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**International Distribution as Communication Tool**  
**What Builds Experience and Value Creation in Luxury**  
**Retail Setting?**

**DOCTORAL DISSERTATION THESIS**

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## **Declaration**

I hereby declare that I am the sole author of the thesis entitled “***International Distribution as Communication Tool. What Builds Experience and Value Creation in Luxury Retail Setting?*** “

I duly marked out all quotations. The used literature and sources are stated in the attached list of references.

Prague, 2012 May 9th

Signature:

Marija Tisovski

I would like to thank to my family for all the psychological support they provided me throughout the process of the dissertation, without which I could not complete the job.

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## INTRODUCTION

Selling and marketeering luxury is built on a paradox of a kind. Managers want a certain level of “diffusion for their brand in order to achieve success in the marketplace, yet if their brand is over diffused, it loses its luxury character.” (Debois, Paternault, 1995)<sup>1</sup> Also, “the more desirable the brand becomes, the more it sells. But the more it sells the less desirable it becomes!” (CEO Hermes, 2011)<sup>2</sup> For a product to be taken as a luxury, history, tradition, superior quality and extraordinary buying experience are must. Luxury products are unattainable in their nature (Danziger, 2005) and only the best-managed companies learn how to turn this paradox to their advantage.

The international market opportunities lead to more flexible access of luxury brands to new territories but with clientele characterized by different cultural, financial and aesthetic codes as well as perceptions and definitions of luxury. The boom that the Internet has created as the vehicle behind vast opportunities for visibility, communications and retail has changed the mind set of wealthy toward luxury. The freedom of access to information about luxury brands has lead to closing up the distance that previously existed between luxury brands and the public. A new demand for authenticity and an increasing translation of culture and arts into consumer products (Puccinelli et al., 2008) indicate a shift away from “simple conspicuous consumption towards informed”<sup>3</sup> and educated consumption.

Staying true to their meaning in changing environment resulted in more refined interplays with space, service, sustainability and strategic communication practices. Marketing activities moved from selling techniques to attracting techniques and it doesn't come as a surprise that consumers started spending less time chasing luxury; they are given a “luxury” to define it themselves.

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<sup>1</sup> HEDENMARK S., WESTERLING S.: Luxury for the masses-but what happens to the brand? Stockholm School of Economics. 2010

<sup>2</sup> <http://www.interbrand.com>. February 28<sup>th</sup> 2012

<sup>3</sup> PUCCINELLI, N. M. GOODSTEIN, R. C. et al.: Customer Experience Management in Retailing: Understanding the Buying Process. Journal of Retailing. Vol. 85. Elsevier, 2009

Creating the relational playground to facilitate this (ex) change is crucial strategic move. Evolution in the distribution formats goes hand in hand with necessity to create a sort of retail expression for luxury brands to exhibit their messages amongst their current and potential target. Not only have these served as stable, influential publicity formats through which the involvement with the brands has enhanced, but as the awareness and loyalty drivers, too. It is about newsworthiness, story-living and respect.

The challenge of understanding the retail in luxury context lies also in the fact that not so much research has been conducted on luxury retailing. In New York the Fashion Institute of Technology publishes research on store branding and positioning, but with this exception all research on luxury retailing has been conducted by the brands themselves and is proprietary (Chevalier, Mazzalovo, 2008). This doesn't come as a surprise as luxury carries the flair of mystery and secret. It ensures a level of diversification from mass retail approach. In addition, this brings back to the store as source of value creation and experiences that one should expect from a luxury brand.

In the last decades, the interest in luxury brands has increased among researchers and practitioners, reflecting an increased market maturity and a high focus in society's overall immaterial values (Parment, 2008). Further, Alvesson (1990) describes this tendency as a development 'from substance to image', and marketing theorists describe the development in similar terms (Aaker et al., 2004; Kapferer, 2004).<sup>4</sup> Hegtvedt and Patrick (2008) draw the attention of the art infusion and perceptions and evaluations of consumer products. While the CEO of worldwide known idea company - Saatchi&Saatchi published with great success "The Lovemarks Effect" on how to win in the consumer revolution using emotions. Further literature on luxury brand management and luxury strategy, offers fundamental understanding of luxury world and usually proposes various strategic solutions on how to market and manage luxury brands (Kapferer, Bastien, 2009, Chevalier, Mazzolova, 2008; Danzinger, 2005, Tungate, et. al, 2005 )

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<sup>4</sup> PARMENT, A.: Journal of Retailing and Consumer Services 15 (2008). pp. 250–265

So far one aspect hasn't been as broadly integrated into strategies offered by academia and approached by authors; *how does company's expression relate to consumer impressions?* Furthermore, even though in different parts of the world consumers buy or wish to buy luxury products for varied reasons, they still possess similar values and, regardless of their country of origin, their basic motivational drivers are really the same, only the individual weighing differs (Wiedmann et al., 2007).

Where the latest research has been focusing is on reality vs. emotional drivers in luxury industry. With changing consumer behavior and current challenging economic environment this raises the question of reality (performance and/or expressions) vs. perception (impressions) of value and impact on value co-creation.

Co – creating the luxury brand experience involves complex interactions thus, this work argues that distribution formats can be significant strategic communication, differentiation and segmentation tool for luxury brand, where the intangible determinants within the space can potentially provide balancing link between company's efforts to create value and manage brand bonding and consumers search for the meaning. Especially, an orientation toward experience in a retail stores setting is emphasized.

**The aim** of the thesis is to explore conceptually the nature of value creation and how the relationship gets translated and communicated by a means of store, also to identify the key determinants for the value creation within the formats while looking at which levels it brings to ability to co - create the experiential value with consumer.

**The main hypotheses** set so to find the link between luxury retailer and consumer by means of store and identify appropriate drivers to answer how to create value and built on experience are:

**Hypothesis 1:** Luxury retail setting is effective strategic communication tool.

**Hypothesis 2:** Value co – creation in luxury retail setting balances the relationship between the passive values in exchange over the experiential (active) values in exchange.

**Hypothesis 3:** In-store experience alters the way consumers experience the values around the products and relate to a store and/or brand thus shifting from “Becoming” to “Belonging” and from “Desire” to “Excitement”

Luxury industry comes as the industry of choice because of the specifics of luxury ideology based on dream, fantasy, heritage, and as this research found, most of all desire and excitement. To discard emotions in business when it plays such a central part would be against the nature. The relational connection between emotional creation and experience helps in shaping the peoples quest for deeper look into their decision drivers.

To facilitate this idea, the research was supported by primary data collection through field research and semi-structured interviews. These data helped in recognizing and confirming the relevance of service-dominant (S-D) logic in value co-creation process. Particular value added is that the field research was carried in Prague, in city’s luxury area, Parizska Street with the sample of 52 international students. In addition, the interviews had international character as they involved professionals, practicionaires and researchers in the field of luxury from France, Italy, Serbia and Czech Republic.

Secondary research was conducted during the six month stay abroad at business school ESSEC, France (February – July 2011). The institution has long-term proven tradition for business studies and is ranked 8<sup>th</sup> in the world according to Financial Times 2011 report. Also, it offers a well known, industry-specific MBA in International Luxury Brand Management. The library and electronic sources provided me with the possibility to offer literature review in broad and narrow context and give more precise inputs to the topic.

Theories shaping the work emerge from recent marketing research orientations. To achieve the purpose of the thesis, theories from different fields have been used; such as luxury brand management, luxury marketing, aesthetics management, flagship marketing, international retail, consumer behavior and ethnography of understanding retail experiences. They tend to represent a complementary perspectives to research the phenomenon in depth. Particularly, when addressing the experiential orientation the work relies on experiential marketing and value theory through service-dominant (S-D) logic of luxury retail settings. Both are applied to luxury distribution channels in the context of value co-creation.

In Chapter I, the starting point goes as far as mapping the process of transformation of luxury manufacturers to luxury retailers. The work starts by taking a look on early stage manufacturers and continues by how the retailing phenomenon evolved through the literature and academia over the years reaching the momentum for ‘**new**’ luxury retailing to step in and show the luxury consumer shift. These new consumers desire something more meaningful than just an expensive piece; they want brands to live and breathe their values through the way they do business.

Further, in Chapter II the work moves to the more niche points and landmarks of experiential luxury consumption and retail experiences that lead to creation and strategic purpose of such high-end formats as flagship stores. The work introduces a luxury flagship, as the highest in distribution hierarchy to describe these relations. Here, the main experiential drivers are identified and defined from theories on store image attributes offered by Martineau (1958) and Lindquist (1974) who analyzed the attributes as: layout, architecture, merchandize, symbols, product display, advertizing programs, sales personnel, to name a few.

Chapter III focuses on justification of chosen methodology and data interpretation. The two primary methods used in this work are: in-depth semi-structured interview with professionals and field notes in ethnographic context with a sample of 52 international marketing students. Filed research analyses provide with findings which highlight the relational and functional touch points taking place between luxury setting and customer and sense of ‘Become’ and ‘Belong.’ Whereas interview findings underline three value drivers: ‘Symbolic Desire’, ‘Exclusive Excitement’ and ‘Superior Service.’

The conceptual idea and experiential value co-creation model as well as the interpretation of service – dominant (S-D) logic in context of aesthetics, luxury brand, networks and actor roles are discussed in Chapter IV. Moreover, Chapter IV presents and explains experiential in-store typology and extracts four types of spaces and/or segments: Expertise, Aspirational, Exclusivize and Popularize.

Last chapter summarizes the research objective, findings and provides with conclusion. .

The thesis refers to and is designed mostly for academia. This justifies the theoretical orientation of the research. The experiential value drivers identified in the research such as: Excitement, Desire, Aesthetics, Networks and Service Dominant serve as points for designing scenarios of experiential value co - creation. In - store typology helps in recognizing and segmenting the target to fine tune the customer service, merchandize mix, product display to appeal to the senses and leave memorable experience.

The author's intention was to contribute with an increased understanding to the area in question and offer a new view on the future of luxury retail communication practices; perhaps, resulting in developing a new experience - based value co - creation tool. Therefore, a strong assumption is that the offered experience - based conceptual model might be further developed and used for managerial implications.

## I LUXURY RETAIL DEVELOPMENT

*“The Web site or mobile site should not be the flagship for the brand – it still has to be the store.”*

Paula Rosenblum, partner at Retail Systems Research<sup>5</sup>

The definition and measurement of luxury is highly subjective (Godey, Lagier, 2009). One must wonder why is it that certain luxury houses year after year still manage to surprise consumers, attain awareness and increase the desire. How do they manage to sell the dream constantly? How does the presence of desire alter the way people view a consumer product? Does it happen by chance? Highly unlikely.

Luxury retail formats today represent the voice of a brand that wants to be reinvented, lived through and respected. Just to illustrate, according to world's leading brand consultancy Interbrand - its report on Top Brands 2011 stated:

*“Louis Vuitton reported 19 % growth in revenue over the past year and still remains the strongest luxury brand in the world. For many, the brand depicts attainable luxury and is a highly desirable symbol of success. The brand has grown this year due to “local and tourist” consumers, a new production site in France, and an expanding watch collection. **Louis Vuitton recently unveiled a new flagship store in London, which is seen as its most luxurious to date.**”*<sup>6</sup>

Whereas cpp-luxury.com, influential luxury industry platform covering trends in fashion, beauty and retail mainly for emerging markets reported:

*“Roberto Cavalli announced the opening of the brand’s first flagship mono-brand store in India in collaboration with the Infinite Luxury group. The 4000 square feet, boutique will embody the modern elegance and glamour of the Cavalli world, and represent the innovative ‘global fashion store’ concept, like other Cavalli flagship stores located in other major cities of the world like*

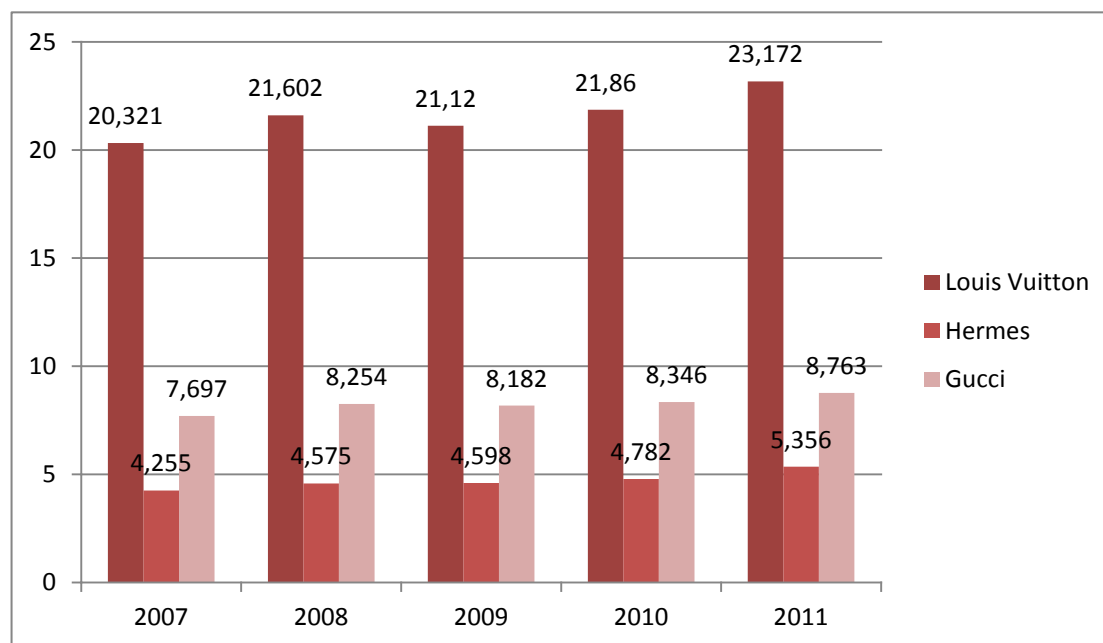
<sup>5</sup> [www.LuxuryDaily.com](http://www.LuxuryDaily.com), Classic Guide to Luxury marketing (2012), February 28<sup>th</sup> 2012

<sup>6</sup> <http://www.interbrand.com>, February 28<sup>th</sup> 2012

*London, Paris, Tokyo and New York. The boutique will be created using the finest materials, many of which are produced in Italy exclusively for Roberto Cavalli.”<sup>7</sup>*

To give overviews of the growth in value the Chart 1 summarizes the brand value (\$m) of three distinctive luxury brands for the period 2007-2011.

Chart 1: *Top Luxury Brands value 2007-2011 in \$m*



Source: *Interbrand.com, author's comparative analysis, 28.02.2012.*

Amid the current economic and financial crisis, luxury products are recording success. *“It may sound counterintuitive, but what’s happening in the crisis is a quest by consumers for value, for more affordable product, but also for products that overtake their expectations”<sup>8</sup>.*

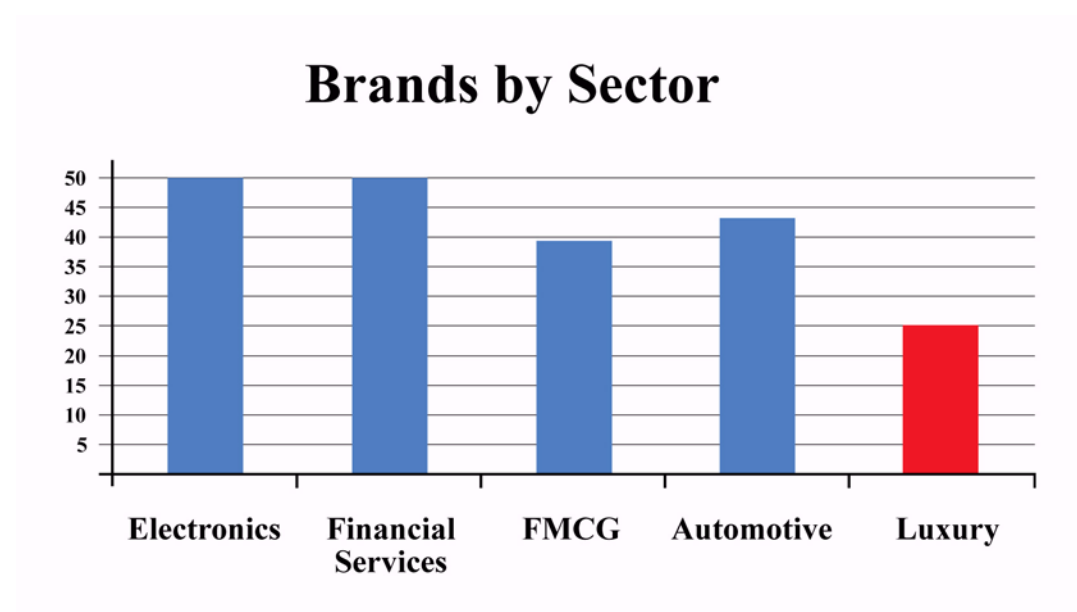
Interestingly enough, the power and significance of luxury industry particularly in Europe is seen in the Top 100 Best Brands 2011 Interbrand Report. The majority of luxury brands apart from Tiffany & Co are European originating from France, Germany, Italy and UK, respectively. Whatsmore, when out of seven rated brands in France four are luxury ones and in Italy three out of three followed by the UK where Burberry is the main player, the industry deserves attention.

<sup>7</sup> [www.cpp-luxury.com](http://www.cpp-luxury.com), March 9<sup>th</sup> 2012

<sup>8</sup> <http://luxurysociety.com>, February 29<sup>th</sup> 2012

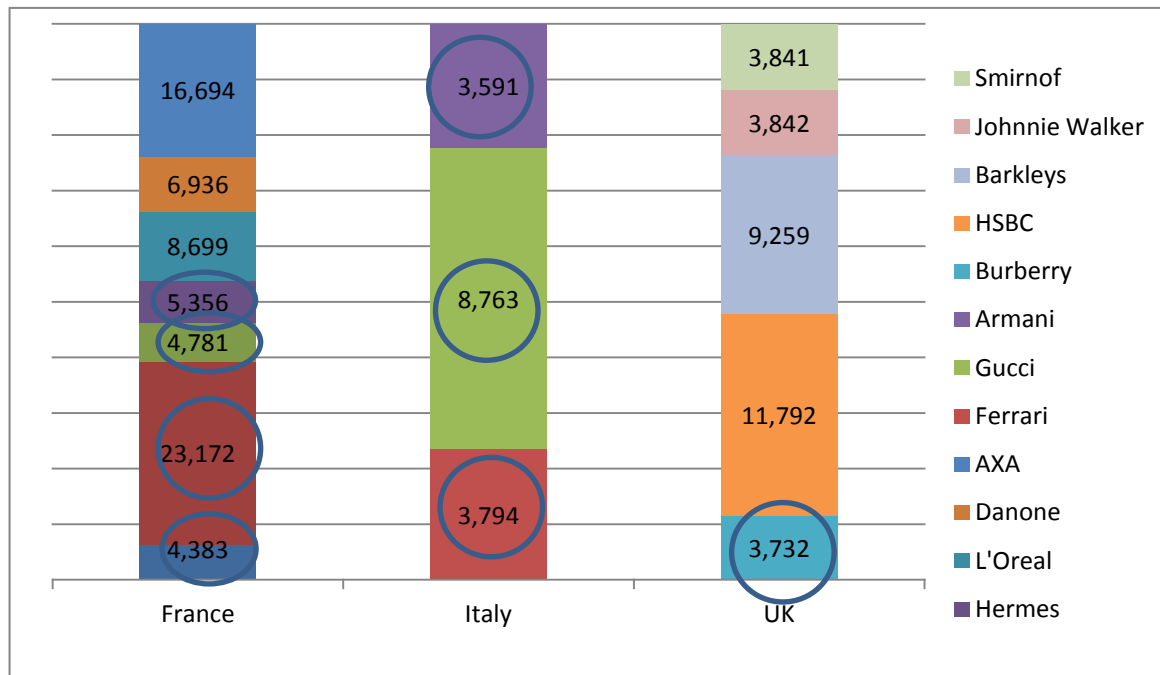
Germany is also relevant but, mainly in automotive sector where out of ten most valuable brands three belong to premium and luxury; BMW, Mercedes-Benz and Porsche. Their operations and brand values are significant drivers of economies in these countries (Chart 3.) In addition, based on a breakdown of brands by sector the luxury sector ranks 5<sup>th</sup> after electronics, financial services FMCG and automotive (Chart 2.) with seven brands that generated almost 25k (\$m). This raised the need for the academic approach to the field as well and opened the avenues for research. Charts 2 and 3 support the overview and highlight the scope.

Chart 2: Brands by Sector



Source: *Authors analysis, selected view only 2011*

Chart 3: Selected Luxury Brand Value (circled) by Country in \$m, 2011



Source: *Interbrand.com February 28<sup>th</sup> 2012, author's comparative analysis*

## Justification

*"Selling luxury is a dream, there should be no nightmare issues lurking behind that dream"*<sup>9</sup>

Pamela Caillens, Corporate Responsibility Director at Cartier

The consumer demand for exclusivity is increasingly being extended to the whole brand experience. Morgan-Grenville confirms, *"Brands need to give consumers the opportunity to engage with them at a more profound level."*<sup>10</sup> This engagement needs to occur at every touch point with the brand, from product development to point of sale and aftercare. Also, Simonetta Morrison from Salvatore Ferragamo points out: *"You (company) actually have to show product and service attributes that make you better than your competition."* (De Beers, 2009)

The way the consumers relate to brands has changed. Once, brand management was about "things to people", one way relationship through the choices made by brand managers, not

<sup>9</sup> Luxury: Considered. De Beers Report. Implications for luxury brands and retailers, 2009

<sup>10</sup> Luxury: Considered. De Beers Report. Implications for luxury brands and retailers, 2009

consumers. Now the focus has shifted towards the customers, empowering them to make choices and treating them as individuals rather than an amorphous mass. Today, media and companies are listening to people first. This is happening as well in other industries that are fighting for their share in premium and luxury segment. For instance, Nestle is pushing for the further reach with gourmet customized confections recognizing that: *“Consumers like to be treated as individuals rather than as a mass market,”* James Amoroso, a food industry consultant, Switzerland.<sup>11</sup>

For luxury consumer nothing is ever good enough. Even if it sometimes advocates that less is more, whatever “less/more” is it has to be unique, excellent, of superior quality and scarce in quantity. Luxury is also about creativity and therefore it needs to be ahead of time. In addition, consumers incline towards the luxury because those products or services represent ones desires. Luxury consumers rely on the intrinsic product mystery along with its image in the world. (Husic, Ostapenko, 2010) A consequence of this is increased interest in understanding relationships as a foundation for brand bonding. Or, better management of emotional ties in business to consumer relation.

In more detailed manner academic articles provided empirical research, observations, exploratory research and models analyzing consumer preferences and motivations at the point of purchase (Jasper, Sanguanpiyapan, 2010; Seith, 1983; Tauber 1972), dream formula of luxury brands (Dubois, Paternaut, 1995) or significance of providing entertainment in retail space (Kozinets et al. 2002; Pantano, Naccarato; 2010, Pine, Gilmore, 1999) importance of atmosphere in communication (Martinau 1958; Kotler 1974; Stewart 1998), architecture for diversification (Stewart 1998; Kirby, Kent, 2010), lifestyle consumption in the postmodern world (Schields, 1992) and recently, experience to achieve satisfaction and loyalty (Schmitt 1999; Davenport, Beck, 2002) as well as the application of aesthetics in managing identity and in preserving luxury brands (Simonson, Schmitt, 1997; Berthon et al., 2009)

However, to be able to understand the future one needs to look into past. It is an approach that enables better forecasts of future directions. Pinpointing a few features that marked the decades of excessive retail research work is the aim of chapters that follow. By identifying key steps that

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<sup>11</sup> <http://luxurysociety.com/news/24431>, February, 29<sup>th</sup> 2012

lead toward connecting philosophy of luxury industry and retail helps in reinforcing the academic significance of the chosen research topic and its experiential context and conceptual nature.

### **1.1. Background and Literature Review**

Retailing is an activity of enormous economic significance. In spite of its scale and importance retailing wasn't initially at the forefront in embracing marketing concept (McGoldric, 1990) In the 1960's this could be justified by fragmented nature of the industry. However, industry became rapidly more concentrated and new-found power led to more aggressive buying, high budget advertizing or elaborated store designs.

Retailing research has always been one of the pillars of the marketing field (Grewal, Levy, Kumar, 2009) An overview of some the main aspects that stimulated interest into retail concerns imposes by itself. In addition, retail markets are getting more diverse and fragmented than ever before presenting an overload of information and alternatives.

Global expansion generally has not been an easy task for any retailer, prompting the tremendous need to better understand the drivers of success in expanding retail operations globally. (Grewal, Levy, 2007) The market weapons don't always indicate that the marketing concept is being applied (McGoldric, 1990) The last 30 years have seen dramatic metamorphosis within retailing industry as whole.<sup>12</sup> Retailers have ceased to play subordinates in the marketing of consumer goods. Many retailers are realizing that their profits and growth are determinate by little things that make big difference in consumer's satisfaction and loyalty. It is only relatively recent that retailers have taken enlightened integrative way to their marketing activities striving toward using the retail to enhance brand meaning and its impact on overall store image across market segments (Grawel, Levy, 2007).

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<sup>12</sup> MCGOLDRIC J. PETER.: Retail Marketing. McGraw Hill Book Book. England, 1990. ISBN 0-07-084159-4

### 1.1.1. Early Stage – Maison Concept

What today is labeled as a process - in the time when true artisans and visionaries as Mr. Worth, Coco Chanel, Louis Vuitton, Cartier, or Hermes were setting up their businesses was exactly what luxury companies wish to preserve - concept of Maison just in contemporary context. Understanding how luxury retailing evolved a look at the development from manufacturing to retailing imposes itself.

To set precise date of birth of luxury goods manufacturing involves tracking the developments in society. Each era had its slice of luxury world but it wasn't before the turn of 20th century that the world of luxury ceased to be reserved for a selected few.

In the beginning there was a Maison, the 'ancestor' of retailer. We can argue that concept of Maison preceded development of retail stores. Indeed, when looking back into history and roots of true craft one finds small artisans working in the privacy of their homes or being hired to create unique pieces or tastes by invitation of the King or the Queen. Insofar, facts tract the roots of luxury manufacturers back to times of old coutiers or exclusive wine and gourmet food chefs at royal courts. In like manner, till the turn of the 19th century the luxury world has been isolated for the rest of the economy. Its pleasures were reserved for small elite. More intimate in its nature Maison represented what today we understand by workshops and ateliers. Luxury word was indeed, a world apart.

Social and economic change that took place in the second half of the 20<sup>th</sup> century did quite a lot in favor of luxury development and availability of luxury goods. Leading to another extreme, through female emancipation, democratization, increase of spending power, globalization and communication everyone got access to the world of luxury. As democracy and globalization favored transparency and leveling out of classes (Kapferer, Bastien, 2009) the fear that luxury will lose its relevance was increased.

Paradoxically, opposite has happened, "transcendent stratification that seized to exist in society became luxury's driver and creator!" (Kapferer, Bastien, 2009)

### 1.1.2. Retail vs. Wholesale

To reach the level of directly owned stores and completely controlled vertical integration several approaches and distribution considerations had been standing in the way. The way toward direct retail store management took some time to happen. The luxury companies went through wholesale and licensing strategies first.

Historically looking, luxury distribution system used multi-channel distribution – direct and indirect. As the development of fashion and consumer tastes enhanced, over the time this moved toward direct channels that allowed for more brand's marketing mix control. The choice of more direct approach to the market lead to usage of retail formats such as stores, catalogues and web to manage sales to customers. The most spread and directly managed are mono brand stores that are segmented by sales dimension, product line and location into: flagships, self standing stores and shops in shop.

The retail vs. wholesale model points considerable discrepancies and it depends on the power of brand how efficient network of directly controlled mono brand stores can be. The ideal model used by Louis Vuitton and Hermes can be justified by clear brand positioning.

For instance, Louis Vuitton has no perfumes line that would require the need to use wholesale distribution. Hermes on the other hand uses wholesale for its perfume lines but to limited extent. In Europe perfumes are sold through wholesale but in Asia for instance they are only available in their own stores. This approach enables activities to be coordinated from headquarter more effectively and it protect the brand from becoming the victim of counter fight. In essence, once the coherence between systems is achieved it works well to everyone's advantage.

Opting for exclusivity is usually characteristic for brands whose identity is based on style and brand ethics related directly to mastery of particular manufacturing skill. (Ferrari, Hermes Kelly Bag or saddler expertise, Louis Vuitton traveling sets) The best system is the one taking into consideration the brands specific strengths and weaknesses in determining what is the best for the brand.<sup>13</sup>

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<sup>13</sup>CHEVALIER, M., MAZZALOVO, G.: *Luxury Brand Management: A World of Privilege*. Wiley 1 edition, 2008

Manufacturing of goods got accelerated to meet the growing demand of well paying 'hungry' for luxury customers and as of 1980's trend witnessed an increasing need to expand over the national borders. All these pushed for the more sophisticated marketing approaches and more care for managing luxury brand and image.

With expansion and growth the need for better distribution emerged and called for considerations of regarding distribution as key role in luxury management. Shops became the places where client can live the brand. This trend and ostentation called for more control in distribution network dropping the high level of intermediaries to save the value perception and rarity components of the luxury brands. From warehouses and licensing agreements luxury manufacturers started vertical integration in search for full control over the retail network.

Distribution not only served as tool to manage the value chain but it started to get higher relevance as communication tool. In recent years a fundamental issues in the fashion industry has been the evolution of distribution and industry relationships. Distribution strategy that was once more focusing on a single consumer today in contrast must be able to segment offering through a differentiated value proposition for different segments on diverse markets in terms of product, retail, communication, and service.

There has been transfer of power from manufacturers to distributors seen through the increase in the market shares of the large distributors, the development of retail chains, and the development of retailing strategies - visual merchandising, trade marketing, shopper marketing, flagship marketing. Retail locations build brand awareness and contribute to market penetration and growth of the brand in line with wholesale operations. (Tisovski, 2010)

Therefore, it became logical to orient toward analyzing the distribution as potential communication not only expansion mechanism. Luxury conglomerates maintained their brand value also by investing into uniqueness of their stores. In luxury maybe more than in other industries this is highly relevant as the DNA of the luxury brand is build on heritage, rarity, quality, uniqueness, exclusivity, opulence.

By means of store those features can be translated to consumer. Distribution of such brand through sophisticated environment and exceptional experience could be considered as new way

of distribution strategy or better say upgraded distribution in luxury retail context. Further, differentiation as significant component is therefore enhanced.

When it comes to luxury retail - location and service are ever more end-customer oriented. It is the creativity that gets distributed/placed on “shelves” and those products cannot be isolated. (Tisovski, 2010) Instead those products are making the main part of offer in a wider system they operate. To manage and visualize this creativity long chain of activates precedes - in which retail space is important feature in the very end of distribution lane. Retail format strengthens the value perception and brand positioning in turn interplaying with consumers self.

In principal, distribution as such changed over the years toward more refined and customer oriented channels. The strategic significance of distribution evolved around perception and importance of atmosphere around product and focus on details. This trend has changed relationship between players in the industry. Once it was more important to emphasize ‘manufacturer – distributor’ relations now it is about ‘consumer – distributor.’ Through distribution consumer’s wishes are met and physically placed. The shop has thus become an integrated marketing tool. (Tisovski, 2010) “Distribution has a significance that it did not have in the past – it is the first mass media of the firm’s strategy.” (Saviolo, Testa 2007)

### 1.1.3. Luxury Retail Boom - USA Case

Fallowing the global economic boom of the mid ‘80s in the US and baby boomer generation, coupled up by explosion of Internet and its vast business opportunities set the perfect backdrop for wealth creation (Danzinger, 2005). The support of capital led to the change of status for substantial segment of different population. (Okonkwo, 2007) Access to money wasn’t difficult and capitalistic market structure allowed for this to happen. Together with fast spread of this trend, traveling and convergence of cultures global consumption and attitudes created particular way of consumption behavior and global consumption culture. It was the growth since 1984 in the time of Regan’s presidency that officially mark the luxury consumption increase, although it wasn’t before the 1990s that these issue started to be the subject of academia.

All these events set off the fruitful foundation for luxury market to gain its momentum as never seen before. From the research perspective this didn’t pass undetected and it was by 2000 and in

2004 that Moore and Birtwistle focusing more of their research work toward luxury retailers and internationalization of luxury brand. Most recent study dates back from 2010 from the same authors investigating the aspect of internationalization and market entry for luxury retailers through particular themed store, flagship store.

#### 1.1.4. Luxury Retail Boom - European Case

European research in the area of fashion marketing and retailing is a relatively recent activity and significant research pace in the area extends back no more than 20 years. Luxury retailers had a bit different timing and evolution. It was a significant step to move from luxury Maisons and closed environments to adopting multi channel approach. In the beginning luxury retailers were deeply rooted in tradition and small scale production. Even today it still represents the biggest challenge of luxury industry.

Yet, minding all the controversies, luxury houses only very recently became the subject of higher level publications. Although a wave of acquisitions and business interest among a few biggest luxury companies was initiated (Richemont Group, PPR, LVMH) over the last 10 years, luxury brands kept low profile to academia. For academics major luxury retailers were approached and precipitated more by an analysis of international strategic development rather than the specific nature, form and experience of particular luxury company. For instance, the fashion retailer as “brand” – per se – is a relatively recent phenomenon (Alexander, Doherty, 2010). Today only three major groups represent luxury in fashion clothing and accessories.

They are shown in Table 1.

Table 1: The Conglomerates behind Major Luxury Brands

<b>LVMH</b>	<b>RICHEMONT</b>	<b>PPR</b>
Louis Vuitton	Cartier	Gucci
Christian Dior	Dunhill	Yves Saint Laurent
Fendi	Mont Blanc	Boucheron
Céline	Van Cleef & Arpels	Bottega Veneta
Loewe	Piaget	Sergio Rossi
Donna Karan	Baume & Mercier	Alexander McQueen
Kenzo	Chloé	Stella McCartney
Marc Jacobs	Vacheron Constantin	Balenciaga
Bulgari	IWC	Brioni
Givenchy	Panerai	JeanRichard

*Source: Company websites, selected list only*

#### 1.1.5. Academic Stage of International Retail Development

International Journal of Retail & Distribution Management (IJRDM) has been crucial for recording and storing all the significant research in the field of retail industry and distribution management. This publication of high reputation serves as the good overview base for pointing out main development phases within retail marketing and management practices. Moreover, the journal serves as good reference with its international character to generate high quality research studies made by respected authors.

However, it comes as necessary to mention other publications of similar significance for the purpose of underlining the broad international and European perspective of research attractiveness of retail industry: Journal of Retailing, Journal of Consumer Research, Journal of Retailing and Customer Services, Journal of Retail and Leisure Property, etc. References found in these sources are of extreme importance for the future studies within the field.

Therefore, it doesn't come as a surprise that, introductory literature overview starts from looking into vast retail oriented research. Logically enough, the proposed comments and conclusions driven are focusing to cover bit of historical background narrowing it down to more recent and contemporary practices and scholars interests in the field of luxury retailing.

The last ten years have seen an emphasis on operational aspects of international retailing such as market selection (Gripsrud and Benito, 2005; Alexander et al., 2007; Myers and Alexander, 2007; Swoboda et al., 2007) and market entry method (Doherty, 1999, 2000, 2009; Quinn, 1999; Gielens and Dekimpe, 2001; Doherty and Alexander, 2004, 2006; Palmer and Owens, 2006; Huang and Sternquist, 2007; Park and Sternquist, 2008).<sup>14</sup>

As the importance of retail as industry evolved and research concerns moved in direction of international marketing further publications with marketing character started to treat retailing issues with care. Rich history of publishing raised the questions of market entry methods and internationalization toward more refined store brand and distribution role issues.

#### 1.1.6. The Development of International Retailing toward Luxury Retail

It is worth noting of the very first initiatives in retail academic research, general and international started with economics and geography, particularly in the UK. These two were followed by globalization and marketing influence as result. In essence, economy, geography and marketing were the three most important aspects to impact retail and more care from the academic side. Moreover, with arrival of strong marketing application in the late 80s beginning of the 90s influence toward further, more international studies in the direction of retail marketing emerged.

Therefore, the development for the last 20 years can be traced through review of two journal groups; retail and marketing oriented. Indeed, it might be said that while retail specific journals such as the International Journal of Retail & Distribution Management has nurtured the subject area of international retailing, much of the most important work has increasingly appeared in marketing specific journals, such as the International Marketing Review, the Journal of

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<sup>14</sup> ALEXANDER, N., DOHERTY, A.M.: International retail research: focus, methodology and conceptual development. International Journal of Retail Distribution and Management. Vol 36 (11/12). 2010

Marketing Management, the European Journal of Marketing and the Journal of International Marketing.<sup>15</sup>

To understanding how the trend came to developing luxury retail understanding the expansion of fashion retailers is important. It wasn't before late 1990's and the work of Moore and Fernie that recognized the growing trend in fashion within the retail aspect. In like manner, these authors recognized the need for more contemporary research as the trend driven by fast fashion manufacturers pushed for examining the strategies. By the mid 90s fast fashion producers like Zara, Gap, H&M revolutionized the retail industry and shift from manufacturing to retailing started being more of interest. This called for attention initiated by Moore, Fernie (1997, 1998) that was later followed in similar way by other academics. More publications, in turn emerged from raised interest and necessity to address fashion retail phenomenon as a triggering phenomenon for other industries to follow. This continues to present with further research of Zara case by Lopez and Fan from 2009 as well as exploring critical success factors in fashion internationalization (Wigley et al., 2005; Wigley and Moore, 2007), expansion patterns (Warts and van Everdingen, 2006) and entry method (Doherty, 2000, 2007, 2009; Moore et al., 2010). The International Journal of Retail & Distribution Management has been central to this evolution.<sup>16</sup> It could be therefore stated that with 1990s the first steps of fashion retailing research emerged.

#### 1.1.7. Essential Research Landmarks Preceding Luxury Retailing

From the early 1990s, the literature began to consider the nature, form, structure and activities of fashion retailers within European markets. The authors of International Retail Research article (Alexander, Doherty, 2010) summarized the research perspectives and main steps and leaving the rich and useful publication in helping to forecast what is yet to come.

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<sup>15</sup> ALEXANDER, N., DOHERTY, A.M.: International retail research: focus, methodology and conceptual development. International Journal of Retail Distribution and Management. Vol 36 (11/12). 2010

<sup>16</sup> ALEXANDER, N., DOHERTY, A.M.: International retail research: focus, methodology and conceptual development. International Journal of Retail Distribution and Management. Vol 36 (11/12). 2010

In undertaking this review of the literature spanning two decades and demarcating the key, overarching themes that emerge the significance and influence of the IJRDM as a venue for fashion retailing research becomes evident in terms of breadth and depth. In addition, it establishes a valid framework for the consideration of fashion brand marketing and management that is simultaneously historical and contemporary and as such facilitates an evolutionary review of fashion brands from its early stages through to present day. In respect of this, revisiting the fashion related research that has comprised the IJRDM provides an insight, both historic and contemporary, into the nature and influences of change manifest within the sector.

Reviewing the fashion retailing related IJRDM articles in the past two decades; scholars and academics have filtered five distinctive research themes that have dominated thinking and debate in the area. This, over two decades long period serves as historical landmark to what we call today the basics for fashion and luxury retail comprehending: Reflecting upon this changing fashion landscape and its impact upon the organizations that comprise it.

#### *1.1.7.1. The Fashion Retailer as Brand: The Brand as Retailer*

Perhaps marking the most distinctive feature of the European fashion retailing sector, **the brand** has emerged as a pre-eminent strategic communications device to signal the values, positioning and identity of the retailer and its products (Alexander, Doherty, 2010) The literature has explored these issues in a number of ways in the journal, on a case study basis.

For example, Vignali et al. (1993) work on Benetton, Lea-Greenwood's (1993) review of River Island and Moore and Birtwistle's (2004, 2005) evaluation of the business models of luxury fashion retailers Burberry and Gucci. Alternatively, survey-based approaches, such as that by Moore (1995) have sought to delineate more broadly the features of fashion retailers' branding strategies.

What is common to all of these studies is the realization that fashion retailers, especially within Europe, have assumed the brand creation, development and distribution roles. This direct involvement has provided direct control over design, distribution, communications and pricing.

The benefits of this involvement have been well identified elsewhere (Fernie et al., 2003) but pre-eminent among these are those relevant to securing brand exclusivity and the attendant advantages of customer loyalty.

#### *1.1.7.2. The Internationalization of Fashion Retailing: Globalizing the Fashion Branding*

Fashion retailers are among the most international of companies (Moore et al., 2010). The International Journal of Fashion Distribution and Management (IJFDM) output in the past two decades has tended to focus upon two specific stands. The first is the role of the brand in supporting foreign market growth (Wigley et al., 2005). This is particularly evident in fashion retailer cases studies, such as Per Una in Taiwan IJRDM 38,11/12 916 (Wigley and Chiang, 2009); children wear brand Adams in Spain (Johnson and Allen, 1994); the expansion of Debenhams in the Middle East (Jones, 2003) and Marks and Spencer in Hong Kong (Jackson and Sparks, 2005).

The influence of the brand to consumer perceptions of internationalizing retailers' market entry is also recognized in very recent studies (Alexander et al., 2010).

The second wave is concerned with retail market structures in places such as India (Halepete and Seshadri Iyer, 2008); Spain (Gold and Woodliffe, 2000); Korea (Choi and Park, 2006), Brazil (Alexander and de Lira e Silva, 2002) and in particular the features of the fashion retailing environment in these markets.

#### *1.1.7.3. E-fashion: Style On-line*

Online fashion specialists, such as Net-a-Porter and ASOS have provided compelling evidence through its growth and profitability that fashion is not excluded from online opportunities. Furthermore, the fashion retailers, Top Shop, All Saints and Gant have been able to combine a strong retail and online presence to generate significant brand growth opportunities. Despite the significant growth of online fashion selling, the literature remains under-developed in this area.

Murphy (1998) and Marciniak and Bruce (2004) provided an early analysis of the fashion e-commerce and noted the tentative development of a web presence by European fashion brands;

while Ashworth et al. (2006) considered the means of securing online advantage within the lingerie sector.

Opportunities for retailers to use the Internet as a means of customer segmentation via customization have recently been considered by Cho and Fiorito (2009). Yet, despite the fast pace of e-fashion sales growth, fashion e-tailing has been under-represented in the literature and there is significant opportunity for investigation from both a corporate and consumer perspective.

#### *1.1.7.4. New Fashion Supply Chain: Cheaper, Better, Faster*

The fashion supply chain has undergone seismic change in the past generation. Previously, fashion supply chains were characterized by its inflexibility, a dependence upon long term predictions and commitments and a tendency to source from specific locations over long time periods. One Spanish fashion conglomerate has done much to change old strategies. Inditex, and specifically its most financially important fascia, Zara, has at the very least altered perceptions of how a modern fashion supply chain should be configured. As a vertically integrated business, Zara's control over the design to retail cycle has provided the critical advantage of speed. Where previously the trends of high fashion took at least six months to percolate to the high street, Zara now can service a high-street interpretations within six weeks.

#### *1.1.7.5. Fashion Consumption Trends: With Brand, Therefore I Am*

While there has long been an intrinsic understanding that fashion brand choices are used a means of self-definition, self-demarcation and self-communication the intensity of competition and increase in availability has created a more fashion aware and informed group of consumers. In respect of this, the role of fashion style and brand choices as coded identifiers (McCracken and Roth, 1989) has similarly intensified.

Significantly, Wigley et al. (2005) highlighted the relationship between brands and consumers as being based upon mutuality of perceptions whereby the brand and the consumer have synergistic characteristics. This highlights the need for brand to develop and manage what may be termed a consistent, appropriate and desirable "back-story" to which the consumer can ally themselves and interpret within the context of its own identity.

Woodruff-Burton (1998) stressed the constructed nature of the self from a post-modernist perspective, indicating that how consumers represent themselves is through an amalgam of “selected and edited cues, comprising amongst other dimensions fashion brands”. In respect of this, there is therefore clear **alignment between this view of the consumer and fashion brands as entities that are created, managed and sustained through an array of tangible and intangible devices.**

Bakewell and Mitchell (2003) and Bakewell et al. (2006) delineate the generational and gender challenges for fashion companies in its studies of generation Y consumers. Not only do these studies support the basic premise that consumers engage and utilize brands to for both private and public reasons, but they also serve to stress the complex role of fashion brands in communicating dimensions such as attractiveness, seriousness, status and success.

In contrast, with the new millennium and the trend of change, retailing research changed direction. Studies expanded to recognize drivers of change coming in more independent and service oriented formats. (Alexander and Myers (2000) and revisited most recently by Evans et al. (2008).

Luxury retailers, hospitality business and fashion became subject of higher importance with a twist. **This lead to introduction of a concept or brand as strong driver of international development** (Moore et al., 2004) Indeed, one cannot talk luxury without understanding branding.

Just for comparison, to the extent to which technology was paramount (Wrigley, 2000) for the large scale retailers, that is the concept of brand for luxury goods retail strategic orientation.

As an important component of the service sector, retailing contributes a wider understanding of the broader internationalization process.

## **1.2. Landmarks of New Luxury**

It is the society that defines what luxury is. (Kapferer, Bastien, 2009) Another activity that generated academic interest was the globalized consumer society of 80s. Increasing importance of consumer impact was apparent again among retailers.

Changes in consumer society accelerated the expansion needs and retailers started servicing those faster. Development of consumer behavior had created the field for retailers to internationalize activities and use opportunities from their operational size and brand strength.

A consumer created the retailer capable to meet the temptations and accelerate its international activity either through increased market orientation (Piercy and Alexander, 1988), operational size (Treadgold, 1988) or their brand strength (Alexander, 1989, 1990a, b; Williams, 1992a, b).

The roots of new luxury are to be found in the US. Even though, luxury was always perceived as European expertise the shift from traditional to new luxury has happened in the US. Year 1984 is usually taken as the year of new luxury. New luxury is based on highly individualistic luxury consumer driven by new set of needs and by experiences.

With the strength of the US economy under Reagan's presidency two events in 1984 occurred marking the birth of the modern age of luxury. Bernard Arnault (LVMH Group CEO) acquired the luxury fashion house Christian Dior setting a cornerstone for the largest luxury conglomerate of today LVMH Group. Another trendsetter was a launch of American Express Platinum Card to an exclusive group of highflying existing cardholders. (Danziger, 2005).

Since then many other world-class marketers followed. Throughout the 1990s revenues were growing. This resulted in incentive to develop and expand company-owned retail establishments and distribute their brands directly to customers. Seeing the figures growing incentive to focus more and more on selling in their own stores increased. In turn, these operations brought luxury closer to masses as availability of luxury goods was higher to a wider audience. This trend called for need of new directions.

Its necessary to underline that luxury isn't something out there constrained by income, personal wealth and spending budget only. Luxury today is emotionally based right-brained consumer

market culture (Danzinger, 2005) Moreover, the change called for new model of approaching the luxury. The model defined by experiences.

Coupled with economic slowdown, environmental crises and more discerning consumers, marketers are employing innovative strategies to address the changing consumer profiles (Srinivasan, Srivastava, 2010) Posing challenges of the 21<sup>st</sup> marketing management push for more sophisticated, interactive and integrated strategies for luxury marketers and customers alike.

The globalization phenomenon and homogenous tastes that have triggered majority of changes and developments throughout the last decades of the 20<sup>th</sup> century, have become outdated. From today's perspective, with the rapid growth of the Internet users, accelerated competition, excessive brand clutter<sup>17</sup> and expansion practices, the market landscape has pushed toward the 21<sup>st</sup> century's new marketing order. Now, different rules apply created by contemporary consumer. This consumer isn't merely the buyer of functional product nor s/he has need to be told about the main features and benefits. Rather, consumption moved in direction of experience seeking and relationship building. Understanding and enhancing the customers experience sits atop most marketing and chief executives agendas (Grewal, Levy, Kumar 2009) In turn, marketing tasks had to re-orientate toward implementing deeper meanings in campaign creation, spaces and products and services.

As for luxury retail environment, companies always had significant advantage to profit from their creative flexibility and 'play' with their formats. Translating the brand meaning by means of store called for considerations of increased visibility and values by literally displaying "the message out there." Many retailers are realizing that their growth and profitability are being determined by little details that make big difference to customer satisfaction and loyalty.

More easy interaction between the customers and the company, consistency of the message across all communication channels and shop as place to generate responsiveness and feedback became the focus.

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<sup>17</sup> <http://www.palgrave-journals.com/rlp/journal/v9/n3/full/rlp201012a.html>

Even though, physical spaces are suffering the risk of losing the battle against digital environments investing in bit different feeling and advocating the “touch” component can provide what internet cannot; overwhelming smell and sight and most important, human contact. (Ginsbourg, Morris, 1999)

#### 1.2.1. Lifestyle Consumption and Growth of Luxury Retail Brand Bonding

It wouldn't be possible continue further about the evolution of retailing without at least defining the main driver of this sector; consumers and their need to shop.

People have been engaged with shopping for as long as there have been markets. Shopping is necessary for most consumers, but also serves as a major recreational activity for many (Danzinger, 2006), (Eisenberg, 2009) and (Hine, 2002). In these contemporary sites implicated shadows of self, desire and consumption are to be found amongst the goods on display and the people (Shields)

To define shopping isn't easy task as it involves wide range of small definitions to generate comprehensive one. Surprisingly enough, American Marketing Association website does not define shopping; however in general shopping is regarded as the examining of goods or services from retailers with the intent to purchase at that time. Shopping is an activity of selection and/or purchase. In some contexts it is considered a leisure activity as well as an economic one. This definition is highly consistent with that in other dictionaries and is probably close to the meaning assigned to it by most consumers, who are also “shoppers.”

Shopping goods are defined by Kotler and Keller (2009, p. 320) as “goods that the consumer characteristically compares on such bases as suitability, quality, price, and style”. Moreover, shopping is not restricted to visiting physical stores, but also includes non-store activities such as browsing through catalogs, on-line buying, and even m-commerce (Goldsmith and Flynn, 2005.) Shopping activity, moreover, is highly dependent on psychology of wanting and wishing i.e. dream component. As the authors of Lifestyle Shopping point out: “ initially, the urge to procure goods was viewed as outcome of an individual and rational market choice.” However, looking beyond a rational thinking consumer, inner “needs” and “wants” started to acknowledge the “deeper” origins of desire. Whatever the “deeper” origin was the incentive to consume, thus,

became a link between unknown realm of the desires and the rational construction of the everyday world. (Shields, 2005)

Therefore, opting for the definition of shopping proposed by article in Journal of Retailing and Consumer Services (Ronald E. Goldsmith, Leisa R. Flynn and Ronald A. Clark) that the “shopping is the intentional self-exposure of a consumer to products available for purchase” proves to be better. It is wide and narrow in its sense. Wide because it allows rather flexible appropriation of shopping and self concept and narrow as it only talks about exposure to products not to services and overall experience at the point of purchase.

Shopping as activity has many dimensions. Dimensions cover a range of psychological, behavioral, experiential, or utilitarian orientations. Therefore these could be referred with questions such as: who does the shopping, what people shop for, when they shop, where they shop, how they shop, and why they shop.

Taken from the perspective of luxury consumption, shopping and places to shop have been taken to battlefield. Companies that stand for tradition, excellence, uniqueness and craftsmanship are fighting also to win the wealthy ones. Strategies became so refined that the range of publications, books and analysis started to evolve around luxury industry. Ironically enough, not enough literature deals with retailing within the luxury context making much more challenging to pinpoint the interplay with luxury retailers and retail brand stores and consumers. Since shopping as an activity has many dimensions, a researcher must specify how it is being considered in order to limit the focus of any study.

According to experts building on strong retail brand engagement can be extremely powerful to influence a consumer decision process (Interbrand Report, 2007). In turn this increases their involvement with the brand resulting in potentially higher retention rate. Risk is to establish the basis healthy enough to develop relationship. With better relationship prospect of firmer loyalty is brighter. However, the merchandising materials, the design elements in the store need to enhance the brand. Drawing the parallel with luxury experience, they need to appeal to senses, dreams, heritage and uniqueness. In one word, these need to be incorporated in the consumers lifestyles. The strong, natural link between consumer research and retailing acknowledges that

consumers interact with retailers at every step of the consumer decision-making process, from need recognition to post-purchase satisfaction. (Grewal, Levy, 2007)

Over the course of years, with the development of more elaborated retail strategies as well as higher concentration of industry, shopping has evolved into becoming more sophisticated and relation oriented. Inasmuch, together with economic growth, expansion to East, after crisis impact and the advancement in technology and the social networking not only retailers had to change but they were forced to by their consumers. A serious engagement with consumption must be open to discovering that lifestyles and consumption cultures are not “confusions over class, regional, generational and gender identities” but the convergence to new “identifications.” (Shields) There is a need, therefore, to treat consumption as an active, committed production of self and of society.

Now, more than before roles have changed. Leading to justify the redefinition of shopping as given above as not “self – exposure of consumers to products” but of products to consumers in borderless world!

#### 1.2.2. Self – Actualization and Consumerism

*“The desire to become more and more of what one is, to become everything that one is capable of becoming.”*

*A. Maslow*

Self-actualization is another ultimate expression of post- modern consumerism. Through ideas and new cultures, the insights on looking at the world are expending. It is about life changing experiences. Through experiences not through material goods a personal identity and sense of self are ultimately transformed.

Creating something new, learning something new, exploring new ideas all bring the personal change. Transformations, therefore, represent the new and the next evolutionary step in commerce; it is the desire of transforming the experiences to become fuller more complete, more

self actualized individual that is so distinctive among today's luxury consumer. (Danzinger, 2005)

Self-actualization is need that is expressed only after the lesser needs in the Maslow's hierarchy are satisfied. For luxury consumers many of whom have excess of material goods, supportive family and career that provides status and other emotional rewards self-actualization is the ultimate goal. This need is described by Maslow as "the desire to become more and more of what one is , to become everything that one is capable of becoming." It explains the pursuit of self fulfillment through spiritual enlargement, greater knowledge, peace and appreciation of beauty, culture art, and aesthetics. Luxury consumers express self-actualization needs as they turn from pursuit of materialism to yearning for new experiences.

Retail setting enhances this relationship. This is change of roles revolutionized the business of retailers and ways of forming future outlines. Companies need to preserve their brand value and many moved to promoting in-store experience as places to demonstrated proof of value in a real time. Agencies devoted to luxury research, such as Bain&Co pointed out the need to stay innovative and focus on store transformation (Bain&Co, 2009)

Inasmuch, consumer behavior represents a continuously evolving field; luxury retailing can gain much from applying and translating new insights into strategies and tactics that retailers could adopt. (Grewal, Levy, 2007)

Because the activity of shopping is so important to marketers and retailers of every stripe, shopping plays a significant role in many theories of consumer behavior. Consequently, researchers have studied shopping behavior from a variety of perspectives, so there is a large body of scholarly literature on the topic.

Operating in a consumption driven society, organizations are actively seeking ways to differentiate their brands by promoting experience, rather than specific product attributes. (Hollenbeck, Peters, Zinkhan, 2008)

Luxury retailers aren't exception. For them in particular expansive approaches came as rather demanding as the concern over protecting the luxury concept was now challenged. The change has created the need for more rigorous and systematic approach to retail marketing. What's more,

luxury retail is ever more challenged sector. Luxury industry operates on different context than other industries. Its core lies in craftsmanship, exclusivity, high quality, small production, heritage, etc. In other words luxury is breaking the rules of conventional marketing and retailing.(Bastien, Kepferer, 2009)

The moment of purchase is only the initial step through which the client enters the brand universe. Purchase of the luxury product is a lengthily act followed by important steps. As luxury product gains value over time as through memorable experience or its durability brands shouldn't maintain this by preserving after sales personal contact or giving away complimentary gifts as reminder. Brands want satisfied clients back so they must foster and help create feeling as well as buzz or word of mouth. People tend to retell their memorable experiences thus spreading the newsworthiness of service and value. Aim is to offering the most beautiful images of the brand universe of which client has purchased only one part.

Three stages of luxury purchase significant for value perception: dream/desire, pleasure/excitement, and reassurance. In pre purchase stage the brand must prepare the dream through communication strategy. Moment of purchase is focused on delivering pleasure. The feeling at this moment is an integral part of the luxury product. The aesthetic environment is important but human environment is even more so. Its about relationship creation without pressure to buy. The after purchase puts in perspective the heart of brand its values heritage and fundamentals.

*“A luxury object is where neither side really cares about price”*

*Mark Tungate, author of “Luxury World”*

Luxury industry per se builds on particular set of values that unify strategic business practices, particular sensitivity for creativity and emotional consumption features. Nowadays, luxury companies are competing to find, attain and preserve the emotional aspect of their product mix. The content offered in the store or online has to give the meaning to ones purchase in respect to what the brand stands for. One of the paths to achieve this is by the means of the environment customers get exposed to.

Retailing in luxury field unifies not only regular practices and knowledge but as main characteristic of luxury as such, it needs to focus on excellence in everything done from operational to management and managerial level. A lot of attention is devoted to enchain unique perception while working not only on sustaining awareness but sustaining respect of the image and heritage of both, customers and company. "The dictionary definition of luxury", said one Russian oligarch buying up European luxury houses to LuxeTv's Sue Douglas," is unnecessary indulgence. The cleverness of the brands that dominate the markets today, is that they make it necessary" and inspire the interplay with self concept.

Introducing soft competitiveness tools and intangibles into retail brand store became important. In the same way it relates to customer and also chooses the customer. Communication through retail formats helped companies as well to set the hierarchy of the profile of luxury goods shopper. This opened up vast field of arguments and raised the issues of interactivity. Trend moved from pure expansion theories to more refined distribution and brand roles in direction of enhanced communication objectives.

Greater attention has been given to the behavioral dimensions to the shopping (Newman and Foxall, 2003); considering the impact of technological advances (Kim and Forsythe, 2007), consumption behavior across distribution channels (Goldsmith and Flynn, 2005) and connected to the latter, the significance of brand trust upon shopping behavior (Hahn and Kim, 2009).

*"The maker is not necessarily interested in doing it to make a profit, and the purchaser is not necessarily interested in the value in it. You want to feel as if the maximum amount of effort has gone into it. Whether it is mental toil or physical touch, there has to be a reason why you reveal this physical object, because you know that there's an intense amount of care that is attached to it – that's why Hermès is still a luxury brand- I have a feeling that they still have that incredible craftsmanship attached to them, an image of their ateliers – with others you feel they are just a name."*<sup>18</sup>

Luxury retailing has become large scale, concentrated, centralized (Willeman, 1998) but still sophisticated. Retail brands have become 'the real thing', especially in luxury. Historical

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<sup>18</sup> HauteLuxe.net, Mark Tungate quoted, (2010). March 15<sup>th</sup> 2011

development of luxury brands shows that luxury houses were from their very start true retailers, but on a small scale. Louis Vuitton, Hermes, Cartier all started as retailers for the high end consumers and the elite of their time. These names represent real people and founders of high quality maisons. Over time they established as brands with strong awareness, rooted in heritage, rarity, and well managed brand architecture. (Willeman, 1998)

Luxury house with strong elements and track record represent still the benchmark for growth of luxury retail power while building retail store brand. This notion, of brand building and sustaining comes as result of strong producer brand and value building that was cumulated over many years by consistent, high level quality, innovation and marketing! Brand names and logos as such no longer drive customer choice. Brands evolved to include the rich source of sensory, affective, and cognitive associations that result in memorable experiences.

Volatile and competitive nature of retailing is reflected by trend that shows that retailer store brands are taking significant market share. The increase in value chain power has given retailers a great opportunity. Anyhow, it is no longer easy to obtain big amount of audience through traditional marketing channels. However, luxury retailers were always more creative and image cautious than other industries. (Chevalier, Mazzalovo, 2008) because of expected visibility a luxury store is always a part of overall image a brand can create for itself, and this is why store design is very important part of retailing process.

Luxury industry has a voice. The retail format is the biggest messenger. Companies behind them believe that adding emotions in design is very important to stay consistent with expectations from them and offer the customer unique feeling. This is what justifies in many cases the investments made in luxury retail spaces and world renowned architects hired to do the magic. Usually, the profile of architects is as remarkable as the brand. They are the top of the top in their field, setters of advanced thinking and creators of most challenging solutions that are in line with world trends. Of course those solutions have to be representing what luxury company is about but with innovative twist. In turn not only differentiation is accomplished but consumers are provided the feeling of particular attention being given to them. To marvel at, get attracted to and created relationship of a kind. The 'self' that exists potentially within us, becomes actual through the process of consumption. (Shields, 2005)

This being said, luxury retail space could be regarded as impressive, significant, touch and feel way for luxury companies to communicate with their clients about their brands. All consumption became conceivable as the desire, for, as well as the desire of, the self. (Shields, 2005)

Previously investment levels weren't too high in comparison to other industries but move towards large scale, concentrated centralized and sophisticated retailing raised barriers to entry and should enable retailers to build more competitive advantage. For luxury retailers this impact is obvious in increase of soft competitive skills evident through intangible tools applied in stores, consumer service management, relationship and experience enhancement. This leads from value chain power to brand engagement. Customers expect breakthrough solutions and to be stimulated to connect with the brand in offline or online setting. (Schmitt, 1990) Moreover, research found that "bonding with the brand" accounts for the largest share of wallet.<sup>19</sup> Another research firm commented that brand leaders apart from having memorable names and great images deliver experiences as well.

Brands generally want to use the same concepts and create the same atmosphere that consumers wherever they are feel as if they are in the main store in Paris or Milan. But there are contrasting strategies in practices of the luxury retailers. For instance, as the CEO of Hermes explains: 'When the house enters a new market, it does so with the very same approach that has proven to be successful in the past – being itself and offering the same products to every store. The only variation from country to country, in fact from store to store, is that store directors have the freedom to tailor their store offer to the expectations of their customers.'<sup>20</sup>

However, the Bulgary brand adopted another rational. Some of Bulgary's stores applied the different system and achieved strong feedback and statements through retail architecture. Each of its stores is different and striking. From New York to Tokyo each store has nothing in common with the previous one. Cooperation with architects on this is crucial. They specialize to translate the brand values into store environment and communicate distinctive style of what the brand is supposed to represent. Even when brands strive toward having identical stores this can't be

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<sup>19</sup> <http://www.millwardbrown.com>, Brand Ideal, April 3<sup>rd</sup> 2011

<sup>20</sup> <http://www.interbrand.com/en/best-global-brands/Best-Global-Brands-2011/Hermes-Patrick-Thomas.aspx>

achieved as concepts change over time and there may be periods of overlapping styles as new design comes into play. Brands are careful to ensure that design changes are not marked as to have impact on the brand identity, which changes little over time. Still, both examples agree on one critical aspect; the one representing the need to meet increasing the production capacity while maintaining the standards of excellence while expanding on an international scale.

Play with the environment and the level of engaging the consumer with in-store experience highly depends on how strong customer awareness and identity of brand are so that they can force the consumer to behave in their way. The concept of design is very much part of brand identity and can be a strong statement that brand communicates to its environment in general and consumers in particular.

Bernard Arnault (LVMH Group CEO) has described the architecture as a form of image making. It was no surprise that at the end of 90s global luxury brands started to compete to attract the best architectural talents. There are specific aesthetes and functional aspects to consider in creating the context that expresses what the brand stands for.

### **1.3. Distribution Strategies for Luxury Brands - The Store as Communication Tool**

The origin of many luxury houses is in distribution (Kapferer, Bastien, 2009). Distribution is the most awkward part to manage on a daily basis once the brand has a global reach. It should ensure coherence and strategic rigor while staying profitable and embedded in countries culturally and economically different. Furthermore, distribution is entrusted to local partners leading to ensuring client service and client experience to them.

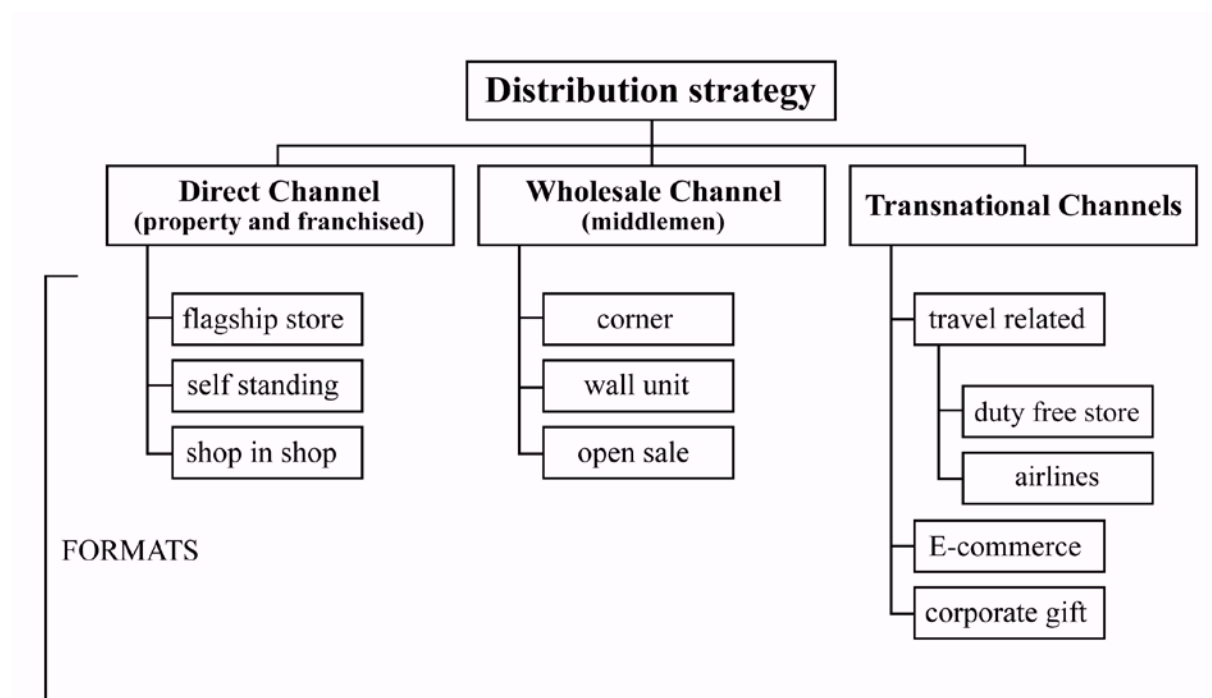
The distribution of luxury goods is by definition synonymous of selectivity if not exclusivity. The well-known luxury goods brands were the first to perfectly control distribution by introducing branches in the main European towns at the beginning of the twentieth century. The strategic aim was to control distribution tightly to preserve the image and the reputation of the brand. This objective remained unchanged until the early 1970s.

A second phase began with the “democratization” of luxury items and continued until the second half of the 1990s. Where distribution strategy moved from exclusivity to selectivity with the

number of outlets selling luxury goods multiplied. However, this tendency has recently been reversed.

Distribution has become a strategic variable due to the concentration of companies in very large multi-brand groups. The manufacturers have taken back control of distribution, developing their own stores networks and choosing independent distributors very carefully (Moore and Birtwistle, 2005; Wigley et al., 2005). One of the main consequences of this strategic change has been the setting up of complex distribution networks consisting of different formats, namely multi-brand stores, mono-brand stores, flagship, corners in department stores and designer outlets (Moore and Birtwistle, 2004). Own stores are the most present distribution strategy of luxury retailers. Previously, this trend wasn't so apparent and brands were franchised or licensed. Before the crisis there was another wave to consolidate industry and this resulted in expansion toward East by means of direct investment into new store format. Thus, in luxury retail in particular fashion, we witnessed the distribution strategy change toward more control and exclusivity protection. Illustration is provided below.

Figure 1: Distribution Strategy Formats



Source: SDA Bocconi

Another strategic trend in the luxury good distribution consists in diversification in favour of the most profitable ranges that is to say accessories and perfume. The difficulty faced by companies then lies in controlling the risk of an offer becoming commonplace. The store appears to be the ideal place to meet and communicate with the consumer. For this reason, over the past few years, companies of the sector have taken great care in controlling the distribution variable in two directions. The balance **between being rare or ordinary** certainly lies both in having strong control of the retail network and in the aesthetic dimension of the stores and merchandising. As of 21st century experience management accelerated, experience became the watchword of luxury retail space.

Distribution is generally a weak link of luxury strategy and it is for many brands status life or death question. In the world of luxury the space plays a crucial role and over years it became essential to finance the cathedral to celebrate the brand and diversify their raising cost of rents in the cost popular locations pushed the luxury retailers to think in terms of real estate thus ending

up in building genuine real estate strategies in order to be able to compete with the first division with the brands capable of financing those cathedrals. With this level of investment involved luxury company has to be constantly at the forefront of innovation and creation. Nowadays, more than ever question is what is the next they can offer to preserve the value and deepen the meaning?

Historically looking clients would come from all over the world to visit the great Parisian maisons. Much of this has changed. Today the brands are the ones that are doing the travelling. Just as mass fashion brands did in the past, growth for most luxury brands today is mostly linked to location, location, and location. Luxury brands have evolved from the modest discreet ateliers to retailers with factories everywhere. In the case of Vuitton, the brand's Parisian image may have been somewhat diluted due to the brand's worldwide expansion. Although the original maison may still be in Paris, we may no longer feel the need visit Paris anymore. Place is not simply part of the brand's reputation, it should form a key part of the brand experience. (Mihailovich, 2009)

Traditionally luxury retail brands have been private businesses run without any sophisticated marketing or business models in place. Now, luxury is big business and sophisticated enough to warrant business models taught at business school. But therein may lie a problem. The very analysis, sophisticated and illuminating as it can be, threatens to undermine the creative soul, the inspiration and the desirability of the product behind the business.

The relationship creation the markets embark on can rarely last, but its essence is eternal (Mihailovich, 2009) In shopping for luxury products 'savoir faire', experience and connoisseurship makes DNA of architecture of "brand" and space, in turn as physical place of making ones desires real. Combining **both tradition** and **trend** is setting the standard for contemporary good taste. (Mihailovich, 2009) Differentiating in luxury retail business will always stay challenge. It is in the light of this notion that luxury retail marketing needs to start operating. Looking at distribution and taking physical space as communication not only distribution tool new luxury movement will redesign strategies that existed until now.

The luxury brand distribution channel is to a great extent controlled by the manufacturer in order to protect brand values and secure successful communication of the brand throughout the

channel. As is suggested by, e.g. Birkigt et al. (1992) and Duncan and Moriarty (1998), the manufacturer's control of market communications is essential to the consistency of the brand. It is typically solus at all levels, including retail facilities, management and ownership, to create an integration of the manufacturer's differentiation at all levels of distribution in accordance with, e.g. Besanko and Perry (1994). A certain level of long-term dedication to the brand is inherent in the luxury channel, as suggested by Rolnicki (1998), who argues that solus franchising secures long-term commitment. In creating and maintaining a strong brand, the distribution system is crucial. The findings are consistent with (Kepferer 2004) who argues that controlling the distribution system is essential to gaining control over the image and the brand.

In the luxury channel, the brand is reflected in all activities to create and enhance a consistent brand identity. Consistency benefits from actors at different positions in the distribution chain communicating the brand in a similar way. The manufacturer's brand and the retailer's brand may strengthen each other rather than competing for attention, since both the manufacturer's branding and the retailer contribute to creating the image of the brand. The brand also brings certain standards to the occupations and functions in the channel, thus the most talented people for the purpose of the brand can be recruited. High level retail facilities do not only contribute to brand consistency and premium standards, but is also a customer requirement for premium products. Well-informed and demanding customers create a strong pressure on luxury brands to behave in a consistent and honest way, thus luxury brands have to constantly consider the risk of conceitedness, which is likely to harm consistency and brand image.

In terms of retail structure, the manufacturer has a high level of control over the number of dealers and their location. Luxury brands are still likely to use a mixture of direct and indirect channels with a significant representation of manufacturer outlets to promote the brand. Although franchised dealers are likely to perform better than manufacturer outlets in terms of cost-efficiency, as suggested by, e.g. Arruñada and Vázquez (1999), the premium channel is likely to benefit from the existence of a direct channel since protecting the brand is more important than finding the highest efficiency.

The importance of communication today goes beyond sight. To protect the brand communication strength of the store has to be managed. The store is screen that projects brands history but also

metaphor for the setting that places the object of desire at the distance in order to increase that desire (Kapferer, Bastien, 2009) The facets of this kind of communication are numerous and well planned. Just by looking at the window of luxury store one gets a peek into privileged place.

Window is a major tool of public communication and the only one in which the brand controls all the parameters (Kapferer, Bastien, 2009) its good way of making non customers aware of the status of the brand and of the people who carry it. Windows play a big role in the dream equation so important to luxury. A good shop window is the place to present complex and refined messages impossible to relate with pure advertising photos. The whole universe must be able to be displayed at the sales point. The development of the great brands into many luxury universes has led to the concept of themed stores which is both the manifestation of the coherence of all the brand universe and demonstration of power. The store must make explicit brands evolution through store concept. Good example is the Louis Vuitton (LV) case from the late 80's.

LV focused on new concept that was more than enhancing clients' perception. The concept was in line with much deeper message. At that time it was connected to the launch of new line that marked the departure from the Vuittons past (Epi line introducing fine leather and daily city bags) In turn it was necessary to rethink the entire store architecture. The new store concept had to communicate that while remaining great luxury brand in luggage segment symbolized by monogram canvas LV became great brand for fine leather goods and town bags.

There is no concept of luxury without: monitoring the product right up to the end client, personal knowledge of the client in particular their lifestyles, accompanying the client to that the purchase gains value over time. Strict control over distribution in all key aspect of the brand is vital in luxury.

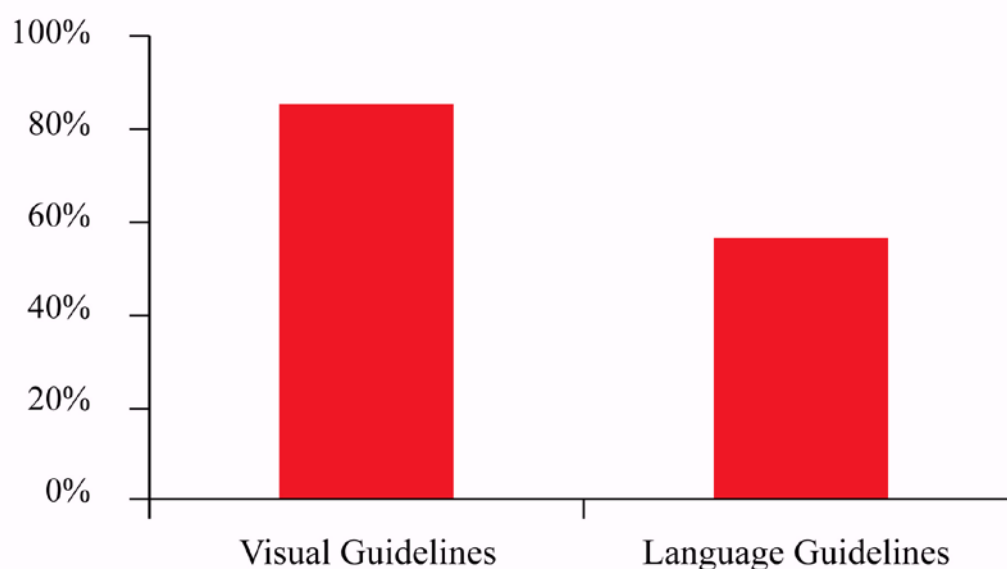
This is why experience oriented strategies are relevant throughout the process. It provides distinctiveness and if the approach to it is truly sophisticated message to reflect the brand meaning and to reach the target in efficient and effective way. Global experience marketing raises the important standardization/localization issues in terms of creating a global or local experience. (Schmitt, 1999)

Just to illustrate, the survey done by Interbrand Group (Figure 2) demonstrated that: "well run operations correspond to high-impact brands". It is believed that high impact brands are core of

luxury loyalty. In line with behavioral transformation of luxury clientele luxury brands aren't required to shout louder to be noticed (by adds, celebrities) but to demonstrate the “interactive roadmap back to its roots” <sup>21</sup>(Okonkwo, 2007) To support this argument most firms have seen visual and verbal guidelines for their brands as relevant.

A new world requires a fresh, more sophisticated way of approaching to customer. Based on the features and strategy options can vary. However, the “occurrence of visual guidelines is significantly greater than language guidelines, indicating certain disagreement concerning the necessity of both verbal and visual standards.”(Interbrand 2007 survey)<sup>22</sup>

Figure 2: Visual and Language Guidelines



Source: *Interbrand 2007*

<sup>21</sup> OKONKWO, U.: *Luxury Online. Styles Systems, Strategies*. Palgrave Macmillan, 2010

<sup>22</sup> Differences between groups were tested for statistical significance using a Mann-Whitney test at 95% confidence level.

### 1.3.1. Changing Role of Distribution toward Experience Building – New Luxury

*"The reality is people love luxury, they love brands, they love shopping...what has changed is their understanding!"*

*Steve Sadove, chairman and chief executive of Saks 5<sup>th</sup> Avenue*

In 2003, a “New Luxury” strategy according to Silverstein and Fiske, authors of “Trading Up: The New American Luxury” was build on: up-market, more exclusivity and higher margins. Just that, today this doesn’t hold.

It all comes down to the experiences. Today, if one wants to win as manufacturer, consumer, marketer or retailer one has to play a different game.

When in 2003 Michael Silverstein and Neil Fiske proposed a “new luxury” strategy they presented a strong case focusing on: more exclusivity, higher prices, and higher margins. This brings to conclusion that new luxury comes down to a savvy business strategy or brand management. In fact, it goes beyond. A new consumer psychology reached the level that goes over the product bought or consumed to new enhanced experience, richer enjoyment, deeper meaning and more profound feelings (Danzinger, 2005) In other words, luxury is where new experience and meaningful value consumer can find. The fact that luxury is ultimately unattainable (Danzinger, 2005) makes the desire and exposing oneself into search for further fantasy fulfillment greater. Unattainable character of luxury industry causes the effect to keep wanting more once a desire, dream or consuming fantasy has been fulfilled. It a nice and secure way for luxury companies to profit from. But how to keep selling dream constantly?

Generally looking, consumers became more technologically savvy, better and faster informed and in turn have easier access to potential objects of desire. However, consumers are willing to accept totally new, unexpected definitions of what luxury is and where luxury can be found. Insofar, it seems that what has been working is the strategy of enhancement. To be able to sustain the “unattainability” luxury companies and their brands are building more value into products, its service and the brand. The core is about reinvention and moving forward in perpetual motion.

Companies must keep on moving their brands to keep them alive and going upward not only forward. It is particularly interesting for luxury companies that were always labeled as closed and

traditional. Today, those companies are the fastest to move and support innovation. Its through adding more luxury and emotional value that they maintain vitality. It is their way to stay fresh while respecting for what they stand for. In fact, the most dangerous strategy of all for any luxury brand or aspiring player is to stand still (Danzinger, 2005)

The question is; how to apply this on retail space? These are by definition static, brick and mortar formats. One part of answer is in internationalization of distribution activities. By applying various entry modes and managing channels a company can get dream over the border and physically locate it. Offer it for sale. As simple as that, but not good enough. If luxury marketers have to maintain luxury consumers fantasy fulfilled and offer new and different ways to impress by continuously enhancing brand value, the questions isn't only what to do but how well?

This leads into argument raised in the beginning that it all comes down to experiences. The unattainable character of luxury is never ending search for experience; the one which people desire but can't really achieve. It balances psychology and material through unique experience more fulfilling than the ultimate reality can be.

Emotional connections with consumers are undeniable differentiators in the market.

Enhanced through an experience components experience became important in today's business environment. As stated by Diana LaSalle and Britton Terry in 2003, an experience begins with and interaction between a customer and a product, a company and a brand. So, by definition an experience cannot happen without the customers' involvement. This is necessary point as it requires change from customers as customers to customers as participants. Experience as such and its significant influence of positioning of brands and usage for strategic management of image and identity started to be of interest.

### 1.3.2. Significance of Atmosphere as a Tool

It was in 1960s when Kotler wrote an article of using "Atmospherics as marketing tool." But, rarely were these analyzed for luxury only. For luxury retailer atmospherics were involved to reassure that dream, creativity and exclusivity are integrated to support the expectations and perceptions. Further research found that store atmosphere mediates consumer perceptions of other dimensions of luxury store image.

For instance, Baker et al. (2002) find that store environment factors, particularly physical design perceptions, significantly affect consumers' perceptions of merchandise price, merchandise quality, and employee service quality. Schlosser (1998) argues that, since store atmosphere has a social identity appeal, a pleasing atmosphere in the store should influence perceptions of socially communicative products in the store, not so much intrinsically rewarding products. This logic can be extended to argue that store atmosphere would have a greater impact on perceptions of products with higher perceived (social) risk. Indeed, Richardson, Jain, and Dick (1996) do find that consumers' ratings of the private label's quality are higher when the store is aesthetically pleasing than when it is less attractive, although there is no significant difference in their ratings of national brands' quality.

Pleasing in-store atmospheres provides substantial hedonic utility to consumers and encourages them to visit more often, stay longer, and buy more. Although it also improves consumers' perceptions of the quality of merchandise in the store, consumers tend to associate it with higher prices. From a branding perspective, an appealing in-store atmosphere offers much potential in terms of crafting a unique store image and establishing differentiation. Increasingly, brands are being positioned on the basis of their intangibles and attributes and benefits that transcend product or service performance. Even if the products and brands stocked by a retailer are similar to others, the ability to create a strong in-store personality and rich experiences can play a crucial role in building retailer brand equity, value and meaning.

The new luxury paradigm the shift from things to experiences demands the new way of thinking about and talking about luxuries. The intrinsic qualities of luxury goods superior quality, exclusivity, fine materials, attention to detail that traditionally described a thing convey little meaning when viewed through experiential lens. From new luxury experiential point of view superior quality in and of itself carries little value. The value of superior quality is rather derived from experience or feeling it delivers to consumer. Because it is no longer the thing, but the experience, when talking about luxury the way we think of luxury goods the way we think on attributes and features we use action verbs and active descriptions to describe the feeling or

deliver it to consumer. That is where the true value lies and why luxury goods command the price premium.

### 1.3.3 Connecting Retailing and Service Sector

Experience marketing is infusing all product development, marketing and sales efforts with the feeling that the product promises. It's about how the product performs experientially for the consumer, how it delivers those special feelings and meanings to consumer. Stores are to many of the luxury companies the key. They represent the integral part of service model.

To differentiate from competitors companies encourage retailers to sell on service model so that the store is destination to full line of products. Having the special retail store as flagship, gallery store, spectacle place, interesting different mom brand stand is what help in focusing particular lines on the niche market. Company has the power of selecting who will shop in their store and in turn appreciating their consumers by respecting their attitude and appreciation of the brand company shows that it doesn't design for everyone but for those that want something more distinctive, unique and in line with the lifestyle they were striving for. Also, these spaces are designed to go further in what interests a customer and in what correspond to their lifestyle.

Content in the store completes the experience and broadens the interests and involvement. Offering magazines, using the space for events, or launching special collections only for those that are loyal to particular format are all prolonging values perception and bonding. Relationship is cherished. The spaces translate the ideas of future lifestyle aspirations. By design within the space motivate consumer to dream Again about some new angle or way to use your brand again to buy complimentary item in order to assemble the mosaic that will equalize with the self-concept and self-actualization. They want to know more about the products that will enhance their lives and give competitive advantage. Space also educates gives knowledge and know-how to understand the universe in order to create the savvy shopper and informed consumerism. Luxury needs to be put into context not the one of status only but the context that justifies and explains why something is worth more.

The increased importance of the sales point as meeting point is the result of change in the relationship between firms and customers. Sales point shifted into being "multi dimensional media

delivering emotions! It is “the theatre in which brand strategies are acted out”<sup>23</sup> (Saviolo, Testa 2007) and the environment for creating an atmosphere and place to enhance consumer experience.

In recent years a fundamental issues in the industry has been the evolution of distribution and industry relationships. Distribution strategy that was once more focusing on a single consumer today in contrast must be able to segment offering through a differentiated value proposition for different segments on diverse markets in terms of product, retail, communication, and service.

There has been transfer of power from manufacturers to distributors seen through the increase in the market shares of the large distributors, the development of retail chains, and the development of retailing strategies - visual merchandising, trade marketing, shopper marketing, flagship marketing. Retail locations build brand awareness and contribute to market penetration and growth of the brand in line with wholesale operations.

When it comes to internationalizing distribution function the specifics of markets are important to make proper choice of the channel. Therefore, main features of consumer and product characteristics are essential for planning distribution strategy. These will determine the mode of distribution and define the choice of distribution strategy. Available strategies are: intensive or mass market, selective and exclusive. (Machkova, 2010)

It is interesting to look at exclusive distribution strategies as “an extreme form of selective distribution in which only one wholesaler, retailer or distributor is used in a specific geographical area.”<sup>24</sup> This strategy is choice for companies that want to preserve brand image and specific target customers that are in search for long lasting quality of product and service in particular area. In managing fashion – in particular luxury fashion producers go even further toward full direct control over its operations and establish flagships.

The complexity of luxury industry and its foundations lies on the different pillars to any other business practice. Perhaps it is apparent even more, as in fashion industry the main drivers are

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<sup>23</sup> SAVIOLO, S., TESTA, S.: Strategic Management of Fashion Companies. Italy. Etas, 2007

<sup>24</sup> [http://www.wisegeek.com/ What is Selective Distribution?](http://www.wisegeek.com/What-is-Selective-Distribution?) March 25<sup>th</sup> 2011

ideas and creativity in the hands of designers and creative directors that tend to be unconventional in their behavior. In their research work on: “The strategic path in a creative start up process”(2006)<sup>25</sup> the authors suggest that in fashion business, and many other businesses which are into shopping products it is the actual product - brand name, packaging, features, styling, and quality - that customers are buying and not just the core product. Further, authors point out that the concept in these businesses is of the greater importance than the concept in more convenience product related businesses. According to Gehlhar (2005) the fashion business is as much or even more about marketing as it is about the actual design of garments. Whatsmore, Gehlhar (2005) argues that image is everything! In delivering the image all tools of marketing mix are engaged and distribution represents the crucial role as it deals with place identity and channel management. Image differentiates the brand and product characteristics from others, and establishes an emotional connection with the customer. Recently, image and place interconnected to produce the firmer experiential environment around the most important brands.

The crucial aspect of fashion firms concerns the choice of distribution channels. Distribution channel and sales point are the fundamental elements in building brand identity and visibility. Product for consumer shouldn't be isolated but instead it's a part of wider system in which retail space is also important feature. Therefore, to distribute those innovative approaches the speed, quality and control of distribution strategy and spreading has to be highly synchronized as fashion is related to change. In fashion well established supply chain and distribution strategy is essential. “Distribution channel is a pipeline or the pathways to the market” (Morelli, 2006) and **The place** as part of marketing mix is also essential for expansion and communication.

Looking at the internationalization of fashion from the end of 80's and beginning of 90's we could see the wave of changes in channeling and availability of fashion. Channel integration can be seen as entry mode as it represents the process of incorporating all distribution channel members - manufacturer, wholesaler and retailer into channel system and uniting them under one leadership and one set of goals (Hollensen 2004). Globalization has created great opportunities for fashion retailers to internationalize their distribution functions. Global changes that occurred

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<sup>25</sup> ERIKSSON, J., et al.: The Strategic Path in a Creative Start Up. Active Research within the Fashion Industry, 2005

in garment manufacturing and on retail level and the internationalization of retail formats and activities has lead to major shifts of production and consumption habits. The integration forward in the distribution channel and the establishment of local stores has influenced this. Although it is the final link in the pipeline, distribution is in many ways “the heart of the fashion pipeline and the fashion system itself.”(Saviolo, Testa, 2007). Vertical integration proved beneficial for improving speed of response and quality. Therefore, strategy development should consider more carefully distribution through retail outlet as it is the place where the end consumer and the offer system really meet.

Market factors, product characteristic and buyer behavior as well as needs is what determines channel choice and important steps for distribution strategy. Luxury products are particular products in the sense that they embody more than just core features. Whole philosophy behind luxury is in selling the dream, not functionality, selling quality over quantity and selling to niche over mass. Therefore, distribution is more sophisticated. In terms of strategy choice selective to exclusive strategy would be the reasonable option. The choice depends on decision making in the company and market factors that are present in specific area. In luxury it is also necessary to keep exclusivity that is why usually not so many intermediaries get included.

Over the years the trend toward vertical integration is apparent as companies tend to keep their control over image and establish innovative solutions that are not so easy to be implemented by existing, let alone new intermediaries in their network. One of those solutions are either more refined wholesalers with exclusive channel connections or - as its more evident today focus of companies efforts to reinforce its retail identity.

Exclusivity of distribution has to be maintained to go in line with positioning of brand. Through highly expensive and exclusive channel affluent brands not only keep their position but also protect themselves from copying as flagships are expensive master pieces and fear of channel over expansion is less present.

Market concentration, internalization, diversification and technology lead to less fragmented distribution channels.<sup>26</sup> International channel decisions are long term strategic decisions engaging high investments for establishing stable and complicated channel management. As new forms of cooperation with suppliers tend to strengthen distribution is getting a significance that it did not have in the past. This is why well established “distribution is the least flexible tool of marketing mix.” (Machkova et al., 2010)

Although positioned in the end of the supply chain the process of retailing is necessary part of distribution strategy. It was the consumer driven globalized economy and convergence of information and communication technology that triggered the importance of retail formats. From viewing the retail as sales agent for manufacturers, perception changed to what Dawson (2007) called “production’s agent for customers”.

The retail is no longer just a distribution channel. It is the **place** where the commercial strategy of the whole fashion pipeline is given shape. The sales point communicates offers products, provides a service and builds and reinforces the loyalty relationship with customers. Further, the sales point in the fashion industry is unlike sales in any other industry because it provides the most reliable and well timed inputs about the development of customer tastes and needs.

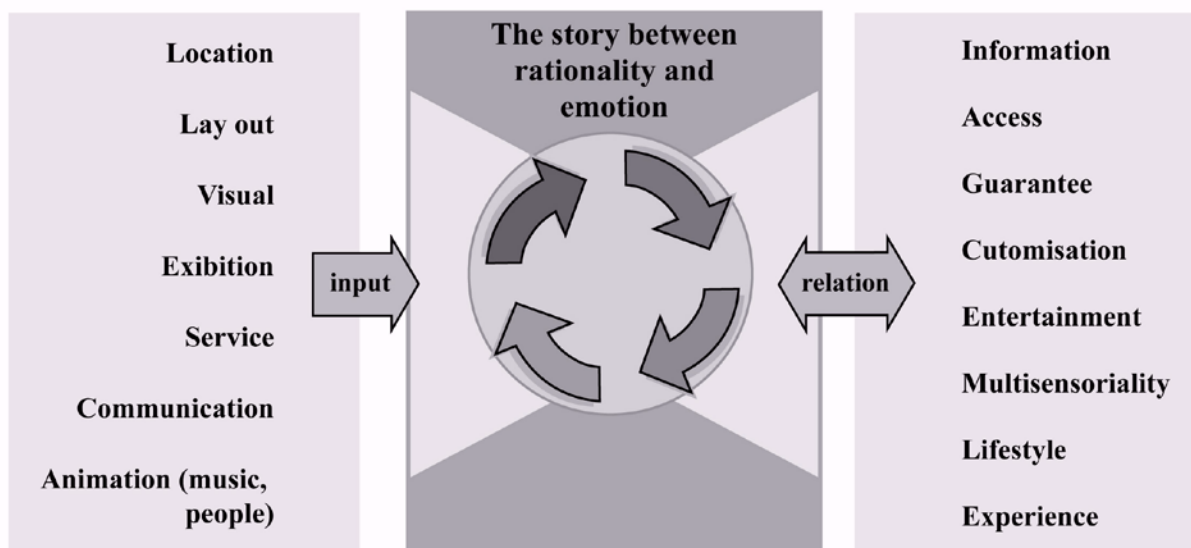
It is through the sales point inputs that clothing producers and their suppliers can redesign their strategic choices; product strategy and innovation, image, re-arrange policy, pricing, service.  
<sup>27</sup>The success or failure of the entire pipeline depends upon the final consumer reaction to retail environment - merchandising mix, location, service, experience.

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<sup>26</sup> MACHKOVA, H., KRÁL, P., LHATKOVA, M.: International Marketing. VSE Prague: Oeconomica, 2010

<sup>27</sup> SAVIOLO, S., TESTA, S.: Strategic Management of Fashion Companies. Italy. Etas, 2007

Figure 3: Building the Retail Identity: Thinking and Feeling



*Source: SDA Bocconi*

The power of retailers has changed in the marketing strategy of suppliers and lead to new marketing functions – trade marketing and shopper marketing.<sup>28</sup> Recently, leading fashion houses began structuring their shops with ambitious architecture making alliances with well known architects: Prada - Rem Koolhaas, Issey Miyake – Frank Gehry and Hermes - Remzo Piano the aim is to combine shopping with public space for more cultural events. The increased importance of the sales point as meeting point is the result of change in the relationship between firms and customers. Sales point shifted into being multi dimensional media delivering emotions!” It is the theatre in which brand strategies are acted out, it is environment for creating an atmosphere and place to enhance consumer experience.

Luxury retail has become a highly competitive business. Gone are the days when it was easy to sell luxury goods based on the allure of the brand alone. Luxury retailing has been evolving dramatically during these past few years: a wide range of formats and concepts have emerged,

<sup>28</sup> MACHKOVA, H., STERBOVA, L.: The impact of Financial Crisis on International Retail Industry. VSE Prague, Oeconomica, 2010

posing new challenges to managers. Luxury players are constantly striving to innovate so as to attract and retain ever-more demanding affluent consumers. Due to the convergent trends of increased competition and more knowledgeable customers, the traditional ways of running a luxury store can no longer guarantee success. Today, retail has become a key battleground in the urgent quest to find and keep the best customers. But the luxury retail environment is much more than a store:

1. It is expected to provide a **unique ambiance** and atmosphere, reflecting and reinforcing the values of the brand;
2. It should offer an **exceptional and inimitable shopping experience** in which consumers develop long-lasting and emotional ties with the brand;
3. In order to accomplish this, it should be managed by a team of **highly trained professionals** who understand the operational and managerial facets of their job, the sensorial and emotional dimensions of the luxury brand, as well as ever-evolving customer demands and expectations.

The luxury industry has undergone far-reaching transformations in the last ten years. Like a lot of consumer industries, it has followed the trend for consolidation and concentration as the industry has become increasingly capital-intensive.

Further evolution in the market that increasing internationalization of distribution witnessed was the development of the private/designer label. “This shift of power had structural effect on producers in the fashion industry modifying their contractual power with respect to retailers.”

<sup>29</sup>Some industrial firms reacted to this by investing into directly owned stores and establishing strong relationships with distribution partners.

Managing the luxury distribution displays uncompromising control throughout the supply chain. Specific importance of every step in the purchase journey as being a statement about the brand – place, product features, buyer’s behavior and needs is recognized. In addition, this lead toward total dictatorship and complete single supplier ownership in order to ensure that strict quality

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<sup>29</sup> SAVIOLO, S., TESTA, S.: Strategic Management of the Fashion Companies, Italy: Etas 2007

standards are never compromised. In fact, this relationship is so valuable to suppliers, that it ensures that both parties have vested interests in guaranteeing ultimate quality of supply.<sup>30</sup>

Indeed, many luxury companies have taken the step of moving into retail in order to control the environments in which they sell. This guarantees better vertical distribution and the retail experience helps extending the brand while maintaining the control. Store structure and environments can be controlled to ensure that price segments are kept discretely apart. “Through the “selling ceremony,” consumers exclude each other – with one buying status on the top floor of Gucci, while another consumer in the same store is purchasing the least expensive product on the bottom floor. It is total control – from the source of raw materials to the final consumer moment.” (Berg, 2002) This total supply chain control translates to an obsession with details.

Distribution has taken on an essential role and only those brands that have been able to develop a coherent and ambitious distribution strategy by developing their network of stores owned by the brand have been able to survive. This has led these brands to invest massively in stores located in the affluent areas of the world’s large cities. The rareness and exclusive character of these locations has pushed up rents and key money to very high levels.

Today, even if all luxury brands have rushed into these locations for fear of being left out of the market, this strategy is not a sustainable one, except in some rare exceptions.

The reason why store concepts became irreplaceable for distribution strategy is due to the increase in the share of boutiques visits and the increase in store sizes. The boutique concept is in line with the industry dynamics: the increase in budgets for advertising and promotions has made it possible to develop concepts and companies far beyond the talent of designers and the volatility of collections. The related scale effects also require a diversification of the brand. This diversification can be either horizontal on a given positioning level (e.g. Gucci or Louis Vuitton), or vertical with brands and sub-brands (e.g. Max Mara and to some extent, Armani), and requires creation to be placed under the control of marketing. It can be carried off successfully only if distribution is controlled.

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<sup>30</sup> BERG, J.: Why the distribution strategy of major luxury brands has reached a dead end. *Le Journal du Textile*, March 2002

This control enables the company to fine-tune the concepts across the entire value chain. At the creation level, it provides the company with a hands-on and clear-cut management of the development of the product range and micro-segmentation. In terms of production and logistics, it makes it easier for the company to take risks on collections and to be more responsive. On the advertising level, it is a particularly effective promotional media for both brands and products. On the whole it is a preponderant element in the value chain for an ambitious and controlled growth strategy of a luxury brand.

The extension of concepts and the weight of distribution as a communication vehicle have led to the sharp growth in the average store size. A luxury brand with international ambitions can no longer afford to be without its flagship store of over 500 sqm, in the most prestigious streets of the world's large capitals.<sup>31</sup> The globalization of concepts and the development of product segments can only be done with stores this size. Controlling distribution therefore first involves a selection of the most appropriate locations.

However, with the increase in demand, these locations have become increasingly thin on the ground, since every brand that aspires to a certain standing must have a flagship store. "The distribution of luxury products is therefore increasingly moving towards classical distribution strategies where the two main levers are store patronage and the average spend per customer."(Berg, 2002)

#### 1.4.1 Performance Concept

The **concept of performance** is a next important word that has emerged in the luxury marketing. Performance is the key against which to judge luxury products or brands. Defined as a fulfilling of function - the concept of performance bridges the gap between the 'thing' and the experience of the 'thing' from consumers point of view. Now, we ask; How well does this handbag, ring, or the shoes deliver a luxury feeling to the customer? For instance; luxury jewelry performs through the feeling one gets from wearing an exquisite piece: making one feel more beautiful

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<sup>31</sup> BERG, J.: Why the distribution strategy of major luxury brands has reached a dead end. Le Journal du Textile, March 2002

sophisticated, stylish. So does the choice of shopping space where a customer shops performs as an experience and expression of one's good taste, environment to strive for, that potentially defines one's lifestyle.

The concept of luxury performance connects both intrinsic definition of luxury (quality performance, design performance, uniqueness performance) with the experiential about how the luxury makes consumers feel and the way they experience luxury. It is through performance that old luxury becomes transformed into the new luxury that delivers an experience a feeling or an emotion to the consumer. Luxury product marketers need to study how the products sell further emotional experience for customer giving the new focus of luxury marketing and a new meaning to the phrase 'experiential marketing.'

Experiential marketing is infusing all product development marketing and sales efforts with the feelings and transformative values that the product promises to deliver to customer. Rather than stressing product features in advertizing such as exquisite craftsmanship and finest quality materials, ads must communicate the feeling that the product will inspire in consumers. To this extent luxury good marketer should copy lessons from the service providers. luxury goods need to be sold, advertized and promoted more like luxury services. Future vision of luxury is the experiential luxuries. For luxury consumer experiential luxuries provide greater luxury satisfaction. Yet, experiences and luxury services are fleeting and once they are experienced they are used up and gone but they are remembered and continue to live in ones memory. For majority of luxury consumers products provide the greatest satisfactions by being lasting pleasures and enjoyment.

Looking to the future the next boom in luxury comes in experiential luxuries including luxury services. Luxury product sales were booming since 90s with luxury goods companies growing as much as 10-20% annually.<sup>32</sup> Today the market for luxury goods in Europe has largely peaked but in future revenues are likely to grow in particular in BRIC countries thus, marketers need to figure out a way to win in these markets.

As a result the competition among rival companies will become more intense. Not so with services. This is where the next boom in the luxury market will arise. Most of economies were

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<sup>32</sup> <http://www.unitymarketingonline.com> (April, 2003), March 27<sup>th</sup> 2011

shifting from product based to service based. That trend is apparent in experiential luxury arena. Consumers will clamor for the new luxury experiences that marketers can provide. Luxury goods marketers are advised to discover emerging trend and link luxury products to luxury service.

Many of luxury marketers are participating in luxury retailing which gives marketers two profit making opportunities:

1. Producing the goods
2. Selling them directly to the luxury customer.

For companies marketing luxury products they need to continue to evaluate if there are ways to catch the experiential luxury wave. Can they sell services or become more experiential? Can they turn product into a service or an experience?

For example luxury marketers that operate their own store are right on the experiential trend so are better positioned for the future competitors that sell through intermediaries. For those product marketers that stay focused on the products, they need to assume a new experiential approach to product development and marketing. That is, the company needs to get into the heads and minds and hearts of their customers and look at their products the way consumers look at the products. After all when consumers buy a luxury product they aren't really buying a product, rather they are buying a feeling an experience.

The luxury product therefore becomes a mean to an end not the end it itself. The way of looking at products is completely at the odds with how the traditional luxury goods companies view their products. Much creativity and significant man hours are invested in designing manufacturing and delivering a new product to shelves.

For companies the product becomes the focus of their efforts and the center of world. But it really maximize the sales potential of the product they need to view the product from the consumers point of view, which is feeling that the product promises to convey to customer the feeling that arises from the purchase of the product.

### 1.5. The New Luxury Client – Implications for Luxury Retailers

*The old adage is that companies don't own brands, customers do.*

Traditionally, branding was about targeting the customers as hunters do whereas in luxury it has always been about attracting customers as sports fishermen do. The customers then hunt creation. (Mihailovich, 2010)

As already underlined, the early 1990s were marked by growth at an unprecedented pace. In 2005 estimates by the Boston Consulting Group forecasted \$840 billion worldwide for luxury goods, far beyond the \$86 billion estimated by McKinsey in 1990 (Fiske & Silverstein, 2004). By 2007 the Luxury Institute has suggested that this market would reach one trillion in 2010.

Explanations for this dramatic increase in demand may be complex but researchers and practitioners seem to agree on at least two major factors that have accelerated this phenomenon:

- Economic recovery in most Western countries and
- Unshackled economic growth in South-East Asian nations (Vigneron & Johnson, 1999, 2004), and raise of power of the BRIC countries: Brazil, Russia, India and China
- The increasing number of 'new luxury goods' made available by improving productivity and quality management (Silverstein & Fiske, 2003).<sup>33</sup>
- New technologies opening up avenue for facilitating communications and creativity and providing information only 'click' away.

Although these statements are necessary they aren't sufficient to describe the luxury industry needs, main actors and further development. Anyone who believes that today luxury client is the same as the one of the last decade is in for surprise.

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<sup>33</sup> TRUONG, Y., SIMMONS, G., et al.: Status and Conspicuousness - Are They Related? Strategic Marketing Implications for Luxury Brands . Journal of Strategic Marketing. Vol. 16 (3). Mendeley Ltd., 2008. pp. 189-203

The current climate has produced a set of contradicting links to who the current luxury client has become. Luckily, luxury managed to move ahead from “luxury fatigue” (Okonkwo, 2010) caused by too many people who didn’t have the culture of luxury but did have excessive finance.

Need to educate is now paramount for those houses that don’t want to risk turning into affordable or mass-tigue brands. So, by applying various refined strategies and careful observations as well as opinion exchange the new luxury has been created. This one is depicted by mind not the wallet!

Unlike traditionally regarded behavior where all started around the tables in the company setting, today activity starts with consumers mind and continues in the store where demands are gathered to initiate the process. In general retailing space started to be regarded as interaction point where behaviors are monitored previously main measure was item sold. Now, measurements come from evaluating experiences and perceptions to fine tune ambience for purchasing.

From this point, renewed interest from both academics and practitioners in luxury consumption research increased without precedent. This renewed interest may be observed by the growing number of recent publications addressing various aspects of luxury consumption including: conspicuous consumption in a contemporary context (e.g. Mason, 2001; Shipman, 2004; Trigg, 2001); ‘trading up’ for new luxury goods (Silverstein & Fiske, 2003, 2005); luxury brands’ construct and measurement issues (e.g. Dubois & Paternault, 1995; Luxury Institute, 2005; Vigneron & Johnson, 1999, 2004); mass marketing of luxury goods (e.g. Nueno & Quelch, 1998; Vickers & Renand, 2003); and consumers insights into luxury goods (Sanguanpiyapan, Jasper, 2010)

We can argue an array of various trends that initiated what we see today as new luxury industry. New luxury is in close line with several characteristic that portray the new luxury consumer.<sup>34</sup>

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<sup>34</sup> OKONKWO, U.: *Luxury Online. Styles Systems, Strategies*. Palgrave Macmillan, 2010

### 1. **Smart & savvy**

Luxury clients no longer buy into the type of luxury portrayed by non-genuine brands that claim the luxury status for quick returns. Today's client can smell brands that don't live up to the luxury qualities from miles.

### 2. **Informed & knowledgeable**

With instant access to digital information, the luxury client of today has the ins and outs of luxury brands at his finger-tips. The surprise element has been suppressed and the client is now more difficult to please and tantalize. Luxury brands have to work hard to attract and retain the informed client's attention.

### 3. **International**

Today's luxury client is increasingly a globe-trotter and it is not uncommon for them to shop at major luxury cities, where they increasingly own homes or extended businesses. This means that they expect recognition and coherent brand experiences at every shopping location and channel both offline and online.

### 4. **Empowered & influential**

The internet and the arrival of the social web have given power to luxury clients in ways unimagined. Today by evoking a simple conversation or debate on a blog or social network, luxury clients are able to influence the opinions and perceptions of millions of people towards luxury brands both positively and negatively. Luxury brands have to understand this world and how to represent their brands in it.

### 5. **Demanding, impatient & insatiable**

The multiple choices and offerings that luxury clients are inundated with from different channels of sales and communications has led them to be spoilt for choice. As a result they have become demanding and difficult to please and expect instant gratification. Brands now have to woo, court and dance to their tunes.

### 6. **Socially and culturally aware**

The world has changed tremendously and become more global in the last two decades and luxury clients have evolved with it. The consequence is a convergence of cultures and social habits and exposure to the differences that make all societies unique. This has led wealthy people to seek niche brands and products that truly represent the fine tradition and craft of each culture.

## 7. **Individualistic, yet communal**

This is one of the paradoxes of today's luxury client who shares collective experiences with thousands of others on the social web while experiencing individual interactions with luxury brands. Their overall feeling towards luxury brands is a result of their shared linkage between these two channels.

## 8. **Flexible attitude**

The luxury client of today has undergone an attitude overhaul. They no longer crave to be associated with only one brand or an entire collection from one brand but they are prone to defining their own styles by mixing and matching. They are also open to disposing of luxury products through sales and second-ownership sales as well as acquiring used luxury products, borrowing some and even collectively owning some like yachts, cars and jets.

## 9. **More website loyal, less brand loyal**

Luxury clients exhibit varying degrees of differences in their behavior online versus offline. In the physical world, their choice criteria for brand preference range from the brand's reputation, products, services and overall experiences. Online however their preference for a luxury brand depends on the offerings and experience the brand offers on its website. In other words if a luxury website doesn't deliver the client moves on. After all it only takes one click and half a second.

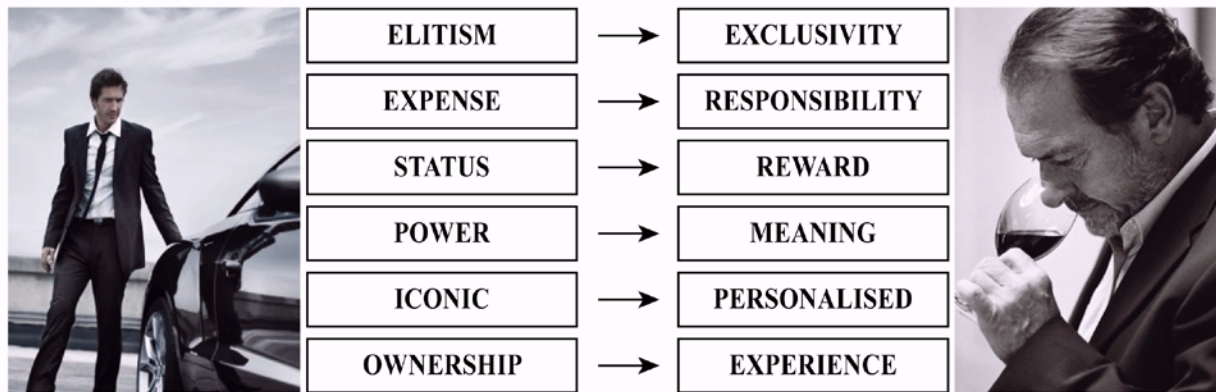
## 10. **Socially responsible**

Today's luxury client cares about the world in which they live in. There is a strong movement towards social responsibility, ethics, environmental protection, fair trade and other initiatives geared towards the well-being of the general society. The brands that are involved in genuinely supporting these initiatives will likely feature at the top-end of the choice list of clients. And the clients are smart enough to sniff out the brands that intend to use sustainability for PR-stunts!

All the trends outlined above point to a more complex and discerning luxury consumer. No longer is it simply about the products at point of purchase: today, the entire brand promise is under scrutiny. This includes the guarantee of excellent quality, highest standards of materials, expert craftsmanship, exclusivity, responsibility and the impact of the purchase on wider society. **These new consumers desire something more meaningful than just an expensive piece; they want brands to live and breathe their values through the way they do business.**

Figure 4 serves as interpretation and summary of where new luxury consumer is heading.

Figure 4: New Luxury Consumer Shift



Source: *De Beers 2009*

The luxury store environment is also an arena where these changes are being played out. In the words of designer Tom Ford, the luxury retail store was once about ostentation: “*You walked in, everyone saw you, you saw them ... it was a scene*”<sup>35</sup> Now the luxury environment has changed to become more individualized, intimate and private. This new concept aims to make the consumer more comfortable. In Ford’s case, stores are often furnished with items from his own home, providing another dimension to the brand experience. Also, prestige is enhanced once an individual’s preference for shopping in clothing stores where the combination of patron status, store type and atmosphere, merchandise price, quality, branding, and fashion combine to create a particular prestige level.

<sup>35</sup> Time Magazine, Tom Ford quoted (2008). March 15<sup>th</sup> 2011

## II UNDERSTANDING RETAIL EXPERIENCES

Relationship principles dominate marketing taught and practice (Fournier, 1998). Further, Vickers and Renand (2003) propose a consumer needs model for luxury goods based on three dimensions: functional, symbolic, interactional and experiential. A general change in customer purchase criteria entails a heavier focus on emotional as opposed to functionality and usefulness. In like manner, the most complete overview of the motivational forces for luxury consumption was provided by Vigneron and Johnson (1999) distinguishing five values of prestige consumer behaviors combined with five relevant motivations, and from these identified five different categories of “prestige” consumers (Husic, Ostapenko, 2010) According to the authors’ categorization of luxury products, *hedonists* and *perfectionists* are more interested in pleasure derived from the use of luxury products and less interested in price, product characteristics, and **performance**. Similarly, Husic (2009) identifies and adds the lifestyle as driving motivational factor for luxury consumption.

However, these statements should consider emotional values as well. To many people shopping for a luxury item has an emotional dimension expressed through different touch points between a company and customers. If a luxury product fails to relate to consumer the relationship ends. Therefore, the concept of company’s performance is also important. Performance is the key word against which to judge luxury products or brands interpretation (Denzinger, 2005)

In other words, the concept of luxury brand performance is considered the best approach to tackle the relation between how a company aesthetics management delivers or performs its luxury functions experientially for the consumer. The performance must be freed from narrow mechanistic view to be seen in the more expansive light of experiential marketing (Denzinger, 2005)

### 2.1. Experiential Drivers

An experiential approach defines luxury as items which provide extra pleasure by flattering all senses at once. *“Experience retail is a much more sophisticated offer to consumers of a place where they can satisfy many of their needs, wants and aspirations for the products, services and*

*experiences that they require for their lifestyle and self-image. Experience retail combines very innovative forms of delivering the retail experience together with the leisure entertainment and cultural experiences that consumers want or aspire to, and, increasingly, the residential lifestyle they aspire to as well. In the delivery of service in the retail environment, experience retail provides a more personal and higher quality service.*“ <sup>36</sup>

Many researchers based there analysis on the evolution of the retailers and their positioning of being regarded as brands. Some tried to outline the intangible values of store image to identify which attributes are sought to be most important to drive the purchase to higher sentimental value.

Martineau (1958) is considered the first one to discuss 'store personality', Lindquist (1974) develops the distinction between 'functional qualities' and 'psychological attributes', and Oxenfeld (1974) stated that store image is a concept which is 'more than the sum of its parts'. Holistically a store image role could be viewed as interaction among 'characteristics and includes extraneous elements, it has some emotional content and combination of factual and emotional material". <sup>37</sup>

The mixture of tangible and intangible dimensions and the complexity of meanings and relationships attributed to retailers by customers have long been recognized. The interplay of these tangible and intangible elements and the customers' overall interpretation of them, based upon previous knowledge and experiences, are widely accepted to determine store image. In this light, store design works at subconscious levels.

Martineau's (1958) paper identified four core attributes:

- layout and architecture
- symbols and color
- advertising and
- sales personnel. <sup>38</sup>

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<sup>36</sup> <http://medinge.org/branding-new-kinds-of-places-the-example-of-experience-retail-centres/>

<sup>37</sup> STEVE, B., ENCINAS, J.C.: The role of store image in retail internationalization, International Marketing Review, 2000. Vol. 17 ( 4/5), pp.433 – 453

<sup>38</sup> BURT, S., ENCINAS, J.: The Role of Store Image in Retail Internationalization. International Marketing Review. Vol.17 (5), 2000. p. 436

However, one of the most enduring sources is the nine attributes derived by Lindquist (1974) from a review of 19 previous studies. These attributes are:

- merchandise; including factors such as quality, assortment, styling or fashion, guarantees and price
- service; encompassing staff service, ease of return, credit and delivery service; clientele, consisting of social class appeal
- self image congruency and store personnel
- physical facilities; such as layout and architecture
- convenience; primarily location related
- promotion; including sales promotions
- product displays, advertising programs, symbols and colors
- store atmosphere; defined as "atmosphere congeniality" which represents a customer's feeling of warmth, acceptance or ease
- institutional factors; such as the conservative or modern projection of store
- reputation and reliability
- post-transaction satisfaction; returns and adjustments.<sup>39</sup>

There are two aspects in store design – marketing orientation and design orientation. While marketing orientation takes into consideration functional aspects of elements, design orientation adds to aesthetic appeal to the store. For example, a high fixture might add to the aesthetic appeal of the store, it might not be comfortable for an average height customer to get products from its top shelf. (Mathur, Acharya, 2008)

Store atmosphere has been also found to influence different senses, visual mostly, followed by sound, smell, touch and taste in that priority order. Interactive analysis with customers revealed that they would be "comfortable in a store which is as natural as possible and gives a friendly look, rather than elegant or high end."<sup>40</sup> (Collins, 2009) Store design is thus moving from its two

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<sup>39</sup> BURT, S., ENCINAS, J.: The Role of Store Image in Retail Internationalization. *International Marketing Review*. Vol.17 (5), 2000. p. 437

<sup>40</sup> COLLINS, J. H. .: Emotion and Identity in Luury Design. In: *Falgship marketing. Concepts and Places*. Routledge Advances. Management and Business Studies, 2009

dimensional approach of graphics, colors, name and logo to three dimensional experiences at the point of purchase. (Kent, Brown, 2009)

Store design is interdisciplinary in nature. It is both an art as well as science. It derives its grounds from psychology, marketing, and geography, cultural and social context. (Collins, 2009) Hirschman and Holbrook (1982) noted that: "Hedonic consumption designates those facets of consumer behavior that relate to the multi-sensory, fantasy and emotive aspects of one's experience with products."<sup>41</sup> (Langrehr, 1991) Therefore, when a designer is commissioned to design for a luxury setting project, the design will probably be required to fulfill functional, aesthetic requirements, which usually have to align the image and identity of the organization. From here, the interpretation of the space and environment from a multiple identity perspectives and from different situational contexts of sense-making of organizational life begins.

Given the rising cost of retail property and financial investments that fallow daring luxury-oriented projects it is important that designs are perceived as intended. Physical symbolic artifacts of luxury spaces are frequently subjected to interpretations and lead to conscious and unconscious consequences in order to maintain its exclusive image.

In the world of luxury the retail space must correctly evoke the codes of the brand with no disconnect from, what is going on in advertizing or runway otherwise it risks the consumer being disenchanted. Luxury brands tend not to attempt to 'weave their magic alone.' It is important to curate the avenues to provide the coherent environment for brand visitors. In a world in which most consumers have their basic needs satisfied value is provided by satisfying customers' experiential needs and their **aesthetic needs**. The core competence will get emphasized once the placement of the familiar in unexpected setting occurs. (Burt, Encinas 2000).

The experiential perspective explores the symbolic meanings of more subjective characteristics (cheerfulness, sociability, elegance). Many products project important non-verbal cues that must be seen, heard, tasted, felt, or smelled to be appreciated properly. Indeed, in many consumption situations several sensory channels operate simultaneously (Holbrook, Hirschman, 1982). In

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<sup>41</sup> LANGREHR, W. F.: Retail Shopping Semiotics and Hedonic Consumption. Advances in Consumer Research. Vol. 18. 1991. p. 428

luxury we deal with high involvement durable products and an experiential outlook must involve subjects in consumption experiences based on real or at least realistic product samples.

Companies tend to differentiate themselves in the market place to a large degree by means of their visual identities. (Schmitt, 1999) The challenge for luxury retailers is to be innovative and sometimes redefined, while retaining brand's heritage and mystique. Luxury retail brands work a lot to maintain their specific allure around identity and avoid duplication as it is what's regarded to undermine brand creativity. However, to fail to implement the experience and atmospheric oriented campaign properly in the store is another catch. One example is Prada, and its unique store concept named Epicentre store. Its function, according to Prada was to "become a device that renews the brand by counteracting and destabilizing any received notion of what Prada is, does, or will become" (Prada, 2009)

Experiential marketing is common in retail spaces especially designer boutiques and luxury stores. The challenge for experiential marketers using retail branding is to make sure that each store follows the experiential marketing approach and if it follows the strategy to change the space often than it has to make sure to communicate this with its brand promise. Again, underling the particular positioning of luxury retail houses the interplay with self-concept is core around which psychologically and entrepreneurially this business should orientate.

In addition, experiences are driven by various emotional factors. By its nature, unlike in most business decisions making, emotions are driven by personal perceptions. Those expectations when translated into retail space are mainly consumed through identity and image management. Controversy regarding the effectiveness and the role analysis usually have strong bond with design process.

There is fine line in this retail vs. consumer game. It is important to understand that luxury brands evolved away from workshop expertise to retail expertise and the Maison experience becomes as important as the product. As retail spaces become more experiential, product displays become more important. If neither product nor experience is good it goes nowhere. Once you buy one product, its only one experience. Will u return or not? Will it develop into a relationship of a kind?

This is the area where the brands are fighting it out with persistence and innovativeness. So much retail experience and expressions are so bad that it is putting people off some brands or vice versa. Why is expression / impression relationship so important? It is through successfully implemented experience strategy that an identity for the organization and its brands is created.

According to patronage behavior theory proposed by Sheth (1983), two key factors that influence shopping preferences: retail outlet and product characteristics. Consumption has begun to be seen as involving a steady flow of fantasies, feelings, and fun encompassed by what can be named the "experiential view."

Consumers experience and perception of luxury is in an entirely different dimension. Their definition of luxury focuses on personal relevance. However, the "New" luxury is about experiencing and engaging consumers emotionally. Despite the widely held belief that brands are the main attraction in the luxury market, research indicates that people buy simply because they love to. Hirshman and Holbrook (1982) state; 'retail space or shopping mall can replace 'product'' and hedonic consumption can be linked directly with the space shopping experience in and of itself' (Langrehr, 1991)

They want more from life than simply buying another thing to display, another outfit, a new gadget. This luxury generation expresses a need to find a deeper meaning in life. They are more enlightened, less materialistic luxury consumers looking to reconnect with the world in meaningful ways.

Thus making the true measure of today's luxury brand is in discovering how well it delivers satisfaction, experientially. The biggest challenge for today's luxury marketers is to 'not only talk to the target, but to understand how the target is shifting, while not alienating their core customers.'<sup>42</sup>

The benefits that consumers seek and the motivations that consumers respond to in different store formats are essential to buying process. Consumers tend to compare the characteristics of a retail outlet with their shopping motives and choose the outlet that best matches their needs (Sheth, 1983). Typically an investment made by luxury goods retailers, the opening of such format as a flagship store is no more the sole domain of up-market retailers. Rather than focusing only on

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<sup>42</sup> [www.bandt.com.au](http://www.bandt.com.au) Experience a New Luxury (September 2005), February 28<sup>th</sup> 2011

chains some companies opt more and more toward expending their business strategies in order to include the flagships.

## **2.2. Consumer Engagement Impact on Luxury Experiential Format Creation**

Consumers can become engaged, that is, form emotional attachments to brands that they make part of their lives, with specific brands (Keller, 2001). Thus, brand engagement of this sort is highly desired by marketers as it leads to frequent consumption, loyalty, positive word-of-mouth. However, there is another sense in which we can talk about brand engagement.

Brand engagement in self-concept (BESC) describes the general tendency of consumers to use brands to shape their identities and to express them to others. This global disposition or trait is an important individual difference variable characterizing consumers. This form of brand engagement is important because it allows researchers to study this phenomenon in a general sense that is not limited to engagement with a specific brand.

Sprott et al. (2009) defines BESC as consumer “tendencies to include important brands as part of their self-concept.” BESC portrays consumers along a continuum ranging from the low end, where consumers do not see brands as important elements of self-concept, to the high end where they identify with brands and have special bonds with them.

Brand Engagement in self-concept is a new and different way to think about consumers' relationships with brands. It does not describe brand personalities or an attitude toward brands so much as an individual difference variable on par with other personality-like concepts that are often used to explicate consumer behavior. BESC exists conceptually below the Big Five personality traits, which exist at the highest level of generality, and above more domain-specific traits such as opinion leadership for a product category (Mowen and Voss, 2008).

Although no previous study has investigated the relationship between BESC and shopping, the description of BESC strongly suggests that: “consumers are highly motivated to use brands to express their self-concepts should spend time and energy learning about brands and what they

mean.”<sup>43</sup> Shopping is a primary way in which consumers could acquire part of their knowledge, and so it was hypothesized that BESC was positively related to attitude toward shopping.

The retail space is crucial communications vector for many brands. One of key differences between luxury product and ordinary one is the element of fantasy. This is the emotional desire of the brand the power of dream. This is a kind of visceral response that luxury brands strive to provoke with their retail spaces: they want to seduce the shopper with lavish surroundings.

As highlighted many times throughout the work, a shop is identity card for the brand. In the line of standards elements as: the shop design, quality products, good brand should precede. Visual identity of shop is a tool to position a brand on the market, including quality products and business policy of the brand. The shop is the first thing customers see. In this view, context, attributes and critical success factors are relevant for a luxury store and its experiential image.

In more detail the dimensions necessary for the visual rhetoric and identity perspective are outlined. This highlights the significance of a luxury brand and its role in creating the value within the setting. Therefore, the work takes the concept of flagships as benchmark on which the analysis rests upon.

While acknowledging that flagship has significant role to play in the business strategy of the luxury market retailers, this work analyzes the flagship store perspective. By raising the issue of strategic purpose and value of the luxury flagship store, the chapter will emphasize the purpose of design within this format as well. Thus depicting the experiential and value adding attributes of these settings.

### **2.3. Strategic Purpose of the Luxury Flagship Store**

In the broad sense the flagship represents a crucial role in the formulation and development of the luxury retailers fashion brand (Kent, 2009). Judging by analysis of luxury retail-oriented authors such as Moore and Doherty (2006) the creation of a flagship store is often an investment challenge for those companies that seek to re-position their luxury retail brand.

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<sup>43</sup> <http://www.sciencedirect.com.ezp.essec.fr>

The research made by Moore and Birtwistle (2004) found that in such brand as British luxury brand Burberry, by adopting the flagship investment as a mean of re-creating a “new, clearer and more convincing luxury brand” revitalized its brands positioning. Starting with the renovation and redevelopment of the store in Bond Street, London the network soon reconnected with the markets important to his company’s success. These strategic openings in the countries such as Italy, Japan and the USA, served to signal the aspirations of Burberry’s come back with more clear and credible growth intentions.

There are more examples to support this finding. The recent being Chanel flagship store opening in Avenue Montaigne 51 in Paris where; *‘The new Chanel flagship store covers 600 sqm and features the full range of Chanel product lines, from ready to wear, accessories to bags, shoes and jewellery. The use of luxurious materials such as gold leaf or rock crystal are complemented by the artworks of 12 contemporary artists which decorate the new Chanel store under supervision of renowned architect Peter Morino.’*<sup>44</sup>

The story of Gucci Group witnessed the same principle in the past. Under the new creative direction of Tom Ford in late 90’s, the Group soon helped to revive and advance the growth of group’s brands such as Gucci and YSL. This served as announcement to customers of the new brand identity. Mainly through the successful implementation of all the visual and design elements of the store the consistency with the identity was supported advocating the extravagance and glamour. The tone of “voice, values and communication identity devices” as such demonstrated the essence of Gucci and YSL brand identities. Finally, they were exhibited to be trailed and touched and experienced allowing customers to come to the store to ‘live the Gucci and YSL brands. In doing so, the Gucci Group continues to use its interior and merchandizing to underline its identity and positioning.

Moreover, expanding to new territories like Russia and China, the company is able to demonstrate its strength and credibility. All these are powerful moves in strategic directions with the desire to reinforce and maintain brand positioning.

Furthermore, introducing a flagship as new strategic intent helps internal communication and indicates to investors and partners intentions and direction. Also partnership relations get

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<sup>44</sup> [www.cpp-luxury.com](http://www.cpp-luxury.com) , March 9<sup>th</sup> 2012

reinforced as flagship indicates the commitment to the host market by internationalizing retailer in turn improving the perception of the brands power in the mind of host country customers. Another strategic value lies in the fact that flagships hold usually the whole brand offer, controlled operating standards and merchandizing methods. This helps guiding and preserving the wanted brand presentation. By encouraging the partners to pay the visit luxury retailer is able to set the communication flow, level of intended involvement and perceptions of value and control of its brand.

Another example comes from IT industry; in 2001 Apple changed direction and initiated the retailing of experience offer through the Apple Store Experience. With the aim of switching customers to Apple (as well as enhancing the relationship with current consumers), the flagship stores allow customers to interact, learn and experience the values of the brand through in-store design features and staff service. More importantly, rather than having products arranged via category (i.e. printers, software, digital camera, iPods, monitors, cases, etc.), merchandise is combined and arranged according to how consumers might use the equipment in their everyday life, thus seeking to locate the brand in realistic consumer settings. (Healy, Beverland, 2007)

The aim of such experiential retail stores is to create outlets that capture and represent the brand's essence, while balancing both the functional components of the product (what it does) with its emotional goals (how it makes me feel) Experiential retail strategies facilitate the creation of emotional attachments, which help customers obtain a higher degree of possessive control over in-store activities (Schmitt 2003).

From the stand point of media, flagships provide the settings to attract opinion formers and leaders, including celebrities, editors and reporters. Other than providing the space for the endorsement, the flagship store provides the opportunity for the company to showcase their entire collection to the fashion press. (Moore, Doherty, 2009). Preserving good media/press relations is crucial to for the survival of luxury brands and their financially – demanding settings. Establishments as flagships create significant media coverage and boost local, international and niche public perceptions. This places in the memory brands while luxury districts grow in its importance as well, raising as touristic attractions for example.

The luxury flagship also serves as the retail prototype for other stores operated directly or indirectly (Moore, Doherty, 2009) it also contains so called retail formula by specifying the design and development of further international expansions.

### 2.3.1. Design of The Luxury Flagship

Although not only relevant for the flagships store designs, there exist situational variables that are considered important in connecting individual consumer characteristic and behavior with the aesthetics of the space. Back in 70's the research by Belk (1975) suggested relationship between physical and social surroundings. Those listed were: location, décor, noise, aromas, lightening, intensity, layout. Prior to this one was the article by Kotler on environmental impact of store interiors which create the atmosphere that in turn creates the retail image in consumers mind. If the image is positive it will incline the customer to stay and shop. More recent were the findings from 2005 by Allegra Strategies (Webb, 2009) where as the result of the analysis of flagships in London they identified twelve critical success factors which fallow the creation and sustainability of the concept. Table 2 illustrated those factors.

Table 2: Critical Success Factors in Flagship Store

Prime site/location	High operating standards
Full merchandise range	Superior customer service
Sufficient size	Events and entertainment
“Third Space” facility	Uniqueness
Store design	“Wow” factor
Superior shopfit	Intelligibility and navigation

Source: *Flagship Marketing. Concepts and places*

With regards to store design, a flagship states its positioning strategy. The brands image, identity and status influence the shape of the design. Commonly, the materials used or the historical background of the building where the flagship is situated and its prestigious location are just some of the ingredients included in overall design process. These further turn into semiotic clues carrying the values that end up replicated through all brands flagships. For instance, the purity of Giorgio Armani brand is reflected through purist materials as late glass, cream stone (Moore, 2009). This approach provides continuity in the presentation of values, standards and ideals of the

brand (Doherty 2009). Also, the significance of the location and residence of the building allows the brand to be associated with historical values presented by the building. Good example for this is Ralph Lauren Rhinelander Mansion or Louis Vuitton in Trust Company in New York.

Further characteristic of flagship design value is in the famous names signing these projects. It became popular and essential to hire well know architects to reinvent the place and align it to core brand values. Their names by far push the further press interest and again the image is kept in the mind of customer, partner and investor as well as community. Also, creative involvement initiates new ideas, techniques and skills. By contrast they brought another value to retail brands, that of differentiation. Today, not all store are uniform. In particular luxury flagships use this formats to state that they are unique, have the interest to reflect local characteristic and not only standardize the formats and preserve the distinctiveness so crucial for luxury consumers. Unique design is to be found in signature furniture, additional personal touch of well know name to share the sense of intimacy, privacy and interest.

Thus, the retail brand setting became retail branded experiential settings supporting art to produce wow effect and surprise effect. In some cases, throughout the store artwork gets presented in an integrated way with merchandize. Impact of the designed spaces expands to include bars and restaurants simulating the “third place” concept. To illustrate the importance of these experiential details the following serves: ‘Dolce and Gabbana for their menswear flagship store in Milan, have included a 1950’s Martini Bar as the critical element of the offer. Chic and model-like sales staff is moving in red and black interior’ (Moore, Doherty 2009)

This means that the Martini Bar not only provides the allure but is revenue for the company. It is attraction in attraction. On one side, customers are drawn to stay, drink look around and feel no pressure and be exposed longer to the memorable effect. All these consequentially, serve to manage, visibility, generate awareness and PR and network with shopping savvy community.

Even though often criticized as non profitable establishments, flagships are DNA of respective brands and serve more in communication purposes, research and trials than for the profits as such. This is why they are strategically essential as messengers of talent, novelty, hedonism, and customer care.

However, to identify the experiential attributes of luxury retail setting this chapter further focus on experiential rhetoric of the luxury retail outlets, namely flagships. The concept of the flagship is taken as the landmark to build the further environmental i.e. physical cues that were recently recognized as drivers not only of premium position but of well defined features of commercial and cultural experiences one can expect (Kent, 2009, p. 9) They are also seen as change agents (Kent, 2009) signaling associations with prestigious and iconic.

Today, flagships tend to be part of peoples everyday lives allowing consumption of products, experiences and processes (Kent, Moore et al. 2009) through which people enter different world. This chapter demonstrates the ways in which the flagship concepts have become a significant part of the language of branding and promotion. Some experts on retail branding as Aaker have identified the flagship stores as means of ‘immersing customers in brand experiences (Aaker, Joachimsthaler 2000) moving the retail branding from two dimensional brand identity do three dimensional brand experience.

The flagship projects alter number of elements to boost consumption but mainly to boost the service. Thus, they are relevant as marketing tool, a large advertising hoarding, promoting the place for others to invest and spend. It may be the part of larger marketing approach to advertize the city, create the demand for inward investment, or create the development combining specific regeneration functions and symbolic values (Voase, 1997; Aitcheson and Evans 2003). By means of this, whole cities can be flagships for national or cultural projects such as areas like Bilbao’s Guggenheim Museum seen as flagship for the country and for the Guggenheim foundation (Worsley, 2004). Apart from economic factors that are apparent in many of these projects, this chapter turns its attention to retailing and development of flagships from marketing communication perspective.

In a strategic context, there is a positioning match between store and location. Furthermore, interior, design and windows serve as soft competitiveness factors to communicate the retailers positioning.

From its beginnings the place has been as an essential ingredient of the marketing mix mostly in retail industry where location is taken as the most important element of the retail strategy. The establishments occupying the place are characterized as supporting the brands reputation. Seeing

flagships as part of marketing communications for the whole chain or company explains the high levels of investment dedicated to their creation and running as a means of creating awareness and interest (Moore, et al. 2000). It demonstrates lifestyle images through brand advertising and promotion thus ensuring that the own brand values are extended throughout the whole shopping experience.

During the 1980s consumer research turned to experiential and hedonic consumption. (Holbrook and Hirschman 1982) Marketers started to explore the significance of sensory experiences and their applications to the market positioning (Schmitt and Simonson 1997) and the primacy of the experience economy. It was the time when the location of the retail experiences was found on interest expanding the literature of retail atmosphere, consumer attitudes and behavior. (Kotler 1947, Donovan and Rossiter 1982, Turley and Milliman 2000), store patronage (Newman and Patel 2004) and merchandise and display (Ward and Davies 2004). In turn designers started to develop solutions for retail design, in particular for the fashion retailers leading toward more creative interiors and exteriors.

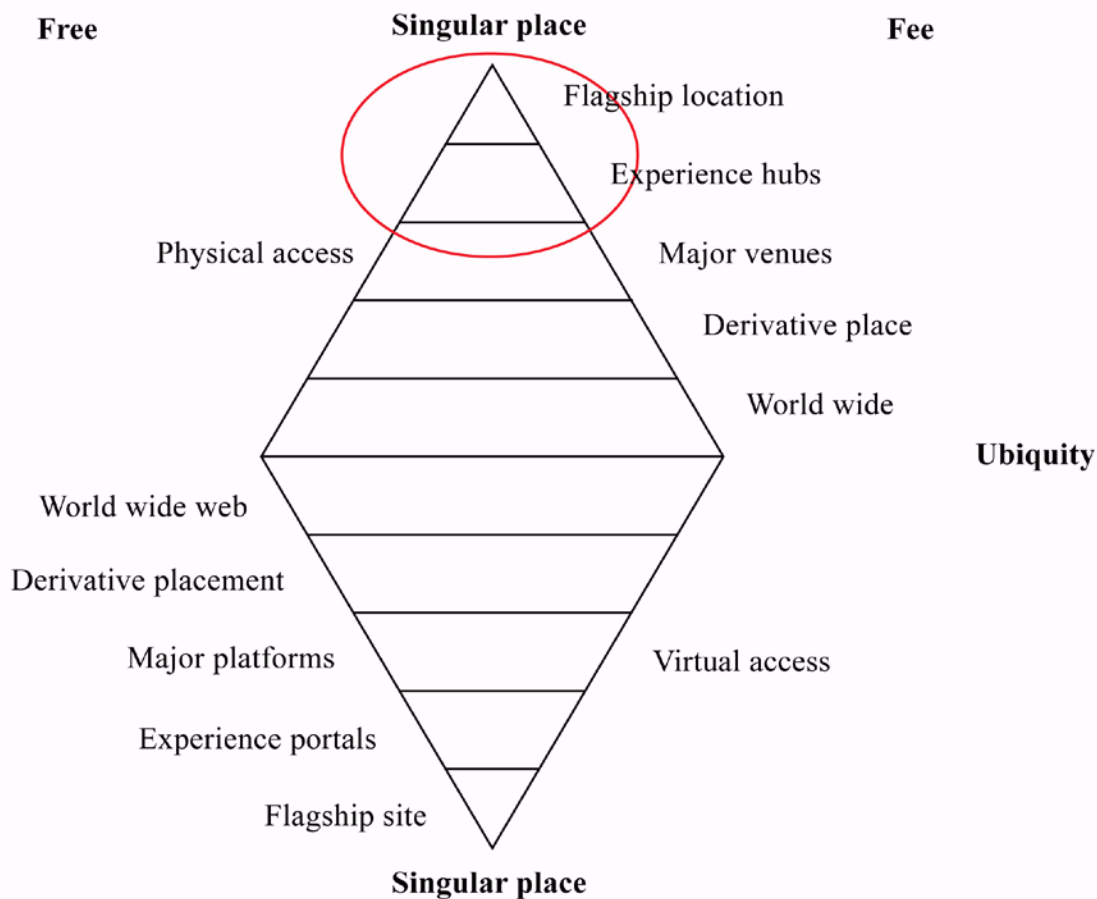
The store as brand came to relate to appearance and identity to core brand values (Magrath 2005) as consumer experiences reflect the development of retail branding and store design and their engagement with emotions and physical contact. (Kent 2003). The use of sensory experience has led to the store environment taking on a greater significance providing spaces for interactivity and communication. Creating these environments places the emphasis on design and value co-creation. Retail design has to be multi – faceted to link together art, instinct and business in a problem solving and planning process. Above all it must be creative to find or invent new environments in which space is matched to the effective communication of the retailers brand values and the stimulation of the consumers purchasing activity (Din 2000). Therefore, the creativity has become more of a required organizational resource and a desirable core competence. It has become more so as consumers became part of the retailers value creation process the one that moved from a product focus to individualized experience.

In this context, the flagship stores operates in two dimensions, to sustain creative design and enable consumers to be involved. This leads to engagement outcome between consumers and a store environment and the experiences it offers. The presentation of those brand experiences

draws to be an essential part of the luxury flagship as it is aiming to unify ‘ultimate allure of the brand ‘(Moore and Birtwistle, 2005).

The intensity of experience in branded flagship stores has been developed and categorized by Gilmour and Pine (2002) and Kozinets et al. (2002). The former, initiated a conceptualization of experience places based on different sizes and locations, both physical and online (Figure 5). They proposed that: “organizations explore the possibilities of a **rich portfolio of experiences** that flow from one level to the next and develop a value creation hierarchy model to demonstrate how these can be created, and match to consumers sensorial and knowledge resources. “The most singular experiences occur in a flagship location where ‘the company stages the very best, most dynamic experience’.

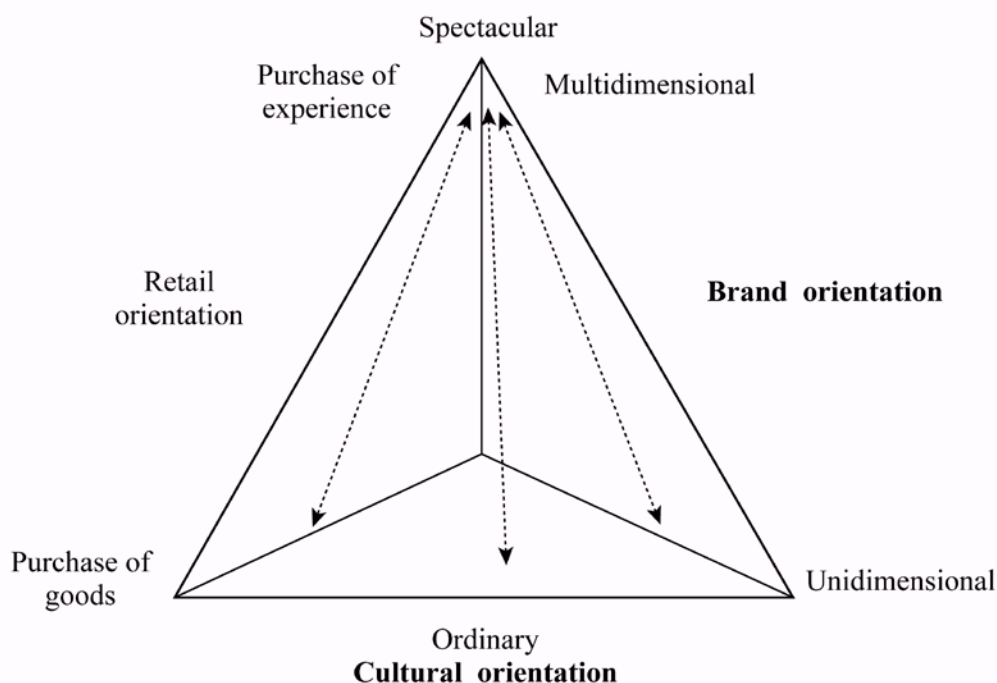
Figure 5: Location Impact



Source: *Flagship Marketing*

The latter, framework demonstrates that related experiences prevail over “functional efficiency and that experiential, spectacular and entertaining aspects of retailing are becoming increasingly important to stores” Kozinetz et al. 2002 proposes that individual brands should be surrounded by environments specially built for their brands where retailing is ‘tangible and spatial, and blend virtual and real worlds’ . In this context, retail marketers should turn to the aesthetics of the shopping environment where shopping, entertainment combine for consumers to make meaning out of the physical experience of the place. In sum, the retail brand is seen within a context of “entertainment – oriented services’ where brand related experiences prevail over functional efficiency. The authors extend the experiential framework using a service scope (service dominant logic, explained later on) to classify, organize and analyze the types of fantasy elements that may play an important role to construct contemporary environments. They in turn create a visual three-dimensional model to explain flagship development through; retail orientation, cultural orientation and brand orientation (Figure 6) The lowest levels of retail, cultural and brand orientation are the base of the pyramid. The higher up the pyramid the flagship store can be positioned, the more multi-dimensionally branded and more experiential it will be.

Figure 6: Dimensions and Forms of Flagship Brand Stores



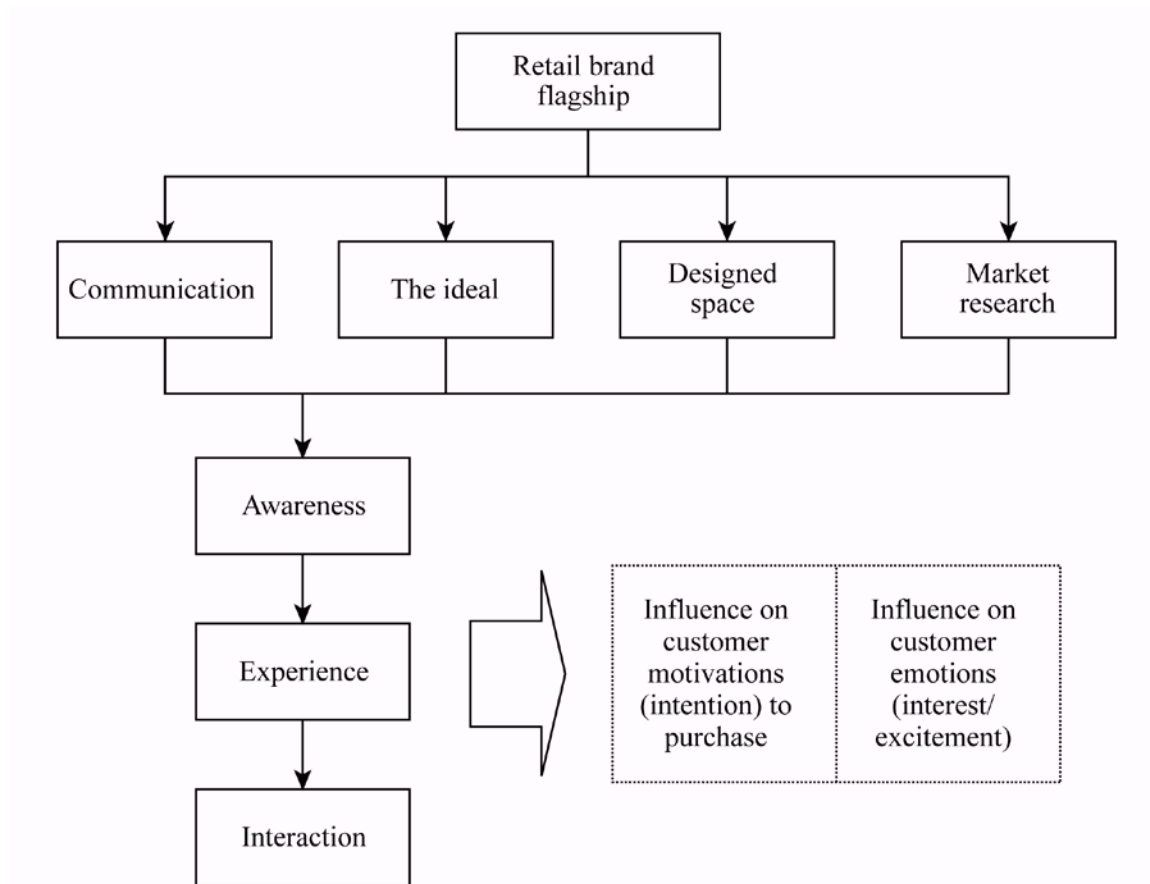
Source: *Flagship Marketing*

At its most general flagship is synonym for novelty or newness to create interest in development. This may be purposeful on the part of the retailer or adopted as part of their communication strategy thorough PR.

In addition to combining basic elements of marketing mix (Foxell, Kent 2006) the complexity of these stores lends support to the extended mix approach (7ps) as the physical environment and people are particularly important elements. Even further, key participants in retailing, design and property management support the use of flagships as retail branding function. In this manner they are more than a store: they are poisoned to communicate corporate and brand values to customers, employees, competitors and communities. They can be considered in addition to retailing sales function as three dimensional forms of advertizing and promotion. Seen like this, they provide two way communication and interaction with their customers. It gives a brand exposure to different audience, demonstrates confidence and expresses interest, and emotionally it brings excitement. In addition flagship stores provide a capability to be creative to extend or replicate the brand online opening up possibilities for both physical and virtual flagship stores and to combine virtual elements into store environments.

Design elements in the flagship have become increasingly integrated and flagships can be significant design statements, LV in Tokyo, Prada in NYC and Tokyo, Niketown that have the monuments as much as architectural and thanks to their merchandize. To achieve memorable experience store must engage with customers emotions to attract new customers and retain the loyalty of existing ones providing symbolic and material environment in which customers engage with the brand. Creativity and change point to more clever spaces, more intellectually demanding and consumer responsive. 'We may see stores as magazines 'is understatement as we are already witnessing as Mikunda has described large branches of Zara as a three dimensional advert a lifestyle magazine that u walk into . (Peneder, 2005)

Figure 7: Retail Store Branding



Source: *Flagship Marketing*

*‘Don’t call it a store call it an ad with walls’*

*New York Times on opening of Apple Store in London*<sup>45</sup>

In a competitive stage important becomes the way the store exteriors and interiors are designed do that the customer is emotionally bonded to the retail outlet. The visual codes in the store design suggest many dimensions in the retail store designing. The designs give a meaning, like that of a product and with this design; the stores have created what semioticians call an ‘emergent discourse’ in its way. It represents retail store designing in a more traditional way.

<sup>45</sup> <http://www.nytimes.com> (2004). 28.2.2011

Brand recall of the store is associated with aesthetics and interiors of the store. According to Joseph Weisher, ambience, comfort and clarity go hand in hand. Hart and Murphy (1998) insist that a brand is a “synthesis of all the elements, physical, aesthetic, rational and emotional,” and that product attributes must be “coherent, appropriate, distinctive and appealing to consumers.”

Consumers are faced with a myriad cues in a retail store as suggested by Markin et al - cues which act as communicators of the store’s image. Since store layout and merchandise selection and assortment are almost always included in “lists” of salient attributes for the determination of a store’s image it is logical to assume that these components of a retailer’s offerings are among the cues to which consumers are exposed. The existence of cues which act as “value signals”, or attributes apart from the merchandise or the pricing alone which can affect consumers’ perception of value - attributes which can logically include the layout and display encountered in a retail store. This identification in turn may provide consumers with a visual cue which may aid them in assigning an image to a store by providing them with a method of store categorization.

Such views coined the various terms emerging from the development of emotional branding theory that evolved during 1990s. from this perspective emotional engagement with a brand can be deepened through exposure to the visual and sensory features of the brand space. (Gobe 2001; Shaw and Ivens 2002; Schimtt and Simonson, 1997) refer to the term marketing aesthetics to discuss how brand image is communicated via holistic visual appeal of the brand experience as exemplified by the flagship store. Galleries Lafayette in Paris and KaDeWe in Berlin are good examples (Horbert 2005) for those retailers searching to reposition through flagships and make the business more visual and tangible two levels are employed.

On a level of physical experiences customers can engage with small product like mobile phones (Samsung), watches (Swatch), or computers (Apple) creating the tactile exposure hard to replicate on say, magazine pages. The second level is brand communication through media exposure, word of mouth that flagship can generate. Interactive opportunities with the product created by retail space invite visitors to handle, play manipulate and interact . Its commercial role isn’t paramount but rather brand image enhancement by adding value to the setting.

It's a physical and multi sensory manifestation of brand identity. Store concept becomes a three dimensional advertisement for the manufacturers brand through which the consumer walks and the store itself becomes the brand experience (Floor 2006). Kiley and Berner 2005 made a point when describing the role of flagships as "to provide the venue for trialing new products and illustrating display and visual merchandizing ideas for the benefits of the stockists as well"<sup>46</sup>

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<sup>46</sup> Marketing Letters. Brand Value Creation: Analysis of Interbrand-Business Week brand value rankings. p. 323-331. Vol. 17 (4). 2005.

### III METHODOLOGY

Research is about search. Those in search for the data, facts, news, knowledge have come across various ways to compile and evaluate the information needed. However, the way the data get collected and more relevant, analyzed is the essence of every (re)search. Essentially, it's a voyage of discovery.

The aim of this chapter is to explain and justify the methods chosen as suitable for generating the aim and objectives of this research. The retail experience cannot be understood by pure logic. When the research is on the experiences, values and/or perceptions adopting the proper methodology approach is challenging.

Some definitions of research are offered by “The Advanced Learner’s Dictionary of Current English” that interprets the meaning of research as “a careful investigation or inquiry, specially through search for new facts in any branch of knowledge.”<sup>47</sup> Redman and Mory define research as a “systematized effort to gain new knowledge.” D. Slesinger and M. Stephenson in the Encyclopedia of Social Sciences define research as “the manipulation of things, concepts or symbols for the purpose of generalizing to extend, correct or verify knowledge, whether that knowledge aids in construction of theory or in the practice of an art.” Research is, thus, an original contribution to the existing stock of knowledge making for its advancement.<sup>48</sup>

In line with the topic, attention is on memorable experiences creation through which the research addresses the value co-creation between customers and luxury retail settings. The process is multi-phased. In this light, the retailers co-create the value by providing an appealing experience to consumers at a physical and psychological level. In addition, most research techniques used come from design firms, strategic identity consultants. These research tools are coming from the social science, are verbal in nature and highly intuitive in majority of cases as well.

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<sup>47</sup> <http://shodhganga.inflibnet.ac.in>, March 2<sup>nd</sup> 2012

<sup>48</sup> <http://www.newagepublishers.com/samplechapter/000896.pdf>

On the other hand, over the years psychologists and marketing researchers have developed imaginative methodologies to explore customer experiences. Some of those experiential methodologies involve: storytelling, picture collections methods all with an idea to understand how customers think and feel. In experiential marketing unlike with traditional, methods and tools used are eclectic. In contrast to analytical, quantitative, and verbal methodologies of traditional marketing, the methods and tools of experiential marketer are diverse and multifaceted (Schmitt, 1990)

Experiential marketing is not bound to one ideology – it is eclectic. This approach relies on using what seems to be appropriate to get good ideas. Methods encourage being explorative and ‘worrying’ about reliability, validity and methodological sophistication later. (Schmitt, 1999) The challenge in adopting the proper methodology when analyzing the experiences is in the fact that all five senses are taken into the account. They enhance the spaces and the brand which in turn need to ‘catch’ heart and mind. Experiences among other rely on design of the space, logo, interior elements and sensorial ones. In order to create the right impression in customers minds, research helps throughout the process involving the assessment of the current status, planning the aesthetic strategy through styles and themes and development as well as post design checks.

The role of research in assessing aesthetic and experiential approaches involves the certain level of caution. Due to artistic component incurred in identity creation of spaces, and image planning of end consumer gets to see like building, offices or ads and web sites, bares the creative elements. Those elements are result of the work of graphic designers, architects, interior designers, copywriters, and art directors as well as other aesthetic experts. Therefore, research need to understand what is behind the ideas often heavily reliant on intuition and previous experiences.

Anecdotal evidence i.e observation and personal experience are usually the only tools for designers to guide intuitive senses but not a sufficient one. Some authors have criticized the lack of interest by design firms to take the research as integral part in their decision making and not be suspicious. (Schmitt, Simonson, 1997) Even though there were lots of successful design and image solutions implemented and accepted by customers without the proper research there were as many examples undergone due to the lack of interest to take even the simplest assessment techniques (Schmitt, Simonson, 1997). Practices proved that in order to satisfy management

needs for having a back – up justification for design solutions, methods like focus groups were usually used.

Still, methodology in evaluating experiential side of consumer behavior uses the tools that will lead to capturing something that consumer cares about. Research techniques that apply well in explaining the experiential methodology are in close connection with the research techniques used by design firms, research firms specializing in design and strategic identity consultants. Those tools are the general tools of the social sciences with adjustments to serve the intended objective.

Methods and tools used may range from highly analytical and quantitative to more intuitive and qualitative (e.g. ‘brain focusing technique for understanding creative thinking’). Also, methods like verbal, taking the traditional format of focus groups, in-depth interviews, or questionnaire are an option. Or, they may be visual. Further, the environment can defer in which method can be applied. Sometimes it takes a form of artificial lab or in the bar where consumers watch TV. They are often ideographic (i.e. customized for the situation at hand) rather than nomothetic (providing the same standard format to all respondents).<sup>49</sup>

One of the most appreciated techniques is the Zaltman Metaphor Elicitation Technique (Schmitt, 1999) based on premise of nonverbal communication where images and metaphors are key for gathering information.

There are many techniques and methods evolving as the research approaches in this rather new field, but for the purpose of this study a general marketing research provides a good overview of tools and methods. These general types of research methodologies stretch from secondary through primary - qualitative research and quantitative research.

Field research also known as field work or study is mainly used as primary way to collect raw data outside of typical workplace. It was first used in natural and later social sciences in order to collect information on habits. But its more generic application is seen in other industries for collecting or creating information in the natural settings. Surveys, questionnaires and participant observation are some of examples of field research.

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<sup>49</sup> SCHMITT, B.H., SIMONSON, A.: Marketing Aesthetics: The Strategic Management of Brands, Identity, and Image. The Free Press. New York. 1997

In marketing is often used for consumer research as primary marketing technique. Some of the benefits of this technique are in the real time up to date data collection and where survey or questionnaire are intended to gather the information from being exposed to the real world.<sup>50</sup> Moreover, it is more intended to analyze company and its services where obtained results could be used for further development of the discovered problem. When field studies are of qualitative nature they are intended to better understand customers needs and want. When it comes to researching experiences field research can show how customers experience a retail space to achieve the better understanding of the whole retail experience. The findings of field studies are based on realities, not perceptions.<sup>51</sup>

### 3.1. Primary Qualitative Research

Primary research is about collection of new, unpublished data. According to Schmitt and Simonson 1997, qualitative data are useful in “generating and evaluating new ideas, design concepts and mock-ups”<sup>52</sup>. The importance of qualitative approach is in that that there are, in certain cases some important data “inherently non-quantifiable” and better analyzed through “conceptual as opposed to numerical analysis” (Schmitt, Simonson 1997)<sup>53</sup>

Another supporting argument for opting for qualitative approach is in experiential nature of the topic. Explaining reactions and attributes of the luxury setting isn't convenient through quantification. Instead, need for creative insights collected from in-depth discussions tends to elicit more useful data. When studying consumer insights or staff expressions the subjects of the research are people involved together into co-creation process that is interactive and not so often precise. In addition, qualitative methods are very useful to generate understanding of existing phenomenon. The objective of qualitative research techniques is to give holistic view of the research problem and theses techniques have large number of variables and few respondents. (Hollensen, 2007)

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<sup>50</sup> URGESS, ROBERT G., *In the Field: An Introduction to Field Research*. Hemel Hempstead, U.K.: George Allen & Unwin, 1984

<sup>51</sup> <http://www.inc.com/guides/201101/how-to-conduct-field-research.html>

<sup>52</sup> SCHMITT, B.H., SIMONSON, A.: *Marketing Aesthetics: The Strategic Management of Brands, Identity, and Image*. The Free Press. New York. 1997

Standard qualitative methods involve: in – depth interviews, focus groups and ‘locations from which to observe certain behavior’ (Schmitt, Simonson, 1997) Further, there are projective techniques that lead consumers to express, consciously or unconsciously themselves. Some of the most common projective techniques include; picture-story associations, sentence completion, role playing, picture drawing, etc. Interesting approaches to study the luxury market in experiential context can be; demographic, behavioral, geographic, socioeconomic, psychographics, ethnographic and lately netnography (online ethnography).

The psychographic study of the luxury market provides insights into the inner life of consumer what drives them, motivates them and moves them in the marketplace. For instance, for segmentation purposes, one of the most commonly used standardized psychographic segmentation methodology is the Values and Lifestyles (VALS). It was created by experts from SRI International, Stanford University (Machkova, et al., 2010) The purpose of this approach is to use the personality traits that drive consumer behavior. Some researcher also point out that by taking results of attitude and personality statements this will lead to distinguishing one luxury consumer over another is difference in degree not the kind. This means, luxury consumers are far more likely to favor experiences over material goods they are similar in age, demographics, perceptions and attitudes.

### **3.2. Data Collection**

In order to obtain academic and reliable result both primary and secondary approaches to the research were applied. In essence, this research attempts to analyze distribution as communication tool with the focus on value for luxury retail settings in the context of experiences, aesthetics, and value co-creation. Also, the special attention is drawn on application of ethnography as the latest way to understand retail experiences.

The two primary methods used in this work are: in-depth semi-structured interview with professionals or key informants and field notes in ethnographic context with a sample of 52 international marketing students. The secondary data collection draws upon extensive, relevant and significant academic literature review including books, professional journals, online resources, etc.

The methods adopted are a part of qualitative nature however, with some quantifiable elements. This balanced mix proved useful in accomplishing research aims. Field study in ethnographic context assisted in capturing retail holistic experiences. Therefore, one part of data collected is quantifiable to give the situational aspect and touch points in selected luxury retail stores in Prague. These data serve to show which functional and relational characteristic of the luxury store the 'sample customers' appreciate and in what priority order. Further, the data collected through the interviews gave the answer on what experts find relevant when it comes to designing good in-store luxury experience. Here, the inductive reasoning is applied to derive the conclusions from respondents' opinions.

Prior to designing primary research the secondary research proceeded. In that view, reported cases, professional blogs, academic journals and other materials were analyzed to obtain additional sources of information. Further, the literature review generated the insights of the core concepts and indicated the outlines for the interview design. For the purpose and the nature of the study in question, the focus on these methods proved sufficient to support data collection and interpretation of findings that will be discussed in more detail.

### 3.2.1. Applying Interview Method

One of the methods used in primary qualitative research is in-depth interview. In-depth interviews usually prove to be useful approach because of their strength in delivering data that are rich in insight, explanation and depth of information. (Andreu et al., 2010) They represent one on one interaction between an interviewer and interviewee. The interviews last up to one hour maximum during which the interviewer follows guidelines but flexible in nature allowing for unplanned inquiries, unlike when handing out the fixed questionnaire. When they are used as basic qualitative method, its goal is in discovering the opinion/motivation of the respondent.

The semi-structured interview designed for this work comprised of 10 open-ended questions with the purpose to gain the feedback from practitioners, managers, experts and researchers from the luxury in general and luxury retail field. The respondents or key informants were selected based on two criteria by (George and Reavey, 1982) given in their key informant theory;

1. "Should occupy the roles that make them knowledgeable about the issue being researched" and

## 2. “Be able and willing to communicate with the researcher”

Therefore, the interviewees were chosen based on their long term involvement with the luxury retail or branding for luxury products. The interviews were semi structured in a sense that questions were prepared in advance. One part of interviews was conducted in informants' premises by the author. Other, via Skype and email due to geographical dispersion of selected interviewees as informants were international: French, Italian, Korean, Swiss, Czech and Serbian. (see: Appendix for informants references)

The professionals were chosen using non-probability sampling (Hackebeitl, 2011)<sup>54</sup> “a sampling technique in which units of the sample are selected based on personal judgment and convenience.” All the respondents either owned their own multi brand luxury stores or worked for luxury houses or were acting as consultants for major luxury brands, also some were specialized in luxury retail experience creation only. Thus the researcher gained the richer collection of data.

Apart from cost and time saving other benefits of this approach for data collection are in the fact that those respondents who participated in interview via email had time to prepare thus thinking about options and their inputs. Some potential of the drawback could be reliability due to lack of personal contact or pressure due to time constraint. However, this method was carried out with success by many previous researchers and its adoption in this work should be no exception.

### 3.2.2. Applying Field Research on Luxury Retail Setting – Ethnographic Context

Ethnography isn't a new method used in research however it is a method that is proven to be quite successful in generating data on experiences. When it comes to ethnography, its approach supports a holistic account of the experiential retail phenomenon based on understanding, description and interpretation (Healy et al., 2007). Ethnographic research is taken into a business context, it can be used to gain insights into patterns of behavior that help businesses. Ethnography can be seen as part of qualitative method sitting between focus groups and observation of certain behavior. In this sense, it is expected from the researcher to look at wider contexts as social, spatial, temporal and personal while providing suitable vehicle for data collection and analysis. Empirical methods of ethnography are; mystery shopping, accompanied shopping, informant

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<sup>54</sup> <http://books.google.cz/books>, March 5<sup>th</sup> 2012

video diary, field notes, etc. Applying these methods, the researcher can experience what is being expressed, listen to what is being said and witness what is being done (Healy, 2007).

In this work field notes were conducted with the sample of 52 international students. Due to the context of research and obvious limitation -financial, time and insufficient practice made facilitating a truly professional ethnographic work limited. Still, the fact that the sample was made of marketing students on master level implied they had previous knowledge about marketing making their perceptions more critical and detailed.

### *3.2.2.1. Location for field note data collection – Prague Case*

From the point of view of luxury retail, Prague has always been ahead of Budapest, most of the luxury fashion and accessories luxury brands operating directly, as opposed to Budapest, where most would operate in franchising.<sup>55</sup> Since E.U. integration in 2004, Czech Republic's capital Prague has been seen as dominating capital of the entire Central & Eastern Europe. Prague positioned itself from the early 2000 as a premium destination. This image was built fast after the EU accession providing the justified stability investors were seeking. In addition, the number of tourists from Asia, the US, Ukraine and Russia, was also part of the motivation of major international luxury chains to open in Prague. The early 2000 saw a booming trend of the major international luxury brands, which started focusing on emerging markets such as Eastern Europe. Amid the 2008 financial and economic crisis, there were even new store openings, such as Dolce Gabbana, Fendi and Bottega Veneta. This notion justifies the necessity to include the current state of luxury retail market of Prague in to analysis. Also, due to the fact that not so much of previous research focused on luxury retail in Prague the research adds value to the work.

For the purpose of data gathering relevant for the topic of the research the student sample was put in the particular context. Therefore, the location chosen was downtown Prague, Street Parizska. It is capital's luxury area where all the foreign luxury brands present in the Czech Republic have their stores. The establishments are mainly fashion oriented but there are also jewelry, watches and high-end mobile phones like Virtu.

Formats to be found in this street are ranging from mono-brands stores, multi-brand stores and one concept store. Prague is heavily reliant on tourists in luxury shopping in comparison to local

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<sup>55</sup> [www.cpp-luxury.com](http://www.cpp-luxury.com), February 18<sup>th</sup> 2012

shoppers. Even though there were new stores opening, the performance of stores was affected due to cut in tourist visits from Asia and the USA. Furthermore, main shoppers in this area now are Russian, Ukrainian and Kazakhstan so the need for different communication and customer service practices in future is possible.

For the research needs observers visited those that correspond to the flagship store description the most. Flagship format isn't present in Prague, but in this situation we will settle with the adaptation to accommodate the purpose of the research. Although already discussed in detail, in Chapter II of this work, here we will refer to more generic definition of flagship given by Kozinets et al. (2002). Therefore, chosen stores were selected on the following criteria:

1. store located in the city centre,
2. carrying only single brand of product,
3. company owned,
4. operate with the intention of building brand image rather than to generate profit solely

This made the store as Louis Vuitton, Prada, Hermes, Dior and Nespresso to enter. Since time was limited and three were from the same country of origin, France initial number of store was narrowed to include: Louis Vuitton, Prada and Nespresso leaving thus; one French, one Italian and one Swiss, respectively. All, apart from Nespresso, are similar in size; all three are located in the street corner and operated directly. Another reason to opt for these store was that Prada and Louis Vuitton, have a very good representation of their collections, similarly to any other flagship store in Europe while Hermes, Dolce Gabbana, Salvatore Ferragamo, Burberry, Bottega Veneta and Christian Dior, seem to be operating with minimal stock, therefore with a very small representation of the collection of the season. Also, for making the contrast in research and move from fashion as well as for the purpose of running the parallel screening, Nespresso store, an premium coffee bar and shop, was introduced. Environments are all different and thus the field study was intended to see what conclusion could be derived from such luxury setting mix.

### 3.2.2.2. *Field Note Design*

Field data were collected through touch point grid offered by Kevin Ford in his book; ‘Brands laid bare - using market research for evidence based brand management’ (2005) (see: Appendix 1)

As indicated by author, the term ‘touchpoints’ means “all the contexts in which we come into contact with the brand”<sup>56</sup>(Ford, 2005) this includes many aspects, the product or service, the price, packaging, advertising, word of mouth, environment and so on. Thus, consumer need is met through a combination of static (tangible) features and dynamic (human) interactions.

Touch points fall into two broad groups: first-hand experience through sign, and communications about the brand. Communication is understood here as the look and feel of the store including logos and signage, packaging, brochures and advertizing that help to establish the store’s identity and brand experiences.

On the left-hand side of the chart is the customer, with his needs. Taking a retail brand as an example, these needs range from functional to emotional. At the top of the chart are shown the touch points, such as the products, the staff, the store environment and communication. At the intersection of the two perception is marked that states what made the customer become engaged within the retail the most.

It is important that different touch points work together to provide a consistent value creation for the brand and that actors in the process exchange ideas about the brand that will fit with direct experience of the product or service.

Departing from this stand point, the students were given clear guidelines on what to focus and observe. Specific set of 17 criteria was prepared to facilitate the execution of the task. The criteria on consumers’ side were split into relational and functional.

**Relational included:** Innovation, Excitement, Individuality, Status, Care, Image, Design/ Creativity, Senses/Feeling, Inspiration and Window Display.

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<sup>56</sup> FORD, K.: Brands laid bare - using market research for evidence based brand management. John Wiley & Sons 2005

**Functional were:** Security, Ease, Information, Speed, Effectiveness, Reliability and Accessibility.

The students were asked to observe and mark the touch point most appealing to them as each touch point varies in importance. This provided valuable insights on how to derive fulfilment of each of the needs from across all the touch points.

Although, majority of students weren't luxury shoppers still they could generate more objective, unbiased views. Moreover, they are educated to be future marketers which gives a critical edge during data collection. In addition, they had to mark at least one touch which was according to them the most relevant for meeting customer needs. This gave quantifiable angle to the research and made data audit more precise. So, result delivers opinion based on evaluation of touch points. The risk to keep in mind here is that the combination of experience of touch points is specific to each person. This is why value co – creation where customer is active instead of passive helps delivering higher satisfaction and future loyalty.

### **3.3. Data Interpretation/Analysis**

Data collection in this work has been generated through two methods; interviews and field notes. The interpretation of data is as follows.

#### **3.3.1. Field Notes Analysis**

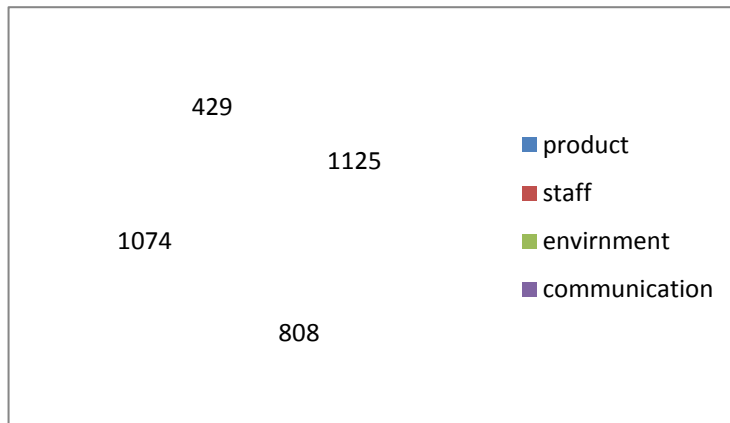
The data presented were collected from a sample of international students that were attending International Marketing Course at the University of Economics Prague in winter semester of academic 2011/2012. Initially, the field note touch point sheet was handed out to 62 students. By the end of the research 52 responses were eligible to be included in data analysis.

Out by 52 students, 25 were from different countries as Canada, New Zealand, Switzerland, Italy, Korea and so on. In this work they are termed 'International'. The remaining 27 students were Slovak 5 and Czech 22, respectively. The average age was 23. When asked if they were shopping in luxury stores majority indicated that they weren't luxury shoppers but that they would like to own a luxury object or peace in future. The students were asked to mark the touch point that was

the most relevant to them. They were obliged to mark one at least but some checked more than one. All were taken into consideration in order to get the best possible view points.

The store visit result analysis showed that for all 3 brands Product was the most important with 1125 marks, Environment was second with 1074 followed by Staff 808 and Communication 429 marks. The overall touch points split for 3 visits all together is illustrated in the Chart 4.

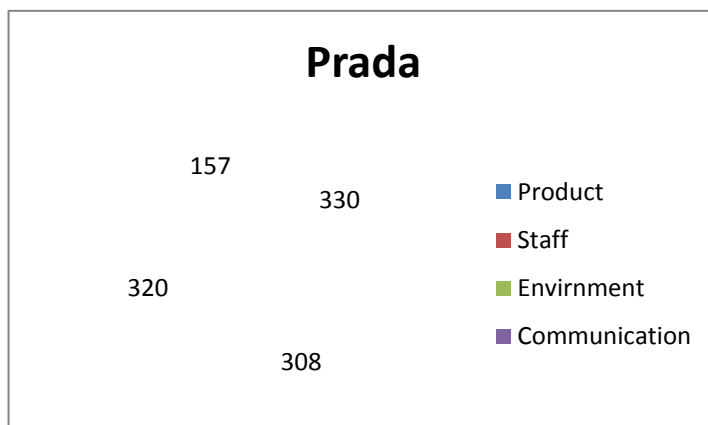
Chart 4: Compounded Touch Point for all 3 Brands



Source: *Author's Research 2011*

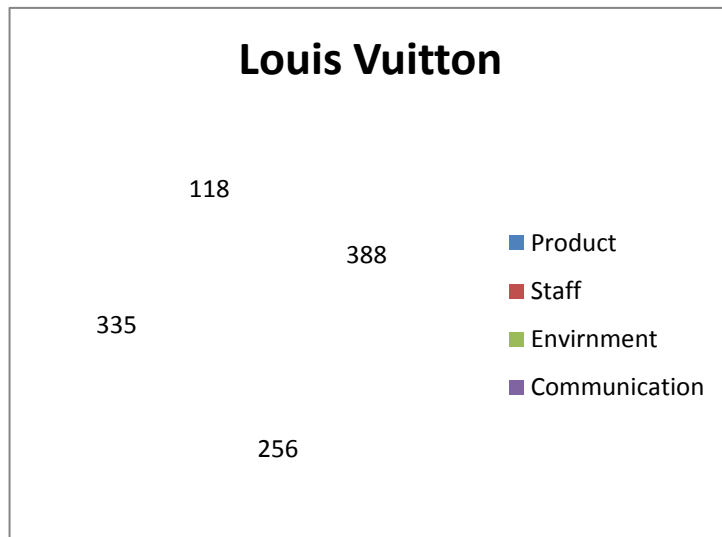
Analysis further indicated which the most important touch points - by brand were.

Chart 5: Touch Points Prada Store



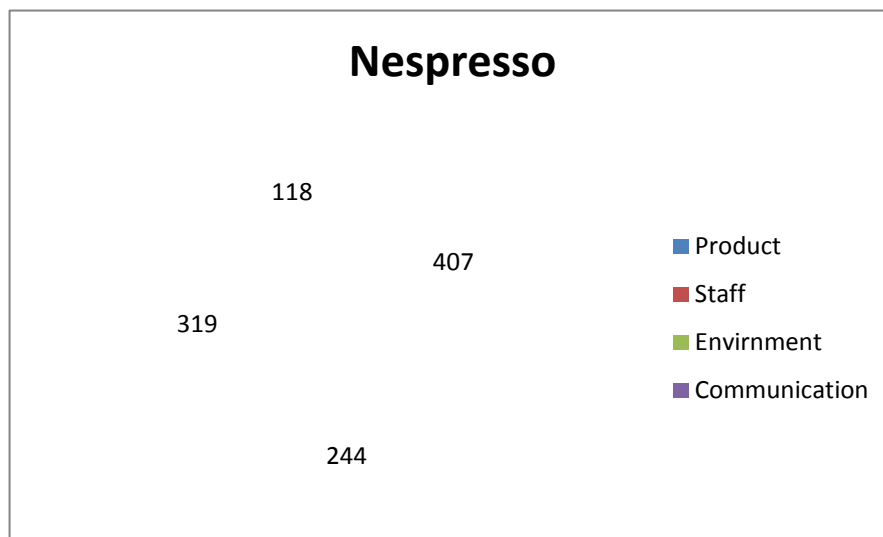
Source: *Author's research 2011*

Chart 6: Touch Points Louis Vuitton Store



Source: *Author's research 2011*

Chart 7: Touch points Nespresso Store



Source: *Own research 2011*

From this comes that Communication scored half less points for all analyzed brands just with slight difference; 154 for Nespresso, 157 for Prada and 118 for Louis Vuitton. The reasons for this could be simply company oriented because of their structure where 'first-hand experience' is

the responsibility of the product management or service delivery departments, while communication is the responsibility of the marketing department. Other option is that the lack of exposure of the chosen sample to luxury product caused the less detailed attention to the advertizing clues within the space. Thus implying that attention to logo, packaging and alignment with these features is area to look into. One solution could be that customer service engages more with consumer and approach him/ her with latest magazine or offer a customer to sit while giving the opportunity to browse the readings. Also, a motivation to take the catalogues to prolong the exposure while sharing the information about the latest development in product packaging. Educating what is new, even those who aren't familiar with the brand by offering multimedia tactile solutions as touch screens or simulators to enhance the experience while increasing exposure to brands history, latest look or taste books and so on.

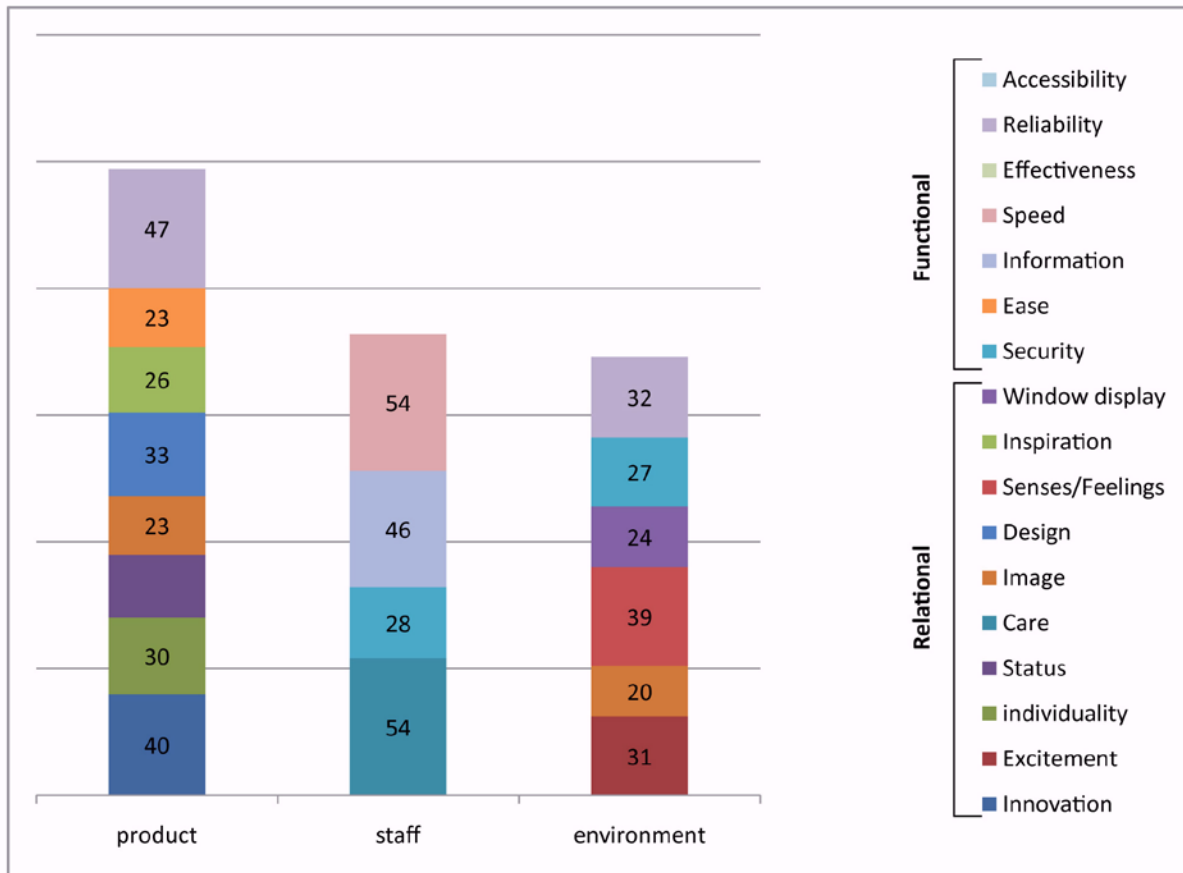
In the era of digital commerce, luxury retail communication can improve its position by creating the interactive magazine content stores in which customers stay to linger longer inspired to discover the greatness of the brand. Launching special luxury labels lines can help in trying some new versions of story-building within the space.

For the purpose of this research the extent to which Communications were appreciated by the sample wasn't sufficient to overpass the significance of Product and Environment touch points. Therefore this work continues to analyze in more detail the three touch points: Product, Staff and Environment through their Relational and Functional perspectives.

To understand better the results gathered for the remaining 3 touch points, a deeper look into criteria is necessary. Therefore, the analysis will comment the data collected from Relational and Functional split. This is important to provide with overall customer experience and see which criteria for both, Relational and Functional perspective were the most indicated.

The split of the most appreciated criteria within each touch point by brand is showed:

Chart8:Prada



Source: *Own research 2011*

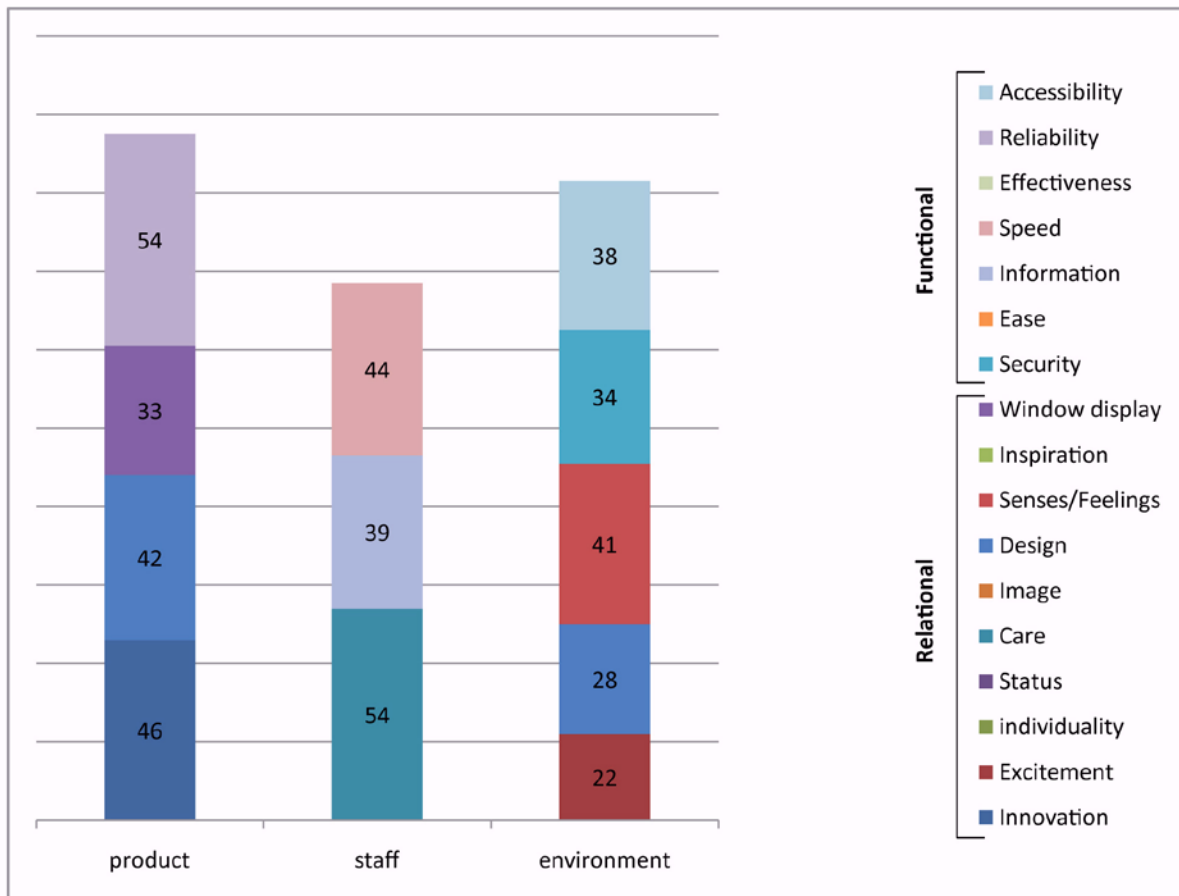
In Prada store Product touch point scored the most with 330 points. Here, the Relational factor as Innovation was the most relevant with 40 votes. Design/Creativity and Individuality followed by 33 and 30 marks, respectively. Also, Status and Image and Inspiration were pretty closely correlated with 25, 23 and 26 scores. When it comes to Product/Functional point Reliability 46 and Ease 23 were the most appreciated. This shows us that Prada lines are viewed as innovative, design oriented and creative where a person feels that its products are reliable i.e. could be trusted and easy to use in order to provide the right sense of individuality, status and inspiration. This is in line with Prada brand that is usually taken as highly cutting edge with most contemporary designs and daring cuts.

Connecting Product with the Environment features the research showed that on Relational side Senses/Feeling 39 and Excitement 31 were valued the most. Whereas Window Display with 24 and Image 20 followed.

This implies that aesthetics of the space setting was in line with the feel that Product triggered with the sample. Choice of materials used, outline of the display within the space, visibility of the product and dynamic setting with strong lightning. Excitement is raised when reaching additional floor by passing through dark stair case and entering divided space where Prada's most expensive items are displayed and segmented by gender. Here the store offers intimacy. Further, within Environment and Functional aspect the sample indicated Security 27 and Speed 32 as they were feeling that "noting seemed to be representing the risk" and that service reacted fast to meet the demand.

This brings us to the 3<sup>rd</sup> touch point, analysis of the Staff. Staff scored the most in Functional perspective where Security 28, Speed 54 and Information 46 came highlighted. These were achieved through providing security people at the doors with intention to welcome and open the door plus guarantee the safety. Information was coming from the personnel on product features and environment "sightseeing" with the purpose to guide the shopper through Prada universe. Relationship between the Staff and the sample was manifested through Care 54 category that collected 54 marks. As some replies reported: "care made me feel special" or "they treated me like as if I would buy something."

Chart 9: Louis Vuitton



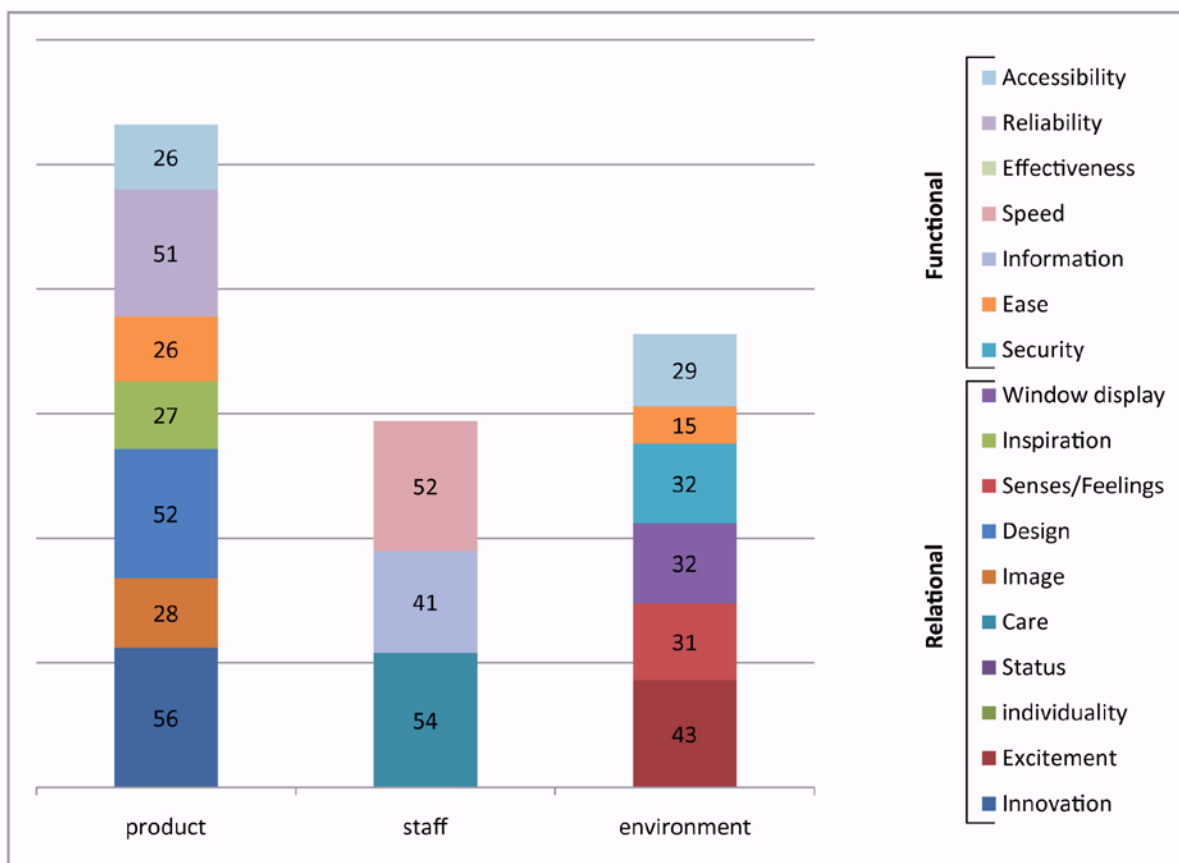
Source: Own research 2011

Louis Vuitton in-store touch point experience indicated the following results. Similar to Prada, Product was the most relevant with 388 marks. From the Relational touch Product was the best evaluated by its Innovative 46, Design/Creativity 42 and Window Display 33 features. In contrast to Prada where Window Display wasn't regarded as relevant here it was among first 3 criteria to note. This can address the intention to design inviting displays communicating the current campaign and featuring the core of Louis Vuitton, its monogram bags. Functionality/Product alignment was mainly seen through Reliability criterion with 54 marks thus refereeing to the most wanted expectation from the product, to be reliable in function of superior quality and material durability.

Environment recorded the highest scores in Senses/Feeling 41, Design/Creativity 28 and Excitement 22. The senses were triggered through attention to detail seen in product display and soft lightening that created the sense of relaxation and exposure to signature monograms and canvas exemplary which brand uses in product design. Functional side reported that Security 34 and Accessibility 38 provided with safe environment to shop and easy access to the products within the store to be touched, smelled and tried out.

When it comes to Staff the sense of Care for relational aspect was the highest with 54 votes. Sample stated the feel of “being special” and “well greeted”. Information 39 and Speed 44 were the most relevant Functional touch points with the Staff thus indicating the knowledgeable employees ready to assist and describe the features relatively fast.

Chart 10: Nespresso



Source: *Own research 2011*

For Nespresso as well as for the previous reviewed brands Product scored the most 407 touch points in the following priority order: Relational: Innovation 56, Design/Creativity 52, Image 28 and Inspiration 27. These relations between sample customer and product are of no particular surprise as Nespresso brand is regarded as highly innovative capsule coffee offering the well designed Nespresso machine for transferring the feel of Nespresso coffee pleasure to one's home. Thus, individuality in the privacy of one's home gets addressed and evokes the Inspiration and Image. As Design/Creativity scored high as well implies that aesthetic is highly appreciated together with innovativeness. Functionality was mainly appreciated through the feature as Reliability 51, Ease 26, and Accessibility 26. Sample confirmed that within these categories product and machines ease of use, and being able to rely that the expectations will be met.

In terms of Environment, Nespresso features bar as well as coffee shop where one can buy capsules, machine and enjoy a cup of coffee. Therefore, relationship built on the in-store feel of Excitement 43, Senses/Feel 31 coming from the soft materials used, leather in mat colors aligned with capsules color range, smell and taste of 16 grand cru coffee choices together with Window Display 32 (note here that main window is displaying bar environment seen from the street) prove efficient. Security 32, Accessibility 29 and Ease 15 are among the most relevant functional criteria in Nespresso case where sample found the freedom and ease to access the machines and capsules the most rewarding.

In summary, for three brands together, the sample recognized Innovation and Design/Creativity among the most relevant relational product oriented features. In the functionality area, Reliability surpassed Ease and Access points. So, from the functional aspect brands need to draw more attention to either improving the way they service their customers and display products in order to provide with comfortable reach, ease of use or challenge the customers to become more involved with reasons behind this mysterious strategy. Perhaps, useful implication can be to use this information to engage with the client by offering the assistance in orientation and use the opportunity to initiate the discussion and gather in turn more information.

Second interesting notion for all 3 brands is with the relationship with Environment. Here, relational factors were triggered the most through Senses/Feeling and Excitement touch points. From this, the sensorial appeal connects with the customers on experiential level co-creating the

value through the aesthetics nature of the store setting. Functionality was evaluated through Security. Feeling safe in the atmosphere where noting seems to represent the risk is what sample appreciated the most.

The final mutual characteristic for the researched store settings was Care touch point coming from the stuff. Behavior within the setting should leave the impression of being looked after during the purchase but to reasonable extent. To provide the Information and Speed is functional aspect expected from the service.

The most relevant aspects for all 3 researched brands are shown in Table 3. This table serves as orientation of what some of the expectations are from a product, environment and the staff.

Table 3: Most appreciated touch points for all 3 brands

	<b>Relational</b>	<b>Functional</b>
<b>Product</b>	Innovation + Design/Creativity	Reliability
<b>Environment</b>	Sense/Feel + Excitement	Security
<b>Staff</b>	Care	Information + Speed

*Source: Author's own research*

Knowing that consumers prefer innovative, well designed and creative product that is functional, bought in the space where noting seems risky and where ones senses can be engaged and provide with excitement together with caring service ready to assist and inform shows how the relational and functional split can generate useful results that deliver inputs for creating proper value creation and adjusting the experiential mix. Research similar to this one represents only one case. Co – creating the luxury brand experience involves dialogue and complex interactions. The experience only creates the value once the all parties engage. For brand owners isn't anymore sufficient to simply offer value, rather they should listen and co – create it with inputs and influence from the customers.

### 3.3.2. Interview Analysis

Interview analysis intends to show the experts' views over the importance of the retail setting and what makes the in store experience possible. The respondents asked to state their view over: *What builds experience and value perception in luxury retail settings?* To answer this generic question, 10 questions were designed (see: Appendix 2)

Overall 7 key informants were interviewed during the 1 month period (November 2011). One location was France, Paris which is relevant for the luxury field where 3 interviews were made face-to-face; one interview was conducted in Czech Republic, Prague. The remaining 3 was carried through Skype and email.

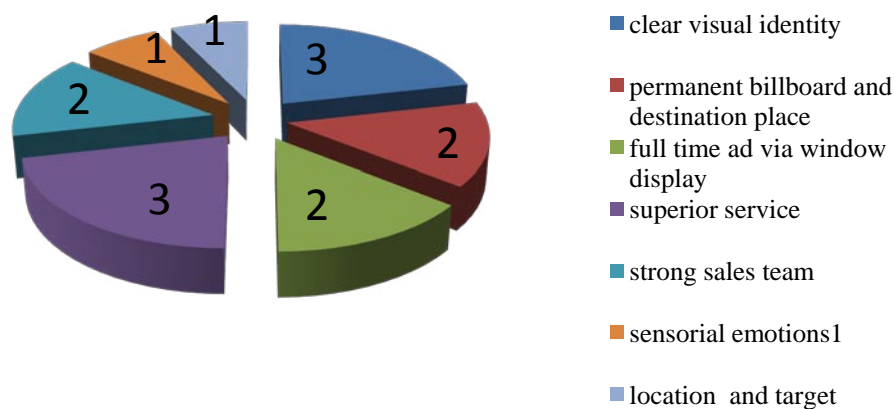
All respondents agree that the store should be the strongest representation of the brand. They identified the range of necessary landmarks for making a store effective marketing communication tool.

According to respondents, to achieve the effective communication in the space: 3 interviewees reported that **clear visual identity** in line with the brand should be built and furnished in a way that makes the brand come alive. 2 Informants saw the store as **permanent billboard** in a key locations and **destination place** to experience the brand and 2 as **full time add** expressed through window display.

As the most important aspect of creating an exciting luxury retail environment: **superior service** was underlined in 3 answers, **strong sales** team in 2 where **soul** should be coming from 'kindness not pure service' and 1 reported on **sensorial emotions**. **Location and target group** were addressed as important by 1 respondent who highlighted that based on these designers get an insight how to design and appealing environment. Summery is shown in Chart 11.

Chart 11:

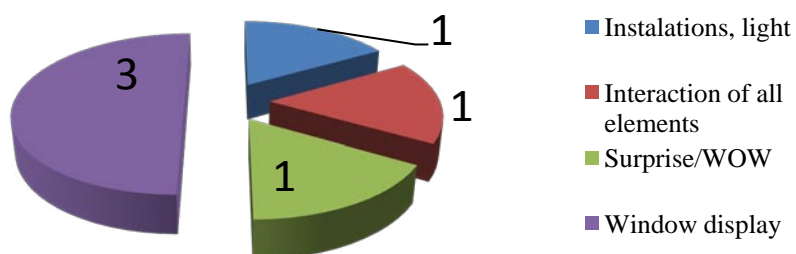
### Communication & Experiential Drivers



*Source: Own Research 2011*

The impact of aesthetics and image elements and layout addressed in questions (4, 8, 10) general attitude was that these elements contribute 100% to sustaining the value. However, the replies weren't coherent. One answer commented on **surprise** element only as an attractive way to add to product value. One emphasized the **installations, light** for the proper product visibility. Another opinion was on **interaction of all elements** (merchandizing, windows, staff and surprise) to convey a brand to customer. 3 replies commented on **window design** and **mannequins** display. The recognized elements are presented in Chart 12.

### Aesthetics and Image Elements



*Source: Own research 2011*

When asked about which emotion a brand should ideally evoke? The answers were: **excitement** 3, **desire** 2, **home feel** 1 and **attractiveness** 1 and are illustrated on Chart 13.

Chart 13



*Source: Own Research 2011*

The last set of questions referred to luxury brand management alignment through the store setting (questions 5 and 9). Here, all respondents pointed out that there is a huge gap between the people who work in the office and those who are at the point of sale. A lack of knowledge and communication to what is going really on in the store was recognized. They further expressed that for the top brands the owners and management are well informed but that when it comes staff its difficult to implement. When it comes to brand control 5 agreed that brand has 100% control on experiential and aesthetic within retail network but 2 pointed out somewhat contrasting opinion stating that controlling aesthetics and environment bares the risk of rules that are to strict thus forcing the similarity which 'kills' luxury' sense of uniqueness.

As seen from the interviews the general opinions of the experts are in line with the theoretical aspects introduced and discussed in Chapter II on experiential drivers and store image. Also, it was interesting to see that from the emotional side the feel of excitement and desire come as the most relevant to immerse the customer with the setting.

Service was several times commented as the trickiest to implement but the most important. If the beautiful surrounding and great product selection fail to satisfy the client, provide an expert advice or simply greet friendly, all is lost. Moreover, store was seen as communicator through its visual rhetoric and regarded as destination place that need to stimulate senses and be soulful and kind.

In line with this, one can argue that here are no successful brands without a synergy and harmony between the design of clothes and accessories, quality of products, pricing politics, advertising, PR strategy, staff behavior and retail and distribution strategy.

Stores owned by brands have an architectural concept where each detail is important. This concept is multiplied from the flagship store to other stores or corners in order to reinforce the identity of the brand. It's a must for a luxury brand! It has to be a unique experience for the consumer. From the smell, lightening, visual merchandising of the cloths, sound, light boxes, shop windows, uniform of sales persons as well as the services supplied to the client.

From the viewpoint of successful communication the strong brands have a visual identity in stores, coherent with the spirit of the brand and the designer as well as coherent with advertising images, art projects and any type of PR activity. Therefore, alignment of all the factors to create the value is necessary and involvement of retailers and customers in co-creation of value. **Brands don't sell anymore just a product, they sell a total product concept.**

The problem of coordination between head office and in store activities could be addressed by giving office people more freedom to be out off the office and for the in-store people to give more frequent, regular feedbacks based on facts.

## IV DESIGNING VALUE CONCEPT FOR LUXURY SETTING

### 4.1. Value Creation

This chapter is of conceptual character. Thus, the aim of presented primary research results was to verify by analyzing collected data the opinions and observations over in-store experience, moreover, these inputs helped in creating conceptual model and store setting typology matrix.

The value concept and value co-creation is the core of this research. This chapter proposes the theoretical angle and is ‘completely conceptual in nature and developed through the context of discovery’ (Rodrigues et al., 2011) The primary data analyzed in the previous chapter provided the insights to shape the model.

The relevance of the suggested model is two folded. On one side value creation is ongoing process that can’t be created without the interconnection of the two actors; customer and supplier (luxury retailer) and on the other the value in view of service – dominant logic (S-D). The essence of this chapter is first, to draw upon the value concept per se. Second, to describe the actor roles, aesthetics, network and luxury brand nature in the process and justify the value co-creation rational.

The accent is on service-dominant (S-D) logic (Andreu, Sanches, Mele, 2010) as the work is focused on experiential exchange-based context. Data analyzed pointed out that environment was significant touch point with customer where the feelings of excitement, design, senses, care, reliability and accessibility came as the most appreciated. Also, environment scored the second to product in relevance for all 3 brands.

Therefore, S-D logic proves to be relevant direction when designing and applying a value co-creation for retailers and customers. Through the service within the space the encounter of the two actors takes place thus, initiating the exchange of resources, knowledge, involvement, and relationships. Within S- D logic the value-in-exchange supersedes the value-in-use. Also, it allows customer to *Become* through holistic experience strategy and via interaction create the sense of *Belong-ing*. These two notions, of *Becoming* and *Belonging* are important in value creation and co-creation. They show all the way the interaction builds and develops. On the

notion of *Becoming* vs. *Belonging*, the research argues both are significant strategic considerations for creating segmented store formats with customized experiential offer.

#### 4.2. Value Concept for Luxury Setting

*“As much as we love to research products via QR codes, engage with friends and retailers via our Facebook pages, and collect music in our cloud libraries, it is all too easy to forget that there’s still a special place in our lives for the retail store. Stores are where we learn what’s new, find inspiration, and see other purchase choices we may not have found online.”*<sup>57</sup>

Value theory rests on a range of approaches to understand how, why and to what degree people should value things; whether the thing is a person, idea, object, space or anything else.<sup>58</sup> (Doyle, 2000) Today, much of value theory is empirical relying on sociology, psychology and economics to attempt to analyze what people value and why they value something. In its purest definition the value is regarded as the concept of worth.

In marketing, the value of a product is the mental estimation a consumer makes of it. Formally, value is highly subjective category. It is seen as the relation between customer’s perceived benefits and perceived costs of receiving these benefits. (Doyle, 2000) Value changes over time, based on place and people in relation to changing environmental factors. **It is a creative energy exchange between people and organizations in marketplace.**<sup>59</sup> (Bonillo, Fernandez, 2007) As such value is never isolated, instead it is created through involvement of at least two actors; one delivering/supplying the value and the other receiving it. To satisfy these contrasting expectations it would be the best that both sides are involved in value co-creation and generate a mutual satisfaction.

Generally, the value understanding has been regarded as ‘beliefs that guide the selection or evaluation of desirable behavior or end states’<sup>60</sup> (Schultz and Zelezny 1999).

<sup>57</sup> <http://www.interbrand.com/en/BestRetailBrands/2012-Best-Retail-Brands.aspx>, 26.02.2012.

<sup>58</sup> DOYLE, P.: Value-Based Marketing: Marketing Strategies for Corporate Growth and Shareholder Value. Wiley, 2000

<sup>59</sup> SÁNCHEZ-FERNÁNDEZ, R., BONILLO, A.I: "The concept of perceived value: a systematic review of the research," Marketing Theory 7 (2007), p. 427-451

<sup>60</sup> WIEDMANN, et al.: Measuring Luxury Value Perception: A Cross – Cultural Framework, Academy of Marketing Science Review, No. 7, 2007

In luxury, even if the overall luxury value level of a certain product or brand may be perceived equally across national borders, a differentiated measurement may reveal that the overall luxury value perception is a combination of different evaluations with regard to the sub-dimensions.

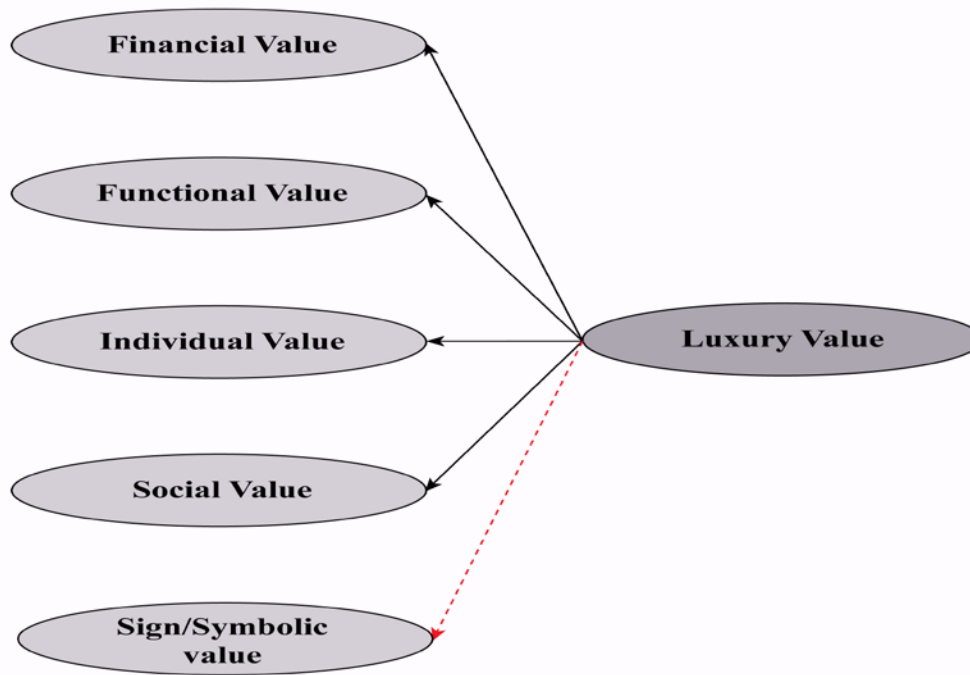
Today in particular, it is of great importance to conceptualize the perception of luxury value in consumer society through experience dimensions since the different types of experiential values influence consumers' purchasing choices.

According to Wiedmann, et al., customer's luxury value perception and the motives for luxury brand consumption are not simply tied to a set of financial, functional and individual utilities of the certain luxury brand, but also depend on the social aspects of displaying status, success, distinction and the human desire to impress other people.

The research adopts their presentation of luxury values as it serves to locate and integrate the existing writing in the area of luxury brands. The authors offered the framework of consumer motives and value perception in relation to luxury consumption. What really adds luxury value in the consumer's perception has been defined through the existence of four luxury value dimensions. These key dimensions of luxury value perception encompassing the financial, functional, individual, and social aspects are strongly correlated but not identical with each other as shown in Figure 8. However, according to more recent analysis and articles the conceptualization offered isn't complete. It is illustrated by dashed line. (Figure 8)

The light of the current luxury marketing research this, Healy, 2007; Mathur, 2008 Rodrigues, 2011 all recognized the relevance of semiotics in retail, ethnography application in experiential retail, netography, and sensorial strategies for luxury value co-creation. Hereby, the fifth dimension, the one of *Sign/Symbol* is to be added to luxury value perception framework. Moreover, the recent analysis showed that in contemporary consumption the orientation toward meaning can extend the value perception and therefore the framework offered in Figure 8 should be enriched by this dimension.

Figure 8: Luxury Value Perception - -Adapted View



Source: Wiedmann, et al.: *Measuring Luxury Value Perception: A Cross – Cultural Framework*. *Academy of Marketing Science Review*, No. 7, 2007

***Financial Dimension of Luxury Value Perception*** – The financial dimension addresses direct monetary exchange such as price, resale price, investment, etc. It refers to the value of the product expressed in dollars and cents, and to what is given up or sacrificed to obtain a product.

***Functional Dimension of Luxury Value Perception*** – The functional dimension of luxury refers to the core benefit and basic utilities that drive the consumer based luxury value such as the quality, uniqueness, usability, reliability, and durability of the product (Sheth et al. 1991).

***Individual Dimension of Luxury Value Perception*** – The individual dimension focuses a customer's personal orientation on luxury consumption encompassed by personal matters as experiential, hedonistic and self-identity value (e.g., Vigneron and Johnson 2004; Hirschman and Holbrook 1982). In other words, *what does the brand mean to a person?* The individual value is often interpreted as experiential value as it has engaging character and it comes as a result of time. It is also understood as “maturing on previous experiences.”

***Social Dimension of Luxury Value Perception*** – The consumption of luxury goods appears to have a strong social function. Therefore, the social dimension refers to the perceived utility individuals acquire by consuming products or services recognized within their own social group(s) such as conspicuousness and prestige value, which may significantly affect the evaluation and the propensity to purchase or consume luxury brands (Vigneron and Johnson 1999, 2004; Bearden, and Etzel 1982; Brinberg and Plimpton 1986; Kim 1998).

***Sign/Symbolic Dimension of Luxury Value Perception*** - On the other hand, it is not to be forgotten that luxury tends to be interpreted as a specific set of Sign/Symbolic value, produced through stories and meanings used in processes of stratification. Therefore, Symbolic/Sign value originates from the social standing of the brand. Objects can get different symbolic meanings according to the value people give to them in a specific context. Outlining the place luxury takes in contemporary consumption society, objects can be considered as ‘envelopes of meaning’ (Pels, Heatherington, and Vandenberghe, 2002)<sup>61</sup> In doing so, products become meaning-producing devices in a specific environment.. They have a ‘social life’ (Appadurai 1986) in which meanings are assigned to and removed from objects.

Meanings assigned to objects can be classified in many possible ways. Some argue that functional logic of use value is seen through practical operations; that logic of equivalence is seen in economics of exchange value, whereas ambivalence and difference belong to symbolic exchange and sign value, respectively. In summery the sign value is the point of difference and added value. It brings the differentiation that as such bares the content of the sign-value and authenticity.

The extent to which the brand is perceived “as being an elite offering aspired by the customers”<sup>62</sup> its Sign/Symbolic value will reflects the extent to which the brand is endorsed and validated by the most appreciated customers. The question to ask here is: *What does the brand mean to others?*

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<sup>61</sup> MORTELMANS, D.: Sign Values In Processes of Distinction: The Concept of Luxury. Semiotica No.157, Walter de Gruyter, 2005. pp. 497–520

<sup>62</sup> <http://rollcompany.com>. February, 29<sup>th</sup> 2012

The sign/symbolic value is said to carry signification of experiences in postmodern evolution. Understanding is that objects bought or spaces experienced during the purchase are no longer bearing exclusively their use value but Sign/Symbolic value as well.

For instance, look at the place products have in social relations and the contexts in which objects are transformed into luxuries. In the 19<sup>th</sup> century core to regard a product as luxurious was in craftsmanship and functionality. Today, it moved more toward symbolic meanings where marketers developed careful strategies to design a 'dream worlds' around luxury brands. Brands such as Rolls Royce, Cartier, and Armani are automatically associated with this particular economic niche. They pretend to form a well-defined territory in the marketplace known as 'the luxury universe.' These companies have a very specific view on the form of a luxury product. This view can be summarized with three essential characteristics: scarcity, extra value, and high quality.

The extra value added to the product is also a unique design. Sometimes the design is so predominant that the functionality of the product decreases. The purchasing decision is driven by feelings beyond reason: "A true wine lover may prefer the T-shaped corkscrew instead of luxury one for the actual opening of the bottle but wants to own the robot like one in his cabinet."<sup>63</sup>

This is why to determine the precise content of the sign-value is difficult. Luxury sign/symbolic values are attached to objects only in moments of distinction. One can buy objects for constructing a lifestyle, in order to belong to a particular group, etc. the motivation of a consumer to buy a certain product for its sign-value extends the mere status seeking motivation. In objects, one can pursue happiness, beauty, belonging, etc.

In addition, this entire dimension can be extended to include more specific orientations given the development of luxury and customers involvement today. One of the most relevant impacts is the shift in consumer involvement from passive to active. That is why incorporating the new sources of value include: relationship with the brand, the brand community and/or service provider which

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<sup>63</sup> MORTELMANS, D.: Sign Values In Processes of Distinction: The Concept of Luxury. *Semiotica* No. 157, Walter de Gruyter, 2005. pp. 497–520

is “particularly important for high value luxury goods where personal service and high expectations are the norm.”<sup>64</sup>(Tynan et al., 2010)

#### 4.3. Service – Dominant Logic

According to recent service-oriented research, customers and suppliers co-create value as a result of a shift from a firm and product-centric view of value creation to one that focuses on personalized brand experiences.

In terms of co-creating service, the multiple interactions between network members, suppliers (retailers) and consumers serve as a basis upon which luxury brand owners can develop differentiated, desired and difficult to copy aspects of their brand experience. Additional sub-part of the experience-value creation is the notion the aesthetic perspective provides. The extra value will often be a kind of added aesthetic value. High fashion, for example, acts in the same way by reducing (often in an absurd way) the “wear-ability of the clothes in favor of the aesthetic.”

For the companies integrating service and experience offers an opportunity for some interactions with the brand staff in order to gather information, and tailor the approach to the individual or refresh its format. Therefore, firms attempt to create a symbolic universe surrounding their products as the way to reinforce customers’ loyalty and shift from *Becoming to Belong*ing.

The relationships or “relational frontier” broadens the brand symbolic toward the experiential branding. The relational building from *Becoming to Belong*ing is the area where experience assumes the role of new tool in value creation.

For the marketers experiences offer benefits for the luxury good consumer that literally money cannot buy, which enhances brand exclusivity and prestige. As such the brand effectively carries a firm’s history. And the ‘memory of firm’ which encompasses all the investments, research and innovations emphasizes further consumers perception of a brand with personified imaged build on symbolic cues. For these reasons, the flagship store and high-end luxury settings represent

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<sup>64</sup> TYNAN, C. et al.: Co- creating value for luxury brands. Journal of Business Research, No 63, p. 1158, 2010

unique venues and destinations in themselves; designed not only to facilitate but to act as value co-creators in the encounter process.

By providing, special experience for the luxury customer and staffed with well-trained and informed employees keen to assist customers rather than push them into a purchase. The idea is that, value co –creation, involves customer with supplier in a range of activities. A multi-sensory brand experience was discussed in the research done by Hulten (2011) where he showed the shift from transactional and relational marketing strategies to sensorial (Table 3)

The ultimate goal is that instead of pure value-in-exchange consumers' shift to experiential value-in – exchange where consumer is active instead of passive. In this view, the service – dominant logic (S-D) is more integrative than goods – dominant logic.

Inspired by (S-D) logic, the value emerges when ‘symbiosis between individual and brand’ (Rodrigues, Hulten, 2011) are reached through consumers multi-sensory experiences in the value generating process. This approach is in opposition to traditional marketing grounded on goods-logic and need satisfaction as value drivers. However, it is aligned with the relationship strategy where value drivers are customer focused and based on two-way communication. Table 3 gives the summery of this crossover, from transaction to sensory marketing.

Table 4: Shifts in Marketing Practices

	Transaction marketing	Relationship marketing	Sensory marketing
<b>Marketing</b>	Goods logic Exchange perspective Transaction marketing	Service logic Relationship perspective Relationship marketing	Experience logic Brand perspective Sensory marketing
<b>Strategic marketing</b>	Product focus Costumer acquisition Transactional strategyies	Costumer focus Costumer retenton Relational strategies	Multisensory focus Customer treatment Sensorial strategies
<b>Tactical marketing</b>	Persuasion and promotion One-way communication Production technology	Interaction and interplay Two-way communication Information technology	Dialogue and on-line interactivity Multi-sensor communication Digital technology

Source: *Hulten, 2010*

If marketers want to engage in consumer senses and affect their behavior sensorial strategies based on cognitive and emotional elements can help in differentiating brands and products thus challenging consumer and impacting the behavior. Through orientation toward the S-D logic, customers and suppliers co-create value as a result of a shift from firm and product-centric view of value creation to one that focuses on personalized brand experiences and integrating new digital technologies.

Moreover, the direction that this work proposes is experiential therefore it inclines toward experience-based co-creation emphasizing actor's role, aesthetics, networks and luxury brand as value creation denominators where "context, aesthetics, emotions, and symbolic/sing aspects"<sup>65</sup> (Rodrigues, Hulten, 2011) of space and customer's brand experience are joined to co-create the value. From this stand point, the research assumes the customer in service-dominant logic as a key actor around which the value shapes. Furthermore, it also highlights relevance of the retailers, aesthetics, networks and luxury brand. They are jointly involved in exchange with customer in mind as central figure.

Also, apart from exchange of tangible goods more relevant is exchange of intangibles as knowledge, process and skills that customer will now influence instead of only be presented with the end solution. Therefore, this approach stresses on viewing customer as value co-creator and building a relationship. With this in mind the service-dominant logic extends to include **intangible** perspectives like aesthetics cues and brand experience, meaning and **exchange processes** reliant on human mind and senses. In addition, a relationship with the brand, more important brand community and service provider are underlined.

#### 4.3.1. Value Co-Creation and Service - Dominant Logic

Service – dominant (S-D) logic is fundamental basis for exchange. S-D logic sees service as unifier through which specialized competences are applied for the "benefit of another entity." (Andreu et al., 2010) Successful luxury goods marketing requires the customer to perceive

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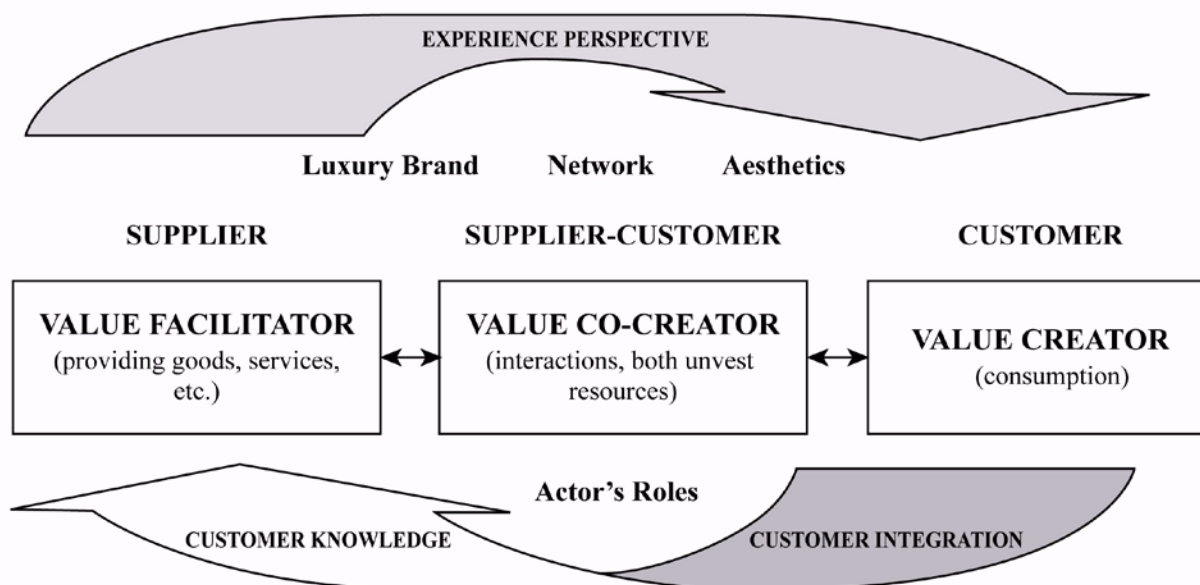
<sup>65</sup> RODRIGUES, C., HULTEN, B., et al.: Sensorial brand strategies for value co-creation. *Innovative Marketing*, Vol. 7, No. 2, 2011

additional and sufficient value in the luxury good to compensate for the high price charged, particularly in times of recession.

To co-create the value and incorporate the importance of “possessions in contemporary consumption and **consumers' feelings** about them” as a key contributor and reflection of their identities, luxury goods researchers recognize that consumers can derive subjective intangible benefits from these goods beyond their functional utility, while additional motivations to purchase them include their higher levels of quality and authenticity. In this light, consumption place can be viewed as communicational, experiential, sensorial brand facilitation and search for the meaning and value co-creation.

From this follows that value is determined by the beneficiary and that service is defined through customer –oriented benefits but the co-creation is relational. Retailers need to coordinate supply relationships and competences to meet customers’ needs and also build networks. Customers, reciprocally apply resources, knowledge, behavior and feelings to ‘transform employee-level skills’ into service. Even though customer in focus, retailers and consumers integrate jointly resources and competences, expectations and experience provision into service provision. For the company to manage internal operational resources and develop superior competences creates the value that will provide the differentiation on the market. Thus it can provide better and more competitive ways to reach customers better than other company. S-D logic insists on process of value co-creation where customer has a role of co-creator and where role of the company is to offer its best resources for value creation. So, S-D logic rests on integration as the way the roles of customers and company are joint. Simplified illustration of the experience-based value co-creating process is depicted in the model below. (Figure 9)

Figure 9: Conceptual Experience-Based Value Co-Creation Model



*Source: Based on Value Co – Creation Actor's Roles, Gronroos (2008) - adapted by the author*

This model serves to locate and integrate the existing writing in on value co-creation between retailers and consumers. The model showed on Figure 9 is based on work of previous researchers like Gronroos (2008) and Payne et al. (2008) and shows an adaptation of a conceptual framework of value co-creation that was offered by L. Andreu et al. (2010).

However, the point of difference is that former authors addressed the value co – creation through two separate perspectives; the process perspective offered by Payne et al. (2008) and actor's perspective offered by Gronroos (2008). The later, (Andreu et al., 2010) integrated the two previous frameworks.

This work supports the logic of both approaches, but adopts the actor's roles perspective. Therefore, the model only addresses the Gronroos (2008) approach which highlights the role of the actors. This aspect proves to be sufficient to support the research conceptual idea. One more adaptation to an existing model is the one of networks and one of luxury retail brand. In this way, customer perspective is interactive and not neglected. Furthermore, the newer approach underlines the customer as value co-creator where 'the brand becomes the experience' (Prahalad, Ramaswamy, 2004). In this regard through aesthetics, networks and a brand-as-experience the

role of supplier is enriched by knowledge and understanding of how to support the co-creation activities of the customer. This calls for more attention on an experience-based co-creation, suggested by Prahalad, Ramaswamy, 2004, to address brands and branding in terms of co-creation and personalized experiences (Rodrigues et al, 2010). This thinking is incorporated in S-D logic as the main standard to depart from.

#### 4.3.2. Aesthetics Perspective of Service Dominant Logic

The term aesthetics comes from the Greek, *aisthanesthai*—"to perceive"—and was first introduced by the philosopher Alexander Gottlieb Baumgarten in 1735 as the science of perception. In this view aesthetic counts to add value and co-create value as customers are more attached to perceived benefits of the product. To co-create the value in the S-D logic, aesthetic departs from its "esoteric" nature (Simonson, 1999) in customers lives and provides opportunities for companies to stress on appeal through various sensory touch points to enhance the product features. It goes from *Becoming* to *Belonging*. Beyond providing a good product a total well-crafted appeal has to be there. The crucial element to make this happen is the placement of familiar object of appreciation in unexpected and changing setting.

In the world where basic needs are satisfied value provision is to be found in immersion with such aesthetic needs to boost sensuality, mystery and intimacy. In luxury this holds even more so, when done through the development of taste and the appreciation of beauty and refinement. The proper way to co-create value with and through aesthetics is to use consistent and simple, yet planned and unconventional implementation.

The artistic visions and expressions will vary depending on the brand and image it wants to keep. But, here the accent is on creating the entire look and supremacy and feel so strong that the message is clearly delivered to the right target. Aesthetic in the luxury settings is strong differentiator. Through aesthetics retailer can inform and educate and consumer and learn influence and participate. This perspective influences the division of stores and its communicational and service logic. Creating an aesthetic appeal is a process that needs to be 'served' to customer as a shopper and observer so that co-creation keeps on evolving while

delivering multiple benefits; window display invites us in but tells also what to wear, eat or listen, how to combine, shows the themes of underlying campaign as well as core of brand.

Aesthetics strongly supports core of the brand and creates positive overall customer impressions enhancing emotional contact. But, in doing so the approach needs to be aligned. Also, the interviews confirmed this view seeing aesthetics as ‘giving the client something more than just a product’ and ‘putting the product in the spotlight.’

Placing the aesthetic in the S-D context argues that taking an interest in aesthetic value of the object or space triggers the associations with symbols or plays with some attractive quality. To be properly guided and to provide a value or to involve in value creation the retailer has to maintain the quality and structural features of brands aesthetics and to communicate the meanings via those brands consistently. Also these dimensions will give better segmentation of customers if they are in for conspicuous, aesthetic or experiential possessions and consumption thus impacting the store environment and service logic. Preferably, managers could thus gather the knowledge if the customer is exclusive with deep visionary taste or popular only interested in possessions and glamour buzz. Also, if customer is connoisseur, in search for enduring refined quality or more aspirational and into ‘buying the status’

#### 4.3.3. Network Perspective of Service –Dominant Logic

In the luxury market interactions are complex. It is about sharing the experiences with other members of the elite and not only settling on company-customer relation. Facilitating and participating with customer in experiences is the process by which so much value creation takes place.

Having the place to encounter and be seen, a place to listen and learn. Setting can provide gathering and exchange and multiple interactions offering the exchange of intangible value of prestige. In terms of co-creating a service the relationship with network members opens up the avenues of knowledge and information that serve later as cue to develop ‘differentiated, desired and difficult to copy’ aspect (Tynon et al., 2010) of luxury experience. Therefore, the notion of

networks and knowledge gathering is of importance in this process. For the luxury companies this doesn't stop on the level of interaction between the firm and customer. Rather, through variety of interactions including: networks of high status individuals, experts such as curators of museums or designers, symbols of popular culture, renowned musicians, a photographer, graphic artist, editors and journals. (Tynon et al, 2010) As Kapferer points out (2009) "contemporary art is a source of inspiration for luxury brand designers and helps to enable brand owners to maintain topicality and relevance for their brands. Clearly seeking out fresh and varied collaborations within the worlds of art, music and fashion such as promoting a number of up and coming designers, serves as a means of enhancing the overall value of the brands." From customers' side those are unofficial and official brand communities and social networks, media, opinion leaders, etc.

The position of the network value within S-D logic for luxury brands and settings is valuable because luxury brand owners are given the opportunity for specific knowledge gathering. On one side, there is an option to co-create value with other brands in the network or community through interactions with customer, brand staff and competition. This approach is offering the visibility and involvement in a dialogue with network members. In turn it helps in staying present and in constant communication while being able to detect all the "wanted" elements necessary for meeting customers' desires.

Network perspective draws out the talent and creativity and tailored made solutions. Engagement and care is found in initiatives like private dinners, parties for selected hosted and visited by influential individuals, bespoke service and exclusive club's memberships. Being part of such experience with the customer is creating much value. This gives suppliers a broader view of the context of their project and more creative solution set to deliver exclusivity, recognition, prestige. The network contexts interplays with consumers self by integrating those sets of values that he/she identifies with, loves, desires and respects.

#### 4.3.4. Luxury Brand Perspective Nature of the Service – Dominant Logic

Brands overall and luxury in particular are acting as a partner in a relationship with the customer. Point of departure here is in viewing luxury brand as emotional and experiential generator. Aaker

et al. 2004 referred this issue in his conceptual model as ‘customer – brand relationship’ where brand personality plays the role in strengthening relation. Through its intangible aspects brands provide certain levels of value and perceptions that lead toward creating images of personal identity. More, they are interpersonal in nature and taken usually as sources of self- esteem and self – identity. Luxury brands represent set of criteria and touch point with higher customer needs for reassurance and confirmation or aspiration toward status. Relational and experiential value is delivered through brands personality/physique. In order to generate customer value retailer/company should use its brand/s to create the experience and sensory atmosphere so that brand experiences appeal to human mind and senses and guide consumption experience toward memorable. Using crafted symbols, which go beyond the material, beyond the craftsmen to invoke a world of dreams, images, signs, and motives.

The role of brand in S-D logic is more and more through sensorial encounters with the brands thus triggering emotions and reinforcing short or long terms customer-brand involvement. Brand facilitation through service is as important because through exchange individual experiences both, goods and service elements. In addition, he/she uses senses to store the information about brands feel/appeal. By all means these interaction are highly subjective therefore hard to be evaluated. However, the more synonymous the quality of service with the brand physique/personality the better the image derived from sensory experience. Since in contemporary consumption consumers seek for novelty, imagery and entertainment multi sensory brand experiences co-create value for luxury settings and customer by providing consumption aligned with “fantasies, fun and feelings” (Hoolbrook, Hirschmann, 1982)

The co-creation is further boosted when interactions between the individuals and retailers provide effective stimulation of 5 senses. This can increase the quality of customer treatment and results in creates communication platform. Retailers are given thus opportunity to develop the communicational means to gather the information again. Unlike with networks, within the luxury setting they provide longer exposure to their universe only where they can apply various technological devices and observation methods. Luxury brands that used sensorial strategies as brand approach mainly involve the human senses and through those they co-create experience that impact consumer behavior and purchasing process. This approach is still conceptual and is

based on drawing the attention on benefits it can potentially provide in addition to other strategies. The nature of brand in the context of service-logic is motivating the retailers to think about creating emotional links through facilitating interaction with customers and brands in lavishing settings where is proven to be possible to enhance the customers attention and participation in value creation process by offering involvement.

Taking the Apple store as an example where the sound, touch, sight values are engaged, or Nespresso café experience with its smell, sight, taste, and touch. The design behind is meant to combine utilitarian function with fantasy, feeling and fun. Or, Louis Vuitton flagship in Paris where through multi-sensory experience like sight, touch, sound individual is taking part in world of traveling anywhere with anyone or alone. Value is co-created not only through sensations but they enhance the products and environment's ability to link individuals with unique brand – experience. Also, there is the risk of triggering negative sensations. It still stays as marketing dilemma and field to be addressed.

#### **4.4. Conceptual In-Store Typology - Marketing Implications**

In summary the value co –creation for luxury settings is still heavily resting on S-D logic while finding strategic marketing ways to move toward experience based logic. The model offered in this chapter depicts the roles of supplier i.e. retailers and customers and tries to describe the flow of value co – creation amongst them in experience driven society. Further, it departs from integral view given by Andreu, Mele et al., 2010 who joined processes and actors role and focuses instead only on actors role. These roles are enhanced in a model by dimensions such as aesthetics, luxury brand and networks.

The rational here is to tackle the intangible sources of value creation for luxury products as well as luxury environment. In this way aesthetic raises the question of perception and segmentation, luxury brand of symbolics and brand physique relevant for customer identity building and networks serve as mediators and additional relational factor for knowledge gathering, (ex) change and word of mouth.

In informed society and luxury world the word of mouth is strong reassurance of value if delivered by significant opinion leader or a club. To preserve the experiential appeal the events and celebrations, special invites and venues are relevant here. The closer the value co-creation gets to the creative core - so called “griffe” the more ultra-luxury value will be obtained for both parties. Example is Hermes at Basel Haute Horologerie fair 2012 presenting the new line of hand-made mechanical wrist watch where company brought the creator himself to address Asian client knowing he/she is more classical thus, offering a thin round watch with high-end craftsmanship. Also, if a famous “nose” creates a perfume for niche market segment or just for particular event.

Aesthetic, luxury brand and networks are dimensions that take time to develop. They give irresistible touch intended to boost the consumption that goes beyond reason. The more they move toward experiences the more refined the approach. This is intimate level of communication as it advocates emotions, ones desires, fantasies and passion. Also, it is multi-laired combining art, culture, music. There the owning of such brand isn't as relevant as experiencing it.

Moreover, the logic of co-creation extends here to other brand communities and luxury participants creating the environment to get exposed amongst ‘selected’. In addition, to maintain the flair and show the impact and connections with ‘special world’ where they are still able to compete on the nuances to preserve the cult. In luxury the important is to stay true to the source of expertise of your brand. It is what is keeping the meaning and identity. For Ferarri that is the car, for LV those are traveling sets, for Gucci is leather, for Chanel its elegant female suit that allows the movement, for Versace are dynamic evening gowns.

The experience perspective is the function of development of all three dimensions. That is why luxury setting is important as it emphasizes the value of the product and service and also can use their stores to appeal to different segments. It offers the way to segment in-store and store settings, offer and accommodate different expectations. In line with this, the touch points with customer can get adjusted. Now the store through value co-creation process can depict its potential and present customer needs and wants. Most premium companies do not restrict their

portfolio to one consumption level, but offer products in identified luxury customer segments (mass, premium, luxury, and haute luxury level) from “mass to class.”

This being said, this work introduces the following *Experience/Value Perception Map*. The idea is to depict in-store directions based on recognized characteristic for each category of customer. As experiential appreciation matures with time, it has a developmental aspect. Its development aspect is therefore, moving between *Becoming* and *Belonging* where value perception gets recognized and along *Exclusive Excitement* to *Symbolic Desire* as the experience/value changes.

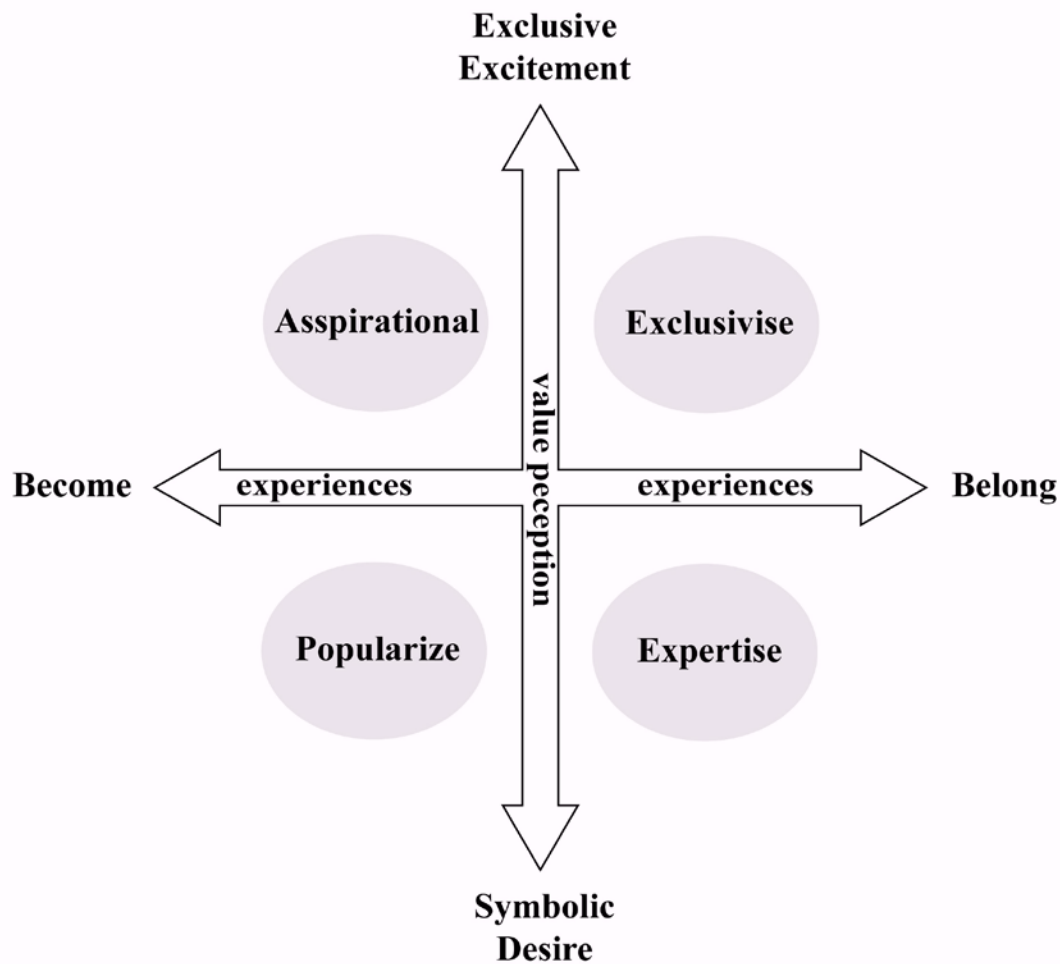
These categories are developed based on opinion from interviews where respondents agreed that emotion in the space should evoke “desire and excitement” when asked: Which emotion should a client ideally evoke with thinking about the store? Also, the aspects that interviewers mentioned as: superior service orientation, location architecture, design colors and brand elements, product selection and availability, curate merchandize, aesthetics appeal, alignment with line communication and press coverage and staff. This leads to proposing that criteria analyzed correspond to those confirmed by primary research made for the purpose of this work. (Chapter III)

In addition, the design of the in-store experiential typology map further takes into consideration the experience perspective value co-creation framework (Figure 9) and S-D logic through aesthetics, luxury brand, networks and actors roles that also corresponds to secondary research efforts.

Thus, this research offers conceptual and generic store setting typology and their functions seen to: Exclusivize, Aspire, Expertise, and Popularize.

These are defined through service level, staff behavior, displayed offer, wow effects, innovation, and so on. (Figure 10) the idea here is that a customer can experience the environments where they *Become* and those where they do/might *Belong* based on perceived value raging between *Exclusive Excitement* and *Symbolic Desire* management.

Figure 10: Conceptual In –Store Typology – Experience vs. Value



Source: Author 2012

**Exclusivize:** Let us start analyzing from the quadrant depicting *Belonging* and *Exclusive Excitement*. Here, a luxury reputation is ‘earned and learned’<sup>66</sup>. It represents the stores that sets standards and educate. Value is co-created thanks to exclusive high net worth individuals that are in search for the special and unique aesthetical appeal and reliant on networks. The demand should be limited to rare, visionary products in unusual settings that will provide the excitement only to selected few.

<sup>66</sup> BERTHON, P., LEYLAND, P., et al.: Aesthetics and Ephemerality: Observing and Preserving the Luxury Brand. California Management Review, Vol. 52 (1), University of California Press, 2009. pp. 45-66

Service should offer an international experience and merchandize display should give the feel of sophisticated but niche consumption. In order to reach them, specialized magazines, limited-access internet sites, word of mouth, and event marketing strategies with high marketing exclusivity have to be implemented. Their distinguishing characteristics are their regular connections to exclusive marketing environments and extensive contacts to various networks of other rich people. This level clearly demarcates "another world". Here the network aspect of value co-creation is dominant.

When it comes to service a research on high net worth individuals showed that *“many customers of this group are often disappointed by the service level provided to them by luxury companies, and would be willing to spend more in many categories, could they find offerings that are more tailored to their individual needs.”*<sup>67</sup> One of the things mentioned most often was their feeling that their customer value is not recognized and not appreciated.

Therefore, the essential point is to create an environment that is limited, where the higher customer value is recognized and uniquely personalized.

In terms of networks, using techniques such as club-marketing, where rich people are gathered by common interests, in combination with added value conferred by privileges, concierge services, and special experiences that are neither mundane nor easily accessible.

In such an environment word of mouth strategies can be effectively executed by providing access to other level 3 consumers. This creates a setting where reaching distant networks of luxury consumers who are not yet customers of the luxury company are made easy. They are more intimate and don't want their lifestyle to be copied but rather enriched with novelty that will than create a sensation worth paying for. Here infusion of art in the space or visit by an artist, niche writer, musician, sculptor is welcomed. There also has to be some higher goal to support, underlying idea that will create a word of mouth within the limited club. Because they can support and influence it. Example could be humanitarian initiative, specialized watch collection

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<sup>67</sup> FLUCH, H., MAXIMILIANS, L.: Marketing for New Rich. The “New Rich” and the Premium Segment in Japan: Marketing Strategies in the Face of Changing Consumer Behavior, 2007 pp. 10-13

where the mechanics of the watch are explained by creator, yacht architect demonstrating latest features, and so on.

**Aspirational:** New rich and aspiration driven customer is to be found in the quadrant between *Become* and *Exclusive Excitement*. They desire to *Become* and imitate a lifestyle of an icon. Usually, are interested in products that exemplify their taste and personality inspired by an idol. In order to distinguish these offers from normal products, it is essential to clearly mark them as being special, for example by creating luxury spaces within department stores in which the upscale consumer can feel more comfortable by making the offers and approaches more personally relevant to the respective customer segments, and by appealing to their heightened sophistication that marks them as different imitating social codes of the upper class. Use icons in the space. The obtained luxury product or service itself, considered appropriate to one's own lifestyle or level of social success, gives the consumer pleasure by transferring that message to others.

**Popularize:** The 3<sup>rd</sup> quadrant of *Become* and *Symbolic Desire* refers to conspicuous consumption, and “mass luxury consumer” in search for ‘bling’ and show off. Inspiration comes from current trend found in magazines and on a celebrity. Here, the social aspect is important; what the others will say? Therefore, buying a trend has strong presences that give chains of associations that the social environment will recognize. They are neither intimate nor willing to be. The space has to offer a story that can be retold. Service doesn't have to be personalized, but immersing. The space, merchandizing and windows should draw attention and be in media. They should position as a “must see place” with a “must buy” item. Also the space should be dynamic and changing fast.

Luxury brands that are present in theses settings use them to generated profit for mass collections or affordable collections that won't be offered to Expertize group. Price and location are important. Characteristic is being accessible in price and physical location. Influence of style magazines and celebrities is strong.

**Expertize:** The last quadrant is *Belong* and *Symbolic Desire*. Consumption here is toward heritage and class. These consumers create value through exchange of expertise and history.

These are collectors of symbols with refined taste. They don't change so easy and like relying on true value of the product. In service they want devotion and knowledge and discussion.

Space should be calm and offer information. Product should be selected or obtainable from specialized sources. Merchandize should be displayed like gallery items. For this group value in exchange is relevant but more value in use. Once they purchase the product or service they want to be sure is worth it. Post purchase service is also important here especially in the form of events invitations for connoisseurs.

## CONCLUSION

The underling idea of the thesis was to research luxury retail settings, their forms and functions and provides the answer to the broad question of: What builds experience and value creation in luxury retail setting?

The main aim of the thesis was to explore conceptually the nature of value creation and how the relationship gets translated and communicated by a means of store, also to identify the key determinants for the value creation within the formats while looking at which levels they bring to ability to co- create the experiential value with consumer.

In its broader context, the research also served to outline the main existing directions in the field of effective experiential spaces and to verify whether these spaces can be used as: value creation, communication and segmentation vehicles. To answer the questions the context needed to be narrowed therefore, three hypotheses were offered to support the analysis.

### **Hypothesis 1:** Luxury retail setting is effective strategic communication tool

True. Luxury retail setting can be regarded as effective strategic communication tool. First, primary data from interviewees and field notes confirm this hypothesis. The respondents implied that to achieve an effective communication in the space necessary is to have: 3 interviewees reported on **clear visual identity** in line with the brand should be built and furnished in a way that makes the brand come alive; 2 informants saw the store as **permanent billboard** in a key locations and **destination place** to experience the brand and 2 as **full time add** expressed through window display. In addition, the field note data showed the Environment scored the second with 1074 marks slightly after Product that gathered 1125.

Second, the in-store typology framework showed that one can potentially design a store to communicate through its environment and service and value co – creation dimensions creating different image and offer that will diversify through Aspirational, Exclusive, Expert and Popular spaces or segments.

It should be kept clear here that due to the conceptual character of the suggested framework as such wasn't tested therefore, Hypothesis 1 can only be partly proved as segmentation tool as well.

**Hypothesis 2:** Value co – creation in luxury retail setting balances the relationship

between the passive value in exchange over the experiential (active) value in exchange.

True. Customer is immersed with the ambient and it becomes relational arena where needs are met through human and experiential touch. As primary field note data showed Staff is about Care, Security, Speed, Effectiveness and Information. These criteria only coexist when there is two-way communication. Environment through excitement, status image inspiration offered the experiential appeal. Once customers are out of the store they still bring the peace of lifestyle in their minds. The point to keep in mind here is that the combination of experience of touch points is specific to each person. This is why value co – creation where customer is active instead of passive helps delivering higher satisfaction and future loyalty and provides a valuable feedback.

**Hypothesis 3:** In-store experience alters the way consumers perceive the experiences and values around the products and relate to a store and/or brand thus shifting from “Become” to “Belong” and from ‘Desire’ to ‘Excitement’

True. However, a store itself can be taken as necessary, but not sufficient factor. The store helps, but the whole process of value creation is facilitated through the store once all other dimensions are aligned.

One part of it is related to the in-store environment which is regarded as the relational playground where retailer and customer are in direct touch. Service-dominant logic follows whole way from the encounter through maintaining a relationship and post purchase care. Also primary research showed that the store environment was second to the product. Therefore, the Product is always the ‘star’ and Environment can enhance the feel. Also the field research as well as interviews confirmed that the Environment boosts the excitement and sensorial codes.

This implies that the logic of experiential significance as well as the problem of the precise content of the sign/symbolic value can’t be held constant, if not well managed. For instance, the split is emphasized through the structure of most companies, where ‘first-hand experience’ is the responsibility of the product management or service delivery departments, while communication is the responsibility of the marketing department. Within S-D logic the value-in-exchange

supersedes the value-in-use. An active exchange allows customer to *Become* through holistic experience strategy and via interaction create the sense of *Belong-ing*.

Having in mind the broadness of the topic this work evolved through IV chapters.

In Chapter I, the starting point goes as far as mapping the process of transformation of luxury manufacturers to luxury retailers. The work starts by taking a look on early stage manufacturers and continues by how the retailing phenomenon evolved through a literature and academia over the years reaching the momentum for **new** luxury retailing to step in and all the changes that followed. Here the research indentified the shift in behavior and involvement of customers in the process of shopping and recognized the individual aspect of appreciating spaces and service relations.

Further, in Chapter II the work moved to the more niche points of landmarks of experiential luxury consumption that lead to creation and strategic purpose of such high-end formats as flagship stores. By introducing the flagship store as the top of the distribution hierarchy in luxury retailing the work tried to illustrated the context of the luxury space its dimensionality, design and strategic purpose. The main experiential drivers are indentified and defined from theories on store image attributes offered by Martineau (1958) and Lindquist (1974) showing that retail environment is much more than a store. It is expected to provide: unique ambience, exceptional, inimitable shopping experience and highly trained professionals.

Chapter III focused on justification of chosen methodology and data interpretation to introduce the conceptual idea and propose the model of value co-creation and the identification of service – dominant (S-D) logic in context of aesthetics, luxury brand, networks and actor roles. In addition, understanding of the luxury retail context and analyzing the secondary and primary data led to the conceptual design of experiential value co- creation model for luxury setting through Service – Dominant (S-D) logic.

In Chapter IV the value co – creation process by Groonroos offered the starting point for conceptual experiential model design. The new adaptation made by author of this dissertation resulted in applying the primary data findings where the Service Dominance within the space was identified as driving factor. This concept enhances the previous set up of value co – creation

between retailer and customer based on service logic. The model offers three additional distinctive dimensions:

- Aesthetics
- Luxury Brand's Intangible Profile
- Networks

One of the underlying contributions of this work was to discover **two value** drivers: Symbolic Desire and Exclusive Excitement. This, in turn gives the whole new meaning to how to express the operations vs. how to impress the recipients. The conceptual experience/value map highlighted the Excitement and Desire as main emotions to trigger the consumer within the luxury setting. Finally, this can outline to the companies the solution on how to translate a product into service or experience of a kind. The way excitement/desire formula is managed sets landmarks for long-term success and value creation for the luxury products and their settings.

Second, work identified the **two experiential** prospects of: Become and Belong. These two notions, of Becoming and Belonging are important in value creation and co-creation. They show all the way the interaction builds and develops. This is why a perception of luxury brand and its environment counts as much as other communication tool.

Third, the thesis suggests **two new** approaches;

- Experiential value co-creation
- In – store typology

Such orientation offers inputs for adjusting the service and mapping the generic groups of luxury consumers. Moreover, in-store experiential typology offers four types of spaces: Expertise, Exclusivize, Aspirational and Popularize. As a result, the implications for communication and retail managers of luxury companies should evolve around the aesthetic, network and service components of shopping. Realizing that higher the consumer level, the more sophisticated the approach – the channels must be more exclusive, and often co – created with the groups of 'selected' few high net worth individuals.

The research gives the outlook to managers on how to adjust the service and approach for each of the four identified segments. These are reflected in offering sophisticated, exiting experience in customized way each corresponding to the right target. The challenge for managers is to recognize the targets and design the strategic experiential mix.

In conclusion, these three contributions should bring to better decision making about designing proper communication within the space and choosing the right mix to involve those selected few. To sustain and accelerate growth in new markets, luxury companies have to tailor the customer's response to more fragmented luxury cultures and sub-cultures by constantly launching customized product and service offerings. They also need to understand perhaps, subtlety, the dreams and aspirations of its consumers as these influence their behavior to invest in the product or service.

The speed at which society is changing is having a global impact on consumer behavior. The luxury retailing industry must therefore adapt accordingly to respond to increasingly demanding consumers who are expecting service quality and a real shopping experience. In many ways, success in mature and emerging markets will depend in large part on how quickly companies can understand and respond to differences in attitudes, spending behavior, and preferences among the increasingly affluent consumers. Investing into research for creative and interactive solutions on how this flow of information can be influenced and controlled should become a central issue for luxury companies.

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## Appendix 1

		Company perspective – Touch Points with the Consumers			
		Product	Staff	Environment	Communication (Ideas and Values)
Customer perspective	Relational	Innovation			
		Excitement			
		Individuality			
		Status			
		Care			
		Image			
		Design/Creativity			
		Senses/Feeling			
		Inspiration			
	Functional	Window Display			
		Security			
		Ease			
		Information			
		Speed			
		Effectiveness			
		Reliability			
		Accessibility			

**Source:** Adapted: Needs and Touch Points from: “Brands Laid Bare: Using Market Research for Evidence-Based Brand Management”, Kevin Ford, Wiley, 2005

## Appendix 2

### Interview Questions:

1. In your opinion, how can a 'distribution place' (i.e. The Store) best be used as effective marketing communication tool?
2. What do you consider as the most important aspects of creating an exciting luxury retail environment?
3. To which extent does a store environment support brand's overall communication strategy?
4. How does a company communicate its core values through its store settings?
5. Which store image elements in your view i.e. layout, color or other (merchandising mix, window display, staff behavior or surprise element) appeal to our senses the most, and in which priority order?
6. To which extent do you feel (head office or in-store) management are aware of the need for exciting aesthetics and experiential tools to enhance a brand's image and customers' overall perception of a brand's value?
7. Which emotion should a client ideally evoke when thinking about a luxury brand setting?
8. To which extent do you believe the aesthetic and experiential components within a luxury store help in sustaining the value of a luxury brand?
9. To which extent does a brand control its store aesthetics and environment across its entire retail network consistently and in a unique way to ensure that it offers a real competitive advantage over other stores?
10. How central is the aesthetic and experience value to a store's image? Does it successfully serve to enhance the product offer (product mix, merchandize mix, window displays etc) in different markets?