



shopify *plus*

Insight and imagination for tomorrow and beyond

Fashion & Apparel, Cosmetics, Jewelry, and Luxury

INDUSTRY
REPORT

Executive Summary

Informed leaders in fashion, cosmetics, jewelry, and luxury goods need the latest data on sales trends and market growth. This report features the latest research on mobile's influence on buyer behavior, Asia's growing middle class, and how technologies like Virtual Reality will impact the future of commerce.

Offering a wealth of insights, use this guide to obtain a deeper understanding of the state of your industry, the trends impacting its direction, and the technologies that will influence how you position, market, and sell tomorrow and beyond.

**UNLESS OTHERWISE INDICATED,
DATA IS UP-TO-DATE AS OF MAY 2016.**

“

**We have a mantra around
here and it's all about
being fearless.**

We market fearlessly which
means we're disrupting
the status quo to accelerate
growth in ways that are
also meaningful to customers
and Shopify Plus helps
us do this.

”

Mondelez
International



LAUREN FLEISCHER

Brand Manager, Global
Ecommerce of
[Mondelez International](#)

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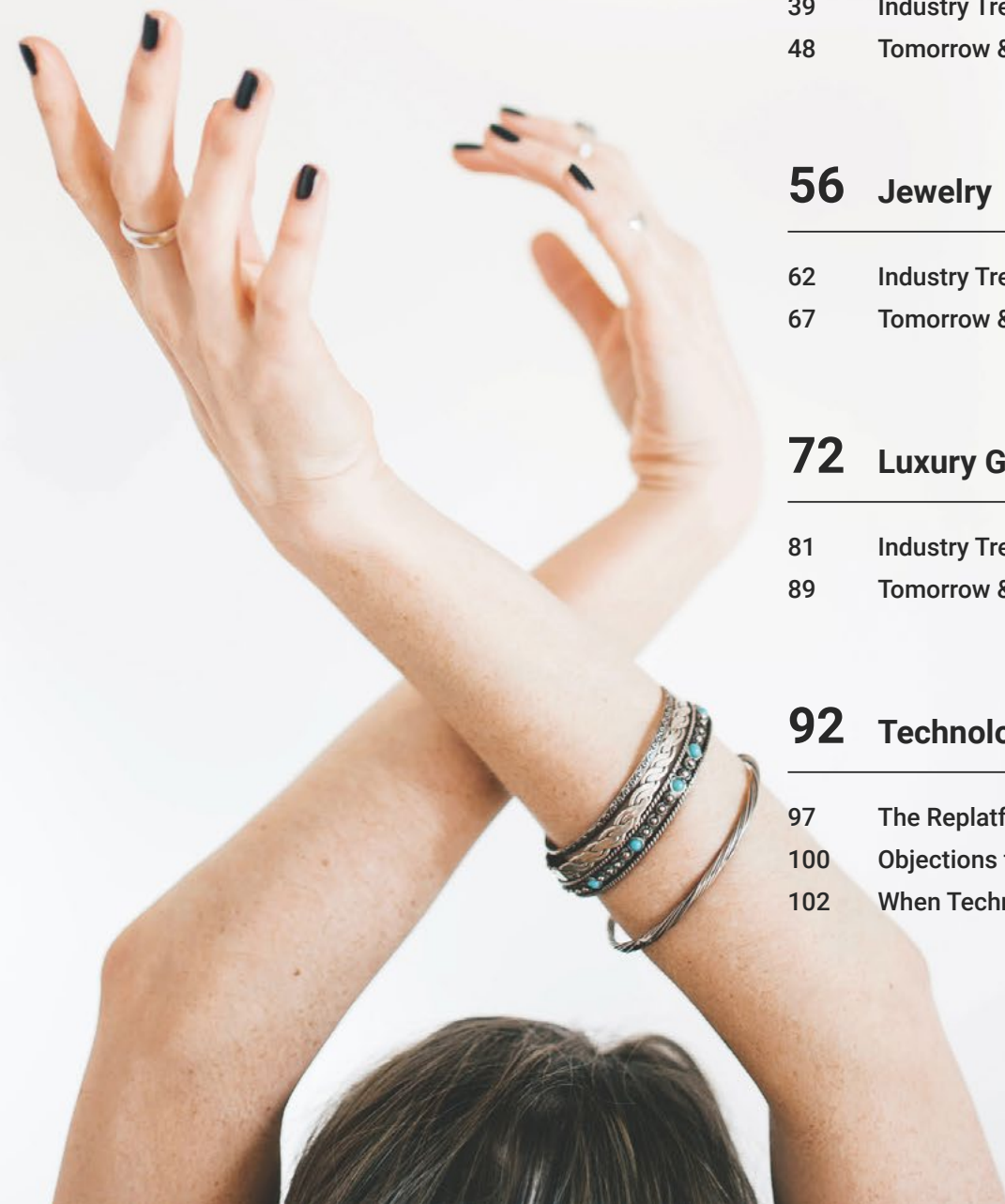
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Fashion & Apparel



“

**We've been with Shopify
from day one.**

None of us are engineers
so it's great to be able to
rely on Shopify's experts
so we can focus
on innovating.

”



TOM MONTGOMERY

Co-Founder at
[Chubbies](#)

Snapshot

The next ten years in the fashion and apparel industry, **according to research** are expected to be:



marked by double-digit sales growth,



an emerging market middle class with increasing purchasing power,

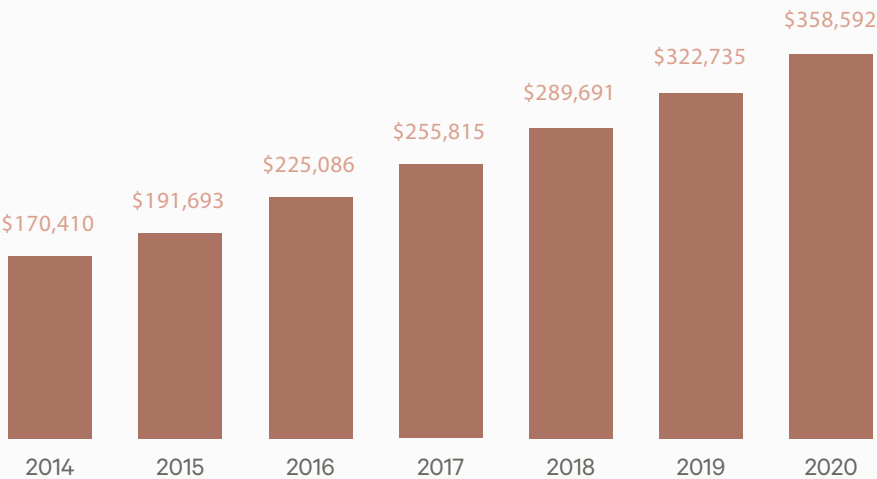


as well as innovative advances in technology that are likely to dramatically change how consumers purchase online and from whom.

Sales Outlook

Worldwide, the clothes and accessories ecommerce segment is expected to be more than \$223 billion USD in 2016 and is forecast to **grow 12.2%** annually to more than \$355 billion USD by 2020:

Revenue in the clothes and accessories market
in million U.S. dollars (worldwide)



SOURCE: STATISTA

Ecommerce sales of apparel and accessories accounts for a **17.2% share** of total U.S. retail ecommerce.

Growth by Region

WHERE IS THIS GROWTH COMING FROM?

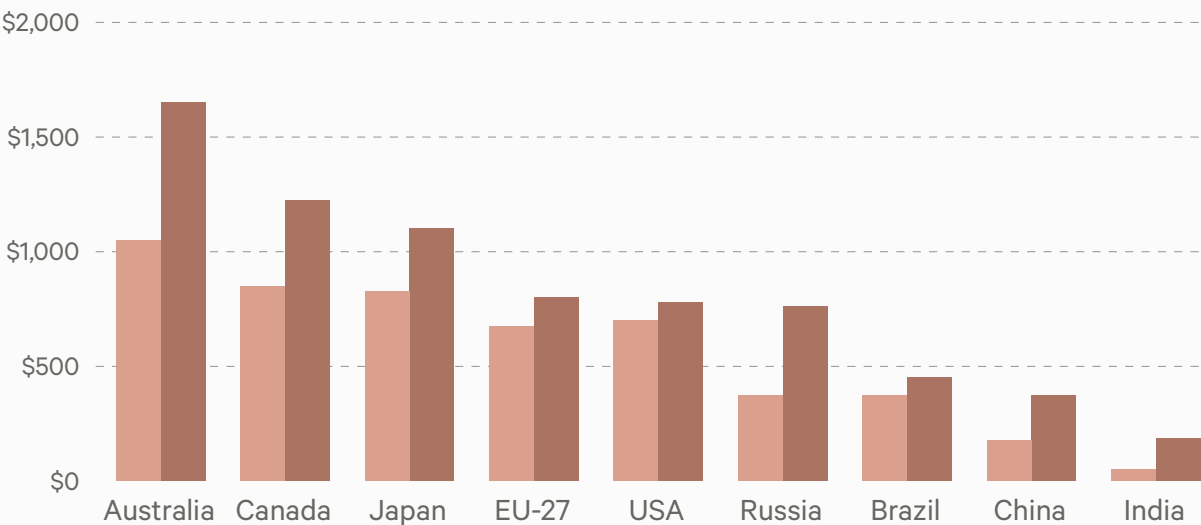


SOURCE: STATISTA

Broken down by region, worldwide per capita spending on apparel through 2025 suggests moderate to strong growth.

Per capita spend on apparel
in U.S. dollars (worldwide)

■ 2012
■ 2025



SOURCE: STATISTA

Likewise, consumer buying power is expected to increase as well. The average revenue per user (ARPU) in the clothes and accessories segment is expected to increase from more than \$265 USD in 2016 to more than \$279 USD in 2020.

**ARPU IN THE CLOTHES
AND ACCESSORIES MARKET***in U.S. dollars (worldwide)*

Consider as well the number of consumers expected to purchase is **forecasted to increase** from 844 million in 2016 to more than 1.2 billion in 2020.

Capitalizing on Growth

To capitalize on potential future growth, tomorrow's ecommerce fashion and apparel companies must position themselves to leverage technology, some of which is being invented as you read this, to address shifting consumer behavior.

The trend toward mobile, social, and personalized shopping experiences is expected to accelerate as hundreds of millions of new smartphone users in emerging markets join the middle class.

Average time spent per day with major media by U.S. adults, 2011-2017

hrs:mins

	2011	2012	2013	2014	2015	2016	2017
Digital	3:34	4:10	4:48	5:09	5:29	5:45	5:56
Mobile (nonvoice)	0:46	1:28	2:15	2:37	2:54	3:08	3:18
Radio	0:16	0:26	0:32	0:39	0:44	0:49	0:52
Social networks	0:04	0:09	0:18	0:23	0:27	0:30	0:32
Video	0:03	0:09	0:17	0:22	0:26	0:29	0:32
Other	0:23	0:44	1:08	1:14	1:17	1:20	1:22
Desktop/laptop*	2:30	2:24	2:16	2:14	2:12	2:11	2:10
Video	0:12	0:20	0:22	0:23	0:24	0:25	0:25
Social networks	0:21	0:22	0:17	0:16	0:15	0:14	0:13
Radio	0:12	0:07	0:06	0:06	0:06	0:06	0:06
Other	1:45	1:35	1:31	1:28	1:27	1:26	1:25
Other connected devices	0:18	0:18	0:17	0:19	0:23	0:26	0:28
TV**	4:34	4:38	4:31	4:22	4:11	4:03	3:58
Radio**	1:34	1:32	1:30	1:28	1:27	1:25	1:24
Print**	0:46	0:40	0:35	0:32	0:30	0:28	0:27
Newspapers	0:28	0:24	0:20	0:18	0:17	0:16	0:15
Magazines	0:19	0:17	0:15	0:13	0:13	0:12	0:11
Other**	0:39	0:38	0:31	0:26	0:24	0:22	0:21
Total	11:08	11:39	11:55	11:57	12:00	12:04	12:05

Note: ages 18+; time spent with each medium includes all time spent with that medium, regardless of multitasking; for example, 1 hour of multitasking on desktop/laptop while watching TV is counted as 1 hour for TV and 1 hour for desktop/laptop; *includes all internet activities on desktop and laptop computers, **excludes digital

Smartphone users and penetration in Asia-Pacific, by country, 2014-2019

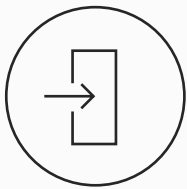
millions and % of mobile phone users

	2014	2015	2016	2017	2018	2019
Smartphone users (millions)						
China*	482.7	525.8	563.3	599.3	640.5	687.7
India	123.3	167.9	204.1	243.8	279.2	317.1
Indonesia	44.7	55.4	65.2	74.9	83.5	92.0
Japn	46.2	51.8	55.8	58.9	60.9	62.6
South Korea	32.2	33.6	34.6	35.6	36.5	37.0
Philippines	21.8	26.2	29.9	33.3	36.5	39.2
Vietnam	16.6	20.7	24.6	28.6	32.0	35.2
Thailand	15.4	17.9	20.0	21.9	23.4	24.8
Taiwan**	15.1	16.4	17.2	17.8	18.3	18.6
Australia	13.5	14.6	15.4	16.0	16.5	16.8
Malaysia	8.9	10.1	11.0	11.8	12.7	13.7
Hong Kong	4.4	4.8	5.0	5.2	5.3	5.4
Singapore	3.8	4.0	4.2	4.3	4.4	4.6
New Zealand**	2.3	2.7	2.9	3.1	3.2	3.3
Other	57.1	72.1	86.6	100.4	113.3	125.4
Total	888.0	1,023.9	1,139.8	1,254.7	1,366.3	1,483.4

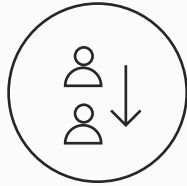
SOURCE: EMARKETER

Opportunities and Threats

The ability to market, sell, and fulfill ecommerce orders globally and automatically will present opportunities to grow revenue, increase margins, and differentiate from competitors. However, unprecedented risks will pose daunting challenges as well:



Lower digital barriers to entry



A reduction in overall customer loyalty



Aggressive competition that can depress margins



The ability to source and produce ethically and environmentally friendly goods

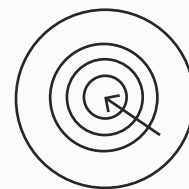
The ability to better mine data, track consumers across devices, and market to them in ways they find valuable is currently being compounded by a variety of tailwinds that, leveraged together, create a compelling outlook for ecommerce companies:



Declining raw material costs and reduced operating costs can increase margins



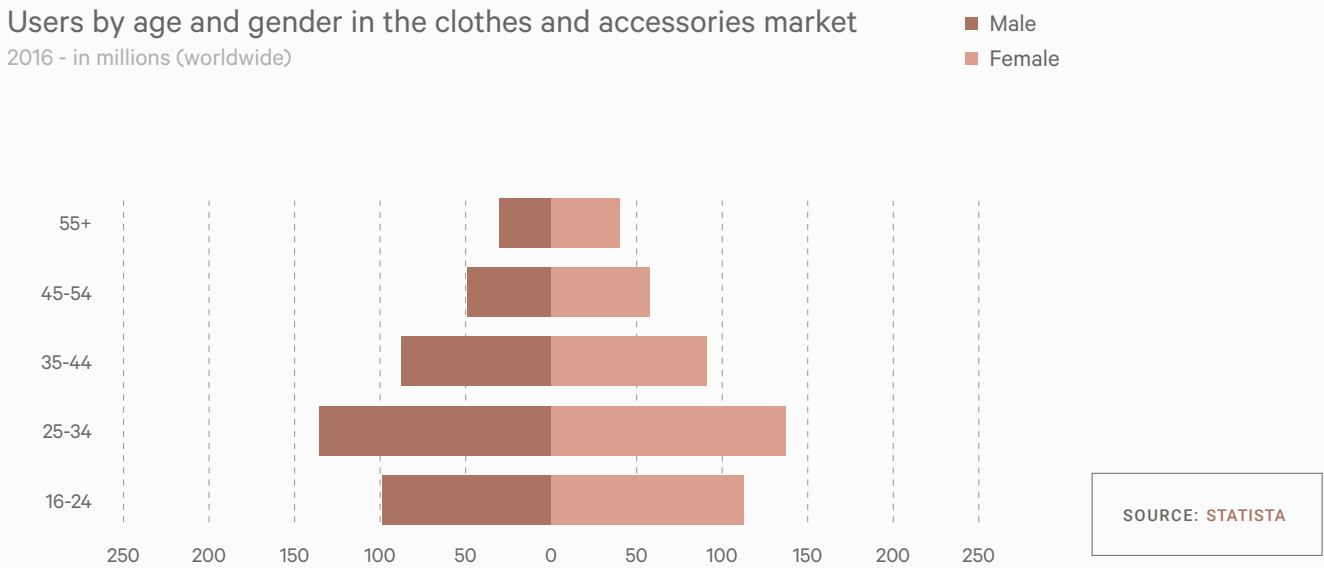
New Hispanic and Asia-Pacific markets are expected to triple their spending in some cases



The increasing ability to profitably serve underserved niche markets that have historically been ignored

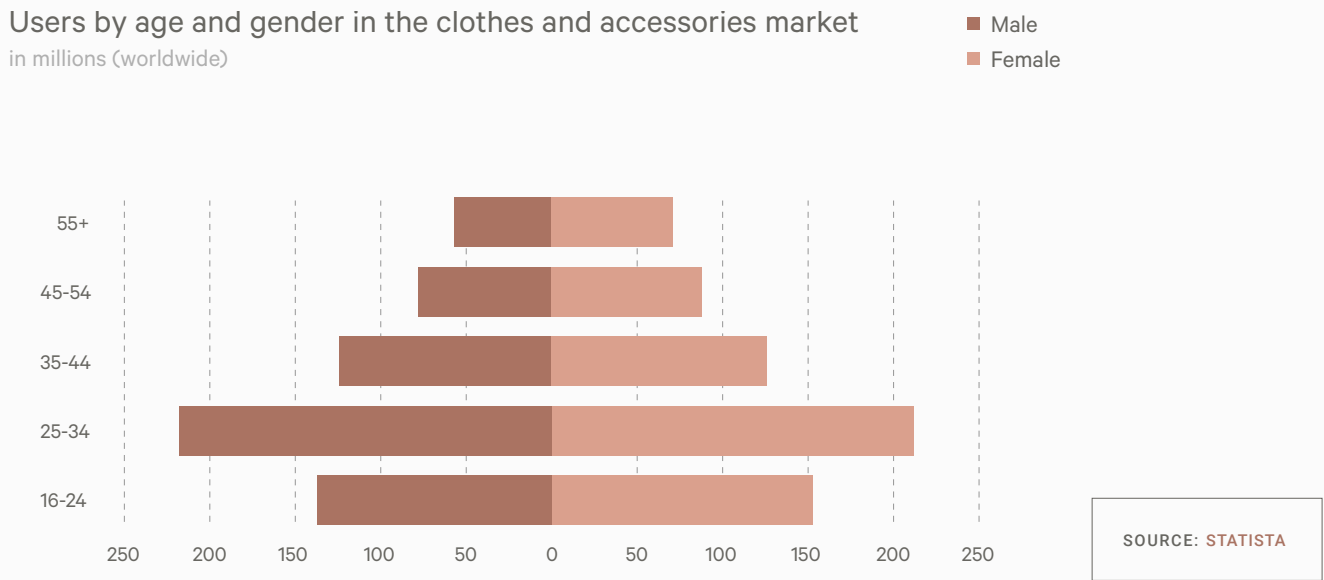
The opportunity ahead will be fueled by massive population growth. **In 2016**, the gender specific distribution of consumers expected to purchase apparel and accessories broken down by age looks like this:

Users by age and gender in the clothes and accessories market
2016 - in millions (worldwide)



By 2020, it's expected to look like this:

Users by age and gender in the clothes and accessories market
in millions (worldwide)



Technology will both adapt to and shape consumer preference and behavior in the next decade. Before we outline several of the technologies that will change the way fashion and apparel consumers shop in the future, it's crucial to understand the emerging technologies and trends impacting the fashion and apparel industry today.

Industry Trends



FASHION & APPAREL

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The trends dominating the fashion and apparel industry revolve around personalizing the customer experience.

In fact, personalized online experiences are quickly becoming the standard as **70% of consumers** expect you to interact with them on a more intimate level.

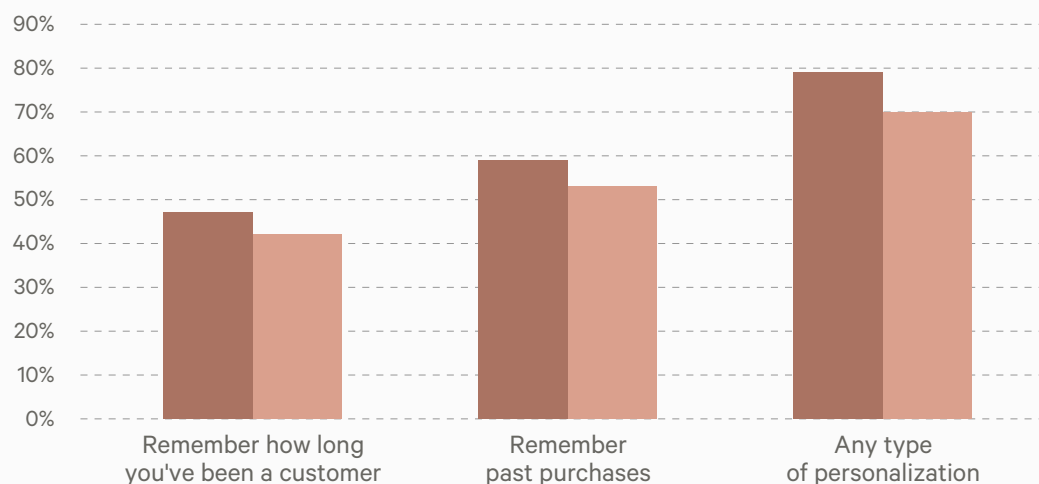
However, it's becoming increasingly difficult to do so when you consider the privacy issues that spawned the **Do Not Track** movement as well as the **demise of the cookie** as an accurate cross-device tracking mechanism.

In the decade to come, trust between ecommerce retailers and consumers will become paramount and possibly even something one might classify as a business asset that creates a competitive advantage. What we've seen in the fashion and apparel industry is a willingness from the consumer to trust ecommerce stores with their data as long as the data is used to treat consumers personally:

Personalization expected from shoppers

share of respondents

■ US Consumers
■ UK Consumers



SOURCE: AGILEONE

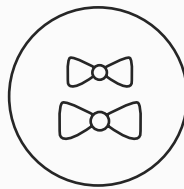
The fashion and apparel winners of today and tomorrow are also using technology to aggressively solve a problem that's crimping margins industry wide; returns. The inability to physically interact with ecommerce items has resulted in an online return rate **as high as 50%** in some cases.

NOTE: A separate analysis suggests nearly **one third of all online purchases** are returned.

Regarding margin erosion, here's what Prashant Modha, CFO at Mondetta Performance Gear, told **Internet Retailer** recently:



If a \$40 item is returned, it can cost the retailer up to \$15 in shipping and handling



Often, consumers buy two sizes of the same product with the intention of returning one from the outset

Overcoming data-use issues, reducing returns, and earning trust by offering a personalized customer experiences is increasingly being done, in part, by making the buying process more fun, interactive, and conducive to where people are increasingly spending their time online:

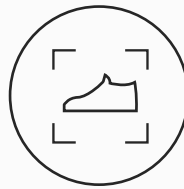
TREND 01

Fit Technology and Virtual Sizing

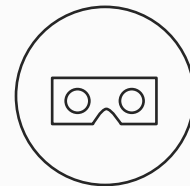
The trend toward **fit technology**, or virtual sizing tools that actually work, is one that's garnering major investments among fashion and apparel ecommerce firms. Smart technologies like **Virtusize**, which provides a fitting solution designed to help consumers buy the right size online, enables shoppers to compare clothing they're looking at online with the wardrobes they have in their closets.



This tool helps consumers measure items in their closets and overlay them with items of interest on their screens



This tool uses 3D imaging technology to scan footwear and help consumers select shoes that are more likely to fit



This tool offers a virtual fitting room application that online retailers can use across channels to better inform garment production and design

It appears some of this fit technology is generating ROI.

For instance, online shoe retailer Running Warehouse calculated 65% of all returns were fit-related. However, after introducing an application that allows shoppers to find more accurate information about the shoe size they need, **fit-related returns declined 23%**.

The screenshot shows the shoefitr app interface. At the top is a dark navigation bar with a 'go back' button (left arrow), the 'shoefitr' logo, a Facebook 'Like' button with '1.4k' likes, and a close button (X). Below the navigation bar, the first step is highlighted with a shoe icon and the number '1'. The text reads: 'Tell us about the running shoe you wear now.' Below this text is a dropdown menu with 'adidas' selected, followed by icons for a man and a woman. Below these icons is the question 'Do you know which adidas shoe it is?'. Underneath this question are two options: a text input field labeled 'Type model name' and a blue button labeled 'I'm not sure.'. A dashed horizontal line separates this step from the second step, which is highlighted with a shoe icon and the number '2'. The text for the second step is 'What size is it?'. Another dashed horizontal line separates the second step from the third step, which is highlighted with a shoe icon and the number '3'. The text for the third step is 'We compare it to the adidas adizero Aegis 2.'

SOURCE: ECONSULTING

TREND 02

Interactive Surveys and Quizzes

Ecommerce is increasingly becoming transactional in nature, in part, thanks to tools born in the marketing world that have evolved to pinpoint customer taste. One sophisticated way to interactively balance shopper perception vs. reality is to use a survey designed to unearth inconsistencies.

MM.LaFleur, an online apparel retailer that helps professional women build their wardrobes, sends customers what it calls Bento Boxes that contain 4-6 articles of clothing that are handpicked to flatter. To achieve this, the company designed a survey to subtly tease out size and fashion data.

1.

Notice the first survey question asks women to describe, with pre-selected words, their style:

Let's do this.

Weekdays, my style is... *(choose all that apply)*

Buttoned-up: Business Formal

Neat: Business Casual

Relaxed: Anything Goes

Fashion-forward: Creative Casual

Continue

SOURCE: **MM.LAFLEUR**

2.

Compare this to the second question, which is very similar to the first, but requires women to select an image that represents their style:

Which of these looks would you rock?

Choose your favorites to give us a sense of your style.



SOURCE: **MM.LAFLEUR**

It's an interactive way to identify any inconsistencies that may exist between what a woman says her style is and the style image she actually sees in her mind.

Another technique retailers are using to check the perceptions of shoppers is to ask for both quantitative and qualitative size and fashion data.

For instance, immediately after asking for a woman's blouse or shirt size (quantitative), Stitch Fix, which sells personally styled collections of clothing to busy women, asks how they prefer their clothing to fit on the top half of their body (qualitative):

The image shows a portion of a questionnaire from Stitch Fix. The first question is "What size do you normally wear for blouses and shirts?", followed by two empty dropdown menus. The second question is "How do you prefer clothes to fit the top half of your body?", followed by a dropdown menu that is open, showing five options: "Mostly Tight / Form Fitting", "Prefer Fitted / Showing my Figure", "Straight", "Mostly Loose", and "Oversized". To the right of this dropdown, the text "jeans, and skirts?" is visible, followed by another empty dropdown menu. Below these, the text "What length jeans do you prefer. (Select all that apply)" is partially visible.

SOURCE: STITCH FIX

Throughout the experience, Stitch Fix routinely checks for inconsistencies between what a shopper says about her figure and what she actually prefers.

TREND 03

Personalization

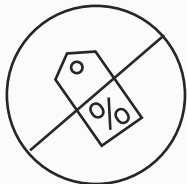
Online fashion and apparel stores are using personalization in two unique ways;

1. Protect Your Margins With Personalization

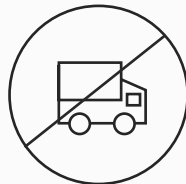
2. Expand Your Margins With Personalization

1. Protect Your Margins with Personalization

Segmenting your target audience can help you meaningfully reduce your return rate and prevent margin erosion. Research suggests certain customers are up to **15x more likely** to return an item compared to other segments. Online retailers that have a clear picture of who their serial returners are can personalize the experience by:



Not offering deep discounts to serial returners



Not offering free shipping to serial returners



Identifying which items are more likely to be returned

Special promotions or discounts may be offered only to segments that are far less likely to return a specific item. While some online retailers are using **algorithms to predict** which customers are more likely to return items, segmenting your audience based on past behavior will help you achieve a similar outcome by using tailored messaging that positions you to increase margins by reducing returns.

2. Expand Your Margins with Personalization

Today, almost anyone can have their own personal stylist online.

Apparel makers that connect consumers with personal stylists are creating incentives for both sides of the marketplace; the consumer who wants expert guidance and experts who want to monetize their passion.

Keaton Row, a personal styling service for women, offers stylists a chance to build a business and **earn unlimited commissions** by helping sell the items they suggest to consumers:



Earn money doing what you love.

"I get the opportunity to do what I love, styling for Clients everyday while earning a paycheck, in the comfort of my own home and on my own schedule."

Emilie Bartolome, 142 Clients

Artists Agent turned Stylist

SOURCE: KEATON ROW

To provide an authentic personal touch, Keaton Row's stylists ask for more than just the information requested during online questionnaires or surveys.

For instance, stylists may ask consumers for access to their **clothing wish list** Pinterest boards. Obviously, the more data a stylist has access to the better they'll be able to tailor the online shopping experience.

TREND 04

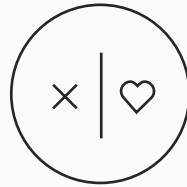
Gamification

It's an increasingly popular trend to mix a bit of play with work to **gamify** the customer experience.

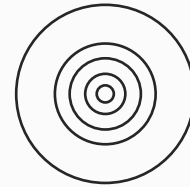
Handbag retailer **eBags** recently turned to gamification after determining prospects are often **unable to verbalize** what they want in a handbag. So the company borrowed an idea from an online dating application which asked users to rate people as "hot" or "not" in a split second. Similarly, eBags created a campaign that:



Displayed pictures of handbags



Asked women to click either an "X" or a heart icon to indicate sentiment toward the bag



Remembered the desired handbags for future retargeting



TLC&you
Flower Clutch

Love It or Leave It by swiping toward or tapping on the ♥ or ✕ icons

SOURCE: **EBAGS**

By adding gamification the result, according to **this case study**, was a mobile conversion rate for eBags of 10%. Doing so prevented women from having to sort through thousands of bags before narrowing the purchasing decision, and positioned the company to capitalize later:

- The tool also collected data on preferred handbags
- People were later shown those collections to shorten the path to purchase

While gamification often promises a reward, online apparel retailers can use it to promote a personalized shopping experience or a **better tailored virtual wardrobe** as Keaton Row does. When you help users collect the rewards offered by gamification, you're also helping trigger the **release of dopamine** which can cause people to experience pleasure and possibly spend more money.

Tomorrow & Beyond

FASHION & APPAREL

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It may sound counterintuitive...

But take a guess regarding a common link shared by brick and mortar retailers that successfully transition to ecommerce?

It's the catalog.

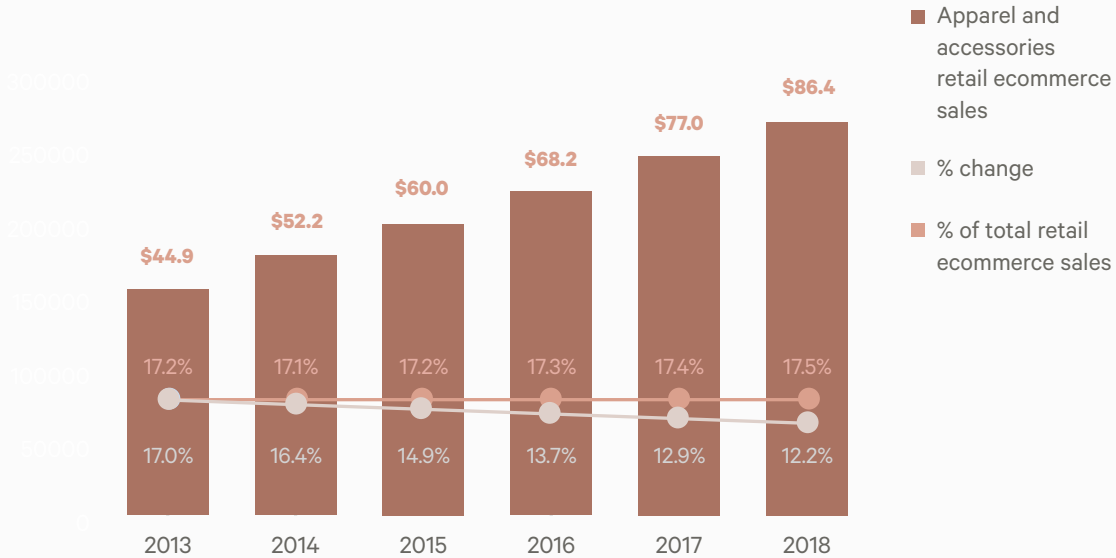
That's right, the traditional catalog is still a revenue generating growth machine that, somewhat counterintuitively, provides a solid foundation for a transition to ecommerce.

Here's how market research firm eMarketer [describes the phenomena](#):

"When examining the role ecommerce plays in apparel and accessories retail sales, one factor is clear: a correlation between catalogs and sales. According to eMarketer data, nearly all of the leading ecommerce retailers (as measured by ecommerce as a percentage of revenues) in this product segment are known for having translated mail-order businesses to the internet."

U.S. apparel and accessories retail ecommerce sales, 2013-2018

billions, % change and % of total retail ecommerce sales



Note: includes products or services ordered using the internet, regardless of the method of payment or fulfillment

SOURCE: EMARKETER

What's Happening Here?

Why do retailers with catalog histories seem to do better online and is there anything ecommerce companies can learn from this? Consider this; the companies using catalogs have decades of experience creating two things:



Content



Customer Experiences

The direct response skills these companies have honed over the years appear to transfer well online. It's a skill you're likely using today but one you'll be required to combine with tomorrow's technology to continue to meet and exceed customer expectations.

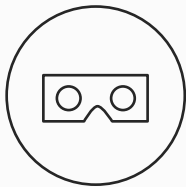
So What's Next?

Fashion and apparel traditions and trends will likely be combined with tomorrow's innovations to create customer experiences and growth opportunities that could be mistaken as fiction today. The following four drivers will likely prompt apparel to collide with technology and change how people shop, and how you sell, tomorrow and beyond:

DRIVER 01

Virtual and Augmented Reality Shopping

Analysts expect VR and AR to generate approximately **\$150 billion by 2020**. In just five years the market is expected to boom and present marketing and sales opportunities and challenges that do not exist today. Remember, the shift to mobile has taken a toll on the web. Mobile users spend much of their time walled off from the mobile web and **inside applications** instead. If VR and AR take "share" from the web, it means traffic to your site may diminish. Follow the money inside the VR and AR worlds:



Go inside AR glasses and provide content and apparel items you offer for sale, that may be overlaid on a user's reality



Provide outfits for movie or game characters that may be purchased instantly with **embeddable buy buttons** in AR or VR or allow the user to dress or outfit the VR character with whom she's interacting



Enable users to integrate a 3D body scan of themselves so they can try on your apparel items in a virtual fitting room

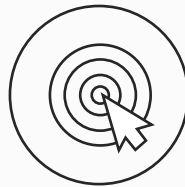
DRIVER 02

On Demand Commerce

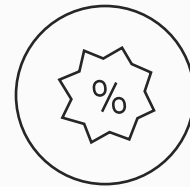
Imagine having a million ecommerce stores all over the web and the physical world. Imagine also creating a friction-free one-click purchasing experience anywhere there's a screen. It's actually possible now with Shopify's embeddable buy button. Not only will using it improve the customer experience by reducing the number of clicks to make a purchase, but you can embed buy buttons almost anywhere including inside mobile applications to:



Offer buy now flash sales on products related to a specific app



Target gamers with offers related to their interests across devices



Offer maintenance supplies (furnace or refrigerator water filters) to people using smart appliance apps

Fast forward a number of years and imagine what may be possible if you were to combine on demand commerce with VR:



If a user likes a garment someone else is wearing he or she may be able to instantly see in VR how the outfit would appear on them in a virtual fitting room and have the ability to make voice activated purchases in app or in VR



A personal virtual stylist, powered by AI, that recommends items based on purchase history, digital behavior, and social chatter may allow you to personalize the shopping experience in ways that are impossible today

DRIVER 03

AI and Predictive Analytics

Traders make million dollar bets in the stock market based, in part, on algorithms that identify social media sentiment. The same may ultimately come to pass in the world of fashion.

Predictive analytics that incorporates online behavior, changes in physical inventory, and social media chatter, likes, and retweets may soon be able to predict which styles are likely to turn into must-haves and which are likely to flop.

Now imagine what comes next...

Rather than simply analyzing sentiment that currently exists, you might consider aggressively testing and shaping sentiment while simultaneously reducing the risk of being stuck with unwanted inventory that won't sell:



Design images you believe would appeal to specific segments of your audience, create lookalike audiences, and distribute those images to gauge sentiment before manufacturing the item; if sentiment is extremely positive consider adding an embeddable buy button so people can pre-order



Invite influencers to try on new designs in virtual fittingrooms, share the experience with their followers and friends, and use predictive technology to gauge sentiment to determine whether producing the actual design is likely to be commercially successful

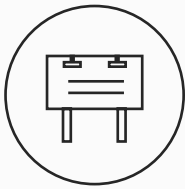


Integrate emotion detecting AI like the kind engineered by a startup **Apple recently purchased** with a wearable or device camera to sense when someone is dissatisfied when trying on an apparel item in a virtual fitting room to make size and fit recommendations based on predictive analytics

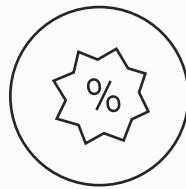
DRIVER 04

Next Generation Situational Targeting and Wearables

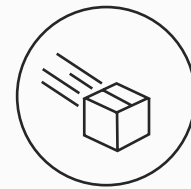
The **crumbling of the cookie** as a reliable tracking mechanism across devices has, according to some industry analysts, **cut audience reach in half** in some cases. Situational targeting, which uses data points like location and weather, may be used to target users with the right advertising message at the right time:



Using geotracking to flash a personalized ad on a digital billboard the user is passing in the physical world



Using geotracking to offer a discount on an item for sale at a store the user is about to pass



Using geotracking and weather data to offer 1-hour delivery of an umbrella via **UberRUSH** to a concert goer at an outdoor venue

The future may include opportunities for ecommerce apparel makers to combine situational targeting with wearables embedded with sensors:



If embedded wearable sensors indicate a beach goer is overheating or in danger of a sunburn, an apparel maker could offer near immediate UberRush delivery of hats, visors, or other garments designed to protect people from the heat



If embedded wearable sensors, when combined with purchase history or health care data, indicate a runner isn't performing at his or her best or may be hurt, an apparel maker might suggest a 3D shoe fit analysis which can then recommend a shoe designed especially for the user's foot type and potentially reduce strain and pain

Cosmetics



“

Our engineers just ran wild on **Shopify Plus** in terms of integrating tools that allow us to better track orders, count inventory, and create better reports.

”



PAUL PENDER

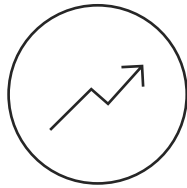
Ecommerce Marketing
Manager at [Runkeeper](#)

Snapshot

The global cosmetics market, **according to analysts**, is expected to increase to \$675 billion by 2020 from \$460 billion in 2014. The estimated 6.4% annual growth rate is expected to be driven by:



e-commerce



burgeoning middle classes with more discretionary income in emerging markets,



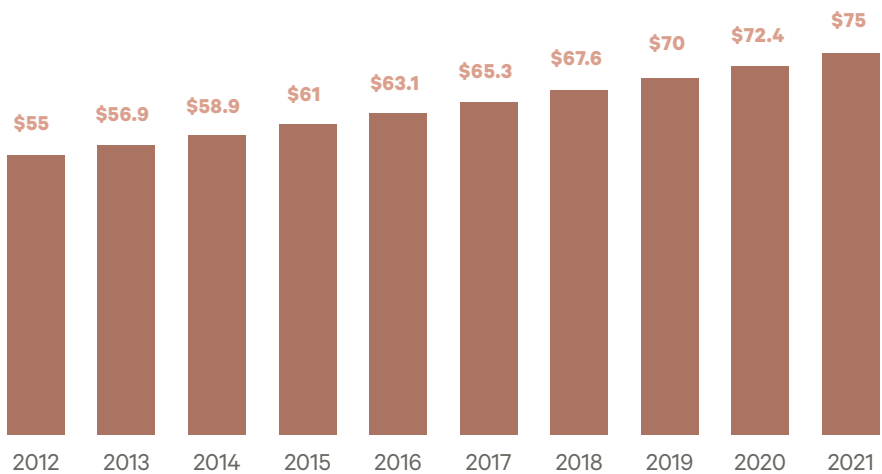
and product innovation

However, research also suggests industry growth may be constrained due to consumer shifts in perceptions regarding side effects, raw materials sourcing, as well as unregulated markets.

Sales Outlook

Worldwide, the colored cosmetics market is expected to generate more than \$63 billion USD in 2016 and is forecast to grow to approximately \$75 billion USD by 2021:

Color cosmetic make-up market size
in billion U.S. dollars (worldwide)

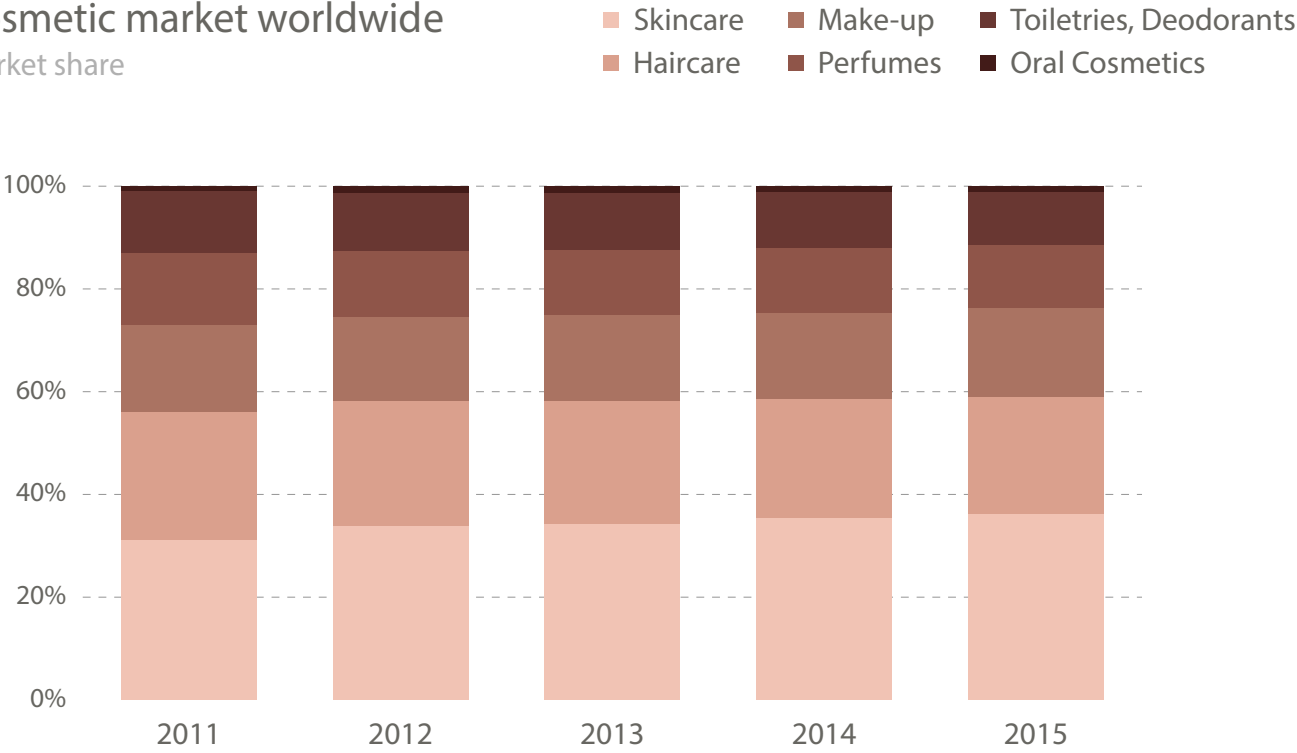


SOURCE: STATISTA

Ecommerce represents about 6.5% of total sales in the segment.

Broken down by category, skin care products comprise approximately one third of the market followed by hair care and make-up:

Cosmetic market worldwide market share



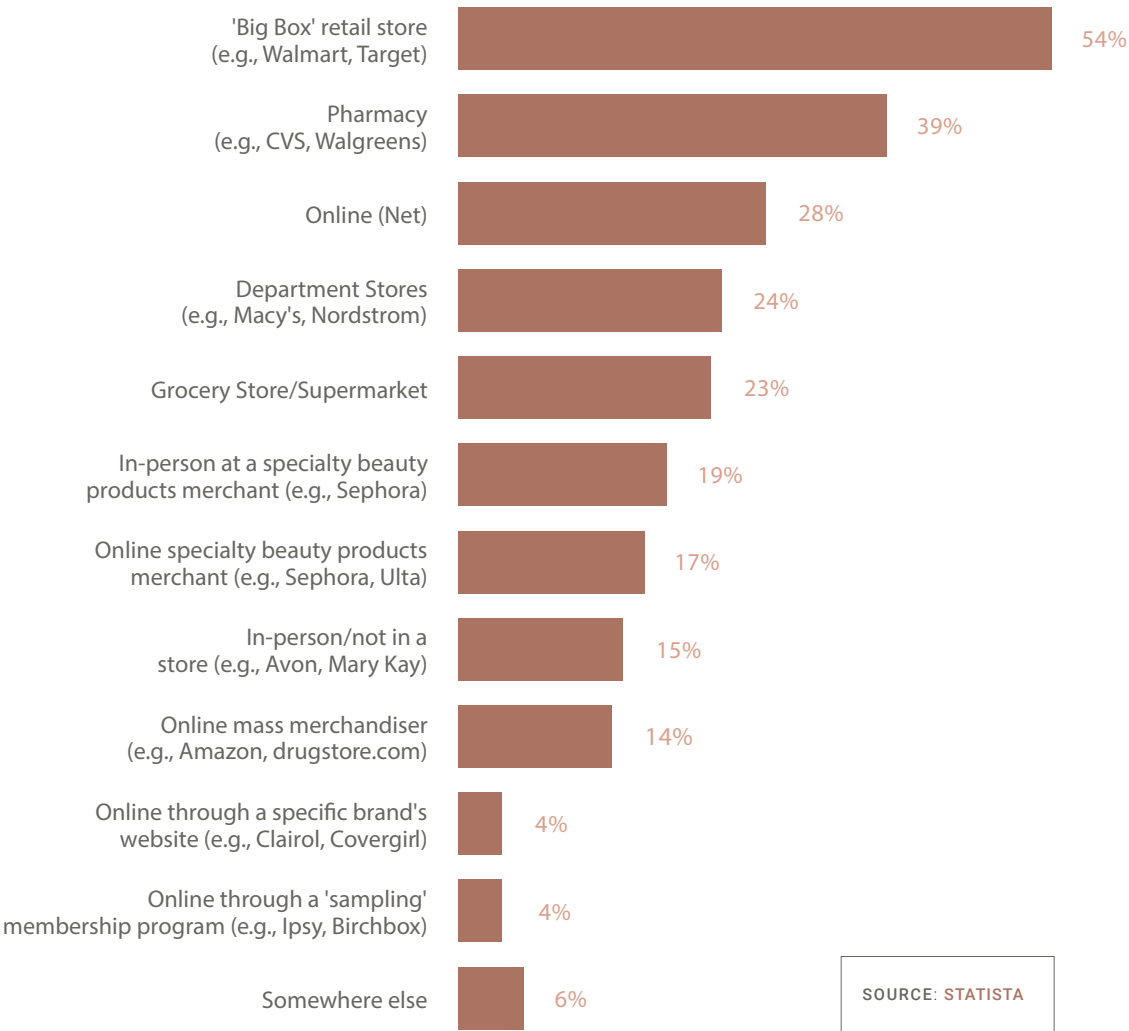
SOURCE: STATISTA

Capitalizing on Growth

While global sales are expected to experience moderate growth for years to come, the majority of cosmetics, **approximately 92%**, are purchased at big box stores, pharmacies, and other brick and mortar locations. However, U.S. consumers are showing an increased willingness to purchase cosmetics online as evidenced by the 28% who say they typically do so:

U.S. consumers' purchase location of cosmetics

2014 - share of respondents

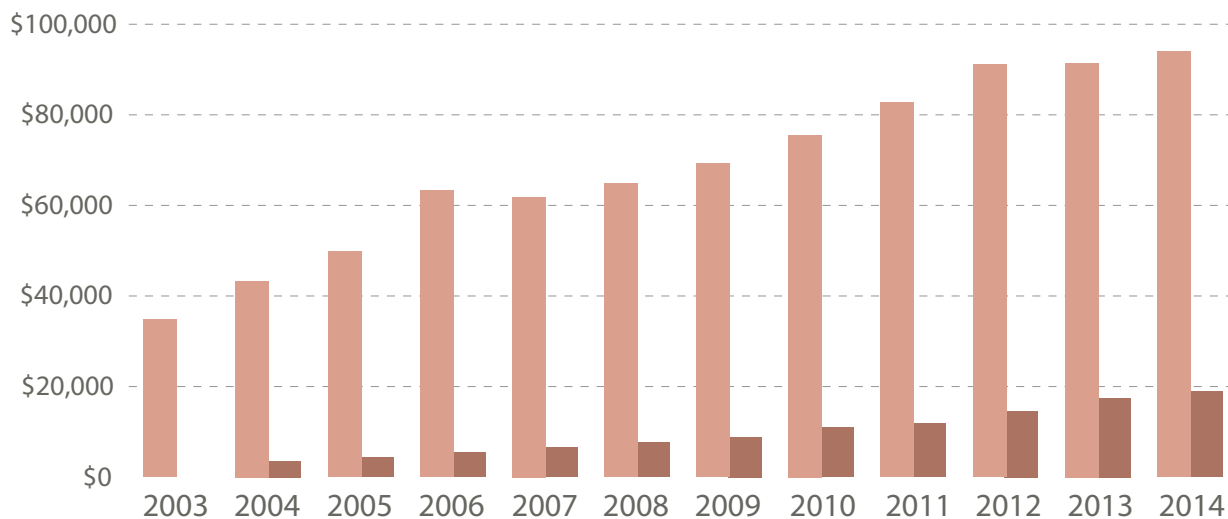


But despite major brands investing in digital technologies designed to help consumers better select and apply cosmetics, ecommerce accounts for **just a fraction** of the industry's overall sales in the U.S.:

U.S. online shop and mail-order sales of drugs, health, and beauty products

in million U.S. dollars

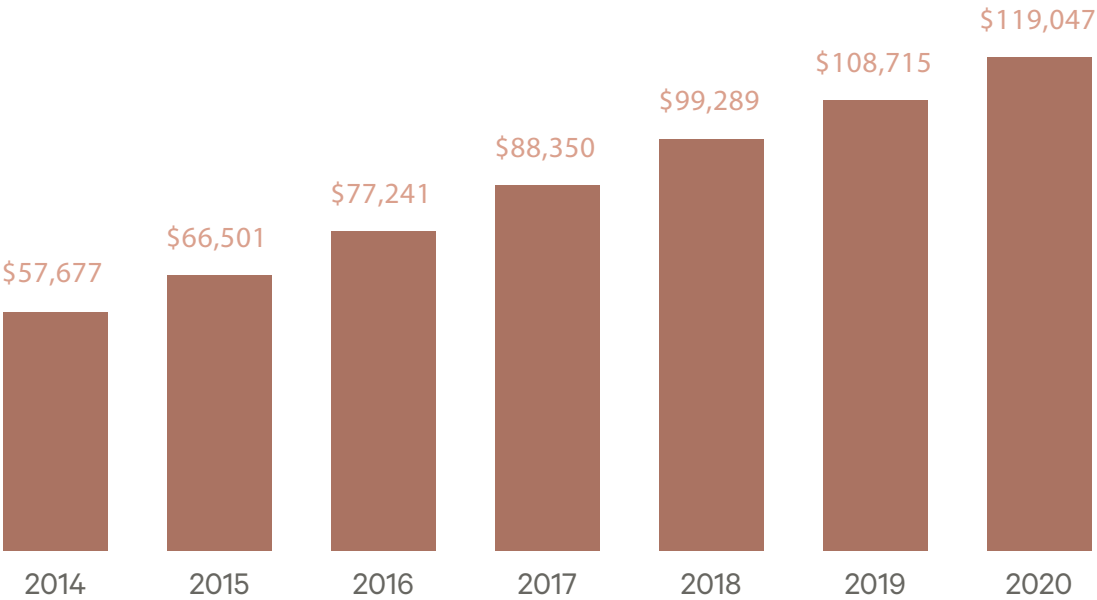
■ Total
■ Ecommerce



SOURCE: STATISTA

However, analysts forecast ecommerce sales of cosmetics and pharmaceuticals to grow at a CAGR of **11.35% by 2020**, which data suggest will likely outpace the overall rate of industry growth:

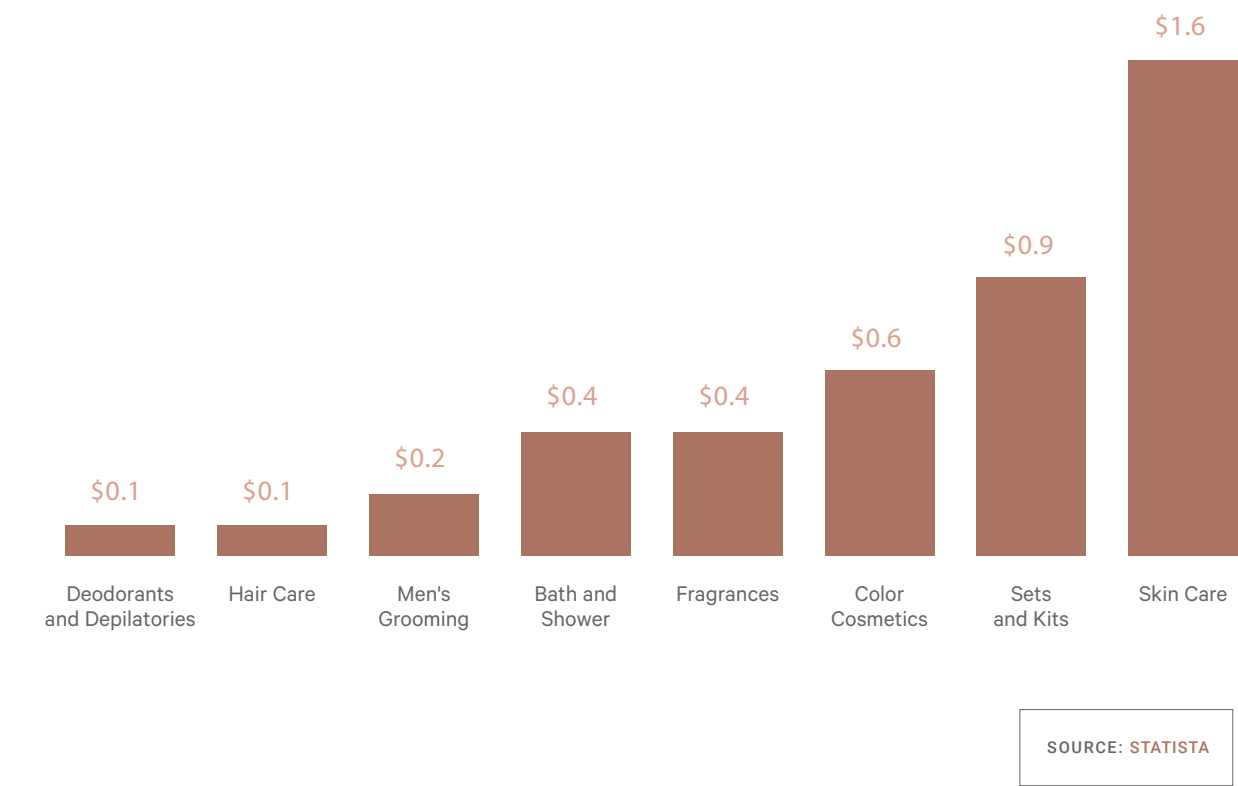
Revenue in the personal care and pharmaceuticals market
in million U.S. dollars (worldwide)



SOURCE: STATISTA

In the U.S., skin care leads the online sale of cosmetics at \$1.6 billion:

Online sales in the U.S. beauty and personal care market
2014 - in billion U.S. dollars

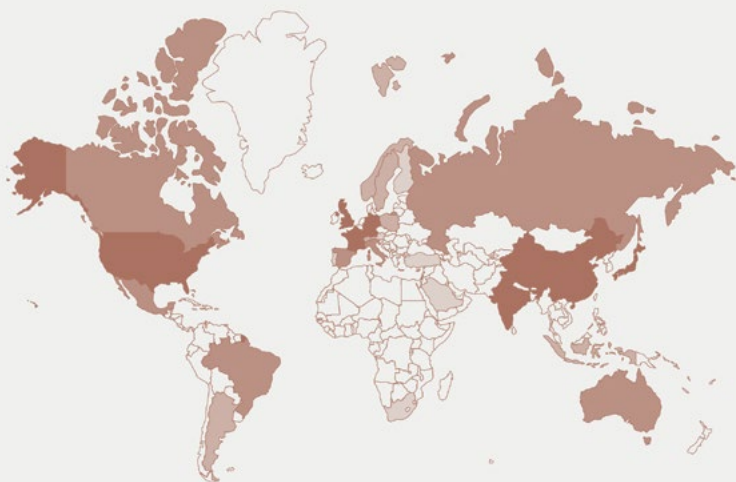


Growth by Region

Opportunity exists in emerging markets like China with increasingly affluent middle classes though sustained strength in the U.S. dollar combined with persistent weakness in yuan could impact forecasts. While pharmaceuticals are also included in the chart below, China has established itself as the second largest global cosmetics market behind the U.S. which is expected to generate more than \$25 billion in 2016:

Revenue in the personal care and pharmaceuticals market

2016 global comparison in million U.S. dollars



Top Countries	in mUSD
United States	25,398.7
China	18,135.0
United Kingdom	4,314.3
Germany	3,908.8
Japan	3,819.8

SOURCE: STATISTA

Importantly, China's increasingly **affluent middle class** is growing quicker than other regions, especially when you consider the increased demand for organic cosmetics as well as increased demand for personal care items for men.

In the U.S., the average annual expenditure per customer has not yet recovered to levels seen in 2011:

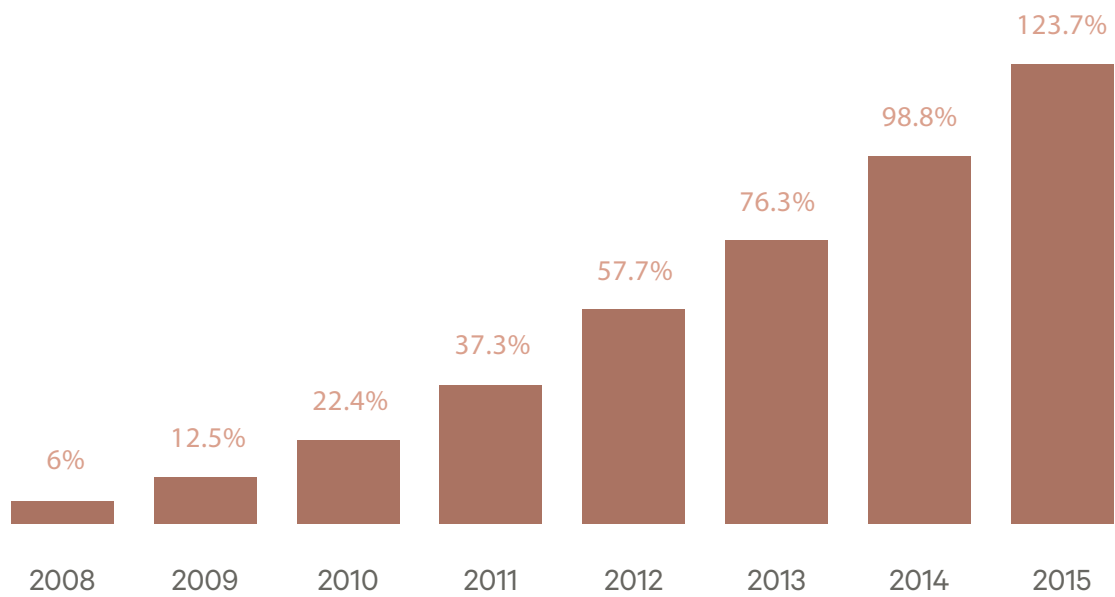
Average annual U.S. household expenditure on cosmetics, perfume, and bath products
in U.S. dollar



SOURCE: STATISTA

In China, the overall cosmetics industry is growing 13.3% and appears to be reflected in the growth trajectory of personal cosmetics expenditures:

Online transaction value of cosmetics retailing in China
in billion yuan



SOURCE: STATISTA

Industry Trends



COSMETICS

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Demand for Natural
and Organic

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A Secondary Market-
place Develops

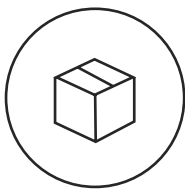
PAGE 44 **TREND 03**
A Change in Men's
Grooming Habits

PAGE 46 **TREND 04**
The Anti-Aging Boom
Now Includes the
Young

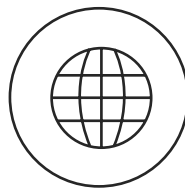
The opportunity for international growth combined with innovative new compounds and technology that will enable more personalized omnichannel customer experiences are factors that are likely to contribute to future global growth in the cosmetics industry.

Simultaneously developing new anti-aging compounds for baby boomers as well as socially responsible cosmetics important to millennials who are eager to spend are factors also expected to be tailwinds the second half of the decade.

However, the rise of a relatively affluent middle class in China and increased cosmetics demand in other emerging markets is expected to test the industry's ability to:



efficiently manage
supply chains,



scale ecommerce on a
global level,



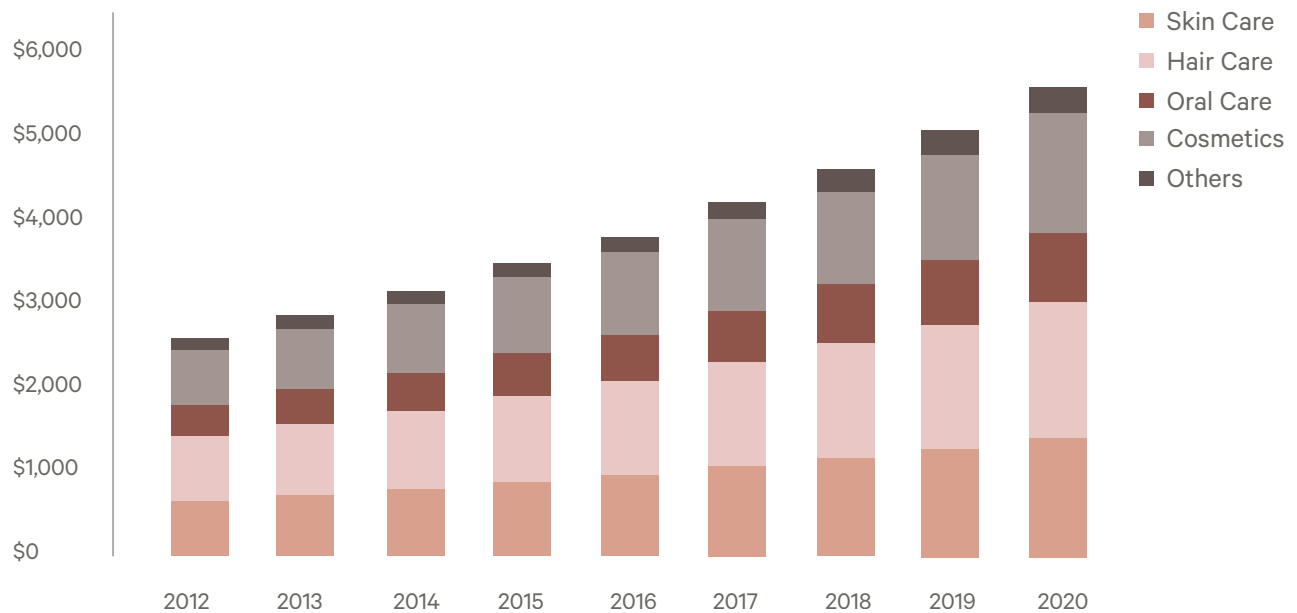
and responsibly use the
data often necessary
to power tomorrow's
technology.

TREND 01

Demand for Natural and Organic

According to **Grand View Research**, organic skin care products are forecast to grow at a compound annual rate of 9.8% between 2014- 2020 and result in \$15.9 billion.

Increased R&D combined with regulatory approval of natural and organic products from bodies like the USDA are expected to continue to fuel growth:



SOURCE: GRAND
VIEW RESEARCH

Natural and organic certifications, although fragmented domestically and internationally, may also be influencing consumer preference. Cosmetics that are manufactured in environmentally sustainable ways are becoming increasingly popular as consumers gravitate toward products that reduce pollution and reliance on petroleum-based cosmetics.

TREND 02

A Secondary Marketplace Develops

We routinely buy used cars, clothing, and appliances online. Today, a secondary online market for used cosmetics exists as well. Regardless of how large cosmetics brands feel about their products being bought and sold on secondary markets, cosmetics users now have the ability to monetize new, slightly used, or unwanted cosmetics. Here's how **Glambot**, one of the companies creating a secondary marketplace for cosmetics, describes itself and its founding:

"Glambot was founded by a tried and true makeup hoarder. She loves makeup and all the glamour it represents. After trying the various online makeup bartering and trading communities, she experienced the major downsides of these communities, such as swap lifting, counterfeits, items arriving damaged in the mail, or worst of all --items in unusable condition. Instead of abandoning the makeup community entirely, she decided to improve and unite it! In May 2014, Glambot quickly grew to become the online destination for the largest collection of rare, limited edition and discontinued items from highly sought after and coveted makeup brands. So come on and experience the glam! We add new items every day!"

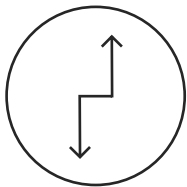
All amounts listed are estimates and may or may not reflect your actual offer. All values are in USD.

Number of Items	Name Brands Ex: MAC, NARS, Urban Decay, Too Faced, etc	Luxury Brands Ex: Dior, Chanel, YSL, Givenchy, etc
20-25	\$15-\$150	\$25-\$260
25-50	\$20-\$350	\$35-\$600
50-100	\$30-\$600	\$50-\$1000

Have slightly used cosmetics piling up in a drawer? Here's what you could earn by selling them to Glambot:

SOURCE: GLAMBOT

Critics argue that used cosmetics, unlike other used items, may not be safe to use and may pose health concerns. However, Glambot says it sterilizes its cosmetics prior to resale. Either way, a secondary marketplace creates opportunities and risks for cosmetics brands when it comes to price sensitive consumers:



A secondary market could siphon sales from large cosmetics brands



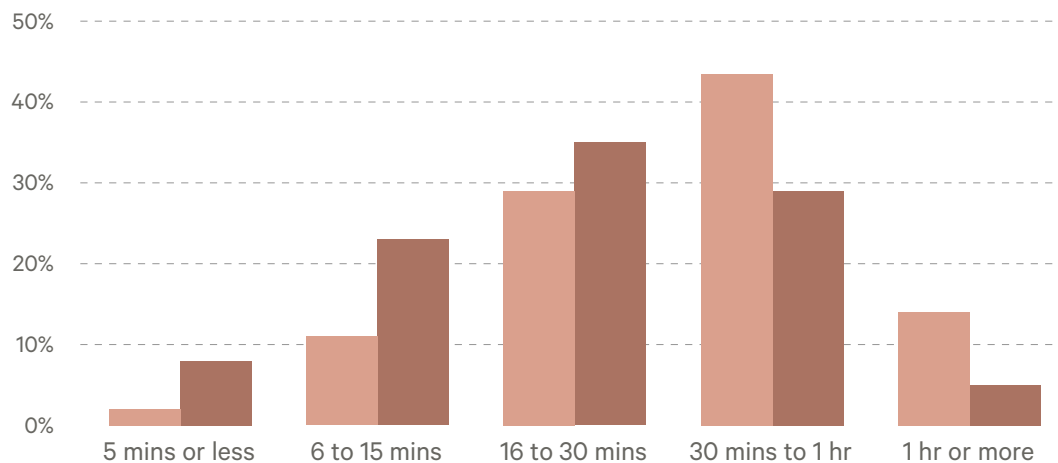
Or a secondary market could introduce brands to new customers who want to purchase new items directly from cosmetics makers

TREND 03

A Change in Men's Grooming Habits

If you automatically envision females when discussing cosmetics and personal care products it's time to rethink your assumptions. Men's grooming habits have been changing for several years now and demand for products is now being fueled by Asia-Pacific markets. Research indicates that in many cases, men are now spending more time per day on their personal appearance than women:

Daily time spent on personal appearance and grooming
share of respondents



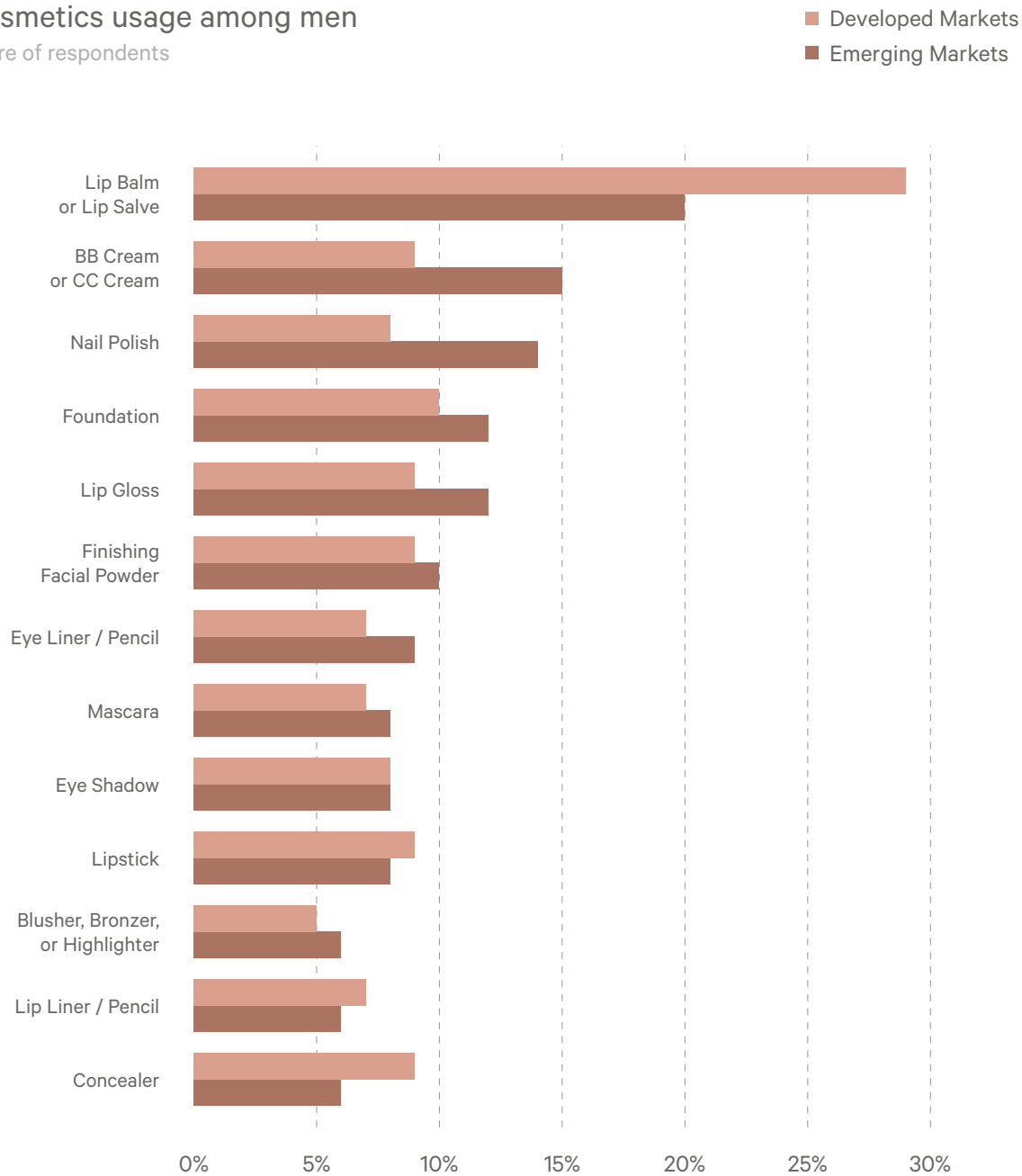
SOURCE: EUROMONITOR
INTERNATIONAL

Data suggest men in emerging markets are using a wider range of personal care products including cosmetics and fragrances. [Euromonitor International](#), a market research firm, says this:

"As disposable incomes rise and Western culture expands in emerging markets, male consumers in these countries are putting more effort into their appearance and using a wider range of products than many of their counterparts in developed countries."

Cosmetics usage among men

share of respondents



SOURCE: EUROMONITOR INTERNATIONAL

As the middle class in Asia grows and becomes more affluent, cosmetics makers have an opportunity to sell a wider array of cosmetics to men in emerging markets. However, brand marketers must vary their approach as men in more developed markets still prefer more basic or manly personal care products.

TREND 04

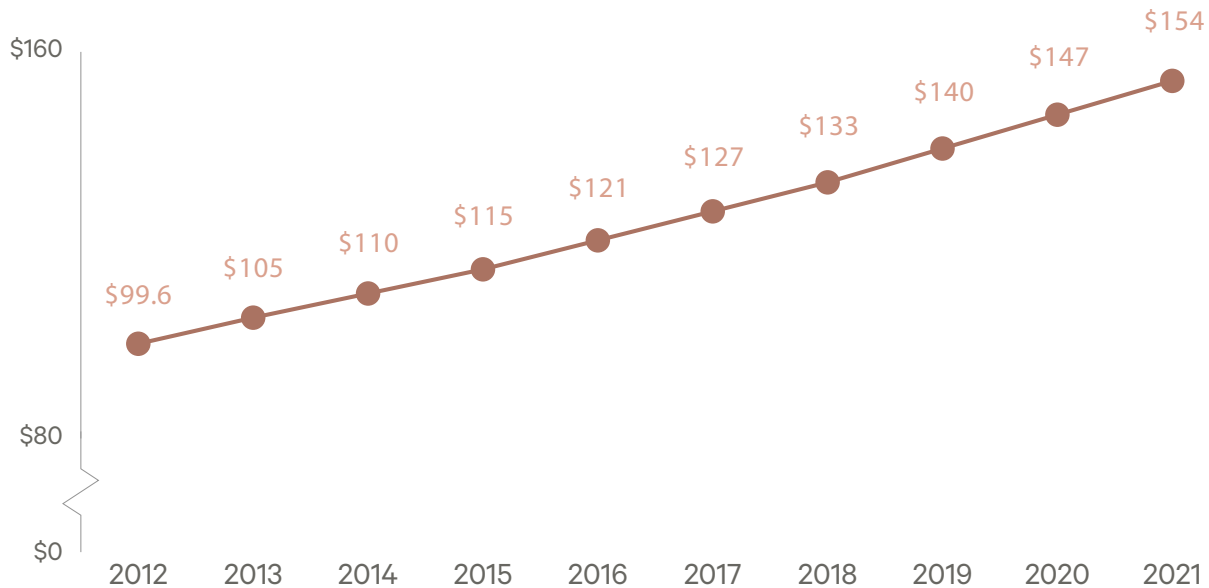
The Anti-Aging Boom Now Includes the Young

Research indicates that by 2030, more than 20% of the U.S. population will be 65 or older. That compares with just 13-percent in 2013. The baby boomer generation's desire to age gracefully (or not at all) has been well documented. However, the graying trend isn't limited to the U.S. as anti-aging skin care products provider **NU SKIN** points out:

"In the United States, someone turns 50 once every seven seconds. Over the next few years, 50% of Europe's population will be age 65 and older. In Italy, retirees will outnumber active workers by 2030. By 2050, the average age in Thailand will increase to 50. (Source: MIT AgeLab.) And in the U.K., baby boomers currently number 20 million and hold 80% of the nation's wealth (source: BBC). Recent statistics suggest that Japan has more than 36,000 citizens aged over 100. In countries in the Asia Pacific region, the population of individuals aged 65 and older is increasing at almost double the speed of the same population in the U.S. and Europe."

Global skincare market size

in billion U.S. dollars



SOURCE: STATISTA

Targeting booming aging populations that possess abundant amounts of wealth is just one of the opportunities for cosmetics and anti-aging personal care product providers. A younger consumer who desires to **postpone the effects** of aging and desires ethically sourced, environmentally friendly, and socially responsible anti-aging products is providing new growth opportunities.

The opportunity for brands to extend anti-aging products to younger consumers must be approached with caution. Trends toward more natural, healthy, and minimalistic lifestyles may conflict with a marketer's approach as well as backlash that suggests using anti-aging products too young can actually **speed up the aging process**.

Tomorrow & Beyond

COSMETICS

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Ultra Personalization
via Sementation and
Technology

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3D Printed Make-up

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Wearable Cosmetics

The future of the cosmetics industry will be dominated by science and technology, a focus on emerging markets, and personalized marketing that uses data to drive increasingly more valuable customer experiences. The following three drivers will likely impact the future of the cosmetics industry:

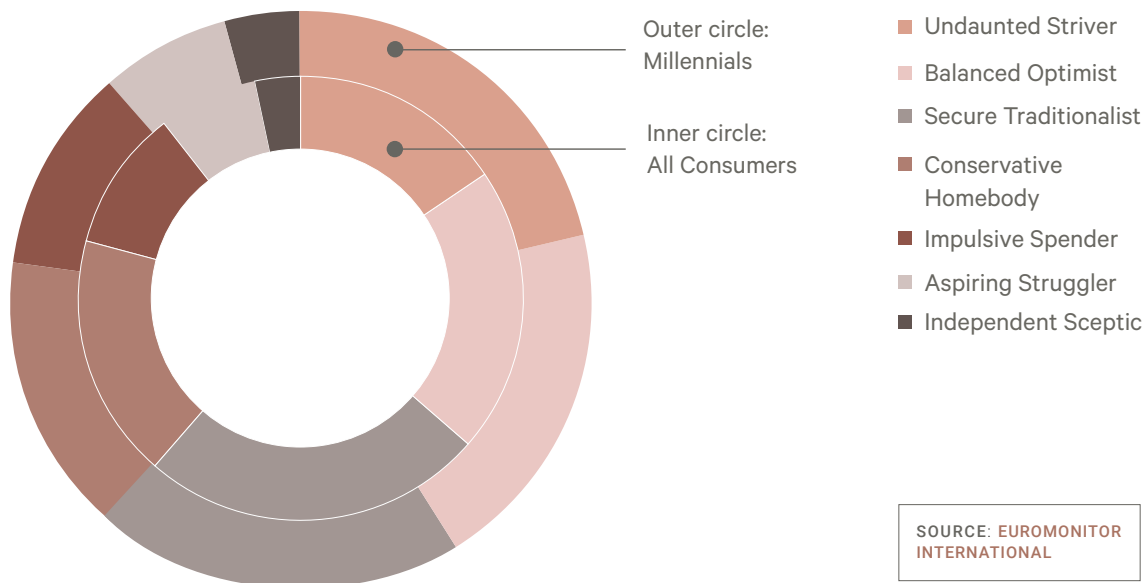
DRIVER 01

Ultra-Personalization via Segmentation and Technology

What does a 29-year-old single mother in rural India have in common with a 29-year-old technology entrepreneur in Silicon Valley?

Both are millennials.

However, lumping each into a one-size-fits-all category is a costly mistake that will likely be magnified in the future as cosmetics brands increasingly try to court millennials with technology designed to improve the user experience:



Euromonitor International, a market research firm, emphasizes the contradictions inherent in millennials and how these will impact marketers:

“One thing that most markets have in common is that millennials are showing a shift away from conservative and traditional mindsets and in most cases, are more optimistic than their elders (even in markets where the reality is that they are poorer) and place more emphasis on friends and on social status than older age groups. However, in almost all markets, there is also a sizable millennial demographic that continues to embrace the attitudes of their traditional culture.”

It becomes even more complicated when viewed with a global perspective. Research indicates that while developed market millennials struggle financially, millennials in developing markets are often the richest generation in the history of their nations.

It means the future will belong to cosmetics marketers who segment their segments with data that allows for the creation of interactive experiences that provide deep value and illustrate how brands know their customers intimately:



Combining **facial mapping technology** via a smartphone with a AI-powered virtual cosmetics assistant that can identify skin type, ethnicity, and other key data points to match and suggest products and show consumers exactly how the product will look on them in AR or VR



Transactional email (think emails triggered by replenishment cycles and purchase history) or situational targeting (ads, notifications, or alerts that are situationally targeted to people based on mobile device location, weather, and social plans) that combine real time inventory of a consumer's medicine cabinet to make cosmetics selection suggestions based on location, weather, or proximity to a nearby brick and mortar location that is convenient for pick up or ultra-fast delivery via **UberRUSH**



A virtual beauty assistant underpinned by purchase history data, real time medicine cabinet inventory data, and social media sentiment that identifies and recommends cosmetics based on replenishment need and a consumer's social, environmental, and cosmetics sourcing standards



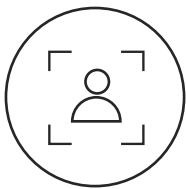
Artificial intelligence, created by **biogerontologists and data scientists**, that identifies beauty and vital health concerns based on the selfies consumers take that may one day be used to make anti-aging cosmetics and health care recommendations as well as alter the perceptions people have of beauty to mitigate negative impacts on mental health

DRIVER 02

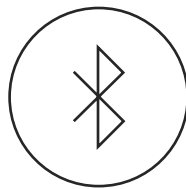
3D Printed Make-Up

Snap a smartphone picture of a color you love (on a flower, blouse, or cosmetic), use an app to identify the color's properties, and then instantly print makeup the exact color. It's already happening thanks to **MINK**, the world's self-proclaimed first makeup printer that turns any smartphone, camera, or laptop into an endless beauty aisle. Consumers can use MINK to create blush, lip gloss, press power, and eye shadow.

Or consider the capabilities of **MODA**, the self-proclaimed world's first digital makeup artist, which combines advanced 3D printing with facial scanning technology with a smartphone app to instantly create trendy makeup like this:



Use the app to scan your face and pick a look



Connect with your MODA system via Bluetooth



Align your face with the MODA and the makeup will be applied

With just a bit of imagination, you can envision something like the MODA being built into self-driving automobiles so women could simply position their faces into a makeup applicator, designed into the rear view mirror of course, and instantly get a custom look much safer than many do today.

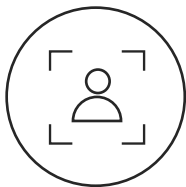
The possibilities of 3D printed makeup become even more compelling when combined with virtual reality, artificial intelligence, and facial mapping technology:



Virtual beauty assistants who can alert you, while you're applying makeup in the bathroom or in your car, that your makeup may clash with your outfit but also recommend a formula that matches perfectly and can be printed and applied instantly



Artificial intelligence that can warn you, just before purchasing a particular color code or printing powder, that your makeup choice will only match or wear well with a specific number of outfits in your closet and make recommendations based on purchase history, online behavior, and social media sentiment



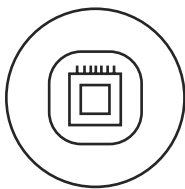
Facial scanning technology that instantly identifies, in AR or VR environments, makeup combinations worn on screen by others that might work well with your face or skin type, offer an on demand glimpse of you actually wearing the makeup in a virtual makeover room, and provide the ability to instantly download and print the formula

An imaginative marketer might also extend and expand the idea by installing mobile 3D printed cosmetics stations on college campuses ahead of Halloween parties, to target males who want to paint their faces and bodies prior to football games, or even walk-in 3D printed makeup rooms for body paint artists and photographers who once had to spend 12-14 hours painting a subject by hand.

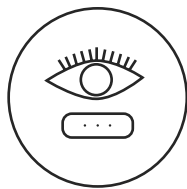
DRIVER 03

Wearable Cosmetics

The future will likely see cosmetics intersect with wearables in ways that not only help people look their best but also potentially feel better and make real time data driven decisions to help live healthier lifestyles:



Wearables that **feel like human skin**, described by some as a robotic band-aids or wearable tattoos, and can connect with devices to reveal personal health data like temperature, stiffness, hydration, heart rate, UV exposure. L’Oreal is co-creating a **flexible electronics patch** designed to measure exposure to UV radiation and create a custom skin protection solution based on an individual’s skin type.

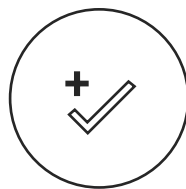


Cosmetic stickers or **Dermocosmetics**, similar to eyeblack stickers professional baseball and football players use to keep the sun out of their eyes, designed to address a number of skin conditions including anti-aging goals. The stickers may be placed beneath the eyes where they’ll deliver microcurrents designed to help the skin minimize or erase wrinkles.

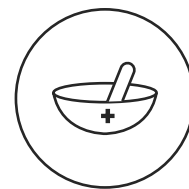
Flexible wearable cosmetics will likely open the door to never before thought of markets for cosmetics makers on the cutting edge:



Real time monitoring of personal health data of athletes to prevent injury and illness



On demand evaluation of key health metrics of school bus drivers, pilots, and or designated drivers responsible for the safety of others



Lower risk alternatives to expensive plastic surgery or wrinkle-filling injections that, at times, can negatively impact beauty

Cosmetic scientists are also experimenting with nanotechnology to see if invisible masks or films may be created that might replace traditional cosmetics. Invisible nanotechnology robots might also one day travel across your face removing dirt, oil, and dead skin meaning you might become much less reliant on cleansers. There's also discussion around the possibility of using **electronic ink** that users could apply as makeup and use a wand that emits a magnetic field that could change the ink's color and blend it appropriately.

Jewelry



“

Shopify is just the best. It is by far the best ecommerce platform out there and has truly allowed us to sync our operations with vendors, apps and tech partners, as well as provide amazing reporting.

”

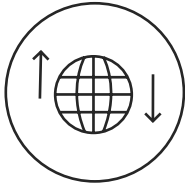


GRIFFIN THALL

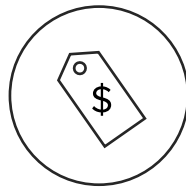
Co-founder of
[Pure Vida Bracelets](#)

Snapshot

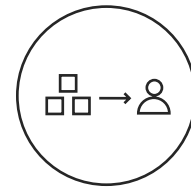
The global jewelry industry, **according to analysts**, is forecast to grow at a rate of 5-6% annually as the competitive landscape changes dramatically. The industry's future is being reshaped as



greater demand in emerging markets create the potential to yield higher prices but potentially be less profitable as global competition increases,



transparent pricing pressures margins,



and wholesalers increasingly sell direct to consumers.

Rapid population growth in India and China is expected to increase demand for jewelry as is growth in emerging market middle classes with increased discretionary income.

Sales Forecast

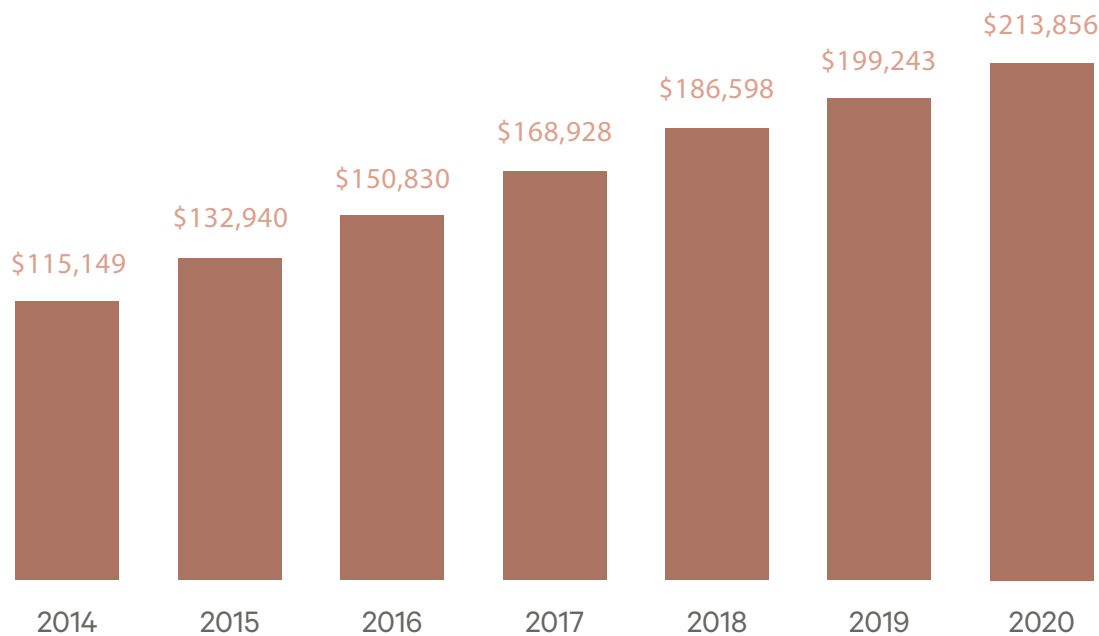
Worldwide, the jewelry industry is expected to grow at a CAGR of **approximately 5%** over the next several years for a forecasted total of approximately \$257 billion USD by 2017.

The primary growth driver is increased demand in the Asia-Pacific and Middle Eastern regions. However, the U.S. remains a dominant consumer of jewelry.

Today, ecommerce accounts for approximately **4-5% of overall sales** but varies by region, brand, and type of jewelry. However, ecommerce is growing faster than overall sales and is expected to account for **10-15%** of all jewelry sales by 2020.

The growth illustrated below combines jewelry with hobby and other luxury goods and anticipates ecommerce revenue of more than \$213 million USD by 2020.

Revenue in the hobby, luxury, and other goods market
in million U.S. dollars (worldwide)



SOURCE: STATISTA

Growth by Region

The number of consumers expected to purchase hobby items including jewelry online is forecast to explode to more than 682-million by 2020, up from more than 542-million in 2016:

**USERS IN THE HOBBY, LUXURY,
AND OTHER GOODS MARKET**
in millions (worldwide)



SOURCE: STATISTA

Where is much of the growth coming from?

China is expected to take the top spot spending more than \$44-billion on hobby items including jewelry followed by the U.S. at \$27-billion.



SOURCE: STATISTA

India is expected to be a boom market as well with estimates putting ecommerce jewelry sales at \$22 billion by 2018 which is up from \$2 billion five years earlier.

Industry Trends

A close-up photograph of a woman with long dark hair, wearing a dark brown knit beanie and gold-rimmed aviator sunglasses. She is adjusting the sunglasses with her right hand. She is wearing several bracelets on both wrists: a gold chain with a large gold coin on her right wrist, and multiple black and white beaded bracelets on her left wrist. She is also wearing a ring on her right ring finger. The background is a blurred outdoor setting.

JEWELRY

- | | |
|----------------|---|
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Branded Jewelry
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Industry
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and Closure |
| PAGE 66 | TREND 03
Segment Blurring |

Research indicates online jewelry sales account for just 4-5% of the market. However, analysts forecast this to increase to 10% by 2020. The jewelry industry is undergoing major changes as the technical barriers to entry, at least in terms of ecommerce, are all but gone and less expensive commodity costs create the potential for smaller niche jewelers to better compete for market share. However, recent consolidation among industry giants and the relative outperformance of branded jewelry is also focusing attention on the increasing importance of having a brick and mortar footprint as part of an omnichannel marketing and sales strategy.

TREND 01

Branded Jewelry Takes Share

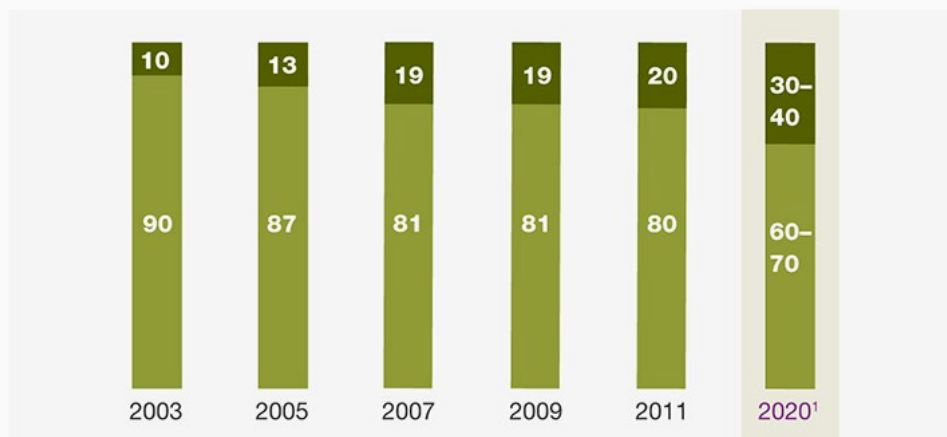
Excluding watches, of which branded items account for 60% of sales, research suggests branded jewelry is responsible for just 20% of overall sales today. However, analysts expect that to change and that branded will account for between 30-40% of all sales by 2020:

Exhibit 1

Branded jewelry is on the rise.

Branded vs unbranded jewelry,
%

■ Branded
■ Unbranded

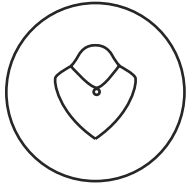


¹Estimated.

Source: Expert interviews; McKinsey analysis

SOURCE: MCKINSEY

Driving growth in branded jewelry is the transfer of wealth from baby boomers to their children, wealthy millennials or young adults with a deeper desire to express themselves through brands, and affluent consumers in overseas markets. **Research from McKinsey** describes these three types of consumers:



"new money" consumers who wear branded jewelry to show off their newly acquired wealth (in contrast to "old money" consumers, who prefer heirlooms or estate jewelry)



emerging-market consumers, for whom established brands inspire trust and the sense of an upgraded lifestyle—a purchasing factor quoted by 80 percent of our interviewees



young consumers who turn to brands as a means of self-expression and self-realization

Expect non-jewelry companies that have established strong luxury brands in other verticals such as apparel (Dior, Hermès, and Louis Vuitton) to potentially begin offering jewelry and further increase the branded share of the market. Not only might this pressure existing industry brands but it may also adversely impact smaller jewelers.

TREND 02

Industry Consolidation and Closure

In the U.S., according to **industry reports**, 599 U.S. retail jewelry stores closed in 2015, which is a 30% increase from the 455 closures recorded the year prior. While a portion of the closures are offset by new entrants, the closures include sales and mergers. The industry has seen several large acquisitions recently:



Despite the internationalization of major jewelry brands, **research suggests** the jewelry industry is still primarily local as the ten biggest jewelry groups account for just 12% of the global market. However, analysts believe the largest jewelry houses will likely **double their market share** by 2020. International brands, according to analysts, are likely to scoop up smaller national or regional players which could give the bigger brands additional pricing power.

Thomas Tochtermann, McKinsey's Apparel, Fashion and Luxury Group director, was **recently quoted** as saying:

"By 2020, consolidation will increase. We expect the jewelry market will be dominated by global jewelry brands rather than one-shop artisans. We expect heightened M&A activity in jewelry."

TREND 03

Segment Blurring

Despite consolidation, the emergence of niche jewelers and affordable luxury jewelry items are seen by some as blurring the lines between traditional segments of the jewelry market.

Pandora, a jeweler that offers bracelets, charms, and rings, defines traditional segments by price point:



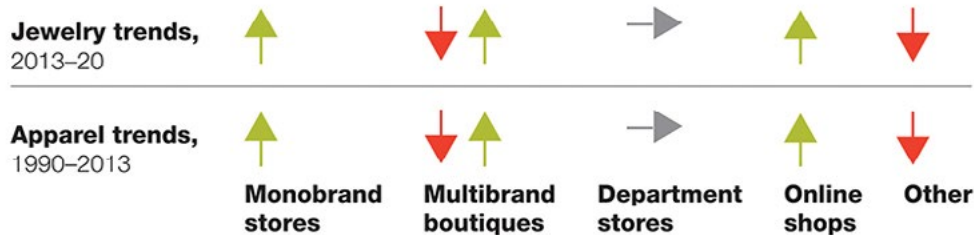
What's driving the blurring of the lines?

Research suggests the emergence of more affluent middle classes in developing markets and an increasing number of millionaires worldwide which are often referred to as "the aspirational masses."

In the future, pricing power and market share are likely to hinge on the strength of a jeweler's brand and its omnichannel marketing and sales approach. Specifically, research indicates mono-brand retailers with omnichannel sales and marketing strategies, or multibrand boutiques that curate collections for specific segments are more likely to outperform.

Exhibit 2

The channels that are gaining share in jewelry are also winning in apparel.



Source: McKinsey analysis based on data from Euromonitor and Mintel

SOURCE: MCKINSEY

Tomorrow & Beyond

JEWELRY

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PAGE 68 **DRIVER 01**

Next Generation Virtual
Reality Jewelry Stores

PAGE 70 **DRIVER 02**

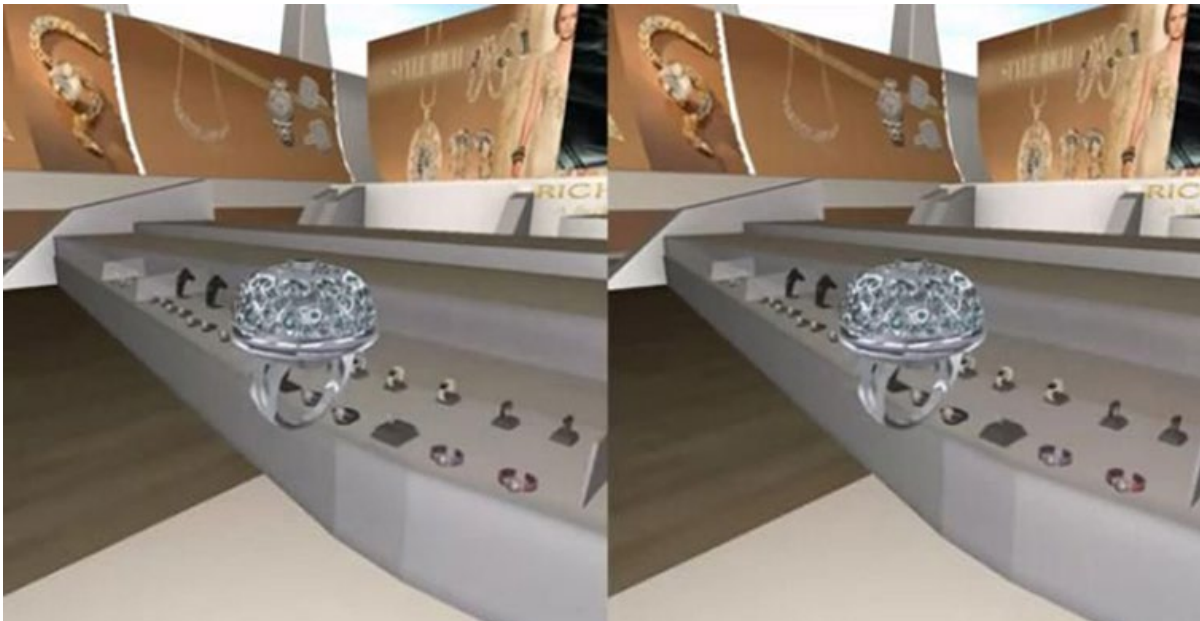
3D Printing and
Wearable Simulation

The jewelers that strengthen their brands by investing the time necessary to intimately understand specific segments will position themselves to take share and grow. Only after jewelers better understand the nuances of their target market can they leverage technology to create interactive and highly personalized customer experiences that drive future sales like this:

DRIVER 01

Next Generation Virtual Reality Jewelry Stores

In the future, part of a successful omnichannel strategy will include the integration of virtual reality jewelry stores:



SOURCE: NEXT GALAXY

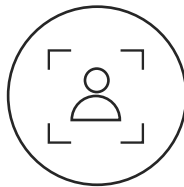
However, as consumers become increasingly comfortable with VR and AR, they'll demand more from a virtual shopping experience such as:



Curated collections based on a user's existing jewelry collection, purchase history, and VR browsing behavior or multiple VR stores with uniquely customized collections or designs targeting individual market segments based on demonstrated preferences



A virtual jewelry assistant who can recommend specific pieces based on a user's existing jewelry collection, wardrobe, and body type or who can offer mix and match suggestions that serve to highlight a specific feature



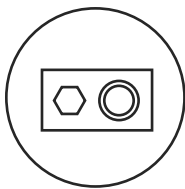
Scanning technology that can map a user's face, neckline, wrist, or finger so users can **virtually try on** specific pieces of jewelry and see exactly how it might look on them while wearing different outfits or in different environments

DRIVER 02

3D Printing and Wearable Simulation

Consumers who are unwilling or unable to spend thousands of dollars on a piece of fine jewelry now have the option of paying several hundred for a nearly identical piece created by a **3D jewelry printer**. Obviously, compromises are made in terms of the raw materials used to create 3D printed pieces, but the target market here isn't likely the ultra-wealthy.

Even more interesting might be the impact 3D printing and wearables may potentially have in terms of augmenting or improving conversions in a VR experience:



If 3D printers become common in households, offer users the opportunity to print inexpensive plastic or resin jewelry prototypes that may then be visually manipulated in AR or VR to look just like the real thing so consumers can tangibly feel the piece during try on sessions that merge the digital and physical worlds

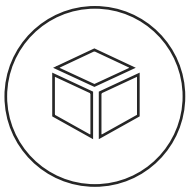


If 3D printers are not common in households, jewelers might investigate whether **flexible wearables** or **dermopatches**, which may incorporate electric microcurrents, might be used to help people “feel” a piece of jewelry on their finger, neck, or wherever the wearable is placed. Other types of wearables that are affixed to the skin can detect personal health data, specifically heart rate, which could be combined with **emotion detecting artificial intelligence** to identify how likely a user is to purchase a particular piece which could help jewelers increase margins

Making the customer experience more interactive, as **Polychemy does** by empowering customers to design and 3D print their own custom jewelry, will also be a differentiator in the future. Consider weaving interactivity throughout a multi-touch experience:



Providing users in a virtual fitting room the ability to share the virtual experience with friends and family who may then opine on a specific piece and how it looks on the user



Provide users an opportunity to share the 3D printed prototypes or wearables that simulate “feel” with friends or others in a referral program designed to increase sales



Provide “build your own” design opportunities in which groups of users collaborate virtually to create a custom piece a jeweler promises to produce once a minimum number of people have agreed to purchase in advance

Luxury Goods



“

Technology should not be a barrier. We're now free, thanks to Shopify Plus, to channel our energy and manpower into our business since we're no longer worried about site stuff.

”



DAN BLACK

Co-founder of
[black + blum](#)

Snapshot

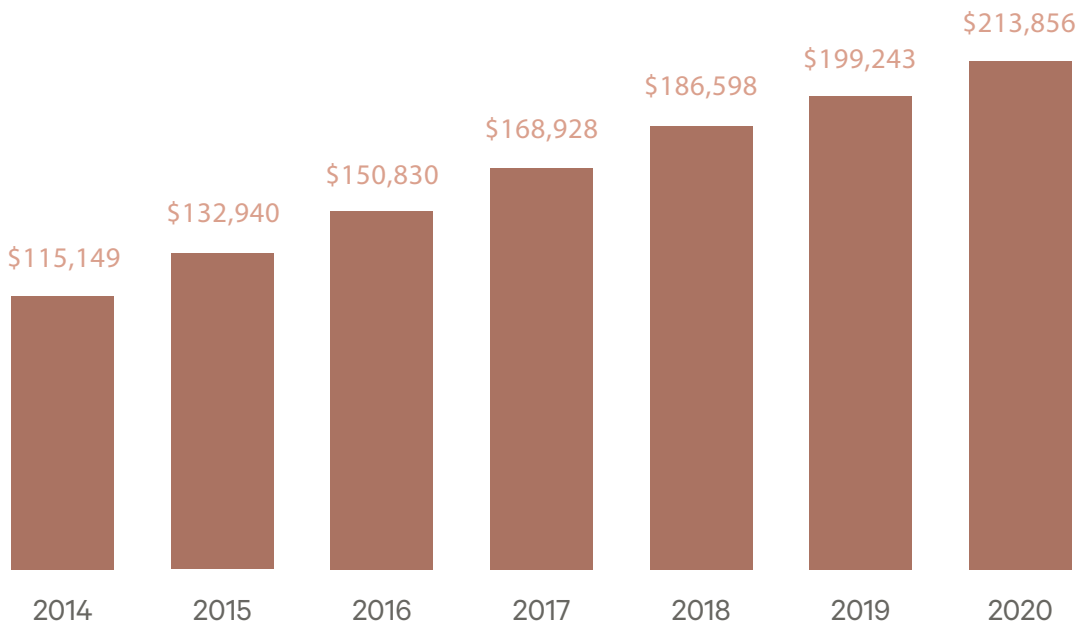
The luxury goods market, **according to research**, is expected to grow 3.4% annually between now and 2020, though ecommerce sales are forecast to grow nearly 3x the overall rate. Major drivers of that growth are new millionaires and the increasing affluence in emerging markets.

Strong brands are expected to dominate the market as younger and wealthier luxury goods consumers who, **according to research**, are increasingly brand conscious. Luxury brands that segment markets by geography and personal preference while simultaneously leveraging technology to build out omnichannel marketing and sales campaigns will likely be better positioned to take share.

Sales Outlook

Worldwide, ecommerce in the luxury and hobby goods industry is expected to be more than \$150 million USD in 2016 and is forecast to grow 9.05% annually to more than \$213 million USD by 2020:

Revenue in the hobby, luxury, and other goods market
in million U.S. dollars (worldwide)

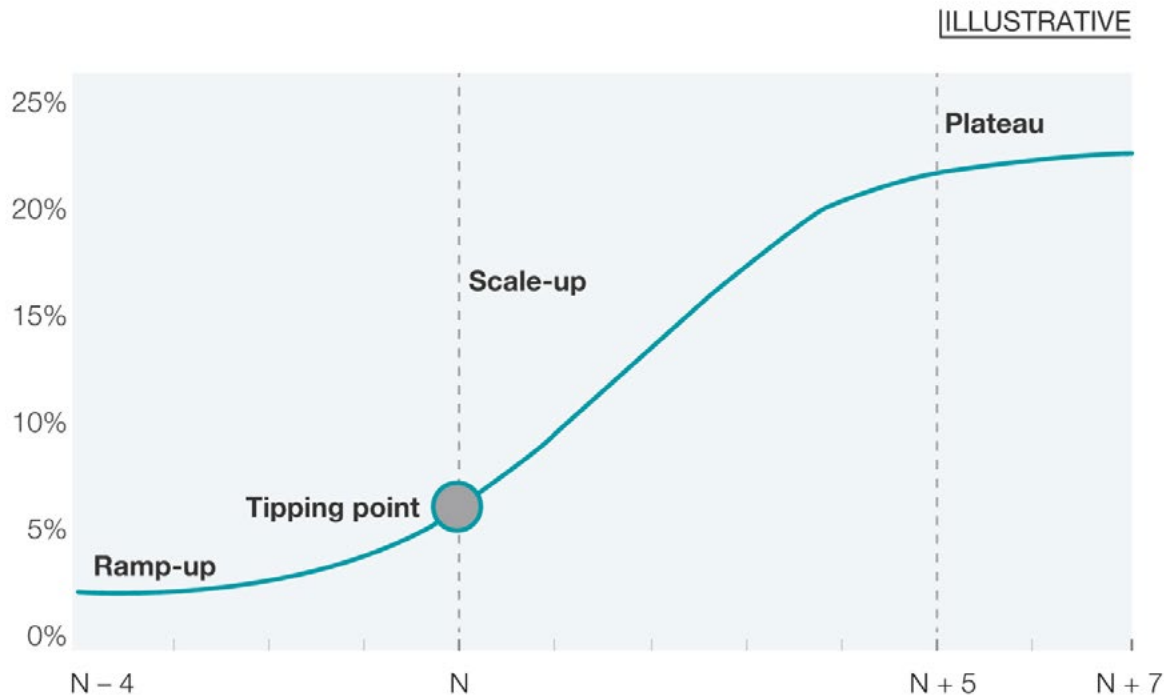


SOURCE: STATISTA

Ecommerce represents about 6% of overall luxury goods sales, which is triple what it was in 2009. In fact, analysts say online sale of luxury goods could triple by 2025:

Online sales of luxury goods may triple in the next decade.

E-commerce as % of total brand revenue



Source: Altagamma-McKinsey Digital Luxury Experience Observatory, July 2015

McKinsey&Company

SOURCE: MCKINSEY

If forecasts are correct and online sales triple to 18% in the next decade, ecommerce will become the third largest market for luxury goods behind the U.S. and China.

Growth by Region

Increasingly affluent luxury consumers in developing markets are key growth drivers between now and 2020. China is now the number one market for luxury goods and is expected to spend more than \$44 billion USD on them in 2016 followed by the U.S at \$27 billion:

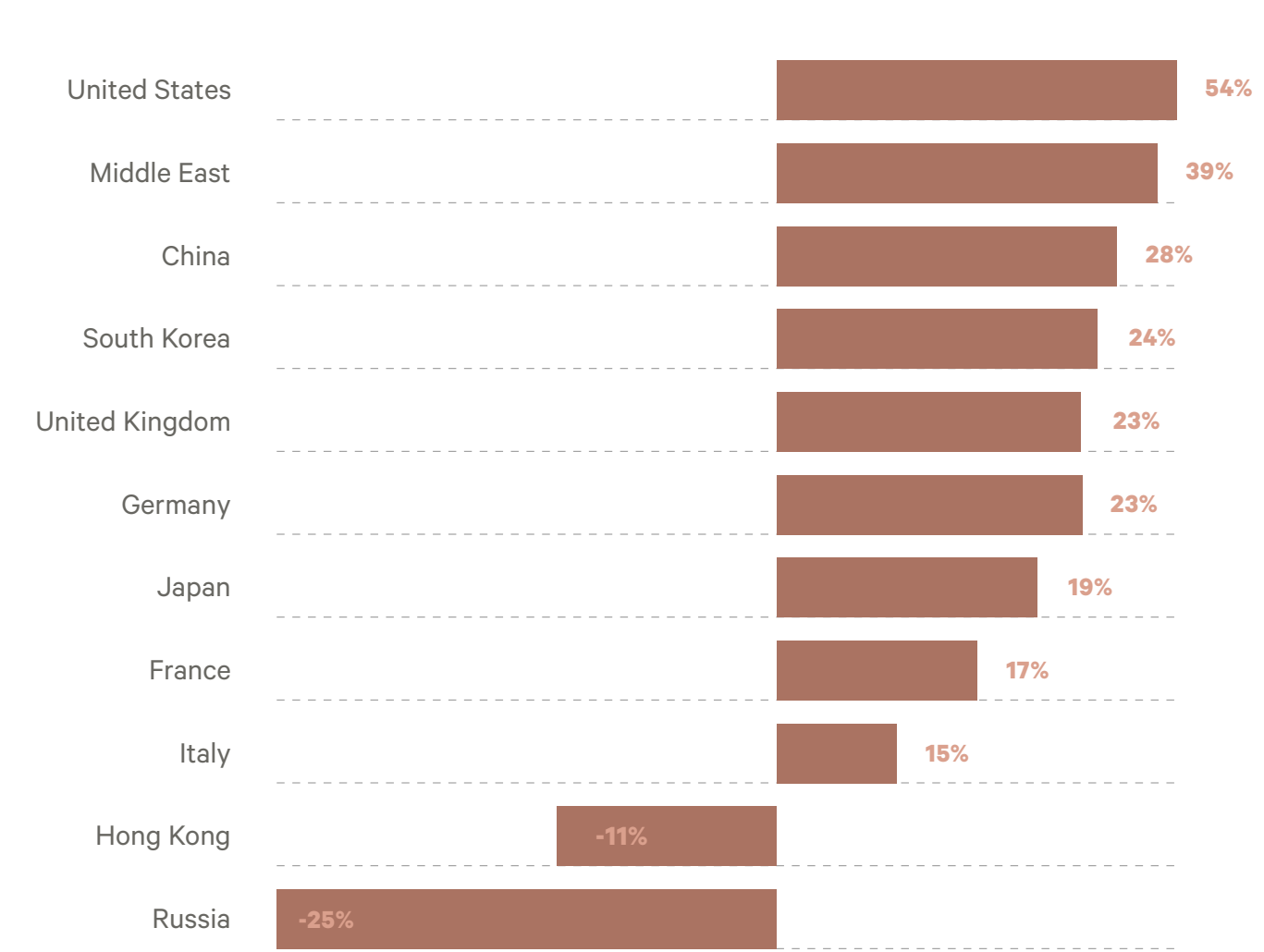


SOURCE: STATISTA

While analysts suggest the U.S. and Europe are slowing in comparison to developing markets, each is still a major consumer of luxury items:

Growth of leading personal luxury goods markets

2015 - market growth

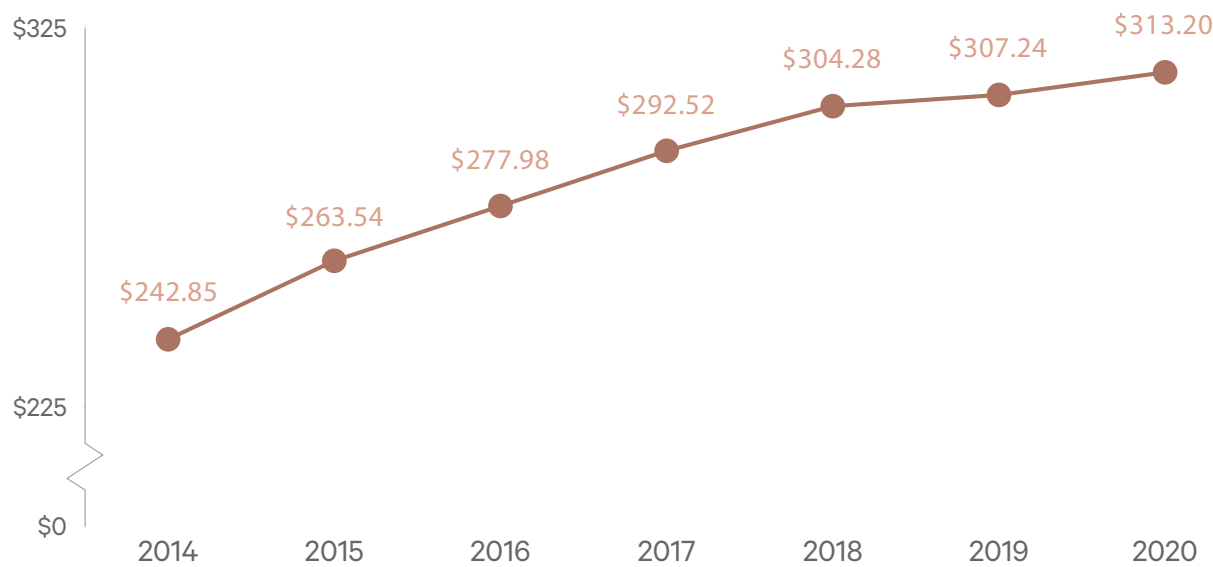


SOURCE: STATISTA

Capitalizing on Growth

While the average revenue per luxury goods consumer is forecast to reach more than \$313 USD by 2020, up from \$277 USD in 2016, the demographic user composition is shifting:

ARPU in the hobby, luxury, and other goods market
in U.S. dollars (worldwide)



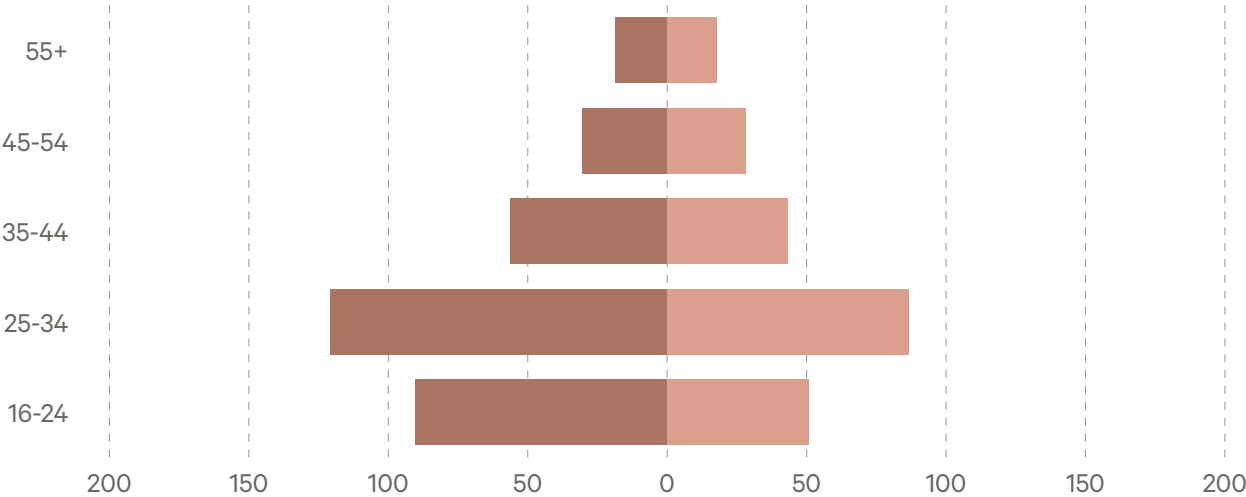
SOURCE: STATISTA

In 2016, there are approximately 210 million luxury goods consumers between the ages of 25-34:

Users by age and gender in the hobby, luxury, and other goods market

2016 - in millions (worldwide)

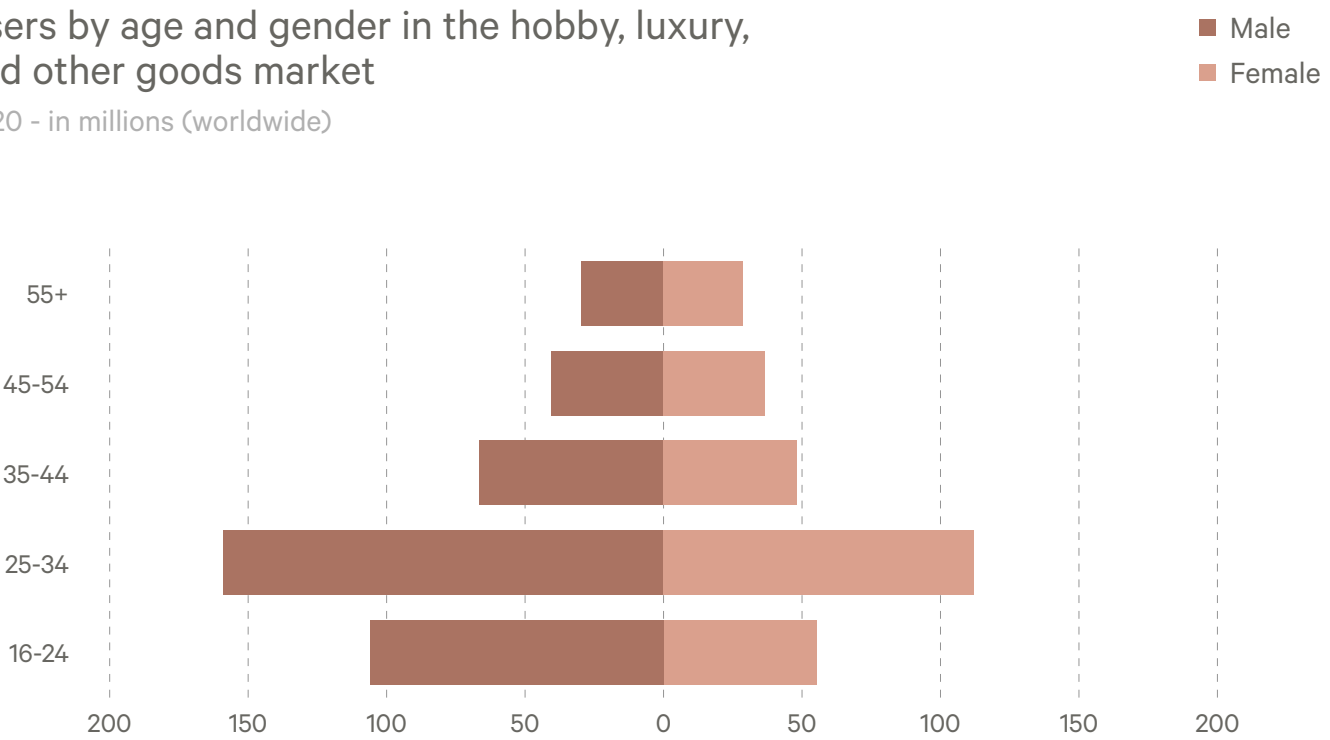
Male
Female



SOURCE: STATISTA

But by 2020, there are expected to be 276-million:

Users by age and gender in the hobby, luxury, and other goods market
2020 - in millions (worldwide)



SOURCE: STATISTA

Considering that other verticals have **more mature** digital presences and strategies, the luxury goods industry is poised for rapid ecommerce growth in the decade to come.

Industry Trends



LUXURY GOODS

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PAGE 83 **TREND 01**
A Shift in Focus

PAGE 86 **TREND 02**
Affordable Luxury

PAGE 88 **TREND 03**
Luxury and Thought
Leadership

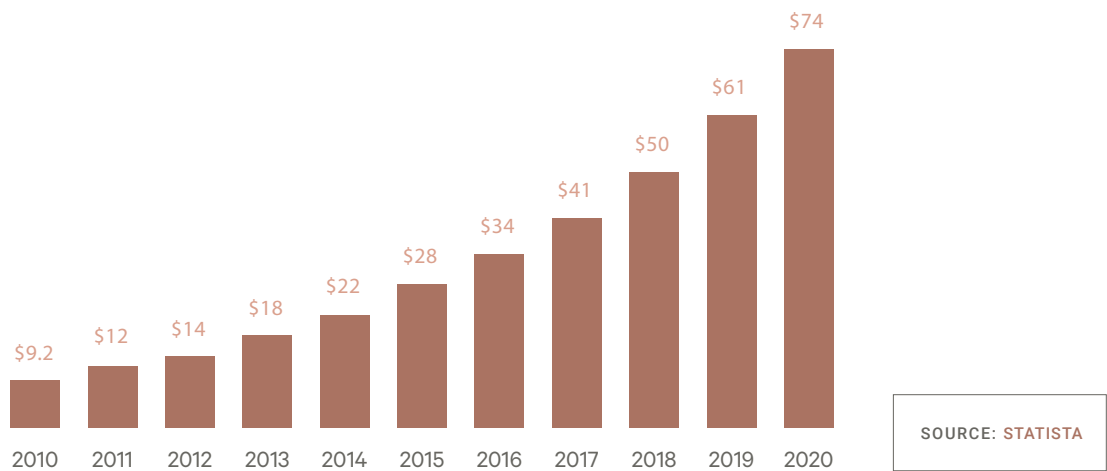
The luxury goods industry is experiencing massive change in terms of where future growth is likely to come from as well further fragmentation in how various segments define “luxury”. These topics are on display as luxury brands shift their focus to developing markets where a more affluent middle class is emerging, the rise of affordable luxury and what it means in terms of market share, and the thought leadership roles luxury brands are taking in an effort to differentiate and distinguish themselves.

TREND 01

A Shift In Focus

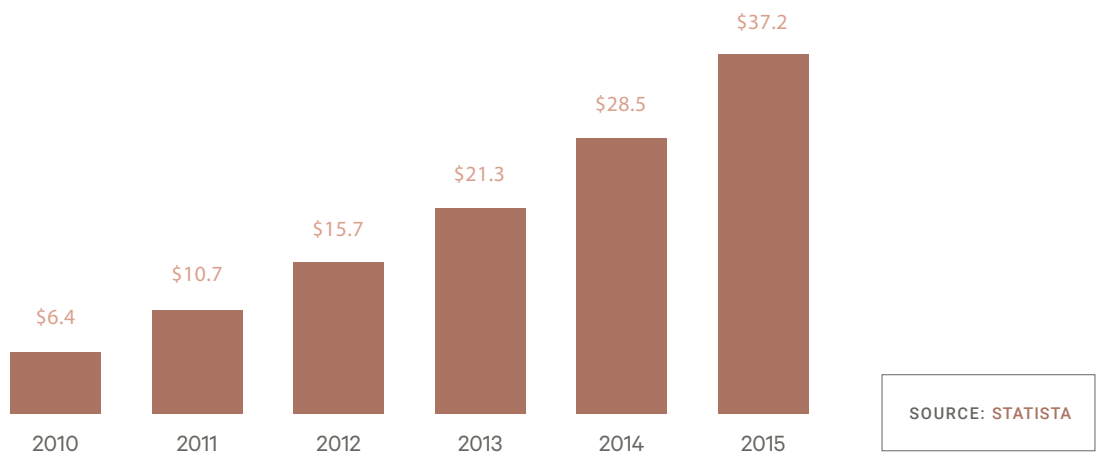
While the U.S. is by far the largest market for luxury goods, nowhere is the luxury goods market growing faster than China. In fact, luxury purchases are expected to hit **74-billion euros** by 2020:

Revenue of the luxury goods industry in China
in billion euros



Right now, **research suggests** China accounts for approximately 20% of global luxury sales, of which a significant portion is ecommerce:

Market volume of the online luxury shopping sector in China
in billion yuan



Jean-Marc Bellaiche, senior partner and managing director at **The Boston Consulting Group**, argues there are two drivers of growth in the Chinese economy:

1. The Emerging Middle Class

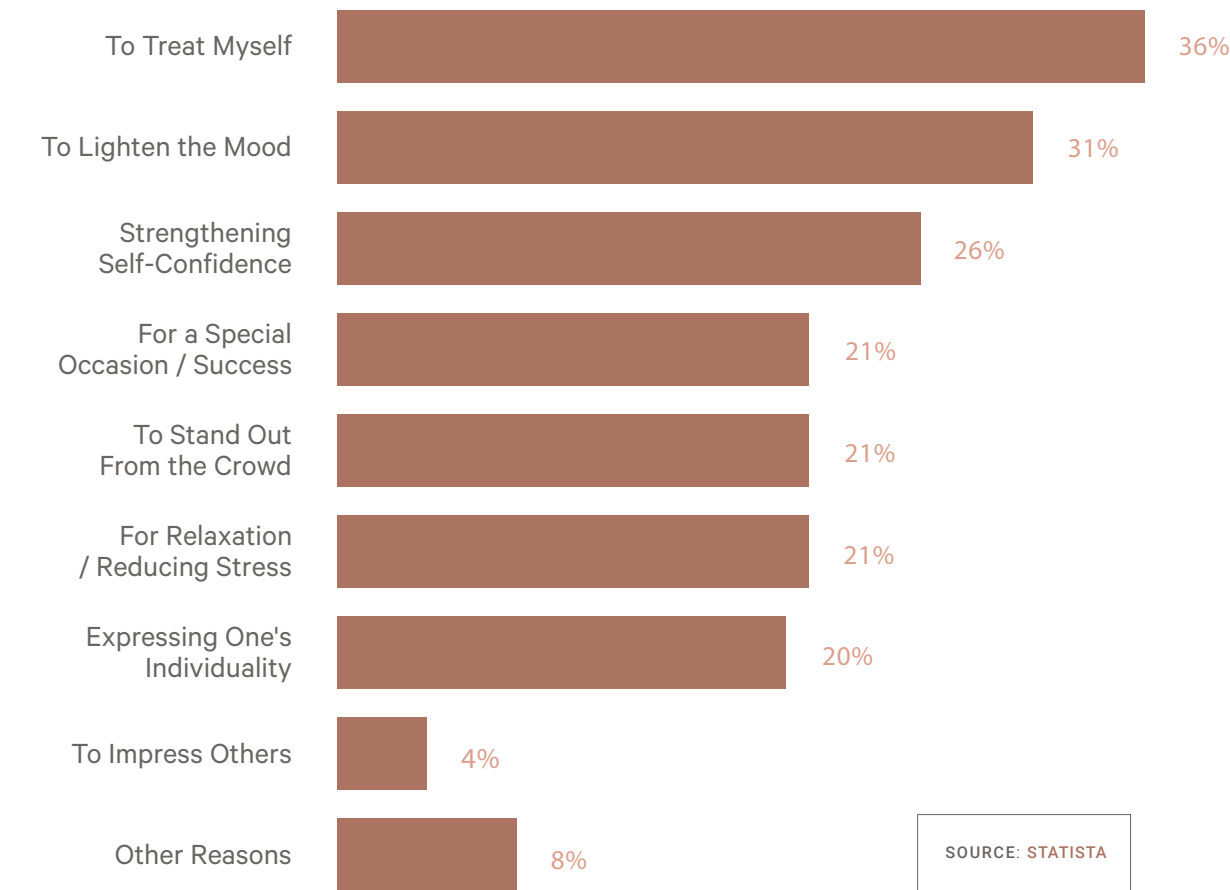
- *“Among the emerging middle class, the “aspirational masses,” also called the “trendy metropolitan,” comprises 330 million consumers and 25-27 percent of the luxury market; and the “rising middle class,” made up of “the proud business woman,” is 70 million consumers and 25-27 percent of the market.”*

2. An Increase in the Number of Millionaires

“There are also two types of millionaires: new money and old money. New money, also called “the loan trader” or “the Russian climber,” is 7.5 million people and 30-35 percent of the luxury market. The old money crowd can be generalized as the “noble Italian entrepreneur.” This group is 2.5 million consumers and 10-15 percent of the luxury market.”

Reasons to buy luxury goods in China

2012 - share of respondents



Customized marketing and sales efforts, especially as luxury brands ramp their digital presences, are necessary as multiple segments with different purchasing motivators have emerged within the Chinese luxury market.

TREND 02

Affordable Luxury

Without debating whether real luxury can even be affordable for the masses, analysts are increasingly split over whether affordable luxury is a **stepping stone** that can pave the way to higher ticket luxury items, or a blurring of traditional luxury segments. Either way, the affordable luxury segment is growing by targeting consumers in established markets willing to trade down and increasingly affluent consumers in developing markets.

Following the economic downturn in 2008, affordable luxury became attractive to consumers interested in cutting back but still treating themselves to what they perceived as luxury merchandise. However, as the economy strengthened and a young affluent consumer

emerged in China, analysts note **affordable luxury sales** haven't been as strong.

However, younger generations that want to incorporate luxury into their everyday lifestyles appear to be a bright future for affordable luxury and are expected to drive growth that results in the segment **generating \$747 billion by 2021**, up from \$164 billion in 2014.

Another way to frame the debate is to talk about luxury in terms of lifestyle, or **everyday luxury styled** products that people can not only afford but feel as if they're treating themselves to the finer things.

VIEWPOINT 1

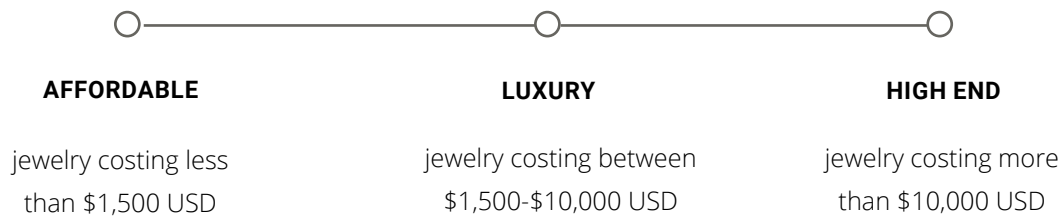
The focus on luxury for everyone and creating luxury items at multiple price points can expand the market and provide those without the means for high end luxury items an entry into the industry

VIEWPOINT 2

Affordable luxury may dilute or erode luxury brand longevity and result in the term **"luxury" becoming meaningless**; the industry must refocus on true luxury that is credible and prompts confidence in consumers

Room for both?

True luxury, the brands that cater to the top 1%, are likely much less concerned by affordable luxury than those a bit lower on the luxury food chain, especially when you consider the different segments of luxury, defined by jewelry provider **Pandora**:



Even those somewhere in the middle have a difficult time deciding what to be and to whom. Leather bag maker **Mulberry's attempt** to become more exclusive by targeting more affluent customers backfired as evidenced by the company's decision to reverse course and once again cater to affordable luxury customers.

TREND 03

Luxury and Thought Leadership

With relatively new affordable luxury entrants vying for market share and non-luxury brands **creating marketing materials** very similar to that produced by luxury brands, a trend has emerged that indicates a unique approach to experiential or content marketing.

To highlight their heritage and establish themselves as thought leaders, luxury brands are increasingly putting their archives on display and using **museum exhibits** as marketing tools. For instance, Hermes is inviting consumers to wander through a gallery it has created

and named **Wanderland**, which is adorned with a curated collection of items from the company's archives. Rich collections like these, the type newer entrants or affordable luxury brands lack, position luxury brands to uniquely distinguish themselves.

Some are even taking their newfound roles as thought leaders a step further by interacting with customers in ways that can reduce the distance between a big brand and consumers as well as uniquely position a brand. The online publication **Sphere** writes:

“Whisky brand Chivas Regal hosted a debate about luxury and culture at London’s Victoria and Albert museum with Peter Aspden and Bettany Hughes in summer 2012. Armani has launched Armani Tweet Talks, online discussions led by high-profile fashion editors, focusing on fashion and sport, and the role of China in dominating fashion trends. Luxury and fashion brands have also ramped up their presence at key thought-leading events such as SXSW Interactive. American Express teamed up with Jay-Z for a concert while Nike hosted basketball courts.”

Besides increasing their digital outreach, luxury brands are focused on creating experiences customers cannot get online or elsewhere.



Tomorrow & Beyond

LUXURY GOODS

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PAGE 90 **DRIVER 01**
3D Imaging + Virtual
Fitting Room + AI-
Powered Stylist

PAGE 90 **DRIVER 02**
Virtually Co-Create
Segment-Specific
Luxury Products

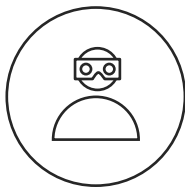
PAGE 91 **DRIVER 03**
3D Printing and
Wearables that Boost
Conversions

The significant differences inherent within developed and emerging luxury consumer segments presents unique challenges for brands interested in leveraging technology to create never-before-possible customer experiences. Intimately understanding the segment to which you're targeting will dictate how you use technology to drive growth in the future:

DRIVER 01

3D Imaging + Virtual Fitting Room + AI-Powered Stylist

Offer **3D scanning** to map a person's body so consumers can virtually try on and virtually see exactly how a luxury item might look or fit. Items may be recommended by a user's personal virtual stylist based on past customer behavior or recommended via a social component in which friends or family have recommended an item and can watch you try on the item and comment on the look and feel.

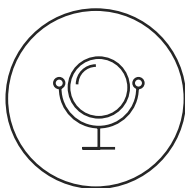


The addition of a VR audience, selected by a luxury brand or the consumer, creates an opportunity to allow anyone to model on a runway if desired

DRIVER 02

Virtually Co-Create Segment-Specific Luxury Products

Offer exclusive invitation-only virtual pop-up showrooms to specific segments based on purchase history, browsing behavior, and current collection of luxury goods that allow consumers to virtually see new designs, try them on in virtual fitting rooms, and interact in real time with designers to co-create product the segment is more likely to purchase.

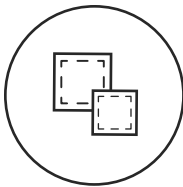


Segment-specific items may help brands create highly personalized customer experiences or VR opportunities to acknowledge a consumer's taste or style

DRIVER 03

3D Printing and Wearables That Boost Conversions

While high end luxury brands might scoff at 3D printing high end prototypes out of fear that a lesser version could erode the value of the actual offering, 3D printing might still be used in ways that make a virtual experience more tangible and convert at higher rates:



If 3D printers become common in households, offer users the opportunity to print samples that feel similar to the fabric, leather, or raw material used to make a particular luxury item. Touch is a bridge between the virtual and physical worlds and may add to a VR experience.



If 3D printers are not common in households, luxury brands might investigate whether **flexible wearables** or **dermopatches**, which may incorporate electric microcurrents, might be used to help people “feel” a luxury item on their body. Other types of wearables that are affixed to the skin can detect personal health data, specifically heart rate, which could be combined with **emotion detecting artificial intelligence** to identify how likely a user is to purchase a particular piece which could increase margins.

Technology: Friend or Foe?



“

It's just so easy it's almost too good to be true but it's **real**. I can add a product instantly and you don't have to be an expert coder since Shopify has its own experts to help with the backend if needed.

”



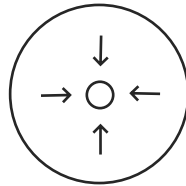
MIKE BROWN

Founder at
[Death Wish Coffee](#)

What's Your Digital Business Advantage?



A customized checkout that increases conversion rates and average ticket size

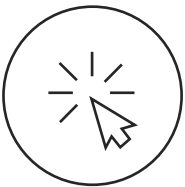


A POS application you can use to make sales in both the digital and physical worlds but still provide centralized one-stop-shop reporting



A customizable, flexible, and easy to use ecommerce platform that allows you to focus on the customer experience

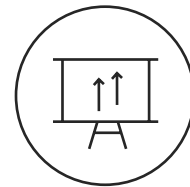
Unless you have a digital advantage, **research suggests** you'll likely end up like the 20-percent of today's market leaders that'll lose their top spot to younger more agile companies. Unfortunately, many of the ecommerce companies we talk with aren't singularly focused on the things that'll help them succeed and grow:



Creating interactive and highly personal customer experiences



Split testing cart upsell and cross sell tactics designed to increase top line growth



Innovatively marketing in ways that increase conversions and customer lifetime value

It's not that these objectives aren't top of mind or that you're not working toward them. The problem is often the technology that underpins your ecommerce business which often unnecessarily distracts your attention from key business goals and robs you of the money and time needed to accomplish what's really important.

Here's how Shopify's Andrea Wahbe sums it up in a blog post entitled [Why Are You Still Paying \\$1 Million For An Ecommerce Site?](#)

"For years, high volume merchants have willingly budgeted between \$500,000 to \$1 Million for the design, development, project management, supporting applications and content for their ecommerce website builds.

*Add to that your needs for ongoing site maintenance and new features and you're looking at **spending upwards of an additional \$1M a year** to have an enterprise ecommerce service provider support your annual online business growth."*

So ask yourself this;
is technology a friend or foe?



NATE CHECKETTS
CEO

Rhone Apparel

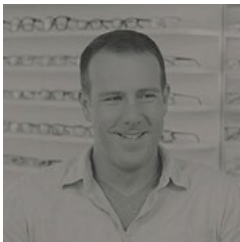
"In all of those conversations I said please explain why I need to spend \$100,000 on a custom checkout cart the vendor has probably already built for another client versus one that's already on the market and working well for thousands of other ecommerce companies like ours? If I go down the custom route it could be a black hole and wind up costing hundreds of thousands of dollars more for development and integration."

The Replatforming Myth

You'll lose traffic, customers, and it might not work...

Those are just a handful of the reasons ecommerce companies give for not replatforming or initially trusting an easy to use out-of-the-box solution like **Shopify Plus**, an enterprise ecommerce platform for high volume merchants.

*The reality is replatforming with Shopify Plus is easy, even for big ecommerce companies that require customization, integration, and applications that tightly manage inventory and fulfillment. In fact, many of the negatives you hear about replatforming are part of **The Dirty Little Secret Traditional Enterprise Software Companies Don't Want You To Know.***



JOHN HART
Ecommerce Manager

Peepers

"We're ecstatic about all of the possibilities. Not only did we not take a huge hit when we changed platforms but our organic traffic began growing. Our conversion rate has increased 25-30% and our average order value is up 15-20%. We're super optimistic about the future."

The Shopify Plus team has helped thousands of merchants replatform quickly and in ways that answer two burning questions many of you and your peers have:

QUESTION #1

Is Shopify Plus easy to use?

ANSWER

It's extremely easy to use right out of the box. Even better it's flexible which means you can easily integrate your current systems and quickly customize your store.



MADISON WICKHAM
Co-founder

Man Outfitters

"It's Shopify's inexpensive technology that allows us to stitch all of the pieces together. If you have no technical experience Shopify allows you to pop a few buttons and have a store up in no time. But if you have a bit of technical know-how, it's also a platform that's extremely flexible in terms of customization."

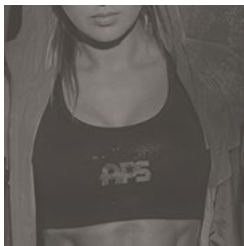
QUESTION #2

How will Shopify Plus impact my business financially?

ANSWER

You'll pay a fraction of the cost of a traditional enterprise software solution, know exactly what you'll pay each month, and can invest the money you save into growing your business. Going with Shopify gives merchants two key advantages:

01. Cost Savings

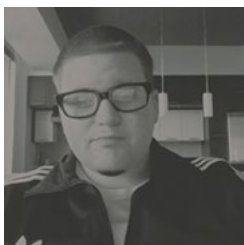


FARAH BARGHI
Brand Manager

II Pro Science

"We've saved so much money since moving to Shopify Plus. I'm no longer calling a developer at 3 A.M. and begging people to help. Our hosting, development, and software costs have been cut in half since switching. Shopify Plus is worth every penny!"

02. Increased Revenue Generation



CHARLIE JABALEY
Co-Founder

Street Execs

"The push notifications on my Shopify smartphone app were going crazy. It was incredible, an extreme high to see two or three sales notifications every minute. In just a week we were doing in revenue what some of the biggest artists do in an entire month. We wound up doing \$2 million in 30-days."

Objections to Replatforming

It's a big decision...

One almost no one makes without at least a degree of unease. In fact, if you're not at least a little nervous about replatforming you probably don't fully appreciate the perceived risks. Similarly though, you may not be genuinely appreciating the risk of opting to stay with your traditional ecommerce enterprise solution.

The replatforming objections you may have are likely similar to those Shopify Plus merchants had prior to switching:

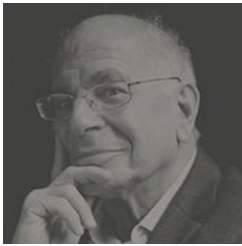
"I wish you had come to me six months ago, I've put too much money and time into our current platform to switch at this point."

"We've put a lot of money into development, in fact our business is structured around employing a lot of developers to make this work. I can't go back to my boss now and tell him or her that we don't need all this after we've already spent the money."

"I'm in too deep now to switch."

These are extremely difficult positions to find oneself in. Even if you realize, albeit belatedly, that a relatively inexpensive out-of-the-box enterprise ecommerce solution offering the functionality an enterprise level organization requires exists, it just doesn't seem like an option if you've sunk large quantities of time and money into your existing platform.

Remember this though:



DANIEL KAHNEMAN

Nobel Laureate
and Author

Thinking Fast And Slow

"A rational decision maker is interested only in the future consequences of current investments. Justifying earlier mistakes is not among [a rational thinker's] concerns. The decision to invest additional resources in a losing account, when better investments are available, is known as the sunk-cost fallacy, a costly mistake that is observed in decisions large and small."

When Technology Fades Away

It's not sustainable continuing to pour resources into something your competitors take for granted and to which they pay little attention. Traditional ecommerce enterprise software is a recurring expense that can gnaw away at margins, distract you from growing your business, and prevent you from realizing your full potential as a company.

It's never too late to right a wrong.

Identifying a solution that could save your organization millions of dollars year after year, even if you've already sunk significant time, money, and face into your current platform, is undoubtedly one of the most courageous and valuable contributions you'll ever make.



ANDREAS KLEIN
Chief Operations
Officer

Hawkers

"We were never really a sunglasses company. We're more of a marketing agency with a great product that we know how to brand and sell. Shopify Plus helped us to focus on that rather than the technology."

What if technology got out of your way?

What would you spend the hundreds of thousands of dollars in savings on; innovative research and development, improving the customer experience, or marketing like you know you can if only you had the time?

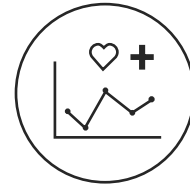
In the not too distant future, retailers will be distinguishing themselves not just through their products or their online customer experiences but also:



Virtual reality enhanced shopping experiences, using artificially intelligent personal assistants to make personalized recommendations based on previous purchase history



On demand, one click commerce from your mobile phone and delivered the same day to a location of your choice



Wearables and digital mapping technology that can detect emotion and combine it with personal health data to add context to when marketing messages are delivered and boost conversions and sales

If you're worried about outdated technology, you won't be focused on creating points of differentiation like your competitors:



RON DIORIO

Digital Engagement Director

The Economist

"There really are no technical limitations now. If we want to do something all we have to do is plug it in and go."



GRIFFIN THALL

Co-Founder

Pure Vida Bracelets

"Shopify is just the best. It is by far the best ecommerce platform out there and has truly allowed us to sync our operations with vendors, apps and tech partners, as well as provide amazing reporting."



JEREMIAH LINDER

Marketer

Livestream

“Shopify allows us to focus on product development. Having a plug-and-play option that is still flexible enough to meet our business needs and maintain the aesthetics we want is great. It’s just so easy with Shopify. It really allowed us to get up and running and gain a lot of momentum right out of the gate.”

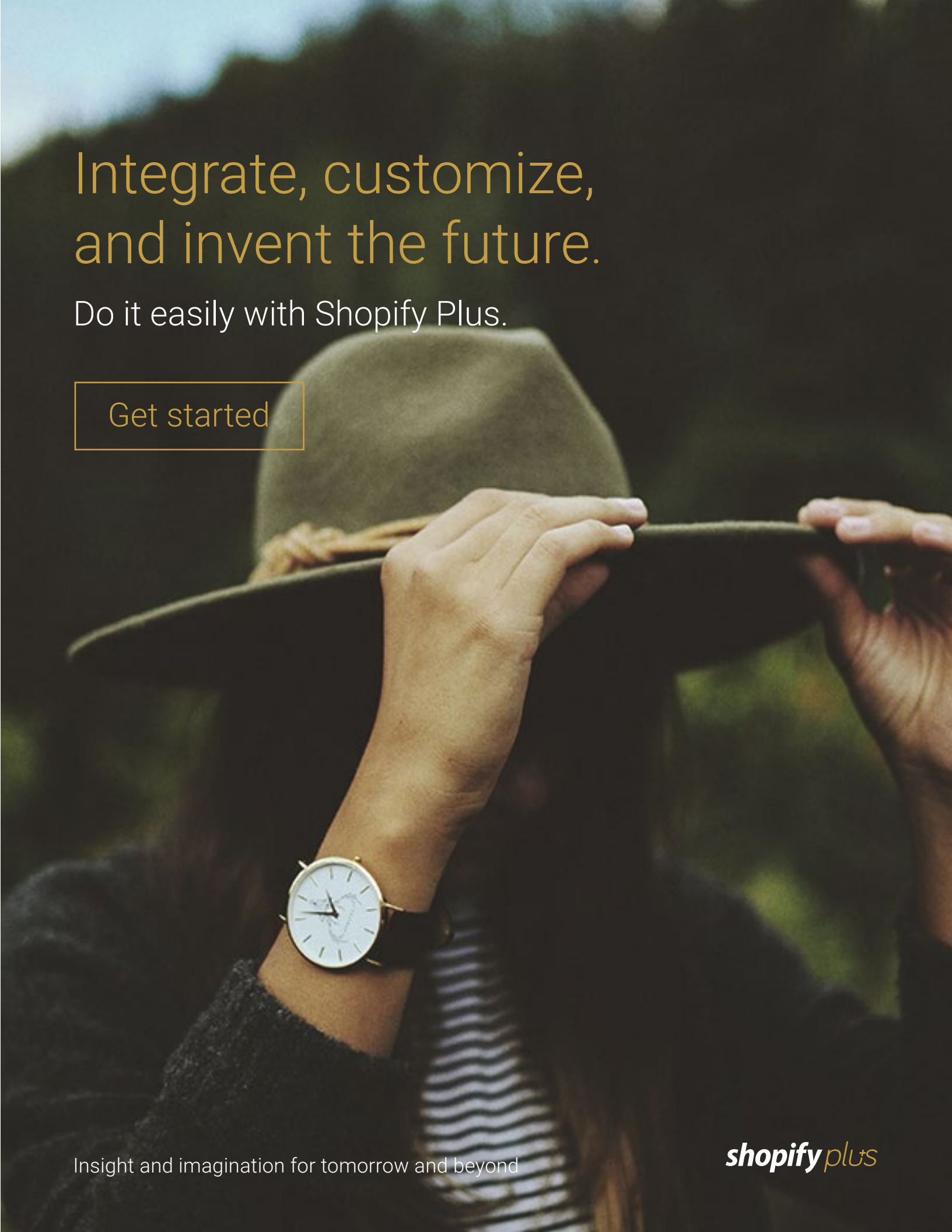


MIKE BROWN

Founder

Death Wish Coffee

“Shopify is absolutely awesome. We swear by Shopify now and wouldn’t be where we are today without it.”

A person is shown from the chest up, wearing a green felt hat and a dark sweater over a striped shirt. They are holding the brim of the hat with both hands. On their left wrist, they wear a round watch with a white face and a black strap. The background is a blurred outdoor scene with trees and foliage.

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