

TECHNOLOGY

# AI and Technological Sophistication in Luxury Companies

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*With AI, luxury firms need to elevate distinction not only in product lines, but technological management as well.*

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# Introduction

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**“Understanding the Role of Artificial Intelligence in Personalized Engagement Marketing”** by V. Kumar, Bharath Rajan, Rajkumar Venkatesan, & Jim Lecinski. (Vol. 61/4) 2019.

AI has made an impact in many industries including the luxury goods sector. Technological upgrades and refinements have altered business modalities as well as consumer expectations.

This unfolding industry evolution is evident in the industry performance as well as forecasts. The market for luxury goods is expected to reach 365 billion euros by 2025 with an expected annual growth rate of 3-5% each year (D’Arpizio et al, 2019).

Companies in this industry need to carefully strategize to understand, excite and engage their customers well. The consumption of luxury goods is typically driven by consumers attitudes along with desire for status and social acceptance (Wilson et al, 2009).

Luxury retailers are elevating the game in personalized consumer engagement with technological tools such as chatbots, machine learning, voice recognition and image recognition (Luxe Digital, n.d.). As examples, Burberry uses AI to identify counterfeit items and Prada uses AI to enhance consumer understanding and boost their marketing efforts (Jing Daily, 2021).

Luxury companies understand the value technology brings in strategy development and its potential impact on the company’s profitability. Table 1 provides a few examples of technologies in current use by luxury companies.

Table 1. Usage of AI in luxury companies

AI application	Examples of luxury company users
Chatbots	Louis Vuitton, Burberry, Tommy Hilfiger, Dior, Estee Lauder
Machine learning	L'Occitane
Image recognition	Sephora, Nieman Marcus
Voice recognition	Starbucks

Source: Luxe Digital (n.d.)

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As shown in **Table 1**, AI and its diverse applications is actively used in the luxury industry. It is likely to become an important competitive tool in the future and the basis for enhanced consumer appeal, retention, loyalty and engagement.

Amidst this landscape, an important new question arises for luxury company executives: how will AI shape the company's future direction?

## Trendy New Environment

The luxury industry will be transformed in elegant ways as the AI Revolution converges with operational and consumer sophistication. Five (5) characteristics will define this contemporary terrain:

**Consumer market growth** – global goods consumption is projected to grow in the coming decade as a result of population growth and globalization. The luxury industry will likely ride the crest of this growth. There will be a myriad of opportunities to introduce innovative as well as chic products that will captivate consumers.

**Heightened competition** – industry competition will likely intensify as new entrants join the fray and existing players expand their product offerings and build up their marketing efforts. Broader use of AI puts luxury companies in position to capture and analyze

emerging trends well and come up with products and services that align well with these trends. As a result, the diversity of products as well as the magnitude of efforts to market them will increase.

***Creative marketing approaches*** – as a way to differentiate and impress customers, novel sales and marketing methods will be used. There will be a proliferation of inventive ways in understanding, communicating, and engaging with customers especially with the growing usage of mobile apps, social media, chatbots and voice assistance.

***Increased technological investment*** – in an effort to set themselves apart from competitors, many luxury companies will redouble their investments in technology. For example, the creation of avatars as virtual sales assistants or virtual reality product presentations may prove to be attractive.

***Exciting breakthroughs*** – when capital, talent and technology are in alignment, several exciting products will be created. In the luxury industry, where high quality and elegance are expected the boundaries will be pushed in product development leading to groundbreaking discoveries. Sephora has already created a Virtual Artist with Modiface allowing customers to upload photos and select makeup products that best match the photo. One can only imagine what this technology will lead to in the coming decade.

Under this scenario, luxury companies need to manage their organizations in new ways.

## **Fashionable Way Forward**

The confluence of luxury and technology in the era of AI requires luxury companies to reimagine and reinvent the way they do business. For example, drawing from expertise of Simon-Kucher & Partners, a Consultancy.eu (2021) article underscored how AI has been used in trend forecasting, marketing campaigns, pricing, and sales enhancement by luxury firms. As technological adaptations are made, five (5) key strategies are recommended:

***Focus on meaningful technology*** – with a wide array of technology available, it is sometimes challenging to pick which one is best to start with. When considering technological adaptation, prioritize the ones that lead to a significant impact. A technology that could improve customer engagement, boost sales and marketing, or enhance operational efficiency would make an excellent starting point.

***Heighten cognitive intelligence*** – luxury companies need to restructure their organizations to capture and analyze data more efficiently. This means having the right talent, technology, policy and organizational structure to create and process intelligence. Success in this area could lead to better market understanding, improved product creation, and heightened perception and sensitivity to customer preferences.

***Lead in ethical practice*** – brands can be built and destroyed through publicity. Given the speed and scale in which news and information spread out in a digital age, following the highest standards in AI practice makes strategic sense. This means attention should be carefully placed in ensuring privacy and security of data and the minimization of biases. Since consumer purchasing behavior can be influenced by brand perception, transparency along with effective communication on ethical and socially-responsible agenda need to be prioritized.

***Forge creative alliances*** – collaborate with old and new partners in imaginative ways. Luxury goods are typically intended to impress and amaze potential buyers. Cooperation with start-up AI firms, current technology vendors or academic research labs can lead to cutting edge products that can generate consumer excitement.

***Create an AI strategic plan*** – a holistic AI plan that engages and brings together all departments in the company would likely get more buy in and support. At times, companies fail to optimize the potential AI brings because departments operate in silos. A group plan created with a broad organizational perspective would accelerate the implementation of AI initiatives.

The AI Revolution raised the bar in consumer expectations, brand management, product development, and sales and marketing among others. For luxury companies, this means adding a new level of distinction and prestige not only in their products and service but

also in the way the companies are managed.

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