Digital and Physical Integration: Luxury Retail’s Holy Grail

We have analysed in-store digital proficiency
We have worked with ContactLab and carried out 61 store visits in New York City, measuring performance on 21 different parameters, looking at three areas: 1) The basic: technology in-store; 2) The developed: how digital clients are received and services in-store; 3) The advanced: how digital is leveraged to make the most of traffic in-store. Overall Ralph Lauren is the leader in bringing digital innovations into stores and connecting Online and Offline environments, followed by Bergdorf Goodman and Burberry. We expect several companies to achieve Digital and Physical retail integration in the coming quarters.

Digital offers an ROIC accretive growth avenue
Expanding retail networks at a time of more muted demand growth risks diluting space productivity: a capital sin for any retailer and a guaranteed way to sink ROIC and TSR. By contrast, digital is one of the profitable “growth pockets” available to luxury goods players today: 1) consumers are embracing digital and spending more and more luxury dollars online; 2) being late to the party, luxury players can take advantage of established technologies and choose from a long list of service providers. Coupled with their small volumes, this caps their capex requirements; 3) luxury brands enjoy large average baskets, limiting concerns over fulfilment costs; 4) digital sales carry materially lower SG&A costs (rent, personnel, etc.) and higher margins.

Combining physical and digital retail has obvious benefits
Consumers buying luxury goods both online and in-store spend c.50% more per year than in-store only customers. When goods are out of stock, offering consumers the opportunity to order online in-store and receive their purchases at home increases conversion rates and – ultimately – sales/m². Providing order online and pick-up in-store opens cross-selling opportunities – similar to order online and return/exchange in-store. Both ultimately support space productivity. As most luxury brands have become retailers, space productivity must be their North Star. Down the road – as digital luxury takes off – this will require brands to right-size their POS networks, something best-in-class players are already doing.
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Executive Summary

We have analysed in-store digital proficiency

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Figure 1: Ralph Lauren leads in bringing digital innovations into stores and connecting the online and offline, followed by Bergdorf Goodman and Burberry. Many luxury brands are trailing

In-Store Digital Proficiency, New York, December 2015

Source: ContactLab Analysis
Digital offers an ROIC accretive growth avenue

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