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Faculty of International Relations

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Marketing of Luxury Products

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Declaration:

I hereby declare that I am the sole author of the thesis entitled “Marketing of Luxury Products”.
The used literature and sources are stated in the attached list of references.

Prague, 2012, April 11th

Signature

Yana Shamina

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Introduction

The world of luxury products for many years was reserved only for the selective and exclusive audience. It looked like it was impossible to experience it or to get in for someone from outside. Marketers of luxury brands have created such an environment where clients could feel exclusivity and enjoy the timeless quality, traditional values, history and heritage of the luxury products.

Nowadays, there are many researchers, who try to find the main characteristics and meaning of luxury. One of the main functions of luxury is its role of a social marker. Even though current global situation tends to be democratic, there is a need for a structure and the luxury products might be the instruments that draw the boundaries between people. “From rigid social orders defined by birth, caste, family position, or profession, suddenly how much money you have is the key classifying criterion. Those Gucci bags and Ferragamo shoes are not merely girlish indulgences, and neither are the Armani suits and Rolex watches just male vanity; they are part of a new social protocol where your identity and self-worth are determined by the visible brands on your body.”¹

With the considerable transformation within social, political and economical spheres during last centuries, luxury products have remained their social meaning. The rules are different but outcome, exclusivity and belonging to high social class, is the same for all time periods.

However, managerial strategies and business models of luxury companies have changed over last decades, from the family owned businesses or sole entrepreneurs to the large global conglomerates. But during the time of transformation, luxury industry has maintained its core functions and characteristics. High quality, craftsmanship, exclusive service etc, are the crucial points for luxury products for many centuries.

Last two decades before the global economic crises was the period when luxury marketers adopted very controversial for luxury field model which made communications to be primer then quality. Although this strategy worked with the lack of attention to traditional values of the luxury products, it showed the most fast and effective way to boost sales and profit. The main trend was an “affordable luxury”, new luxury products which customers

¹HUSIC, M., CIRIC, M., *Luxury consumption factors*, Journal of Fashion Marketing and Management, Volume 13, Number 2, 2009

with lower income can afford and purchase. Those products became available through brand extension strategies, different channels and messages of communications. This transformation was the powerful input that was done by marketers, as building the image and using channels to educate people might be considered as more easy way to attract the customers then to provide them with unique experience.

However, the world economic slowdown in 2008 put in question whether the new strategy is immune for the long run expertise. Consumers of “affordable luxury” were the prior reason of luxury industry’s lower revenues, as they were the first one to cut on their expenses. On the other hand, real luxury consumers remained the safe platform for industry growth. This was a signal for luxury producers to stop speculate with the luxury model and to return to the traditional values and experience that luxury offers.

It is important to analyze all the industry trends as without any doubt both sectors, traditional luxury buyers and upper-mid-class customers, are important for luxury brands. Marketers are trying to extend their brands to mass market but meanwhile introducing some limited-edition goods for elite at much higher prices to define the line. And the marketing strategy should be designed very carefully, so that both groups of customers remain satisfied. Balancing on the limits may attract big profits but in case of failure the loss can be fatal.

Not only had the change in luxury business model pushed the sales up, but the influence of emerging economies had a great impact on the transformation of luxury sector. Main luxury conglomerates generate their revenues in the BRIC region and the Asia-Pacific countries. The importance of this issue will be highlighted in details in this dissertation thesis.

As time passes by, luxury producers have to face and adapt to rapidly changing environment. During last decades it became clear that general marketing principles and techniques are not efficient when building and sustaining luxury brand. The best world universities have created, if not whole departments of luxury marketing and management, then separate courses that are becoming obligatory for future luxury marketing professionals.

Additionally, recent technological progress is changing the rules of the game. Those channels for communication of the luxury brands which have worked for ages are not effective any longer.

The Internet allows benefiting from better quality, different content, service and experience. But for many years this channel of communication was not very popular among marketers of luxury brands. Even though, luxury companies were very slow to react to global digital changes, most of them are now catching up and trying fully profit from the Internet.

The main contradiction between the Internet and the luxury industry was that digital world is too impersonal comparing with core competence of luxury: exclusivity, outstanding experience and human touch in everything including craftsmanship, personal selling and customer relations. But in order to stay in touch with its target audience, innovations should be implemented. However, producers of luxury products are very accurate when deciding to expand online.

It is crucial to understand the online principles as for the purpose to establish strong cooperation and to benefit from it, marketers of luxury brands should be up-to-date with the global changes and meet the new requirements of their customers.

However, there is still the lack of scientific literature and research studies that can contribute to luxury marketing discipline, especially into the field of online expansion of luxury brands. Hence, decision was done to broaden existing studies on luxury marketing concepts.

The aim of this dissertation thesis is to define what is luxury, attitudes and values of its customers, describe the exclusive approaches for branding and communication of these specific products, analyze the main points that influenced the growth of luxury industry, such as emerging markets, democratization of luxury etc.

Additionally, it is crucial to highlight the new channels of marketing communications for luxury brands, together with analyzing the potential influence of going online.

The main research problem of this study will be concentrated on the deep analysis of features of importance for online luxury consumer satisfaction and examination of the major motivations for luxury consumers to spend time on the luxury websites.

In order to understand the main research problem of this dissertation thesis, the overview of the literature review chapters needs to be highlighted in details.

The structure of the thesis is as follows. To have a picture of the the nature of luxury products it is crucial to observe history of luxury, the way its meaning has changed over years. Therefore, the major stages in the luxury history and principal changes in attitudes of

luxury customers will be highlighted in chapter 1. Additionally, the overview of the current situation within the luxury market will be presented. For the analyses, the main growth points and figures will be described. Nevertheless, it is crucial to present the main product categories of the industry and analyze their influence. Main markets and business segments of major luxury conglomerates will be illustrated.

Chapter 2 will reveal the main scientific studies of luxury consumption and consumer behavior and show the evolution of the luxury consumer's motives to consume luxury products.

Chapter 3 will discuss the specifics of luxury marketing, the comprehensive analyses of the luxury branding techniques such as brand extensions, brand identity, brand positioning and practices for building the successful luxury brands. Additionally, marketing communications of luxury products differ a lot from the mass communication techniques. Therefore, the specific channels, tools and best communication strategies will be analyzed. The changing luxury environment reflects the changing needs of luxury customers, therefore, together with traditional groupings of luxury consumers, a clear definition of the new luxury consumers as a new class with new purchase driven factors will be presented.

Chapter 4 will be devoted to the main current trends within the luxury industry. The phenomenon of “affordable luxury” and democratization of luxury sector will be highlighted. The very crucial aspect of the current global trend, technological revolution, will be presented in details, concentrating on threats for luxury brands to go online, online luxury market analyses and its best performers, online visual merchandising etc. The extensive part of the dissertation thesis will be devoted to analyzing of online marketing communications of luxury brands, online communication channels, emerging class of online opinion leaders, luxury virtual communities and social media.

Chapters of literature review are followed by the methodology description and data analyses. Chapter 5 will present the primary quantitative research which attempts to define the features of importance for online luxury consumer satisfaction. The research model will be adapted to luxury field from the uses and gratification model which “is a communications research paradigm that determines motivations by focusing on what people do with mass

media”². Taking into consideration the growing influence of the digital world on the luxury industry, such framework will be created that can help to analyze online luxury consumer behavior, motivations for using the Internet and the factors that influence online luxury consumer satisfaction.

Four main hypotheses are proposed for the examination:

Hypothesis 1: Content gratification of luxury websites has a positive effect on luxury consumer satisfaction.

Hypothesis 2: Social gratification of luxury websites has a positive effect on luxury consumer satisfaction.

Hypothesis 3: Process gratification of luxury websites has a positive effect on the luxury consumer satisfaction.

Hypothesis 4: Technology gratification of luxury websites has a positive effect on the luxury consumer satisfaction.

Quantitative data collection method, group structured questionnaire, will be used. This will enable to have the highest response rate and will give the possibility to clarify the questions for the respondents, if any confusion occurs. The questionnaire will be distributed among Bachelor’s and Master’s degree students during International Marketing and Marketing Communications lectures at the University of Economics in Prague.

Finally, chapter 6 will reveal data analyses by incorporating the statistical techniques which are suitable for quantitative type of the research. Summary of the findings together with limitations and future research will be highlighted in chapter 7.

The online world offers numerous opportunities for luxury companies. Therefore, to be successful in a current environment, luxury brands need to introduce, adapt and implement their marketing strategies to the digital world.

The reason why this research is a considerable contribution for the managerial practices is because this study will provide the deep insights to the luxury consumers’ motives to use the Internet and to visit luxury related websites³.

² STAFFORD T. F., STAFFORD M. R., SCHKADE L., *Determining Uses and Gratifications for the Internet*, Decision Sciences, 2004, Vol. 35, Issue 2, pp. 259–288

³ Luxury related websites - luxury brand’s web pages (Gucci, Chanel, Ferrari, Rolex etc), online luxury retailers websites (net-a-porter etc), fashion blogs, luxury brands pages in social networks, luxury fashion magazines web pages etc)

Additionally, it will give a comprehensive analysis of the features of importance for luxury consumer when visiting luxury web pages and will create such a framework that will help luxury marketers to develop their online communication strategies in a way that will result in maximum luxury consumer's satisfaction.

1. Definition the luxury

1.1. History of luxury brands

Luxury brands are always associated with wealth, success, creativity, individuality, craftsmanship, exclusivity and high prices. All these features give the customer maximum satisfaction from the purchase of luxury product together with additional psychological benefits such as status, self-confidence, prestige. In other words, luxury intends to create sense of self. “Products especially sensitive to social influence as a display of wealth are the most visible, and include dress clothing, casual clothing, automobiles, stereos and living-room furniture. The master move of the luxury industry is the “logofication” of the handbag, plastering instantly recognizable symbols in a continuous pattern all over the bag.”⁴

Producers of luxury brands target mostly affluent customers. “Luxury exists because just some people cannot access it.”⁵ These customers are more or less price insensitive and eager to spend their time and money on products and services that provide extra value and experience rather than that necessities do. “Higher quality products, fancy packaging, exclusive store locations, higher retail margins, expensive promotions, advertising campaigns, and brand names all contribute to the higher prices of luxury goods. In fact, if luxury products are not priced high, they lose their rarity and exclusivity characteristics.”⁶

Due to that, prestigious luxury brands for centuries experienced loyalty of their clients. “Luxury is constantly evolving and subjective concept, and not easy to define. But more often than not, the word is used to define an inessential but desirable item or a state of extreme comfort or indulgence. What sets luxury brands apart is that they command a premium without clear functional advantages over their counterparts. Yet consumers are willing to pay the significant price difference because they have a unique set of characteristics including premium quality, craftsmanship, recognisability, exclusivity and reputation.”⁷

⁴HUSIC, M., CICIC, M., *Luxury consumption factors*, Journal of Fashion Marketing and Management, Volume 13, Number 2, 2009

⁵KAPFERER J. N., *Luxury after the crises: Pro logo or no logo?*, The European Business Forum, 2010

⁶HUSIC, M., CICIC, M., *Luxury consumption factors*, Journal of Fashion Marketing and Management, Volume 13, Number 2, 2009

⁷GRAHAM P., MATHEW M., *The changing face of luxury*, retrieved on 10 October 2011, http://www.knowledgenetworks.com/know/2004/spring/pdf/KNOW_CHANGINGFACEOFLUXURY.pdf

1.1.1. The birth of luxury

To start with the history of luxury, it is crucial to point that it was reserved to the very limited circle (royalty, aristocracy, etc.), those that had power and money and could enjoy the pleasure of not working. “Luxury was a measure of your rank, itself being inherited.”⁸

“The first luxury brands consisted of silverware, glassware, and china made industrially in France and England by Baccarat, Wedgwood, Lalique, and others. Through these products, the bourgeois of the nineteenth century could imitate the hard-crafted designs used by the royalty and nobility.”⁹

Due to the historical changes in the society (wars, revolutions etc.) the power was shifted from the dynasties to the influential people who were able to get their rank and position in the society not by birth but through knowledge, personal relations, hard work etc.

It is interesting to see the development of the luxury products as the development of fashion. There are a lot of arguments about the period when fashion started to play such an important role in the society as nowadays. But most researchers agree that the first point of the change took place in the 13th and 14th centuries.

“The institutional origin of the concept of fashion, in the sense of systematic process of socially accepted variations in particular custom and clothing style, took place early in the Renaissance in the protocapitalist Italian cities. It later spread to the whole Europe, in particular to the Boulogne courts, an early sign of the crucial role of Paris as the place for the creation of new fashions in later centuries. There was a second acceleration of the phenomenon that seems related to the emergence of the merchant social class, alongside the established social groups such as nobility, the army, the clergy and farmers. The diffusion of rich merchants around Europe encouraged the creation of a new dressing code no longer conditioned by ostentation, poverty, or usefulness, but by the search for social legitimacy. Thus the association between clothing and cyclical change was strengthened.”¹⁰

⁸ KAPFERER J. N., *Luxury after the crises: Pro logo or no logo?*, The European Business Forum, 2010

⁹ NUENO, J. L., QUELCH, J., *The mass marketing of luxury*, Business Horizons, 1998

¹⁰ SAVIOLO S., TESTA S., *Strategic Management in the Fashion Companies*, Etas, 2007, p.11

1.1.2. The establishment of Haute Couture

The next considerable change in the role of fashion in society was in the 19th century, but the most intense period was after the end of the Second World War, when the influence of designers became superior.

“The first independent couturier was Charles Frederick Worth, an Englishman who stabled himself in Paris in the 1850s. Before Worth, tailors had been unknown by the general public, and worked on commissions from individual customers, principally ladies of aristocracy. Paris became global center of new trends during 20th century, with Haute Couture, thanks to great couturiers such as Poiret, Chanel, Dior and Saint Laurent.”¹¹

When Givenchy provided Audrey Hepburn with its products for “Breakfast at Tiffany's” movie in 1961, luxury was still exclusive, “the particular provenance of the refined social elite”¹². Audrey Hepburn, who was wearing the Haute Couture dresses, specially tailored to actress was the example of the true luxury look.

This was the time when individual designers became brand names. The highly limited and personalized industry of tailored couture transformed into mass market business with unlimited profits. During this time the Haute Couture designers began licensing their brands. Because of that some designers, such as Pierre Cardin, in future would lose control over the image of the company as well as dilute the perception of the brand by customers. Then Yves Saint Laurent launched separate lower positioned, ready-to-wear line called Rive Gauche with the aim to attract new, and young clients.

That was the beginning of the today's model: exclusive luxury Haute Couture at the top, for wealthy clients, ready-to-wear clothes from the same designer for the middle class and affordable products such as perfumes and accessories for mass consumption. It was the beginning of democratization of luxury and fashion.

¹¹ SAVIOLO S., TESTA S., *Strategic Management in the Fashion Companies*, Etas, 2007, p.12

¹² *Illusion, Not Quality: The Transformation of the Luxury Niche into a Global Mass Market*, 18 January 2008, retrieved on 15 September 2008, <http://knowledge.wharton.upenn.edu>

1.1.3. “New luxury” patterns

When talking about “new luxury” period, then it is reasonable to start from 1984. There were several events that pushed society to change its attitudes towards luxury.

It was the time when big companies completely changed the decentralized and exclusive luxury industry into huge corporate conglomerates and created a kind of cash cow from it.

The main figure that influenced this transformation was French entrepreneur Bernard Arnault, the world's fourth and Europe's richest person in 2011. In 1985 he acquired Christian Dior for \$15 million, which became part of the world's largest luxury goods conglomerate LVMH and reinvented the whole luxury industry. Today, LVMH's brands include Louis Vuitton, Givenchy, Marc Jacobs, Dom Perignon, Pucci, Fendi, Donna Karan, Chaumet, Moët & Chandon, Hennessy and others.

"Luxury is crossing all age, racial and geographic brackets," an LVMH executive told *Forbes* in 1997. "We've broadened the scope far beyond the wealthy segments."¹³

The 90's was the period when everything was changing. The traditional companies that produced luxury goods were doubling their average revenue growth figures. It was time to establish new rules in retailing that provided the opportunity for stronger control over quality and service of products. But this was the most exciting period for marketers that were working within luxury industry. They were developing new strategies, new channels through which they could acquire and influence the customer in the most sophisticated way.

Very interesting example of “new marketing” of luxury brands is the activity of Tom Ford as a creative designer for Gucci.

Ford joined Gucci as chief women's ready-to-wear designer when its creative director was Dawn Mello. In 1994, Gucci was acquired by an investment firm Investcorp. That was the time when Tom Ford replaced Dawn Mello at his position. During his first year, Ford completely changed the old-fashioned image of the brand and put the glamour back.

¹³ *Illusion, Not Quality: The Transformation of the Luxury Niche into a Global Mass Market*, 18 January 2008, retrieved on 15 September 2008, <http://knowledge.wharton.upenn.edu>

In 1995, he invited French stylist Carine Roitfeld (2001-2011 editor-in-chief of French Vogue) and photographer Mario Testino to style and shoot an advertising campaign for the Gucci brand. Press named this campaign as incredibly provocative. But it was the main commercial success that helped Gucci to avoid the bankruptcy.

New look was unexpected for the society; it was very honestly aggressive while rejecting any modesty. These campaigns pushed Gucci brand back to the top of luxury industry.

"There are many more talented designers than me, but I have a lot of drive and won't let it go. I'm lucky, I have mass-market tastes," Tom Ford says. "When I say I like a shoe, generally thousands of people will like it. Thank God, because I would have been a very unhappy person if I hadn't had this kind of success."¹⁴

By 1999 the company was valued at \$4.3 billion. "We didn't even have a photocopier at one stage," designer says. "We didn't have any paper."¹⁵ In 2000, Tom Ford was named Best International Designer at the first VH1/Vogue Awards in New York.

The secret of Tom Ford's success is that he clearly identified a specific emerging cultural moment and created the combination of the incredible feel for fashion and commercial success that will be studied by sociologists and business analysts.

Luxury got "new" model of experiential luxury that completely changed its perceptions for consumers.

The contrast between "old" and "new" luxury shows a historical, economic and social shift. During the period of the 60s and 90s, luxury entered the mass market - and stopped being truly luxurious. "New luxury" has been defined as products and services that possess higher level of quality, taste, and aspiration than other goods in the category but are not so expensive as to be out of reach."¹⁶

"In 2006, legendary little black Givenchy dress that Audrey Hepburn wore in *Breakfast at Tiffany's* sold at auction for \$807,000. Holly Golightly would approve. So would Bernard Arnault: Today, LVMH owns Givenchy."¹⁷

¹⁴*Biography*, retrieved on 27 March 2009, <http://www.tomford.de/>

¹⁵ Ibid

¹⁶ATWAL, G., WILLIAMS, A., *Luxury brand marketing – The experience is everything!*, Journal of Brand Management, Vol. 16, No. 5-6., pp. 338-346

¹⁷*Illusion, Not Quality: The Transformation of the Luxury Niche into a Global Mass Market*, retrieved on 15 September 2008, <http://knowledge.wharton.upenn.edu>

1.1.4. The era of “responsible luxury”¹⁸

The new era is coming, and it can be defined as era of “responsible luxury”. But in order to create it, producers of luxury brands should return into original values of luxury without giving up technological innovations and new managerial approaches. Producers will again have to find the passion for the ethics and moral and based on that to build the strong future of the brand.

In case of marketing communications approach, innovation is one of the keys of success. Marketers should create the new and powerful reason to shop in order to be successful. This reason should not be connected with sales or discounts, but new products that will catch and excite the shopper.

Surprisingly or not the economic downturn leads to return to the notion of the true luxury.

“The CEOs of the high-end brands like Boucheron and PatekPhillippe tell us there are three tiers in the luxury industry: the lower level where the brand's name is licensed and goods are mass marketed, the mid-range where products are expensive but still widely available, and then there's the top tier where the goods are only available to a select few. These products are very expensive and only a few pieces are produced. Companies suggest this top tier isn't really affected by the downturn as consumers at this level still can afford to spend.”¹⁹

During last decades, there was an enormous increase in sales of luxury brands due to exposure of first two levels and that is why whole marketing strategies was adapted to attract these customers.

In other words, the economic crises affected demand for more affordable product categories. These consumers were buying luxury items to reward themselves for achievements and sometimes the cost of luxury purchase was equal to their monthly salary. Therefore, this category of consumers was the first one to cut on luxury spending. However, the top tier, meaning the real luxury consumers, for whom some luxury items transferred to necessity were more immune to global economic changes as the real rich consumers know

¹⁸ TESTA, S., *Made in Italy: The Shift Toward Responsible Luxury*, retrieved on 28 March 2009, <http://www.viasarfatti25.unibocconi.eu/>

¹⁹ RAJPAL, M., *Can top luxury brands survive downturn?*, CNN, 27 March 2009, retrieved 17 April 2009, www.cnn.com

how to handle the crises and even if they lost couple of millions of dollars or euro, this hasn't, affected their buying preferences.

The recent situation is that customers of affordable luxury products are reducing their expenditures on luxury or switching to lower priced brands. Moreover, new advertising campaigns are not very efficient with the wealthy customers, who now reflect the group that is willing to pay. And those brands will survive which products can be associated with the smart investment and worth the money.

1.1.5. Contemporary meaning of luxury

Modern definition and perception of luxury has emerged due to recent changes in consumer behavior and luxury consumption. There are many researchers nowadays, who are working within luxury field and try to find the main characteristics of new meaning of luxury. Therefore, this part of the dissertation thesis will present the different opinions on luxury given by contemporary marketing professionals and will try to analyze the modern meaning of luxury.

“In a rational world, where the value of things would be solely tied to their functional utility, there is no room for luxury. But this world would also be a-social. Luxury is intimately tied to the dynamics of living together, to the need to compare oneself to others, and to the between-person competition, which is at the heart of economic development in modern capitalism, worldwide. This is why conspicuousness is built-in into the luxury behavior.”²⁰

Professor Bernard Dubois identified the paradox of luxury goods and argued that it is important in luxury to do the opposite from the traditional marketing theory:

The paradox of luxury-goods marketing: “

- High price
- High cost
- Craftsmanship
- Limited distribution
- Low promotional activity

²⁰ KAPFERER J. N., *Luxury after the crises: Pro logo or no logo?*, The European Business Forum, 2010

- Advertising with no sophisticated copy strategy”²¹

J. N.Kapferer, the worldwide expert in brand management and luxury marketing, in his publication “The specificity of luxury management: Turning marketing upside down”, presented several points on nature of luxury: “

- Recreating social distance. Luxury is a social marker. With luxury recreating some degree of social stratification, people in a democracy are therefore free – within the limit of their financial means – to use any of its components to define themselves socially as they wish.
- The DNA of luxury is the symbolic desire to belong to a superior class, which everyone will have chosen according to their dreams, because anything that can be a social signifier can become luxury.
- Luxury for others. The codes of luxury are cultural. Money is not enough to define luxury goods: it only measures the wealth of the buyer. But money is not a measure of taste. Luxury converts the raw material that is money into culturally sophisticated products that is social stratification.
- Hedonism takes precedence over functionality. Luxury should have a very strong personal and hedonistic component. Otherwise it is no longer luxury but simple snobbery.
- Luxury is qualitative not quantitative.
- Multi-sensory and experience.
- Luxury, whether object or service, must have a strong human content (handmade and exclusive service).

Michel Chevalier and Gerald Mazzalovo in their book “Luxury brand management: A world of privilege” identified luxury brand as “one that is selective and exclusive, and which has an additional creative and emotional value for the consumer.”²² Authors define their own critical criteria, which luxury goods must satisfy: “

²¹ CHEVALIER, M., MAZZALOVO, G., *Luxury brand management: A world of privilege*, Wiley, 2008, p.14

²² CHEVALIER, M., MAZZALOVO, G., *Luxury brand management: A world of privilege*, Wiley, 2008
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- Strong artistic content. A luxury good is an “object” not merely a “product” that has always been submitted to a profound and sophisticated aesthetic-research process. Luxury should generate a perception of beauty and have an aesthetic appeal.
- Craftsmanship – customers buy products designed by Giorgio Armani or Karl Lagerfeld, even if the products are mass-manufactured.
- International aspect. In the luxury business, it is almost essential to have a presence in the world’s most fashionable cities. Thus, to have international profile, but with a discernible national character.”²³

UcheOkonkwo, the business strategy consultant in the luxury industry, in her book “Luxury fashion branding” supported the growing meaning of the luxury in the society, introduced earlier by Jean-Noël Kapferer, and stated that “fashion is not only a matter of clothes and accessories but also highly influential in structuring society’s culture, identity and lifestyle. Luxury fashion even goes further to reinforce the evolution and voice of society. In this generation where image underlies every aspect of our lives, luxury brands have gained more prominence and are affecting the daily lives of both consumers and non-consumers on a greater level.”²⁴

Furthermore, UcheOkonkwo presented 10 core characteristics of a true luxury brand: “

1. Innovative, creative, unique and appealing products
2. Consistent delivery of premium quality
3. Exclusivity in goods production
4. Tightly controlled distribution
5. A heritage of craftsmanship
6. A distinct brand identity
7. A global reputation
8. Emotional appeal
9. Premium pricing
10. High visibility”²⁵

²³CHEVALIER, M., MAZZALOVO, G., *Luxury brand management: A world of privilege*, Wiley, 2008
Introduction

²⁴ OKONKWO, U., *Luxury fashion branding*, Palgrave Macmillan, 2007, p.8

²⁵ Ibid, p.105

To summarize the findings of the luxury professionals – premium pricing is the first component which identifies and builds the borders for luxury, which is likely to be initial, economic, and the most easily to define characteristic of luxury products. “Luxury brands are those whose ratio of functional utility to price is low while the ratio of intangible and situational utility is high.”²⁶

For Michel Chevalier and Gerald Mazzalovo, strong artistic content was one of the critical factors of luxury. Nevertheless, UcheOkonkwo identified the luxury products as innovative, creative, unique and appealing products.

All the authors agreed on the importance of the strong human content. Therefore, such important aspects as heritage, craftsmanship, premium quality, exclusive service and experience are identified.

UcheOkonkwo, Michel Chevalier and Gerald Mazzalovo pointed the valuable component such as international presence and global reputation with the tightly controlled distribution. In luxury business, the presence in all the major fashion and business cities is a must to create the international profile and visibility of the brand. But on the other hand it is important to maintain the national character of the brand.

“When a Canadian buys an Italian or French luxury object that he highly values, he expects the product to be as highly valued by French, Japanese or Chinese purchasers of luxury goods. When a French man or woman walks along Madison Avenue or 57th Street in New York, they may make a mental note of the French brands that have a well-located store and feel a sense of pride. But if these visitors notice the absence of a Kenzo or Givenchy outlet, say, then they may deduce that those brands are less highly valued in New York and may consequently value them less highly as well.”²⁷

There are an increasing number of specialists that identify that the hedonistic component is winning its part in the luxury decision making process. “Luxury goods are acquired for what they symbolize, which is argued to be consistent with personal oriented perceptions – the hedonic consumption and extended self-personality models.”²⁸

²⁶NUENO, J. L., QUELCH, J., *The mass marketing of luxury*, Business Horizons, 1998

²⁷CHEVALIER, M., MAZZALOVO, G., *Luxury brand management: A world of privilege*, Wiley, 2008

Introduction

²⁸ATWAL, G., WILLIAMS, A., *Luxury brand marketing – The experience is everything!*, Journal of Brand Management, Vol. 16, No. 5-6., pp. 338-346

During the analysis, the other interesting aspect emerged. There is a growing influence of luxury as a social marker. Even though nowadays the global situation tends to be democratic, there is a need for a structure and the luxury might be the instrument that draws the boundaries for people to recognize their social status. Jean-Noël Kapferer presented the deep analysis of this phenomenon. “Luxury is access to dream. Let us recall the dimensions of this dream. One is the social dimension: luxury confers immediate class or is thought to do so. Luxury refers back to the implicit hierarchy of society, even if this is denied for ideological reasons.”²⁹

“Contemporary consumers use consumption to make statements about themselves, to create identities and develop a sense of belonging.”³⁰

“From rigid social orders defined by birth, caste, family position, or profession, suddenly how much money you have is the key classifying criterion. Those Gucci bags and Ferragamo shoes are not merely girlish indulgences, and neither are the Armani suits and Rolex watches just male vanity; they are part of a new social protocol where your identity and self-worth are determined by the visible brands on your body.”³¹

The main findings of this chapter show that even though the business model of luxury field has been changed dramatically, from the family owned businesses or sole entrepreneurs to the large global conglomerates, it has maintained its core functions and characteristics. High quality, craftsmanship, exclusive service etc, are the crucial points for luxury products for many centuries.

With the considerable transformation in the society, political and economical spheres during last centuries, luxury products have remained their social meaning. The rules are different but the outcome, the exclusivity and belonging to high social class, is the same for all time periods. The review of the main historical stages in luxury perception revealed the stable and continuous function of the luxury – its function as a social marker.

With the global change in the consumer preferences and behavior, marketers of luxury products need to adapt their strategies to satisfy their consumers. The analysis of the recent literature on the luxury marketing and luxury products shows the new emerging aspects of

²⁹ KAPFERER J. N., *The Luxury Strategy: Break the Rules of Marketing to Build Luxury Brands*, Kogan Page, 2009

³⁰ ATWAL, G., WILLIAMS, A., *Luxury brand marketing – The experience is everything!*, Journal of Brand Management, Vol. 16, No. 5-6., pp. 338-346

³¹ HUSIC, M., CIRIC, M., *Luxury consumption factors*, Journal of Fashion Marketing and Management, Volume 13, Number 2, 2009

luxury. These aspects start to play the main role in the decision making process of the consumer and the perception of luxury in the society.

1.2. Luxury industry insights

1.2.1. Market overview

In today's consumer society there is a clear trend of luxury brands obsession. Consumers are rapidly increasing their standards of living, becoming more educated about the product offerings on the market and more demanding about the quality of the products, therefore creating a room for the growth of luxury market.

Additionally, economic situation was favorable for luxury market growth during last two decades (before 2008), which resulted in rising stock market indexes, growing GDP and disposable incomes of individuals.

All these factors have influenced intense transformation within luxury industry with annual growth rates of 10-30 per cent per year during last 20 years.

However, the crises made companies to rearrange their strategy. Even though, the slowdown in industry was less and shorter than predicted, supported by stable growth in the Asian countries, the crises affected the strategies and policies of luxury conglomerates. "Luxury has made a brilliant return to the retail stage, but the script has been re-written," said Claudia D'Arpizio, a Bain partner in Milan and lead author of the study. "More demanding customers, generational shifts, new loyalty rules, an increasingly integrated offline and digital customer experience and the continued growth of China and other fast-growing markets are transforming the luxury industry."³²

Nevertheless, the growing product competition and internationalization of markets play an essential role in transformation of management of luxury companies. "Develop a luxury brand that will bring about a high patronage and a high average spend. This is the strategy adopted by the major luxury brands today. It is based on the premise that a strong positioning, high advertising and promotional investments (at least during the early years),

³² "Bain & Company predicts eight percent growth in global luxury goods sales in 2011; five-to-six percent annual growth through 2014", retrieved on 17 April 2012, <http://www.bain.com/about/press/press-releases/bain-predicts-eight-percent-growth-in-global-luxury-goods-sales-in-2011.aspx>

innovative products and an efficient organization must make it possible to justify high prices and a high patronage.”³³

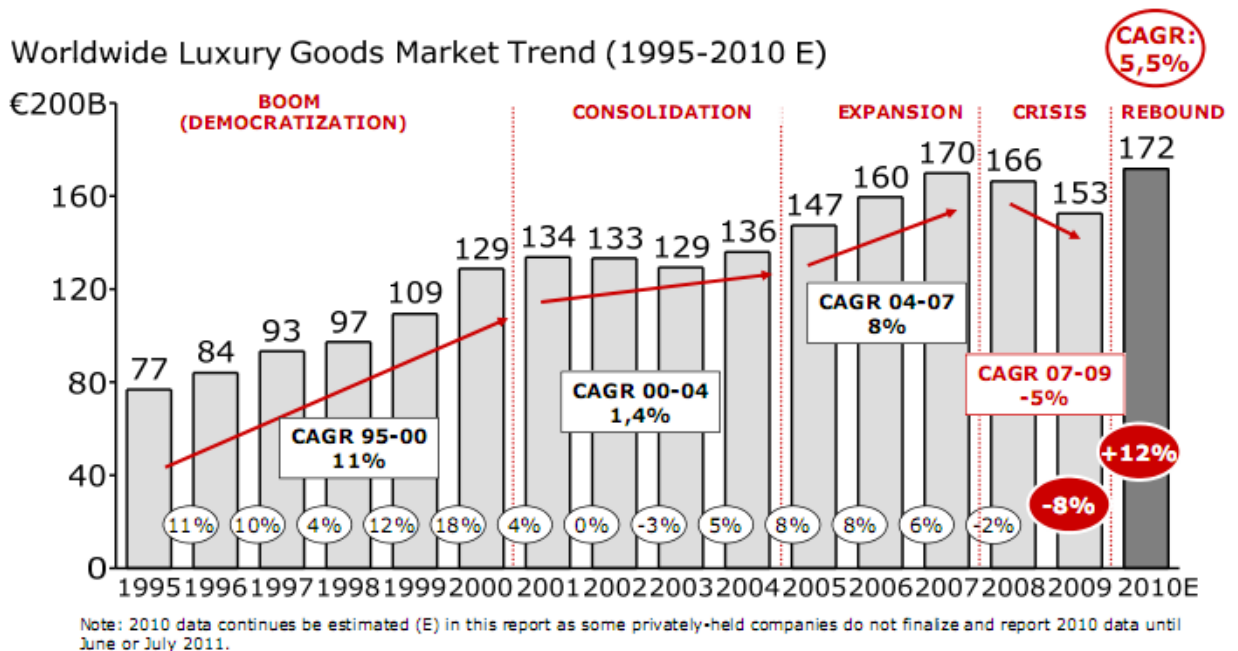
The dramatic growth of luxury industry was supported by several drivers:

1. Emerging markets – fast GDP growth, emerging class of wealthy consumers
2. Aspirational consumers or democratization of luxury – luxury is opening its boundaries to the more wide clientele through the product extensions and rebranding strategies
3. Growth in international travel – making people more educated about the offer on the worldwide markets and increasing brand awareness
4. Japan and China as the biggest luxury markets

All these factors have boosted sales and profits within the luxury industry. Therefore, phenomenon of democratization of luxury and emerging market’s influence will be analysis in details in this research.

The worldwide luxury good’s market trend will be presented further:

Figure 1: Worldwide goods market trend (1995 – 2010 E)



Source: Bain & Company, Altagamma “Worldwide luxury markets monitor 2011”, retrieved on 03.11.2011

³³ BERG, J., *Why distribution strategy of major luxury brands reached dead end*, Le Journal du Textile, 2002

The report confirms the average annual increase of 10% during last two decades with stagnating period of 9/11 and decrease in growth figures during the financial crises of 2008-2009. In addition, the luxury markets were not affected by the crises significantly and, therefore, chart shows a recover period in 2010 with the 12% growth of the market. Even though, the chart shows estimate results for 2010, further reports of Bain and Company confirm the estimated figures and reveal the projected growth for the 2011. “Buoyed by strong first quarter momentum in the U.S. and Europe and continuing growth in China and other fast growing luxury markets-including Russia, Brazil and the Middle East-worldwide luxury sales are projected to grow to 185 billion Euros in 2011, up eight percent from 172 billion Euros in 2010; this according to Bain & Company, the leading advisor to the global luxury goods industry.”³⁴

Bain & Company used the CAGR (Compound Annual Growth Rate) for the calculation of the results. Compound Annual Growth Rate is “the year-over-year growth rate of an investment over a specified period; calculated by taking the (N)th root of the total percentage growth rate, where (N) is the number of years in the period being considered. CAGR is not the actual return but an imaginary number that describes the rate at which an investment would have grown if it had grown at a steady rate.”³⁵

M. Chevalier, in his book “Luxury brand management”, presents three major differences between the luxury and the non-luxury industries. These differences include company size, financial characteristics and the time factor.

It is obvious that size, and therefore sales and profits, are the major factors for comparison between companies or industries. According to M. Chevalier, the size of luxury companies is relatively small comparing to other industries, in terms of sales and profits, and plays not the most significant role. “Dior Fashion has annual sales of approximately Euro800 million, while the Peugeot Group has annual sales of Euro 56 billion. So, in fact, Peugeot is 70 times bigger than Dior Fashion.”³⁶

³⁴ “Bain & Company predicts eight percent growth in global luxury goods sales in 2011; five-to-six percent annual growth through 2014”, retrieved on 17 April 2012, <http://www.bain.com/about/press/press-releases/bain-predicts-eight-percent-growth-in-global-luxury-goods-sales-in-2011.aspx>

³⁵ “Compound Annual Growth Rate”, retrieved on 17 April 2012, <http://financial-dictionary.thefreedictionary.com/CAGR>

³⁶ CHEVALIER M., *Luxury Brand Management: A World of Privilege*, Wiley; 1 edition, 2008, p. 2

But author argues that in luxury business the brand awareness plays the significant role and it potentially leads to the high profits. M. Chevalier points that the awareness of Dior brand is much higher than of Peugeot. “But if you were to ask an American, a Japanese or a Chinese consumer to name a French product or a French company, they will name Dior before Peugeot. This can be explained by brand awareness among consumers: the Dior brand is better known, worldwide, than the Peugeot brand.”³⁷

Additionally, the luxury brand is not necessarily the profitable brand. “In 1994, the research group Eurostaf conducted a study of the luxury ready-to-wear companies in France. This found that Chanel, taken alone, was more profitable than the rest of the sector combined. Of 14 investigated companies, 10 were losing money. Many luxury conglomerates have in their brand portfolio brands that do not reach the break-even as it is very high in luxury industry. In this respect, the luxury business is a kind of “jackpot” business: not because it is unpredictable and things come only by chance, but because those that are profitable become extremely profitable.”³⁸

1.2.2. Business segments

To understand the luxury business it is crucial to analyze the divisions of the luxury products. Within the luxury industry the main categories include:

1. Ready-to-wear, haute couture, accessories – fashion apparel and accessories
2. Perfumes and cosmetics
3. Wine and spirits
4. Watches and jewellery

Moreover, luxury segments include cars, hotels, gastronomy, private jets, yachts, home decoration etc, but this study will mainly concentrate on the 4 presented above luxury categories.

1.2.3. The BCG matrix for luxury enterprises

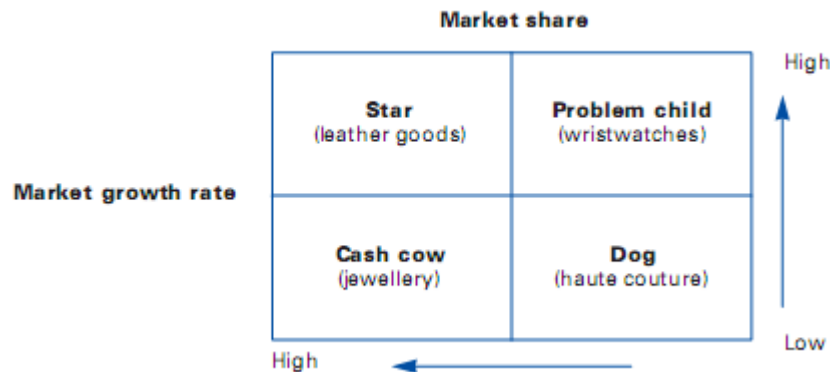
Having balanced product portfolio for the luxury companies and effectively managing it, are the key successful factors for luxury enterprises. Some luxury categories stand for image

³⁷CHEVALIER M., *Luxury Brand Management: A World of Privilege*, Wiley; 1 edition, 2008, p. 2

³⁸ Ibid

only purposes, while others play a leading commercial role. The example of the structured product portfolio is the model that was developed by the Boston Consulting Group – BCG Matrix. Further, the analyses of Dogs, Cash Cows, Stars and Problem Child for the luxury industry are presented.

Figure 2: The Luxury Fashion Product Classification using the BCG Matrix



Source: OKONKWO, U., *Luxury Fashion Branding: Trends, Tactics, Techniques*, Palgrave Macmillan, 1st edition, 2007, p.135

“In balancing the role of products within the portfolio, there should be equilibrium in investments and management time. This means the removal of the Dogs, the maintenance of Cash Cows, and the boosting of the Stars. Usually, the funds from Cash Cows are invested in Problem Child products to turn them into Cash Cows or Stars. If, however, the Problem Child product potentially becomes a Dog, then it ought to be removed from the product portfolio. The BCG Matrix is also useful as a platform for performance measurement for luxury companies with multiple brands in their portfolio.”³⁹

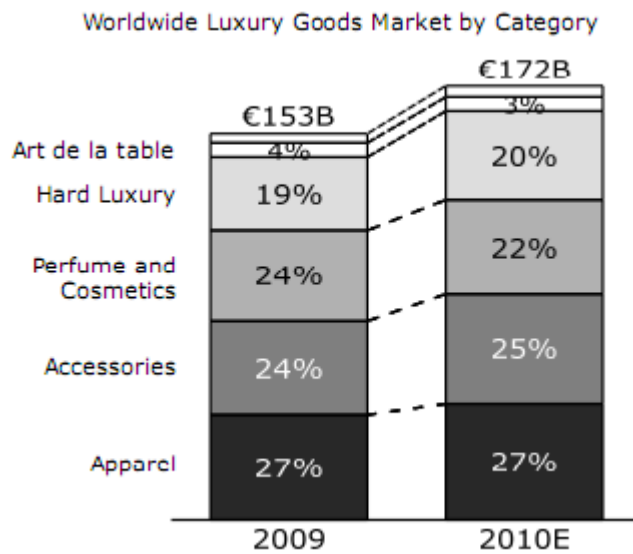
1.2.4. Analysis of the current product portfolio of the luxury companies

Multiple luxury segments require different strategies. “Traditional luxury, such as haute couture, feature a very narrow target, exclusive or unique custom made models, hand-made in-house workshops, a very selective distribution carried out in the reception halls of the House only, and a communication policy reduced to the organization of events. The intermediary luxury segments, such as fashion accessories or the couturiers’ and fashion

³⁹ OKONKWO, U., *Luxury Fashion Branding: Trends, Tactics, Techniques*, Palgrave Macmillan, 1st edition, 2007, p. 135

designers' ready-to-wear ranges, feature factory-type production (perhaps in-house or under licensing agreements or simply subcontracted), a selective and controlled distribution, and a wide press communication policy. Perfumes and cosmetics are industrialized segments that keep a very selective but much broader distribution and increasingly advertise through mass media, such as television.”⁴⁰

Figure 3: Worldwide Luxury Goods Market by Category



Source: Bain & Company, Altagamma “Worldwide luxury markets monitor 2011”, retrieved on 3.11.2011

Although this chart reveals slightly different categories (excluding wines and spirits and including Art de la table), the picture shows the value of each luxury category.

According to the results, the apparel (ready-to-wear) category is the biggest in the market, together with the accessories category (usually these categories linked together (this will show further research on LVMH divisions) and combine the biggest segment of the company).

“Bain finds that department stores and direct-owned luxury stores saw continued double digit sales increases in February and March versus 2010, selling out on much of their Spring/Summer 2011 inventory. Additionally, stores have placed robust orders for the

⁴⁰ NYECK, S., *Luxury Brands Online and Offline: The Case of French Brands*, The European Retail Digest, Jan 2004, Issue 41

Fall/Winter 2012 seasons and have restocked sold-out inventory levels, especially in accessories, leather goods and hard luxury categories such as jewelry and watches.”⁴¹

The growth in hard luxury and accessories segments is easy to explain. Hard luxury items such as jewelry and watches are considered as investment for many customers and these products have a life lasting value. Therefore, consumers tend to invest more to the traditional luxury items that can be transferred to other generations rather than to fashionable items.

On the other hand, growth in accessories category can be explained by the consumption of the “new luxury consumers”. Those people who are rewarding themselves for the hard work or achievements and those who can afford less pricy and more recognizable items such as sunglasses, bags, wallets etc.

Additionally, 2% decrease in perfume and cosmetics category occurred due to the increasing quality of the cheaper substitutes. Mass market brands continue innovation in their products, offer high quality for less money and invest substantial amounts of financial resources into advertising and promotional activities.

When developing the product mix of the company it is important to cover all the divisions as they all serve different functions for the brand. The balanced and differentiated product portfolio is a crucial aspect for the company’s success. Nevertheless, the leather good’s sector (accessories) shows one of the highest profits according to several sources. This helps to develop more status products such as haute couture products, which are mainly responsible for building the exclusivity aura around brand.

“The leather goods business makes it possible to generate a sales figure per square meter that is 20 to 30% higher than the ready-to-wear sector. This activity makes it possible to work with two price (and customer) segments within a single brand and therefore to guarantee high average buying baskets and patronage. This is because products with high unit prices are targeted at high income customer segments. These customers buy creativity, quality and a brand. By nature, they do not exceed 10 to 15% of the population. On the other hand, products with relatively low unit prices will enable customers with lower incomes to buy the brand’s products. The emphasis is in this case placed more on the brand value and its territory than on its intrinsic creativity or quality. By combining these two segments,

⁴¹ “Bain & Company predicts eight percent growth in global luxury goods sales in 2011; five-to-six percent annual growth through 2014”, retrieved on 17 April 2012, <http://www.bain.com/about/press/press-releases/bain-predicts-eight-percent-growth-in-global-luxury-goods-sales-in-2011.aspx>

companies can generate high average buying baskets and patronage levels. One of the difficulties of beginning and developing this type of strategy lies in the strong technical barriers to entry: the leather goods business requires a high degree of expertise that is longer to acquire than the ready-to-wear sector both in terms of creation and mass production. The innovation and quality of products must remain at high and constant standards as the business develops.”⁴²

“Most successful luxury brands combine a risky and perishable ready-to-wear offering with sales of less fashion intensive items, such as leather accessories, in legible designs and classic colors. A Gucci store might show its latest fashion accessories in the window but generate most of its sales from black and brown handbags and conservative silk ties.”⁴³

1.2.5. Major players in luxury industry

As was stated earlier, during last decades luxury industry experienced plenty of transformation processes. The main changes have occurred in the management systems of luxury companies. Following the trend, similar to the consumer industry companies, luxury sector went through consolidation and concentration processes. There are three largest luxury groups operating in the industry: LVMH, PPR, Richemont.

Further analysis of the industry will be done with the regard of these groups.

Figure 4: Major luxury companies' sales figures

Luxury operators	Sales (€million)		
	2008	2009	2010
LVMH	17.193	17.053	20.320
PPR	20.201	13.584	14.605
Richemont	5.290	5.418	5.176

Source: Author's research from annual reports, retrieved on 03.11.2011

⁴² BERG, J., *Why distribution strategy of major luxury brands reached dead end*, Le Journal du Textile, 2002

⁴³ NUENO, J. L., QUELCH, J., *The mass marketing of luxury*, Business Horizons, 1998

1. LVMH

Louis Vuitton Moët Hennessy is the largest luxury goods conglomerate. Brands : Louis Vuitton, Loewe, Céline, Givenchy, Marc Jacobs, Fendi, Donna Karan, Emilio Pucci, TAG Heuer, De Beers, Chaumet, Christian Dior perfumes, Guerlain, Moët & Chandon Dom Pérignon, Veuve Clicquot, etc. LVMH also own Sephora, Le Bon Marché. In 2010 the largest luxury group archived sales of EUR 20 320 million. LVMH is an example or a “true” luxury company with the differentiated product mix that covers almost all the luxury categories. The sales by the LVMH categories for 2010 are:

Figure 5: Revenue by business group, LVMH

REVENUE BY BUSINESS GROUP			
EUR million	2008	2009	2010
Wines and Spirits	3,126	2,740	3,261
Fashion and Leather Goods	6,010	6,302	7,581
Perfumes and Cosmetics	2,868	2,741	3,076
Watches and Jewelry	879	764	985
Selective Retailing	4,376	4,533	5,378
Other activities and eliminations	(66)	(27)	(39)
TOTAL	17,193	17,053	20,320

Source: LVMH Annual report 2010, retrieved on 5.03.2012, http://www.lvmh.com/uploads/assets/Com-fi/Documents/en/Reports/LVMH_RA_2010_GB.pdf

Figure 5 shows the distribution of categories within the group. As well as it confirms the statement made earlier, that the most profitable category within luxury sector is fashion and leather, it consists of almost 30% of the overall sales. Followed by the selective retailing category: DFS, Sephora, Miami Cruiseline Service, Le Bon Marché Rive Gauche,

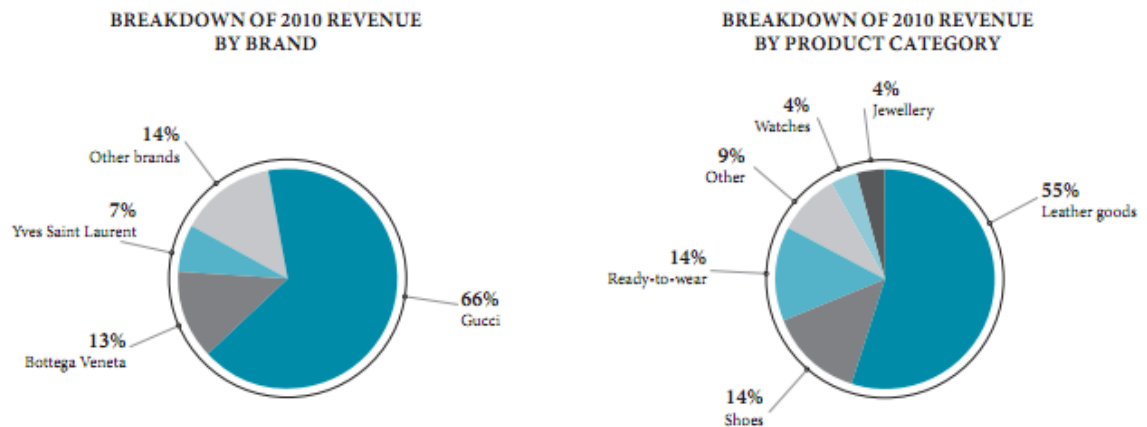
LaSamaritaine. Selective retailing category showed sales results in 2010 as EUR 5 378 million, almost ¼ of the overall sales.

2. PPR

PPR is another luxury conglomerate, which owns the Gucci Group. A portfolio of leading brands: Gucci, Bottega Veneta, Yves Saint Laurent, Balenciaga, Boucheron, Sergio Rossi, Alexander McQueen and Stella McCartney.

In 2010 group achieved annual sales of EUR 14 605 million, that puts PPR to the second place within the industry. PPR covers all main categories within the industry, although in their report they separate in two categories ready –to-wear and leather goods. The distribution of sales between categories is following:

Figure 6: Revenue by business group, PPR



Source: PPR Annual report 2010, retrieved on 5.03.2012,
http://www.jaarverslag.com/pdf/bedrijven/cac-40/JaarverslagCOM_PPR_2010.pdf

In case of PPR group, there is a leading “mega” brand Gucci that accounts 66% sales by group. Gucci brand is presented in all the main categories like: ready-to-wear, watches, leather goods, shoes and other.

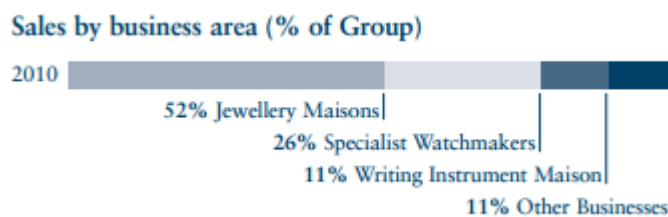
The largest category is presented by solely leather goods 55%. And it makes 69% of total sales combined by the category fashion and leather goods, comparing with the LVMH fashion and leather category which represents around 30% of overall sales.

3. Richemont

Brands: Dunhill, Baume et Mercier, Cartier, Chloe, Jager-LeCoultre, Montblanc, Piaget, VacheronConstantin, etc.

In 2010 company generated sales of EUR 5 176 million. The third biggest luxury group in the industry has the product mix that differs from the earlier mentioned LVMH and PPR groups, concentrating mainly on the hard luxury sector.

Figure 7:Revenue by business group, Richemont



Source: Richemont Annual report 2010, retrieved on 5.03.2012, http://www.richemont.com/images/stories/3%20Investor%20Relations/3_4_Reports/AnnualReports/richemont_ar2010.pdf

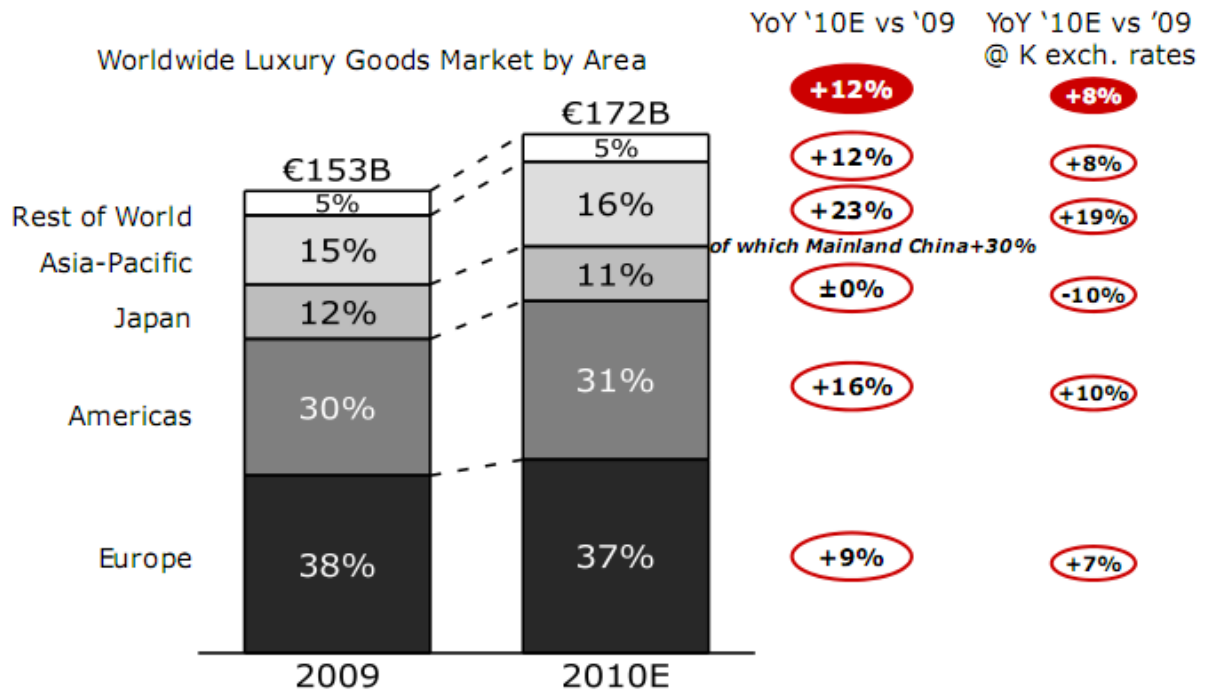
The categories of the Richemont group represent mostly jewellery and watch markets, writing instruments and accessories. The jewellery category is the core category within the group as it makes 52% of the group's sales in 2010. Richemont owns a successful luxury fashion brand Chloe and Shanghai Tang, one of the first and the most famous Chinese luxury fashion label.

To conclude, all three companies are leaders on the luxury markets but the product portfolio varies between the companies. LVMH and PPR are more fashion oriented companies and owe major fashion brands. Additionally, LVMH has the considerable revenues coming from the selective retailing category. Even though, jewellery category is

present within all companies' portfolios, it plays a special role for the Richemont, 52% of the company sales are devoted to the jewellerymaisons.

1.2.6. Geographical segments

Figure 8: Worldwide luxury good's market by area



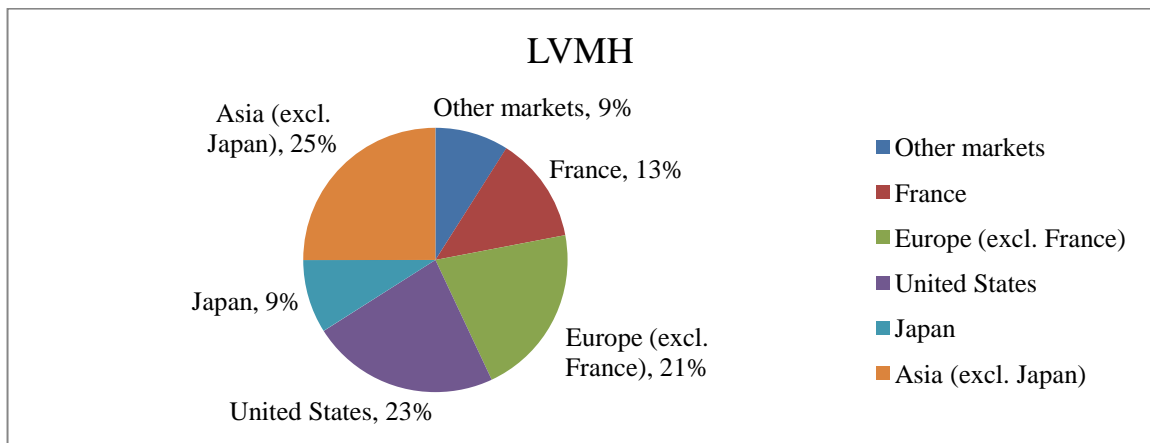
Source: *Worldwide luxury markets monitor*, Altagamma and Bain & Co, 10 October 2011,
http://www.altagamma.it/download/Altagamma_Worldwide_Markets_Monitor_Spring_2011_Update.pdf

According to different reports, there is positive growth in 2010 in all the areas, apart from Japan, which experienced financial fluctuations and the 11th of March earthquake is influencing economic environment of the country.

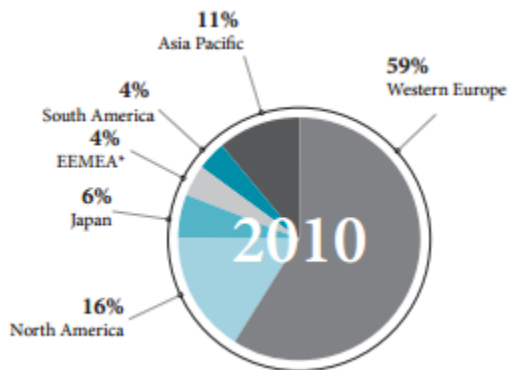
The breakdown by sales for different regions by each luxury group is presented to confirm the world trend in luxury spending and consumption.

Figure 9: Sales by regions

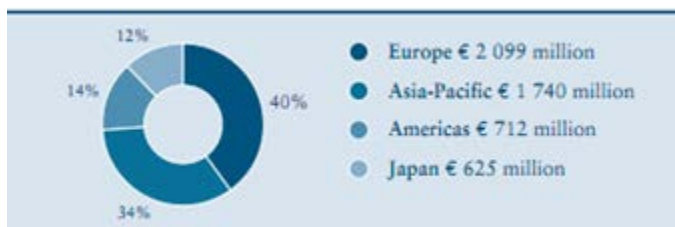
LVMH



PPR



Richemont



Source: Author's research from annual reports, retrieved on 03.11.2011

The results help to determine not only the global trend of luxury sales but also to compare the distribution of sales by region of the three main operators. The findings highlight that the biggest sales region for all the companies is Europe (PPR 59%, LVMH 34%, Richemont 40%).

Asia-Pacific region (excluding Japan) is becoming the growing market with enormous possibilities for major luxury operators and is the second biggest market according to the sales reports. Moreover, Japan is the only country which is presented as separate region and takes 9%, 6% and 12% of sales of LVMH, PPR and Richemont accordingly.

But when putting Asian-Pacific region and Japan into one group, the distribution of sales will show different picture.

Figure 9 shows that LVMH has the most proportionally distributed region portfolio and presented equally in Europe (incl. France) and in Asia (incl. Japan), each region represents 34% of geographical sales distribution. Therefore, the results confirm the growing influence of the Asian countries on the luxury industry. The influence of Asian consumers is becoming the same important as the influence of European clients.

However, results of PPR group show that the company is still Europe oriented as the sales in Europe represent of 59% of the group.

Additionally, when adding Asia-Pacific and Japan into one region, Richemont group has the highest sales figures in Asian region (incl. Japan) – 46 %, comparing with the European sales 40%. This is easy to explain. As was stated earlier in this research, Richemont group mainly has hard luxury brands in its portfolio. The nature of the Asian consumer is very specific. In Asia the main luxury customer is a man (excluding Japan with the growing influence of business women). Asian culture highly supports the practice of presents to business partners. Therefore, the market for luxury watches, pens, men's accessories is very important. Additionally, when the man is looking for present for the female partner in Asia, he chooses the jewellery item due to its fit and convenience.

In conclusion, analysis of the luxury industry reveals that during last decades there were crucial and considerable changes in the luxury market landscape. Continuous 10% growth of the industry was supported by the several factors that were discussed. One of the reasons was the change in the product portfolio of the luxury companies. Due to the phenomenon of the democratization, luxury brands stretched their offerings to more acceptable products with the

affordable prices. This resulted in the increase of such categories as leather goods (bags, wallets, and belts), accessories (sunglasses) and perfumes and cosmetics. The main reason is that more and more people want to hold a luxury item and to be considered as a part of luxury society. And by doing so, luxury companies gave the feeling of exclusivity for customers that can spend only 50 Euro on perfume or 600 Euro on a bag. It is a big challenge for luxury companies to stay profitable in the process of continuous consumer's desires for innovation, exclusivity and quality. Luxury trends (especially in fashion and leather goods category) require shorter productions cycles which influence the cost structure.

The growth in emerging countries, mainly China and Japan, has changed dramatically the geographical distribution of luxury sales.

The example is the LVMH geographical distribution of sales, where the Europe region represents the same sales figures as the Asian region – 34%. For the Richemont, Asia is the largest region according to sales distribution.

Increasing profits in the Asian countries make this area a core luxury market. This requires many of product adaptation actions which also lead to increasing cost of production.

High sales figures and profit margins create intense competition within the industry, which attracts many rivals and results in new, more frequent product launches and therefore shortens the life cycle of the product. The conditions to survive in the luxury industry are becoming more taught but those companies that concentrate on the true luxury experience and content will not lose their positions.

2. Analysis of the main theoretical concepts of luxury consumption

To understand the nature of luxury, it is important to look at the theoretical roots of luxury. In this dissertation thesis main researches on luxury are presented. It is important to analyze all the previous findings as they give a clear picture on the changing character of the luxury, and therefore the luxury consumer preferences and the overall preferences of the society. “There has emerged a strong strand of literature that seeks to explain luxury consumption, particularly in terms of having a symbolic function that operates at the individual and collective level. As such, luxury is identified in terms of its psychological value, its function as a status symbol, and as a highly involved consumption experience that is strongly congruent to a person's self-concept. From a product perspective, luxury brands are

frequently defined in terms of their excellent quality, high transaction value, distinctiveness, exclusivity and craftsmanship.”⁴⁴

Over the years, the motives to buy luxury were changing and the marketers of luxury goods had to adapt their marketing strategies to reflect the trend.

Main visible changes were done in the sphere of consumption habits and marketing communications. The values that were important for luxury customers were changing, thus the advertising messages and communication tools were adapted accordingly.

2.1. Veblen goods and conspicuous consumption

Some luxury products have been claimed to be examples of Veblen goods, therefore the significant part of this chapter will be devoted to understanding and explanation of the nature of Veblen goods and conspicuous consumption. “For Veblen, luxury is that which is socially most desirable, since it places you at the summit of the hierarchy.”⁴⁵

Jean-Noel Kapferer sees luxury as “intimately tied”⁴⁶ to the social life and therefore links it to the “between person competition”⁴⁷, explaining the importance of conspicuous consumption for luxury behavior.

Veblen goods are those goods with the positive relations between demand and price for them (the demand increases together with the price rise). For this type of goods the low price may be associated with low quality and might reduce demand. On the other hand, the increase in price may increase the status and exclusivity of the products.

This is the complete contradictions to the law of demand, where the demand curve is almost always presented as downward-sloping, meaning that as price decreases, consumers will buy more of the good.

Thorstein Veblen was the first one who pointed out and explained the concept of the Veblen goods in his publication “The Theory of the Leisure Class” (1899). “According to Veblen, the affluent classes of a given society express their economic superiority over the

⁴⁴FIONDA A. M., MOORE C., M., *The Anatomy of a Luxury Fashion Brand*, Journal of. *Brand Management*, 16, 2009, pp. 347 - 363

⁴⁵KAPFERER J. N., *The Luxury Strategy: Break the Rules of Marketing to Build Luxury Brands*, Kogan Page, 2009

⁴⁶KAPFERER J. N., *Luxury after the crises: Pro logo or no logo?*, The European Business Forum, 2010

⁴⁷Ibid

less well-off by the purchase, and, above all, the show-off of these goods which serve as status symbols.”⁴⁸

In the scope of this research the important concept of the conspicuous consumption should be highlighted.

Conspicuous consumption was also introduced in 1899 by economist Thorstein Veblen. Conspicuous consumption was used to describe the behavior to show power and wealth by the new rich as a new society class, which became wealthy during Second Industrial Revolution in 19th century. “In contrast to the individual’s static maximization of utility according to exogenous preferences, as posited by the neoclassical approach, Veblen develops an evolutionary framework in which preferences are determined socially in relation to the positions of individuals in the social hierarchy.”⁴⁹

“Veblen (1899) introduced the idea that conspicuous spending is useful as a costly signal of wealth. Poorer people, for whom conspicuous spending is more costly in foregone private consumption, signal a lower wealth level. Rich people consume more conspicuous goods to publicly establish their higher wealth level. Observers then distinguish the rich from the poor. The idea of conspicuous consumption is simple, intuitive, and powerful.”⁵⁰

The dynamic and changing nature of the consumer behavior requires the adequate reflection of the theoretical background, especially in the case of luxury goods, where the specific concepts should be implemented.

“Veblen (1899) laid down the foundations of conspicuousness consumption with the “The theory of leisure class”. However, that period was more homogeneous with context where luxury goods were mostly the fruits of craftsmanship, expensive and affordable only by the most wealthy and affluent. Social evaluation consisted of gaining status by displaying wealth or at least pretending to own it. Today, however, the ever increasing emergence of

⁴⁸ DUBOIS, B., LAURENT, G., CZELLAR, S., *Consumer Rapport to Luxury: Analyzing Complex and Ambivalent Attitudes*, Les Cahiers de RechercheGroupe HEC, number 736, 2001

⁴⁹ TRIGG A., Veblen, Bourdieu, and Conspicuous Consumption, *Journal of Economic Issues*, Vol. XXXV No. 1, 2001

⁵⁰ HALL, J., LI, H. *Why isn't conspicuous consumption more conspicuous?*, Harvard University, 2007

new luxury goods brings higher quality and value products to the masses, making the visual barriers between the rich and the modest hazier”⁵¹

“Economists’ lack of interest in new approaches to consumption largely reflects the rigidity of the conventional economic theory of consumer behavior. That theory, of course, assumes that consumers come to the market with well-defined, insatiable desires for private goods and services; those desires are not affected by social interactions, culture, economic institutions, or the consumption choices or well-being of others. Only prices, incomes, and personal tastes affect consumption-and since tastes are exogenous to neoclassical economics, there is little point about anything but prices and incomes”.⁵²

The concept of the conspicuous consumption is explicitly describing the nature of the luxury customers and their intentions to buy luxury. “The purely conspicuous consumer derives satisfaction from the audience reaction to the wealth displayed and not from the value of the product itself. Conspicuous brands are those that are purchased for purely external reasons, that is for systematic public display in order to signal wealth.”⁵³

2.2. Liebenstein’s analysis of luxury consumption behavior

Harvey Liebenstein in his research work “Bandwagon, snob, and Veblen effects in the theory of consumers’ demand” enriched Veblen’s conspicuous consumption by incorporation of snob and bandwagon effects.

“The demand for consumers’ goods and services may be classified according to motivation.

A: Functional

B: Nonfunctional (factors other than quality, demand due to external effect and utility)

1. External effects on utility

a) Bandwagon effect

- increase when others consume same commodity

⁵¹ TROUNG, Y., SIMMONS, G., MCCOLL, R., KITCHEN, P., *Status and conspicuousness – are they related? Strategic marketing implications of luxury brands*, Journal of Strategic Marketing, 2008, 16

⁵² ACKERMAN, F. *Consumed in Theory: Alternative Perspectives on the Economics of Consumption*, Journal of Economic Issues, no.3, 1997

⁵³ TRUONGA Y., SIMMONS G., MCCOLL R., KITCHEND P., *Status and Conspicuousness – Are They Related? Strategic Marketing*, Journal of Strategic Marketing, Vol. 16, No. 3, 2008, pp. 189–203

- to conform with other people they wish to be associated with
- to be fashionable and stylish
- to be “one of the boys”

b) Snob effect

- demand decreasing due to the fact that others consume same commodity
- desire to be exclusive, different
- to dissociate themselves from the “common herd”

c) Veblen effect

- phenomenon of conspicuous consumption, the function of the price

2. Speculative

- customers will buy simple because they expect the price to rise

3. Irrational

- purchases that are neither planned nor calculated but are due to sudden

urges⁵⁴

Liebenstein analyzed external effects that influence the consumer demand. Nevertheless, one can admit that these effects might be not sufficient to reflect the intentions for luxury consumptions. Author's findings showed the role of interpersonal effects on the demand of prestige brands and were summarized into three main effects: snob effect, bandwagon effect and Veblen effect. Results presented the specificity of motivations that drive consumers when they buy prestige or luxury products. Nevertheless, one can admit that these effects might be not sufficient to reflect fully the intentions of luxury consumption. Therefore, following studies will broaden the concept of motivations of luxury consumption.

To make the picture of luxury consumption more wide, it is important nowadays to incorporate cultural aspect into concept of luxury consumption. “Cultural variables influence attitudes towards luxury goods as much as personal views. For example, personal affluence and its expression through consumption (wealth display) are central to American consumer culture, while European value systems and organizations have resulted in a much lesser Veblen effect in its cultures. European preoccupation with the environment engenders the

⁵⁴LEIBENSTEIN, H., *Bandwagon, Snob, and Veblen Effects in the Theory of Consumers' Demand*, Quarterly Journal of Economics (1950), 64(2)

view that wasteful expenditure diminishes the overall quality of life and is counterproductive. In the U.K. ascribed is given higher value rather than achieved status, while in France, emphasis in conspicuous consumption is on personal display (quality, style, taste, lifestyle).”⁵⁵

2.3. Income versus culture

Bernard Dubois and Patrick Duquesne in their scientific article “The market for luxury goods: Income versus culture” studied the influence of income and culture on the demand of luxury products. It is crucial to understand the nature of the consumer intentions and build adequate marketing strategy.

As luxury products sometimes have high price without any functional or practical justification and clients of luxury come from the wealthy classes, authors assumed that “income is the best, if not the only, indicator of measuring demand.”⁵⁶

On the other hand, authors argued that income is not the only one indicator that influences the purchase of the luxury product. They stated that culture plays the similar role in the buying process. By incorporation of the previous findings and own research, authors showed that “there is a strong link between a positive attitude towards cultural change and consumption of luxury. This indicates that many people buy such goods for what they symbolize. This is consistent with the hedonic consumption and extended self-personality models, according to which purchasing luxury goods represents an extreme form of expressing one’s values”.⁵⁷

Comparing with the previous analysis of Liebenstein’s “Bandwagon, snob, and Veblen effects in the theory of consumers’ demand” which emphasized the importance of the interpersonal effect on the purchasing behavior, Dubois and Duquesne introduced the hedonic, personal effect on the demand for luxury goods.

⁵⁵ROLF SERINGHAUS F. H., *Cross-cultural exploration of Global Brands and the Internet*, 18th Annual IMP Conference, September 5-7, 2002

⁵⁶DUBOIS, B., DUQUESNE, P., *The market for luxury goods: Income versus culture*, European Journal of Marketing, (1993), 27

⁵⁷Ibid

2.4. Conceptual framework of prestige-seeking consumer behavior (PSCB)

Frank Vigneron and Lester W. Johnson studied the topic of brand prestige. Authors incorporated into their PSCB framework both interpersonal and personal effects that were analyzed previously by researchers. They identified and put together five values of prestige with five relevant motivations.

Figure 10: Five values of prestige combined with five relevant motivations

VALUES	MOTIVATIONS
Conspicuous	Veblenian
Unique	Snob
Social	Bandwagon
Emotional	Hedonist
Quality	Perfectionist

Source: VIGNERON, F., JOHNSON, *A review and a conceptual framework of prestige-seeking consumer behavior*, Academy of Marketing Science Review (1999), 1

“The conceptual framework identifies five types of prestige seekers which are influenced by five perceived prestige values and self-consciousness. Self-consciousness appears to affect consumer decision processes regarding brand selections. This influence varies depending upon the person's susceptibility to interpersonal influence. But more significantly, the prestige framework included personal effects such as hedonist and perfectionist motives, thus supplementing the traditional three-factor structure (i.e., snob, Veblenian, and bandwagon motives) inherited from Leibenstein(1950).”⁵⁸

By doing so, Frank Vigneron and Lester W. Johnson tried to create a balance between personal motives (hedonist and perfectionist motives), analyzed by Dubois, and combine with traditional interpersonal motives (Veblen, snob and bandwagon motives).

⁵⁸VIGNERON, F., JOHNSON, *A review and a conceptual framework of prestige-seeking consumer behavior*, Academy of Marketing Science Review (1999), 1

While Veblen, snob and bandwagon effects were discussed earlier in this thesis, special attention will be given to the hedonist and perfectionist effects.

Hedonist effect – consumers that are interested in hedonist effect are more interested in their own feelings and luxury for them provides intangible benefits. Price is not the main indicator of luxury.

On the other hand, perfectionist effect is important for consumers who value the quality that luxury products offer and high price they associate with the higher quality.

“These consumers know what they want and use their own judgment, while price exists only as a proof of quality. The Veblen, snob and bandwagon effects are evident with consumers who perceive price as the most important factor, with a higher price indicating greater prestige. They usually buy rare products and in this way emphasise their status.”⁵⁹

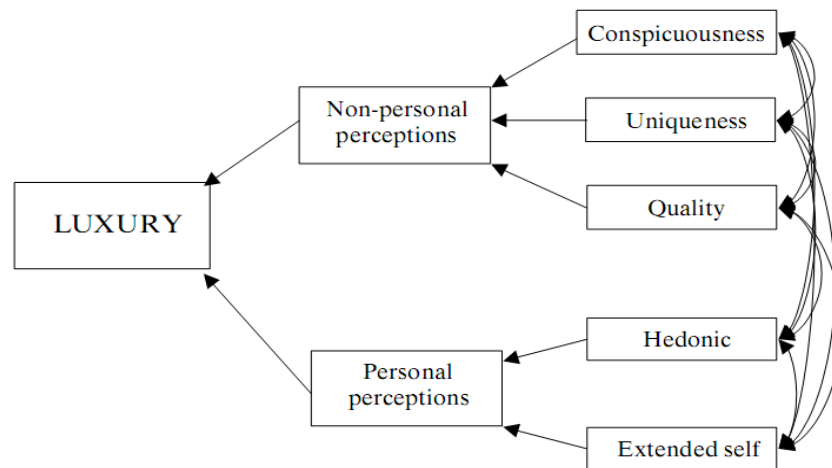
“Vigneron and Johnson developed a framework of ‘prestige-seeking consumer behavior’. This prestige-seeking framework was originally inspired by the conceptual work of Mason, who developed a framework of status seeking behavior to explain consumers’ behavior in relation to luxury brands. His conceptual framework mostly focused on the interpersonal effects associated with this behavior. In contrast, Vigneron and Johnson’s framework included personal aspects such as hedonist and perfectionist motives inspired from the research of Dubois and Laurent, as well as the more usual interpersonal aspects (snobbery, conspicuousness and bandwagon motives) inherited from Liebenstein and Mason.”⁶⁰

In their next study “Measuring perceptions of brand luxury” authors had broaden their model by changing the terminology “prestige-seeking behavior” to “luxury-seeking behavior”.

⁵⁹HUSIC, M., CICIC, M., *Luxury consumption factors*, Journal of Fashion Marketing and Management, Volume 13, Number 2, 2009

⁶⁰VIGNERON, F., JOHNSON, L., *Measuring perceptions of brand luxury*, Brand Management (2004), 2

Figure 11: Luxury-seeking consumer behavior framework



Source: VIGNERON, F., JOHNSON, L., *Measuring perceptions of brand luxury*, Brand Management (2004), 2

“The term ‘luxury’ in this context is more inclusive in the sense that it includes both personal and interpersonal aspects. While prestige or status consumption involves purchasing a higher priced product to embellish one’s ego, luxury consumption involves purchasing a product that represents value to both the individual and vis-à-vis significant others.”⁶¹

This research paper broadens all the existing researches on luxury and attitudes towards its concept. The model is useful when building, positioning and maintaining luxury brand.

Furthermore, other research, published in 2008, should be mentioned by M. Husic and M. Cicic which presents luxury consumption factors. Within the scope of this research, authors received the interesting result that the influence of patron status in luxury consumption is significant but negative, supporting “snob effect”.

“It is significant that patron status has a negative influence on consumption, which suggests the presence of a “snob effect” in this sample. Consumers wish to have unique luxury products, since they pointed out that they do not like to shop in the same stores as their friends, or people they admire. This directly implies snobbishness, or consumers desiring products that are in limited supply and therefore have a high value, while those

⁶¹ VIGNERON, F., JOHNSON, L., *Measuring perceptions of brand luxury*, Brand Management (2004), 2

readily available are seen as less desirable. Products have an even greater effect on demand if people also perceive the product to be unique, popular and expensive.”⁶²

Therefore, the recent paper on luxury consumption factors supports the growing influence of snobbish behavior, analyzed by previous research studies.

2.5. Discreet consumption

In the luxury business there is recently emerged trend called conspicuous non-consumption. The main idea of conspicuous non-consumption is that customers, who are coming from very rich families and have been luxury consumers for ages, do not have to show and prove their wealth and tend to dress with less brand visibility and drive less expensive cars.

“There is an example of Hugo Boss, where the more you pay, the smaller the logo. And this references the historical conflict between discreet old money and flashy new money. Consumers who refuse to serve as human billboards will have to compensate the company for the attendant loss of publicity.”⁶³

Therefore, luxury consumption is not anymore conspicuous. Of course, the level of consumption and status is present but these customers tend to buy luxury products more for enjoyment and to feel more comfortable about themselves without proving anything to anybody. This is the behavior of people who have more money and know how to spend. “They have reached the freedom to choose for themselves, unlike most of us who choose with others in mind.”⁶⁴

There is an interesting research which was concluded at the Harvard University by J. Hall and H. Li on the topic “Why isn’t conspicuous consumption more conspicuous?”. The main idea is that discreet consumption signals social status in addition to wealth. In their model authors tried to show why people choose to consume Veblen goods discreetly, and why conspicuous consumption is associated with a lower class while discreet consumption is seen as a signal of higher status.

⁶²HUSIC, M., CICIC, M., *Luxury consumption factors*, Journal of Fashion Marketing and Management, Volume 13, Number 2, 2009

⁶³Ibid

⁶⁴KAPFERER J. N., *Luxury after the crises: Pro logo or no logo?*, The European Business Forum, 2010

Authors explained that “people care about their reputation for wealth and social status in addition to their consumption. Wealthy but low-status representatives consume conspicuously because discreet consumption is too costly in does not reflect wealth signaling. Agents who are wealthy and high-status consume discreetly, to separate themselves from those with low social status. Casual observation suggests that much of what we attribute to conspicuous consumption is not maximally conspicuous, while the simplest theory of conspicuous consumption unambiguously predicts that, holding price constant, the more conspicuous a consumption good the better. Expensive hand-wrought silverware only signals wealth to dinner guests. Someone who wishes to signal his wealth in as clear a fashion as possible can do better, instead, some people buy Patek Philippe watches while others buy more conspicuous Rolexes. We define discreet consumption to be conspicuous consumption that is not maximally conspicuous.”⁶⁵

The research showed that there are two different types of consumption: conspicuous consumption and discreet consumption. Conspicuous consumption can be seen by all observers, while discreet consumption can only be seen by observers within the social circle of the consumer.

Authors tried to understand the nature of the discreet consumption. “This then allows wealthy agents with high social status to separate from wealthy low-status agents by consuming discreetly. For such an agent, the gain in utility due to observers in his social circle perceiving that he has high social status outweighs the loss due to observers outside their social circle perceiving him to be of low wealth.”⁶⁶

Due to that separation in consumption, different marketing strategies should be implemented. Also the design, style and type of products will be adapted to different audiences.

2.6. Pricing luxury

Luxury goods differ from normal goods in a way that they satisfy not just physical needs, but also emotional, social needs such as exclusiveness, etc. This is the crucial point to

⁶⁵ HALL, J., LI, H. *Why isn't conspicuous consumption more conspicuous?*, Harvard University, 2007

⁶⁶ Ibid

understand, when deciding about the pricing decisions. A lot of literature and practice about luxury points the potential danger to sell less if the price is too low.

“To live in luxury you have to be above others. By increasing prices, you lose the bad customers, but now you suddenly become dazzling attractive to people who would previously not have given you a second glance.”⁶⁷

In a luxury business different values play primer role then just a low price. The conspicuous goods, the exclusiveness of the brand, highly controlled distribution channels and experience that customer receives with purchasing the product or service. These are the crucial points that identify luxury.

“Luxury exists because just some people cannot access to it. Since richness is growing everywhere in the world, thanks to fast economic growth, luxury must not ever be made too accessible if it wants to remain the dream of those with growing revenues and wealth. Even when made accessible its pricing should be discriminatory pricing.”⁶⁸

Many academics and practitioners have found the presence of two completely different needs in the society among consumers: uniqueness and conformity. These findings show that there is a direct relationship between the need and the price, charged for the product. For example, in case customers seek the uniqueness from the purchased good, the low price unlikely will play the positive role. Therefore, when the price is high, the value of the product also increases. On the other hand, conspicuous consumers, who look for conformity, value the product more as the number of the customers, consuming it, increases.

In a luxury field, the self expression, status and heritage, have been the important aspect to influence the customer, as well as they served as a description of the social and psychological motivations for consumers behavior.

Several research studies were made to understand relation between the uniqueness of the product and its price. The research analysis “Pricing of conspicuous goods” which was concluded by W. Amaldoss and S. Jain, highlights an analytical model which describes the

⁶⁷KAPFERER, J. N., BASTIEN, V., *The specificity of luxury management: Turning marketing upside down*, Brand Management (2009), vol.16

⁶⁸KAPFERER J. N., *Luxury after the crises: Pro logo or no logo?*, The European Business Forum, 2010

influence of the social aspect on consumer behavior and how it reflects in a company's prices, profits and market shares.

It is important to mention this research within the scope of this thesis as it extends the traditional economic model of consumer decision by introducing the concept of uniqueness and conformity and provides more useful insights on the conspicuous consumption.

Research presents two competing firms that try to satisfy two segments of customers. Authors took the assumption that one segment of consumer's desires is uniqueness and therefore the value of the product decreases with the increasing number of people who bought this product – snobs. And on the other hand, consumers within other segment value conformity, thus the value of the product becomes more significant together with the increased number of customers who bought this product – conformists.

The analysis confirms the assumption presented earlier, that snobs are likely to buy more product when the price rises, which leads to higher prices and therefore to higher profit for the company.

"We find that, in general, snobs buy a higher quality product despite their desire for uniqueness and not because of it. Further, firms producing conspicuous products may sometimes find it beneficial to downplay the functional differences between their products, since highlighting functional differences can lead to increased price competition and a decline in firm's profits. The experimental results provide strong support for a key prediction of the model: more snobs buy a product as its price increases."⁶⁹

The theoretical and empirical analysis showed the proof of some assumptions about conspicuous consumption.

"We show that in a market comprised of snobs and conformists, demand among snobs could increase as the price of a product increases. However, the demand among conformists, as well as the total market demand would decrease as price rises. The intuition for this result is that snobs prefer a higher priced product if they expect the overall demand to be lower at the higher price, and such an expectation will be rational only if the conformists have a downward-sloping demand curve. Hence, in a market comprised of either only snobs or

⁶⁹ AMALDOSS, A., JAIN, S. *Pricing of conspicuous consumption*, 2004

conformists the demand curve is downward-sloping. It is useful to note that our result does not rely on signaling either product quality or wealth of consumers.”

Pricing of the luxury products should be done very carefully. “A luxury brand must cause its average price to grow continually: its client development dynamic is not the increase in the number of clients through the lowering of the access price, which devalues the brand, but through the increase in the number of clients who are willing to pay to access the brand.”⁷⁰

Producers of luxury products for ages enjoy the inadequate high prices although they must be very careful when setting the price. Too low price can harm the overall exclusivity and unique image and sometimes attract not desirable customers.

2.7. Lessons for luxury marketers

The deep research on the motives of consumers to purchase luxury showed the evolution of the luxury consumer over the years. Moreover, these findings are a great help for luxury marketers to adapt their strategies to different audience and to carefully position their brands. Results identify different luxury consumer groups with different buying motives. Conspicuous consumption is not the only one description of luxury consumer behavior. Authors separate not only personal and interpersonal motives for buying luxury but researchers go further and reflect the changing environment, thus the changing behavior of luxury consumer, resulting in discreet consumption. However, none of the aspects of luxury consumer behavior should be ignored. Even though, the phenomenon of conspicuous consumption was described almost a century ago, it is still present in a luxury society. It is important to separate different groups of luxury consumers. The base for distribution might be the country of origin, history of luxury consumption, education etc.

For instance, customers from the Western European countries and the USA have been luxury consumers for decades and their consumption pattern is completely different from those from the emerging markets. The average luxury client from the emerging markets enjoyed his or her first luxury item approximately 20 years ago. The luxury consumption basket, style, fabric, model, brand of his or her choice will be the direct reflection of the conscious consumption. However, the behavior of the Western European

⁷⁰ KAPFERER J. N., *The Luxury Strategy: Break the Rules of Marketing to Build Luxury Brands*, Kogan Page, 2009

client would be the perfect example of discreet consumption. Therefore, it is crucial to study and research all the possible luxury consumption behaviors as many countries and regions are at the different stages of development and the studies which are done several decades ago in developed countries might be a great help to approach new luxury consumers.

These findings can be interpreted as a luxury values that are important for different customers groups. “Based on a deep understanding of the dynamics of luxury and on consumer research worldwide, one thing is sure: conspicuousness is here to stay, of course with differences within the luxury population. The future belongs to companies who understand this need for status and adopt a true luxury strategy.”⁷¹

By identifying all the luxury consumption patterns, companies should introduce the product and price range accordingly. Design, message, logo this all will be differently executed by different consumer groups.

Additionally, advertising strategies should reflect different values, whether it is timeless quality or signaling status. The marketing communications campaigns and advertising messages can be changed reflecting and emphasizing various values and stress on the core competences of the luxury brand.

3. Luxury marketing

3.1. Luxury marketing overview

The specifics and nature of luxury brands are described in the first part of this research thesis. It gives the clear picture of what luxury is in sociological, historical, business terms. Therefore it is crucial to understand that the traditional principles and techniques of marketing do not work efficiently within the luxury sector. The next chapters of this dissertation highlight the overview of the 6 P's of luxury marketing together with its anti-laws. Nevertheless, the crucial points in luxury branding and marketing communications are analyzed in details. Additionally, the recent trends will be described with the special attention to the luxury brand expansion to the digital world.

⁷¹KAPFERER J. N., *Luxury after the crises: Pro logo or no logo?*, The European Business Forum, 2010

3.1.1.The 6 P's of luxury marketing

The 6 P's of luxury marketing describe all the touch points between luxury brands and their clients. Moreover, this approach allows achieving better understanding of customers and creates the environment for long-term relations.

Presented by the Winsper, marketing communication agency, "The 6 P's of marketing luxury" report was conducted due to the experience that company has gained while observing and communicating with high net worth individuals. Therefore, this allowed building the tactics to approach this niche audience.

"People — People will increasingly rely on strong personal relationships that differentiate their trusted network from larger, non-exclusive networks associated with mass offerings.

Product — Luxury products must embrace six key characteristics if they are to be considered as luxury by consumers: quality, heritage, integrity/sincerity, price, scarcity, and superfluousness or non-utility.

Passion — The affluent share their passion through clubs; targeted, niche online communities; and other social networks that marketers can penetrate using word of mouth and viral marketing.

Pleasure — Pleasure derived from luxury consumption comes from the experience. A luxury experience implies an emphasis on senses and emotions. This results in a very significant, sometimes unforgettable memory.

Purpose — Although luxury might be superfluous, it also serves a purpose. Most luxury products have a utilitarian aspect, which is more or less important to different individuals.

Price — The price matters to the affluent, who tend to spend rationally, even if they seem to spend a great deal. Aware of the many downsides of ownership, the affluent increasingly favor fractional ownership."⁷²

The motivations for buying luxury products are different for different consumers. And they have different reactions to various combinations of 6 P's. Moreover, the combination of P's will not be the same for all luxury products.

⁷² WINSPEER J., *The 6 P's of Luxury Marketing*, retrieved on 10 October 2011, <http://www1.prweb.com/prfiles/2007/05/04/524296/6PsofLuxuryMarketingWinsper.pdf>

3.1.2. Anti-laws of marketing

Luxury marketing requires special techniques and approaches. Moreover, there are those marketing laws that work completely differently when applied to normal products and when applied to luxury products. Therefore, some of marketing actions should be forgotten in luxury sector as it might be even harmful for a brand to use them. J.N. Kapferer argues that there are approximately 18 ‘anti-laws of marketing’. Those luxury marketing anti-laws include: “

1. Forget about ‘positioning’, luxury is not comparative
2. Does your product have enough flaws?
3. Don’t pander to your customers’ wishes
4. Keep non-enthusiasts out
5. Don’t respond to rising demand
6. Dominate the client
7. Make it difficult for clients to buy
8. Protect clients from non-clients, the big from the small
9. The role of advertising is not to sell
10. Communicate to those whom you are not targeting
11. The presumed price should always seem higher than the actual price
12. Luxury sets the price, price does not set luxury
13. Raise your prices as time goes on in order to increase demand
14. Keep raising the average price of the product range
15. Do not sell
16. Keep stars out of your advertising
17. Cultivate closeness to the arts for initiates
18. Don’t relocate your factories”⁷³

Nevertheless, traditional marketing techniques suits the bottom categories of the luxury pyramid, those that, according to J. N. Kapferer are no longer luxury products, but products derived from luxury brands. Additionally, brand might employ traditional marketing

⁷³ KAPFERER J. N., *The Luxury Strategy: Break the Rules of Marketing to Build Luxury Brands*, Kogan Page, 2009, p. 75

techniques in case of, for example, licensing agreements. Further, such divisions of luxury marketing, as branding and marketing communications, are described in details.

3.2. Luxury branding

“Branding and marketing have a mutually beneficial relationship. Branding is a core aspect of marketing and also depends on the marketing strategy for its existence because without products and services (which marketing devises), the branding process cannot exist. Marketing on the other hand benefits from branding because a strong brand enhances the marketing strategy while a weak brand suppresses it.”⁷⁴

Branding became a top business priority as many managers realized the influence of the brand as one of the most valuable intangible assets that company has. “Brand building goes far beyond creating awareness of your name and your customers promise. It is voyage of building a corporate soul and infectiously communicating it inside and outside the company to all your partners, so that your customers truly get what your brand promises.”⁷⁵

Overall, the brand is the cornerstone of the whole business and is some kind of the bridge for connecting different areas like production, distribution and consumption etc.

“Branding is not only about creating fancy names and logos. To equate branding with such superficial cosmetic effort is like judging a book merely by its cover.”⁷⁶

The brand tells the story and explains why the product or service exists, from where it came from and the future direction. The brand must be able to adapt to the changes in buyers attitudes, behavior, fashion and technology and overall economic and social environment.

The brand consists of both, the previous experience of the product, the memory, and the future of it. It changes every day. Moreover, brand’s past shouldn’t determine the future blindly. Everything should be taken into consideration and when the brand moves in different directions there is always the danger to lose its values.

Brands started to play important role since advertising for mass produced products became crucial. Consumers are always looking for a better product that is why the brand should fulfill their expectations. This is not an easy task, especially in such a competitive

⁷⁴ OKONKWO, U., *Luxury Fashion Branding: Trends, Tactics, Techniques*, Palgrave Macmillan, 1st edition, 2007, p.128

⁷⁵ KOTLER P., PFOERTSCH W., MICHI I., *B2B brand management*, Springer, 2006, p.9

⁷⁶ Ibid, p.10

environment where consumer's expectations became more demanding due to innovations and technological improvement.

“Brands help people make decisions, small ones, as well as big ones. They enable you to trust the Bordeaux you drink, the Mercedes you drive and the GE Jet Engine that lifts the plane you count on to take you paces.”⁷⁷

The marketers of leading brands create not just the brand awareness but they show the corporate ideas and promise of the brand. Today consumers have access to information and actually can control and influence the perceptions of different brands. More information they get, more they are careful about choosing the brand. And this information mainly delivered by advertisers and PR professionals of the brand. When consumers, for instance, buy luxury product, Burberry coat or Chanel bag, they don't simply buy a coat or a bag, they are buying an experience, a fashion product, which has a powerful brand and strong emotional value.

Brand management is a very complex process which is designed to implement and maintain a mix of tangible assets and intangible values. These assets and values are very important for the customer and marketers should build the identity that helps distinguish the product from its competitors.

The most quoted definition of the brand was given by the Philip Kotler and it was taken by the American Association Committee on Definition in 1960. Philip Kotler defines the brand as “a name, term, symbol, or design, or a combination of these, that is intended to identify goods or services from one or more sellers, and to differentiate it from those of competitors.”⁷⁸ In case of luxury “the name of a brand, or its logo, is an important visible part of a more complex reality. It provides the mediation between the essential values of a luxury company - its identity - and the perceptions its customer have of it-its “image”.”⁷⁹

As luxury brands always associated with quality, craftsmanship and heritage, many of them use the names of their founders, for example, like Giorgio Armani, Coco Chanel etc. Rebranding in this case is a very dangerous procedure. Sometimes changing environment requires adaptation of not only the strategy but of the logo and name, as new luxury consumers might have different background or represent different cultures. “In the field of brand-name management, one of the most interesting phenomena in recent times has been the

⁷⁷ KOTLER P., PFOERTSCH W., MICHI I., *B2B brand management*, Springer, 2006, p.5

⁷⁸ KAHLE L., KIM C., *Creating images and the psychology of marketing communication*, Routledge, 2006, p.105

⁷⁹ CHEVALIER M., *Luxury Brand Management: A World of Privilege*, Wiley; 1 edition, 2008, p.90

progressive disappearance of the “Christian” from Christian Dior. Until 1995, the products and the advertising always bore the complete signature. Then, the forename progressively disappeared. For a long time, it was not shown in full size on the advertising, but on the baseline of the advertising and on the packaging. Today, the brand appears generally without the first name in, for example, the signs of the new stores and in all advertising material. How should we view this change? Some will think that the company’s directors are playing a dangerous game, and are in danger of progressively diminishing the affective component of the brand among traditional European customers and creating a completely new brand, with fewer roots and more appeal to young Asian and American clients. But the brand’s excellent results in the last 10 years seem to indicate that this segmentation strategy was a good one.”⁸⁰

Of course, Philip Kotler’s definition does not reflect the whole strategic meaning of the brand in current competitive environment.

“Nowadays the concept of the brand is more complex and consists of two main elements:

- A material element that relates to the brand’s system of signs (name, logo, colors, pay offs and advertising jingles). These have a primary role in identifying the brand and products associated with it, as well as guaranteeing the quality/performance relationship of the products. These brand’s functions reduce the consumer information and selection costs in a complex competitive environment

- An intangible element that relates to the associations evoked by the brand in the consumer’s mind. The relationship between the brand and the consumers has “perceptive” connotations that refer to the consumer’s generation of a mental representation of the object on the question (brand image) which summarizes both the tangible elements (the physical characteristics and functions of the product) and emotional factors (the material and symbolic contents).”⁸¹

The direction is the key to a successful brand. The way marketer maintains and identifies the strategy is what creates failure or success of the brand. How marketer chooses to use resources, the connection of current position with a strategic vision and how deploys organizational resources and core competences. These are all the main actions for making the brand successful and creating its leading position on the market.

⁸⁰CHEVALIER M., *Luxury Brand Management: A World of Privilege*, Wiley; 1 edition, 2008, p.98

⁸¹SAVIOLO S., TESTA S., “Strategic management in the fashion companies”, Etas, 2007, p.148

3.2.1. Luxury brand extensions

Brand extensions topic is heavily discussed in brand management literature. In the situation when companies want to enter new market, more of them use the existing brand rather than create new one for that particular area.

The brand extension is not recent trend. It was popular among luxury companies, producers of Haute Couture, those who extended their brands to accessories, leather goods, watches, jewelry, perfumes and cosmetics.

Usually perfumes are the most visible products of the luxury brands as they require very high advertising budgets to sustain visibility and to inform. Perfumes increase awareness of the brand. Nowadays, it is very important to have visibility that can be provided by launching perfume.

There are some experts that say that this practice should be avoided, but today, a lot of luxury companies, even those with strong traditional and conservative management, have extended their brands.

Moreover, it is the necessary strategic step at some level of life of the product and may be the only way to keep the growth of the company.

“When innovation is not in the core market of the brand, it means that the brand will extend out of its core, a process also called brand stretching. This is why brand extension is such an important topic: it is about the redefinition of the brand meaning. It is not possible to grow the business indefinitely without changing some facets of the brand.”⁸²

Brand extension is very sensitive decision and will work only when the brand is strong enough to cover different product categories. “When managers want to extend their luxury brands into nonadjacent categories, they should first consider whether the brands have appropriate symbolic power to cross categories. They should also consider whether the symbolism can be consistently promoted in the new categories. Rolex perfume? Maybe. Lamborghini wine? We don’t think so.”⁸³

⁸²KAPFERER J. N., *The new strategic brand management*, Les Editions d’Organisation, 2008, pp.296-297

⁸³ REDDY M., TERBLANCHE N., *How not to extend your luxury brand*, retrieved on 10 October 2011, <http://hbr.org/2005/12/how-not-to-extend-your-luxury-brand/ar/1>

It is very emotional topic as during this process brand identity that was created for years, either can be lost or become more wide and valuable. Extensions can be viewed as diversification of the products and services or as entry strategies to new markets etc.

“The brand extension perspective introduces two radical modifications. First, it maintains that a brand is a single and long-lasting promise, but this promise can or should be expressed and embodied in different products, and eventually in different categories. Second, it asks us eventually to redefine the historical brand benefit by nesting it in a higher value order. Brand extension exemplifies the move from tangible to intangible values, from a single product-based promise to a larger brand benefit, thus making the brand able to cover a wider range of products.”⁸⁴

Brand extensions also involve risk as it leads the brand to enter new and unknown markets where other more powerful competitors can operate. The new product can disappoint customers and damage their attitudes toward the brand. Thus, it is not just financial risk involved in case of failure.

The brand can lose its special positioning in the minds of consumers and they might no longer associate the brand with a special characteristics or experiences.

For example, when luxury brands stretch downward, their exciting customers may feel less exclusive and overall their new perception of the brand might be negative. “Luxury brand’s profitability will usually increase as the premium degree increases—but only if the brand is extended into product categories adjacent to the core brand.”⁸⁵

Nevertheless, if luxury brand decide to start business in wide number of categories, which are far from its core business, the failure might be unavoidable. The example of the fatal failure of the luxury brand can be found in Pierre Cardin brand’s strategy. “The brand’s early extensions into perfumes and cosmetics in the 1960s succeeded so well that the company began to sell licenses indiscriminately. By 1988, it had granted more than 800 licenses in 94 countries, generating a \$1 billion annual revenue stream—and profits plummeted. It wasn’t until the Pierre Cardin name started appearing on wildly nonadjacent products such as baseball caps and cigarettes that margins collapsed. Initially, the brand extensions into the perfumes and cosmetics categories were successful because the premium degree of the Pierre

⁸⁴ REDDY M., TERBLANCHE N., *How not to extend your luxury brand*, retrieved on 10 October 2011, <http://hbr.org/2005/12/how-not-to-extend-your-luxury-brand/ar/1>

⁸⁵ Ibid

Cardin brand transferred undiminished into the new, adjacent categories. The owners of Pierre Cardin, unfortunately, attributed this to the strength of the brand rather than to the brand's fit with the new product categories.”⁸⁶

Companies when deciding to extend should create very careful strategy and have clear understanding what benefits or lose it might bring to the brand and the company.

But it can be the necessary step, once all other approaches have been involved.

“The growth should be built:

1. First, by increasing the volume of purchase per capita of present customers of the present product.
2. Then by new product development and line extensions to increase the brand's relevance and address the needs of more specific targets or situations.
3. By the globalization of business in countries offering high growth opportunities.
4. By innovating to modify the competitive situation, create new competitive advantages or open new markets, thus benefiting from the pioneer advantage.”⁸⁷

At some point of life of the product the extension might be the only way to boost the growth in sales. This strategy is very popular now as many marketers are searching for new ways to build brand awareness and the practice of using brand extensions is a powerful step.

3.2.2. Brand identity and positioning

It is now clear that the brand is not just the name of the product but the overall vision, its ethics, beliefs and perception, that were created by careful marketing strategies.

“Modern competition calls for the two essential tools of brand management: “brand identity” specifying the facets of brands' uniqueness and value, and “brand positioning”, the main difference creating preference in a specific market at a specific time for its products. For existing brands, identity is the source of brand positioning. Brand positioning specifies the angle used by the products of that brand to attack a market in order to grow their market share at the expense of competition.”⁸⁸

⁸⁶REDDY M., TERBLANCHE N., *How not to extend your luxury brand*, retrieved on 10 October 2011, <http://hbr.org/2005/12/how-not-to-extend-your-luxury-brand/ar/1>

⁸⁷KAPFERER J. N., *The new strategic brand management*, Les Editions d'Organisation, 2008, p.296

⁸⁸Ibid, p.171

Every brand tells its unique story and creates its own experience that is built over time by using strong communication tools. The connection between the product and the brand is build by marketers through communication strategy, which creates the attributes, images and associations. And over time the brand identity transforms from just something about the product to company's financial asset.

Creating the brand identity is very important, since more and more brands expand and differentiate. It is becoming crucial point for marketers to make their customers feel that they are dealing with single brand rather than with different ones. In case when product and communications work in separate ways, then it is very difficult for customers to perceive these different products and messages, understand that they have common vision and brand.

The brand cannot become valuable asset for the company in one day but it is a result of specific strategic interventions.

There are several stages before brand becomes really a valuable asset.

In the beginning there is just a product and company uses its power only to distinguish itself from other competitors by name, logo and so on.

Then on the next stage, as the result of marketing communication activities, the brand acquires its own personality and can be perceived separately from the product. The brand is becoming the reason why customers should come back and buy again this particular product. When the brand identity is built, customer understands other benefits of this purchase, those that go beyond the physical features. At this stage company can do one strategic step - to increase its growth by introducing new lines as the brand has gathered already strong enough reputation.

And finally, at the last stage, there is no connection between brand and the product. The brand communicates by itself. And there is a potential to increase the company by using the brand extension.

“Brand identity is never defined through a single business decision. It derives from the interaction of many dimensions, within and without the firm. For fashion firms, brand identity defines itself in relation to four elements of the business system – the firm's history, stylistic identity, visual identity and retail identity.

The fundamental problem in fashion is how to make the firm's brand identity co-exist with innovation and change. The profitable, long-term survival of firms depends on the

intrinsic fit and match between the offer evolution and the evolution of the collective imaginary, rather than on simply anchoring brand identity to a “winning” product. Individual products have to evolve as a result of the development of fashion, but at the same time the offer has to remain anchored to the deeper “meaning” of brand identity. It is clear that the collective imaginary has a longer lifecycle than fashion, even if both are destined sooner or later to fade away. The trick is the ability to make the brand evolve together with the social imaginary of reference.”⁸⁹

In luxury industry there is a good example of the successful strategic alliance between youth and innovation, between Marc Jacobs and French heritage and conservatism, represented by Louis Vuitton brand. “When Marc Jacobs was recruited by Louis Vuitton in 1997 to develop a ready-to-wear collection, many people were skeptical. The first show got cool reception from the press and the brand’s hard-core fans. They had trouble seeing the connection with “art of travel” or the “conservative spirit” that had come to be associated with the brand’s identity.

However, fashion, which had seemed incompatible with the brand at first, proved to be an unexpected source of dynamism. The fashion shows and the opening of the “global stores” in Paris, London and Tokyo extended its media coverage, and the choices made for the collections proved to be a tour de force in rejuvenating the brand’s identity without alienating the existing customers.”⁹⁰

Luxury brands are trying to personify their brands. Meaning that they communicate their brand in a way that it is obvious with whom or with which lifestyle they position their brand. “Brands, of course, also make statements to other people—they are a short-hand communication of who you are. They can win acceptance, approval, or at the very least, in some cases avoid disapproval.”⁹¹ Therefore letting their customers to position and reflect their values through the brand choice. “The identity of the luxury brand thus contributes to building the identity of its clients.”⁹² The personality of the brand is identified not only by tangible functions but also by its perception of other consumers. “A consumer’s perception of

⁸⁹ SAVIOLO S., TESTA S., “Strategic management in the fashion companies”, Etas, 2007, p.154

⁹⁰ CHEVALIER M., *Luxury Brand Management: A World of Privilege*, Wiley; 1 edition, 2008, p. 135

⁹¹ LANGER J., *What consumers wish brand managers knew*, Journal of Advertising Research, 1997, Vol. 37, Issue: 6, pp. 60–65

⁹² KAPFERER J. N., *The Luxury Strategy: Break the Rules of Marketing to Build Luxury Brands*, Kogan Page, 2009, p.122

a brand is that of a personified image, built up in a symbolic manner partly through the virtue of the communicative effort firms undertake.”⁹³

The understanding and creating the strong brand identity is crucial. As it plays one of the main roles in the process of brand positioning.

It is important to understand the main feature of brand positioning – to stress on the features that make product different from its competitors. And these characteristics should be clearly visible for the customers as it might be the main push in decision-making process. It is obviously, that all consumers make their choices while comparing one product to another.

“Positioning is a two-stage process:

- First, indicate to what “competitive set” the brand should be associated and compared.
- Second, indicate what the brand’s essential difference and “raison d’etre” is in comparison to the other products and brands of that set.”⁹⁴

Choosing the set of competitors is crucial. After analysis of competitors, company can create an exclusive product with the features that it can present on the market and start competing for its position.

Brand positioning is very important in management. As was identified before, brand identity includes and shows tangible and intangible features of the brand. Identity is based on brand’s history and heritage that gives it its exclusive characteristics and clear understanding by customers brand’s values and benefits.

“Positioning is competitive: when it comes to brands, customers make choice, but with products, they make a comparison.”⁹⁵

The goal of positioning is to educate the customers about all the advantages of the product. The strategy of positioning is not created once, more likely it is changing over time when situation on the market changes.

“A correct brand positioning allows for interpreting social change in a way that is consistent with the firm’s own target. It is said that fashion changes every six months. Thus, firms that do not have profoundly rooted and widespread brand identity attempt a revolution

⁹³ AIELLO G., DONVITO R., GODEY B., PEDERZOLI D., WIEDMANN K. P., *An International Perspective on Luxury Brand and Country-of-origin Effect*, Journal of Brand Management , 2009, Vol. 16, Issue: 5-6, PP: 323-337

⁹⁴ KAPFERER J., “The new strategic brand management”, Les Editions d’Organisation, 2008, p.176

⁹⁵ Ibid, p.178

in stylistic codes and communication. The construction of the brand's value require, however, evolution every six months in the firm's stylistic codes and communication, interpreting the development of the market with regard to the firm's own brand identity. This implies that those involved in the product and in creativity, are always in touch with "custodians" of brand identity. These custodians may be the entrepreneur, the marketing managers, or the brand managers. Change naturally requires a constant process of adapting business know-how. New opportunities can be seized by integrating the current stock of know-how with new ones that have been developed internally or brought into the firm."⁹⁶

Although, none doubts the important role of positioning for mass brands, there are arguments between luxury professionals, whether the positioning can be associated with the luxury. J.N. Kapferer in his book "The luxury strategy" talks about anti-laws of marketing which were presented earlier in thisdissertation thesis. One of the author's statements is that "in luxury, we should not talk about brand positioning. The luxury brand cultivates its uniqueness; it prefers to be faithful to an identity rather than constantly worry about superiority over an opponent (its competitive advantage). Even if the client makes the comparison, the brand is not managed by seeking to compare itself to others – like an artist."⁹⁷ Author argues that the strong identity of luxury brands gives them the feeling of exclusivity, rather than competition. Simply, the identity is built to make a brand superlative and not to worry about brand's place in relation to other brands. "Chanel has an identity, but not a positioning. Identity is not divisible, it is not negotiable – it is simply is. Luxury is 'superlative' and not 'comparative'."⁹⁸

Some can observe these statements as naïve perceptions, although the truth is the identity of the luxury brand is a very powerful tool and might play more important role then for other industries.

3.2.3. Building successful luxury brand

The economists define luxury brands as those whose price/quality relationship is the highest. Quality is considered to reflect the tangible functions of the product. On the other

⁹⁶ SAVILOLO, S., TESTA, S., "Strategic Management in the Fashion Companies", Etas, 2007, p.157

⁹⁷ KAPFERER J. N., *The Luxury Strategy: Break the Rules of Marketing to Build Luxury Brands*, Kogan Page, 2009, p.121

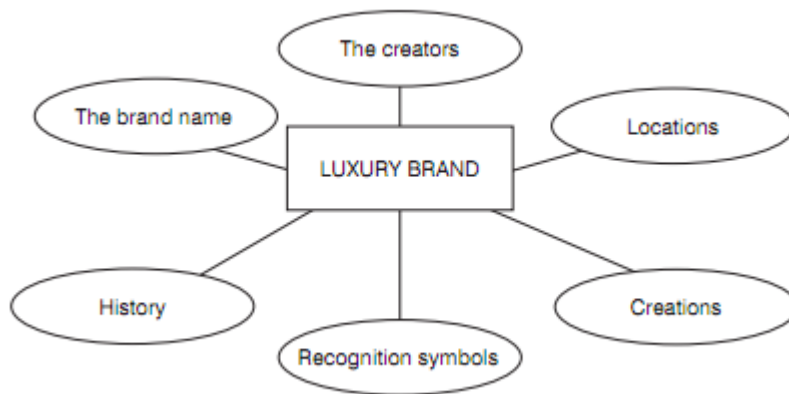
⁹⁸ Ibid, p.62

hand, there is another definition of luxury brands which says that these brands have to constantly justify a high price, which is much higher than other products or services with similar functions.

A brand is a symbol that justifies high prices. Gucci bags with the most visible double-G logo will be the company's best sellers. For different categories of goods, the brand plays a different role. But overall, it is obvious that with higher brand recognition come higher revenues.

In a luxury industry brand consists of several components that should be fulfilled for its success. Iconic product designs, locations, smell, colors etc. All these elements are presented in Figure 11.

Figure 11: Characteristics of luxury brands



Source: HINES T., BRUCE M., *Fashion marketing, Second edition: Contemporary issues*, Butterworth-Heinemann, 2007, part 7

“Chanel is intertwined with the personality of its creator, Coco Chanel and her style. Thanks to the creator's image, the brand value is ensured. The logo of Chanel has not changed since its inception and this is commensurate with other luxury brands. Investment in premier locations and the development of flagship stores akin to museums is typical, for example Prada's takeover of the Guggenheim Museum in New York. Luxury retailers are clustered in a certain streets in capital cities, like Rue du Faubourg St. Honore in Paris and Fifth Avenue in New York. Burberry tried to reposition itself as a “credible high fashion

brand” by opening a flagship on a Bond Street in London. Heritage of the brand and the history associated with its founder and its craftsmanship are built into the luxury brand. The history of the brand is a part of its distinctiveness, such as Vuitton’s travel cases.”⁹⁹

3.2.4. Role of the brand in purchase

According to some industry insiders the word luxury comes from “lux”- light in Latin. This explains a most essential concept: luxury must be seen by the consumer and others. The brand sign should be visible and recognized.

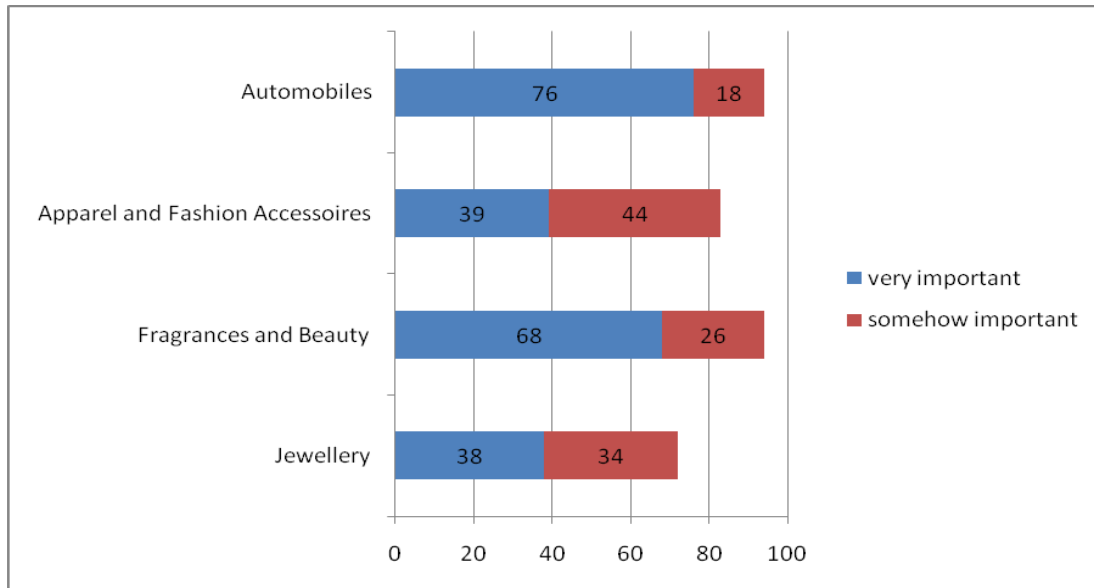
In case when some person suddenly earns a fortune, several questions will arise about the car he or she would buy, the watch he or she would choose, the suit and bag he or she would prefer. It is easy to predict those choices as most of the customers would say that they would drive BMW, wear Patek Philippe, Zegna and buy Montblanc or Louis Vuitton. These brands are famous among consumers because of the long history, professional marketing and brand building. BMW, Zegna and so on are symbols of certain class in the society and most of luxury customers would prefer them.

There are unique tools and methods in luxury industry that are designed to create the strategy and identify the brand.

The customer might not realize that in this particular moment he or she is influenced by a strong marketing communication tools. For example, watching Agent 007 movie and following James Bond while he drinks Finlandia Vodka Martini, drives Aston Martin and wears Omega watch. All these create some perception of the successful person in the mind of the customer and when there will be the moment of making decision about a luxury product, the customer will likely refer to those feelings and associations with his or her favorite character just to look alike and to reach the same lifestyle.

⁹⁹HINES T., BRUCE M., *Fashion marketing, Second edition: Contemporary issues*, Butterworth-Heinemann, 2007, p.7

Figure 12: Role of the brand in purchase



Source: DANZIGER P., *Let them eat cake – marketing luxury to the masses – As well as to the classes*, Kaplan Publishing, 2005, p. 130

Other example could be when the fan is watching the interview with his favorite singer, actor or sport star and, for instance, David Beckham, who would be wearing the t-shirt with a small logo of Armani on it. And next time when purchasing an Armani product consumer would feel something in common with his icon.

3.2.5. Creation of the leading luxury brand

The luxury brands, mentioned earlier, are examples of the leading luxury brands that successfully use branding techniques and marketing communication tools. Interbrand – a global branding consultancy - revealed a report on the leading luxury brands. But before looking at the ranks it is important to understand what Interbrand professionals mean when saying luxury brand. So, according to Interbrand luxury brand must: “

- Sit within a tier of a consumer-facing category that seemingly demonstrates price insensitivity
- Show that being expensive is of neutral or even positive impact to their image

- Demonstrate that perceived price has a low role among drivers of purchase.”¹⁰⁰

Figure 13 presents the Interbrand’s ranking of brands that successfully meet all these criteria.

Figure 13: Leading luxury brands 2008

Rank	Brand	2008 Brand Value in USD (\$m)	2008 Brand Value in Euro (€m)	Country of Origin
1	Louis Vuitton	21,602	16,718	France
2	Gucci	8,254	6,388	Italy
3	Chanel	6,355	4,918	France
4	Rolex	4,956	3,836	Switzerland
5	Hermès	4,575	3,541	France
6	Cartier	4,236	3,278	France
7	Tiffany & Co	4,208	3,257	United States
8	Prada	3,585	2,775	Italy
9	Ferrari	3,527	2,730	Italy
10	Bulgari	3,330	2,577	Italy
11	Burberry	3,285	2,542	United Kingdom
12	Dior	2,038	1,578	France
13	Patek Philippe	1,105	855	Switzerland
14	Zegna	818	633	Italy
15	Ferragamo	722	559	Italy

Source: *The leading luxury brands report 2008*, retrieved on 26 March 2009, <http://www.interbrand.com/>

Not surprisingly, that most of these brands were already mentioned as best examples of marketing practices and those with the strongest influence on the development and perception of luxury.

However to build the successful luxury brand it is crucial to identify what makes it different from other brands.

Leading luxury brands have the long-term strategy and follow it. They are not looking for immediate profits and are likely to invest into developing and maintaining of reputation and quality of the product.

¹⁰⁰The leading luxury brands report 2008, retrieved on 26 March 2009, <http://www.interbrand.com/>

Talking about the Rolex brand, that was found in 1905, and since then it is continuously increasing its value for customers while it is passing management from generation to generation. Managers have always invested in the future development, even may be sometimes by sacrificing immediate profit or limiting the size of the brand. Even now they are maintaining this strategy by accumulating money to enhance its after-sale services to extend the life of the product and to increase its value by making their watches “working across generations”. These factors create loyal Rolex customers that would never go for any other brand.

“A leading luxury brand understands that it is an icon. It stands beyond its competitors and transcends categories by creating a clear space around itself that makes substitution an unacceptable compromise.”¹⁰¹

It is not easy to manage the luxury brand. There is usually the temptation to extend the brand to attract new customers from other segments and hence generate higher profits. But this should be done very carefully not to lose brand reputation, high-end brand value and already exciting customers that would not accept other co-customers. But the practice of extension of the brand is not necessarily a mistake for the company. For example of Chanel introducing watches that display the same quality and value. It was a successful decision as managers separate the J12 watch brand from the whole line.

The most successful luxury brands are those with history. Those that were not created according to business plan or with the only goal to generate profits but those which had philosophy of the brand that was created first and sustained over many generations.

Swiss luxury watch brand PatekPhillipe is continuously increasing its value for customers. When it comes to watch, customers are very precise in their decision making process, especially it concerns men. Managers have always invested in the future development, even may be sometimes by sacrificing immediate profit or limiting the size of the brand. Even now, they are maintaining this strategy by accumulating money to enhance its after-sale services to extend the life of the product and to increase its value. The choice of the watch for men is very important as in the end it is the only jewelry they really wear. The slogan “You never actually own a Patek Philippe. You merely look after it for the next

¹⁰¹*The leading luxury brands report 2008*, retrieved on 26 March 2009, <http://www.interbrand.com/>

generation” says it all. The idea is pretty obvious and genius, and explicitly shows such value of the brand as the timeless character.

Although there are brands that have only several years of history and doing relatively good compared with traditional ones. But it will be obvious in the very near future if today’s business environment could ever create a leading luxury brand. Luxury brands always show some values, some history, they look like they are untouchable and need time to be created. Louis Vuitton, Bulgari, Rolls Roys and other brands did not appear from nowhere. All of them have strong historical roots and it took them many years to build their iconic status.

It takes a lot of time and capital to create new luxury brands. As well, a lot of marketing affords to introduce one and to achieve the same level with exciting. The customers of luxury brands are very loyal and they are not eager to switch to the new brand and they are those who are difficult to communicate with.

"The fact is today's affluent consumer is less likely to give a new brand a chance,"¹⁰² says Pam Danziger, the president of Unity Marketing.

There is some kind of competition between traditional luxury brands with values that were developed by generations, and new brands whose values are mostly created by modern communication tools. Nobody knows which strategy is more successful, but the results are talking for themselves. All the leading luxury brands from the table are not those brands that appeared recently from nowhere.

3.3. Marketing communications of luxury brands

When the question about the definition of what is marketing communications arises each respondent will have his or her own answer. People that are not very familiar with marketing communication practices will likely answer that it is just advertising as it is the most visible from all the marketing communication tools.

“Marketing communications – the means by which a supplier of goods, services, values and/or ideas represent themselves to their target audience with the goal of stimulating dialogue leading to a better commercial or other relations.”¹⁰³

¹⁰² *Affluent consumers continue to cut back on luxury spending, but the pace of decline is slowing at the end of first half 2008*, retrieved on 10 October 2008, <http://www.unitymarketingonline.com>

Marketing environment is changing constantly, especially in last two decades, due to technological revolutions and innovations, such as the Internet and mobile phones. Of course, one can argue that all these technological advances provided just new channels of communication rather than transformed the whole process of marketing. But there are no doubts that the main change that occurred is consumer's mind and his or her perception of the world and products. Consumers were influenced by millions of messages every day and have become more selective in what they need. Control over information or its power has transferred from producers to consumers. Thus, marketers have had to change the techniques and ways they use their marketing communication activities to more customer-oriented approaches.

3.3.1.Theory of marketing communications

The theoretical background of marketing communications is crucial for analysis, especially to understand how marketers communicate with public and how consumers work with this information.

Simple models describe a sender who is sending a message to receiver who receives it and understands it. But in reality it is not that simple as a lot of messages might be misunderstood, lost or just been ignored.

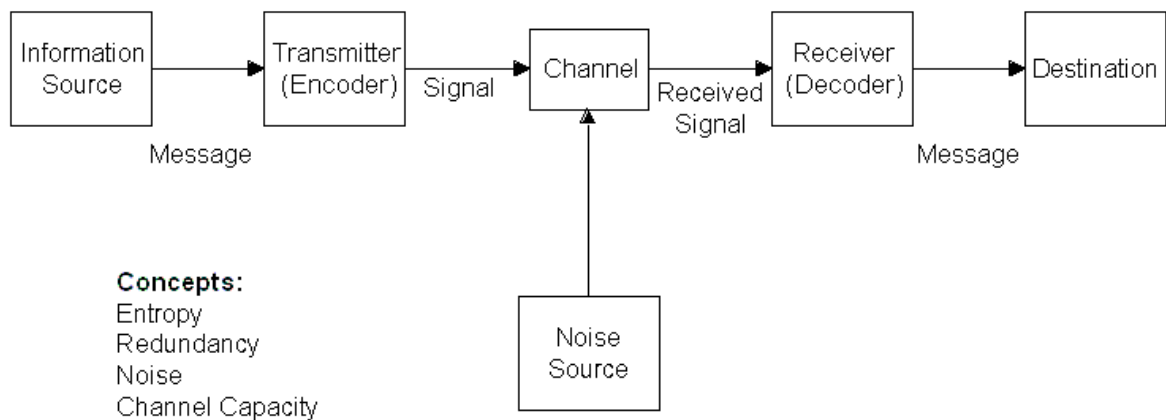
The understanding of the customer's needs, emotions, values and activities is crucial to ensure the accuracy and importance of any message.

Early communication models reflected the one-way communication approach.

Wilbur Schramm (1955) developed his model of communication, which is now accepted as the basic. In this model author says that communication have to have three elements: the source, the message and the destination. It works like the source encodes a message and transmits it to its destination through channels and there the message is received and decoded.

¹⁰³ EGAN J., *Marketing communications*, Cengage Learning EMEA, 2007, p.1

Figure 14:Schramm'sCommunicationModel



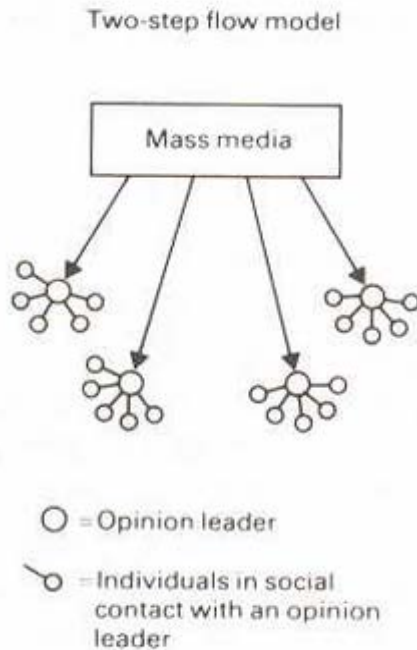
Source: <http://www.shkaminski.com/Classes/images/Shannon-Weaver%20Model.gif>, retrieved on 20 of January 2012

Sender encodes the message in a form that is easily decoded by the receiver. Encoding is very important step as it helps message to be visible and understandable among other messages. In case this point was completed successfully then the customers will interpret it correctly and marketers then look for feedback of this campaign.

This is a single step model where the receiver is getting the message directly from the sender.

But this is not the case in real, current situation. Many messages are received indirectly through other people, medium, like friends and opinion leaders. Thus, it is important to describe two-step communication model that was first introduced by Paul Lazarsfeld and Elihu Katz.

Figure 15: Two-step communication model



Source:http://www.cw.utwente.nl/theorieenoverzicht/Theory%20clusters/Mass%20Media/Two_Step_Flow_Theory-1.doc/Two_Step_Flow_Theory-1-1.png, retrieved on 28 March 2009

Opinion leaders communicate between each other, audience talk to opinion leaders and the customers talk to each other. Moreover, adding encoding, decoding, noise and feedback the process of transferring the message becomes more complex.

Opinion leaders are people who have significant influence to the public or on the target groups. They might be journalists, politicians, scientists, celebrities, editors, stylists, or someone who can be trusted. In this research thesis the importance of opinion leaders in the luxury fashion field will be described in details.

A recommendation in the magazine from the editor-in-chief for some new bag or car can lead to increased sales for that item. This is so-called advertorials. In this situation when paid advertising is made to look as the editor's opinion.

“Opinion leaders are also influencers but may not be formal experts. They do not necessary provide advice but consumers are prone to follow them. They are often, but not always, from the higher social status that their immediate contemporaries and frequently more gregarious. Their opinion is regularly sought on one or more different subjects and they may be asked to endorse many different products. In the world of clothing they are often

called fashion icons, examples of which include celebrities such as David Beckham or Madonna. Opinion leaders can be stimulated in a number of ways, for example through the use of testimonials in advertising or by creating backdrops that signify professionalism or status. Opinion leaders will frequently take risks and be amongst the first to adopt new styles, visit exotic places and purchase new products. The rest of society may then follow but not all at once.”¹⁰⁴

Of course, these models are basics for communications. In reality, marketers have to use communication tools that are most suitable for the stage of the product in its life cycle or stage that the target audience has reached. For example, advertising is very good tool to build awareness of the product and to make audience aware of its main features or to keep them with up-to-date information about the product innovations.

3.3.2. Marketing communication tools and media

John Egan in his book “Marketing communications” stresses that there should be clear distinction between marketing communication tools and the media that carries their messages.

“Marketing communication tools are the processes by which marketers develop and present an appropriate set of communication’s stimuli (e.g. advertising, public relations, etc.).”¹⁰⁵

The product can be communicated and delivered in many ways by using different tools – marketing mix. Thus, the effectiveness of communications depends on the implementation and use of this mix to the target consumers.

There are major marketing tools (advertising, sales promotion, public relations, personal selling) and the tools with specific characteristics (direct marketing, sponsorship etc.).

As time changes the number of communication tools also increases. In his book “Marketing communications”, John Egan shows the evolution of these tools. “It started in 1993 when Geoff Lancaster and Lester Massingham defined marketing tools as advertising, sales promotion, public relations and personal selling. And in 2002 Duncan presented wider number of marketing tools such as mass media advertising, sales promotion, public relations,

¹⁰⁴EGAN J., *Marketing communications*, Cengage Learning EMEA, 2007, p.39

¹⁰⁵Ibid, p.16

personal selling, merchandising, point-of-purchase (point-of-sale), packaging, licensing, direct (response) marketing, e-commerce, internal marketing, events and sponsorship, trade shows (exhibitions), customer service.”¹⁰⁶

Different tools have their own strengths and weaknesses. This should be taken into consideration when creating marketing strategy together with other important factors like: “

1. The amount of time available to develop the communication message and format.
2. How much control is required over its delivery.
3. The extent of financial resources available for its production.
4. The skills and expertise available for its creation.
5. The respective levels of credibility that each tool and its delivery media add to the organization/brand.
6. The relative size and the geographic scale of the target audience.¹⁰⁷

Marketers aware about the difference of the tools and use them for different purposes. There are different stages in buyer’s behavior that are recognized and different tools should be used to affect him or her at that particular stage. It is important to understand what kind of experience consumer is looking for and getting while purchasing, as this will have direct effect on his or her future behavior.

For example, advertising and public relations help develop long term relationship with the brand, whereas sales promotion and personal selling are more short-term oriented tools.

“Some marketing managers and agencies consider “media” to include into communication tools (e.g. sponsorship, point-of-sale, etc) as well as mainstream media (television, press, etc.). Media is the medium through which the message is channeled rather than the strategy behind the message delivery. As such, it relates to any medium capable of carrying a message to one or more people, but this does not mean that all media are form of hollow pipe capable of carrying all types of messages and all types of audience.”¹⁰⁸

The number of different media increased significantly over past decades due to technological developments. To advertise to specific audience with more sophisticated tastes,

¹⁰⁶EGAN J., *Marketing communications*, Cengage Learning EMEA, 2007, p.18

¹⁰⁷ Ibid

¹⁰⁸ Ibid, p.21

marketers are looking beyond traditional media to find new ways to communicate their messages. They are pushed to be more creative in their campaigns.

3.3.3. The role and the system of communications for luxury brands

This part of the research analyses the specifics of marketing communications for luxury brands. Since, the idea of exclusivity of a luxury brand stands prior, the communication tools are adapted to fulfill this luxury manifestation. The traditional tools are adapted to the very specific nature of luxury and this differentiates luxury communications from the mass communications. Nevertheless, the luxury communication strategy is used to create the dream, atmosphere, exclusivity and experience for the client not purely to increase the sales, as in case of the mass brands.

“Luxury brand communication is situated far upstream of the purchase; the product and the brand universe are spoken of in a dreamlike way. It must also be sufficiently vague that many people can identify with it and find their personal share of the dream. This implies refined and artistic communication, highly coded (luxury creates social codes) without being too dated, never direct, highly allusive. The practical consequences of this approach are that you can never judge the effectiveness of luxury communication by measuring its impact on a sales campaign.”¹⁰⁹

The luxury communications messages would neither stress on the price nor display the price in the windows of stores, even on the shelves inside of the store. There will be no messages or campaigns emphasizing on discounts or savings.

In case of luxury fashion brands, the main challenge for marketers is to focus communications just on the product as it changes every six months. That is why those companies succeed who communicate through establishing the image of the brand.

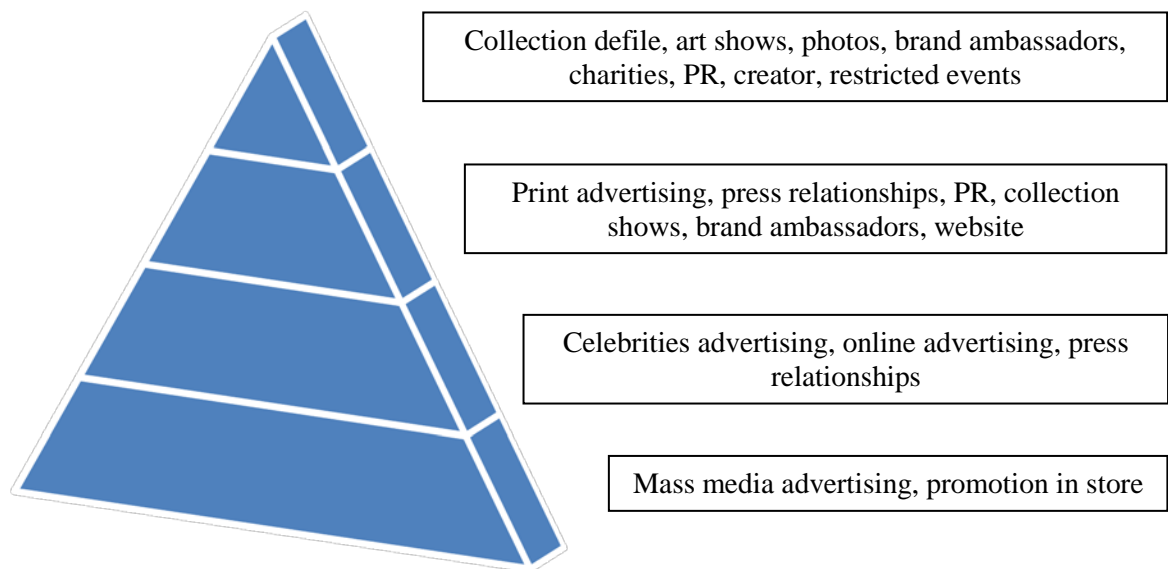
“Communication of fashion products is very specific as fashion communicates about itself, and is badly served by overlapping messages in other language, such as advertising. Fashion has always used visual tools of communicating – photographs, shows, showrooms, models, displays, videos and sample collections. This is because symbolic elements are more important in the purchase of a fashion item than functional attributes. These symbolic

¹⁰⁹KAPFERER J. N., *The Luxury Strategy: Break the Rules of Marketing to Build Luxury Brands*, Kogan Page, 2009, p.210

features are more easily delivered through a communication based on images and aesthetic representations: the more refined the communication, and therefore the more “useless”, the more it needs this kind of support. The problem fashion companies have to face is to match the world of communication with the world of the brand that is finding consistency between brand identity and visual identity.”¹¹⁰

J. N. Kapferer in his book “The luxury strategy” describes the layers of the luxury communication. The author argues that the importance of marketing communications differs on each level of the pyramid.

Figure 16: Layers of luxury communication



Source: KAPFERER J. N., *The Luxury Strategy: Break the Rules of Marketing to Build Luxury Brands*, Kogan Page, 2009, p.213

“At the mass market level, media advertising plays a key role, with the being promoted. The closer you get to the summit, the less of a key role advertising plays, in luxury, it is secondary. Of course you buy pages in glossy magazines, the media streets of luxury. What matters, however, are press relations and public relations. From this point of view, everything the brand does should be ‘PR-able’. A brand that is not spoken about, that is not quoted,

¹¹⁰SAVIOLO S., TESTA S., “Strategic management in the fashion companies”, Etas, 2007, p.225

mentioned, whether in films or on television, or carried by a celebrity who is then caught on camera during her arrival at the Oscars ceremony – is that really a brand that counts? The brand is a transmitter of taste: as such it should be a sign of ‘good taste’. In order to be recognized as such, it should display the visible signs of its adoption by those who make the front covers. It should be a person in the high places of taste, living culture, and fashion, a little, as well.”¹¹¹

The role of communication departments varies a lot from company to company, depending on its size and strategy. Some luxury companies stress its communications mostly to maintain the relations with press like fashion stylists, when deciding about the items that will be photographed for fashion magazine or included in different articles, editor’s letters or how to dress celebrities. Other firms have separate communication departments that deal not only with press but maintain the corporate communication. Sometimes luxury companies do not want to deal with communications and delegate all the activities to external public relations agencies. While there are that big companies that create separate departments for different product lines.

The differences in approaches toward communications arise due to the size of the company or the budget.

Of course, each company should manage and control all the messages that were created by internal and external specialists, as they should be in line with the vision and values of the company and of the brand.

There are experts who take part in the communication process of the single brand. Some of them could be mentioned: public relation agencies, event organizers, advertising agencies, press offices, fashion stylists and editors, photographers etc.

All of them are working on creating brand awareness and brand image and identity. They should be familiar with the company’s strategy, the brand positioning and benefits that brand can deliver. “There are several objectives that should be achieved by the cooperated activity:

- To create an immediate, “top of mind” memory of the name and the brand.
- To emphasize an attribute.

¹¹¹KAPFERER J. N., *The Luxury Strategy: Break the Rules of Marketing to Build Luxury Brands*, Kogan Page, 2009, p.213

- To emphasize a benefit. The attribute relates to the product and the benefit to the consumer.
- To take over a physical or symbolic space and all the values related to it.
- To reflect a value.
- To claim a role. This is the most difficult area to cover, as it means taking on a mission or role in society.”¹¹²

These points create the overall strategy of the brand and should be carefully defined and maintained as every opinion is very important and there is a big number of professionals, both internal and external. Here also media strategy should be added. The choice of the media is crucial and can help to approach the target group.

3.3.4. Communication tools for luxury brands

1. Advertising

Advertising is a very important tool both for traditional and luxury communications. Additionally, it is one that requires the highest investments that provides brand visibility. Of course this depends on the selection of the media. Therefore, the brands with the large advertising budgets enjoy the visibility that advertising provides. The luxury brand can choose different media for advertising. Such as: specialized or fashion magazines (will be described as a separate communication tool), newspapers, television, street advertising, in-store advertising, online advertising etc. “Powerful marketing communications are considered key to building the luxury brand image. Relevant advertising can provide support in establishing the brand image, which consequently assists in creating identity and attraction, and generates awareness.”¹¹³

There are a lot of arguments whether television is an appropriate media for luxury brands, as it is considered as a tool for mass communications. When analyzing communication strategies of luxury brands, many of them use television to promote less priced categories of

¹¹²SAVIOLO S., TESTA S., “Strategic management in the fashion companies”, Etas, 2007, p.228

¹¹³FIONDA A. M., MOORE C., M., *The Anatomy of a Luxury Fashion Brand*, Journal of. *Brand Management*, 16, 2009, pp. 347 - 363

products, like perfumes and cosmetics. “Nowadays perfume is ruled more by the codes of premium and mass prestige than by the codes of luxury: it is found in integrated perfumery chains (Douglas, Marionnaud) or in the shops of the global Duty Free operators. This is why it is delegated to traditional marketing institutions, who have mastered the techniques of large-scale marketing. Delegating perfumes to traditional marketing experts leads to a profusion of new perfume launches, but also to a watering down the identity of each one, and thus of the brand itself: traditional marketing begins with the client, not the brand.”¹¹⁴

“The language of advertising itself is in crises. Communication has evolved considerably since the days when constant advertisement “bombardment” was considered sufficient for persuading consumers. For goods with high intangible content, however, communication has to have increasing contact with other sciences like psychology, sociology and semiotics. This means that advertising has to shift from persuasion towards empathy. Ads work on variety of different levels including, but not limited to, sign typology, paradigmatic meaning, psychological appeals, emotion, roles, values/beliefs, and knowledge.”¹¹⁵

Today the advertising and the luxury fashion industries more clearly understand the impact from cooperation. Advertisers are certainly interested in working with luxury brands due to increasing marketing budgets. Moreover, luxury brands are in constant search for new directions for their advertising communications.

2. Public relations

Working at public relations department of the luxury fashion company, include tracking all the public actions of the brand. The examples of such events are: shows, catwalks, presentations of new lines or products, opening of new boutique and some special events which might include fund-raising events, sports, cinema or musical sponsorship.

The main goal is to reach final consumers and to promote the brand. Sometimes it takes the form of cooperating with opinion leaders as these people talk about the events and this can make the event or new product noticed by consumers. During organized event, PR representatives invite target audience of the brand and have a direct physical contact with the

¹¹⁴KAPFERER J. N., *The Luxury Strategy: Break the Rules of Marketing to Build Luxury Brands*, Kogan Page, 2009, p.214

¹¹⁵SAVIOLO S., TESTA S., “Strategic management in the fashion companies”, Etas, 2007, p.230

client. The event is created in a way that it corresponds with the luxury brand, its message and experience that it provides.

“As fashion companies become increasingly professional in the way they use management, and their communication increases in sophistication, there arises the problem of redefining the role of public relations. Public relations in the era of integrated communication cannot be left to individuals with contacts in the upper class that organize parties. The boundaries between public relations people, stylists and consultants are more and more fluid. The public relations role in the strict sense often includes some consultancy work nowadays. This includes organizing photographic sessions, styling and direct mailing.”¹¹⁶

3. The role of specialized press and external professionals

The other trend that should be mentioned is an increasing influence of fashion stylists in the process of communications of the brand. The role of fashion stylists was always invisible and people that are not closely connected with marketing of luxury or fashion brands could hardly define their activities.

There is a close connection between the luxury brand and stylist as he or she is deciding what items have to be photographed or published in an editorial article or photo shoot or how to dress celebrities for different parties and awards.

It is not a secret that luxury brands should be advertised in a specific media that has established good reputation within target audience of the brand. In case of luxury fashion brands, fashion magazines like Vogue, GQ and others play significant role in the communication process.

The connection between the marketing department and fashion magazine is very close. It is not about advertising campaign for which company is paying to put it into the magazine, it is about those items that are described in different articles, in editorials and those that are used in photo shoots of every magazine. Editors-in-chief of magazines, such as American Vogue's Anna Wintour, are now the number one celebrities, opinion and look of whose becoming more and more valuable for a public than of musicians and actors.

¹¹⁶SAVIOLO S., TESTA S., “Strategic management in the fashion companies”, Etas, 2007, p.231

The PR department works very closely with the editors and fashion directors. In case of the most famous magazines, the opinion of the editor sometimes valued much more than any advertising campaign done by the luxury company as readers trust the editor and will follow all the suggestions and ideas presented inside the issue.

The stylist and the journalist are other main figures in specialized press. As mentioned before, the stylists are responsible for selecting the items from designers for various campaigns within the magazine and editorials and they are not involved in the creation of the articles. The journalists are those that are involved in introducing new values and lifestyles. Some people see them as the “opinion makers” behind the success of many designers because they put the designer’s creations in touch with the real world.

These processes are typical for any fashion publication and it is difficult to overestimate the influence of the magazine to the fashion system. Everybody knows that fashion magazines make most of their money out of advertising.

Advertisements in magazines still maintain the leader type of advertising of luxury brands because they are the best to create quality. There is no limitation in time for consumer, regarding when to see it. And it gives him or her some flexibility to explore and enjoy which doesn’t exist with other types of media, excluding the Internet. The format of print advertisement allows the company to tell the story.

Alexandra Shulman, the Editor-in-chief of British Vogue comments on such relations with luxury companies: “They’re not going to place £100,000 a year and then say ‘Feel free not to use any of our goods’ - life’s not like that. So although there is this feeling sometimes that creatively it’s not pure, well magazines are a business, you’re not sitting there writing poetry.”¹¹⁷

What is going on now on the market is that magazines are getting thinner, the influence of cut budgets of advertisers and growing influence of the Internet. And as advertisements are the main source of money it seems like this industry is entering a slow stage.

¹¹⁷AMED I., *Fashion magazines. Balancing advertising and editorial*, retrieved on 24 April 2009, <http://www.businessoffashion.com>

“The loss of a single magazine would seem like small beer, but when the belt being tightened is Chanel, it seems all the scarier. If those people are under the gun, what is to become of everybody else in the media business?”¹¹⁸

4. Catalogues and direct marketing

Catalogues is the most common tool for luxury fashion brands. Traditionally it was created by producers to cooperate with distributors and to show them the latest collections. But due to the technological innovations, catalogues have lost their importance in the process of cooperation, as it is more comfortable to send collections over the Internet, in addition with the saving costs on printing.

Additionally, catalogues are distributed at the sales point. But it is not very efficient as those who get catalogues are people that have already seen the collection in the boutique.

Thus, due to innovations, companies started to replace catalogues with direct marketing.

“Direct marketing combines sending an advance catalogue to clients with personal invitations to specific events such as sales or displays of new collections (some of firms are thinking of directing shows as small customer groups with similar attitudes and tastes), and sales point presentations. One-to-one direct marketing includes personal contacts (a birthday card, or an invitation for seasonal sales for example).”¹¹⁹

5. Fashion shows and showrooms

Shows are one of the most important, if not the most important, communication tool for fashion brands. Marketers are using this tool for many years and its influence just keeps increasing.

“The show has become an exhibition where fashion is the simplest way to generate interest and shock. This is why the clothes on the catwalk are often different to those that will be put on sale. Not everything that is shown will be manufactured (the buyers make their

¹¹⁸CARR D., *When even Condé Nast is in retreat*, The New York Times, retrieved on 28 March 2009, <http://www.nytimes.com>

¹¹⁹SAVIOLO S., TESTA S., “Strategic management in the fashion companies”, Etas, 2007, p.234

own choices at a later date, when the collections are shown in ad hoc displays in the showrooms).”¹²⁰

Many showrooms are handled directly by public relations professionals. Their activities include sending samples for shoots, inviting editors and stylists to showroom to see the collection and to promote the awareness of the brand. Then sales will be handled directly through designer’s sales department. There are other showrooms that handle both activities.

There are such showrooms that were created by several designers and those in-house that are owned and operated by single designer or brand.

The best places to have showrooms are the main fashion capitals, where the most influential magazines have their offices. Such as New York, Paris, Milan and London. International designers usually have two showrooms, one in Europe and one in USA.

Sometimes, luxury fashion houses just rent the showroom for the period approximately 10 days. During this time a lot of appointments are organized and buyers from all over the world come to see the collection and order the pieces that will be delivered in 6-9 months.

Smaller designers that can’t afford two showrooms, generally meet with editors and buyers at trade shows.

“It has to be remembered that seasonal events in Milan, Paris, London and New York are those occasions when the fashion world is most visible.”¹²¹

6. Fairs

Fairs are the occasions for professionals from different departments to meet and to make contacts. To sell is not the goal of these events, but this is the tool for business-to-business communications. These fairs are also promotional tools that influence the final consumer through press that is coming and events connected to the fair like shows, presentations of new products and lines etc.

¹²⁰SAVIOLO S., TESTA S., “Strategic management in the fashion companies”, Etas, 2007, p.235

¹²¹ Ibid

7. The sales point

During last decade the role of sales point has changed significantly. From being the place for purely economic transactions, to “a multi-dimensional media delivering emotions”¹²² place.

Companies try to involve consumers into dialogue, which is based not only on strongly rational aspects but more on emotional and sociological features.

“It is the theatre in which brand strategies are acted out, it is the perfect environment (just because it is a physical space) for creating and transferring an atmosphere and it is the ideal place for a multiple relationship with the consumer where the consumption experience is “in the round”.¹²³

Nowadays distribution plays very important role as never before because through distribution marketers can establish the dialogue with the final consumer. Thus, the shop is now a crucial marketing tool. With understanding of the importance of the sales point, many fashion brands redesign their strategy towards boutiques. “It is the first mass media of the firm’s strategy.”¹²⁴

Recently fashion houses began to redesign their shops with ambitious architecture, involving famous architects to attract and communicate with customers. Also, those reconstructed boutiques are now the place for different events that are organized by the company.

8. Sponsorship

The sponsorship of the event, gives the luxury brand the opportunity to express its identity to a wider audience. That is why it is common practice that luxury brands chose those events for sponsorship that are coherent with the brand. The example, Hermes house sponsoring the Grand Prix de Diane.

There is the trend that fashion world is starting to cooperate closely with the world of arts. Designers are not only invited to artistic events but increasingly involved in the process of preparation of the event and maintaining it. Some fashion houses created specialized

¹²²SAVIOLO S., TESTA S., “Strategic management in the fashion companies”, Etas, 2007, p.238

¹²³ Ibid

¹²⁴ Ibid

foundations where they present the works of artists. Additionally, luxury fashion designers make exhibitions of their brands in the most famous museums. Such as, Alexander McQueen's exhibition at the Metropolitan Museum of Art in New York or Yves Saint Laurent's at the Petit Palais in Paris. These exhibitions generated the very efficient word of mouth campaign as the lines for tickets were such impressive that sometimes in order to get inside the visitor needed to queue for hour or two.

"The marriage of art and fashion is controversial. They are undoubtedly close because of their common codes of aesthetic sensitivity, but they are separated by time (collections have to be ready every season, while art is timeless). Art can certainly offer fashion aesthetics and cultural legitimacy. Designers perform a special role, organizing exhibitions and restoring important works in the Italian heritage, and they do this to restore credibility to a world that is often perceived as trivial and unjustifiably expensive."¹²⁵

9. Co-marketing

This is one of the recent trends in marketing communications of luxury brands. This is the process of creating joint promotional programs of fashion firms with firms in the cosmetic industry or others. It is some kind of diversification of products as it connects products from different industries and from different categories that provide similar experience and emotional content. The example is the cooperation of Absolut Vodka and Tom Ford as a creative director of Gucci.

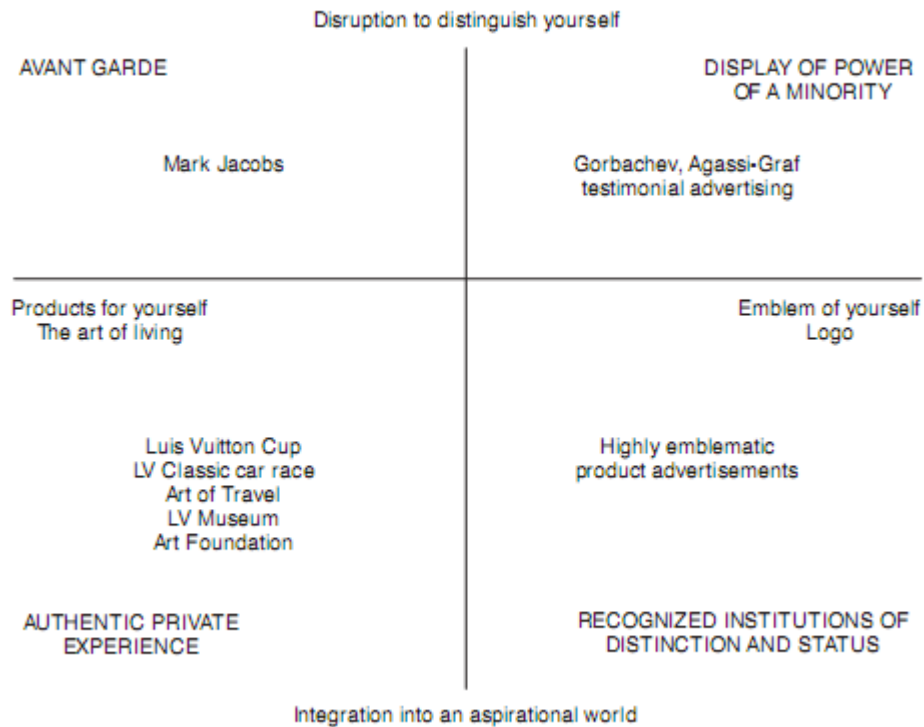
3.3.5. Successful luxury communication strategy

"Good communication is that which costs little and generates a maximum of sales over the longest period of time."¹²⁶ The leading and successful luxury brand should take an advantage of all the communication tools as each of them serves their own exclusive functions.

¹²⁵SAVIOLO S., TESTA S., "Strategic management in the fashion companies", Etas, 2007, p.239

¹²⁶CHEVALIER M., *Luxury Brand Management: A World of Privilege*, Wiley; 1 edition, 2008, p.292

Figure 16: How Louis Vuitton balances its communications for different targets



Source: KAPFERER J. N., *The Luxury Strategy: Break the Rules of Marketing to Build Luxury Brands*, Kogan Page, 2009, p.224

Brand Louis Vuitton is an example of the well balanced communication strategy. Figure 16 presents different messages and campaigns that brand create for various target groups and product categories. Nevertheless, it is important not only to differentiate the messages, activities and advertisements but also to choose the appropriate media.

3.3.6. New communication strategies for luxury brands

The time when everything seemed simple and relatively cheap in communications is gone. Nowadays everything is more complicated due to new factors that arising every day. The higher number of competitors, specialization and fragmentation of communications, new channels, all these make luxury communications more complicated and expensive.

S. Saviolo and S. Testa in their book describing the most crucial changes and the points that should be taken into account first when creating communication scenarios in new environment: “

- Ready-to wear fashion has to reach the consumer more quickly and directly.
- Direct distribution has already become the key point for fashion communication, and is imposing consistent brand strategies.
- New segments have burst onto the fashion scene and these communicate active wear – the specialist product has become a product for all occasions thanks to communication.
- Even in the raw materials and intermediate products a communication revolution begun. Communication is no longer business to business oriented, but is aimed at creating interest directly from the end consumer.
- New critical areas have also emerged, such as licenses. Additional complexity has led to the need for the licensee partners to maintain a strong image at the expense of the licensor’s freedom of managing communications.
- The minimum level of investment required to be heard on the market is increasing. Few brands are able to overcome the so-called “sound barrier”. Being below it means getting no attention, or risking wasting the money that has been invested.”¹²⁷

The luxury industry, especially its fashion department, is among those that invest a lot into marketing communications. This market requires sophisticated marketing and management approaches, due to continuous birth and death of brands and not secure future. However, companies have to be creative, to adapt to rapidly changing environment, with strong messages of their campaigns and to involve new scenarios in communications as well as in product strategy.

Those that flexible and are able to adapt to new rules of the game, are rewarded with premium by customers and by the market. They are always open and eager to involve innovations and explore new territories and set new directions for their brands.

¹²⁷ SAVIOLO S., TESTA S., “Strategic management in the fashion companies”, Etas, 2007, p.248

3.4. Luxury consumer

3.4.1. “Nouveau riche”

Following the stages in the history of luxury, the meaning of the word “luxury” has changed, as well as its main customer. People are still buying the same goods as many years before but the motivation towards decision of “why to buy” and values that drive the purchase have changed significantly.

Today, as never before, people want to be perceived as wealthy by others. Of course, this varies greatly from country to country. Mainly this is the behavior of the new luxury consumers from the BRIC countries and Asia-Pacific region. Taking into account that these regions generate biggest luxury sales, this phenomenon should be described. These luxury customers are trying to find the ways show their success. Therefore, to have some top luxury brand’s product is one of the solutions, even if they cannot afford it at all.

Moreover, it is widespread in the USA to rent designer handbags by less-well-off people for some special occasions. This service is mostly famous among young girls, those who want to look like their style icons or just like celebrities. Other example is the invention of the former racing driver, to make a club with annual membership fee, where the members rent cars from Range Rover to Ferrari.

The conclusion is that nowadays the entry barriers to luxury segments are much lower than they used to be.

The other trend is that those who spent almost all their life to achieve goals and to get to where they are now, those who made a lot of money by working hard, sold business, retired early or got heritage, are trying to change themselves. These people are hungry to learn, to experience new feelings, to be educated in what constitutes the best. They now have free time to do everything for what they did not have time earlier, enjoy everything the best from what is offered or require something exclusive.

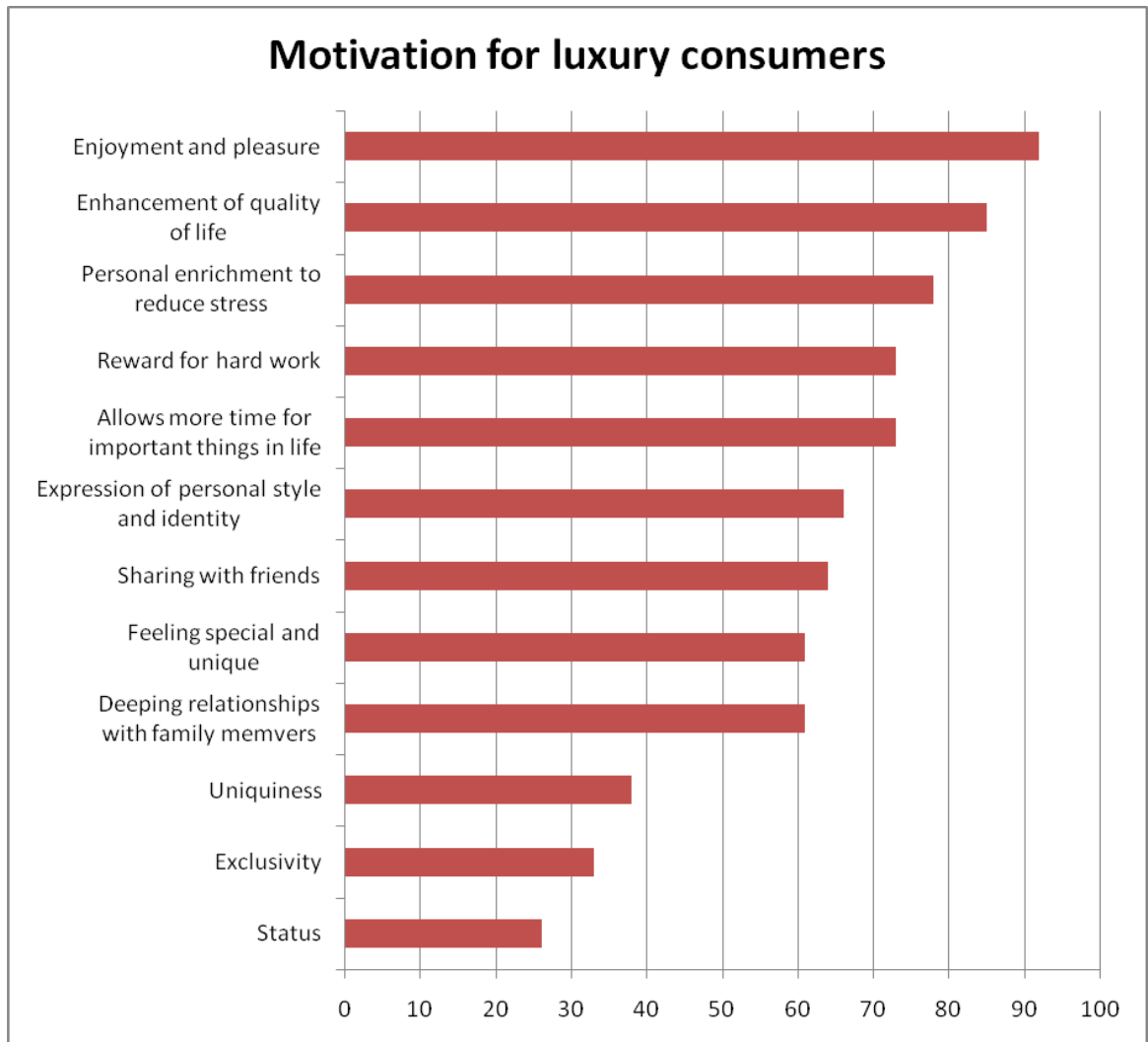
“More and more customers want to know what is behind the brand,”ErmenegildoZegna’s CEO sais says. ¹²⁸

¹²⁸ GUMBEL P., *Mass vs. class*, Fortune, retrieved on 15 September 2008, <http://money.cnn.com>

3.4.2. Luxury consumer segments

For more precise identification of the groups of luxury brand's consumers, the motivations and the attitude of customers towards luxury should be studied.

Figure 17: Motivation for luxury consumers



Source: DANZIGER P., *Let them eat cake – marketing luxury to the masses – As well as to the classes*, Kaplan Publishing, 2005, p.254

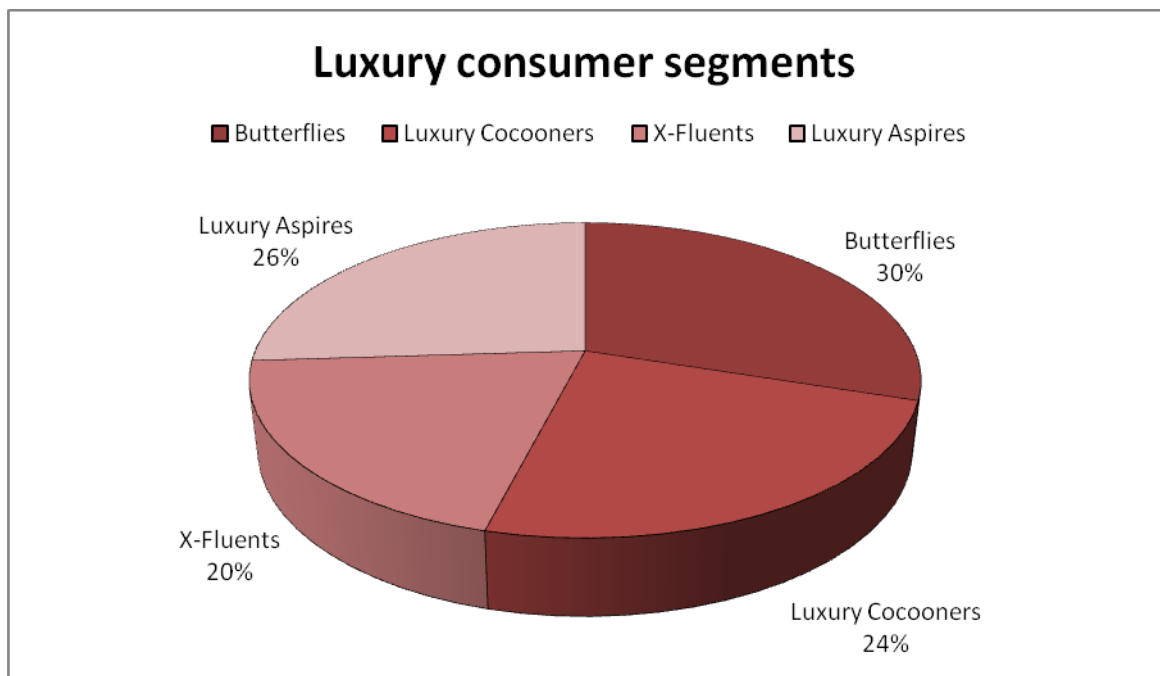
In fact, the overall attitudes and motivations of luxury consumers are similar regardless age, sex or even the level of income. Of course, those with higher income are buying better clothes, driving more expensive cars, have largest villas and yachts, but when talking about

motivation for buying, they are more or less similar with those who can occasionally afford luxury.

Pamela Danziger in her book “Let them eat the cake: Marketing Luxury to the Masses - As well as the Classes” presents four unique types of luxury consumers. These luxury consumers are Luxury Cocooners, Butterflies, Luxury Aspires and X-Fluents (extreme affluents).

Their differences in attitudes are not significant but each group shows different buying and spending factors by which they are driven when making a purchase. This grouping can be very useful for marketers to identify a target group and create the message with which those consumers will be targeted through branding and marketing communication strategies.

Figure 18: Luxury consumer segments



Source: DANZIGER P., *Let them eat cake – marketing luxury to the masses – As well as to the classes*, Kaplan Publishing, 2005, p.80

1. Luxury cocooners – 24%

“The luxury cocooners are still wrapped up in their luxury cocoons and continue to devote time and attention to making their “nests” more luxurious. They express their identity through luxury purchases and participate fully in their luxury lifestyle.”¹²⁹

The main aim of the “Luxury cocooners” is to fulfill their emotional empty spaces. They are sensitive about what other people think about them and while buying luxury, they are trying to become more self-confident. They will move to “Butterflies” as they mature and reach other level of life where showing behavior is not very important. Their luxury purchases are very important to them to maintain their personal identity.

“Cocooners” are not very concerned about their social responsibility because of being able to afford luxury. The examples of “Cocooners” that presented in the book are Donald Trump and Martha Stewart, both have focused on building, enhancing and perfecting their home surroundings.

2. Butterflies 30%

“The most highly evolved luxury consumers, the Butterflies know things won’t make them happy. Yet even though they are less materialistic in outlook, they are highly involved in luxury purchases. Their focus is on personal and experiential luxuries, and so they have emerged from their cocoons to seek connection with the outside world. They gain the least satisfaction of any segment in home luxuries. They are looking for balance between their inner emotional life and the external world in the pursuit of luxury.”¹³⁰

“Butterflies” represent the largest group. Luxury is important for them and luxury purchases influence their self-expression. However, representatives of this group are not that much driven by imagination and more likely to make rational decisions before buying the luxury brand. They are rejecting symbolism of status and everything that is explicitly pointing on it.

Conspicuous consumption is not the way “Butterflies” express themselves. They understand their role as consumers of luxury and the responsibilities that are arising from

¹²⁹DANZIGER P., *Let them eat cake – marketing luxury to the masses – As well as to the classes*, Kaplan Publishing, 2005, p.87

¹³⁰Ibid, p.85

being wealthy people. It is not that these people feel guilty for being rich, they are just trying to figure out the equilibrium with what they have and what they can give.

The examples are Bill Gates and Oprah Winfrey who direct their wealth to charities and so on. They received the second place in a chart regarding the amount they spend, just following the “X-Fluents”. This group is influenced by the opinion of friends and people that are close to them when making a purchase decision. Additionally, “Butterflies” value a lot other’s experience about the brand or product. They require good service connected with the product. According to studies “Butterflies” are more likely to employ luxury services (cleaning, gardening etc) to make their life better and save time for other things that they can do.

3. Luxury Aspirers – 26%

“The Luxury Aspirers have not yet achieved the level of luxury to which they aspire. They view luxury as an expression of what they have and what they own. For these consumers, luxury is best expressed in the things and brands they buy and display.”¹³¹

About a quarter of luxury brand’s buyers have not achieved the luxury level, which is the goal of their life. “Luxury Aspirers” use luxury brands to show what they are worth and what they have and what they want to achieve in the future. This group is the most materialistic from all the others. Their buying decisions heavily depend on sales and discounts of those brands that they desire.

4. X-Fluents (extreme Affluents) - 20%

“The X-Fluents are the most highly indulgent luxury consumers, buying most frequently and spending more. Although they are sharing the yearning for experiences that luxury affords, unlike the Butterflies they are firmly grounded in the material world. They seek out luxury things and experiences, spending freely on their luxury passions. They are highly invested in luxury living and are dedicated to maintaining their luxury lifestyle.”¹³²

¹³¹ DANZIGER P., *Let them eat cake – marketing luxury to the masses – As well as to the classes*, Kaplan Publishing, 2005, p.88

¹³² Ibid, p.89

“X-fluents” represent the smallest group with the largest amount of money they spend on luxury. These consumers maintain the luxury style which they achieved and are not afraid to show that they really enjoy it. On the contrast to “Butterflies”, they don’t feel some kind of responsibility to society for consuming luxury goods and services. “X-fluents” enjoy all the privileges which are connected with the luxury. Examples of members of this group include the Hilton Sisters, Ivana Trump and other rich and famous.

When customers think about luxury and try to figure out and explain for themselves why they buy luxury, they often come to conclusion that by purchasing luxury they are trying to fulfill their fantasies and adopt their buying decisions to their overall values of life and level that they have achieved. In their dreams they fantasize how they will change or improve their lives by buying luxury products. And there is an interesting transformation. Once they fulfill their imagination and it becomes reality the extraordinary transfers into ordinary and their fantasies turn to desiring something more sophisticated and special. The more people have the more they want.

Thus, luxury is about imagination and marketers should create it because fantasies are usually better than the reality.

Every industry requires some specific adaptation of general marketing tools and techniques and luxury industry is not the exception. Moreover, it is crucial for luxury marketers to fulfill such a difficult task as to be very innovative and constantly offer new experiences together with maintaining heritage, tradition and history of the brand.

Therefore, it is important to make an analysis of the key principles of luxury marketing that are presented in this chapter, such as specific marketing communication tools: showrooms, catwalks, PR connections and very exclusive events. Not only special marketing communication channels are crucial to understand but also the layers of luxury communications and connection between these layers and tools. Research suggested that advertising and promotions are used for less expensive product categories such as perfumes and cosmetics. On the other hand, the highest layer which represents haute couture dresses, special limited versions of cars etc, should be supported by collection defiles, art shows, photos, brand ambassadors, charities, PR, restricted events.

Moreover, branding tools play an important role in luxury marketing as for some types of luxury products, brand is the only reason for purchasing decision. Chapter illustrates the

brand extension techniques and examples. There is usually the temptation to extend the brand to attract new customers from other segments and hence generate higher profits. But this should be done very carefully not to lose brand reputation, high-end brand value and already exciting customers that would not accept other co-customers.

Many companies are successfully implementing exclusive luxury techniques and maintain their leading positions in the industry, the numerous examples described.

Additionally, the luxury consumer requires the special attention and deeper investigation. Four groups of luxury consumers present the different attitudes of clients toward luxury and different lifestyles. It is very crucial to have a clear understanding about main factors that separate one group from another and to implement the communication tools accordingly, whether it is just a big signaling advertisement in mass media or very exclusive special cat walk of haute couture collections, charity events for the most valuable clients.

It is very important to identify what is the target group of the brand, what are customers' values and attitudes towards luxury and life, and depending on that to build the message which will be catchy for that particular group of people.

4. Trends in luxury industry

4.1. Democratization of luxury

4.1.1. Affordable luxury

As mentioned in the chapter 1.2.1, luxury market overview, one of the reasons for the dramatic growth of luxury industry is democratization of luxury or influencing power of aspirational consumers. Therefore, this point needs further explanation.

It is natural evolution of a luxury product or service that once was adopted by higher class then transfers to masses. For example, a mobile phone, that used to be a luxury good, now can be afforded and owned by almost everybody. There are plenty of such examples, which just prove the statement that something that is luxury today, becomes a necessary good in the future. Moreover, the elite are usually the opener of the trend, which further is translated and reinterpreted down to the masses.

But nowadays there is a shift which shows that there is no actual transformation process and the mass market is starting to consume the same goods and services as the upper class.

Of course, this trend occurs with interruption of marketers and luxury companies that are trying to stretch the brand and attract more consumers. But the question is whether it is still luxury if it can be afforded by mass.

“Today, everyone can have a luxury item, so is it still considered to be a luxury? How did the luxury brand culture spread from Europe’s elite to everyone throughout the world? Fickle as fashion is, its business history contains enduring lessons for all marketers, explaining the strategies that changed small family businesses into highly profitable global empires. Importantly, it sheds light on something every marketer dreams of – the apparent paradox of charging high prices based on exclusivity while selling your product to everyone. The luxury brand industry has managed to do just that.”¹³³

Groups of people that consume luxury were always limited and difficult to get in, there always was the concept of “being not invited” for people from other groups or with different backgrounds. People still remember the time when luxury products were sold in exclusive stores with “intimating personnel in white gloves who glanced at your shoes before deciding to show you their merchandise”.¹³⁴ Now there is a big change and luxury is no longer reserved only for elite.

4.1.2. The danger of extension

Many luxury companies like Dior, Cartier, Gucci and Chanel make huge money by adopting the strategy of extending their product lines to attract more customers. And it concerns not only accessories or cosmetics. For instance, Armani produces chocolate, Prada and Dolce & Gabbana have a cell phone. These companies can be considered as the introducers of the “affordable luxury”.

But during this process the true meaning and understanding of luxury was lost. “It has become one of the most overused words in the English language,” says Simon Cooper, president of Ritz-Carlton. “You can't find an ad even for the cheapest car that doesn't have the word 'luxury' in it.”¹³⁵

¹³³HUSIC, M., CICIC, M., *Luxury consumption factors*, Journal of Fashion Marketing and Management, Volume 13,2, 2009 , pp. 231-245

¹³⁴GUMBEL P., *Luxury goes mass market*, Fortune, retrieved on 15 September 2008, <http://money.cnn.com>

¹³⁵Ibid

And what is happening is that the traditional consumers of luxury are aware of these trends and their new co-consumers, but it is really doubtful that they will still consider brands such as Louis Vuitton as exclusive as before. And it is a very tricky moment for executives who think that while they still have loyal consumers, they can extend the brand to a mass market without losing existing ones.

“Demand for ‘aspirational’ consumers has been a key driver of luxury and fashion market growth. In the past 15 years, growth of aspirational luxury has outstripped growth of elitist luxury across all products categories – roughly 40% higher in fragrances and cosmetics, roughly 50% higher in hard luxury, approximately 80% higher in leather accessories and more than 100% higher in apparel. As a conservative estimate, aspirational luxury now represents over 60% of the luxury market.”¹³⁶

This availability proves the statement that mass market has changed the perception, purpose and function of luxury. What customers are buying is not about experience anymore but about image of the brand. This is, of course, the huge job that was done by marketers, as building the image and using channels to educate people might be considered as more easy way to attract the customers then to provide them with unique experience. Today, luxury companies are not eager to make genuinely luxury goods but more to cut costs while pretending that the value and the quality remains the same as before.

4.1.3. “Fake” exclusivity

"When you look at [Louis Vuitton]," LVMH designer Marc Jacobs remarks, "you see it is mass-produced luxury. Vuitton is a status symbol. It's not about hiding the logo. It's about being a bit of a show-off."¹³⁷

Of course, this is a good point to use and to play with but just it is very fragile and it is easy to make some step to completely change the perception of the brand.

“Vuitton is the McDonald's of the luxury industry,” says Dana Thomas, the author of the book “Deluxe: how luxury lost its luster”. “It's far and away the leader, brags of millions

¹³⁶*Luxury Demand: PPR's Gucci benefiting from emerging markets and aspirational consumers*, Bernstein research, 2007

¹³⁷*Illusion, Not Quality: The Transformation of the Luxury Niche into a Global Mass Market*, retrieved on 15 September 2008, <http://knowledge.wharton.upenn.edu>

sold, has stores at all the top tourist sites -- usually steps away from a McD's -- and has a logo as recognizable as the Golden Arches.”¹³⁸

Luxury brand claims exclusivity in experience and service that it provides. It is historically considered to be handmade by the best professionals, from the best fabrics and materials. But what is happening now is that many luxury houses have opened their production factories in countries with cheap labor and do not maintain the whole production process that was originally associated with luxury. “Hermes has openly outsourced the sewing of scarves to Mauritius. Louis Vuitton, a \$3 billion a year leather industry in its own right, has recently announced plans to build a shoe factory in India. Armani has embraced Chinese laborers.”¹³⁹

Some of them claim that they are not doing the outsourcing but with close inspection everything becomes visible.

There is other problem for luxury brands – fakes. There were some disputes among Wal-Mart and Fendi, Gucci and Louis Vuitton. In 2004 Tiffany claimed that 80% of their products that sold on eBay were fakes, the same problem had Louis Vuitton in 2006. And there are many more cases like these. There are plenty of shops that sell fakes. For example, producers in China are very successful and it is really difficult to understand whether it is a fake or not, of course the price for them is also high. It is difficult to recognize if girl that passes by with Fendi bag has it original or fake. There are some of brands that are widely used by fake producers. And the traditional luxury customers when deciding to buy the product will tend, probably, to buy the one that is more exclusive and may be not that famous by the masses, thus not attacked by fake producers.

It is difficult to say what is right, to stretch the brand and to attract more customers or just keep its exclusivity to maintain loyal customers. Stretching the brand can be very risky even for most well known and traditional luxury brands.

“Diversification is the rule of the game, but you can't do everything,” warns Francesco Trapani, CEO of Italian high-end jeweler Bulgari, which has gotten into hotels and is about

¹³⁸ *Illusion, Not Quality: The Transformation of the Luxury Niche into a Global Mass Market*, retrieved on 15 September 2008, <http://knowledge.wharton.upenn.edu>

¹³⁹ Ibid

to launch a line of skin-care products. “The danger is, you do something badly, and then you don't just lose money but your reputation.”¹⁴⁰

There is always the danger that the brand might become banal or vulgar as not every customer is desirable. This is the case of the British brand Burberry. “A British outerwear company best known for its trench coats, it underwent a transformation in the 1990s at the hands of an American CEO, Rose-Marie Bravo, who used Burberry's distinctive plaid on products from bikinis to strollers.

That made it a hit worldwide, but her strategy backfired in Britain when soccer hooligans and tart-tongued tabloid actresses adopted the Burberry plaid as their own status symbol. For a time, nightclub bouncers in Britain refused entry to people wearing Burberry caps. The firm succeeded in containing the problem to Britain and moved aggressively to resolve it. Christopher Bailey, brought in as designer in 2001, has deemphasized plaid and played up other icons of the brand, such as a horse and knight. He describes the new look as ‘disheveled elegance - it's luxury, but there's a familiarity about it’.”¹⁴¹

It is very popular among marketers to promote their brands in videos with celebrities or to provide them with luxury products for some ceremonies or parties, knowing that their fans will do everything to look a bit like their icons. But this strategy should be done very carefully as your brand can be also used against you. Champagne Cristal was heavily promoted by R&B stars in their videos and in their lyrics. Of course, that raised the sales figures of these products but it was the situation with Jay-Z that called a boycott of Cristal champagne after some racist speeches of one of its executives.

Without any doubt both sectors, traditional luxury buyers and upper-mid-class customers, are attractive for luxury brands. Marketers are trying to extend their brands to mass market but meanwhile introducing some limited-edition goods for elite at much higher prices to define the line. And the marketing strategy should be designed very carefully, so that both groups of customers remain satisfied. Balancing on the limits may attract big profits but in case of failure the loss can be fatal.

¹⁴⁰ GUMBEL P., *Luxury brands: the business of selling dreams*, retrieved on 15 September 2008, <http://www.europeanbusiness.gr>

¹⁴¹ Ibid

4.2. Emerging markets

4.2.1. Geographical exposure of luxury brands

“It’s hard to imagine that luxury brands were once the preserve of the European aristocracy that a mere hundred years ago these beautifully crafted pieces of clothing and accessories were solely for the pleasure and adornment of a wealthy elite. Now famed luxury houses like Louis Vuitton, Hermès, Chanel, Cartier, and innumerable others serve the consumers of Asia, and, in a strange turn of events, it is the populous markets of this region that are central to their success. Asia has grown into the world’s largest market for Western luxury brands, and between the brand-obsessed Japanese on the one hand and China and India’s rising new money on the other, the present and future of luxe lie squarely in Asia.”¹⁴²

In chapter 1.2.1, luxury market overview, the drivers for recent growth of luxury sector are presented. At this stage, the discussion of two of them is necessary to highlight. These drivers include:

- Emerging markets – fast GDP growth, emerging class of wealthy consumers
- Japan, as the biggest luxury market

Geography is very important for luxury brand and company's sales and profitability. Before the economic crisis, the USA was the main market for luxury goods. However, there were already shifts in geography of luxury consumption. “In the six years between 2001 and 2007, the wealth of emerging markets billionaires has gone from 11% to 28% of the global billionaires’ wealth. In the same period, Russian billionaires in the Forbes list have gone from 8 to 53, India has moved from 8 to 36, Turkey from 3 to 25, Brazil from 3 to 20 and China from 1 to 20 – the fastest growth rate of all.”¹⁴³

Recent reports show that China has replaced the USA for its hunger for luxury brands. Figure 8: Worldwide luxury good’s market by area, presents the luxury global sales, distributed by the region. To conclude earlier analyzed results, the biggest sales region for all the luxury companies is Europe (PPR 59%, LVMH 34%, Richemont 40%). Asia-Pacific region (excluding Japan) is becoming the growing market with enormous possibilities for major luxury operators and is the second biggest market according to the sales reports.

¹⁴² CHADHA R., HUSBAND P., *The cult of luxury brand: Inside Asia’s love affair with luxury*, Nicholas Brealey Publishing, 2007, p. 10

¹⁴³ *Luxury Demand: PPR’s Gucci benefiting from emerging markets and aspirational consumers*, Bernstein research, 2007

Moreover, Japan is the only country which is presented as separate region and takes 9%, 6% and 12% of sales of LVMH, PPR and Richemont accordingly.

“It is significant that we associate the success of Louis Vuitton with Japan. Likewise the revitalization of Burberry came through success in Asia, where the weight of sales increased from 18 per cent in 2000 to 28 per cent in 2006. In Japan, Burberry was voted in 2004 ‘the most fashionable brand’ by young Japanese women aged between 20 and 30.”¹⁴⁴

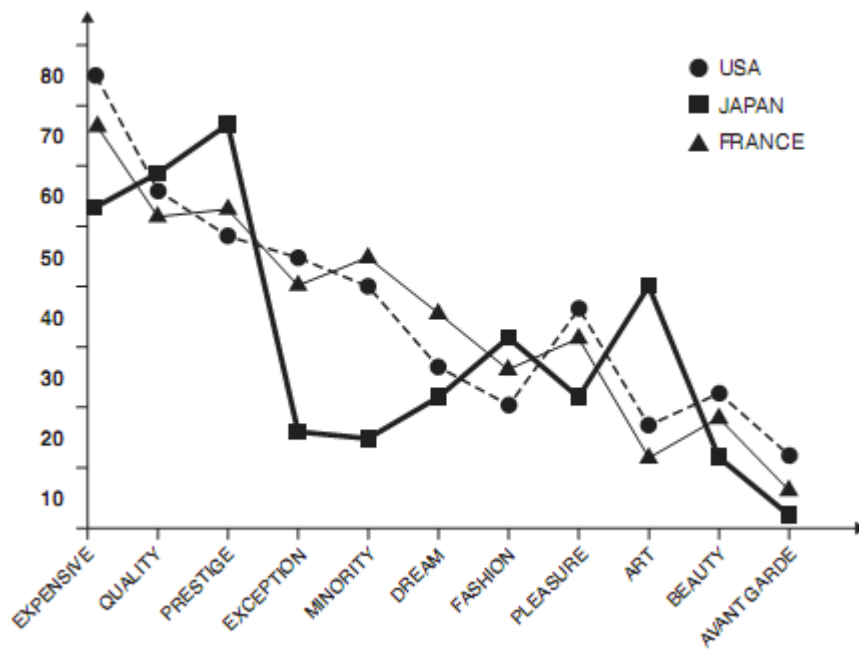
J.N. Kapferer in his book “The luxury strategy” presents the comparative study of what the notion of luxury evokes by country. The luxury clients from USA, Japan and France were questioned. The result showed that even though clients had similar answers for many questions, there were significant changes in opinions on several points: “

- All associate luxury with high price: luxury must be expensive.
- Superior quality is in second place.
- We note that Japan places prestige much higher than either of the other countries, at a level above both quality and price, in fact: the brand must be prestigious
- In contrast, Japan does not consider being exceptional, nor the fact of being bought by a minority, as criteria of luxury, unlike the other two countries. It is true that the sample of luxury purchasers may be mostly comprised of day trippers who clearly do not want to distinguish themselves, but to do as others do. It is estimated (Chadha and Husband, 2006) that 60 per cent of women in Tokyo aged between 20 and 30 own a Vuitton product: the power of the pressure to conform in Asia. In the USA, exclusivity and status must not be sold through obstruction of access, but as an affirmation of one’s own individuality and status
- Finally, note the importance of the ‘art’ and, to a lesser extent, ‘fashion’ aspect in the perception of luxury in Japan, unlike the other countries. However, these are average figures per country and we have seen above that national averages may aggregate very different profiles within a single country.”¹⁴⁵

¹⁴⁴KAPFERER J. N., *The Luxury Strategy: Break the Rules of Marketing to Build Luxury Brands*, Kogan Page, 2009, p.115

¹⁴⁵Ibid, p.114

Figure 19: What luxury evokes



Source: KAPFERER J. N., *The Luxury Strategy: Break the Rules of Marketing to Build Luxury Brands*, Kogan Page, 2009, p.115

Figure 19 shows the differences and similarities in luxury perceptions between three countries. Nevertheless, these differences play an important role for success of the brand within particular territory and should be analyzed deeply by luxury companies in order to profit.

According to geographical segmentation it is not surprise for anyone that those enormous numbers of increase in sales of luxury goods were generated by such markets as Japan, China, India, Brazil, Russia with increasing number of new oligarchs and rising GDP.

For the last decade a lot of luxury companies opened monobrand boutiques in these countries. But, for example, during the economic crises in 2009 in Shanghai the growth of sales fell to single digits now for the first time in several years. “Chinese millionaires cut their spending to about two million Yuan a piece last year, according Hurun Report, the country’s leading luxury business magazine. “They had been forecast to spend about five million yuan before the stock market slump.”¹⁴⁶

¹⁴⁶ *Luxury breaking point*, CNBC European Business April 2009, retrieved on 17 April 2009, <http://www.cnbc.com>

In fact, it is not only Western markets where the economic crisis had a direct effect on the luxury sales. But it is influencing fast-growing economies. This means that the BRIC countries and the Asian-Pacific region are no longer safe growth for luxury brands. Russian market was one of the markets where the consumption of luxury products was growing rapidly. But with the low oil prices, that affected wealth of Russian's oligarchs, the market situation is changing and some designers already closed they stores in Moscow and offer discounts. Those brands are Stella McCartney, Alexander McQueen.

But marketers should be very careful when creating the strategy for those markets. The tastes and attitudes there are changing fast and this must be taken into consideration. For instance, Russian tastes have changed over last years. It is not about show off anymore when everything is shiny but it transforms in more sophisticated habits and lifestyle. The same changes could be observed in Middle-East. And to be successful at those markets, it will not be enough for luxury brands just to adapt some already used techniques and to expect that people will blindly follow all the trends that came from the Western countries but to adopt the culture with social and ethical values of the people buying the products in those countries.

4.3. The influence of technological progress on luxury communications

4.3.1. Compatibility of luxury industry and digital space

The technological progress influences all the industries. Nowadays, being connected to the Internet, having the laptop or PC, is not something that is reserved only for top managers and wealthy individuals. During last decades the usage of the Internet has increased rapidly.

The Internet allows benefiting from better quality, different content, service and experience. But for many years this channel of communication was not very popular among marketers of luxury brands. Though luxury companies were very slow to react to global digital changes, most of them are now catching up and trying fully profit from the Internet.

The main contradiction between the Internet and the luxury industry was that digital world is too impersonal comparing with core competence of luxury: exclusivity, outstanding experience and human touch in everything including craftsmanship, personal selling and customer relations. "It is difficult to replicate virtually the multi-sensory experience that

luxury brands strive to give their customers at the point of sale-touching the material and handling the products.”¹⁴⁷

“Social media for luxury brands is no longer an optional marketing consideration. The definition of a luxury consumer and of luxury itself has changed. Luxury brands must deliver brand experiences online to see continued success. With a deep understanding of how these new tools can be used appropriately, brands can harness the power of social media to directly communicate with their audiences, promote their brands and further their brand equity.”¹⁴⁸

To maintain the leading positions and be up-to-date with the rapid technological progress, creating the online environment appears as a necessary step for development of the success of the brand. The time shows that it is the moment for the luxury brands to consider the Internet more seriously as necessary and highly influencing tool, mainly admit its significance as a communication or may be even as a distribution channel.

“In just a few short years, a new era has dawned. One marked by the acknowledgement that the ever-evolving innovations and potentially lucrative opportunities presented by digital channels could prove to be a decisive factor in a luxury brand’s success. This shift in mindset has been heightened further by the arrival of the dreaded word in the luxury vocabulary, ‘recession’, leading to a different climate in the luxury market. In fact, 2011 has almost been a tipping point for the luxury industry. Luxury brands seem more determined than ever to take advantage of these exciting technologies which are changing the way almost all products and services are marketed and sold. Virtual fashion shows, digital flagship stores, 3D films, mobile tagging, augmented reality applications, iPad magazines, Facebook live-streams and Twitter-based customer service are just a few examples of the long list of digital innovations.”¹⁴⁹

4.3.2. Threats of going online

Going online for luxury brand can be very tricky moment. Allowing online purchasing and online communications, leads to losing full control over the brand communications and distribution, something that the luxury brands have usually provided. The control over

¹⁴⁷ CHEVALIER M., *Luxury Brand Management: A World of Privilege*, Wiley; 1 edition, 2008, p.348

¹⁴⁸ *Social media guide for Luxury Brands*, Abrams research, retrieved on 5 April 2011, http://www.abramsresearch.com/static/guides-whitepapers/ARSM_Guide_Lux.pdf

¹⁴⁹ *Luxury online*, retrieved on 15 January 2012, <http://www.luxurycomms.co.uk/2011/04/30/luxury-online-2/>

information partly shifts to consumers and third parties who are out of direct control of the brands.

There is other negative concern about the Internet and luxury industry. It is mainly luxury brands' fault that the digital world is associated with lower prices and damaged products. "For years, firms discreetly disposed of end-of-season stock at deep discounts via websites such as Yoox.com. Some fashion houses make clothing exclusively for Yoox.com as a way to use up leftover fabric. Also, by shunning the Internet in its early days, legitimate firms helped to create a vacuum that counterfeiters were happy to fill."¹⁵⁰ Therefore, online luxury presence required careful planning and implementation.

The perception of the Internet as a discount channel of luxury goods is not the only one problem related to price. Main points of differentiation of luxury brands from others are: the esthetical atmosphere which is created in boutiques, showrooms, personal communications and service. The lack of these points on the Internet potentially leads to the main danger, price comparison. This was never the case in luxury industry.

4.3.3. Best online luxury brands performers

The major point of realizing the importance of the Internet as a marketing tool was in April 2008 when the first head of digital department, Simon Gresham Jones, was appointed in Burberry. During tough financial times Burberry was trying to search for new growth opportunities. Burberry was one of the first companies to make the full use of the Internet which made them to be in rating of the first 10 best luxury online performers.

Data from L2, organization that operates in digital marketing innovation sphere, and its Digital IQ Index for luxury, rank the best luxury brand performers online. The Index accumulates brand's activities on the Internet: webpage – 40%, digital marketing – 30%, social media – 20%, mobile – 10%. In this study the ranking of the first ten companies are presented. "This year's "it" product was not a handbag or watch, but innovative social media initiatives. After suffering industry-wide revenue declines of eight percent in 2009, luxury

¹⁵⁰*The chic learn to click - Luxury firms are digital laggards, but some are catching up*, retrieved on 15 of January 2012, <http://www.economist.com/node/16640239>

firms realized that doing what they had done was not going to get them what they had gotten.”¹⁵¹

Figure 20: Digital IQ ranking of luxury brands

Overall Rank	Retailer	Category	Digital IQ	Class
1	COACH	Shoes & Leathergoods	171	Genius
2	RALPH LAUREN	Fashion	167	Genius
2	LOUIS VUITTON	Fashion	167	Genius
4	GUCCI	Fashion	166	Genius
5	HUGO BOSS	Men's Fashion	157	Genius
6	BURBERRY	Fashion	153	Genius
7	DOLCE & GABBANA	Fashion	140	Genius
8	GIORGIO ARMANI	Fashion	139	Gifted
8	SWAROVSKI	Watches & Jewelry	139	Gifted
10	TIFFANY	Watches & Jewelry	138	Gifted

Source: GALLOWAY, S., *L2 Digital IG Index: Luxury*, retrieved on 05 April 2011, <http://www.l2thinktank.com/research/luxury/>

“2010 has brought major shifts in the luxury digital ranks. Coach and Burberry demonstrate that organizational commitment pays dividends. Senior executives at both brands have been extremely vocal about the important role digital plays in driving business growth, and our data suggests their chops online live up to the hype. Fabergé made one of the largest Digital IQ leaps, gaining 63 points after relaunching its collection and site in September 2010. The jeweler’s whimsical web platform is its only storefront, and its high-

¹⁵¹GALLOWAY, S., *L2 Digital IG Index: Luxury*, retrieved on 05 April 2011, <http://www.l2thinktank.com/research/luxury/>

touch offering could serve as a crystal ball for the future of luxury e-commerce. Yves Saint Laurent and Chanel have made gains on the heels of huge social media followings. However, both brands struggle with sites that underwhelm.”¹⁵²

The report presents major facts and channels of digital luxury expansion. Manly all the brands are investing their resources into enhancing their web pages, increasing their social media presence, heavily using iPad and mobile applications etc. Some of the luxury brands feel strong enough to incorporate e-commerce into their web pages other use third party online retail platforms, while others are still conservative towards selling online. Categories like Jewellery and Watches are represented poorly in the digital world.

“The luxury industry faces both multiple challenges and opportunities on the Internet, which are not immediately apparent, as their identification requires a strategic and systematic approach as well as profound understanding. The Internet serves as an ample breeding ground for the evolution of luxury, both in the creative aspect as well as in communications and business.”¹⁵³

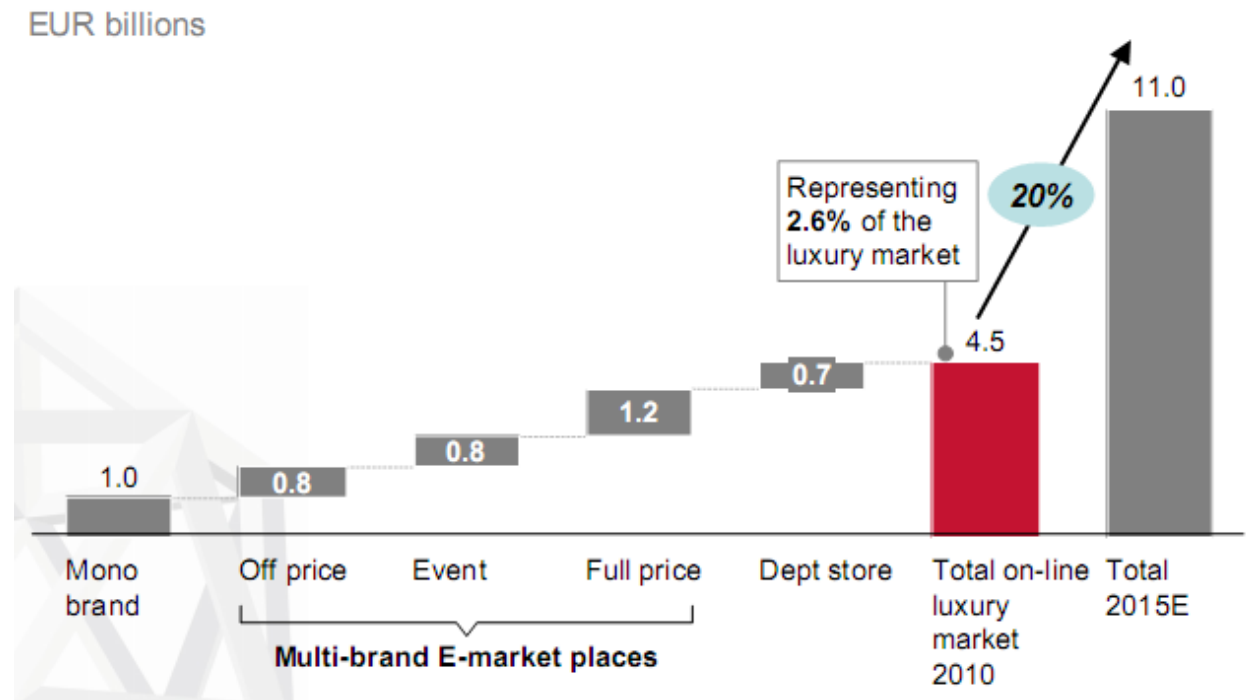
4.4. Online luxury market analysis

Luxury brands are showing strong presence on the Internet and without any doubts considering the Internet as an important distribution tool. The report, presented by Altagamma, the Association of Italian High-End Companies, shows the main figures of online expansion of luxury brands.

¹⁵² GALLOWAY, S., *L2 Digital IG Index: Luxury*, retrieved on 05 April 2011, <http://www.l2thinktank.com/research/luxury/>

¹⁵³ OKONKWO, U., *Sustaining the luxury brand on the Internet*, Journal of Brand Management, 2009, Vol. 16

Figure 21: Online expansion of luxury brands



Source: *Digital luxury experience*, Altagamma research, retrieved on 10 January 2012, <http://www.altagamma.it>

Altagamma predicts 20% annual luxury sales. In 2010 total online luxury market accumulated 4.5 billion Euros, which is 2.6% of the luxury market. These figures might seem not significant comparing with the danger of devaluing luxury brands on the Internet, but the potential growth of 20% reflects strategic importance of the digital world for luxury industry.

By expanding online, luxury brands can share the information that would help the clients to make their purchases more efficient. During current fast moving time, it is important to be aware of such information as the location of the shop, the product range that is offered, the availability of the product and its details and price. Also, by selling online the products can be more available and the whole purchasing process will be less time consuming, which is very important nowadays when time is money. Together with this practical information, the overall look and the perception of the brand is built on its Web page and the message can be send more explicitly as there is no limit in time that customer can spend with the brand.

“Four Seasons Hotels and Resorts took the controversial, but some say inspired decision, to cut their traditional print-media advertising budget for 2012 by approximately 90 percent,

choosing instead to spend it online. This bold step, taking a firm commitment to utilise digital media, has been echoed across the luxury sector. Prestige brands such as Burberry, Armani and Gucci are now at the forefront of the movement challenging hesitation to use digital media platforms for creating immersive experiences, which expose their brands online. They're doing so by launching online fashion shows, which drive sales through pre-ordering facilities, virtual trunk shows, increase website traffic and engage consumers in a way like never before.”¹⁵⁴

4.4.1. Online luxury retail environment

Historically luxury brands are associated with strict and controlled distribution channels. Distribution of luxury products is always an exclusive agreement with retailers for presenting the products. There is a big financial investment connected with the opening of the monobrand store or retail outlet.

“Distribution is generally the weak link of luxury strategy, and this is where many brands die or lose their status. Note also that in the world of fashion and luxury there seems to have developed a kind of first division: the brands capable of financing “cathedrals” on the most desirable main streets of the world.”¹⁵⁵

Therefore, online selling is perceived as separate channel for selling the products, which might be contradictory with strategy of the company. Huge investments in retail spaces are explained by the nature of luxury. Luxury products are always about the exclusive experience, the service, the atmosphere in the store etc. Thus, introducing the online selling completely changes this concept.

“E-commerce offers new opportunities for luxury brands as it provides an additional distribution channel. However, distribution channels must remain as selective and prestigious as in physical outlets. This concerns the presentation and the environment in which products are sold, the information and the personalised advice provided to clients as

¹⁵⁴ *Luxury online*, retrieved on 15 January 2012, <http://www.luxurycomms.co.uk/2011/04/30/luxury-online-2/>

¹⁵⁵ KAPFERER J. N., *The Luxury Strategy: Break the Rules of Marketing to Build Luxury Brands*, Kogan Page, 2009, p.194

well as delivery and after-sale service. Selective distribution must be applied in a rigorous a manner to online commerce as to business through a physical network.”¹⁵⁶

Additionally, benefits from online expansion include the availability of products and ways to purchase them. “The Web will give an opportunity to buy to those potential customers who do not have nearby access to one of the few distribution outlets of luxury brand or who feel intimidated from entering “such temples of luxury”.”¹⁵⁷

However, there is a challenge that the luxury brand will become more available and it will be difficult to secure the brand and selectively chose its clients which could lead to extreme damage for the brand itself. Due to these reasons a lot of marketers consider that creating the Web is not for luxury brand.

As was discussed earlier, for many years the Internet was considered as a distribution channel for discounted and damaged luxury goods. Even though, recent figures and practices show the shift in the luxury consumer’s perception of the online world, some luxury companies have still doubts whether their product range will find its consumer online. Therefore, companies consider the Internet as a distribution channel of the lower priced and more standardized categories, for example perfumes, cosmetics and leather products. But the practice shows the opposite trends. “When Oscar de la Renta, an American fashion house, launched a transactional website some years ago, it expected people to buy mostly smaller items such as belts and perfume. The firm was stunned when it received an online order last spring for an \$80,000 sable coat from a new customer in New Hampshire. He couldn’t get to New York, apparently. Online customers have been snapping up the firm’s core product: \$4,000 cocktail dresses. “We could not have been more wrong in our expectations of the internet,” says Alex Bolen, the firm’s chief executive. Online purchases are still a small proportion of total sales, but growing rapidly.”¹⁵⁸

UcheOkonkwo, the luxury industry expert, raises a question: “whether all the product range in each category should be displayed in the e-boutique or not. If not, then there is the

¹⁵⁶ LVMH Submission, http://ec.europa.eu/competition/consultations/2009_vertical_agreements/lvmh_en.pdf, retrieved on 10 of April 2011

¹⁵⁷ RILEY F., LACROIX C., *Luxury branding on the Internet: lost opportunity or impossibility?*, Marketing Intelligence and Planning, 2003, Vol. 21, p. 96

¹⁵⁸ *The chic learn to click - Luxury firms are digital laggards, but some are catching up*, retrieved on 15 of January 2012, <http://www.economist.com/node/16640239>

additional question of whether the choice of the appropriate products should be based on price, product category, geographical market, client segment, demand, competition, logistics and so on. In addition, the question of making access to the website open or restricted has been raised. There is also the issue of catering to different geographical markets and possibly different languages, and managing the distribution and logistics systems from different storage locations.”¹⁵⁹

4.4.2. Main players in luxury online retailing

There are different options on the Internet to make the luxury purchase. Luxury consumers or simple users, who are looking for entertainment or additional information, can access the luxury product through several online platforms:

- Web pages of the luxury brands that offer e-commerce
- Traditional retailers that established their e-commerce activities online
- Online retailers

The independent and objective New York City-based Luxury Institute conducted a study on 2011 Luxury Online Customer Experience Index, ranking luxury retailers’ websites between most and least favorite by luxury customers. “Affluent consumers rated sites based on visual appeal, navigability, product selection, use of images and text in helping them better understand product features, security of personal data, ease of purchasing and access to customer service. They also indicated how likely they were to return to the site and to recommend it to family and friends.”¹⁶⁰

According to findings presented by Luxury Institute “based on 1-100 composite scores, the top-ranked luxury sites are those of Barneys, Bergdorf Goodman, Brooks Brothers and Richemont’s Net-A-Porter, each earning a score of 81. Nordstrom has the most frequently visited site, with 23% of respondents visiting Nordstrom.com in the past 12 months.”¹⁶¹

¹⁵⁹ OKONKWO, U., *Sustaining the luxury brand on the Internet*, Journal of Brand Management, 2009, Vol. 16

¹⁶⁰ *Wealthy Online Shoppers Rank Top Luxury Retailer Websites; Nordstrom Is Most Visited While Barneys, Bergdorf and Brooks Brothers Tie For First Place Along With Net-A-Porter*, retrieved on 18 of January 2012, <http://blog.luxuryinstitute.com/?p=1129>

¹⁶¹ *Wealthy Online Shoppers Rank Top Luxury Retailer Websites; Nordstrom Is Most Visited While Barneys, Bergdorf and Brooks Brothers Tie For First Place Along With Net-A-Porter*, retrieved on 18 of January 2012, <http://blog.luxuryinstitute.com/?p=1129>

In total 16 websites are presented in the index:

Traditional Retailers:

- Barneys New York
- Bergdorf Goodman
- Bloomingdale's
- Brooks Brothers
- Lord & Taylor
- Neiman Marcus
- Nordstrom
- Saks Fifth Avenue

Online Only:

- Bluefly
- eBay Fashion Vault
- Gilt Groupe
- HauteLook
- Ideeli
- Net-A-Porter
- Rue La La
- Shopbop

“Except for Net-A-Porter, key luxury multi-channel retailers significantly outperformed the pure online players, with the flash luxury sites being rated in the bottom tier,” says Luxury Institute CEO Milton Pedraza. “Although the pure online players are growing fast, it is becoming a commoditized product space where the only thing that matters will be long-term customer experiences as evidenced by high customer retention scores and increasing average spending. Net-A-Porter proves that it takes far more than content and algorithms to create lasting customer relationships. Online players should borrow a page from the

Zapposplaybook and create customer-centric cultures that Outbehave the competition. Customer-centricity is the sweet spot of success in the 21st century.”¹⁶²

Net-A-Porter is a rare example of the trusted and profitable online luxury retailer. It was founded in 2000 by former fashion journalist Natalie Massent and in April 2010 majority stakes of Net-A-Porter was bought by luxury conglomerate Richemont Group.

Concerning other luxury conglomerate LVMH, company presented its online activities as following “the LVMH group has fully embraced the Internet as a distribution channel. For each of its major brands, LVMH has online sales sites whose identity has been inspired by its physical boutiques. In addition, LVMH’s authorised distributors are allowed to create online commerce sites on condition that they already operate a physical outlet and that they respect the quality criteria defined by the brand. Some of these distributors belong to the marketing networks of the LVMH brands and have made the necessary investments to create high-quality internet sites, often with a pan-European or global appeal, which offer users an experience with new and interactive purchases.”¹⁶³

There are both opportunities and threats for luxury brands on the Internet. Strategic approach and careful implementation will create the necessary environment online and lead to rising profits for the brand.

4.4.3. Online luxury visual merchandising

The rising online usage figures and the retailing possibilities, attract more and more attention to the Internet. Online channel have its benefits both for companies and buyers. For companies the Internet is becoming very important channel for distribution. From buyer’s perspective, the Internet offers efficient use of time, therefore there are a predictions of declining use of traditional shopping. The other advantage of online shopping is that it provides greater efficiency and more information than traditional.

¹⁶²*Wealthy Online Shoppers Rank Top Luxury Retailer Websites; Nordstrom Is Most Visited While Barneys, Bergdorf and Brooks Brothers Tie For First Place Along With Net-A-Porter*, retrieved on 18 of January 2012, <http://blog.luxuryinstitute.com/?p=1129>

¹⁶³*LVMH Submission*, http://ec.europa.eu/competition/consultations/2009_vertical_agreements/lvmh_en.pdf, retrieved on 10 of April 2011

“One of the major determinants of effectiveness is the atmospheric qualities of the medium through which consumers interface the product or service offering (Shih, 1998). Just as the physical environment in a traditional retail store impacts the various psychological and behavioral shopping outcomes (Donovan and Rossiter, 1982; Bitner, 1992; Sherman et al., 1997), certain atmospheric qualities of the online shopping context are likely to affect the use (intentions and actual) and results (e.g., satisfaction, repatronage, amount purchased, and time spent online in the virtual store) of online shopping.”¹⁶⁴

Online environment gives consumers greater control and freedom of choice. It is easy to compare products, prices and to switch from one page to another. Therefore, visual merchandising “the presentation of a firm and its merchandise to attract potential customers”¹⁶⁵ is crucial in both online and offline worlds to keep the attention of the customer. It includes store design, product presentation, window displays format, in-store promotion etc.

“Consumers are attracted to in-store music and innovative merchandise presentations in display windows, a large colorful image, or product videos on opening web pages may attract consumers into an online store. Aspects of the in-store environment evoke emotional responses and affect approach and avoidance intentions and amount of time and money spent in the store. Specific cues might include music, types of signage, or other sensory characteristics of the store environment. Analogous components on a web site could include music, sales promotions or other ads, color surrounding the merchandise image, and positioning of elements on the web page. Intent to revisit a site and satisfaction with online shopping may be influenced by such factors.”¹⁶⁶

The core competence of luxury brands is the experience that they provide and the exclusive aura that is created. “The luxury experience is summed up in the store visit, the immersion within the highly aesthetic, creative and prestigious ambience of the retail atmosphere and ultimately interacting with the products through touching, feeling and sometimes smelling them. The retail store plays a prominent role in the overall luxury buying experience and is one of the key elements of successful luxury retailing. Atmosphere is

¹⁶⁴ EROGLUA S. A., MACHLEIT K. A. DAVIS L. M., *Atmospheric qualities of online retailing - A conceptual model and implications*, Journal of Business Research, 2001, Vol. 54, pp. 177– 184

¹⁶⁵ YOUNG, H., KWON, W.-S., LENNON S. J., *Online visual merchandising (VMD) of apparel web sites*, Journal of Fashion Marketing and Management, 2007, Vol. 11 Issue: 4, pp. 477 - 493

¹⁶⁶ Ibid

associated with words like mood, feeling, impression, environment, character, ambience and sensations.”¹⁶⁷

Therefore, it is very challenging for luxury to be translated into digital world “another purpose specific to nonstore VMD is to provide experiences that are as close to the in-store experience as possible to reduce perceived risk related to the lack of physical contact with the store and merchandise.”¹⁶⁸

The Internet provides the shopper with such options as viewing products in various dimensions, which can help to create the visualization of the real look. Nevertheless, there are options on the luxury web pages and online luxury retailers’ platforms to mix and match the selected products and the suggestions for the certain looks.

UcheOkonkwo in her publication “Can the Luxury fashion brand store atmosphere be transferred to the Internet?” identifies key elements for luxury brand to transfer the exclusive atmosphere to the online environment: “

1. Visuals – use of tools and aids such as color-scheme, video clips, slide shows, three dimensional product view, zoom facilities of whole and parts of products, text font, style and size, interactive flash media, full screen mode and graphics. Sight is one of the most important senses that retailers can manipulate to attract consumers and contributes to grasping the attention of the shopper.
2. Sound - is used to stimulate different feelings in the subconscious of the shopper through music type, volume, pitch, tempo and other manifestations.
3. Smell is a challenging human sense to transfer to the Internet virtual environment but technological advancement has made it possible for online consumers to have a whiff of scent while shopping on the Internet. A scent-smelling software called Digiscent now makes this possible through a speaker-like device attached to a computer.
4. Usability - is the backbone of a website and crafts the online experience through navigation and interactivity. It is also an essential element for a high-impact experience and can contribute substantially to a luxurious online atmosphere. Luxury consumers expect

¹⁶⁷ OKONKWO, U., *Can the Luxury fashion brand store atmosphere be transferred to the Internet?*, retrieved on 10 October 2011, http://www.brandchannel.com/images/papers/269_lux_goods_online.pdf

¹⁶⁸ YOUNG, H., KWON, W.-S., LENNON S. J., *Online visual merchandising (VMD) of apparel web sites*, Journal of Fashion Marketing and Management, 2007, Vol. 11 Iss: 4, pp.477 - 493

reliable and fast service and at the same time, more value to be added to their online experience through a high level of interactivity. The utilisation of easy navigational tools such as breadcrumbs, full screen mode and new window tools as well as several program choices i.e. Adobe Acrobat or Word versions of the same document not only makes the browsing experience effortless but will likely encourage the browser to click through several pages on the website.

5. Customisation and personalisation of products, services and web pages rank highest among the yearnings of the current luxury consumer. In the present 'Generation Me', society, every consumer desires to be recognised as important, treated with respect and provided with personal attention.¹⁶⁹

Although compatibility of the Internet and luxury brand is the most arguable issue within the industry, there are successful examples of luxury brands that realized the specificity of the digital world and designed their distribution and communication strategies accordingly.

4.5. Online luxury marketing communications

The assumption that the Internet is a good distribution channel for luxury is questionable, however there no doubts in its importance as a marketing communications medium. The evolution of the Internet has led to the changes in the behaviors, attitudes, interests, values of luxury consumers. Therefore, changing the interacting system of clients with brands both offline and online.

“In the digital world, marketing communications is concerned with creating presence, creating relationships, and creating mutual value. The Internet as a marketing channel is interactive, accessible, ubiquitous, and integrates marketing communication with commercial transactions and service delivery. As a channel, the Internet both sends content to an audience, and acts as a route to a group of customers”¹⁷⁰

¹⁶⁹OKONKWO, U., *Can the Luxury fashion brand store atmosphere be transferred to the Internet?*, retrieved on 10 October 2011, http://www.brandchannel.com/images/papers/269_lux_goods_online.pdf

¹⁷⁰ROWLEY, J., *Just another channel? Marketing communications in e-business*, Marketing Intelligence Planning, 2004, Vol. 22, Issue: 1, Pages: 24-41

However, great opportunities online might coz the danger particularly for luxury industry. The main contradiction of the Internet and the luxury brand is the accessibility of the first, whereas the core of the luxury industry is exclusivity.

“A major existing paradox however lies in creating and retaining the “desire” and “exclusivity” attributes of luxury brands on the mass and classless Internet world and at the same time maintaining and enhancing the equity of the brand. Another contradiction that luxury brands face online is the task of increasing sales and the risk of over-exposure while maintaining a fragile perception of limited supply.”¹⁷¹

4.5.1. Traditional versus online communication model

Traditionally, main functions of marketing communications were creating a message and transferring the message to the target audience through selected channels and mediums, together with promotional and advertising activities. The chosen mediums of the message delivery were television, radio, magazines, journals, direct marketing activities, emails etc. This is the one-to-many type of communications, meaning that one sender creates and sends a message, advertisement, and it is received by the large audience. The luxury industry for many years has utilized this model, mainly using magazines and newspapers for their communications. The use of TV advertising was reserved for cosmetics and perfumes. The outcome of the campaign cannot be immediately calculated and only special marketing techniques can identify that.

In a new digital world, the rules of the communications look a little different. Due to the increasing participation of the audience, immediate feedback and possibility for the exchange of information, the new many-to-many (two way communication) model of communications was developed.

“Although the Internet was introduced with the principal role of communications, it has evolved beyond the communications function. However, in order to effectively communicate online, a luxury brand is required to first separate advertising from communications because advertisements are one-way and the Internet now requires interactive communications where the receiver is engaged in a 360° conversation with the brand through one click of the mouse.

¹⁷¹OKONKWO, U., *Sustaining the luxury brand on the Internet*, Journal of Brand Management, 2009, Vol. 16

Therefore, understanding how to approach e-Communications both through the brand's own website and other appropriate websites goes far beyond advertisements.”¹⁷²

Figure 22: Comparing online advertising with advertising in traditional mass media

	Traditional media	Online
Space	Expensive commodity	Cheap, unlimited
Time	Expensive commodity for marketers	Expensive commodity for users
Image creation	Image is everything	Information is everything
Communication	Information is secondary	Image is secondary
Call to action	Push, one-way	Pull, interactive
Audience	Incentives	Information (incentives)
Links to further information	Mass	Targetted
Investment in design	Indirect	Direct/embedded
Interactivity	High	Low, allows change
	Low	Range across a spectrum from low to two-way dialogue

Source: Developed from Janal (1998)

Source: ROWLEY, J., *Just another channel? Marketing communications in e-business*, Marketing Intelligence Planning, 2004, Vol. 22, Issue: 1, Pages: 24-41

Figure 22 presents the main differences between traditional offline and online media. There was a shift in power from advertisers to the customer, where information is the core of the communications. “The Web is a place where stories are told, dialogues are initiated and information is discovered. Further, it is largely text based, and users are readers, and often writers. The development of the Web as a channel requires an understanding of the way in which information, entertainment and commerce can be melded together.”¹⁷³

There is one more important issue that separates traditional from online media, it is the shift in the control power. In traditional media advertisers have the control over which, when and how the consumers get the advertisements. Unlikely in the virtual world the control over the information switched to the consumer. “In fact, a number of researchers and practitioners argue that consumers have more control on the Internet than do advertisers

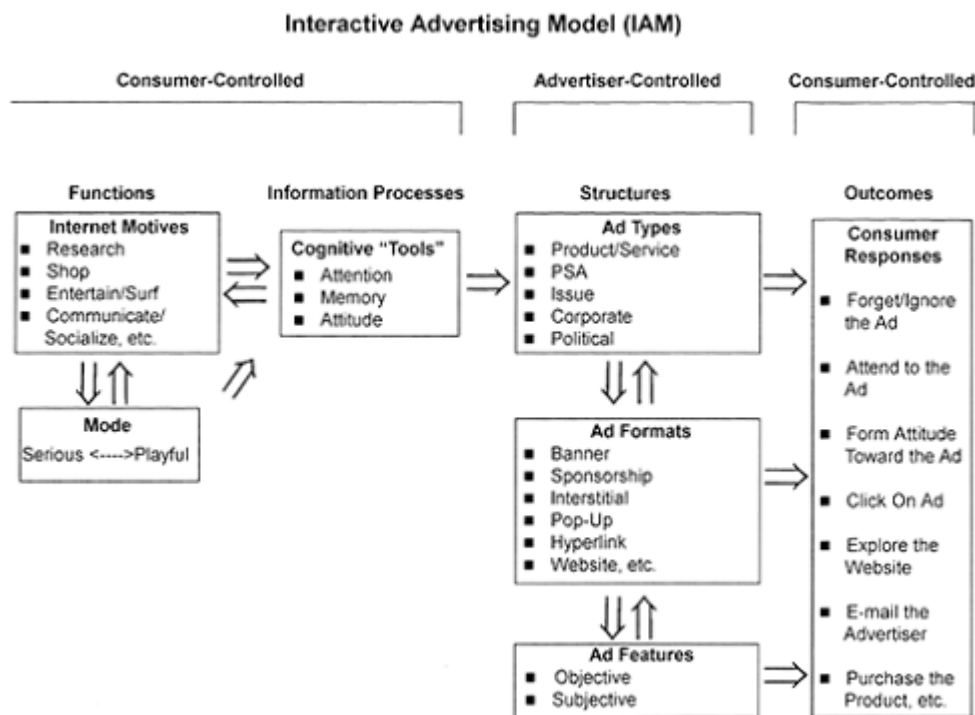
¹⁷² OKONKWO, U., *Sustaining the luxury brand on the Internet*, Journal of Brand Management, 2009, Vol. 16

¹⁷³ ROWLEY, J., *Just another channel? Marketing communications in e-business*, Marketing Intelligence Planning, 2004, Vol. 22, Issue: 1, Pages: 24-41

(Roehm&Haugtvedt, 1999). Some have gone so far as to argue that interactive marketing and advertising techniques will not work unless practitioners "step into the shoes" of and approach the Internet from the consumer's vantage point (Cross & Smith, 1997). This makes sense if we consider the fact that most Internet users typically log onto the Internet with some sort of plan, or goal, in mind (Cannon, Richardson, &Yaprak, 1998). Thus, initiation of Internet use is completely under the consumer's control."¹⁷⁴

Researchers S. Rodgers and E. Thorson have developed the framework of the Interactive Advertising model:

Figure 23: Interactive advertising model



Source: RODGERS, S., THORSON, E., *The Interactive Advertising Model: How users perceive and process online ads*, Journal of Interactive Advertising, 2000, Vol. 1

S. Rodgers and E. Thorson identified the consumer controlled and advertiser controlled part of online communication process. Consumer uses the Internet with the define motive to

¹⁷⁴ RODGERS, S., THORSON, E., *The Interactive Advertising Model: How users perceive and process online ads*, Journal of Interactive Advertising, 2000, Vol. 1

research, shop, surf or communicate and according to motivation will chose the ad type or feature that he or she is interested in. Additionally, it will result in different outcomes and consumer responses on the advertiser controlled structures.

It is crucial for advertisers to understand the motives and possible outcomes of the consumers to adapt their online strategy and may be to lead consumer to the desirable response.

4.5.2. Specifics of online marketing communications

“Communicating online is simply delivering useful content to the right audience at the right time through the relevant platforms in a manner that encourages exchanges, dialogue, sharing and inclusion.”¹⁷⁵

Building relationships with consumers and creating better brand awareness are the prior tasks of the online communications. Academics identify three main functions of online marketing communications: “

- Creating presence is concerned with the awareness building phase of marketing communications in which the organisation seeks to ensure visibility for its product offering.
- Creating relationships occurs when customers and organisations work together. The relationship is built as interactions increase. Mutual perceptions may be positive or negative, but they are based on experience.
- Creating mutual value occurs when customers and organisations work together to create value in a way that is beneficial to both parties. This is normally achieved in the context of online communities.”¹⁷⁶

Experience that luxury brands provide is very important. Therefore, the issue of compatibility of the Internet and the luxury brands is highly discussed, mainly, whether the experience and aesthetical touch of luxury can be transferred into the digital world.

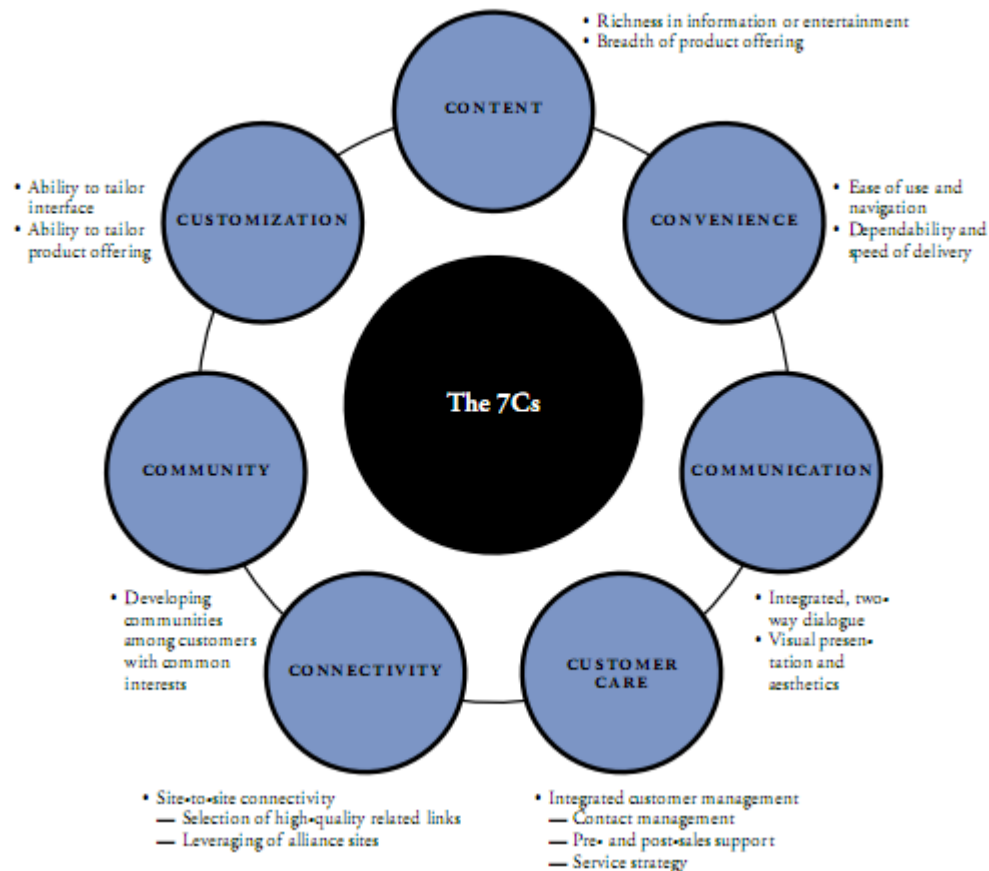
There are a lot of researchers and practitioners which are working on the developing the web experience models to deliver virtual exclusive experience.

¹⁷⁵ OKONKWO, U., *Luxury Online: Styles, Systems, Strategies*, Palgrave Macmillan, 2010, p.187

¹⁷⁶ ROWLEY, J., *Just another channel? Marketing communications in e-business*, Marketing Intelligence Planning, 2004, Vol. 22, Issue: 1, Pages: 24-41

The management consultancy firm, A. T. Kearney created the 7Cs framework to provide a high-impact digital customer experience.

Figure 24: The 7Cs framework



Source: *Creating a high-impact digital customer experience*, AT Kearney White Paper, retrieved on 10 October 2011

The framework introduces the system of tools that should be used to develop valuable customer experience in the digital world. “We believe that leading web-based marketers who have created differentiated digital customer experience are successful because they meet the demands inherent in each of these categories. In essence, the 7Cs are a continuation and restatement of marketing’s traditional 4Ps (product, price, place, promotion). The 7Cs include community, connectivity, customer care, communication, content, customization and

convenience and are fundamental in guiding companies in their quest for customer loyalty.”¹⁷⁷

Luxury consumers receive more control over the communication process. They don't wait for the new advertisement to be published in a next edition of the magazine, contrarily they receive the access to view new campaigns through online published pictures, videos, behind-the-lance sets. Luxury consumers are aware of the trends and new models even before this all will be published and advertised by companies. These posts are shared in social networks, bloggers platforms and posted on user's profiles etc. “Online luxury communications is not about the same mass advertising approach that is applied offline. It is about targeted and direct communications powered by content that has a dual aspect of feedback, exchanges and collaborations between the consumers and the brands and among consumers themselves. It is time to throw the old style of relating with luxury clients out of the window. There is no point in continuing to resist the reality that the Internet has brought a form of direct access to luxury clients, which never existed before.”¹⁷⁸

Luxury brands use different formats to communicate their brand on the Internet. For instance, in 2009 Burberry launched a photo-sharing website “The Art of the Trench” to reach younger customers and to build the desire and awareness around the brand. The website shows pictures of ordinary people wearing Burberry trench coats and pictures of models in trenches and shots from street fashion bloggers. Everybody can submit own picture or other person's picture who are the trench owners and then the best pictures are uploaded on the web. “The site also offers information about the history of the Burberry trench coat, showing vintage models from 1910 and moving through the decades with pictures, videos and ads featuring the likes of Stella Tennant and Kate Moss.”¹⁷⁹ Therefore, Burberry is present in digital world, encourage dialogue and communicate with the target audience while still maintaining the control over the brand.

There are different techniques for luxury brands to catch the attention of the potential consumer. Luxury brands create different videos, purely online campaigns, online fashion shows, social networking pages etc, and try to differentiate their online communication

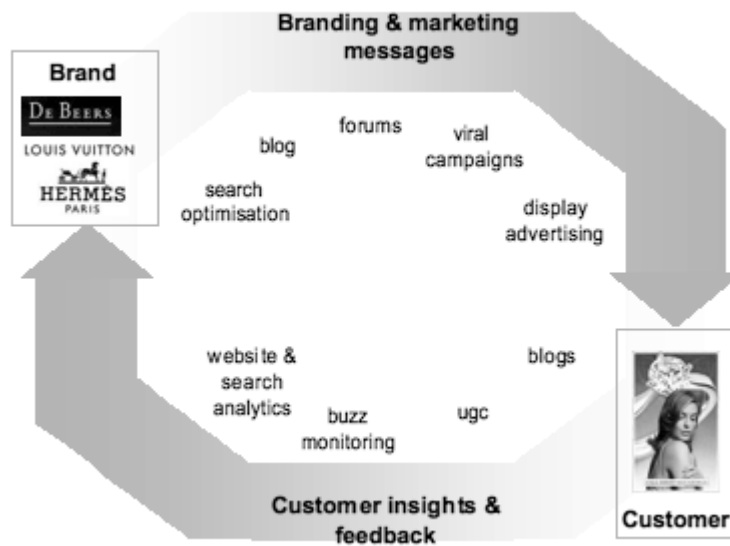
¹⁷⁷ *Creating a high-impact digital customer experience*, AT Kearney White Paper, retrieved on 10 October 2011

¹⁷⁸ OKONKWO, U., *Luxury Online: Styles, Systems, Strategies*, Palgrave Macmillan, 2010, p.190

¹⁷⁹ BUNZ, M., *Burberry checks out crowdsourcing with The Art of the Trench*, retrieved on 15 January 2012, <http://www.guardian.co.uk/media/pda/2009/nov/09/burberry-art-of-the-trench>

channels to obtain greater digital buzz. On the other hand, consumer has different options to react and to communicate with the brand. Figure 25 presents different activities that luxury brands and luxury customers can perform online.

Figure 25: Virtuous cycle of communication enabling deeper customer insight and engagement



Source: RAMONE, A., *Luxury 2.0: the role of digital channels in a downturn*, retrieved on 7 October 2010, <http://luxurysociety.com/articles/2009/05/luxury-20-the-role-of-digital-channels-in-a-downturn>

“Online communications through a luxury brand’s website requires creative and cross-marketing measures that feature a high element of interactivity and participation. Viktor and Rolf exhibited an innovative and creative flair in communications by hosting the first Internet-only runway show on its website in 2008. This original and interactivity communications not only excites and entertains, but also enables buzz marketing both online and offline.”¹⁸⁰

Instead of presenting their new spring-summer 2009 collection at Paris fashion week, Viktor and Rolf showed the whole collection online, featuring only one model Shalom Harlow. The viewers were able to attend backstage, see make-up and designer fittings behind-the scene. For many years it was doubtful that the real fashion show, at high-end locations with remarkable show decorations, with a lot of fashion insiders, celebrities,

¹⁸⁰ OKONKWO, U., *Luxury Online: Styles, Systems, Strategies*, Palgrave Macmillan, 2010, p. 205

journalists, models can be substituted by a short online movie. “The show generated substantial buzz and editorial credits for its originality and visual effects and, as you may imagine, enabled the brand to attain a level of world-wide communications that could not have been possible before the arrival of the Internet.”¹⁸¹

Of course, fashion weeks and real fashion shows will stay, due to its strategic task of business networking and trend setting, but these examples of one time campaigns can attract new younger customers, make the luxury brand present itself as modern, willing to innovate and be up-to-date with the rapidly changing business environment.

4.5.3. Online communications channels

Decision to go online for luxury brand is not the easiest one. From the other side, the current time and trends require adaptation. Luxury brands have to balance between exclusivity and accessibility in a digital world. Becoming more available can be very tricky as the marketers will not receive the immediate feedback of potential damage of the brand and in the long run this decision can be fatal.

“Imagine you’re in the market for the new designer ‘it’ bag. You start investigating the trends by reading trend reports on sites like Style.com and GQ.com. Then you follow up your research by reading your favorite style blogs and maybe even watch the catwalk shows on Youtube. Still unsure, you visit TheFancy.com or Svpply.com to fetishise while sharing the items you like with friends and followers. Finally, you visit flash sales sites such as Net-A-Porter and Yoox to research and compare prices, and all before you even consider visiting the brand’s main website. This analogy illustrates why the Internet has become such a vital part of the marketing mix. Traditional Saturday afternoon browsing of bricks-and-mortar retail spaces has been replaced by consumers who require a much more immersive experience before making the buying decision.”¹⁸²

“Blogs and social media are setting trends more than fashion critics, with one out of two customers turning to Facebook or Twitter for advice before buying.”¹⁸³

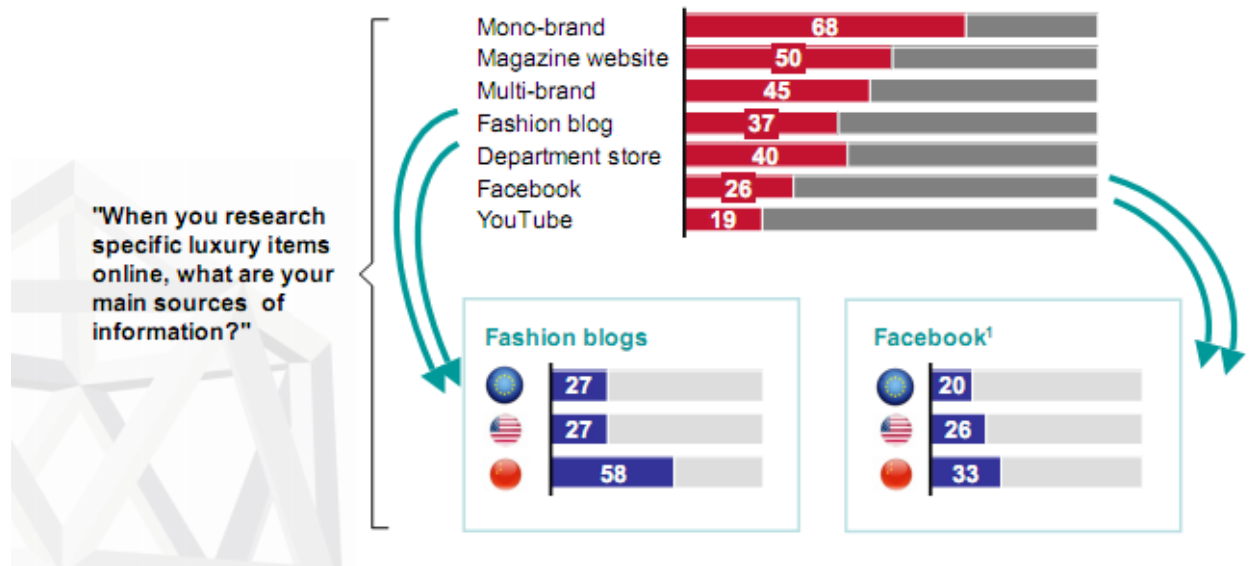
¹⁸¹ OKONKWO, U., *Luxury Online: Styles, Systems, Strategies*, Palgrave Macmillan, 2010, p. 205

¹⁸² *Luxury online*, retrieved on 15 January 2012, <http://www.luxurycomms.co.uk/2011/04/30/luxury-online-2/>

¹⁸³ CIANCIO, A., *Fashion bloggers to spur online luxury sales*, retrieved on 10 January 2012, <http://ca.reuters.com/article/technologyNews/idCATRE78E4H920110915>

Recent report “Digital luxury experience 2011” published by Altagamma, the Association of Italian high-end companies, highlights data from online survey (over 1,500 respondents in June 2011, based on luxury consumer panel). It shows which channels luxury consumers use, while making online information search on luxury brands.

Figure 26: Digital luxury experience 2011



Source: *Digital luxury experience*, Altagamma research, retrieved on 10 January 2012, <http://www.altagamma.it>

“Blogs and social media are increasingly important in online research, especially in emerging markets like China.”¹⁸⁴

Luxury brands realize the power that the Internet can offer and create special divisions that are responsible mainly for social media and online activities. “Every aspect of the social web beginning from blogs, peer-to-peer networking, podcasts, online social networks, wikis, discussion platforms, messaging platforms and various user-to-user communities, and virtual worlds have triggered a series of activities that have been shaped into behavioral patterns and actions that are changing the consumer mind-set and influencing the wider society.”¹⁸⁵

¹⁸⁴*Digital luxury experience*, Altagamma research, retrieved on 10 January 2012, <http://www.altagamma.it>

¹⁸⁵OKONKWO, U., *Luxury Online: Styles, Systems, Strategies*, Palgrave Macmillan, 2010, p. 42

4.5.3.1. Fashion blogs

Technological progress and increasing influence of the Internet are setting their own rules and cannot be ignored by marketers of luxury brands any longer. For many decades traditional printed media was perceived as a main intermediary between luxury brand and the final consumer. The close contacts between the public relations departments of luxury brands and editors-in-chief of specialized magazines, stylists and other opinion leaders were established and it looked like there is no room for interference.

“It’s Milan fashion week and the seats for Dolce &Gabbana’s spring/summer 2010 ready-to-wear show for its D&G line are filling up with the industry’s most influential figures. On the front row, legs crossed, watching from behind customary dark glasses, sits Anna Wintour, celebrated editor of US Vogue magazine. One row back – a small step for man, a giant leap for fashionkind – is Burt Tansky, chief executive of US department store Neiman Marcus. Also on the front row, nestled between the cashmere-draped shoulders of Sally Singer, US Vogue’s fashion news/features director, and Michael Roberts, Vanity Fair’s fashion and style director, sits a slender, less familiar figure dressed in grey T-shirt, jewelled necklace and tuxedo jacket. Meet Bryan Grey-Yambao, known as Bryanboy to the 215,000 unique users who visit his eponymous blog each day (British Vogue magazine, by comparison, sells just over 200,000 copies a month.)”¹⁸⁶

Fashion blogs became extremely popular in 2008-2009 during the world economic crises. That time magazines were getting thinner, due to the influence of cut budgets of advertisers. Not only difficult economic circumstances made customer or reader to cut the expenses but also the fact of availability of the comparable information online which can be obtained free of charge. The information is widely served, easily accessible and more efficient. Advertisements are uploaded the moment they are produced and there is no need to wait for a new fashion magazine issue each month and the immediate comments about the fashion shows or the product launches are available. “Luxury brands face a choice: influence the conversations themselves or be drawn into the fray through less desirable circumstances. Blogs and platforms like Gilt have, for better or worse, opened up access to luxury to a larger

¹⁸⁶COPPING, N. *Style bloggers take centre stage*, Financial Times, retrieved on 5 January 2011, <http://www.ft.com>

audience. Luxury brands can no longer afford to differentiate purely on higher price points and claims of quality. Brands need to prove their worth online in other ways.”¹⁸⁷

All these built the special environment for the Internet, the feeling to be connected to what was traditionally allowed only for the privilege audience. “Fashion bloggers will help propel online sales of designer clothes, jewels and luxury cars to more than 11 billion euros (\$15 billion) in 2015.”¹⁸⁸

The information that is presented in the fashion blogs is more adequate and realistic and highlights the main benefits or problems connected to the product or service. In fact, bloggers are the same buyers of luxury products and, in contrast to celebrities or representatives of specialized media, they do pay the full price for a luxury piece. Thus, the information and the comments are more reliable and truthful for the wider audience. Also, fashion bloggers usually have a freedom to express their own opinion. And, as for the most of the fashion journalists, bloggers do not have a strict of the policy such as the printed media has, due to specific relations with brands.

Other reason is the way of communication of potential customers and bloggers. This is more interactive way and bloggers usually talk to final consumer directly and these consumers have the possibility to leave the comment and to have a feeling of being involved.

“It suddenly became clear that the fashion establishment must now share shoulder space with, as one blogger has put it, “outsiders looking in”. If it wasn’t quite the last days of a crumbling civilization, then change was definitely in the air.”¹⁸⁹

Taking into account all these factors, marketers of luxury products cannot ignore the increasing influence of the fashion bloggers anymore. “There's been a shift in the communication model. Around 2.5% of people on the Internet are talking to the remaining 97.5%. That sounds like a low percentage, but it is actually pretty good. Everyone is influenced by blogs.”¹⁹⁰ The main challenge for marketers is to find the way for cooperation with bloggers and, therefore, promote their brand and reach target audience.

¹⁸⁷ *Social media guide for Luxury Brands*, Abrams research, retrieved on 5 April 2011, http://www.abramsresearch.com/static/guides-whitepapers/ARSM_Guide_Lux.pdf

¹⁸⁸ CIANCIO, A., *Fashion bloggers to spur online luxury sales*, retrieved on 10 January 2012, <http://ca.reuters.com/article/technologyNews/idCATRE78E4H920110915>

¹⁸⁹ COPPING, N., *Style bloggers take centre stage*, Financial Times, retrieved on 5 January 2011, <http://www.ft.com>

¹⁹⁰ *Luxury brands confront web 2.0*, retrieved on 5 January 2011 <http://www.massogroup.com/cms/content/view/3866/312/lang.en/>

This might be a problem, as the principles that are used for cooperation with traditional media, where the information can be controlled due to the amount of money invested in advertising, do not work in this situation.

“The heated discussions about controlling your brand online, especially what is said about your luxury brand online, are pure nonsense. In an open and transparent online and offline world, the only things you can control are your business values and ethics, your offerings, your business model and the customer experience that you choose to deliver. If you deliver extraordinary customer experiences, the natural “buzz” surrounding your brand will be overwhelmingly positive.”¹⁹¹

The other question arises about the importance of the fashion blogs, whether the reader of the blog is the desired and potential customer for the luxury product. The traditional luxury consumers are mature people in their forties or fifties, those that have been working whole life and now can enjoy the dividends of their lifestyle. These people unlikely will spend their time with reading the blog of 13 years girl Tavi. In contrast, blog readers are young people with the strong wish to be the part of the luxury world and this way can be connected for the world that was previously reserved only for lucky few.

Therefore, the question is whether it is the right target group for marketers of luxury products, mainly fashion luxury products. For sure investing in cooperation with bloggers will not bring return on investment immediately. This is the long term goal to raise the future generation of luxury consumers, to educate teenagers about the experience that luxury brings together with its values and benefits. Thus, to create the potential group of desired consumers in the near future.

Time changes, as marketers start to see the benefits of online exposure. Luxury products producers are still not eager to create online selling sections on their websites but cooperation with the new opinion leaders can bring significant positive outcomes. Carefully created campaign can generate a significant media exposure. As it is one of the ways to directly reach the new audience with minimum investment. A lot of luxury fashion brands understand these trends and start to use them wisely. The main challenge is that it is difficult to control

¹⁹¹PEDRAZA, M., *7 rules of the road for online luxury success*, retrieved on 27 March 2010, <http://luxurysocialmedia.wordpress.com>

online content of bloggers, but it is important not to ignore them but to learn how to cooperate.

At the recent fashion shows representatives of the front row included not only traditional fashion insiders but also fashion bloggers. Those bloggers are commenting immediately on the show in their blogs, and everybody could enjoy the fastest information about new products and looks.

It is not a secret anymore that the technological progress and increasing influence of the Internet set their own rules in the game of marketing of luxury products. Luxury was among the industries that kept rejecting this fact as long as it was possible. But since this cooperation can generate extra sales, online exposure should be considered.

Environment is changing rapidly and dictating new ways to survive, and the recent economic downturn pushed marketers to make the communication more efficient, less time consuming and costly.

There is the tendency that consumers are more eager to trust the Internet content and information generated online than that traditional media. Few years ago, it would have been difficult to imagine someone from outside of fashion industry or luxury buyers being present at the main luxury fashion events. As there is a global tendency for overall democratization, luxury segment is not an exception with extending their lines for more affordable luxury. Therefore, new channels for reaching emerging target markets are crucial.

4.5.3.2. Virtual communities as a marketing communications tool

Increasingly, people use the Internet to interact with other people, share their opinion, experiences, give advices and form the communities of likeminded. The term “word-of-mouth” is common practice now and has taken the big part of marketers’ time for creating new communication strategies. People spend a great part of their time for researching and gathering information, whether it is for product or service search or for any other type of information. With the growing power of the Internet, there were great changes in the way how marketers of the big brands communicate with their potential or existing clients.

With the new communication “many-to-many” model consumers are establishing themselves as one of the main, or the main, trend setters and opinion leaders. It has become easier to interact and share, especially that the information can be posted and widespread

with no cost or minimal connection costs. “Word-of-mouth is the informal transmission of ideas, comments, opinions, and information between two or more individuals, neither one of which is a marketer. Virtual communities can be considered word-of-mouth networks, i.e., consisting of multiple dyads. Multiple dyads occur with one source and several receivers, as well as with several sources and one receiver. The impact of word-of-mouth communication within virtual communities depends on both the structural and the interactional characteristics of the network. The structural characteristics include factors such as the size of the network, number of connections between one person and all others, and the number of actual relationships relative to the potential number, whereas the interactional characteristics include tie strength and degree of homophily among members of the network.”¹⁹²

But consumers have gone further and from just solely researching to posting the information, it became important to consolidate with other users with the same opinion, lifestyle, interest etc. Therefore, in this part of research the influence of virtual communities, especially in a luxury field, will be analyzed in more details.

“The Internet has facilitated the development of specialized consumer knowledge reservoirs in the form of virtual communities of consumption, i.e., “affiliative groups whose online interactions are based upon a shared enthusiasm for, and knowledge of, a specific consumption activity or related group of activities”.”¹⁹³

Virtual communities attract the marketers as they start to play a very important role in a decision-making process of the purchase, influencing different stages in consumer buying phases. The consumer goes through several basic steps: problem recognition, information search, evaluation of alternatives, purchase decision, purchase, post-purchase evaluation. Potentially, interaction with the virtual communities might influence every stage of the decision process. The challenging topic for marketers is how to communicate with the virtual communities, whether to related to brand community and make company driven community, “joint ventures” between brand and its clients or solely community that exists apart from the brand.

There are studies that analyze offline brand communities. “Based on Tönnies’ (1912) sociological analysis of communities, Muniz and O’Guinn (2001) describe the features of a

¹⁹²DE VALCK, K., H. VAN BRUGGEN, G., WIERENGA, B., *Virtual communities: A marketing perspective*, Journal Decision support Systems, Vol. 47, Issue 3, June 2009

¹⁹³ Ibid

“brand community” as follows: They are based on a structured set of social relationships among admirers of a given brand, situated within a commercial and mass-mediated context, grounded in the willingness of sharing consumption experiences, and characterised by a ‘restricted’ membership.”¹⁹⁴ The main concern of brand marketers is how to communicate with the virtual communities and both establish and maintain consumer-brand relationships.

4.5.3.3. Social media for the rich

“With over 75 percent of wealthy Internet users actively using social media, the question is no longer if luxury brands should utilize the web as a luxury market, but rather a question of how to do so.”¹⁹⁵ Social networks are still not a priority marketing channel for luxury brands although it becomes the main channel for information exchange, replacing traditional media and luxury brands not longer able to ignore it. “Social media is still a relatively uncharted frontier for luxury brands, and the early adopters will have a large advantage moving forward. Success will be dependent on developing strategies that address the new behaviors of the modern consumer online while appreciating that luxury brands in social media must remain just that, luxurious.”¹⁹⁶

The specifics of luxury brands were described earlier in this work, such as premium quality, craftsmanship, overall luxury experience and atmosphere etc. Historically, luxury marketing communications were tightly controlled and represented by traditional media channels. Social media can be a failure strategy due the lack of control. On the other hand, it can perform as the boost for gaining the premier positions on the market place. “Social media can help demonstrate to consumers the level of craftsmanship that goes into production and can serve as a powerful way to showcase the luxury difference. Impactful, turn-key solutions such as providing vintage pictures or linking to old newspaper clippings help consumers appreciate the significance and history of what they are buying.”¹⁹⁷

Nevertheless, social media gives more access to the consumers, who might be not targeted luxury consumer and for who the luxury world was closed. This leads to the

¹⁹⁴ BECKMANN, S., GJERLOFF, M., *A Framework for Communicating with Brand Communities*

¹⁹⁵ *Social media guide for Luxury Brands*, Abrams research, retrieved on 5 April 2011, http://www.abramsresearch.com/static/guides-whitepapers/ARSM_Guide_Lux.pdf

¹⁹⁶ Ibid

¹⁹⁷ Ibid

situation where non-luxury consumer can have an influence on the luxury brand through blogs, comments etc. Therefore, the good digital and social media strategy must be carefully developed, implemented and monitored. “Social media’s low barrier to entry gives many brands a false sense of ease, leading to haphazard attempts that do not represent the brand well. Brands that leave up abandoned Facebook profiles like ManoloBlahnik (as of December 2010) lose credibility to those like Chanel who commissioned director Martin Scorsese to create a Bleu de Chanel YouTube video. Unsurprisingly, consumers hold luxury brands to a much higher standard online, just as in the real world. Thus it is of extreme importance that a luxury brand maintains its ethos, value proposition and quality of experience. If a luxury brand’s voice online is at odds with its image in other media, this creates a dissonance in the mind of the consumer.”¹⁹⁸

The crucial topic is the concern about losing exclusivity online. “A luxury brand generates exclusivity by cultivating a block of consumers who wish they could buy the brand’s products, but cannot afford them. Simply, if luxury brands want to remain luxurious, they have to engage not only their paying customers, but also people who want but can’t have. This is where the democratizing power of social and new media comes into play. Social media enables luxury brands to build tremendous clout among the aspirational set. In some cases, social media may be the only place aspiring consumers can reach the brand at all. This, in turn, builds tremendous prestige among the affluent set.”¹⁹⁹

The main task for the luxury brand is to successfully implement brand image and values online and to find the appropriate digital platforms to fulfill marketing goals. Luxury brands were very careful and slow to go online and start to advertise there. Although many of brands have created their websites, whether for just informative purpose or no, luxury brands tried to avoid social media platforms for many years. Recently, many luxury brands created their pages on the mass networks such as Facebook or Twitter for the PR posting material purposes only. Although, these might go against the exclusivity experience that luxury brands provide. “Just like any aspect of the luxury business, establishing a social media presence requires detailed and extensive planning. The reckless use of social media to

¹⁹⁸ *Social media guide for Luxury Brands*, Abrams research, retrieved on 5 April 2011, http://www.abramsresearch.com/static/guides-whitepapers/ARSM_Guide_Lux.pdf

¹⁹⁹ GREENHILL, D., *5 Digital Marketing Commandments for Luxury Brands*, retrieved on 15 January 2012, <http://mashable.com/2011/10/11/digital-marketing-luxury-brands/>

increase exposure can hurt the brand in the long term. Even though the possibilities for interacting with online communities are immense, any attempt to do so must be done with the same care and commitment that a traditional communication would command.”²⁰⁰

Social media provides endless possibilities for brand communication. People create the groups upon their interest and join specialized discussions on forums, blogs, networks, etc. Nevertheless, social media serves as a sharing platform where the message can be spread within the targeted group very efficiently. The other advantage of online exposure is the personalization aspect, which is crucial for luxury and can be effectively created on the Internet. The customized services can be provided through creation of invite only communities, by doing that luxury brands can maintain exclusivity.

The example of the plan of digital marketing exposure is presented by the Abrams Research company in their “Social media guide for luxury brands”:

“Best Practices:

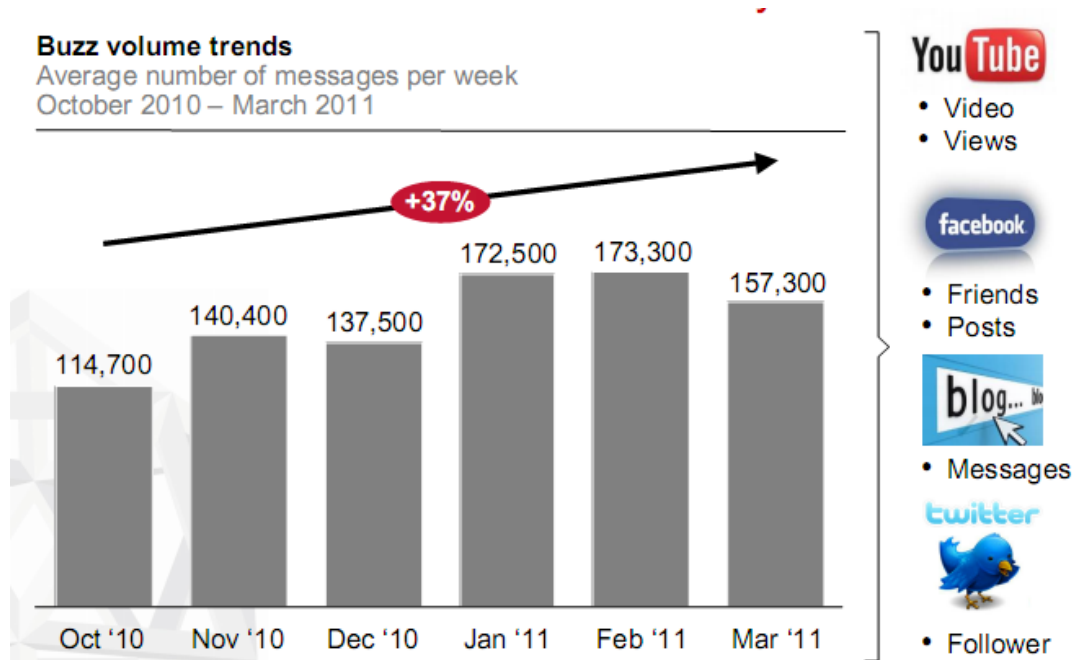
- Identify the online spaces and social media platforms that best fit what and how the brand wants to communicate. Discussion boards are not for every company.
- Create individual strategies to target particular consumer segments based on how they behave online. For example, according to Google Ad Planner data, 0-17 year olds disproportionately use Myspace and \$100,000+ income earners don’t use it much at all.
- Don’t be average in many social media platforms; be excellent in one or two by allocating resources efficiently as opposed to spreading them thinly.”²⁰¹

The research “Digital luxury experience 2011”, which was prepared by Milan based Altagamma group, shows the performance of luxury brands in the digital world. The statistics shows that around 150 000 messages about luxury brands is posted every week during the research period.

²⁰⁰*Social media guide for Luxury Brands*, Abrams research, retrieved on 5 April 2011, http://www.abramsresearch.com/static/guides-whitepapers/ARSM_Guide_Lux.pdf

²⁰¹*Social media guide for Luxury Brands*, Abrams research, retrieved on 5 April 2011, http://www.abramsresearch.com/static/guides-whitepapers/ARSM_Guide_Lux.pdf

Figure 27: Buzz volume trends



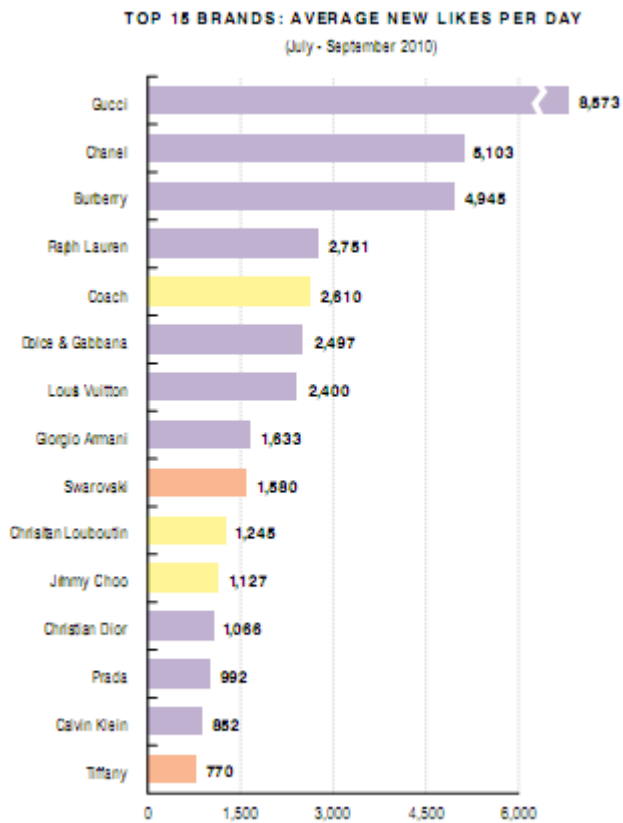
Source: *Digital luxury experience*, Altagamma research, retrieved on 10 January 2012, <http://www.altagamma.it>

The statistics show the great potential for the luxury brands in the online world. Therefore, luxury marketers cannot continue ignoring it and should control the digital space more precisely as the lack of control might create a potential danger for the brand.

Concerning social networks, the research indicates that social networks friends of luxury brands will more than double in the year 2012, estimating the annual growth rate around 136%. Furthermore, in the social media environment, all luxury brands have a positive online reputation, with around 60% of messages having neutral attitude and 30% of messages being positive.

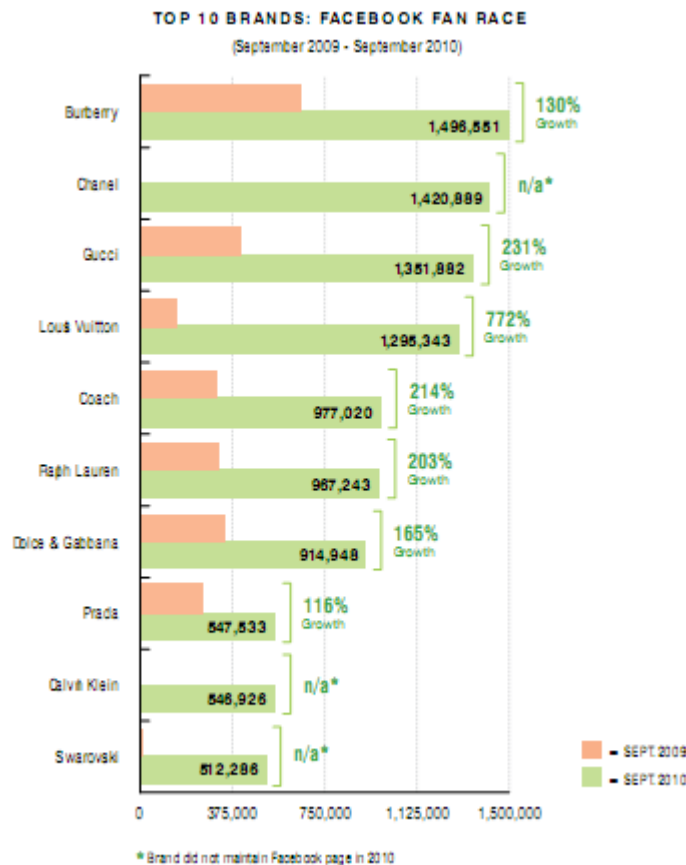
The other research that was already presented in this chapter, was done by L2 organization “Digital IQ index: Luxury 2010”. The company made more detailed report and give the possibility to see the best luxury performers in the online world.

Figure 28: Top 15 brands: average new likes per day



Source: GALLOWAY, S., *L2 Digital IG Index: Luxury*, retrieved on 05 April 2011,
<http://www.l2thinktank.com/research/luxury/>

Figure 29: Top 10 brands: Facebook fan race



Source: GALLOWAY, S., *L2 Digital IG Index: Luxury*, retrieved on 05 April 2011, <http://www.l2thinktank.com/research/luxury/>

Figures 28 and 29 present the most active luxury brands in Facebook. The first three leading positions are occupied by Gucci, Chanel and Burberry. In this dissertation examples of successful online campaigns of these brands are described. For instance, Gucci has created an excellent following on Facebook with over 6,039,212 followers (24.01.2012). Gucci continually update its page and upload new content, like photos, videos, news, collections etc. This keeps their members constantly engaged with the brand. Every upload generates on average 200 “likes”, comments and shares. Everyone can join the Gucci Facebook page. By doing so, Gucci builds the powerful community of likeminded and devoted to the brand. Even though many of the members cannot afford Gucci products, but it builds the specific atmosphere and desirability of the product, which might affect members buying decisions in the long-run. Nevertheless, these types of communities generate the feedback for the brand and allow to run different research activities about consumer preferences, behaviors etc.

4.5.3.4. Examples of online communities for wealthy clients

The main reason for luxury brands to create presence in mass social network is building brand awareness and communicate the brand to the mass audience. But, then it seems that the possibility to reach only loyal and target audience is almost impossible in these conditions. One of the solutions can be to create such an exclusive platform as luxury products are. This might be obtained by consolidating the loyal customers in some exclusive social networks, where the members can be only invited by the existing ones or through very strict selection process.

“These social networks are involved in a delicate balancing act. Unlike other social networks, they must tread a fine line between growing their membership and keeping out the wrong sort of members. They must also tread a very fine line between building a genuine community and building a sort of giant marketing database. One step in the wrong direction and the credibility of these social networking sites will be badly damaged.”²⁰²

Additionally, by creating special network it will become obvious who is the core client of the brand.

Although, there are popular social networks like Facebook, which should be also considered, but very carefully, as there will be no exclusivity left. It is very important to have the right intermediary to be able to communicate and reach the final luxury customer. Nevertheless, it is crucial to decide where to invest time and money. One brand cannot do everything and be present everywhere, thus, the selection of the proper partner and channel is the prior task. The decision should be very precise as it is difficult to estimate the potential returns from such cooperation and partnerships.

Of course, creating an exclusive network requires high initial investments but this is the way to control the members, such as previous clients or their friends which might be potential consumers. This looks like successful way to make a platform for communication and, meanwhile, introducing the new product lines and sharing advertising campaigns. By implementing this strategy the selection of the members is more detailed and brand can target the clients group it desires.

²⁰²THOMSON, J., *Facebook for rich people*, retrieved on 15 September 2011, <http://www.smartcompany.com.au/wealth/20090406-filthyrichcom.html>

One example of such network can be aSmallWorld.net which works as invitation-only social network. Launched in 2004, now the network include around 770 000 members. “Users are mostly young — 32 on average. Many have graduate degrees and a taste for living extravagantly on more than one continent. Sixty-five percent are from Europe, 20 percent from the United States and the rest scattered around the globe.”²⁰³

ASmallWorld.net often organizes different event in high-end venues in main global capitals and offers its advertisers to promote the event. “We’re dealing with a group of people that moves in social migration around the planet,” said Joe Robinson, the new chief executive. “From the point of view of a Mercedes-Benz or a Piaget, that makes this an enormous marketing opportunity.”²⁰⁴ Members use the network to look for different types of recommendations whether it is restaurant, conference, island, investments or company information. They trust the advices from the likeminded members. “And it is hard for a wealthy entrepreneur to feel truly at home unless they can be sure their fellow network members understand what it's like to inherit a fortune, sell your business for millions, or deal with a large margin call.”²⁰⁵

The other example of social network for wealthy people is Affluence.org. “Affluence.org (Affluence Corporation Clearwater FL) is a social network that caters to the rich and influential. In order to qualify for membership one must have a verified income of at least \$300 000 per year or a net worth that exceeds \$3 Million or the person must be a recognized figure, celebrity, or micro celebrity and have verifiable influential status.”²⁰⁶ The employees of this network make their own research whether the potential member suits the profile of the affluence.org.

These networks create such databases which attract potential advertiser and offer the possibility to organize a promotional evening for the members. Nevertheless, the marketing campaigns for these networks should be created carefully as rich people value their privacy very much and not likely to enjoy being attacked with various marketing materials.

²⁰³ LA FERLA, R., *A Facebook for the Few*, retrieved on 15 September 2011, http://www.nytimes.com/2007/09/06/fashion/06smallworld.html?_r=1&pagewanted=all

²⁰⁴ Ibid

²⁰⁵ THOMSON, J., *Facebook for rich people*, retrieved on 15 September 2011, <http://www.smartcompany.com.au/wealth/20090406-filthyrichcom.html>

²⁰⁶ “*Inside Affluence.org – a Social Network for the Rich: Interview with Russell Rockefeller*”, retrieved on 22.01.2012, <http://www.searchenginejournal.com/inside-affluenceorg-a-social-network-for-the-rich-interview-with-russell-rockefeller/8397/>

Russell Rockefeller, a VP of Marketing for Affluence.org commented: “Right now we are a social network for high profile people that want to have a Facebook like experience without actually having to experience Facebook but that is certainly not what we are limited to. In my opinion the way to engage and win the hearts of social media users is to provide them with an ecosystem where they can contribute and make a difference both in terms of ideas and the development of those ideas, but also in terms of empowering them to benefit from the experience. The power to influence and change technology in the hands of the end user. Who doesn’t want to be a part of that?”²⁰⁷

To conclude, technological innovations have influenced all industries and the luxury industry is not an exception. However, there are still a lot of arguments whether luxury products and digital space are comparable. The potential benefits and challenges are presented in this chapter that producers of luxury may face while adapting to new environment. Strategy of going online should be created and implemented very carefully without any danger for the reputation of the luxury brand. Different scenarios are examined and proposed, such as building the exclusive social network to be able to understand the core client of the brand and to attract only selective members. Fashion bloggers are becoming crucial players in the process of communication of the brand and interpreting the message. Hence, the cooperation strategies are discovered and proposed.

Luxury brands are realizing their potential online. Therefore, managers are trying to keep the exclusive niche for the real luxury customers and be more approachable for the aspiration luxury consumers or potential customers. Through online communication wider audience can feel the connection to luxury and this is a very important tool to build brand awareness or create loyalty.

Despite the danger of losing their exclusivity, luxury brands should create the online web pages to correspond and to be up-to-date with their clients and start building exclusive digital platforms for selling luxury online.

²⁰⁷ “*Inside Affluence.org – a Social Network for the Rich: Interview with Russell Rockefeller*”, retrieved on 22.01.2012, <http://www.searchenginejournal.com/inside-affluenceorg-a-social-network-for-the-rich-interview-with-russell-rockefeller/8397/>

5. Research design and methodology

5.1. Theoretical background

The Internet era have changed the rules of the traditional marketing and introduced the new channels for communication. Nevertheless, digital world has successfully emerged with the common business practices. “Modern society is information-oriented (Ball-Rokeach& Reardon, 1988; Rogers, 1986), and is moving away from traditional mass exposure media, toward the more interactive collection of communication media and commercial interfaces represented by the modern Internet (Dreze&Zufryden, 1997; Stafford & Stafford, 1998).”²⁰⁸

Digital world provide virtual space for networking, sharing, looking for information etc. Even though the Internet has been accepted as the most potentially strong medium, there is a lack of scientific studies about consumer motivations and influential factors for using the Internet, especially in connection with luxury.

5.1.1. Uses and Gratifications model

Uses and gratifications theory investigates the consumer motivations and behavior in regards of using different media. “U&G has always been a model of consumer choice of new media innovations. Applied to study market introductions of media innovations ranging from radio, television, and now the Internet, the theoretical focus of U&G is personal and its usage context is in the consumer market. Social variables, in the recent exploratory U&G studies of Internet use are operationalized in the form of individual motivations to engage in interpersonal interaction via technology-mediated linkages.”²⁰⁹

The summary of uses and gratifications theory researches is presented in figure 30.

²⁰⁸ STAFFORD T. F., STAFFORD M. R., SCHKADE L., *Determining Uses and Gratifications for the Internet*, Decision Sciences, 2004, Vol. 35, Issue 2, pp. 259–288

²⁰⁹ Ibid

Figure 30: Selected New Media Uses and Gratifications Typologies 1995-2009

Author(s) and Year	Medium	Uses and Gratifications Typologies
James, Wotring, and Forrest (1995)	Electronic bulletin board	Transmission of information and education Socializing Medium appeal Computer or other business Entertainment
Perse and Dunn (1998)	Home computers	Entertainment Escape Habit Passing time
Leung (2001)	ICQ	Affection Entertainment Relaxation Fashion Inclusion Sociability Escape
Papacharissi (2002)	Personal home pages	Passing time Entertainment Information Self-expression Professional advancement Communication with friends and family
Stafford, Stafford and Schkade (2004)	The Internet	Process: Resources, Search engines, Searching, Surfing, Technology, Web sites Content: Education, Information, Knowledge, Learning, Research Social: Chatting, Friends, Interactions, People
Ko, Cho and Roberts (2005)	The Internet	Information Convenience Entertainment
		Social-interaction
Diddi and Larose (2006)	Internet news	Surveillance Escapism Pass time Entertainment Habit
Jun and Lee (2007)	Mobile media	Mobility/Convenience Fashion Information Entertainment/Relaxation Functional service Multimedia service Sociality
Perters, Amato and Hollenbeck (2007)	Wireless advertising	Process: Limited Time, Structuring Time, Entertainment Content: Cutting-Edge Information, Reminders and Notifications Ubiquitous Information, Information for Problem Solving Customized Content Socialization: Commercial Relationships, Personal Relationships
Mendes and Tan (2009)	User-generated content	Content: Information Consistency; Source Credibility; Argument Quality; Information Framing Process: Medium; Entertainment Social: Recommendation Consistency; Recommendation Rating
Cheung and Lee (2009)	Virtual community	Purposive Value Self-discovery Entertainment Value Social Enhancement Maintaining Interpersonal Interconnectivity
Haridakis and Hanson (2009)	YouTube	Convenient entertainment Convenient info seeking Co-viewing Social interaction

Source: LIU I., CHEUNG C., LEE M., *Understanding Twitter usage: what drive people continue to Tweet*

A review of the main studies reflects that there are three main gratifications for using particular media: content gratification, process gratification and social gratifications. Nevertheless, the authors of the publication “Understanding Twitter usage: what drive people continue to Tweet” incorporated additional gratification for the new media – technology gratification.

As it was stated earlier the main aim of the uses and gratification model is to understand consumer motivations and consumer satisfaction from particular media. “U&G has provided a basis from which to construct profiles of intended uses and resulting user satisfactions. It is considered a "how and why" approach to understanding media use motivations, since gratifications are typically defined as some aspect of satisfaction reported by users, related to the active use of the medium in question.”²¹⁰

5.2. Research model and hypotheses

Taking into consideration the growing influence of digital world on the luxury industry, it was decided to create such a framework that could help to analyze online luxury consumer behavior, motivations for using the Internet and the factors that influence online luxury consumer satisfaction. The theoretical basis for the online luxury consumer’s motivations which influence satisfaction is uses and gratification model which “is a communications research paradigm that determines motivations by focusing on what people do with mass media”²¹¹.

This research work contributes to the presented in figure 30 studies, by incorporating the uses and gratifications model not only into digital world but also by analyzing it from the luxury consumer’s perspective. Presented model examines the motivations and factors that lead luxury consumers to satisfaction. Therefore, it results in the way they spend time online on the “luxury related websites”²¹². The research is limited to understand the reasons for satisfaction of luxury consumers from passing time on the luxury related websites.

²¹⁰ STAFFORD T. F., STAFFORD M. R., SCHKADE L., *Determining Uses and Gratifications for the Internet*, Decision Sciences, 2004, Vol. 35, Issue 2, pp. 259–288

²¹¹ Ibid

²¹² Luxury related websites - luxury brand’s web pages (Gucci, Chanel, Ferrari, Rolex etc), online luxury retailers websites(net-a-porter etc), fashion blogs, luxury brands pages in social networks, luxury fashion magazines web pages etc)

The objective of this study is to find out which from the presented gratifications of luxury consumers influence the most their satisfaction from the Internet, particularly the luxury related websites. Therefore the research question for current study is: “Features of importance that attract luxury consumers to the luxury related websites”.

Figure 31: Research model - Features of importance for online luxury consumer satisfaction

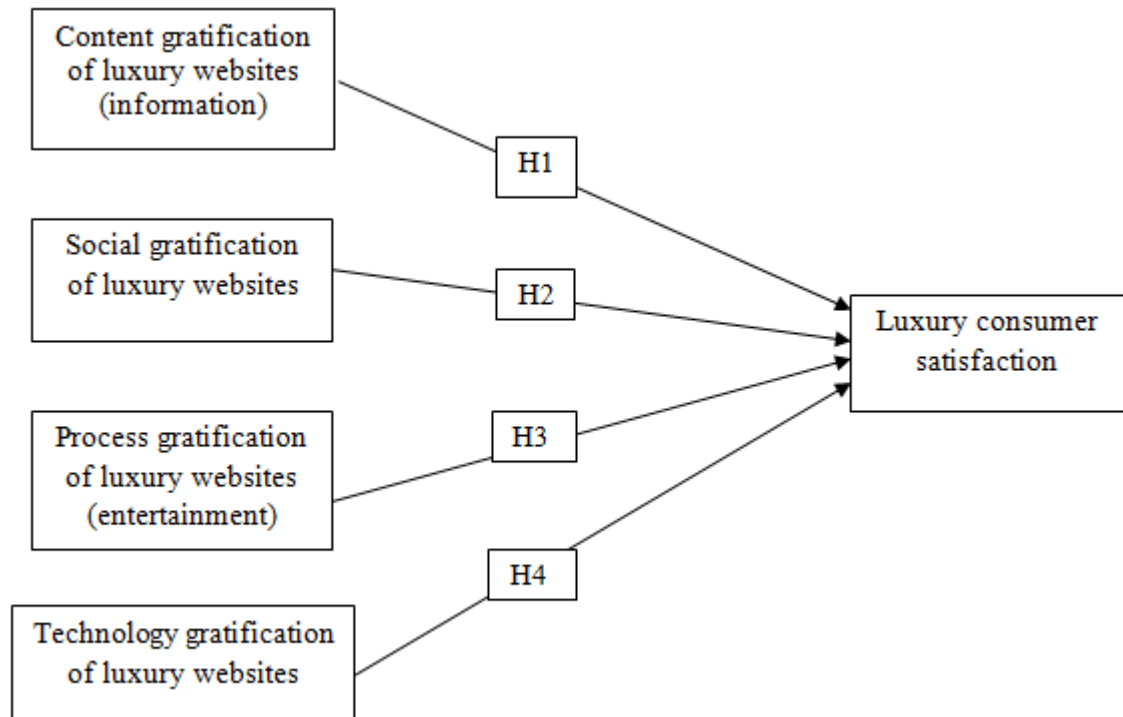


Figure 31 presents the research model of this dissertation. By integrating the luxury aspect into the uses and gratification model, four hypotheses were proposed for the investigation. All the gratifications were adapted from the previous studies with minor changes to fit the luxury research context. Four gratifications include: content gratification of luxury websites (information), social gratifications of luxury websites, process gratification of luxury websites (entertainment) and technology gratification of luxury websites.

Content gratification of luxury websites

Content gratification is derived from the information that is carried by the Internet. Users of the luxury related websites might be motivated to search for site-related information, such as up-to-date information about luxury industry, useful advices about luxury products, stores locations and availability of products etc. Some researchers suggest that the information seek is one of the main reasons why people use the Internet. Therefore, the following hypothesis is developed:

Hypothesis 1: Content gratification of luxury websites has a positive effect on luxury consumer satisfaction.

Social gratification of luxury websites

Social gratification is connected with interaction with different parties through the medium. The Internet and luxury related websites provide possibility to feel more connected to the luxury overall and luxury brands, give the feeling of belonging to the luxury society, to discuss/share reviews about luxury products, etc.

“Given their broad experiences with e-mail and other network tools, academic researchers intuitively understand the value of the Internet as a communications tool; to most scholars it is second nature to use the Internet for interpersonal communication and social networking. Among the broader public, however, the potential social usefulness of the Internet might not be as intuitive. Yet, the potential uses and associated social gratifications arising from consumer use of the Internet as a social environment.”²¹³

Hypothesis 2: Social gratification of luxury websites has a positive effect on luxury consumer satisfaction.

Process gratification of luxury websites

Process gratification is connected with passing time and enjoying the process. “Process gratification means user receives gratification mainly from being involved in the process of

²¹³STAFFORD T. F., STAFFORD M. R., SCHKADE L., *Determining Uses and Gratifications for the Internet*, Decision Sciences, 2004, Vol. 35, Issue 2, pp. 259–288

behavior, rather than from message content (Cutler & Danowski 1980). Process gratification is derived from the use of mediated messages for extrinsic values.”²¹⁴

User is involved into process gratification when he or she will enjoy the pleasant time spending on the luxury related website and be entertained, feel excited when surfing on the luxury related websites and receive esthetical satisfaction. Therefore, providing these experiences for the user will lead to satisfaction.

Hypothesis 3: Process gratification of luxury websites has a positive effect on the luxury consumer satisfaction.

Technology gratification of luxury websites

Technology gratification was the last one to be recognized for its importance for consumer satisfaction. It was included recently into the uses and gratifications model when the model was applied to study motivations of consumers in the digital world. “Venkateshet al. (2003) confirmed that facilitating conditions, which refer to perceptions of environmental factors that support the use of a system, become a valuable construct. Yet, the potential uses and associated technology gratifications arising from consumer are important to explore. Technology gratification is derived from the suitable and convenient environment provided by a system.”²¹⁵

Due to the technology gratifications of luxury websites, user can get information about luxury brands anytime and anywhere, can get the best deal or find the luxury item and read the detailed description of the product.

Hypothesis 4: Technology gratification of luxury websites has a positive effect on the luxury consumer satisfaction.

5.3. Justification for the methodology

Generally, there are two approaches for the problem solving, qualitative and quantitative. “Essentially, the quantitative approach will describe and resolve problems using numbers. Emphasis will be given to the collection of numerical data, the summery of that data and the drawings of conclusions from the data. Measurement is seen as important and factors that

²¹⁴LIU I., CHEUNG C., LEE M., *Understanding Twitter usage: what drive people continue to Tweet*

²¹⁵Ibid

cannot be easily measures, such as attitudes and perception, are generally difficult to include in the analysis. Qualitative approaches describe the behavior of people individually, in groups or in organizations. Description is difficult in numerical terms and is likely to use illustrative examples, generalization and case histories. The qualitative approach can use a variety of methods such as observation and the written response to understructure questions. Data may come in the form of script, for example, transcripts of interviews or observations such as video recordings.”²¹⁶

The current study is based on the uses and gratification model with the minor adaptations to the luxury field in order to find features of importance that attract luxury consumers to the Internet, particularly luxury websites, and therefore influence online luxury consumer satisfaction.

The quantitative approach was chosen for data collection and analyzes. Moreover, the collection of the primary data is crucial as the secondary data might not give the full and detailed answer for the research question. “Generally we have to accept the secondary data as given – with all its limitations. The challenge is collecting primary data on time, within the budget and with a quality that meets the needs of our research.”²¹⁷ The data was collected from the survey and is the basis for the main assumptions and conclusions. “Survey research is one of the most important areas of measurement in applied social research. The broad area of survey research encompasses any measurement procedures that involve asking questions of respondents.”²¹⁸

Another advantage of the quantitative research is that it gives the possibility to work and collect large samples of data.

5.4. Construction of the survey

This part of the thesis highlights the design of the presented questionnaire.

²¹⁶ CURWIN J., SLATER R., *Quantitative Methods for Business Decisions*, Thomson Learning, 5th edition, 2002, p.7

²¹⁷ Ibid

²¹⁸ *Survey research*, retrieved on 10 February 2012 <http://www.socialresearchmethods.net/kb/survey.php>

5.4.1. Group administrated questionnaire

For current analysis the group or interviewer administrated questionnaire was chosen. “A sample of respondents is brought together and asked to respond to a structured sequence of questions. Traditionally, questionnaires were administered in group settings for convenience. The researcher could give the questionnaire to those who were present and be fairly sure that there would be a high response rate. If the respondents were unclear about the meaning of a question they could ask for clarification. And, there were often organizational settings where it was relatively easy to assemble the group (in a company or business, for instance).”²¹⁹

Not only high respond rate and opportunity to clarify the questions are the advantages of the interviewer administrated questionnaire, but also the possibility to target the right participants, which is crucial in case of luxury analysis.

5.4.2. Type of questionnaire

The closed ended questions structure was chosen for this questionnaire. All the questions are clearly stated to insure that there are no misunderstandings, moreover the interviewer was present to answer all the comments. Yes/no questions, multiple choice and scaled questions were chosen from the range of the closed ended questions

However, two open ended questions were included into survey. Question number 2 (What is your age?) and question number 5 (What is your nationality?) were left open ended due to the variety of the sample respondents.

5.4.3. Structure of questionnaire

Presented in this dissertation thesis questionnaire consists of 33 questions in total. It has 4 main sections.

First section contains demographic questions asking for respondent's gender, age, education, employment, nationality.

Second section is aimed to find out the Internet usage history of the participants. For instance, the length of the Internet usage was asked and whether the respondent has every used the Internet for purchasing.

²¹⁹*Types of surveys*, retrieved on 10 February 2012, <http://www.socialresearchmethods.net/kb/survtype.php>

The third section of the questionnaire gives the information whether the respondent is interested in luxury related websites (luxury brand's web pages (Gucci, Chanel, Ferrari, Rolex etc), online luxury retailers websites(net-a-porter etc), fashion blogs, luxury brands pages in social networks, luxury fashion magazines web pages etc) and whether he or she has ever visited it.

The salary or revenue of the respondents was not asked in the profile question on purpose mainly because a lot of people unlikely will disclose their financial status. However, for this study it is crucial to analyze if the respondent fits the target group. For this purpose, the question from the study by B. Dubois and P. Duquesne "The market for luxury goods: income versus culture" was used as a base and adapted in a current study as a question 11:

11. Have you bought or received over the course of the last two years:

(please chose all items that you have bought or received)

- ☐ A bottle of champagne worth more than €20
- ☐ A bottle of perfume or any cosmetics worth more than €40
- ☐ A scarf or tie worth more than €40
- ☐ A pen or lighter worth more than €100
- ☐ An article of jewellery worth from €100
- ☐ Leather goods (wallets, bags etc) worth more than €200
- ☐ An article of clothing worth more than €300
- ☐ A watch worth more than €400
- ☐ A hi-fi stereo or video equipment worth more than €1 200
- ☐ None of the above products

The forth section of the questionnaire contains 20 statements regarding respondent's personal motivations to visit luxury websites. The statements are designed as a 1-to-5 Likert scaling.

5.5. Sample selection

Group administrated questionnaire method was chosen for the data collection. Due to the chosen method, the very high response rate was achieved and the specific audience was targeted.

Target respondents for this thesis are business students which are in a process of obtaining the Bachelor's or Master's degree. The limitation of the sample is that students might be not the current luxury consumers. However, due to the business nature of education, it is assumed that mainly all students with high education in business are potential luxury buyers. Additionally, all the respondents were notified about the following "If you don't visit luxury websites or don't buy luxury products online, please think what potentially might attract you to luxury websites and check the box that best reflects your impressions."

The questionnaire was distributed during the International Marketing and Marketing Communications classes at the University of Economics in Prague, during the period from the 5th to 19th of December 2011.

The biggest part of the sample group are exchange students, followed by the students of the Master in International Business program and students from the programs which are taught in Czech language at the University of Economics in Prague.

Nevertheless, due to the specificity of the questionnaire, not all the respondents were chosen for the analyses. The filter questions were introduced.

Question 10 (Have you ever visited "luxury related websites"?) was chosen as a filter as some students are not able to afford luxury items for a moment but have a great interest in this specific sector. The respondents had the option to choose "Yes" or "No" answer for it. In case, the respondent answered positively for the question 10, he or she was accepted for the research. Even though, if the respondent has never purchased or received luxury item, he or she is a potential luxury consumer.

The other filter question is question 11 (Have you bought or received over the course of the last two years: please chose all items that you have bought or received) was used. In case, the respondent has never bought or received the luxury item, this point was one to be considered for being excluded for the sample.

To summarize, only in the situation where the respondent answered both negatively for questions 10 and 11, he or she was excluded from the data analysis.

6. Data analysis

6.1. Introduction

This part of the dissertation thesis presents the results of the research. The aim of the research is to analyze the features of importance that attract luxury consumers to luxury related websites and influence online luxury consumer satisfaction.

Section 6.2. highlights the demographic distribution of the sample, respondent's online experience, following by identification of their luxury consumption history both offline and online.

In the next section 6.3, the Mean Value and the Standard Deviation of the items is described to identify the most highly graded statements. Following by the correlation analysis, which was used for hypotheses testing.

6.2. Analysis of the sections of the questionnaire

6.2.1. Demographic characteristics of the sample

Out of the 159 distributed questionnaires, only 133 were accepted for the research. As 3 were returned incomplete, one more respondent stated: "I do not like to buy luxury items – it is a waste of money, only discounted items". Additionally, due to the filter questions, those were discussed in section 5.5, 22 respondents were excluded from the further research.

A total of 133 respondents were accepted for the analysis. Figure 32 illustrates the demographics of the sample.

Figure 32: The profile of the sample

Category	Item	%
Gender	Male	49
	Female	51
Age group	19-20	10
	21	23
	22	22
	23	19
	Over 24	28
Education	Bachelor	50
	Master	50
Civil status	Student	67
	Student who is working	33

The analysis showed that there is almost equal distribution of gender among respondents, 49 percent were male, and 51 percent were female. In the age category, 45 percent of the sample represent 21 and 22 age group, 10 percent fall in the range of 19-20 years old, 19 percent represent 23 years and the remaining 28 percent stated that they are over 24.

In terms of respondents' education, exactly half of the sample achieved or were in a process of obtaining Bachelor's degree and other half achieved Master's degree. All the participants were students, out of which 33 percent had a job apart of studying.

Figure 33: Geographical distribution

Nationality	%	Nationality	%
Czech	16	Macedonian	2
German	11	Azerbaijan	2
American	11	Serbian	2
Russian	7	China	2
French	7	Bulgarian	1
Ukrainian	5	Danish	1
Slovak	5	Armenian	1
Spanish	5	Polish	1
Canadian	4	Norwegian	1
Italian	4	Lithuanian	1
Dutch	2	South Korea	1
Portugal	2	Hong Kong	1
British	2	Swiss	1
Belgian	2	Turkish	1
Greek	2	Austria	1
Swedish	2	Vietnamese	1
Finland	2		

Based on figure 33, the sample included the variety of nations. Representing the USA, Western Europe, Central and Easter Europe, Asian countries, Canada, Great Britain, Turkey, Armenia and Azerbaijan. This gives the sample higher importance as the attitudes and opinions on luxury from different cultures can be drawn from such a wide distribution of nations.

6.2.2. The Internet usage section

This section of the questionnaire, tries to identify the online experience of the participants. Moreover, their online buying behavior and types of products bought online (figure 34).

Figure 34: Online experience of the participants

Category	Item	%
Overall use of the Internet	4 to 6 years	11
	7 years and more	89
Weekly use of the Internet (not for work)	Less than 5 hours	2
	6-10 hours	10
	11-20 hours	30
	20-30 hours	27
	Over 30 hours	31
Number of online purchases (this year)	Once	6
	2-5 times	38
	10 times and more	49
	Never	7
Types of products bought online	Software	22
	Books and magazines	42
	Home electronics	37
	Travel (airlines, car rentals, hotels)	86
	Clothing	50
	Accessories	31
	Cosmetics, perfumes	17
	Services(insurance, legal)	26
	Other items	22

Presented data is very important for analysis as it identifies the overall online experience, shows the percentage of real online buyers. Additionally, figure 34 determines the types of products that are most often bought online.

The data collected, presents that mainly all participants (89 percent) are familiar with the Internet and use it for 7 years and more. Moreover, the weekly usage of the Internet (apart from the working process) is distributed almost equally between 11-20 hours, 20-30 hours and over 30 hours. The data shows that almost 90% of respondents use the Internet for more than 11 hours per week for their personal needs and time spending. This is a very important finding for the consideration. Even though, the sample respondents are students and they have more free time then people with full time job, this is the great input for the

understanding of their habits. As considerable amount of free time the respondents spend online.

The very important aspect is whether respondents are familiar with the Internet as a transaction medium. Only 7 percent of the sample has never bought anything online, estimating that remaining 93 percent are the active e-commerce users. This information is very important as according to the participants' activities, conclusions for the companies that sell online can be drawn. Nevertheless, it is interesting to examine the types of products which are mainly used for the online purchases.

Around 86 percent answered that they bought travel related products and services online, 50 percent have bought some clothing items. Home electronics and books are also the common online product, representing 37 percent and 42 percent accordingly.

6.2.3. Identification of luxury consumer and online luxury experiences

The main goal of this research is to study factors influencing online luxury consumer satisfaction. Nevertheless, the analysis would give important results only in case if the selection of the respondents would reflect the nature of the research. Therefore, the third section of questions aims to identify the right respondents for the sample, their online and offline behavior regarding the purchasing of the luxury items. As was stated in section 5.4, business students were interviewed. This set of questions will identify luxury consumers or students that have an interest in luxury (potential luxury consumers) and reject the respondents that are not satisfying the selection criteria of the target group.

Figure 35: Luxury experience

Category	Item	%
Luxury purchases/ presents (during last 2 years)	A bottle of champagne worth more than €20	31
	A bottle of perfume or any cosmetics worth more than €40	60
	A scarf or tie worth more than €40	25
	A pen or lighter worth more than €100	4
	An article of jewellery worth from €100	31
	Leather goods (wallets, bags etc) worth more than €200	26
	An article of clothing worth more than €300	23
	A watch worth more than €400	9
	A hi-fi stereo or video equipment worth more than €1 200	11
	None of the above products	14
Luxury website's visits	Yes	73
	No	27

Figure 35 helps to identify the luxury consumer from the sample. More than half of the sample (60 percent) stated that they have bought or received over the course of the last two years a bottle of perfume or cosmetics worth more than €20. Additionally, respondents are buyers of expensive champagne, jewellery, leather goods, clothes etc. And only the 14 percent of the sample haven't bought or received any of the stated products. Nevertheless, the last group was accepted for the further analyses in case if they have ever visited luxury related websites and was considered as a potential luxury clients group.

The questionnaire results have revealed the very important figure, that 73 percent of the respondents have an experience related with the luxury websites and 27 percent have never visited these websites. This means that students or young people have a great interest in a luxury segment, even if they cannot afford it now.

The detailed analyses of the sample shows that mainly all the respondents are familiar with luxury products and services, some are still only through online channels but mainly all of them are the luxury customers, even though they form the group of aspirational or occasional luxury consumers. Additionally, the analysis of results showed that this group is the appropriate group for answering to the research questions of this dissertation thesis.

6.3. Testing of hypotheses

The two-stage analysis of the hypotheses is presented in this dissertation. The first stage describes the initial 18 statements that were based and adapted from the various uses and gratification models. The mean values and standard deviations of all the items are constructed. Additionally, analysis of the significance of each statement is presented. Based on calculations for each statement, each gratification values for the respondents were found.

The second stage includes the correlation analyses between each gratification and the satisfaction in order to test the hypotheses.

6.3.1. Mean value and standard deviation

The questionnaire included 18 items for calculation 4 gratifications. It is important to calculate the value of each item and make a comparison. For this purpose mean value and standard deviations are usually used “to describe a wide variety of situations, particularly when large quantities of data are involved”²²⁰ and to “identify typical values and the spread of values”²²¹.

Figure 35: Mean value and standard deviation

Items	Mean	SD
1. Because it gives me up-to-date information about luxury industry (ex: new models, ads, events etc.)	2.23	1
2. To make a research about stores locations and availability of products	2.32	1.1
3. Because it gives detailed descriptions of the luxury products	2.32	1.04
4. Because it is easy to surf on luxury websites and I can easily find what I want	2.44	0.96
5. Because I can find information about luxury products anytime, anywhere	2.51	1.1
6. To get information about luxury products that I cannot find elsewhere outside the	2.54	1.11

²²⁰ CURWIN J., SLATER R., *Quantitative Methods for Business Decisions*, Thomson Learning, 5th edition, 2002, p.8

²²¹ Ibid

Internet		
7. Because it gives useful advices about luxury products, brands and companies	2.62	1.01
8. Because I can get the best deal or find the luxury item that I am searching for (it shows all models, colors, sizes etc. that are available)	2.66	1.22
9. To conduct a research about luxury products (assortment, product features etc), brands, companies	2.77	1.15
10. Because luxury websites entertain me	3.05	1.08
11. Because it gives me esthetical satisfaction	3.12	1.17
12. To discuss/share reviews about luxury products, brands, companies	3.21	1.14
13. Because it is a pleasant time spending	3.21	1.27
14. Because I feel excited, when surfing on the luxury websites	3.3	1.13
15. Because surfing on luxury websites is my hobby	3.38	1.16
16. Because it makes me feel more connected to the luxury and luxury brands	3.44	1.12
17. Because it gives me feeling of belonging to the luxury society	3.77	1.15
18. To meet people with the same interests in luxury as I have	3.89	0.92

Mean value analysis shows the analyses of the grading of the items. The items with the lowest mean value have the most positive result, meaning that most of respondents strongly agreed or agreed with the statement. Strongly agree was marked as 1, and strongly disagree was marked as 5 for the data analyses, therefore the lowest mean value have those items that were accepted the most.

From figure 35 it is visible that the first two items “Because it gives me up-to-date information about luxury industry” and “to make a research about stores locations and availability of products” which reflect information gratification are the prior motives for visiting luxury websites. Additionally, the following three items “because it gives detailed descriptions of the luxury products”, “because it is easy to surf on luxury websites and I can easily find what I want” and “because I can find information about luxury products anytime,

anywhere” have the great value for the respondents and the respondents had the positive reaction on these statements.

Moreover, statements number 8 and 13 have the highest standard deviations “the most widely used measure of dispersion, since it is directly related to the mean”²²².

Based on the calculations of mean value for each item, the items were grouped according to the initial grouping for gratifications.

Figure 36: Mean values of the gratifications

Gratifications	Mean Value
Content	2.49
Social	3.58
Process	3.19
Technology	2.48

After the groupings, it is clear that the gratification with the most positive attitudes of respondents (smallest mean value) is technology gratification, following by content gratification with almost similar result. Social gratification is the least influential factor for respondents’ intentions to visit luxury related websites.

6.3.2. Correlation

Focusing on the next step of the analyses the correlation was conducted to determine the significance of the proposed hypotheses. Using correlation method helps to determine the correlation coefficient “to find a way of measuring how strongly two variables are associated (the strength of the relationship). Such measurement will enable us to make comparisons between different models or proposed explanations of the behavior of the variables”²²³.

²²² CURWIN J., SLATER R., *Quantitative Methods for Business Decisions*, Thomson Learning, 5th edition, 2002, p. 140

²²³ Ibid, p. 373

Figure 37: Correlation matrix

Correlation Coefficients, using the observations 1 - 133
5% critical value (two-tailed) = 0.1703 for n = 133

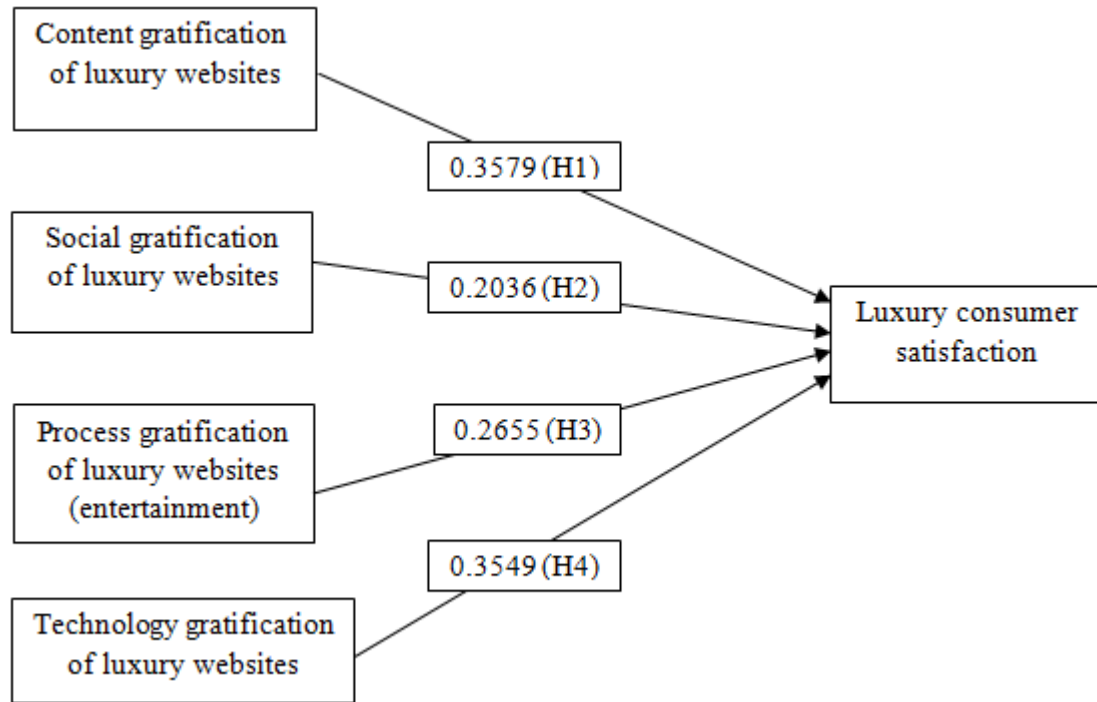
H1	H2	H3	H4	SAT	
1.0000	0.1875	0.1923	0.7504	0.3579	H1
	1.0000	0.6212	0.1702	0.2036	H2
		1.0000	0.2088	0.2655	H3
			1.0000	0.3549	H4
				1.0000	SAT

In order to prove the proposed hypotheses, the correlation matrix was created to understand the relations between gratifications and luxury consumer satisfaction. In figure 37 the gratifications were marked according to the hypotheses they represent. For example, content gratifications is marked as H1, social gratification as H2, process gratification as H3, technology gratification as H4, and luxury consumer satisfaction was marked as SAT.

The results obtained from the correlation matrix show very strong positive correlation relations between content gratification (H1) and technology gratification (H4) and presented by the 0.7504 coefficient. Additionally, data gathered from the survey highlights that there is other very strong positive correlation between social gratification (H2) and process gratification (H3), presented by 0.6212 coefficient. “If x and y have a strong positive linear correlation, r is close to $+1$. An r value of exactly $+1$ indicates a perfect positive fit. Positive value indicates a relationship between x and y variables such that as values for x increase, values for y also increase.”²²⁴

²²⁴Correlation coefficient, retrieved on 6 March 2012,
<http://mathbits.com/mathbits/tisection/statistics2/correlation.htm>

Figure 38: Analyses of the proposed hypothesis



The most important findings for this dissertation thesis are presented in figure 38. As the goal of this study is to find out what are the gratifications for luxury consumers that influence most their satisfaction from luxury websites, therefore figure 38 gives the clear picture of importance of each gratification and its influence on the luxury consumer satisfaction.

The analysis of correlation proves the positive relation of the gratifications on the luxury consumer satisfaction (correlation coefficient lies between 0 and 1). However, the influence on the satisfaction varies between gratifications. “A correlation greater than 0.8 is generally described as strong, whereas a correlation less than 0.5 is generally described as weak. These values can vary based upon the "type" of data being examined. A study utilizing scientific

data may require a stronger correlation than a study using social science data.”²²⁵ Further in figure 39 presented the more precise scale of correlation coefficient.

Figure 39: Correlation coefficient scale

Strength of Association	Coefficient, r	
	Positive	Negative
Small	.1 to .3	-0.1 to -0.3
Medium	.3 to .5	-0.3 to -0.5
Large	.5 to 1.0	-0.5 to -1.0

Source: <https://statistics.laerd.com/statistical-guides/pearson-correlation-coefficient-statistical-guide.php>, retrieved on 6 of March 2012

The finding from the figure 38 show that the hypothesis 1 has the strongest correlation coefficient 0.3579, therefore we can assume that content gratification influences the most luxury consumer satisfaction. Additionally, the forth hypothesis is proved to have similar correlation of 0.3549.

However, hypothesis 2 and hypothesis 3 don't show strong correlation coefficient but from the obtained results it is visible that social gratification has least important but still positive effect on the luxury consumer satisfaction.

Additionally, the correlation coefficient confirms the Mean Value results of hypotheses presented earlier in figure 36.

The findings indicate that content and technology gratification have similar very strong positive influence on the luxury consumer satisfaction. Social and process gratifications also have the positive effect on the satisfaction, however their influence is less significant in this analysis.

²²⁵ *Correlation coefficient*, retrieved on 6 March 2012, <http://mathbits.com/mathbits/tisection/statistics2/correlation.htm>

7. Discussion

As mentioned in the Introduction chapter, there are a few studies in the field of luxury marketing, especially about the new ways of luxury communications and luxury consumer behavior in the online world.

There are many studies that try to analyze the digital world. One of the ways to do this is to apply the uses and gratification model to study online consumer's behavior and consumers motivations to use particular media channel. However, the uses and gratifications model was usually applied to analyze different digital platforms, such as Twitter, or the Internet as such. In order to fill the gaps, the decision was done to adapt uses and gratification model to the online luxury consumer's world.

Summary of the findings and hypotheses

Presented model examines the motivations and factors that lead luxury consumers to satisfaction. Therefore it results in the way they spend time online on the luxury related websites. The research is limited to understand the reasons for satisfaction of luxury consumers from passing time on the luxury related websites.

Four hypotheses were proposed for the investigation. Based on the analysis all four hypotheses were confirmed and all types of gratifications have the positive influence on satisfaction. Additionally the hypotheses number 1 and 4 were proved to have the highest influence on the online luxury consumer satisfaction.

Limitations of the thesis

The main limitation of the thesis is the sample selection. The questionnaires were distributed among Bachelor's and Master's degree students. Students might still not be the real luxury consumers and might be not interested in a status signaling products. However, 73% of the respondents confirmed that they are visiting luxury related websites, reflecting sample's interest in luxury products and high future probability to become real luxury clients.

The other limitation of the sample is the age distribution. Due to the fact that the age of respondents vary from 19 to 31, this might not reflect the different motivations that other consumer groups express. However, due to the specificity of the research, as it is connected

to the Internet usage, this age group represents the most technologically active group and reflects the real online motivations.

Future research

The presented dissertation thesis opens various directions for further investigations.

For more detailed research on the topic, wider selection of gratifications should be incorporated to obtain more precise results.

Nevertheless, more random sample selection might give more accurate answers to the research questions. Moreover, it is important to see the differences of motivations between generations and cross cultural differences in approaching of luxury related websites.

The analyses of the influence of online consumer satisfaction to the further online purchase decisions will be a very important step for the predictions of online luxury purchases.

Conclusion

Dynamic and changing nature of luxury requires its adequate reflection in scientific studies. Presented findings contribute to the scarce literature on specifics of luxury industry and online marketing communications of luxury brands.

Research on the roots and definition of luxury illustrated that even though some aspects of luxury products have changed over the years but exclusive experience, craftsmanship, personal approach, superior customer service have maintained their prior characteristics of the luxury field.

The deep analyses of evolution of the luxury consumption theory identified several types of luxury consumer's behavior. Important concept of T. Veblen's conspicuous consumption was examined. Nevertheless, as time was passing, other important concepts started to play the leading role. H. Liebensten identified external effects such as snob, bandwagon and Veblen that are important for luxury consumer's utility, which were completed by Frank Vigneron's and Lester W. Johnson's framework. Authors created a balance between personal motives (hedonist and perfectionist motives), analyzed by B. Dubois, and combined with traditional interpersonal motives (Veblen, snob and bandwagon motives).

Other important concept of discreet consumption was examined, which describes conspicuous non-consumption. The main idea of conspicuous non-consumption is that customers, who are coming from very rich families and have been luxury consumers for ages, do not have to show and prove their wealth and tend to dress with less brand visibility and drive less expensive cars. The main purpose of this part of research was to show different intentions of consumers to buy luxury. In more developed Western countries luxury consumer tend to be a representative of discreet consumption. However, conspicuous consumption should not be excluded as it is the behavior of consumers from less developed countries and the prior experience in the Western countries can be a strategic contribution.

Chapter 3 revealed an important analysis of the key principles of luxury marketing, such as specific marketing communication tools: showrooms, catwalks, PR connections and exclusive events. Not only special marketing communication channels were defined but also the layers of luxury communications were analyzed. Research suggested that advertising and promotions are used for less expensive product categories such as perfumes and cosmetics. On the other hand, the highest layer which represents haute couture dresses, special limited

versions of cars etc, should be supported by collection defiles, art shows, photos, brand ambassadors, charities, PR, restricted events.

Moreover, branding tools play an important role in luxury marketing as for some types of luxury products, brand is the only reason for purchasing decision. Chapter illustrated the brand extension techniques and examples. There is usually the temptation to extend the brand to attract new customers from other segments and hence generate higher profits. But this should be done very carefully not to lose brand reputation, high-end brand value and already exciting customers that would not accept other co-customers. The analysis of the best extension practices and failures was presented in details.

Additionally, luxury consumer requires the special attention and deeper investigation. Proposed four groups of luxury consumers present different attitudes of clients toward luxury and different lifestyles. It is crucial to have a clear understanding of main factors that separate one group from another and to implement the communication tools accordingly, whether it is just a big signaling advertisement in mass media or very exclusive special cat walk of haute couture collections, charity events for the most valuable clients.

Nevertheless, technological innovations have influenced all industries and the luxury industry is not an exception. This dissertation thesis analyzed the role of new channels of marketing communications. The potential benefits and challenges were presented, that producers of luxury may face while adapting to new environment.

Moreover, the strategy of going online should be created and implemented very carefully without any danger for the reputation of the luxury brand. Different scenarios were examined and proposed, such as building the exclusive social network to be able to understand the core client of the brand and to attract only selective members. Fashion bloggers are becoming crucial players in the process of communication of the brand and interpreting the message. Hence, the cooperation strategies were discovered and proposed.

Despite the danger of losing their exclusivity, luxury brands should create the online web pages to correspond and to be up-to-date with their clients and start building exclusive digital platforms for selling luxury online. Current online luxury e-commerce market consists of three types of operators: web pages of the luxury brands that offer e-commerce, traditional retailers that established their e-commerce activities online, purely online retailers.

Literature review revealed the gap in knowledge of the online luxury consumers' behavior, their intentions to go online and to visit luxury related websites. The purpose of this dissertation was to identify and examine the features of importance that attract luxury consumers to luxury related websites and lead to online luxury consumer satisfaction.

The main contribution of this dissertation thesis is an analytical framework that will help luxury marketers to understand online luxury consumers, their motivations, behavior and preferences. Additionally, framework presents the up-to-date data that can be executed while creating digital marketing communications strategy.

Through extensive theoretical and empirical research, a proposed model was created based on the previous uses and gratifications model, which "is a communications research paradigm that determines motivations by focusing on what people do with mass media"²²⁶ Many researchers analyzed the online environment and applied the uses and gratification model to study online consumer's behavior, but mainly their models were applied for different digital platforms, such as Twitter, or the Internet as such. Therefore, the decision was done to apply uses and gratification model to the online luxury consumer's world.

The research model identified four gratifications (content, social, process and technology) that influence online luxury consumer satisfaction. It examined the motivations and factors that lead luxury consumers to satisfaction. Model showed the way they spend time online on the luxury related websites. The research was limited to understand the reasons for satisfaction of luxury consumers from passing time on the luxury related websites.

Four main hypotheses were proposed for the examination:

Hypothesis 1: Content gratification of luxury websites has a positive effect on luxury consumer satisfaction.

Hypothesis 2: Social gratification of luxury websites has a positive effect on luxury consumer satisfaction.

Hypothesis 3: Process gratification of luxury websites has a positive effect on the luxury consumer satisfaction.

²²⁶STAFFORD T. F., STAFFORD M. R., SCHKADE L., *Determining Uses and Gratifications for the Internet*, Decision Sciences, 2004, Vol. 35, Issue 2, pp. 259–288

Hypothesis 4: Technology gratification of luxury websites has a positive effect on the luxury consumer satisfaction.

By incorporating the quantitative approach it was possible to make a deep analysis of the topic. To obtain the necessary data the group structured questionnaire was distributed during International Marketing and Marketing Communications lectures at the University of Economics in Prague. A total of 133 respondents were accepted for the analysis. The analysis showed that there was almost equal distribution of gender among respondents, 49 percent were male, and 51 percent were female. The age category of the respondents was from 19 to 31 years old. All of them were students, who represented 32 countries: the USA, Western Europe, Central and Eastern Europe, Asian countries, Canada, Turkey, Armenia and Azerbaijan.

Research showed that almost 90% of respondents used the Internet for more than 11 hours per week for their personal needs and time spending. This is a very important finding that should be taken into consideration. Even though, the sample respondents were students and they had more free time than people with full time job, this was the great input for the understanding of their habits. As considerable amount of free time the respondents spent online.

The detailed analysis of the sample showed that mainly all the respondents were familiar with luxury products and services, some still only through online channels but mainly all of them were the luxury customers, even though they form the group of aspirational or occasional luxury consumers. Therefore, results showed that this group was the appropriate group for answering to the research questions of this dissertation thesis.

Findings obtained from the presented research highlight that there is a positive effect between proposed gratifications (content, social, process and technology) and online luxury consumer satisfaction.

Two step analysis was investigated in order to support the hypotheses and reveal results. First, mean value of all the items was calculated. After calculations of mean value for each item, the items were grouped according to the initial grouping for gratifications. Results showed that gratification with the most positive attitudes of respondents (smallest mean value) was technology gratification, followed by content gratification with almost similar

result. Social gratification was the least influential factor for respondents' intentions to visit luxury related websites.

Focusing on the next step of the analysis the correlation was conducted to determine the significance of the proposed hypotheses. Correlation matrix helped to identify the correlation coefficient to find out how strongly proposed variables were correlated.

Analysis of correlation proved the positive relation between gratifications and luxury consumer satisfaction (correlation coefficient lied between 0 and 1). However, proposed gratifications had different influence on the satisfaction. Content and technology gratifications had the most strong and positive influence on the satisfaction. On the other hand, hypothesis 2 and hypothesis 3 hadn't showed strong correlation coefficient. Moreover, from the obtained results it is visible that social gratification had the least important but still positive effect on the luxury consumer satisfaction.

The research results were limited to Bachelor's and Master's degree students. However, some sample representatives werenot real luxury consumers and had not paid much attention to status symbols yet, it was assumed that all the respondents were goal oriented and had a clear picture of their future direction as they all were investing a lot of time to their education. Additionally, due to the online nature of research this sample reflected the group which nowadays is the heaviest user of the Internet and is eager to be involved into new opportunities that online world offers.

Nevertheless, almost all respondents showed the interest in luxury sector by visiting luxury related websites.

Even though the sample of the respondents had approximately equal number of men and women and very wide geographical coverage, still the age group of respondents varied only from 19 to 31 years old participants. Therefore, the results might not accurately highlight different age categories motivations and preferences.

Despite of the limitation of the sample of respondents on several parameters, the most crucial contribution of this dissertation thesis is the deeper examination of motivations of luxury consumer to use the Internet and visit luxury related websites. The data gathered from this study is a valuable input to the marketing scientific studies. Moreover, it shows the directions for the luxury marketers and the possible scenarios for their online strategies.

The presented dissertation thesis opens various directions for further investigations. Other motivations might guide luxury consumers to online world, therefore the uses and gratification model can be modified and include more detailed gratifications for better understanding of the customer.

Nevertheless, the wider and more random sample selection might give more precise answers to the research questions. Moreover, it is important to see the differences of motivations between generations and cross cultural differences in approaching of luxury related websites. This would allow to make even greater adaptation of marketing messages and to achieve more accurate results.

There are a lot of debates about comparability of online world and luxury, as digital world is too impersonal comparing with core competence of luxury: exclusivity, outstanding experience and human touch in everything including craftsmanship, personal selling and customer relations. In current environment luxury companies cannot ignore the importance of the Internet as a communication and transaction tool and have to stay in touch with its target audience. Research revealed that the luxury consumer or potential luxury consumer is heavy user of the Internet and visits luxury related web pages.

The main goal of this dissertation thesis was to create such a framework which gives clear understanding of online luxury consumer intentions to visit luxury related web pages. Preferences of online luxury consumer differ from motivations of offline consumer. Therefore, the research is up-to-date and gives the insights to the online behavior of luxury consumers.

The obtained results are a valuable asset for the luxury companies as research revealed the main directions and themes on which luxury marketers should stress while creating online communication strategies.

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Appendix A: Questionnaire

Dear Participant,

This survey was designed to analyze online luxury consumer behavior. While answering please consider luxury context of the survey and respond on the statements that most closely matches your opinion.

If you don't visit luxury websites or don't buy luxury products online, please think what potentially might attract you to luxury websites and check the box that best reflects your impressions.

Thank You for participation!

Survey questions

1. Are you Male or Female?

- Male
- Female

2. What is your age?

3. What is the highest level of education you have completed (or you are in process)?

- High school graduate
- Bachelor's degree
- Master's degree
- Ph.D
- Other advanced degree

4. You are currently:

- Employed
- Self-employed
- A student
- A student who is working
- Other

5. What is your nationality?

6. How long have you been using the Internet?

- Less than 12 months
- 1 to 3 years
- 4 to 6 years
- 7 years or more

7. Your weekly usage of the Internet (not for work):

- Less than 5 hours
- 6-10 hours
- 11-20 hours
- 20-30 hours
- Over 30 hours

8. How many times have you used the Internet for purchase this year?

- Once
- 2-5 times
- 10 times and more
- Never

9. What types of products did you purchase on the Internet? (Please check all that you bought):

- Software
- Books or magazines
- Home electronics
- Travel (airlines, car rentals, hotels)
- Clothing
- Accessories
- Cosmetics, perfumes
- Services (insurance, legal)
- Other items

10. Have you ever visited “luxury related websites”?²²⁷ (see below the meaning of luxury related websites)

- Yes
- No

²²⁷Luxury related websites -luxury brand’s web pages(Gucci, Chanel, Ferrari, Rolex etc), online luxury retailers websites(net-a-porter etc), fashion blogs, luxury brands pages in social networks, luxury fashion magazines web pages etc)

**11. Have you bought or received over the course of the last two years:
(please choose all items that you have bought or received)**

- ☐ A bottle of champagne worth more than €20
- ☐ A bottle of perfume or any cosmetics worth more than €40
- ☐ A scarf or tie worth more than €40
- ☐ A pen or lighter worth more than €100
- ☐ An article of jewellery worth from €100
- ☐ Leather goods (wallets, bags etc) worth more than €200
- ☐ An article of clothing worth more than €300
- ☐ A watch worth more than €400
- ☐ A hi-fi stereo or video equipment worth more than €1 200
- ☐ None of the above products

12. Have you ever used the Internet for purchasing the luxury product?

- Yes
- No

**13. What types of luxury products have you ever bought on the Internet?
(please choose all items that you have bought)**

- ☐ Perfume or cosmetic
- ☐ Clothing or shoes
- ☐ Leather goods (wallets, bags etc.)
- ☐ Jewellery
- ☐ Watch
- ☐ Other
- ☐ I have never purchased luxury product on the Internet

Below are some statements of luxury consumers towards “luxury related websites”²²⁸.

If you don’t visit luxury websites or don’t buy luxury products online, please think what potentially might attract you to luxury websites and check the box that best reflects your impressions.

Choose the option that most closely matches your opinion on the following statement. (please mark only one attitude for each question)

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
I visit luxury websites:					
Because it is easy to surf on luxury websites and I can easily find what I want	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Because it gives me up-to-date information about luxury industry (ex: new models, ads, events etc.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To discuss/share reviews about luxury products, brands, companies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Because surfing on luxury websites is my hobby	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Because it gives me feeling of belonging to the luxury society	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Because I can get the best deal or find the luxury item that I am searching for (it shows all models, colors, sizes etc. that are available)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To make a research about stores locations and availability of products	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Because it gives detailed descriptions of the luxury products	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Because it gives useful advices about luxury products, brands and companies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Because it is a pleasant time spending	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Because it makes me feel more connected to the luxury and luxury brands	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

²²⁸Luxury related websites -luxury brand’s web pages (Gucci, Chanel, Ferrari, Rolex etc), online luxury retailers websites(net-a-porter etc), fashion blogs, luxury brands pages in social networks, luxury fashion magazines web pages etc)

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
I visit luxury websites:					
Because I feel excited, when surfing on the luxury websites	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Because luxury websites entertain me	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To get information about luxury products that I cannot find elsewhere outside the Internet	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To meet people with the same interests in luxury as I have	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Because I can find information about luxury products anytime, anywhere	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To conduct a research about luxury products (assortment, product features etc), brands, companies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Because it gives me esthetical satisfaction	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Information I found on the Internet was satisfactory	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I am generally satisfied with my online luxury experience	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Thank You for participation!