Digital Luxury Experience 2012
From customer experience to impact

Altagamma-McKinsey Observatory

Fondazione Altagamma McKinsey&Company

Milan, September 17, 2012

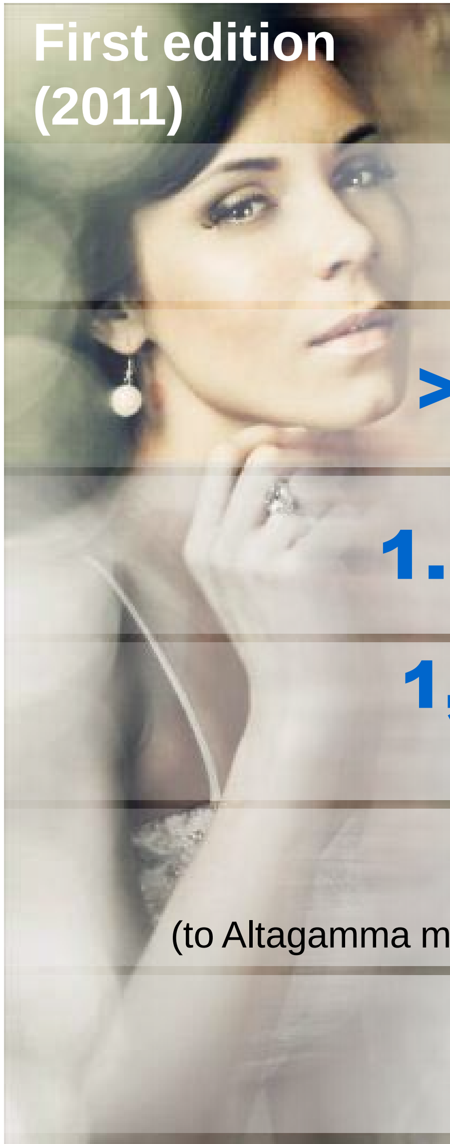
Today we are going to

Present the results of the second Altagamma-McKinsey online observatory on “Digital Luxury Experience”

Second Digital Luxury Experience – improved content and methodology

- Online will make the difference for luxury market growth
- Personalization and seamless experience are emerging consumer trends
- From customer experience to impact – Set the digital bar high, digital is a scale and skill game
- Key insights from the 2012 Observatory

Broader coverage of industry, markets and deeper "consumer understanding"



First edition (2011)		Second edition (2012)
187	Luxury brands	>300
>450	Websites	>700
1.5 mn	Online comments	2.5 mn
1,500 3	Interviews across Countries	2,500 5
~70 (to Altagamma members)	Questionnaires	~300 (to entire DLE panel)
~50	Performance indicators	~70

Stronger co-creation with e-leaders

Newly created DLE advisory board

- Sounding board on methodology and findings
- Qualified point of view on main trends
- “Stimulus” on new untagged areas

>300 brands divided into peer groups

Fashion

Jewelry

Yacht

Watches

Other

Design and Furniture

Food & Beverage

Hospitality

Cars

Digital Luxury Experience 2012 – Extended perimeter

Personal luxury goods digital market

- Current size, with channel and geographical breakdown
- Future outlook

Online luxury customer behaviour

- ROPO outlook (behaviour, impact on sales)
- Profile and insights on luxury customers:
  - Pure online
  - Pure offline
  - Omnichannel

Company online performance benchmark

- Brand performance along Customer Decision Journey:
  - Social media performances and buzz
  - Website performance and usability
  - Digital ecosystems of brands
  - Search optimization

Emerging digital insights on

- Customer experience in digital
- Strategic implications for Altagamma companies
- Technology trends

You did a lot in the last year on the 3 priorities identified in DLE 2011…

Digital Luxury Experience 2011

Offline purchases generated by online experience are a key element (ROPO effect)

Customer experience is crucial, driven by the deployment of Brand DNA in social, and technical web site usability performance

Multichannel is emerging as driver of distinctiveness

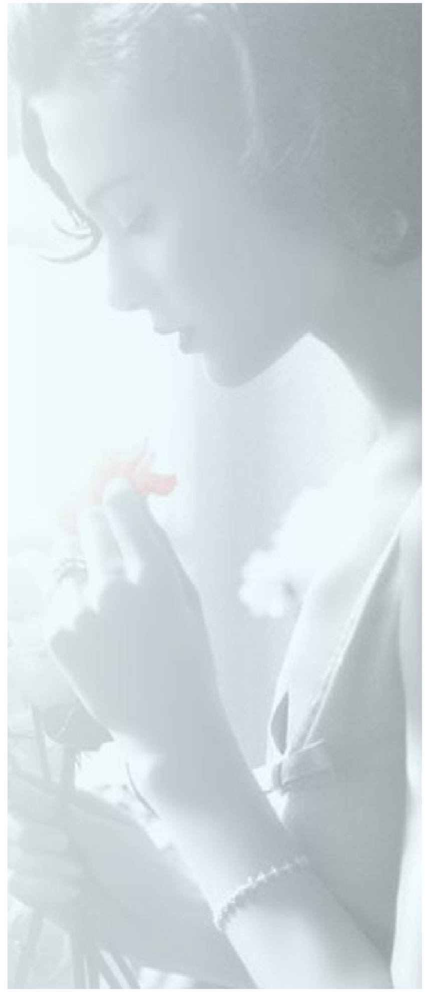
- Boost in presence in social media (+63% Facebook, +422% Twitter)
- Improved website usability performance (+5%), especially on e-commerce
- Increased positive online sentiment (+7%)

… but you realize that customer experience is not enough, impact is the main priority

Online experience is more and more **sophisticated**

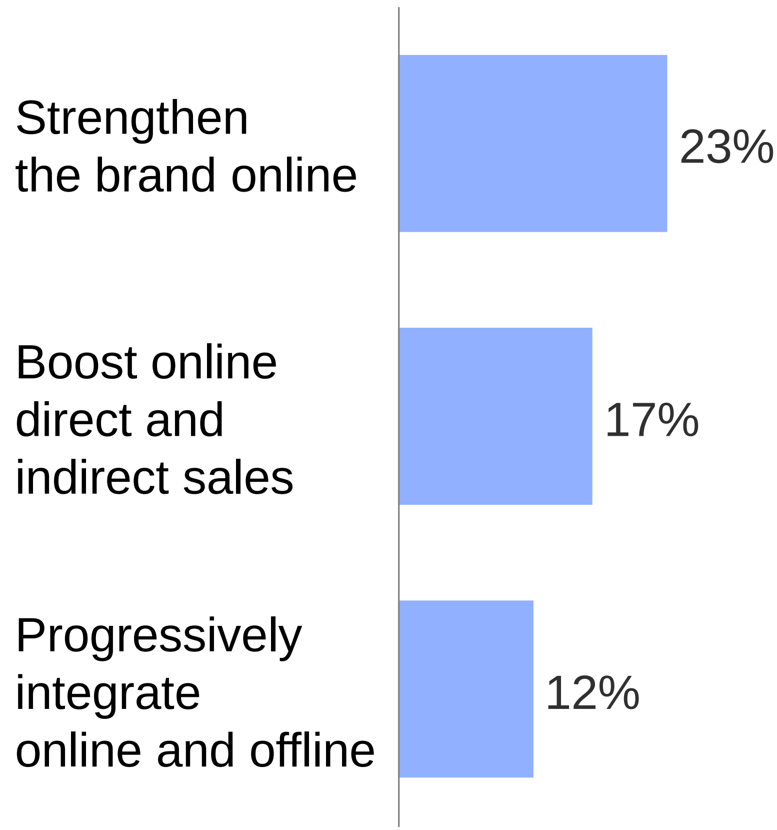
Customer experience is not enough, **impact** is the main priority

Omnichannel is the new normal in digital



Your core priorities for 2012

Percent of respondents



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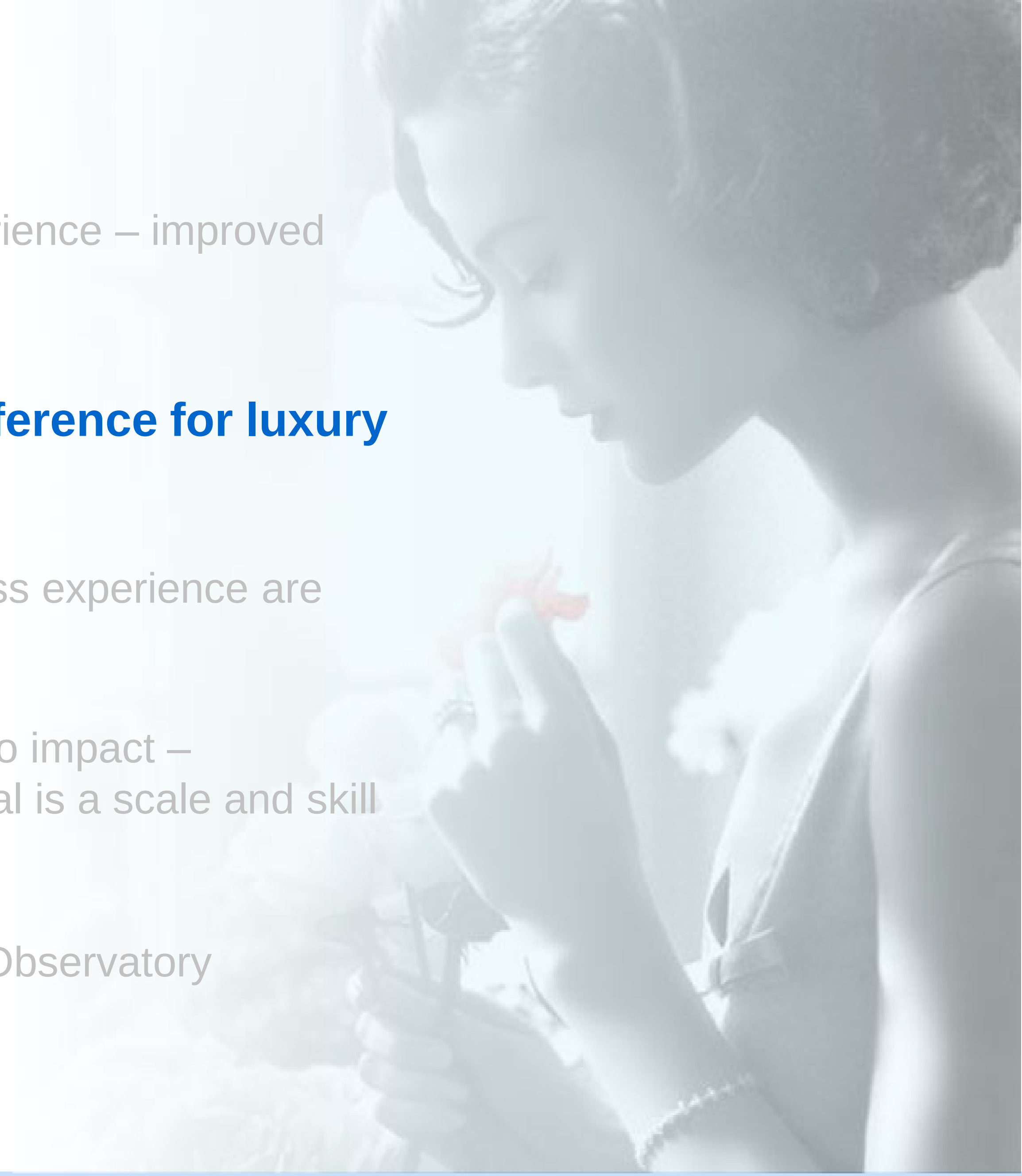

Key takeaways – Personal luxury goods, digital market size and outlook

~15% of total sales are directly influenced by digital

Digital is getting traction in major players in the personal luxury goods market

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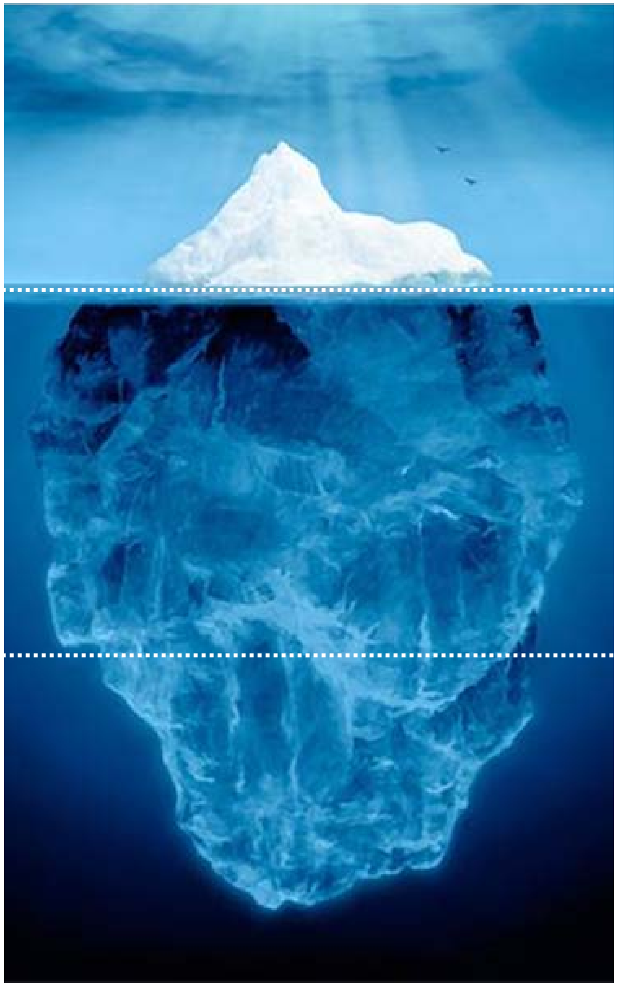
2011 worldwide online sales hit EUR 6.2 billion, growing 3 times faster than the total personal luxury goods market…
…and will reach EUR 15 billion in 2016

Sales are concentrated in Europe and US with a progressive shift eastward

~15% of total sales are directly influenced by digital



	Impact, 2011	
	Percent of market	EUR Billion
Pure online sales	3.2%	6
Offline sales **directly generated** by **online** experience	10-11%	17-18
Offline sales **influenced** by online experience	20%	34

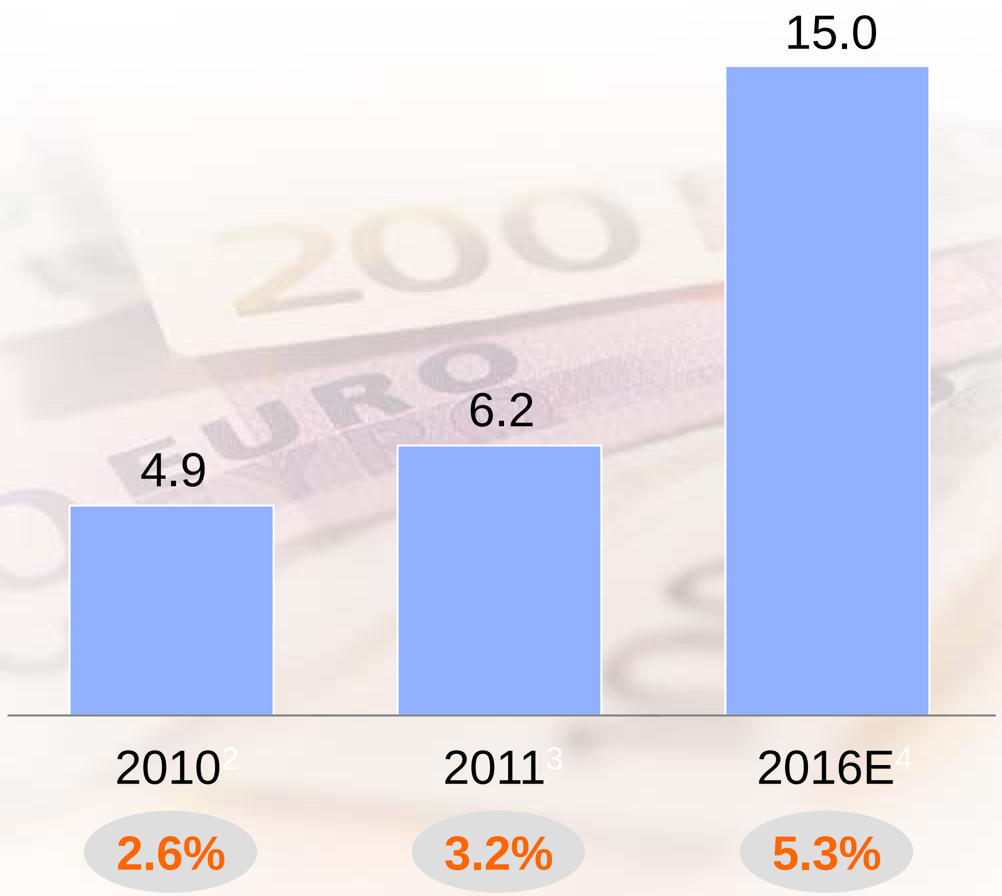
Digital is **getting traction** in **major players** in the personal luxury goods market

Launch date		Online Sales 2011, Percent	
2000	SAKS FIFTH AVENUE	25%	28% YoY growth in 2011
1999	Neiman Marcus	16%	Significant investments in digital in 2012: USD 28m in Glamour Sales Holding
2007	RALPH LAUREN	7%	23% YoY growth in 2011

2011 online sales hit EUR 6.2 billion and will reach EUR 15 billion in 2016

EUR Billion

% of total luxury market



2011 growth driven by

- Mono-brand of major luxury groups
- Growth of event and off price sales
- Major department stores

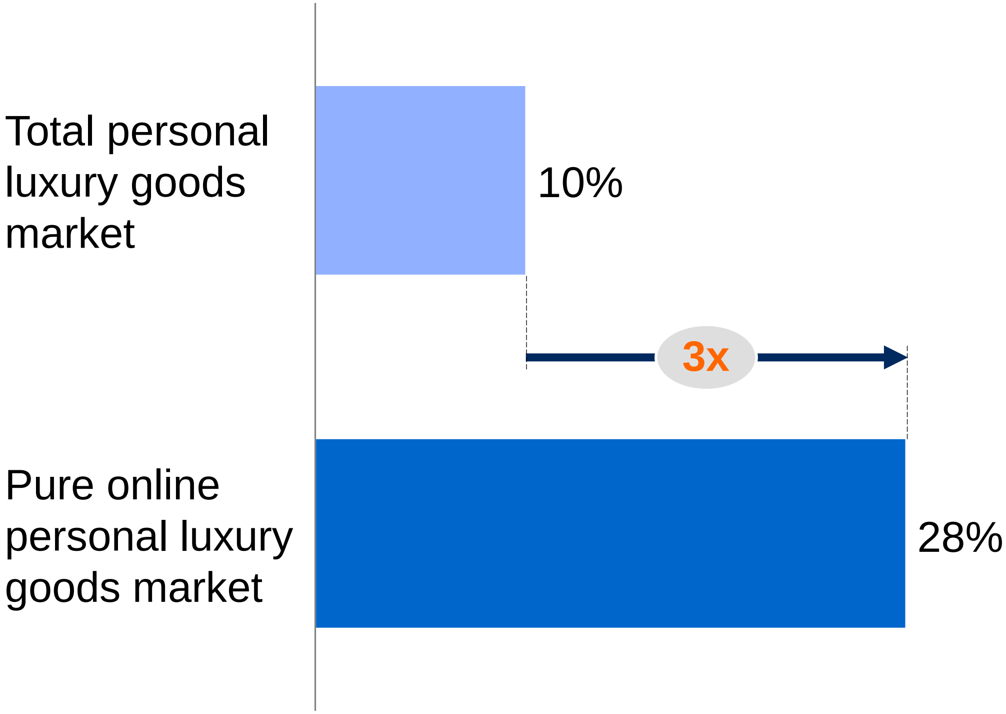
2016 growth driven by

- Consolidation of direct channel
- Expansion in Asia-Pacific
- Entrance in new geographies

Online market still small, but growing 3 times faster than the total personal luxury goods market

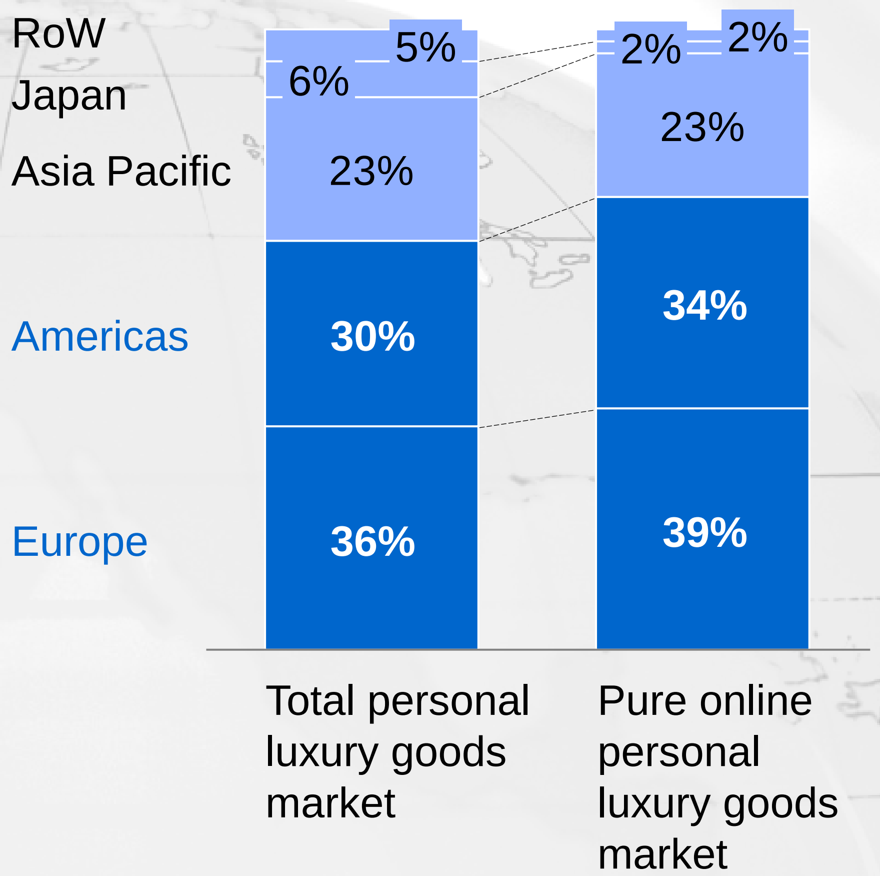
Market growth, 2010 vs. 2011

Percent



Sales are concentrated in **Europe** and **US** …

2011, Percent[1]



Size of the market
EUR Billion

Total personal luxury goods market	Pure online personal luxury goods market
191	6

1 Of sales by customers' country of residence

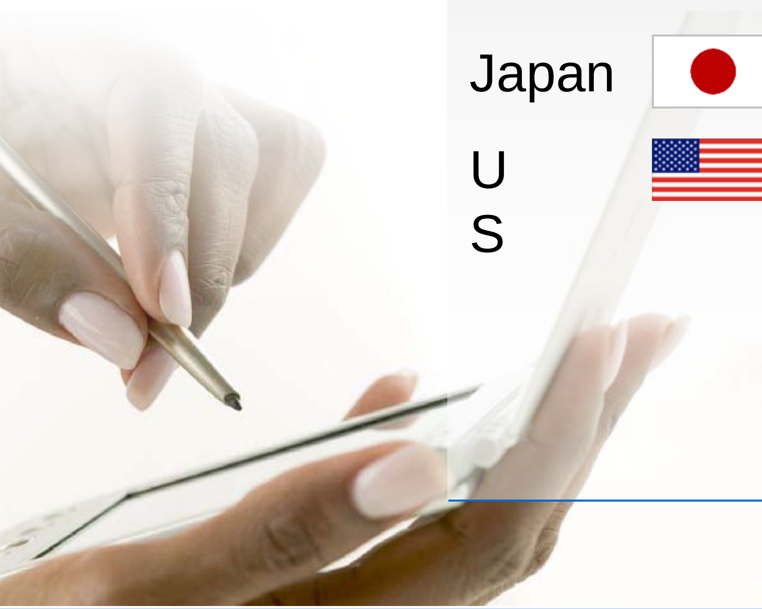
… with a progressive **shift eastward**

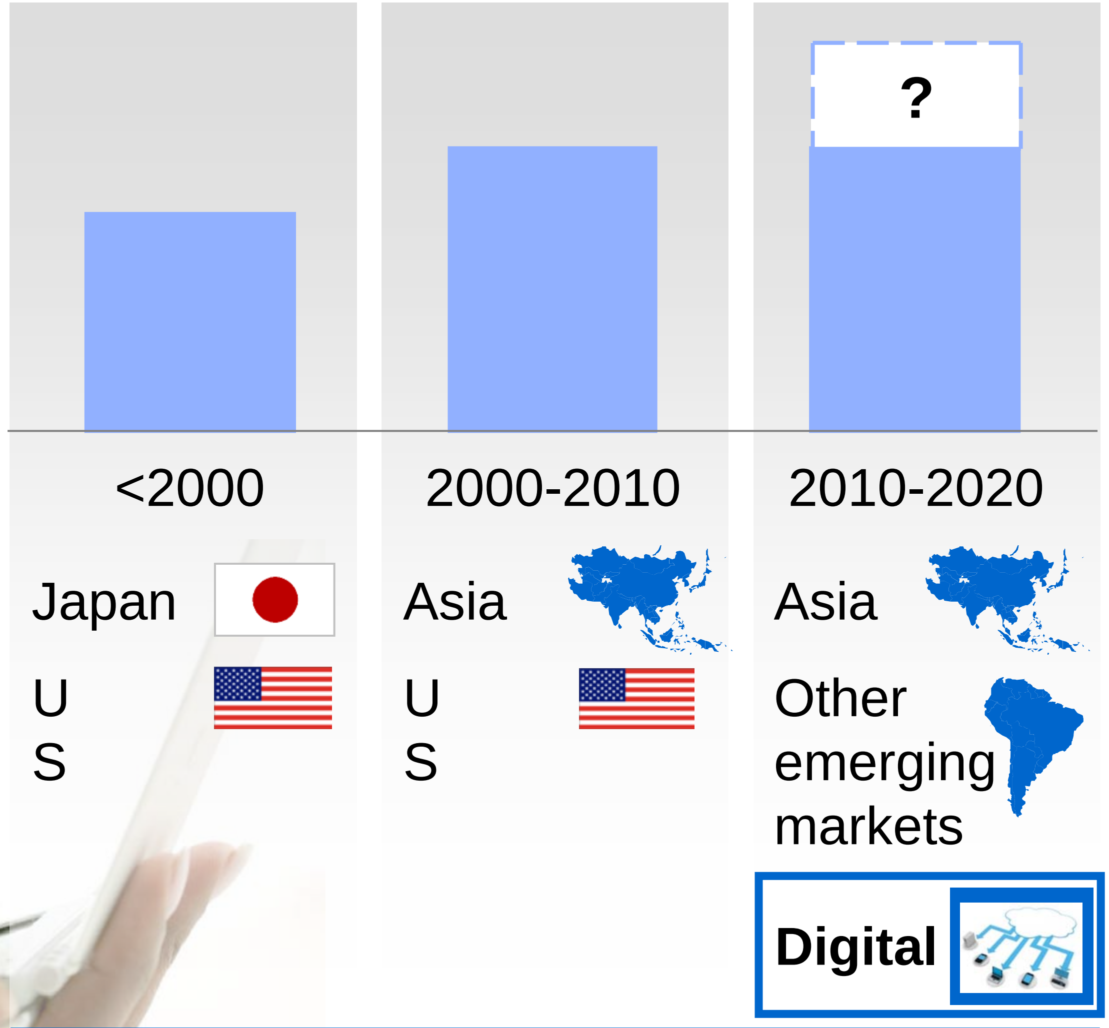
	Drivers	Future trends
Asia Pacific	Access to luxury of residents in areas not covered by retail Importance of "infrastructures" to support e-commerce Increasing "love" for luxury	↑↑↑
Americas	US reached digital bandwagon effect Brazil entering in the area of luxury	↑↑
Japan	Growth of online mobile shopping	↑
Europe	UK leading the growth Growth expected by less "online-litterate" country	↑
RoW	Market mainly driven by Australia	↑

50% of online market is represented by full price multi-brand and mono-brand e-stores

Digital will make the difference for luxury market future growth

EUR Billion





Growth driver

- Second Digital Luxury Experience – improved content and methodology
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- **Personalization and seamless experience are emerging consumer trends**
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Key takeaways – Personalization and quick delivery are emerging consumer trends

Personalization (pricing, lean processes, service) is the key factor

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A quick and seamless purchase process and fast delivery service are key to further stimulate online shopping

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Customers are becoming increasingly independent to sources their information and form their opinion

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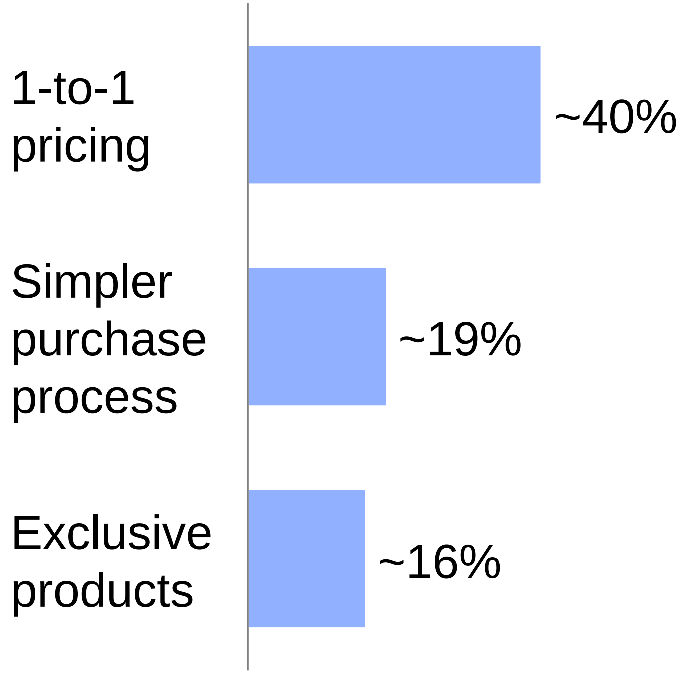
Technology is perceived as a "given" - companies need to focus first on experience

Customers look for **personalized pricing** and **lean processes** …

“What element would encourage you to buy more luxury items online?”



CRM and pricing system able to manage niche campaigns and one-to-one pricing?

?

…and "specialized" service

"What are your reasons for paying premium price in online luxury purchases"

Can your supply chain and logistic platform provide exceptional delivery service?

Customers pay attention to **multiple elements** …

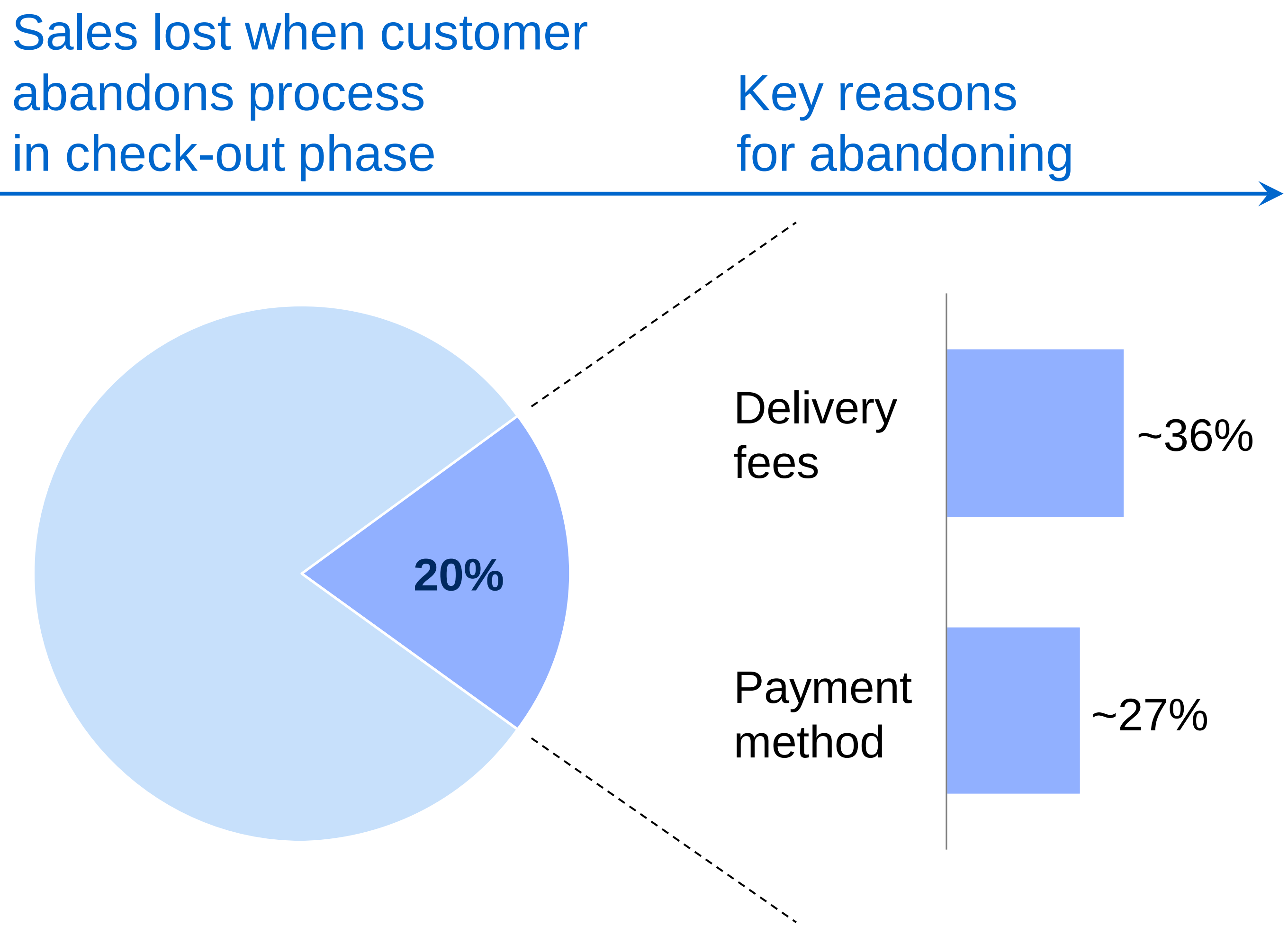
What do you value most when choosing where to buy online?

Average score, 1=Min, 5=Max

Price	Quality of selection	Breadth of selection	Delivery options	Return policy	Payment methods
4.2	4.2	4.1	4.0	4.0	3.9

… and execution is critical to avoid last mile drop

Percent of total respondents

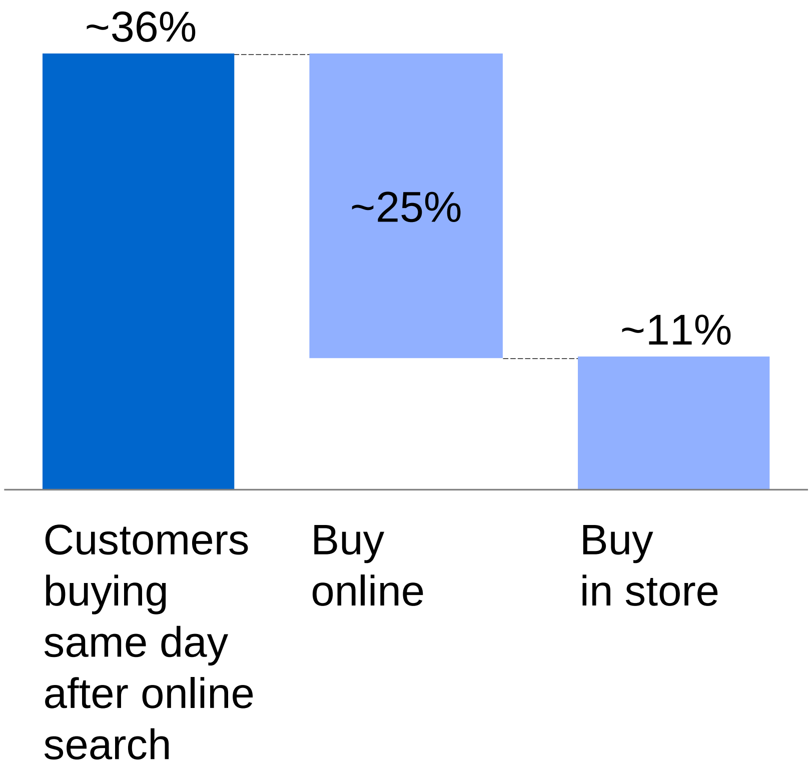


Are you aware that you may lose 20% of potential online sales?

Which actions are you putting in place to fulfill customers expectations?

Online **purchase** is a real **impulse**

"Customers buying same day after searching online"



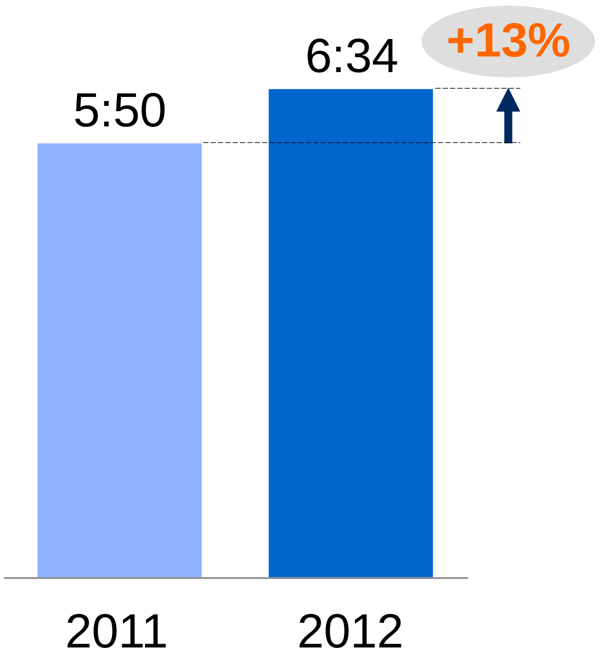
Do you offer the right assortment and ease to access e-store?

Do you connect your online channel to your physical store?

Customers spend **more time** on brand websites, but **visiting fewer times**

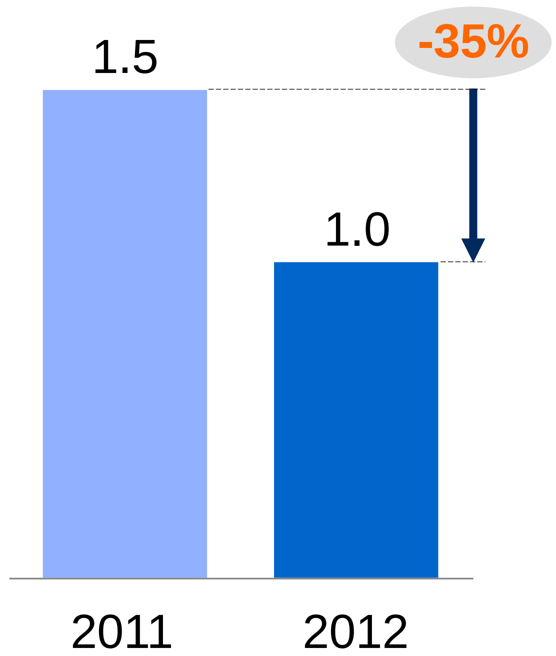
More time spent…

Time spent on the site
Minutes:seconds



… but lower frequency

Number of Monthly visits per user on specific website



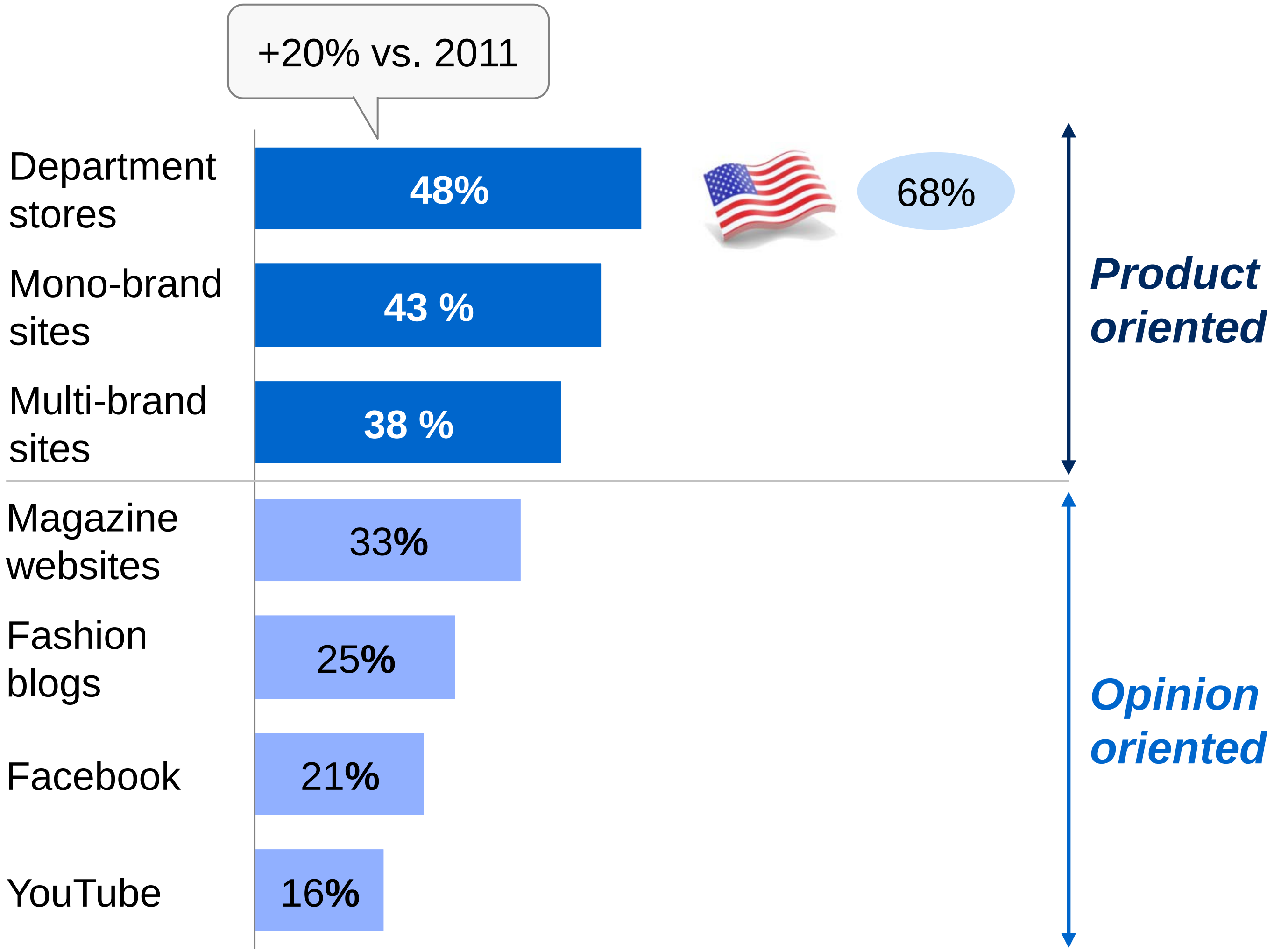
! *High variance among brands*

Are you ready to manage the stickiness of the conversion rate?

?

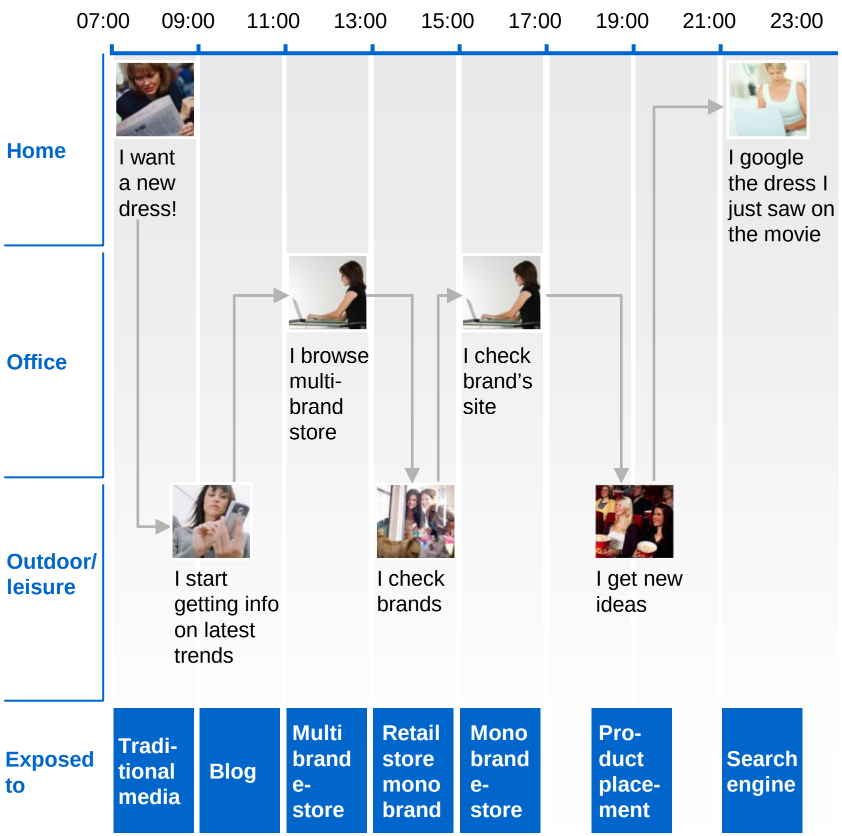
When searching online, customers consult on average **4 sources**, with main focus on **product oriented** ones…

When you research specific luxury items online, what are your main source of information?

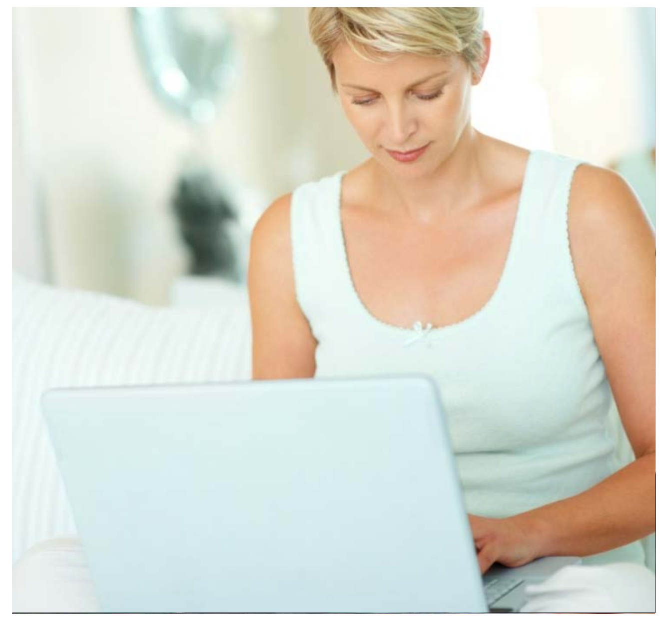


…with a **multi-technology** customer decision journey

Day 1



I start getting info on latest trends



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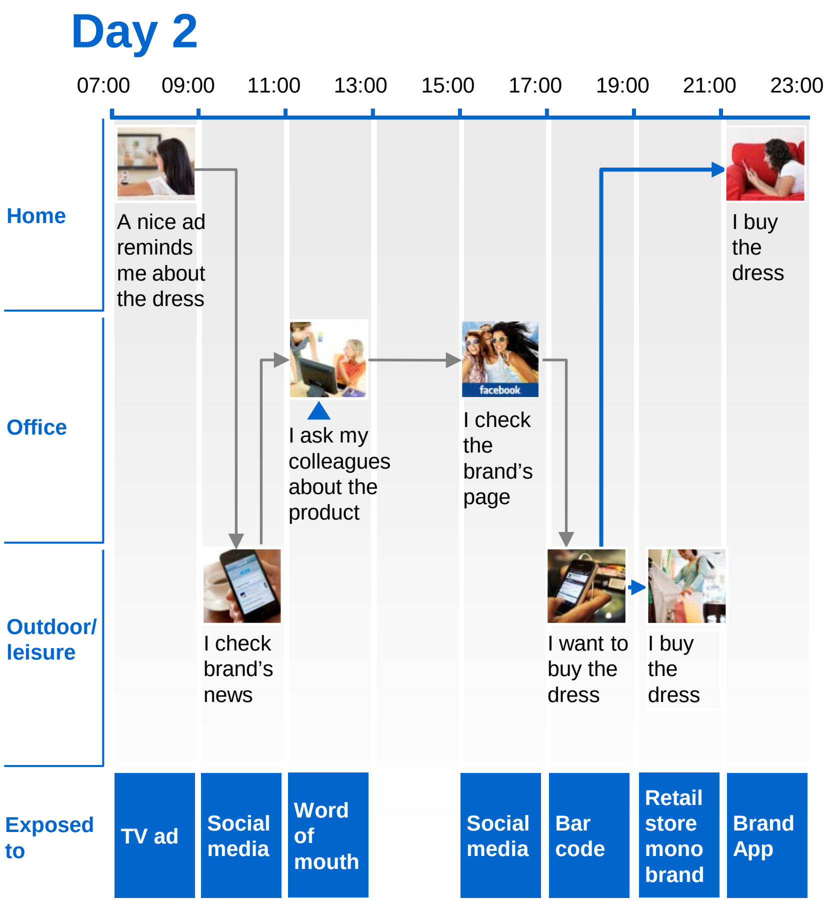
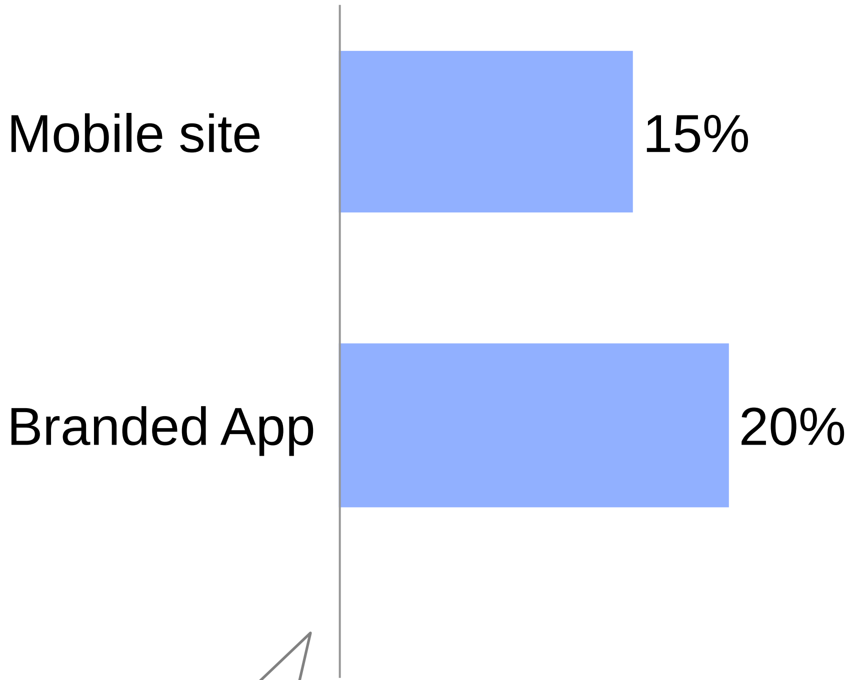


I buy the dress

…with a **multi-technology** customer decision journey

Percentage of brands

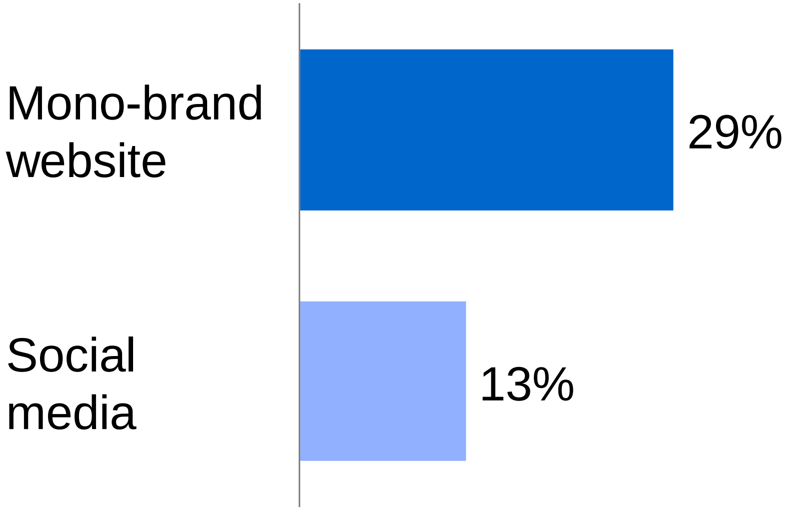


Only 40% of Apps have the Android version

Are you planning to invest in multiplatform?

Customers are becoming **increasingly independent**, going directly to the source of information

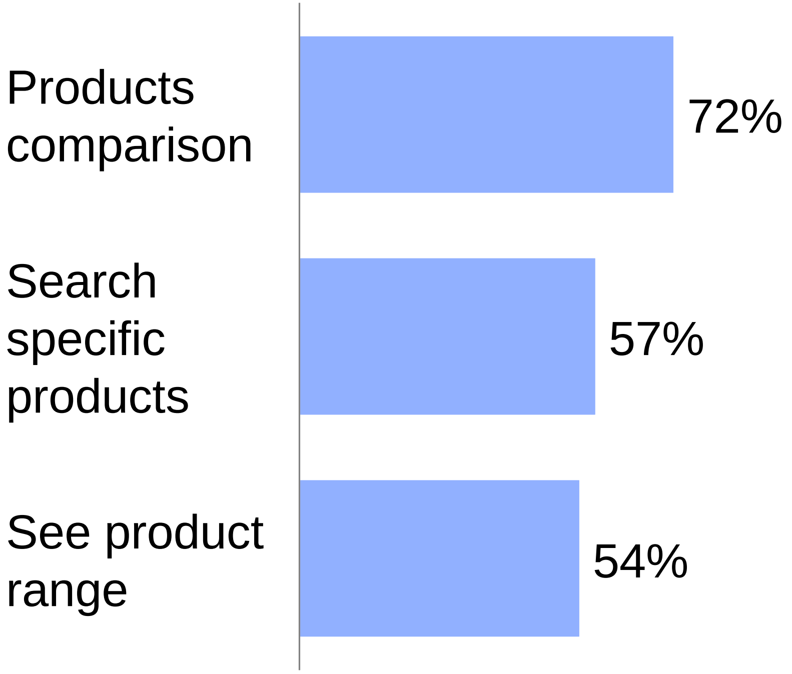
"How much do you trust the following sources of information?"



Are you certain that your investments are concentrated in sources easy to influence and control?

…and focusing on **product-related** elements

“What are your key reasons to search online?”

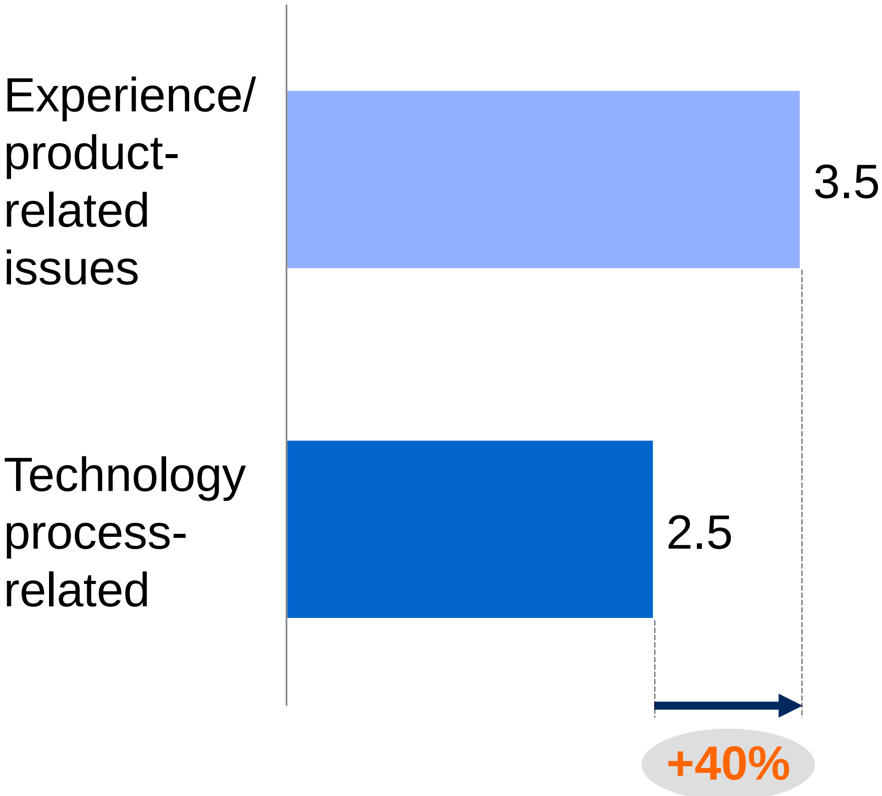


Do you have enough products available online?

Do you dedicate the right space to your products in the website?

Technology is perceived as a **"given"** – Companies need to focus first on **product and experience**

Key reasons to do not buy online



I'm not sure the size will fit

I can't touch the product

I like the in-store experience

I can't ask a salesperson for advice

I don't gain any brand experience

I'm not confident with shipping times

It is too difficult

It makes me feel less important

I'm not comfortable with payment systems

I won't have any shopping bags to show

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Key takeaways – From customer experience to impact

From customer experience to impact: set the digital bar high

Digital is a scale and skill game

“Selecting and connecting” the right touchpoints to magnify digital impact

Online-ability Index – Linking customers' experience to impact . . .

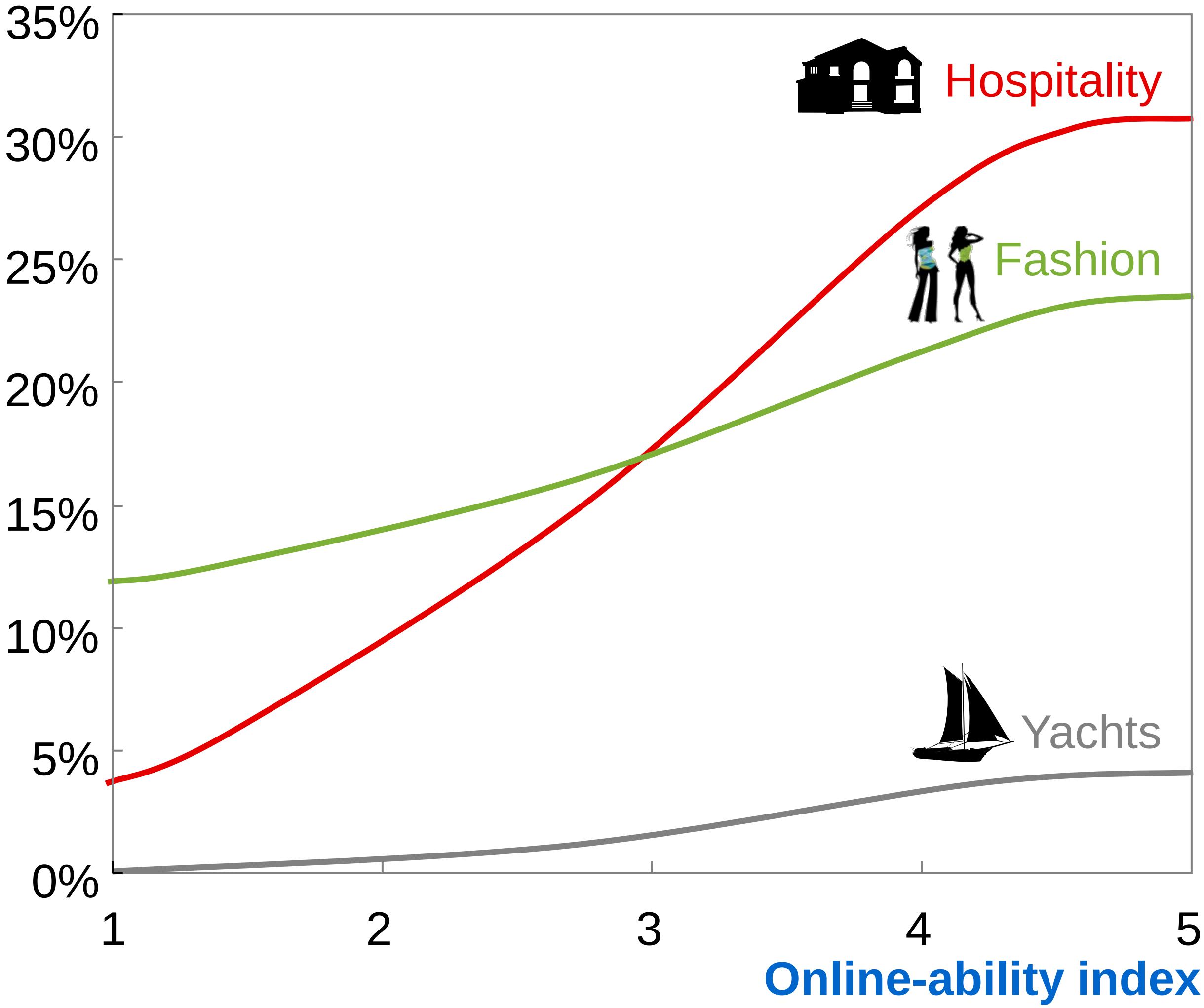
Online-ability Index

Capability to **convert** premium digital **customer experience** into **sales impact** and **brand equity**

Organization/ skills	**Delivery/ Go-to-market model**	**Capex**	**Product portfolio**	**Brand DNA**

Different product categories present **structural differences** in their online potential

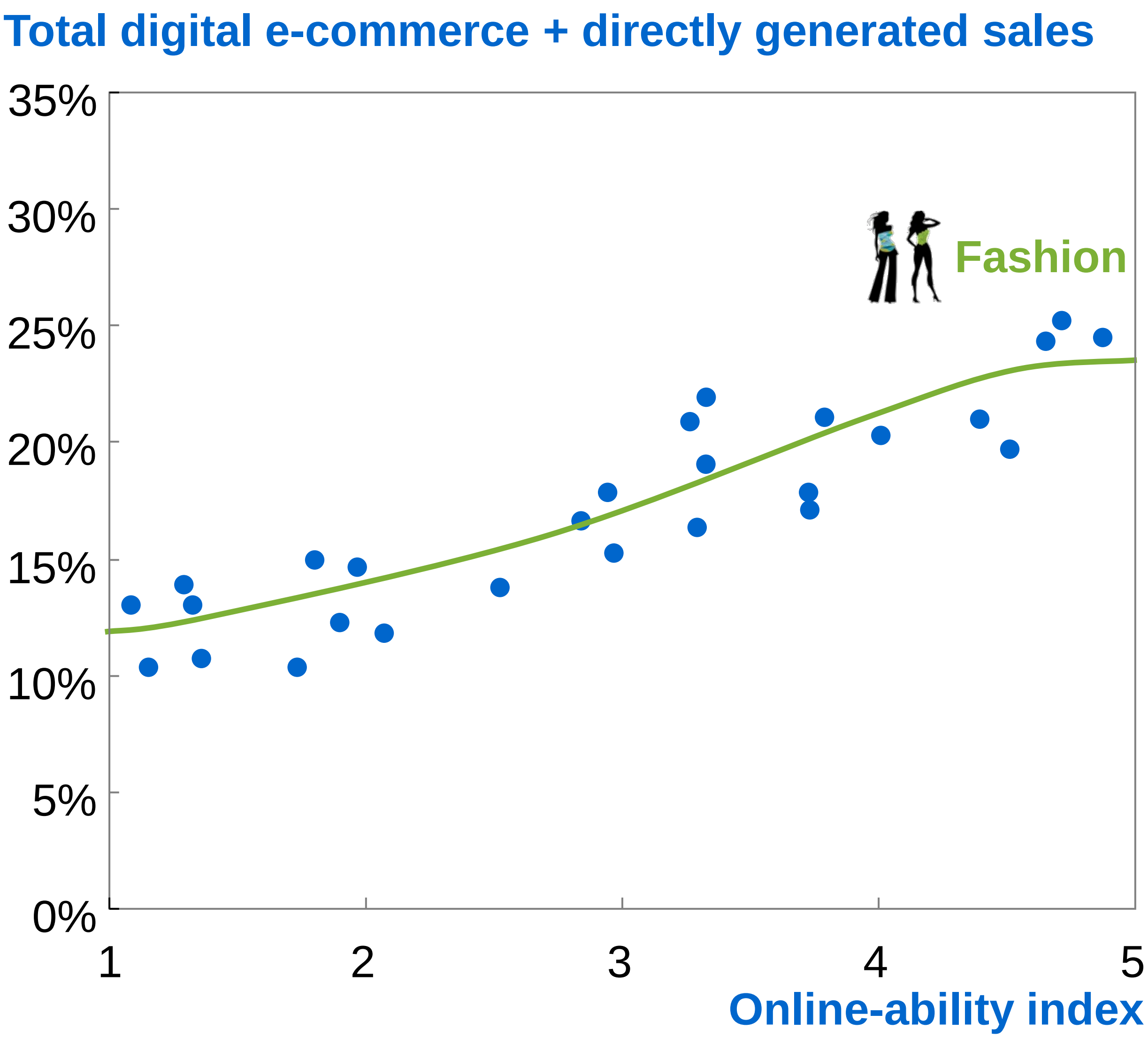
Total digital e-commerce + directly generated sales



Total digital sales

- Hospitality: from 4% to 30%
- Fashion: from 12% to 25%

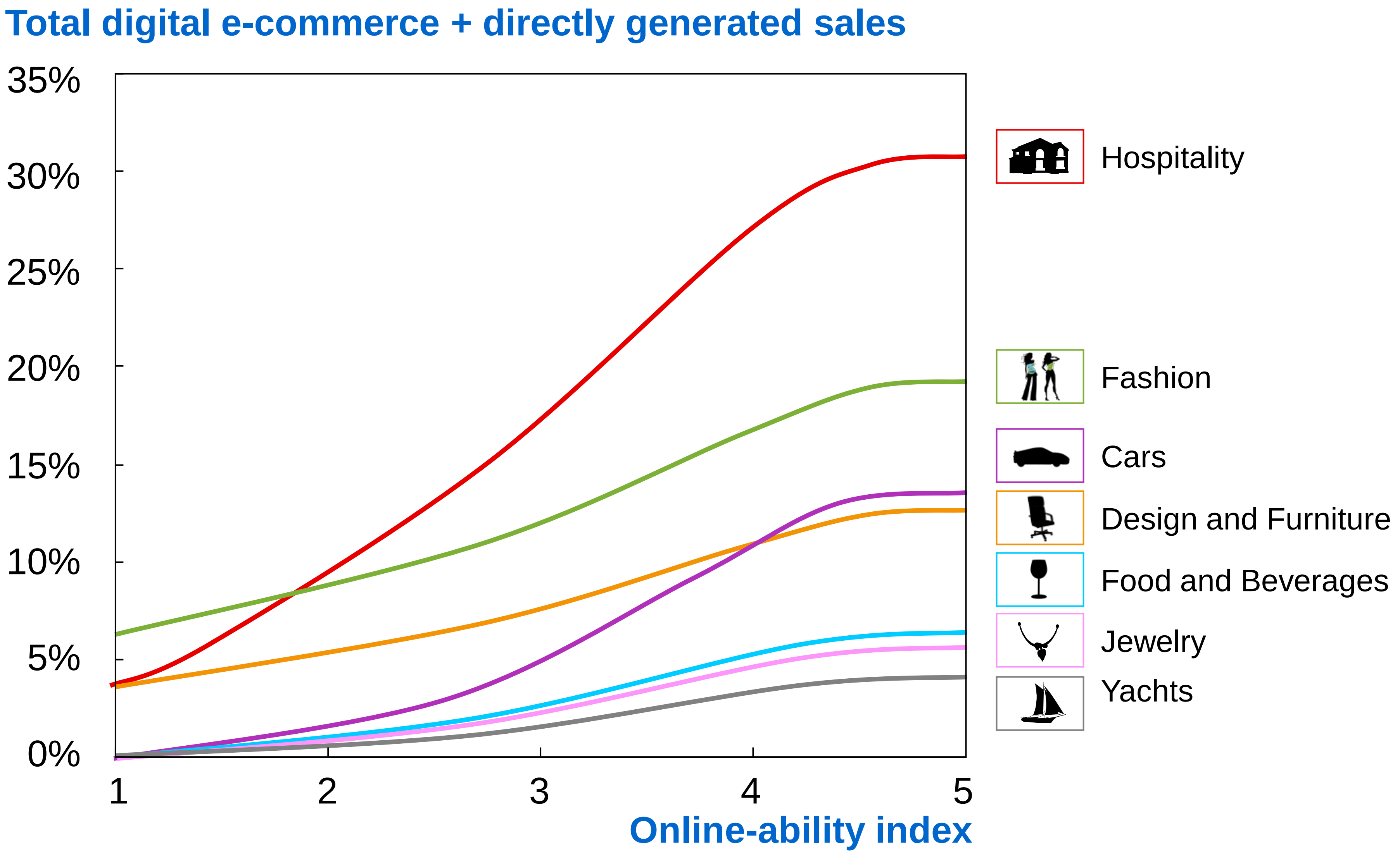
In the same product category different companies reach **different** digital **performances** based on their online-ability index



Best performers - Companies with…

- …digital M&S spending 50% higher than average
- …digital division 4 times bigger than average
- …digital touch-points 2x compared to peers

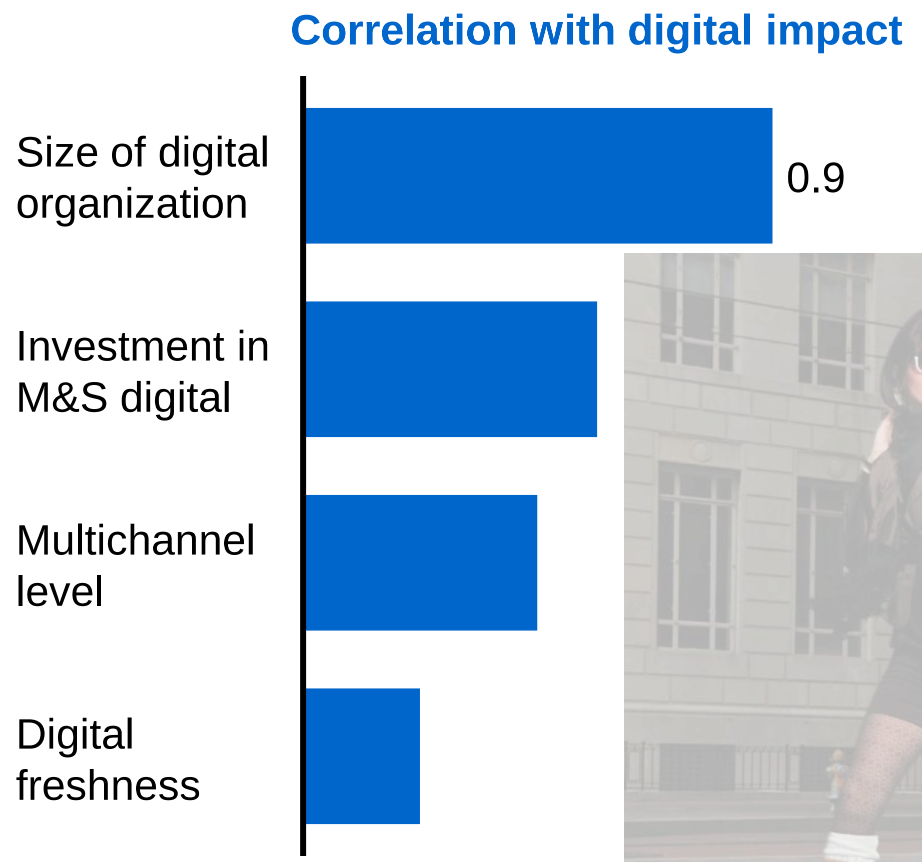
Digital performance have high variance among peer groups



Digital is a scale and skill game

Online-ability Index

Capability to convert premium digital customer experience into **sales impact** and **brand equity**



Set up an omnichannel strategy

Select appropriate mix	Integrate and connect	Redirect to the (online, offline) sales network


Digital marketing

Search engines


Mobile/ App


Eared media

Web-site

eCommerce

Fashion blogs

Traditional marketing


Social media

Retail network


Fashion Shows and events


Advertising


PR/ Testimonials


E-mail marketing

Aggregators and comparison site

Set up an omnichannel strategy by selecting the appropriate mix of touchpoints …

Select appropriate mix	Integrate and connect	Redirect to the (online, offline) sales network

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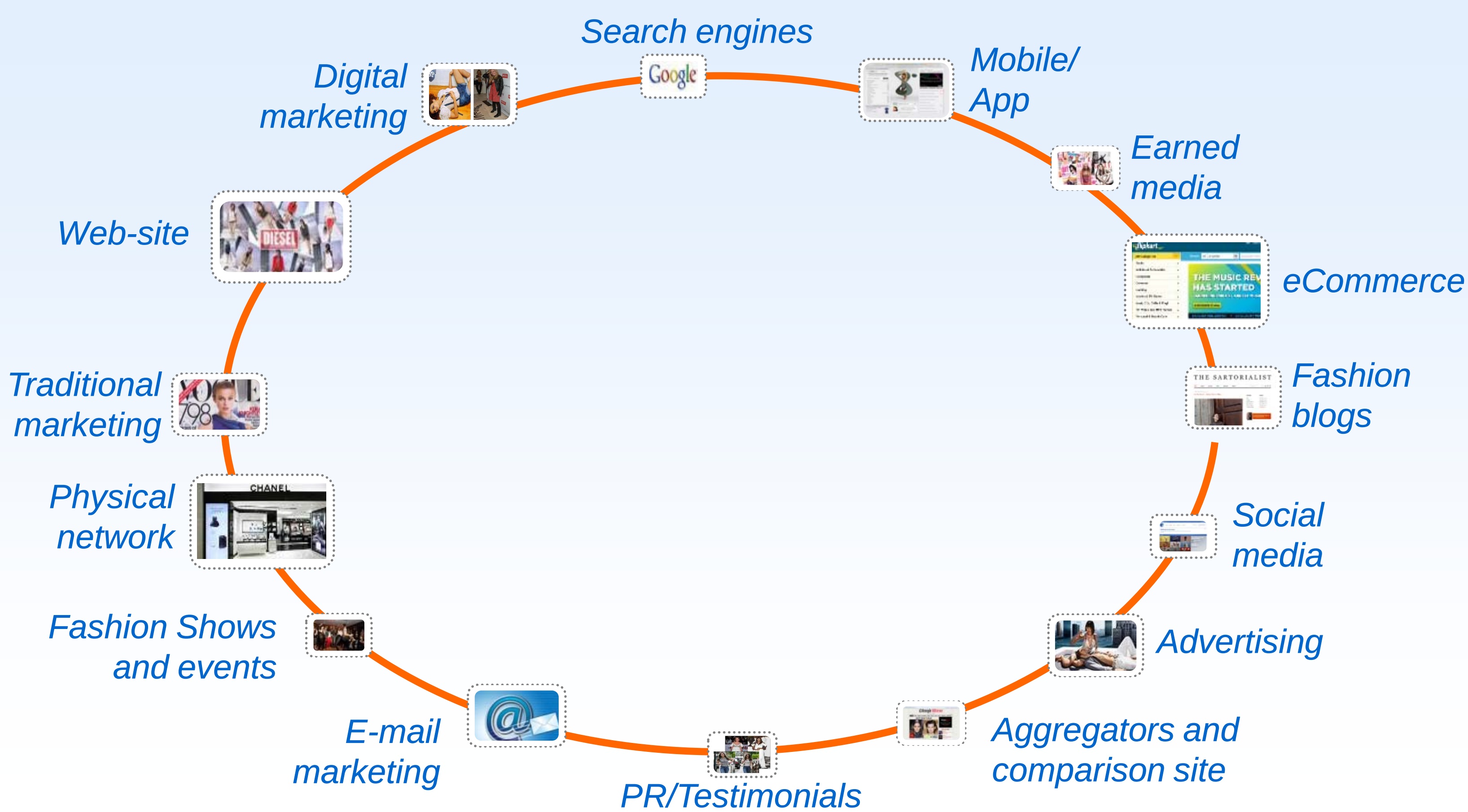
Select appropriate mix	**Integrate and connect**	Redirect to the (online, offline) sales network



Set up an omnichannel strategy by selecting the appropriate mix of touchpoints …

Select appropriate mix

Integrate and connect

Redirect to the sales network

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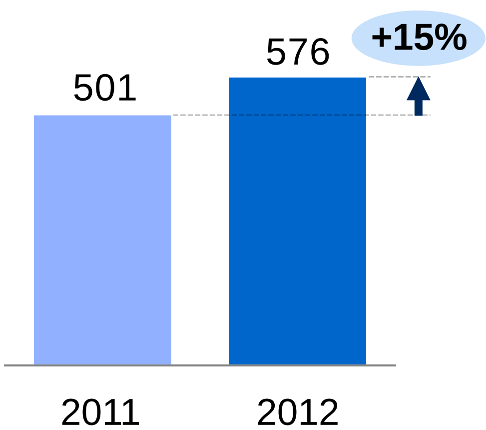
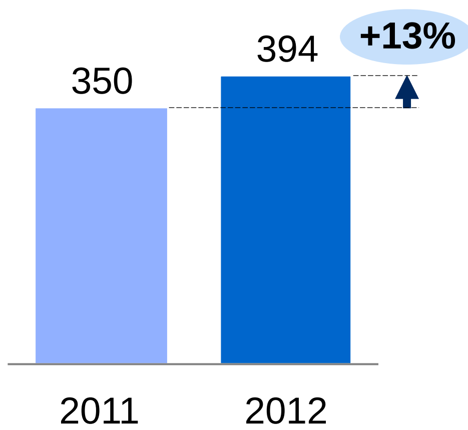
On the Customer Decision Journey Altagamma brands improved their performance on awareness and consideration …

Awareness | **Consideration** | Purchase | **Loyalty**

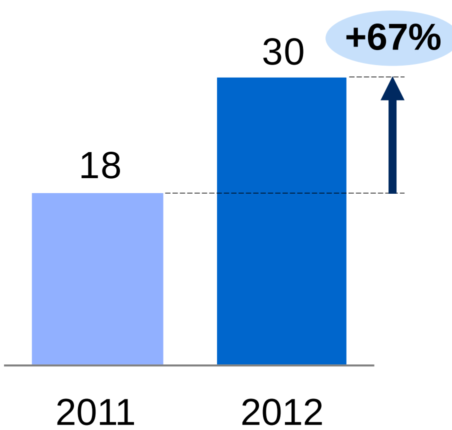
Volume traffic
Visitors/EUR million revenues



Time spent on the site
Seconds



Total buzz volume
Thousands of messages

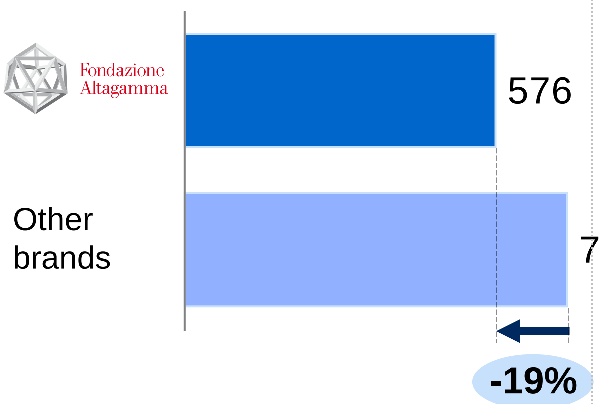


Altagamma members only

…and aligned their performances with peers

Awareness | **Consideration** | Purchase | **Loyalty**

Volume traffic
Visitors/EUR million revenues



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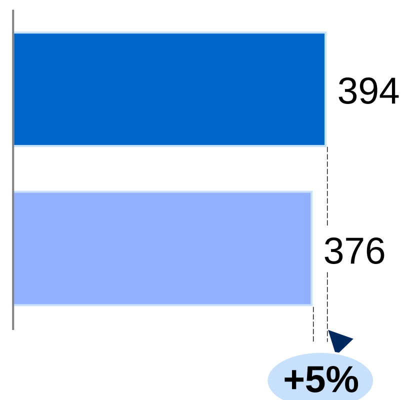
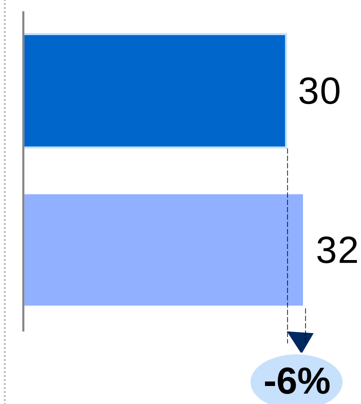
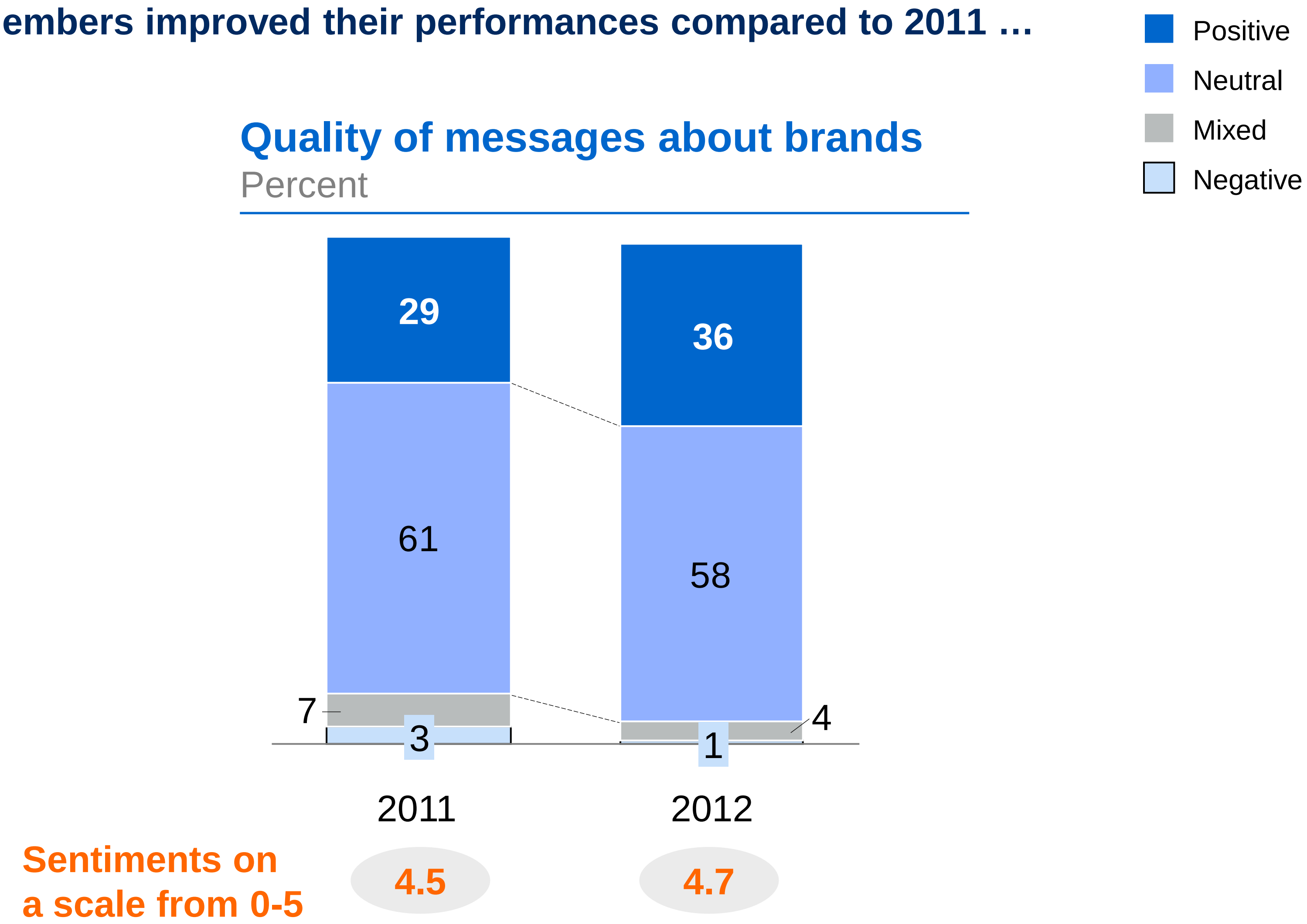


Total buzz volume
Million of messages



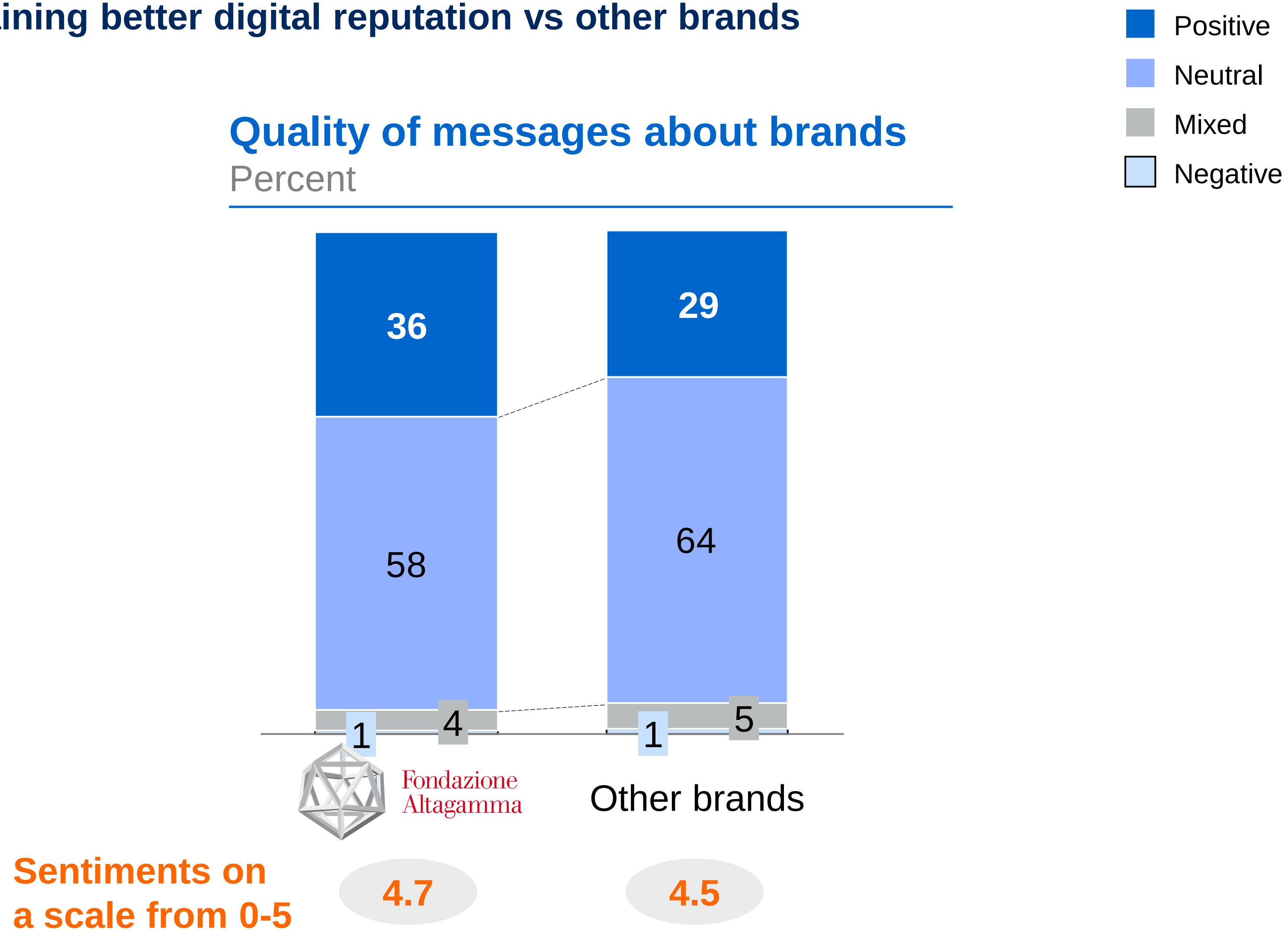
DLE 2012 Full Panel

Altagamma members improved their performances compared to 2011 …



Altagamma members only

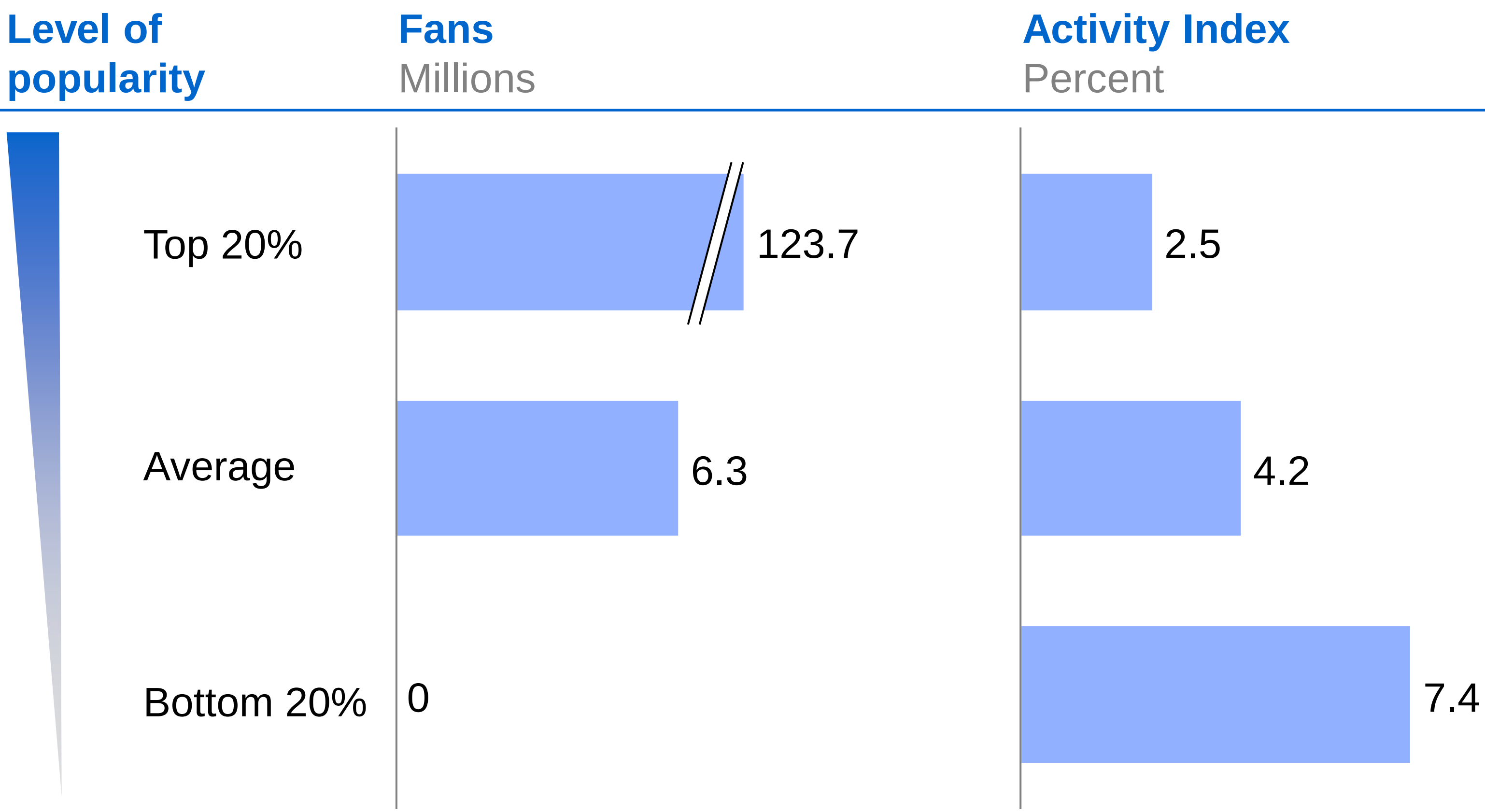
… also maintaining better digital reputation vs other brands



DLE 2012 Full Panel

Social media popularity does not mean high online buzz

facebook



Thank you!