Spring | 11

Is the luxury industry finally catching up online?

''Luxury needs vision to succeed in the world of technology''

''Luxury on the Internet today is like a silent movie in the age of the talkies''

''It's difficult to be different and better''

"You don't win a race by looking over your shoulder but by looking ahead"

''A generation has grown up with technology and without the aura of distance linked to luxury''

''Today's smart phones are as powerful as the PC was five years ago''

''We don't compete for attention on the web, we participate''

''The economic crisis has exposed to us who we can trust and who we can't. All the masks are down''

''What used to be a monologue has become a conversation''

''In the past, you were what you owned. Now, you're what you share''

''I'm not interested in working with people whose only interest is selling more and more''

"The best customers are multichannel customers who wants to understand the entire story"

"To me, the Internet is just an extension of reality. It can't replace reality. It's very exciting to be at the runway, to hear the music, to feel the atmosphere, to feel what people like or don't like.

''Technology in the design world is a question of culture. It will take some time...''

Master thesis Spring 2011
Author: Anne Meurling
Tutor: Anna Nyberg
Presentation: 7th of June 2011

Notifications

I would like to express my gratitude toward all interviewees sharing their valuable knowledge and insights.
Also, thanks to Stephan Picard, Ketty Maisonrouge, Guillaume Gauthereau and Fredrik Lange for sharing material and contacts.
Finally, Michael Mohn for inspiration and support during the process of this thesis.

I greatly appreciate your time and effort.

Table of contents:

1. Introduction……………………………………………………………………………………6

2. Methodology……………………………………………………………………………………8
    2.1 Study approach…………………………………………………………………………8
    2.2 Construct of survey……………………………………………………………………9

Part A: The concept of luxury

3. Historical background and definitions……………………………………………11

4. Luxury Today………………………………………………………………………………15
    4.1 The birth of New Luxury……………………………………………………………15
    4.2 From mass market to luxury………………………………………………………17
    4.3 Typology of luxury brands…………………………………………………………18

5. What is so different about the luxury goods industry?……………………20
    5.1Basic Differences…………………………………………………………………………20
    5.2Luxury and the economic cycle……………………………………………………23

Part B: Selling Online

6. The rise of Internet and its impact on business…………………………………26

7. Social Media………………………………………………………………………………29
    7.1 A theoretical perspective……………………………………………………………29
    7.2 The new front row of fashion………………………………………………………32
    7.3 Further Considerations………………………………………………………………35

8. Challenges…………………………………………………………………………………36
    8.1 General………………………………………………………………………………………36
    8.2 Grey market………………………………………………………………………………38
    8.3 The 21st century and the democratization of luxury………………………39
    8.4 Distribution conflicts…………………………………………………………………40

Part C: Luxury Online

9. Case studies: Those "for"………………………………………………………………44

10. Case studies: Those "against"………………………………………………………51

11. Analysis of cases…………………………………………………………………………52

Part D: Solutions for a successful online strategy for luxury brands

12. A necessary step…but not always a happy one…………………………………54

13. Luxury definitions according to experts……………………………………………………55

14. Luxury and Internet – a compatible match……………………………………………………56

15. Some suggestions…………………………………………………………………………………56

16. Toward a solid infrastructure for luxury online……………………………………………61

17. Conclusion…………………………………………………………………………………………64

18. To consider when bringing luxury brands online……………………………………………64

19. Final comments……………………………………………………………………………………68

20. Further research……………………………………………………………………………………69

21. References……………………………………………………………………………………………71

22. Appendices…………………………………………………………………………………………75

Abstract

The nature of luxury has undergone several changes in the last decades. From the pure functional meaning, to a highly individual matter and shifted to an experiential luxury paradigm. New generations emerge with new needs and desires, where much of the luxury appeal defines the category from the consumer's point of view, the experience of luxury, rather than ownership of the luxury item. The real luxury in today's sometimes difficult financial environment, is to have alternatives of where, when and how to spend you money.

Enter luxury online.

Several luxury brands have started targeting the mainstream, or middle market, in search for growth where Internet serves as an optimal marketing and sales vehicle. But is it possible to bend the basic principles of the Internet and turn it into a platform for displaying and distributing luxury items, while respecting their sense of the unattainable and unaffordable?

The author of this paper finds this phenomenon interesting, as there seems to be contradicting to the core definition of luxury and where the hesitation to the Internet has been understandable. Thus, the purpose of this thesis is to understand the process that luxury brands have undergone, and seek to develop a framework for future recommendations.

The paper is based on theoretical framework and starts with a thorough understanding on what defines luxury and the Internet, followed by case studies combining the two. Luxury and Internet seem to be a compatible match as the web and social media are unavoidable tools nowadays.

Key words: luxury, online, luxury online, experience economy, hesitation, time.

Chapter 1: Introduction

The true value of a luxury brand has never been about the price tag, but about the promise and the experience they endow to the purchaser. One of the most interesting features lies in its social impact, i.e. its influence on society and consumer behavior. To be able to keep up with growth (especially in times of recession), luxury companies need to explore new ways to advertise, sell and distribute their goods and services. The recession split luxury brands into different teams; those more dependent on sales from jewelry and watches, such as Bulgari, were hit harder than those selling clothes and less expensive items. Moreover, companies that depended more on department stores suffered most of all, largely because they had less control over pricing and inventories (nytimes.com). Bargains, convenience, accessibility and time efficiency have made online retail for luxury goods and services compulsory and more or less demanded from a consumer's perspective. Therefore, there is a strong need to expand the online presence of luxury companies.

As the Internet remains the strongest driver for commoditization (Chadel, 2009), the question is whether luxury goods can be branded, marketed and distributed online without sabotaging their image and the emotional experience of buying luxury goods. Despite advances and ongoing development in technology, it is still an unknown territory and some companies are afraid of the outcome. This results in a commonly discussed issue, and therefore relevant to analyze. The luxury industry has been accused of being late in adopting Internet and not embracing the broad range of possibilities in terms of digital technologies in marketing and business strategies. As an industry that is known for avant-gardism, innovation and creativity, it is somewhat surprising how far behind some luxury brands are in their Internet offerings and how many luxury brands that have created this love-hate relationship to the Internet. Prada, as an example, did not have a website until 2007. For a sector like fashion that needs to be forward thinking, the lack of enthusiasm with which it has ventured into e-commerce and other digital platforms, is baffling. In an international survey of 178 premium and luxury firms in 2008, Forrester Research found that only one-third of them actively sold online, but 8 out of every 10 affluent consumers use the Internet to explore and buy luxury goods and services frequently. The number of companies who are embracing the Internet has risen considerably, but it is still strikingly low. Federico Marchetti, founder and chief executive of Italian fashion online retailer Yoox.com, reckon that half of luxury brands now sell directly online, though many suggest that the percentage is higher, due mostly to recession pressures. Yet many brands, particularly European manufacturers of high-end watches as well as other luxury goods, reject to embrace online shopping (Indvik, 2010).

On the surface, the characteristics of luxury do not seem to be compatible with the main features of the Internet, which include mass access and mass appeal. Nevertheless, luxury online sales rose to 3.6 billion euro in 2009 and there is room for growth, Krauss (2010) argues. Also, eMarketer projects that the number of affluent Internet users will grow from 43.7 million in 2006 to 57.1 million in 2011 (31% increase) (emarketer.com). The step reflects a big move by luxury goods companies, which have generally failed to understand how to sell online. Indeed, many have discarded the Web, viewing it as mostly a place for bargain hunters or counterfeits. However, as highly affluent, but ageing, customers in developed countries now have discovered a new way of shopping, the Web represents the prospect for opportunities and growth (Verdigier, 2009).

The purpose of this paper is therefore to explore the compatibility of luxury goods distribution and the Internet. In other words, try to analyze the impact of selling luxury brands online, the advantages and disadvantages with using the Internet and a proposal for future recommendations.

Chapter 2: Methodology

2. Study approach

Since the purpose of this paper is to analyze the impact of selling luxury brands online and further examine what happens to the brand, a qualitative study was found to be the most appropriate. Also, as this phenomenon of luxury online is constantly developing and also due to the fact that there were few people to interview, a quantitative method was difficult to conduct. A qualitative research method is employed in many different academic disciplines, in the social sciences as well as in market research and further contexts. The goal is to gather an in-depth understanding of human behavior and the reasons for such behavior. The qualitative method further studies the *why* and *how* of decision making, not just what, where and when. In this way, cases can be selected purposefully, providing a rich and detailed picture to be built up about why people act in certain ways, and their feelings about these actions, resulting in a holistic view of the research area. However, qualitative methods have often been criticized of being subjective with little basis for scientific generalization (Yin, 1994). It is therefore important to try to keep an objective front and always look at the data with a critical eye. In-depth interviews seemed to be the most appropriate method to use, where discussions with senior marketing analysts in well-known luxury brands were held as well as industry experts in the field. An effective interviewer seeks to listen without judgment and to build a relationship and make people feel comfortable, which was the aim of the research.

The choice of brands to interview stems from Interbrand's list of best global brands in terms of luxury. From there, the choices were made by the author's personal relationships with them from previous working experiences. This might have led to an ease in terms of openness to the interviewer, but could also have led to a less formal approach.

The interviews were separated into two groups; one, which served as information for the cases chapters, and one, which served merely as inspiration and useful insights. This was mainly due to the fact that some interviewees decided to speak freely rather than follow the questionnaire and also because of the different backgrounds and position that they possessed. Both groups, nevertheless, equally important for the outcome of this paper.

There are three approaches when conducting research namely *deductive*, *inductive* as well as *abductive* methods, which combine the two. With the deductive method, the researcher starts by formulating hypotheses from theory, which in turn is tested against empirical data and conclusions are later drawn. In contrast, the inductive research begins with empirical data and theory is then derived from the collected data. Lastly, the abductive method, which is used in this paper, features both the inductive and the deductive methods, where the researcher takes part in existing theories in the empirical data collection process (Alvesson och Sköldberg, 2008). In cases where theory was given, as in the first part when defining luxury, the research has been given in a deductive area. Nevertheless, since the point of focus is around Internet, where new things are arising everyday, I have used the inductive approach. This has given structure to the paper, and ease for the reader to follow, yet allowing for innovation – what is happening now – hence resulting in a deeper understanding of the effects of an Internet strategy.

2.1. Construct of Survey

The qualitative study was conducted with a questionnaire consisting of multiple questions covering different areas of theory as well as explorative questions (see Appendix C). In the first part, the definition of luxury is asked in order to get a general idea what in their view characterizes luxury. This was crucial to outline early on as it would have great impact on the questions to follow. As will be explained further, luxury is a very individual matter and therefore it was interesting to investigate the different views from industry experts. Subsequently, the topic of Internet was introduced where the company could choose to answer their honest opinion on how Internet has affected their brand, and what strategies they have decided to follow.

When conducting research, it is always important to stress the value of reliability and the truthfulness in the thesis. According to Söderlund, (2005), reliability can be assured in three ways;

1. Test – retest: same questions are asked at different points of time. In this way you are asking questions at a certain point of time, wait for a while and then ask the same questions again. In the next step when you have the two measurements, one tries to find the correlation between the two to conclude the coherence.
2. Internal consistency: this implies that the investigator is using partly different formulated questions about the same theoretical property in the same investigation and seeks to understand to what extent the answers are internally consistent. It is the degree of internal consistency that is the reliability indicator and the measurement becomes self-controlling.
3. Inter – judge – reliability: where several judges are chosen to classify the respondents' answers in different categories. Subsequently the investigator calculates the correlation between the classifications and if the correlation is high. It underlies the fact that one person alone is not enough to draw reliable conclusions and a second opinion is needed.

The survey tried to meet the demands of reliability by using the first method, namely asking the same questions at different times throughout the year to assure that the same answers were successfully collected each time. Furthermore, in a questionnaire people have a tendency to exaggerate some features in order to present themselves in a desirable way (Alvesson and Sköldeberg, 2008). To avoid this from happening and also to make the questionnaire even more trustworthy, the last question asks for some sort of assurance or verification on how the company has evolved after going online and if not, how they have observed other competitors doing. Finally, each respondent was offered a copy of the interview before publishing to allow room for feedback and potential misunderstandings as well as a copy of the final thesis in order to encourage active and reliable participation.

PART A: The concept of luxury

Chapter 3: Historical background and definitions.

The origin of the word luxury is derived from the Latin words "luxus", meaning "excess, extravagance and even vicious indulgence", and "luxuria" meaning "lasciviousness, sinful self-indulgence" (Stegeman, 2006). Its more optimistic meaning emerged in the seventeenth century, and more recently it has come to be more associated with escape from, or cure of, the ordinary and the struggle for amelioration.

There are many different definitions of the conceptualization of luxury. Bourne, (1957) defines luxury goods as exclusive products, which are more conspicuous than necessity products. They are mainly branded goods bought for psychological needs, whereas functional needs seem to only play a secondary role in purchase decisions. According to Nueno and Quelch, (1998) luxury brands can be described as premium priced brands that consumers purchase for their psychological values and not for their economical and functional value. To sum up, luxury brands' character can be portrayed as "conspicuous, unique, social, emotional, and of high quality" (Vigneron and Johnson, 1999). According to Francois Pinault chairman and chief executive officer of French retail-to-luxury conglomerate PPR, in the luxury sector brand prestige fuses with the imagination of the consumer: "Both are rooted in the eminently desirable values of perfection, care, excellence, exclusivity and differentiation, as opposed to the ordinary and the banal" (Miles, 2010). These product attributes give the consumers the satisfaction of not only owning expensive items but also the psychological benefits like esteem, prestige and a sense of a high status that reminds them and others that they belong to an exclusive group, who can afford these pricey items. These brands therefore command a firm consumer loyalty that is not affected by trends. Due to these different interactions on a personal and social level, consumers will develop different perceptions of luxury brands.

Some experts even argue that the term 'luxury' is an outdated concept, a 50-year-old anachronism, and said that it should be replaced by "prestige" or "high-quality" (knowledgeatwharton.com). Research on luxury brands presents somewhat a paradox as they are one of the most profitable and fastest-growing brand segments, nonetheless at the same time poorly understood and under-investigated (Pitt et Al, 2009). Despite the many fairly well established definitions of what a brand is there is still no corresponding delineation and clear understanding of what constitutes a luxury brand. They are generally treated as homogenous – "a luxury brand is a luxury brand". Therefore it might come as little surprise that the management of these brands are shrouded in mystery.

Any conceptualization of luxury could start with Adam Smith, who divided consumption into four categories: necessary, basic, affluence and luxury (Pitt et Al, 2009). However, it might be argued that the problem with a single definition is that luxury is more than a characteristic or set of attributes. As an example, no matter how hard you look at a Cartier bracelet you will not be able to identify what makes it a luxury product. Why? Because luxury is more than the *material* in the product. As a concept it is contingent upon context - *social and individual*. Critically, what constitutes luxury varies with social context i.e., in social time and place and what might be luxury to one person could be ordinary, or perhaps even valueless, to another. In this way luxury cannot be reduced to one sphere and can be conceptualized in terms of what it does i.e., its role in each of these three spheres: the material (objective), the social (collective), and the individual (subjective). It is important to emphasize that these three dimensions of luxury are contextual and change with the context, as values, scarcity and tastes evolve or change. After identifying the three dimensions of luxury brands, we can describe a luxury brand as a differentiated offering that provides high levels of symbolic, experiential and functional value at the extreme luxury end of the utilitarian-luxury continuum.

Another aspect is the historical journey of value that the locus of luxury has experienced over time. For example, during the nineteenth century, luxury was mainly about the product, durability and great craftsmen; value was translated in the *functional* dimension. Twenty-five years ago, luxury brands were small-sized companies run by the founders or the founders' heirs. They were niche businesses for a selected clientele, with *millions* of dollars a year in sales, mainly to the rich. In the mid-1980s, business magnates who had no previous connections to luxury or fashion started taking over these old firms, and shortly transformed them into global conglomerates that did *billions* of dollars a year in sales. The plan was to target a broader audience, namely the middle market that included "everyone". To execute the plan, they ramped up the design and production of accessories, which were easy-entrance products to attract customers. Moreover, the number of stores was increased around the world in middle-market tourist destinations. Lastly, they marketed their companies' heritage in order to create the impression that these global public corporations were still small, European artisanal operations. As a result, sales significantly increased, yet it was difficult to sustain growth quarter after quarter for years on end. Before, when luxury brands served only the super-wealthy, these businesses were virtually immune to economic fluctuations. Hence, by targeting the middle market, luxury brands have made themselves vulnerable and economic downturns affect the middle-market customer. So brands are forced to look for other ways to make profits, and the most logical means is to cut production costs (Kirby, 2007).

Following the functional era, the locus of value shifted to the *symbolic* where marketers carefully created dream worlds around their luxury brands. One might speculate that a third shift in locus of value is already occurring as we enter what Pine and Gilmore have termed the "*experience economy*." What used to be luxurious *services* are now seen as luxurious *experiences*: Experiential restaurants no longer simply offer fine food and great service, instead consumers experience "molecular gastronomy". Moreover, sometimes it is argued that managers of luxury brands over-focus on one of the three dimension of luxury and neglect the others. For example, since the 1980s, some luxury brands were focusing on the symbolic at the expense of the functional: so while the fantasy worlds of Prada and Gucci have never been more alluring, material quality has declined, and the skill of the craftspeople replaced with the ubiquity of outsourced mass production. In many cases this has hurt the brands - a fact hidden by increasing sales (Pitt et Al, 2009).

From a consumer perspective, when defining luxury and why they buy it, they often explain it in terms of a fantasy fulfillment – how they will enhance their life by their luxury purchase. They build excitement and anticipation toward the purchase and imagine how it will taste, feel, smell, look once they achieve their desire. In other words, luxury transcends a person's hopes and dreams. Due to this fantasy sphere, once luxury has been achieved and becomes a reality, the extraordinary becomes the ordinary and the desire for even greater luxury appears. "The more you have the more you want. Its all about the individual…" (Danziger, 2005).

Luxury is ultimately about the unattainable, the consumers' hopes, fantasies and dreams. Therefore, it is critical as a marketer to connect with those fantasies as they are often far better and more fulfilling than the reality itself.

Chapter 4: Luxury Today

4.1 The Birth of New Luxury

As aforementioned, the concept of luxury has witnessed some changes in recent years. This paradigm shift that the luxury market is currently undergoing, such as the change in consumer behavior, as new generations emerge with new needs and desires, new materials used to produce luxury goods. Nowadays, luxury is indeed associated with not just the technical features of a product but also the emotional and symbolic features (Chadel, 2009). Therefore many luxury providers have recently shifted to an experiential luxury paradigm, focusing a lot on the processes surrounding the product, i.e. the service followed by the shopping/delivery experience. Old luxury was mainly about attributes, qualities and features of the product, much of its appeal was derived from status and prestige. Whereas new luxury defines the category from the consumer's point of view, the experience of luxury, rather than ownership of the luxury item.

"For the next 10-20 years the baby boom generation is the target for luxury marketers". This also includes consumers with limited cash with a taste for luxury. These are some of the voices of consumers' definition of luxury today:

- "How you experience it is all part of the package…"
- "Quality is in the eye of the beholder…"
- "A state of mind…"
- "Luxury means I can live my life in such a way that I don't have to worry about money…"
- "Luxury to me is not a necessity, but a privilege…"
- "The most luxury ever is to have enough time to do whatever you want and be able to afford it…"
- "I buy what I like and what I want…"

(Chadel, 2009)

The appeal of luxury brands has become global in scope, as distribution of wealth has broadened geographically (Nueno and Quelch, 1998). Today, consumers everywhere at every income level want more luxury and are willing to pay for it. Moreover, as mentioned, luxury brands have not been immune from the downturn and need to re-evaluate their digital strategies to prosper. "The real luxury in today's challenging financial environment, is to have the choice of where, when and how to spend your money” (brandchannel.com). Several luxury brands have actually targeted the mainstream, or middle market in search of growth. This has paved the way to a new concept called “new luxury”. "If you went back to the 1930s, what you would see is that luxury goods would be used by aristocrats. It was very small market ... less than 1 percent of the population," said Michael J. Silverstein, co-author of "Trading Up: Why Consumers Want New Luxury Goods and How Companies Create Them." What you have today is the democratization of luxury. It's about the middle class," he said. Silverstein and co-author Neil Fiske call this the "new luxury." (edition.cnn.com). New luxury products are viewed as high quality and stylish, without being too expensive. "This represents better goods, priced at 20 to 200 percent price premiums to average goods; they are consumed by middle class consumers with incomes of US$ 50 to 150,000. We contrast new luxury with old luxury. Old luxury is about aristocracy, the top one percent of the population, and simply high price points. Contrast new luxury competitors like Starbucks and BMW with Rolls-Royce and Chanel." Critically, this aspect of luxury today takes the shift from “Prestige” (high-price low-volume items) to “Masstige” (high-price high-volume items). Moreover, consumers do not just buy for the sake of owning high-priced items but also to relieve stress and disappointment.

To conclude, it seems that the concept of luxury has traveled from being mainly functional, to a highly individual matter where emotional and symbolic features are common facets. As we will discover later from the interviews, the definition of luxury is indeed a diverse entity and can be looked upon in many different directions.

4.2 From mass market to luxury

The AO framework by Martin Heidegger and Alfred North Whitehead's suggests that luxury brands are in many ways different from brands in general and mass market brands in particular. Rather than learn lessons from mass market branding strategy, luxury brands may have new lessons to learn. Critically, the AO luxury brand framework suggests possible strategies for brand managers of non-luxury brands who desire to enter the luxury field specifically, or who seek ways to differentiate themselves from the masses. This is laid out in Appendix A, where the AO grid is extended to show four possible strategic directions for brands to follow in order to become more like luxury brands, or to further distance themselves from similar competitors.

In the bottom-left "commercial" quadrant, the brand manager's challenge is to "exclusivize" the brand so that for customers possessing the brand becomes a victory and not something that everyone can attain. This can be achieved through a product mix strategy, pricing, ads, and distribution. For existing luxury brands, this might mean creating exclusive social networking sites, as jewelry-maker Cartier with its own MySpace page. For brands that are not already luxury brands, the challenge is a little more daunting. Where the offering is evanescent and the target customer new, the challenge facing the managers of transient brands is to "popularize" them. This type of offering is usually less tangible, and therefore less visible than a common commercial luxury product such as a handbag, or watch. Typical examples would be restaurants or hotels where strategies has been to create theme restaurants, usually based on real or imaginary characters and to run them for a while so that they become "the place to be seen," and then when there are no longer long waiting lists, to close them and start again. Main reason being to attain an entertaining experience and want to be seen consuming luxury in exclusive and hard-to-obtain surroundings.

In the case of the monumental brand, or where a brand desires to become monumental, the task facing the brand manager is to educate customers. The target market needs to be taught the nuances of the offering in order to appreciate what makes it different, unique, and valuable.

Postmodern luxury brands offer the cutting edge of whatever is in vogue. Fashion cycles are short and they appeal to affluent consumers who are willing to adopt and discard those things that are of the moment. To successfully market these brands it is important to get the luxury good into the hands of key influencers such as stars, celebrities, and critics who are the tastemakers.

The ephemeral, Wabi Sabi quadrant, is perhaps the most difficult for brand managers to focus on. Here the aim is not so much to educate as to develop true expert customers, merely "expertize". The brand manager has to create offerings that will stimulate customers to live in the moment, to experience for the sake of experiencing, and to learn for the sake of learning.

As mentioned, luxury brands today seek to find innovative and unique ways to sustain and attract their customers where the Internet opens up endless opportunities. In the next chapter we will soon discover what these opportunities are and how as a marketer to best manage them.

4.3 Typology of luxury brands

Since we now have some idea of what constitutes a luxury brand, we can build on this to delineate a typology of luxury brands. Critically, we again draw on Martin Heidegger and Alfred North Whitehead's process philosophy, arguing that luxury brands can be differentiated along two dimensions: aesthetics and ontology - the branches of metaphysics concerning perception and being. Specifically, the dimensions of aesthetics and ontology describes four modes: the Modern, the Classic, the Postmodern, and the Wabi Sabi. These are outlined in the AO (Aesthetics and Ontology) second model depicted in Appendix D.

- *The Modern* - Here the ontological mode stresses the enduring, while the aesthetic mode is as a learner. This is the realm of commercialized luxury: The price of admission into this mode of luxury is simple: money but not huge amounts of it as is the world of democratized luxury. Here luxury is a **conspicuous possession**.

- *The Classic* - As with the modern, the ontological mode focuses on the enduring, while in contrast the aesthetic mode is as an expert. Here the world of luxury is in the tradition of great art, the monumental. The ancient Greek standards of beauty, perfection, and endurance have informed much of the West's notion of art and classic luxury. This dimensions has higher barriers to entry than the modern, as one needs experience and expertise in addition to money in order to appreciate it. Now luxury is an **aesthetic possession**.
- *The Postmodern* - in this instance, the ontological mode stresses the transient, while the aesthetic mode is as a novice. Here the world of luxury is evanescent - it is the latest hot thing, preferably with glitz and glamour. There is no need for expertise to understand or appreciate the offering. Here luxury is **conspicuous consumption.**
- *The Wabi Sabi* - Here, like the postmodern, the ontological mode stresses the transient, and like the classic, the aesthetic mode is as an expert or enthusiast. This is luxury as the ephemeral - the rare orchid that blooms for just one day. Here luxury is the deep taste of the moment; it is **aesthetic consumption**.

To conclude, a luxury brand is not merely a premium-priced product, a status symbol. According to Nueno & Quelch, (1998), traditional luxury brands share the following characteristics:

1. Consistent delivery of premium quality across all product lines
2. A heritage of craftsmanship
3. An identifiable style or design
4. Limited production to guarantee exclusivity
5. Marketing plan ensuring a strong market position consisting of a fine blend between emotional appeal and product superiority
6. An international reputation
7. Association with the country of origin
8. An element of uniqueness to each product
9. An ability to time design shifts
10. The personality and values of its creator

Chapter 5: What is so different about the luxury goods industry?

5.1 Basic differences

Size

In almost all businesses, size is a crucial element when comparing firms and industries. However, in the luxury world size does not seem to play such a critical role: "characteristics of the luxury market are its relatively small size in terms of the number of companies and the fact that the boundaries are not easily defined" (Chadel, 2009). As a matter of fact, most luxury businesses are small but respected with an impeccable reputation. This can be explained by the notion of *brand awareness*. LVMH, with a portfolio of 50 brands, has annuals sales around €15 billion in comparison to Gap €11 billion or Zara Inditex with €8 billion. This means that the average brand of LVMH, which includes the most influential luxury brands are around 10-20 times smaller than Gap or Zara (Chadel, 2009). In other words, luxury brands are relatively small, but with significant awareness among consumers. Conclusively, regardless of their prestigious nature and strong advertising presence all over the world, these luxury companies stay rather small to medium-sized. So the question remains how these relatively small businesses can obtain such a strong presence in the minds of consumers?

Sales figures are difficult to compare

Comparing levels of sales across companies in the luxury industry can be rather tricky, as they comprise of different elements. Sales figures for Louis Vuitton are quite uncomplicated since they include sales in the 400 stores of the group worldwide. On the other hand, there might be firms where the sales figures reflect retail sales at its stores, ready-to-wear sales at wholesale outlets, export sales and revenues from licenses. In general, whole sales constitute half of retail sales, export sales 20% of retail sales and license royalties amount to 10% of billings. This makes it difficult to compare the two different companies in terms of sales figures. Normally, in any other industrial sector, a firm not making any profit is quickly eliminated, merged with competitors or goes bankrupt. However, in the luxury industry there can be companies that have been losing money for years yet survive by being part of a luxury group or by diversification within other industry firms. Examples here include Guy Laroche or Christian Lacroix. So how come these executives accept no profit margins for such a long timeline? In most cases these brands have been so successful and profitable in the past that they can compensate for some years of losses. Moreover, luxury brands often try to become a lifestyle brand and will try to grow through product extensions. These findings pave the way for the following two points, namely very high break-even and limited cash need.

Very high break-even

In comparison to other sectors, within luxury most brands end up with a pretty high break-even. This can be explained by the need for brand presence everywhere in the world while getting international. If not the brand might get a weak and bad image from the consumer. Furthermore, within luxury everything from production to sales needs to be top quality. This is an area where cost cutting is a very dangerous thing jeopardizing the sense of luxury and the individual shopping experience, leading to high fixed costs and consequently high break even. Francesca Di Pasquantonio, luxury goods analyst at UBM, the Italian investment bank owned by UniCredito Italiano argues "in a climate of lower gross margins and sluggish sales, the fixed costs of the stores mean it takes much longer to break even (nytimes.com)." Other examples that rarely generate high gross-margins, leading to high break-even yet a vital factor in the pursuit of a powerful brand are fashion shows, haute couture lines and flagship stores.

Limited cash need

Upon achieving sales above break-even, life becomes much easier for luxury brands. Since margins are usually high, a big part becomes profits. In terms of inventory, costs are relatively low since the product gross margin is rather high. The problem arises as all inventory need to be available everywhere in the world both in the brands' own stores as well as distributors'. This barrier becomes highly apparent for newly established companies. Another difficult area especially for luxury fashion products is that of returns at the end of the season. Again for small businesses it is a key issue, as they initially need a large amount of products each season to offer variety for the consumers. The distributor will sell 80-85% at full price and the rest at bargain prices for high-volume brands in contrast to the more complicated brands where up to 65% are sold at bargain prices (Chevalier et Al 2008). Therefore, small companies struggle with the issue of convincing their distributors to buy the next season's products. The only imperative cash need conveys to opening of boutiques under the brand name, excluding perfumes, cosmetics, watches, wine and spirits. Reflecting on the above, we can draw the conclusion that luxury is a great, prosperous business to be in for those who are successful and difficult for the non-successful ones i.e. a win-all or lose-all situation.

Longer production cycles

In e.g. the automobile industry, companies strive to decrease the time to create a new car in order to change the product line more often. In contrast, in the luxury industry, launches usually take more time and investments. For example the lead times for a perfume launch can take up to two years and then three to four years to make profits. Products must be guaranteed; so that high materials have to be sourced every phase of the manufacturing process must be compliant to the desired quality level. Therefore, some materials need to be outsourced from specific countries and from specialized reliable suppliers. The whole process needs to be carefully monitored and the focal company needs to maintain control of its operations. As a result design activities begin very early i.e. around nine months before the product is available for the consumer (airl-logistique.org).

Luxury embodies time: this is an essential source of its value. For luxury taking the time means offering the very best. In other words, you need time to reach the maturation of the best woods, the finest ingredients, or the time to search for other opportunities. Also the time embodied in the number of years required to qualify as a great artisan and the time a brand create a history for themselves, which makes it possible to incorporate time into the products and their meaning. Finally time as a part of the purchase and consumption; the two-year wait for the Ferrari or the time to even be put on a list for the Hermés Birkin bag and the time you will hopefully enjoy the item purchased.

Brand equity

There is no luxury without a brand with the exception of diamonds. For everything else, luxury objects are objects of luxury brands. A recognized brand relates back to a latent social and cultural stratification and makes the purchaser special. Therefore, it fulfils the essential recognition function of luxury: recreating the distance. In other words, the brand is "the social visa", for the both the product and the person (Kapferer and Bastien, 2009). A luxury brand is a brand first, and luxury second and explains why for example India has yet no luxury brands despite having an ancient artisanship. The lack of infrastructure also impedes the development of the industry. The luxury brand cultivates its uniqueness and prefers to be faithful to an identity rather tan be compared with others. Even if the purchaser makes the comparison, the brand is not managed as such. The identity of the luxury brand hence contributes to building the identity of its customer.

5.2 Luxury and the economic cycle

As we pursue an understanding of luxury brands and branding, another important question that comes to mind is the relationship between luxury brands and the economic cycle and we will seek to analyze what types of luxury brands that are more affected than others.

As aforementioned, luxury manifests in three dimensions: the functional (what), the individual (meaning to one-self) and the symbolic (meaning to others). The importance of each of the three worlds varies with the stage in the economic cycle; the symbolic being the heart of innovation in times of resurgence, the functional rising in times of recession, and the experiential becoming central during the period of reassessment. One can here outlay two components to luxury as a sociological phenomenon. First, exclusivity, something very rare, that typically requires extensive financial means. Second, social mystique, the signification by socially sanctioned elites such as well-known experts. The former guarantee the functional and experiential aspects of luxury, the latter endows luxury with the symbolic aspect of luxury. In times of economic revival, marketers leverage the social symbolic aspects of luxury to extend luxury brands down market. This consists of innovations that result in the commoditization and democratization of luxury. Here the weight is on the symbolic, taking the social sanction of a luxury item by recognized elites and bringing these symbols to the premium mass-market. In the process, the functional and experiential uniqueness of the luxury brand tends to be diluted in the homogenization process that inevitably accompanies commoditization. Recent examples are brands such as Gucci, Louis Vuitton, and Versace.

On the other hand, when boom gives way to recession, there is a drift for a retreat to the core and the elite. In times of economic contraction, mass-market luxury is affected more than the "Über-luxury market" of the elite. Indeed, this market can actually expand in times of recession. The answer can be found by focusing on the social function of luxury. In times of recession, most middle-class people are hesitant to indicate their wealth to others who may be suffering. As a result, the symbolic aspect of luxury brands is reduced and even rejected. Also the definition of luxury can be reinterpreted, from a symbol of aspiration to a symbol of detachment. To the more privileged, however, the symbolic is of secondary importance, since they endow the luxury brand with its socially sanctioned symbolism. In other words, luxury for the elite is about the *experiential* and the *functional*, and it is specifically those brands that deliver in these areas that excel during a recession.

Moreover, recessions trigger another important phase in the luxury brand cycle: a reassessment of what defines luxury. Eco- or sustainable- luxury is the industry buzzword at the moment and items such as natural pearls are in high demand. As commented by Graydon Carter, editor-in-chief of Vanity Fair: "For the new generation, luxury brands that will not take environmental issues into consideration will lose most of their appeal. Modern brands must address these questions. Ignoring them would be old-fashioned and would equal a return to the previous century." (ecosalon.com).

To summarize, the cycle of luxury imply the democratization and commoditization of established symbols of luxury during times of economic expansion; a retreat to its roots. In recession they will have a focus on innovation of the functional and experiential aspects of luxury; a re-evaluation of what luxury means. This cycle is summarized in Appendix B.

Part B: Selling online

One can argue that Internet with its speedy nature and immediate discounts might disconnect with the value of luxury. In the following chapter, a thorough guide on how luxury and the Internet interconnect, will be presented.

Chapter 6. The rise of Internet and its impact on business

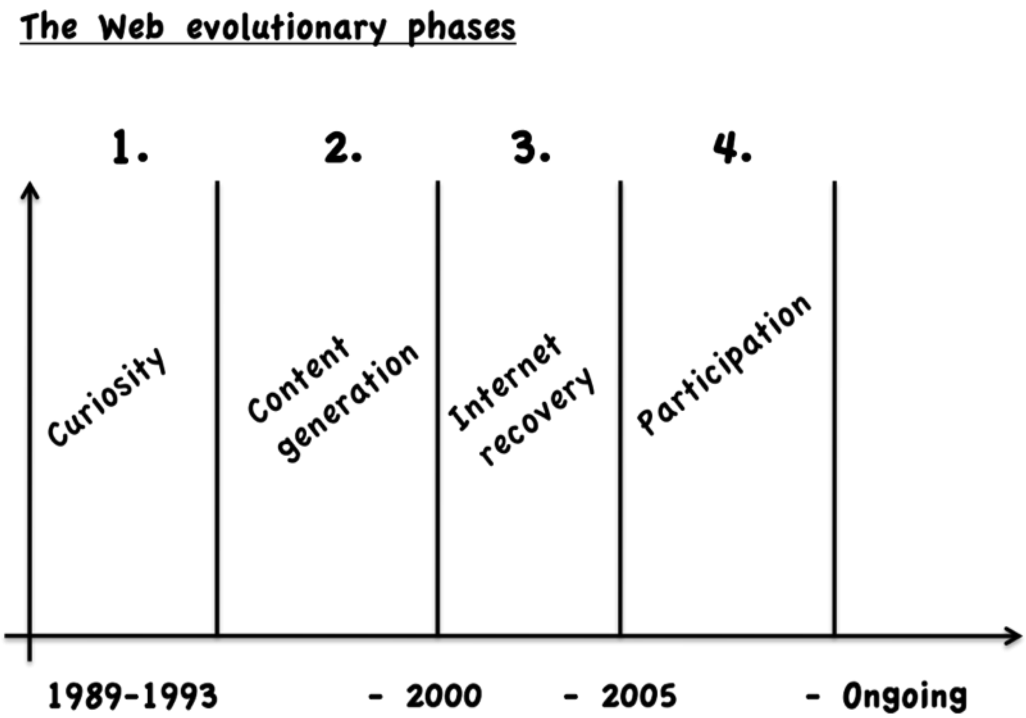
In the late 1990s, the Internet had a huge impact on the business world in various ways by promoting new business models. This was an era when the number of clicks and revenue was more central than profits. By millennium, even with the Internet bubble, it continued to be a major distribution channel, and a choice of preference for all generations in search of new deals. The Internet has evolved beyond being a channel for information exchanges to turn into a multi-channel and a marketing medium. All propelled by technological developments as well as a strong interest from consumers. While industries like telecommunications and technology quickly adopted the Internet, it was turned out at a much later stage that luxury brands were to do the same. Mainly due to the fact that in this era most major luxury companies were family owned and run in a traditional way. The more contemporary luxury that we are witnessing today with a more business approach did not exist at the time. But lets start from the beginning.

The first phase of the World Wide Web between 1989-93, in terms of content generation was run by *curiosity* from both consumers and companies. However, while the brands remained somewhat hesitant and suspicious of the Internet, the consumers became more and more enthusiastic about the many opportunities that the Internet entailed, leaving the brands behind. This resulted in the luxury consumers becoming more skilled in using the Internet when moving into the second phase.

The second phase, which lasted until 2000, was highlighted by the "Internet Boom" and the revival of commerce. Web portals started to emerge such as Yahoo and Hotmail paved the way for *"content generation"*. Internet users started to look for more opportunities within the growing market of the Internet. Subsequently, online shopping started to emerge, introducing low involvement products at low prices where websites such as Ebay and Amazon.com became popular. Nevertheless, this “gold rush” with its fast nature led to a bust in 2000 famously called the “dotcom crash” as in the case of Boo.com. For several luxury brands like Hermés and Chanel who were already suspicious of going online, it became clear that the Internet was a no-go area.

In the third phase between 2001 and 2005, was the period of the *Internet recovery* from suspicion to establish trust. It was during this period that luxury e-retailers such as Net-a-porter pioneered online as well as the brave brands such as Gucci and Louis Vuitton. The former had previously been retailing on e.luxury.com and could therefore transfer synergies. In this phase interactive web tools were introduced and brands started to compare their websites with competitors.

In the fourth phase, which is ongoing, we are entering the *participation* period where consumers feel the need to congregate, share and collaborate. This phase has led the Internet user to expect a 360° interaction with luxury brands. In this level of web experience, the consumer is in total control to personalize products, services, web pages etc and will probably continuing to do so. It is a period of online exchanges and collaborations, which means a high level of brand intimacy.



With regards to the current “participations phase” that we are in, the Internet is an unavoidable marketing and business development tool for almost any company in almost any industry sectors. With regards to luxury, the real question is whether it really can retain a positive image on a tool of commoditization like the Internet? The Internet stands for fast and easy access, so is it really possible to bend the basic principles of the Internet and turn it into a platform for displaying and distributing luxury items, yet retain the sense of the unattainable and unaffordable?

Another major obstacle in purchasing experience to the web is the sensory nature of luxury goods. Critically, consumers will be better able to execute and spend a higher share of money when they experience the products in-store, i.e. with the emotional element of the sales relationship and the sensory touch-and-feel experience resulting from the design of the store. In the luxury industry, more than in any other sector, the emotional and psychological brand responses are crucial (Chadel, 2009). Furthermore, there is a limited level of interaction with the shop, which tends to impede attempts to build full-retail websites. Nevertheless, there are many affluent consumers that prefer to buy online especially when they have already experienced the brand and the products in-store. A very recent Google study shows that “ultra-affluents” (as defined by Google, with net worth of USD 1 million or more and household income of at least USD 250,000 a year for married couples and at least USD 175,000 for singles) are frequent users of the Internet for purchasing luxury goods online. Critically, 95% of the 263 millionaires surveyed made their last luxury purchase online (Chadel, 2009). It would seem that *time efficiency and convenience* make Internet an ideal channel for purchasing luxury for people who have more money than time.

The research also showed that 91% of those surveyed said they always or frequently read reviews before buying luxury goods, which also demonstrate that they use the Internet as a tool.

Finally, the anonymity of the Internet proved to be an advantage when purchasing luxury goods. Critically, the Internet matches the new paradigm shift of high-net-worth consumer behavior. The crisis has also already had a huge impact on both the assets of affluent people and also their purchasing behavior. Pam Danziger, founder of Unity Marketing, argues that half of the ultra-affluents said they are spending less on luxury now compared with 12 months ago, and 55% expect to spend less on luxury in the next 12 months. This will have significant effects on a trend, which was already confirmed before the financial crisis, i.e. that wealthy people like to bargain. “Millionaires like bargains, with 91 percent saying they always or often look at reviews before buying luxury goods” (Chadel, 2009).

Chapter 7: Social Media

7.1 A theoretical perspective

A critical aspect of today’s increasing globalization is the social media revolution. “Social media is one of the most popular activities online today offering opportunities for both businesses and individuals to connect with a new audience” (Qualman, 2009). It has raised new and important questions and is now interwoven into our lives. Looking at the number of Facebook users, one can truly understand the impact it has had. If Facebook was a country, it would be the third largest in the world after China and India. Businesses do not seem have a choice whether or not they do social media, but rather how well they do it. We have already seen proof on the economic potential of social media in its ability to reduce inefficient marketing, where expensive television ads are no longer the king of purchase intentions, but social media is. Nevertheless, luxury brands have been anxious of social media and “it does not seem as if luxury brands are the trendsetters in regards to this revolutionary phenomenon – rather luxury brands are driving behind in an old-fashioned rusty car” (socialmediatoday.com). “This year’s “it” product was not a handbag or watch, but innovative social media initiatives” (www.l2thinktank.com). Subsequent to industry-wide revenue declines of eight percent in 2009 (Krauss, 2010), luxury firms have realized that doing what they had done was not going to get them what they had gotten. Many has turned online, in search of incremental revenue and greater return from precious marketing dollars, examples include Burberry’s *Art of the Trench*, Gucci’s *Digital Flagship*, which will be explained in more detail later. As the industry rebounds, top brands race to acquire customers, fans and followers on the Internet.

Web 2.0 websites allow users to do more than just retrieve information; they provide the user with more user-interface, all through their browser. Social media is the biggest shift since the Industrial Revolution. Of the world's population being under 30, 96% have joined a social network (Qualman, 2009). Social media eliminates millions of people performing the same tasks, as research and review process normally are done by people in your surrounding that you trust. Consequently, the ease and speed with which information can be spread among the social graph, results in great products and services as well as satisfied consumers.

Social media may also create problems for its users due to its uncontrollable nature. The first disadvantage can also be seen as an advantage, namely the viral potential of the media. When you have some news or item to share with an audience, it can spread very quickly all around the world, which can be a good thing, but when this news is negative, it can have disastrous consequences for the company. It is hard to undertake damage control when dealing with social media and your good name might be soiled within hours. Another disadvantage is the need for a lot of work and time that you need to spend, updating your audience on relevant issues. Finally you will be required to stay informed with all upcoming sites and be ready to make the necessary change. If you are not adaptive, then social media is not a good choice, as its very nature will change constantly. It is key to be aware of the pitfalls discussed above and steer clear of them if you are to win in this game (ezinearticles.com). Social media can nevertheless be a powerful tool for a luxury brand. With a growing affluent market, the online world is a place high-end brands need to be. The question is, how to maintain guardianship of your brand identity, keep your product premium-priced and exclusive, or engage your customer?

With regards to luxury and social media, some have shown little or low commitment towards integrating social media, and it seems that most of the hesitation is caused by extreme contradictions between luxury brands' way of being managed strictly from the *inside* versus the way consumers define the brand from the *outside* on social media.

Sara Riis-Carstensen, brand coordinator and investigator of the social media phenomenon and manager at the LEGO Group has identified three main reasons why luxury brands have been hesitant to join the social media party (socialmediatoday.com):

1. The top-down dynamic is turned upside down on social media.

Because consumers look up to luxury brands, the relationship between consumers and luxury brands is mainly characterized as being top-down. In the context of social media, this relationship is turned upside down, where the consumer is in total control and expects to be looked up to, it would likely lead to resistance and anxiety from the top (the luxury brand) and disappointment from the bottom (the luxury client). This tension between luxury brands and consumers is amplified on social media and it explains why several luxury brands resist joining the party.

2. Social media is perceived as a destination for the masses

Some of the characteristics of luxury brands are in direct disparity with the niche consumer base with social media, as it is perceived as being available to a mass consumer base. Recently, Mark Zuckerberg declared that more than 500 million people all around the world are now actively using Facebook, thus a destination for the masses, which is contradictory from that which luxury presents and desires. Interestingly though, a large part of this mass consists of luxury consumers, and luxury consumers are indeed active users of social media (Okonkwo, 2007). According to luxury consultants, “Luxury requires another way of doing things, almost opposite to that which flourishes in mass-consumption and upper range goods”. Therefore, the luxury industry’s refusal to accept to social media derives from their perception of being unique compared to other industries (socialmediatoday.com).

3. Controlling ones brand on social media is impossible

Since everyone has complete freedom of expression on social media it becomes difficult for marketing managers to control the content on social media, which may be the biggest reason for resisting social media. Luxury brands prefer consistency and precision in everything they do, and they are terrified at losing that control. With the entry of social media, luxury brands are forced to let go of any controlled integrated marketing communication program.

7.2 The new front row of fashion

To illustrate the importance of social media today, examples such as Calvin Klein, Marc Jacobs, Michael Kors, Tommy Hilfiger, Rodarte and Perry Ellis are among the brands that are live-streaming their shows, while others including Oscar de la Renta and Tory Burch are using Facebook, Twitter and their Web sites to update fashion followers on their shows. "Ignoring the Internet is total madness... Being active on the Internet is indispensable to growth and for being relevant. It helps your business to be truly global and truly multigenerational", says Diane von Furstenberg (Stephenson et Al, 2010). Another example is Michael Kors, who began live streaming its show two years ago and saw a 111 percent increase in page views from the spring 2009 live stream to the fall 2009 one. Also, another 81 percent jump from the fall 2009 show to the spring 2010 event. Proenza Schouler is also using the live streaming as a selling tool. After the show, online shoppers can preorder the fall handbags straight from the runway through the e-commerce site. "Having a voice and personality on the Internet has become increasingly important," Shirley Cook, chief executive officer of Proenza Schouler, said. "It's a place for people to connect to what Jack and Lazaro have to say. Live broadcasting on our Web site is the closest thing to being a guest at our show. You're seeing everything as it is intended to be seen", (Stephenson et Al, 2010).

Marc Jacobs brand's experience with social media demonstrates the many positive social media consequences. Their Twitter account has been viewed as one of the best Twitter accounts for a luxury fashion brand. The people behind gives insider- access to day-to-day happenings, talks directly with followers and write with complete honesty that fits with the brand's values. The followers of the Twitter account feel an interest in the brand's activities and actively engage the brand by participating in competitions, following live-tweets of fashion shows and commenting about fashion.

According to a statistic from the International Herald Tribune Technology conference, when engaged in active social media integration, brands have reported as much as a 25 percent return on investment (Stephenson et Al, 2010). Tory Burch's guest list will consist of nearly 15 percent bloggers. "Bloggers are key influencers. They fuel the immediacy of information during fashion week," said Burch. However, even as most of the fashion world enters into the social media world, a significant minority of brands continues to value the intimacy of a traditional runway show. The brand managers of Luca Luca argue that less is more when it comes to luxury brands. "We believe that luxury breaks down when access is in excess," said Yildiz Blackstone, the company's president. Carine Roitfeldt, former editor-in-chief of French Vogue, argues there are two possibilities; "either you go very fast to the Internet, or you go to magazines and you make it like a collector's item" (style.com). She further explains that it is not possible to convey the excitement, the atmosphere and the feeling that a fashion show gives the viewer. Nevertheless, the future is with Internet and you will disappear if you are not a part of it. Also, people are interested to know what their friends and contacts think, because often this will be similar to how they want to think, act and buy. There is therefore no surprise then that consumers are embracing communities, tools and apps that allow them to dive into and discover selections from friends, fans, followers etc.

An additional aspect is the environmental side, as connectivity with ateliers and offices has reduced company air travel by 17 percent, digital look books have saved 32 tons of paper, online sales are growing rapidly and Burberry's broad online presence provides the brand "with a much broader insight into the consumer and you can build more of a story," Bailey said. (Drier, 2009).

Another virtual fan, Gucci creative director Frida Giannini, has embraced everything that Internet and digital technology has to offer. Giannini pointed out that 16- to 24-year-olds spend more than 47 percent of their time on the Web versus 3 percent who read newspapers and magazines. “And to reach this new generation it’s important to interact in a new way.” That interaction includes Facebook, a constant stream of tweeting on Twitter; a video crew that trails Giannini for Web postings; the brand’s special iPhone apps; the social networking microsite Reflect & Connect photo gallery; online shopping and Gucci’s Web site, which will be constantly injected with more animation. “The more you create free access to the brand, the more you create a Gucci community. And that’s the future,” she declared (Drier, 2009).

Tiffany’s is a good example of a luxury brand truly embracing the social media. They have an active community that regularly post comments and update the wall, without detracting from the luxury nature of the brand. There are a few negative comments, but most of the posts are people discussing how much they love Tiffany’s, sharing articles as well as pictures of their own items. They have successfully managed to sustain a community that correlates with the brand values and core messages of Tiffany & Co. Apart from their Facebook page though, they’re also branching out into other media, having recently launched their “Engagement Ring iPhone app” and produce videos to share online that showcase their new products. Their photos of celebrities wearing their products, represents an aspiration, mainly for the female clientele and adds a level to their social media presence that encourages conversation without losing the exclusivity.

“Social networks are not only forums for dialogue and interaction, but also create social retail markets,” argues Pinaut. “The Internet accelerates the social groups structural trend…creating a world of „digital tribalism‟. PPR generates $2.7 billion in revenues from online sales via more than 100 Web sites, and meeting consumer expectations and putting extra focus on the online experience are key, he continues. “The essence of exclusivity, creativity and the privileged relationship with the consumer must be rethought to maintain differentiation and cultivate desire”. He argues that PPR‟s internal data illustrate that online buyers also make more repeated purchases in its brick-and-mortar stores than "off-line" clients and predicted the Internet to become more intuitive with the advent of "enhanced reality" technologies. Still, he emphasizes the importance in engaging the Web customer as a sales associate in a real store. He further argues that the new generation shares loads of information online, presenting invaluable data market researchers could once only dream about obtaining: "People are expressing themselves loudly and you cannot ignore that. Its really part of the economic model of a brand" (Socha, 2010).

7.3 Further considerations

While 2009 saw a flood of news coverage about digital media some observers foresee a cooling-down period. "Over the next two years, it will be about cleaning the information," said Sojin Lee, founder of London-based lifestyle Web site Fashionair.com. "Social media is not a forced definition, as a brand can define their own.…Fashion still needs to be inspirational. Content needs to be emotional and connect with the consumer." Social media and savvy online marketing can be useful tools, especially for smaller brands. However, some experts argue that luxury brands need to be cautious and be more open to "slow fashion". Something well-made and classic is a better purchase than a fast-fashion piece you will be over after two or three wears." Agenda Inc.'s James predicted Burberry‟s artofthetrench.com site to be duplicated by other brands and become "the exciting idea of the day," just as pop-up shops were in 2009, but argues that brands must not run after media; rather creating information to share" (intercontex.wordpress.com).

Indeed some fashion luxury experts argue that some brands are less enthusiastic about social media marketing. Having a Facebook page requires giving up a degree of control many simply are not comfortable with, Rhodes explained. "It's like going to someone else's party and talking to people there, versus throwing your own catwalk show where you control the invites, on your own domain, you can curate an experience for people; on Facebook, you are opening the gates ... to discussions you don't [necessarily] want." Most luxury brands has it as another channel to distribute news and imagery to enhance the brand and some use it in order to boost sales on their websites by posting a link to purchase alongside an image of a new product. And then there are exceptions among brands with an

interest in marketing to "aspirational shoppers" such as BMW and Marc Jacobs who both publicized the launch of products aimed at a younger demographic. Jimmy Choo achieved considerable attention in mainstream and online press with its "Catch-a-Choo campaign" on Foursquare. Other examples include Oscar de la Renta who was even able to aid the purchase of a bridal gown after tweeting about a not very common and surrender opportunities to engage affluent rather than aspirational shoppers.
A Unity Marketing survey of 1,614 consumers with an average income of $240,000 found that nearly 80% of them have at least one social networking profile and that about half have used social media to connect with a brand in some way. Another recent survey of affluent consumers by L.E.K. Consulting found that the influence of social media on purchase decisions is growing. Participants said they were likely to buy 12% of the products recommended to them by friends on social networks (Indvik, 2010).

In a market where brands are regularly making products more innovative to stay ahead of the competition, it is important to invest resources in reinventing how that product is marketed and delivered on the Web. Leaders are beginning to emerge in the luxury sector; it will remain to the rest to decide whether to innovate and thrive, or be left behind.

Chapter 8: Challenges

8.1 General

In this chapter, the reader will discover more in depth the number of obstacles a unique luxury brand might encounter upon entering the online space. Here are some of the issues:

1. Luxury entails a sense of exclusivity; that is for a specific segment. It is difficult for a brand to selectively choose whom to interact with and, unless done properly, this segmentation could cause a major backlash.

2. Most luxury brands are extremely careful to test new marketing strategies. With their traits of heritage, craftsmanship and quality, they feel that trying new

things is too risky for their brand image.

3. Due to a luxury brand's requisite to maintain the appropriate aesthetics, social media can be a more expensive proposition for them. Building an application or web page is an expensive task for any brand. It is therefore key to remember that social media for brands is not free and needs constant time and effort.

4. Ubiquity can be argued makes an exclusive good less exclusive. It also creates opportunities for a market of so-called counterfeits. Louis Vuitton handbags, for example, are amongst the most replicated items in Hong Kong. As a result, there is little or no cachet to owning an original, when its "sister bag" is, at first glance the same. Moreover, when a luxury good loses its sophistication, it loses its luster, and falls from luxury to the more ordinary.

From the interview at Swatch, they argued that there is a chance for brand dilution with the Internet, but this can also happen otherwise, even if you do not have a website and put your brand online. As time passes you will have more know-how and can fix the problem when it arises. As it has always been, when there is an unhappy customer you should act immediately. When this problem arises on your website or your FB page, you can easily approach this person and provide the best customer service as you can.

From the shop interior to employee training, luxury firms are investing heavily in building these kinds of experiences for customers, making retail locations feel "less like sales rooms and more like intimate venues" (forbes.com).

Nevertheless, it is difficult to recreate that environment on the Web. The points that were mentioned earlier are just a few things a luxury brand should emphasize. Some brands and online retailer such as Net-a-porter.com offer close-up video footage of their products, allowing shoppers to closely observe the texture just as if they were holding the product in the store. Also the services are replicated by offering same-day shipping to customers in New York and London, and handling returns for its premier customers. CEO Alex Bolen of Oscar de la Renta says he was "dead wrong" about how well the company's staple product - close fitting, $4,000 cocktail dresses, would sell online. "We have done a very good job of selling very expensive, very fit-intensive garments I thought only sold in a fitting room," he said. Customers frequently order two sizes of the same dress and then return one. Currently, online transactions count for less than 10% of overall sales, but Bolen predicts that someday the Web will be the biggest "door" for purchasing Oscar de la Renta merchandise.

8.2 Grey market

The term “grey market” was brought up by the Swatch representative as an important aspect to look into if you want to be successful with your online strategy and an area that they put a lot of emphasis on (Interview with corporate contact at the Swatch Group). It is best known as the parallel market of the trade of a commodity through distribution channels, which, while legal, are unofficial, unauthorized, or unintended by the original manufacturer (signonsandiego.com)

Unlike black market goods, grey market goods are legal, but sold outside normal distribution channels by companies, which may have no relationship with the producer of the goods. Often this form of parallel import occurs when the price of an item is significantly higher in one country than another. In this way, entrepreneurs obtain the product where it is cheap, often at retail but sometimes at wholesale, and import it legally to the target market. They then sell it at a price high enough to provide a profit but under the normal market price. Because of the nature of grey markets, it is very difficult to track the precise numbers of grey-market sales. Grey-market goods are mostly new, but some grey market goods are used goods.

From the consumers’ perspective it can create problems as it diminishes the security level when buying online. It becomes harder and harder to define whether the item is grey-market goods, counterfeits or indeed authorized goods. The issues that arise with the grey market are fundamental to address, according to the Swatch Group, as this can otherwise result in a bad reputation for the company. In their case they have successfully sued companies such as Cusco, jomashop.com etc in battles with their own brand Omega.

8.3 The 21st century and the democratization of luxury

The most important driver of luxury and the one that explains its current success is democratization. It implies that everyone has access to the world of luxury, which is why the client base has grown so much lately. Another obvious driver of the growth in luxury goods is globalization and the increase in spending power. But with these opportunities come a major trap, namely that of vulgarization, which has been the central theme of the thesis and how to avoid it. Another dangerous role of the Internet is the sale of counterfeits. Online 23% of spam is for counterfeits. But it is a hazardous game to play and in 2008 eBay lost against LVMH and was ordered to pay €38.6 million as too many luxury products sold are counterfeits (Kapferer and Bastien, 2009). The watchword of luxury brand management is as mentioned experience. This is how Zara as an example built its reputation: by selling cheap clothes but in an "expensive environment". Moreover, the origin of many "luxury maisons" is in distribution. During a sale the relationship between the sales assistant and client must be created especially when it comes to luxury products and is the integral part of the DNA and universe of luxury. The client often enters the shop not knowing what to purchase and often completely trust the sales person's opinion. This makes the personal's advice aspect of vital importance in luxury. Therefore, distribution must be done in calmness and security and manage rarity. Therefore, in order to maintain its status, a luxury product must deserve it according to five levels:

1. Few sales points
2. Precise locations
3. Quality sales personnel
4. The shop as a showcase
5. Merchandizing as staging for the product.

All these points diminish with the Internet. The personal relationship disappears quickly as you have no idea who is talking to you or is behind the computer. However with existing clients, the Web 2.0 is a significant opportunity for the brand to maintain close relationship in terms of after-sales, reservation of new products etc. Also it is difficult to carry out the price management correctly where everything is public and for many the Internet is more importantly an efficient way to buy more cheaply – the opposite of the luxury approach.

8.4 Distribution conflicts

Another important challenge to analyze is the potential distribution conflicts that may arise between online shops and bricks and mortar.

E-commerce is defined as "the strategic deployment of computer-mediated tools and information technologies to satisfy business objectives" (Webb, 2001). The emergence of e-commerce has generated a new business paradigm, one that presents marketers with significant opportunities and challenges, affecting all aspects of the marketing mix. The opportunities are many including reduced costs, access to new market segments, and the ability to provide information worldwide on a continuous basis (Webb, 2001). However, e-commerce also introduces potentially significant challenges, channel conflict being the most serious concern for companies. Firms are trying to modernize the supply chain and make it more efficient, a process that will indeed cause conflict with many of the supply chain's existing participants. In this way, traditional distribution channels are threatened by online e-commerce.

The origin of channel conflict lies in the inherent interdependence of channel members on each other. Channel participants tend to specialize in certain functions; such specialization causes functional interdependence, which requires coordination in order to complete the channel tasks. However, as these organizations strive to maximize their autonomy, their dependencies produce conflicts of interest. Channel conflict can best be explained "as a situation in which one channel member perceives another channel member(s) to be engaged in behavior that prevents or impedes it from achieving its goals" (Webb et Al, 2002). Research has come up with three causes of channel conflict namely

1. Goal incompatibility
2. Domain dissensus
3. Differing perceptions of reality

Firstly, incompatible goals may result from many different issues, such as profit margins, competition, and access to product supply. Secondly, conflict can also be caused by differences in the domain definition among channel members. The four important elements of a channel domain are the population to be served, the territory to be covered, the functions or tasks to be performed, and the technology employed. Finally, contradictory perceptions of reality are frequently the result of poor communication among channel members, and important sources of conflict. Communication is key, as it otherwise becomes very difficult to achieve needed coordination among channel members. In addition, conflicting objectives among channels can lead to internal conflicts over customers, resulting in customer confusion and dissatisfaction.

To circumvent channel conflict, companies have to develop strategies for integrating the new e-commerce channel with their traditional distribution system. The critical element in introducing the Internet into the channel mix is understanding what customers in each channel value and whether the present channels are meeting these needs and expectations. Below are a number of strategies B2B marketers can implement in an effort to minimize unwanted conflict.

1. Pricing

B2B marketers must be especially cautious with their pricing strategy as they increase electronic channels. Many suppliers have come to realize that undercutting your channel partners on price is the lowest blow in online channel etiquette, with many choosing not to offer any discounts on the Internet. As a result, supplier firms will experience lower levels of channel conflict by not pricing products on their website below the resale price of their channel partners.

2. Distribution

An important limitation of the Internet channel is its incapacity to provide one of the critical distribution functions - that is physical delivery of tangible goods. Therefore, most supplier firms will continue to need channel partners to perform the fulfillment task for orders placed on the Internet. Involving the channel in the sale serves to avoid cannibalization, build trust and cooperation between the firms, and prevents unwanted channel conflict.

3. Promotion

While the Internet channel presents supplier organizations with an excellent opportunity to promote directly to the end customer, there is nothing to prevent suppliers from also promoting their resellers on their website, encouraging online consumers to use the other channels. Some manufacturers have been very cautious not to upset their traditional channels, by providing detailed product information along with search engines and links to their dealers, but choosing not to accept orders online.

4. Product

Marketers can also manage their online product offering in an effort to minimize channel conflict. Some manufacturers are satisfying their intermediaries by limiting their product offering on the Internet to items not sold by their traditional channels, while others focus on the customer needs of the segments that prefer to purchase on the Internet. Another consideration is the lifecycle stage of the products offered online. When demand is up, selling a product on the Internet is less likely to interfere with sales through channel partners, but in the maturity and decline stages of the lifecycle, offering products via the electronic channel is likely to cannibalize sales through existing channels of distribution.

While it is clear that some channel conflict can be devastating, many manufacturers have a hard time figuring out exactly which conflicts will pose a threat. Therefore, in order to spot the dangers ahead once should bare the following four questions in mind (Bucklin et Al, 1997):

1. Are the channels really attempting to serve the same end users? What may seem like a conflict is at times an opportunity for growth as a new channel reaches a market that was previously untapped.
2. Do channels mistakenly believe they are competing when in fact they are benefiting from each other's actions? Novel channels can appear to be in conflict with existing ones when they are actually expanding product usage or building brand support.
3. Is the deteriorating profitability of a griping player genuinely the result of another channel's encroachment? Poor operations may be the cause of a decline in a channel's competitiveness. Choosing the right partner within a channel is often as important a strategic decision as determining which channels to use. To avoid becoming dependent on unsuitable partners, manufacturers should carefully observe the operations of channel partners

and work to develop their skills and capabilities. It might also be helpful to switch partners from time to time.

Answering these four questions gives manufacturers a better understanding of which channel conflicts that are truly dangerous.
Enabling multi distribution strategies can be benefitting in many ways for companies. Firstly, it allows them to adapt to changing consumer needs and shopping habits. Secondly, companies with a broad product offering can benefit, as it is unlikely that a single channel type will be optimal for all products. Third, firms with excess manufacturing capacity can benefit form additional outlets when existing outlets are saturated with supply (Webb et al, 2002). On a practical note, it will be interesting if all these advantages concur with reality.

From the empirical research it seems the most important factor that can create issues for the brand is its pricing strategy where it is important to be transparent and cohesive. This will now be more fully analyzed in the case studies that will follow. The aforementioned change in consumer behavior, with new generations that have emerged has lead to a focus on the consumer and the emotional, symbolic features. It is therefore interesting how some of the well-known brands have coped with these new trends in connection to the Internet. We will also soon discover who have embraced the Internet and who have not. Furthermore, what benefits, disadvantages and pitfalls to look out for? In the following chapter in-depth interviews will be explained and analyzed followed by a framework for future recommendations.

Part C: Luxury online

Clearly, there are some tensions between the way luxury brands are managed and the principles of social media. These tensions may tempt one to question if social media and luxury actually are an incompatible match? Case studies analyzing social campaigns are a great way to examine how to position a brand online. However, too closely following a campaign can have a negative affect. Social media success requires implementation of something new and exciting - some kind of added value.

The following case studies have been conducted to see the process a luxury brand has experienced by being present or not present online and as a means to understand the fundamentals for a luxury brand in the Web 2.0. They are all limited to fashion and jewelry brands as they all fit the definition of a true "luxury brand" and those that the author had access to interview.

Chapter 9: Case studies: Those "for"

Gucci

Gucci has built an incredible following on Facebook, with over 4 million fans. By constantly updating the page, and bringing in new content such as photos and videos the brand is keeping its consumers interested and engaged as each update receives over 200 interactions. The brand ends up at number four on "The Luxury IQ Index" conducted in 2010 (l2thinktank.com). By opening Gucci to the world, and not selectively inviting only specific people, Gucci has built a community. Even though many of the Gucci fans may not have the budget for actual products, the Facebook fan page builds desire for the product and this idea of "one day I'll be able to afford that," is part of the luxury appeal (mashable.com). Patrizio di Marco, chief executive officer at Gucci, argues that digital media is a good way to "making luxury younger" and address the customers on more intimate and direct terms. "This is very empowering for a luxury brand, especially when you are disciplined in managing it according to your brand values," he added. "Eighty percent of all our leather goods are still made by hand. That will not change, no matter how many Facebook fans we have." (intercontex.wordpress.com). They also pioneered with their Gucci-connect, broadcasting live e-events, which will be further explained at a later stage.

So does social media really mean that brands loose all control of their brand? This argument is questionable. One can argue that the control luxury brands are afraid to lose on social media is control they initially never had. "Consumers will gossip and party on, on social media with or without luxury brands, thus, one might argue, luxury brands might as well join the party" (mashable.com).

The contradiction between luxury, addressing a niche clientele and social media addressing the masses seems incompatible on the surface. However, luxury brands should not view it as a problem that *everyone* – and not just the niche client – is on social media. By getting through beyond the niche target group, luxury brands can keep the aspirational dream alive on social media.

Cartier

Cartier has received a lot of critique, falling to the bottom of the digital heap with a limited digital presence according to "The Luxury IQ Index" (l2thinktank.com). However, after interviewing my corporate contact in digital communication for Cartier in North America, they indeed are trying to embrace Internet at the fullest and do not see any disadvantages of doing so: "Being available online is no longer a stigma to luxury brands" and they have come to the realization that online communication is imperative to get their brand messaging across" (Interview with corporate contact at Cartier), suggesting that there are in fact creative and effective ways to do so without jeopardizing the integrity of the brand. The only issue being to gain a full consensus amongst the key decision makers. Cartier US launched its e-boutique early spring 2010, which was considered a key initiative in the fine jewelry and watch industry. Unique visitors to their site have increased by 65% from Nov 09 to Oct 10. Demand for Cartier on mobile is increasing up 365% - according to Google and argues "I do not see any disadvantages of going online - in fact mobile, tablets, ipads are the future for luxury" (Interview with corporate contact at Cartier). Nevertheless, The Maison Cartier is extremely cautious, as it should be in selecting the most appropriate channels within the digital space. They recently launched an official Facebook page and will slowly begin to participate in social media. She further explains "the core messaging is institutional with subtle marketing elements sprinkled in". In her opinion, all product categories should eventually be available online, as seen from bluenile.com and net-a-porter's success, customers are no longer afraid of purchasing extravagant engagement rings and designer clothing online. Currently, Cartier's e-boutique carries a selected number of products, but bridal rings are not available to purchase online and merchandise over a certain price point are not available for purchase online. For specific creations, it is preferable for the customer to make an appointment at our boutiques to see, touch and feel in-person.

She emphasizes the importance of online experience recreating the in-person boutique experience. Therefore the site is fully immersive and rich with color and movement. Cartier customers will never see more than five creations presented at the same time in the browse pages. As such, it is not a true ecommerce site (where most sites will have a "View All" option to see hundreds of products at once) but an intricate balance between content and commerce. Luxury brands need to be careful not to be overly commercial and maintain some exclusivity. Cartier has maintained its consistent focus on the higher end, consistent in its brand merchandising approach, offering a unique customer experience and expanding very cautiously. New trends include Ipad/iphone apps, QR codes, 3-D technology, social media integration, augmented reality, and Cartier has been launching videos and custom content on Cartier's youtube channel. Moreover, their official Facebook page just recently rolled out a fine watchmaking ipad app as well, continually trying to establish solid relationships with fashion influencers and bloggers - ultimately increasing the brand presence online. It seems the most important distribution channels in terms of sales are still boutiques and through licensees and retail concessions. Whereas in terms of brand image; press, trade shows, events, advertising, website, charities, etc. She does not see any distribution conflicts, since the ecommerce site is considered as one of their retail boutiques and will continue to serve a special need for those customers who are ready to take advantage of our e-boutique for its convenience and accessibility. Finally, some of the key success factors are to be relevant, innovative and most importantly, stay true to the brand.

Armani

Giorgio Armani is ranked 8th on the Digital IQ ranking (l2thinktank.com). In the interview, my respondent argues that the luxury industry is not afraid of the Internet nowadays, but it was three years ago. However, brands are careful on how they approach Internet, especially in high-end fashion. He sees Internet as an open shop – available to everyone. So, it is important to take slower steps, not to dilute the brand and lose its core customers. The company created armani.com early 2010, which is a portal that brings all individual brands together with links to Facebook etc, which has been successful. It is a great way to launch the celebrity endorsements, deals for campaigns, create brand awareness and a general PR buzz. His immediate response to what would be suitable to sell online was "anything that you don't need to try on such as accessories, bags etc" (Interview with corporate contact at Armani). However, with a fully integrated e-commerce website with special attention to detail, photos to fully deliver a nice experience to the consumer you can sell anything, he continues. Armani started with AX e-commerce in the US, followd by Emporio US, then Emporio worldwide, GA Neiman Marcus US. "It's a long process where many things need to be taken into consideration. We have a huge building in Bologna where everything is sent from (easier to have one place in terms of inventory costs, taxes, importing taxes etc)" (Interview with corporate contact at Armani). With regards to new trends, he claims, people like to use tricks nowadays where you need to stand out and be different: "I see some trends towards humor & sex with a twist". This is illustrated with their new ad featuring Ronaldo and Megan Fox, which is inspired by the Old Spice campaign. There needs to be some activity on the website attracting the consumers, something happening, such as a competition where you can win prizes etc. Armani's main emphasis at the moment is to collect email addresses (this is also a good way to direct them to the website). In this way they have a direct communication with their consumers and can send invitations, give them links. As an example they posted an ad on the lifestyle magazine GQ.com, where you could win a bicycle. Consumers were asked if they wanted further information on Armani and so on

as well as in stores. Also, branding in terms of online advertising – getting your name out there in e.g. New York Times. In terms of challenges, timing seems to be the most striking. In a short period of time, there are new ways and social trends, which is difficult to keep up with and you have to build it up and get it out quickly. Key success factors to him are again staying true to your brand and image, have a clear message, which is easier for them since there are six different price points. With regards to the efficiency level on their distribution channels, their own stores remain the biggest income source in terms of sales, since it means 100% profits, and their brand image is built in all means of distribution, mainly shops. With regards to distribution conflicts he does not se any immediate threats since most of their stores have a website as well (Neiman Marcus, Barneys etc). But they do try to have the same prices for all luxury items and make sure that the sales happen at the same time. In terms of counterfeits they have legal departments handling them, but it is difficult to control. However this is mostly a problem for heavy "logo brands" such as Gucci, LV and Prada, whereas Armani is considered an "apparel brand" with 80% clothing and 20% accessories. Nevertheless, the "real" customers stay loyal.
When it comes to social media, the whole nature of it is to open yourself up for commentary and open conversation, which you have to accept. It is a great way to reach and educate customers if you get your message rightly understood. Nowadays it indeed needs to be a part of your strategy or you will be forgotten. To conclude, the most striking advantage with the internet is speed; you can reach a lot of people very quickly and can get a whole world covered within hours, much more efficient than newspapers. However, you have to be aware that you will lose control of your brand, as your product might appear somewhere you do not want to and you have to open yourself up to criticism. But he concludes that he does not see any problem of brand dilution as long as you stay true to your brand. With the Internet the company has experienced positive results; especially in the accessory department where sales have increased significantly.

Burberry

Burberry has been very successful in terms of forward thinking and has adopted a solid Internet strategy according to the representative of Armani. They saw the boom of Internet coming 5 years ago, before everyone else. Everything is done in-house with good technical people and Internet thinkers and they have a really good interactive advertising campaign. The British firm has been providing live streams for its key Fashion Week shows to customers around the world. Anyone can click on the dresses and order them before the show has finished. Furthermore, Burberry has its own mini-social networking series, called the Art of the Trench, which draws attention to different ways to wear its signature trenchcoat. The firm now receives 30% of its website traffic from social media like Twitter, according to web analytics firm Experian Hitwise (bbc.co.uk). "The Internet and social media allow you to add all these extra dimensions," says Christopher Bailey, chief creative officer of Burberry. For example, when Burberry hosts an event or shoots a campaign or look book, they capture them in films or photos, as well as interviews with models. This contributes in a much broader insight into the brand and how they are thinking. You get the emotion behind the clothes because you can elaborate on the story and the people behind it. It allows the fashion company to circumvent department stores and connect directly with customers.

They believe that many brands have been afraid of going online because many of the creative directors do not actually use computers and posses the technical skills (Interview with corporate contact at Burberry). Therefore, they cannot understand the benefits and potential with the Internet. Further on, since shows are discussed in open forums, the clothes were shown in a much earlier time than they were supposed to and counterfeits became more common. However, digital branding has become a useful tool nowadays for every brand to showcase its work and most brands now live stream their shows.

Burberry has indeed been on the forefront of Internet promotion with live streaming all of their shows and having a Facebook account with over nine million fans. Embracing the Internet has had mostly positive effects. As commented by the representative of Burberry: "I believe that our online presence has made us more accessible to wider array of people and it has been an ideal platform to promote our values to protect, explore and inspire. To sell the show after runway collection has been shown in our runway to reality".

There’s a tweet every 25 seconds, there have been more than 700,000 visits on Facebook and the recently launched site Artofthetrench.com had more than 200,000 postings and 2 million views in its first week.
All their activities within social media platform may not lead directly to sales but merely serves as a “halo effect”. The brand is viewed in a more desirable way with stronger brand awareness.
For them it has been important to sell all products on their *world-store*. A Burberry customer should be able to find all products online that they sell in the store. This is a unique standpoint as most other brands only offer only a fraction of their inventory online, primarily bags and other non-apparel. They are also using their online presence to offer unique product as pre-order to their customers such as runway to reality. Their only restriction, which they prior of going online saw as a potential threat is the disparity among countries where pricing, taxes and shipping might vary. As an example a sweater in the US cannot be as pricy as in Europe due to tradition. Nevertheless, as they are pursuing a transparent and honest approach, the public is being understanding and they did not encounter any major backlashes.
With regards to social media, being a solid and prominent company, any negative comments on Facebook or blogs are drowning by all the positive things that the brand can offer (also as there exist an endless amount of blogs nowadays). Even with traditional media brands can suffer negative press. At least now a brand can respond in a more efficient way on their own Twitter page or directly on the Facebook webpage.
The biggest difference according to the fashion house when it comes to digital branding, compared to the real world is the need for newness and a more personal approach. This means thinking more as consumers and be aware of what you would like to see from a brand i.e. offer great consumer insight. Therefore their webpage is highly interactive and their movies posted on Facebook create a personal relation to their client base.
To conclude the most important branding strategy again is to stay true to your brand and to be transparent. The only threats that brands might see in the future might be “too fast fashion”. This means that the collections are so stressed ahead

that the long time value of the clothes is diminishing and the customer ultimately gets bored.

Chapter 10: Case studies: Those “against”

Some luxury brands still refuse to sell on the web at all, reflecting the early fears that the Internet could undermine or dilute the brand experience – preferring instead to protect their bricks and mortar distribution network or partners. One of them is Zilli.

Zilli

Driven by an unconventional spirit, established in 1970, French brand Zilli is offering a full range of high-class luxury menswear, for which the company works with the very best craftsmen and operates in 38 countries. Conscious of its high profile in the manufacture of luxury clothing, the company pays an especially high degree of attention to staff training as they believe that internal training enables specific needs to be met, and an opportunity for the Maison Zilli to share its culture and pass on its know-how. In 2009, in the adverse economic climate, Zilli chose to refocus the retailing on its network of own-name stores in order to improve margins and protect the brand's image. In this period they still noticed two segments that were growing quickly: knitwear, whose share in sales rose from 11% in 2008 to 14% this year, and shoes, which increased by 5% in 2009 (Interview with corporate contact at Zilli).

It seems that Zilli has chosen not to take their brand online for all the reasons outlined in this thesis, namely brand dilution and the complexity to consult the client base in the right way, i.e. recreating a luxurious shopping experience. As commented by my corporate contact at the company, “Zilli is an extremely premium brand, we sell coats priced over 20.000 Euro, suits over 7000 Euro and several items are reaching the 100.000” (Interview with corporate contact at Zilli). Because of its premium position it might be very difficult to separate the shopping experience from the stores and they claim their customers are not the type to shop online. As a consequence the brand is very confidential where their client base want to be hosted and to get consultancy. Nevertheless, they try to communicate their brand in other ways such as advertising campaigns, posters, and sponsorships. These sponsorships, which could be for example exhibitions, are an excellent resource in terms of external communication, enabling the brand's image, history and expertise to be promoted. It is also great means of internal communication as it enables the Maison to make employees aware of the operations it supports and thus involve them in its sponsorship policy and creates an opportunity to introduce new values to the company and provide employees with the possibility of being enriched by new experiences. Another reason for not going online is the fact that Zilli is a producer before being a retailer. So the mind set is towards the factory and the plant.

Nevertheless, you can never say never and there might be a chance to go for an online solution in the future but as of now this is not a priority as their financial resources are directly oriented to the opening of more owned stores.

Chapter 11: Analysis of cases

It seems from the analysis of the cases that the online environment has become part of the luxury appeal. Regardless if you are in the classic, modern, post modern or wabi sabi luxury brand (see Appendix A), Internet seems to be an inevitable channel to exercise. Nevertheless, Cartier as an example would fit the classic luxury brand as it is based on endurance and built over time. The marketing challenge is to commit to quality, limit distribution, and create enduring goods. However it is still important to educate and lure amateurs about the details that make great products in their brand category noteworthy. In this way the Internet comes in handy, as it opens up opportunities for new generations. Cartier has therefore been very successful in creating Facebook pages and utilizing the new trends such as Ipad/iphone apps, QR codes, 3-D technology, social media integration, and augmented reality, yet been careful to take small steps.

By opening Gucci to the world, it has built a strong community online. Even though many of the Gucci fans may not have the financial means for the actual products, the Facebook fan page builds a desire for the product and a dream - which as we have concluded is part of the luxury traits. Therefore luxury brands might as well join the party. The online communication also seems imperative to get their brand messaging across and reach customers. It appears that the most important distribution channels in terms of sales are still boutiques and through licensees and retail concessions. Whereas in terms of brand image; press, trade shows, events, advertising, website, charities, etc. Distribution conflicts do not seem to be part of the picture, since the ecommerce site is often considered as one of the retail boutiques and will continue to serve a special need for those customers who are ready to take advantage of the e-boutique for its convenience and accessibility. Some of the key success factors include relevant, innovative and most importantly, stay true to the brand.

Internet can also be viewed as an open shop – available to everyone so it is important to take slower steps, not to dilute the brand and lose its core customers. Armani.com was for example created in beginning of 2010 to be a portal that joins all individual brands together with links to Facebook etc. It has been a great way to launch the celebrity endorsements, deals for campaigns, create brand awareness and a general PR buzz. It is important to pay special attention to details, photos to fully deliver a nice experience to the consumer you can sell anything. The whole nature of the Internet is to open your-self up for commentary and open conversation, which you need to accept, as it is a great way to reach and educate customers if you get your message rightly understood. Another striking advantage with the Internet is speed; you can reach a lot of people very quickly and can get a whole world covered within hours, much more efficient than with newspapers. For the future with regards to digital branding compared to the real world, the need for newness and a more personal approach will grow more important. This means thinking more as consumers and be aware of what you would like to see from a brand and project i.e. offer great consumer insight.

The most solid brand when it comes to digital strategies, from the interviews seems to be Burberry. Their world store and interactive webpage seem to translate in happy customers and also a great reputation to the public. They stress the importance of staying true to your brand and always keep an honest and transparent face towards the public.

Part D: Solutions for a successful online strategy for luxury brands

Chapter 12: A necessary step, but not always a happy one…

So, are luxury and the Internet an incompatible match? On the surface, yes. The characteristics of luxury and luxury brand management do no seem to be compatible with the main dynamics of e.g. social media. The hesitation is understandable, but the web and social media are unavoidable tools nowadays. Nevertheless, luxury brands' fear of losing control and appealing to the masses is irrelevant on social media. The control is already lost and the masses are only a threat as long as you try to control them.

While the market for luxury brands is ultimately different than mainstream brands, many of the same marketing rules still apply. As companies are obliged to come online because that is where their customers are going and talking about them, this still applies for higher end brands. Indeed, luxury brands need to understand what their key influencers and stakeholders are saying about them online, because they really are setting the trends. They need to carry out media monitoring just like any other brand and to assess the influence and relevance of the individuals that are talking about them online. Luxury brands thrive on the premise of trendsetters – you want the product because someone very important, or ultimately enviable has it. And this rule still applies online, with the influence that fashion blogs can have for example.

From a consumer's perspective, they are not so unschooled with what the Internet can offer. A survey of 500 of America's richest families published in 2005 by researchers Doug Harrison and Jim Taylor found that the respondents spent on average 13.7 hours a week online. The Luxury Institute, in a survey of 1,000 wealthy consumers published in March 2007, found that 98 per cent used the Internet for shopping, and that 88 per cent read product research and review sites." One theme that has emerged from our research is that luxury consumers have embraced web 1.0, and the luxury brands need to catch up with that," says Mr Pedraza. The clients, he adds, "are not going to be going on YouTube or

MySpace, but they are quickly going to embrace all the collaborative and highly interactive and participatory practices of Web 2.0" (Birchall, 2007).

So it seems like a necessary step for brands to evolve online. It is definitely a great business opportunity, but this also means that you are more exposed, less special and remove the very original characteristics of luxury, namely exclusive. "We have an exclusive network of over 400 retailers but that cannot work online," Jean-Claude Biver, chief executive of Hublot, said at Reuters Global Luxury Summit last summer. "When you are online, you are not exclusive anymore." Others argue that e-commerce is not an alternative because the shopping experience their brands provide cannot happen on the Web. Matt Rhodes, who directs social media strategy for a number of high-end companies at FreshNetworks London, noticed that when consumers walk into a luxury retailer, they're paying for more than just the goods themselves. "If you're going to spend $1,000 on a pair of shoes, you want to have a glass of wine going around, the attention of staff; you want an experience as well as a purchase," he said (forbes.com).

Chapter 13: Luxury definitions according to experts

From the theoretical chapter we learned that the origin of the word comes from the Latin words "luxus", which connotes excess, extravagance and indulgence. We then traveled through history from the functional needs of the consumer to the symbolic era to the occurring era of the "experience economy". We concluded that from a consumer's perspective, it is relative to a fantasy fulfillment and the anticipation and excitement that one day they will be able to enjoy this fulfillment of happiness. From here it would be interesting if the theoretical aspect differs from the practical view. Here follows some voices from luxury experts:

- "Quality, heritage, craftsmanship"
- "The emotional part of the purchase is more important than in traditional goods"
- "Luxury is time – the long tradition, the time it takes to make it, the time it will stay with you…"
- "Luxury transforms the way we look and feel"

- "Remaining true to its taste for fine objects"
- "A pleasure out of the ordinary"
- "Ability to fulfill the dreams & desires"
- "More than the functional product itself. So, beyond the function there is something else, and it is clearly the symbolic meaning"

As a result it seems quite compatible to the theoretical view of luxury with special emphasis on time, which in my view best sums up the true value of luxury.

Chapter 14: Luxury and Internet – a compatible match

After close examination of theory and empirical studies, we have now reached the conclusion that luxury and the Internet in fact go quite well together, but that there are indeed some threats and challenges to look out for. So let's try to outline the different usage areas for a luxury brand and Internet and the advantages that the brand can benefit from.

1) Increase sales
2) Increase brand value & brand awareness
3) Research tool
4) Speed & reach of clients
5) Intimacy and feedback to customers
6) More choices for the consumer
7) Convenience
8) Bargains
9) The anonymity and "non-guilt factor" in times of recession

In other words, the Internet has proven to be a strong and powerful engine with many advantages for luxury brands. The physical world and the Internet seem to be a good compatible mix, where the customer experience either starts online moving on to the boutique or vice verse.

Chapter 15: Some suggestions

From cases studies, some ideas emerged, addressing the challenges of pursuing a digital strategy. They also laid a basis for inspiration for additional personal solutions. Therefore, in the following chapter these solutions will be presented and elaborated.

A. Membership only & time limited sales

Wealthy people are always looking to differentiate themselves. They will frequent those places where they are recognized. Just as a product can be exclusive, so can sites on the web. Creating a luxurious social network, an invite only site, or a suggestion site for actual customers are ways to limit the demographic. By transforming these assets from product purchases into services, wealthy consumers get to enjoy the experiences without the hassle of ownership. The suppliers get higher margins, higher inventory turnover, and long-term relationships with more wealthy and affluent people who will now "join the club" whereas before they would not have acquired the full asset before. An existing example here is asmallworld.com, which is a private online community designed for those who already have strong connections with one another and is by invitation only. Building on this idea one can develop an exclusive shop online site for members only. A recent example is Fabergé's new site, which could be the future of "ultra-luxury e-tailing". Under new ownership, the celebrated jeweler launched its "online-only" presence in September 2009, omitting the capital investment in bricks and mortar. The site's password-protected inner world preserves the boutique experience while remaining commerce-driven. The most unique feature of the site is its customer service. Clients are immediately paired with a sales advisor who greets the client and provides access to the site and advisors are available in 11 languages, 24/7, for calls, instant messages, or video chats. Viewing as well can be scheduled and purchases are hand-delivered. This attention to detail guarantees that any Fabergé shopping experience, online or in-store, is managed to the brand's standards. Any weakness to the site is that most browsers cannot access it, and a tutorial at log in is provided as a guide for the non-intuitive navigation.

Extending this idea even further, the brand could solely have an online strategy to communicate things exclusively. Critically the web experience has to be as sharp as the physical retail stores - if made perfectly it should feel like a natural extension to the brand. In this way the band can use the Internet only for top clients to make them feel even more exclusive with logins and customizable products.

B. E-tickets to fashion shows

Another solution for luxury brands going online, yet maintain its exclusivity is to selectively give out e-tickets to their fashion-shows. Exemplified by Gucci again, deputing Gucci-Connect. More than just watching the catwalk, e-ticket holders for the virtual event were given the experience of going to a show. Live streaming and four video feeds gave varying perspectives of the show, as well as a peek of the excitement backstage. Subsequently, users were invited to stream live video of themselves beneath the broadcast from Milan, allowing attendees to witness others' reactions and discuss the event via chat. A few lucky VIPs had their videos broadcast during the show in Milan, integrating virtual and physical events.

C. Impeccable customer-service

Customer service might be an obvious choice for a luxury brand and should always be a part of the brand's strategy. Nevertheless, with the Internet come endless opportunities and ways to accommodate your customer in the best possible way. Therefore it is vital that the web design is flawless. The web site design for a successful luxury brand seller should be a beautiful and attractive for the user and provide a convenient, unique, and easy shopping experience. This can take many different shapes such as:

- Packaging (elegant wrapping and option of fast delivery)
- Constant contact with the consumer before, during and after

One example includes the added services that come with having an American Express platinum card or the concierge services with having a Vertu phone. Sylvia Bass, vice president at Platinum and Centurion Product management, American Express explains that enhancing the luxury experiences is the main focus. "The luxury consumer has shifted to caring about the material element to the unique experiences that make them feel special" (Danziger, 2005). For the future, Bass predicts the need for personalization and innovative ways to add value and ease the busy lives of the luxury consumer. Interestingly enough, the pressure is to keep innovating in the luxury market. Things are happening much faster than in the past, which is a constant challenge as luxury becomes more and more mainstream. Other suggestions with regards to customer-service is to have a personal shopper present to accommodate the client's needs, but also excite the user and make the want to shop.

D. Constant innovation

In many companies today, innovation plays a central role in the area of strategic business or product development. However, innovation can also contribute to branding and brand development. By continually creating and offering new products, services and consumer meeting places; or new combinations of activities that build on consumer insight, a company can generate more attention and growth for the brand. We call this brand innovation.

Ralph Lauren is perhaps the world's most cinematic luxury brand and famous for its storytelling. With its history of pioneering digitally innovative consumer experiences with early moves into mobile commerce and shopable window displays were particularly visionary. So when Ralph Lauren was working on "a never seen before digital project" that was to be "like the movie *Inception*," everyone in the industry were particularly excited. It is called "Ralph Lauren 4D Project mapping" (youtube.com). While this event may only give a hint on what to come, the potential to use 3-D technologies to bring brand stories to life is truly revolutionary. This event could also inspire Ralph Lauren (and other luxury brands) to fundamentally re-imagine their flagship stores - as hubs for interactive experiences that create both digital and physical connections with consumers. In the future, this type of event could become the ultimate retail experience (businessoffashion.com). This was how Ralph Lauren celebrated its 10th anniversary of it's online presence in a brilliant execution of a great clutter-busting strategy that proves that a brand can sell tradition in the most innovative ways and that nothing breaks through like big idea live experience. This constant investment in technology solves in part the trouble of "in-store experience". As commented by David Lauren, son of Ralph Lauren: "What we do as a brand is we tell stories… but we can tell that story better online. We can give people the ability to step into that experience…when we run those ads, we get thousands of calls saying: what kind of dog is that? What kind of car is that? What kind of house is that? Can I book a trip to that golf course? When you go on our site, you can do all that. That's why technology is now seamlessly integrated into what we do. It's allowing us to fulfill our original intent: to tell stories and let you step into that world" (businessoffashion.com). The final effect is truly exhilarating. But needless to say, staging this kind of extravaganza requires a lot if investment. It was estimated to be more than six figures on the part of the brand.

Other technological integrations could include the mobile phone. Being the most personal communications device existing today, the contents should be personal, meaning customized for each user according to their preferences, habits and expectations. This translates in using the mobile phone apps and content for client recognition, dialogue, exchanging, sharing, retail and communicating.

E. High level of security

From the consumer point of view, the online purchase is heavily linked with the issues of credibility, security, privacy and confidentiality. One of the most common worries with creating efficient and trustworthy online commerce concerns the security of financial transactions, which occurs over the network.

The concerns are not merely about security of value, but also about the trust in information society. The credibility on the web is closely connected to the process of gathering online information, which should be accurate, comprehensive, based on expert opinion, and comprehensive. Further on, when using websites to obtain information consumers are often asked to divulge personal information. The disclosure of identity of consumers is usually a privacy issue obstacle when shopping online.

However, as safe and credible payment solutions have emerged, the trust issue is more and more turning into history. The amount you spend on a product or service through payments online is also increasing over time as explained on page seven, implying that consumers now feel less concerned with these issues. Pay-pal for example in early 2006, founded an optional security key as an additional precaution against fraud and money is sent back to the consumer in case of scam.

F. Trust your consumer

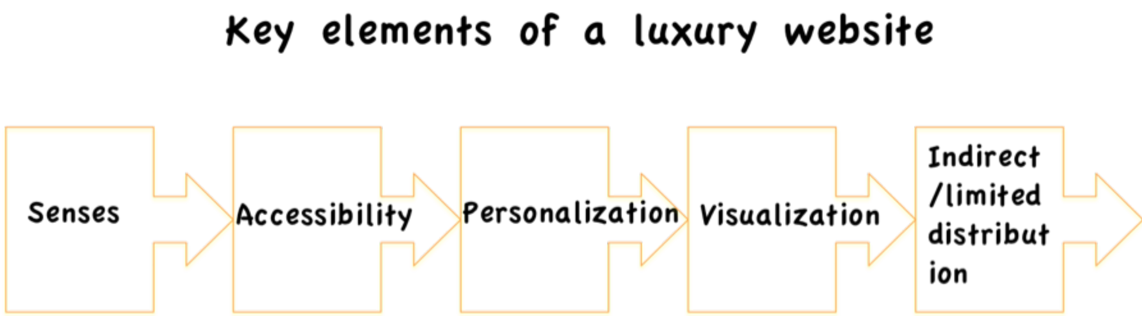
The most natural solution to the issues of social media is to simply trust your consumers. If the internal perspective of the brand coincides with the customers' view of the brand, it is all good. If not, you will finally realize who the core demographic really is and what they want. Lastly, if the brand finds a mention that they are not comfortable with, it may be better not to respond. The web is huge; not everything will be seen by the masses (especially as we move towards real-time conversations). Responding or seeking removal of a message may legitimize and simply bring attention to any negative sentiment.
Further on the whole idea with social media is that the user is free to express their opinions. Surprisingly this freedom seems to make them closer to you. When browsing through many of these brands' Facebook pages, most of them are positive. In this way this closeness is extremely important and valuable for a brand. Exemplified by Facebook again, all control is not lost as many brands have administrators managing their pages. Usually the consumers can only make "posts" through the brand representative with administrative function. Also as commented by Burberry, with all the information there is on the web, the negative comments most probably obscures.

Chapter 16: Towards a solid infrastructure for luxury online

The most vital step for a luxury brand to sell online is to build a brand strategy and to implement a sound retail strategy. This is at the heart of strategy for luxury products and services. Building the right brand perception on the Internet is aforementioned challenging due to the many limitations produced by the web interfaces. The company should strive to reproduce or at least not reduce the brand perception of the consumer.

So how do luxury brands adapt online, yet maintain an air of sophistication? According to Vic Drabicky, director of international and vertical market development at Range Online Media, the answer is to build a solid base and a predictable online strategy to and set clear goals: "Base the foundation on data, consistency and predictability" (Wicks, 2009). Drabicky further explains that it is not about spending more money, rather maximize time and ensure the message is reinforcing the brand's values. He also stresses the point to constantly build plans that will evolve the brand, and that those that will just sit and wait for the economy to improve, will be left behind.

Another key dilemma is to find ways to separate itself not just from the competition but also from the crowd as a luxury website. In order to build a successful website to promote luxury products and services the following key elements need to be taken into consideration:



1. Senses: A visual website is vital to luxury products in order to create a "wow" effect and to convey a powerful message in the few first seconds. Companies like Prada, Giorgio Armani and Rolex, for instance, developed websites that promote their brand through the strong use of pictures and video. They understand that strong visuals such as large pictures, sounds and videos can reconstruct the store's unforgettable experience. The use of short and relevant video clips adds color and excitement to the online luxury atmosphere" (Okonkwo, 2007). Furthermore, video clips can compensate for the lack of human interaction. Also an adapted music style helps to recreate the atmosphere of high-end shopping at home. The fashion industry seems to be more advanced in the use of appropriate sounds and music for online distribution. Viktor & Rolf's website is created as a virtual house and has remained as one of the few well-crafted luxury fashion websites where every visitor feels like a welcome guest. There is a lot to discover from the perfume room to the private library and the private theater where an online fashion show is being held.

To conclude it is important to communicate the dream and tell a good story. Hermes as an example, instead of a sales person they have a story next to the item, communicating their brand identity and make it exclusive.

2. Accessibility: Accessibility is the simplicity with which consumers can use the website. It is the art of easing the complexity through navigation and design. A good example is Louis Vuitton, which promotes a large number of products online, who implemented advanced navigation capabilities which make it easy for consumers to navigate through products being distributed on the website and to be introduced to new products, exploring the catalogue of Louis Vuitton World (louisvuitton.com). It can sometimes be hard to choose between powerful design through the management of senses and sound usability and navigation. Yoox.com succeeds in this domain by making clever use of visuals and sounds while representing in a very efficient manner over a hundred luxury fashion brands. Consumers can click and zoom and receive all relevant information about the products.

3. Personalization: Enables consumers to customize the appearance and the content of a website based on their interests and needs, is one of the key characteristics of traditional high-end luxury in both goods and services. This personalization can be geographic, behavioral, or based on interests. It is about managing interactivity between the brand and consumers and creating new experience "touch points" that did not previously exist. A number of luxury brands provide customized and personalized product services to select clientele. The availability of this level of service for example a personal shopper to a wider audience is required, replacing the role of the offline shop assistant and has the potential of enhancing the web experience.

4. Visualization: Content in luxury websites is more about the importance of pictures than displaying information about the product, i.e. conveying an emotional and symbolic message. The best websites tend to provide little text, more slogans and storytelling than factual information about products, unless this is necessary as in, for instance, the watch industry. Hermés conveys its luxury spirit by telling a story, the history of Hermés. In this way it is almost like a sales assistant telling the customer about the product.

5. **Indirect/ and or limited distribution.** This approach indicates distributing products through eMalls. Prada, as an example, decided to be present on a variety of luxury fashion providers such as net-a-porter, yoox.com, etc most likely for historical reasons, as Prada only recently decided to distribute online few items and only in some European countries. The indirect distribution strategy demonstrates that some brands are not yet persuaded that distributing online is part of their core business and prefer to outsource to vigorous e-commerce platforms. Limited distribution on the brand's website is also a sign that these companies are not convinced that the sensorial experience is too limited to launch full integration and distribution.

Chapter 17: Conclusion

Luxury brands' fear of losing control and appealing to the masses is irrelevant on social media. The control is already lost and the masses are only a threat as long as you try to control them. 2011 will probably show more high-end brands coming online and starting to do exciting things. Trendsetters like Tiffany & Co. and Ralph Lauren have shown that not only this is possible, but that great things can be achieved without having to lose the values that your brand survives on (simplyzesty.com).

So whether you like it or not, it seems that your band needs to be present online, or you will be forgotten. Parallel to luxury brands being bought up by big luxury conglomerates in their pursuit to increase sales, so seems the Internet be an inevitable channel to exercise.

Chapter 18: To consider when bringing luxury brands online

Drawn from the analysis it is necessary to address the issues online in a framework that can serve for future recommendations. These steps take into consideration the infrastructure and analysis explained earlier.

1) What is the purpose of going online?

This first step sets the long-term strategy for the brand and needs to be clear from the start. Without one, the efforts to attract customers are likely to be haphazard and inefficient. Here one can go two ways, either for sales reasons or enhance the brand image. The strategy should make sure that the products and services meet the customers' needs and desires and to develop long-term and profitable relationships with those customers. To stay competitive, you will need to keep the offerings constantly fresh and to keep up with the current trends in the market.

It is also important to outline what type of luxury brand you are. The *Modern luxury brands* offer status on a global basis, which is very important to newly affluent individuals. Managers of these brands need to ensure that their goods are readily, but not widely available. The challenge in doing so is to manage the tension between exclusivity and ubiquity. Web sales should be limited to one or two websites. As seen with Burberry’s world store, it specializes in luxury goods with price stability and considerable effort must be taken to guard against counterfeits.

A *Classic luxury brand* is based on endurance and built over time. The marketing challenge in developing and sustaining Classic luxury brands is to commit to quality, limit distribution, and create enduring goods, yet educate and lure amateurs, about the details that make great products in their brand category noteworthy.

A *Postmodern luxury brands* offer the consumer whatever is in vogue and they appeal to affluent consumers who are willing to embrace things that are in fashion today. However, consumption is unpredictable, and it relies on the taste and judgment of others. A successful marketing strategy is therefore to get the luxury good into the hands of key influencers such as stars, celebrities, and critics.

A *Wabi Sabi luxury brand* rely on the development of aesthetic skills to value a masterpiece experience: the appreciation of a great work of art, music, painting, food, is a skill that is only developed over time. Thus, possessing a Wabi Sabi brand is not important; experiencing it is. The marketing communication initiatives might include magazines and restricted websites, exclusive Facebook groups, and special events.

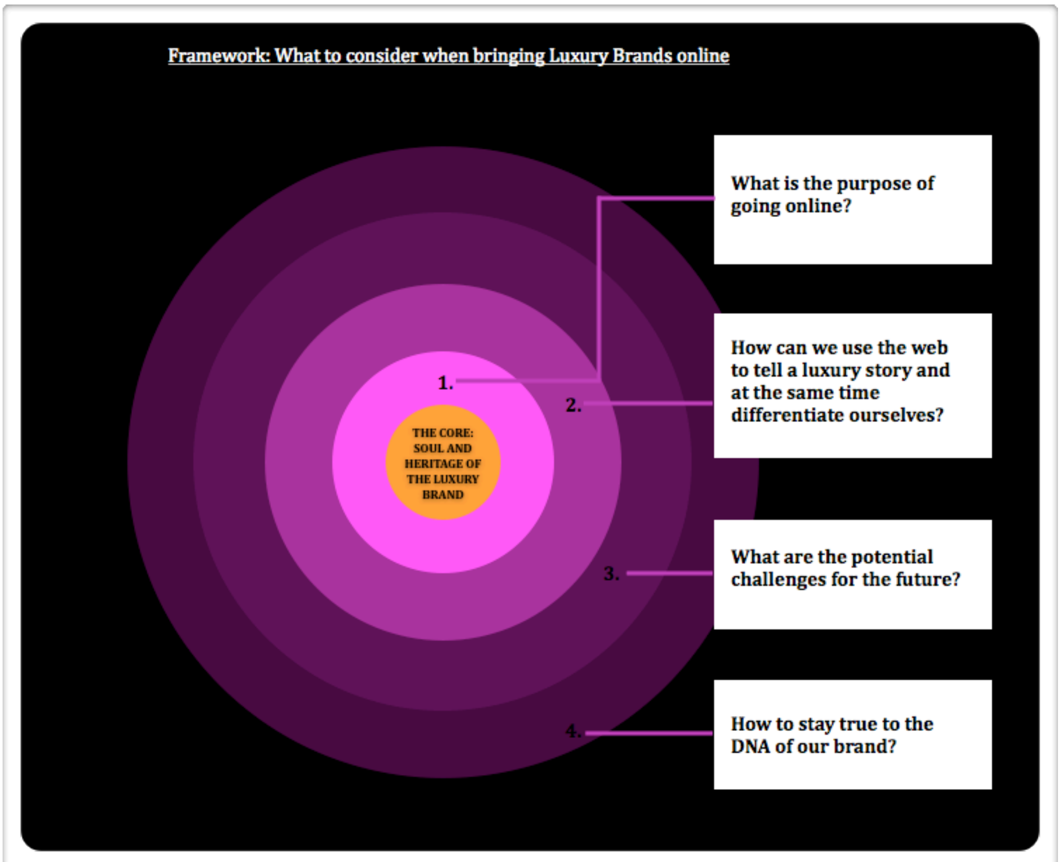
That the same luxury good can mean different things at different times to the same or different people is one of the nuanced paradoxes of luxury brands. As such, managers firstly need to recognize where their brand falls on the grid and the marketing strategies to employ accordingly.

2) How can we use the web to tell a luxury story and at the same time differentiate ourselves? First and foremost all key elements of a luxury website needs to be in place such as senses, accessibility, personalization, visualization and indirect/limited distribution. This thesis has brought up many examples of brands that have been very successful in creating a solid infrastructure online. Armani with its fully integrated e-commerce website and again Burberry's world store and interactive Facebook page. Other solutions to extend the brand online and make it exclusive are membership only site as exemplified by Fabergé, e-tickets to fashion shows, which many brands now are doing. Further on as time is always valuable, luxury consumers are willing to pay for incomparable services. Digital can be the perfect vehicle to boost customer service, where software tools can provide services that cannot be duplicated in traditional channels. This can take shape in for example packaging or VIP treatment. Moreover, a brand should always pursue an innovative strategy; look out for emerging technologies and continually offer new products and services. Finally high level of security is more or less evident to succeed online and the easiest tactic is simply to trust the customers. This is quite straightforward if you stay true to the brands' values and always keep a transparent approach. Finally, the biggest difference when it comes to digital branding, compared to the real world is the need for newness and a more personal approach, i.e. offer rock-solid consumer insight. Therefore their webpage needs to be highly interactive and their movies posted on Facebook create a personal relation to their client base.
To sum up, building the brand's image and mythology online helps to attract and retain customers now and for the future. It allows the brand to reach affluent consumers who are potential customers as well as aspiring consumers who may one day have the means to be actual customers.

3) What are the potential challenges? This thesis has brought up some insights in what to bare in mind and look out for before taking the brand online. Possible threats are distribution conflicts with pricing being the most important one. Here it is crucial to look at each country separately and accommodate their needs accordingly. Also a brand should carefully monitor the grey market issues

and seek possible branding strategies to tackle them. One solution is to create one single portal bringing everything together, which leaves the customer with only one choice. Finally, due to the fast movement and sometimes pressured collections it is important to constantly keep your customers interested and curious to what the brand can offer.

4) How to stay true to the DNA of our brand? Just like the DNA appoints how the human body is constructed, the values, vision and purpose make up the DNA of the brand. This DNA defines everything a brand do. It is what brings the brand to life and will carry it into the future. A brand must be unique and have characteristics that make it stand out, such that these characteristics become easily identifiable by the consumers. It should be crystal clear the values that the brand wants to possess and these should be communicated efficiently. It is further on important to be consistent in your brand building through all the media that you use, whether it is the Internet, traditional advertising, word of mouth or product placements. This means looking back at your heritage, yet stay relevant and fulfill the dreams and desires of your clients.



Chapter 20: Final comments

Going back to the pure definition of luxury, in this era of democratization of lavishness, the only strategies that will really work and that will take its company and its brand into the future, is continually enhance and build more luxury value into its products and services. Regardless on where the product lies on the luxury price continuum, you must continually reinvent the brand constantly keep moving forward. The key word here is "perpetual motion". We must keep moving the brands to keep them vital and alive in order to move up-market by adding more luxury value. Another strategy is to move down-market by taking the products on a more moderate price point. Some marketers are extending their brand across new product categories while still maintain the brand's core emotional values. Or one can choose all three strategies at the same time. Although demanding and sometimes dangerous, they all represent real-world strategic opportunities where the most risky strategy of all is to simply stay still.

So in order for luxury products to flourish on the Internet, two conditions hold:

1. Correct, personalized identification
2. Multisensory experience

Luxury brands need to have a strategy for reaching the new generation of luxury consumers. Of all respondents, the minority was negative towards the Internet. It all starts with what your definition of luxury actually is, what you want to be for your customer, and what you want to become. The democratization of luxury and the emergence of the big luxury conglomerates seem to go hand in hand with the Internet. It is a cruel fact that was mentioned by the majority of the respondents. Digital's primary goal is to communicate the dream. Building the brand's image and mythology online helps to make the brand desirable for all customers, current and future.

Moreover, luxury companies need to jump on the online train as it implies a huge business opportunity and sales have as proven in this thesis gone up significantly. But to what price? If you look around in your work place, at school and you compare how many people that actually own a Louis Vuitton bag nowadays compared to 10 years ago. Is that really a luxurious brand? But is the increasing number of consumers only a result of the Internet. Probably not, as there are many other factors contributing. The best solution if your company still want to be profitable seems to be present online, yet stay true to the DNA of your brand, be transparent and seek innovative ways that your competitors are not yet aware of. Finally, time is valuable and digital tools are perfect channels to reach those time-starved affluent customers that would otherwise be un-served. We are living in an instant society, so everything has to be fast and everything has to be big and everything has to be now. This is a reflection of society and not something that we can sit and just watch. It is a reflection, the mirror of society, and the same applies to what we are doing.

"Technology can be luxury - It makes the impossible possible, that's a luxury for my designs," and it saves time, which is also a luxury." - Tam who recently launched a fashionable computer in collaboration with Hewlett Packard. (Drier, 2009)

Chapter 21: Further research

Although this thesis brings up new and valuable knowledge with regards to luxury online for companies, there is still a considerable need for more research. Some suggestions include examining the perspective of consumers and their needs and desires on luxury online. With this thesis as a basis, there is room for experiments to be made with customers to test the efficiency level of the brands' strategies.

Other suggestions include after luxury online possibly being a common action, to analyze how to stick out in the crowd. The reason being when conducting the research for this thesis, there were times when there is reason to believe that the brand in question was not present online, when it was in fact. How to know where to find these brands and to break through the clutter? For example the revolutionary discovery of Ralph Lauren's 4D technology was incredible, but not many consumers had ever heard of it. It seems that new technology alone does not make a powerful consumer experience. If you take away the technology from the equation there is no long-lasting emotion or feeling. They could also have made more effort to build pre-event buzz, since not enough real consumers was aware of these amazing events, which were mostly attended by industry insiders. To conclude the brand missed an opportunity to capture value for commerce and consumer engagement within the digital show.

References

Online sources:

http://www.airl-logistique.org/fr/files/?view=307 (accessed 3/2/11)

http://www.bbc.co.uk/news/business-11645439 (accessed 1/4)/11

http://www.brandchannel.com/view_comments.asp?dc_id=101(accessed 15/2/11

http://www.businessoffashion.com/2010/11/digital-scorecard-ralph-lauren-4d-projection-mapping.html (accessed 10/1/11)

http://ecosalon.com/sustainable-luxury-an-emerging-trend/(accessed 10/11/10)

http://edition.cnn.com/2006/US/10/18/bin.luxury.overview/index.html (accessed 10/9/10)

http://www.emarketer.com/Report.aspx?code=emarketer_2000430(accessed 15/12/11)

http://ezinearticles.com/?Disadvantages-of-Social-Media&id=3026858 (accessed 17/1/11)

http://www.forbes.com/2010/10/19/burberry-christian-louboutin-technology-social-media.html (accessed 16/1/11)

http://intercontex.wordpress.com/2009/12/14/apparel-2-0-social-media-and-fashion-will-this-2010-trend-continue/ (accessed 2/2/11)

http://www.knowledgeatwharton.com.cn/index.cfm?fa=article&articleid=1846&languageid=1 (accessed 8/9/10)

http://www.louisvuitton.com/ (accessed 15/11/10)

http://mashable.com/2009/07/02/luxury-brands/ (accessed 27/11/10)

http://www.l2thinktank.com/luxury2010digitaliq/luxury2010digitaliq.pdf (accessed 2/2/11)

http://www.nytimes.com/2009/11/10/business/global/10burberry.html (accessed 15/1/11) http://www.nytimes.com/2003/03/01/news/01iht-retail_ed3_.html (accessed 15/1/11)

http://www.simplyzesty.com/brands/social-media-luxury-brands/ (accessed 29/1/11)

http://socialmediatoday.com/sara-riis-carstensen/151577/luxury-and-social-media-incompatible-match (accessed 5/2/11)

http://www.signonsandiego.com/news/2010/may/30/hidden-economy-a-hidden-danger/ (16/2/11)

http://www.style.com/stylefile/2011/02/the-future-of-fashion-part-seven-carine-roitfeld/ (accessed 18/2/11)

http://www.reuters.com/article/idUSTRE62A1QS20100311 (accessed 15/2/11)

http://www.youtube.com/watch?v=c3n8j2uWA8o&feature=related(accessed 18/3/11)

Literature:

Alvesson och Sköldberg (2008) *Tolkning och reflection: Vetenskapsfilosofi Kvalitativ metod*. Malmö, Studentlitteratur

Birchall, Jonathan (2007) *Luxury: Exclusive coterie still slow to take to the net* Financial times

Bourne (1957) quoted in Stegemann, Nicole (2006) *Unique brand challenges for luxury brands* , University of Western Sydney, Australia. Journal of Business & Economics Research

Bucklin, Christine B. et Al (1997) *Channel conflict – when is it dangerous?* The McKinsey Quartely 1997 Number 3.

Chadel,Rémi (2009) Does Internet really matter for luxury goods industry? Special Report: Affordable Luxury: a reachable dream?

Chevalier, Michel and Mazzalovo Gerald (2008) *Luxury brand management.* John Wiley & Sons Inc. Singapore, Asia

Danziger P.N. (2005) *Let them eat cake*. Dearborn Trade Publishing, Chicago US.

Drier, Melissa (2009) *Technology luxury conference* WWD Issue

Indvik, Lauren (2010) Luxury Brands Still Tread Lightly With Social Media. Forbes.com

Drier, Melissa (2009) *Techno luxury conference Examines Digital Space* WWD Issue.

Kapferer, J.N and Bastien, V. (2009) *The luxury strategy*. Kogan Page Limited, UK

Kirby, Julia (2007) *Mad about plaid*. Harvard Business Review

Krauss, Cheryl. Bain & Company, (2010) *Luxury Goods Worldwide Market Study*

Nueno, Jose Luis & Quelch, John A. (1998) *The mass marketing of luxury.* Business Horizons

Okonkwo Uché (2007) *Luxury Fashion Branding* Palgrave Macmillan, New York, US

Okonkwo, Uché (2010*) Luxury Online.* Palgrave Macmillan, New York, US.

Pitt, Leyland et Al (2009) *Aesthetics and Ephemerality: Observing and Preserving the luxury brand*. California Management Review

Socha, Miles (2010) *Pinault's Five planks for growth* WWD Issue

Qualman, Erik (2009) Socialnomics: How Social Media Transforms the Way We Live and Do Business. John Wiley and Sons. New Jersey, US.

Stegemann, Nicole (2006) *Unique brand challenges for luxury brands* , University of Western Sydney, Australia. Journal of Business & Economics Research

Stephenson et Al (2010) Social media the new front row of fashion. WWD Issue

Söderlund, Magnus (2005*) Mätningar och Mått: I Marknadsundersökarens värld,* Malmö, Liber

Webb, Kevin L. (2001) *Managing channels of distribution in the age of electronic commerce* Department of Marketing, E. Claiborne Robins School of Business, University of Richmond, US

Webb et Al (2002) *Hybrid channel conflict: causes and effects on channel performance* Department of Marketing, E. Claiborne Robins School of Business, University of Richmond, Virginia, US

Werdigier, Julia (2009) *Burberry looks online to gain customers,* The New York Times

Vigneron & Johnsson (1999) quoted in Nueno, Jose Luis & Quelch, John A. (1998) *The mass marketing of luxury.* Business Horizons

Wicks, Amy (2009) *Building a solid foundation for luxury online* WWD Issue

Yin, R.K. (1994) *Case Study Research*, Design and Methods (2nd ed.), California:Thousand Oaks, Sage.

Interviews

Interview with a corporate contact at Cartier of North America

Interview with corporate contact at Armani of North America

Interview with corporate contact at Burberry of UK

Interview with corporate contact at Zilli of North America

Interview with corporate contact at the Swatch Group of North America

Interview with Ketty Pucci-Sisti Maisonrouge Adjunct Professor – Marketing Department Columbia Business School. New York, US.

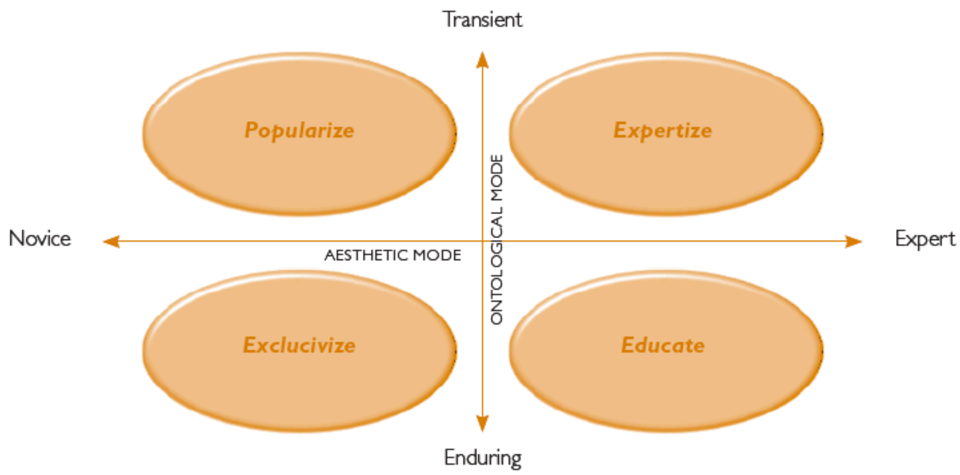
Interview with Guillaume Gauthereau Founder & Chairman at Sequoia Lab

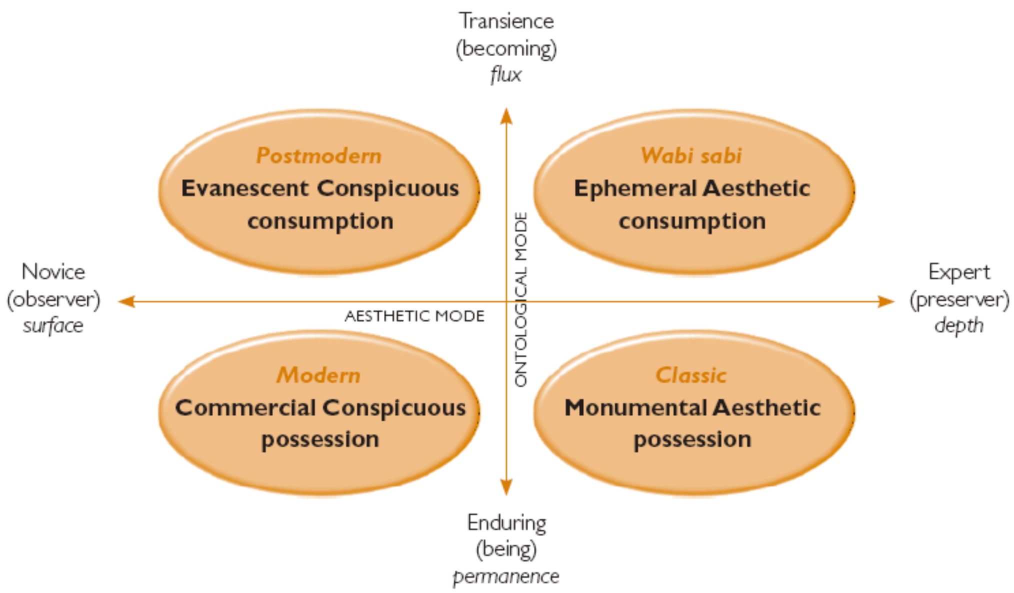
Interview with Anna Broback, PhD in consumer behavior and Executive Client Manager at MarkUp Insight

Appendices

Appendix A

The AO Framework - A Typology of Luxury Brands

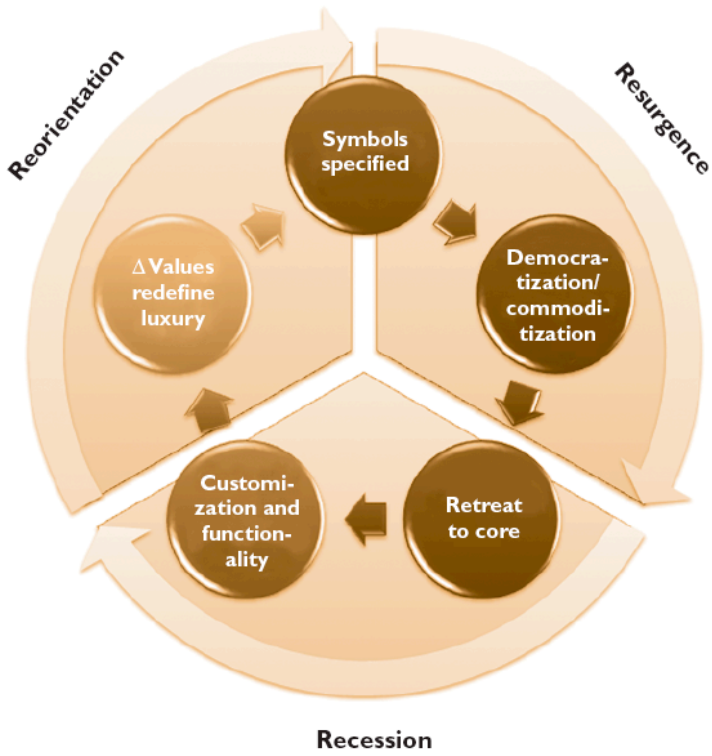




Pitt, Leyland et Al (2009) *Aesthetics and Ephemerality: Observing and Preserving*

Appendix B

The Cycle of Luxury



Pitt, Leyland et Al (2009) *Aesthetics and Ephemerality: Observing and Preserving*

Appendix C

Stockholm School of Economics: Master's thesis 2011
Questionnaire on luxury online

1. **What is luxury for you? What within the Group is in your opinion to be considered luxury, do you see products that you would consider more of "mass-luxury/masstige"?**

2. **Is luxury still afraid of the Internet? If so, why?**

3. **What are your competitors doing as for digital branding?**
    a. **Do you feel that you follow them or are you leading the way?**

4. **What product categories within the umbrella brand are suitable in you opinion to sell online? (Special characteristics)**

5. **How has your online presence evolved over time?**
    a. **What product(s) did you first launch on-line, what was your strategy behind it?**

6. **What features do you put special emphasis on digitally?**

7. **How do you convey luxury to consumers online?**

8. **What difference do you see in luxury branding in the digital world, compared to the real world?**
    a. **Are there any new trends?**

9. **Do you allocate internal resources to those activities?**

10. **Do you have the necessary capabilities in-house or do you source them externally?**

11. **What do you think luxury brands have to do in digital branding to be/stay competitive/differentiate themselves?**

12. Do you see any challenges by branding your company in the digital world?

   a. **What factors can reduce the potential negative implications on taking a luxury brand online?**

13. If and how do you measure your brand value? (e.g. benchmark, revenue premium model)

14. What distribution channels are the most important ones for you in terms of:

   a. **Sales**
   b. **Brand value/image**

15. What restrictions do you put on e-commerce, being a luxury brand, i.e. are there certain products that you would never sell on-line, are there other retailers that are not allowed to sell the products on-line – why?

16. Do you see any channel conflicts with going online? Has there been any resistance from stores not wanting to represent your brand when you have chosen to sell your brand online as well.

17. How do you handle a) counterfeits b) social media – if someone is writing anything inappropriate about the brand online?

18. What should luxury brands look out for (threats) for the future?

19. To conclude, name the most striking advantages and disadvantages with going online.

20. a) Can you provide any proof of this – has there been any changes in brand equity, sales after you have taken your brand online?

Thank you for your participation!!