Department of Business and Management

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Disruptive Innovation in Luxury E-commerce: The Case of Farfetch

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Introduction

This thesis has been conceived as an instrument to investigate the development of luxury e-commerce through analysing the contribution of a single innovative firm: Farfetch. Indeed, its pioneering business model and platform structure have been revolutionising the industry for the last decade and might have an even larger impact on the forthcoming years through a re-interpretation of the omnichannel concept, which will affect also brick-and-mortar retail.

Analysing innovation is a complex task, given the variety of forces affecting the development of an entire industry, such as technological improvements, consumer behaviour and ground-breaking business ideas, which can directly impact significant factors, such as production processes, delivery methods and also the competitive environment.

For the sake of this research, it has been chosen to adopt the *Disruptive Innovation Theory*, since it is deemed to be a superior instrument to explain the rationales behind firms' behaviour and predict future outcomes when dealing with an industry shaken up by the presence of a disrupter. However, in order to apply this theory, the analysed firm needs to meet some requirements, which indicate that it is following a disruptive path. Thus, before predicting the potential consequences of such profound evolution, the research will focus on assessing if Farfetch is truly a disrupter.

In order to produce a thorough research both on this firm and on the industry, it has been chosen to consider both an internal and an external perspective of analysis. Regarding the former, the Business Model Canvas has been the principal theoretical framework to conduct such study, because of its comprehensiveness and simplicity, which allow to discover the main components that make a firm thrive, as well as the peculiarities that makes it stand out from the competition. Indeed, Farfetch has built a revolutionary business model that has led an impressive number of funders towards the firm, despite still being unprofitable.

Moreover, there will be a focus on the luxury e-commerce industry, which is still in an early development stage, because of the initial reluctance of luxury brands towards digital technology. In particular, we will delve into the rise of luxury multibrand e-tailers, since it is the industry segment in which Farfetch mainly operates, even though its contribution will encompass also physical stores, which, according to the founder, will always be the central channel for luxury.

The content of this research has been divided into three chapters that encompass different level of analysis and perspectives.

The first chapter is devoted to analysing luxury e-commerce, by outlining the origins of this recent channel in light of the cultural shift brought by the internet. It focuses on the main forces that have been influencing the evolution of such industry, before providing a preliminary industry analysis, which constitutes an important foundation for the third chapter.

The following section delves into the two principal theoretical frameworks that have been chosen has the underpinnings of this research: the *Disruptive Innovation Theory* and the *Business Model Canvas*. Both topics are tackled from a critical perspective, starting from their origins to their last refinements, and considering the main limitations of such models, together with the possible solutions to overhaul them.

The last chapter is dedicated to the case study, which is tackled considering the history of the firm and of his founder, the external environment and the internal dimension, then summarised into a SWOT framework. The remaining paragraphs concern the future of the company, by describing the *Store of the Future* project and assessing the disruptive power of the firm, before offering alternative future scenarios that might unfold in the next decade.

Chapter one. Luxury E-commerce: a recent history

1. Introduction

In the first chapter of this thesis, the attempt has been made to introduce the luxury e-commerce industry, as the main target of this paper is to assess the impact of Farfetch on such industry, which is still in an early development stage, characterised by a high growth rate and uncertainties regarding power balance among its different players.

To provide the reader with a brief but comprehensive understanding of this industry, we will begin by analysing e-commerce origins, in light of the cultural shift produced by the internet, and its development until the present days, through the analysis of some figures regarding its size and growth rate and an investigation of the principal pros and cons entailed by this new sales channel.

Afterwards, we will delve deeper into the description of the luxury segment of e-commerce, considering the main reasons that made luxury firms resist online sales channels for a longer period compared to other industries, as well as the development of this recent industry segment through the years. Moreover, we will address the main forces that influence such sector, together with some of the principal qualitative trends that are shaping its evolution.

The fourth paragraph contains a focus on one of the most significant variables that affect such industry: online luxury consumers. Indeed, customer profiling for such a recent industry is still very difficult, but we will tackle some of the main methods to solve this problem and the main findings discovered through several research efforts about those peculiar customers.

Before concluding this chapter, we will focus on the industry segment that will analysed more in detail in the case study, contained in the last section of this thesis. Indeed, we will address the main features of luxury multibrand retailers, considering their impressive rise, as well as the uncertain future of the whole industry segment.

2. E-commerce: from the origins to its most recent developments

2.1 A cultural change

In the very last decades, internet has changed every aspect of our lives, causing a major cultural change. This transformation has affected the way of doing business, creating new channels and opportunities for both entrepreneurs and potential customers. As a matter of fact, a notable change has occurred in the relationship between companies and consumers, creating a novel balance, in which consumers have gained more leverage than ever before. Indeed, they have been empowered by the gigantic amount of data that has become accessible to them through the web. This empowerment can be summarised into three main points: instant information; lower switching costs; higher expectations.

The first point embodies the essence of the internet, the sharing of information through the web, which has brought to the creation of an unprecedent amount of data that has become accessible to nearly a half of the world population: 3.773 billion people over 7.476 have access to the internet in 2017[1]. These data represent a powerful tool for consumers, who can compare different products or services in a short amount of time and whenever they want, thanks to their smartphones. For this reason, it is crucial for companies to have a strong presence on the internet and to use this channel wisely in order to send the right message to their potential customers.

Moreover, the internet has provided brands with a major opportunity to differentiate themselves. However, differentiation is also a need for them, given the fact that today consumers have lower switching costs. As a matter of fact, the accessibility of the information about products and brands and lower amount of time needed to obtain it has made very easy for consumers to switch from a brand to another. Thus, nowadays retaining customers has become a very complex goal, given not only their empowerment but also the fact that they have become wiser than ever, thanks to their new knowledge coming from online sources.

[1] *Digital in 2017 Global Overview*, We Are Social and Hootsuite, 2017

In fact, the third main point of consumers empowerment regards their higher expectations about products and services, caused by their newly acquired ability to easily and rapidly compare the smallest differences between brands thanks to precise and up-to-date information given by other online users or the brands themselves.
This is a major issue for companies, which are often requested to guarantee a uniform offer around diverse locations, since, for instance, a client in New Delhi is very likely to know if an exclusive product has been launched in New York and may ask for it.

2.2 The origins of e-commerce

At the heart of this new relationship between companies and consumers, there is a new point of contact, which has revolutionised the way in which we conceived shopping nowadays. Indeed, the internet was the engine of the development of a brand-new retail channel: e-commerce, which can be defined as a type of business model, or segment of a larger business model, that enables a firm or individual to conduct business over an electronic network, typically the internet[2]. Its origin has been dated in the 1960s, thanks to the sharing of data between machines belonging to different companies via a system called Electronic System Interchange, which used the nascent computer networks, and also thanks ARPAnet, a military network created to allow the circulation of the information needed to impede nuclear attacks. However, the first sales channel that reminds of e-commerce is the Electronic Mall introduced in 1984 by CompuService, a network that used to provide home online users with chat rooms. This primitive online sales channel allowed for the purchase from around 100 online retailers, but it was a failure, even though it prepared the ground for e-commerce as we know it today, thanks also to the lifting of the ban on the commercial use of the internet by the National Science Foundation.

There was another critical issue to face in order to spread the use of this novel channel around consumers: security. Luckily, 1994 saw the introduction of the Secure Socket Layer, a security protocol which secured online transactions for both the parties by encrypting personal information. This protocol, together with the establishment of third-party credit card processors, brought to the first secure online purchase: in 1994, Phil Brandenberger bought a Sting album from his personal computer.

[2] Investopedia.com

After this first online purchase, e-commerce has been going through a long development thanks to companies like Amazon and eBay, which codified full business models, laying the groundwork for modern e-commerce.

2.3 Modern e-commerce: fact and figures

To analyse e-commerce as we know it today, there are several indicators, which can tell us its size and growth rate, as well as which markets and industries are the most relevant.

The table below shows the e-commerce turnover by area in 2014 and 2015[3]. It is worth noticing that Asia Pacific reports the highest value, since it counts the biggest numbers of online shoppers: 1,223 million people over a total of 2,520 worldwide. Moreover, in that region e-commerce share on GDP is 4.48%, which is much higher than the global average share of 3.11%. Going more in depth, the most important countries for e-commerce share on total GDP are China, the UK and South Korea, respectively with 7.05%, 6.12% and 4.70%.

	2014*	**2015***	**Growth**
World	1,895	2,273	20%
Asia Pacific	823	1,057	28%
North America	573	644	13%
Europe	446	505	13%
Latin America	26	33	28%
MENA	22	26	19%

*Table 1. E-commerce turnover by region. *Data in billion $*

Concerning online sales, they have reached 2.671 billion $ in 2016, with a growth rate of 17.5%. This rate showed a decreasing trend over the last years, as shown in the table below. It is also worth noticing that the first three countries by e-commerce sales in 2015 were China, registering 766.5 billion $, the US, with 595.1 billion $, and the UK, with 174.2 billion $. The difference between the first two markets and the rest of the world is quite significant, given the fact that they account for 60% of global e-commerce sales.

[3] *Global B2C e-commerce report 2016*, Ecommerce Foundation

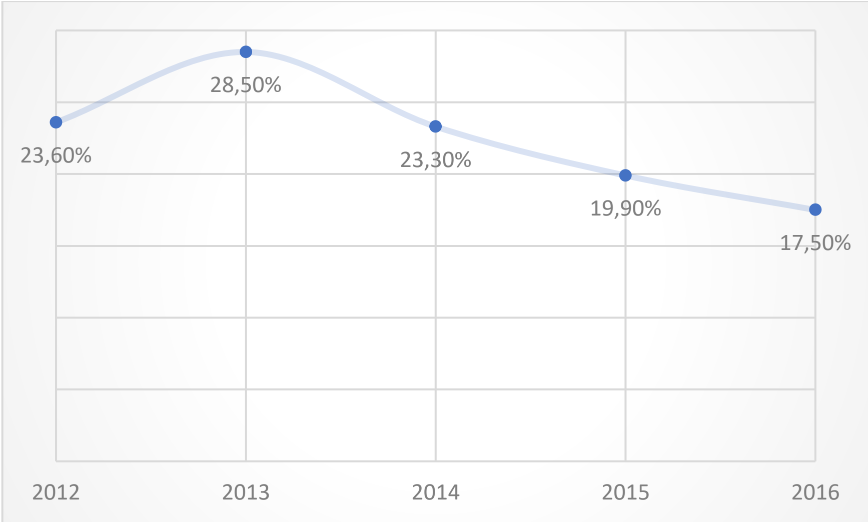


Table 2. E-commerce worldwide B2C sales growth rate[4]

Another major indicator is the online expenditure per single shopper. In this case, Asia Pacific is only the third area, with 1,486$ spent per person in 2015, against 3,099 in North America and 1,708 in Europe. The country with the highest expenditure per e-shopper is the UK, reporting an astounding 4,018$, against 3,428 of the second country, the US.

Recently, we have witnessed the rise of the smartphone, reaching 1 billion units sold in 2015, and thus becoming a key device for online sales. Indeed, it accounts for 50% of the total web traffic with a yearly growth rate of 50%. Online retailers have noticed this shift from PCs and laptops towards mobile devices and are trying to update their websites and platforms in order to make them mobile-friendly.

The last important indicator to have a complete overview of modern e-commerce concerns the share of single industries on global online sales, in order to find the most significant product categories. In 2015, clothing became the first category for online sales, surpassing the Computer Hardware category for the first time[5], thanks also to the wide offer of Amazon, which has strongly invested in apparel. However, in the US and China, the two biggest e-commerce markets, clothing is not the first product category.

[4] See note 3
[5] J. Del Rey, *Clothing became the No. 1 Online sales category for the first time in 2015*, J. Del Rey Recode, 1st April 2016

Indeed, it ranks second in both countries, after Media and Entertainment in the former country and after Home and Garden in the latter.

Before concluding this analysis of the current situation of e-commerce, it is important to mention some drawbacks and some limitations of this new channel. Indeed, even if it provides online consumers with a wide choice and the possibility to compare between millions of products and stores, it is still facing some difficulties. Firstly, trade barriers between countries can be an important obstacle. Those barriers are not only related to trade restrictions but also to different languages and legal systems. Moreover, e-commerce poses a need for infrastructure, which cannot be fulfilled in numerous countries, especially in developing areas. Lastly, trust is still a major concern for companies operating through this channel, since a large part of consumers is still afraid of buying online. Among the reasons of this distrust, we can find payment security issues, the will to protect one's privacy and a lack of trust about return policies.

There are also other pros and cons to e-retail, as analysed in *E-Retailing* by Dennis, Fenech and Merryllis (2004).

Advantages of e-retail	**Disadvantage of e-retail**
For the e-retailer	**For the e-retailer**
Convenient location	*High capital investments and ongoing costs*
Cost-effective	*Complex logistics (related to global deliveries, returns, exchanges and refunds)*
Global audience	*Low impact sales*
Round the clock service	*Less impulsive purchase*
Opportunity for data mining and relationship marketing	*Legal complications*
Small to large scale operations	*Challenging post-sales*
Competitive advantage services	

For the consumer	For the consumer
Saves time	*Security worries*
Extensive product variety	*Delivery timing*
Convenient	*Delivery costs*
Easy to use	*Lack of human contact*
Up-to-date information	*Non-physical goods*
Round the clock availability	*After-sales services difficulty*
Product personalization	*E-CRM inaccessibility*
Favourable prices	
Instant gratification	

Even though, e-commerce has been evolving at a fast pace for the last years, these issues are a still a major concern for every player in the sector and need a further and more widespread cultural change in order to make online sales grow even faster than they did in the last decade.

After this preliminary analysis of the current situation of e-commerce, we are going to dig deeper into luxury e-commerce, which is the focus of this research, addressing its most important facts and figures.

3. Luxury E-commerce: from resistance to empowerment

3.1 Luxury and digital: the main reasons for a very late adoption

The history of luxury e-commerce is shorter compared to other industries, since luxury brands have been quite suspicious about embedding digital into their business models. This resulted in a late adoption of this new channel, which brought many disadvantages, such as the difficulty to provide a service which is in line with the consumers' expectations, which are very high when dealing with this kind of brands.

Nevertheless, it is important to understand the main reasons behind this choice, in order to have a clear picture of how luxury brands select and execute their strategies, and which are the foundations and principal objectives of their activity.

Two of the most important reasons of this late adoption are the will to maintain luxury brands prestige and exclusivity and the lack of knowledge and know-how about the digital world.
Regarding the first motive, the democratisation brought by the internet was seen as a negative factor by luxury brands, which did not want to dilute their image, by becoming accessible to the new and large users base. In fact, one of the most important features of this kind of brands is their exclusivity, since it drives the consumer desire to buy their products: status is one the two dimensions of luxury brand management, together with pleasure. A large part of consumers buys from those brands to show their wealth or their power, to demonstrate that they can afford a luxury lifestyle. Moreover, in order to increase their awareness among consumers and to improve their reputation, luxury brands should maximise the difference between people who would like to buy their products and the ones, who actually can. This strategy leads to a diffused brand awareness and willingness to buy from that particular brands and contributes also to enhance the visibility of its customers.
Hence, we can see that luxury brand management is founded on the perception of the exclusivity of the brand by the consumers. Many brands were against digital because they were afraid of losing their exclusive feeling, by becoming more accessible.

Moreover, luxury brands thought they could not convey their prestige and their high-quality service through the digital channel. Indeed, one the major features of those brands is the intimate and personal service they offer in their stores. They are usually located in marvellous locations and are coherent with the brand image. Every detail is the result of a thorough analysis and the result of it is a peculiar atmosphere, which not only reflect the brand features but is also a means to drive sales by persuading customers to come into the store and to buy what the company wants them to buy.
Mark Tungate, a branding specialist and author of "Fashion Brands: Branding style from Armani to Zara", said: *"Luxury brands have been slower than most to unlock the potential of e-retail. They have struggled to overcome the challenge of making their digital environments as alluring as their stores"*.
Indeed, he points out the fact that they were not aware of the possibilities that the digital channel offers and avoided it for years before realising how much it could help them, by just watching at other industries' digital experience.

This mistrust about the potential of digital is related to the second main reason of its late adoption by luxury brands. As a matter of fact, it was driven by a lack of know-how about the digital world.

Almost every company in this industry tries to leverage its heritage in order to tell a story, which usually goes into two directions: an emotional one, related to the long history of a family or of a single man, who, starting from scratch, has managed to fulfil its dream by enriching people's lives or making them better in some ways; a more rational one that concerns an expertise in producing specific goods and/or in providing a peculiar kind of service. This heritage concept has been pervading luxury marketing strategy for many decades producing a major drawback: it acted as an innovation-inhibitor. Indeed, according to Morley, J., & McMahon, K. (2011)[6], by leveraging mainly on their long, static histories, luxury brands have been stuck and unable to dynamically renewing themselves, in order to remain coherent with their original characteristics.

This strategy has led to some negative consequences for those companies, such as the inability to reposition themselves, to react to changes in their operational context or to strengthen their position in emerging markets. Also, it implied a lack of interest for the digital world. In fact, digital was seen as one of the farthest options to execute a strategy based on heritage, for it implies an idea of modernity that could contrast with a brand image rooted in the past.

Those reasons have made very difficult for luxury brands to start embedding digital in their activities. As a result, luxury e-commerce has a very recent history and is still in a growth stage, considering that still in 2017 40% of luxury brands do not sell online[7].

In the next section, the current situation of luxury e-commerce will be analysed by underlining facts and figures about this peculiar market and its main trends.

[6] J. Morley, K. McMahon, *Innovation, interaction, and inclusion: Heritage luxury brands in collusion with the consumer*, 2011

[7] T. Popomaronis, *Luxury Brands Are Becoming Big Players In The E-Commerce Game*, Forbes, 28th Feb 2017

3.2 Luxury e-commerce: entering the scale-up phase

Despite the late adoption of digital technologies, around 60% of luxury companies are currently selling goods and services through the web, as we previously saw. This number is destined to grow according to many researchers in the sector. Indeed, luxury e-commerce is about to reach its tipping point, entering in a scale-up phase characterised by a much higher growth rate.

In this section, there will be a detailed analysis of this last affirmation, together with the main trends that are shaping luxury e-commerce now and that will play a major role in the forthcoming years.

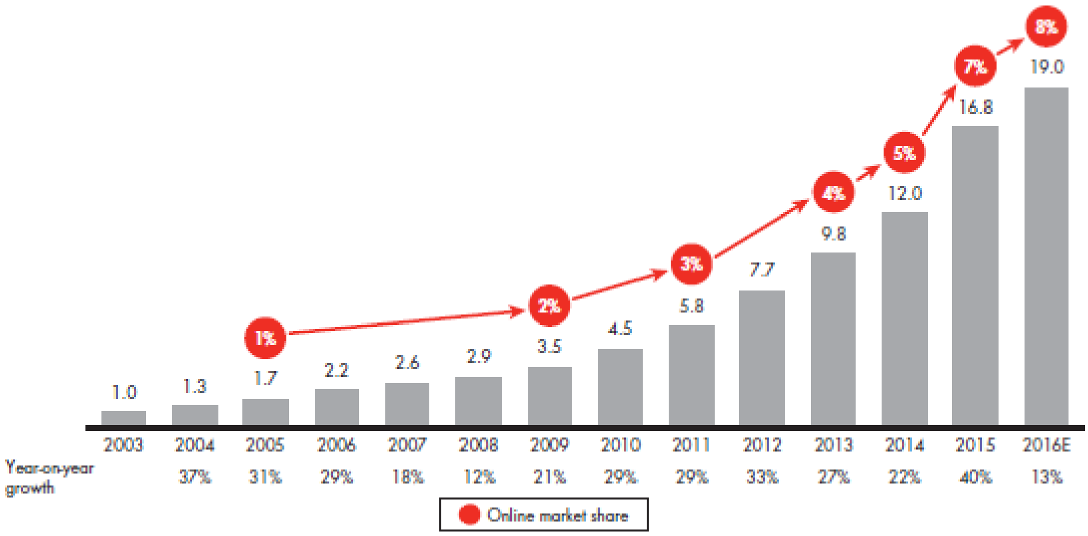


Table 3. Online personal luxury good market, 2003-2016. Source: Bain & Company

From this graph, we can notice that online sales of personal luxury goods have shown an impressive increase from 2003 to 2016, reaching 19 times their size at the beginning of the period. Indeed, according to Bain & Co., they have reached 19 billion euros, with a 8% weight on the global personal luxury goods market, even though with a significant decrease in growth rate. However, the online part of the market has over performed considering that this segment of the global luxury market witnessed a 1% decrease in the same year. Hence, online sales have been clearly showing impressive growth rates compared to the rest of the luxury market, showing that there is still much room for increase in the following years, even when the overall luxury market is stagnating.

This positive future outline of the market is supported also by McKinsey, which claims that luxury e-commerce is about to reach its tipping point[8]. As a matter of fact, after analysing 50 luxury brands, they found that online sales growth in the future can be divided into three main phases. The first one is called ramp-up and represents the period in which they start penetrating the market through partnerships or through their own online shops, but with a reduced offer and a minor investment in advertising. The scale-up phase, instead, is characterised by a much quicker growth rate that is achieved after having reached the tipping point, in which online sales account for 6-7% of global revenues. During this phase, e-commerce becomes a priority for top management and is supported through a significant investment in IT, customer support and/or supply chain, such as warehousing. This focus on the online part of the market will make e-commerce revenues skyrocket until reaching the 20% share of the market, which represents a threshold that introduces the plateau phase. During this last period, the luxury online market will reach its maturity, witnessing a deceleration in the pace of its growth and an overall higher quality level of online operations.

They have reached these conclusions comparing the luxury industry with other more mature industries regarding online sales, like Consumer Electronics or Mass Fashion, which have gone through a similar path. Moreover, they forecasted that luxury e-commerce will reach 70 billion euros in 2025, with a 18% weight on total luxury sales, becoming the third luxury market in the world, after China and the US.

These figures about the impressive growth of luxury e-commerce are a powerful tool to make us understand the size of this business and why luxury brands are investing so much to improve their position in the market. In the next part, there will be a description of the main forces and the most relevant qualitative trends that are shaping this market, in order to provide a clearer picture of it.

[8] N. Remi, M. Catena, B. Durant-Servoingt, *Digital inside: Get wired for the ultimate luxury experience*, McKinsey&Company, *July 2015*

3.3 Luxury e-commerce: key forces and qualitative trends

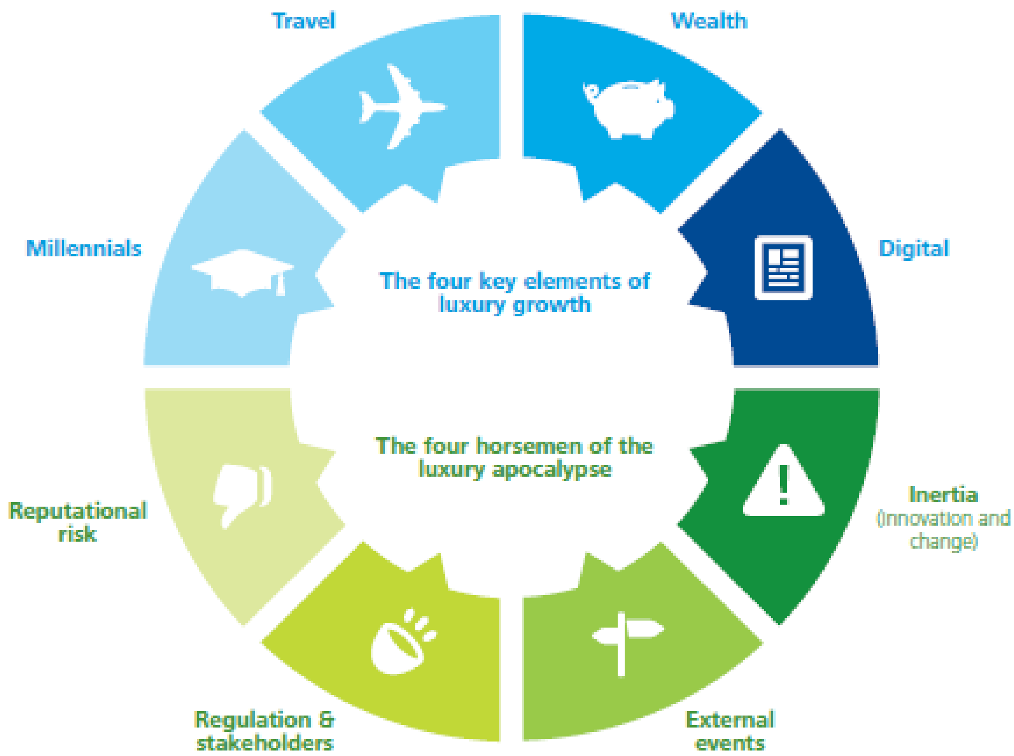


Table 4. Source: Deloitte.

According to Deloitte[9], there are four main forces that can affect the growth of the overall luxury sector: millennials, travel, wealth and digital. Brands need to make long-term investments focused on those areas, but they also need to take into consideration four main risks that could affect their growth in the next years: reputational risk, regulation and stakeholders, external events and inertia.

In the same report, there is a list of the two most critical combinations between the four elements of growth and the four risks, which are to be the most influential in the near future of luxury: travel and millennials and digital and inertia. The latter is the most interesting for this research, focused on e-commerce.

[9] *Global Powers of Luxury Goods*, Deloitte, 2016

In this section about digital, the report focuses the attention on the need to have a digital agenda for luxury brands nowadays. Indeed, there are two major trends that have been affecting consumers in the last decade: the “growth in connectivity” and the increased presence of connected devices.

These trends have caused the rise of omnichannel retail, which is a recent phenomenon related to providing customers with a uniform experience across different sales channels, such as traditional stores, e-commerce platforms and others. In the late developments of this phenomenon, the store has been redesigned in order to be adapted to a connected experience for customers, who can utilise their mobile devices in order to have an enlarged experience, like in the case of Bang and Olufsen’s concept store in New York, in which a speaker can interact with a customer’s playlist present on his or her smartphone.

Furthermore, digital pop-up stores have been created, like in the case of Kenzo “No Fish No Nothing”, in partnership with Soixante Circuits and Blue Marine Foundation. It consisted of a digital aquarium, in which every fish was created by an Instagram post of people who passed by it. Moreover, customers could see the collection through the interactive aquarium screen and help the foundation buy purchasing the new Kenzo collection. It was opened on the 21st of March 2014 in Paris and lasted for a whole week, resulting in more than 15,000 touches.

Those digital trends have also affected the way in which consumers get in contact with brands. As a matter of fact, Deloitte has created an updated map of the "path-to-purchase", which shows consumers empowerments at the expenses of luxury brands.

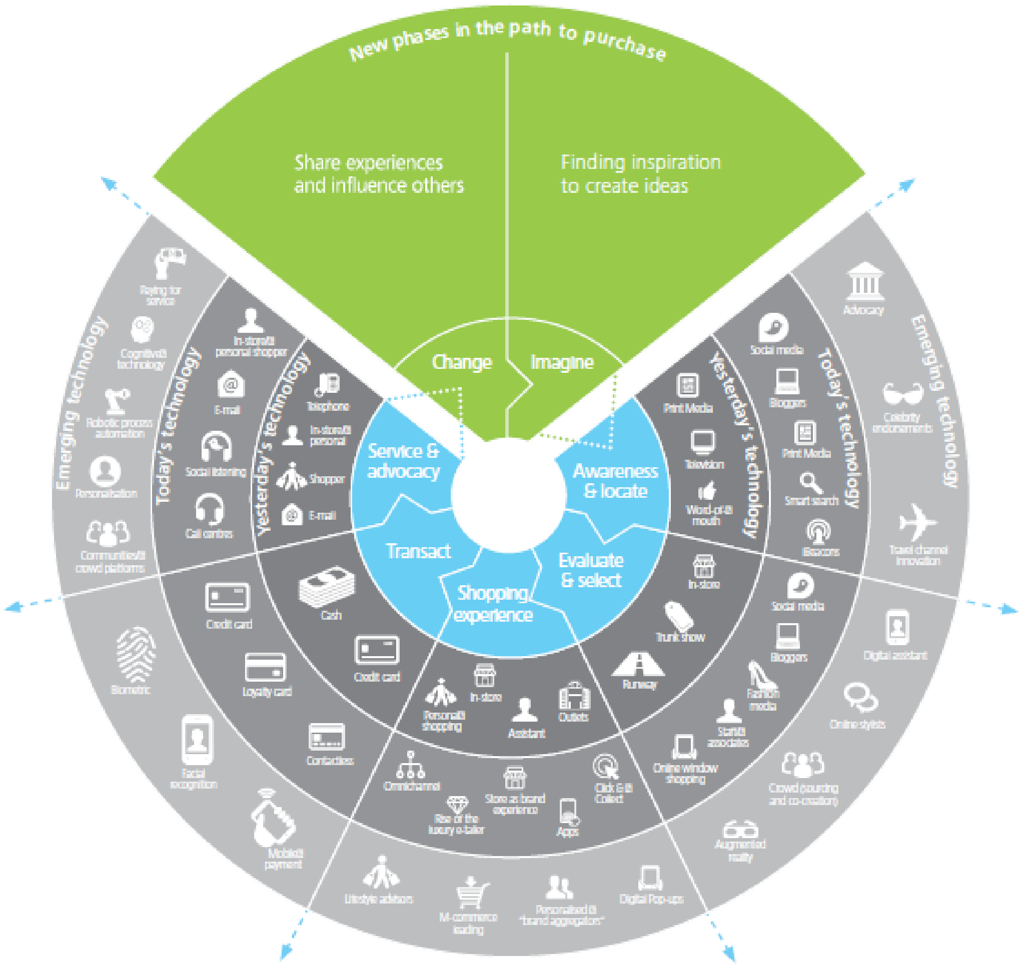


Table 5. Source: Deloitte

One of the crucial points of this new relationship between consumers and brands is the evaluation process. Indeed, 60% of consumers trust anonymous customers' review, which they find on the internet. This has weakened the effect of traditional marketing messages in favour of an empowerment of social media and online platforms, in which everyone can states his or her opinion about a product. Thus, potential customers can now make rapid decisions about their purchases without even entering a store. Indeed, although luxury goods imply a very sensorial experience related to craftsmanship and precious raw materials, the rise of luxury bloggers and augmented reality has been partially weakening the importance of physical stores and of sales assistants' advice in the evaluation and selection of products.

For this reason, luxury brands have executed novel strategies dedicated to creating an online experience, which is coherent with the in-store one. For instance, by creating an online store that recreates the atmosphere of the physical one, like in the case of the playful Hermès e-commerce, or by making available online some exclusive content about catwalks or product showcases.

This is the heart of the omnichannel experience, which aims at increasing the number of touch-points between consumers and brands and at arousing potential customers' interest in every single one of them, by creating a coherent and connected experience, which looks like a journey to them.

Touch-points have become the focus of luxury brands, given their potential as sales drivers. McKinsey (2016) has reported a chart of the number of online and offline touch-points experienced in the purchasing decision for every nationality. From this graph, we can see that the online ones have slightly more influence than the offline ones nowadays.

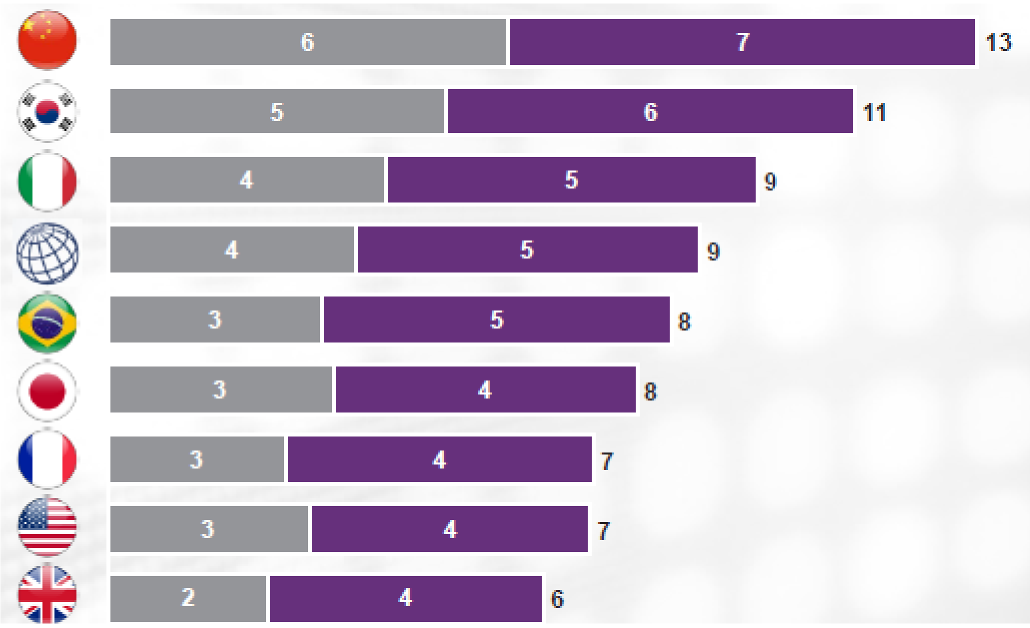


Table 6. Source: McKinsey. Offline (grey) and online (purple) touchpoints experienced before purchasing.

Despite the proliferation of touch-points, there are five of them, which have the highest impact on the final purchasing decision: the city store, which drives the decision of 80% of luxury consumers; the word of mouth, which includes also comments on social media; online search, in which reliability is essential given consumer expectations given by the high-level performance of Amazon and Google; sales people, whose performances can have a tremendous and long-lasting impact on customers; brand web site, in which the major issues are ease of navigation across multiple devices and message authenticity.

After having analysed these qualitative trends that are affecting the luxury digital world, it is clear that the relationship between brands and consumers has been and has to be the main focus for companies. Indeed, given the consumer empowerment brought by the internet, brands should try to create a novel balance in their relationship with their potential customers, in order to influence their purchases. This is even more relevant in the case of e-commerce, in which the role of other users' feedbacks is even more significant, given the lack of personal and physical interaction with stores and sales people.

Taking into account this focus on the new consumer habits, the next paragraph will analyse online luxury shoppers in order to convey a detailed picture of their features and conducts, as well as to clear some misconceptions about them.

4. Online luxury consumers

Although this research focuses on e-retail strategies and innovative business models in the field, we cannot discuss about those topics without taking into account who our potential customers are. Indeed, when dealing with e-commerce strategies, the main focus of brands is the customer, who has gained more power thanks to the vast amount of information that has become available to him.

Customer profiling is a major topic, especially in the case of online luxury consumers, given the very recent history of luxury e-commerce. Hence, there are still a few misconceptions about their main characteristics, such as their age and nationality.

Given the sensibility of this kind of data for brands and thus the difficulty to have access to them, a good approach to analysing online luxury shoppers could be analysing visits to luxury brands sites, in order to obtain some relevant figures about their size and to understand which sub-categories are the most significant for luxury purchases. According to PMX Agency[10], there were more than 185 million visits to luxury brands sites from June 2015 to June 2016, with a peak during Christmas. 52% of those visits was on mobile devices, supporting the already mentioned growth of mobile devices usage related to searching for information about luxury brands and also to online purchases. According to the same source, women account for around 62% of visits to luxury brands sites and there is a difference in the age distribution of visitors between genders. As a matter of fact, the three most important age clusters for women are 25-34, 35-44 and 55-64, each reporting a 13% share on total visits, considering both genders. Instead, the 35-44 segment has the highest share among men, registering almost a 9% share on total visits.

From this broad description, a major point to underline is the fact that online does not necessarily imply millennials. As a matter of fact, around 56% of visitors belong to the 35-64 age cluster, with an important share of women between 55 and 64. This means that online luxury strategies should take care of this segment, by creating websites and campaigns that are appealing to them and that take into account their way of using the internet, which is not necessarily equal to the one of millennials. For instance, ease of navigation is a major point in order to maintain the loyalty of this major cluster, given also the fact that in Europe and US, which are two mature markets in the industry, most of the income is distributed among the elders and that millennials are destined to have a lower income compared to their parents.

Delving more in depth, it is worth noticing that almost 49% of luxury brand visitors have at least completed a college degree. Considering that another 30% had a partial college education, it is quite evident that these visitors have an above-the average education, given this over representation of people who have attended college. Moreover, another significant but more predictable point is that 44% of them have an annual income that overcome 100,000 dollars.

[10] PMX Agency, *Luxury Brands online*, 2016

PMX has also conducted another noteworthy investigation about online research of luxury brands. Indeed, instead of focusing just on general traffic to luxury brands, they have also analysed exiting traffic from the same brands. They found out that after visiting their websites, which are reached mostly through search engines, 39% of those visitors go to shopping sites, such as other brands sites or department stores sites, like Macy's, which has the highest share in the category.
Moreover, analysing more in depth their research, they found out that bags are the most searched luxury products on the internet, accounting for 11.6% of search clicks, followed by shoes, apparel and small accessories.

Another important contribution in the field is *Luxury Fashion Branding, Trends, Tactics and Techniques* by Uche Okonkwo[11], who applied Nielsen consumers segmentation to find out which groups are more likely to buy online.
According to Nielsen, consumers can be divided into six groups: social shoppers, who consider social meetings as a significant part of shopping; habit shoppers, who purchase always through the same channel; ethical shoppers, who are more interested in ethical issues related to shopping, such as working conditions or material sources, rather than the shopping channel; value shoppers, who search for an optimal value combination between cost and quality; experimental shoppers, who look for new shopping media or new stores; convenience shoppers, who seek to avoid time delays.
The last two groups are more likely to purchase online in order to try a new shopping experience or to get an instant satisfaction. Both of those groups have the features of the online luxury consumer, such as high mobility and reduced loyalty to brands and high awareness. Moreover, Okonkwo[12] describe these new group of consumers with the following characteristics: *restless; empowered; fashion-savvy; highly demanding; disposable nature; convenience driven; cash-rich and time-poor; media and brand saturated; individualistic and independent; informed, knowledgeable and educated; financially, socially and environmentally aware; less attuned to brand loyalty and more attuned to brand-hopping; busy busy busy…*

[11] U. Okonkwo, *Luxury Fashion Branding, Trends, Tactics and Techniques, Palgrave MacMillan, 2007*
[12] Like above

This description fit perfectly the PMX findings discussed above regarding their education, but gives also a new perspective about media saturation, which together with the high awareness is one the major factor that causes their very high expectations and their high probability to switch brands looking for the best outcome for their transaction. This search for efficiency is also related to time-saving considerations, since time has become a very scarce resource today. Indeed, Okonkwo describe those new consumers as *busy busy busy* (thirteen times).

However, the same writer underlines another aspect which is in contrast with their improved rationality in their shopping decisions: irrationality.
As a matter of fact, luxury shopping is not related to a need but to an irrational dimension. Hence brands need to produce a high-impact experience that can generate an emotional response of the customers. This can be obtained by creating an overall online experience that is coherent with the brand message and, most of all, credible.
Also, in this overall experience with a brand, the offline contact has a major role in influencing shopping decisions. In fact, Okonkwo has stated that consumers need to be previously exposed to a brand through an offline contact in order to purchase. Thus, even though online consumers are less likely to be loyal to a single brand, they take into account their overall relationship with brands like if it was a long journey or history and so every touch point can be crucial to influence their opinion about brands and, eventually, their shopping decision.

This description of online luxury shoppers and their habits is crucial for the last part of this research about business model innovation in luxury e-commerce. Indeed, costumers are a major variable when building a company's business model, especially when entering an industry with such a recent history.
In the next paragraph, which will conclude the first chapter, there will be an outline of the current situation of luxury e-commerce, considering the most important *pure-players* in the sector.

5. The rise of multibrand online retailers

5.1 Preliminary industry analysis

The third chapter, the heart of this research, will focus on business model innovation among multibrand online retailers. Hence, before concluding this first chapter, it seems appropriate to give an overview of the major players in the industry.

For the sake of this research, we are going to focus on *pure* players, which are multibrand luxury online retailers. Those companies have been growing at a fast pace, taking share from department stores, thanks to the rapid growth of luxury e-commerce, which, despite the late start compared to other industries, has become the fastest-growing channel in the luxury sector.

Among the major pure-play luxury retailers there are Farfetch, MyTheresa and Yoox Net-A-Porter, the largest group in the industry. Those companies have all shown important growth rates: in 2016, YNAP[13] registered a +18% in organic sales and expects to maintain similar rates in the forthcoming years; Matchesfashion.com, a London-based company, instead, has reported an outstanding +61% versus the previous year[14], whereas Farfetch registered +70% versus 2015.

The reasons for such a robust growth can be summarised into the following points:

1. *Endless Product Choice*, thanks to partnerships with established brands and emerging ones as well as through dedicated capsule collections (e.g. MatchesFashion provides users with 1,400 new items every week and limited capsules);
2. *Ever-Improving Logistics and Delivery Services*, with a focus on providing *fast shipping, packaging and tracking*[15] (for instance Farfetch offers same-day delivery in 10 cities)
3. *Luxury Sector Was Slow to Expand into E-Commerce* and thus luxury brands preferred penetrating the market through partnerships with multibrand retailers like Yoox;

[13] Yoox Net-A-Porter
[14] *Deep dive: Luxury e-commerce evolution*, fungglobalretailtech.com, 2017
[15] Like above

4. *Luxury Goods Democracy*, obtained through allowing emerging brands to reach a wider audience and to benefit from economies of scale;
5. *Immune to Amazon…So Far,* since luxury brands do not consider it as a proper distribution channel, for instance because of counterfeiting concerns;
6. *Digital Service and Marketing*, focused on increasing online personalisation, for instance through the advice of an online personal shopper, such as MyStylist offered by MatchesFashion.com;
7. *Luxury Consumers Are Embracing Digital*, as 60% of luxury purchases are influenced by the internet, which is widely used not only by millennials but also by baby boomers as a research tool to support their shopping decisions;
8. *Brick-and-Mortar Luxury Sector Is Struggling*, because of lower tourism spending caused by terrorist attacks, saturation of stores and lower commodity prices that have negatively affected national currencies, like the Russian Ruble;
9. *Brands Turn to Multibrand E-Commerce to Tap Online Growth*, given the weakening of other classic sources of growth, like price raises and emerging-markets penetration, by taking advantage from the digital expertise of YNAP and its competitors;
10. *US Department Store Woes*[16], as online retailers are taking part of their shares also in the off-price segment, causing the decline of established department stores, like Neiman Marcus or Saks Off 5th.

Another major factor that will allow those companies to reach a significant growth in their profitability is represented by the economies of scale that can be obtained by retaining online customers. Even though it is a difficult target, as we saw in the last paragraph, it will be the most crucial factor in the near future, because of the weakening of profitability factors that worked best in the past, such as price increase and development in new markets.

[16] See note 13

Going forward in this preliminary industry analysis, S&P capital has published an interesting list reporting the main figures about pure players in luxury e-commerce, which gives us an idea of the size of the most important players. From this list, it is quite clear that YNAP is by far the largest company in the industry, even though Farfetch emerges as the company with the highest number of shipping countries.

Name	Headquarters	Year Founded	Shipping Countries	Boutiques	Designers/ Brands	Annual Sales	Valuation
Yoox Net-A-Porter	Milan	2000	180	N/A	N/A	€1.9 Bil.	€2.9 Bil.
Matchesfashion.com	London	2000	190	N/A	450	£204 Mil.	£300 Mil.
Mytheresa.com	Munich	2006	120+	N/A	180	€129 Mil.*	N/A
Farfetch	London	2008	190+	500	1,600+	£302 Mil.**	$1.5 Bil.
Garmentory	Seattle	2014	N/A	300+	2,000+	N/A	N/A
Lyst	London	2011	150+	11,500	11,500	$150 Mil.	N/A

** At time of acquisition by Neiman Marcus in September 2014*
*** Gross merchandise value for fiscal year 2015, ended December 31, 2015*

Table 7. Source: S&P Capita IQ[17]

Although the current hierarchy of the pure play sector might seem fixed, it is quite difficult to forecast its evolution in the forthcoming years, for there are several factors that are going to affect the competitive situation of the industry. The last part of the chapter is going to explain which of those factors will be crucial in the next years.

5.2 An uncertain future

As we saw in the last section, multibrand retailers have shown very positive growth rates in the last years and the market has been going through a sizeable expansion. However, these companies are going to face an increasingly difficult competitive situation, which might affect the current power distribution in the industry at the expenses of the companies that are now dominating the sector.

[17] S&P Capita IQ/company reports/Companies House/Financial Times/TechCrunch.com

One of the major uncertainty factors is the will of luxury brand to internalize e-commerce platforms. Indeed, these brands started implementing e-commerce through partnerships with pure players mainly because of a lack of knowledge in e-commerce, and digital in general, and also because of a fear to invest into such a new sales channel.

However, these companies have now become aware of its immense potential and have shown the intention to internalise e-commerce into their operations in order to maximise their profits from online sales.

Furthermore, LVMH, the first luxury group by revenues in the world, with 38 billion euros in 2016, has launched *24 Sèvres*, a multibrand luxury shopping site, that is going to be major competitor for YNAP. It is named after the address of Le Bon Marché, which is one of the most important luxury department stores in the world.

Among the brands featured, there are the 70 labels belonging to LVMH, some of which are already selling through YNAP and others, such as MyTheresa, or through their own e-commerce platforms. This large online department store could leverage the reputation of Le Bon Marché, LVMH and its *Maisons* to weaken the dominant position of YNAP. Indeed, the group might profit from its dominant position over its labels by creating exclusive content for *24 Sèvres* and through making them shift their strategies in favour of the novel online retailer.

However, it is important to take into account that these online experience is not the first one for LVMH, which operated eLuxury, an online sales platform from 2000 to 2009, without reaching the expected objectives.

After this first analysis of the pure play sector, it is evident that, even though YNAP holds a clear dominant position, the future of the industry is quite uncertain, and the competition is becoming fiercer as the industry scales up by entering into a more mature phase[18].

In the next paragraph, we will conclude this preliminary analysis of luxury e-commerce through highlighting the main findings of this study.

[18] Further details will be provided in the third chapter

6. Conclusion

This first chapter has addressed some of the main concerns regarding luxury e-commerce, which is a recently-formed industry that still poses a lot of challenges and questions to all the firms embracing it.

After a brief introduction on the topic, the second paragraph focused on e-commerce as a whole, through outlining its origins in the framework of the significant shake brought by the internet, which has been increasingly affecting the human behaviour for the last decades, for instance by revolutionising communication between individuals and purchase habits. Then, we underlined the importance of some indicators to show the main trends affecting online sales, like the impressive share of Asia Pacific, and listed the principal advantages and disadvantages entailed by the use of such sales channel.

The third paragraph has addressed the main issues regarding luxury e-commerce, which has been affected by the resistance of luxury brands to open to digital, because of the lack of know-how in that field and the desire to remain faithful to their original values. Furthermore, we analysed industry growth expectations and the principal forces affecting it, namely wealth, travel, millennials and digital, before delving into the touchpoint proliferation.

The fourth section has focused on consumers, by stressing the importance of finding efficient methods of customer analysis, which is still challenging but significant for this developing industry. Furthermore, we described the main features of such consumers, addressing some of the most significant misconception about them, for instance through underlining the importance of the 55-64 age segment and of non-millennials in general.

Afterwards, we delved into a preliminary analysis of the industry segment that will be thoroughly analysed in the third chapter, presenting the most important luxury multibrand e-tailers and the impressive growth trends of the whole industry segment, before addressing some unpredictable factors that will shape its evolution with significant consequences on the power balance among such firms.

Before analysing in detail Farfetch both from an industry and from a internal point of view, we are going to focus on two theories that represent the principal foundations of such case study: the *Disruptive Innovation Theory* and the *Business Model Canvas*.

Chapter Two. Disruptive Innovation Theory and Business Model Canvas

1. Introduction

In this chapter, we are going to analyse the two main theoretical foundations of the case study, which will be conducted later on in the third and last chapter. These two frameworks have been widely discussed both by practitioners and researchers for their deep impact in the field of corporate strategies. Indeed, if at the end the twentieth century, the Disruptive Innovation Theory has introduced a new perspective and framework to investigate innovation and its consequences, the Business Model Canvas has seen its success increase rapidly over the last eight years, thanks to its simple, visually-driven, but still thorough structure.

The *Disruptive Innovation Theory* will be the main topic of the next paragraph, firstly through examining the use of the word *Disruption*, which has been having a wide diffusion over the last twenty years, mining the success of the main theory, because of the frequent improper use of the term.
After this preliminary analysis, we will delve deeper into the theory, by investigating its origins and main scientific postulates. Before outlining its most significant critical points and refinements, we will study how to apply this framework to real cases of innovation.

The third paragraph will focus on the *Business Model Canvas*, a successful template, which has revolutionised the way business model are analysed and fostered innovation through the creation of a simple, *shared language*.
We will firstly investigate the business model concept and some of the most significant attempts to find a comprehensive definition of the term. Afterwards, we will delve into the description of the Canvas, through a detailed study of each of its nine components, as they are outlined in the best-selling text that has introduced this innovative template.
Before concluding the chapter, some of the main limitations of the model will be addressed, together with some significant attempts to build a more comprehensive structure, considering a higher number of variables affecting the functioning of a real firm's business model.

2. Understanding Disruptive Innovation

Disruption is a powerful concept for strategists and entrepreneurs to analyse how innovation can impact the evolution of an industry and the shift of power among its players. However, this concept has been overused and applied to many innovative companies or business ideas, which have consistently affected one or more industry, even without showing the necessary characteristics asserted in the original theory. For this reason, in this section we are going to present the Disruptive Innovation Theory, as it was firstly introduced by professor Clayton M. Christensen in 1995, considering also its most recent developments.

2.1 Disruption: an overused term

According to the Collins dictionary, *when there is disruption of an event, system, or process, it is prevented from continuing or operating in a normal way*[19]. This idea of breaking with the past has been embodied in the theory, which was introduced in 1995. Indeed, according to Christensen, disruptive innovation indicates the *process whereby a smaller company with fewer resources is able to successfully challenge established incumbent businesses*[20]. This particular case is not to be confused with any other case of innovation, which brings a significant shake into an industry, since they need to be addressed through the adoption of different strategies.

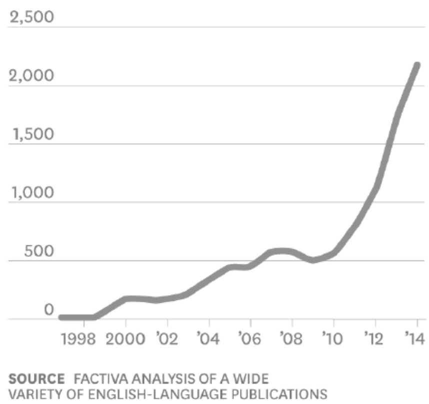


Table 7. Number of articles containing the phrase "disruptive innovation" or "disruptive technology" through the years. Source: HBR[21].

[19] Collins English Dictionary
[20] C.M. Christensen, M. Raynor, R. McDonald, *What is disruptive innovation?*, Harvard Business Review, December 2015
[21] See note 20

However, as we can see from table 1, this term has become an important part of the business lexicon, being increasingly and overwhelmingly used in articles dealing with innovation. Indeed, lots of technological breakthroughs have been indicated as disruptive, without necessarily being a case that fits Christensen's theory. For instance, Uber and Tesla have usually been deemed as disruptive innovation cases, but professor Christensen has demonstrated that they are not, since they did not start from serving low-end or unserved segments.

Thus, the popularity of this theory has been negatively affecting its validity, leading to the application of the same theoretical framework in different cases of innovation. Considering that this theory has been applied to make predictions about the future and to make major strategic decisions, its misapplication can have significant drawbacks.
For this reason, in the next paragraph we are going to analyse in depth this the Disruptive Innovation theory, considering also how it has been overhauling through the years.

2.2 The Disruptive Innovation Theory

The Disruptive Innovation Theory was introduced by Harvard professor Clayton Christensen in 1995. Initially, it was an empirical theory consisting solely of an acknowledgement of correlation: *incumbents outperformed entrants in a sustaining innovation context but underperformed in a disruptive innovation context*[22].

Those findings pushed researchers to further investigate this phenomenon in order to find the causes of this correlation and the rationales behind the behaviour of both incumbents and disrupters.
One of the main drivers of incumbents' low performance is the major focus on existing customers that give the firm the resources it needs to survive. This leads to sustaining innovation and to neglecting some potential market segments. Indeed, after interviewing some companies in the disk drive industry, researchers found out that incumbents invest the bulk of their resources into sustaining innovation, since it has high margins and targets larger markets, composed of already-known customer segments.

[22] See note 20

This phenomenon has a severe impact on a company's operations and organizational capabilities when dealing with innovation, since internal processes and also top management become too focused on serving the existing customers and the whole firm eventually loses the ability to rapidly and effectively respond to sudden changes in the market.

This focus on a more secure and profitable market segment explains incumbents' poor reactions when dealing with disruptive innovations. However, it does not clarify the rationale behind a disrupter's decision to move upmarket.
The low-end segments are usually populated by several players, that aim to be disrupters offering *simpler, more convenient or less costly products*[23]. They can often grow and thrive, benefitting from the higher price of incumbents' products.
However, as established firms realise that they are losing terrain, they remove the price umbrella and enter price-based competition, leveraging their larger amount of resources and the higher quality of their offer.
While many firms do not survive this head-to-head competition with incumbents, the true disrupters overhaul their products or services and drive upmarket, managing to lower costs and have better margins than established companies.

Among the rationales of disrupters' success there is the fact that incumbents often overlook them. Indeed, before they drive up-market, disrupters are usually considered inferior, since they offer lower-quality products or services, compared to incumbents. Moreover, disruption is usually a long process and it is difficult to foresee if the new entrant might become a disrupter in the future. For instance, Blockbuster decided to ignore Netflix, when the latter launched in 1997, since it was serving another customer segment. However, as Netflix improved the quality of its services appealing a broader customer base, it was already too late for Blockbuster to effectively react, as the new entrant was already in an advanced stage of the disruption trajectory.

[23] See note 20

Hence, disrupters can often execute their strategies without having to cope with incumbents' reactions, since they are usually neglected by them, as they serve smaller, marginal segments and it takes much time to establish if they are consistently following a disruptive trajectory – when a competitor can unquestionably establish it, it is usually too late.

This explanation of the main rationales of incumbents' and disrupters' behaviour, achieved through the investigation of several industries, such as retail, financial services, management education, cars and communication, marks an important passage for this theory. Indeed, from a theory of correlation, it finally theorised the causation behind the disruptive process.

After the description of the theory and its main foundations, it is essential to comprehend how to apply it to real cases, given the significant contribution that this theory has given to analysing industry innovation. In the next section, we will analyse the main steps, which are required to correctly assess whether a company is following a disruptive trajectory.

2.3 Applying the theory

One of the main resources that the Disruptive Innovation theory provides is the graph that illustrates the disruptive trajectory. Indeed, this tool allows to have in mind where incumbents and disrupters are moving according to two variables: times and product performance. For this reason, together with its clarity and straightforwardness, it has to be the starting point to assess the disruptive power of a company.

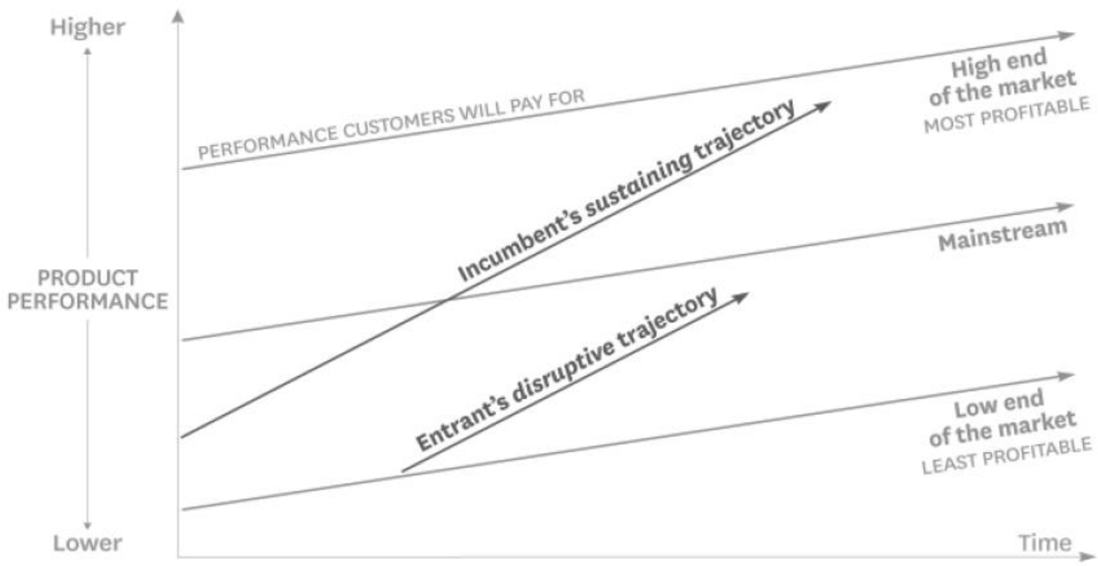


Table 8. Disruptive Innovation diagram. Source: HBR.

This diagram clarifies the disruptive process by showing how product performance drives the entrant company from low-end or new to mainstream customers. Indeed, disrupters can expand their customer base through improving their products or services, which, in the beginning, are usually inferior to the ones of established competitors.

To assess the disruptive power of a company, we just need to analyse the main features that a disrupter should have according to the theory, and, more easily, to this diagram.

Regarding customer base, the potential disrupter should firstly target low-end or new customers, who are neglected by established competitors. This is a major point, which led Christensen and his team to classify Uber as a non-disrupter. Indeed, the company did not increase total demand and targeted the usual taxi customers.

Moreover, disrupter usually do not go up-market until they reach certain quality standards for their products or services. This is a major difference with breakthroughs and incremental innovation, since these they imply superior technology, which customers consider better than the existing one. Instead, disrupters' products are usually deemed as inferior in the beginning and customers are not willing to switch to them only for price concerns. Thus, new entrants need first to focus low-end or new clients and, in the meantime, try to reach higher standards in order to compete with established companies. Indeed, Uber did not fall in this category, since the service offered by the company was often deemed as even superior to the one provided by a usual taxi company.

Even if this process seems easy to comprehend, the theory has been often misapplied, and this has led to the large diffusion of the word *disruptive*, which has been used to define also companies that should be considered examples of sustaining innovation, as in the case of Uber.
Christensen found four main critical points, which have led to mistakes in the application of the *Disruptive Innovation theory*.

1. The first point is that *Disruption is a process*[24]. Potential disrupters are usually looked at a fixed point in time and not considering the path they are following. This has led to overlooking their opportunities to disrupt a market or an industry, because it can take several decades to reach certain quality standards and expand a company's customer base. Hence, focusing on the path followed by new entrants can be crucial for incumbents, in order to have sufficient time to effectively react, since they often comprehend the disruptive power of those firms when it is already too late, as we saw.

2. Disrupter usually build business models that differ from the ones of incumbents. For example, Apple's iPhone was initially a case of sustaining innovation. The creation of an ecosystem of apps was the pivotal point, which showed the passage towards a disruptive trajectory. Indeed, the app store introduced a completely new business model, which has accustomed smartphone users to a whole new standard and has significantly impacted the mobile phone industry.

3. *Some disruptive innovations succeed; some don't*. Success is often used as a variable to assess the disruptive power of a firm, as it happened for Uber. However, Christensen does not take this variable into account in order to explain the disruptive process. Indeed, there is no correlation between disruption and success: a disrupter can fail, and a successful, innovative company could have followed a non-disruptive path.

[24] For all words in italic, see note 20.

4. *The mantra "Disrupt or be disrupted" can misguide us*. Indeed, according to Christensen, incumbents need to effectively and immediately react to disruption, but they should not exceed by demolishing profitable businesses. His research has demonstrated that established firms need to invest both in their core business, promoting sustaining innovation, and in disruptive technology. To develop this last point, they should create an independent business unit.
   Thus, for some time, they would have the difficult task to manage them separately, but this is the only way not to lose profits and, at the same time, to effectively react to disruption.

As we can see, Christensen and his team have provided us not only with a strong theoretical background, but also with specific guidelines, which are essential to correctly apply the theory, both for academics and industry players. In fact, in his writings, he often refers to firms' top management, since they should be the most interested in such theory, which, if properly applied, can be a powerful tool to foresee disruption and to effectively react to it.

However, before concluding this section on the Disruptive Innovation Theory, it is important to highlight the main critical points that have been arisen through the years, together with the overhauling process which this theory has been going through during the last 20 years.

2.4 Criticism and refinements

The Disruptive Innovation Theory has been often criticised for several reasons, mostly related to issues that have been solved through the years, by the development of the theoretical foundations expressed in its initial version. Indeed, the additional enhancements have addressed some anomalies and unpredicted set-ups, which could not be previously explained by the theory.

The early improvements regard the passage from a theory of correlation to the explication of the disruptive process, which has been already discussed in the previous pages, and the inclusion of new-market disruption.

At first, the theory contemplated just the possibility to start disrupting from low-end footholds, but with the inclusion of disrupters that begin their trajectory with completely new market segments, the theory became more relevant and feasible. Indeed, this modification allowed the inclusion of a much larger number of cases, such as the of transistor pocket radio, which was initially overlooked by table-top radios manufacturers.

Another significant field of studies related to this main theory is the identification of disruption-resistant industries.

Christensen has analysed higher education in the US and concluded that this industry has resisted major changes for over 100 years. Indeed, despite many new entrants, universities ranking has stayed almost unchanged, if we consider top performers.

However, among new business models, online education is one of the most successful cases. Indeed, online courses have become broadly available, and tuition costs are falling. Thus, it seems plausible that online institutions might move upmarket, with a business model that implies lower costs, even though it is still questionable if they meet all the needs of mainstream customers.

This kind of questions has made Christensen wonder about how fast can be the disruption process and the variables that influence the steepness of this progression. He recognised that disruption rate depends on the speed at which the enabling technology improves. Nevertheless, this discovery does not change the way in which a firm should react to disruption, since fast and slow disrupters have similar features and start from comparable considerations and causal mechanisms. However, it can help incumbents in predicting future implications of disruptive trajectories and the necessary time period in which they need to react.

Another critical issue is the success of disrupters. Indeed, many academics have criticised the theory, after the discovery that in some industries disruptive firms do not manage to displace incumbents.

For instance, in King, Baatartogtokh (2015)[25] one of the main arguments against the validity of the theory is that, when disruption is occurring, not all incumbents are displaced by the new technology. Indeed, nearly a third of the cases they analysed represented alternative outcomes: coexistence between incumbent's and disrupter's business; established businesses supported by the new technology; disruptive technology still used to serve alternative markets.
However, while the authors claim that according to Christensen in almost *every case* incumbents' technology is displaced by the disruptive one, we saw that success is not a proper variable to assess if a firm is a disrupter. Indeed, the most refined version of the theory focuses on the trajectory followed by new entrants, not on its success, since the author is aware of the impossibility to provide a totally unfailing, predictive system, when dealing with innovation.

In the same research, King and Baatartogtokh point out that it is difficult to find a disruption case in which all the conditions expressed by the theory are met. Indeed, only 9% of the cases they studied reported all the features described by Christensen. Moreover, while the majority of the required factors were find in the bulk of the disruptive cases, the overshoot of customers' needs was found only in 22% of them.
Thanks to those findings, they conclude that the theory is still valid to prevent management myopia, but that it should be thoroughly applied only when all required conditions are met.

Those critical issues make us comprehend the difficulty to formulate a totally comprehensive theory when dealing with business and technology innovation, since the variety of cases that occurs in reality is too vast to be predicted. Indeed, Christensen has asserted that the theory is not capable to explain everything regarding innovation or business success, since they are influenced by too many forces. However, if researchers will continue to build on the Disruptive Innovation Theory, other significant goals will be attained in order to expand our knowledge and predictive capacity about business innovation.

[25] A.A. King, B. Baatartogtokh, *How useful is the theory of disruptive innovation?*, MITSloan Management Review, Fall 2015

3. The Business Model Canvas

The Business Model Canvas is a business template implemented by A. Osterwalder to visualise and describe the business model of a firm. It consists of nine blocks, which constitute a visual chart that can be utilised to analyse an existing business model or to develop a new one. Hence, it is not only a valid tool to investigate peculiar features of existing firms, but also an instrument to catalyse business innovation through the simple and image-driven process it embodies.

In this part, we are going to describe the main features of the Business Model Canvas, from its theoretical foundations to the correct methodology for its application, before addressing its most significant limitations.

3.1 Business model: defining the concept

Before delving deeper into the description of this powerful tool, it is important to provide the reader with a basic comprehension of the main concept that unifies the whole model. Indeed, the business model concept has been a controversial topic, discussed by many academics and practitioners, which have come with alternative definitions that reflect the diverse perspectives from which we can analyse this concept.

According to Hedman and Kalling[26], *Business model is a term often used to describe the key components of a given business*, which is particularly popular in e-business research. Even though being often criticised for the lack of theoretical foundations, it can be integrated with other strategic frameworks, such as Resource-Based View and Industrial Organisation, to provide a clear outline of what are the main drivers of a single firm's success.

[26] From this reference until the next one, all words in italic refer to:
J. Hedman, T. Kalling, *The business model concept: theoretical underpinnings and empirical illustrations*, European Journal of Information Systems (2003) 12, 49-59, Palgrave Macmillan

Its definition is a contentious topic, which has been addressed by several business strategy researchers for more than twenty years, in some cases without even referring to this term. Indeed, in 1991 Michael Porter has conceived a new *integrative causality model*, which embodies some features that could compose a business model: *initial conditions* and *managerial choices*, which are causally linked to a company's success; *drivers*, which represent a firm's resources, *activities* and the strategy process, which takes place in a *longitudinal dimension*. Hence, this model encompasses both the internal and the industry perspective, as in other similar models, such as Normann's *business idea* or in certain entrepreneurship approaches.
In this last group, we can find many attempts to define this vast concept. For instance, in 2000, McGrath and MacMillan have described it as *the way an organisation organises its inputs, converts these into valuable outputs, and gets customers to pay for them*. Schumpeter, instead, has tackled this issue from another perspective, asserting that entrepreneurial innovation is driven by the combination of *previously disconnected production factors, and could result in new markets and industries, products, production processes, and source of supply, all being potential business model components*.

Another significant contribution to business model definition comes from e-business research, which include several attempts to group the main components of a business model. A case in point is the work of Weill and Vitale in 2001, who have defined it as *a description of the roles and relations among a firm's consumers, customers, allies and suppliers that identifies the major flows of product, information, and money, and the major benefits to participants*.

In those definitions, we can find some of the main building blocks of the Business Model Canvas, like the main stakeholders that influence a firm's operations, such as customers and suppliers, as well as the relationships that exist among them. Moreover, they contain references to value creation, delivery and capture, as most of these definitions underline the capacity of combining inputs into valuable outputs that customers will buy, as a key driver of a firm's success.

In Business Model Generation[27], one of the absolute best-selling texts in business model research, Osterwalder has manged to summarise this vast concept into a clear and concise definition, stating that:

> *A business model describes the rationale of how an organisation creates, delivers and capture value.*

Hence, it includes all the resources and activities that allow a firm to satisfy one or more customer's needs, through offering a service or a product, which is considered valuable by its potential customer segment, and to capture the value resulting by those operations.

In order to delve deeper into this concept, we can directly analyse the Business Model Canvas, which is composed by nine building blocks, representing the main components of a firm's business model. In this way, we can both comprehend in detail those main parts and have a clear visual map of a business model structure.

3.2 Business Model Canvas: visualising the concept

The Business Model Canvas was introduced by Osterwalder in 2010 as an instrument to visualise and synthesize the main components of a business model. This innovative map, or template, has its principal strengths in its clarity and straightforwardness, which have supported its vast diffusion among business researchers and practitioners, as well as among business innovators.

Indeed, in Business Model Generation, the authors define the Canvas as *a shared language for describing, visualising, assessing, and changing business models*, underlining its contribution to both business research and innovation.

This instrument has been conceived as a *shared language* to facilitate discussion about business models, in order to foster innovation in this field by challenging current assumptions. Indeed, Oserwalder aimed at creating a comprehensible concept, which, without oversimplifying this complex matter, could be easily understood by a good turnout.

[27] A. Osterwalder, Y. Pigneur, *Business Model Generation*, John Wiley and sons, 2010
In the following pages, all the words in italic and classifications refer to this same source if they include no references to other sources.

To reach this goal, he created a structure, which can be filled with the elements belonging to a single company, in order to outline *the logic of how a company makes money*. It can be also implemented to compare firms operating in the same industry or to start up a new business.

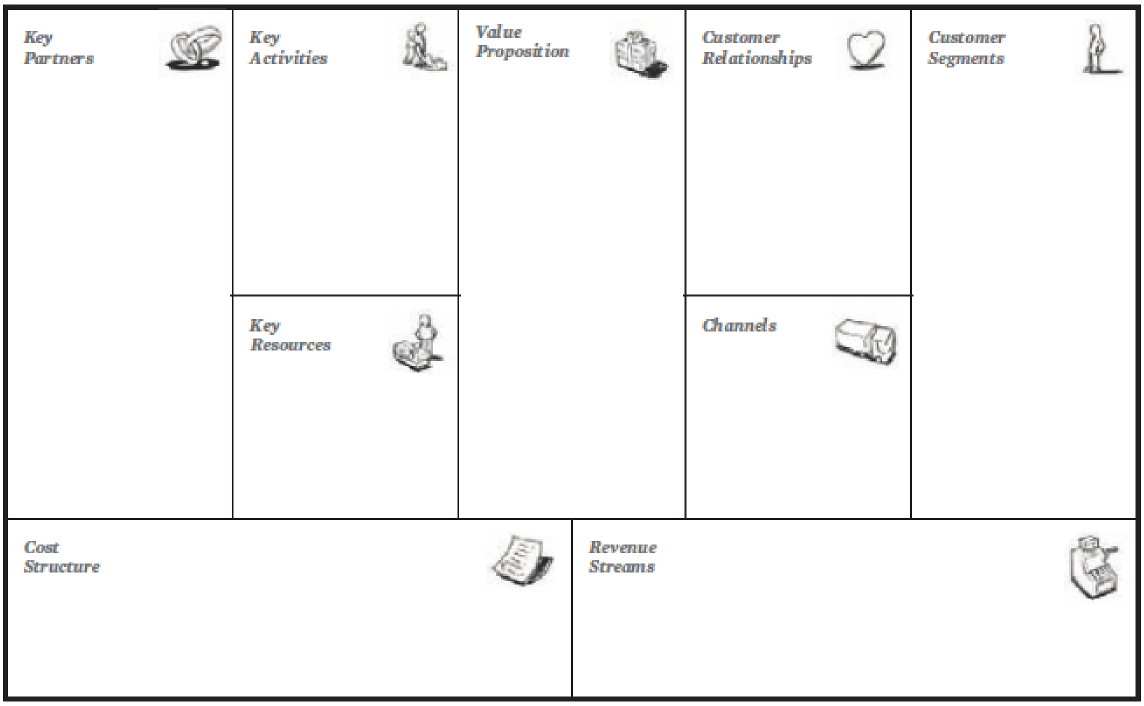


Table 9. Business Model Canvas. Source: Business Model Generation.

As we can see from table 3, the Business Model Canvas is composed of nine blocks, which encompass not only resources and activities, but also the existing relationships with a firm's main stakeholders. In developing this structure, Osterwalder was inspired by the human brain, in which the right part is the reign of emotions and the left one represents logic. In fact, the right side of the model involves value creation, whereas the left one is dedicated to efficiency.

In the next pages, we are going to delve into each of the nine components, in order to explain what they refer to and how to apply this template to a single enterprise, filling those empty cells with its features.

Customer segments

This first component refers to the groups of clients that a firm aims at serving. Since customers are vital for the survival of a company, it is very important to have a clear and compelling idea and strategy regarding which segments to target and the specific needs of each one of them.

According to the authors, a group of customers can be considered a single segment when:

- *Their needs require and justify a distinct offer;*
- *They are reached through different Distribution Channels;*
- *They require different types of relationships;*
- *They have substantially different profitabilities;*
- *They are willing to pay for different aspects of the offer.*

Customer segments can mark a significant point of dissimilarity between diverse firms. Indeed, Osterwalder has listed some principal types of strategies according to the targeted segments: *mass-market; niche market; segmented; diversified; multi-sided platforms*.

In the first case, the firm does not consider the existing dissimilarities among different groups, focusing on a broad segment, characterised by alike needs. Instead, if a company focuses on a niche market, it usually executes a strategy that is tailored to the specific needs of the niche; whereas in a *segmented* business model, the firm needs to understand and cater the needs of multiple customer segments, who show slightly dissimilar features. If these characteristics are noticeably diverse, the firm has a *diversified* business model, serving unrelated groups of clients. This case presents remarkable difference, compared to *multi-sided platforms* which target different, but interdependent segments, which are all required for the functioning of the whole business model.

Value proposition

A firm’s value proposition outlines the products or services that create value for its customers, by catering to their needs or solving a specific problem. It could be innovative or similar to the offer of incumbent firms, but with innovative characteristics on top.

It is one of the first matters to address when applying this template, since it is heart of the business model and offers an initial, broad explanation of how the company creates value to its customers, through solving some of their problems and catering to some of their needs. A strong value proposition should also be the starting point for the development of an innovative business idea.

According to the authors, there are different kinds of value proposition:

- *Newness*, when the firm caters to new needs through an innovative offering;
- *Performance*, which refers to improving an existing product or service to produce an increase in demand;
- *Customisation*, i.e. adapting the offer to the individual customers' requirements, such as in the cases of co-creation and mass customisation;
- *Getting the job done*, which concerns providing customers with the needed help to perform a certain job task;
- *Design*, regarding value creation through superior design, as, for instance, in the fashion industry;
- *Brand/status,* i.e. creating value through allowing clients to display a certain brand, which reflects a specific status;
- *Price*, which implies providing customers with similar value at a lower price point, compared to competitors;
- *Cost reduction*, which refers to help buyers trimming their costs;
- *Risk reduction*, i.e. helping customers managing the risk associated with purchasing a product or service, for instance through a guarantee;
- *Accessibility*, that concerns providing users with the access to a certain product or service;
- *Convenience/usability*, which implies value creation coming from a product with increased convenience of use.

Channels

This block describes how a company communicate with its customers, through the analysis of customer touchpoints. In conducting this analysis, we should try to address issues like channel integration, cost-efficiency and customer behaviour of the targeted segments.

The authors distinguish between *direct* channels, such as sales force and web sales, and *indirect* ones, like retail stores, wholesalers and partner stores. A firm could choose one of the two categories or both, considering that partner channels implies lower profits, but also lower costs and benefits coming from partner resources. Finding the right mix implies maximising revenues while trying to offer the best feasible customer experience.

Furthermore, channels are divided into five phases according to the delivered function:

- *Awareness*, which includes all the channels devoted to raising both brand and product/service awareness;
- *Evaluation*, containing the ones that are needed by customers to assess a firm's value proposition;
- *Purchase*, embracing all channels that allow clients to buy a company's products or services;
- *Delivery*, including the touch points that allow a firm to deliver its value proposition;
- *After sales*, which represents the ones required to deliver after sales support to customers.

Customer relationships

It outlines the kind of relationships a firm aims at creating with its customer segments in order to achieve *customer acquisition*, *customer retention* or a boost in sales. As the previous building block, this one deeply affects customer experience, since those different motivation requires different strategies and, thus, diverse way of approaching clients.

In the same source, the authors have listed the main types of customer relationships, which are:

- *Personal assistance*, that involves actual communication with a customer representative;
- *Dedicated personal assistance*, which represents an even deeper kind relationship, characterised by representatives that are devoted to individual customers;
- *Self-service*, in which the company provide the client with the necessary means without actually communicating with him or her;
- *Automated services*, entailing a subtle mix of the previous category with automatic, computerised processes;
- *Communities*, which are established in order to engage customers and stimulate interactions among them that can be useful to gain a deeper knowledge about a firm's customer segment and to provide rapid solutions to their problems through those interactions;
- *Co-creation*, representing a more innovative kind of relationship, in which customer contributes to value creation, for instance by creating content or writing reviews.

Revenue streams

It represents the block that nurtures a firm, through generating cash from the value that is created and delivered to customers. They can be *transaction revenues* that result from a one-time payment or *recurring revenues*, which are the consequence of ongoing payments.

Revenue generation can result from: *asset sale*; *usage fee*, which usually depends on how many times the service is used; *subscription fees; renting/lending/leasing*, that involves providing customers with exclusive rights of usage of a product for a limited period of time*; licensing*, which is similar to the previous one but entails the use of intellectual property, such as patented technology, belonging to another firm or individual; *brokerage fees; advertising.*

Price is an important variable that deeply influences revenue generation and can be based on two different mechanisms: *fixed menu pricing*, affected by *static variables*, like list price, product or customers features and volume of sales; *dynamic pricing*, influenced by market conditions, as in the cases of negotiation, yield management, real-time-market and auctions.

Key resources

This component outlines the essential resources that are required by a firm's business model in order to generate value to customers, establishing and maintaining relationships with them or generating revenues.

These resources can fall into the following categories:

- *Physical*, which includes resources like buildings and PPE, that can also be capital-intensive;
- *Intellectual*, which are usually knowledge-related and very valuable, being hard to develop, like patents and partnerships;
- *Human*, which are vital and central in some industries, such as the creative and knowledge-intensive ones;
- *Financial*, like cash and credit, which can be an important leverage in some business models.

Key activities

In this building block, we can find all the principal actions, which are required by a business model for its correct functioning.

There are three main categories of key activities: *production*, that groups all the activities that can create a higher value in making and delivering a product, which are vital for some firms, such as manufacturing ones; *problem solving*, which includes the actions of coming up with a solution to customers' problems, as it usually happens in consultancy firms and hospitals; *platform/network*, that involves facilitating interaction among the diverse sides of a platform and finding right matches, as well as the efficient management of the platform interface.

Key partnerships

Partners can be vital for the success of a company, as in the case of suppliers of crucial inputs or strategic allies. In this component, we should group the main ones, which are required by a firm's business model to create, deliver and capture substantial value. The authors have divided the possible key partnerships into four types: *strategic alliances between non-competitors*; *coopetition*, which, instead, implies cooperation between competitors; *joint ventures*; *buyer-supplier relationships*.

Furthermore, they found three most common motivations that stimulate a firm to establish such partnerships: *optimisation and economy of scale*, which is usually the foundation of the relationship with a supplier, in order to allow both to specify just into some activities, thus cutting costs; *reduction of risk and uncertainty*, which facilitates the establishment of strategic alliances in highly-competitive markets; *acquisition of particular resources and activities*, like intellectual ones or access to specific customer segments, as it happens for companies benefitting from intermediation and brokerage services.

Cost structure

This final block groups the main costs entailed by a business model, which have to be subtracted from total revenues. It is usually the result of the analysis of the previous three components composing the left side of the structure, which is devoted to efficiency. Although cost minimisation is the target of every company, only some business models rely on it as the crucial component, as in the case of low-cost airlines or manufacturers.

The authors have grouped the different, potential cost strategies into the following categories: *cost-driven*, focused on cost minimisation; *value-driven*, implying a focus on the maximisation of the value created, as in the case on firm operating in the luxury industry; *fixed costs*, which might be the highest-contributing voice in a firm's costs list, as in the case of manufacturing companies, that usually rely on assets like facilities and heavy machinery; *variable costs*, which indicates the opposite circumstances compared to the previous category, being dependent on production volume; *economies of scale*, entailing cost advantages resulting from the increase of a firm's output; *economies of scope*, involving benefits in terms of cost reduction, coming from devoting the same activity to support multiple services or products, which is typical when dealing with marketing and distribution.

This symmetrical structure has been very successful both among academics and professionals for its simplicity and visually-driven application. Indeed, the authors suggest drawing a canvas and putting it on a wall in order to foster discussion with multiple people, starting all together from the same clear concept and structure of thinking.

However, after having explained in detail its components and how to apply this template to real cases, it is important to show its main limitations, which have been discussed by some researchers in the field.

3.3 Criticism

The Business Model Canvas is a very successful template, which has seen its popularity increasing for the last decade, thanks to its straightforwardness and visually-driven application method.

Despite its popularity, several researchers have pointed out some of its most significant limitations, sometimes accompanied by modifications that allow to build a more comprehensive model. Indeed, even if Osterwalder has managed to group many of the tangible, factual aspects regarding a firm's resources and activities in the template, reality often entails too many alternative cases and unexpected scenarios, and thus too many variables and forces to address for a lean, single model.

Before concluding this chapter, we are going to briefly analyse what those critical points are and the main solutions that have been proposed to address them.

One of principal critical issues pointed out by researchers in the field, such as Spanz and Kraaijenbrink[28], concerns the lack of any competition analysis notion inside the model.
While the first author did not propose a new structure to address this issue, Kraaijenbrink has created an alternative template, called *Value Model Canvas*, which solves the three shortcomings of the original model he has indicated: the inability to explain other business drivers than *financial success*; the exclusion of competition analysis; different levels of abstraction co-existing in the same model, thus confusing the overall analysis.

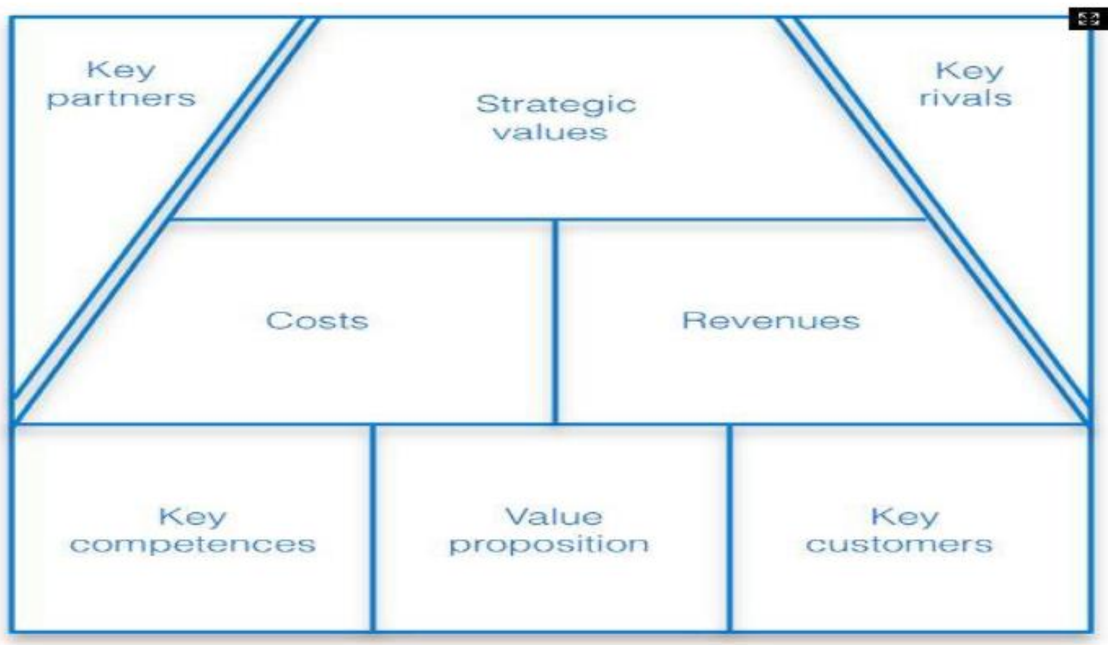
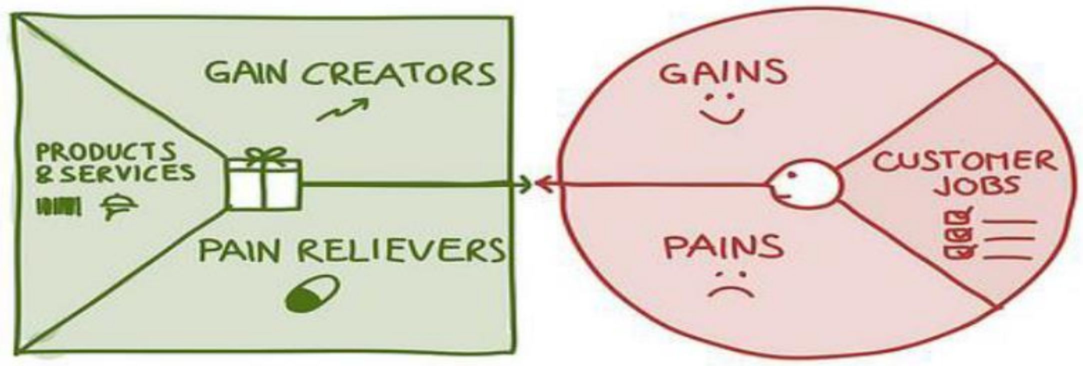


Table 10. Value Model Canvas.

Indeed, in this model the *Value Proposition* block has been replaced by the *Strategic Values* one, capable of including other entrepreneurs' driving factors, as in the case of NGOs. Furthermore, competition has been included through adding the *Key Rivals* component and *Key resources* and *activities* have been merged to form the new *Key competences* block, which eliminates the too-detailed level of abstraction, according to Kraaijenbrink.

[28] From this reference to the end of the paragraph, all the words in italic refer to:
H. Y. Ching, C. Fauvel, *Criticism, Variations and Experiences with Business Model Canvas*, EA journals, Vol. 1 no. 2, pp- 26-37, December 2013

Another noteworthy effort to improve and refine the *Canvas* has been made by Osterwalder himself, who has created the *Value Proposition Designer*, a graph to delve deeper into the value proposition block. Indeed, it foster a more thorough thinking on this significant component, through a tighter connection with *customer segments*.



This sort of *Value Proposition Canvas*, stimulates further discussion regarding the main characteristics of a firm's customers and products or services, focusing on the needs and problems of the typical client, *Gains* and *Pains*, and the main features of the offering that will address those matters, *Gain creators* and *Pain relievers*.
Hence, it is a valuable instrument to explain the rationale behind the formulation of a value proposition and provide the user with the possibility to further verify how significant it is from a customer's perspective.

Before concluding this analysis of the Business Model Canvas, it seems noteworthy to remark that, besides those critics, this framework has been receiving very positive reviews, also by the same who came up with suggestions to overhaul it. Indeed, its creators have managed to build a successful model that can be used both by practitioners and academics to study existing businesses, propose improvements and give a solid structure to innovative ideas.

The next paragraph will conclude the chapter by summarising the main salient points of this chapter and underlining the main findings of this study of the Disruptive Innovation Theory and of the Business Model Canvas, which is going to be an important foundation for the case study, contained in the last section.

4. Conclusion

This chapter has addressed the principal theoretical concepts, which will be applied in the next section, to conduct the case study of Farfetch. Indeed, a significant part of this thesis is dedicated to assessing if this firm is a true disrupter according to Christensen's theory and the Canvas is a useful instrument for a deep analysis of a firm's business model, which is often an indicator of the disruptive power of a company.

After a brief introduction on the two theories, the second paragraph has focused on the *Disruptive Innovation Theory*, introduced by Christensen in the late '90s, thus revolutionising the way in which we look at innovation. However, as we saw, it also fostered a wider, but often incorrect, use of the term *disruptive*, which has been referred to many successful innovators, which actually took alternative paths, such as sustaining innovation trajectories.

Afterwards, we delved deeper into the theory through explaining the straightforward and clarifying graph introduced by the author himself, who, together with his team, has kept overhauling the whole framework, for instance by finding the main rationales behind incumbents' and new entrant's behaviour, thus addressing some of the main limitations that have been underlined by other researchers.

The third paragraph, instead, has outlined the Business Model Canvas, which, despite being more recent, has been increasingly adopted both by academics and entrepreneurs to analyse and improve current business models, as well as to give a more solid structure to innovative business ideas.

Through its formulation, Osterwalder has managed to find a comprehensive and simple definition of the business model concept, after many alternative attempts coming from different research fields, such as e-business and entrepreneurial approaches.

Furthermore, we analysed in detail each of the nine building blocks of the template, as conceived by the authors, also by investigating how to apply them to real cases, before addressing the main limitations of the model together with some alterative solutions to them. However, the original Canvas is still deemed as a superior instrument, being both simple and comprehensive.

In the next chapter, we are going to analyse the case of Farfetch, an e-tailing platform, through the use of the above-mentioned theories together with the support of other models, in order to assess the disruptive power of the firm and the potential effects it might have on the luxury retail industry.

Chapter III Farfetch: beyond disruption

1. Introduction

The third chapter of this thesis is dedicated to the analysis of a real case, which represents a truly innovative approach to e-commerce and luxury retail in general: Farfetch.

This company has set new standards for its competitors, bringing a significant amount of expertise in technology and fashion, blended with innovative, revolutionary thinking to create a new kind of shopping experience, which could better meet the needs of the luxury shopper of the present and, according to the company's vision, of the future.

The aim of this case study is to demonstrate that Farfetch is a disrupter and that it is going to have a powerful impact on the evolution of luxury retail, especially thanks to the introduction of a brand-new project, the *Store of the Future*.

To provide the reader with an extensive and clear understanding of the company and its activities, it will be analysed both from an internal and external perspective, through the application of industry analysis methods, such as PESTEL analysis and Porter's Five Forces Framework, and the Business Model Canvas. The resulting findings will be summed up into a SWOT matrix, which will be the starting point to demonstrate that Farfetch is a disrupter, through the application of Christensen's theory.

The last part of the chapter is, instead, dedicated to the analysis of the *Store of the Future* and its impact on luxury retail in the next decade, considering also the conditions that should occur in order to allow this project to thrive and to bring its innovativeness to the whole luxury retail industry. This will be done following the Oxford Scenario Planning approach, which will be applied taking into consideration the perspective of five experts in the field, who have answered some relevant and challenging questions about how the industry will evolve in the next thirteen years.

This case analysis will be finalised by drawing some conclusions about the company and the whole luxury retail industry, showing how important and revolutionary is the contribution that Farfetch is bringing into it.

2. Farfetch: preliminary analysis

Farfetch is a London-based online platform, which gathers the boutiques from the most famous fashion streets in the world in a *curated and centralised global market place*, aiming at becoming *fashion's global omnichannel platform*.

It was founded in 2007 by José Neves, a Portuguese businessman who had experience both in technology and fashion. Indeed, in the '90s he worked in a company that provided software to fashion companies, while, after that, he started a shoe business, *SIX*, that is still operating today.

He managed to merge its expertise in both industries by creating a luxury *e-tailer*, which allows users to shop from over 700 boutiques and 200 brands in 40 countries in real time, with the aim to provide *the best shopping experience*.

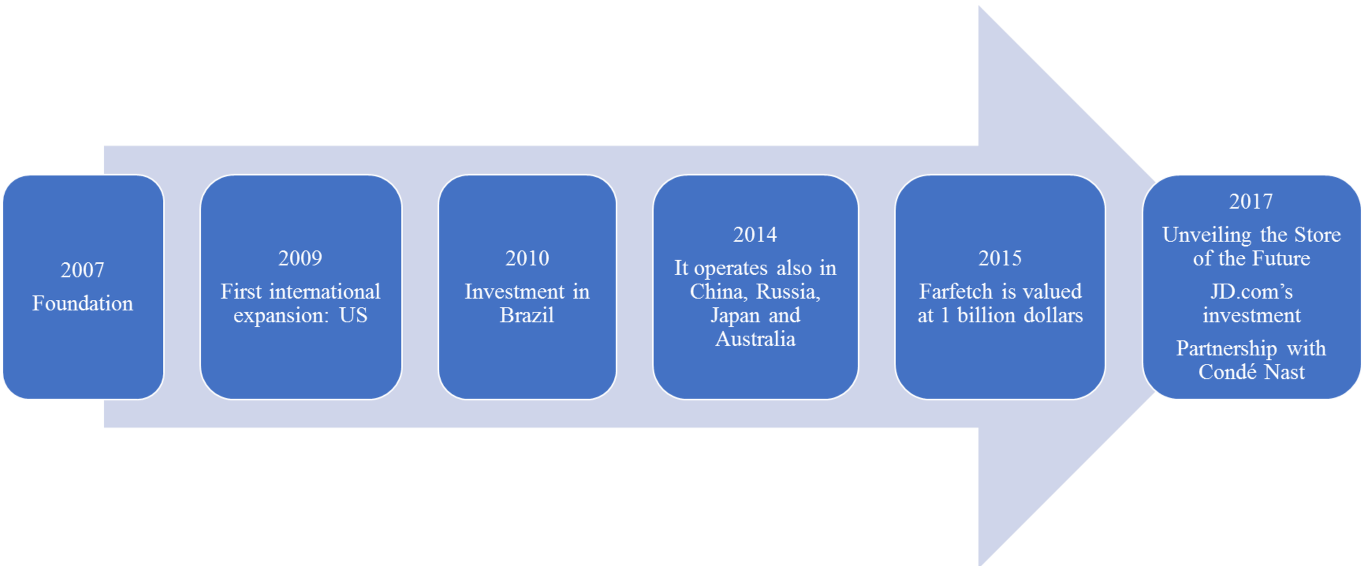


Table 11. Farfetch's timeline

The company has been defined a unicorn. Indeed, in 2015 it has been valued 1 billion and now counts some big names among its investors, such as JD.com and Condé Nast, which has recently started a partnership with the online platform to create a *content-to-commerce* shopping experience. Thanks to this collaboration, readers can purchase the items, which are showcased in the editorial content, through a link that direct them towards Farfetch.

In March 2017, it has reached 800 million dollars in revenues, registering a 70% growth vs the previous year and a 1.5 billion dollars valuation. Furthermore, there are rumours about a possible IPO in the forthcoming years[29].

Farfetch merges physical and digital in an original way. Indeed, unlike the other online multibrand retailers, it has no physical inventory, but an algorithm that links the platform to the inventories of the partner boutiques, finding the nearest one that has the selected item available in its stock. Moreover, to further contain shipping costs, Farfetch offers a *Flat Shipping Fee* for orders above 150 USD, *based on the lowest price shipping option available for the item in your order, which travels the farthest to reach you*[30].

It is a customer-centric platform that takes care of logistics and customer service, through local teams that operate in the countries in which the company operates, which are more than 180. Among the services offered by the company, there is same-day delivery in nine cities, like New York, London and Milan, a wide and curated offer, that mixes established luxury brands with emerging designers.
Its aggressive international expansion reflects its strong focus on customers. Indeed, Farfetch expanded in the US in 2009, in Brazil in 2010 and, by 2014, it was already operating in China, Russia, Japan, and Australia. Local teams were created to take care of customers' interests and requests, providing websites in nine languages, local payment options that take into consideration the habits of each single country, e.g. instalments are very common in Brazil. Also, the platform gave resonance to local emerging designers, with the aim to widening its already extensive offer, which is still rooted in Europe, accounting for 90% of total supply.

Another significant point in the company's strategy is omnichannel. As a matter of fact, in his interviews, Neves often underlines that physical sales still account for 90% of total luxury sales, given the sensorial experience that is intrinsic to luxury shopping, considering, for instance, the role of sales assistants and the contact with the item. Indeed, McKinsey has forecasted that online sales will grow until 2025, when they will reach a plateau.

[29] S. Butler, *Handbags at dawn with Farfetch, the latest thing in upmarket online fashion*, The Guardian, 24th June 2017
[30] Farfetch official website

Hence, Neves stated that Farfetch mission is to become Fashion's global omnichannel platform. However, in the attempt to revolutionise luxury shopping to make it more *creative* and *exciting*, he has imagined a new kind of omnichannel.
He has conceived Farfetch has a means to augment the physical shopping experience through virtual reality. Indeed, the platform provides users with information regarding new trends in Fashion and the boutiques surrounding them, as well as local attractions, thanks to the contribution of local partners.
Furthermore, the platform offers the *click and collect* service, which allows customers to pick up their orders into the stores of selected partners or Doddle locations. This service gives them the opportunity to try the products on in real time and to return them immediately in case they are not meeting their requests.
The peak of Farfetch omnichannel efforts will be reached through the Store of the Future: a project that is still on-going and that aims at the creation of a fully-connected store, as we will see later on in this chapter.

In 2015, the company has started an independent business unit called Farfetch Black and White, that provides online mono-brand stores with its expertise and technology, as it did for Manolo Blahnik in 2016, by launching its first online store. With this important strategic move, Farfetch started to be in direct competition with other important luxury e-tailers, such as Net-a-Porter and MyTheresa.

At the end of this preliminary analysis of the company, it seems easier to understand why Neves has described Farfetch as an *accurate global marketplace that takes into consideration customer experience*, a platform that has never existed before.
In the next paragraph, we are going to delve deeper into the analysis of the industry, in which Farfetch operates.

3. Industry analysis

In the first chapter, we saw the significant growth witnessed by luxury multibrand e-tailers in the very last decades, led by Yoox and Net-a-Porter, which encouraged the foundation of new companies, like Lyst and 24 Sèvres.

In this paragraph, we are going to delve deeper into the analysis of this industry segment, through the application of two major strategic tools: Pestel analysis and Porter's Five Forces framework.

3.1 PESTEL analysis

The Pestel analysis is a means to identify which are the most significant factors that influence the selected industry. Initially composed only of four variables, in its most recent elaborations it has been built considering six categories of factors affecting the industry: political, economic, social, technological, ecological, legal.

P	Barriers to free trade between countries, trade tariffs, fiscal policies, political stability
E	GDP and industry growth, inflation, foreign exchange rates, consumer confidence, unemployment
S	Disposable income, demographics, education, Fashion and lifestyle trends
T	Internet penetration, online payment systems, mobile devices, app ecosystems, transportation costs
E	Low impact, related to running offices not to production machines, environmental regulation, consumer awareness
L	Antitrust, regulation of competition, privacy, consumer laws, return policies, labor laws, counterfeiting

Table 12. PESTEL Analysis of the luxury multibrand e-tailing industry segment.

Regarding political factors, besides taxes and stability that can have an impact on every kind of industry, the most significant ones are related to free trade restrictions. Indeed, embargos and other barriers can hinder the operations of an e-tailer by reducing the number of countries in which it can sell or buy products. Moreover, tariff policies have a sizeable impact on the prices offered by an online retailer in case the goods to be delivered have to overcome national borders.

The economic factors that primarily affect this industry are foreign exchange rates and consumer confidence. Indeed, the former ones influence the final price paid by customers, since Europe is the main producer of luxury goods but the US and Asia account for the majority of the global demand. Moreover, consumer confidence is vital in this industry, considering that clients invest in superfluous goods, not in commodities.

Social and cultural factors have been shaping this industry, characterised, as we saw in the first chapter, by a predominance of female customers with an above-average degree of education. Moreover, trends in Fashion and in online shopping will surely influence the industry environment, by obligating companies to react in timely fashion in order to provide their customer with the goods and services they truly desire.

Technology is crucial in this industry. In fact, internet penetration is essential to connect companies to their potential customers. Moreover, technological advances in mobile devices, such as the creation of new devices, and in mobile apps need to be immediately addressed and exploited. However, they can also imply negative consequences, like the block of Google Play Store in China in 2014.
Another noteworthy factor is the reduction of transportation costs through novel technologies, which can reduce delivery time and costs by encouraging consumers to increase their online spending.

Regarding environmental factors, this industry does not directly entail the use of heavily polluting machines, since companies usually do not produce the goods they sell. However, they can encourage sustainability in Luxury and Fashion, by promoting environmentally-conscious brands, like Yoox does with *YOOXYGEN*. Indeed, consumers are becomingly increasingly aware of environmental issues and this kind of campaigns can also be a good means to target *green* consumers.

The most substantial legal factors are the ones related to consumer rights and counterfeiting. Regarding the first category, companies could face privacy issues, regarding the possession of personal data, such as the address of their customers, but also legal issues about returns. Indeed, on the one hand, companies should offer free and easy returns in order to encourage customers to purchase, since it is a major issue in the industry, but, on the other hand, they need to control that returned goods are not damaged. This contrast can entail litigations with consumers and third parties.
Furthermore, counterfeiting is a well-known challenge for e-tailers, especially in China, in which Alibaba has joined strategic alliances to fight this crucial matter.

3.2 Porter's Five Forces framework

This framework categorises the factors that have an impact on an industry's competition and profitability into five main groups: bargaining power of suppliers and buyers, the threats of both new entrants and substitutes and rivalry among existing firms. In this section, this framework will be applied to the luxury industry segment, in which Farfetch operates: the cluster composed of luxury multibrand e-tailers.

Horizontal forces

Considering firstly the horizontal forces, the availability of substitutes influences demand elasticity, since the closer the substitutes the easier to switch to them in case of price increase. Hence, the existence of close substitutes threats the profitability of the whole industry.

In our case, the main substitutes are physical luxury retailers, which can offer the same kind of products, even though with significant differences concerning the service offered, since a customer will need more time to purchase at a physical retailer compared to an e-tailer.
However, given the amount of information available to internet users, a consumer can check on the internet the price of a single product on different retailers and e-tailers. Thus, e-commerce players should monitor their prices in order to dodge the competition of physical retailers, also considering that the bulk of luxury sales are still happening into the stores.
Hence, considering the fact that physical retailers offer similar products but a different kind of service, we can assign to this force a medium degree of intensity.

The second horizontal force is the threat of new entrants. As a matter of fact, high profitability encourages other companies to enter the industry and, in case of unrestricted entry, profits rate fall to competitive level.
Barriers to entry exists in almost every industry and make sure that established firms retain some forms of advantage towards new entrants. The main sources of such barriers are: capital requirements, economies of scale, absolute cost advantage, product differentiation, access to channels of distribution, Governmental and legal barriers, retaliation.
In the luxury multibrand retailing industry, this force can be considered of moderate intensity, since the main barriers to entry are advertising, which is more efficient on large scale, and the access to luxury products through partnerships with brands or retailers. Indeed, the e-commerce boom of the late 1990s was caused by low initial setup costs, which also characterises the overall service sector. Moreover, there are no substantial legal barriers, nor distribution barriers as they are online players, and product differentiation is difficult to achieve, since they offer similar services.

Vertical forces

The vertical forces are represented by the bargaining power of buyers and suppliers. As a matter of fact, transaction with these two groups generate value for them and for the company, but how much value is retained by each of them depends on their relative economic power. This power derives from two main sources: buyers' price sensitivity and relative bargaining power. We can analyse these two factors in the relationships with both suppliers and buyer.

The major suppliers for luxury multibrand e-tailers are luxury brands, which are responsible for their product offer.

Price sensitivity is influenced by four main factors: the share of input cost on total cost; product differentiation in the supplying industry; competition among buyers; correlation between the supplied product and the quality of the industry product. In our case, price sensitivity is moderate, since, although luxury products themselves represent the majority of the cost to sustain in order to make them available to online shoppers, quality is the key and differentiation is so high that competition among suppliers is not fierce.

Relative bargaining power, instead, is affected by: relative size and concentration of buyers and suppliers; buyers' information; switching costs; possibility to vertically integrate. Considering the selected industry, apart from YNAP, the other e-tailers have considerably inferior sizes as compared to famous luxury brands and high switching costs that derive from the peculiarity of the offer of each single brand, which is also one of the main reasons of the complexity of backward integration, together with the considerable diversity that exist between brands and e-tailers. However, companies in this industry can leverage on their knowledge about prices and costs, achieved also by comparing the offers proposed by diverse brands.

For those reasons, suppliers have a medium-to-high bargaining power, which can be deemed high in case of small and emerging players.

In order to analysis the bargaining power of buyers, we need to consider the same factors while looking at the relationship between luxury multibrand e-tailers and their customers.

In this case, price sensitivity is quite high, since, given the proliferation of companies in this industry, clients can choose among many alternatives and, despite differences in the services offered, the most important thing for them is to find what they look for at the best price.

Furthermore, online users, as we saw in the first chapter, have access to an unlimited amount of information about products and prices. Thus, it is easy for them to make comparisons between different e-tailers.

Hence, it seems plausible to believe that, even though e-tailers try to offer unique and customised shopping experiences, customers still retain a medium-to-high bargaining power towards them.

Rivalry between established competitors

The central force of Porter's model regards the intensity of competition within the firms operating in the industry.

It is influenced by the following factors: concentration; diversity; product differentiation; excess capacity; exit barriers; cost conditions[31].

Name	Headquarters	Year Founded	Shipping Countries	Boutiques	Designers/ Brands	Annual Sales	Valuation
Yoox Net-A-Porter	Milan	2000	180	N/A	N/A	€1.9 Bil.	€2.9 Bil.
Matchesfashion.com	London	2000	190	N/A	450	£204 Mil.	£300 Mil.
Mytheresa.com	Munich	2006	120+	N/A	180	€129 Mil.*	N/A
Farfetch	London	2008	190+	500	1,600+	£302 Mil.**	$1.5 Bil.
Garmentory	Seattle	2014	N/A	300+	2,000+	N/A	N/A
Lyst	London	2011	150+	11,500	11,500	$150 Mil.	N/A

** At time of acquisition by Neiman Marcus in September 2014*
*** Gross merchandise value for fiscal year 2015, ended December 31, 2015*

Table 13. Source: S&P Capita IQ/company reports/Companies House/Financial Times/TechCrunch.com

[31] R. M. Grant, *Contemporary Strategy Analysis*, John Wiley and Sons, Seventh edition

Regarding concentration, it is quite evident that, especially after the merger between Yoox and Net-A-Porter, the industry leader retains most of the market share: considering only the firms included in the table, YNAP owns a 71% market share, with ten-times higher revenues compared to its competitors.
However, given the low switching costs that customers have to bear, the industry leader is not completely free in setting its prices. Furthermore, Farfetch has now become the *top luxury e-commerce destination measured by traffic, outperforming competitors including Yoox Net-a Porter and Neiman Marcus, according to data from web analytics service Alexa*[32].

Concerning diversity and product differentiation, which are negatively correlated with competition intensity, although e-tailers are putting much effort to differentiate themselves by underlining their different core values and history, they offer a similar range of products and services. Indeed, from the perspective of customers, they are all providing them with the possibility to purchase from a wider or smaller range of luxury products without walking into the store, just with the help of a laptop or a mobile device. The main differences are in the width of the offer, in the ability to create a customised shopping experience and in the range of delivery services proposed.
Indeed, fast shipment, same-day delivery and *Click and collect* are services that were introduced to offer a shopping experience, which is tailored to customers' needs.

Exit barriers, such as durable and highly-specialised assets, can be substantial in intensifying competition by forcing companies to compete because of the difficulties that prevent them to exit a particular industry.
The selected industry has no significant exit barriers, for it does not entail considerable upfront investments in machinery, like, for instance, in manufacturing.

Excess capacity can intensify price competition to a degree that depends on cost structure. Indeed, the higher the proportion of fixed costs the higher the probability to take on other businesses that cover variable costs.

[32] V. A. Kansara, *Inside Farfetch's store of the future*, Business of Fashion, 12th April 2017

In the case of multibrand e-tailers, if they implement a wholesale model, like YNAP, they take risks related to unsold stock in their warehouses. For this reason, the purchasing of luxury goods has to be balanced by compromising between growth targets and real, current market size.
Having a high proportion of fixed costs, mainly due to operating costs like rents and salaries, in case of excess capacity, price competition could become very intense in this industry.

Hence, we can say that the intensity of central force is medium, considering that, despite YNAP is by far the industry leader, companies are struggling to differentiate themselves and their services. Moreover, the fact the all the most important players are growing rapidly reflects the expansion of the overall luxury e-commerce industry, which shows that firms can grow without eroding competitors' margins.

Average intensity

Mapping all the forces into a single table, it becomes evident that, according to the factors that have been analysed in the model, overall, this industry segment presents a medium-to-high intensity level of competition.
Indeed, despite the size of industry leader, numerous firms are entering the market and brick-and-mortar retailers still represent significant competitors to e-tailers. Furthermore, suppliers and buyers have a considerable bargaining power towards these online-based companies.
However, the profitability of the whole industry does not seem at stake for the next decade, given the thriving condition of luxury e-commerce, which, according to McKinsey is destined to grow steadily until 2025. Thus, companies can still significantly grow without stealing market share from their competitors and, maybe, by finding new ways to differentiate themselves in order to dodge competition, as Farfetch has been trying to do in the last decade.

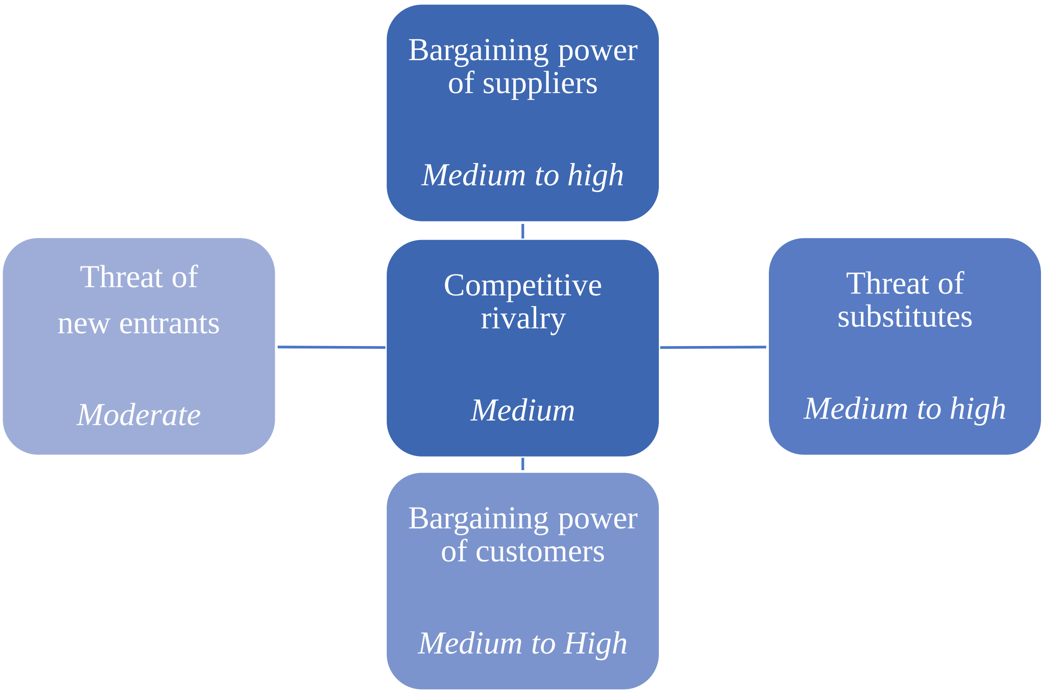


Table 14. Porter's Five Forces framework applied to luxury multibrand e-tailers

After the analysis of the industry segment in which Farfetch operates and competes, we are going to analyse in depth its internal dimension, through building its Business Model Canvas.

4. Business model canvas

As we saw in the last chapter, the Business Model Canvas is a strategic tool, designed to better understand how a company generates value.

This paragraph encompasses a detailed analysis of each of the nine building blocks that constitute the canvas in order to convey an exhaustive explanation of Farfetch's activities and operations.

4.1 Value proposition

The value proposition is the heart of the canvas, for it represent the way in which a company generates value to customers by satisfying a need or solving a problem.

In our case, the company delivers an *accurate global marketplace that takes into consideration customer experience*, as we saw.

This means that Farfetch aims at satisfying the need for a better customer experience, by improving the standards set by the incumbent companies.

Indeed, Neves and his team claim to offer an improved service to online shoppers through taking care of each fundamental customer service activity, such as orders tracking and returns, and by merging physical with digital in order to create a coherent omnichannel experience.

This last point is the most important one, since it represents the essence of the disruption brought by Farfetch. As a matter of fact, by merging those two dimensions, the company aims at offering a more *creative and exciting* shopping experience characterised by the creation of an augmented reality, which, for instance, can suggest tourists where to eat and what to see, as well as the main Fashion trends of the season. Moreover, this merge has allowed for the creation of some peculiar services: *Click and collect*, that we saw in the previous paragraph; *Same day delivery*, which is a service that is available in nine cities all over the world thanks to the collaboration of some of the company's partners; *F90 Store to Door in 90 minutes*, which entails a delivery in 90 minutes only for Gucci products and is available only in ten cities, like LA and Dubai; *Farfetch and away Yacht delivery service*, which involves the contribution of partners located in *13 Mediterranean marinas*.

As we can see, the fusion between physical and digital has been developed for targeting customer needs, namely a faster and customised delivery, achieved through the help of partners stores that are physically located near the platform users.

Hence, we can affirm that Farfetch Value Proposition is *Performance*-driven, referring to Osterwalder's list. Indeed, by stating that this platform is customer centric, Neves means that he aims to offer an improved shopping experience, through the creation of a novel set of services that satisfies needs that were never addressed before.

To prove it commitment towards the platform users, a customer promise has been published onto Farfetch website. It is constituted by the following points: *fast shipping, fast response, free returns, round the clock support, safe & secure shopping*. Hence, according to Osterwalder definition, Farfetch focuses on both quantitative and qualitative values, aiming at providing both faster deliveries and an improved and original customer experience.

However, being a platform, Farfetch has to focus on two sets of customers: online shoppers, but also boutiques and brands. Regarding the latter category, Farfetch offers some advantages as compared to other e-tailers.

Indeed, its partners can exploit the original shopping experience delivered through the platform and leverage the positive effects entailed by it, e.g. on the company's reputation. This is even more true for the emerging brands in the *LAB* section, which can also profit from the global scale of the platform to increase their brand awareness all over the world. Furthermore, boutiques can benefit from the services offered by the platform, which takes care of photographing the items to put onto the website, processing payment and negotiating deals with delivery companies that are more favourable, thanks to the larger scale of Farfetch operations as compared to its partners.

4.2 Customer segments

Thanks to its platform structure, Farfetch serves two main sides: online shoppers and luxury brands and retailers.

Regarding the former category, the company targets high-end online consumers devoted to luxury brands, as well as fashionistas and those who are interested in the current trends. As a matter of fact, Farfetch has a wide and selected offer, reached through the work of a team of experts, which constantly monitors the market.

Hence, this platform targets a niche segment, which as we saw in the first chapter is made not only by millennials, given the important share of shoppers aged more than 50.

This segment is characterised by a high annual income and educational level, as well as by a predominance of women over men.

Concerning nationalities, Farfetch operates in almost 190 countries, providing a full access to its content in nine languages and allowing users to select their local currency.

The second side served by this platform consists of luxury retailers and brands. Indeed, its users can buy items that are in the inventories of the 700 partner boutiques, which are multibrand luxury retailers and, according to analysts[33], are destined to grow by 2,000 units in the forthcoming years. Moreover, Farfetch has direct partnerships with 200 brands, like Gucci with the F90 service and Manolo Blahnik, through the Black and White business unit, dedicated to mono-brand online stores.
Thus, we can say that also this second side served by the platform is a niche segment, in this case made of brands and physical retailers operating in the Luxury industry.

4.3 Customer relationships

Customer relationship is another significant point in the company's business model, since it aims at offering an original and improved shopping experience to its users. Being an online retailer, Farfetch establishes relationships with its customers, which are based on automated services.
However, those relationships are customised for every client, taking into consideration certain variables, such as geographical position, language and currency.
As we saw in the first paragraph, the company has been undertaking an aggressive international expansion, opening offices in 11 cities in order to leverage the knowledge of locals. In this way, the company has managed to create a customised service for its customers, that can benefit from a full translation of the site in 9 nine languages, a delivery system developed to offer the best price and the faster arrive of the order and a payment system that takes into consideration not only the chosen currency, but also preferences in payment methods. Indeed, Neves has pointed out that this last variable can terribly influence the shopping experience, citing as an illustration the case of Brazil, in which shoppers are used to pay in instalments almost every item, even a t-shirt.

Furthermore, the e-tailer offers an even more personalised service to its *Private Clients*, who can benefit from a network of personal shoppers located in London, New York, Tokyo, Hong Kong, Shanghai, Moscow and Brazil. This bespoke service is part of Farfetch efforts to humanise the digital shopping experience, in this case by establishing human interactions as in the classic in-store purchasing process.

[33] S. Butler, *Handbags at dawn with Farfetch, the latest thing in upmarket online fashion*, The Guardian, 24th June 2017

The last significant point regarding customer relationships is the attempt to establish a global community. Indeed, Farfetch aims at becoming a lifestyle platform that offers not only information about Fashion and fine boutiques and shops, but also about local attractions and food, by leveraging the knowledge of its partners, located in 40 different countries. This target is coherent with the current trend of the luxury market, whose last year growth has been driven by luxury experiences, represented mainly by hospitality, food and wine[34].

4.4 Channels

The main touchpoints between Farfetch and its customers are online. Indeed, despite the objective to merge physical with digital, the company is still intrinsically digital.

The two most significant channels are the company website and app, available both on iOS and Android. They are directly operated by Farfetch and are related to four of the five channels phases, which we saw in the second chapter. As a matter of fact, through them, customers can purchase and benefit from the peculiar services offered by the platform, as well as evaluating the value proposition through the reviews that are published onto the website.

Regarding the first phase of channels, concerning raising awareness, there are other relevant channels that are crucial to ensure that the platform is sufficiently promoted.

Farfetch has launched its first ad campaign in 2015, called *The* Unfollow, which showed on both digital and printed editions, asking also bloggers and influencers to join it by taking photos of themselves and publishing them on the major social networks.

Moreover, it has uploaded several videos on YouTube to raise awareness about its activities and projects, like the *F90* one with Gucci

Hence, we can see that Farfetch interacts with its customers mostly through digital channels, which are developed accurately in order to provide users with a comfortable and exciting experience, characterised by ease of navigation, interesting information and pleasant interface.

[34] C. D'Arpizio et alt., *Luxury goods worldwide market study Fall-winter 2016*, Bain

Although most channels are directly operated by Farfetch, some other very significant touchpoints are in the hands of its partners, having a predominant physical dimension.
The partner boutiques represent the platform and customers can interact with them in case they choose the *Click and collect* service. In this occasion, the boutique become a major channel that can have a tremendous impact on the overall shopping experience, while in the other cases, the impact of the partner is limited to the packaging of the ordered items before the shipment.
The last channel is represented by the delivery companies that work with the e-tailer, which takes care of the shipment of the products, carrying an important responsibility. Indeed, focusing the company's value proposition on the improvement of customer experience, delivery assumes a great value and can have a tremendous impact on the overall shopping experience.

4.5 Key partners

As we saw in the last section, partners can have a significant impact on the overall shopping experience delivered by Farfetch. Indeed, as the company claims to offer an original and improved customer experience compared to the incumbents, it should carefully select its partners in order to deliver a customer journey that is coherent in all its steps.
Farfetch represents the third case described by Osterwalder, since it joins partnerships because of the lack of the required capabilities to operate all the activities reported in its business model.

The first category of key partners is the one represented by luxury boutiques, which supply the inventories of goods that are sold on the platform. They are usually high-end stores located in the high streets of famous Fashion cities like London or Milan or in exclusive locations, like Capri and Forte dei Marmi.
The website contains a section dedicated to the partners boutiques, which locates them and provides the reader with a brief description of the store, with an emphasis on the most interesting *designers to look out for*.
Farfetch puts much effort in selecting valid partners, because they are responsible for the offer available on the site, thus being the most important suppliers of the company.

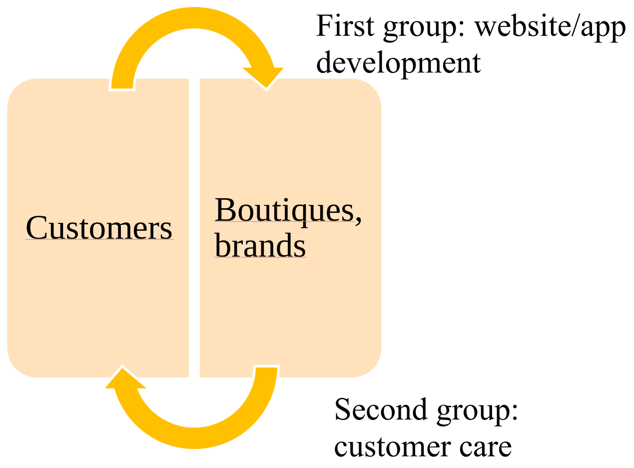
Furthermore, the platform has signed partnerships with 200 brands, among which we can find Gucci and Manolo Blahnik. Indeed, even though it started with multibrand retailers, Farfetch has managed to enter direct competition with established e-tailers, like Yoox and Net a Porter, by selling directly the items produced by those luxury brands, without the intermediation of multibrand stores.
In the case of Gucci, they have launched a special service, F90, which involves the delivery of the ordered products in 90 minutes, and is destined to be widened to other brands. Moreover, the company have been operating as consultant for luxury brands through Farfetch Black and White in order to develop and improve their online mono-brand stores leveraging its resources in the digital sector.

Delivery companies represent another category of key partners. Indeed, in the *Customer promise*, the delivery is a crucial point, since it has a significant impact on the overall customer experience and on the reliability of the e-tailer.
As reported in the *Orders and Shipping* section of the website, DHL and UPS are the main partners concerning the delivery of the orders. The company reports that they try their best to minimise the possibility of delays or failures regarding payment approval or customs.

Regarding key partners, it is worth noticing that Farfetch operates as a platform and, thus, its main role is to facilitate the interaction between the two sides it serves, brands and retailers on one side and luxury shoppers on the other one. This implies that some major activities are not directly operated by the company, leaving a great responsibility to its partners, whose performance inevitably affects Farfetch reputation.
Furthermore, the company has joined several strategic alliances with other e-tailers, especially in Asia, in order to leverage their knowledge and experience in the market. A case in point is represented by JD's investment of 397 million dollars

4.6 Key activities

The major activities of which the company takes care are related to the development of the platform on both the website and the app and to customer service.



The first group includes several major activities that are necessary to differentiate Farfetch from its competitors through offering a user-friendly, up-to-date site and app with a design that is appealing and coherent with values of the company.

Hence, the development of the website is paramount and the major points to focus on are updating the styles offered through monitoring Fashion shows and street styles as well as through selecting retailers that are aligned with the company's values, ensuring proper translation for all the content in all the nine offered languages.

Furthermore, a platform should facilitate the interaction between the two sides by fostering the establishment of relationships that benefit both the parties. In the case, Farfetch has the duty to create a correct profile of every single user by collecting data about his research and his purchases, in order to suggest him only the product that he might be interested in. In this way, the customer is more likely to keep purchasing from the same source, with an inferior probability of returning the product.

With all those efforts, Farfetch aims at offering a customised interface, achieved through collecting data about its customers and creating customer profiles: this key activity will be a major point in the Store of the Future, which will be discussed later on in this research paper.

While the first group of key activities referred to encouraging customers to purchase from the boutiques, the second one concerns the second side of the relationship showed in the table. It contains all the actions required to guarantee a smooth delivery process, by solving the criticalities that can occur along the way.
Indeed, Farfetch, takes care of: the payment process, through a service which is customised according to the currency and the preferences of the customer (e.g. instalments); calculating the final price, considering also duties and taxes; dealing with the delivery companies and tracking the orders; return, refunds and orders cancellations.

The challenge posed by this second group of activities is that the company can only try to monitor the delivery process through being in contact with both all the involved parties without intervening physically, since it only facilitates the correct communication among them. Farfetch is in charge of the whole process, but has limited control on it, thus risking its reputation in case of mistakes committed by its partners.

4.7 Key resources

According to Osterwalder, we can divide key resources into four groups: physical, intellectual, human and financial.

The business model of Farfetch is built to avoid the significant costs that derives from owning a warehouse, which has also to be adapted to the size of the company and can become a major issue in case of rapid growth and international expansion as in our case. Hence, in this first category of resources, the major ones are related to IT.

Intellectual resources are the one that really differentiate Farfetch from its competitors and make it so appealing to investors.
The major resources in this category are the algorithm that allows the company to monitor all the inventories of the partners in real time, the customer database and the partnerships with brands and physical retailers.

According to the VRIO model, resources can provide a company with a sustained competitive advantage if they are valuable, rare, not imitable and the company is well organised around them. In our case, Farfetch rapid growth shows that these resources are valuable and rare. However, imitability could be a key challenge in the future. Indeed, they should develop its algorithm and customer database through operating on the largest possible scale in order to own a set of non-imitable resources. In this way, the company would be able to sustain its competitive advantage and to seriously challenge YNAP.

Moreover, Farfetch operates in a knowledge-intensive sector, in which human resources can really make the difference. In particular, they affect the updating process of the site with all the new styles and trends proposals and take care of the large amount of data to be processed. Indeed, the company is searching for human resources with outstanding mathematic skills to take care also of the possible errors produced by its algorithm.

For instance, a minor quantity of products, as reported by the company, present different prices, since it is taken from diverse sources. This is a major flaw, that can have negative implications on the company's reputation, considering its commitment to high standards in technology.

The last category is represented by financial resources, which represent a crucial issue for start-ups.

According to various sources, the company is not yet profitable: market reports claim that it lost 40 million dollars last year[35]. Indeed, Farfetch has raised the necessary financial resources through seven funding rounds, counting on some big names in the industry, such as Condé Nast and JD.com.

[35]V.A. Kansara, *Inside Farfetch's Store of the Future*, Business of Fashion, 12th April 2017

4.8 Cost structure

Farfetch's cost structure is quite interesting, since the lack of inventory makes the company more agile and involves less risks.

Usually, e-tailers, like YNAP, have large warehouses, in which they stock the purchased goods that are available on their site. This replication of the classic wholesale business model, applied also by physical retailers, involves the cost of buying and stocking goods and the risk that a number of unsold products remain in the warehouse.

Instead, Farfetch's business model entails costs related to human resources and offices, which are located in nine cities spread all over the world, as we saw. Hence, wages and rents are the major voices in the expenses section of the company's income statement.

Considering Osterwalder's framework for cost structure, we can say that Farfetch is a value-driven company, which aims to offer a personalised and high-end service to its customers, even though its peculiar business model allows to avoid a major part of the costs encountered by its competitors.

However, the company has been facing a large amount of fixed costs, which do not make it profitable yet. Indeed, they represent the large portion of its cost structure and are due to the aggressive expansion and growth of the company, which encouraged the company to invest abroad and to significantly increase its human capital.

4.9 Revenues stream

Even though we have no official data about how the company generates revenues, various sources, among which we can find its CEO, have reported that Farfetch has a pure revenue-share model.

As a matter of fact, there are no fixed fees for its partners, which have only to pay the e-tailer a percentage of the sales reached through its channels. This percentage should be around 25%[36].

[36] See note 35

4.10 Business model canvas: the map

To conclude the business model analysis of Farfetch, it is important to have all the nine blocks grouped in a single picture, in order to grasp all the major innovation introduced by this start-up.

<table>
<tr>
<td rowspan="2">Key Partners
Established and emerging brands

Luxury multibrand retailers

Delivery companies

E-tailers (Joint ventures)</td>
<td>Key Activities
Website/app development

Customer care</td>
<td rowspan="2">Value Proposition
Offering an accurate global marketplace that takes into consideration customer experience</td>
<td>Customer Relationships
Automated but customised

Personalised for Private Clients</td>
<td rowspan="2">Customer Segments
Luxury online shoppers

Established and emerging brands

Luxury multibrand retailers</td>
</tr>
<tr>
<td>Key Resources
Algorithm
Customer database
Partnerships
HR</td>
<td>Channels
Website, app
Youtube, magazines
Partner boutiques (click and collect)</td>
</tr>
<tr>
<td colspan="2">Cost Structure
Large proportion of fixed costs:
Wages, Rents</td>
<td colspan="3">Revenue Streams
Revenue share model: 25% on net revenues</td>
</tr>
</table>

Table 15. Farfetch's Business Model Canvas.

The most noteworthy points of Farfetch's business model are its cost structure, which entails no warehouse costs, and its value proposition. Indeed, this last point is what really drives the company, which is committed to create an original retail experience by merging physical with digital. This last point together with the fact of being a platform is what really makes the company so valuable to investors.

However, this business model has some critical points that affect not only Farfetch's profitability, but also the one of its partners.

Indeed, it is a commission-based model, which is anchored to customers' purchases, who can also benefit from its Fashion suggestions without paying any fee. Moreover, this 25% commission seems quite high from the point of view of its partner boutiques, which still need to sustain most of the costs, such as the ones related to buying and importing the products, as well as taxes, rents and insurance. Also, the boutiques have to give Farfetch the control on their inventory and transactions.

Hence, in order to improve its profitability and provide its partners with more advantages, Farfetch could implement a hybrid model, by introducing some of the features of Advertising-based models.
Indeed, with revenues from advertising, the company, which is now the first luxury e-tailer by visits, can leverage this increasing online presence to become profitable, while also reducing the commissions paid by its partners.
Furthermore, with the introduction of advertising, it could execute a Freemium pricing strategy, like Spotify and other successful companies did. In this way, Farfetch could remain free and open to every online user, but provide exclusive content and an ad-free service to those who pay a monthly subscription.
These improvements might really make the difference for Farfetch, which, according to analysts, is still not profitable, even though its skyrocketing revenues and visits.

After having analysed both the external and internal dimension of Farfetch, we are ready to formulate a SWOT analysis, in order to resume the salient features of the company and of the competitive environment that surrounds it.

5. SWOT analysis

The SWOT analysis is a useful tool that permits to map the major findings of a strategic analysis. Indeed, it allows to merge the internal and external analysis through underlining positive and negative facts for both of them, offering a complete and balanced view of the situation in which the company is currently in.

S	O
No inventory Platform Customised service Store of the Future	Growing demand New technological advances Internet penetration Luxury market performance
W	**T**
Profitability Disadvantages for partners	YNAP Lack of structural barriers

Table 16. SWOT analysis of Farfetch

5.1 The internal dimension: strengths and weaknesses

The left side of the table assess the strength and weaknesses of the company, which can be grasped by analysing its internal dimension.

Concerning the strengths, we have already seen from the business model analysis that Farfetch offers services that are customised according to variables like nationality, currency and preferred payment methods, and also that it does not purchases and stock goods, since it operates connecting its network of high-end multibrand boutiques with luxury online shoppers.

Thanks to its platform setting, Farfetch can count on *network effects*[37]: the higher the number of platform users, the higher the value per transaction, since operating on a greater scale generates a higher probability to find right matches and attracts more users. Indeed, increasing the number of collaborations with brands and multibrand retailers, Farfetch becomes more attractive to luxury shoppers, while an increase in the latter category makes it more appealing to brands and retailers that can leverage its large customer base.

[37] M.W. Van Alstyne, G.G. Parker, S.P. Choudary, *Pipelines, Platforms and the new rules of strategy*, Harvard Business Review

Moreover, platforms tend to move into new businesses by using their networks and data about consumers, as Google did by entering new markets, such as driverless cars and mapping. Thus, by changing abruptly, platforms can reshape industry borders and competition.

Farfetch is going into that direction with the *Store of the Future* project. Indeed, the company is trying to combine physical and online retail by making online-collected customer data to physical boutiques in order to provide shoppers with a coherent omnichannel experience, on which futuristic services will be added, as we will see in the next paragraph. This project could create a whole new market, placed between online and offline luxury retail, that can generate further network effects by increasing the number of customers and partners, which will also include tech companies.

With the increase of its network, the company would generate more profits, also thanks to its cost structure. Indeed, bearing mainly fixed costs, the significant increase in the number of transactions that this new market could create, will significantly reduce unit costs.

Concerning the main weaknesses of the firm, profitability is still a critical point. Indeed, as we saw, it is still not profitable and this might be due to the high fixed costs which can be recovered through a quite number of transactions, given also that the company has office in nine cities all over the world. In fact, with the current business model, these high overhead expenses can be recovered only with gains deriving from the 25% commission on customers' purchases. For this reason, an advertising-based, *freemium* pricing strategy might be the solution to those profitability concerns.

Furthermore, Farfetch requires much control over its partners' inventories and transactions, which combined with high commissions can discourage multibrand retailers to join the platform, despite the promise of high returns from *network effects*: Neves claims that, once a boutique is connected through the platform, Farfetch is responsible for 45% of its purchases.

Also in this case, *freemium* could be the solution to, at least, reduce commissions and incentivise other retailers to join in.

5.2 The external dimension: opportunities and threats

The right side of the table maps the main opportunities and threats offered by the industry in which the company operates.

Regarding opportunities, all the mentioned studies about luxury e-commerce underlines the fact that it is a thriving industry, which, after having registered a +13% in 2016[38], will keep rapidly growing at least until 2025.

Indeed, besides a growing demand and level of online sales, internet penetration and the impressive surge in mobile devices adoption rates are surely contributing to its overall positive performance.

Furthermore, looking at the industry from a broader perspective, there are other factors that can affect its performance. Indeed, technological advances, like new mobile devices and faster shipment methods, can have a positive impact on costs and, eventually, to the profitability of the whole industry. Also, the growth of the entire luxury industry, which reported a +4% in 2016 versus 2015[39], represents a positive signal for luxury e-commerce.

Concerning instead the threats that Farfetch is facing, YNAP is still the undisputed industry leader, with revenues that are ten times the ones of its main competitors.

Indeed, we saw that Farfetch is putting much effort in order to truly differentiate itself and to find an original position in the industry in order to avoid head-to-head competition with an incumbent that owns far more resources.

Other threats are coming from the new luxury e-tailers, such as *24 Sèvres*, that, thanks to the lack of substantial structural barriers, are entering this thriving industry, compromising its profitability.

Thus, even though luxury e-commerce business is still growing at high rate, competition is going to become more and more intense in the next years, since we are witnessing the entry of new firms, which promise high quality services and a wide range of high-end items.

[38] See note 32

[39] Like above

For those reasons, Farfetch latest project might be the right solution to redefine its competitive environment, by fusing online and offline retail, offering a unique service to brick-and-mortar boutiques.

In the next paragraph, we are going to delve into this project, in order to complete the strategic analysis of the company, which will provide us with the means to understand and demonstrate the disruptiveness of Farfetch in the last paragraph.

6. The *Store of the Future*

Source: Business of Fashion. Courtesy of Farfetch

The *Store of the Future* is the latest project of Farfetch, which has the aim to revolutionise the luxury shopping experience by connecting the offline and online dimension through an operating system run by the company.

The first store has been inaugurated the 20^{th} of October 2017, with the opening of Browns East in London, but this innovative concept will be out in the market supposedly from 2018.

It consists of an operating system that Farfetch will offer to offline stores in order to connect them with the data collected by the platform, allowing them to offer an original, customised service to their clients. Indeed, Farfetch has developed several applications to showcase the immense opportunities that a platform like that could bring to the market.

It has implemented a *universal login*[40] system that recognises customers as they enter the store, making their information, like sizes and purchase history, available to sales staff. Furthermore, a *RFID-enabled clothing rack* will interact with the whole system, by inserting the taken products into customers' wish-lists, which will be available on digital mirrors. Through these screens, clients will also be able to see additional information about the selected products, such as other colours and sizes available, and, at the end of the shopping experience, they can purchase the selected products through a payment system, which recalls the one that is utilised in Apple stores.

Besides the development of these new applications, which represent the means to show the opportunities that the system will bring, Farfetch will focus its activities on the *core data layer*, which connects the boutiques to the platform and, most importantly, to the data owned by it.

This project has been conceived, starting from considering the future of luxury retail. As we saw in the previous parts, according to McKinsey, online sales will reach a plateau in 2025, representing 20% of total luxury sales. Hence, in the future, physical purchases will still have a considerably higher share as compared to online ones.
However, Neves pointed out that the, even though the store will be the first channel for luxury shopping, it will have major differences compared to the past. Indeed, he believes that the *disconnected* store will not exist anymore, since it will be replaced by a new kind of store, which will be the centre of the new retail experience.

This original retail experience goes beyond omnichannel, and he calls it *augmented retail*, since the physical dimension is enriched through the data and information collected through the online platform, in order to create a coherent experience that transcends physical locations. Indeed, through this new operating system, customers will not only be able to purchase from the 700 boutiques located around the world, but they will also have the opportunity to benefit from a customised in-store experience, which reflects their online research.

[40] In this paragraph, all the words in italic are taken from the exclusive interview of Neves contained in: V. A Kansara, *Inside Farfetch's Store of the Future,* Business of Fashion, 12th April 2017

The *Store of the Future*, according to Neves, is based on three main principles: *human touch*, modularity and *open architecture*.

The first element concerns the empowerment of sales assistants, whose role will be redefined through this original system. Indeed, they will stop performing tasks that can be accomplished by machines, such controlling the inventory, to focus on the human interaction with customers. They will become *in-store influencers* according to Farfetch's founder.

Secondly, this concept has been conceived to be applied to a variety of different stores, through its adaptation to brand features. Indeed, boutiques will have the possibility to choose which elements to keep, in order not to lose the essential features of the store and to create unique *Stores of the Future*.

The last point is its *open architecture*. Neves said that the aim of the operating system is to invite start-ups and other brands to add their innovations to the platform. Indeed, Farfetch's main tasks will be related to taking care of the *core data layer* and of the platform, while fostering the increase of platform interactions.

This new system could be the most significant strategic move of Farfetch for several reasons.

Firstly, it could create a new market segment situated in between brick-and-mortar and online retail, in which Farfetch will be the leader. Hence, it will dodge the rising competition from new e-tailers, as well as the one of YNAP.

Moreover, it will generate higher network effects for customers, retailers and also for tech companies, which would be able to add their applications and physical supports to the operating system. As we saw, this is a self-reinforcing cycle since, increasing the number of participants of one side, generates more value for all the parties involved. For instance, adding a new application generates more value for customers, who will be able to experiment it, and for boutiques, which will have a stronger attractive power on their potential clients.

Hence, in case of a high adoption rate, this system will make Farfetch a pool that incentivises innovation in retail, through fostering the development of new technologies and original ways to transform the shopping experience into a more *creative and exciting* acitivity, which is the objective that Neves when he founded the company.

Indeed, the open architecture is a major point in the company strategy, that will make Farfetch truly exploit the potential of the platform setting. This kind of structure allows companies to go beyond outsourcing: platforms have begun orchestrating external networks of resources[41].

Thus, Farfetch's main task will be to facilitate the interactions between platform sides and to take care of their quality, avoiding interaction failures, which spread as the positive spillover effects, but with negative consequences on the platform reputation and participants' number, creative a negative *feedback loop*[42]. In this case, these failures regard the suggestions proposed by the platform, which can negatively affect a customer's shopping experience if they fail in creating best matches.

At the end of this analysis, it is evident that the *Store of the Future* is a significant strategic move that could transform the luxury retail industry, by creating an original shopping experience and fostering innovation in the sector, and, maybe, influence the whole retail industry.
In the next paragraph, we are going to resume the findings of all the analyses conducted in this chapter to demonstrate that Farfetch is a case of disruptive innovation, underlining which kind of consequences it might entail in the forthcoming years.

7. Is Farfetch a disrupter?

The aim of this research is to demonstrate that Farfetch is a case of disruptive innovation, since it meets the conditions required by Christensen's theory, and, thus, that its innovative business model has set new standards for all the players in the luxury retail industry, considering both online and offline dimensions.
This paragraph encompasses the application of the disruptive innovation theory to the selected case, by following the process suggested by Christensen in light of the findings of the strategic analysis conducted in the previous sections.

[41] See note 35
[42] Like above

As we saw in the second chapter, a disrupter is usually a company that manages to challenge an incumbent, despite owning an inferior amount of resources. It starts by serving the segments that are overlooked by the incumbent, providing them with a better service, often at a lower price.

In our case, we can consider Yoox-Net a Porter as the incumbent company, since it is the industry undisputed leader, with almost 2 billion dollars annual sales, versus the 300 million dollars obtained by Farfetch.

Since, according to Christensen, disruption is a process, we are going to analyse each step of this process in order to demonstrate that Farfetch can actually be considered a disrupter.

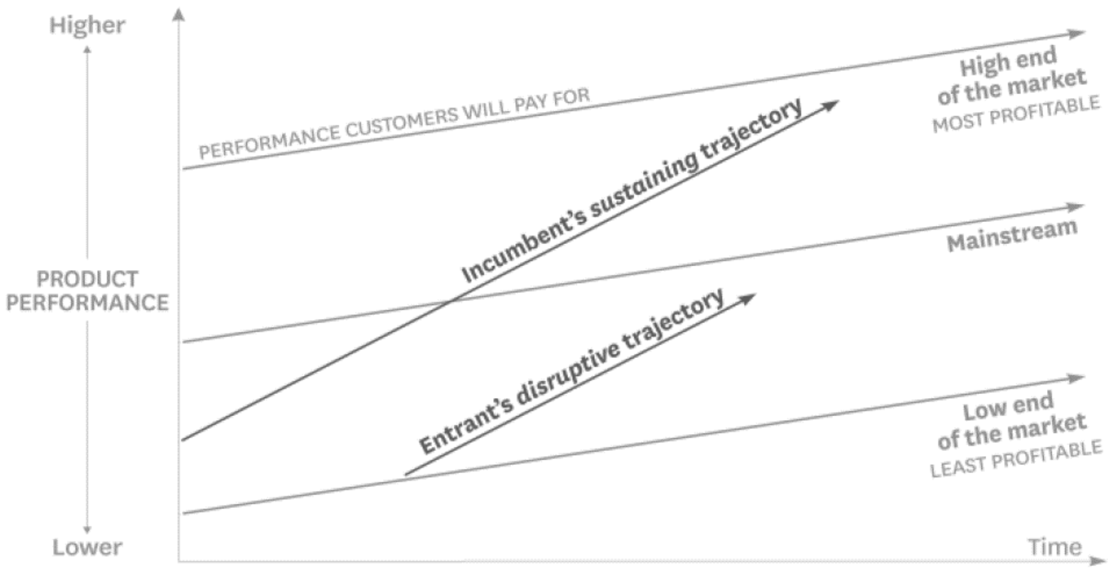


Table 17. Source: Harvard Business Review[43]

Firstly, the challenger should start from an overlooked segment. In our case, this segment can be found not only among online shoppers, but also among brands and boutiques, since, being a platform, Farfetch serves these two segments at the same time.

[43] C.M. Christensen, M. Raynor, R. McDonald, *What is disruptive innovation?*, Harvard Business Review, December 2015

The overlooked segment from which Farfetch started was represented by luxury multibrand retailers. Indeed, the company's value proposition is centred on the idea of connecting luxury customers with a *curated* network of boutiques, thus, Farfetch was not founded to substitute physical retailers, but to aggregate and empower them through the platform.

The history of Yoox and Net-A-Porter, instead, is quite different. Both Marchetti and Massenet started out their businesses around the beginning of the new millennium, buying products from luxury brands and selling them through their sites, replicating the wholesale model applied by department stores and competing directly with them. Indeed, the only major difference between those two e-tailers and brick-and-mortar retailers was in the choice of the sales channel.

As in the process outlined by Christensen, the two incumbents, after the establishment of Farfetch, continued to focus on their market segments, with the objective of reaching higher profitability targets. Indeed, while the start-up was nurturing and developing its network of boutiques, they did not choose to compete directly with it, by starting to partner with multibrand retailers. Instead, they kept implementing their wholesale-like strategy, which has been very successful for the last 17 years, buying unsold or overstock products in the case of Yoox and seasonal items in the case of Net-A-Porter.

Following entrant's trajectory described in table 5, a disrupter usually moves upmarket competing directly with the incumbent, by meeting the standards required by its customers and maintaining its competitive advantage.

In 2015, Farfetch created an independent business unit, Farfetch Black and White, to develop mono-brand online stores, like in the case of Manolo Blahnik. This noteworthy strategic move marks the beginning of head-to-head competition between the entrant and the incumbents. Moreover, the company has also started a partnership with Gucci to implement the F90 project, as we saw in the previous sections.

The path followed by the company resembles the one described by Christensen, with Farfetch finally challenging the dominance of YNAP. This process is the distinctive feature that characterises disrupters. Indeed, according to the theory, in order to assess if a company is disruptive, we should not focus on results nor on technology, but on the trajectory, it follows, since not every disrupter succeeds.

However, Farfetch is intrinsically different from its competitors. Indeed, even though it is implementing same-day delivery, *click-and-collect*, F90 and other projects in order to guarantee a faster and improved service to its customers, thus competing directly with YNAP, the company presents major differences if compared to the incumbent.
Indeed, Farfetch has built an innovative business model, which is noticeably different from the one of the incumbent. This is one of the features that usually characterise a disrupter according to the theory. Moreover, building a diverse business model is needed in order to better serve customers in the incumbent's segment, since the entrant has often fewer resources and need other sources of competitive advantage.
The diversity in the business model lies in the lack of inventory and in the value proposition, which is related to merging physical with digital experiences. This marks a rupture with traditional e-tailing strategies, which has been reproducing wholesale models, characterised by buying and stocking products into costly warehouses, and challenging the brick-and-mortar retailers.

Thanks to the application of Christensen's theory, we have acknowledged the disruptive power of Farfetch. Indeed, the company followed the disruptive process, by initially partnering with multibrand boutiques, a segment which was overlooked by the incumbents, and introducing an innovative business model in the industry, focused on merging physical and digital retail in an original way.
However, Farfetch is trying to go even further by creating a new market situated just in between brick-and-mortar and online retail, creating a new kind of omnichannel with its *Store of the Future* project. In the next paragraph, we are going to analyse the future implications of this project, considering how will the luxury retail industry will evolve in the next decade.

8. Luxury retail evolution: scenario analysis

Analysing the future of luxury retail is crucial to understand if Farfetch might succeed in his efforts to create a new market and a new kind of shopping experience, which mixes physical and digital in an original way. In order to provide the reader with a plausible description of the framework in which the company is going to operate in the next decade, we are going to start with analysing the answers given by a group of experts in the field about the evolution of the industry until 2030.

After having outlined the evolution of the industry environment in the next decade, we are going to delve deeper into the consequences that might derive from the implementation of the *Store of the Future* project, outlining three conceivable scenarios through the approach endorsed by R. Ramirez and A. Wilkinson[44], as well as by professor J. Hoffmann.

8.1 Luxury retail (r)evolution

In order to outline the major features of luxury retail in the next 13 years, we are going to analyse the opinions of five experts in the field, both academics and professionals, who have kindly accepted the challenge to answer very complex questions about the future evolution of the industry[45]. These questions concerned the major forces influencing the market, uncertainty factors, technology and its adaptation to different customer segments and the power relationship between physical and digital.

The first question regarded the major factors shaping the evolution of the industry. Technology has been cited by most of the interviewed as one of the central forces in luxury retail, which is going to have a significant impact on the shopping experience. Indeed, in-store innovative hardware, like *magic mirrors*, which are interactive screens that can be used to browse catalogues and try on different items, advances in transportation technology that can reduce delivery time and costs and mobile devices are playing an important role in both brick-and-mortar and digital retail. Companies in the sector are supporting these kinds of technological development, in order to drive the change, as YNAP did creating a tech hub in London to gather digital expertise and accelerate innovation[46].

[44] R. Ramirez, A. Wilkinson, *Strategic Reframing, The Oxford Scenario Planning Approach*, Oxford, 2016
[45] Appendix 1
[46] YNAP official website

Macroeconomic indicators represent another important aspect to consider, especially considering the purchase power of millennials. The recession has worsened the forecasts about income level of millennials, who are destined to earn less than their parents, on average[47]. Income distribution between different age segments is an issue that can affect the way in which retail will evolve in the future, since it will reflect the needs of the main luxury customers.

This last point is linked to consumer empowerment, which has already been discussed in the first chapter. Indeed, it presents a challenge to luxury brands that need to decide how to respond to this trend: there is a trade-off between control and improving customer relationships. Choosing to involve customers into their strategies, using techniques as co-creation, might have unpredictable results and mine their exclusive feeling, but, in the digital era, it might bring significant results in terms of customer loyalty, which is a complex target to reach nowadays.

After the most important forces that are shaping the evolution of the industry, the interviewed were asked to point out the major factors of uncertainty.
To sum up all their opinions, the most significant factors that they underlined are: terrorism, which is affecting touristic flows; geo-political transformation; energy revolution; technology; privacy, which is a crucial issue when analysing big data, as in the case of Farfetch; laws and regulation; consumer behaviour.

Since technology was underlined as a crucial factor that is going to affect luxury retail evolution with unpredictable results, another question regarded how to adapt it to different customer segments, especially regarding age differences.
On this controversial point, two main positions emerged. The first one stressed the importance of understanding customer needs, such as convenience and customisation, considering technology as a means to generate and deliver more value to them. The second one was expressed by a store manager that acknowledges the existence of a customer segment that does not have any e-mail address, nor smartphone.

[47] C. Barr, S. Malik, *Reveal: the 30-year economic betrayal dragging down generation Y's income,* The Guardian, 7th March 2016

She recognised the importance of considering different level of acceptation when dealing with technology, in order to deliver a service, which is tailored also to non-technophile clients. Indeed, luxury implies a personalised service, thus brands cannot neglect this segment, by making the shopping experience more complex for them.

The last topic analysed in the interview was the balance between physical and digital, considering how luxury brands will allocate their budget towards them.

This point is strictly related to the *Store of the Future* project, since omnichannel has emerged as an essential strategic matter to address in order to survive in the forthcoming years, considering both luxury brands and multi-brands retailers.

The interviewed professionals have pointed out that the interconnection between physical and digital will be paramount and that investment in technology will be crucial to stand out from competition. Indeed, Burberry has created a connected store in London, in order to complete its efforts to create a seamless shopping experience through every channel. Other brands should invest both in online and offline touchpoints in order to target the same objective and to remain competitive in the future.

The same is valid for multibrand retailers, since *disconnected* brick-and-mortar will have difficulties in the future, if they do not blend digital elements into their stores. Indeed, customers are and always will be the centre to which strategies need to focus and, since they will be more and more used to omnichannel and modern technologies, retailers need to adapt and to invest in connected shopping experiences not to lag behind their competitors.

From these opinions, we can point out the major trends and factors that are going to shape the evolution of luxury retail in the next decade. Technology and consumers have been underlined as the most influential forces. Indeed, according to those experts, the former is going to impact the shopping experience by revolutionising several of its features, such as the role of salespeople and the way to try on different items, whereas consumer empowerment, together with an uncertain macroeconomic situation, is going to make even more complex to meet their quickly changing expectations. Customers are going to have an increasingly important role in the development of new trends, but some economic and political factors, such as income distribution across generations and terrorism, are going to affect the overall demand for luxury products.

Hence, consumers and technology are not only the most important forces that will affect luxury retail evolution in the forthcoming years, but also the most uncertain variables. For this reason, they will be the critical factors that will be analysed to produce the scenario analysis in the next paragraph.

These interviews have been a useful tool to determine the main factors that will shape luxury retail in the next decade and, thus, to outline the main features of the market in which the Store of the Future will be launched and developed.

8.2 Scenario analysis

The two variables

In this section of the chapter, a scenario analysis is going to be implemented in order to provide the reader with three plausible outcomes of the *Store of the Future* project, considering its impact on the luxury retail industry in the next decade, in light of the market analysis conducted through the above-mentioned interviews.

To produce this scenario analysis, two major forces were considered: technology and demand. Indeed, according to the interviews and to the sources that have been taken as references for this research, these two are the most important variables to be considered when trying to forecast the future of luxury retail, especially considering the role of the *Store of the Future*. However, technology and demand are quite broad concepts, thus we need to focus on the aspects, which are truly significant to outline the evolution of the luxury retail market. Hence, we need to firstly go deeper into the two forces in order to find those significant features and to transform the both of them into two measurable variables. Indeed, it is the starting point to build the two-axes graph that is crucial to produce the three scenarios.

First of all, technology, as we previously saw, is going to have a major role in the evolution of the shopping experience, but technological breakthroughs are difficult to foresee. However, from our perspective, it is possible to create a spectrum of possibilities between two absolute points: a strong investment in digital friendly technology or in-store devices. In fact, companies are facing the crucial decision of investing more into digital, thus improving their social image and their e-commerce capabilities, or into *phygital*, hence improving the physical shopping experience through augmented reality and other tools that allow to connect the physical world with the digital one.
The distribution of luxury retailers' and brands' efforts and investments into those two dimensions will have a major impact on technological innovation, affecting the development of in-store devices, which are the add-ins that Farfetch has promised to its users with its new projects. Indeed, without a rapid evolution of those kind of devices, the whole idea of the connected store will lose its appeal to both boutiques and consumers, jeopardising the future of Farfetch's visionary project.

Demand is another critical issue, since luxury market growth is not secure for the next years and it could severely affect the performance of the *Store of the Future*. Indeed, there are several factors that are going to have a significant impact on luxury demand and sales in the next years: terrorism and its impact on touristic flows; the geo-political situation, which could endanger international relations, with negative effects on companies' FDIs and sales in important regions, such as the Middle East; currency volatility and stock market fluctuations; global macroeconomic growth and income distribution across regions and generations, which directly affect luxury customer base.
Considering this second variable, we can create a spectrum that indicates a positive or a negative growth in luxury demand for the next thirteen years. This clear simplification is essential to produce the scenario analysis, given the complexity of this dimension, which is affected by several exogenous factors, as we have already seen.

These two variables are very broad and complex, as well as uncertain. Indeed, even if they are simplified into dichotomous concepts, they still contain a significant number of factors that will influence their evolution in the next thirteen years.
In the following part, they will be combined to produce three scenarios and analysed more in depth through describing the possible outcomes.

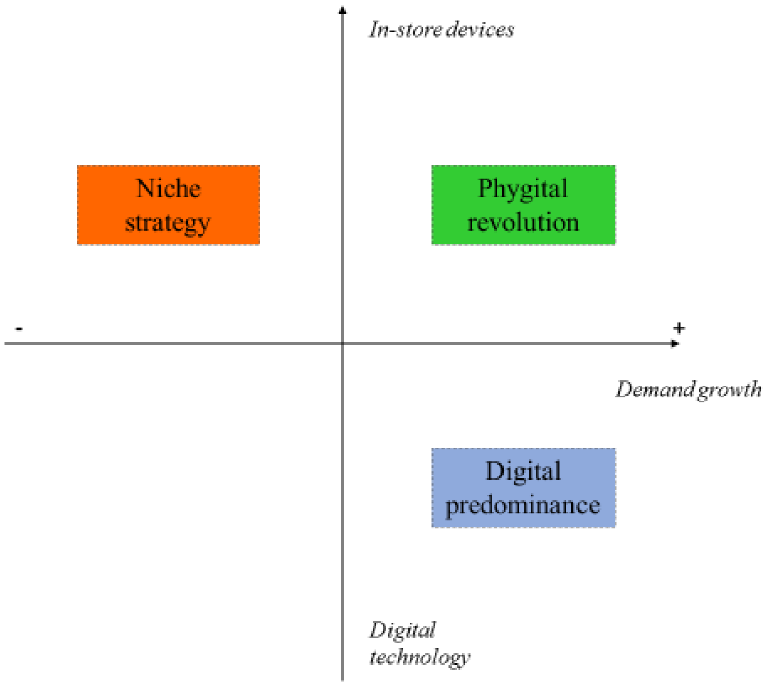


Table 18. Scenario analysis.

The three scenarios

The two variables were put in a two-axes graph in order to generate three possible scenarios, which are the outcome of the analysis conducted until now and of all the assumptions that have been made. This kind of analysis has not the objective to provide the reader with an irrefutable description of luxury retail in 2030, but aims at outlining the plausible trends that might unfold in the forthcoming years, through describing alternative situations that might possibly occur, which still represents a challenging target.

The combination of the two selected variables into the graph presented in table six resulted in the creation of three significant scenarios that are going to be analysed in the following section.

Indeed, when producing this kind of analysis, there is usually one single scenario that is less interesting than the other three. In this case, the scenario in which both the variables are negatively affecting the performance of the *Store of the Future* has not been taken into consideration, not only for it represents the likely possibility of decline for the whole project, but also because the other two adjacent scenarios already give us the opportunity to explain how the negative trends occurring for the two dimensions might affect the luxury retail market in light of the unfolding of the innovative strategy of Farfetch.

Phygital revolution

The first scenario describes the best possible situation that might unfold from Farfetch's perspective, since it results from the combination of a sustained growth in luxury demand and a sizeable level of investments, and thus innovation, regarding in-store devices and all the technology that can help the development of the connected store. Both these outcomes are likely but not secure and present important opportunities for the whole luxury retail industry. Thus, a detailed analysis of both dimensions is essential to outline the future conditions of the competitive environment of Farfetch and to justify the likelihood of the occurrence of both positive outcomes.

Considering technology, investing in devices that can help omnichannel strategies in light of the rise of connected stores might surely be a widely shared strategy among luxury brands and retailers. Indeed, technology has become an increasingly important aspect of luxury brands' and retailers' strategies[48] and, even though digital and e-commerce are two major concepts and will remain quite relevant for the next years, most of sales will occur in stores, as we saw. Thus, considering also the importance of omnichannel and how technology has been blended into stores to benefit from the sizeable quantity of customers' data and knowledge it contains, a significant amount of investments towards the technology that could help the development of connected stores is very likely.

[48] J. Neves, *How the luxury retail industry is using technology to remain relevant*, The Independent, 29th May 2017

This is a major point for the *Store of the Future,* for it grants the opportunity to add several new options and devices to boutiques and customers, thanks to the partnership with tech companies. Indeed, this innovative, modular concept has been conceived with an open architecture, which resembles the one that belongs to Apple's *App Store,* in order to benefit from positive network externalities deriving from the value added from the tech companies that will decide to join the platform.
With a good level of innovation regarding this kind of technologies, this project could thrive and really revolutionise luxury retail, transforming not only aesthetics but also functional aspects. In fact, already implemented tools have already been transforming payment systems, the role of shop assistants and the way in which customers choose and try on different items.

However, the horizontal dimension brings another important contribution to the development of this innovative project, since it affects the whole luxury market. Indeed, demand is a critical issue and is affected by several uncertain factors that are characterising the post-crisis world.
A positive growth of demand for the next thirteen years will confirm the rebound, which has occurred in 2017, after a very difficult year for the luxury market, outperforming growth expectations. Indeed, according to Bain's partner Claudia D'Arpizio[49] that year has been characterised by the recovery of Chinese consumer spending, considering both the domestic and the travel market, encouraging tourism figures in Europe and the capacity of luxury brands to address the needs of specific consumer categories, especially millennials.

Hence, optimistic growth expectations for the next decade are plausible, even if not irrefutable and secure. They will also be influenced by the geopolitical situation, in which political stability and terrorism will be two of the most significant issues. Indeed, the reduction of international and domestic conflicts, is an important enabler for the international expansion of companies and for the free movement of potential clients across countries, together with unrestrictive tariff policies.

[49] E. Paton, *Luxury Goods Market Will Return to Growth in 2017, Bain Report Says,* The New York Times, 29th May 2017

Furthermore, the current challenges faced by terroristic organisations, namely the Islamic State[50], might have a positive impact in the confidence of potential travellers, causing a rebound in touristic flows to Europe. This is a key issue for luxury retail, since tourists account for a very big share of luxury sales in Europe.

Another major aspect to consider is the macroeconomic outlook, especially concerning two specific categories: Chinese consumers and millennials, who, according to Bain, have driven the rebound occurred in 2017[51]. Indeed, the former category has accounted for 32% of total luxury sales, being the first nationality in the world for such parameter, while *generation Z* has been the focus of luxury brands' strategies, with 65% of luxury firms experiencing sales growth, even though only 35% with an operating profit increase[52]. Hence, the positive forecasts regarding the Chinese economy, which will become the largest economy in the world by 2030[53], and luxury brands' efforts in appealing millennials will play a major role in stimulating luxury demand, securing a sustained growth for the next decade.

Given this highly positive environment, the *Store of the Future* will have the opportunity to thrive, exploiting trends belonging to both dimensions.

Concerning technology, a high and sustained level of investments towards devices that can help the development of the connected store, such as virtual reality and fast data crunching and profiling methods, will be a key factor for the performance of this project. Indeed, it would make the concept more appealing to customers, causing also a wider adoption by luxury boutiques. Moreover, it would make this technological field a thriving market, encouraging more companies to enter the market, and thus giving Farfetch more partnership opportunities, given the open architecture of the project, aiming at revolutionising luxury retail through becoming a hub for innovation.

[50] P. Cockburn, *Isis is facing near total defeat in Iraq and Syria – but it has been beaten and come back before*, The Independent, 11th October 2017

[51] S. White, G. Segreti, *Chinese and millennial shoppers drive rebound in luxury goods sales: Bain*, Reuters, 25th October 2017

[52] Like above

[53] G. Colvin, *Study: China Will Overtake the U.S. as World's Largest Economy Before 2030*, Fortune, 9th February 2017

Regarding the second dimension, a sustained demand growth will enlarge the whole luxury market giving more opportunities to this new market, which will be developed across physical retail and e-commerce. Indeed, such growth will also be characterised by the significant role of millennials, which are the most tech-savvy generation and are the best users for this kind of in-store technology. Thus, the *Store of the Future* might become a very useful resource for luxury retailers in order to meet this growing demand and Farfetch will benefit from a wide adoption, considering the consequent network externalities.

Digital predominance

The second scenario is characterised by a sustained growth in luxury demand, but also by an important share of investments directed towards digital technologies, rather than towards *phygital*. It represents a challenging environment for Farfetch and its innovative project, even if it offers some opportunities for its growth.

This scenario is characterised by luxury brands' and retailers' efforts to strengthen their online presence, through a significant level of investments towards e-commerce and social media. Regarding innovation, this might lead to sustaining innovation in devices and tools that allow a surge in online sales: apps and mobile devices, given the rise of M-commerce; transportation methods, such as drones; payment methods, like e-wallets; new configurations to make the order process faster.

All those instruments are going to smooth the different phases of online purchases, by making them faster, easier and more secure. Indeed, new transportation methods have been studied in order to reduce delivery time, which is one the major issues for e-commerce companies and an opportunity to stay ahead of the competition, as we saw with the F90 project by Farfetch. Moreover, ease and speed of navigation are currently being addressed with new online functions, such as *smart buttons* and *one-click checkouts*[54]. The former category refers to buttons that allow to purchase an item with a single click, such as the Dash Buttons implemented by Amazon, whereas the second one concerns the possibility to speed up the payment process.

[54] M. Lazar, *Ecommerce Technology Trends That Will Take Center Stage This Year*, The Huffington Post, 2nd September 2017

This last matter has also been addressed through the creation of e-wallets, such as PayPal, Apple Pay and Google Wallet, which allow for a more secure and fast purchase. However, there are still some downsides to be faced, like the need for integration among retailers.

Among the strategies focused on digital innovation, it is important to underline the new tech hub opened by YNAP in London. This new structure will be dedicated to artificial intelligence, with the objective to develop new ideas and devices, which could improve and revolutionise the online shopping experience, like augmented reality implementation methods that allow clients to virtually try on items. However, their main goal is not to eliminate the physical try-on process, since they YNAP CEO believes that it is still a crucial and unavoidable phase for customers. Thus, the company will focus on making item returns easier and quicker, like they did with the *You Try, We Wait* service, which was implemented in China and in London and employed butlers in uniform to deliver the ordered items and take back the unwanted ones[55].

Considering this digital predominance that affects technology, innovation and companies' priorities, the *Store of the Future* will have a hard time in gathering innovative tech start-ups and in appealing luxury consumers.
Indeed, compared to the first scenario, the *digital predominance* one implies a lower level of innovation and investments in phygital technology, which affects the opportunities to benefit from network externalities deriving from the tech side of the platform. Thus, Farfetch will count on fewer partners and devices and this might mine the popularity of the new store concept, for it will lose its appeal and a big portion of the innovative power that it aims to bring to luxury retail.

[55] S. Butler, *Net-a-Porter owner opens tech hub in London*, The Guardian, 27th June 2017

However, the sustained growth in luxury demand, characterised by the predominance of millennial consumers, will still be an important driver for the success of the project. In fact, millennials are the first generation that is born with digital technology, but they still buy in stores, for they want to get close to the product, even if they collected a significant quantity of information before even entering the store. Moreover, Deloitte reported that a significant part of the millennial segment is composed of wealthy individuals, characterised by the propensity to purchase high-priced products[56].

Hence, even if digital will be the main focus of brands and retailers, the *Store of the Future* will still have significant growth opportunities, thanks to the growth and the composition of luxury demand. However, its impact on the luxury retail industry will be less revolutionary than expected, since it will hold together a smaller group of innovative companies and products, as compared to the first scenario.

In this case, Farfetch will need to incentivise innovation in *phygital* technologies by investing in external sources of new technologies, such as promising start-ups in the field. Indeed, being a platform, it is difficult to imagine that Neves would decide to internalize the innovation process into the company. Moreover, it could sponsor its mission among brands and partner boutiques in order to exploit all the existing opportunities it has to really affect this variable, on which it can exert a moderate influence.

Niche strategy

The last scenario results from the combination of a prominent level of investments and innovation in *phygital* technology and negative expectations for luxury demand figures. This is the most challenging one, for it is driven by forces on which Farfetch can have a very limited impact.

Starting from the horizontal dimension, this scenario implies a decrease in luxury demand, which will shrink the whole luxury market, having negative repercussions for all its industry segments. This negative trend depends both on the geopolitical and macroeconomic outlook.

[56] Deloitte, *Bring it on. What makes millennials spend more?*, 2017

Considering the former aspect, luxury demand is mainly affected by terrorism, for it has a major impact on tourism. Indeed, Chinese are the first nationality by luxury spending, accounting for 30-35% of global luxury sales, but only 7-10% are made in China[57]. However, this key category of shoppers, the Chinese travellers, have been influenced by two negative factors: terrorism, which is discouraging them from travelling to Europe; Chinese Government measures against the *daigou personal shoppers*[58], who provide Mainland consumers with discounted luxury goods from abroad, and the consequent price harmonisation policies taken by luxury brands. These two trends might have a significant impact on demand growth, given the loss of the price incentives that Chinese consumers have been chasing when purchasing in Europe and the security issues that have been upsetting the Western world. Furthermore, the Independent has reported that the recent defeat in Syria might probably escalate the terroristic activities of Isis around the world[59].

The current macroeconomic outlook presents some negative signals for the years to come, such as currency and stock markets volatility and real incomes decrease in most advanced economies. This last topic has been addressed by McKinsey, which reported that *between 65 and 70% of households in 25 advanced economies, the equivalent of 540 million to 580 million people, were in segments of the income distribution whose real market incomes—their wages and income from capital—were flat or had fallen in 2014 compared with 2005*[60]. Hence, all the efforts that have been made by luxury brands to address the needs of millennials might not provide them with the desired outcome, given these negative income trends.

In this scenario, both the geopolitical and the macroeconomic outlook will drive the decrease in luxury demand in 2030, causing a crisis in the industry as a whole. However, the development of *phygital* technology might still offer Farfetch an opportunity to develop a niche market for its innovative project.

[57] See note 54
[58] Like above
[59] L. Dearden, *Isis terror attacks 'could increase' after group's loss of last major stronghold in Syria*, The Independent, 3rd November 2017
[60] McKinsey Global Institute, *Poorer than their parents? Flat or falling incomes in advanced economies,* July 2016

Indeed, the positive performance of this technological industry sub-segment might be the driver for its revolution in the luxury shopping experience, by providing Farfetch with many partnership possibilities and technological breakthroughs.

In this case, the impact of the *Store of the Future* on luxury retail depends mainly on how significant the shrink in demand will be, as well as on the reaction the industry players will put in place to address this crisis. Thus, Farfetch will have a very limited spectrum of possibilities to influence this exogenous dimension.

8.3 Implications and strategic options

To conclude the scenario analysis, we are going to briefly recap the main implications resulting from the three scenarios in terms of opportunities and threats for industry players, as well as the available strategic options.

The *Phygital revolution* scenario marks the likely success of the *Store of the Future*, with a sustained level of innovation in in-store devices and all the instruments that can help the development of the connected store, together with a growing luxury demand, driven by Chinese and millennial consumers.
It implies incentives for luxury retailers and brands to join the project in order to benefit from the large customer base that belongs to the platform, as well as increasing network effects for Farfetch, which mainly needs to drive the change by scouting the most cutting-edge tech companies.

The *Digital predominance* scenario is characterised by a steady growth in luxury demand and a focus on digital innovation, especially regarding the technology that can foster a rapid development of online sales channels.
It encourages brands and retailers in the luxury market to invest more into e-commerce capabilities, by partnering with established platforms, like YNAP, or by developing their own sales channels.

In this case, Farfetch should promote innovation in *phygital* technology by leveraging the potential that the *Store of the Future* has among millennials, who will represent the bulk of luxury demand. Indeed, despite representing the first generation born with digital technology, the majority of them still prefer to purchase luxury goods offline and, according to McKinsey, online sales will never outweigh physical ones.

The *Niche market* scenario, instead, outlines sizeable investments into *phygital* technology in a framework of luxury crisis, with decreasing touristic flows affected by terroristic attacks and declining income levels.
Players in the luxury field will have to choose between a conservative option, which consists of trying to retain loyal customers and scaling down the size of their operations, or a riskier one, which entails an effort to stimulate demand through joining the *Store of the Future* project.
Farfetch will have a limited space for intervention, for its chances to succeed depend on exogenous factors influencing demand, like geopolitical stability and macroeconomic indicators. However, given the existence of a core of wealthy individuals in the millennial category, together with sustained innovation in *phygital* technology, it will still have the opportunity to build a profitable niche market.

9. Conclusion

This last chapter has concerned the analysis of Farfetch, a luxury e-tailing platform which is trying to revolutionise the whole luxury retail industry through a new project that entails a merge between the physical and the digital dimension, resulting in an original shopping experience.

After a brief description of the company's history, an industry analysis was conducted through assessing the main stakeholders and the existing level of competition in the industry. Before outlining the main features of the company into a SWOT matrix, the internal dimension was addressed by building a Business Model Canvas, which reported the salient characteristics of Farfetch's operations, with particular reference to the ones that makes it an innovator.

The collected information was essential to demonstrate the disruptive power of the company, through the application of Christensen's theory, which was an important objective of this case study. Indeed, many companies have been called disrupters, but only few of them can be really deemed as such and this theoretical framework is currently the most important one to assess it.

However, the aim of this chapter was to go beyond this demonstration, to proof that the company was not only disrupting luxury e-commerce, but also impacting the evolution of the whole luxury retail industry by implementing the *Store of the Future* project. After a description of this original concept, a scenario analysis was conducted in order to assess how the industry will evolve in the next thirteen years and how significant might be its impact on it.

This case analysis has demonstrated how significant is Farfetch's contribution to the luxury industry, by underlining its disruptive power and its impact on the evolution of the luxury shopping experience. Indeed, the company has envisioned a new concept that will further develop the concept of omnichannel – a buzzword of our time – through augmenting the physical, in-store experience with cutting-edge technology that connects it to consumer data.

This new project will allow luxury retailers to nurture demand by appealing millennials, who will probably become the first category for luxury sales, and to modernise the whole luxury industry, which has resisted change for far too long.

Conclusions

This research has encompassed the evolution of luxury e-commerce from its origins to the forthcoming years by focusing on Farfetch, as an industry disrupter, which has been profoundly affecting the whole luxury retail industry, mainly through its customer-centric approach, its platform structure and its latest cutting-edge project. In particular, the *Store of the Future* represents the company values, through confirming the centrality of the store in light of the technological innovation brought by the digital era. This project will probably affect the industry and its players, even in case of fail, since it has introduced a new perspective on retail and omnichannel, with the merge of the physical and digital dimension that offer the consumer a *connected* and coherent experience across alternative channels.

Before concluding, it is worth recalling the main findings of this research, through summing up the main concepts that have been underlined in the three chapters.

The initial section has focused on luxury e-commerce, addressing the reasons that has caused the resistance of luxury brands towards digital, such as the need to keep exclusivity as an essential value that unifies these brands.

Moreover, we have demonstrated that millennials are a crucial variable, like wealth, travel and digital, but that elder women represent a very significant portion of the market, thus challenging e-commerce players in formulating strategies to satisfy the needs of multiple age segments, presenting quite different features.

Another crucial point concerns the balance of power among multibrand e-tailers, since, despite the clear domination of YNAP, the competition is becoming fiercer, because the high growth rate of top firms is encouraging new players to enter the industry.

The second chapter has addressed the most significant theoretical issues regarding the Disruptive Innovation Theory and the Business Model Canvas, two major tools to analyse innovation.

The first framework is the most controversial one because of several reasons, like the frequent use of the term *disruption*, often referring to firms that are not following such disruptive path, as well as for some misconceptions regarding the application of the theory, such as the improper use of success as a variable to assess the disruptive power of a firm. However, Christensen has been consistently overhauling the theory, for instance through adding the causal explanation behind the postulates summarised by the disruption trajectory graph.
The Business Model Canvas, instead, has been receiving mostly positive reviews that justify its wide adoption among academics and practitioners. Indeed, despite some flaws, such as mixed level of abstraction and the difficulty to explain other business drivers than financial success, it provides a straightforward template that foster discussion around business models and, thus, further research and innovation around the methods and processes that allow a company to *create, capture and deliver value*.

The last chapter was devoted to the case study of Farfetch, which is an impressive case of disruptive innovation, having introduced a business model that, thanks to a platform configuration, serves brick-and-mortar retailers and luxury online shoppers by connecting them in order to produce best matches and positive network externalities.
Its disruptive power is rooted into the firm's value proposition, since it aims to create an original customer experience through blending physical and online retail in a new connected dimension in which the store has still a fundamental role. This original concept is going to affect the luxury shopping experience in the next years, even though the future of such industry is uncertain because many uncertain factors affecting its development, like tourism and customer behaviour, as well as millennials purchasing power.

I believe that the company has introduced a new *technophile* perspective in the luxury industry, which is exactly what customers have been expecting for the last years, given the rapid change in consumer behaviour that we are witnessing in many other industries, for instance with the proliferation of platforms devoted to food delivery, transportation and freelance jobs.

As a matter of fact, Farfetch's disruptive contribution goes beyond the design of a futuristic luxury store and lies mainly in the introduction of a platform structure in the industry and in the constant effort to adapt to the rapid change in customer behaviour. It has adapted such agile configuration to the luxury industry, leveraging the rising trend that has been shaping the evolution of many other industries, as well as consumer habits. This trend concerns the rapid diffusion of platforms that offer services in a timely fashion by connecting end users with service providers, as in the case of food delivery, which has been showing an impressive growth in the recent years, with a remarkable proliferation of new entrants in such sector.

In my opinion, Farfetch's strategy represents a correct interpretation of the challenging and fast-changing expectations of today's luxury consumers, who seek for impressive design and innovative, additional services to enjoy the most from their shopping experience, while, at the same time, expecting some of the main features of non-luxury services, especially regarding mobile and digital technology, which has acquired a central role in our life. Indeed, as the smartphone is increasingly becoming the main channel to reach consumers, connecting the whole shopping experience - from research to after-sales – to such touchpoint is vital to meet the basic requirements for customer retention, which currently represents the main, challenging target to achieve, given the general negative trend affecting brand loyalty.
Hence, after such analysis, we can briefly summarise the whole contribution of Farfetch into the major customer's need that the firm seeks to satisfy: the need for connection.

In conclusion, Farfetch has been giving a precious contribution to luxury retail, by shaking the foundations of such industry, through envisioning and implementing a pioneering concept that goes beyond omnichannel as it has been conceived until the present days. Indeed, the *Store of the Future* entails the creation of *connected* stores, which embrace digital without losing the essential features of the luxury shopping experience, thus providing the whole luxury sector with the opportunity to grow and thrive among the next generations, by sharing their same language.

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Appendix

Interviews regarding the future development of luxury retail until 2030

1.

- *What are the main elements affecting the luxury retail nowadays, according to you? What about 2030?*
  Almost everyone in the luxury industry agree on one thing: The retail business is changing fast. The retail industry is in the midst of a massive transformation driven by consumers' adoption of digital technologies. By 2030, the retail landscape will have fundamentally changed how every retailer will go to market.
  The biggest drivers of retail's transformation are the emergence of Internet and mobile technology, the rise in millennial spending power, the impact of globalization, and the empowerment of the consumer.

- *Do you think it is possible to adapt technology to different customer generations?*
  In my opinion, the biggest challenge of the retail industry isn't exactly about adapting technology to different customer generations.
  To survive, and even thrive, in today's digital era means using technology to give customers what they want. And what today's connected shoppers want is the same thing that customers have always wanted: choice, convenience, value and personalized service.
  As big data increases, understanding consumers' needs, behavior and motives will become the key challenge.

- *How do you think investments will be distributed between physical and digital, considering that the importance of e-commerce is increasing and will be much stronger in the future compared to the one of retail?*
  With the pace of change accelerating every day, many traditional brick-and-mortar retailers will be facing some difficult time. Brick and mortar retailers who want to survive and most of all to succeed must consider the entire shopping ecosystem and deliver what we call an Omni-channel shopping experience. Customers expect a seamless experience and do not tend to distinguish between online and physical channels, while shopping.
  A very good example would be to name Burberry. The luxury fashion brand has embedded technology into every part of their value chain, including the front end. You walk into their flagship store in London and you got 22feet-high screen (believed to be the largest in a shop) streaming live fashion shows. If a customer sees a product he likes, he can take his smartphone, scan the barcode, and it will trigger a video. The store got 500 screens and 100 speakers all synchronized to not only spread information to the consumer, but also to interact with them.

When it comes to retail innovation one thing remains constant: Customers are always looking for a unique and enjoyable shopping experience. These kinds of unique experiences can set stores apart and make consumers willing to go out to them, instead of simply shopping through their mobile phone.

- *What are the most important uncertainty factors, according to you? Among them, which ones are the most relevant to consider?*
  Retail professionals are all aware that retail business are in a constant need to retrospect their strengths, reinvent their offerings across the purchase pathway, and rethink their retail approach. I personally believe retail store is not dead and still have a long way to go. However, it's time to adapt and revamp because those that don't change are going to be gone.

Professor and ISG – Head of design & Construction

2.

- *What are the main elements affecting the luxury retail nowadays, according to you? What about 2030?*
  Adaptation to the new technologies: introduction of the "see now, buy now" which is requesting a new organization: production / deliveries as it needs to be available straight away digital and retail stores / image (international windows etc ..).
  The government laws: cash payments differing from country to another one.

- *Do you think it is possible to adapt technology to different customer generations?*
  Customers are answering differently to technology, (on-line purchase or in –store). Technology is entering the way of living in every sector not only luxury sector and more and more customers are familiarizing to it but needs to be adjusted to customers depending of their level of acceptation. We do have customers who do not have e-mail address or internet access neither smartphones …

- *How do you think investments will be distributed between physical and digital, considering that the importance of e-commerce is increasing and will be much stronger in the future compared to the one of retail?*
  Investments are important and mandatory in digital to develop the Brand /Business results but also for new technology in store. Digital investments will be more and more important.

- *What are the most important uncertainty factors, according to you? Among them, which ones are the most relevant to consider?*
  Country laws / regulations.

Burberry Store Manager

3.

- *What are the main elements affecting the luxury retail nowadays, according to you? What about 2030?*
  Evolution of the customer already started, luxury always focused on a specific profile of customer transmitting their product to a certain group of customers, but they are changing. The brand will not dictate to customers but they will collaborate with them to create the future, no control of DNA, but brand will have to open up their characteristics that define the DNA. Customers need info. Talk to customers that can understand, to make them understand open yourself. Facebook communication is one way communication. Talking about their collections, products, activity, no possible to have a dialogue. To what extent to give control to customers, the challenge is how much to open, no possible predictions. What does not change is the basic requirement of people of dressing well and looking good. Different way to interact with luxury brands, no control.

- *Do you think it is possible to adapt technology to different customer generations?*
  Easy, already been created. As customers' requirements evolve products evolve in line, more layers on functionality on that product, this is how technology works; when tech collides with retail, very early stages, so nobody knows how this impacts on people, nobody knows if it will be good. Technology helps to refine some challenges of physical store like how much to order, where to order, what customers to talk to and when. Tech helps in analyzing the subjective opinions, hard to find anomalies and similarities, help to predict, good things: bring costs down, high speed to do things.

- *How do you think investments will be distributed between physical and digital, considering that the importance of e-commerce is increasing and will be much stronger in the future compared to the one of retail?*
  It depends on the business you are in, auto, services, fashion and so on, it depends on the need of the customers. Many people believe in the future so invest in both channels, much in technology. For the customers ecommerce is not different from digital, sum of all parts, start from the customers and then you understand what to do.

- *What are the most important uncertainty factors, according to you? Among them, which ones are the most relevant to consider?*

  Consumer behavior, you cannot predict it because it is impacted by many macro factors. The opportunity is then to find out how to modulate the consumer here, there are two different sides, you cannot control one side, the one you can control is being able to be true to yourself as a brand and find people who can understand that.

Professor and General Manager at Armani Junior

4.

- *What are the main elements affecting the luxury retail nowadays, according to you? What about 2030?*

  The luxury concept transformation enlarges the amount of experiences that customers can have, previously limited to only possess products; thus it is important to understand what technologies can encourage, increase or even generate new experiences to offer.

  The challenge is to analyze which technological innovations will dominate the future among all the ones introduced on the market.

- *Do you think it is possible to adapt technology to different customer generations?*

  Millennials will dominate a $30,000 billion market in the next 10/15 years and they highly differ from the previous generations like Baby Boomers in the way to approach life, expectations and culture. This difference represents a novelty that becomes an unknown variable in the strategy design process, especially because who decides now does not belong to Millennials…

- *How do you think investments will be distributed between physical and digital, considering that the importance of e-commerce is increasing and will be much stronger in the future compared to the one of retail?*

  Digital and physical are becoming strongly interconnected and it will be important to make digital experiences more physical and vice versa. This is even more so in luxury, where it is fundamental that emotional factors are linked to reality, being inside the store while purchasing, transforming this moment in a luxury experience not just related to the product to be bought.

  Nowadays in-store experiences are predictable and not much engaging, technology has to help them (and vice versa).

- *What are the most important uncertainty factors, according to you? Among them, which ones are the most relevant to consider?*

  There are so many uncertainty factors that more than two years forecasts become difficult to do and not much helpful. Geo-political transformations, the energy revolution that could change global balances, technology that is changing our lives, the way of working and health systems as well as the way to see freedom and privacy will heavily impact on future global scenarios, thus on the luxury market.

Professor and Managing Partner at TCSG

5.

• *What are the main elements affecting the luxury retail nowadays, according to you? What about 2030?*

First of all, it is important to highlight the fact that the luxury world - as a segment of the market - was born at the end of the ‘90s (InterBrand ranks international brands and luxury brands are among the most popular ones, even if they have a market capitalization (250$ billion) considerably lower than other sectors).

Having said that, the luxury sector is one of least techno-savvy sectors: in fact, at the moment, in terms of revenues, the so-called “brick and mortar” retailers weigh a lot more than virtual retailers. Nowadays, the physical stores - located in the most fashionable streets of the world - play still the most important role as the penetration level occurs through them.

In the next 10-15 years, this will change: indeed, due to the saturation level and to the shift to a more digital approach, there will be no longer many stores of the same brand in the same area but a single luxury brand in a strategic area (the location decisions will be based on quality and not quantity). Thus, the physical presence of luxury brands will decline significantly but not completely as the store will inevitably still represent the place where the customer identifies himself or herself with the specific brand’s values and messages.

However, I am a little bit sceptic about the role of technology in changing drastically the luxury retailing scenario, even in future terms. In fact, I do not believe that the luxury customer associates and will associate the value of his or her purchase to the integration of new technology tools in the brand experience (e.g. Gucci’s Magic Mirror) as the heritage and DNA will continue to play the most important role.

- *Do you think it is possible to adapt technology to different customer generations?*

In my opinion, technology will not be consumer friendly, especially for the senior generation, as perceived quality - the most important feature of luxury - cannot be physically tested. So, in a way, technology flattens what is the one thing without which luxury cannot exist – superior quality. Thus, the traditional luxury sector will need to adapt in a more holistic way to new technological tools, leading to a reconsideration of the value proposition.

- *How do you think investments will be distributed between physical and digital, considering that the importance of e-commerce is increasing and will be much stronger in the future compared to the one of retail?*

In the future, investments will need to be distributed carefully between physical and digital, due to the fact that much of the brand experience will be valued on the level of integration between these two different retailing approaches. In fact, if a luxury brand will not invest wisely in the most innovative digital tools, it will seriously risk to be left behind its competitors.

The digitalization process of the retail experience does not happen overnight; so, luxury brands will invest on a few online and offline touch-points (those that suit better the targeted customers), allowing to differentiate efficiently themselves and stand out from the crowd (by meeting the expectations of their loyal customers).

- *What are the most important uncertainty factors, according to you? Among them, which ones are the most relevant to consider?*

According to me, the main source of uncertainty is the risk of identity loss for luxury brands (if this is going to actually occur, this will be the end of luxury brands, whose superior value come from their DNA and heritage).

Additionally, in my opinion, there will be no significant negative impact by macroeconomics phenomena (e.g. Protectionism, even with the election of Trump as President of the United States, will not make its return); on the contrary, I believe they will continue to create new opportunities. However, it is worthy to stress the uncertainty related to terrorism attacks, which make shift the tourist flows (for example, Paris is and will be in a position of disadvantage if it is going to be attacked more frequently), and to unexpected political, social and economic events such as Brexit (currently London is favored by the depreciation of its currency).

Chartered Tax Accountant at Gucci

Disruptive Innovation in Luxury E-commerce: The Case of Farfetch – Summary

Introduction

This thesis has been conceived as an instrument to investigate the development of luxury e-commerce through analysing the contribution of a single innovative firm: Farfetch. Indeed, its pioneering business model and platform structure have been revolutionising the industry for the last decade and might have an even larger impact on the forthcoming years through a re-interpretation of the omnichannel concept, which will affect also brick-and-mortar retail.

In order to analyse such case study, it has been chosen to adopt two main theoretical frameworks: the *Disruptive Innovation Theory*, which is deemed as a superior instrument to explain the rationales behind a disrupter's behaviour and to predict the future consequences of such actions, and the *Business Model Canvas*, a mapping tool that allows to discover the main drivers that make a firm survive and, potentially, thrive.

The content of this research has been divided into three chapters that encompass different levels of analysis and perspectives: the first chapter is dedicated to the analysis of the whole luxury e-commerce industry, from its origins to its latest developments, with a focus on luxury multibrand e-tailers; the second one involves the examination of the two principal theories that have been adopted to conduct the case study; the third one represents the heart of this thesis, being devoted to the analysis of Farfetch and its contribution to the evolution of luxury e-commerce.

Chapter one. Luxury E-commerce: a recent history

In order to provide the reader with a clear understanding of the luxury e-commerce industry, it seems noteworthy to briefly portray the origins of online sales, in light of the major cultural shift brought by the internet.

This significant evolution regarding communication systems has greatly affected the way of doing business, especially considering the relationship between firms and customers, which have been empowered by the gigantic amount of data that have suddenly become accessible to them.

Moreover, the internet era has entailed the creation of e-commerce, with the first online transaction in 1994, even though pioneering online sales channels have been experimented since the 1960s.

From 1994, e-commerce has shown an impressive growth, with 2.671 billion dollars turnover and a 17.5% growth rate in 2016, and Asia Pacific and North America accounting for 60% of such turnover. Indeed, it involves many benefits for both online retailers, who can reach a global audience through a cost-effective channel, and consumers, who can save time through a convenient sales platform that can provide them with up-to-date information, favourable prices and round-the-clock availability.

However, this new channel poses several challenges to firms, entailing complex logistics, less-impulsive sales and challenging post-sales, together with some disadvantages affecting consumer experience, such as security worries and delivery time and costs.

Although e-commerce has been thriving from the late 1990s, the luxury industry had shown a strenuous resistance towards this new channel for many years, in order to keep its exclusive image and because of worries regarding the lack of digital know-how, together with the intimacy embedded in the luxury shopping experience, which had always required personal contact.

As a result, luxury e-commerce is still in an early growth stage, with 40% of luxury brands not selling online, but, according to many researchers, is about to enter its scale-up phase, characterised by a much higher growth rate, until representing 20% of total luxury sales, which McKinsey has indicated as a threshold that will introduce the plateau phase.

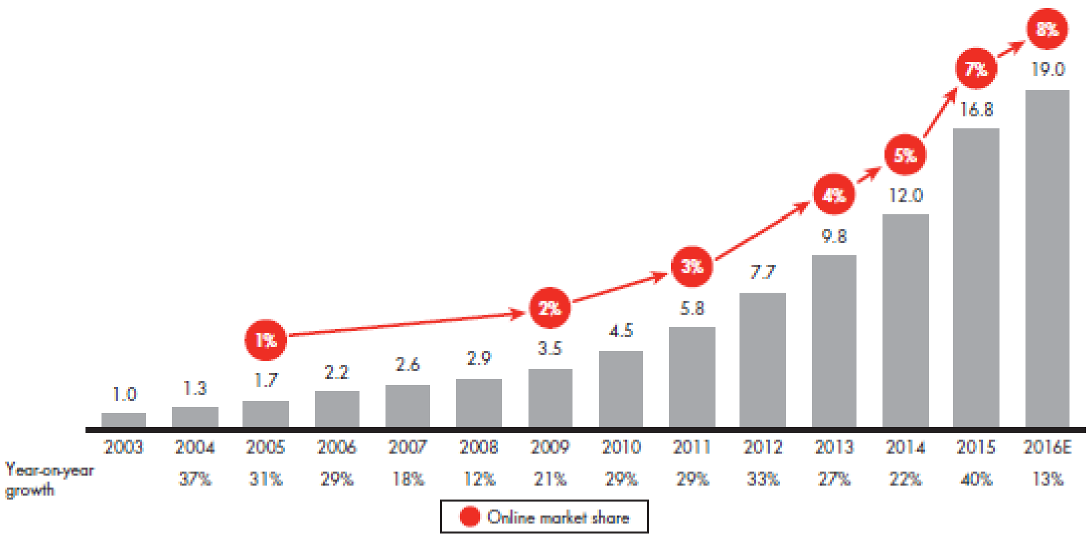

Table 1. Online personal luxury good market, 2003-2016. Source: Bain & Company

According to Deloitte[1], there are four main forces that can affect the growth of the overall luxury sector: millennials, travel, wealth and digital. Brands need to make long-term investments focused on those areas, but they also need to take into consideration four main risks that could affect their growth in the next years: reputational risk, regulation and stakeholders, external events and inertia.
Digital is one of the most significant force, since it has largely empowered consumers, who can now benefit from the proliferation of touchpoints to reach and evaluate luxury brands, which need to have a thorough omnichannel strategy in order to aim at guaranteeing a uniform experience across all the diverse channels that connect them to their potential customers.

Providing a coherent and satisfying customer experience means having a clear knowledge of online luxury consumers. Given the difficulty to gather such data from luxury brands, PMX agency has analysed luxury websites visitors and has reported some interesting conclusions: online does not necessarily mean millennials, since 56% of visitors were in the 35-64 age cluster; 79% of them has at least a partial college education; 52% has visited such websites through a smartphone; bags is the most researched category, followed by shoes and apparel. Furthermore, Okonkwo[2] has described such consumers as characterised by high mobility and reduced brand loyalty, being driven by the search of convenience and novelty; to reach them, it is crucial to generate an emotional impact, through a credible and coherent omnichannel experience, since previous offline exposure is essential for consumers to purchase.

Before concluding this broad analysis of luxury e-commerce, it seems noteworthy to address the rise of multibrand online retailers, such as Farfetch, YNAP and MyTheresa, since this industry segment is going to be the focus of the last chapter.
Those firms have showing significant growth rates – in 2016, Farfetch has registered +70% sales versus the previous year, whereas MatchesFashion has reported +61% - because of several factors, such as improving logistics, wider product choice and the decline of brick-and-mortar retailers.

[1] *Global Powers of Luxury Goods*, Deloitte, 2016
[2] U. Okonkwo, *Luxury Fashion Branding, Trends, Tactics and Techniques, Palgrave MacMillan, 2007*

Name	Headquarters	Year Founded	Shipping Countries	Boutiques	Designers/ Brands	Annual Sales	Valuation
Yoox Net-A-Porter	Milan	2000	180	N/A	N/A	€1.9 Bil.	€2.9 Bil.
Matchesfashion.com	London	2000	190	N/A	450	£204 Mil.	£300 Mil.
Mytheresa.com	Munich	2006	120+	N/A	180	€129 Mil.*	N/A
Farfetch	London	2008	190+	500	1,600+	£302 Mil.**	$1.5 Bil.
Garmentory	Seattle	2014	N/A	300+	2,000+	N/A	N/A
Lyst	London	2011	150+	11,500	11,500	$150 Mil.	N/A

** At time of acquisition by Neiman Marcus in September 2014*
*** Gross merchandise value for fiscal year 2015, ended December 31, 2015*

Table 2. Source: S&P Capita IQ

As we can see from the chart, YNAP is by far the industry leader, but this current hierarchy might be affected by some uncertain variables, like the increased competition in the sector and the possible internalisation of e-commerce platforms by luxury brands, with the objective to generate more profits.

The potential consequences of such factors will be addressed in the last part of this thesis, whereas the next chapter is going to focus on the principal theoretical frameworks that has been adopted for such study.

Chapter two. Disruptive Innovation Theory and Business Model Canvas

This chapter addresses the two main theories that have been chosen as the foundations of the case study of Farfetch: the Disruptive Innovation Theory and the Business Model Canvas. These two theoretical frameworks have been widely discussed both by practitioners and researchers for their deep impact in the field of corporate strategies, especially in the field of innovation. Indeed, if the former is a tool to analyse industry disruption and its consequences, the second can be also utilised to give a solid structure to business ideas.

The Disruptive Innovation Theory was introduced by Harvard professor Clayton Christensen in 1995. Initially, it was an empirical theory consisting solely of an acknowledgement of correlation: *incumbents outperformed entrants in a sustaining innovation context but underperformed in a disruptive innovation context*[3].

[3] C.M. Christensen, M. Raynor, R. McDonald, *What is disruptive innovation?*, Harvard Business Review, December 2015

This first formulation of the theory gained much success, causing a broad diffusion of the word disruption, which has often been attributed to firms that did not present the necessary features enlisted by Christensen, harming the validity of his findings.

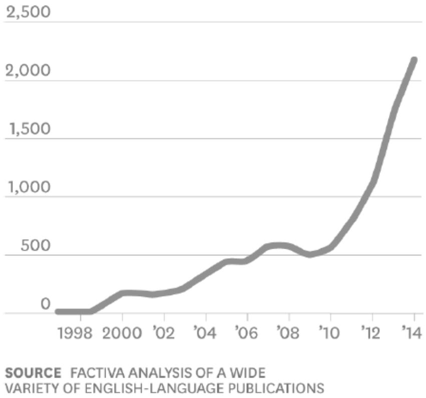

Table 3. Number of articles containing the phrase "disruptive innovation" or "disruptive technology" through the years. Source: HBR.

In fact, according to the theory, disruptive innovation indicates the *process whereby a smaller company with fewer resources is able to successfully challenge established incumbent businesses*[4]. This disruptive path has been futher investigated and summarised into a diagram, which is a useful instrument to apply this theoretical framework and to recall the main features that a true disrupter should have.

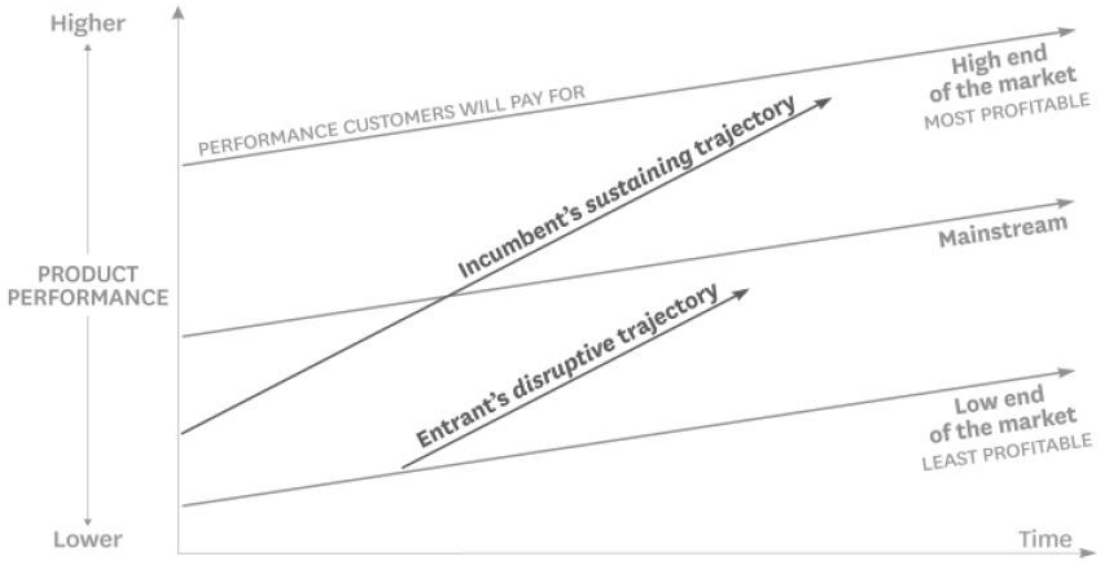

Table 4. Disruptive Innovation diagram. Source: HBR.

[4] See note 3.

This diagram clarifies the disruptive process by showing how product performance drives the entrant company from low-end or new to mainstream customers. Indeed, disrupters can expand their customer base through improving their products or services, which, in the beginning, are usually inferior to the ones of established competitors. This product overhauling process can be executed without having to cope with incumbents' reaction, since they usually neglect those low-end or new segments, focusing their efforts towards more profitable customers.
Starting from targeting low-end or new segments is one of the main features of a disrupter, but it is usually forgot by many who assign such adjective to a firm. As an illustration, Uber has been usually considered a disrupter, despite offering a service often deemed as of superior to the one of taxi companies and thus targeting the same customers.

Furthermore, Christensen has discovered four critical points to consider when applying the theory: disruption is a process; disrupter have usually built business models that are different to the one of the incumbent; success is not a useful variable to assess if a firm is a disrupter; in reacting to disruption, established firms do not need to suddenly dismantle still profitable businesses, for it is more advisable to focus investments in both sustaining and disruptive innovation at the same time. Those clarifications can help us in confirming the validity of the theory, despite the main criticalities raised by researchers, such as King and Baatartogtokh, who found that it is quite difficult to find a firm presenting all the features expressed in the theory, but concluded their analysis by stating that this framework is a valid instrument to be applied when its conditions are met.

The second theoretical framework adopted in the case study is the Business Model Canvas, which is a more recent instrument, introduced in 2010 by A. Osterwalder in order to visualise and describe the business model of a firm. It consists of nine blocks, which constitute a visual chart that can be utilised to analyse an existing business model or to develop a new one.

In Business Model Generation, his best seller, he has managed to summarise different approaches to business model analysis by stating that: *A business model describes the rationale of how an organisation creates, delivers and capture value*.

This definition is the starting point of the description of the Canvas, a straightforward and visually-driven business template, which he has outlined as *a shared language for describing, visualising, assessing, and changing business models*.

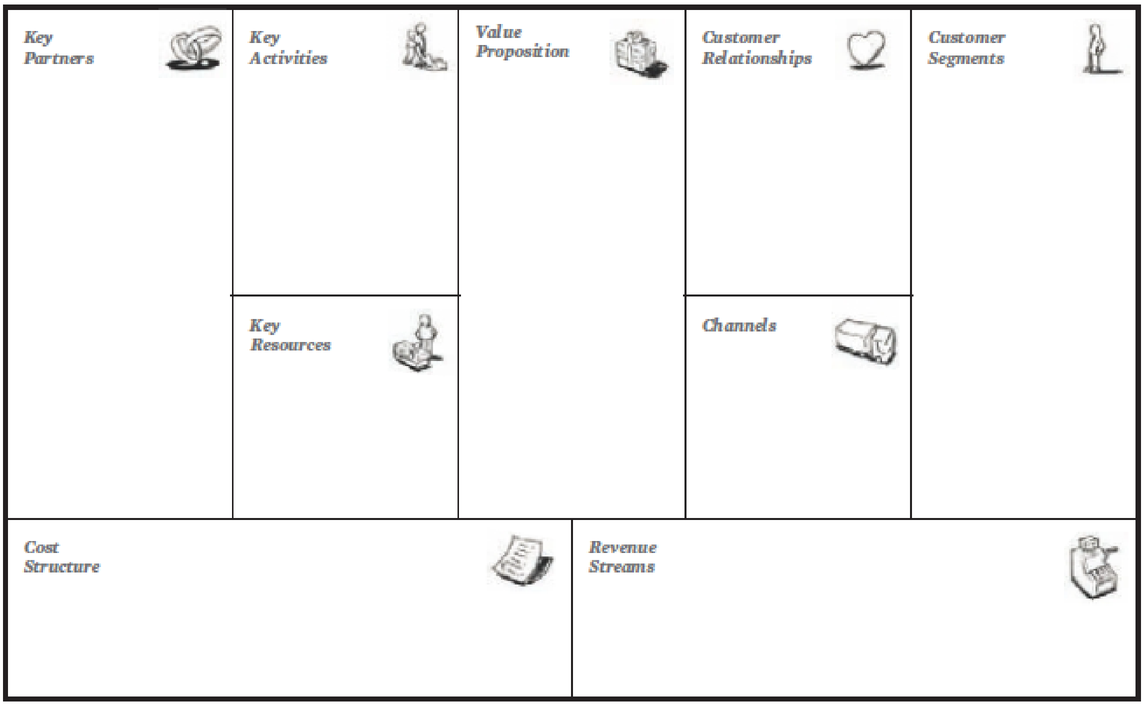

Table 5. Business Model Canvas. Source: Business Model Generation.

This model can be divided into two parts, which resembles the structure of the human brain: a left side dedicated to efficiency, which represent the rational hemisphere, and a right side dedicated to value creation, which indicates the emotional part.

Delving into each of its components, the Customer Segments block refers to the groups of clients the firm aims at serving and can indicate different kind of strategies: *mass-market; niche market; segmented; diversified; multi-sided platforms*.

The Customer relationships block outlines the kind of relationships a firm aims at creating with its customer segments in order to achieve *customer acquisition*, *customer retention* or a boost in sales, whereas in Channels we should describe how a company communicate with its customers, through the analysis of customer touchpoints.

A firm's value proposition, the heart of the model, outlines the products or services that create value for a firm's customers, by catering to their needs or solving a specific problem. It can be innovative or similar to the offer of incumbent firms, but with innovative characteristics on top.

In the left side we have the three Key blocks, which describes essential resources that are required by a firm's business model in order to generate value to customers, establishing and maintaining relationships with them or generating revenues, as well as the principal actions and partnerships, which are required by a business model for its correct functioning.
The bottom part contains the Cost Structure of the firm and the Revenues stream block, which analyse cash generation from the value that is created and delivered to customers.

Despite the popularity of the Canvas, several researchers have pointed out some of its most significant limitations, sometimes accompanied by modifications that allow to build a more comprehensive model. For instance, Kraaijenbrink has built an alternative model, the Value Model Canvas, in order to bring competition analysis inside the template, as well as a variety of entrepreneurial drivers different from financial success.

Chapter three. Farfetch: beyond disruption

This last chapter focuses on the case of study of Farfetch, a London-based online platform, which gathers the boutiques from the most famous fashion streets in the world in a *curated and centralised global market place*, aiming at becoming *fashion's global omnichannel platform*[5].

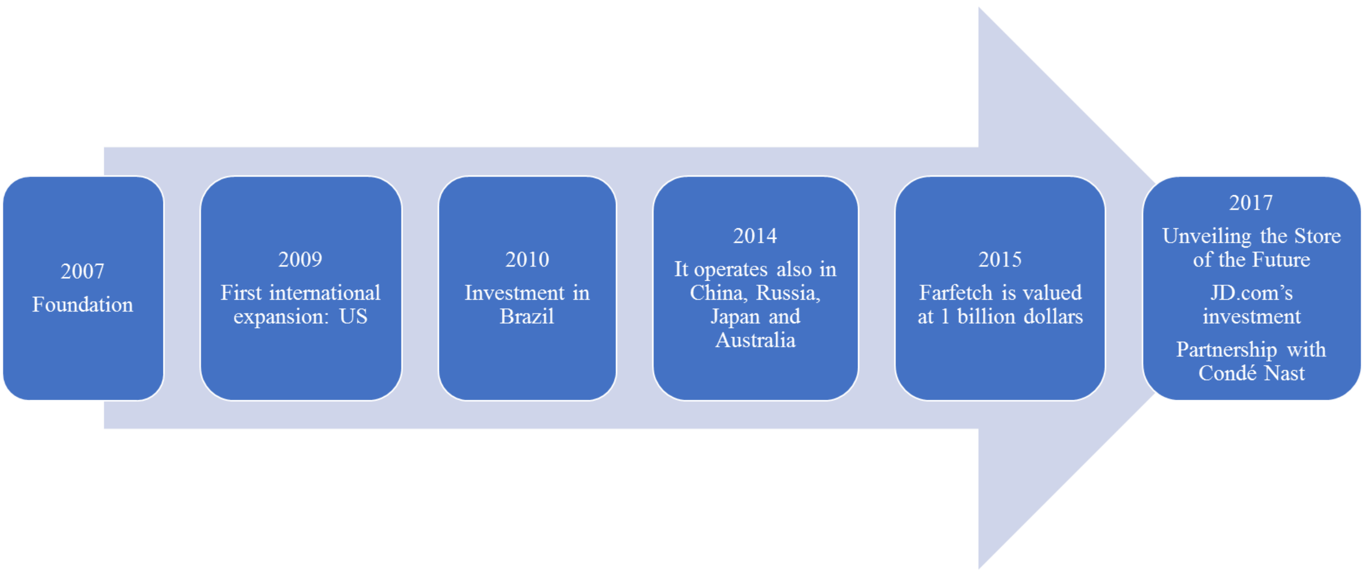

Table 6. Farfetch's timeline.

[5] Official website of Farfetch

The company has reached 800 million dollars sales in March 2017, registering a 70% growth vs the previous year and a 1.5 billion dollars valuation, gathering rumours of a possible IPO in the forthcoming years.

Farfetch merges physical and digital in an original way, having no physical inventory, but an algorithm that links the platform to the inventories of the partner boutiques, finding the nearest one that has the selected item available in its stock. Furthermore, it is a customer-centric platform that takes care of logistics and customer service, through local teams that manage operations in 180 countries.

Another significant point in the company's strategy is omnichannel. Indeed, José Neves, its founder, has often underlined that physical sales still account for 90% of total luxury sales, given the sensorial experience that is intrinsic to luxury shopping, and that they are not going to be replaced by online sales, as also McKinsey has stated, through forecasting that they will reach a plateau in 2025. Hence, he aims at creating a *creative* and *exciting* shopping experience through connecting the physical and virtual dimension.

Before assessing if Farfetch is really a disrupter, we are going to analyse the firm both from an external and internal perspective, in order to grasp its main peculiarities. Starting with the former, we can summarise the main features of the multibrand luxury e-tailing segment through the application of PESTEL analysis and Porter's Five Forces framework.

P	Barriers to free trade between countries, trade tariffs, fiscal policies, political stability
E	GDP and industry growth, inflation, foreign exchange rates, consumer confidence, unemployment
S	Disposable income, demographics, education, Fashion and lifestyle trends
T	Internet penetration, online payment systems, mobile devices, app ecosystems, transportation costs
E	Low impact, related to running offices not to production machines, environmental regulation, consumer awareness
L	Antitrust, regulation of competition, privacy, consumer laws, return policies, labor laws, counterfeiting

Table 7. PESTEL analysis of the luxury multibrand e-tailing industry segment.

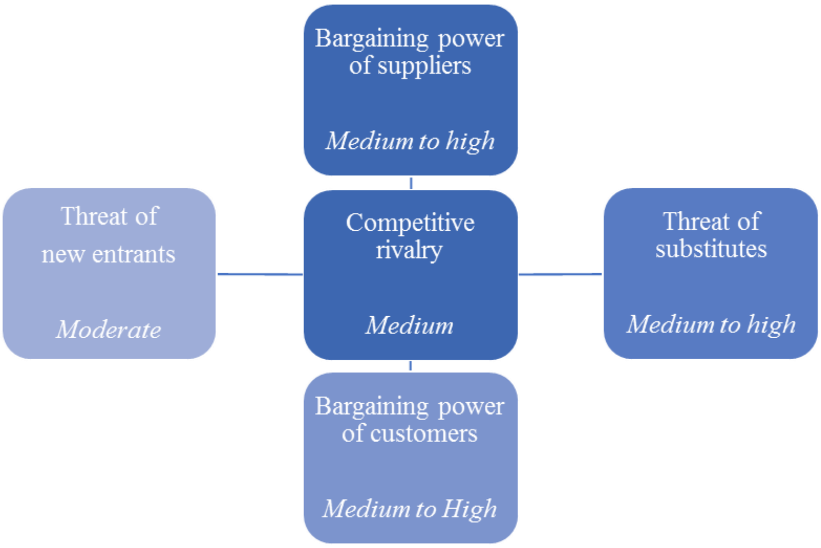

Table 8. Porter's Five Forces framework applied to luxury multibrand e-tailers

Regarding the latter table, the average intensity of the five forces is medium to high, since, despite the size of the industry leader, numerous firms are entering the market and brick-and-mortar retailers still represent significant competitors to e-tailers. Furthermore, suppliers and buyers have a considerable bargaining power towards these online-based companies.

Delving into the second perspective of analysis, the Business Model Canvas is one of the best tools to analyse how a company generate values and the main features that makes it stand out from competition.

Key Partners	Key Activities	Value Proposition	Customer Relationships	Customer Segments
Established and emerging brands Luxury multibrand retailers Delivery companies E-tailers (Joint ventures)	Website/app development Customer care	Offering an *accurate global marketplace that takes into consideration customer experience*	Automated but customised *Personalised for Private Clients*	Luxury online shoppers Established and emerging brands Luxury multibrand retailers
	Key Resources		Channels	
	Algorithm Customer database Partnerships HR		Website, app Youtube, magazines Partner boutiques (click and collect)	
Cost Structure		Revenue Streams		
Large proportion of fixed costs: Wages, Rents		Revenue share model: 25% on net revenues		

Table 9. Farfetch's Business Model Canvas.

The salient points of such business model are the lack of inventory-related costs and the innovative value proposition, which, together with its platform structure, makes the company very appealing to investors, despite being still unprofitable. However, it presents a commission-based model, anchored to customers' purchases, who can also benefit from its Fashion suggestions without paying any fee. Moreover, this 25% commission seems quite high from the point of view of its partner boutiques, which need to sustain most of the costs, such as taxes, rents and insurance as well as import/export costs, while granting Farfetch the control on their inventory and transactions.
Hence, to improve its profitability and provide its partners with more advantages, Farfetch could implement a hybrid model, by introducing some of the features of Advertising-based models, which can allow the firm to leverage its online presence, being the first luxury e-tailer by visits, and to reduce the commissions paid by its partners.

After examining the company from these two perspectives, we can summarise the main findings into a SWOT diagram, which helps us in balancing the benefits and downsides of Farfetch's business model and competitive environment.

S	**O**
No inventory Platform Customised service Store of the Future	Growing demand New technological advances Internet penetration Luxury market performance
W	**T**
Profitability Disadvantages for partners	YNAP Lack of structural barriers

Table 10. SWOT analysis of Farfetch

This overall analysis provides us with the tools we need to assess the disruptive power of the company. However, before applying Christensen's theory, it seems noteworthy to outline the main feature of Farfetch's new project: the Store of the Future. It has been conceived with the aim to revolutionise the luxury shopping experience by connecting the offline and online dimension through an operating system run by the company, which takes care of the core data layer of the system.

The first store has been inaugurated the 20th of October 2017, with the opening of Browns East in London, but this innovative concept will be out in the market supposedly from 2018.

It consists of an operating system that Farfetch will offer to physical stores in order to connect them with the data collected by the platform, allowing them to offer an original, customised service to their clients. Indeed, Farfetch has developed several applications to showcase the immense opportunities that a platform like that could bring to the market, such as a *universal login*[6] system that recognises customers as they enter the store and a *RFID-enabled clothing rack* that gathers the taken products into customers' wish-lists, which will be available on digital mirrors.

This project has been conceived considering that, although physical stores will remain the first channel for luxury shopping, they will present major novelties, since, according to Neves, the *disconnected* store will disappear. For this reason, he is creating a new kind of shopping experience, which he calls *augmented retail*, since it enriches the physical dimension through the data and information collected through the online platform, in order to create a coherent experience that transcends physical locations.
The three major features of such operating system are: a human touch, given by the empowerment of sales associates, who interact with the system; its modularity that allow stores to choose only the elements they need; its open architecture, which allows innovators to bring their contribution to the platform.
Hence, the company aims at creating a new market situated in between online and brick-and-mortar retail, which will allow it to dodge the rising competition, while, at the same time, fostering innovation and producing increasing network effects for its users.

After having outlined the major features of the firm, we can now assess its disruptive power by applying the Disruptive Innovation Theory. In particular, we are going to consider YNAP as the incumbent firm, since it is by far the industry leader, as we saw in the previous section.

[6] In this paragraph, all the words in italic are taken from the exclusive interview of Neves contained in: V. A Kansara, *Inside Farfetch's Store of the Future,* Business of Fashion, 12th April 2017

Firstly, Farfetch started from targeting a new segment, multibrand retailers, which represent the *curated network* of boutiques it has been carefully selecting since its foundation. Both Yoox and Net-A-Porter has been focusing on luxury brands and did not react to the rise of the new platform, which presented another feature required by Christensen's theory: an innovative business model. Indeed, while both those established firms have replicated a classic wholesale model, with the only major change in the choice of the sales channel, Farfetch has no inventory, as we saw.

Following a disruptive trajectory, a new entrant usually moves upmarket competing directly with the incumbent, meeting the standards required by its customers and maintaining its competitive advantage. In fact, in 2015 Farfetch started competing directly with YNAP through the creation of an independent business unit devoted to the development of mono-brand online stores for luxury brands, as in the case of Manolo Blahnik, and then established direct partnerships with brands, such as Gucci, with the F90 project, providing customers with 90-minute delivery in ten selected cities.
Thanks to this service and other novelties, such as same-day delivery and *click-and-collect*, the firm is trying to challenge the leadership of YNAP, while implementing a leaner business model, that does imply inventory costs and risks.

Although Farfetch is following a disruptive path, the aim of its founder is to go even further by merging physical and online retail, through the creation of a new kind of shopping experience, the Store of the Future, which might have a powerful impact on the future of luxury retail. Forecasting such impact is a difficult task, which can be approached through scenario analysis, applying the method endorsed by R. Ramirez and A. Wilkinson[7], as well as by professor J. Hoffmann.

In order to support the implementation of such framework, it has been chosen to interview five experts in the field, both academics and practitioners, who have offered some interesting perspectives on the development of luxury retail in the next decade. Indeed, thanks to those interviews, it was possible to merge different perspectives into a coherent and plausible picture of what this industry will be like in 2030.

[7] R. Ramirez, A. Wilkinson, *Strategic Reframing, The Oxford Scenario Planning Approach*, Oxford, 2016

More in depth, they underlined technology, the macroeconomic outlook and consumer empowerment as the most significant forces shaping such evolution, together with the following factors of uncertainty: terrorism; geo-political transformation; energy revolution; technology; privacy, which is a crucial issue when analysing big data, as in the case of Farfetch; laws and regulation; consumer behaviour.
Since technology was underlined as a crucial factor that is going to affect luxury retail evolution with unpredictable results, they were also asked about how to adapt it to different customer segments and underlined both the opportunity to deliver more value, thanks to modern devices that allow to satisfy needs as convenience as customisation, and the need to take care of a still large portion of non-technophile customers.
Furthermore, they all agreed in indicating omnichannel as a significant strategic issue, since disconnected stores are going to face many difficulties in the future given the popularity of connected customer experiences and the need to satisfy the rising consumer expectations, as well as to face fiercer competition in such field.

Thanks to the contribution of those professionals, it was possible to build three plausible scenarios outlining luxury retail in 2030, by combining the two crucial variables that emerged from their answers: technology and demand.

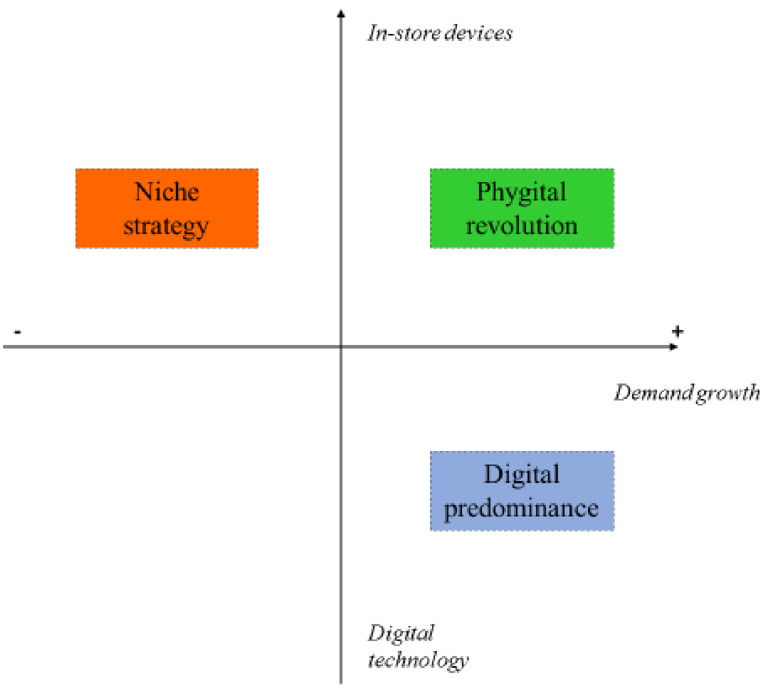

Table 11. Scenario analysis.

Indeed, in case of sustained growth in the luxury market, as well as in investments and innovation regarding in-store devices, the Store of the Future could really generate a *Phygital revolution*, given by the positive network effects generated the success of such platform, which will encourage many innovators to bring their contribution.
However, its impact might be negative influenced in case of reduced or negative growth in the luxury market, as in the *Niche strategy* scenario, or if digital technology will outbalance in-store technology, entailing less chances for the firm to gather innovators in phygital technology, as in the *Digital predominance* scenario.

Conclusions

This case analysis has demonstrated how significant is Farfetch's contribution to the luxury industry, by underlining its disruptive power and its impact on the evolution of the luxury shopping experience. Indeed, the company has been shaking the foundations of such industry, through envisioning and implementing a pioneering operating system that goes beyond omnichannel by augmenting the physical, in-store experience with cutting-edge technology that connects it to consumer data.
This ground-breaking project will help luxury retailers in nurturing demand through appealing millennials, who will probably become the first category for luxury sales, and to modernise the whole luxury industry, which has resisted change for far too long. Indeed, it will allow stores to fully embrace digital without losing the essential features of the luxury shopping experience, providing the whole industry with the opportunity to grow and thrive among the next generations, by sharing their same language.