

Redefining Exclusivity: The Role of Generative AI in Luxury Brand Strategies

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Abstract: The integration of generative AI has revolutionized marketing strategies across various industries, including luxury brands. While AI presents opportunities for innovation, luxury brands face the unique challenge of using this technology without compromising their core identity—exclusivity, heritage, and craftsmanship. This research explores the impact of AI on luxury branding, highlighting its role in enhancing personalization, optimizing customer experience, and redefining exclusivity in the digital age. Luxury brands have historically maintained their prestige through limited availability, high quality craftsmanship, and deep-rooted heritage. However, the shift towards digital platforms, accelerated by e-commerce growth and changing consumer preferences, has forced these brands to adapt. Younger generations, particularly Gen Z, expect digital experiences without losing the prestige of traditional luxury retail. Generative AI offers a solution by enabling personalized client interactions, AI-powered styling consultations, and even digital co-creation of exclusive products. Despite its benefits, AI in luxury branding also presents ethical challenges, including concerns over data privacy and the potential dilution of brand authenticity. This study emphasizes the importance of a balanced approach, ensuring AI enhances the luxury experience rather than replacing the personal touch that defines it.

Keywords: Generative AI in Luxury Marketing, Exclusivity and Personalization, Digital Transformation in Luxury Branding

1. Introduction

In recent years, AI has taken off to become one of the most valuable assets a business can have. The integration of generative AI has become a pivotal tool in enhancing brands' marketing strategies, including luxury brands. By offering a creative edge and optimising product promotions, AI has been widely adopted by many corporations. However, for luxury brands that have long maintained their exclusivity and identity, the challenge lies in leveraging generative AI without compromising their brand heritage and image. Rather than chasing trends in the market, these brands emphasise more on distinctiveness and history to preserve their perception and image. This research explores the role of AI in redefining exclusivity in luxury brands and its potential to reshape customer engagement without diluting the core elements of luxury—scarcity, heritage, and identity.

2. What is the core of luxury branding?

Luxury brands occupy a unique position in the market, defined by their exclusivity, scarcity, and exceptional craftsmanship[1]. Customers of these brands expect more than just products, they value a unique experience, status and a connection to the brand's history[2].

What Luxury brands do best is creating exclusivity; when we think about luxury brands, the first thing that pops into our brains is the idea that is a status symbol and brands tend to create this through pricing[3]. Looking at the famous Hermes Birkin bag for example, which range from \$10,400 to \$2million, we may wonder why this highly coveted and collectible item is so desirable and whether it is truly worth the price. Hermes' exclusivity strategy does not just come from its price[4]. This exclusivity is further reinforced by limited production, waiting lists, and a selective clientele, making the purchase not just about owning a bag, but about belonging to an exclusive club. A customer needs to establish a sales profile spending upwards to \$50,000 to get the chance to be offered to purchase a Birkin bag[5]. The high prices, limited production and requirements before the opportunity to purchase a Birkin bag is the secret of success behind how Hermes has been able to become a successful luxury brand itself and attract customers. Owning a Birkin bag signifies significant wealth, as part of human nature, many of us feel the desire to showcase our wealth and social standing. This need to "flex" and display our success is one of the key psychological factors driving consumers to purchase luxury goods. Owning these items can boost self-esteem and provide a sense of accomplishment.

Another way Luxury brands differentiates itself from trend-driven brands is its heritage. Heritage is an important part of brands as it represents deep-rooted history, craftsmanship and tradition, giving them an authentic and timeless appeal that fast fashion cannot recreate. When we look at certain luxury brands, we are reminded of their enduring history and how they have achieved their iconic status in the market[6]. Their classic designs and styles, which remain timeless due to their historical significance, add to their allure. Consumers are often drawn to these brands because their heritage creates a sense of reliability and trust, making the brand even more appealing and attractive. This strong connection to history and heritage branding sets luxury brands apart, giving them an unmatched sense of authenticity and prestige[7].

Lastly, Luxury brands will not be able to sustain their brand without their exceptional craftsmanship and quality. Hermes's brand philosophy is deeply rooted in "platforms" and "quality"; their brand creates almost all of their products in France where each product is manufactured by hand with only craftsmen. This commitment is also a foundation to which Hermes builds its unique relationship with its clientele. Creative Director Pierre-Alexis Dumas was quoted saying "I think Hermès objects are desirable because they reconnect people to their humanity... Our customer feels the presence of the person who crafted the object, while at the same time the object brings him back to his own sensitivity, because it gives him pleasure through his senses"[8].

All these qualities come together to define the essence of luxury products as we know them today. It isn't purely just a product on the market, it's about the story behind every piece of design, the craftsmanship behind every item, and, not least, the commitment to ethical and sustainable practices [9].

3. Current Challenges in Luxury branding: Moving digital

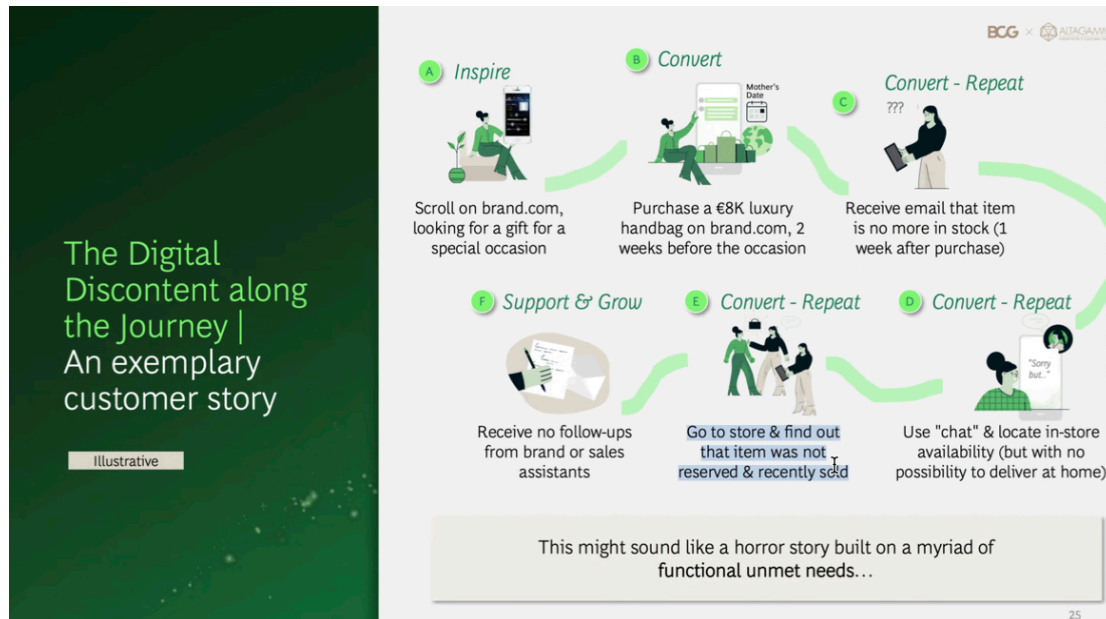


Figure 1: The Digital Discontent along the Journey.

The introduction of the digital world into our lives and how we have become more reliant on it since COVID has raised an issue for luxury brands as many sales have now become online. This digital transformation forces luxury brands to adapt, grappling with the challenge of replicating the immersive, in-store experience online, where customer engagement can be difficult to achieve. Although previous data shows that less than half of luxury brands' customers prefer an online experience, e-commerce has grown rapidly since the pandemic as more and more consumers begin to prefer shopping online. Simultaneously, these brands must navigate the digital landscape to reach new audiences, particularly younger generations like Gen Z who are more receptive to tech-driven experiences, while preserving the exclusivity that defines their brand.

The exclusivity of the luxury retail experience is becoming less important than the convenience of online shopping, fueling the growth of digital luxury marketing and e-commerce. Furthermore, there has been a shift in the customer market, with millennials representing 30% of luxury sales and drove 85% of the market's growth in the past year, marking a significant change from the market's previous reliance on older, more established consumers. This shift highlights the need for luxury brands to adapt their presentation to appeal to younger, more digitally aware audiences.

As luxury brands shift online, maintaining exclusivity and personalization becomes a challenge. Consumers expect convenience without losing the prestige of in-store experiences. This is where generative AI offers a solution, bridging the gap between digital efficiency and the bespoke nature of luxury.

4. Benefits of Generative AI for Luxury Brands

The evolving digital landscape presents both challenges and opportunities for luxury brands. One such advancement is the use of generative AI, which offers a range of benefits for luxury brands looking to enhance their digital presence. By leveraging AI, brands can create personalized shopping experiences, optimize customer interactions, and maintain the exclusivity that defines luxury.

Since the launch of ChatGPT in 2022, some brands have seized the opportunity to explore AI-driven marketing solutions. For example, Burberry uses AI to identify counterfeit items and Prada

uses AI to enhance consumer understanding and boost their marketing efforts [10]. In early 2023, Kering — the parent of brands including Gucci and Pomellato — launched experimental platform KNXT where users meet Madeline, a Chat gpt- based personal shopper. This personalized approach not only enhances the customer experience but also provides invaluable data for Kering. Through interactions with Madeline, Kering can gather valuable insights into customer preferences, purchase history, and desired styles which can help optimize marketing campaigns, enhance customer loyalty and refine product offerings.

To add on, users can also connect their crypto wallets to the marketplace and buy items using the cryptocurrency ETH. By allowing users to connect their crypto wallets, Kering is tapping into a growing segment of affluent consumers who are increasingly interested in digital assets and blockchain technology. Overall, This strategy has allowed customers to experience a new level of personalized engagement and personalized shopping journey, ultimately driving customer satisfaction and brand loyalty.

Essentially, AI should be used to enhance client relationships between consumers and brands. One of the most prevalent aspects of luxury branding is the unique and personalized relationships cultivated with clientele, from offering them exclusive invitations to private events, styling consultations, personalized product recommendations. AI has the potential to leverage its data and insights to enhance and deepen the connection between the brand and the individual. This enhanced understanding can then be translated into unique and exclusive experiences, such as AI-powered virtual try-on tools, further solidifying the brand's appeal.

5. AI and the Preservation of Exclusivity

In the evolving landscape of luxury, AI is redefining exclusivity by enhancing personalization and digital craftsmanship. However, it is also important to not lose the authenticity of what makes luxury brands unique[11]. The key issue here in online luxury retail is where the experience often feels cheap compared to the price paid. Emotional differentiation is crucial, as customers expect a level of service that justifies their investment.

High-end AI chatbots can replicate the attentive service that luxury customers expect, elevating online experiences to match in-person interactions. AI enables luxury brands to leverage consumer data to craft personalized narratives that resonate deeply. This level of personalization goes beyond generic marketing messages, creating a more intimate and exclusive brand experience that aligns with the desires and aspirations of individual customers.

Meanwhile, generative AI also enables brands to co-create digital, limited-edition products with customers, adding a unique layer of rarity and desirability. Unlike traditional mass production seen in fast fashion, AI-driven co-creation enables brands to collaborate directly with customers, tailoring designs to their preferences while ensuring each item remains rare and unique. This level of personalization not only reinforces the brand's prestige but also deepens emotional engagement, as customers feel a stronger sense of connection to the product. Additionally, the idea of limited-edition products resonates deeply with luxury consumers who are drawn to exclusivity and scarcity. By leveraging AI for new designs and collections, luxury brands can maintain their aura of exclusivity while embracing innovation[12].

"If we develop an AI application for clients, it must meet our level of excellence and luxury experience. The challenge will be ensuring that AI-driven clienteling feels just as personal and authentic as our traditional high-touch service." [13] This is achieved by making sure that the AI is used in a discreet way to enhance the brand offerings instead of overtaking and overshadowing what makes a luxury brand stand out. According to Toppan digital, Dior has done this by using AI interactive chatbots to personalize communication and create a fun experience for consumers[14].

6. Challenges and Considerations

Moving forwards, there are some challenges and considerations that may arise with the use of GenAI in luxury branding. One of the main issues being the concerns about data privacy and ethical use of customer information. Leveraging information such as time spent looking at a certain product, or time spent browsing on websites created specifically targeted ads may make consumers feel uneasy. This could erode trust and undermine the very exclusivity that defines the luxury experience. According to recent data, 50% of luxury brands are using or testing AI for personalized content creation[15], and while this strategy may bring a personal factor that attracts customers it is important for brands to not overdo it which may provoke the “creep factor” with AI among consumers. As a result, Luxury brands must prioritize transparency, ethical data practices to find a well balanced approach in marketing.

Continuing this discussion, luxury brands must prioritize strategies that leverage AI while maintaining the unique customer experiences that define true luxury, ensuring that the introduction of technology does not diminish the exclusivity of their brand. To add on, with more and more luxury brands adopting GenAI into their marketing strategy, it is important to note that there’s the risk of commoditization if AI is not used thoughtfully. If every brand employs similar AI tools and strategies, it could lead to homogenized offerings, eroding the uniqueness that sets luxury brands apart.

7. Conclusion

Despite all this, new genAI can bring in many transformative opportunities for luxury businesses as well as challenges. AI, when used thoughtfully, can greatly enhance a luxury brand’s image through personalization, optimizing marketing strategies and redefining exclusivity in a digital landscape. Success from luxury brands is deeply rooted in carefully curated customer experiences and a deep connection to brand identity.

That being said, maintaining authenticity remains predominant. New GenAI driven marketing and branding techniques should not dilute the true essence of luxury branding. Luxury brands must carefully integrate AI to avoid overstepping boundaries such as data privacy and creating an overly artificial experience. The key is to find a balance between leveraging technology and preserving the brand's heritage and human touch.

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