The Provocateur

Credit: Oscar de la Renta

As Amazon woos luxury, could its biggest assets become liabilities?

In a move that perhaps surprised nobody, Amazon has announced its first major foray into luxury with an invite-only store for Oscar de la Renta.

Wavemaker

China's **Tmall** has cracked it with its Luxury Pavilion, so clearly this can be done. Luxury may seem a bizarre fit for Amazon, but dismissing it is foolish. If there is one thing Amazon has nailed, it's efficiency. A ruthless algorithm, predictive inventory ordering, self-serve media and dynamic pricing have made Amazon a tech-heavy and human-light retailer.

This works brilliantly for categories with millions of SKUs and billions of transactions – ably supported by Amazon's deep insight into the consumer – but could these big assets become liabilities in luxury?

One of Amazon's crown jewels is its algorithm, which recommends products from a vast assortment when someone searches for, say, 'coffee maker'. That is because there isn't a new coffee maker launched four times a year (completely different to the previous one) and because generally the best ones continue to be the hero product. With luxury, products can quickly become icons, like the **Tiffany T** bracelet, or are part of a constant refresh cycle. The **Balenciaga** consumer doesn't care about what products sold best last season, and that data doesn't help Amazon to forecast what will sell this year, especially in categories with stock of less than a hundred units.

While entry-level luxury could be profitable for Amazon and attract new users – prestige beauty has done just that – it's a much bigger challenge for harder luxury. This is because customer lifetime value is very different between brands and quite different from the way Amazon looks at it. There isn't an average luxury brand or buyer. For example, **Prada Sport** is the entry-level label for **Prada** – the same consumer will buy both brands which is a clear trade-up opportunity – but there is such a vast difference between **Valentino, Valentino Red** and **Valentino Garavani** that they attract three different consumers. This is a nightmare for an algorithm!

It's also why successful luxury brands are the ones who understand their consumers best – and that is where data ownership comes into play. While Amazon does share some data with vendors, it is not nearly as rich as data from the most basic DTC platform.

It is by poring over site search data that luxury brands create new merchandizing experiences or product combinations. Purchases are often on an annual or less frequent cycle – requiring sophisticated and complex consumer profiles. Amazon will need to figure out how it allows brands to recreate this, given its approach to vendor management is one of minimal human intervention.

Another asset that could become a liability is the 3rd party marketplace. It is a minefield for the luxury consumer, where even the whiff of fake product is a deal breaker, and part of the reason why mass-market retailer **Nike** pulled out of the platform.

Unboxing is another tricky area. It's a key part of the luxury experience, especially with gifting, where the slightest scratch on the box is unacceptable. The damage rates at Amazon are low, but even a 3% rate is significant when you are literally shipping gold. But if Amazon were to pursue a 'white glove' service, that takes away the benefits of their brilliant fulfilment capability.

The comparison with **Tmall's** Luxury Pavilion is encouraging, but ignores the fact that few players have the logistical heft of owner **Alibaba** in China, and its dominance in payment systems. AmazonPay is gaining traction, but it still isn't Visa.

There is also the issue of dynamic pricing, which would wreak havoc on most luxury brands. It would be odd for **Celine** to be cheaper on Amazon than on celine.com or in its own boutiques. But if Amazon avoids it, it takes another key asset out of the running.

All that said, discounting a $2T player with reams of data and a reputation for upending categories would not be wise. Amazon absolutely could change luxury retailing – it's just not clear how and more importantly, if the luxury consumer would want it? Luxury is the ultimate in irrational decision-making – nobody needs a **Rolex Submariner,** and yet many want it.

Amazon could crack this is by identifying what consumers find dissatisfying about the current luxury purchase experience. I'm not certain that listing the **Oscar de la Renta** collection on a subdomain is the answer.


Credit: Celine

Any questions? We're here to help.
Please contact

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