

MARKETING

7 rules for reinventing your luxury business model post-pandemic

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Hermès, like its peers Louis Vuitton, Gucci and Chanel, has not fallen into the transaction luxury business model trap. Seen: Hermès looks from the fall-winter 2020 collection. Image credit: Hermès

By **Milton Pedraza**

Citizens of the world have endured months of living through the COVID-19 pandemic experience. When we are past the worst of the crisis, we will not be the same, but we know from history that there will be many major opportunities for economic prosperity.

How can luxury business leaders take creative, effective steps right now to shift the growth curve to a higher plane, with a steeper growth trajectory?

To help brands achieve their well-intentioned purpose and values, here are seven rules for reinventing the luxury business model for post pandemic success.

Rule 1: From disruption to agility

Disruption is an overused term that is used incorrectly in business.

To disrupt means to throw into disorder or destroy a structure. According to the disruption experts, brands have to be in a relatively constant state of disruption or perish.

Case studies such as the failure of Kodak to disrupt itself, and its failure to innovate the digital photo era, are in vogue.

The fact is that Kodak invented the first digital camera in 1975. It failed to develop the digital business for fear of hurting its lucrative film business.

Disruption is not the solution to lack of courage. There was nothing to tear down. There was something to build, in parallel.

The same is true for Blockbuster. Blockbuster had video streaming technology, but not the courage and agility to execute.

The pandemic has already achieved enough massive disruption. What all businesses really need now is to be agile.

Agility is the ability of an organization to sense, anticipate and respond efficiently and effectively to constant changes that are occurring, or are likely to occur.

Film cameras and video stores did not disappear for years. Kodak and Blockbuster, had they been agile organizations, had ample time to set up competing entities and could have empowered and nurtured the agility of each to let the market determine the winner.

Agility is often more evolutionary than revolutionary in nature.

However, just as with an elite athletic team, agility requires great courage, expertise, resources, coordination and speedy, brilliant execution.

As we will see from the rules below, agile business models continuously and rapidly evolve critical structures and attributes that help them to survive and thrive in rough terrain.

Rule 2: From fixed cost pipelines to variable cost ecosystems

The year 2020 is a time of survival for many businesses.

Unfortunately, even though we now live in a digital world, most luxury goods and services brands operate like Industrial Age pipelines with rigid linear processes and high fixed costs.

In the pipeline model, profits come from scaling past high fixed bricks-and-mortar costs.

Today, many brands have learned that this dated model needs to evolve into a variable cost ecosystem.

For example, executives should learn that unless it is essential, and profitable, businesses should not own or rent much real estate. It is expensive and drains cash.

Brands are discovering that many people can optimize working from home and office it is not an either/or proposition. Fixed office and other space, and their high annual maintenance costs, can be dramatically reduced.

Further, while some luxury brands feel they require being fully vertically integrated to control quality and the client relationship, it is clear that there are many opportunities in today's digital economy to fully outsource at least some processes to top-tier specialist partners and develop the will and skill to hold them accountable.

Apple's phone production is outsourced to an ecosystem of production partners who meet strict quality standards, and it outsources app development to an ecosystem of developer partners with strict standards.

Apple currently prioritizes big retail stores to own the customer relationship. Let us see if that element of the business model endures, or if Apple can combine stores with serving customers remotely, or in their homes, better, faster, with less friction, at a lower cost, with higher associate quality of work and life.

Rule 3: From clients-first to associates-first

Putting customers first was always a good slogan, but is totally unrealistic in 2020.

Legendary, top performing corporate cultures such as the Four Seasons and the Ritz-Carlton, when they operate at their peak, always take care of associates first.

Any brand, to execute its purpose, must first build a shared high-moral purpose and values as guiding posts for all associates, internal and external, and live them daily.

Human beings, even in a digital environment, must feel cared for and valued. They must have access to education and continuous learning in critical skills that drive domain expertise.

Most importantly, associates must learn, practice, and master the emotional intelligence life skills that promote deep empathy, trustworthiness and generosity.

These skills, practiced toward all associates first, drive collaboration, innovation and brilliant execution of the moral purpose and values.

Consequently, associates hold each other accountable for treating all constituents, including customers, accordingly.

Without the associates-first foundation, taking great care of customers can never be achieved.

Rule 4: From bureaucratic silos to collaborative hybrid teams

Once the brand has created the right culture and gathered the right permanent internal and external experts, it is time to shatter the dysfunctional departmental silos.

It has taken a pandemic to get production, technology, finance, ecommerce, human resources, sales and marketing

departments to align and coordinate for survival.

To be effective post pandemic, brands must reorganize into prioritized project teams of experts with the proven expertise to innovate and build agile solutions to the most critical issues confronting the business.

Brands will need to optimize the work of internal experts with that of external experts. Creating and maintaining a network of top-tier, on-demand outside experts will be one critical task for the enterprise.

Activating agile, courageous hybrid rapid-response teams of individuals who not only bring best-in-class domain expertise, but also the emotional intelligence to cooperate effectively, and hold each other accountable, like Navy SEALs, will be a non-negotiable requirement to operate efficiently and effectively.

When the loyalty of a team member is to a department silo, the probability for conflict of interest, and lowest common denominator performance, is certain.

The Industrial Age's linear, baton-hand-off departmental model is dead.

Bureaucratic brands that fail to transform from departments into agile, emotionally intelligent expert hybrid teams will be at a major disadvantage in performance and survival.

Rule 5: From Big Data to relevant, rich and real-time (3Rs) data

Big Data has worked well for data generated by non-human entities such as the weather, plane engines, farming equipment and inanimate sources.

However, for the consumer and luxury goods and services brands that need to build humanistic, individual long-term customer relationships, Big Data is a failure.

Peter Norvig, director of research at Google, has stated, "We don't have better algorithms. We just have more data. More data beats clever algorithms, but better data beats more data."

Studies show that at most brands, customer data are missing, dirty, incomplete, irrelevant, dated and obsolete.

The opportunity is not Big Data. It is relevant, rich and real-time data: the 3Rs of personal data.

The currency of the digital economy is not data. The real currency is trust.

Trust with verification is what inspires and empowers the willingness of customers to share their personal relevant, rich and real-time data.

In luxury, where the customer purchase decision involves high value, high risk, high investment or high emotion, brands have the unique opportunity to completely bypass data brokers and digital platforms.

Luxury brands can engage their customers directly right now in an open, honest, dialogue regarding data sharing and, with consent, test and learn their way to demonstrating the value they can generate with Advanced Personalization (AP).

Without a new individual customer-controlled and led direct data sharing process, luxury brands will never have the opportunity to empower individual customer data and generate trillions of dollars of mutual value creation with their customers.

Rule 6: From transactions to fiduciary relationships

It is clear from observing the evolution of many luxury and premium online and multichannel business models that customer acquisition costs continue to rise rapidly while customer retention rates decline sharply.

For example, in the deeply troubled luxury fashion world, most brands are transactional business models that fail to achieve high levels of customer loyalty.

To grow in a transactional model, brands have no choice, even at the luxury level, but to discount aggressively.

The antidote to transactional luxury fashion business models has been to do exactly as Herms, Louis Vuitton, Gucci and Chanel do today.

Even for the luxury leaders, however, current best practices will not be enough. Post-pandemic these brands need to become fiduciaries and rise above their current customer experiences to protect, enhance and promote the best interests of their clients.

For example, going forward, luxury apparel and accessories brands must demonstrate that they are executing and innovating sustainability best practices to protect their clients

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These marketers must prove that they are protecting client data with military grade cybersecurity. They must protect the privacy of the client by not selling their data or insights to third parties.

Beyond protection, they must enhance the client's best interests by providing the client with custom-made or made-to-order, personalized garments, handbags and shoes based on insights from exclusive data that the customer provides on a by-consent, privileged basis because the brand has established a high level of trust.

Further, brands must promote the best interests of the client by generating individual value beyond products.

Brands must use their new privileged access to client data with artificial intelligence (AI) skills to generate insights and recommendations that continuously improve the client's life.

Brands can teach clients how to mix work clothes and accessories better and travel lighter. They can even suggest alternative living locations and habits, and holiday travel locations that fit the client based on her observed habits and unexpressed desires.

Fiduciary client relationships require a duty of care and loyalty that brands must deliver far beyond even the best current luxury client experience.

Recent Luxury Institute research across Asia, Europe and North America shows that in a post-pandemic world full of fear, threats and predators, an upgrade to the fiduciary client relationship is the only way forward for brands that want to win in the rapidly evolving luxury space.

Rule 7: From omnichannel to omni-personal

Because of the Industrial Age pipeline processes and metaphors under which most luxury executives and their marketing agencies have developed, the mental models of the world have been focused first on products and, then, the traditional distribution, marketing and selling channels.

Despite the "customer-centric" hype, most brands and their agencies view customers, not as individual human beings, but as anonymous entities, residing in segments, represented by personas, from whom they capture data, to whom they endlessly target ads, products and services, and with whom they close transactions in channels that are most cost-effective and convenient to the brand.

Rinse and repeat.

It may be efficient for toilet paper, but it is highly ineffective for luxury goods and services.

Instead, brands should focus first on how they can engage with human beings to develop and deliver custom solutions and experiences within a mutually beneficial long-term relationship where they can exchange high value continuously.

The accelerating digitization of the customer's life is creating a new paradigm where customers are no longer willing to play nice in the linear, online/offline mechanical "multichannel" world that brands have created for their own convenience.

Today, the game is omni-personal. It transcends channels. This is accelerated by the current crisis. This means that the customer has discarded the "sales funnel" that has been imposed by the brand, and chooses whatever individual, non-linear combinations of contact points for brand discovery, engagement, purchase, return, service, after-sales service and long-term relationship building suits them.

The only way to achieve omni-personal relationships is to rewire the mental models of customer engagement and understand that in an omni-personal world the sun (the customer) never revolves around the earth the earth (the brand) revolves around the sun.

Privileged personal data access, as we have demonstrated previously, is the gateway.

Until luxury leaders internalize that customer-centricity is driven by the customer, not by the brand, luxury will fail to achieve its full potential.

The COVID-19 pandemic is a human tragedy. A crisis of historic proportions, taking place in a digital world context, creates the unique opportunity to reinvent the business model in ways not previously available.

Some experts talk about "future-proofing" the business model. That is unrealistic.

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Right now, luxury executives need to gather the strong courage, drive and creativity to reinvent their business models in preparation for the massive opportunities of digital prosperity that will be created post pandemic.

THE BEST WAY to predict the future is to invent it.

Some see achieving superb agility in these times as a challenging burden, but it is a gift. Do not just embrace the challenge crave it.



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