Digital Luxury Experience 2013
Keeping up with changing customers
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Special thanks also to all Digital Luxury Experience Advisory Board members for their participation in the research and significant contributions to the knowledge shared here. The authors are also grateful to Anna Sanfilippo, Gaetano Vallefuoco at McKinsey, who contributed to the development of this report.
Digital Luxury Experience 2013
Keeping up with changing customers

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For additional contents about the research please visit the Mobile Site
www.digitalluxuryexperience.it
Luxury shopping is changing fast. The winners will keep pace

1. The power of digital presence

Digital is influencing almost 20% of total luxury sales. More than 70% of luxury shoppers own a mobile devices, more than 50% of them research through mobile. Digital is essential, Brands must go mobile

2. Effective digital strategies vary by brand and category

Three successful archetypes are arising on digital luxury markets. Brands need to understand what are their DNA, monitor performances along Customer Decision Journeys and then act consistently

3. Digital tools can help connect people and information within the organization

Digital is affecting entire value chain, from digital marketing to enhanced in-store experience, from multi-channel CRM to product co-creation, from e-procurement to 3D prototyping. But its potential is still a very early stage across most functions
Today, three out of four luxury shoppers carry digital devices so powerful that the word “phone” barely describes them. Millions of these shoppers now insist on interacting with brands digitally—using their computers, tablets and “phones”—before they decide what to buy, where to buy it or how much they’re willing to pay.

Our research shows that shopping behaviors are changing almost as fast as technology. In 2013, digital interactions directly generated more than 13 percent of offline luxury sales and influenced another 28 percent of sales. Pure online sales doubled to four percent of the total market, growing twice as fast as the luxury market overall. If current growth rates continue for five years, annual online luxury sales could reach 20 billion euros. And since five years is an eternity in the digital universe, that number could be higher.

The opportunities—and the risks—are huge. Brands that reach luxury shoppers with the right experiences and information at the right moment will win a larger share of growth and outperform competitors. Brands that don’t keep pace with their customers’ digital behavior and preferences will fall behind. And companies that provide frustrating or substandard online experiences may tarnish their brands and destroy value.

Our new research shows, however, that maximizing digital impact is not as simple as building a better website or sending more messages into the Twittersphere. Companies that make digital investments wisely, based on their unique brand archetypes and categories, will see measurably better results and create more value. Knowing exactly what to measure and how to respond to rapidly changing shopping behaviors will help marketing teams deliver on the digital promise for years to come. Meanwhile, digital knowledge-sharing and data mining will help deliver impact within companies.

The findings, insights and recommendations in this report are based on the ongoing work of the Altagamma-McKinsey Online Observatory. This year’s research encompassed more than 300 luxury brands in 12 categories, 700 websites, 13 million online comments, 300 questionnaires and 3,000 interviews in six countries. In all, the Observatory tracks about 70 indicators that illuminate how digital strategies and tactics affect brand perceptions and sales. The Observatory’s advisory board, which included leaders from some of the world’s most powerful luxury brands, help shape and guide the research to make sure it’s relevant, useful and timely.
Exhibit 1
Online sales are still below 10 EUR billion in 2013 but are expected to double in 5 years

Exhibit 2
Almost 20% of total sales are directly influenced by digital
The power of digital presence.

For a growing segment of luxury shoppers, online experiences drive real-world decision-making. Our research shows that more than 45 percent of luxury purchases are influenced by what shoppers find in the digital universe. We expect that number to rise in step with smartphone penetration and segment demographics.

The future of pure online transactions

Pure online transactions still represent only about 4 percent of the total luxury goods market, but they’re growing twice as fast as the sector as a whole.

We expect the share of pure online sales to keep rising, especially for perfumes, cosmetics and fashion accessories, which now represent about 68 percent of online luxury goods sales—about 6.2 billion euros. By 2017, pure online sales should account for about 6 percent of the sector as a whole.

The value of search

Not surprisingly, people cite convenience and speed as key reasons to make purchases online. The farther they are from stores, for example, the more likely they are to buy online. The shoppers we surveyed also cited their ability to compare products and prices and find a wider selection online.

Most shoppers may remain reluctant to purchase more expensive and custom products online, preferring to see them and touch them first, but many will compare product features and prices online before settling on one to buy and choosing a retailer.

In other words, by the time many shoppers have reached a bricks-and-mortar luxury store, they’re likely to have a good understanding of all the products in the category, including features and prices. They’ll choose stores based on proximity, of course, but in the years ahead, online ratings and opinions may help drive more decisions about where to make purchases.
Exhibit 4
Social media account for more than 55% of buzz volume, with higher sentiment than other sources

Percent of total mentions on luxury brands
Based on sample of 13 million comments

Exhibit 3
Mobile is getting traction on luxury shoppers
Based on customer survey across 6 countries

Luxury shoppers own mobile devices …
% of luxury shoppers with mobile

<table>
<thead>
<tr>
<th>Device</th>
<th>% of luxury shoppers with mobile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Smart-phones</td>
<td>74%</td>
</tr>
<tr>
<td>Tablets</td>
<td>49%</td>
</tr>
</tbody>
</table>

... using them for search
% of luxury shoppers searching via mobile

<table>
<thead>
<tr>
<th>Frequency</th>
<th>% of luxury shoppers searching via mobile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Always/often</td>
<td>22%</td>
</tr>
<tr>
<td>Sometimes</td>
<td>33%</td>
</tr>
</tbody>
</table>

Smartphones: 33% always/often, 26% sometimes
Tablets: 22% always/often, 8% sometimes

Blogs: 48% tweets, 16% retweets
Twitter: 32% tweets, 16% retweets
Newsreaders: 11%
Forums: 7%
Facebook: 8%
Growth varies by store format and geography

Mono-brand retailers grew almost twice as fast as other formats in the last year. More than 70 percent of pure online sales now take place in Europe and the Americas, but the mobile channel is growing strongly across geographies. Pure e-tailers are expanding in the Asia-Pacific region, for example, where players such as Kering and Yoox are consolidating and gaining market power, and new entrants are fueling competition and innovation.

The luxury shopper is more mobile than ever

Meanwhile, smartphone penetration is fueling luxury shoppers’ “digital passion.” Three out of four own a smartphone, and about half of them own a tablet, according to our interviews of more than 3,000 luxury customers. They tend to use their smartphones and tablets in certain situations and rely on computers in others. When they’re at work, for example, they search on computers. But while commuting, at meals and while shopping, they’re more likely to use smartphones—especially to look for products and find stores.

The research therefore suggests that engaging, easy-to-navigate mobile sites are more likely to drive store traffic. Indeed, more than half of luxury shoppers’ searches are mobile, and more than one in five of the shoppers we spoke with said they often or always researched luxury products on a mobile device before making a purchase. The research also suggests that brands can’t expect to bring potential customers into the store simply by building better web or mobile sites. That’s because more luxury shoppers are looking for product-oriented sources of information, such as multibrand and department stores, where it’s easier to compare brands, products and prices.

Some high-end retailers have invested in mobile applications to engage with their customers, but only about 4 percent of the shoppers we surveyed reported downloading a luxury brand app. Indeed, only about a quarter have downloaded any apps at all.

Surprising news about buzz

The impulse to post or tweet on the most minute topics does not seem to have infected luxury shoppers. Our research founds that fewer than one in three uses social media to post opinions about luxury products—and that only 3 percent of those comments are negative. More than half are not creating judgemental (e.g., most picture without comment).

These shoppers do seem to care deeply about other people’s opinions online, however. More than half of “brand buzz” arises from social media, according to our research.

Among mentions in social media of all luxury goods categories, cars rule. Analyzing 13 million mentions from October 2012 to March 2013, we found that cars appeared 361,000 times, or about 2,000 times per day. On the subject of fashion accessories, more than three-quarters of mentions were about products—not brands. Events and companies appear far down the list, at 11% and 4% of mentions, respectively.
Exhibit 6
Three main digital archetypes are arising

Key characteristics

**“The plugged-in pro”**
- Diversified retail strategy - both mono- and multi-brand stores
- 360° use of digital, from social media to full-fledged store

**“The selective e-tailer”**
- Tight retail control (mono-brand sites only)
- Opportunistic use of digital as entry point for aspirational customers
- Marketing channel
- Store for entry-level products only

**“The hesitant holdout”**
- Small companies
- Tight control of retail (mono-brand stores only)
- Use of online as showroom only

Criteria to identify archetypes

**Brand DNA:**
- Positioning
- Customer fit with online
- Size/ownership

**Channel strategy:**
- Multichannel integration
- Retail control
Effective digital strategies vary by brand and category

To allocate digital investments wisely, we must choose the right metrics to monitor and then determine which responses will deliver the most impact. Our research suggests that the most useful indicators come from four main sources:

- OMEX\(^1\) online marketing metrics along the “consumer decision journey,” from awareness and consideration to purchase and loyalty
- Social media and online mentions
- Customer feedback from surveys and other sources
- Economic performance, including revenues, earnings and digital traffic

Gathering numbers is not enough, of course. Effective responses to what the metrics reveal vary according to each brand’s digital archetype and product category.

Companies can be divided into three archetypes: “plugged-in pros,” “selective e-tailers” and “hesitant holdouts.” Plugged-in pros have a diversified retail strategies including mono and multi-brand stores, and they use every form of digital communication, from social media to e-tail and bricks-and-mortar stores.

Selective e-tailers maintain tight control over mono-brand sites only, and use digital entry points for aspirational customers. For them, digital is mainly a marketing channel, and they sell only entry-level products online.

Hesitant holdouts are smaller companies and retain tight control of all retail, selling from mono-brand stores only. For them, digital platforms are showrooms only.

Each of these retailers should use a unique, sophisticated dashboard to track dozens of digital metrics, from awareness through loyalty, and compare them to industry-specific benchmarks. Companies in each category can then identify which indicators correlate most closely to digital impact at each step in the purchase journey.

For certain brands, driving website traffic may improve awareness more than any other tactic, while average pages per website visit may be the best measure of consideration. Facebook mentions may say more about loyalty than any other easily available metric.

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\(^1\) Online Marketing Excellence, McKinsey-Google proprietary benchmark
Exhibit 7
Example of impact of different digital KPI’s on sales increase

<table>
<thead>
<tr>
<th>Customer decision services steps</th>
<th>Digital KPI’s</th>
<th>Correlation with sales increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Awareness</td>
<td>Traffic rank&lt;br&gt;Total number of organic keywords&lt;br&gt;Total number of paid keywords&lt;br&gt;Google page rank</td>
<td>0.3 0.2 0.2 0.1</td>
</tr>
<tr>
<td>Consideration</td>
<td>Average Pages per Visit&lt;br&gt;Average pages per usage day&lt;br&gt;Average pages per visitor&lt;br&gt;Customers trust of official website info</td>
<td>0.9 0.8 0.5 0.3</td>
</tr>
<tr>
<td>Purchase</td>
<td>Indirect e-commerce&lt;br&gt;Searchmatics paid search visibility score&lt;br&gt;Sum of referring domains&lt;br&gt;Sum of backlinks</td>
<td>0.8 0.3 0.2 0.1</td>
</tr>
<tr>
<td>Loyalty</td>
<td>Number of Facebook talking abouts&lt;br&gt;Total usage days per visitor&lt;br&gt;Total number of Twitter links&lt;br&gt;Buzz volume</td>
<td>0.9 0.8 0.5 0.3</td>
</tr>
</tbody>
</table>

Exhibit 8
Example of actions to improve priority indicators

<table>
<thead>
<tr>
<th>Area of impact</th>
<th>Priority KPI</th>
<th>Examples of specific actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Awareness</td>
<td>Traffic rank&lt;br&gt;Total number of organic keywords</td>
<td>Improve search visibility: optimize SEO/SEM programs, mobile-specific search, etc.</td>
</tr>
<tr>
<td></td>
<td>Average pages per visit&lt;br&gt;Average pages per usage day</td>
<td>Leverage e-mail marketing: follow up e-mails with promotional offers/events based on visitors segmentation, observed searches</td>
</tr>
<tr>
<td></td>
<td>Indirect e-commerce&lt;br&gt;Searchmetric paid search visibility score</td>
<td>Enhance website design: change page layout, placing/naming of links, colors, scaling of pictures, location of offers, etc.</td>
</tr>
<tr>
<td></td>
<td>Number of Facebook talking abouts&lt;br&gt;Total usage days per visitor</td>
<td>Differentiate online presence on multi-brand e-stores</td>
</tr>
<tr>
<td></td>
<td>Boost semantic/graphical attractiveness of social media activity: e.g.</td>
<td>Boost semantic/graphical attractiveness of social media activity: e.g.</td>
</tr>
<tr>
<td></td>
<td>– Add image links to talks/posts/tweets (engagement rates 2x higher than without image links)</td>
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<tr>
<td></td>
<td>– Talks/posts/tweets that contain less than 100 characters generate 17% higher engagement than longer talks/posts/tweets</td>
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</tr>
</tbody>
</table>
None of the indicators works in isolation, of course; they all affect the others. Increasing the number of Twitter followers and Facebook friends tends to drive website traffic, for example.

Once a company has identified the most important indicators of digital success, it can take action to move the needle in those areas. To increase consideration, for example, the marketing team may send more promotional offers by email. The web design team may improve the site design to make it more appealing, thus raising average pages per visit. Both metrics are easy to track weekly, allowing managers to test and fine-tune different approaches.

Just as each luxury shopper is unique, each brand has its own DNA and style. What works well for one company may not work for the customers or employees or another. But knowing your organization’s brand archetype can help reveal which metrics to use and how to compete effectively in an increasingly competitive digital universe.

Each archetype has its strengths and weaknesses, and each can benefit from different digital strategies.
Exhibit 8
Use of digital is still a very early stage across most functions

Based on survey across more than 50 companies sample

<table>
<thead>
<tr>
<th>Functions</th>
<th>Levers</th>
<th>Performance heat map</th>
<th>Expected trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing/ category management</td>
<td>Big data pricing, promo, and assortment</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>E-category management</td>
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<td></td>
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<td></td>
<td>New product/store launches</td>
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<tr>
<td></td>
<td>Digital marketing strategy/ spending opt.</td>
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<td></td>
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<td></td>
<td>Digital marketing execution</td>
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<td></td>
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<td></td>
<td>Digital marketing consolidation</td>
<td></td>
<td></td>
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<tr>
<td>Sales and channel mgmt</td>
<td>Enhanced in-store customer experience</td>
<td></td>
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<tr>
<td></td>
<td>Direct e-commerce (owned channel)</td>
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<tr>
<td></td>
<td>Indirect e-commerce (third parties)</td>
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<tr>
<td>Offering design</td>
<td>Collaborative insights generation</td>
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<tr>
<td></td>
<td>CLM/Omni-channel data management</td>
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<tr>
<td></td>
<td>Digitally enabled new offering</td>
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<tr>
<td>Wholesale</td>
<td>Sales force automation</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Collaborative uplift forecasting</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Retail stores compliance</td>
<td></td>
<td></td>
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<tr>
<td>Operations</td>
<td>E-procurement and e-sourcing tools</td>
<td></td>
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<tr>
<td></td>
<td>In-store labor optimization</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>3D prototyping and printing</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Digital devices and analytics in prod.</td>
<td></td>
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<tr>
<td></td>
<td>End-to-end traceability</td>
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<td></td>
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<td></td>
<td>Data-driven demand planning</td>
<td></td>
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<tr>
<td>Business administration</td>
<td>Virtual training</td>
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<td></td>
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<td></td>
<td>Internal employee collaboration</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Digital recruiting</td>
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</table>
Digital tools can help connect people and information within the organization.

To boost sales and earnings, each luxury retailer should invest in one tailored set of digital tools to reach shoppers—and another set to connect people and data within the organization.

Digital communication can create value across a company’s full value chain. Access to big data can provide powerful new insights to marketing and category management, for example, improving pricing, promotion and assortment to drive revenues and earnings.

Digital connections with wholesalers can allow sales force automation and collaborative forecasting. Digital tools like e-procurement, 3D prototyping and end-to-end traceability can improve operations functions.
About the research

_Digital Luxury Experience 2013_ is the second report produced by the Altagamma-McKinsey Online Observatory, a collaboration between the Altagamma Foundation and McKinsey & Company.

This report synthesizes a wider research, covering in detail a complete spectrum of digital impact drivers and key success factors along three main elements:

**Personal luxury goods digital market.** Digital market has been analyzed through a bottom-up approach, gauging current online sales of more than 300 companies, foreseeing future outlook with price segment, channel and geographical breakdown.

**Online luxury consumers behavior.** To better understand the market and consumers, the 2013 report is the product of a broader research base than its predecessor: 3,000 consumers interviewed in 6 major luxury markets — Germany, France, Italy, the United Kingdom, the United States and Japan.

**Company digital performance benchmark.** More than 300 global luxury goods companies have been clustered in 12 product categories, in order to allow correct comparison among peer groups. Digital brand performances have measured some 700 websites, with more than 70 indicators along the following dimensions: social media and buzz volume, Digital Customer Decision Journey steps, website usability, digital investments, organizations and capabilities.

Methodology, analyses and findings have been developed and syndicated by the Digital Luxury Experience Advisory Board, composed by senior executives from 15 leading global luxury brands across a range of categories. The Board provided feedback and scrutiny, shared their views on market trends, and suggested new areas of analysis.
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