Deloitte.

Retail reimagined:
Creating luxury customer experiences
using data-driven insights

Contents

Introduction

In luxury retail, customer experience has always been paramount. But it's likely no longer enough to serve your clients a flute of champagne as they search for this season's pièce de résistance. The bar has been raised. In the past year, digitalization has surged within the luxury retail sector, propelling brands toward new horizons beyond what we've seen before. We're entering an era defined by immersive digital experiences. From personalized virtual styling, to AI-augmented chatbots and beyond, the possibilities that generative AI (GenAI) poses are futuristic. However, many luxury retailers—and consumers—have yet to embrace this transformative shift.

There are ethical, social, and data security considerations at play, demanding the attention of leading maisons. So, is GenAI here to stay, or is it just a passing trend? How can retailers embrace this technology while managing the associated risk? How are leading fashion houses leveraging GenAI to deliver winning customer experiences? How can data analytics and GenAI converge to help retailers deliver these experiences successfully and responsibly?

Read on to learn more.
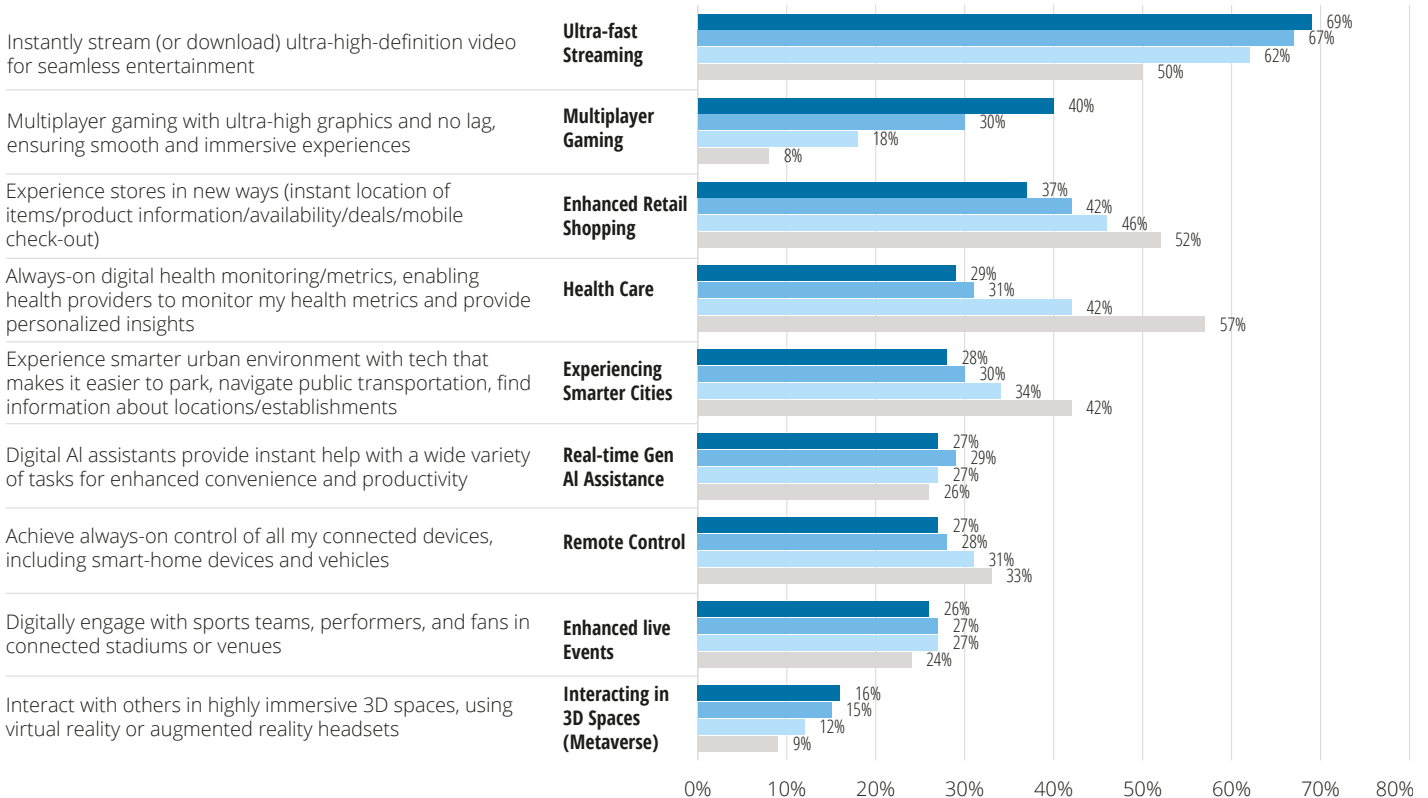
Key trends: The time to differentiate is now

In luxury retail, a few key forces are converging to make this a critical moment for delivering differentiated experiences: Firstly, aspirational luxury customers are clawing back their spending while high-net-worth spenders remain loyal and seek preferential treatment through exclusive products, events, and private shopping experiences.[1] At its core, luxury retail is evolving into an experiential and community hub rather than merely a place to purchase items.

Secondly, luxury retail faces a period of subdued growth and increased challenges, signaling a departure from the soaring growth rates of previous years.[2]

Changing consumer preferences also play a role. Today's luxury customers seek more than just exclusive items; they crave meaningful experiences. They expect brands to understand their individual preferences and provide tailored interactions across all touches. These discerning shoppers seek seamless shopping experiences that imbue a sense of exclusivity and importance across physical and digital realms.

Interest in future digital experiences
% respondents selecting in top 3

Description	Category	Values
Instantly stream (or download) ultra-high-definition video for seamless entertainment	**Ultra-fast Streaming**	69% / 67% / 62% / 50%
Multiplayer gaming with ultra-high graphics and no lag, ensuring smooth and immersive experiences	**Multiplayer Gaming**	40% / 30% / 18% / 8%
Experience stores in new ways (instant location of items/product information/availability/deals/mobile check-out)	**Enhanced Retail Shopping**	37% / 42% / 46% / 52%
Always-on digital health monitoring/metrics, enabling health providers to monitor my health metrics and provide personalized insights	**Health Care**	29% / 31% / 42% / 57%
Experience smarter urban environment with tech that makes it easier to park, navigate public transportation, find information about locations/establishments	**Experiencing Smarter Cities**	28% / 30% / 34% / 42%
Digital AI assistants provide instant help with a wide variety of tasks for enhanced convenience and productivity	**Real-time Gen AI Assistance**	27% / 29% / 27% / 26%
Achieve always-on control of all my connected devices, including smart-home devices and vehicles	**Remote Control**	27% / 28% / 31% / 33%
Digitally engage with sports teams, performers, and fans in connected stadiums or venues	**Enhanced live Events**	26% / 27% / 27% / 24%
Interact with others in highly immersive 3D spaces, using virtual reality or augmented reality headsets	**Interacting in 3D Spaces (Metaverse)**	16% / 15% / 12% / 9%

N=20,000. Global data collected in December 2023. Countries include Australia, Brazil, Canada, China, France, Germany, India, Italy, Japan, Mexico, Netherlands, Poland, Portugal, Republic of Korea, Saudi Arabia, South Africa, Spain, UAE, United Kingdom, and United States

Survey respondents prompted to imagine a future where their smartphones are always connected at extremely fast speeds, everywhere. Ignoring cost considerations, respondents selected the top three experiences or capabilities they would most prefer to have on their smartphone.

1. Lauren Indvik, "What 2024 Has in Store for Luxury," The Financial Times, 28 December 2023
2. Adrienne Klasa, "£3,000 bracelets vs £400 sneakers: the diverging fortunes of the luxury market," The Financial Times, 24 January 2024

ConsumerSignals data from Deloitte LLP shows[3] that a large swath of respondents from a wide range of ages expect to be able to use their smartphones to enhance the retail shopping experience, particularly Baby Boomers and Gen Xers. A smaller yet still sizable portion of respondents expect to be able to use their smartphones to get real-time GenAI assistance.
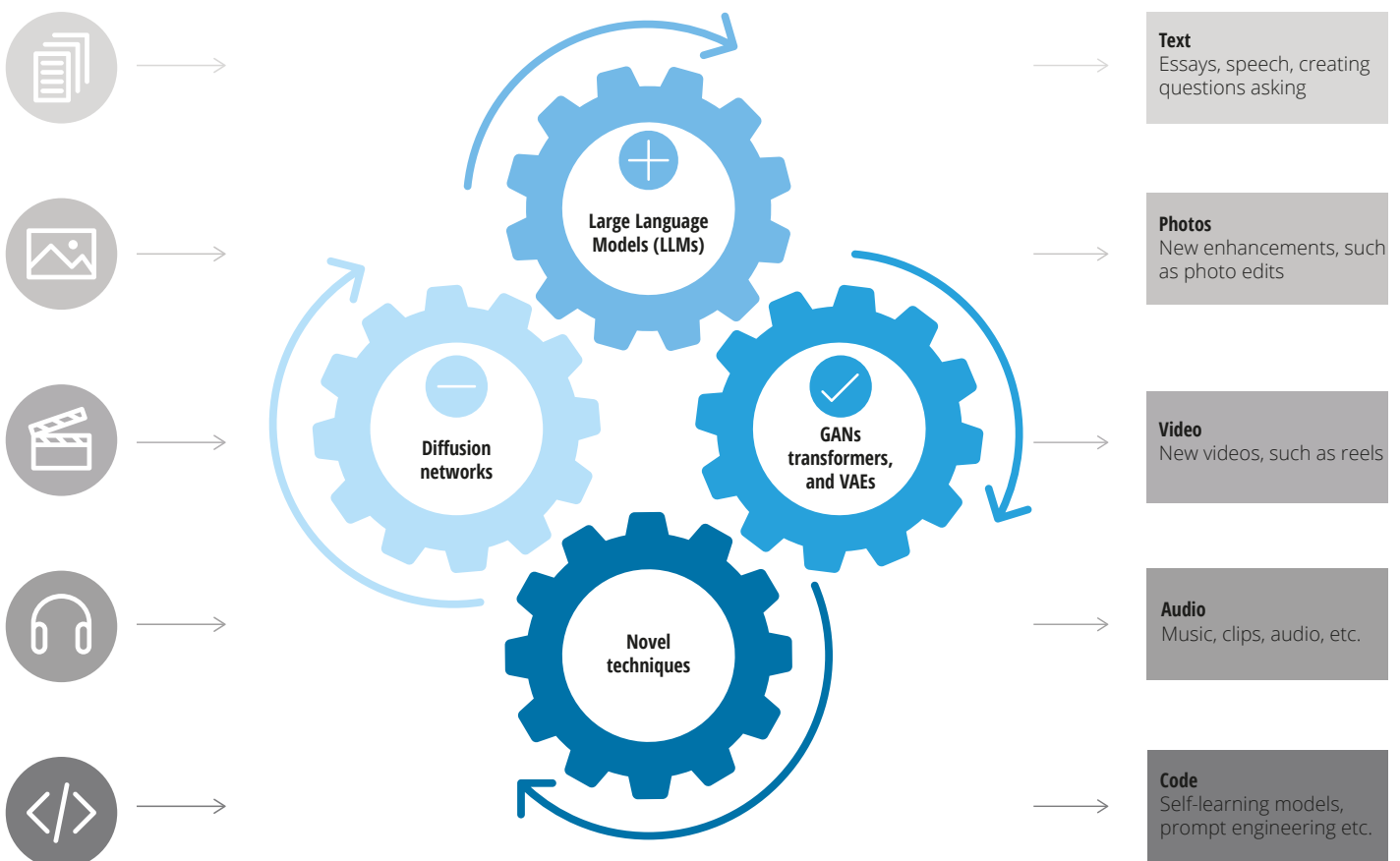
With more consumers seeking hyperpersonalized, omnichannel shopping experiences, luxury retailers should enhance their digital presence and deliver seamless service across all channels, moving away from pen-and-paper methods to service the top 1% of their client base. The marriage of GenAI tech with the wealth of available customer and operational data is helping retailers tailor every aspect of the interaction to the individual customer's preferences, behaviors, and needs. Luxury retailers may be struggling with where and how to invest in GenAI technology, but it's on everyone's agenda.

To navigate these choppy waters, luxury retailers should focus on investing in high-end experiences. They should also cultivate loyalty among top-spenders and remain agile in response to changing consumer habits and cost pressures. As business conditions get more challenging and the top 1% of buyers demand more exclusive experiences, brands will need to level up to deliver that special magic. And some retailers are leveraging GenAI to make that magic happen.

3. Deloitte, ConsumerSignals global data, collected in December 2023

What is Generative AI, and can it replace humans?

Large Language Models (LLMs)

Diffusion networks

GANs transformers, and VAEs

Novel techniques

Text
Essays, speech, creating questions asking

Photos
New enhancements, such as photo edits

Video
New videos, such as reels

Audio
Music, clips, audio, etc.

Code
Self-learning models, prompt engineering etc.

Source: Deloitte: Safeguarding Generative Artificial Intelligence (AI) with cybersecurity measures

GenAI is a type of artificial intelligence that creates new and original content based on various inputs. Traditional AI operates in a deterministic manner by learning "rules" based on data to perform specific tasks whereas GenAI can generate novel content using training data. GenAI can create new and original content by learning from existing examples, often with impressive realism and creativity. However, it doesn't possess the same cognitive abilities or understanding as humans.

Additionally, while it can mimic human-like outputs, GenAI lacks intuition, consciousness, and contextual understanding. GenAI relies entirely on patterns and data it has been trained on. Therefore, it lacks true comprehension or creativity in a human sense. In other words: our robot overlords haven't taken over just yet. However, while GenAI can't fully replicate human thought processes, it can augment them. And when it comes to customer experience, that's good news.

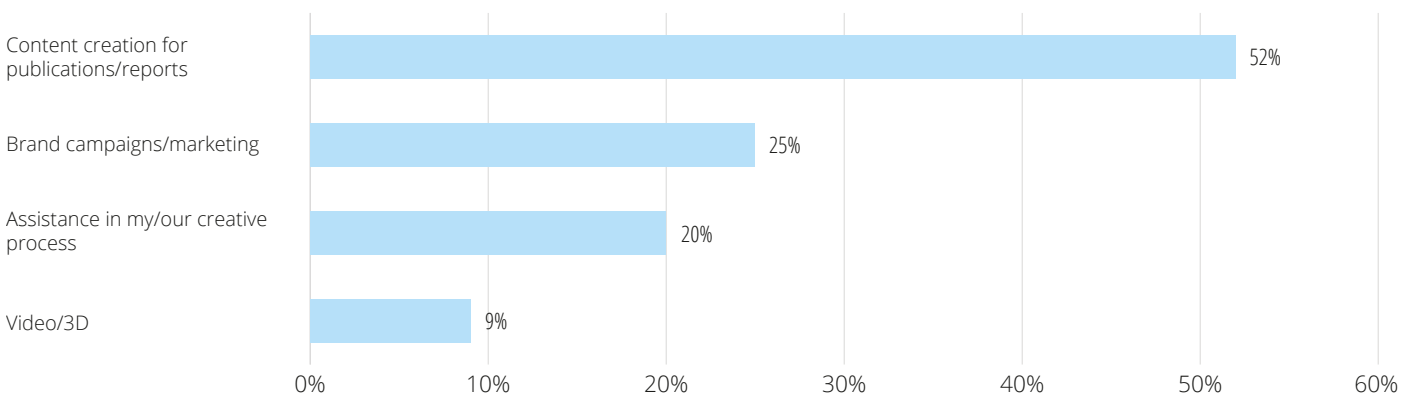# Retailers are testing the GenAI waters

With the omnichannel revolution, digital IDs, and the metaverse incursion, luxury has been at the forefront of industries embracing technology and digitization in recent years. While the gleam of the metaverse has slowly lost its lustre, GenAI remains a shiny prospect. Nvidia research shows that 98% of respondents plan to invest in GenAI infrastructure in the next 18 months.[4] However, they're exercising caution, with 77% indicating an investment of less than $5 million. This cautious approach is consistent among retailers with annual revenues of over $500 million—78% reported a similar investment range.

Projections indicate that revenue around the globe from GenAI technology will soar to US$36 billion by 2028, reflecting a compound annual growth rate (CAGR) of 58% from 2023 to 2028.[5]

How do retailers plan to use GenAI, exactly? Deloitte research shows that a large portion of respondents plan to use GenAI for content creation, brand campaigns and marketing, and to augment the creative process.

Despite the potential of AI, investments in GenAI have been cautious across the board. Why? The uncertainty surrounding the long-term effect and ROI of GenAI initiatives could be driving this cautious approach. Nonetheless, some organizations are forging ahead. Amongst these organizations are Bata, global luxury footwear and fashion accessory manufacturer and retailer, and Majid Al Futtaim Lifestyle, the retail partner of choice for some of the most iconic brands.

I am planning to use Generative AI in the next 12 months for:
Multiple selections possible

Category	Value
Content creation for publications/reports	52%
Brand campaigns/marketing	25%
Assistance in my/our creative process	20%
Video/3D	9%

Source: Deloitte research

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4. Nvidia, "State of AI in Retail and CPG: 2024 Trends," accessed 29 February 2024
5. Generative AI Software Market Forecast to Expand Near 10 Times by 2028 to $36 Billion, S&P Global Market Intelligence Says, S&P Global, June 2023

Bata's forward-thinking approach to data analytics and AI

Since its inception in 1894, Bata has a long tradition of innovation. Bata's founder, Thomas Bata, was a visionary for his time. With a focus on mass production, his innovative manufacturing methods made footwear more accessible to the public. This forward-thinking approach extended beyond business; Thomas prioritized social welfare by implementing employee benefits and community-development programs, setting a precedent for corporate social responsibility. Today Bata's history of innovation continues, with Luca Demarchi, Group CIO, leading the charge. From stock optimization to AI-augmented chatbots and beyond, GenAI and data analytics is driving this innovation.

How Bata is leveraging big data, AI, and GenAI to improve CX

Use Case	Description
Merchandising-replenishment initiative	Bata utilizes AI, particularly Blue Yonder's GenAI capabilities, to forecast product demand for individual stores based on historical trends and real-time customer data, minimizing transportation waste and improving customer experience.
AI-augmented chatbot	Bata has implemented an AI chatbot to assist customers with product inquiries, sizing questions, and order tracking, enhancing the overall customer experience.
"Voice of the store"	Bata rolled out a solution that converts messages from store managers into aggregated data dashboards, providing executives with greater visibility into store operations and eliminating the need for direct contact with area or district managers.
Customer relationship management (CRM) platform utilization	Bata leverages GenAI within its CRM platform to segment customers and deliver tailored marketing messages based on customer preferences and behavior, resulting in a significant uptick in conversion rates and incremental growth.
Back-office task management	Bata is also exploring GenAI for back-office task management and process automation, with plans for future in-store applications.

For instance, Bata is utilizing AI to restructure its merchandising-replenishment processes to forecast the appropriate products for customers' preferred stores. By aligning inventory placement with real-time customer trends, Bata minimizes transportation waste and improves the customer experience. This initiative involves leveraging Blue Yonder, an AI-driven supply chain platform with GenAI capabilities, to predict the placement of products based on historical trends and other factors such as weather.

Additionally, Bata is deploying an AI-augmented chatbot to aid customers with product inquiries, sizing questions, and order tracking, further enhancing the customer experience. Bata is also implementing a solution called "voice of the store," which transforms messages from store managers into aggregated data dashboards. Store personnel simply record their messages, which are then sent to the platform. This eliminates the need to contact area or district managers directly and provides executives with greater visibility into store operations.

Additionally, Bata leverages GenAI within their CRM platform to better segment its customers and deliver more tailored marketing messages based on customer preferences and behavior. Bata observed a 50% uptick in conversion rates following the implementation of this new segmentation approach, indicating substantial incremental growth. Bata is also exploring the benefits of GenAI for back-office task management and process automation, with plans for future store applications.

"Thomas Bata, our visionary founder, was ahead of his time. He advocated not just for business expansion but also for societal change. We've inherited his forward-thinking perspective. Today Bata's mission transcends mere profitability; it's about enhancing lives. This ethos helps us connect more deeply with our customers and go to market faster. To maintain our visionary status, embracing new technologies is crucial."
– Luca Demarchi, Group CIO, Bata

While he recognizes that there has been a lot of hype surrounding AI implementation, Luca Demarchi believes the real benefits will come incrementally. He anticipates a shift towards using GenAI to solve problems rather than solely relying on human delegation. However, he acknowledges the need for change management to effectively integrate AI into daily workflows.

Majid Al Futtaim: Redefining luxury in Dubai and beyond

Dubai is world renowned for its extravagance, and Majid Al Futtaim's Lifestyle business is a true embodiment of this luxury. But the company's footprint extends far beyond the United Arab Emirates alone. As the retail partner of choice for some of the most iconic brands, Majid Al Futtaim holds exclusive licensing rights for global brands lululemon, LEGO, Abercrombie & Fitch, Hollister, AllSaints, Psycho Bunny, Eleventy, Shiseido, Crate & Barrel, CB2, Poltrona Frau, Ceccotti, Alessi, and THAT, a Majid Al Futtaim multi-brand concept store and app. Both in-store and online, Majid Al Futtaim utilizes data analytics, machine learning, and GenAI to elevate its customer experience and drive greater revenue and loyalty across its brands.

Advanced analytics and product forecasting

To ensure that customers consistently find the products they need in-store and online, Majid Al Futtaim leverages machine learning for improved product forecasting. If an item is discontinued, the company can identify and procure the best alternative option. This algorithm is tailored to each store's specifications, enabling a deeper understanding of customer preferences. For instance, if customers at a lululemon store in Dubai prefer neutral tones, the data will pick this up as a trend and the company's buyers will adjust their purchases accordingly. This initiative has helped Majid Al Futtaim reduce inventory by 25% and boost revenue by 12%.

Targeted content and personalized product recommendations

Majid Al Futtaim continuously analyzes consumer preferences, purchasing behaviors, and trends to refine its offerings. The company also uses GenAI to create targeted content, including messaging and imagery, for personalized communications that tap into customers' unique preferences. Additionally, data and machine learning capabilities allow the company to offer personalized online product recommendations based on factors such as product adjacency, browsing behavior, and past purchases.

Delivering diverse, immersive shopping experiences

Furthermore, Majid Al Futtaim taps into a vast amount of data to understand customer expectations and meet evolving needs. For instance, the decision to introduce its THAT Concept Store in Dubai, the region's first complete lifestyle concept store, stemmed from a thorough analysis of customer preferences and global trends. The THAT Concept Store features:

- A beauty hub, grooming station, gift-wrapping corner, tailoring, personal shopping service, and a pop-up space highlighting fashion and art collaborations

- Changing rooms outfitted with special "magic mirrors" that allow customers to request size and color options with a simple touch

- An in-store personalization tool (launching soon) that will enable frontline staff to scan products customers are browsing and recommend complementary items, further enhancing the shopping experience and driving upsells

Catering to the top 2% of its clientele

Majid Al Futtaim has taken a targeted approach to identifying and focusing on the top 2% of its high-value customers for its THAT Concept Store, who collectively contribute to 27% of the company's total revenue. Through its advanced customer dashboard, the company devises personalized gifting strategies and targeted marketing campaigns based on the purchasing patterns and behavior of its top spenders.

"Our customer strategy is built on a commitment to relevance. Through our immersive experiences, we strive not only to meet but also to anticipate customer expectations. Our aim is to leave lasting impressions and foster meaningful engagement."
– Fahed Ghanim, CEO, Majid Al Futtaim Lifestyle

Enhancing customer experience with augmented reality

Moreover, the company's Shiseido, Crate and Barrel, and CB2 ecommerce platforms use augmented reality (AR) tools to enhance the shopping experience. For Shiseido, this includes a skin analyzer and makeup try-on tool that aids customers in selecting suitable colors and various skin treatments and lotions. Additionally, Majid Al Futtaim's home stores feature AR tools that allow customers to visualize furniture in their homes, providing a 3D preview before making a purchase. These tools have contributed to roughly 3% of the company's online revenue.

# AI-driven hyperpersonalization: The new luxury experience

Both Bata and Majid Al Futtaim Lifestyle are utilizing GenAI and data analytics to improve customer experience, and they're in good company. Here are a few additional examples of how other luxury brands are using GenAI to enhance online and in-store experiences and create compelling marketing messages, as outlined in Deloitte's Global Powers of Luxury Goods 2023 report:[6]

These examples demonstrate how luxury leaders are leveraging AI, GenAI, and data analytics to deliver highly personalized customer experiences across touchpoints, from virtual advisors and personalized recommendations to interactive customization platforms and beyond.

The Prada Group: In March 2023, The Prada Group partnered with Adobe to enhance online and in-store customer experience through real-time personalization powered by data analytics. Through Adobe's platforms, The Prada Group delivers relevant content to customers. With customer consent, sales assistants deliver highly personalized service by gaining insight into preferences and store visits.

Ralph Lauren: This fashion mogul is testing AI across several business functions, from inventory optimization to forecasting and customer engagement.[8] GenAI will be tested for graphics, content development, and computer programming.

Zegna: This Italian luxury fashion house recently launched Zegna X, a digital ecosystem and customization tool that uses Microsoft Azure services to bridge the divide between physical stores and digital channels.[10] This back-end data and tool uses Microsoft technology and Zegna's configurators to allow clients to customize any look in the Zegna collection online using their personal device.[11]
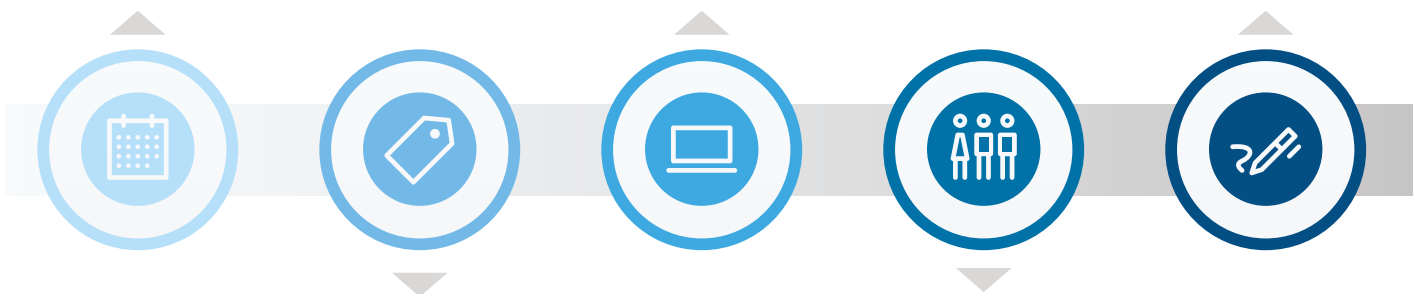
Moncler Genius: During London Fashion Week in February 2023, Moncler Genius[7] launched its first entirely GenAI-created commercial campaign in collaboration with Maison Meta and Creative Agency WeSayHi. This campaign featured collabs with various designers and brands, including Pharrell, Adidas Originals, Palm Angels, and others.

Valentino: The launch campaign for Maison Valentino Essentials, a collection with a new take on traditional men's clothing, was also created using GenAI.[9] GenAI helped develop an engaging campaign that reflected the collection's core message and Valentino's contemporary approach.

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6. Deloitte, "Global Powers of Luxury Goods 2023," accessed 29 February 2024
7. Ibid
8. Ibid
9. Ibid
10. Ibid
11. Ermenegildo Zegna Group: "Zegna X Developed on Microsoft"

GenAI and marketing: Delivering more tailored, consistent messaging

While some retailers are cautiously dipping their toes into the AI waters, others are plunging right in. No matter which camp you belong to, many retailers agree on one thing: GenAI has potential for marketing and content creation. According to Deloitte research, 52% of retailers plan to use GenAI in the next 12 months for content creation for publications and reports, while 25% plan to use it for brand campaigns and marketing.

Luxury brand Gucci is already integrating AI into its global client service network, Gucci 9, through a system called Einstein.[12] This AI generates concise responses in the distinctive "Guccified" brand tone to aid advisors in assisting customers, whether they seek to refurbish a vintage bag or book a table at a Michelin-starred Gucci Osteria. Across in-store visits, phone calls, or WhatsApp conversations, Gucci ensures that each interaction is positive and enhanced by comprehensive customer insights.

Let's use exclusive events, a common strategy in luxury, to further explore how GenAI can help create a more consistent brand voice. After hitting a certain threshold of spending, a loyal luxury customer may be invited to a "first look at collection" event. At this exclusive event, they could enjoy lunch in the café, browse products, and hear live music from their favorite artist. Data analytics and GenAI may enhance the effectiveness of these exclusive events and customer interactions.

Data analytics could help retailers identify their top spenders faster, while GenAI could tailor these exclusive events to their unique preferences. The retailer could use GenAI tools to communicate its brand's tone of voice across all event communications; they could even utilize GenAI's image-generation capabilities to create resonant advertising imagery to promote the event.

"In the luxury space, controlling the brand narrative is key, as relinquishing control to a third party could harm brand identity. By using GenAI tools that augment content development, luxury retailers can standardize tone of voice across all communications, although brand teams may need to relinquish some control."
– Gillian Simpson, Retail Partner, Deloitte Digital, London

12. Salesforce, "AI amplifies the Gucci voice across client service centers," accessed on 15 March 2024

Building trust: Overcoming skepticism of AI

Based on what we are hearing and seeing, now is the time for luxury retailers to deliver hyperpersonalized, immersive experiences. However, first we need to address the elephant in the room: trust. And trust and AI aren't exactly synonymous.

In fact, eight in 10 consumers from the *2023 Deloitte Holiday Survey* had little to no trust in retailers' ability to use artificial intelligence responsibly in their operations, and retailers also see this as a challenge.[13] Consumers harbor mistrust towards companies utilizing AI, presumably due to concerns regarding data privacy, transparency, and the potential for algorithmic bias. Some consumers fear that their personal information may be exploited or misused without their consent. Additionally, the opaque nature of AI decision-making processes can erode trust, leaving consumers uncertain about how their data is being used to shape their interactions with the company.

According to Deloitte TrustID Research, trust in a brand drops 144% for customers who know a brand is using AI.[14] This seems like a rather bleak statistic. But there's more to the story: keeping trust at the center of AI design can create greater adoption from employees and customers and quadruple market value.[15]

Trusted companies financially outperform their peers by up to four times, and customers who trust a brand are 88% more likely to buy again.[16]

Trust drives greater loyalty, yet consumers mistrust AI. Given this dilemma, how can luxury retailers leverage data and GenAI to create immersive customer experiences that put trust at the center? By following a few key principles.

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13. Deloitte Insights, "2023 Deloitte Holiday Survey," accessed 29 February 2024
14. Deloitte, "TrustID Research," accessed 29 February 2024. Deloitte has developed TrustID, an open-source data-driven tool that helps companies not only measure the four critical factors that drive trust—humanity, transparency, capability, and reliability—but accurately predict how human emotions will impact behaviors.
15. Ibid
16. Ibid

Driving individual engagement at scale with trustworthy AI

So, how can luxury leaders put trust at the cornerstone of their profitability playbook? Driving individual engagement at scale with trustworthy AI is key. To cultivate trust, luxury retailers should base the design, deployment, and communication of AI tools on four fundamental pillars, as outlined in Deloitte's *2024 Retail Industry Outlook* report:[17]

1. Human connection: Retailers should prioritize creating genuine human-like interactions when developing AI tools for customer engagement. This involves equipping AI with a comprehensive set of guidelines to adapt to various customer contexts. For instance, if a customer mentions a personal loss, AI responses should express sympathy and condolences.

2. Transparency: Effective communication about AI to both customers and employees requires clear, tangible explanations of its purpose and functionality. Retailers should reveal the specific use cases of AI tools, such as chatbots, and articulate why they are implemented.

3. Capability: To foster adoption and confidence in AI tools among employees, retailers should showcase their benefits and functionalities transparently. This could involve providing opportunities for hands-on experience through a "sandbox" environment, emphasizing the positive impact of the tools on individual employees, and reassuring them that AI complements rather than undermines their work.

4. Reliability: When integrating AI tools into customer interactions, retailers should set clear expectations and acknowledge any limitations. For instance, if AI bots cannot address certain queries, retailers should redirect customers to alternative support channels. Consistently meeting these expectations will enhance perceptions of reliability and bolster trust in AI-driven experiences.

Trust is hard won and easily lost. To strengthen trust with clientele, it's crucial to consistently fulfill promises. Additionally, be transparent and ethical in how data and AI are leveraged to shape customers' experiences with the brand.
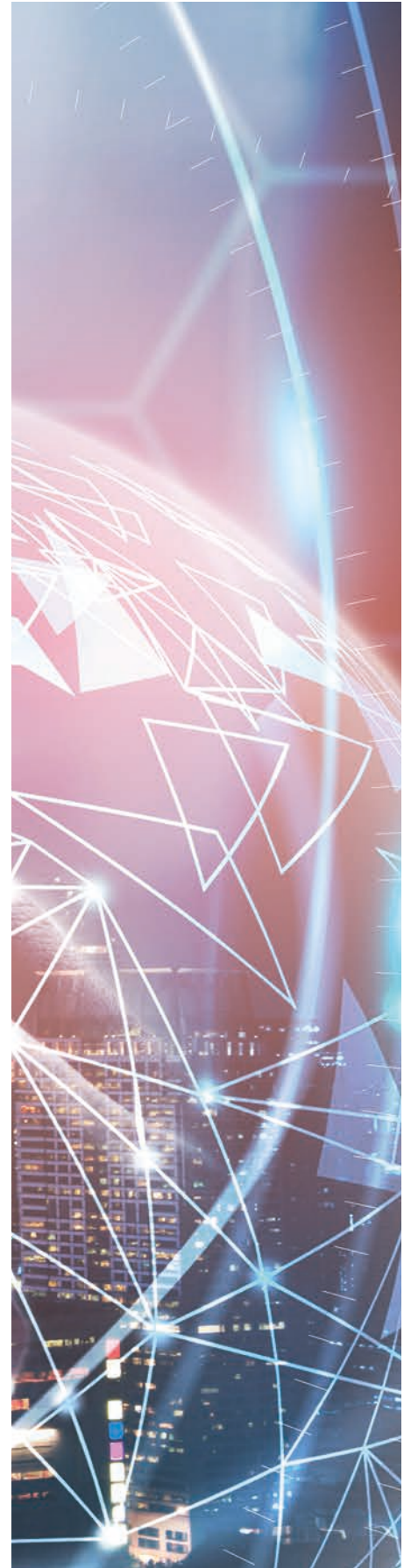
17. Deloitte, "2024 retail industry outlook," accessed 29 February 2024

Winning with data: What luxury retailers can learn from the sporting industry

Just as gold is prized for its rarity and beauty, data's ubiquity and transformative potential make it a valuable asset for luxury retailers. While it may not gleam like a 24-karat pendant, the right data holds immense value in its ability to help luxury retailers uncover insights, make informed decisions, and deliver hyperpersonalized experiences. When it comes to winning with data, luxury retailers can learn from another industry that epitomizes prestige and achievement: the sporting industry.

GenAI and data analytics is transforming sports content creation and consumption, fostering hyperpersonalized fan interactions globally. As outlined in Deloitte's *How data can help drive sports sponsorship and fan engagement* report, analytics in sports, specifically fan engagement analytics, could enhance the live game experience and maintain fan and sponsor participation.[18]

Within the stadium, richer data could help further animate the live game experience and bolster fan engagement. Additionally, greater knowledge of attendees' profiles may enable better targeting of fans who attend live games throughout the season— and those who do not.

GenAI can also help sporting organizations streamline content creation and deliver personalized fan experiences.[19] For example, GenAI can swiftly generate game summaries and player analyses, saving time and resources for sports organizations. By utilizing popular voices in multiple languages, GenAI can also enhance fan engagement, creating more dynamic experiences. GenAI's ability to analyze fan preferences also enables tailored content, deepening the connection between fans and teams.

No matter which industry you hail from, one thing's certain: the right data helps you better understand your customers. And the right data can also help improve the effectiveness of your GenAI efforts.

18. Deloitte, "How data can help drive sports sponsorship and fan engagement," accessed 3 March 2024
19. Ryan Steelberg, "Generative AI: A Critical New Team Player For The Sports Industry," Forbes, 28 September 2023

How Deloitte is helping the IOC create new possibilities for personalized fan engagement

Partnership spotlight

"Personalization and segmentation are going to have the biggest impact in the way that the Olympic Games are enjoyed by the fans at the live event and those cheering from home. They are what allow us to create a more connected, immersive experience during the Olympic Games and between each edition."
— Michelle Christian McGuire, Digital Experience Lead, Deloitte Consulting LLP

The stakes:
For each of the millions of fans who attend the Olympic Games, there are many more who avidly follow the competition from afar. Moments shared by the world are felt in deeply individual ways—from anticipation to awe, from celebration to crushing disappointment. Because sport is personal. Working closely with the International Olympic Committee (IOC), Deloitte is using its digital transformation consulting capabilities to help advise on the IOC's business strategy.[20] Through this partnership, Deloitte helps the IOC to create new possibilities for personalized fan engagement.

The solution:

Discovery and analysis

Transformation starts with discovery and analysis. By conducting a deep assessment into the existing digital fan experience, Deloitte helped the IOC to identify how data can enable personalized content across the fan lifecycle.

Building a fan data platform

Based on its assessment, Deloitte advised on the development of a fan data platform that is intended to deliver personalized activations—from informing fans of upcoming moments, updates, and highlights to personalized video content, campaigns, and promotions.

From data to drama

Deloitte plans to continually support the IOC's strategy of bringing the Olympic Games to life in a personalized and digital way for millions of fans around the world. By helping develop its fan data platform strategy, Deloitte is supporting the IOC in empowering people to fully immerse themselves in inspiring content—so they can focus on the sports they love and the athletes they follow.

The outcome:
Through the assessment of the digital fan experience, followed by advising on the design and ongoing implementation of the IOC's fan data platform, Deloitte is helping the world's greatest sporting event deliver on its promise: to build a better world through sport.

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20. Deloitte, "From data to drama," accessed 29 February 2024

How Deloitte – inspired by McLaren Formula 1 Team – is helping retail clients to make significant strategic and operational decisions with more certainty

Partnership spotlight

The stakes:

A perfect storm of change and uncertainty is creating new pressures on the retail model: the cost-of-living crisis has changed consumer spending behavior and preferences; geo-political volatility has further destabilized supply chains; and changing social values have created new expectations of retailers.

In a hyper-competitive market with proliferation of choice, taking bold and decisive steps to address customer needs will likely be critical. But retailers, with under-pressure balance sheets, are often less able to place riskier bets in the current climate.

The solution:

Surprisingly, a solution lies in an approach that McLaren Formula 1 Teamare very familiar with – digital twin and simulation.

When McLaren are on the racetrack, they have a team of race strategists and analysts working behind the scenes to anticipate every possible scenario that could occur on the racetrack – so that they have a solution for their drivers in an instant – no matter the scenario. The tool they use is digital twin and simulation technology.

Inspired by this approach, Deloitte has been working with its retail clients to bring a new approach to strategic decision making. One that enables robust stress-testing to increase the likelihood of achieving their growth business case, and to help make sure that the business remains strategically and operationally resilient.

Below are some of the questions our clients have asked, and we've helped answer through digital simulation.

How do we enter the crowded online fast-fashion market

Our client, an established and successful, national, online pure play, wanted to enter an international market. That market is crowded and price-driven, and without established supply chains, the client could not rely on its historical sources of advantage. So how could we de-risk this significant strategic investment?

We simulated the profile of customer demand down to an SKU level to understand what customers wanted, and then we simulated different models for servicing that demand. This included the volume of SKUs to manufacture, where to place distribution and how much money to invest in different sources of marketing. By simulating supply and demand, we helped our client to define an entry model that satisfied their risk / reward appetite.

How do we optimize the supply chain to best serve customer needs

Our client was a supermarket with a complex supply chain serving (1) central warehouses, (2) a network of different format stores and (3) delivery to customers' homes. The client wanted to enhance its offer to clients – to reduce 'out of stock' incidents, to facilitate on demand grocery deliveries to home but to do so in a way that was carbon efficient. With so many possible permutations, it was impossible to run the analysis using more traditional approaches.

We built a digital twin of the client's network which simulated stock movement through the system and customer orders being placed. We then overlaid this with thousands of "what-if" configurations to assess which model provided the best set of outcomes against the client's target KPIs.

How do we use our store network to best address customer needs?

Our client's focus was on optimizing their store network. Like many retailers, they had too much space in some locations, and not enough in others. Many locations were under lengthy lease agreements that were too costly to exit early, whilst others were in good pitch locations, where there was potential opportunity.

We used a simulation approach to assess how stores could be repurposed to drive growth, considering the role of stores within mini-geographical networks and alternative uses for sites, such as build-to-rent.

The outcome:

We were, and are, focused on helping clients to make better, more informed decisions. In each case, we used simulation to stress-test decisions and deliver the business case.

Fueling GenAI with clean, structured data

From the sporting industry to luxury retail and beyond, the allure of GenAI is growing. However, its effectiveness hinges upon the quality of the data that feeds it. Yet, across many organizations, unstructured data looms large. This poses a few challenges:

Firstly, unstructured data is notoriously difficult to access and pull insights from. It often contains sensitive personally identifiable information (PII), which raises concerns surrounding consumer trust and data security. Compounded by its ever-increasing volumes, unstructured data necessitates costly storage solutions and complicated disposal processes. To fulfill GenAI's promises, luxury leaders should separate the proverbial wheat from the chaff, discerning valuable data from the redundant, obsolete, and trivial.

"If your data lake is not clear, not clean, you can't do anything with your data. The quality of your data inputs will ultimately determine the success of your GenAI efforts, and the impact of your immersive customer experience."
– Karine Szegedi, Consumer Industry lead, Audit Partner, Swiss Fashion & Luxury Head, Deloitte Switzerland

Let's consider a relatable example: Imagine a high-end fashion brand that specializes in luxury handbags. Every day, thousands of users post pictures and stories featuring their products on Instagram. These posts contain a wealth of unstructured data, including images, captions, likes, comments, and tags. Now, what does the company do with all that data? Before they can use this data, they need to analyze it.

By developing a strategy to source, comprehend, cleanse, classify, and structure their data, the retailer could gain insights into different aspects of their products' popularity. For example, they could see which styles are trending. They could also see how customers are styling their handbags and which influencers or celebrities are endorsing their brand. They could even tap into what emotions or sentiments are associated with their products. They could use this structured data to create marketing messages that resonate with their customer base on a deeper level.

To take the personalization a step further, the company could cross reference their social data with purchase data to develop AI-powered virtual styling assistants. These assistants could provide tailored fashion advice by suggesting outfits and accessories that match the customers' body type, occasion, styling preferences, and favorite celebrity influencers.

Additionally, while many luxury retailers are investing in sustainability, accessing comprehensive product data is a challenge—particularly data around the true origins of their products. By utilizing unstructured supply-chain data, retailers can better communicate their commitment to sustainability and supply-chain transparency. Furthermore, AI can help retailers minimize their environmental impact through streamlined production, improved operational efficiency, and reduced overproduction.

Staying out of the deep end: Managing the potential risks of GenAI

To prepare the enterprise for a bold and successful future with GenAI, organizations need to better understand the nature and scale of the associated risks, as well as the governance tactics that can help mitigate them. From a cybersecurity perspective, GenAI models can compromise customer privacy by inadvertently revealing sensitive information from training data. Moreover, accepting GenAI outputs without proper scrutiny can expose backend systems to various security threats, such as remote code execution or data breaches. In addition, unauthorized access to proprietary GenAI models can result in economic losses and compromised competitive advantage.

However, revealing sensitive information from training data requires that a GenAI model was actually trained on sensitive data from a given company. This risk only occurs when retailers explicitly train or finetune their own models, which is not a very likely first step. While large language models could potentially output malicious code, a more tangible risk is GenAI producing the wrong information or content that doesn't align with the company's values.

Before using GenAI, luxury leaders should be aware of ethical concerns, discrimination, algorithmic bias, and threats to intellectual property. For example, GenAI can generate content that seems real but is entirely fabricated by the AI system. These "hallucinations" can range from fictional stories to surreal images that appear to be generated by a human. Additionally, GenAI's susceptibility to bias and discrimination arises from its training data. By mirroring societal prejudices, GenAI algorithms can perpetuate unfair outcomes or inaccurate representations of historically marginalized groups. Without meticulous data curation and algorithmic scrutiny, GenAI could exacerbate existing biases and reinforce discrimination.

To manage the risks associated with GenAI, luxury leaders should consider conducting a risk assessment. This assessment should help all key stakeholders understand the risks that span GenAI models, applications, infrastructure, personnel, data integrity, and training and testing methodologies.

As outlined in Deloitte's Safeguarding Generative Artificial Intelligence (AI) With Cybersecurity Measures report, a solid GenAI risk-management framework is comprised of four key layers:[21]

01

Business values layer:
Evaluate potential risks and benefits from AI implementation. Align projects with strategic objectives, financial robustness, reputation management, and competitive edge.

02

Governance layer:
Ensure the responsible, secure, and ethical use of GenAI by managing and overseeing its application across people, processes, and technologies.

03

Five pillars layer:
Develop a comprehensive roadmap for navigating the complete GenAI lifecycle and proactively identifying and mitigating risks at each stage. This step encompasses adoption, maintenance, scaling, customization, and decommissioning.

04

Risk control layer:
Ensure that AI technologies harmonize with data security, privacy imperatives, and regulatory compliance, extending from established principles like the CIA triad to encompass the full spectrum of privacy considerations and adherence to regulations.

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21. Deloitte, "Safeguarding Generative Artificial Intelligence (AI) with cybersecurity measures," accessed 29 February 2024

"In the realm of AI-driven commerce, innovation must be guided by ethical oversight and robust regulation. From protecting intellectual property to addressing algorithmic bias, transparent governance is essential. As legislators worldwide create regulations, businesses must prioritize ethical standards to foster trust and sustainable growth."
– Ida Palombella, Partner, Deloitte Legal, Global Fashion & Luxury Co-Leader

GenAI's ability to drive transformation depends on finding a careful balance between mitigating risks and establishing comprehensive global controls. To grow with resilience and confidence while using GenAI, luxury retailers should address cybersecurity, data security, and customer privacy risks, to name a few.

Additionally, effective governance of GenAI requires a multidisciplinary approach and collaboration between teams and stakeholders. It should be dynamic in nature to keep up with changing societal norms and regulations. It should also be an ongoing process that evolves with advancements in GenAI technology.

Deloitte's Trustworthy AI™ Framework
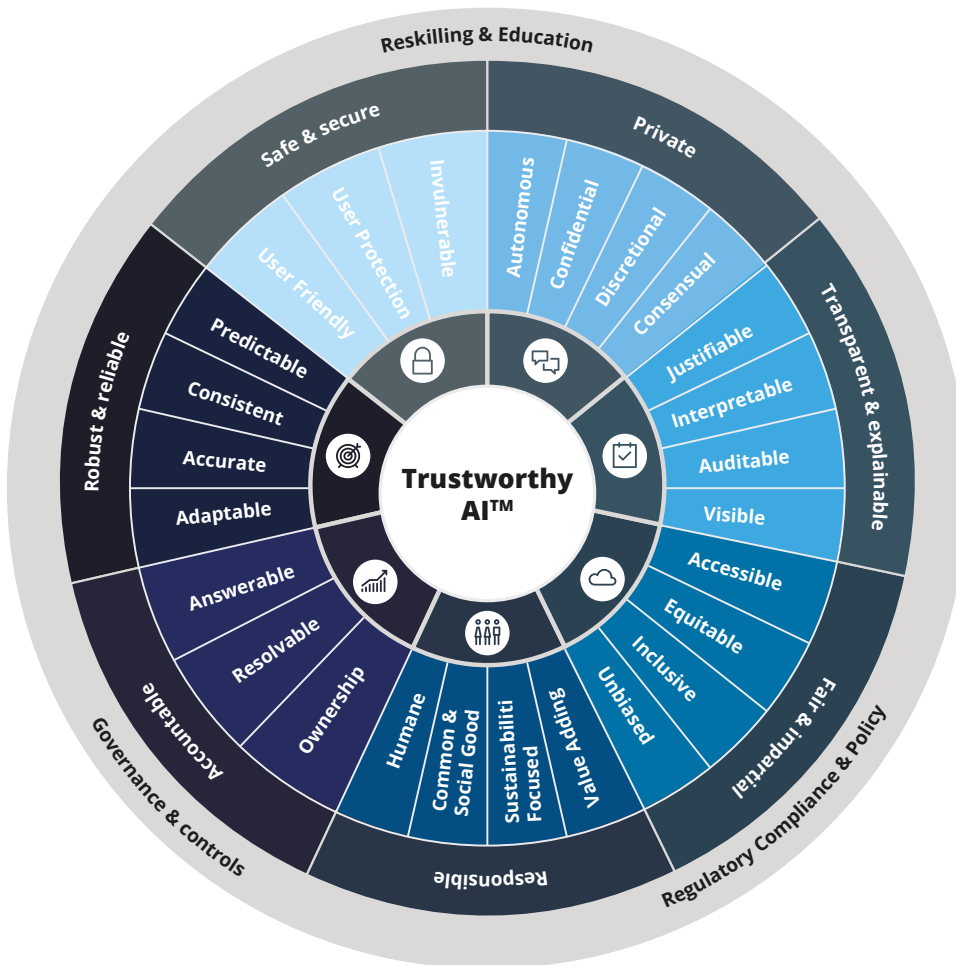
Source: Deloitte Development LLP, "Trustworthy AI™ Framework[22]

22. Source: Deloitte Development LLP, "Trustworthy AI™ Framework

Conclusion

The landscape of luxury retail is undergoing a seismic shift. GenAI is reshaping the customer experience, from virtual shopping lounges to personalized recommendations and beyond. But the path forward is not without its challenges. At the heart of this transformation lies the quest for trust, a fragile commodity. However, amidst these perils lies the potential of unparalleled innovation and hyperpersonalized experiences that connect more deeply.

To realize GenAI's potential, organizations should tread carefully, balancing risk with reward and caution with courage. Organizations should also improve the quality of the data that fuels GenAI engines. By embracing transparency and managing risks, retailers can utilize GenAI and data analytics to deliver better customer experiences, elevating their brand—and customers—to new heights of sophistication.

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