The Economist

Selling luxury goods online

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Luxury firms are digital laggards, but some are catching up

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WHEN Oscar de la Renta, an American fashion house, launched a transactional website some years ago, it expected people to buy mostly smaller items such as belts and perfume. The firm was stunned when it received an online order last spring for an $80,000 sable coat from a new customer in New Hampshire. He couldn't get to New York, apparently. Online customers have been snapping up the firm's core product: $4,000 cocktail dresses. "We could not have been more wrong in our expectations of the internet," says Alex Bolen, the firm's chief executive. Online purchases are still a small proportion of total sales, but growing rapidly.

Rex

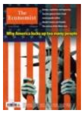
Most luxury-goods firms are less open-minded. Many scorn the internet as a plaything for plebs. A product sold online, wrote Jean-Noël Kapferer, a French branding guru, in "The Luxury Strategy", published last year, ceases to be a luxury item. In early 2008, of 178 luxury firms around the world surveyed by Forrester Research, only a third sold their products on the internet. That figure has risen, but still about half of firms don't sell online at all, estimates Federico Marchetti, the founder of Yoox Group, owner of Yoox.com, a luxury-goods website.

Prada, an Italian design house, had no website until 2007. It did not start selling products online until last year. Several American companies, such as Tiffany & Co, have thriving web businesses, but European firms, especially the old French houses, such as Chanel and Hermès, are still afraid of mice.

Luxury executives explain that the internet is too impersonal for their products, which need the human touch. Allowing anyone to buy online can mean a loss of cachet. Luxury firms like to dazzle customers with plush stores and sleek ads, so that they think only about beauty and not at all about price. The web, by contrast, shines a clear light on price. "That's the last thing I want people to think about," wails an executive from the watch industry.

It is largely the industry's own fault that the internet is associated with lower prices for its products. For years, firms discreetly disposed of end-of-season stock at deep discounts via websites such as Yoox.com. Some fashion houses make clothing exclusively for Yoox.com as a way to use up left-over fabric. Also, by shunning the internet in its early days, legitimate firms helped to create a vacuum that counterfeiters were happy to fill, says Uché Okonkwo, the author of "Luxury Online".

There is every sign, however, that buyers of full-price luxury goods crave the convenience of online shopping, so companies are being forced to adapt. In April Richemont, a Swiss luxury-goods giant, bought Net-a-Porter, a specialist fashion online retailer founded in 2000, in a deal valuing it at £350m ($535m).



Net-a-Porter's appeal is not price, says Danny Rimer of Index Ventures, a venture-capital fund which backed the firm, but the convenience of getting items delivered to your door before they sell out. Executives are now watching to see whether Richemont will allow Net-a-Porter to sell its many other brands, including Cartier watches. Most luxury-watch firms, such as Hublot, do not sell online. This seems perverse: watches fit easily and buyers are usually collectors who know the models well. The main problem, explains Jean-Claude Biver, chief executive of Hublot, is that watch firms have long-standing agreements with independent retailers, and selling online would disrupt the system.

Another sign of change is a new venture by a former Richemont executive, Mark Dunhill, to revive Fabergé, a jewellery-maker (one of whose baubles is pictured above), using the internet as its chief global distribution channel. Fabergé, owned by Pallinghurst Resources, a mining firm, launched last September with a single shop in Geneva and a sophisticated, interactive website. The industry is watching the experiment closely. If a luxury brand can thrive without a vast investment in retail space, says Luca Solca of Bernstein Research, barriers to entry will fall.

A person close to Fabergé says it has reached its nine-month target of hooking 50 new clients, each spending on average $100,000. Even Prada now says that within five years, some 40% of its revenues in America will come from the internet. Observers, however, doubt that such an aggressive target is realistic, noting that Prada currently sells only bags, wallets and other accessories online, not its main clothing and footwear collections.

Luxury firms may at last be waking up to the internet, but they have a long way to catch up. Carmakers have been innovating online for nearly a decade, observes Ms Okonkwo. With exceptions, luxury websites tend to be showy but unoriginal, since firms often use the same web designers. Few are properly interactive: customers usually cannot view products from different angles, or try on clothes virtually.

The most innovative online luxury firms are typically small start-ups, such as Net-a-Porter, Yoox (which went public late last year) or Gilt Groupe, a website which runs exclusive sales for members. All these companies have built successful new business models. The industry's ageing giants have been caught with their elegant trousers down.

Louis Vuitton, a maker of leather goods and clothes, is one of the few luxury brands to have prospered online. Unlike many of its peers, it offers nearly all its products on the web. The internet brings in as much money as one of its biggest bricks-and-mortar shops, says Antoine Arnault, the firm's communications director. But Louis Vuitton's parent, LVMH, was last year forced to shut down eLuxury, a website founded in 2000 which sold a wide variety of luxury brands, because it lost money by the suitcasefull. According to insiders, it failed mainly because it lacked focus: it sold expensive products alongside relatively cheap ones. It is odd that an industry that would not be seen dead in last season's colour is wedded to the last century's technology. Divorce beckons.