



THE DIGITAL ICEBERG

Fashion brands are adapting
their marketing strategies for a digital
reality that goes far deeper than
online sales.

LONDON, United Kingdom — On the opening night of the Frieze Art Fair, Chanel's *Mademoiselle Privé*, a museum-like exhibition promising "an enchanted journey through the house's creativity," touched down, quite fittingly, at the Chelsea gallery owned by British-Iraqi advertising legend Charles Saatchi.

The latest in a string of public marketing spectacles staged by major luxury brands, the exhibition — designed by the same team that creates Chanel's blockbuster runway shows — attracted a star-studded opening night crowd, including Stella Tennant, Julianne Moore and Lily-Rose Depp, along with a cadre of industry insiders and top Chanel clients. But the brand's real target was the much wider audience following the action on their social media feeds. "I think what is fantastic with this exhi-

bition is that, from scratch, everything has been thought of digitally," says Bruno Pavlovsky, Chanel's president for fashion.

A DIGITAL TIPPING POINT

The focus on digital is linked to shifting buying behaviour. In the five-year period from 2009 to 2014, online sales of luxury goods grew four times faster than offline sales. In fact, in 2014, nearly all luxury market growth came from e-commerce, with online sales registering the sharpest spike on record, reaching €14 billion, up 50 percent from 2013, according to a report by McKinsey & Company, a global consulting firm that predicts a "tipping point" in luxury e-commerce. The firm expects the share of luxury sales occurring online to triple in the next 10 years, from roughly 6 percent

today to 18 percent in 2025, making e-commerce the world's third largest luxury market after China and the US.

But e-commerce is just the tip of the digital iceberg. What lurks below the surface of shifting buying behaviour is a change that's harder to track, but is even more colossal. According to recent data presented by Michael J. Wolf, founder and chief executive of technology and strategy consulting firm Activate, the average American spends more time on digital media and technology than work or sleep. And, already, nearly three quarters of all luxury goods purchases, even if they take place in physical stores, are influenced by what consumers do online, according to McKinsey. "My assumption in the long term would be 99 percent," says Nathalie Remy, who leads the firm's fashion and luxury goods practice for

Europe, the Middle East and Africa. "Ninety-nine percent of purchases will be influenced by digital in one way or other."

A NEW MARKETING MODEL

In response, fashion brands have been rethinking where they advertise, shifting media buys from offline to online. "The spend in digital nowadays, even for the conservative brands, is over 15 or 20 percent. And for some brands that embrace digital in a higher way, it is more than 50 percent," says Mario Ortelli, a senior luxury goods analyst at Sanford C. Bernstein. But simply buying more digital ad space is what Remy calls "the easy part." Changing not just where but how brands communicate and connect with consumers is more challenging.

Vikram Alexei Kansara
Words

“Last year, online sales saw the sharpest spike on record. But e-commerce is just the tip of the iceberg. Digital already influences three out of four luxury purchases and will soon impact 99 percent of sales.”

The Internet has rewired media, upending the traditional relationship between companies and consumers, and forcing brands to rewrite their marketing strategies. In the pre-Internet era, when media was a monologue to a passive, captive audience paging through a print magazine, for instance, the dominant marketing model was built on interruption, paid reach and repetition. Fashion brands constructed their marketing strategies around seasonal print campaigns. “Before, you made one campaign per season. You had the same campaign that you put in Vogue or the Financial Times for three months,” says Ortelli.

But media today is fundamentally different. Rather than a monologue, it’s a ‘multilogue’ unfolding in real time across a network of media-technology platforms where consumers are voluntary, active participants, meaning brands can no longer monopolise the conversation and, instead, must forge symbiotic, reciprocal relationships with others. “Online, you don’t completely own your way of communicating, because people can copy and paste, they can comment and share and so really it becomes an ecosystem,” continues Ortelli.

The ascendancy of digital has also contributed to a rise in the number of touchpoints between consumers and brands, who now come into continuous contact with each other across a much wider range of platforms, from Instagram to e-commerce sites, resulting in more complex, non-linear paths to purchase. But according to McKinsey, which conducted a recent study on “the luxury consumer decision journey” across 21 touchpoints, ranging from Internet search to social media, to store visits, luxury shoppers overwhelmingly tend to purchase from brands with which they are already familiar. Indeed, unlike in other sectors, like consumer electronics, for example, where active product evaluation plays a much bigger role in shaping customer preference, more than three quarters of luxury goods purchases come from the handful of brands that were already being considered by shoppers at the very beginning of their purchase journeys.

“The implication here is that luxury brands need to continue building their pre-eminence over time in order to be at the top of a consumer’s mind whenever a purchase occasion occurs,” reports McKinsey. “This process is more of a marathon than a sprint, requiring long-term building of brand awareness, reputation and category relevancy in a powerful and consistent manner.”

In this new reality, where media is networked and constant brand-building is more critical than ever, marketing success is less about simply re-allocating ad spend and more

about earning attention and distribution by nurturing the platforms where consumers spend time with emotional content experiences they will voluntarily seek out and share. “In terms of mindset, it’s a major shift from simply buying the best advertising space to creating content,” says McKinsey’s Remy.

FEEDING THE FEED

“At the end of the day, you need content,” underscores Chanel’s Pavlovsky. “We need more and more content to keep alive the emotion that we offer to our customers. No doubt the exhibitions we are doing — like Mademoiselle Privé — are part of that.” Indeed, in recent years, the number of exhibitions, fashion shows, dinners, parties and other events staged by luxury brands — and attended by guests often selected for their follower counts and encouraged to upload images to Instagram — has soared, in large part to keep pace with online fans who expect new content each time they refresh their feeds. “The increased fashion shows and PR events — it’s about creating content,” confirms Remy.

Some have dedicated significant resources to the effort. The vast production studio at Burberry’s headquarters in London’s Horseferry House outputs a never-ending stream of slick digital content, feeding the brand’s website and social media channels and reflecting the long-standing mantra of the company’s multi-tasking chief creative and chief executive officer, Christopher Bailey: “We are now as much a media-content company as we are a design company.”

The investment has helped make Burberry one of the most successful brands on social media, with one of the highest number of ‘likes’ per post on Instagram, which Luca Solca, head of luxury goods at Exane BNP Paribas, calls the “social media boxing ring” and “by far the most relevant social platform for luxury brands.” Other top performers include Michael Kors, Chanel and Louis Vuitton.

“Fashion is one of the most loved verticals on Instagram,” says Eva Chen, Instagram’s head of fashion partnerships. “Fundamentally, it’s a storytelling platform and it’s really important for brands and designers to remember that. People are looking for narrative when it comes to Instagram.”

But creating high quality storytelling for a fast-moving and fragmented ecosystem is tough. “Luxury brands are used to creating hero content that is very high-end,” says Remy. “But in the digital world, it’s a lot more about emotions, proximity, reactivity. This requires a different operating model for producing content.”

“Our digital platforms and activities have been pivotal in bringing to life Alessandro Michele’s new contem-

porary vision for Gucci,” says Marco Bizzarri, president and chief executive of Gucci. “However, it is fundamental to deliver complete consistency and coherence across all of the brand’s consumer touchpoints. In today’s fragmented digital world, the absolute priority must be on the implementation of a highly curated content strategy given the multiplicity of platforms on which the brand needs to be present,” he continues, outlining the contours of the challenge.

To keep up, brands are expanding their marketing budgets, already a significant proportion of sales for luxury companies. “At the end of the day, we are spending more and more money. It’s not simply a question of reallocation,” reveals Pavlovsky. Indeed, while some are cutting back on non-digital channels, many, like Chanel, are simply investing more in digital without trimming significantly elsewhere. “The challenge is they can’t ease up on magazines, because their reach of this narrow but deep audience is critical,” says Activate’s Michael Wolf. “Yes, there are plenty of people who read it aspirationally, but Vogue still reaches an extremely upscale audience. It’s also about being in the same place as other brands.”

LEADERS AND LAGGARDS

The savviest brands no longer make a distinction between online and offline, integrating digital into the core of all their major marketing initiatives. “The digital element of any project is part of the planning from day one in all of our major initiatives,” says David Lauren, executive vice president of advertising, marketing and corporate communications at Ralph Lauren. “Ralph Lauren has a very holistic, 360-degree approach to its marketing spend and digital, non-digital, social and experiential elements are all a part of that.”

And yet some important luxury brands have failed to bring their strategies in line with today’s media reality. Céline, a major digital laggard, according to a study by Exane BNP Paribas, still has no social media presence at all. But digital is such a critical driver of luxury growth that even Céline, whose creative director, Phoebe Philo, famously remarked that she would “rather walk down the street naked” than join Facebook, may soon be forced to rethink its strategy.

“I bet that they will not remain digital laggards for long,” says Solca. “Those who miss this opportunity will fall behind. It would be like refusing to go to China 20 years ago, but even worse, because at least the Chinese would still have come to your stores in Europe and elsewhere. Saying that an overwhelming portion of growth will come from digital is a wild understatement. The development of digital capabilities will be necessary for survival.”

€14 billion

Luxury e-commerce sales in 2014

99%

Proportion of purchases influenced by digital today

1

Number of major luxury brand without an official social media presence