

The Intelligent Transformation and Orderly Expansion of Luxury Retail Industry in The Post-Epidemic Era

Yapeng Wei*

University of Manchester, Manchester, The United Kingdom

*Corresponding author: HarryWYP@outlook.com

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Abstract: Based on the analysis of the background of the post-epidemic era and combined with the luxury industry's industrial characteristics and development status, this paper summarizes the current development trend of the times and the psychology of consumers as the core of consumer activities. Secondly, through the defect identification of the superstructure and the analysis of measures taken by enterprises at the present stage, it is put forward that luxury enterprises can realize a sustainable business model dominated by the digital economy and supplemented by a circular economy through intelligent transformation. In other words, the circular economy is regarded as a helpful supplement to the digital economy, thus realizing the organic combination of the two. Then, according to the current development trend, this paper provides relevant suggestions on innovative digital marketing about orderly expansion for luxury enterprises after a transformation. Specifically, enterprises can cooperate with marketing development through both online and offline methods in the post-epidemic era. Finally, this paper further deepens the research results in the empirical study of Dior to fill the theoretical gap in the development of the luxury industry in the post-epidemic era.

1. Introduction

1.1 Background

In recent decades, with the development of emerging economies, the luxury industry has developed rapidly. Consumers buy luxury goods to obtain the high quality of luxury goods themselves and their other sense of spiritual satisfaction and social identity [1].

However, the emergence of the COVID-19 epidemic has profoundly affected the world's economic order and human life, forming an adverse chain reaction [2]. The emergence of the COVID-19 epidemic has dealt a blow to the whole retail industry. Compared with the retail industry that provides the necessities of life, the retail industry that provides non-necessities is facing a more significant crisis [3]. According to data, the global fashion industry was seriously hit in 2020.

Profits are expected to shrink by 93% [4], and part of the sharp reduction in profits comes from the relative closeness of the region because 20% to 30% of the income of the global luxury industry comes from consumers buying luxury goods abroad [5]. Compared with the direct impact of the epidemic, the measures taken by countries to limit social distance and close borders to combat the epidemic will more seriously hinder the momentum of global economic development shrouded in the shadow of the epidemic [6].

On the other hand, the economic malaise has led to the unemployment rate increase, which leads to a decrease in consumers' consumption motivation. Not only that, but also the imbalance of health care resources and the repetition of the epidemic, uncertainty has also intensified the sense of crisis in consumers' minds, thus increasing the weight of savings in consumers' minds, and the reduction of consumption motivation has directly reduced consumers' purchase of luxury goods. Although with the development of medical engineering and science and technology, people gradually adapted to coexist with the COVID-19 epidemic situation, the negative impact of the epidemic situation has not been eliminated.

1.2 Significance

Through the Situational Crisis Communication Theory (SCCT) analysis of fashion companies such as ZARA, some scholars have put forward the fast fashion industry's methods in the non-essential retail industry to deal with the epidemic [7]. However, for the luxury industry in a more inferior position, how to make a profit in the post-epidemic era, there is still a theoretical gap to a certain extent.

1.3 Objective

According to the industrial characteristics of the luxury retail industry and the analysis of the economic environment in the post-epidemic era, this paper aims to provide inspiration for the intelligent industrial transformation of the luxury retail industry and help it restore production order and achieve orderly expansion.

1.4 Contribution

In terms of theory, this paper will put forward a new idea for transforming the luxury retail industry in the post-epidemic era, which is the intelligent transformation of the business model dominated by the digital economy and supplemented by the circular economy.

In terms of practice, this paper will provide a specific way of transformation for the luxury retail industry and cooperate with the proposed modern marketing methods to help the luxury retail industry achieve orderly expansion after the transformation.

1.5 Remaining structure

In "The situation of the luxury retail industry in the post-epidemic era," this paper analyzes the characteristics of the post-epidemic era and the industrial characteristics of the luxury retail industry from large to small to summarize its current advantages and opportunities, potential threats, and challenges.

Based on the analysis of the existing problems, this paper puts forward the upper and lower level suggestions of intelligent transformation. It then puts forward the relevant marketing suggestions on the orderly expansion after the successful transformation in "Orderly expansion after intelligent transformation." Finally, taking Dior as the representative, this paper analyzes how to achieve intelligent transformation and orderly expansion of Dior in the post-epidemic era and expounds on the conclusions and limitations of this study.

2. The situation of luxury retail industry in the post-epidemic era

2.1 The characteristics of Economic Environment in the Post-epidemic era

The environment of the post-epidemic era is different from that of the epidemic period. The latter is the product of the development of the epidemic era. However, there is a strong positive correlation between the epidemic era and the post-epidemic era.

As far as the economy is concerned, the epidemic has been initially contained with medical engineering and science and technology development. Thus, countries have taken measures to relax restrictions and allow social activities under the condition of ensuring safety. The government has vigorously promoted the resumption of enterprises and factories, and through macro-control to stimulate economic recovery, the economy is gradually returning to the level before the epidemic.

As far as society is concerned, the discriminatory speech in the epidemic has been fiercely resisted and resisted by all sectors of society, especially racial discrimination, which indicates that the degree of social tolerance in the post-epidemic era will be further improved. As far as technology is concerned, although the epidemic has curbed some scientific research, the enormous online demand has extensively promoted the development of related technologies represented by digital media.

In terms of politics, the epidemic has made humankind aware of the importance of global cooperation, and a new type of global awareness will play a more significant role.

2.2 Luxury retailing in the post-epidemic era

The characteristics of the luxury industry in the post-epidemic era can be reflected mainly in two aspects: industry and the target consumers. As far as the target consumers are concerned, in terms of consumer psychology, global customers are more and more sensitive to the industry's sustainability after the epidemic's impact, including corporate ethics and social responsibility [8]. They have a negative attitude of fear, avoidance, and even resistance to offline shopping [9], as far as consumer behavior is concerned. People have reduced their consumption of non-necessities, including luxury goods [10].

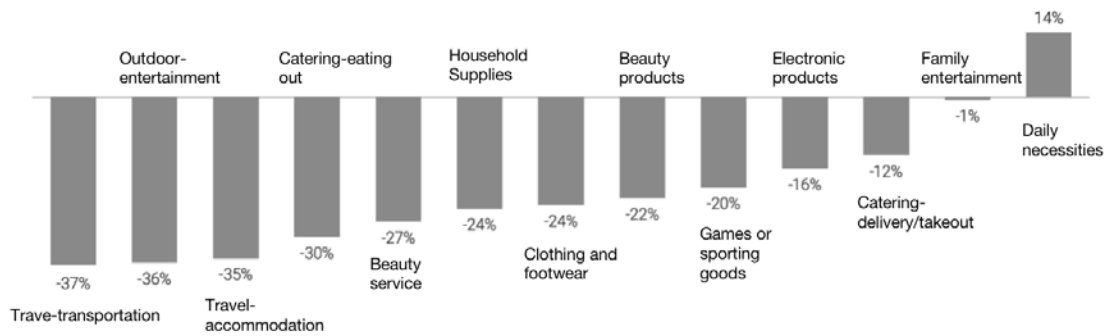


Figure 1. Proportion of consumer goods with increased expenditure

Source: Alixpartners, COVID-19 's anxiety under the epidemic spawned new consumer behavior, 2021 [10]

Therefore, as far as the luxury industry is concerned, the original business model based on high-quality offline consumer experience will be challenging to continue to attract consumers, and the current old business model hinders the development of the industry to a certain extent.

(1) Current strengths and opportunities

As far as strengths are concerned, the luxury industry's market belongs to the niche market. Most luxury industries have established brands and successfully played the brand effect, with high customer loyalty and high repurchase rate of products. Not only that, but most luxury brands have adopted the pricing policy of premium, so the profit margin of enterprises is high.

As far as opportunities are concerned, luxury goods' outstanding social status and social identity have not been powerfully hit by the epidemic's impact. The difficulty of losing customers has further laid the foundation for the transformation of enterprises. In the rapidly developing digital age, the transformation and development of luxury enterprises have great potential and profit space.

(2) Potential weaknesses and threats

As far as weaknesses are concerned, the luxury industry is facing a dilemma in terms of pricing. Maintaining the brand's status in the eyes of consumers while ensuring profitability makes luxury goods lack sufficient flexibility in implementing specific measures.

As far as the potential threat is concerned, as a non-essential retail industry, the PED curve of luxury goods is less flexible than that of other industries. Although the target consumers are not very sensitive to price changes, after the epidemic's impact, consumers' consumption behavior becomes more cautious and, to a certain extent, they will choose more cost-effective alternative products.

3. Research and Analysis on the Intelligent Transformation

3.1 Transformation measures that the industry has taken

In order to cope with the new normal in the post-epidemic era, some enterprises in the luxury retail industry have taken some transformation measures.

As far as online measures are concerned, major brands have entered several domestic new media platforms, including TikTok, to launch live streaming with goods. Furthermore, they set up exclusive brand accounts on social media to publish relevant fashion information; as far as offline measures are

concerned, on the one hand, luxury brands are linked with brands in other industries, such as Louis Vuitton and the famous game IP League of Legends. On the other hand, luxury brands have also adopted specific discounts and promotions to attract consumers with varying concessions.

(1) Immediate dividend from transformation measures

In the short term, the online measures taken by the luxury retail industry can help brands get rid of the limitations of time and space to a certain extent. Moving into multiple new media platforms can improve the radiation range of products, improve the exposure and awareness of related products, and make consumers who buy brands gain more social identity. Live streaming can help brands reduce rental costs and narrow the gap between brands and consumers, thus strengthening brands' image in the eyes of consumers.

In terms of offline measures, the price reduction will attract potential consumers to a certain extent to boost sales, making up for the gap caused by the unit price reduction with the increase of sales volume, and inject vitality into the brand in the short term, thus maintain a sound momentum of cash flow.

(2) Measures defects that can be identified after practice

Although the transformation measures taken by the luxury retail industry can inject some vitality into enterprises in the short term and luxury brands are also interested in the digital economy, in terms of long-term and sustainability, they are not fully connected with the digital economy. Thus, they are more of an attempt and hesitation [11]. Therefore, the positioning and implementation of these transformation measures still have some limitations.

Luxury is not only a product but also a symbol of special social status. In terms of positioning, narrowing the distance with customers and price reduction promotion can make the brand deeply rooted in the people's hearts, thus boosting sales. However, to a certain extent, this behavior destroys the image of the brand in the eyes of some consumers, which will reduce consumers' psychological expectations of the product. In terms of practice, take China as an example. First, the primary luxury firms do not diversify and optimize video content according to the audience characteristics of different media platforms. They published some simple and boring content handling, or even precisely the same manuscript is published directly on different media platforms; secondly, the entry barriers for some products are directly released in live streaming.

These measures will also further damage the corporate image and virtually damage the goodwill of the industry. Therefore, luxury enterprises should change their traditional concepts and comply with the trend of digital development.

3.2 Recommendations for intelligent transformation

(1) Organic structure of the superstructure

In the process of intelligent transformation, the luxury industry should follow the principle of the digital economy, supplemented by a circular economy, as shown in the following figure:

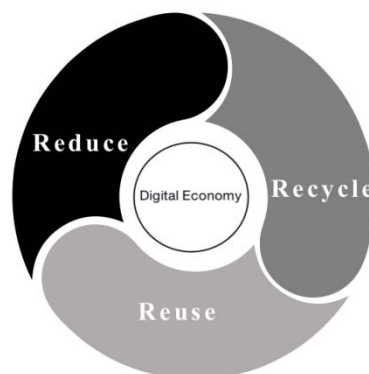


Figure 2. The new business model after intelligent transformation

This is because in the new normal in the post-epidemic era, the digital economy will create more innovation opportunities for the market and become an essential driver of economic growth [12]. The method of digital transformation is suitable for existing enterprises to adopt business models that are more attractive to target consumers and to gain competitive advantage by breaking traditional business models [13-14].

Enterprises can build the superstructure in the digital transformation according to the business model of "MOST." As far as mission is concerned, this varies with the company's characteristics, but most enterprises want to be the leaders of fashion trends and provide their customers with exclusive high-quality services in the luxury industry.

As far as the objective is concerned, enterprises should realize the transformation of the business model dominated by the digital economy and supplemented by the circular economy in the post-epidemic era and adopt modern marketing methods to achieve orderly expansion after the transformation to make a profit.

As far as strategy is concerned, luxury companies can change some of their products from high-end luxury goods to light luxury goods, or the parent company can establish sub-brands that are more friendly to consumers to seize the sinking market. However, at the same time, they still need to maintain the exclusivity of other products and maintain or even raise the entry threshold for some high-end products to maintain the brand's image in the eyes of consumers.

As far as tactics are concerned, the primary challenge for luxury goods when facing the digital transformation is not the problem of product digitization, but how to highly and naturally unify the communication with customers and the brand language [15].

The major luxury brands need to subdivide the audience according to the target population of different media platforms and analyze their spending power and willingness according to the audience to analyze and carry out consumer psychological portraits. For example, taking the Chinese media platform Bilibili as an example, 78% of users aged 18 to 35 use its platform, which means that most of these users' behaviors of buying luxury goods are regarded as conspicuous consumption, rather than a financial investment behavior [16]. Not only that, but the customer base dominated by Gen Z means that the Bilibili platform is more receptive to leisure and entertainment content. Gen Z is also more inclined to buy innovative products based on technology and design [17]. According to this feature, luxury brands can optimize content output according to this feature, packaging the brand as an innovative, open-minded, inclusive young corporate image, thus attracting potential consumers.

(2) Intelligent optimization of terminal services

Compared with the superstructure's emphasis on the digital economy, the optimization of terminal services focuses on the development of circular mode. Affected by the epidemic, consumers hope that the major brands can assume the corresponding social responsibility and fulfill the corresponding obligations [18]. Most consumers hope that the major brands can make a difference in the epidemic [19].

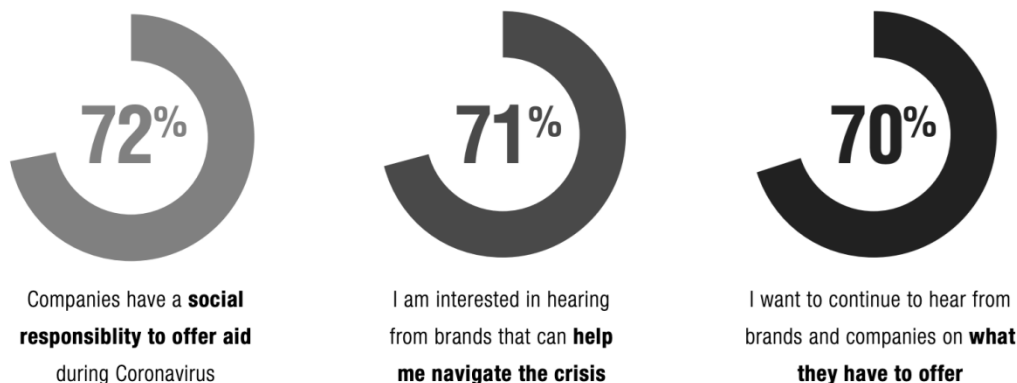


Figure 3. Consumers' expectations of enterprises under the COVID-19(% completely/somewhat agree)

Source: Ipsos Brand and Communications poll, w/c 16 March, n=999 adults aged 18-65 in the US [19]

From Figure 3, it can conclude that consumers will be more alert to the immoral behavior of enterprises, and the luxury industry is no exception. Therefore, the luxury industry can introduce the model of circular economy, which should abide by the three principles of circular economy: reduction, recycling, and reuse [20].

The three crucial principles run through the whole industrial chain. In the upstream of the industry, the luxury industry can choose environmentally friendly raw materials; In the after-sales service downstream of the products, luxury goods can recycle second-hand products in the way of trade-in or depreciation recycling, and the use of technology for reuse to achieve a complete and closed sustainable recycling industrial chain.

The most important thing is that the luxury industry can use the circular economy as an assistant to improve the digital transformation, and the most standard measure is to combine digitization with circular economy organically. That is, digital virtual services are used to replace physical assets or facilities [21] or as a helpful supplement to realize the harmonious unity of digital economy and circular economy. For example, the luxury industry can rely on virtual reality technology (VR) to optimize online and offline supply chains. The following figure shows:

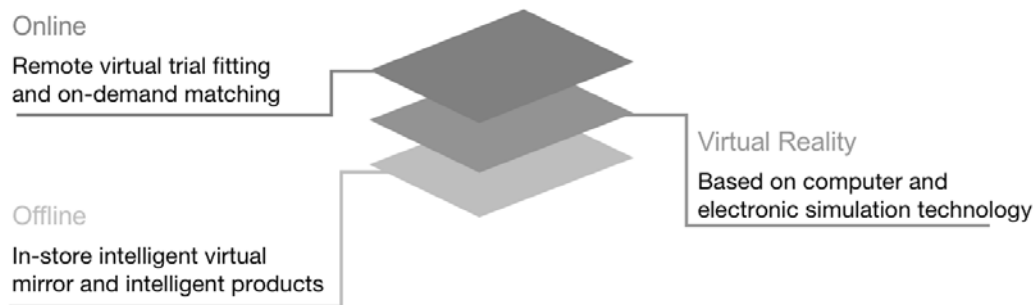


Figure 4. Organic combination of Virtual reality Technology and luxury supply chain

When virtual reality is combined with the online supply chain, when consumers buy luxury goods online, they can use VR to try on or change clothes remotely and change sizes quickly and efficiently according to their actual needs. When virtual reality is combined with offline supply chains, intelligent mirrors can be installed in stores to help people match other products more easily; secondly, enterprises can also apply VR to the products themselves. For example, through VR, they can make the patterns on clothes move and give customers a new shopping experience. Both can save the time spent on fitting or matching on the spot to enhance the customer's shopping experience. Businesses can save the human resources and time cost of re-displaying clothes, make up for the problem of out-of-stock or insufficient size to a certain extent, and improve customer satisfaction to improve customer loyalty to the brand.

4. Orderly expansion after intelligent transformation

4.1 Further expansion of the influence of the local region

Based on digital transformation, luxury goods should combine the consumption characteristics of consumers in the post-epidemic era with the industrial characteristics of the luxury industry, adopt modern marketing methods to attract customers. Brands should pay more attention to their target audiences and respond precisely to customers' needs, learning to transform themselves to cater to and please sensitive consumers [22].

We can divide the target audience into the local market and the international market by territory. As far as the local market is concerned, enterprises can adopt a marketing method dominated by offline publicity and supplemented by online dissemination. First, brands can put relevant advertisements in places with a large flow of people to improve their popularity and local intimacy to expand the local

appeal and influence of the brand. Secondly, enterprises can take advantage of the celebrity effect, invite local celebrities to endorse or personally use the product in public to improve product awareness, and take advantage of the fan economy and star effect to drive sales. Not only that, but enterprises can also send emails and posts to customers to inform them of the latest products. Moreover, they need to send sincere wishes and greetings on their birthdays or unique festivals to enhance their sense of identity and belonging to the brand; finally, enterprises can also hold price reduction promotional activities. However, this is limited to a small number of products, and discounts should be set according to consumers' consumption ability and characteristics in the local market.

4.2 Competition for share in the international market

As far as the international market is concerned, combined with the industrial characteristics of luxury goods, first, brands cannot simply adopt digital marketing because it may destroy the consumption experience of luxury goods. Luxury companies should use digital technology to provide conspicuous customers with the same or even higher quality services as offline stores to give them a stronger sense of satisfaction while providing social exclusivity for some cautious customers [23].

Secondly, if luxury companies want to gain local market share, they must make the marketing means and output content close to the local cultural characteristics. Luxury companies need to realize that the principle of "storytelling" is one of the critical strategies of digital marketing [24]. The luxury industry should learn how to tell brand stories combined with local customs and characteristics to consumers. Learning how to tell the brand story and the transformation process to consumers of different cultural backgrounds can help luxury companies gain consumers' trust and improve brand's image in the minds of consumers, thus boosting sales and promoting the sustainable development of brands. Due to the requirements of consumers for sustainability and corporate ethics in the post-epidemic era, enterprises should maintain a high degree of transparency in the marketing process.

Finally, in the current era of creativity-driven development, luxury companies can also develop innovative products according to local characteristics to quickly capture local consumers. This kind of marketing is not a helpless move to lower brand status or posture. On the contrary, innovative products that combine local aesthetics with the fashion trends that enterprises adhere to have great potential for development.

5. Case study from Dior

5.1 Basic introduction to Dior

Dior is an international fashion brand founded in 1946, famous for its elegant and intellectual modern women brand. As one of the luxury retail giants leading the world fashion trend, its brand radiation covers many aspects, such as clothing and makeup.

(1) Measures taken by Dior

Dior has adopted a series of digital marketing strategies to deal with the epidemic and takes novelty as the core of its digital strategy. According to Vogue, Dior is committed to modern and innovative style to attract modern consumers, with the innovative image to improve and make up for the tradition of the Dior brand [25]. Compared with maintaining the brand's high profile, Dior pays more attention to creating different identities and styles according to different market characteristics. For example, Dior moved to Wechat and TikTok in China to carry out digital promotion and adopted a new style when entering the Line community in Japan according to the characteristics of local customers.

(2) Institutional defects that can be identified

Although Dior has taken a new attitude to meet new business types in the post-epidemic era, the ability to tell good brand stories with local characteristics still needs to be strengthened. Take the fashion videos released by Dior on the new platform Bilibili as an example. Most of them are simple data handling, and the optimized content output without considering the characteristics of platform users is difficult to attract potential consumers, and artificial intelligence may worsen the situation. A small amount of playback may reduce the recommendation weight of the software's intelligent algorithm program when recommending to the viewer, reducing exposure further.

5.2 Sustainable development of Dior in the future

(1) The landing of the system of intelligent transformation

Dior can continue to adhere to the digital strategy with innovation as the core, and at the same time try to introduce a circular economy into the luxury industry chain. On the one hand, the structure of Dior superstructure should follow the fundamental mode of digital transformation and break through the limitations of the traditional business model based on following the principle of digital innovation.

On the other hand, Dior should further introduce a circular economy into the industrial chain of the luxury industry, adhere to the green production process in the upstream, actively assume the corresponding corporate social responsibility in the downstream. Furthermore, maintain a high enough transparency throughout the process.

(2) The strategic layout of orderly expansion after transformation

Based on market research, Dior should adopt a series of digital marketing methods in a new way. As far as online is concerned, Dior can adopt digital online marketing mode. While adhering to its traditional brand characteristics, we should creatively combine the characteristics of consumers in the target market with local cultural characteristics to tell consumers a good brand story to create a more affinity brand image to boost sales. At the same time, the use of digital technology to serve consumers in an all-round way, on the one hand, the use of virtual reality and other technologies to enable customers to obtain the same or even higher service experience as offline store services; on the other hand, the use of digital technology to further strengthen the social status represented by the brand, to enhance consumers' sense of spiritual satisfaction and social identity when they buy products. As far as offline is concerned, at present, the development potential of the sinking market is enormous. Take China as an example. The luxury industry map released by IFLYTEK big data shows that China's luxury market is mainly second tier and above cities. And gradually expand to third tier and below cities [26].

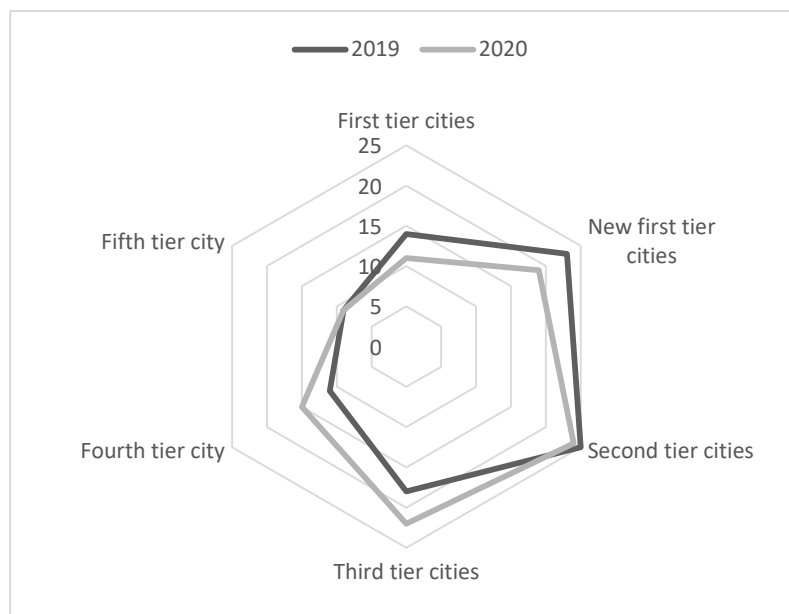


Figure 5. Urban Distribution of China's luxury Market (%)

Source: IFLYTEK Big Data, Map of luxury industry, 2020 [26]

As can be seen from Figure 5, the overall luxury market shows a downward trend. Dior can use its existing influence to build a light luxury brand based on innovation. On the premise of accurately dividing the target consumers, open the channel of light luxury products based on innovative design and technology, and realize the strategic layout of the sinking market.

6. Conclusion and Discussion

In conclusion, in the post-epidemic era, the luxury retail industry should be transformed into a new business model dominated by the digital economy and supplemented by a circular economy. After that, they need to adhere to the consumer-oriented principle then adopt the digital marketing system with innovation as the core to achieve orderly expansion. Future research should adhere to the principle of keeping pace with the times and keenly optimizing the business system according to the background of the times. Restricted by epidemic uncertainty and data bias, the analysis based on the post-epidemic era may have some uncertainty.

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