

The opportunity in online luxury fashion

Sales are rising, but what
do consumers expect
from a luxury digital
experience?

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With global online sales for women's luxury fashion expected to surge, here's what consumers in the U.S., UK and Germany want from their digital experience.

After a slow start, luxury fashion has earned its place in the digital universe. Most brands now interact with consumers both through their own branded online store and on multi-brand e-tailers. And even though pure online transactions are currently just a sliver of the total luxury goods market, this isn't going to stay the case for very long. Nearly half of luxury goods buying decisions are already influenced by what consumers hear or see online.

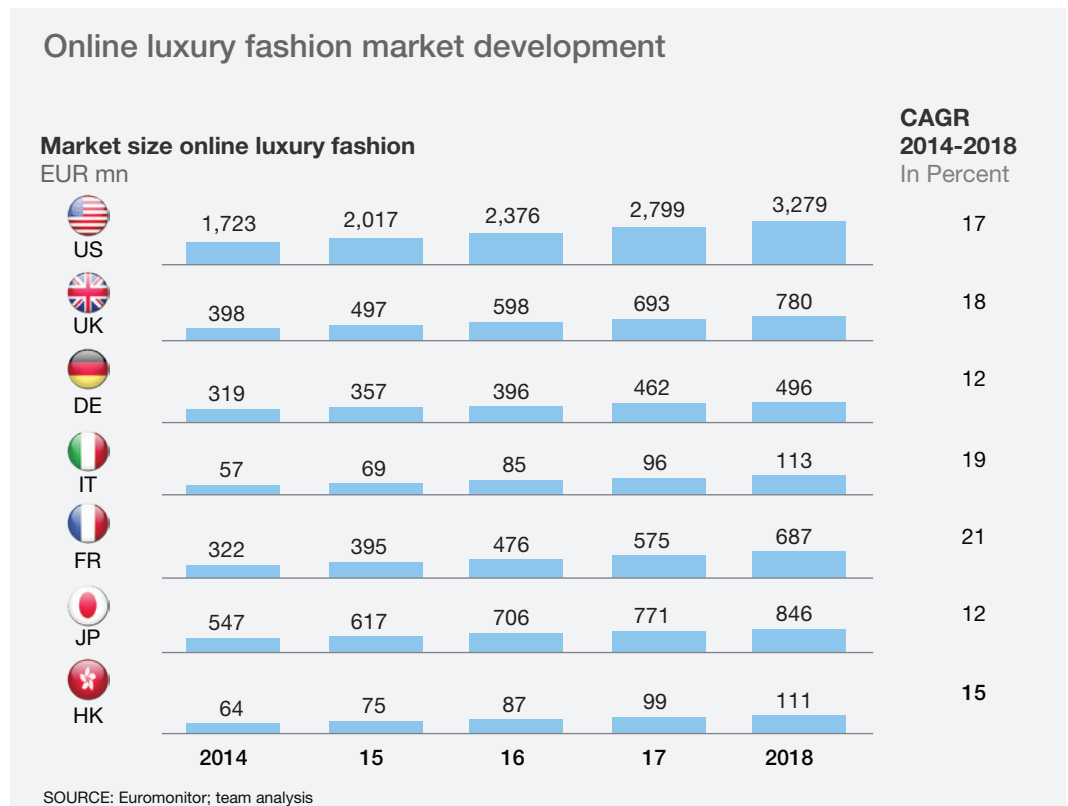
By 2018, global digital sales for women's luxury fashion are expected to grow from a current 3 percent of the total market to 17 percent, for a total market size of \$12 billion. Propelling this surge is solid market growth in developed, Western markets and exceptional expansion in China. Annual online sales growth for women's luxury fashion between now and 2018 is expected to be 17 percent in U.S., 18 percent in UK, 12 percent in Germany and a whopping 70 percent in China.

Having overcome some of their initial reservations and concerns about exclusivity and control, many luxury brands are now more comfortable selling and marketing on both their own site and that of select department store or pure play luxury e-retailer partners in select markets. Brands have come to accept that these channels are not mutually exclusive, since they target different shopping occasions and therefore different consumer groups. Multi-brand sites, however, are expected to capture a greater portion of the growth in online luxury fashion, as single-brand sites have more limited growth potential.

Multi-brand e-tailers allow large luxury brands the opportunity to reach both time-pressed consumers who don't have time to shop around on multiple mono-brand sites and more rural customers who aren't easily able to visit urban boutiques. Yet along with this visibility to a wider audience, multi-brand retail also carries the risk of over-exposure and dilution for luxury brands. Because brand cache is so important, luxury fashion brands must have a clear strategy of how to distribute and market offerings across both channels. Most luxury brands still actively steer the selection of which items they put into multi-brand e-tailing. The "long-running classics" are often only distributed through their own brand website, rather than multi-brand e-tailers.

Getting it right in multi-channel retail first means understanding what luxury consumers want from their digital multi-brand experience. To this effect, we completed consumer surveys in seven markets around the world, using McKinsey's proprietary Rapid Brand Research survey in an online panel. This research tool provides quick insights into how a company's brand is performing on key dimensions, including brand funnels and attitudinal and demographic segmentation. Here, we present the distinctive attributes, as well as the commonalities, of three key online luxury fashion markets – the U.S., the UK and Germany.

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The US: Room for online growth despite department store dominance

U.S. respondents told us that they intend to spend about one-half of their luxury apparel and accessories spending online over the next year, a figure that is consistent across the UK and Germany as well. While this puts online activity in these three markets considerably above that of the global market average, it is not clear how much spending will actually migrate online. What's certain, though, is that American luxury shoppers increasingly view online channels as a legitimate and trusted source for luxury purchases. When buying luxury apparel or accessories online, most customers (60 percent) say they go directly to an online shop they are familiar with, whether mono- or multi-brand. Search engines still play a role, though: 46 percent say they use one to find a specific product; 31 percent use one to find the brand they're looking for.

The top reason U.S. luxury consumers give for purchasing products online is the ability to buy whenever it's most convenient (80 percent say this). The ability to compare and price items before buying is also highly appealing (76 percent gave this reason), as is the absence of feeling pressured by salespeople into buying something (63 percent).

In contrast to other categories of online shopping, the price of online luxury apparel and accessories is not a big reason for consumers to go digital. Only 39 percent of luxury shoppers say they find less expensive products online and about half say they find better deals and sales online than in stores – both figures that deviate significantly from behavior in other categories like consumer electronics.

Possibility of purchasing whenever it is convenient is top reason to purchase online in the US



Reasons for shopping online

All respondents

n=508, Top 2 Box, in %



Question: Please indicate how strongly you agree or disagree with each of the following statements using the scale below.

SOURCE: McKinsey consumer survey, June 2014

In terms of what American consumers expect from their digital luxury experience, a convenient return policy and free shipping are far and away the most important for the vast majority of respondents (90 percent). Having access to items not available in the physical store is also important (60 percent). VIP access that only selected shoppers can access and same day delivery are relatively unimportant. Yet this isn't to say that consumers are willing to wait for their items. Four days until delivery is acceptable, 2.6 is ideal and anything over seven days is an eternity and thus unacceptable. These expected wait times are similar to those in the UK and Germany and largely in line with what consumers are used to in other categories.

There are several key areas of potential improvement for online stores. Sixty percent of U.S. luxury consumers say they would be more likely to buy at an online shop if it offered luxury brands that no one else sold online. Price, now relatively unimportant, could be more of a motivator. Forty-one percent say they would be more likely to buy online if they there were better prices offered. A better web site with stronger functionality and customer reviews and recommendations would also help inspire customer satisfaction.

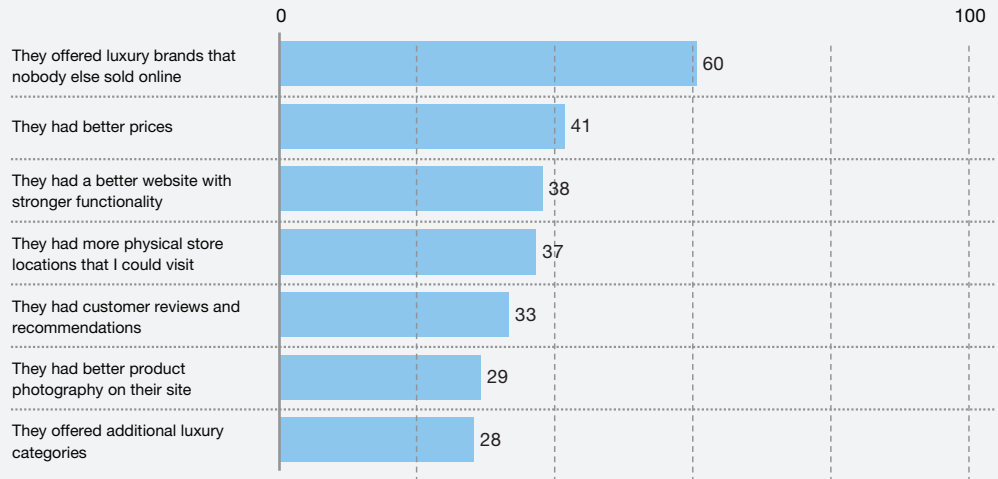
(There is no one type of designer product that a majority of shoppers prefer to buy online. Small leather goods, handbags, silk scarves, jewelry, watches and beauty products are the most frequently purchased. Items that require trying on – clothes, footwear, sunglasses – are less likely to be bought online.

Necessary changes in online selling in order to foster larger share



Selected respondents

n=374, Top 2 Box, Percent



Question: What would make you more likely to buy at an online shop?

SOURCE: McKinsey consumer survey, June 2014

In the U.S., department stores dominate in the online luxury fashion market, as these players continue to expand their offline strengths into online. Nordstrom.com leads, with 71 percent of all respondents saying they have purchased or considered purchasing from this site in the last year. Equally revealing is the site's approval rating. Half of the respondents asked to rate Nordstrom.com say it is their favorite. Fifty-six percent of U.S. respondents have purchased from Neiman Marcus and 53 percent from Bloomingdales.com. Brand-owned sites play a modest role. Sixty-three percent of consumers have shopped there, though this is spread over numerous properties.

The UK: Multi-brand player Net-a-porter.com stands out

The top site for British luxury shoppers is also a department store – Selfridges.com, where 65 percent of respondents say they have either considered buying or have bought luxury goods. But here pure-play Internet sites have a bigger role than in the U.S. Net-a-Porter, which 32 percent say they have purchased from, is among consumers' favorites, staking out firm ground in its home market. The site, which features an authoritative range of products, a high service ethic and unique editorial content, counts the UK as its second largest market, after the U.S. Forty-two percent of British luxury consumers say it is their favorite, ahead of all department store sites except Selfridges.com, where 54 percent say it is a favorite. Although Farfetch.com, a marketplace for upmarket independent (brick and mortar) fashion boutiques, garners just a small share of luxury apparel market, it too has high approval ratings: 36 percent of consumers rate this site highly. With a commission-based model, Farfetch ships products

directly from stores and has the same software module installed in each boutique. Brand-owned online sites play an important role as well. Fifty-six percent of British luxury consumers say they have shopped with at least one.

British consumers are more likely than Americans to use search engines to find specific products, providing greater access opportunities for new players. They use search about as often as they navigate directly to an online shop. When making the decision to buy luxury goods online, Brits are less motivated by the appeal of 24 hour shopping than they are by a convenient return policy (75 percent) and free shipping (73 percent). Forty four percent say that having access to items not available in a store is important. Just as in the U.S., services like VIP access to select products and same day delivery aren't big motivators.

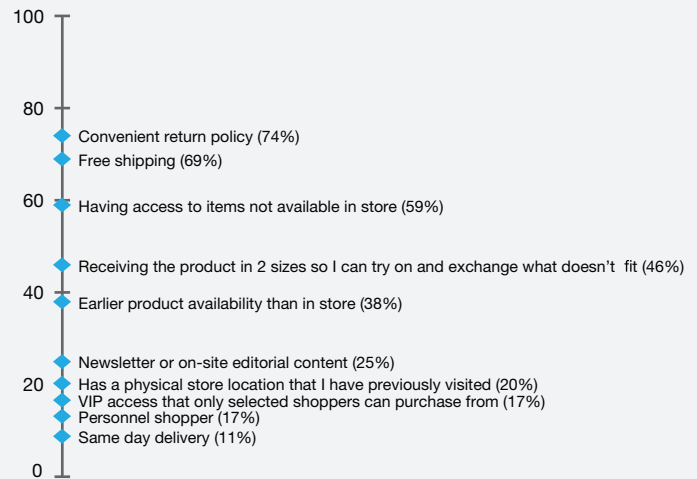
British consumers also would be willing to buy more online if there were better prices offered (48%) and if online shops had exclusive luxury brands that nobody else sold online (41%). They would appreciate the addition of customer reviews and recommendations, though a better web site with stronger functionality isn't as important to them.



Convenient return policy and free shipping as most important factors influencing German/Austrian respondents decision to shop online

All respondents
n=550, Top 2 Box, Percent

Factors influencing the decision to shop online



Question: How important are each of the following in your choice of shopping and buying from an online luxury shop?

SOURCE: McKinsey consumer survey, June 2014

Germany: Growing but with a demanding customer base

In Germany, brand-owned online shops lead the market, with 57 percent of luxury consumers saying they shopped at one in the last year. The Berlin-based German department store KaDeWe is the strongest multi-brand online shop, with 40 percent of consumers shopping there. Net-a-Porter and other pure play multi-brand sites like Mytheresa.com, a well-established Munich-based site known for its curated offer, and Stylebop, which features hard to find items and designers, are each cited by roughly 15 percent of consumers. The online shops of US-based department stores Bloomingdales, Barneys and Nordstrom also have a small presence.

German consumers are generally accustomed to a high service level in online retailing, and when it comes to luxury, they are even more demanding and discerning. As a result, they do not have a high level of satisfaction with the luxury fashion sites they frequent most often. Only 34 percent say that KaDeWe is their favorite site. Their highest praise goes to Matches Fashion, a London-based luxury fashion retailer, and pure play Theoutnet.com, both of which are frequented by less than 10 percent of luxury consumers.

Germans give similar weight to specific online features as Brits. A convenient return policy and free shipping are the most important factors influencing online purchasing for 74 percent and 69 percent respectively, while same day delivery and personal shoppers are relatively unimportant. Germans are unique in valuing the ability to order a product in two sizes so that

they can return the one that doesn't fit, a pattern consistent with what we have seen in lower and mid-priced online fashion in Germany. This two-size feature is one of the main reasons for multi-channel e-tailer Zalando's success in Germany. Forty-six percent of respondents say this is an important factor in their online purchasing.

Germans say they would be likely to do more online buying if sites had better prices or sold brands that nobody else sells online. Having customer reviews and recommendations is somewhat important and a better web site with stronger functionality is somewhat unimportant. Germans also value the importance of having a localized web site with local payment options, clothes sizing, and customer service, as well as a German language site. Having local brands, however, is a less important feature.

Like their British and American counterparts, German luxury consumers buy a wide range of designer products online, with items that don't need to be tried on more popular than designer clothing. These include small leather goods, silk scarves, beauty products, handbags and fragrances.





These findings highlight important execution considerations for luxury players around the globe. The commonalities among the U.S., UK and German markets reveal that online sites, whether mono-brand or multi-brand, have a distinct opportunity to drive sales through both a better approach to pricing and the offer of unique products or brands that aren't available elsewhere online.

The differences are also revealing. In the U.S., the fact that brick and mortar department stores have been able to expand their offline strength into online markets – thanks in part to the tendency of consumers to go directly to specific web sites – means higher table stakes for market success, especially for new entrants. To compete, both luxury brands and multi-channel e-tailers must offer consumers an exceptionally well-designed site and superior customer experience. In Germany and the UK, we see greater chances for market entry since consumers tend to find luxury fashion through Google and other search websites. This, however, also means a higher online marketing spend and greater degree of marketing efficiency. Also in the German and UK markets, return policies are critical to business success, whereas in the U.S., they are barely a differentiating factor.



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