

Does **Internet** really matter for the luxury goods industry?

The world luxury goods industry, producing drinks, fashion, cosmetics, fragrances, watches, jewellery, luggage, handbags is currently worth some USD 170 billion. Global sales of luxury goods grew by 9% in 2006. Europe continues to be the first market of luxury, contributing EUR 5.4 billion of this sales growth, which was a 10% increase over the previous year. Other characteristics of the luxury market are its relatively small size in terms of the number of companies and the fact that the boundaries are not easily defined.

But one of the most interesting features lies not in the numbers or the financial results but in its social impact, i.e. its influence on society and consumer behaviour.

In order to keep up with this growth and especially in times of recession, luxury companies must explore different ways to advertise, sell and distribute their goods and services. One of these is opening up the Internet channels. The purpose of this article is to explore the compatibility of luxury goods distribution and the Internet. **As the Internet remains the strongest driver for commoditization, the question is whether luxury goods can be branded, marketed and distributed online without detracting from their image and the emotional experience of buying luxury goods.**

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Luxury has undergone a paradigm shift

The concept of luxury has evolved in recent years. Many factors have influenced the paradigm shift that the luxury market is currently undergoing, such as the change in consumer behaviour, as new generations emerge with new needs and desires, new materials used to produce luxury goods. In the past, luxury was defined by the special features and attributes intrinsic to a product. In most sectors, whether fashion, automobiles, real estate or jewellery, the specific rare features of a product are what constituted luxury. For cars, this was mainly design, handling and ride, with leather and wood inside; in jewellery, materials such as platinum and real gemstones have always made the difference.

Today, however, luxury is associated with not just the technical features of a product but also the emotional and symbolic features. For instance,

customers may wear Prada for the quality of their Teflon suits, but they usually wear D&G or Burberrys for the symbol these represent and the sense of belonging to a community. This is why luxury providers and brands in recent years have focused so much on the processes surrounding the product, i.e. the service, first of all, followed by the shopping/delivery experience. Luxury companies like D&G, Armani, Tiffany, Cartier, Saks Fifth Avenue are attuned to this new experiential luxury paradigm.

Another interesting aspect of luxury today is the shift from "Prestige" to "Masstige".

In their book "Trading Up", Michael J. Silverstein and Neil Fiske, management consultants at Boston Consulting Group, say that people don't just buy for the sake of owning high-priced items but also to relieve stress and disappointment and that

the luxury market has moved in recent years from "Prestige" (high-price low-volume items) to "Masstige" (high-price high-volume items).

The rise of the Internet and its impact on business

Since the 1990s, the Internet has impacted the business world in different ways.



PRADA: wow effect through powerful large picture on the homepage.

In the late 1990s, it changed the business world by promoting new business models. This was an era when the number of clicks and revenue was more important than profits.

At the turn of the millennium, despite the Internet bubble, it continued to be a major distribution channel, a champion of commoditization, and a favourite place for all generations in search of new deals.

Today, the Internet is an unavoidable marketing and business development weapon for small, medium and large companies in almost all sectors. However, some sectors have been more reluctant than others to use the Internet, such as Swiss private banks, the hotel industry and luxury brands.

Among Swiss private banks, where security is a top priority, the Internet still entails certain weaknesses with respect to more traditional ways of communicating with clients.

Large hotel chains were also quite hesitant, until they realized they were being overtaken by online travel agencies, which then created a sense of urgency.

Does the Internet matter for luxury?

Technology has affected all business sectors and completely changed the landscape of consumer behaviour. Despite the crash of Internet start-ups in the late 1990s, the Internet has continued growing in importance and use. In many sectors, e.g. the hospitality industry, the information and distribution of products and services has become a necessity.

If luxury is best defined as the unattainable and the unaffordable, then can it really retain a positive image on a tool of commoditization like the Internet? Since its early stage, the Internet has been described as the fastest commoditization tool ever. The Internet is a synonym for fast and easy access. In this context, is it really possible to distort the basic principles of the Internet and turn it into a platform for displaying and distributing luxury items while respecting their sense of the unattainable and unaffordable?

The sensory nature of luxury goods is another major obstacle to extending the full purchase experience to the web. The assumptions behind this obstacle is that consumers will be better able to close the deal and spend a higher share of wallet when they experience the products in-store, i.e. with the emotional element of the sales relationship and the sensory touch-and-feel experience resulting from the design of the store. In the luxury industry, more than in any other sector, the emotional and psychological brand responses are crucial.

Another negative aspect of the Internet is the limited level of interaction with the shop, which tends to hamper attempts to build full-retail websites.

The real question is whether the Internet as we know it is really ready for luxury. And does Internet really matter for the luxury market?

Despite these major theoretical obstacles, wealthy consumers are actually purchasing luxury goods online. In particular, consumers tend to buy online when they have already experienced the brand and the products in-store. A very recent Google study shows that ultra-affluents (as defined by Google, with net worth of USD 1 million or more and household income of at least USD 250,000 a year for married couples and at least USD 175,000 for singles) make strong use of the Internet for purchasing luxury goods online: in fact, 95% of the 263 millionaires surveyed made their last luxury purchase online. It would appear that time efficiency and convenience make Internet an ideal channel for purchasing luxury for people who have more money than time. Another major finding of the Google study is that 91% of those surveyed said they always or often read reviews before buying luxury goods, which also shows that they use the Internet as a tool for increasing their bargaining power.

Finally, the anonymity of the Internet may also be an advantage when purchasing luxury goods.

In fact, the Internet fits the new paradigm shift of high-net-worth consumer behaviour. As this segment of the population tends to have less time than financial assets, it seems that the Internet is becoming a more convenient place to get to know the luxury market, explore possibilities, find the best package and execute the deal.

The advantages of the Internet for luxury products as found by the target market of affluent consumers are:

- Time efficient
- Choice of products
- Personalization
- Convenient
- Access to information around products, review, web 2.0
- Get right price
- Instant gratification

However, the Internet presents some disadvantages for luxury brands which, while not necessarily stopping consumers from using it as channel, do tend to hamper growth:

- Security issues
- Lack of full sensorial
- Lack of personal/human contact/advice
- Slow process: booking/making the purchase
- Delivery timing
- Any technical problems that slow down or hamper the purchase process

The crisis has also already impacted both the assets of affluent people and also their consumer behaviour. According to Pam Danziger, Unity Marketing, half of the ultra-affluents said they are spending



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less on luxury now compared with 12 months ago, and 55% expect to spend less on luxury in the next 12 months. Some 44% say that the value of their portfolio has decreased 25%. This will have serious consequences on a trend which was already confirmed before the financial crisis, i.e. that wealthy people and affluents like to bargain. “Millionaires like bargains, with 91 percent saying they always or often look at reviews before buying luxury goods” (source: Adage.com)

Bargains, convenience, accessibility and time efficiency have made online retail for luxury goods and services mandatory. Indeed, these features have become expectations. Therefore, there is a strong need to extend the brand to the web and to expand the online presence of luxury companies.

Distribution and branding strategies

The most important step for a luxury brand on the Internet is to define the way of attracting consumers that is a fine brand strategy and to implement a sound retail strategy.

Branding strategy is the heart of strategy for luxury products and services. Building the right brand perception on the Internet is a real challenge due to the sensory limitations produced by the web interfaces. The aim is to reproduce or at least not reduce the brand perception of the consumer. Another key challenge is to find ways to differentiate not just from the competition but also from the crowd as a luxury website.

Building a website to promote luxury products and services needs closer inspection of three key elements:

Senses

Visual design is key to luxury websites as it needs to create a “wow” effect. Companies like Prada, Giorgio Armani and Rolex, for instance, developed websites that promote their brand through the strong use of pictures and video. D&G promotes a catalogue that look like a fashion show with large pictures. **All these companies understand that strong visuals such as large pictures, sounds and videos can recreate the store’s memorable experience.** The website of a luxury company, being the first contact point with consumers, must create the wow effect and must convey a powerful message in the few first seconds. Not all luxury brands have understood the power of the wow effect in the industry and still present today their website with too much content in a traditional way. Some companies such as Giorgio Armani go even further and have added powerful video, outlining a fashion show on their website. “Another important visual element in webmosperics is the video. The use of short and relevant video clips adds colour and excitement to the online luxury atmosphere,” says Uché Okonkwo in her book “Luxury Fashion Branding”. In addition, video clips can compensate for the lack of human interaction.

Sound and music also play a major role in online luxury. Companies like Boss use different types of music, depending on the collection: Hugo tends to have a more dynamic style while Boss Selection has more lounge-like music. An adapted music style helps to recreate the atmosphere of high-end shopping at home.

The fashion industry seems to be more advanced in the use of appropriate sounds and music for online distribution. However, other sectors are following, such as automotive. For instance, Porsche is a strong user of motor sounds and music, especially when launching products through micro-sites (e.g. the new Cayman).

Usability

Usability is the ease with which people can make complete use of a website. It is the art of simplifying the complexity through navigation and design. Companies like Louis Vuitton, which promote a large number of products online, have implemented advanced navigation capabilities which make it easy for consumers to navigate through products being distributed on the website and get to know new products, exploring the catalogue of Louis Vuitton World. The choice between powerful design through the management of senses and sound usability and navigation is a hard one. Yoox.com succeeds in this domain by making smart use of

Visual design is key to luxury websites as it needs to create a “wow” effect.

DOLCE & GABBANA:
catalog simulating
a fashion show.

visuals and sounds while representing in a very efficient manner over a hundred luxury fashion brands.

Personalization

Personalization, enabling consumers to tailor the appearance and the content of a website according to their interests and needs, is one of the key characteristics of traditional high-end luxury in both goods and services. Personalization of websites is a key feature in popular websites such as Google, Yahoo or CNN. This personalization can be geographic, behavioural, or based on interests. It is not just about getting personalized content whenever you connect; it also means getting regular e-mail campaigns on new product launches and events. **Online personalization is about managing interactivity between the brand and consumers; it is about creating new experience “touch points” that did not previously exist.**

Text content

Content in luxury websites is more a matter of showing pictures than explaining what the product is all about, i.e. conveying an emotional and symbolic message. Websites that offer the best experience to consumers tend to provide little text, more slogans and storytelling than factual information about products, unless this is necessary as in, for instance, the watch industry.

A sound e-branding strategy based on senses, usability, personalization and content is only necessary if it drives more online sales or more customers to the store. Here, we observe various way of approaching e-retail, from companies who use the Internet as an information platform solely to those who take advantage of the full potential of e-distribution and e-commerce.

Internet as an information provider

Some brands that consider that the Internet is not yet at a level of maturity that would allow full sensory experience with the consumer currently limit their online presence to a website that communicates only information and PR. That was the case with Prada in the fashion industry in recent years, and many luxury watchmakers still stick to this web strategy. Car makers also limit the use of websites to information (in some countries due to regulations) but push the concept of sensory experience by using powerful visuals such as picture galleries and videos as well as using engine sounds (see Porsche’s website).

Indirect and/or limited distribution

This strategy consists of distributing products through eMalls. Prada, for instance, has chosen to be present on various luxury fashion providers such as yoox.com, shopstyle.com or bluefly.com, probably for historical reasons, as Prada only recently decided to distribute online a very limited amount of items and only in some European countries. **The indirect distribution strategy shows that some brands are not yet convinced that distributing online is part of their core business and prefer to outsource to robust e-commerce platforms.** Limited distribution on the brand’s website is also a sign that these companies are not convinced that the sensorial experience is too limited to launch full integration and distribution.

Full integrated distribution

Yoox.com is probably today the most accomplished luxury fashion e-commerce platform, providing thousands of articles through hundreds of brands. This platform offers all sorts of functionality to attract and retain customers with a particular focus on customization.

Sub-brands like Armaniexchange.com are a good example of full distribution, as they provide large numbers of their products online. Another sign that this brand has moved to full distribution is that they operate exclusively online.

Conclusion

To date, luxury brands have tended to neglect the potential of the Internet, seeing in it a risk of damaging their brand image. However, affluent consumers are asking for online sales, especially those who lack the time to visit stores. The opportunity here for luxury companies lies in the ability to access new customer segments, not just online but also by bringing more customers to the stores, while also offering greater convenience to time-poor entrepreneur-like affluents and providing a new way to experience the brand.

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ARMANI EXCHANGE:
a true e-commerce platform
with exclusive online deals.

