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Luxury shopping in the digital age

The "right" digital strategy differs for every luxury brand, but the essential elements are the same: a strong mobile presence, a selective approach to social media, and a tight focus on carefully chosen metrics.

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Among luxury companies, conventional wisdom used to be that participation in e-commerce—and, in particular, selling through multibrand retail websites—was only for the lower and middle range of products. The pervasive belief was that luxury shoppers, with their discriminating taste and preference for high-priced goods, wouldn't buy expensive things online; they would always opt for the personalized customer service and tactile shopping experience that monobrand brick-and-mortar stores provide.

That thinking has evolved in recent years. The success of ventures such as Net-A-Porter has shown that consumers are indeed willing to buy luxury products online, and at undiscounted prices. Our latest luxury-industry research, conducted in collaboration with Italian industry group Altagamma Foundation, indicates that luxury companies are recognizing—and, in some cases, successfully capitalizing on—the increasingly important role that the Internet plays in luxury shoppers' purchasing decisions (see sidebar, "About the research"). One telling statistic: while overall sales of luxury goods grew by a mere 2 percent in 2013, online luxury sales increased by 20 percent to an estimated €9 billion. We believe this growth will continue; we project that sales of luxury goods online will more than double to approximately €20 billion in the next five years.

Today e-commerce represents a scant 4 percent of luxury sales—but e-commerce is only one aspect of the digital opportunity. Our research found that an additional 40 percent of luxury purchases are in some way influenced by consumers' digital experience—for example, through online research of an item that is subsequently bought offline, or social-media "buzz" that leads to an in-store purchase.

Given the undeniable and growing power of the digital universe, all luxury brands must think hard about their digital presence. The "right" digital strategy differs for every brand, but what's certain is that it's no longer just about a beautifully designed and user-friendly website or effective banner ads. The most successful luxury brands will be those that build a compelling mobile presence, engage and influence consumers through targeted use of social media, and focus on a carefully chosen set of digital-performance metrics.

Going mobile, being social

Three out of four luxury shoppers own a smartphone and about half own a tablet, according to our interviews with more than 3,000 luxury customers in six major luxury markets. Not surprisingly, while they're at work they rely mostly on desktop or laptop computers, but while commuting, dining, or shopping, they're more likely to use smartphones, especially to search for products and store locations. Indeed, more than half of luxury shoppers' searches are mobile, and more than one in five of the shoppers in our sample said they often or always do some research on a mobile device before making a luxury purchase.

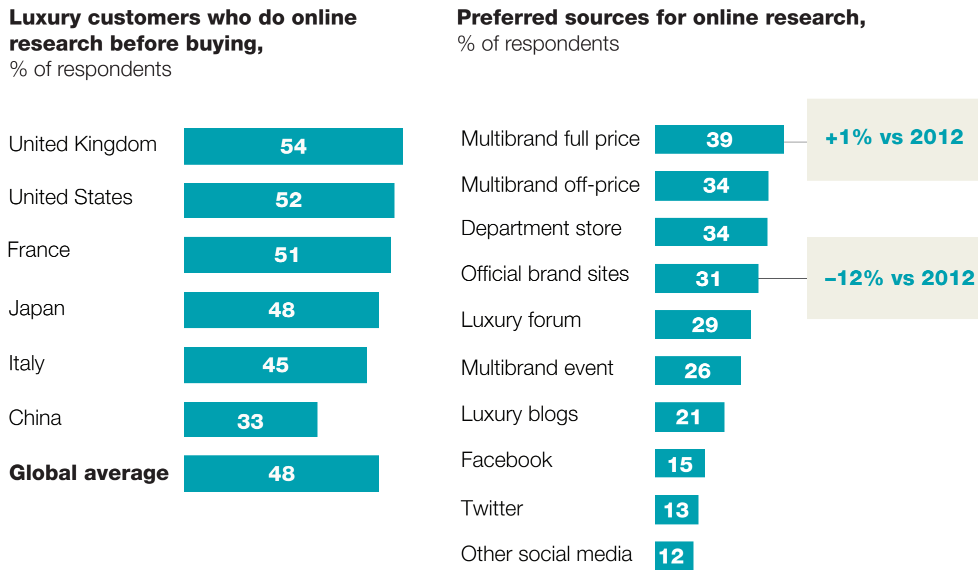
Luxury brands with informative, easy-to-navigate sites optimized for mobile devices—as opposed to just standard websites designed for full-size computer screens—are therefore more likely to drive store traffic. But brands shouldn't rely exclusively on their own sites to promote their products to potential customers. Luxury shoppers are increasingly turning to product-oriented sources of information, such as the websites or mobile sites of multibrand retailers and department stores, so that they can easily compare products and prices (Exhibit 1).

Indeed, many luxury brands—in efforts to engage and influence customers in every stage of the "customer decision journey"—are partnering with multibrand retailers online. However, these brands must make sure that their presence on multibrand sites plays a strategic role and reinforces their brand positioning. An ultraluxury brand that seeks to convey an image of peerlessness and exclusivity, for instance, might choose to be absent from any multibrand sites, whereas a brand that wants to play in the "affordable luxury" segment may decide to feature a few lower-priced items on the web and mobile sites of high-end department stores.

What about mobile applications? Our findings suggest that investing in mobile apps doesn't yield the best returns and therefore should not be a high priority for luxury brands: only about 4 percent of the shoppers we surveyed reported downloading a luxury-brand app. Indeed, only about a quarter had downloaded any mobile apps at all. We found that luxury consumers are interested only in apps that offer detailed, up-to-date information or useful services—for

Exhibit 1

Luxury customers are increasingly researching products on multibrand sites.



Source: China Internet Network Information Center; International Telecommunications Union; Pew Research Center; McKinsey analysis

instance, an app that features an easy-to-browse product catalog or that delivers exclusive offers to loyal customers. Luxury brands interested in developing apps should keep these criteria in mind.

As for social networks, luxury shoppers use them—but mostly to do research or retweet other people's posts, not so much to post their own comments. Thirty percent of the luxury shoppers in our sample had commented on luxury products via social media, but at an infrequent rate: less than one post per month on average, with the majority of the posts taking a neutral position on a luxury product (for example, posting pictures of leather handbags) rather than expressing either a positive or negative opinion about a particular luxury brand or company. The luxury category with by far the most social-media buzz: cars, which are mentioned in about 2,000 tweets per day. Ready-to-wear apparel comes in at a distant second place, followed by fashion accessories.

Our analysis of the content of social-media posts revealed that luxury shoppers use different social networks for different reasons. For example, they use Twitter primarily as a way to learn about or comment on live events in real time, whereas they look to Facebook mostly for information on promotions or discount coupons. On blogs and forums on media websites, most user comments are about in-store experiences or specific products.

One way for brands to capture the social-media opportunity might be to identify and nurture "online ambassadors"—individuals who have a following among luxury consumers and will promote the brand on various social networks. In addition, brands should develop a social-media strategy that aligns with the way luxury consumers use the various social networks: Twitter for building and sustaining excitement around events as they are unfolding, Facebook as a delivery system for targeted marketing offers (while, of course, maintaining a level of exclusivity appropriate for a luxury brand), and popular blogs to engage with and influence consumers as they are thinking about specific stores or products.

Taking brand-specific management actions

Having a clear mobile and social-media strategy is necessary but is not enough to capture full digital impact. To achieve and maintain digital leadership in the luxury industry—and to ensure that they allocate their digital investments wisely—companies must zero in on the most meaningful performance indicators and determine the actions that will make the most difference in achieving their digital objectives. In our experience, the most sophisticated companies gather four types of performance data from a combination of internal and external data sources:

- the company's own financial and marketing information, including data on total and online revenue, earnings, and website traffic
- customer research in the form of surveys, focus groups, and the like
- online-marketing metrics[1] at every point of the customer decision journey—for example, average home-page loading time, average duration per website visit, number of Facebook followers, and so on
- social-media reach and activity

Gathering data is just a start; companies must then be able to isolate the few data points that truly matter. We've found that the most important set of metrics varies according to each brand's "digital archetype." Our research has brought to light three main archetypes within each product category: the plugged-in pro, the selective e-tailer, and the hesitant holdout (Exhibit 2).

[1] One source for digital-marketing metrics is Online Marketing Excellence (OMEX), a proprietary benchmark from McKinsey and Google. For more on OMEX, see Fabian Hieronimus and Mathias Kullmann, "Is your online marketing any good?" *Perspectives on retail and consumer goods*, Spring 2013, mckinsey.com.

Exhibit 2

We have identified three digital archetypes within each luxury category.

'Plugged-in pro'	'Selective e-tailer'	'Hesitant holdout'
• Diversified retail strategy (both mono- and multibrand stores) • 360° use of digital, from social media to full-fledged online store	• Tight retail control (monobrand sites only) • Opportunistic use of digital as entry point for aspirational customers - Marketing channel - Online store for entry-level products only	• Small companies • Tight control of retail (monobrand stores only) • Use of online as showroom only

About the research

Digital Luxury Experience 2013, available at digitalluxuryexperience.it, is a collaborative effort between McKinsey and the Altagamma Foundation. The research for this report encompassed more than 300 luxury and "affordable luxury" brands in the following 12 categories: fashion apparel and accessories, jewelry, food and beverage, furniture and design, watches, cosmetics and fragrances, automotive, hospitality, wine and spirits, yachts, fine china, and other (including fine art and electronics).

To understand the preferences and behavior of luxury shoppers—defined as high-income consumers who purchased at least one item from a luxury brand in the preceding year—the team scoured 13 million public online comments, surveyed 300 online respondents, and conducted in-person interviews with more than 3,000 luxury shoppers in six major luxury markets: France, Germany, Italy, Japan, the United Kingdom, and the United States. The research team also tracked a set of 70 performance metrics across more than 700 luxury websites.

The research methodology was developed and refined by the Digital Luxury Experience Advisory Board, comprising senior executives from 15 leading global luxury brands across a range of categories.

Almost every luxury brand falls into one of these categories, dictated primarily by its brand positioning, its channel strategy, and the level of retail control it wants to exert. A brand's digital archetype will therefore remain fairly constant, unless the company decides to fundamentally reposition the brand.

Once it has determined its digital archetype, a brand should compare its key performance indicators (KPIs) against competitors within the same archetype. Through this benchmarking exercise, it can identify which digital KPIs are most closely correlated with either sales or earnings. To illustrate, a brand might decide that one of its financial objectives is to increase online sales. It would then gather data on each digital KPI (for example, average number of unique visits per day or the number of Facebook followers), compare its performance with that of competitors of the same archetype, and pinpoint the KPIs that appear to be correlated with online sales—recognizing, of course, that changes in performance in one KPI will almost certainly have an impact on other KPIs.

The most forward-looking companies are testing digital opportunities across their entire organization, monitoring impact closely, and scaling up effective approaches quickly.

Having identified the most relevant KPIs, the brand must then take tactical action to boost its performance in those KPIs. If, for instance, it aims to increase its average number of page views per visit, one possible action would be to tweak elements of its website design—such as the layout of pages, the placing or naming of links, the size of images, and so on. If the number of Twitter mentions is one of the priority KPIs, then images could be added to the brand's tweets to increase the likelihood that they will be retweeted. The brand should track key metrics on a weekly basis and test a variety of approaches to see which ones actually move the needle.

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Digital tools and technologies are revolutionizing the luxury-goods industry, and no luxury brand can afford to ignore them. Online sales—as well as the influence of mobile and social media on offline sales—will continue to grow rapidly, in both developed and emerging markets. The most forward-looking companies are testing digital opportunities across their entire organization, monitoring impact closely, and scaling up effective approaches quickly. All other luxury companies should follow their example or else risk falling far behind.

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