

From Online to Offline: The future role of physical stores in the luxury retail space

Frontiers in Retailing

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CONTEXT AND TRENDS

Luxury retailers had long been resistant to introducing online stores, despite the growing popularity of e-commerce. A study by McKinsey & Company in 2015 found that only 40% of luxury brands offered e-commerce options, compared to 60% of mainstream apparel brands, highlighting the luxury industry's slow adoption of online sales channels¹. The prevailing notion among luxury brands at the time was that selling through e-commerce was suited to lower and mid-range products. These brands posited that luxury shoppers would not want to make significant purchases online because they preferred an immersive, individualized, hands-on shopping experience offered by mono-brand physical retail stores and the brands' ability to use their stores as showrooms eschewed the mass-market feel. Luxury retailers assumed that this experience could not be replicated in an online environment. Additionally, many competed on exclusivity and scarcity, which was anti-ethical to the internet medium that enabled mass-access and price transparency.

However, once COVID hit, it disrupted the market and fueled overall e-commerce growth. According to the International Trade Administration, e-commerce share of total global retail sales grew only by approximately 1% per year until 2019, and then surged by 4.4% from 2019 to 2020² (*Figure 1*). As luxury shoppers could no longer access physical stores, luxury brands were forced to create new online marketing opportunities and accelerate the development of their online retail channels. According to data from Bain & Company, the share of luxury sales online increased from 12% in 2019 to 22% in 2021.³

Opposite to what was expected, as soon as COVID restrictions were lifted, customers began to return to the stores once more. E-commerce growth returned to previous patterns which indicates that post-covid e-commerce growth returned to about 1% per year. Consistently, a recent survey from the Business of Fashion found that 77% of frequent luxury shoppers plan to visit a physical luxury store as often or more frequently in the year ahead than they did last year, so despite being a time of tightening in the real estate cycle, luxury is growing and persistent demand continues to drive absorption across retail categories, surpassing pre-pandemic levels. The report also mentions that 31% of luxury shoppers visit a physical store at least monthly, preferring the tangible benefits of face-to-face interactions, and 68% prefer to involve a physical store when it comes to customer service.⁴

Boutiques have reclaimed their status as the cornerstone of a Maison's identity. Its role has evolved beyond hosting the purchase to providing an emotional and immersive experience.

¹ [Luxury shopping in the digital age, McKinsey](#)

² [Impact of COVID Pandemic on eCommerce, International Trade Administration](#)

³ [Shopping for Luxury Online Has Fallen Out of Fashion, The Wall Street Journal](#)

⁴ [The Evolving Art of Luxury Experiential Retail, BoF Insights](#)

ROLE OF THE PHYSICAL STORE IN THE LUXURY RETAIL SPACE

In the past, customers went to the store solely to purchase products. Today, they can find these products online. Thus, when they visit a store, they seek more than just a transaction; they are looking for emotions and memories that resonate with them on a personal level. What is the role of the store then?

We posit a store serves as the brand's personification: the touchpoint where clients can interact with the brand, discover its history, values, and its products. It represents the opportunity to provide an 'immersive experience' of the brand for its consumers and forge an emotional connection beyond the transactional.

It will serve as a mix of a showroom, an art exhibition, and a transactional place.

In this context, it is clear how sales associates become a much more central figure. They are not only 'sales' people, but also 'actors on the stage' and 'guides in an exhibition', bringing the customer with them in a unique journey, setting up also a personal connection.

All in all, the physical store of the future will serve three main purposes: Discovery & Exploration; Experience and Convenience.

I. Discovery & Exploration

Brand storytelling has become increasingly important. In a market saturated with luxury brands, differentiation and representing a unique ethos are crucial for capturing customer attention and wallet share.

Consumers are intrigued by the history and values of brands. According to Business of Fashion, approximately 60% of consumers prefer to learn about brand stories and values in-store⁴. A prime example is Sabyasachi, whose New York City store transports customers to India the moment they step through the door, with decor and artifacts that showcase Indian heritage and craftsmanship. This setting provides the perfect backdrop for sales associates to educate clients about the brand's perspective. Another masterful example is Van Cleef & Arpels. As part of the Richemont Group, this historic jewelry house has developed a waiting area in its flagship Place Vendôme boutique that takes customers on a journey through its heritage and craftsmanship (*Figure 2*).

Generation Z, in particular, seeks to engage with brands and establish genuine connections. They are more price-conscious and value an understanding of the quality and craftsmanship behind luxury products. According to Euromonitor, Gen Z consumers purchase based on values and experiences, not merely luxury or fashion items. Loro Piana has excelled in showcasing the intrinsic high quality of its products by educating clients about the materials and advanced techniques used. They utilize both online (social media and websites) and offline (store activations) channels for storytelling about the brand, its values, and its precious materials, such as the innovative "cashdenim" (*Figure 3*).

Moreover, technology and AI are expected to play a significant role in the discovery and exploration of brands. Starting from buzz-generating marketing campaigns, AI can amplify brand messages and deliver them with unconventional and captivating

details, as demonstrated by Coach's promotion of the Tabby Bag, which included the AI-generated "Impossible Tabby Shop"⁵ (*Figure 4*). Additionally, AI could be a powerful tool in stores, helping customers discover brands and product offerings. Dior, for example, has taken a step in this direction by allowing clients in selected stores to use Microsoft HoloLens headsets to explore virtual displays and interact with digital content. Also, AI can directly enhance products themselves. We are particularly captivated by Steinway & Sons' innovation embodied in the Spirio piano. This traditionally handcrafted piano is equipped with added technology that allows it to play music autonomously. Users can select any piece of music on the provided iPad, and the piano will perform it independently. Alternatively, they can choose to play it themselves in the traditional way (*Figure 5*).

We can anticipate that technology and AI will more and more play a pivotal role in luxury retail, much like special effects in the film industry.

II. Experience

Given the evolving expectations of luxury shoppers, who increasingly prioritize the value of experiences over products, it is imperative for luxury brands to interweave experiential elements as a central component of their physical store. The transformation in consumer behavior underscores this shift, with an Epson survey finding that 75% of shoppers – and over 80% of Millennials and Gen Z – indicating that they would be more likely to shop in-person if physical stores were more experiential⁶.

To do so, brands must focus on providing experiences that come across as genuine and as part of the brand's DNA to resonate with customers; rejuvenate and evolve physical stores to enable new activities, such as exhibitions or performances. Brands must also adopt new metrics, such as new customers and time spent in store, to monitor the value of these experiences beyond sales performance.

In this aspect, brands can look to department stores for inspiration, who are far more advanced. For example, the Miami Design District, is an open-air shopping neighborhood that features from sculpture-filled plazas to striking architecture, to luxury brands' stores. The district offers diverse experiences focused on innovative fashion, design (such as the de la Cruz gallery which is free to the public), architecture, dining (with several Michelin star restaurants) and wellbeing (such as yoga classes). (*Figure 6*)

A novel concept that can help brands successfully deliver these experiences is "hyperphysical retail". This approach consists in using multi-sensory experiences (for example, tactile materials, interactive objects, virtual try-ons) to turn stores into entertainment venues and deliver personal, cultural, and memorable experiences. Hyperphysical focuses on blending sensory and emotional engagement, creating unique experiences for digital-native customers with the goal of projecting the brand's identity and building a community around it. This will enable physical stores to move

⁵ [How Coach used global retail activations to popularize a hero product, Glossy](#)

⁶ [The experiential retail revolution, Epson](#)

away from being about transactions to being about community, using these physical spaces much more for recruitment and retention of customers.

Some brands have already started to experiment with this concept, mostly through the pop-up format. Jacquemus created Le Bleu, a SMRS installation in London's Selfridges that transformed a section of the store into a whimsical baby blue bathroom, introducing key products from the "Le Splash" collection. The brand's handbag vending machines added an element of playfulness to luxury purchases. Simultaneously, at the Old Selfridges Hotel, the brand built an immersive experience that transported customers through a surrealist interpretation of a swimming pool and rooms with 3D sensory experiences (*Figure 7*).

One more key aspect that brands must consider in their store experience is the interaction with store associates, as 61% of customers cite that "relationship with the sales associate" is among their top purchasing criteria⁷. As associates have an increasing availability of client data at their fingertips, there is the opportunity to leverage it to assist them in their role and traditional objectives, making them more knowledgeable about products/collections and empowering them to offer every shopper individualized service and communications. Technology is not meant to replace human contact, or personal touch. But, rather, brands should use it to support and augment the human relationship, enhancing customer relationships.

In the current hybrid world, brands at the forefront of this trend center their efforts on building robust clienteling applications to support SAs (clienteling can be defined as a technique used by sales associates to establish long-term relationships with customers based on data). For example, Kering has developed "Luce", in collaboration with Apple. Initially designed to prepare appointments, monitor real-time stock levels, and provide style recommendations, it has evolved to offer new features, such as, facilitating in-store replenishment.

Another brand leading the way is London-based Browns, where SAs use an app that, beyond providing the usual clienteling features, also has a "connected retail layer" that allows SAs to scan a QR code in the consumer-facing app to connect to their customer's website account. Associates can then, for example, pull items appearing on a shopper's wishlist and recommend other relevant ones. They're also able to upload a list of items the shopper showed interest in during the in-store visit to their Browns account, suggest products not in the store (30%-35% of in-store sales are done from stock which is not in the store)⁸ and provide a link so purchases can be made from their mobile phone.

However, adoption of this technology is still not effective as it could be due to challenges around staff training and incentives. To overcome these, brands such as Saks and Neiman Marcus have developed comprehensive commission schemes where, for example, sales associates are rewarded for purchases that the customer does online.

⁷ [Luxury and Technology: Toward the Boutique of the Future, Bain & Company](#)

⁸ [Luxury's Customer Experience Is Getting a Tech Upgrade, BoF](#)

III. Convenience

Luxury brands are poised to leverage the luxury shoppers' desire for convenience through three main vectors: (i) leveraging Customer Data Platforms (CDP) for greater integration of the online and offline experience into a seamless, frictionless and fungible shopping experience, (ii) leveraging a network of personal shoppers to build relationships with customers and enable personalized styling and transaction, and (iii) enabling omnichannel transaction experiences through buying online and purchasing in-store.

CDPs are databases which build a rich customer profile across the physical and digital domain in an integrated profile for a retail brand. A brand that uses CDP commendably in the luxury retail experience is Loro Piana. For example, when a first-time customer interacts with the store associate in person at the Meatpacking store location, the store associate creates an account and records important information like sizing and preferences of the customer. When the customer returns at a future visit, the associate can quickly call upon the database and have a meaningful data-driven and insight-informed interaction with the customer. This integration also spans the customer's online profile on the Loro Piana website. For example, a customer can retrieve the "Bale Bag" that they had interacted with in-store and purchase it online through their integrated account on the CDP.

Tapestry leverages the Amperity Customer Data Platform to analyze and integrate the identity of each customer offline and online, delve deeper into customer analytics, uncover insights on product lifetime value, and leverage the integrated database to enhance personalization. The CDP also allows for targeted marketing, implement engagement strategies, and provide seamless omnichannel experiences to lifestyle and high-value customers, enabling customers to browse in-store and conveniently buy in-home.

Secondly, the luxury shopper's desire for convenience has also seen increasing demand for personal luxury shoppers. For example, the former head of "Extremely Important Person Loyalty program" at Net-a-Porter asserted that "personal shoppers and stylists drive as much as 15 percent of luxury goods sales," and founded a platform called The Floorr, which enables "200 personal shoppers [like Hollywood stylists and Hermes sourcing experts] on the platform"⁹ to curate outfits for consumers and enable sales throughput for luxury brands and marketplaces. These personal shoppers "can each generate a net of \$1 million-\$4 million a year," which illustrates the benefit of convenience in styling and luxury shopping for consumers, and a lucrative channel that brands need to tap into. In a similar vein, an app started by Kate Davidson Hudson, named Vêtir enables consumers to upload their style preferences and wardrobes into the app, allowing their favorite stylists and store associates to devise personalized shopping recommendations and outfits, underscoring a shift from consumer decision-making to professional shoppers.

Thirdly, buying online and picking up in-store (BOPIS) is a clear customer preference borne out of the pandemic, which has permeated several categories with premium and luxury brands lagging on the BOPIS trend.

⁹ [Luxury Personal Shopping Is the Future Two New Fashion Apps Are Counting On, WWD](#)

During the pandemic, 65% of consumers had collected a product in-store or through curbside, after starting or completing the purchase journey online, borne out of three broad preferences: “(i) the desire to save money on shipping costs (39%); (ii) avoidance of significant in-person contact (38%), and (iii) the convenience of establishing a guaranteed delivery (and pickup) time and location (37%).”¹⁰

In luxury retail, the emergence of click-and-collect has reshaped consumer engagement with brands. Empirical data demonstrates a notable increase in the adoption of this hybrid shopping approach, necessitating that luxury retailers incorporate it into their operations. However, adoption of BOPIS by “luxury is outpaced by basic (69%) and mid-market (56%) brands, with premium brands lagging behind at 39% adoption.”¹¹

For brands that currently absorb delivery costs for direct-to-consumer purchase, the adoption of click-and-collect can contribute to a reduction in COGS, underscoring an improvement in unit economics and profitability for each unit sold.

¹⁰ [Most BOPIS shoppers make additional purchases in store, Retail Dive](#)

¹¹ [25 Buy Online, Pick Up In-store \(BOPIS\) Statistics for 2024, Fit Small Business](#)

CHANGES IN IMPORTANCE OF THE STORE AS WE ASCEND THE LUXURY HIERARCHY

Our contention is underpinned on the premise that physical stores present an avenue for brand and product discovery, forge an emotional connection with the customer, and resolve transactional frictions. Predicated on these observations and the fact that there is a divergence between the highest end of the market and the mainstream [segments] of the market¹², we posit that as customers ascend the luxury hierarchy, the importance of the store experience will increase and transform from spaces of transaction (at the lower rungs of the pyramid) to space of experience (at the higher rungs of the pyramid).

Brands in the higher segments will have to pursue in-store experiences that leverage product discovery, experiential immersion, showcase craftsmanship, enable customization, and facilitate transaction convenience. Some representative brands that span different categories are cited in Figure 8.

¹² [How Strong Is the Pricing Power of Luxury Goods, KPMG](#)

CONCLUSION

In the rapidly evolving landscape of luxury retail, the pivotal role of physical stores has undergone a profound transformation, spurred by technological advancements, and shifting consumer behaviors. While the advent of e-commerce initially seemed not to challenge the traditional brick-and-mortar model, the COVID-19 pandemic further accelerated the digital shift, compelling luxury brands to recalibrate their strategies. However, amidst the rise of online shopping, it was clear after the pandemic that there was a resurgence of appreciation for physical retail spaces and the e-commerce growth flattened again.

Luxury boutiques in fact, serve as more than mere points of sale; they represent immersive havens where consumers engage with brands on a deeply personal level. Through meticulous storytelling and curated experiences, these stores transcend transactional interactions to become conduits for emotional connections, brand narratives and unique experiences. By tapping into consumers' desires for authenticity and meaningful engagement, luxury retailers have embraced experiential elements that resonate with their target audience.

Especially after the pandemic, brands have felt a sense of urgency to rethink physical retail. Hence, these are pushing for integration of hyperphysical retail concepts, which leverage multi-sensory experiences to transform stores into immersive entertainment venues, presenting an innovative approach to customer engagement. By blending sensory and emotional stimuli, luxury retailers can captivate digital-native consumers and foster a sense of community around their brand.

Furthermore, the convenience-driven trend of buying online and picking up in-store (BOPIS) has become increasingly prevalent, especially among luxury consumers seeking a seamless omnichannel shopping experience. At the same time, brands need to bridge the gap between digital convenience and the tactile allure of physical spaces, offering customers the flexibility to explore products online with the role of the sales associate becoming more and more hybrid in between customer engagement in the store and online sales.

In essence, the future role of physical stores in the luxury retail space transcends mere commerce; it embodies the intersection of art, culture, and commerce, offering consumers a holistic brand experience. As luxury brands continue to navigate the evolving retail landscape, those that adeptly blend digital innovation with the timeless allure of physical retail will emerge as industry leaders, forging deeper connections with discerning consumers and redefining the luxury shopping journey.

APPENDIX:

Figure 1: E-commerce share of total global retail sales (Source: International Trade Administration)

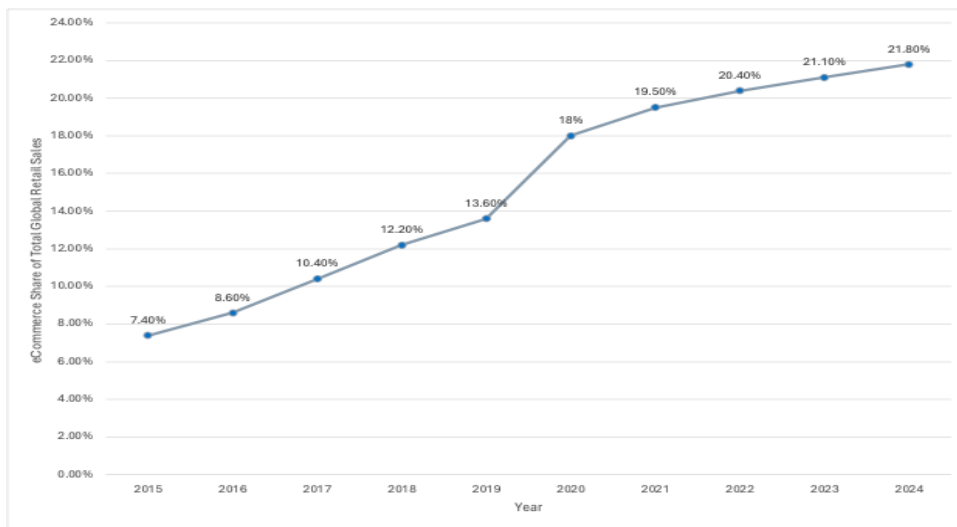


Figure 2: Sabyasachi store in NYC



Figure 3: Loro Piana Cashdenim storytelling



Figure 4: Coach's impossible Tabby Shops



Figure 5: Steinway & Sons' self-playing Spirio Piano



Figure 6: Yoga class at Miami Design District



Figure 7: Jacquemus Le Bleu pop-up



Figure 8: Brands along the hierarchy pyramid

