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## **INVESTIGATING WHY ONLINE PURCHASING PUSH OFFLINE SALES IN THE LUXURY MARKET**

Anna Claudia Pellicelli, University of Turin, Italy<sup>1</sup>  
Claudia Franze', University of Turin, Italy<sup>2</sup>

### **ABSTRACT**

#### **Introduction**

The digital revolution has led to major changes, both in the luxury market, which has been a traditional one for thousands of years, and in the luxury customer experience, which is now affected by omnichannel retailing and requires a perfect integration between online and offline channels. Luxury firms have been slower than many non-luxury firms to adopt online digital marketing, but today the trends show that online purchasing contribute to overall market growth more than cannibalizing and continue to grow. This study lays the foundations for investigating the factors affecting luxury consumers' behaviour in the digital era, as the online sales contributes to global sales and push offline purchases.

#### **The Luxury Market**

The world's Top 100 luxury goods companies generated luxury goods revenues of US \$ 247 billion in 2017<sup>i</sup>, up from US \$ 217 billion in the previous year. Annual growth jumped to 10.8%, on a currency-adjusted composite basis, much higher than the previous year's 1.0% growth. 76% percent of the companies reported growth in their luxury sales, with nearly half of these recording double-digit year-on-year growth. Technology is disrupting all industries and its greatest impact on the luxury market is the rise of e-commerce and ultimately the need for brands to operate an omnichannel strategy (i.e. online and bricks and mortar). There is a rise in the number of online purchases, as well as consumers who conduct research online, but purchase in-store. The importance of customer experience, both in-store and online has grown. Trade costs have been reduced enabling the luxury brands to offer more homogeneity in their global product offerings (Deloitte, 2019).

#### **Luxury Brands and Consumers**

The symbolic nature of luxury, as well as the social and cultural meaning, explains the characteristics of luxury goods, which suggests that traditional marketing could not quickly be applied to luxury, as the sector is different from many other industries. The main features related to the industry are the following: luxury is not comparative and it can't be positioned as it's all about identity, which maintains over time; it's not quantitative, but qualitative; hedonism takes precedence over functionality and also differs from aesthetic aspects; it has to be multisensory (Kapferer, 2009). In particular, a true luxury brand shows some core characteristics: it's innovative and creative, it provides unique and appealing products and consistent delivery of premium quality, it's featured by exclusivity in goods production, tightly controlled distribution, a heritage of craftsmanship, a distinct brand identity, global reputation, emotional

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<sup>1</sup> [annaclaudia.pellicelli@unito.it](mailto:annaclaudia.pellicelli@unito.it)

<sup>2</sup> [claudia.franze@edu.unito.it](mailto:claudia.franze@edu.unito.it)

appeal, high pricing, high visibility, indelible impression, recognizable style, fast and high-fashion design turnover, strong country-of-origin link (Okonkwo, 2007). It is clear that luxury has unique product, economic and cultural aspects.

Luxury consumers use the social and cultural meaning related to a luxury brand to fulfil personal and social goals (Bian & Forsythe 2012; Wilcox, Kim & Sen, 2009). The luxury consumption behaviour is essentially symbolic, as the luxury consumer tends to emphasize the search of psychological benefits over functional benefits, and it's subjective (Kapferer, 2012; Kapferer & Bastien, 2009). In the new-luxury consumption, consumers develop a different relationship from the traditional conceptualization related to the luxury brand consumption, which is more intimate, unique and individual; furthermore, it's an intense psychological connection, which justifies the willingness to pay a premium price for the luxury brand (Aiello, Donvito & Vannucci, 2018; Nobre & Simoes, 2019). Moreover, the emerging role played by the brand in the consumers' decision-making process and purchasing of luxury goods, especially the combined effect of brand and country of origin, influences the brand attachment, as it is important for a luxury brand to create a powerful and lasting emotional bond with customers' (Godey *et al.*, 2018).

### **The Impact Of Digital Revolution On The Luxury Industry**

Over the last decades, capitalist markets have faced structural and cultural shifts, that lead in a democratization of luxury, a proliferation of both luxury brand extensions and of high premium brands: the exclusive cultural category is now accessible to all, starting a new era of mass-prestige - "massige". The typical brand of massige clients imitates the principles of a prestige brands while communicating to the masses (Kapferer & Bastien 2009; Raper, Caruana, Medway & Murphy, 2013; Silverstein & Friske 2003). Although the increasingly sales in the global luxury sector (Chandon, Laurent & Valette-Florence, 2016), driven also by the popularity of some brands and the bandwagon effect (Kastanakis & Balabanis, 2012), consumers still look to the mass-consumed luxury brands under the aura of the classical value of luxury (Nobre & Simoes, 2019). As a consequence, the luxury pyramid, composed by three domains - inaccessible, intermediate and accessible luxury - is facing major changes, as some companies are making their products accessible to a wider audience, than the traditional customers, while still retaining some kind of luxury image (Alleres, 1990; Kapferer, 2015). This scenario reinforces "the luxury paradox" between the traditional paradigm of luxury brands, only accessible to few, and the increase in the luxury consumptions (Kapferer, 2015). Moreover, advances in technology and digital communications had significant impact, both on luxury consumption habits, and on consumers' perceptions and experience with luxury brands, revolutionizing the way they interact with brands (Edelman, 2010; Kim & Ko, 2012b). For years, the traditional funnel metaphor has been widely used, assuming that consumers started the buying process having in mind a large number of potential brands and methodically reducing that number to make a purchase. The narrowing of the funnel conveys the smaller percentage of people who make their way through. After the purchase, their relationship with the brand generally focused of the use of the product or service itself. But the funnel metaphor does not capture the consumer engagement changing nature (Edelman, 2010).

New researches show that consumers, instead of systematically narrowing their choices, add and remove the potential brands from a set considered during the more

extensive evaluation phase, in a much more iterative path, composed of four phases and called consumer decision journey: consider, evaluate, purchase, advocate (Court, Elzinga, Mulder & Vetvik, 2009). In the first phase, the consumer considers an initial set of brands, based on brand perception, on exposure to recent touchpoint and start to look for information online and offline (consider); then he evaluates opinions and users' interactions during the product selection (evaluate) and proceeds with the purchase after having definitively selected what he wants (purchase), in an integrated and synergic view. If the customer experience is positive, it generates a word of mouth that feeds the brand reputation (advocate) (A.C., Pellicelli, 2008).

### **The Internet Dilemma**

As luxury market has been a traditional one for thousands of years, luxury firms have been slower than many non-luxury firms to adopt online digital marketing, being reluctant to get involved with online communication and sales and to embrace the Internet's potential (Baker, Ashill, Amer & Diab, 2018). They were hesitant due to the so-called "internet dilemma": this term describes the challenge luxury firms face, as they seek to maintain exclusivity, brand control and a luxurious customer experience, but at the same time they seek to involve the public and provide consumers with information about the brand and the product (Kapferer & Bastien, 2012). While the internet is usually seen as a mass medium of communication, the challenge for luxury brands is to engage only with a selected portion of the population (Vigneron & Johnson, 2004). The pervasive belief was that luxury shoppers, with their discriminating taste and preference for high-priced goods, wouldn't buy expensive things online; they would always opt for the personalized customer service and tactile shopping experience. Today the attitude is slowly changing, luxury brands are facing two main challenges: embracing an omnichannel retailing strategy by the retailing industry and changing the consumer behaviour in an increasingly digital retail environment (Di Domenico, Mazzoli & Aiello, 2018).

As for the omnichannel retailing strategy, the online and offline channels should be seamlessly integrated (Bell, Gallino & Moreno, 2014), whereas the digital revolution and increase in the use of e-commerce is highly affecting the consumer behaviour (Hansen & Bjorn-Andersen, 2013; Kim & Kim, 2018). Thus the digital revolution has caused a powerful shift and brought an abundance of opportunities: as today's luxury consumers grow more digitally savvy, online experiences increasingly have a great impact on the overall customer experience.

### **Online Luxury Customer Experience: Main Challenges**

The question is how to adequately replicate luxury brand experience, which has a set of characteristics, that contradict the e-commerce nature, in a digital environment (Okonkwo, 2009). First of all, luxury consumers still want to see, feel and try the product, as the luxury experience is a multi-sensory one; the in-store experience affects all the five senses, while the online experience only two of them (Kluge & Fassnacht, 2015). For the luxury consumers, the in-store shopping experience should be personalized and tactile, in order to perceive and value the products. The absence of feeling and touching the product can cause a concern about the quality and the counterfeit, so it's necessary to find some ways to reduce this perceived risk of luxury consumers, for instance by adding quality labels and some safety cues (Van Noort, Kenkhof & Fennis, 2008; Yu, Hudders & Cauberghe, 2018).

Another key success factor of the retail experience is the one-to-one relationship between the customer and the sales personnel; human resources are vital in luxury, as a consequence one of the most critical strategic aspects lacking in the online experience is the absence of face-to-face human interactions (Kim & Stoel, 2004). This human contact is inimitable: traditional luxury consumers expect to benefit from a different treatment online as in-store.

An additional key factor is related to the unique atmosphere and environment of the in-store experience: the issue is to aim at replicating both luxurious store environment and the experience of shopping into an e-commerce, maintaining the heritage and the historical image in the digital world, with style, elegance and sophistication. Finally, the most important challenge concerns the customer experience: with the global move towards omnichannel retailing, it's necessary to build a perfect integration between online and offline experience. In order to fill in the gap, it is necessary to offer a seamless, unified brand experience, independent of the device or physical touch point used (J.-H., Kim & M., Kim, 2018).

### **Further Research And Conclusions**

Given these features and the data trend above, it would be interesting to analyse, why luxury consumers', who buy both online and in-store, spend more than consumers who only buy in-store products. The consequence is that online sales contribute to global sales and push offline purchases rather than cannibalizing them.

This study is related to the comparison between online and in-store shopping behaviour towards luxury goods. Online luxury shoppers evaluate convenience both in terms of price (as they are price-conscious) and time (as they are time-saving); they prefer the online product availability and variety. For them the online shopping experience is more relaxing and enjoyable as there's no pressure from sales people and they put a high level of trust towards online consumer reviews. In-store shoppers prefer to see and touch the product; they are more risk-adverse with purchasing expensive items on the internet, while they trust the physical store and the sales assistant. For them the offline shopping experience is relaxing and enjoyable as they feel more important and powerful, because the store employees treat them with respect and courtesy (Liu & Burns, 2013).

**Keywords:** luxury brands, customer experience, online behaviour, offline experience, omnichannel

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<sup>i</sup> Analysis of financial performance and operations for fiscal years ended through June 2018, using company annual reports and industry estimates. Deloitte, 2019