e-Commerce Fulfillment Strategy for Luxury Brands in South Korea

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Summary: Analysis of e-luxury from a systems-thinking perspective can give companies valuable insights into how to organize their supply chain and align their operations to capture demand. In the South Korean market, the luxury retailer that can simultaneously elevate its brand, segment its products and services, and unify the online and in-store luxury experience will win the hearts and minds of customers.

KEY INSIGHTS

1. A shift in the luxury core market in South Korea gives Ralph Lauren the opportunity to capture new demand by segmenting its products and services according to customer needs.

2. High competition in the mid-tier luxury arena indicates that Ralph Lauren should differentiate itself on high-end label and one-of-a-kind merchandise.

3. Ralph Lauren should utilize omni-channel retailing to create a unified brick to click experience in order to "sell through" mid-tier label stock-outs, and offer customized apparel.

4. It is just as important to bring the online experience into stores as it is to bring the in-store experience online.

Introduction

Ralph Lauren, a major American luxury retailer, has experienced success in “e-luxury” in several global markets, and has chosen to roll out e-commerce in South Korea. The luxury market there is shifting – the number of young luxury consumers is on the rise, and their values, communication channels, and service demands are different than those of the traditional core. Our project seeks to help Ralph Lauren build an e-commerce strategy suitable for the unique Korean market, while at the same time elevating the brand.

South Korea is of special significance to many luxury retailers. Not only is it a robust and growing market itself, but luxury fashion trends have a historical pattern of starting in Japan and flowing through South Korea to China. Thus South Korea is seen as a keystone to the Asian fashion market. In addition, South Korea is renowned as the world’s most wired country – giving luxury retailers like Ralph Lauren more reason to explore e-commerce as a method to capture more customers and fortify top line sales growth.

Until recently, Ralph Lauren’s presence in South Korea was fully managed by its licensee. For years, that licensee harvested the brand’s value by pursuing a high-volume, middle-tier merchandise sales strategy. While this is a common practice for license
holders who want to maximize medium-term profit, it is detrimental to the brand’s image.

Ralph Lauren has recently re-acquired its license in South Korea, and they can now begin to revitalize their image by presenting the right mix of merchandise for customers. For the purposes of our project, we group these merchandise “labels” into two generic entities: “Blue Label” includes all other middle-tier luxury labels (such as Rugby and Polo); “Collection” includes all other high-end luxury labels (such as Purple Label and Black Label).

Offering a multi-channel business model in South Korea has some obvious potential benefits that would apply to any retailer, including increased exposure to customers, greater accessibility to product with a 24-hour shopping window, and savings through inventory consolidation and operating efficiencies. However, a potential risk, and widely accepted belief, is that offering luxury products online diminishes a luxury brand’s image. Furthermore, luxury companies generally feel that the personal interaction, level of service, and the general experience associated with high-end luxury shopping cannot be replicated online.

Ralph Lauren’s e-retail success in other countries clearly challenges this paradigm – as they retain the largest share of e-luxury in the world at nearly 40%. However, this proven track record cannot guarantee success in South Korea without fixing the harm done by its previous licensee.

Thus, the Ralph Lauren team faces a two-pronged challenge in South Korea: to elevate its diminished brand image while simultaneously launching an e-commerce initiative. This project presents several thought models that incorporate factors like inventory policy, brand strength, mediation, customization and online sales mix to explore how the brand image could be affected as e-commerce is rolled out. Specifically, we wish to identify critical decision-points in the areas of inventory policy, e-commerce implementation, and value-added services that will help Ralph Lauren drive a successful operation in South Korea.

Fundamentally, we believe that a unified “omni-channel” strategy (one that seamlessly blends e-commerce and traditional brick and mortar) will result in the greatest success potential for Ralph Lauren in South Korea. Through analysis of our thought models, we present several prescriptive operational measures that Ralph Lauren might take to unify their omni-channel strategy.

In this project we mapped the system of variables, and behaviors between those variables, unique to e-luxury in South Korea. This allowed us to recommend practical methods to influence these variables and behaviors with the goal of elevating the brand’s image when e-retail is implemented.

Research Approach

After a review of current industry literature, we were granted the opportunity to experience the Ralph Lauren brand first-hand through site visits and interviews. These interactions proved critical to our research because luxury is meant to be experienced.

Visiting the facilities in Korea, New York, and North Carolina provided us with the opportunity to peak behind the velvet curtains of Ralph Lauren and develop an understanding of how operations support the luxury experience. By its very nature, field research requires researchers to interpret observations; these interpretations should be contrasted and questioned in order to form an objective assessment of the situation.

To form this objective analysis, we used two strategic frameworks, namely SWOT and Porter’s Five Forces, to establish baseline variables for system dynamics analysis. System dynamics analysis (or systems thinking) allowed us to explore the behaviors between these variables as a system of interactions rather than merely a collection of variables. We used a program called Vensim in our project to map out causal loop diagrams that are part of Ralph Lauren’s e-luxury system.

SWOT Analysis:

The SWOT framework focuses on a central object of analysis (a goal or project), and then focuses on the internal and external factors that will influence the success or failure of that object – in our case, e-luxury in South Korea.

Our SWOT analysis indicates that Ralph Lauren is strategically positioned for success because of its previous success with e-commerce, customer and SKU segmentation, and leading technical capabilities. These factors will allow Ralph Lauren to
capture the expanding demand for luxury goods in South Korea only if they are able to overcome previous degradation of the brand as well as strong mid-tier competition.

**Porter’s Five Forces Analysis:**

The Porter’s Five Forces framework focuses on evaluating the attractiveness of an industry by identifying the potential threats associated with barriers to entry, rivalry, substitution, buyer power and supplier power.

Our Porter’s Five Forces analysis indicates that e-luxury in South Korea is an attractive industry for Ralph Lauren to engage primarily because there is plenty of room for growth, low propensity for substitution, and moderate buyer and supplier power. However, as the industry matures, brand differentiation will become more and more of a key factor to sustaining better-than-average profitability.

**System Dynamics**

System dynamics is a set of conceptual tools that enables managers to understand the dynamics of interactions between variables. We employed system dynamics to explore three critical interactions for Ralph Lauren’s e-luxury roll-out in South Korea.

Scenario 1: Complementary Sales

Central to the complementary sales issue is the concept of stock-outs. In the luxury sector, stock-outs can actually elevate the brand image (adding an element of exclusivity to the merchandise) if an omni-channel operation exists. Using iPad’s in stores can enable Ralph Lauren to “sell through a stock-out” directly from the distribution center’s inventory. This also familiarizes customers with the e-commerce platform, potentially leading to future use. The positive influence of online sales on brand image is predicated upon the “correct” execution of e-commerce and a positive customer experience. This interplay between online sales and brand image will be discussed further in Scenario 3.

Scenario 2: Product Alignment

Elevating the brand will increase demand, which will increase sales for both Collection and Blue Label items. If Collection sales are high relative to Blue Label sales, the brand image will elevate. However, if the ratio of Collection to Blue Label sales falls due to relative growth in Blue Label sales (as was the case when Ralph Lauren’s licensee harvested the brand), then Blue Label merchandise can become commoditized. To avoid this commoditization of Blue Label goods, we believe that Collection accessories should be strategically placed within the Blue Label assortment.
Scenario 3: Online Experience

Online sales can create both positive and negative impacts on the brand image. On the positive side, e-luxury presents the opportunity for retailers to tell an “online story” in which they bring customers into the luxury lifestyle and brand. It also allows luxury retailers to provide customization and additional fulfillment services.

On the negative side, online customers will always face mediation – both because they cannot touch the physical product and because of the time delay between purchase and receipt of goods. Luxury companies face the additional burden of losing the appearance of exclusivity when they sell online.

The goal for e-luxury retailers such as Ralph Lauren is to maximize the positive experiences while minimizing the negative ones.

(1) Unify the Ralph Lauren experience through omni-channel. Whether in-store or online, Collection or Blue Label, brand image should be consistent and built around the “Ralph Lauren lifestyle”. Every clothing line should fill a different gap in the customer’s life, every product line reinforcing the others. It is just as important to bring the online experience into stores as it is to bring the in-store experience online.

(2) Segment and align the services and operations by customer requirements. Luxury supply chains don’t necessarily need to be optimized, but rather tailored to customer’s needs. For Ralph Lauren, Collection customers and Blue Label customers are not the same always, but they do tend to overlap. By tailoring services to each segment’s needs, Ralph Lauren can take advantage of the shifting core luxury market in South Korea. They can do this through careful management of fulfillment services, inventory position, customization, etc. Michael Porter, the creator of the Five Forces framework, uses the term needs-based positioning to describe this alignment of operations and customers. Examples of growing customer segments in South Korea include younger buyers, professional women, and men shopping online.

(3) Use Collection and unique merchandise to differentiate and anchor the brand by creating a highly targeted product mix across labels. For example, Ralph Lauren can incorporate high-end or unique accessories into product displays and web videos. These items – and the luxury services afforded to Collection customers – are Ralph Lauren’s strongest link, and are extremely difficult for Blue Label competitors to reproduce. “Collection-centric” efforts should be highly visible to Blue Label customers, whenever possible.

Conclusion

In South Korea, the luxury market is growing and its customers are evolving. For companies like Ralph Lauren that wish to employ e-commerce, success or failure in South Korea will be heavily dependent on brand image. Understanding how different factors such as inventory policy, brand strength, mediation, customization and online sales mix affect brand image can help luxury companies align their supply chain and gain an edge over their competitors. The core strategy that we recommend for South Korea involves three key guidelines.

Figure 3