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Opportunities of luxury retail in a digital world

Luxury brands need to better understand their customer base and take advantage of social media, says SMU marketing professor Srinivas Reddy

THE land of designer bags and fancy jewellery in brick-and-mortar stores is being upended by China's slowdown, fickle millennials, and online shopping.

But Srinivas Reddy, Professor of Marketing at Singapore Management University (SMU), believes there are opportunities yet.

"India is an interesting, huge market, but the middle class has not picked up luxury as much as in China. Other markets in South-east Asia, such as Thailand, the Philippines and Indonesia, have not fully blossomed," he said.

Another opportunity lies in the digital space, an area which luxury brands have been reluctant to enter for fear that only discounted products are sold there, said Prof Reddy, who was based in the United States until 2009 when he saw the dynamic opportunities in Asia and moved to Singapore.

In the past, information is obtained by going to the store, talking to friends, and reading a brochure or catalogue. But in a new reality where much information is available online, brands have to examine the process of how information is provided, how to make consumers search and access their products, and how consumers evaluate those products.

"Information is at your fingertips. People in the know will instantly see Hermès introducing a new bag, Louis Vuitton introducing a new line, or a new designer being hired by Chanel," he said.

"You follow bloggers, and Instagram. The moment something new comes in, it's posted. The influence of social media is quite considerable, and a luxury brand has to understand how to use it effectively."

The power of reviews

Prof Reddy highlights the power of online reviews, an area he has studied.

"User-generated content is very powerful. At Amazon, consumers can check the reviews of every product they buy and it has been shown to influence their purchases," he said.

Luxury retailers are picking up on the idea

and are using technology to sell their products. Cosmetic brand Sephora, for example, posts online and mobile tutorials on how to apply make-up. Eventually, this led to an ecosystem where similar videos are posted by customers who have become brand advocates.

Meanwhile, bloggers can help reach audiences that traditional media cannot.

In fact, the following of an Instagram account could exceed the readership of long-running American fashion magazine, *Harper's Bazaar*.

Another example is Chiara Ferragni, a well-known blogger in luxury fashion, who started her fashion blog, *The Blonde Salad*, in 2009. She managed to amass millions of followers since then. In 2015, her business made almost US\$10 million, some from the blog and the majority coming from a shoe line she started.

"The influence of such expert bloggers on potential consumers and their purchase behaviours is becoming increasingly important," he said.

Seamless experience online and offline

The tendency is to create an online store like another catalogue, with different tabs and categories to showcase a company's products. "That doesn't give you very much of an experience. You have to start thinking innovatively and create an experience that is just as beautiful as going into a major luxury store," he said.

"What if I go to a website to buy a watch, and it shows me interesting information such as the history of the watch, when it was introduced, what goes into the making of the watch, and who has worn it – maybe Churchill, maybe the President of the United States. What you have is information you won't normally get in a catalogue – that creates a unique experience," Prof Reddy said.

"Luxury and digital were previously an oxymoron; it is no longer so," said Prof Reddy. "But the luxury brand must create a seamless experience. If the online and offline stores are fully integrated, and if consumers trust the brand, they will be willing to buy from it,

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Srinivas Reddy, Professor of Marketing and Director, Centre for Marketing Excellence, SMU Lee Kong Chian School of Business

regardless of the channel," he said.

A major luxury jeweller had recently sold a jewellery piece online worth hundreds of thousands of dollars, he noted. "It sounds unbelievable. But customers know that if they buy this piece of jewellery from this brand, it is going to be perfect. The big ticket purchase could happen because the brand is so strong."

Tie-up with LVMH

To help the industry as well as the University's undergraduates understand the changing world of luxury retail, SMU has partnered with luxury giant LVMH Moët Hennessy Louis Vuitton to produce independent and high-quality academic research.

The LVMH-SMU Asia Luxury Brand Research Initiative is operated through SMU's Centre for Marketing Excellence, which Prof Reddy has been heading as Director since 2009. Established in 2014 for five years, the research collaboration is LVMH's first with a local university in Asia. The initiative includes education, outreach and research.

In the luxury immersion programme, for instance, students are assigned a brand to visit, they evaluate the merchandising and customer experience, then present their findings to senior representatives of the brand. This way, students gain a deep understanding of luxury brands and luxury retail, and the retailers get a fresh perspective.

The top thinkers in the luxury world also visit SMU to give talks and conduct seminars. They include strategy expert Jan-Patrick Kuehlwein, formerly a Procter & Gamble Managing Director, who gave a talk in April, and Erwan Rambourg, HSBC's Managing Director and Global Head of Consumer & Retail Research, who wrote a book on the Chinese luxury consumer titled *The Bling Dynasty*.

More recently, the LVMH-SMU tie-up produced the Asian Luxury Branding Research Conference in June.

The two-day conference brought together over 50 researchers around the world and a dozen senior LVMH executives to discuss a wide range of issues, such as luxury markets and consumers in China, India and South-east

Asia; digital and social media in luxury retail, and the impact of grey and counterfeit goods.

The power of marketing

Looking ahead, Prof Reddy is currently researching the issue of abandoned online shopping carts.

In online retail, a large percentage of the 'carts' which shoppers put goods in never complete their 'checkout' process. "The level of interest is huge, in just converting even a small percentage of these into sales," he said.

Retailers need to understand the mechanisms which will nudge consumers to complete their purchases. For example, should the online retailer provide e-mail reminders alone or also provide incentives, such as discounts, to encourage consumers to convert?

What fascinates him about luxury is the conflict between selling as many items as possible to maximise revenue, and creating the scarcity and exclusivity required to maintain the high status and charm of a brand.

And Prof Reddy – who has won multiple awards for his teaching – tries to excite his students about the power of marketing.

"Marketing is an integral part of an organisation. It's about whether businesses understand what customers need and what they value, create products and services to address these needs, and make these available at a suitable price and via an impactful retail channel," he said.

Hopefully, I can excite my students so they have a different perspective when they finish my courses."

This is a monthly series brought to you by the Singapore Management University. Next month's feature will discuss the economics of urban form (grid vs cul-de-sac) and its implication on urban life in Singapore.

Lee Kong Chian School of Business

SMU EMBA

PROGRAMME HIGHLIGHTS

- Ranked 36th globally, 10th Asian institution and 'Highest New Entrant' – Financial Times EMBA Ranking 2015.
- Class profile comprises over 60% C-Suites, Director-level executives and partners of companies
- Classes held in the USA (The Wharton School and The Washington Campus), India (Indian School of Business), China (Peking University) and Singapore (Singapore Management University)
- Emphasis on globalising Asian and Asianising global businesses
- Accelerated programme: 9 weeks over 12 months

ATTEND AN INFORMATION SESSION
Date/Time: 22 Sep 2016 (Thursday), 7pm - 8:30pm
Venue: Singapore Management University, SMU Administration Building, Level 5, Executive Seminar Room 5-1, 81 Victoria Street, Singapore 188065

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