90 per cent revenue growth in Q1 2020 compared to Q1 2019.[2] The e-concession model, like that of Farfetch, where brands maintain their stock but sales and fulfilment happen through a partner, might start to look more appealing to expand a brand's e-commerce presence. Brands have made e-commerce a strategic priority, with Capri Holdings, for example, investing in its brands' e-commerce platforms to reduce the predicted 70 per cent loss in revenue.[3]

When normality returns, the majority of luxury purchases will still take place within stores. However, their integration within a true omnichannel experience will be critical. Offering multiple fulfilment options could be a differentiator for brands, ensuring that consumer preferences are met. Innovators are testing with AR to bridge the gap between the in-store and online experiences as consumers get accustomed to technology during a shopping experience.

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China in the spotlight

Brands are re-evaluating their store networks as Covid-19 increases the need to find the right geographic mix.

Having a presence in a diverse range of markets — physically via stores and digitally with e-commerce — was shown to be a great strength during the crisis as countries locked down and reopened at different points.

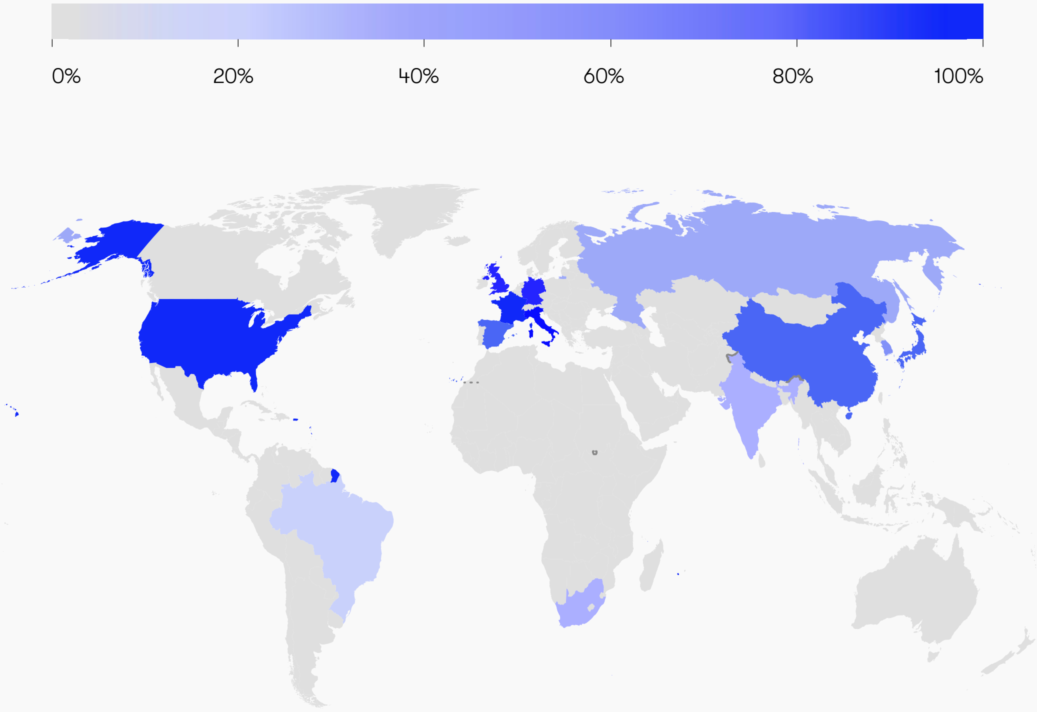
While China has long been the main driver of growth in the luxury market, its role is now becoming disproportionately more important. The country is expected to account for 28 per cent of the luxury market by 2025, up from 11 per cent in 2019. Chinese consumers are set to confirm their place as the most important luxury buyers — accounting for nearly half of all purchases worldwide by 2025.[4] With Chinese consumers unable to travel, having a local path to purchase, physical or digital, is a necessity. Ninety-six per cent of brands in the *Vogue Business* Index have a store presence in Shanghai in China and neighbouring Hong Kong. However, only 68 per cent operate a store in Guangzhou, highlighting that expansion opportunities remain in the other major cities in mainland China. Burberry has already started this strategic expansion with the July opening of its first social retail store in Shenzhen in partnership with WeChat, targeting young tech-savvy Chinese consumers.[5]

E-commerce is far more popular in China than it is in any other country, with online shopping forecast to be responsible for 41 per cent of total retail sales by 2020 and 57 per cent by 2023[6]— a growth accelerated by Covid-19. The majority — 74 per cent — of luxury fashion brands operate their own online sales channel in the country. However, this is far behind the 92 per cent adoption in the US and an average of 88 per cent in the EU-5 markets. The growing Chinese e-commerce giants, Alibaba's Tmall and JD.com, provide an attractive option for brands that still lack an e-commerce presence, minimising set-up costs and increasing exposure to luxury customers. To do so likely means ceding full control of precious consumer data and the look and feel of the online store. But whether brand-owned or through third-party platforms, offering e-commerce in China is no longer optional.

Chinese luxury consumers also place importance on the ability of shopping via social media. In fact, they rate this feature the highest compared to the other markets surveyed for the *Vogue Business* Index — rating it 20 per cent more important than the global average. Brands expanding their e-commerce capabilities in China should also include social commerce as an integral part of their strategy.

There is room for e-commerce expansion in China and Russia

Share of brands with e-commerce coverage in each market



February 2020, n = 50 brands

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Restructuring US retail

The luxury department store sector in the US was restructuring, even before Covid-19 accelerated the trend. Neiman Marcus filed for Chapter 11 bankruptcy protection in May, less than a year after Barneys, placing 2020 at a three-year high in terms of bankruptcies.[7]

The prime reason for both bankruptcies was excessive levels of debt that prevented them from making strategic investments like e-commerce.[8] Investment in its online business has shielded Nordstrom from a similar fate, despite the crisis forcing the closure of 16 stores. More than 60 per cent of US retailers have already implemented or plan to implement click-and-collect by the end of 2020.[9]

The rise of e-commerce is changing the dynamic between brands and wholesalers, as brands can leverage digital to reach consumers. Pre-Covid-19, wholesale accounted for about 27 per cent of luxury fashion sales, based on the *Vogue Business* Index. While this is likely to decline, wholesale will remain an important sales channel to reach consumers who prefer to shop multiple brands within one platform and to reduce excess stock.

Liquidity is key for surviving the crisis. Brands and retailers should be looking at ways to cut costs, and many are starting with stores. Reducing excess inventory or producing less inventory are also effective ways to manage liquidity as indiscriminate discounting to reduce excess stock comes with its perils. Many American brands faced difficulty after the last recession as consumers got used to buying at off-price rates and weaning themselves off that price segment has been tricky. This has, in turn, made them less likely to be viewed as luxury brands — Tom Ford was ranked the 15th most likely brand to give an elevated sense of status by consumers surveyed in the *Vogue Business* Index, the highest-ranking American brand by that measure.

Post-Covid-19, inventory management is expected to be a significant issue until at least next year, but shouldn't come at the detriment of creativity. Based on consumers surveyed for the *Vogue Business* Index, brands that rank the highest for creativity are among the fastest-growing by revenue. Seasonal products are more likely to lead to stock surplus but have a higher profit margin. Ralph Lauren was reaping the rewards of raising its prices in its last two quarterly results, a strategy that Michael Kors has also been following.[10] Liquidity will play an important role at the end of the crisis, where brands with a healthy balance sheet will be able to transform this into opportunities for growth.

"As things go back to a state of normalcy, the American consumer does what it does best: consume," says Eric Fisch of HSBC. In March, department stores sales were 23 per cent lower compared to the previous year — the largest decline since 1994.[11] June retail sales, however, were 5 per cent above June 2019 sales and 6.4 per cent ahead of the previous month, surpassing expectations[12] — painting a hopeful picture for the months ahead.

38

retail bankruptcies in the US between January and June 2020, hitting a three-year high.

105%

month-on-month growth in clothing and accessories sales in the US in June, despite the 23 per cent decline year-on-year.

60%

of US retailers have implemented or plan to implement click-and-collect by the end of 2020.

The online-offline interdependency

Significant revenue drops from bricks-and-mortar stores are prompting brands to rethink their route to market. Big luxury brands have been moving into larger flagship stores in prime locations, with the point of sale making up an increasingly experiential touchpoint and a means to showcase the brand's entire assortment.

Digital also evolved, despite often following a parallel path to the physical store experience. Thanks to the Covid-19 crisis, omnichannel capabilities are demanding increased attention from brands as luxury shoppers become more comfortable with buying online.[13]

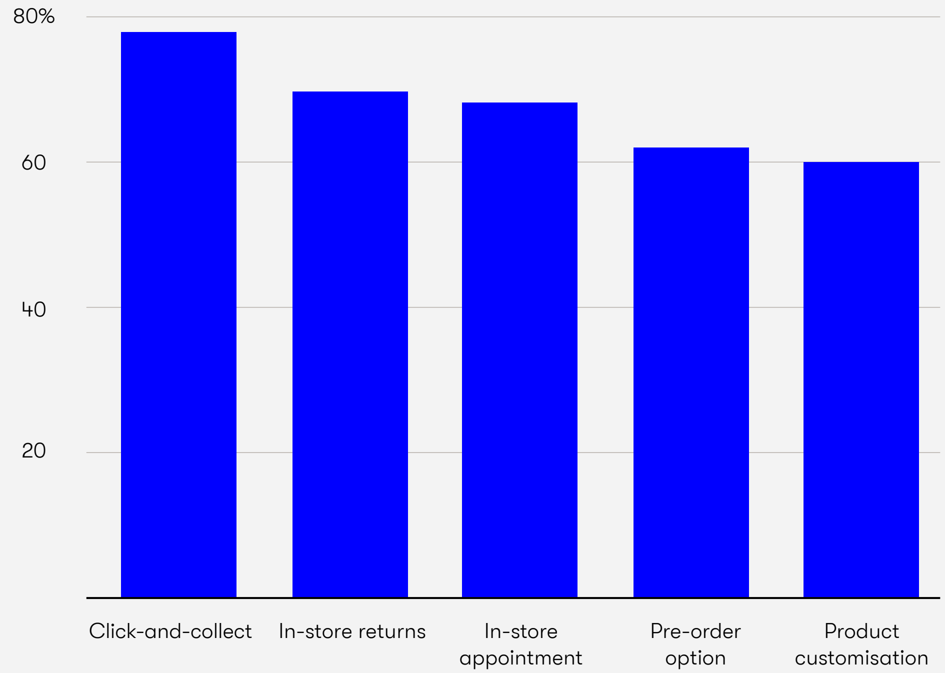
Brands that have already developed their omnichannel capabilities are at an advantage. Retailers offering click-and-collect grew digital revenue by 27 per cent in Q1 2020, double the growth of retailers not offering the service, based on the activity of more than 1 billion shoppers globally.[14] Pre-crisis, luxury brands were well-placed to take advantage of this opportunity in their primary market with 78 per cent offering click-and-collect and 70 per cent in-store returns — with the latter rated as more important to luxury consumers globally surveyed for the *Vogue Business* Index. However, the consistency of the services on offer varied significantly in other markets. With increased attention placed on omnichannel experiences and their evident benefits, adoption of these features is set to grow globally in the near future.

Encouraging a more intimate in-store experience through in-store appointments could also be a way forward, with 68 per cent of brands currently offering this service in their primary market. Post-Covid-19, this could also be a means to guarantee new or disinfected clothes to customers, raising their sense of security and encouraging in-store sales — a service mainly being trialled in China. Chinese consumers rate this service highly, significantly ahead than all other markets. A more attentive service could also increase basket sizes, with La Rinascente reporting a 40 per cent rise also thanks to the higher staff-to-customer ratio.[15]

Prioritisation of fulfilment options should follow consumer preference. US and French luxury shoppers have a more marked preference for in-store returns compared to being offered click-and-collect. On the other hand, Chinese consumers value both as equally important. Despite being rated as important as in-store returns, online and offline integration of inventory availability is where brands lag most, with only 13 per cent adopting the feature. Testing of this functionality should start in Russia and China, where consumers rate the feature more highly.

Focus on appointments to encourage in-store purchases

Adoption of omnichannel features



February 2020, n = 50 brands

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Using AR to increase net revenue

Ongoing retail disruption meant that e-commerce was the only undisturbed path to purchase. The rise in e-commerce, however, has also come with a rising cost of returned products.

Clothing and shoes (56 per cent) are the most returned product categories with US and UK consumers, with a third citing the product looking different in person as the main cause for return.[16] This makes augmented reality (AR) and virtual reality (VR) an area ripe for experimentation as luxury retailers look to stand out across e-commerce and social and increase net revenue.

Consumers are increasingly familiar with AR and VR technologies. In the US, users of AR and VR have grown steadily, reaching 25 per cent and 16 per cent of the overall population, respectively.[17] Early experimentation with AR — including virtual try-on services and 3D product modelling — has delivered an impressive uplift in conversions for online retailers.

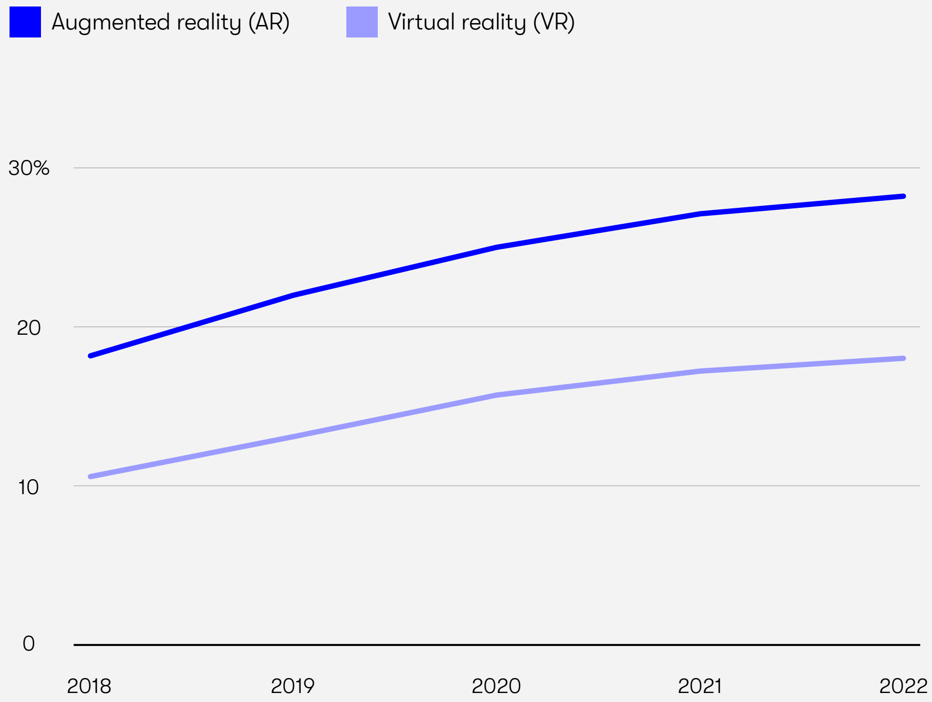
Shopify found that when customers viewed a 3D product modelled using AR, they became 65 per cent more likely to make a purchase.[18] This is set to grow as 39 per cent of Gen Z and millennials in the US expressing an interest in using AR and VR while shopping in the near future.[19] In June, Gucci launched its sneaker try-on in partnership with Snapchat allowing consumers to see how four models look on them before buying them directly in-app — with positive initial feedback.[20] Instagram has also begun rolling out AR in its checkout experience.

Brands should continue to experiment with AR features and try-ons as an initial alternative to stores that give consumers a visual feel of how products look when worn — effectively building an insurance policy and reducing returns that eat away at e-commerce margins.

The strong rise in gaming could also provide opportunities as brands create digital clothing for AR. Gucci, Louis Vuitton and Prada have all collaborated with gaming app Drest — allowing players to style avatars with digital versions of their collection. Players then have the option to purchase items on Farfetch.[21] Louis Vuitton has also partnered with video game League of Legends by offering in-game skins. While this may not generate immediate revenue, encouraging audience interaction with brands is one way to keep consumers engaged and it keeps brands top-of-mind for consumers returning to their shopping habits.

AR/VR are set to be a major part of shopping experiences

Share of US population that are AR/VR



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