

## Is online luxury the holy grail of retail - and 'Amazon proof'?

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Source: The Telegraph

"It's a big boys' game ... it's not for the faint hearted," South Africa's richest man and chairman of Richemont, Johann Rupert, once quipped about the online luxury market.

But in the three years since, Richemont has become emboldened enough to plough a further €2.8bn (£2.4bn) to take full control of online luxury retailer Yoox Net-a-Porter.

The audacious move, revealed last week, will not only ramp up fledgling web sales of its brands – including Cartier, Montblanc, Chloe and Van Cleef & Arpels – but give the business the biggest grip on a booming market.

Online luxury is the fastest growing sector in retail. Its rampant expansion defies the relentless doom-mongering around a spending slowdown and more importantly suggests that it might just be the holy grail of retail: Amazon-proof.

For many years, luxury brands viewed the internet with suspicion. This was partly because they believed that online clicks could not replicate the exclusive upmarket boutiques that their affluent shoppers were used to. They also feared the level of price transparency online; it not only allowed prospective shoppers to compare prices, but they were wary that displaying the often eye-watering prices of a Bulgari necklace or a Birkin handbag on a screen in black and white might be off-putting to buyers.



Yoox Net-a-Porter sells luxury fashion online

"There was trepidation from luxury brands about the e-commerce space as they felt it would lower their brand equity," says Deborah Nicodemus, chief executive of online luxury retailer Moda Operandi. "However, we're increasingly time poor, so it is crucial that brands are catering to customers in a way that makes it easy to transact."

Last year the online luxury market accounted for just 9pc, or €23bn, of the total luxury market, according to Bain & Company. But it is widely forecast to reach at least 25pc by 2025, after growing by about 20pc every year for the past three years. By comparison, the offline luxury market grew by just 5pc last year.

"What brands are realising now is that online is a phenomenon that they can't ignore, or treat it at arms length, because if they do they are missing out on sales as consumer behaviour is transforming," says Joëlle de Montgolfie at Bain & Company. The sharp uptick in growth has been driven by the smartphone savvy Asian consumer, who continues to account for the majority of global luxury sales. As a result, luxury brands are now scrambling to beef up their online efforts after realising they are late to the party.

Yoox Net-a-Porter, which was formed in 2015 through the merger of online Italian fashion retailer Yoox and British luxury rival Net-a-Porter, has been streets ahead for some time.

"When I started in 1999 everyone asked me how can you sell luxury online," founder and chief executive Federico Marchetti has said. "I have been asked a similar question: can you really sell a watch online for €100,000? And the answer now, as it was 18 years ago, is yes I can."



Federico Marchetti, boss of Yoox Net-a-Porter

The son of a Fiat car manufacturer and telephone operator, Marchetti has said that he will continue to have an "entrepreneurial commitment" to YNAP even after selling his remaining 4pc stake to Richemont. Just eight months ago Richemont's boss, Rupert, played down rumours that the firm could use its cash pile to swoop on the brand, arguing the business had already paid a takeover premium when

it took a stake in Net-a-Porter, back when Natalie Massenet was running it.

“You show me a great company that we can buy, that we can run better, because you’ve got to be a bloody egotistical guy to assume you’re paying a premium for a third-party business and you can run it better,” Rupert said in a challenge to analysts. “Otherwise, why buy it if you can’t extract value out of it?” Clearly, either Rupert is now happy to be called egotistical or the opportunity proved to be compelling.

Analysts at Morgan Stanley estimate that currently online sales account for less than 3pc of Richemont’s revenues, but Rupert has been vocal about its need to rapidly adapt to changing customer tastes.

In order for the deal to be a success he will need to convince rival luxury houses such as Louis Vuitton Moët Hennessy and Gucci owner Kering that Yoox Net-a-Porter will still be open to them.

Although Yoox Net-a-Porter opened the doors to the online luxury market, and raked in over €2bn of sales last year, there are a growing number of smaller rivals biting at its heels.

Matches Fashion, which turned itself from a boutique to an online retailer, was sold last year for an eye-watering £800m despite making earnings of just £20m.

Farfetch, which is an online marketplace for over 700 luxury fashion boutiques around the world, is gearing up for a \$5bn (£3.5bn) stock market listing later this year.



Jose Neves, founder of Farfetch

Meanwhile, Moda Operandi, a site where customers can pre-order looks straight from the fashion runway, is now valued at more than \$330m after a \$165m financing round last month.

While Amazon has squeezed the rest of the retail sector with lower prices and faster delivery times, the luxury market so far seems to be immune to the online Goliath.

The top brands may have warmed up to online retailing, but only with providers who can ensure their £3,400 lamé gowns are delivered to customers trussed up in tissue paper, not cardboard boxes. Amazon might want a piece of the luxury action, and the high margins it offers, but for now the brands do not want to play ball with a seller of commodity items.

“Amazon is fine for electricals and groceries, but not luxury,” one fashion insider said cattily.

Only last month an EU court ruled that luxury brands could block retailers, such as Amazon and eBay, from selling their products in fear that it detracted from their image and failed to comply with their quality criteria.

As a result, the few online retailers that have worked to win the trust of the luxury brands can continue storming ahead without the fear of looking over their shoulder at Amazon