

The Changing Face of  
Luxury Retail 2016



# The Changing Face of LUXURY RETAIL in an Online World



## The Omnichannel Luxury Challenge

Modern consumers expect a consistent shopping experience across all channels in return for their business and loyalty. They want relevant, interactive and targeted experiences when, where, and how they choose, whilst at the same time expect a superior level of customer service.

For luxury omnichannel retailers this means offering customers a variety of experiences and ways to buy, including in-store (bricks and mortar), eCommerce (online shops), mobile, social and call centre (pre-sale and post-sale) customer service. Luxury brands want to be known for being the best when it comes to quality, cutting-edge fashion, customer service and exclusivity.

The shift to omnichannel retail from “bricks-and-mortar” means more channels, more devices, across which this high-quality, service-led, brand experience must be consistently communicated.

Whilst full of opportunity, this transition is not without its challenges: A surprising 40% of high end brands still don't sell online, according to Bain & Company. Historically, luxury brands have been hesitant to make the leap online, with fear that it conflicts the traditional, luxury retail experience – lacking intimacy, personal touches and exclusivity. Instead, they've opted to follow their strategy with bricks and mortar retail, particularly in emerging markets such as China (Bloomberg, 2016). However, BNP Paribas estimate that the shift to eCommerce could bring £43 billion between now and 2020.

The success of luxury ventures such as Farfetch and Net-a-Porter demonstrate that not only are consumer's eager to buy luxury products online, but they also have the desire to spend regularly – with Farfetch recently launching same-day delivery to fulfil last minute shopping needs.

We identified 100 luxury retailers in the UK and scored each against key criteria for a 'luxurious' online experience including:

- Luxury editorial 'look & feel' to their content
- Content driven commerce within the last 3 blog posts
- Delivery Options include 'Click & Collect'
- Promote a 'Gift Wrap Service' or offer the same stylist packaging as in store.
- Promotion of private views and or/ VIP events
- The ability to book a personal shopping session
- LiveChat
- Customer service available through a call centre 24/7, or 7 days a week.
- Price range of products available online

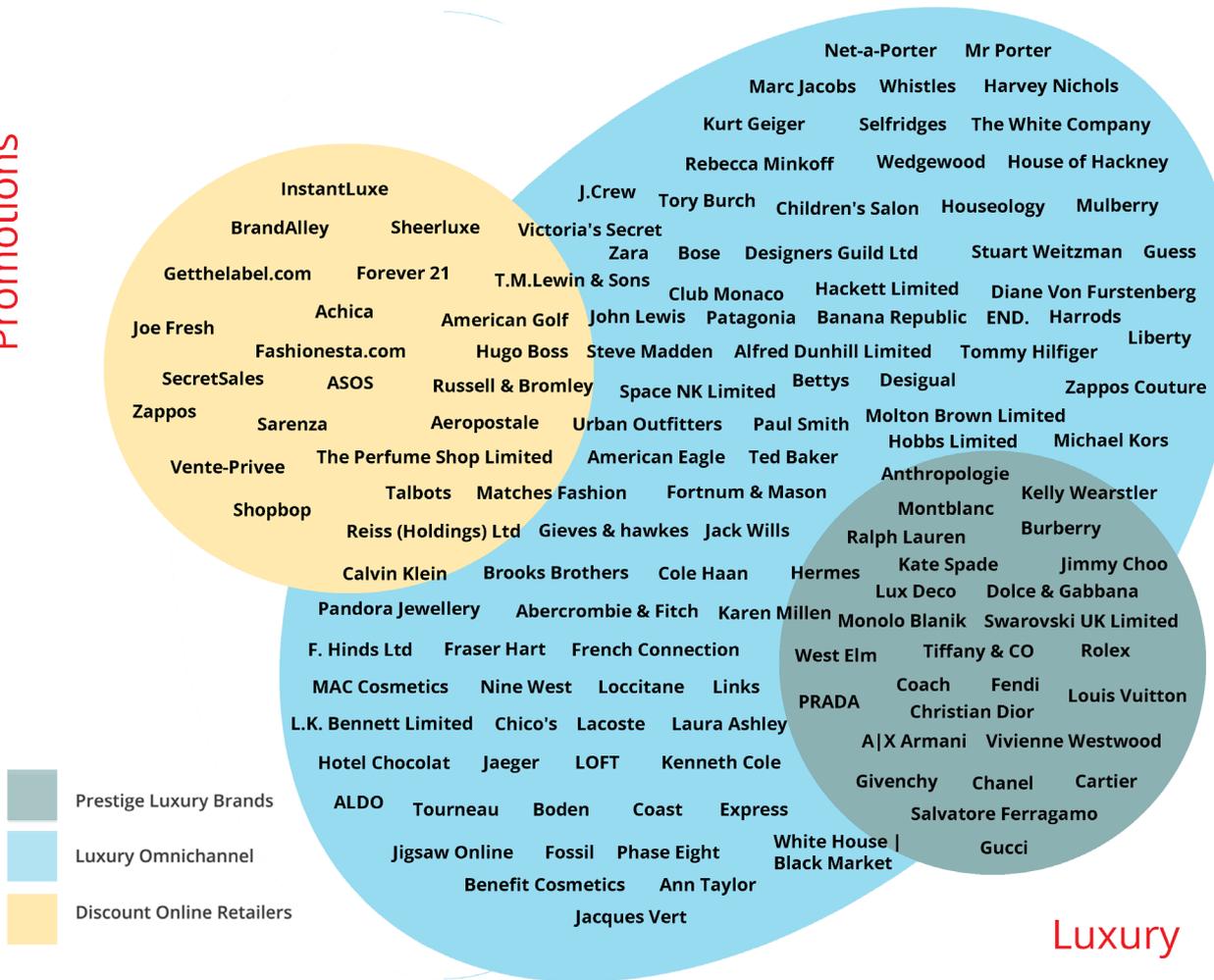
Following this research we have established 3 distinct consumer groups and outlined 5 examples of Luxury Brands in Digital who are managing to replicate a 'luxurious' customer experience online.



In the UK, quality is even more important than it is for the average global consumer with 89% rating it their top priority. (Marketing Week, 2015)

## Luxury Retail Groups

Promotions



Luxury



Millennials, remain the key demographic for online commerce, spending more money online than any other age group. Despite having a typically lower income than older adults, Millennials spend around \$2,000 annually on e-commerce.

## Traditional Luxury Consumers

Walking into a bricks and mortar retail store, the traditional luxury buyer will expect exceptional customer service from the moment they step foot through the door. This customer will usually rely on the trusted expertise of the sales assistant whose style and product knowledge reflects the values of the brand. These consultants usually play a big part in the shopping experience. Often serving you an expensive glass of champagne while your products of choice are carefully gift wrapped, perfumed and tucked away in a beautiful, glossy bag.

Feeling proud of your new purchase, you exit the store with your branded bag in hand, on a bit of a high. Luxury Retailers that meet 'traditional' consumer expectations focus on quality materials, superior craftsmanship and a luxurious buying experience that transform everyday objects into status symbols.

Previously Traditional Luxury Buyers have focused on exclusivity, however in the UK, quality is even more important than exclusivity - it is for the average global consumer with 89% rating it their top priority. (Marketing Week, 2015)

## The Luxury Digital Buyer

Nicola Sandri, Associate Principal at McKinsey & Company confirmed that digital tools and technologies are revolutionising both transactions and marketing of the luxury retail market. **Digital now influences 44% of all luxury purchases (online & offline)**, as 75% of luxury consumers are now connected via smartphone or tablet. With the digital world growing at such a fast pace, online sales opportunities are increasingly important for global luxury goods.

The overall market is expected to grow at 5% between 2012-2018 whereas luxury eCommerce sales are forecast to increase by 18% over the same period.

These digitally, savvy customers enjoy the benefits of the web, with immediate access to lifestyle inspiration in the form of articles, reviews, comparisons and recommendations. These consumers often start the buying process online, or via printed media and complete the purchase in-store or online.

Luxury retailers that target this demographic need to have a joined-up approach when promoting the brand across all of its marketing channels. Often this group is trend setting or at the forefront of fashion, they want to buy direct from the 'official' brand and appreciate personalised marketing communications that provide a truly 'tailored and personal' experience across all marketing channels.

## Budget Buyers

Over recent years there has been a shift in shopper's perception of value with many desiring discount premium brands over budget goods. It shows a huge growth in spend on discount eCommerce sites such as Instantluxe, SecretSales and Vente-Privee.

Recent research from Barclaycard reports that more and more shoppers are squeezing their budgets for essential purchases and are spending more on treats and luxury goods. It's understandable then why consumers have very high expectations and when making these high-value, purchase decisions. With lower prices online – this method of buying certainly has extra appeal. Consumers are savvy about the deals they can get, some looking to 'pre-owned' designer sites, some visit designer outlets and others wait for flash sales or promotions online - direct from the brand's eCommerce site, 3rd party affiliate sites and in-store.

People who want to be cutting edge of fashion might buy pre-season [at full price] but more and more people wait for the drop of a new season so they can get 'exclusive' luxury goods at reasonable prices.

## HENRYs

Luxury brands can seize opportunities with customers one notch below the traditional luxury demographic with HENRYs. HENRYs are defined as 'High-Earners-Not-Yet-Rich', they are predominantly males aged 25-34 with a house hold income of £100,000 – £250,000.

Like the broader group of millennials, HENRYs live on their digital devices and because of their higher incomes and desire for the very latest and greatest brands and experiences, HENRYs are fast becoming the much sought after consumer group of luxury brands.

This relatively new group of consumers often make sacrifices in overall household consumption for their luxury goods so as a result, are more careful about where and what they spend their money on.





**HENRYs are defined as 'High-Earners-Not-Rich-Yet', they are predominantly males aged 25-34 with a house hold income of £100,000 – £250,000. According to Bain & Co, men now make up 40% of the luxury market.**

**The growth of the men's luxury goods market reached more than \$81 billion in 2014, and is set to hit \$110 billion by 2019.**

## The HENRYs Effect

One of the key drivers behind the burgeoning value of online luxury retail, and the subsequent shift in attitudes from the retailers, is the emergence of the High-Earners-Not-Rich-Yet (HENRY) consumer demographic. This demographic is predominantly male, aged 25-34 with a household income of £100,000 to £250,000, desires exclusive goods and demonstrate many of the behaviours of other millennials including relying heavily on digital devices. According to McKinsey this new group of consumers were one of the key reasons that digital touchpoints influenced 44% of all luxury purchases last year.

Tellingly, a key difference between this new group of consumers and the traditional luxury shopper is that they often make sacrifices in overall household consumption to fund their luxury purchases and as a result, are more careful about where and what they spend their money on. However, according to the Robin Report, while they spend half as much on luxury purchases when compared to the ultra-affluent, there are three times the number of HENRY households than ultra-wealthy creating a sizeable new market. When taking this into consideration, it becomes clear to see why an increasing number of luxury retailers are not only starting to offer discounts on their homepage, but are seeing eCommerce as a key component of their business.

A clear shift in the demographic of luxury consumers is visible, bringing a younger clientele who expect a seamless digital experience both in-store and online. Brands who are worried about retaining some exclusivity can still build an online presence by limiting their online ranges and offering their most coveted and expensive pieces in store only – a concept that has been successful for Hermes.

This fresh generation of luxury consumers will bring about a new era in luxury retail, with a clientele that expects a seamless digital experience both in-store and online. The sector, which until relatively recently was resistant to digital transformation, will not only have to deliver an eCommerce offering but also optimise it for a range of additional platforms, including mobile and social.

In short, it will have to excel at omnichannel retailing to deliver fast, exclusive fashion if it's to realise the true value of this emerging and growing new consumer group.

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## Mobile & UX - Jimmy Choo

Jimmy Choo get first prize for mobile usability and UX. As mentioned, it can be difficult for luxury brands to replicate the high-end experience of shopping in-store on an eCommerce site – and this can be even harder on the small screen of a mobile device. Unlike other omnichannel or high-street retailers where discounts are a priority, a focus on the quality, eye-catching imagery and exclusivity are vital.

Jimmy Choo succeed in having lifestyle imagery of models on desktop and close-up imagery on mobile – helping to convey the detail and quality materials.

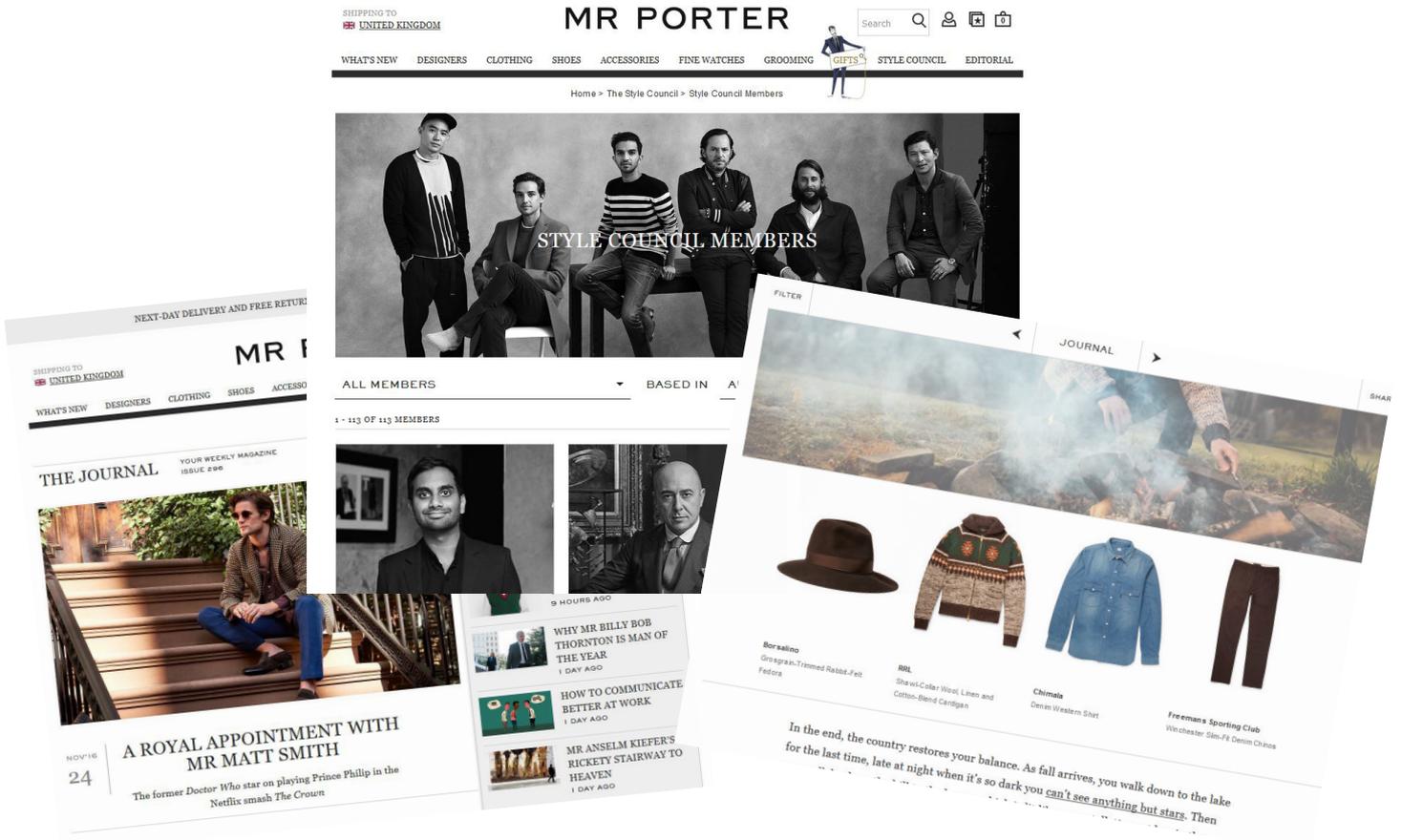
Overall the navigation is simple and easy to use with filters for product type, size, colour and heel height. They also use understated call-to-actions such as ‘have you met our newest bag?’ Whilst Jimmy Choo steer clear of outright sales promotions – they do offer free shipping on all orders clearly at the top.

A surprising number of luxury brands fail to offer the ability to find a store – which is obviously important for all user regardless of channel. Jimmy Choo offer geolocation technology to fine the nearest store automatically or by postcode. What’s more, there’s an option to filter by store type and collection. This is great for mobile users who are goal-oriented, in a hurry and ‘on -the-go’.



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## Content Driven Commerce - MR PORTER

In last year's report we outlined MR PORTER as one of the leaders in the luxury end of the market. This year we've decided that MR PORTER deserves the stay in the top spot as one of the leading luxury brands to aspire to, given their ability to meet the needs of this new emerging consumer market (HENRYs). They excel at offering fast, exclusive fashion, a high-end editorial feel, useful advice with inspiration content, a clean interface, excellent customer service and fulfilment options.

Pure-play e-tailer, MR PORTER has reimagined the luxury eCommerce experience for men in the form of their weekly online magazine, 'The Journal' and 'Style Council' which focus on editorial content features that integrate online and offline content and commerce to inspire, educate and entertain.

MR PORTER's 'Style Council' recommend the best travel and style tips including exclusive hotels, bars and restaurants to visit from around the world. Their members often include famous contributors that bring industry, style and gravitas helping MR PORTER achieve their objective to become **the trusted destination for men's style online**. What's more, MR PORTER integrate their product inventory into all their style council posts and editorial issues to make sure that the followers of the blog can seamlessly go from reader to shopper in a rather beautiful and seamless way.

According to MR PORTER's Senior Performance Strategist Matt Pollington, **"The average order value for someone who visits our 'The Journal' is higher than a non-reader. Therefore, we want to make it as easy as possible for consumers to go from content to product to basket, and achieve true content and commerce integration."**

As the distinction between luxury brands and fashion editors / publishers are becoming increasingly blurred, so has the line between content and commerce. This year's report reflects this trend given that **69% of the luxury brands researched now implement content-driven-commerce – up 10% on 2015.**

As consumers are becoming more and more demanding, expecting retailers to present them with more than just a product, but an entire lifestyle to go along with it, luxury retailers should understand that content and commerce must seamlessly intertwine if they're to deliver enjoyable, friction-free, customer experience.

The high-end men's fashion site Mr Porter feels like a beautiful online magazine, rather than a retail destination. By layering promotions and products under editorial content— how-to tips, video manuals, photo spreads, a weekly journal and call-to-action messaging — the site creates an immersive digital experience. In addition to this, they have personal shoppers and fashion advisors available 24 hours a day, every day of the week. Everything you'd expect from a luxury retailers – but online!

## Packaging is the most important part of the customer journey

Whilst online shopping has encouraged retail brands to embrace new formats that re-energise the four walls of their retail space - often turning to lifestyle magazines and galleries for inspiration to create innovative spaces where the virtual and physical worlds collide.

This new wave of thinking about traditional bricks and mortar stores has given rise to a surge of retail brands experimenting with concept stores, and this is no longer just the case for the Luxury industry.

But what about the consumers who never set foot in these high-end concept stores? The Digital Natives? HENRYs? Or those who simply prefer the convenience of mobile's 'low touch luxury'....?

**Arguably, the most important part of the customer experience comes down to packaging.**

In many cases, this may be the only truly emotive interaction the consumer has with the brand when they've purchased online. Ultimately, the packaging can have a huge influence on the customer experience. It goes without saying that your packaging needs to be solid and luxurious enough to get to its end destination without a dent or scuff in sight.

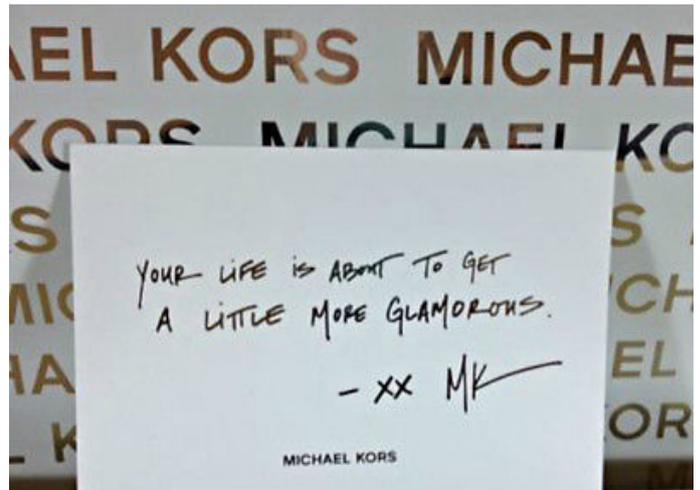
**According to Accenture, "93% of women are likely to purchase again from a retailer whose product arrives in a unique, branded or gift-like box".**

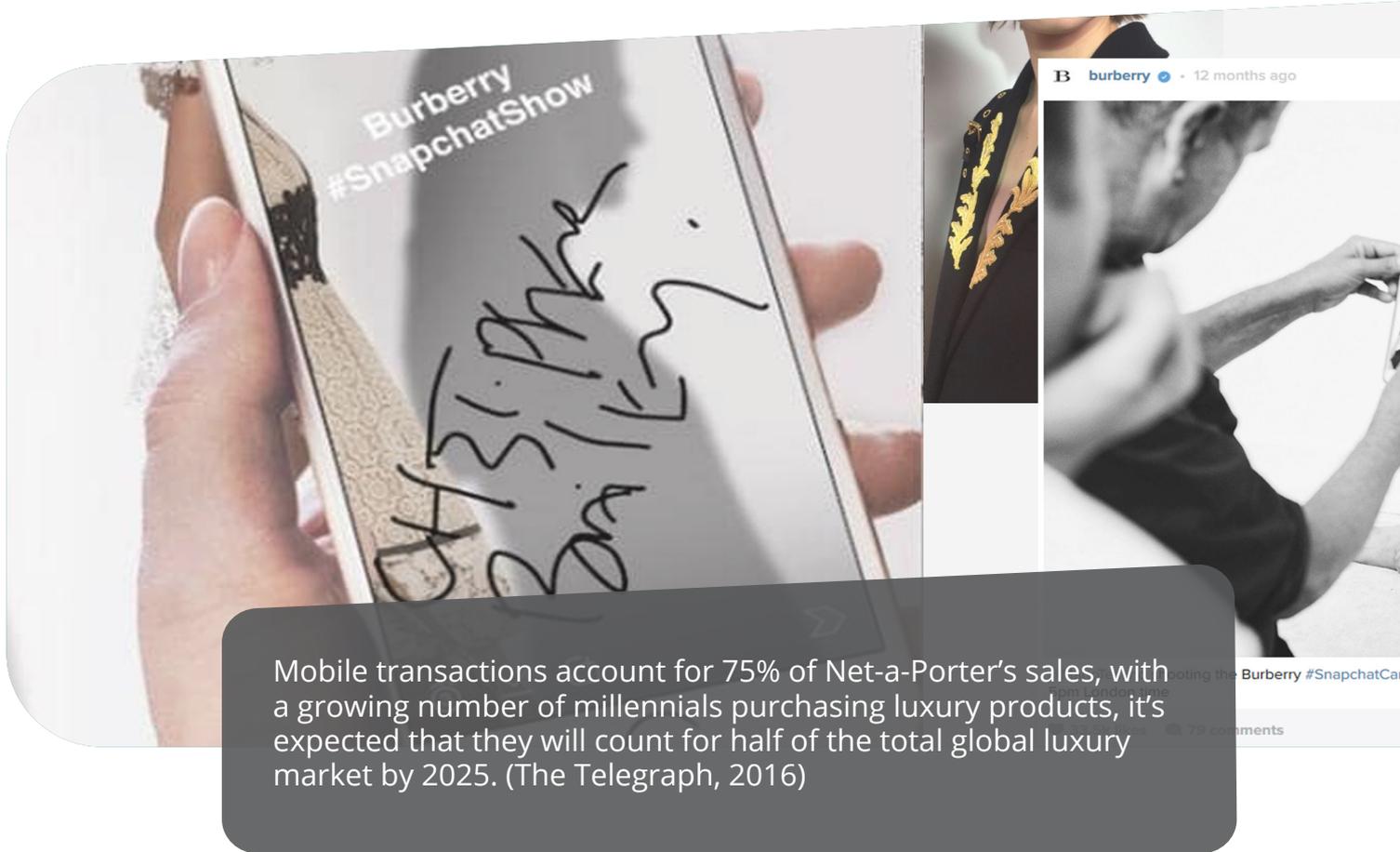
Many boutique and prestige luxury brands understand that first impressions count. Their packaging doesn't fail to communicate the values of the brand. Boxed up immaculately with a personalised gold embossed letter and consistent branding throughout.

Yet many still fail to understand the basic, emotive quality of packaging, opting instead to send out crumpled plastic bags - that communicate the opposite, cheapness and disposability.

Consider what a positive impact the following could have on your customer's opening experience:

- Limited editions and personalised packaging
- Durable or reusable packaging
- Authentic craftsmanship that reflects the values of the brand
- Print design and packaging that has a consistent use of branding throughout the opening of the box





Mobile transactions account for 75% of Net-a-Porter's sales, with a growing number of millennials purchasing luxury products, it's expected that they will count for half of the total global luxury market by 2025. (The Telegraph, 2016)

## A Luxury Experience in a Digital World

With online luxury sales growing four times faster than offline sales, luxury brands need to consider how they are going to evolve and operate in a digital world. This industry, which traditionally relies on personal face-to-face experiences has to master the concept of providing exceptional customer service online.

Embracing this new digital reality calls for a complete shift in luxury brands' approach to engage with consumers.

Social Media gives brands the key to unlock information about existing and potential customers. Carefully monitoring and analysing online interactions gives luxury brands the chance to gain deeper insight into what consumers do and don't like as well as an understanding of who is talking about the brand. Doing so gives these brands knowledge of topics of conversation and allows improved targeting for certain groups.

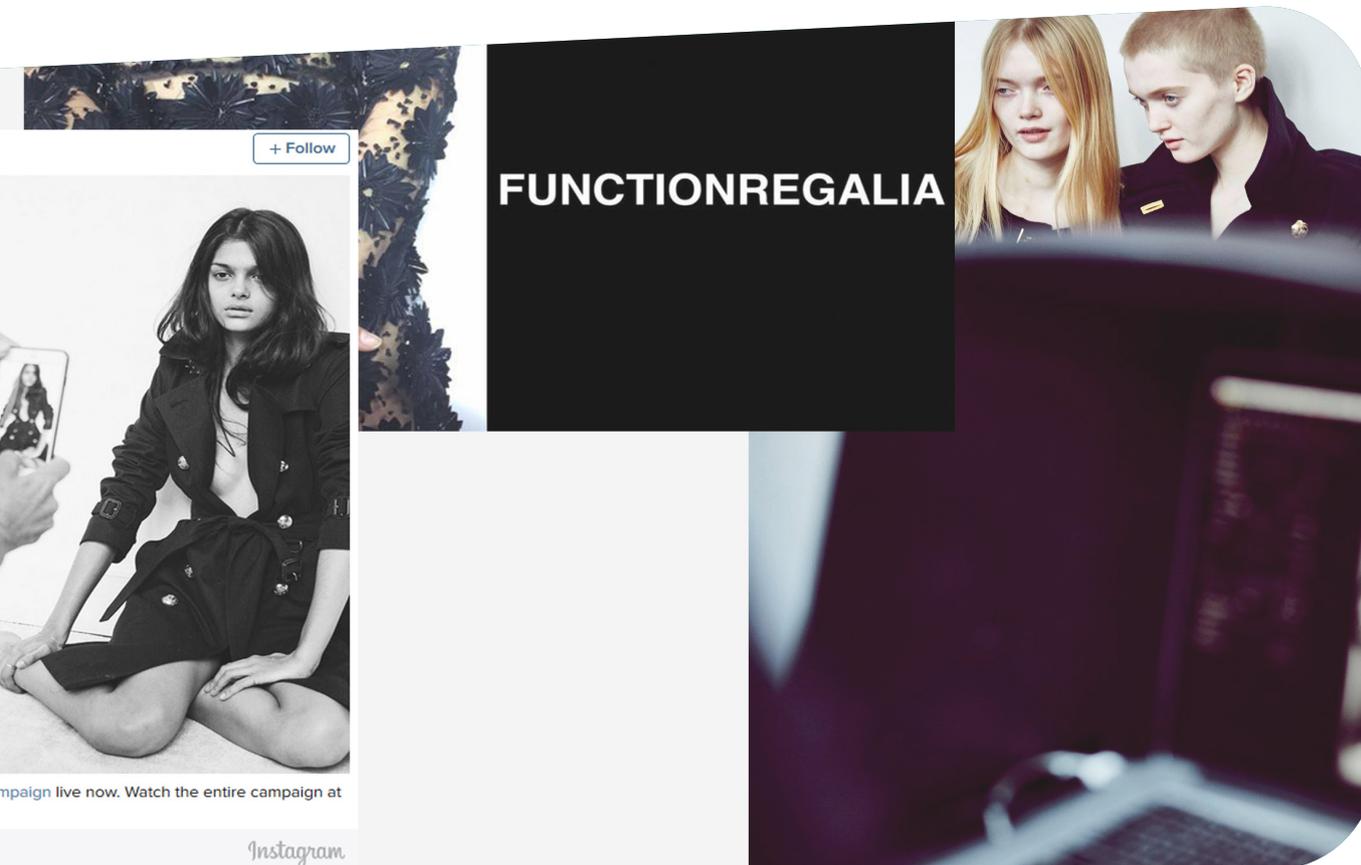
## Burberry as a Digital Brand

Burberry's digital offering has contributed its retail revenue grow by 14% to reach £528m over the last Christmas quarter.

With a goal of bringing customers closer to the brand, Burberry have encompassed digital as a core component in how the business reaches consumers. The use of Social Media is now a frequent channel Burberry use to connect with their audience. Ahead of London Fashion Week 2016, the brand used Snapchat to reveal their Spring/Summer collection through a series of storytelling snaps making them the first ever luxury brand to reveal its collection before their London Fashion Week slot.

When launching a new male fragrance 'Mr Burberry', Burberry were also the first brand to use 'Snapcodes' to give in-store visitors access to exclusive online content; building a bridge between the digital and physical world. (Arthur, 2016)

Burberry's digital strategy has not only put it at the top of the fashion luxury category but amongst top players within the multi-channel space. (Marketing Week, 2015)



## Mobile “Low Touch Luxury”

According to a recent research report from L2 Insights, Mobile has continued its penetration into all aspects of consumers’ lives making it critical to a brand’s digital strategy. Mobile is especially important for luxury brands, completely trumping early predictions that digital platforms would not impinge on the high-touch, in-store sales experience of luxury consumers. The more affluent they are, the more consumers are likely to own mobile devices and rely on them for product research and purchase; this is especially true for younger “emerging affluents”. (L2 Research 2016)

### **Convenience, accessibility and independence from sales representatives have become the new hallmarks of “low touch luxury.”**

A review of prestige Beauty, Fashion and Watches & Jewellery investments in mobile show that while luxury brands have increased investments, there are missed opportunities for fully integrating mobile into the overall digital strategy. With one out of three digital consumers using multiple devices during product research and purchase, consistency of brand and user experience across platforms is expected.

Nevertheless, many brands have a drop-off in e-commerce enablement as well as functionality across mobile and tablet site experiences. (L2 Research 2016)

This increase in m-commerce has changed consumer behaviour in store, online and through social media - 79% of mobile and tablet owners state that they have purchased a product using their mobile device. Through the adoption of in-store crossovers such as Click and Collect, retailers are now able to combine online, offline and mobile to provide customers with a truly omnichannel approach so they can now shop whenever, wherever and however they like.

Asos are an example of a brand that has reaped the benefits of ‘low touch luxury’ when they launched their mobile eCommerce application. In the first 6 months it was downloaded 3.2 million times and 50% of Asos sales are currently made using mobile device. (Wishpond, 2015)

In the Episerver Mobile Commerce Report John Lewis ranks as the highest scoring U.K retailer for overall Mobile experience. Having received scores of at least 8/10 in each category, luxury brands can learn from John Lewis by offering a great experience and brand consistency across all devices.

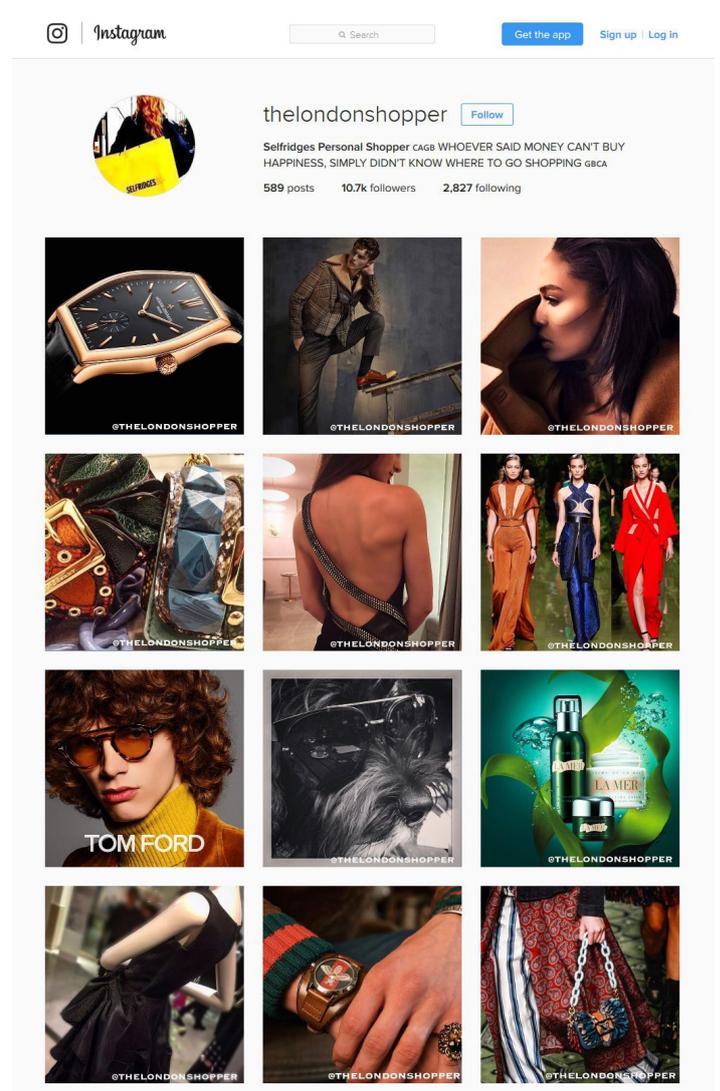
## Selfridges: Denim Studio

As a omnichannel retailer dealing in the luxury end of the market, Selfridges is working to create an immersive and digital experience both online and in-store.

Their Denim Studio is a 26,000 square foot retail space dedicated solely to denim. This includes the 'jeanius bar' - a 6ft interactive display that allows customers to sit back and look through jeans; a very unconventional way of browsing in store. Instead this links more to the style in which we browse the internet for clothes. Their aim is to create a comfortable experience that improves brand perception by using digital to enhance the sales experience.

Combining the ease of browsing several products online with the 1-2-1 sales experience gives in-store gives customers a rounded and enhanced shopping experience.

Social Media has transformed the way brands reach potential and existing customers. This is especially visible through Selfridges' personal shoppers who are building online profiles to attract clients. The London Shopper has over 10,000 followers on his Instagram page where he promotes products that ultimately attract and inspire people to shop. Customers not only have access to sales advisors in a completely new way, it also gives sales associates the opportunity to reach and attract a larger group of clients.



Selfridges recently unveiled their new app with a built in 'shoppable Instagram feed'. 60% of customers access the website from a Mobile device, increasing to 70% on Christmas day so Selfridges have created an innovative and sleek app allowing easy shopping access at any time. Branded as a 'pocket sized Selfridges' the app is social media friendly with several options available for personalisation. The tailor-made app allows customisation of favourite products and brands with the intent of delivering 'personalised style inspiration'. The new app mirrors, in both features and design, Selfridges website with sleek magazine style content.



In a continued attempt to blur the lines between digital and in-store experiences, Selfridges recently launched their latest creative project 'The Body Studio'. Capitalising on the wellness trend, the new in-store and online department was launched based around lingerie, hosiery, swimwear and sportswear. Making a deliberate move from traditional advertising, Selfridges used videos as a way of creating conversations and promoting core emotional responses – 'Incredible Machines' is a short film used to promote the campaign and sets a different tone to the usual sexualised lingerie advertising.

With this, a unique in-store space was introduced focused on experience rather than brands this includes a 'Fit Studio', 2 beauty rooms, a hair salon and a healthy eating café.

Overall these new retail formats provide shoppers with a unique, luxurious and enhanced customer experience which Selfridges aim to mirror online via their interactive digital platforms. Showcasing products, recipes and interviews using editorial design similar to that of a lifestyle publications rather than a traditional commerce-led website. (Econsultancy, 2016)



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## The Shift in Luxury Retail Online 2015 vs 2016

As mentioned previously, luxury retailers have been hesitant to take the leap online fearing that it will conflict with the traditional luxury experience – lacking intimacy, personal touches and exclusivity. However, this year's report showed signs that the sector is starting to invest more heavily in omnichannel retail.

- **68% now offer discounts and promotions on the homepage – up by 33% from last year**
- **69% now deliver content driven commerce - up 10% on 2015**
- **42% of luxury retailers have a click and collect offering – down slightly by 3% from last year**
- **62% now offer luxury gift wrapping on the site – a 15% increase from 2015**
- **74% now have a visible customer contact centre online – an increase of 49% compared with 2015**
- **25% now also have a 'Live Chat' facility**

The rise in the number of luxury retailers offering discounts and promotions on the homepage was particularly interesting as it would seem to indicate that the sector is shifting its focus away from using 'high cost' as a symbol of exclusivity and investing time and resource in ways to deliver a luxurious customer experience digitally and tailor their offering to a wider target audience. This is hardly surprising, given recent estimates that luxury retailers successfully moving online could generate an additional £43billion in transactions between now and 2020.

## Key-Takeaways

Given the large number of different markets, it's never been more important to identify where groups of markets and consumers share common characteristics. You need to understand your audience and in turn tailor your offering to suit.

> **Provide Choice and Control** - whilst maintaining exclusivity by limiting the online range and offering the most coveted and exclusive pieces in store only.

> **Low Touch Luxury** – use content, tools and digital devices to help those who want convenience accessibility and independence.

> **Personalise Experiences** – know your customer and provide tailored customer service – be this online with content driven commerce, in showrooms, personal shopping, online chat, VIP event and social media interactions.

> **Share, and let them share** – share insight into your products, heritage, knowledge, opinions and experience.

> **Brand Consistency** – is key across every channel from your store, online, mobile, social, call-centre, delivery through to the print design and the 'opening' experience.

> **Meet 'Unboxing' Expectations** - with luxurious packaging that reflect the values of your brand. Higher expectations in the 'opening' experience often result in a better customer experience.

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## **ABOUT US**

Founded in 1972, Maginus has built a solid reputation as a trusted partner for leading wholesale and distribution, ecommerce and omnichannel retail businesses. We have a solid track record of delivering innovative technology solutions and customer service.

## **WHY MAGINUS?**

We believe that Maginus is the only UK organisation able to deliver Enterprise-Level Omnichannel Solutions from a single team of people.

Built up over 40 years, our skills and capabilities stretch from eCommerce, Order Management, Back Office, Call Centre, POS, Hosting to Digital Marketing Services.

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These include: Innovation, Integrity and Long Term Thinking.

## **WE DELIVER THREE CORE SOLUTIONS:**

Maginus OMS (Order Management Software) for organisations in Wholesale and Distribution or those dependant upon Direct Commerce techniques (Call Centre, Catalogue, Email and Online).

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Microsoft Dynamics AX is our solution for Premium Brand Retailers with multiple sales channels and logistic operations.

## **WE COMPLEMENT OUR CORE SOLUTIONS WITH:**

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