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# Digital Luxury Servicescapes: An Omnichannel Approach to Winning Luxury Consumers in China

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## The Dawn of New Luxury Retail

The appeal of the luxury sector has always been more than just the products, it is about creating memorable experiences for clients. Luxury brands were once the leaders in embracing data to know and better serve their customers. China has become the most digitally advanced retail market but the luxury sector has been slow in properly adapting to the whims of the market. There is also a significant opportunity for luxury leaders to seize China's advances in data and technology, and not only recreate the memorable experiences and services they built their name on, but enhance them and offer to a greater number of customers.

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## Luxury Servicescapes

Servicescapes represent the total physical environment (which encompasses products, decor, music, staff etc.) in which a service encounter takes place. This environmental sociology concept was introduced by Mary Jo Bitner in 1992 as a way of understanding holistically how consumers engage with the physical environment of store and interactions with service staff.

In a 2017 article for the Journal of Marketing, Dion & Barraza applied this servicescape framework to explain how a luxury boutique is configured to signify status and shape the status of consumers. The crux of their position was that the attraction of luxury is more than just the products, it is the complete customer experience of visiting a store and feeling like a celebrity. Every aspect of the luxury service experience triggers a feeling of exceptionality and exclusiveness and in this way, patrons of the store can use these service encounters as a conduit for their own social status and aspirations.

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## The Role of the Sales Advisor in the Luxury Servicescape

In the luxury servicescape, the role of the sales advisor is integral. For luxury brands to be able to offer this type of unique service that inspires customers and keep them coming back, they need exemplary staff who can truly embody the brand and its service values. This is the reason that brands invest so heavily in both recruitment and training. The best luxury sales advisors have a deep understanding of their clientele and know how to serve them.

Luxury brands were the true trailblazers in 'clienteling' as a way of offering deeply personal service. For decades, top luxury retailers established strategies pertaining to collecting, analyzing purchase patterns and creating strategies based on individual client data. As an example, Tiffany have microfilm of customer sales records ranging back to 1956.

In the traditional luxury servicescape the sales advisor plays 3 main roles:



### Brand Ambassador

#### Description

The sales advisor is the principal touchpoint clients often get with the brand. They then become a personification of the brand and the image of the luxury lifestyle. They create a positive emotion for the brand in the customer.



### Client Advisor

As advisors they create the bespoke personalized experience that is the foundation of luxury and can offer products to match consumer needs.



### Facilitator

Luxury boutique staff also take the role of concierge for their VIP clients.

#### Methods

Staff are trained in sales techniques as well as craftsmanship, the fashion industry and the heritage of the brand. This allows them to convey this to clients in agreeable discourse.

Through the process of 'clienteling' the advisor can identify core clients, analyze past purchases and then compare with the current buy set for that store. Based on this they make decisions on what items to sell and when to introduce them to the client.

Services include helping to get sought after reservations at vogue restaurants or 'unobtainable' tickets to shows.



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## China Luxury Market

In recent years, China has become the focus point for global luxury brands. The country's market is set to account for 35% of the global trade of luxury goods in 2020 (According to McKinsey's 'China Luxury Report 2019'), and this number is expected to rise by 40% in 2025 with a total value of 1.2 trillion RMB (\$174 billion USD). China is now the engine for growth in the high-end sector, with the country's affluent class of luxury consumers exploding in numbers. The population of China's affluent class is set to number around 65 million people by 2025, representing unparalleled growth opportunities for luxury brands.

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### China's Young Luxury Consumers

Powering the luxury sector in China are young consumers, who boast considerable spending power and a passion for high-end products. McKinsey's China Luxury Report 2019 found that the post-80's generations (roughly analogous with the Western 'millennials') now account for 56% of annual luxury expenditure, followed closely by those born after 1990, who spend 23%. The total annual luxury spend of these two generational groups is 585 billion RMB (\$82.6 billion USD).

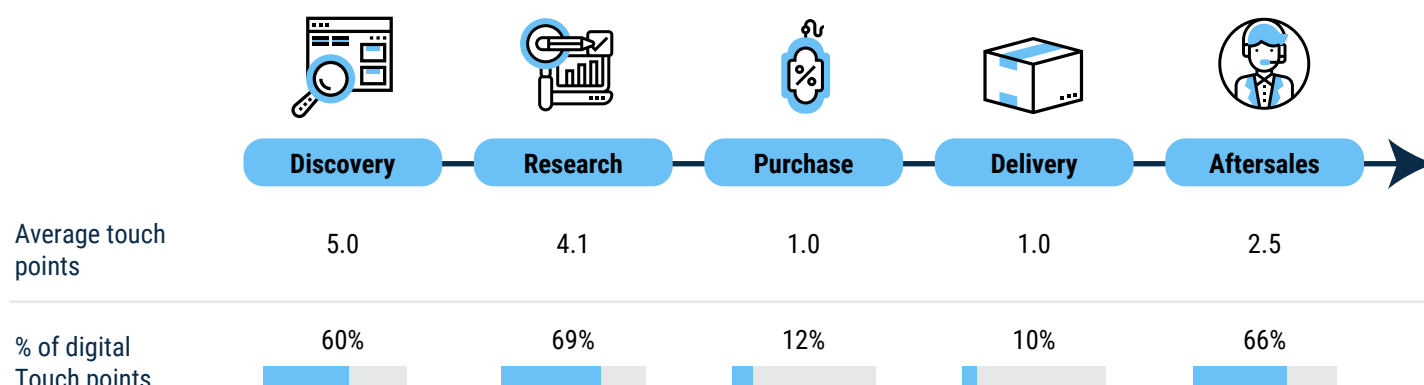
It is also worth noting that millennials in China are often much wealthier than their counterparts in Western countries and have much more discretionary income. HSBC's 'Beyond the Bricks' study found that 70% of Chinese millennials owned their own home, a figure that stands at twice that of the equivalent grouping in the US. Their spending is commonly backed up by a safety-net of parental savings, with many upper-middle class consumers having their salary topped up by their parents. This group is secure, confident and ready to spend.

These post-80's and 90's consumers are the products of China's rise and have only known meteoric economic growth in their lifetimes and are acclimatized to seismic changes. They are new to luxury and two thirds of post-80's consumers made their first luxury purchase within the last three years.



## Everything is Digital

China's young consumers are amongst the most digitally-savvy in the world and this has a major influence on their consumption choices. According to the BCG & Tencent China Luxury Digital Playbook, during both the discovery and research stage of a luxury purchase, consumers are exposed to 4-5 touchpoints and 60% of these are digital. Similarly, McKinsey found that 100% of consumers were digitally influenced at some point in their customer journey to purchase a luxury product.



Source: Boston Consulting Group, China Luxury Digital Playbook, 2019

Young luxury shoppers are also heavily influenced by KOL who are one of the key sources for information within the Chinese luxury landscape. Major luxury brands work with high-profile KOL and the lifestyle influencer industry is much vaster and more fragmented than anything comparable in other countries. WeChat is also extremely important, with 50% of consumers stating that their luxury purchases were influenced by content on the platform.

## The Challenge of Digitally Recreating the Luxury Servicescape in China

In China's hyper-digital and youthful luxury market, the challenge for luxury brands is to reconfigure the servicescape of the luxury store to a group of customers who live and consume information about their brand nearly exclusively digitally.

But how to do this? The allure of luxury products has relied on the exclusivity of the service experience and the elevation of social status that the boutiques played as gatekeepers and brokers in the world. With most of the interaction between consumer and brand occurring online, this experience is hard to recreate. Without the visual splendor, the glamour and the pomp of the boutique, how can luxury still be special?

Brands need a sophisticated and personalized customer experience that holds consumers hands through this world. They need to recalibrate their business model for the digital age, and no country is more digitally demanding than China.

Below are some of the key challenges that brands, and retailers need to consider for digital transformation in China:



Offline is still a crucial touchpoint during luxury consumption journey, but there is often little integration between all digital and offline touchpoints. 80% of luxury consumers in China research online and purchase offline, but there is a real feeling of inconsistency between the touchpoints.



Luxury brands have limited ability of aggregating customer data across different channels and creating a holistic picture of customer needs and profile.



Luxury retailers working in China rely on transactional data and experience to make decisions but are slack when collecting the engagement, behavior and consumer preferences data needed to get a more in-depth understanding of their customers.



Most of the data collection, processing and analysis is still done manually, which is both time-consuming and limits the amount of data which can be recorded.



Sales Advisors have an encyclopedic knowledge of their VIP clients and develop personal connections with them. This creates a risk for retailers to lose the connection with these clients and the acquired knowledge if the sales advisor joins a competitor.

## A Whole New World of Possibilities

Luxury retail in China has the opportunity to leverage the most sophisticated digital ecosystem and the eagerness of digital-savvy consumers to implement a true omnichannel digital transformation that redefines luxury in this digital era. Re-Hub posit that if brands can harness the technological developments at their disposal, they will have an understanding of their customers that was previously unobtainable and ultimately offer them a new level of service.

### Know Your Customer

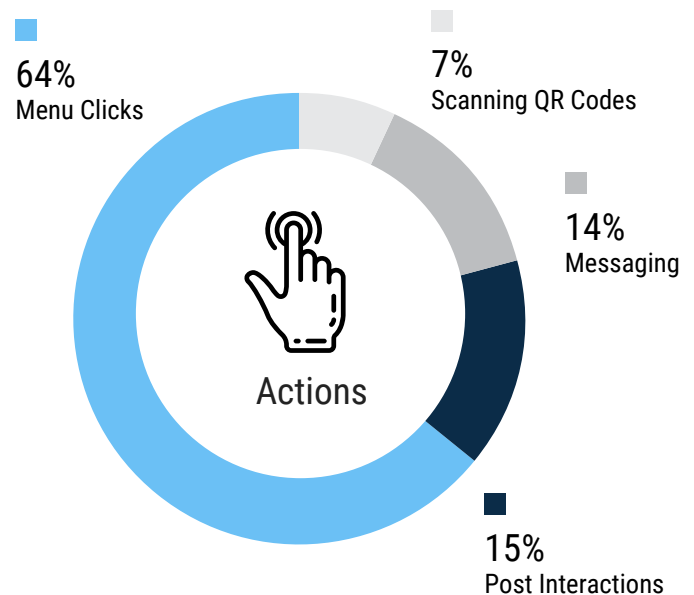
‘Clienteling’ or the collection and analysis of individual consumer transaction data, has existed in the luxury industry for more than sixty years. Empowering salespeople with in-depth data in order to provide their clients with a personalized service was one of the true innovations of the luxury sector. But in a market like China, where the customer journey is fragmented and spans both offline and online touchpoints, many luxury brands have failed to rekindle that spark of innovation for the modern era.

A typical customer journey might start by discovering products through KOL or livestream, researching on social media and then finally buying a product in a boutique in Tokyo or Paris. Legacy data collection methods leave blind spots.

A big opportunity in terms of omnichannel consumer insights in China is the power of the WeChat ecosystem to identify consumers both online and offline and build a comprehensive profile of their behavior and preferences. In China, WeChat is the super-app that boasts over 1 billion registered users and is integral to every aspect of China life. Luxury brands can use the platform to set up official accounts and mini-programs in order to engage with their customers. Within these official accounts, brands can set up e-commerce stores and engage customers through messaging, livestream, live chats and a host of other initiatives.

One crucial advantage of WeChat is that brands own their own traffic, which is not the same if they sold on e-commerce platforms like Tmall or JD.com. On WeChat every step of the customer journey is trackable.

There are numerous data-points that can be picked up from WeChat engagement outside of the obvious online transactional data. In Jing Digital’s WeChat Luxury Index 2019, they charted the most common actions on WeChat.



Source: Jing Digital “WeChat Luxury Index 2019”, 2019



By far the most common action is menu clicks, which represent where users click on navigation menus. By tracking menu clicks brands can understand what specific types of information users are looking for.

Post interactions refers to official posts and articles published by the brands themselves. Actions under this grouping include:

#### Official Account Interactions

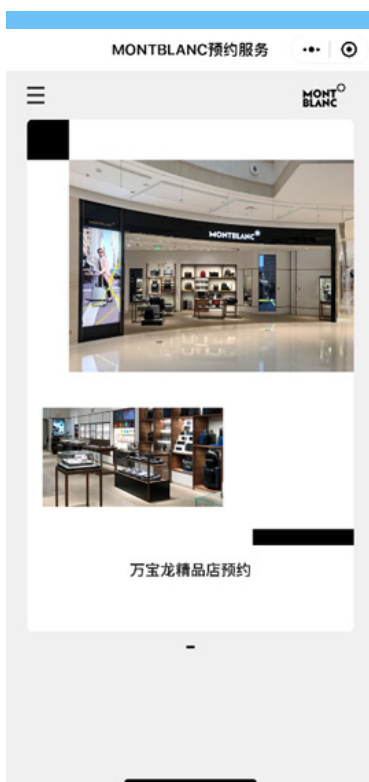
- + Become a fan of the brand
- + Article reads
- + Favorite articles
- + Shares
- + Likes
- + Comments left on articles

#### WeChat Store Interactions

- + Become E-Shop member
- + Coupon usage
- + E-Store visits
- + Favorite products
- + Transactions

The messaging category refers to direct engagement between brands and consumers via online sales advisors or through chatbots. Every time a reply is made, or conversation started, a digital footprint is left.

The WeChat ecosystem also helps brands to truly embrace online to offline (O2O) commerce. For example, MONTBLANC deployed an online appointment system, where consumers could book their offline boutique visit via their WeChat account.



When consumers attend a brand pop-up event or shop in their store, they are incentivized to scan a QR code to continue the conversation online. Additionally, they can also be incentivized to add the sales advisor's WeChat Enterprise account to keep the conversation going online

## Offline Retail is as Important as Ever

An amalgam of these data points creates a solid snapshot of the online customer journey: from the product discovery to research to transaction stage of a purchase. However offline experience still plays a crucial role in luxury, and brands should not underestimate the importance of data collection at the store.

What sets outstanding luxury sales staff apart from the peers is a deep understanding of their clientele. There are subtle, behavior traits that can only be identified by human interaction. For example, when a client mentions to a sales advisor her preference about a certain texture, color or about special occasions she tends to prefer. Brands can use technology to empower their sales advisors to collect data about their offline interactions with clients. These interactions often provide a rich source of consumer traits, behavior and preferences that cannot otherwise be extracted with clicks and pages visited.

Through technology, brands can translate these interactions into valuable customer information that can be incorporated into their CRM. This gives a holistic picture of each customer and allows true omnichannel personalization. Every customer is treated like a VIP, no matter the channel they choose to engage with.



## Serve Your Customer

In the modern China luxury market, consumers have greater expectations of what they want in terms of brand and customer experience. Thankfully, by being able to track the complexities of the customer journey, retailers can offer something way more personalized than elsewhere. They are now able to go above and beyond standard customer service, both online and offline and through different initiatives.



### Personalized Product Assortment

- Having a sea of data on your client, allows brands to offer next level personalization. When a VIP or any client makes an appointment, your sales advisor can consult the data and have personalized product assortment ready for their visit.
- They can do this by not only looking at the transactional data of what has been purchased in the past, but also every historical interaction that the shopper has had with online/offline sales advisors or chatbots. When they visit the store, the sales advisor can be ready with a meticulously precise assortment for that individual shopper.
- The sale advisor also could have AR at their disposal to better serve customers. It is impossible for individual stores to have every item or the newest collection. Using AR, the sales advisor might be able to give shoppers an even more immersive and personalized experience and view those products, despite them not being available in the store.



### Personalized Messaging & Interactions

- Luxury service needs to be personal, intimate and non-intrusive. Luxury shoppers and especially VIP's, do not want to be hassled or spammed by brands and staff and brands are able to utilize the data on their CRM to tailor messaging for clients.
- For example, brands can send clients information about events they know that they are interested in, using the communication style that suits them. WeChat Enterprise lets the brand segment clients by tagging their behavior, and the brand can develop messaging for each of these segments at any stage of their consumer journey.



### Personalized Content

- Brands can also leverage CRM solutions to create personalized and relevant content for clients. In a WeChat Enterprise account, a brand can build a content library for different consumer personas or consumers at different stages of the customer journey and offer this content at the appropriate juncture.



### Empower Sales Advisors (Both Online and Offline)

- With clients' data in hand, both online and offline sales advisors can offer personalized advice and suggestions to their clients. This service should be less of pushing products, but more mimicking the kind of intimate service that traditional luxury sales advisors offered. Conversations can seamlessly move across channels bridging the gap between offline and online and offering a true omnichannel experience.

## Luxury Servicescape 2.0

Outstanding and personalized service is what has given the luxury industry gravitas for decades. Luxury brands excelled in having deep knowledge of their clients and sales advisors that were able to advise and educate consumers. These advisors were the gatekeepers and brokers to an elite world of clients newer to luxury.

Young Chinese consumers have money and aspirations but require guidance. What they want is a version of the traditional luxury service model that matches the hyper-digital world in which they inhabit. So far, due to an unwillingness to let go of legacy procedures, many luxury brands in China have been failing to adapt fully to their needs.

The opportunity is clear. If brands can integrate data and AI solutions to their existing touchpoints, their understanding of their clients will increase tenfold. As a result, not only will they be able to recreate their traditional VIP service levels, but also extend to a greater number of customers. With data, every customer can potentially be treated as a VIP and receive the kind of service that was only available for a small percentage of customers in the past.

# The New Digital Luxury Servicescape Model



## Brand Ambassador



## Client Advisor



## Facilitator

### Description

Luxury brand's advisors on WeChat can offer the same level of service as they could in the physical store but can enhance this experience with personalized digital content.

Also, brands can directly communicate the brand heritage, collection, values with consumer through the UI and content of their WeChat official accounts.

Through collecting customer data across online and offline touchpoints in your SCRM, the advisor has a holistic understanding of who the client is and what they like.

They can leverage AI to automate precise recommendations timely and at the relevant touchpoint. Every time a client has an interaction either digitally or offline, a preference tag can be created that powers recommendations.

Brands can leverage machine learning and NLP to automatically monitor advisor's communication with clients, ensuring proper quality of service and alignment with brand guidelines.

In the new digital model advisors can recreate this concierge like service for more clients. Predictive analytics enable decisions to be made regarding appropriate service levels for individual clients.

### Methods

The sales advisors are trained to the same level of understanding of the brand and its collections as traditionally in luxury.

The content team can use AI to generate brand content tailored to the consumer. Content examples are videos, articles, images.

They are also able to utilize technology like VR to take the client through a virtual tour of the brand's flagship boutique in Europe

Through livestreaming, sales advisors can digitally embody the values of the brand in real-time.

By utilizing AI advisors now have the potential to guide targeted recommendations. They can use 'similar to' or 'look-alike' engines to make suggest products to clients.

They also have access to AR/VR virtual fitting tools so that clients have a clearer idea of the products.

This personalized service can be offered to clients through the medium of physical advisors for VIP clients and chatbots for those not at that status.

Brands can use data to better match the right perks with the right clients. For example, some clients may want to visit shows or exclusive pop-up experiences. Data analysis can power predictions regarding which clients are likely to become 'whales' and the brand knows when to offer them VIP services in order to better foster their brand loyalty at an early stage.



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## We Turn Data into Immediate Growth Opportunities

Re-Hub is an Asia-based digital transformation agency. We use AI to drive real business impact for our clients and at speed. Our focus is retail and consumer products.

We help our clients to validate, test and implement the most relevant AI & data solutions for their specific business challenges in just 90 days.

Re-Hub acts as a transformation partner doing all the heavy-lifting so our clients can focus on their core competencies.

For more information, visit [www.rehub.tech](http://www.rehub.tech)



**Max Peiro**  
CEO  
[Max@rehub.tech](mailto:Max@rehub.tech)



**Yoyo Liang**  
Chief Client Officer  
[Yoyo@rehub.tech](mailto:Yoyo@rehub.tech)