



# Cutting through the noise of the metaverse



# Key take-aways

- 1** The interest in the metaverse has surged worldwide, including in Switzerland which follows the related global trends.
- 2** In Q1 2022, the interest in the metaverse shifted from Google search to social media, where the consumer is driving the conversation and making it into a consumer-centric topic.
- 3** The assets, enabling capabilities, and processes of the metaverse still need to be made more dependable and effective, especially for businesses such as luxury goods where customer experience is a key success factor.
- 4** Uncertainty about the value proposition, cryptocurrency volatility, and lack of data security pose high risks for luxury brands and consumers when venturing into the metaverse.
- 5** Market level: The metaverse is building its own economy and challenging long-established corporate competencies.
- 6** Company level: Board and C-level education, a comprehensive strategy, and talent identification shall be considered when venturing into the metaverse.



To capitalize on any concept, the business must first address the following question: “How do consumer requirements convert into commercial opportunities, and what are the facilitators for this exchange?” In this article, we focus on the perception of the metaverse in Switzerland and discuss how ready the metaverse’s proposition and processes are to serve the luxury goods consumer. We also discuss the possible advantages of consolidation and lay out the actions a business might take to enter the metaverse.



# The asset challenge

## The proposition of the metaverse, which is dominated by male audience, is not yet matching the expectations of a luxury consumer

The metaverse originates from a thriving gaming market which was valued at USD 178.37 billion in 2021 and is expected to reach USD 268.81 billion in 2025<sup>1</sup>. Currently, female gamers account for 45% in the US and 40–45% in China, while China is the leading market of the gaming industry<sup>2,3,4</sup>. The number of female gamers started to rise in the 1990s with the introduction of female characters in games; however, the growth has been slow<sup>5,6</sup>. The research further suggests that the gaming experience is less satisfactory for women than for men since the gaming industry has promoted and continues to promote male gender-typical behavior.

The experience in the metaverse seems to follow suit, with women showing less interest compared with men. According to a March 2022 study, 50% of American women who use the internet say they have no interest in utilizing the metaverse, compared with a much smaller figure of 35% of the men who were surveyed<sup>7</sup>. Switzerland also seems to be aligned with the trend of the gender ratio breakdown – males account for 78% of the social engagement in the country about the metaverse while females account for 22% (KPMG sentiment analysis, 2022).

Furthermore, 49% of news articles published in Switzerland relate to technology and investment, whereas non-fungible tokens (NFTs), art, fashion, and luxury account for only 9.5% (Exhibit 1). These findings suggest that the proposition in the metaverse needs to be shaped and expanded to be more closely associated with luxury and luxury experience and to appeal to a wider range of consumer segments.



**In Q3 2021, the metaverse gained traction in various industries. Research on interest in the metaverse suggests that it is already gaining ground and has become consumer centric. (Quid analysis, 2022)**

Exhibit 1:  
**News analysis of the metaverse in Switzerland**



<span style="color: red;">■</span> Cryptocurrency-related technology, trends and investments	<b>26.0%</b>
<span style="color: orange;">■</span> Metaverse and NFT-related launches/collaborations	<b>23.0%</b>
<span style="color: yellow;">■</span> Metaverse exhibition/art/fashion/luxury	<b>9.5%</b>
<span style="color: brown;">■</span> Prominence of crypto at WEF (Davos)	<b>8.4%</b>
<span style="color: green;">■</span> NFTs and cryptocurrencies in the watch industry	<b>8.4%</b>
<span style="color: darkgreen;">■</span> Advancements, partnerships and management	<b>6.1%</b>
<span style="color: magenta;">■</span> NFT automotive market trends	<b>5.7%</b>
<span style="color: purple;">■</span> NFT auctions	<b>5.1%</b>
<span style="color: blue;">■</span> Metaverse fund	<b>3.8%</b>
<span style="color: cyan;">■</span> Metaverse automobile concept	<b>1.1%</b>
<span style="color: lightgreen;">■</span> Crimes and punishment in the metaverse	<b>0.9%</b>
<span style="color: pink;">■</span> Crypto bank/Digital asset bank	<b>0.7%</b>
<span style="color: darkblue;">■</span> Mixed reality technology	<b>0.5%</b>
<span style="color: lightblue;">■</span> Sports updates	<b>0.5%</b>

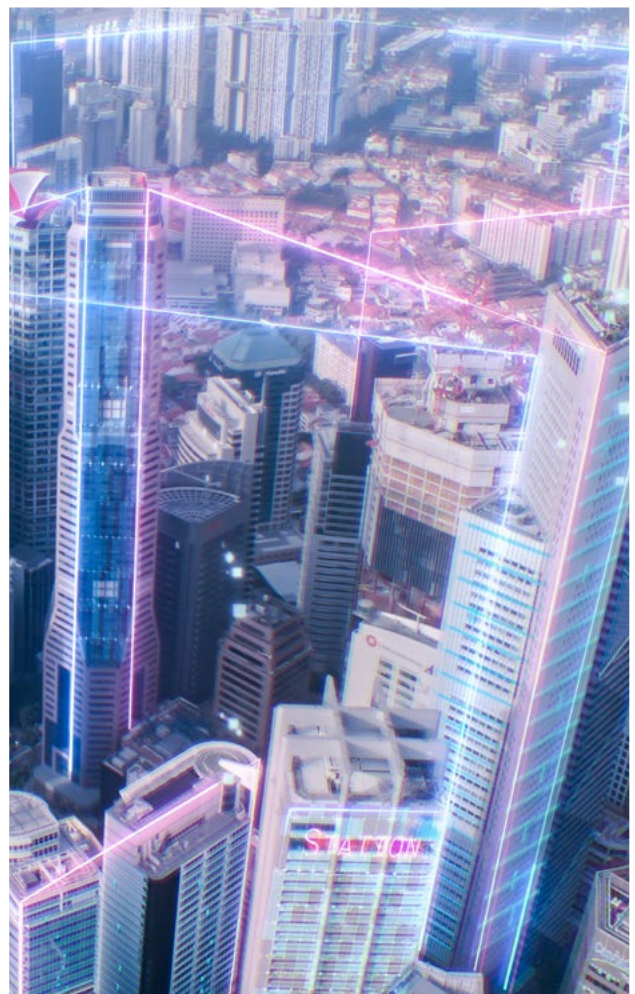
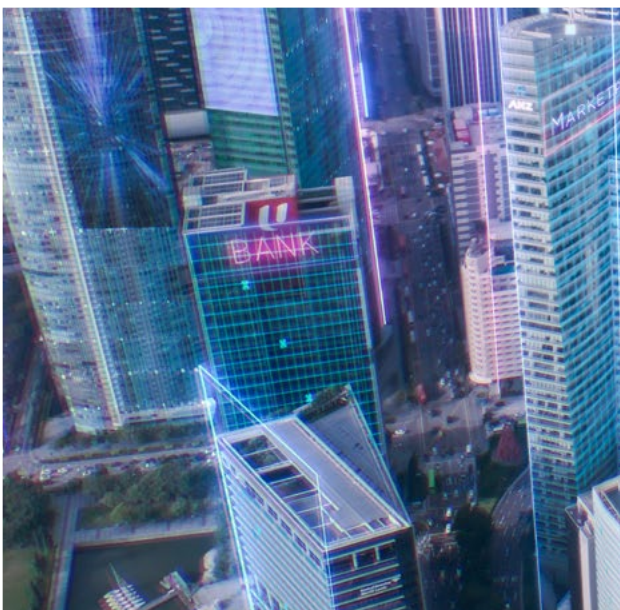
# The value challenge

## Value is still ambiguous and imposes risk for luxury brands

People can display digital forms of art and property in the metaverse, and NFTs allow them to price that content with proof of ownership. However, establishing the price of an item before understanding its value and sentiment can backfire. For example, the 50% decline in the value of Bored Ape Yacht Club NFTs raised concerns over the economic system of the metaverse<sup>8</sup>. Yet some global luxury apparel companies would sell branded virtual clothes for as little as USD 5<sup>9</sup>.










A luxury brand that launches its product below the maximum potential price not only forgoes significant revenue but also anchors the product's market value position. Once the price hits the market, it is difficult, if not impossible, to raise it without upgrading the value in exchange. Furthermore, the cryptocurrency volatility experienced in 2022 adds to the question of how much the metaverse is really worth<sup>10</sup>. Among these and other challenges, rules of how to apply the taxation system for VAT remain unclear, as how to classify a provider's location remains a question too.

Price disparity across channels creates doubts about the brand's authenticity and ethics, which can adversely impact its reputation and value. On the other hand, KPMG research (Exhibit 2) shows that innovations linked to the metaverse and NFTs impact a company's value, making it even more crucial to address these issues. Luxury companies such as Burberry, Kering, Richemont, and LVMH saw a rise in their share prices after announcing their foray into the metaverse.



# The value challenge

Exhibit 2:  
Share price movements<sup>11</sup>

Company	Metaverse news	Share price (CHF) analysis <sup>(a)</sup>
	20 Jun 2022: Launched a second set of NFT under Blankos Block Party in partnership with Mythical Games	<p>17 Jun 2022: 19.2  Δ: 1.3%</p> <p>20 Jun 2022: 19.4</p>
	<p>27 May 2022: Launched Gucci Town on Roblox</p> <p>03 Mar 2022: partnered with 10KTF to launch Gucci Grail NFTs</p>	<p>26 May 2022: 482.1  Δ: 3.9%</p> <p>27 May 2022: 501.0</p> <p>08 Mar 2022: 542.0  Δ: 9.8%</p> <p>09 Mar 2022: 595.4</p>
	16 Apr 2022: Company's blockchain tech lead, at European Blockchain Convention, spoke about building the Consortium and aspects of public Blockchain, as the company's app Ethereum NFTs. Furthermore, the company might consider NFT luxury items for games	<p>14 Apr 2022: 119.5  Δ: 0.1%</p> <p>19 Apr 2022: 119.6</p>
	16 Mar 2022: Launched its first virtual ambassador, integrating itself into the metaverse, to deliver speeches at VivaTech	<p>15 Mar 2022: 608.4  Δ: 7.1%</p> <p>16 Mar 2022: 651.6</p>

Notes: (a) Changes have been calculated based on actual values



**While some companies such as Gucci are being active and vocal about their advancement to the metaverse, others such as LVMH remain reserved in their statements about the metaverse. That is nevertheless changing.**

# The process challenge

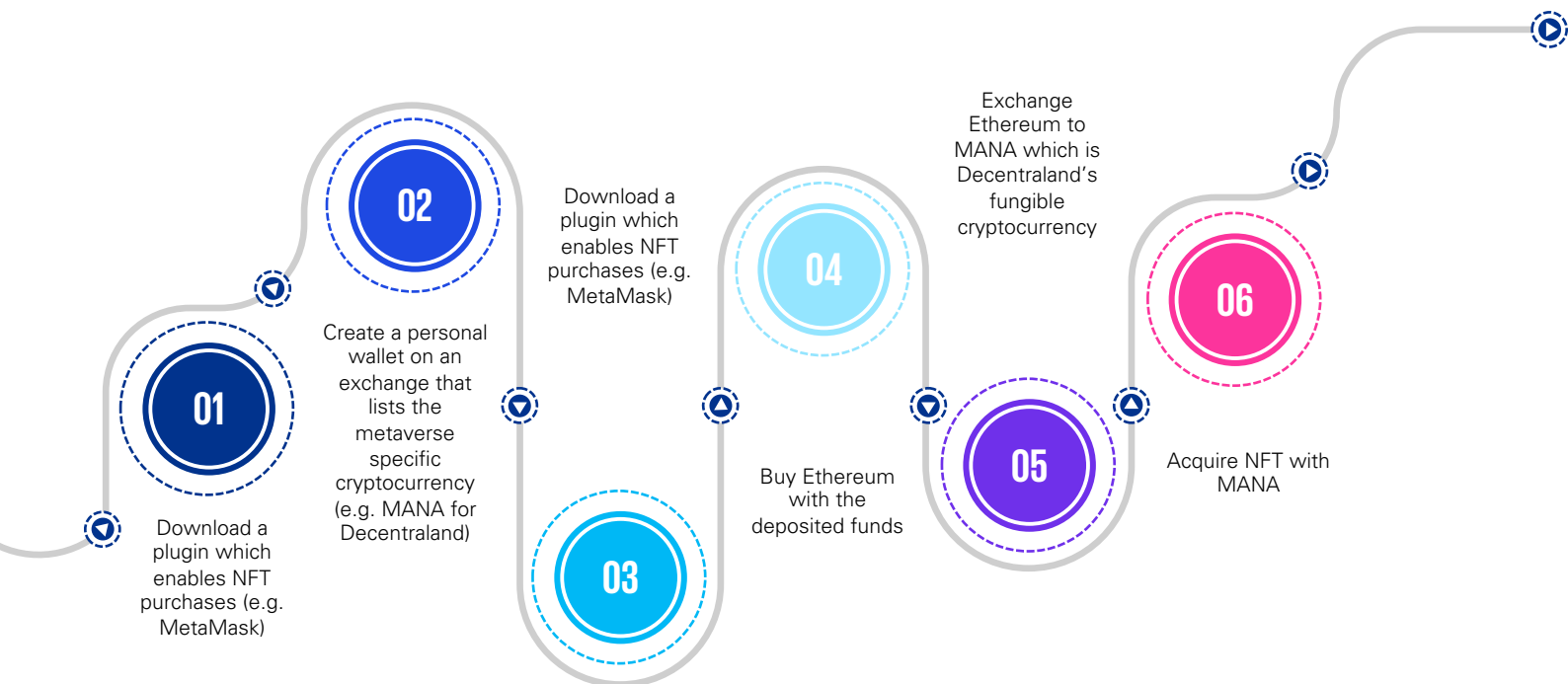
## The current process is cumbersome and inefficient

The process of buying an NFT is still considerably complicated and requires specific technical, and process and risk literacy. As a result, seamlessness of the consumer journey and experience is still severely compromised. A consumer first needs to install a specific plugin and then create a personal wallet. Thereafter, the consumer needs to acquire the metaverse-specific (fungible) cryptocurrency, which in

most cases is only possible through another, more established cryptocurrency. Only after the exchange to the metaverse-specific cryptocurrency, an NFT can be acquired. Furthermore, launching and purchasing are time consuming and have high transaction costs which diminish the margin.

Exhibit 3:

### Example of a process to buy accessories in a metaverse space (e.g. Decentraland)



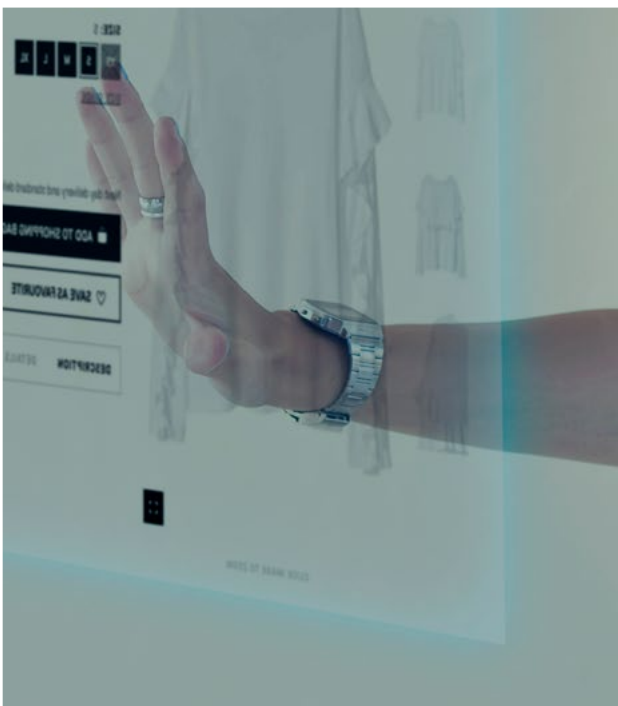
# The security challenge

## Luxury brand companies need new means of protection

New business models and channels create new opportunities but also expose the value chain to new risks. Personalization and direct-to-consumer business models increase the potential to collect consumer data via multiple touch points, but also make brands more vulnerable to cyber-attacks. Failure to provide data security, democracy of disclosure or transparency and proof of origin puts customer loyalty and brand reputation at risk. Given that the metaverse's proposition, prices, currencies, and processes are still intricate and unstable, the challenges of protection multiply.

Furthermore, we observe an increase in conflicts involving trademark infringement, misleading designation of origin, deceptive descriptions and representation, and other issues, particularly in the luxury sector where brand protection is crucial. The word "meta" has a connotation of novelty that,

however, does not adhere to a set of defined regulations, which creates yet another security challenge. An example of how an uncontrolled invention can backfire is a trademark infringement case involving a collection of 100 MetaBirkins NFTs produced by an independent individual.





# How consolidation can help overcome the challenges

## Economies of scope – the asset and value challenge

Major market players, for example global luxury groups or tech companies, can help establish consistency and develop standards for the price and value proposition on the global metaverse market. Even though the metaverse currently presents tremendous opportunities for disrupting the consumer sector, the proposition is not aligned with the luxury customers. Changes in the proposition and anchoring of the value are inevitable, and joint forces are needed to achieve it. Furthermore, ensuring high quality of customers' visual experience is essential for enhancing acceptance of the metaverse. Until the technology becomes sufficiently advanced and mature to meet the mass market price, a collaboration between companies is essential. The added value of large companies also seems to apply in the metaverse. Thus, luxury brands can benefit from being part of a broader portfolio.



## Economies of scale – the process challenge

Although luxury is a business built on scarcity, a certain scale is inevitable for profitable and sustainable growth. Given that the current customer journey in the metaverse is very complex and that brands and consumers are facing high risks and costs, the projected multibillion dollar revenues of the metaverse might not be so easy to achieve. However, as we often see in a very fragmented approach, one player reaches the market efficiencies through consolidation and emerges as one undisputed leader, e.g. De Beers Group.

## New capabilities – the security challenge

Luxury, internet, e-commerce, and gaming industries have witnessed an increase in consolidation activities in the recent years (e.g. the recent deal between Microsoft and Activision Blizzard). Consolidation and partnerships enable luxury brands to focus on protecting the brand equity while rising to the challenge and potential of innovation. Examples of such dynamics are: (1) Prada, LVMH, and Richemont joining forces in Aura Blockchain Consortium, an NFT platform; and (2) Arianee, that uses Ethereum technology, joining forces with IBM to develop a digital product passport for Swiss luxury brands such as Breitling and Vacheron Constantin (Richemont). Given the rapid pace of technological innovation and the need for data protection, consolidation of competencies and collaborations appears to be unavoidable.



# ▶ Where to start in your company?

While the metaverse is complex and changing dynamically, it undoubtedly presents vast opportunities for luxury goods companies and the importance of it shall not be overlooked. What to focus on?

However, looking internally for talent can also help lower upfront investments, as employees especially the younger generations – may already have the requisite knowledge to support the intended efforts.

01

**Education**

02

**A comprehensive strategy**

03

**Talent**

Education and awareness about the metaverse and its technologies shall be on the agenda of the boards and C-level management to consider the metaverse as a strategic tool and enable the action across the organization. Companies should develop an action plan that considers their entire value chain to ensure a comprehensive response to the metaverse. Finally, companies shall look for relevant talent. Companies such as LVMH, Kering, and Gucci have created dedicated business units to drive innovation toward the metaverse.

**Venturing into the metaverse and the NFT business presents various questions from strategic and transactional standpoints. KPMG's Luxury Goods Practice and the Global Strategy Group, in collaboration with KPMG's metaverse experts, have extensive industry knowledge and a unique position to help your company build the metaverse strategy and related solutions. Please feel free to contact us.**

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