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Priorities, Myths and Realities of AI in Luxury Goods and Services

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White Paper



January 2024 – AI is here to stay. That is a fact. How the luxury industry, a business segment that has always stood for delivering the best of the best products, services, and client experiences chooses to use AI requires deep consideration. Luxury Institute recently conducted a qualitative survey with 22 luminaries from its Global Luxury Expert Network (GLEN) and asked them to weigh in on the most important initial business uses of AI and the myths luxury brands should confront as they engage with vendors to implement AI.

Top-tier senior executives and consultants of Luxury Institute’s Global Luxury Expert Network (GLEN), representing the full spectrum of luxury goods and services categories including automotive, private aviation, fashion and leather goods, hospitality, interior design, jewelry and watches, real estate, wine and spirits, yachting, and other categories, responded in candid detail. Their expertise and wisdom provide trustworthy guidance in a world of AI hype and an evolving AI landscape where morals, values and respect for digital assets are not only important but essential. We agreed to maintain responder anonymity for confidentiality reasons. Here are their collective responses to critical AI questions:

What are the top priorities in implementing AI for luxury goods and services brands?

GLEN experts told Luxury Institute that throughout history, the winning brands rarely do extraordinary things; instead, luxury brand winners consistently execute the fundamentals of their respective business models extraordinarily well. They adopt innovations on a timely basis, with a sharp, realistic eye, not with rose-colored glasses. As with CRM in the 1980s, eCommerce in the late 1990s, and Programmatic Advertising in 2010s, Luxury Institute’s GLEN experts warn that the promises of tech vendors always far outweigh the ethical and financial results. Tech vendors are not fiduciaries; they serve their own interests. As with all innovations, our experts emphasize that luxury leaders need to focus on how the AI supports and enhances the human beings whose work will never be replaced by AI.

Experts cautioned that luxury businesses must stop thinking of AI as a novelty. Executives need to overcome the euphoria and get down to the gritty daily work of testing, measuring, and learning in rapid cycles to determine what is AI hype and what is real. Below are the four key areas of the business model the luxury industry needs to address to achieve the most effective and efficient use of AI:

1. Business Intelligence

First, Luxury Institute GLEN experts expect that AI will finally help luxury brands to make sense of the vast amounts of unused data they have stuck in silos across the enterprise. They expect AI to assist in understanding consumer trends and demand patterns with greater intelligence and discernment. This can lead to optimizing production and inventory management. Second, as they begin to build legal, trusted direct data and insight sharing relationships with their clients, experts expect AI to analyze vast amounts of descriptive and predictive consumer data. In turn, AI can provide valuable and actionable insights for informed decision-making and targeted marketing and relationship-building strategies. Finally, AI tools can monitor and analyze social media sentiments, allowing luxury brands to actively manage their online reputation and engage with consumers in real-time.

2. Customer Experience

With respect to innovation, GLEN experts expect AI to help in the discovery of customer needs and wants that are often unexpressed but are indicated in behavioral data within and outside the enterprise. AI can foster innovation and creativity, enabling luxury brands to create unique and customizable products, services, and experiences, helping to differentiate them further in a competitive luxury market. AI should also help design and deliver far more personalized recommendations and experiences for luxury consumers, enhancing satisfaction and relationship loyalty. It should put the insights in the hands of the relationship builders as well as empower front-line associates to develop and use their relationship building skills to create value. GLEN experts warn, however, that brands need to use AI carefully because, in the real world, all luxury consumers are unique human beings, not audiences, segments, personas, or cohorts.

3. Operational Efficiency and Effectiveness

Automation through AI should streamline internal processes, optimizing efficiency in areas such as supply chain, inventory management, and customer service. One unanimous expectation is that AI can lead to major cost savings by automating rote, repetitive tasks and optimizing resource distribution. This will enable luxury brands to allocate resources including people, far more efficiently and effectively. AI-powered

security measures should contribute to the protection of luxury goods and services against counterfeiting and fraud, maintaining brand integrity.

4. Environmental Sustainability

AI can be employed to enhance sustainability efforts, such as optimizing supply chains to reduce waste and energy consumption, aligning with the values of environmentally conscious consumers. However, Luxury Institute GLEN experts point out that the environmental costs of AI itself, with its voracious need for continuously updated data, massive processing power, and even more massive storage power, will need to be calculated accurately, so there is no deception as brands and luxury leaders seek to be more sustainable and responsible corporate citizens.

Luxury Institute GLEN experts state that the specific benefits achieved in each of those critical business functions will vary depending on the nature of the luxury brand, its target audience, its categories, its inherent economics, and the skill of implementation of AI technologies.

What myths are being communicated by vendors/partners/media related to the implementation of AI for luxury goods and services brands?

Myth #1: AI Guarantees Success for All Luxury Brands

Luxury Institute GLEN experts recommend to beware of exaggerated claims that implementing AI leads to successful outcomes for all brands. Individual brand success depends on many factors beyond the technical implementation such as the makeup of the team members, the team culture, the team trust, and other performance factors outside AI. Small to medium size luxury brands are most vulnerable to seeing limited results due to small data samples, limited skill sets and limited resources. There are zero guarantees that a rising AI tide lifts all ships.

Myth #2: AI Automates Ethical Decision-Making

The claims and suggestions that AI has solid ethics and legal boundaries built into the algorithms and implementations are false. Ethical considerations and decisions in AI implementations are highly risky and require continuous and rigorous evaluation by

experts. For example, the data that is being used to train Large Language Models (LLMs) currently may be illegally and unethically sourced. There are so many lawsuits in this space that luxury brands need to be leery of becoming accomplices to illegal activities that expose them to major liabilities. AI training data and algorithms are biased and unfiltered such that their recommendations may expose brands to legal, reputational, and economic damage.

Myth #3: AI Transformation is a Seamless Experience

Claims that AI adoption leads to quick and seamless business transformations within specific departments or functions within the enterprise are an exaggeration. AI adoption is as much a human as a technological endeavor. Adoption and adaptation will take time. AI makes many mistakes and currently has a high “hallucination” rate. The data is never real-time or current. Many AI projects will lead to dead ends, high costs, failures, and reputational risks. Vendors will not be there to pick up the pieces.

Myth # 4: Successful Personalization is a Given

Promoting AI as a tool for personalization without acknowledging major challenges, such as privacy concerns and data security issues, is not rooted in fact. The personalization efforts and successes are only as good as the prompts, the data, and the downstream execution. Recommendations on personalization will need human supervision and oversight for the foreseeable future. Luxury Institute GLEN experts suggest that any brand that fully trusts AI to personalize for its HNW and UHNW SuperClients without having boundaries, and a system of human checks and balances, will be in for unpleasant surprises.

Myth # 5: AI as a Substitute for Human Creativity

Proposing that AI can often entirely replace human creativity in the design and creative process, or in any process, is false. AI is a tool that complements human creativity and human sensibility but doesn't replace them. AI can assist in creative tasks, such as functionally generating art or music, but it doesn't possess true creativity, emotional intelligence, or consciousness. Luxury Institute GLEN experts insist that human input and interpretation will remain essential in all creative enterprise endeavors for the foreseeable future.

Myth # 6: AI Delivers Accurate Customer Insights

Claiming that AI provides accurate, pinpoint understanding of customer needs, wants and desires is an incorrect assumption. AI systems are only as effective as the data within which they are trained. Many luxury brands have dated, inaccurate and incomplete customer data. A great deal of the data is descriptive, but not necessarily highly predictive. Real-time insights are often available only to the client associate, in the moment, and require an immediate response or solution based on nuanced human judgment. AI is limited in those situations. Further, the luxury consumer, especially the HNW and UHNW SuperClients are dynamic and complex in their emotions, needs, and wants, such that unless a brand is continuously keeping a finger on the pulse of these VIPs, it is easy to misconstrue or misjudge their motives and behaviors.

Myth # 7: Luxury Consumers Will Readily Accept of AI-Driven Experiences

Assuming consumer acceptance of AI-driven and recommended experiences without acknowledging potential resistance or preferences for human interactions may be overstated. The luxury industry thrives on delivering extraordinary human experiences that lead to trusted, long-term relationships. Expecting AI to use data to generate welcomed, or even accepted, emotionally intelligent, empathic, trustworthy, kind, and creative customer experience recommendations and actions, is a stretch. This is particularly true when working with highly discerning HNW and UHNW SuperClients. AI will play a role, but Luxury Institute GLEN experts believe that extraordinary customer experiences will remain in the realm of human beings for a long time.

Luxury Institute and the Global Luxury Expert Network (GLEN) expert members who participated in this research project believe AI has great promise to help the luxury industry improve its functional performance. There is a recognition that the luxury industry is truly unique. It is the only industry with brands that span hundreds of years. That rate of success has required tremendous agility and adaptation. It has equally required the highest levels of relationship trust. The industry is built on direct human relationships: creator, client, associate, partner, and societal.

Experts tell luxury leaders to recognize that they, and the AI they bring into the enterprise, will be working for the people who are best at humanizing for their customers. Failure to truly use the AI to eliminate the friction for those humans and failure to empower them

means that those failed leaders will be replaced for delegating their fiduciary responsibilities to AI.

AI will enhance the luxury industry, especially in its functional efficiency and effectiveness. Luxury Institute and its GLEN experts believe AI's effects on the ability to design and deliver humanistic, extraordinary customer experiences that build trusted, long-lasting, and joyful human relationships, are real, but not as impactful as the hype promises. Luxury brands need to test, measure, and learn their way through AI experiments with eyes wide open, a solid understanding of the myths surrounding AI, and zero illusions as to what is truly achievable.

In the final analysis, Luxury Institute GLEN experts believe that it is the combined effects of unique human creativity, human connections, emotional intelligence skills, and lasting trusted relationships that will touch the hearts and minds of valued clients and determine the luxury industry's future.

For assistance conquering these myths, please contact [Luxury Institute](#).

About Luxury Institute

Luxury Institute is the world's most trusted research, consulting, training, and elite business solutions partner for luxury and premium goods and services brands. With the expertise of emotionally intelligent luxury, Luxury Institute has helped its clients consistently inspire emotions that deliver extraordinary customer experiences and drive long-term relationships. In the last 20 years, Luxury Institute has served over 1,100 luxury and premium goods and services brands through leading-edge solutions developed by the best, most successful minds in the industry. Luxury Institute has built the largest global network of luxury executives, experts, HNW and UHNW individuals and families.

Luxury Institute has conducted more quantitative and qualitative research with affluent, HNW, and UHNW consumers than any other entity and has significantly shaped the way luxury and premium goods and services brands serve HNW and UHNW consumers today. This expertise has led to Luxury Institute's high-performance relationship building education system, Luxcelerate, and its online education programs, The Mastery of HNW Relationship Building and the Private Client Professional (PCP). Each dramatically improves the emotional intelligence skills and self-mastery skills that drive high-performance HNW relationship building and results.

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Luxury Institute has also innovated the Advanced Personalization Xchange (APX) to empower affluent consumers to license their digital platform data to premium and luxury brands they trust legally, securely and privately in exchange for fair value rewards and benefits.