

2023
LUXURY RETAIL INDUSTRY
TRENDS

The luxury retail industry is well-positioned for [continued growth](#) in the coming years. Retailers are improving the shopping experience and maximizing access to their products through direct-to-consumer (DTC) channels, eCommerce platforms, and social media channels. Additionally, the rise in goods being sold online is contributing to strong forecasts for revenue growth in the market, with several predictions suggesting that sales will occur primarily online as opposed to physical retail spaces over the near term.

In this report, we outline several luxury retail trends for 2023, building upon our retail experts' previous perspectives of how to best leverage technology to better meet evolving customer needs.



LUXURY RETAILERS INVESTING IN THE METAVERSE



ENHANCING BUYER EXPERIENCE WITH AUGMENTED REALITY (AR)



BRANDS IMPLEMENTING SUSTAINABILITY & ESG INITIATIVES



SOCIAL MEDIA ENGAGEMENT WITH YOUNGER GENERATIONS



KEY DRIVERS & LIMITATIONS IN LUXURY RETAIL GLOBALLY



LUXURY RETAILERS INVESTING IN THE METAVERSE

Luxury retailers are making bold bets on the future of the metaverse by increasing their brands' presence within these virtual worlds. The metaverse enables individuals to purchase and enjoy luxury outfits, fashion accessories, and more in a unique format that has the potential to increase virtual connections among savvy shoppers. In addition, the metaverse truly captures a vibrant and immersive world, where individuals can interact with other individuals virtually as done in person. Specifically, people can now purchase luxury outfits virtually, which has increased access to brands a shopper may not have otherwise purchased, and customers have begun buying and collecting virtual designer assets using real money.

Many brands have begun to sell work and designs as [nonfungible tokens \(NFTs\) in the luxury retail space](#). Runway designs can be sold virtually as NFTs, which serve as digital receipts of ownership. NFTs, are “authentic” and “exclusive” in nature and [discourage knockoffs](#). Many of the largest luxury brands – Burberry, Dolce & Gabbana, Hermes, Gucci, and numerous others – are utilizing NFTs to [capture the loyalty](#) of new consumers. Shoppers who currently purchase luxury personal goods enjoy the fact that the luxury resell market is active and profitable, and we can expect to see the same resell/transfer activity within [NFT marketplaces](#) moving forward.

Digitalization presents additional cost-saving opportunities for retailers because there are fewer raw material and labor costs, and luxury retailers can even start minting designs. Luxury retailers can capture substantial margins by selling limited designs virtually as NFTs at a premium price, enabling an even more differentiated luxury experience. Furthermore, the evolving digital landscape presents luxury retailers with numerous opportunities to [increase brand awareness](#) and offer a more expansive online presence, further increasing audience engagement via creative entry points to shopping experiences.



ENHANCING BUYER EXPERIENCE WITH AUGMENTED REALITY (AR)

In addition to exploring avenues for engagement within the metaverse, luxury retailers are also enhancing shopping experiences with Augmented Reality (AR) and other technological developments to meet changing customer preferences and provide a more personalized try-on experience. With so much competition, luxury retailers are turning to technologies like AR to offer a premium experience for their customers without the inconvenience of using physical changing rooms.

Shoppers seeking to purchase luxury items expect lux buying experiences throughout their purchasing journey, where individuals can test different designs and view what products would

look like in their own spaces before purchasing. Specifically, these technological developments can meet customer preferences for greater personalization and provide accurate dimensions for size and fit that ensure elevated satisfaction levels. Through precise measurements and innovative experiences, AR benefits luxury retailers as returns are reduced while [building trust and loyalty](#) among the brands' customer base.



AR technology can also be utilized for more seamless contactless experiences, which will save time and improve effectiveness of transactions in-store and online.

One report details that merchants who implement 3-D content to their stores experience a [94% conversion shift](#) on average, which supports why [retailers investing in digital in-store displays](#) will capture and engage an increased number of prospective shoppers. Further, these displays have the ability to collect and track real-time analytic data, where unlike normal billboards, AR displays can be updated based on data collection and further drive brand awareness.

Luxury retailers must provide an enhanced try-on experience to meet customer preferences for a more personalized and well-informed shopping experience, a trend that was accelerated by the recent pandemic. AR technology and [technological innovations](#) contribute to a uniquely tailored and enhanced buying experience, which will be a game changer for luxury retailers moving forward.



BRANDS IMPLEMENTING SUSTAINABILITY & ESG INITIATIVES

Luxury fashion brands are implementing [sustainability initiatives](#) and adopting more ESG measures to take responsibility and outwardly demonstrate their commitment toward a more eco-friendly and carbon-neutral future. As customers become more aware of the inherent impacts the industry has on the environment, brands have been increasing their sustainability initiatives to educate consumers and to be more transparent about operations. For example, Chanel has been producing "[Climate Reports](#)" to indicate action steps and commitments to a low-carbon future.

Brands are also committing to reducing the impact of their operations and accelerating climate mitigation, which is centered around addressing the root causes and minimizing various effects of climate change. We're seeing [luxury retailers](#) investing in renewable electricity for operations, using recycled fabrics for their products, modifying processes to minimize emissions, improving efficiencies with transportation of goods, and dedicating additional focus

to purposeful packaging. This is particularly important as shoppers continue to place an increased emphasis on ESG practices – in fact, [67% of Gen-Z and Millennials](#) factor luxury brands' sustainability practices into purchasing decisions. Players in the luxury retail industry must take accountability for business operations' impact and lead efforts to reduce the adverse environmental effects. Furthermore, shoppers will continue to remain in tune with supporting ethical and sustainable brands, which is why luxury retailers need to make commitments to reduce the impact of operations on the planet while also [avoiding greenwashing](#).



SOCIAL MEDIA ENGAGEMENT WITH YOUNGER GENERATIONS

Luxury retailers are expanding their brand image and interacting with the next generation of shoppers through social media platforms. We expect the influence and purchasing power of these younger shoppers to substantially increase, [with Millennials accounting for half of the value](#) of the luxury market by 2025.

Top-tier luxury brands should work to leverage digital commerce to expand their sales channels as well as strategize new creative measures to expand reach and better explore who represents the target audience, as visibility and creative brand awareness matters. For example, luxury brands like Prada and Louis Vuitton have recognized opportunities in partnerships with sought-after celebrities and influencers to engage younger audiences and gain a more extensive following on social media accounts, [like Instagram](#). Luxury retailers have also begun engaging the younger demographics through TikTok and Instagram campaigns, enhancing and generating lifetime value.

Studies have shown that [Gen Z prefers a more interactive and personalized approach](#), and we expect social media engagement strategies to further reflect that in 2023. In addition, brands will further utilize social platforms to engage younger audiences to foster a sense of [brand](#)

[loyalty](#) and drive growth, as studies have shown that these younger groups are more impulsive and even more likely to buy after being persuaded by an engaging social media brand campaign. It's estimated that Millennials and Gen Z will [contribute 130 percent of market growth](#) between now and 2025 for the luxury retail industry. As such, luxury retailers need to establish a more significant presence on social media platforms to best connect with younger generations and drive growth in the industry.

5 KEY DRIVERS & LIMITATIONS IN LUXURY RETAIL GLOBALLY

With advances in the digital space, the global sales of personal luxury goods are estimated to reach [\\$385 billion by 2025](#). This anticipated growth is likely to be fueled by steadily increasing wealth among luxury customers. Specifically, the rise in wealth and income levels of emerging markets, specifically within Asia-Pacific, has yielded opportunities for luxury retail brands.

Despite problems with operations and shutdowns in China during the pandemic, China is expected to lead the global luxury retail space. China accounts for [more than 20% of global luxury sales](#) and is experiencing a retail boom, where brands that establish a strong presence with customers in China will find opportunities for special releases.

The luxury market is expected to grow at a large percentage as more individuals reach higher income levels and can spend more, boosted by increased domestic spending. In addition, more people are purchasing luxury fashion items for the first time. For example, [a report found](#) that in 2021, 50% of people who bought luxury fashion items in China did so for the first time, and 40% of this group were younger than 25.

However, retailers will need to be mindful of a number of global inhibitors: economies still recovering from pandemic turbulence, the counterfeit market for luxury products, and ongoing trade tensions between the U.S. and China, among others. These inhibitors will force retailers to adapt to meet the evolving needs and demands of their customers – remaining customer-centric – to earn loyalty and retain a competitive advantage in this growing market.



LOOKING AHEAD

Despite the [inflationary challenges](#) and economic uncertainty we've seen over the past few years, the luxury market has continued to perform well throughout – with [positive growth for 95% of brands](#) – and is well-positioned for continued growth. As such, it's incumbent upon luxury retailers to capitalize on these opportunities to build brand loyalty through differentiated, tech-enabled experiences while also satisfying customers' evolving expectations around corporate responsibility.

We anticipate luxury retailers will expand into AR and the metaverse to provide more unique immersive experiences, drive engagement among different audiences, and to provide a community to drive loyalty and serve as a sales channel for products. Luxury retailers must pay special attention to manufacturing processes and ensure they are educating audiences on improved practices, where shoppers are more deliberate in who they support. Luxury retailers must also utilize social media platforms to engage younger audiences, which will help inform a more extensive audience base of new products and special releases.

Furthermore, luxury retailers must focus on innovation and leverage technology to better meet customers' needs and demands. The continued growth for the industry will rely on luxury retailers' ability to remain customer-centric and understand the unique challenges and drivers for the market in 2023 and beyond. Anticipating shopper preferences and creating surprisingly differentiated experiences will be keys to success going forward.

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