## Exam 14.02.2022

> **Read the short case and the questions carefully and justify all your answers.**
> **You cannot use any class or personal materials.**
> **Answer questions 1 in the BMC template, 2-3 in one sheet, and 4-5 in a different sheet.**
> **Duration: 1h30 + 30 minutes tolerance.**

### Farfetch: Tackling the Online Luxury Fashion Market[1]

Farfetch prides itself on being the only online luxury fashion platform at scale. Leading up to its IPO in 2018, it has amassed impressive growth and continues to do so till today in the large USD 300 billion luxury fashion industry. Started by Jose Neves, Farfetch now has two million active users in 190 countries engaging with 500 brands and 700 boutiques. Brands include the likes of Chanel and Saint Laurent, whilst boutiques include high-end retailers such as Harrods and Harvey Nichols.

On the supply side, they offer traditional brick-and-mortar boutiques a strong online presence that they typically lack (or poorly execute on) and access to a large number of customers. They also give brands more access to the younger generations (millennials and gen-z) who increasingly prefer to shop online. On the demand side, consumers are offered a wide but curated selection of goods from the best brands, superior customer service (i.e. data-driven marketing, logistics, care), convenience, and an element of discovery (thrifting through pages to find hidden gems). The more users that join, the more brands that sign up, and vice-versa.

Farfetch is known for its quick deliveries in certain major geographies, including London and New York. They operate same-day deliveries in 19 cities. They also offer returns at no charge for customers.

Farfetch has become a common name in the industry for both brands and consumers of luxury fashion. They are synonymous with luxury, selective, reliable, customer-centric, fast, etc. The platform continues to innovate on both sides of the platform to remain relevant. On the luxury brand side, they offer platform solutions the help them develop full end-to-end digital experiences, which include opening digital stores or setting up WeChat stores. On the demand side, they recently launched *Second Life*, an initiative where consumers can sell back second-hand goods to Farfetch for credit to use on the website.

Farfetch monetizes the platform on the luxury brand and boutique side by charging a total of 25% on the sale of each good, with added 8% if retailers wish to outsource order fulfillment to Farfetch. Over 70% of the company's revenue comes from the sales commission. Farfetch has been able to attract a strong customer segment of young men and women that spend an average order size of 550-650 USD consistently.

They have strong relationships with the brands and boutiques they showcase on their website. Not only do they provide them value-added solutions but they engage in collaborative seminars, creating a community feel around the network. More importantly, they have 98% of their retailers with exclusivity contracts.

Farfetch operates a business model where they do not have to own any inventory. Instead they have an efficient back-end technology system that sources the desired product from around the world and makes arrangements with the respective retailer / brand to complete the order. Despite growing so quickly, they have also been able to keep up with front-end technology needs in dealing with superior user experience.

### Inside the new Browns: Farfetch's store of the future[2]

The Farfetch-owned luxury boutique, which will unveil its new flagship in London, is betting on connected mirrors, high-touch services and a more interactive space for consumers to play.

Farfetch, owner of British multi-brand luxury boutique Browns, has been building its interpretation of the store of the future over the last three years. (…) With Farfetch engineering the store's new approach, technology, high-touch services and customer engagement will be at the centre of Browns' retail strategy.

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[1] https://digital.hbs.edu/platform-digit/submission/farfetch-tackling-the-online-luxury-fashion-market/
[2] https://www.voguebusiness.com/consumers/inside-the-new-browns-london-flagship-farfetch-store-of-the-future

The new store on Mayfair's Brook Street is the latest iteration of multi-brand e-commerce marketplace Farfetch's new strategic initiative dubbed "Luxury New Retail", harnessing its technology and brand relationships to digitise the luxury industry. Farfetch's deal with Alibaba and Richemont late last year cemented its move from a marketplace to a luxury tech provider. They already offer e-concessions as a service, and in 2018 reached a deal to work on Chanel's Paris boutiques. The new Browns is the next step in Farfetch's vision of digitising luxury, with augmented reality and links to the marketplace. With Browns, Farfetch is pioneering new ways of engaging customers both online and offline.

Since 2018 Farfetch has been working with Chanel to roll out its in-store technology including an app to view Chanel's runway looks, book an appointment and pre-arrange a selection on arrival, alongside high-tech dressing rooms with a connected mirror to display customers' choices. Browns will use the same technology to offer customers a seamless shopping experience. The store, it appears, is far from over. While consumers have gotten used to the convenience of shopping online, they also miss being connected in a physical environment, says Deveaux. "Brook Street is a landmark and it's where we can showcase to the world our vision of luxury retail."

### Online Luxury Fashion + Machine Learning = A "Farfetch" Experience?[3]

Unlike traditional luxury retailers, Farfetch can collect a huge amount of data (…), and through this dataset, can use machine learning to automate decision making (...). In the world of online retail, consumers are often overwhelmed by unlimited options, which may not be relevant to them at all. This is particularly troublesome for luxury retail, because selling luxury is not just about selling a product, but also the emotion, the exclusivity catered to a specific customer. (…) Farfetch partnered with Certona, an AI-empowered omnichannel personalization solution (…). With Certona capabilities, Farfetch can make sophisticated product suggestions to their customers in real time and across all customer touch points. (...) Farfetch is actively selling the concept "Store of The Future", or its vision for Augmented Retail. (...) Of course, all of the data from those activities will be captured and connected to Farfetch platform (...).

### Farfetch Review: Buy Clothes with Just One Click[4]

In 2019, Farfetch partnered with a visual startup company called Syte (…). Through the integration of Syte's visual AI, you can upload a picture of the look you want—a shirt, a dress, or a whole outfit—and then the app will give you either an exact or the closest match to that look.

1. Develop the Business Model Canvas for Farfetch, based on the information above. (Please use the BMC template provided in the exam, and add any explanation you find useful in the back.) (5.0)
2. Identify and explain two major switching cost categories that Farfetch is leveraging. Moving forward, what could be a priority for Farfetch to further enhance lock-in? (3.5)
3. Considering the "anatomy of a task" framework of Agrawal et al. (2017)[5], which links prediction and judgement in tasks, how does Farfetch create value from AI? Looking ahead, how could prediction be expanded and what would be its impact on value creation? (4.0)
4. How do you view the opening of Browns' physical retail chain and the reinvention of Browns's shopping experience in Farfetch's omnichannel business model? What role and impact will it have in its business model? (3.5)
5. As mentioned in the text, "Farfetch's deal with Alibaba and Richemont late last year cemented its move from a marketplace to a luxury tech provider", offering customized solutions and services to digitize the retail experience of luxury brands, based on the technologies and solutions it has developed for its own marketplace and stores. Considering the types digital servitization business models, how will this move impact Farfecth's business model? What role can Browns's flagship store in London play in this business model? (4.0)

[3] https://digital.hbs.edu/platform-rctom/submission/online-luxury-fashion-machine-learning-a-farfetch-experience/
[4] https://cellularnews.com/mobile-apps/farfetch-review-buy-clothes-with-just-one-click/
[5] Agrawal, A.K., Gans, J.S., & Goldfarb, A. (2017). What to expect from artificial intelligence. MIT Sloan Management Review. 58(3), 23-27.