

HOW CAN LUXURY FASHION BRANDS OVERCOME THE CHALLENGES OF E-COMMERCE?



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Title Page

Title: How Can Luxury Fashion Brands Overcome the Challenges of E-Commerce?

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I. Abstract

The internet is not only a digital sphere where users search for information and connect with each other. Nowadays it has become an essential distribution channel for global brands.

Mass-market brands are increasing their sales through e-business and online retailers such as Asos, Amazon or Ebay have become stronger than many offline companies. There is an increasing demand for e-commerce sites from fashion, travel or events. In order to stay relevant companies are forced to enter the e-commerce market and adapt to this trend.

But the main question is, are luxury brands able to enter this digital world without affecting their brand image? This research will deal with the challenges luxury brands are facing when implementing e-commerce into their business.

Using the Internet as a selling channel for luxury products is a debated issue, as many luxury brands fear that they will lose prestige and exclusivity through e-business. The thesis will highlight the different challenges faced in the major three markets, China, Europe and The U.S.A. Having defined the challenges, it will then be possible to give the best strategies and recommend solutions in overcoming these problems.

The main challenge lies in finding the balance in the accessibility & exclusivity continuum. It is important for luxury brands to be able to offer the same exclusivity offline and online for their high-end preferred customers. The shopping atmosphere will finally allow luxury brands to maintain the idea of luxury and to not lose loyal customers.

The main goal for this thesis is to offer luxury brands a variety of recommendations for a successful e-business. In order to achieve this goal, the research analyses the success and importance of past performance as well as the most important online marketing tools.

Introduction

The Internet plays an essential role in the fashion industry, both in the communication of brands and distribution of products. Luxury fashion companies face a significant challenge in trying to adapt their luxurious and experience-based brands to the online marketplace. This report aims to address these issues and propose recommendations to luxury brands hoping to either implement a new e-commerce strategy or improve their existing strategy.

In order to construct this recommendation, this report contains an analysis and overview of different factors relating to and affecting the luxury fashion e-commerce industry. The report begins with an overview of both the luxury fashion industry and the e-commerce industry. After this, three main markets for luxury goods are explored: Europe, The U.S.A., and China. These chapters look into the e-commerce market, consumer psychology, and the challenges for luxury brands in each of these markets. After these geographic locations are explored, the report moves into examples and analysis of successful sites currently, best strategies currently being implemented by luxury brands online, the role of social media in those strategies, and innovations related to e-commerce. Finally, the report concludes with recommendations for luxury brands tailored to the three markets discussed in the beginning of the report, along with one overall recommendation for luxury fashion brands.

It is essential for luxury fashion brands to embrace modern technology and understand the importance of e-commerce and its role in a brand's strategy. This report will explain why e-commerce is so important and serve as a guideline for luxury companies who wish to get the most out of the online marketplace.

II. The Luxury Industry

This chapter briefly introduces the history of the luxury industry, focusing specifically on the luxury fashion industry. The chapter also addresses present and future trends in the luxury fashion industry and gives a basis for further elaboration in later sections.

i. History

According to the Miriam Webster Dictionary, “luxury” is defined as: “1. A condition of abundance or great ease and comfort: sumptuous environment, 2. Something adding to pleasure or comfort but not absolutely necessary, and 3. An indulgence in something that provides pleasure, satisfaction, or ease.” (Miriam Webster) The idea of luxury, and its physical manifestation have been around for ages. And while luxury may mean different things to different people, there is no denying its significance in the fashion industry. In fact, the fashion industry started with luxury and then evolved to include the high street brands that play a major role today.

These days, the luxury fashion industry is quite small. The industry is dominated by those brands that have a rich history, tradition, and heritage and a strong brand identity. The biggest challenge for luxury brands presently, is adapting them to the modern marketplace. Many of these companies existed long before the Internet was even an idea, and derive part of their identity from personalized services and strong relationships with customers. However, as the Internet becomes more and more integrated into the fashion industry, luxury brands must decide if they are going to participate, and if so, commit fully to the endeavor. This means developing strategic social media plans, and deciding if the brand will engage in e-commerce. The following section will explore in depth the future trends in the luxury industry.

ii. Future Predictions

China is obviously not going anywhere, and in 2012, it surpassed the United States to become the world’s largest consumer of luxury goods. This was the first time China achieved this title. (Sophie Doran) Within China, there is a continuing trend of male shoppers leading the way in terms of purchases. These male consumers are in fact driving luxury growth, and show no signs of slowing down. While typically these purchases are related to the controversial business practice of high-end gift giving, this is no longer the only reason men

are shopping. Recent studies have shown that upper-middle-class male shoppers are starting to make more personal purchases, such as leather-goods, clothing, and other personal items. Coach China President & CEO Jonathan Seliger noted, “Chinese men have become even more enthusiastic about following fashion trends and have started attaching more importance to their outward appearance through the use of ornaments and personal decoration.” (Sophie Doran) It is important that companies remain aware of these changes in the behaviors of luxury consumers in order to remain on top of the market.

Another significant trend in the luxury industry that is occurring across all major markets, China and Brazil included, is mobile consumption. It is expected that 2013 will be an even bigger year for mobile and online consumer activity. Part of this is the simple reality that more and more people are purchasing smart phones and tablets, and the fact that mobile bandwidth is steadily increasing, with many countries offering 4G/LTE access. This means that brands have the opportunity, but also the challenge of creating unique and engaging mobile content for their brands. Many brands have struggled with app development, and have struggled to create a program that consumers are actively using. When companies look at the statistics, many find that consumers may download their app, but then do not use it hardly at all. It is important that companies provide apps that are fast, consumer friendly, and contain relevant information that is easily accessible to the consumer. At this point, almost all brands have apps, so the challenge for brands is to create something that stands out among the plethora of options.

Along these lines, with the growth of digital content, it is becoming more and more important that luxury brands create meaningful communications that are in line with the overall brand identity. Brand image is especially key for luxury brands, and is often times part of what draws the consumer into the allure of the brand and entices them to own a piece of it. Elizabeth Canon of Fashion’s Collective explains that, “many brands, even the most iconic, have lost a sense of identity. They are describing themselves with the same attributes, like “sophisticated, classic and chic” that dozens of other luxury brands use as well. The Internet and mobile apps allow customers to have access to many brands at the same time, and thus allow them to make comparisons instantaneously. It is essential for luxury brands to have a clear and distinct brand image in order to stand out from their competitors, especially in this context. Looking towards the future, it is clear that technology will allow consumers to have quicker and easier accessibility to brands through advanced mobile networks. This will inevitably impact the luxury market, and the brands that are ahead of these advances, will have the greatest success.

IV. The E-Commerce Market

The following chapter highlights the process of the internet and e-commerce from the beginning until today. The chapter points out the most important innovations, the influences on the retail market overall as well as the challenges and opportunities the internet has created for luxury retail.

“While the whole industry has been resisting e-commerce for the last 15 years it’s now realizing it’s inescapable.”

- François-Henri Pinault, CEO PPR

Before looking into the several luxury e-commerce markets it is necessary to give a short introduction into the definition of e-business and e-commerce in order to understand its scope. Even though e-commerce was first introduced 40 years ago, e-retailing of luxury fashion is still in its beginning phase and is yet not fully accepting the internet as a distribution channel. With the increasing importance of e-business, the fashion luxury industry is not only facing many opportunities, but also important challenges, which caused the delay of the arrival of e-business in luxury. (Okonkow) It all started in 1973 when the first information was exchanged through the Internet and with the invention of the World Wide Web in 1989. Already one year later the first web page was created and it quickly developed to what it is today. Today there are more than 180 million web sites worldwide and over 1.4 billion Internet users throughout the world. LVMH was one of the first luxury groups to start an online shop by the e-luxury. The group launched e-commerce stores for each individual brand. The first website was launched in the U.S. market and then expanded to France and the United Kingdom. Shortly after brands such as Gucci and Armani started investing in e-commerce. (Jennifer Erdtman)

According to Okonkow, the majority of Internet users are between 15 to 34 years old. The cyberspace world is developing in such a fast manner that it is predicted to reach 2 billion users by the end of 2015. (Okonkow) What is important for luxury companies is to point out that 9.5 million of the 1.4 billion users are all wealthy individuals. Even though it seems that they only represent a small portion, it is important to highlight that they generate an annual turnover of 76.5 million. Additionally Okonkow points out that 60% of the American upper class belongs to an online community and almost 40% are a part of a social network. These numbers show that luxury clients are active within the cyberspace and are open for new experiences. Today’s society is connected to the Internet 24 hours a day and 365 days of the year and not only through the computers

but through multiple devices. The fact that 171 billion emails are sent out daily, that 180 million websites are browsed every day or that there are over 170 million blogs in the cyberspace shows the importance of the internet for today's society. (Okonkwo) Traditionally the internet has been defined as a place providing mass access as well as mass appeal to the customers, which creates the major dilemma for luxury companies. Luxury is seen as something exclusive which is not available to the mass. This idea stands in contrast to the characteristics of e-commerce. The arrival of the Internet and with it the introduction of e-commerce, has changed the way of doing business in the retail industry forever. Companies are forced to adapt to this growing trend. What started 40 years ago has now become crucial in the survival of a company. And slowly luxury companies have to accept this fact and start include e-business into their overall strategy. As Okonkwa points out, this means that they have to include not only e-commerce but also online communication, online marketing and brand retailing as well as customer relationship management and after sales support. Companies need to understand that it is not only the use of digital applications and system but a complete strategy which needs to be included into the overall strategy and process of a company. (Okonkwa)

After having highlighted the importance of the Internet, it is necessary to look at the development of e-commerce within the last 40 years. Hence it can be said that it experienced drastic growth and will continue to grow in the future. In 2011, the total number of Internet users worldwide reached a number of 2 billion with almost half of the users being below the age of 25. At this point it is important to highlight that 45% of all users can be redirected to the Asian market. The total revenue increased by 18,9%, reaching a number of 680 billion USD. Online luxury shopping has been over-performing overall web sales over the last years, increasing by 20 percent compared to 8 percent. (Fabien Bourrant) By the end of 2013 the total global e-commerce turnover is expected to reach an amount of USD 963 billion. As China has currently the highest amount of Internet users it is also expected to become the largest e-commerce market worldwide, overtaking the United States by 2015. Within the next three years the number of Chinese online customers is expected to increase from 145 million to 329 million. The luxury e-commerce sector is continuing to grow and gains more and more relevance for overall sales and within worldwide retail channels. In 2012 the e-commerce business exceeded \$1 trillion and is expected to reach \$1.3 trillion in 2013. Appendix 01 indicates the growth of e-commerce throughout the world. The research conducted by eMarketers clearly highlights the constant market increase in all major e-commerce countries. Also important to point out is the fast growth of the Chinese e-commerce market which increased by 33% to about \$332 billion. Even though the U.S. remains the strongest e-commerce market, China shows the

highest and fastest growth. (Seth Fiergman, Sam Silverwood).

Another point which is important to highlight, is the strong and fast growth which clearly shows that by the end of 2013 e-commerce will become essential in all major markets. Brands need to be aware of this fact and start adapting online marketing strategies into their businesses. The fact that the luxury e-commerce sector has experienced an increase of 20% from 2010 whereas the overall luxury market only increased by 8% is further proof of this trend. Luxury brands have experienced a consistent increase in sales in the past. Appendix 2 highlights the constant growth in revenue of online luxury goods worldwide. From 2009 to 2011 alone, the online luxury revenue increased from 3.6€ billion to 7.0€ billion. This development clearly demonstrates the promising opportunities for the future (Emarketers).

Due to the improvement of technology and more and more possibilities, more luxury companies are deciding to launch the e-commerce stores. New innovations allow luxury fashion brands to reach additional customers through their online platforms and still offer a special and unique shopping experience. According to Okonkwo currently more than 171 billion e-mails are sent daily. There are more than 180 million websites in the cyberspace and more users can chose from an offer than 112.8 million in multiple languages. These high numbers once more shows how important the online world has become and how much power it gained (eMarketers). Finally it can be said that E-commerce has become an essential for sales channel. In the past years e-commerce has been experienced a strong increase. The fact that luxury online revenue has been constantly growing in the past few years shows that there is a growing demand. E-commerce creates a great opportunity for increasing brand awareness, reaching new markets, gaining a competitive advantage and differentiating.

V. The Primary Luxury Markets

Chapter five will analyze the most important e-commerce markets worldwide. The chapter will look in detail into the e-commerce markets of the United States, Europe and China as these are the strongest luxury markets today. In order to highlight the challenges for each market it is necessary to analyze external factors such as growth and as well target market and consumer psychology.

Whenever companies are entering new market the first and most important thing is to conduct a detailed research of different regions as well as the local consumers. The same process counts for brands launching their e-commerce business. Due to economic and cultural differences, brands need have a clear understanding of the market and the consumers. Europe, the United States and China are currently the leading luxury market which is why it is essential for luxury brands to analyze each market before launching an e-business. The analysis consists of an evaluation of the overall luxury e-commerce situation as well as the consumer demographics and psychographics. With the results brands can then adapt the strategy to overcome the challenges arising in each market.

i. Europe

The following chapter is divided into three parts. The first part focuses on the European luxury e-commerce market. Highlighting the strongest and weakest countries as well as looking at the complete European market growth. The next paragraph analysis the needs and expectation of European luxury consumer in order to be able to find the best strategies for the European market. Finally the third part points out the major challenges for international luxury brands entering the European E-commerce market.

a. The Luxury E-commerce Market

The European e-commerce market is as already mentioned, one of the major markets with 22% of the total Internet customers. According to Ecommerce Europe, the total e-commerce turnover of products and services reached 305 billion euro in 2012. According to Forrester Research by 2017, the European ecommerce market will have a value of more than €191 billion which will lead to the result that online retail growth will continue to overtake offline growth. (Forrester Research) One major challenge when entering Europe is the fact that it cannot be seen as a single market due to the high economical differences between countries. Turnover in the western countries is rapidly increasing; especially in France (20%), the Netherlands (10%), Germany (25%),

Belgium (20%), Italy (19%) and Spain (19%). According to Ecommerce Europe, the United Kingdom, France and Germany represent about 70% of the total EU market. Currently the UK is the world's largest e-commerce country with an online spending of 77 billion pounds in 2012 and a significant increase of 13% to 2011. On the one hand, in countries such as France, Italy, and Spain, the total number of Internet users is still noticeably bigger than the actual number of users purchasing. Nevertheless it should be pointed out that the number of users purchasing online is rapidly growing. On the other hand countries in Eastern Europe such as Bulgaria or Romania only make up for a small portion of the total e-commerce sales and cannot be compared to the UK or German market. But taking the year to year development into account it can be said that the potential for Central and Eastern European e-commerce is high and shows great opportunities for the future. Countries in the East, such as Poland and Czech Republic have expected growth figures ranging between 25 to 30 per cent. The graph in appendix 03 gives a more detailed view of each countries online share comparing it from 2011 to 2012. What should be pointed out is the fact that no matter how strong the share is, each market has experienced a growth from 2011 and 2013 indicating the growth and potential of e-commerce in Europe. (Chiel Liezenberg)

The uneven distribution highlighted above has been explained by Wijnand Jongen, member of the Board of Ecommerce Europe. He pointed out that countries such as UK, Sweden or Germany have had a "head start" when it comes to Internet usage and mobile devices. These countries have an Internet penetration of 90% or higher due to their economic advantage. Nevertheless other European countries, and especially East Europe, are not too far behind as they are rapidly growing. (E-commerce Europe) In 2010 Eurostat published a study showing that 12% of the total revenue of companies within the EU was generated from e-commerce (Paul Lassalle) Furthermore the product categories of clothing/shoes/watches/jewelry represented 20% of total online retail value in 2008 resulting to a total market value of €169 billion. (BernsteinReserach) This can be an important aspect for luxury brand when choosing their product offer. According to research conducted by Okwonko, Internet penetration in the most developed countries and economies within Europe is at a rate of 90%. Additionally these countries have a high amount of wealthy people who purchase products worth €250 and higher online. These people reach a ratio of 3:1 compared to the rest of the population. (Paul Lassalle). The fact that from 2008 the amount of enterprises engaged in e-commerce constantly increased shows how important the Internet and online transactions have become for companies. The figure in Appendix 04 shows

the development of companies engaged in e-commerce. Not only purchases and sales increased in the past years but more importantly the percentage of turnover resulting from e-commerce increased as well. According to the European Commission, the turnover on e-sales reached 14 % of enterprises with 10 or more persons employed in the EU-27. (European Commission)

Forrester Research highlighted that the total e-commerce turnover for the European market reached a value of 112 billion euro in 2012 and is predicted to reach 191 billion euro in 2017. This would mean a yearly increase of 11%. The Czech Republic is currently the strongest e-commerce market in Europe with 25% sales coming from e-commerce. The country is closely followed by Finland (20%), Sweden and Hungary with each 19%. Countries such as Germany, Great Britain and France are also within the 10 strongest e-commerce markets in Europe. According to Bitkom more than 70% of Norwegian companies are conducting the purchases online, closely followed by Norway, Austria and Germany.

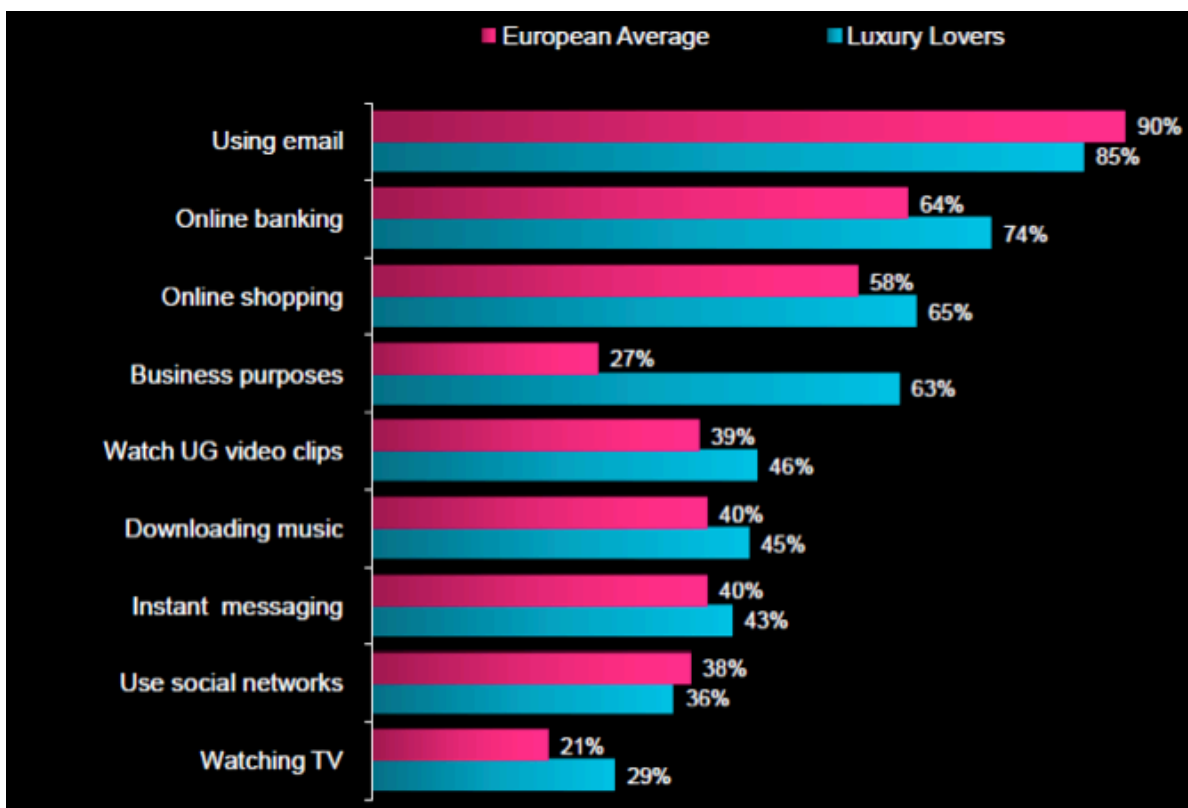
b. European Consumer Psychology

No matter what country, customers of luxury goods all have the same expectations and needs when it comes to what affects their purchase decision. They all have high expectations and are looking for a unique and exclusive shopping experience. These expectations are the same for offline stores as well as the e-commerce. This is why it is important that customers must have the feeling that although the luxury e-boutique is available to the masses, it has only been designed for a select few. (Okonkwo) According to Stefania Saviolo and Erica Corbellini the concept “Luxury” is being interpreted and seen differently in each consumers mind. The survey conducted within “Managing fashion and luxury companies” shows how the definition of luxury differs from region to regions. The survey shows the different priorities for consumers when it comes to luxury. For example German consumers think first of all about automobile brands when being asked of what luxury means to them whereas Asian customers clearly list fashion brands. Hence countries such as France, Italy or Japan are more likely to have higher expectations from fashion luxury brands than maybe Germany. (Stefan Saviolo). Appendix 05 shows the listing of top ten luxury brands in countries such as France, UK, Spain, Germany or Japan.

In Europe, men represent the majority of luxury consumers, making up 52% of all consumers and the average age is about 28 with small differentiation in some regions. What Appendix 06 importantly points out is that

within markets with a lower average age, there are more female customers than men. Whereas those markets with an average age above 35, men are more likely to purchase luxury goods. Concluding, it can be said that the higher the average age is, the more male customers and vice versa. (Simon Falconer) This means that Europe is more likely to be a potential market for luxury companies targeting an older group. Brands reaching out to a young customer base might face difficulties as young Europeans rather purchase mass market products than luxury items.

Within his research, Falcnor also demonstrate the high demand of luxury advertising online by European luxury customers. The graph in appendix 07 points out the different product categories which customers prefer seeing online. Here it can be pointed out that most customers would prefer to see online advertisements from fashion websites online closely followed by culture and lifestyle ads. This indicates the demand for luxury fashion items offered online. Consumers are searching for luxury products and are likely to purchase fashion luxury online. Danziger points out what defines luxury companies in the consumers mind. He stresses that it is more the fulfillment of “emotional fantasy” the brand is creating than the physical object. When purchasing a luxury item consumer like believing that their product has been created by the designer than produced in a factory. (Paul Lassalle) Luxury customers all share the same need. It is the new need of differentiating form the “normal” society and to confirm that their social status is exclusive and that they stand out from the “equals.”



The graph above shows the different incentives for the average European customer, as well as for luxury customers, for using the internet. What should be pointed out is that luxury customers are more likely to use the online websites for shopping than the average user. This shows that that is a target market for luxury brands entering the e-commerce market and that there is a great potential for increasing their sales. According to the article by Rohit Arora, there are three main motivations that drive customers to purchase luxury items: self-assertion, differentiation from others, and the genuine appreciation for product excellence. Focusing on these three motivations it can be said that all three needs can be fulfilled through an online store. That is if, the brand is implementing the right strategy and knows how to create its e-commerce store. The article published by Josh Leibowitz, McKinsey Partner and specialist in online retail, highlights the strong growth in online retail. He points out that today more than 30% of offline sales are either directly generated or influenced by the online experience. Furthermore he mentions that those companies investing most in their digital development and innovations are the ones seeing the most benefits. This statement is being supported by the fact that 50% of the market is generated by full price web sites.

In 2012, McKinsey conducted a survey on Digital Luxury Experience and asked 2,500 luxury customers in five European countries about their purchase incentives. The majority, 40%, indicated personalized discounts as their main buying incentive, 19% preferred purchasing online because of the quick and simple purchasing process and 16% used online shopping in order to buy exclusive products. (Josh Leibowitz) According to the study “How the Affluent Luxury Consumer Uses the Internet and Social Media” by Abrams Research, a normal luxury consumer spends approximately 4.2 hours shopping online per week while the “heavy” users spend all of 9.5 hours weekly on shopping-related activities. (Abrams Research) Finally, it can be said that luxury consumers today have changed a lot compared to several years ago. The Internet has given consumers the possibility to receive all the information they need in a second and for compare products easily and at no cost. They have become more demanding and more powerful. They have the ability to control marketing communications from companies and it is they who take the leading role as opposed to the brands. Hence companies are forced to create a website which is attractive, unique and offers an unforgettable shopping experience. Overall, the research results show that European luxury consumers would purchase online. Finally this reduces the challenges for luxury brands selling online in the European market.

c. Challenges Facing Luxury Brands in Europe

“The brands that will lead in luxury online are those that embrace the Internet as a complement to offline activities, instead of viewing it as a threat” – Uche Okonkwo

In her book *Luxury Online* Okonkwo lists five major challenges luxury brands are facing from a global aspect. These are the main challenges for luxury companies worldwide and they may vary slightly from region to region but are generally applicable worldwide. The first challenge is the one of corporate orientation. The internet has forced companies to change their current strategies and adapt to this new trend. As luxury companies are known for sticking to their heritage and their classic and timeless strategies they are less likely to adapt to change. With the arrival of the Internet they are forced to change the corporate strategy from strict and narrow minded to flexibility and openness. They need to integrate this new idea into the current strategy and create a combination of both which still fulfills the customer's needs. This also means that they have to recognize the importance of the Internet today and implement new technologies and communication tools into their overall corporate strategy. (Okonkwo) Second of all luxury brands still make the mistake of believing that the Internet is online a channel of communication. Luxury companies need to understand that it is a multichannel serving the purpose of communication, customer relationship, consumer analysis, retailing, product development as well as marketing and customer service. If companies adapt their strategies in all of these channels, the internet creates new opportunities and possibilities.

A third challenge Okonkwo highlights in her research is the problem that companies do not know yet how to represent their brand online without losing the image of exclusivity. The main challenge is to translate the brand's image, personality and core identity on the website. Later, the report will show different examples of brands, which were able to overcome this challenge by using the right technologies and innovations on the websites. Linked to the previous challenge is also the idea of knowing how to position the website in this virtual market. It is not just about creating a website but presenting and positioning it in line with the brand's image. Brands need to control the brand's image as well online as offline and not let the consumer or the cyber world control the brand. Finally the last and fifth challenge Okonkwo points out is the online customer itself and the main reason why luxury companies are forced to enter the e-commerce business. Luxury online customers have changed through the internet. As Okonkwo calls it ‘customers have moved from the discovery stage of using the cyberspace to the control stage’. This means that they have gained new power and became more

demanding for exclusivity and innovation and will dismiss those brands not able to deliver the expectations.

(Okonkwo) François Mombouisse, president of Ecommerce Europe mentioned,

“Growth in e-commerce is closely linked with trust and confidence. It takes a couple of years before Internet users become online shoppers. This explains why, globally, only 20% to 40% of Internet users purchase online. In many emerging countries, consumers do not have a longstanding experience of shopping by catalogue. They wish to see a product before deciding to purchase. Their confidence in online payment and online security in particular has to grow. This is why Ecommerce Europe attaches such importance to online payments and online security. This must be a top priority for the European Union as well.” One major challenge which companies are facing within Europe is the wide variations of e-commerce sales and purchases between countries. Due to the differences within each country’s economy and status, Europe as previously mentioned cannot be seen as one whole market. According to the European commission in 2010 the percentage of enterprises making purchases electronically ranged from countries with only 9 % (Romania) to and amount of more than 70% (71 % Denmark). Looking at the companies e-sales the same differences appear. Countries with almost no e-sales such as Cyprus (1%) up to 25 % in the Czech Republic followed by Finland (20 %), Sweden and Hungary (both 19 %). Summing up, it can be said that compared the US customers, Europeans are still in the progress of accepting the idea of luxury and e-business. If brands are able to offer unique designs, maintain an exclusive shopping experience and keeping the unique and high value brand image, the European e-commerce sector is a great opportunity. Before entering brands need to be aware of the strong differences between countries and choose their entering locations precisely.

i. U.S.A.

This section introduces the current state of the luxury industry in the United States of America, and uses recent financial reports of luxury fashion brands to illustrate this. The second section of this chapter focuses on the e-commerce market in the U.S. and then the psychology of American consumers as it relates to this. Finally, the chapter ends with an analysis of the challenges facing luxury brands in the United States, especially as it relates to e-commerce.

a. The Luxury E-commerce Market

Recently, the United States of America's luxury market has become stronger and stronger. After a frightening period of recession, the future is looking brighter for luxury brands hoping to earn profits in the American market. In February of 2013, Hermes International SCA enjoyed a 21% increase in fourth-quarter sales in the Americas to \$247.5 million. Hermes is not the only company that noticed an increase in sales in the U.S; LVMH, Richemont, and PPR all confirmed the pattern of improvements when they subsequently released their full-year profits. Even with the luxury boom in China, companies are not considering the United States to be "old news." Patrick Thomas, Chief Executive of Hermes says that the company "still has enormous growth potential" in the United States, and that "it's still a market to be conquered." (Madislover)

While it has taken time, the U.S. is showing signs of strength and recovery from the devastating 2008 economic crisis. According to Nadya Masidlover and Christina Passariello of the Wall Street Journal:

The economy has bounced back from recession, unemployment has declined, the stock market is tickling record highs and home-sale prices have improved. As a result, wealthy Americans are spending freely on expensive clothing, accessories, jewelry and beauty products. (Madislover).

These changes are especially relevant to luxury brands with the recent slowed growth in China. *More about the Chinese market will be discussed in subsequent chapters, but it is significant to mention here as luxury brands often think of markets in terms of how they compare to others.* The recovery that is currently taking place in the United States provides hope to luxury brands that they can continue to offer their products in diversified markets as opposed to relying solely on one geographical region as the source of growth and profits.

After looking at the figures for the year, LVMH said that overall, the United States was its strongest market in 2012. The company saw a 12% rise in sales in the U.S. as opposed to 10% growth in Asia, excluding Japan.

(Madislover) These figures are just one reason why luxury brands should keep their attention on the United States market. Another important factor is the potential increase in tourists; in particular, Chinese tourists. The United States government is relaxing visa requirements for Chinese visitors, which may mean that these tourists may come to the U.S. to make their luxury purchases, instead of Europe. (Madislover) Luxury industry professionals are looking to the future with optimism for the U.S. luxury market. Milton Pedraza, CEO of the Luxury Institute LLC, an American consulting firm confirmed this saying: “The stronger economy and loosening of visa restrictions for the Chinese mean that business this year will benefit from both affluent locals and tourism.” (Madislover) This positive outlook is long overdue for a market that has struggled to recover from the recession. However, while luxury brands are excited about the signs of progress in the U.S. market, they are still cautious and realistic about the possibilities. Not all areas of the country have been profitable; as companies realize that smaller cities and the Midwest just might not be appropriate for the kinds of items they are offering, and more specifically; the price point. But if this is one negative in a sea of optimism for the United State’s luxury market, it could be, and it has been, worse.

The e-commerce market in the United States is growing at an astounding rate. It is predicted that in 2013, sales from online retailers in the U.S. will increase 13% to \$262 billion. Currently, e-commerce sales account for 8% of all retail sales in the United States, and it is expected to outpace similar growth at brick-and-mortar stores in the next five years. (Indvik) According to Forrester, a forecasts technology and market research firm, there are two main factors that are driving the growth of e-commerce in the U.S. The first, according to the firm, is the increasing use of tablets and smartphones, which means that consumers are spending more time online in general. (Indvik) As more and more people purchase and become accustomed to using smartphones and tablets, the more these devices become integrated into their daily lives. Customers are using their smartphones and tablets to research products, locate stores, check prices, and more increasingly, make a purchase. It is simple logic that with increased use of these devices, there will be an increase in purchases made on them as consumers become more and more comfortable and familiarized with them. The second factor Forrester mentions is an increase in investments in e-commerce development by traditional brick-and-mortar retailers. These retailers are creating online experiences that integrate the store and the Internet. For example, many retailers now offer customers the option to purchase an item online and then pick it up in the store. This saves consumers the hassle and expense of shipping that comes with ordering online, but also saves them the time they would spend searching for the item in the store. It is truly the best of both worlds.

One important factor to note when discussing the e-commerce market in the United States is the fact that the vast majority of online shoppers are not new shoppers. In fact, in 2013, only 4 million people are predicted to shop online for the first time. Forrester states that: “growth is coming from existing online shoppers who are spending more time and money-and in a wider variety of categories-online.” (Indvik) Generally, shoppers start with “low consideration” goods such as movies and MP3s, items that are easily bought on an impulse and do not cost much, and move to “high-touch, high-consideration” items such as appliances and furniture. (Indvik) It is important for retailers to be mindful of these statistics, and to tailor their e-commerce sites to them. Brands should focus on creating loyal customers out of the ones that are currently browsing online, and feature low cost items on their websites along with the more expensive items. If a brand can get a consumer to purchase something from their website, even if it is a small accessory item, and the consumer has a positive experience, it is highly likely that the customer will return and most likely spend more.

After reviewing these statistics, it is clear that the e-commerce industry in the United States shows no signs of slowing down and will continue to become a more important aspect of the retail industry in years to come. Knowing this, luxury brands must take the necessary steps needed to either create, or tailor existing e-commerce websites to the needs and desires of their target consumers. A key factor in this is studying the psychology of consumers in the United States in order to understand what factors will motivate them to make purchases and to become loyal consumers.

b. American Consumer Psychology

The psychology of the average American consumer is a complicated yet essential factor companies must consider when creating brand strategies. Companies must first understand consumer’s underlying psychology before they can effectively tailor their strategies. (Danziger) This is even more significant in the luxury sector. As Business Wire puts it: “Through brand name recognition, logotypes, imagery, and tag lines, marketers hope to forge lasting emotional connections with customers, making the brand the connection between corporate strategy and consumer psychology.” (Luxury Brand) This is especially important for luxury brands, as these kinds of brands tend to have a more complex challenge when attempting to connect with the consumer. Luxury brands must surpass just creating brand name recognition, and in addition “stimulate fantasy, aspiration and desire.” (Luxury Brand)

The Importance of Brand Loyalty

The goal for brands is creating brand loyalty, which is more elusive than some companies may believe. In fact, brand loyalty is only high in a few luxury categories. These traditionally are mechanical categories, such as cars; very personal categories, like cosmetics and beauty/spa treatments. These are categories related to objects that require trust from the consumer, whether it is trust that a machine will perform well or be safe; or trust that a beauty product or treatment will have the desired results. Categories such as jewelry and home furnishings, for example, tend to be low brand loyalty categories, and thus provide an opportunity for brands. Since these categories do not have a history of high brand loyalty, brands have the chance to put products on the market that customers want to be loyal to. Companies must take this information and use it in combination with the concept of brand performance to develop a strategic marketing campaign that will draw consumers into the brand. As Business Wire explains:

The concept of luxury brand performance connects both the intrinsic definitions of luxury... with the experiential--how the brand makes the consumer feel and the way they experience luxury. Luxury marketers not only need to design and produce the 'best of the best' product; they need to make sure that their products also deliver the emotional, experiential satisfactions that the luxury consumer desires. It is through performance that 'old luxury,' encompassing the thing, is transformed into 'new luxury' that delivers the experience and emotion to the consumer.

(Luxury Brand)

American consumers are looking for a luxury brand that they can trust, but they are also looking for a type of escape and fantasy. Companies must create this fantasy through strategic marketing and maintaining a consistent, clear brand image. Once this is achieved, the brand is closer to reaching high performance. And thus, a high performing brand is more likely to obtain loyal customers.

Correctly Understanding the Consumer

When luxury brands embark on a new marketing strategy, the metric that is usually focused on when determining the target is usually income. However, how much money a person makes is not necessarily any indicator of their current and future purchasing habits. Yes, a person's income does indicate his or her ability to purchase luxury goods, but it does not communicate anything about their interests, desires, or their life in general, other than how much money they are making. As Pamela Danziger of The Luxury Market Business explains: "Luxury marketers that desire to forge a more meaningful connection with affluent consumers need a

deeper understanding than simply the size of the target customers' bank accounts – they need other measures to help them understand their consumers' psychology and mind set.” (Danziger)

c. Challenges Facing Luxury Brands in the U.S.A.

Although there is without a doubt improvement in the United States economy, and consumers with a desire to buy high-end goods, luxury fashion brands face challenges when operating in the American market. First of all, it is important that brands understand that America is a society that is always looking to the future and looking forward to what it has in store, and this is especially true in relation to consumer behavior. In general, Americans tend to be early adopters when it comes to new technologies, so it is important that luxury fashion brands in the United States keep up with the latest technology and trends. (Wortham) This relates to everything from the brand's website, e-commerce site, social media, mobile apps, e-mail communications, and even any technology used in their stores. This can be hard for luxury brands, especially older brands with long histories that are reluctant to make changes to the brand, especially when it comes to anything related to the image of the brand. However, as will be discussed in later chapters, it is essential that luxury fashion brands embrace technological innovations especially in the United States' market. Many times, American consumers will not stick around and wait for a slow brand to catch up to its competitors, and will instead move on to one that meets his or her growing needs. This is especially true for mobile commerce. Few luxury brands have fully embraced “m-commerce,” which is unfortunate considering the increasing number of American consumers who are making purchases on their smart phones. Even with the brands that do offer mobile shopping, it is not an ideal situation for users, as they must download an individual app for each and every brand. This is an area of technological advancement that needs much more research and development. Luxury fashion brands that realize the importance of keeping up with, and being ahead of technology trends have the greater opportunity for success in the American market.

iii. China

a. Luxury E-Commerce Market

The following chapter will give an insight into the Chinese E-Commerce luxury sector. It will first highlight the most important figures such as growth and development. The next part will analyse the Chinese luxury consumer and the finally the last part will list the main challenges for luxury brands when launching an e-business.

“2012 has been a year where the world has come to rely on China more than ever.” - Seth Grossman, CEO Vizeum Asia Pacific:

As mentioned in the previous chapter, the global luxury goods market is predicted to expand by 65% until 2015, and China will remain the major growth factor responsible for this increase. According to luxury retailers China will be the most important market for international brands when it comes to their expansion strategies. In fact, this trend already started a few years ago with companies aggressively expanding into the Asian market. As a result of this trend, the Asian Pacific market already overtook the American market as the second largest luxury market in 2010. (Datamonitor) The European apparel retail industry grew by 0.4 percent in 2009 while the Asian-Pacific market grew by 3.3 percent. The graph in appendix 08 shows the constant increase of luxury goods from 2008 to 2011. In only four years the market value increased by 25% offering luxury brands worldwide a great potential. The fact that the Chinese market for luxury goods is rapidly growing can be explained through the fact that the Chinese GDP is rapidly growing at nearly 10% per year therefore multiplying the domination of wealthy Chinese rapidly. According to Huron Report there were 271 billionaires in China in 2010 which is double the number in 2009. Chinese shoppers account for approximately €40bn in 2011. China along with other Asian regions accounted for about 70% of the overall new openings realized by the main luxury operators during 2011. For example, almost 50% of the new openings for Gucci and Tiffany's in emerging countries (BRIC) relate to China, while all the Prada and Tod's 2011 new DOS openings in BRIC countries have been realized in China. According to Forbes China is still expected to become the world's largest luxury market by 2015. The sector was predicted to reach a market value of over \$3.2 billion in 2013. The fact that China will account for 20 % and a value of \$27 billion of total global luxury sales in 2015, demonstrate the potential of the Chinese Luxury E-Commerce Sector. (PWC Report) At the end

what needs to be emphasized is the fact that China holds the biggest opportunity for luxury brands not only offline but also online

b. Chinese Consumer Psychology

“Asia is about evolving culture, trying new things and re-interpreting heritage”- Douglas Young, Chinese business blogger

Luxury in China has been deeply rooted in the country’s culture, which is why today China is becoming the leading luxury market in the world. This and the combined values of the Chinese consumers, which are, veritable melting pot, strong values of modernity, wealth and success, make the Chinese customer more and more valuable for luxury companies today. (Pierre Xaio Lu)

According to Malcolm Pinkerton, 74% of Chinese consumers are already purchasing their clothing and footwear online which will lead to the fact that China will be the largest E-Commerce market by the end of 2017. The graph in appendix 09 shows the number of Chinese Internet users and the development it took within the last five years. What is important is not only the fact that in 2012 China had the highest amount of internet users worldwide with 538 million but also the growth the country has experienced in the past years. The development clearly indicates that if luxury brands use the right strategy, Chinese customers show a great demand in purchasing online. (Ha Nguyen) Taking this growth into account it can be said that Chinese Internet users very active when it comes to their online activities and open towards luxury items offered online (WGSN) Besides the growth and positive development in the past there are still a few aspects which brands need to acknowledge. Within an article on the Chinese Luxury e-commerce the author lists impressions he faced when working with Chinese customers. He points out, that customers in China are expecting an outstanding experience throughout their whole shopping experience. *“Customer service in Chinese, means beautiful packaging and ‘white’ glove deliveries that are very quick,”* said the author. (Luxury Digital)

As part of this unique experience, they expect to receive additional knowledge regarding the brand as well as the product. They want to know the history behind the creation, how it was designed and manufactured and especially what it is making the product special and exclusive. Product Knowledge plays an important role for the final buying decision. Furthermore, Chinese customers need to feel special. During the buying process they have to be the center of everything and the most important person in the store. This can only

be achieved through brand engagement, conversation and a strong Customer Relation Management. As the author points out, this brand engagement is expected and can be achieved regardless of the channel and the device. An additional characteristic of Chinese customers the author is pointing out is that Chinese individuals are more sensitive to social media and peer recommendations. China is still very careful when it comes to social media, as they still forbid Facebook for example. By highlighting the Chinese online purchase behavior from 2010 until 2015, the graph in appendix 10 highlights what finally is most important. In 2015 Chinese online luxury consumer are expected to reach a value of more than 37 billion which is a 50% increase from 2012. These numbers show clearly the great potential which luxury brands are facing in the Chinese luxury e-commerce market.

Today's Chinese customers are young, rich and have a strong affinity for luxury. The fact that 2011 was the first year that more Chinese people lived in urban centers than in rural towns creates a great opportunity for e-commerce websites. Currently there are many more millionaires and billionaires who are looking for the newest luxury items living outside the city centers of Beijing or Shanghai. In the future it is expected that 75 percent of China's future wealth will be in urban areas. Hence the fastest and most comfortable ways to purchase is by using e-commerce. (Sophie Doran) An important factor, which highlights the difference in values of Chinese customers and Europeans and Americans, is the fact that the consumer characteristics of emerging countries differ from those of developed countries. While customers in developed countries place high importance on quality and high consumer engagement, customers in emerging countries care more about the status and symbol the luxury item represents. According to WGSN 4 out of 10 Singapore shoppers are willing to make purchases and this number is predicted to increase within the future. According to Malcolm Pinkerton, Senior E-commerce Analyst Chinese consumers do not care about "omnichannel", they just want to shop!" Once more this statement indicates openness of Chinese customers when it comes to the shopping locations. At the end what they care about is the status and experience while shopping. If a company is able to offer the high quality product in combination with a unique status and online shopping experience, than Chinese customers are willing to purchase luxury items online. As Harry Markl points out, companies need to blur the channels between digital & physical and not choose one or the other. The integration of both channels is what will let a luxury brand be successful in the future. (Minh-Ha Nguyen)

Finally the Chinese customers can be described as more sophisticated, demanding shoppers who can afford

the best, but still want discounts and a craft of products. In this sense they do show a great potential but only if brands are able to meet the idea of exclusivity and uniqueness. Many brands already adapted to this psychology by offering more discounts and lower prices within the Chinese online stores. For example, brands like Louis Vuitton, Gucci or Chanel, offer around 20 percent lower prices online. Additionally, brands such as Coach and Calvin Klein lower offers even up to 50 percent on their online products. More examples will be given in the next chapters.

c. Challenges Facing Luxury Brands in China

Even though the Chinese market is the most promising and fastest growing luxury and e-commerce market worldwide, brands still have to face several challenges when entering or expanding to China. The first challenge represents the economic situation in the country. China has lower developed logistic infrastructure than the US or most European countries. Furthermore, companies will have higher expenses for advertisements and promotion due to high marketing costs. Additionally luxury brands have to deal with the grey market and “fake items” more than in every other market. Here brands need to clearly be able to demonstrate the uniqueness and be able to not let counterfeits affect their brand image. According to Thomas Vu from the Value Partners consulting company, an important problem is the fact that in consumers’ minds, e-commerce stores are positioned as discount outlets. This leads to the consequence that most Internet shoppers label e-commerce as cheap and low end, which contradicts and lowers position of luxury goods. (Value Partners) But besides the economic and political situation in the country, the biggest challenge is the consumer and the strong cultural differences. Chinese customers, as previously mentioned, have even higher expectation when it comes to luxury items and the shopping experience. Furthermore brands need to have a strong understanding of the culture; e.g. the meaning of colors and symbols as well as trends in fashion, art or media. Chinese customers are willing to pay higher prices if they receive the high quality and brand engagement they expect. The fact that 40% of Chinese customers purchase luxury items abroad even if the product is available in China just to have a more authentic and unique shopping experience. This is one of the major challenges for brands within the Chinese’s e-commerce market.

An additional challenge which Net-A-Porter was facing, was major customs tariff barriers leading to higher prices and hence lower sales. According to Jing Daily Chinese website only supports payment via foreign currency credit cards which automatically increases prices and complicates the purchase process for local

customers as Mainland Chinese customers have to pay clearance costs themselves. Brands need to be aware of these problems when launching a Chinese website. (China Connect) But if they are able to overcome these challenges, China offers several benefits. For example brands are quickly able to reach a large amount of consumers due to the high population. Hence they can built and strengthen the brand awareness easier and in a short period. Chinese customers have the highest percentage of Internet Users which means that they are more like to give direct consumer feedback which brands can use to improve their strategies and generate new product ideas. Additionally the high percentage of active users increases the brand awareness through word of mouth promotion. According to Sam Flemming, Founder & President CIC China: “Social media is becoming “mainstream” communications for brands; WeChat takes hold as the new “Facebook” of China with strong CRM potential.” (Minh-Ha Nguyen) Summing up, the main challenges facing brands in the Chinese e-commerce market are first of all the different legislations in social media platform. Secondly, economic and political situations might create problems in business activities. And finally, a third challenge is the difference in culture, values, and behavior incentives compared to Europe or the United States.

VI. Successful Sites

The following chapter will highlight the most successful luxury e-commerce websites in the past years. The chapter is taking three different approaches in terms of success. The first part will analysis successful brand strategies while taking the resulting turnover into account. The second chapter will then analyses in how far a certain strategy was able to increase the amount of visitors and the last part will indicate the strategy's success in terms of its brand image and awareness within a certain market

i. In Terms of Sales

Consumers are generally more likely to purchase fast fashion items online where they pay an average of 50€ as opposed to ordering a dress for 500€ or a watch for several thousand Euros. But as the report has highlighted, the luxury e-commerce business is growing and many luxury brands have been able to increase their sales through this new distribution channel. (Okonkwo)

Gilt Group is an American members-only shopping website that was launched by Kevin Ryan in 2007, and it is one of the companies who was able to increase sales through e-commerce. The website is built in the concept of 36 hour “flash sales” and sells labels such as Christian Louboutin, Rachel Zoe, Marc Jacobs or Calvin Klein. The company also added luxury travel packages at up to 70 percent discount to the sales offer range. The user has the chance to look at past discounts as well as the current and upcoming sales. By changing their offer every 36 hours users are more likely to order right away instead of leaving the page. This strategy was so successful that by 2009 Gilt had generated revenues of \$170 million and increased them \$450 million in 2010. The website has currently 6 million members of which the majority is young female, from the upper class. By creating something new and combing different parts of the luxury market with each other, such as fashion and travel, they generated a high success and were able to meet the expectations of luxury customers. By not giving the user the chance to only “browse through” and returning another day, Gilt was able to change the way of online shopping and turn visitors quickly into customers. The company's website is not just a simple store offering luxury items, but a new and different place where customers can find the uniqueness and exclusivity they search for in luxury. An additional strategy, which helps to create an exclusive shopping experience, is the “members only” strategy. With the help of this image, actual members are part of an elite group where everything is customized for their personal needs and tastes. (Abrams Research) Even though

Gilt is an example of how to increase sales, many luxury brands do not have sales and try to avoid discounts, as it is not in line with the image of luxury. However, there are different ways for luxury brands to increase sales online.

When **Jimmy Choo** launched its new collection of Trainer Shoes in 2010, the company cooperated with Foursquare, a location-based social networking website for mobile devices. The network is based on GPS and allows users to check in at certain locations via their smartphones. In order to raise awareness of the new collection and reach out to new customers the brand created the “Jimmy Choo Trainer Hunt” Campaign. The Trainers were “checked in” with Foursquare in over 100 locations within London and consumers had the chance to win a pair of the new collection by finding all the shoes. The campaign was not only successful in term of sales but also visitors. During the campaign, Jimmy Choo posted hints on their social networks as well as on their e-commerce site. The locations were strategically chosen in order to show the style and trendiness of the new collection. For this, Jimmy Choo chose for example, the exclusive Club Morton in London. According to FreshNetworks a digital agency, the promotion was able to increase the sales for Trainers by 33%. Additionally it was able to generate 4,500 participants in only three weeks, hence highly increase the user’s traffic as well as brand awareness. (Rachel Lamb)



Source: Jimmy Choo Website

With the launch of the “Choo Collection,” Jimmy Choo created within their e-commerce website a section where the brand shared videos, behind the scene pictures and stories as well as allowing visitors to interact with the brand and post own videos, pictures and comments. By opening up and allowing the customers to actually get in touch with the brand and look behind the scenes, it creates an exclusive atmosphere. With the launch of the Choo Platform the brand was able to increase traffic and the time customers spend on the website by 20%.

Additionally, users that explored the Choo Collection also were more likely to purchase items and also had a higher basket value. (FreshNetworks)

In order to keep its high-end customer base and reach out to new potential customers, **Oscar de la Renta** launched a “True Fit” technology tool on its e-commerce site to personalize the shopping experience for customers. With the help of the True Fit tool, customers have the possibility to find the styles that match their taste as well as body type. The software asks several personal questions about a customer’s body type and style and the collects and saves the data to propose the matching items. Appendix 11 shows the example of a True Fit questionnaire. The software is not only resulting in a higher traffic on the website and more satisfied customers but also to higher sales. As Dalia Strum, president of Dalia Inc., New York points out the strategy is resulting in increased sales mainly due to decreased returns as consumers know exactly what they order. Additionally it will also strengthen consumer loyalty due to a more positive, satisfying shopping experience.(See true fit example in appendix 11)(ErinShea) Oscar Del la Renta is using this tool to create the personalized shopping experience that consumers expect from luxury brands

ii. In Terms of Number of Visitors

There are many strategies which influence a brand’s traffic on their e-business. The traffic does not only depend on design and service within the e-store but also on social media strategies as well as search engines. In fact search engines remain the largest source of traffic to luxury brand sites (37%). Google alone is accounting for 29% of redirecting traffic. Within its research, PMDigital identified the most visited luxury brand e-businesses and their development from 2011 and 2012. The table in appendix 12 highlights the strong growth of the Michael Kors website from 2011 to 2012 and lists the strongest e-commerce luxury brands in terms of total visits. (PMDigital)

One successful example of using social media to increase e-commerce traffic is Coach. The brand is known for its digital campaign strategies as well as its social media activities leading to increase website traffic and sales. Coach was able to build a social media strategy that is directly linked to sales, and not just having the purpose of increasing likes and Facebook fans. On each social platform, Coach is placing posts that lead to the brand’s actual e-business, giving the user the opportunity to read about an item and then easily click through to buy online. Coach is one of the brands that increased its e-business traffic by using social media to lead consumers

to the e-store and directly increase traffic and sales. In the e-store itself, Coach is utilizing several tools to translate the image of luxury into their virtual world. Hence the brand has integrated an online catalogue that looks like a real one where customers can actually flip from one page to the other. Furthermore visitors have the possibly to see the products on digital humans who have the same height and weight as the customer. With the help of this tool the customer receives a more real shopping experience and can actually see how the product would look on the body. Offering a constantly updated website with innovations and appealing tools has allowed Coach to increase its traffic and offer the customer a high-impact and effortless online shopping experience. This is what Luxury brands should aim for in order to build a successful e-business, which does not affect the image of luxury. (Matt Rhodes)

Tiffany is also one of the leading brands when it comes to using digital marketing strategies for increasing web traffic and strengthening the brand relationship. Not only has the e-commerce site the newest videos and high quality images but also offers interesting content giving the visitors an insight into the brands' identity. Within the section "The World of Tiffany," the brand has launched the "What Makes Love True" campaign to engage with customers. Here users can share their own personal story, upload pictures and define what true love means to them. The campaign experienced a great success. Not only was Tiffany able to increase website traffic in its e-commerce store but also received important customer information and hence was able to strengthen the brand loyalty and relationship.

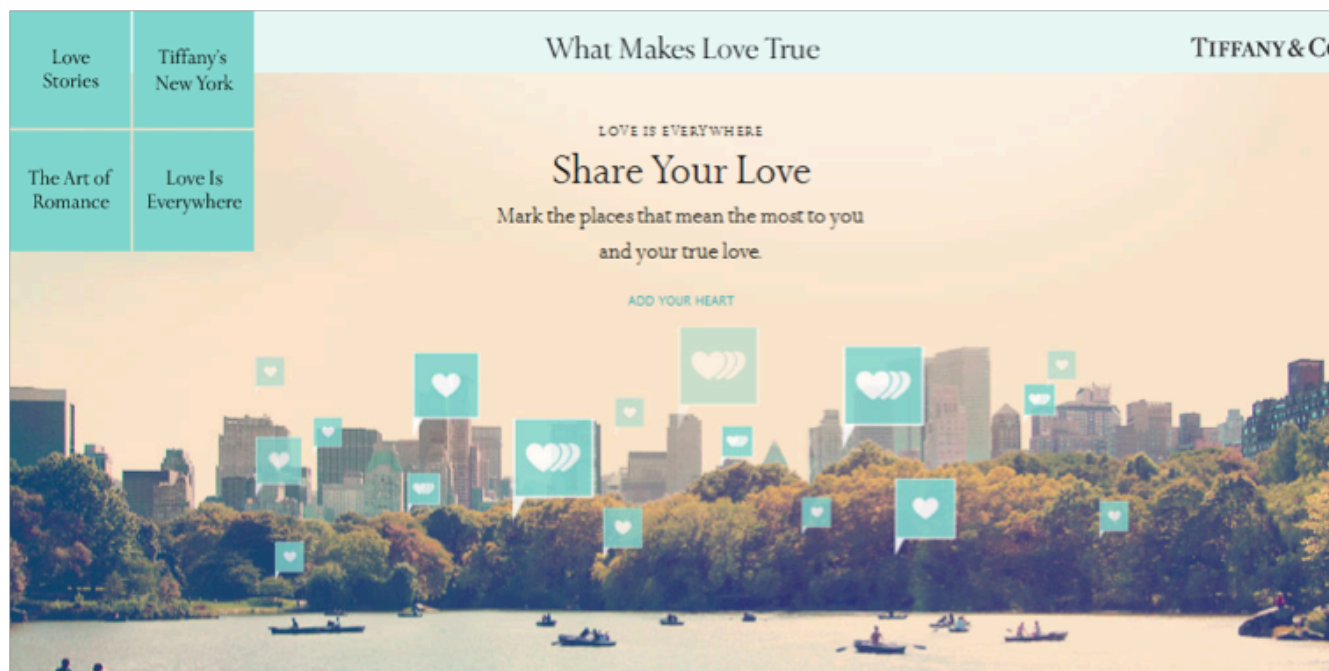


Illustration: Tiffany: "Share Your Love" example

iii. In Terms of Image

“The future of the web is about personalization... about ‘me.’ It’s about weaving the web together in a way that is smart and personalized for the user.” Tapan Bhat, Yahoo VP

In order to be able to maintain the brand image and offer customers the same shopping experience they would expect in the store, brands have to create a special “webmosphere.” This is, according to Okonkwo, “the strategy of creating a unique atmosphere in the online virtual space.” The design is the most essential part of this strategy. **Louis Vuitton** has managed to translate the unique store ambience into the online store and create an exclusive shopping experience through an outstanding design. In 2008 Louis Vuitton launched the first MP3 audio guide, which guided customers through Shanghai and let them experience a unique travel experience. This was an exclusive extension to the physical product offer online and offline. The “soundwalk” introduced a new area of innovative tools to reach out to online luxury customer



Illustration: Louis Vuitton Soundwalk example

Louis Vuitton is one of the best examples of luxury brands transferring the luxury image to their e-commerce site. Louis Vuitton is known for its exceptional store merchandising and its unique shopping experience. Customers from all over the world travel to flagship stores like in Paris just to experience the ambience of a Louis Vuitton store. In order to attract these customers to their e-store and retain the premium customer base, Louis Vuitton has highly invested in web design and innovative tools. First of all, the website offers 11 different language choices and users can order from all continents of the world. Hence almost every customer in the world is able to use and experience the e-commerce shopping experience. Especially within China where, with the biggest luxury potential, it is important to make purchase more comfortable and less complicated. Furthermore Louis Vuitton has added videos to each section. Here the user can learn about the brand history and the specific categories shown. Using many short videos for different sections does not only differentiate

the brand and create a more high-end, exclusive experience but also is more attractive for customers. Videos are more inviting than written content, hence users are more likely to stay on the website and actually purchase. (Fabien Bourrat, Mal Nilausen)

Finally, there is one brand, which is the leading innovator of digital marketing strategies. For the year 2012, the brand was the best brand in creating an “omnichannel experience” online. **Burberry** is one of the few luxury brands who has been able to create a design which offers their customers the experience they expect from a luxury brand. (Okonkwo) The website is clean and structured and the fashion items are beautifully photographed and displayed. Similar to how a consumer can pick up an object in-store to view it more carefully; the site allows visitors to view a product from various angles and in all available colors, materials and styles. Related to the design of a store is the in-store luxury experience, which consumers expect when visiting a luxury store. It highlights fine, unique details and thoughtfully display products, art and interior decoration. The online experience of a luxury brand needs to be able to mirror the in-store experience of elegance and little details online. Many luxury fashion brands have also launched a video tool in their e-stores, which invite the customer to zoom as well as allowing visitors to watch videos of clothing worn by models. Even though not being in a store, these innovations help consumer receive a better sense of the fit and quality of the product. Additionally they differentiate luxury brands from fast fashion retailer such as H&M. Customers receive a different and higher quality shopping experience, which is what defines luxury. (Micheal Ventura)

Already in 2005, the brand set the goal of being the “first fully digital brand that could connect with anyone that touches their brand.” Burberry does not only offer a unique webmosphere but also invests into social network campaigns. Within the campaign “The Art of the Trench” customers were able to post pictures of them wearing the famous trench coat on the website. This created a new channel for Burberry community and strengthened the relationship and brand loyalty. Burberry’s strategy goes by the idea of giving everyone the chance to become part of the brand universe. Hence customers feel personally involved with the brand. The site was able to generate 7.5 million views from 150 different countries. Additionally Burberry’s Facebook Fan base which was linked to the website, increased simultaneously. Burberry was able to strengthen brand loyalty as well as generated additional traffic and widen the consumer base. (Mengying YAO)



Illustration: Burberry Art of the Trench example

Additionally, Burberry has started reaching out more strongly to male online customers. While most brands focus more on attracting females by showing behind the scene videos and pictures, Burberry has given online male consumers the opportunity to order straight from the runway following a live-streaming of the brand's men's Prorsum spring/summer 2012 collection in June. Here again only certain consumers were allowed to follow the fashion shows online. By doing this, Burberry again created an intimate circle of special members within a digital universe open to the mass. The live stream did not only create an exclusive behind-the-scenes experience for the user but also gave the customer the feeling of uniqueness and high status. Customers were given the feeling of being part of the brand experience (Christopher Parr).

VIII. Innovation

This chapter addresses current and upcoming innovations in relation to the e-commerce industry. Particular emphasis is placed on innovations and trends that are either currently in use by luxury fashion companies, or those that hold potential for such brands.

When discussing e-commerce, or any online business activity for that matter, one subject that cannot be ignored is innovation. Unfortunately, this is something that many fashion companies, especially luxury brands, are hesitant to embrace, as it often means taking risks. However, what these companies must realize is that innovation does not have to mean flashy technology or completely changing what they are already doing. It just means being a little more creative and focusing on the strategic goals of the company. One option is “soft” innovation, so to speak, and for luxury brands, this is exactly what they need in order to fill the customer service void on the Internet.

Take Neiman Marcus, for example, as was discussed in the previous chapter, it has started a cosmetics replenishing service on their website where the customer can save a list of what products they need and how often they need them, every month for example, and the company will automatically place and ship their order each month. This is a perfect example of customer service innovation on a luxury e-commerce site.

Current Trends

But before discussing innovation, it is important to first look at the current trends in e-commerce in order to see what the majority of retailers are already doing. The first trend to look at is: Social. Facebook is leading this trend both with fan pages which drive consumers to brands’ websites, and actual Facebook shops, where retailers can set up e-shops on the social networking site. However, as Forbes puts it: “This isn’t really a new wave or an innovation – it’s just something that is a logical extension of the technology. We are in the early adopter stage of this trends evolution – it’s new, but it’s definitely not the “next” wave.” (Carroll). This Social trend is not innovation on its own, but it may be the foundation for potential new developments, and still must be paid attention to.

Oscar de la Renta is one brand that has delved into Facebook commerce. In April of 2012, the U.S. luxury

label completely revamped its strategy by introducing Facebook sharing buttons on the Oscar de la Renta e-commerce website, allowing the brand to control the social media conversation. Customers can choose from three options when viewing a product: “want,” “need,” and “wore.” When a customer clicks one of the share buttons, it creates a post on their Facebook page that links to the Oscar de la Renta page, where customers can purchase products. (Lamb) Wade Gerten, founder/CEO of 8thBridge, a company that helps brands monetize social media, notes:

A lot of luxury brands are hesitant to get into social media because the last thing that they want is someone sharing something on the brand Facebook page with the message, ‘This product stinks.’ Luxury brands want the brand control and integration of social sharing features to their additional Web site, which will lead to more buzz, transactions and interaction. (Lamb)

This hesitation by luxury brands is completely understandable, since for these companies, image is everything, and they need to maintain their elite status. Solutions such as the one Oscar de la Renta is experimenting with allows luxury brands to still be part of the social media conversation without worrying about it hurting their brand image. In fact, this involvement has helped the brand. Abrams Research, a digital and social media consultancy agency, explains: “After embracing the evolution of ‘private’ to ‘public’ caused by social media and adapting his brand’s marketing strategies to it, Oscar De La Renta quickly came to be seen as a luxury brand that ‘gets it.’” (Social Media Guide) By being aware of the changes in the industry and adapting them to fit the brand, Oscar de la Renta succeeded in keeping his luxury brand contemporary.

Another current trend is private sales websites, like Gilt Group, Rue La La, and HauteLook. These sites are generally invitation-only, and have an “exclusive” nature to them. These websites have done well; however, there is an issue with price being their primary “selling point” so to speak, as there will constantly be pressure to lower prices more and more due to competition. Which is not something these sites are built to handle. The key is for these brands to find another feature to market them with and distinguish themselves from other competitors on the market. So far, Gilt Group has been the only one to do this, by adding Park & Bond, a full-price menswear site. However, Park & Bond was eventually shut down.

M-Commerce

By far, the most significant and long-lasting trend is mobile commerce. This is an extension of e-commerce and has greatly benefited from the increased prevalence of smart phones discussed previously. It is almost

incorrect to speak of mobile commerce as a trend because it has, and will continue to surpass far beyond that. Forrester Research predicts that: “M-Commerce will grow to \$31 Billion over the next 5 years in the US – thereby doubling Social Commerce.” (Carroll) These projections mean that companies must invest more capital into the research and development of effective “m-commerce” apps. One feature that some retailers are starting to take advantage of is the ability to target specific deals and promotions based on a consumer’s location. With apps such as foursquare, consumers can “check in” to their location with the hope of receiving discounts and other perks. Retailers have the opportunity to partner with social media apps like foursquare, or better yet, develop their own, similar technology. An added benefit of such apps is the social aspect; each time an individual or a group of people “checks in” somewhere, their social network sees that and this gives further exposure to the retailer.

Furthermore, there is a significant opportunity for luxury brands to develop a stronger presence in the “m-commerce” market. The Luxury Institute and Plastic Mobile conducted a study in 2012 of American consumers with an annual income of at least \$150,000 and focused on their smart-phone activities. First of all, they found that 60% of those surveyed owned a smart-phone, and of that group, over 80% had downloaded additional apps onto their phones. While that statistic is encouraging, the study found that only 12% of wealthy smart-phone owners had downloaded an app belonging to a luxury brand. There is clearly a significant opportunity for luxury brands to take advantage of this market, especially because these wealthy smart-phone owners frequently shop on their phones. The study found that: “about two-thirds of wealthy smartphone owners said they shopped on their smartphone at rates ranging from rarely to regularly. And 63% of those shoppers reported having gone a step further to make a purchase on their mobile device.” (Why do) This, combined with the low percent of survey participants who had a luxury app on their phone shows that brands need to focus on this segment and offer consumers an app that makes it easy for them to shop and make purchases. The survey found that mobile luxury shoppers were interested in an app that would provide them with special discounts, or offered a loyalty program. In fact, 46% of those surveyed expected a luxury brand’s app to provide them with a loyalty program. Luxury companies need to listen to the desires of their customers and potential customers in order to create an app that offers incentives to download. M-commerce is growing as a source of revenue for retailers, and is without a doubt a segment that should not be ignored. The luxury m-commerce survey also discovered that: “seventy-two percent of those affluent smart-phone owners who shop via their device said there was no upper limit to what they would be willing

to spend on an m-commerce purchase.” (Why do) This is clearly a market that companies should focus their attention on.

Future Innovations

Now that these current trends have been addressed, it is time to focus on what's next. Forbes is predicting that one of the biggest new innovations in e-commerce will be “curated personal style subscriptions.” Major, and even minor retailers have huge databases with relevant information about their customers which ranges from purchases, which items customers browsed and in what order, geographical information, and other demographics, etc. Forbes' contributor Matthew Carroll states: “The next wave of E-Commerce will be services that fundamentally leverage the massive data sets in conjunction with expert curation – to drive purchases by introducing the product to the customer that presents a clear value proposition.” (Carroll) This is an especially interesting prospect for luxury brands, as this could be a way for them to incorporate the added value of customer service into their e-commerce offering. If luxury brands were to use a combination of computer software and the personal touch of customer service employees who can make sure the suggestions make sense for the customer's profile, they could create an interesting and beneficial offer.

Neiman Marcus, a high-end American department store headquartered in Dallas, TX is embracing innovation in e-commerce. The retailer had no choice but to acknowledge the growing importance of the online sector, as Internet sales are the fastest growing part of their business, accounting for 15.6 percent of overall sales in 2010. (Wahba) Recently, Neiman's has added many innovations to its website. Among these innovations is live streaming of fashion shows with the added benefit of allowing customers to place orders from the shows, long before the designer pieces reach stores. When speaking at the Reuters Global Luxury and Fashion Summit in 2011, Neiman Marcus CEO, Karen Katz said: “People underestimated it. We never did,” in reference to the importance of e-commerce. (Wahba) The luxury department store has definitely proved to be on top of the online market, and has also recently added a “Beauty Replenishment Service” feature to its websites that will ship cosmetics to customers at a designated interval without them having to lift a finger. With this service, customers will always have a full stock of their necessary beauty items. This is a perfect example of how Neiman Marcus has developed innovations for their e-commerce site that not only make sense for a luxury brand, but that gives customers two benefits traditionally associated with the luxury experience: access to exclusive items, and heightened customer service. These two benefits are offered in a

unique way that is both exciting to the customer, and is ahead of current industry practices. By embracing the important role of e-commerce in the luxury market, Neiman Marcus has positioned themselves ahead of their competitors.

Innovation is also especially important in order to create captivating advertising and marketing campaigns that effectively communicate the image of a luxury brand. Often times, a social media marketing campaign is a very effective way to drive traffic to a brand's e-commerce website. Kevin Burg and Jamie Beck are leading the way in innovation by creating a new art form specifically tailored for the digital world. They are the co-founder's of Cinemagraphs, a media that is a mix between a photograph and a video. These unique digital creations are starting to be incorporated into the advertising campaigns of luxury brands such as Oscar de la Renta, Chopard, and Veuve Clicquot. Beck explains why cinemagraph's are perfect for luxury brands:

We're privileged to work with incredible artisans who make the luxury goods we shoot, and there's a really beautiful parallel from what they create to what we do. In luxury, details matter. With so many resources going into making a product, you can't lose the message in the delivery. When we make a cinemagraph, we're hand-stitching an image back into motion and bringing products to life, frame by frame. (Belle)

Cinemagraphs have the effect of actually looking like a piece of art, an attribute that makes them perfectly suited for use in the marketing campaign of a luxury brand. (Belle). When luxury brands are hoping to use marketing to increase their e-commerce site traffic and sales, it is important that they use a marketing medium that is tailored to this strategy. Using innovations both in the actual e-commerce website and in the marketing of it is a great way for luxury brands to demonstrate to consumers that they are aware of the changing trends and that they are not stuck in the past.

VII. Best Strategies

This chapter discusses the important role strategy plays in a luxury fashion business. The important role of social media as part of a company's strategy is also discussed. The chapter ends with two examples of companies with successful e-commerce strategies: Neiman Marcus and Burberry.

The reality is, that with today's growing technological advancements, the modern consumer is more demanding of brands, and this is especially true for luxury brands. (Social Media Guide) Companies need to accept this, and focus on developing a strategy that integrates all aspect of the brand: brick and mortar distribution, e-commerce, marketing communications, and social media. While some companies may rush to the assumption that social media sites such as Twitter, Facebook, and Pinterest are simply the hobbies of millennials, there is legitimate potential for business growth as a direct result of these websites. The report by Abrams Research states showed that according to the latest L2 Digital IQ Index, the luxury brands that worked to improve the online experience of their brand saw a 52 percent growth in website traffic as opposed to those who ignored their online presence and saw only an eight percent growth. (Social Media Guide) These findings show that it is of the highest importance that brands focus on their online presence that includes social media and e-commerce integration and the marketing to support them are worthy of significant business investments. Luxury companies should consider the Internet a great opportunity to expand their business, and treat it as such an investment. It is essential for brands to cultivate a professional image on the Internet and this takes resources and inclusion in the overall strategy. As Abrams Research clarifies: "To maintain that level of quality online requires a commitment of both human and financial resources. Corners cannot be cut just because it is the Internet." (Social Media Guide) This is something that has taken luxury brand's time to realize, but as they begin to understand the amount of emphasis they should put on online, they will see results.

i. Organization

One of the most important aspects of a luxury brand's strategy is that every different piece is coordinated and integrated with one another in order to present a consistent brand experience to the customer. Every department of the company, especially those that involve any kind of communication or contact with consumers, must be coordinated in order to project a consistent image of the brand. This image relates to

visual communications, any and all advertising, PR and social media, product packaging, store design and environment, etc. As Abrams Research elaborates:

Thus it is of extreme importance that a luxury brand maintains its ethos, value proposition and quality of experience. If a luxury brand's voice online is at odds with its image in other media, this creates a dissonance in the mind of the consumer. To avoid this pitfall, a good digital and social media strategy first identifies the essential qualities that define the brand, then packages those qualities into relevant content and finally delivers it to their audience(s). (Social Media Guide)

The importance of a clearly defined brand image cannot be stressed enough. This is the starting point to developing a good strategy, and will be the guiding force throughout its implementation. Whether the goal of the campaign is brand awareness, to drive sales during the holidays, or to gain new customers, etc; the strategy must make sense for the brand, and be consistent through out all communications. This is especially important for such a dynamic and uncontrolled communication like social media. The following chapter will take an in depth look at social media and its relation to brand strategy, specifically for luxury fashion companies.

ii. Significance of Social Media

Ah, social media, the digital darling of the twenty-first century. It is difficult to ascertain a concrete definition of this media, as by its very nature, it is constantly changing. However, the Oxford Dictionary describes social media, at its simplest, as: "websites and applications that enable users to create and share content or to participate in social networking." (Social Media) Social media has become especially relevant for luxury fashion brands for many reasons. The simplest reason is the number of consumers who are not only browsing and shopping online, but also taking part in the online community. Abrams Research found that 75 percent of affluent Internet users are actively using social media. (Social Media Guide) And while this number is highly motivating, many luxury brands have been hesitant to embrace the growing media. It used to be that any communication coming from a luxury brand was through a highly controlled channel. Now, social media allows consumers to have direct interaction with brands, which means these companies must let go of that control in order to participate. As Abrams Research explains: "The reality is that discussions about brands are happening already and will continue to flourish with or without the direction of the brands themselves." (Social Media Guide) So, whether luxury companies like it or not, their brands will be mentioned as part of social media conversations, it is their decision how to get involved.

One idea suggested by Abrams Research is for luxury brands to use social media to emphasize to consumers what makes their brand a luxury brand in the first place. A significant aspect of the definition of a luxury brand is the heritage and craftsmanship involved, and through social media, luxury brands have the perfect venue and an eager audience to showcase this. This can truly be a selling point and can help influence a customer's future purchase decision. As Abrams Research states: "Social media can help demonstrate to consumers the level of craftsmanship that goes into production and can serve as a powerful way to showcase the luxury difference." (Social Media Guide) Brands can upload pictures and videos of their products being produced, or vintage photographs to emphasize the rich history that the customer can become a part of. The most important thing is that brands choose an approach to social media that makes sense for the identity of their company. Thorough research is essential in order to evaluate the best way to proceed, along with coordination with other branches of a company's communications departments, as discussed previously.

Luxury Consumer Behavior in Social Media

It is important for luxury brands to remember that in the same way that they are different from mass market brands, so too are luxury consumers different from the average consumer. This is important for every aspect of a business, but especially when establishing an e-commerce and social media strategy. According to a study conducted in 2011 by Affluence Collaborative, "wealthy internet users connect with brands on social networks for significantly different reasons than the general population. The social networks they use to do so are different, too." (Why do) The Affluence Collaborative study revealed that while Facebook was the number one social network used by all groups that participated in the survey, LinkedIn and Twitter was used by affluent Internet users at a rate which was nearly double that of the general population. (Why do) Along with knowing which social media websites are most popular with their target demographic, luxury brands must also pay attention to why these consumers are engaging with these websites in the first place. Different consumers use social media for different reasons and this is especially true for average versus affluent consumers. The Affluence Collaborative study found that:

For wealthy Internet users, connecting with a brand is largely about the brand itself, not

gimmicks and offers. Affluents need to see a consistent message that makes following a brand meaningful for self-expression, just like when buying a brand in real life. Watering down the brand in order to gain a large social following may drive away the very people trying to be reached. (Why do)

When luxury customers are loyal, they are very loyal; and social media is a good example of this. However, these affluent consumers are going to be very careful about which brands they are supporting on social media, as public statements such as a Facebook “like” or a Twitter “follow” reflect directly on the consumer. If a brand has a clear and well-designed social media presence, more consumers will want to be associated with it.

Overall, social media is an exciting opportunity for brands and consumers to interact. The medium has quickly established itself as a strong platform for communication, leaving many luxury brand’s unsure how to proceed with this unfamiliar and uncontrolled environment. It is appropriate to end with this intelligent quote from Abrams Research’s Social Media Guide:

Just like any aspect of the luxury business, establishing a social media presence requires detailed and extensive planning. The reckless use of social media to increase exposure can hurt the brand in the long term. Even though the possibilities for interacting with online communities are immense, any attempt to do so must be done with the same care and commitment that a traditional communication would command. (Social Media Guide)

iii. Example: Neiman Marcus

To tie things back to overall strategy is the example of a company who is doing things very well: the Neiman Marcus Group. Neiman Marcus is a great example of a luxury fashion company that has really mastered its e-commerce strategy. The company has always been a leader in the e-commerce market, being one of the earliest to embrace online selling with the launch of NeimanMarcus.com in 1999. At that time, the company was “offering customer access to the largest collection of designer and luxury brands on the Internet.” (Historical) The brand established itself as a leader in the e-commerce market early on in the development of the Internet as a selling platform, and has continued to maintain that role, as was discussed earlier in the Innovation chapter.

Jordan Kragen, a site merchandiser for Neiman Marcus Direct, the branch of the company that deals specifically

with e-commerce, said that she thinks there are two specific strategies the company is implementing which have contributing to its success in recent years. She explained that the first is: “expanding internationally and allowing international shipping. This has been extremely successful, and we have exceeded our original plan by a significant amount.” (Kragen) The company has even developed different “skins” for specific countries to make the look of the site appeal more to them, and concentrates on writing specific copy for particular areas. (Kragen) The second strategy is improving the omnichannel shopping experience. This means coordinating online with in-store, and visa versa. Neiman Marcus used to operate its online and catalogue business as completely separate from the brick and mortar stores, but this is changing. As Kragen explains, “On both BergdorfGoodman.com and NeimanMarcus.com, we have started carrying store-only items as well as allowing items to be shared for both store/online. While this has not rolled out to all areas, it has been successful in the areas that do carry store merchandise. We also now have a filter for products that allows you to see if the product online is available in stores.” (Kragen) The company has realized the importance of integrating all departments instead of compartmentalizing the different channels. Overall, Kragen explains the current strategy by saying: “Right now, we are working on having a faster site as well as concentrating on improving the omnichannel experience. We also work on having the best customer service and providing a luxury shopping experience online.” (Kragen)

Furthermore, Neiman Marcus is also aware of the importance of social media and its role as part of a company’s strategy. The buying offices work with the social media team and have the opportunity to send in pictures for Instagram or NMDaily.com, the store’s blog. Furthermore, even though e-commerce is not shown as much within the store’s social media efforts, any online sales and promotions are featured on Facebook, Twitter, etc. The online team can also request that the marketing department write articles highlighting certain products or designers which will then be featured on the website. Neiman Marcus fosters a cohesive, collaborative environment, which encourages all departments to work together to achieve the best results for the company. (Kragen) However, with all its successes, Neiman Marcus is not perfect, and is aware that there is always room for growth and improvement. While working as a site merchandiser for the company, Kragen, became aware of certain things the company can improve on. She elaborates: Personalization, which is something we are working on and testing now. Also, we can definitely improve our filter capabilities and can improve on omnichannel. [These are] all things we are working towards though!“ (Kragen)

Overall, Neiman Marcus is an example of a luxury fashion company that has developed a well-thought out and integrated strategy. The company has realized the importance of an unrestricted flow of communication between departments and a work environment that encourages staff to work together for the greater success of the company. Furthermore, Neiman Marcus's recent emphasis on improving the omnichannel experience shows attention to consumer preferences and awareness of the changing e-commerce market. Since its beginning, one of the strengths of Neiman Marcus has been its ability to embrace change and innovation, and this is something that remains true today.

iv. Example: Burberry

"Burberry bested them all by focusing on its core competencies in fashion, digital innovation and global expansion," Intrabrand reported.

Burberry is one of the few luxury brands, which has successfully implemented a digital media strategy without losing their exclusive luxury brand image. The brand has been strongly engaged in their digital media activities and has become the top leader in social media and e-business innovations. This engagement has shown high success not only in an increase of traffic but also a profit increase of 21%. According to Burberry CEO Angela Ahrendts their success was contributed to two main factors, "Our investment in flagship markets and digital technology has enabled our global teams to continue to drive customer engagement, enhance retail disciplines and improve operational effectiveness, further strengthening brand momentum." (Genaro Bardy) Her statement shows that online marketing has been strongly implemented into the brand's overall strategy. In launching "Art of the Trench," Burberry was able to create an experience outside the environment of mass-market social communities. The brand still maintained targeting a younger customer group through Social Media platforms. Though in order to also create the exclusive membership Burberry launched the campaign "Art of the Trench." The brand will still use its Facebook and other social platforms to additionally drive traffic to their e-store and the "Art of the Trench." The older and wealthier customer base is less likely to engage in social media, hence will not be able to connect with the brand through Facebook or Twitter. The "Art of the Trench" gives Burberry the opportunity to capture this customer base, which avoids Facebook or Twitter, and these individuals can learn about the site through in-store events or through the personal relationships they have with their Burberry sales associates. This strategy helps give a smaller segment of users a more

personalized experience with the brand. (Marcala)

When Burberry launched a live stream from the London Fashion Show on their website it generated an increase in sales as well as reached additional customer base. (Nancy Messieh) As already mentioned social media platforms in China differ to those of the rest of the World. China has different platforms which allow less control for brands. The differences are the reasons for many luxury brands avoiding to implement social media communication into the online strategy. Again Burberry is a successful example for outstanding from the rest. By adapting to Chinese social media platforms as well as implementing Chinese shopping habits into the digital strategy, the brand is able differentiated itself. For example Burberry has official accounts on five different top social media platforms in China (Sina Weibo, Youku, Kaixin, Douban, and Jiebang, which would be the equivalent of Twitter, Youtube, Facebook, SNS/BBS, and Foursquare). Additionally in 2011, Burberry went even further by launching innovative 3D holograms, which streamed the Beijing runway show live on its official pages. Through this the brand offered not only a closer insight but also generating buzz and e-store traffic.

IX. Recommendations

This chapter proposes recommendations for luxury fashion brands wishing to create an e-commerce site using the information analyzed in previous chapters. Recommendations are made specifically for Europe, the U.S.A., and China. An overall recommendation is also made.

i. Europe

There are a few aspects that need to be taken into consideration before entering the European market. First of all brands need to clearly analyze the country they are entering. As mentioned before, Europe cannot be taken as one whole market. This means that each country in itself differs in term of Internet penetration, consumer behavior and economic stability. Countries such as UK, Sweden or Germany are more profitable when entering the European market. After having successfully launched e-commerce, brands can then continue to expand further. Secondly it is important to point out that there is a major difference to European online consumer psychology compared to the U.S. Europeans are less likely to use the Internet as Americans due to the fact that e-commerce had a slower developing process than in the United States. This is also a reason why Cartier for example first started its e-commerce in the U.S while everywhere else one the world it was not possible to purchase online. In order to overcome the challenges of losing their customer base and brand identity, luxury brands need to be aware of McKinsey's research results shown in chapter 3. The majority of online consumers mentioned personalized discounts as their main buying incentive, 40%. 19% preferred purchasing online because of the quick and simple purchasing process and 16% used online shopping in order to buy exclusive products. Hence brands entering the European market need to provide a simple, clear and structured website. Additionally, it needs to offer a personalized and customized service, which makes the consumer feel special. Furthermore, brands need to analyze the demographics of consumers, which might be different in each market. As mentioned in the previous chapter, the younger the customer base, the higher the percentage of female customers. However, in the markets in Europe with an average age above 35, men are more likely to purchase luxury goods. This means that brands need to adapt the product offer concerning to the country they are entering. Hence it can be said that the higher the average ages the more male customers and vice versa. European luxury online consumers place high importance on clear and structured pages where they can easily purchase and save time. Additionally they expect special offers when purchasing online. Also in order to overcome the challenge of losing a loyal customer base brands need to offer differentiation in their

service and e-commerce design as well as offer product excellence.

In conclusion, it can be said that for Europe it is essential to critically analyze the different countries in regard to economic stability and development. Additionally brands need to take into consideration the demographics of each country as the average age might differ to region to region. If they are aware of these aspects and are able to offer special offers and products as well as creating a clear and structures page brands can overcome the European luxury challenges of e-commerce.

ii. U.S.A.

For luxury fashion brands wishing to either establish or improve their e-commerce sites serving the United States, there are three main recommendations to keep in mind. These are for brands to: (1) embrace mobile commerce, (2) engage in social media, and (3) implement innovations in e-commerce. Taking into account the current trends in the American market, as well as consumer behavior, advances in technology and the resulting boom of the smart phone can be identified as a large influence on the changing e-commerce market. As discussed in previous chapters, mobile commerce is becoming more and more popular with consumers in the United States, and luxury fashion is no exception. In order to succeed in the American market and have a competitive advantage over competitors, luxury fashion brands should first and foremost make sure that their website has a mobile version that offers the full capabilities of the online version. It is important that the consumer's experience with the brand on the Internet is streamlined and efficient regardless of where he or she is accessing the brand's site. In addition, it is important that luxury fashion brands have a mobile app that reflects the high quality nature of the brand while also providing consumers with great service.

Along these same lines, it is also especially important for luxury fashion brands hoping to gain e-commerce success in the United States to have an active social media presence. As discussed earlier, social media is incredibly popular among all consumers, but especially those in the United States. It is at the point where all brands are expected to have accounts on Facebook, Twitter, Instagram, and Pinterest, etc. and luxury brands are held to an even higher expectation. These brands are not only supposed to participate in social media, but they are expected to provide consumers with a high quality experience in line with the luxury brand. American consumers are always interested to see what products their friends are buying and also to show off what they have bought. Social media is the perfect way for luxury fashion brands to capitalize on this

and enable customers to share their purchases and likes on social media, which in turn drives traffic to the e-commerce site.

Americans are curious consumers, and always want to try out the latest technologies. This means that online retailers should not be afraid to experiment with innovation on their American e-commerce sites. Adding unique elements, like the ones discussed in the innovation chapter, provide an extra reason for consumers to visit on brand's website over another and can also serve to create online buzz about the brand. Luxury fashion brands should work with web developers to create unique innovations for their e-commerce site. While it may seem like a large financial investment, adding a captivating innovation to an e-commerce site can serve as another way for a luxury brand to emphasize the exclusivity and elite nature of the brand.

In the American market, it is not enough for luxury fashion brands to simply present an effective online shopping site. Companies must provide consumers with something exciting, new, and worth sharing with their friends. Yet at the same time, this online experience must also be accessible on the go, as so many consumers are now using their smart phones for online browsing and purchasing.

iii. China

As seen in the previous chapters, luxury consumer expectations in general are similar to each other in all countries of the world. Nevertheless it can be said that in the three main luxury markets they differ slightly. When entering the Chinese luxury e-commerce market there are several aspects brands need to consider. First of all, brands need to be aware of the fact that even China is the largest luxury market it is not yet as developed when it comes to e-commerce like the U.S. Yet Chinese's are still expecting more about cheaper price when they purchase online. Also when it comes to using social media for increasing traffic and sales, it is important to know that the Chinese Internet culture is very different. Brands need to be aware of forbidden platforms as well as the power of new media, such as micro blogs. (Rise and Wise) Additionally as mentioned in pervious chapters, Chinese customers place high importance on customer service, such as beautiful packaging and fast deliveries. In order to overcome the challenges in the Chinese e-commerce luxury market websites need to offer the best service possible, just as if it would be a physical store and even more. This means 24h service, free shipping, customized service as well as fast delivery.

According to GreenBook.com there are two attributes luxury brands additionally need to offer in their e-business and these are local relevance and availability. Brands need to cooperate with local sites such as Baidu, Kaixin, and Youku, which are similar to international platforms such as Google, Facebook, and YouTube. Brands need to be aware of the fact that they need to adapt to Chinese counterparts by creating different strategies. It is clearly not enough to simply just translating site content. (Inside FMM) Brands need to choose images, products and content which reach the Chinese customer. Looking, for example, on Gucci's Chinese e-business site, the brand has partly implemented this strategy. Here customers find different products as in Europe or the United States. But on the other hand when looking at the bottom page Gucci still has the same Social Media platforms as on every other page (See figure below).



Illustration: Gucci Chinese E-Store Social Media Options

It is important that brands implement a strategy that is adapted to the Chinese culture and mentality. This has to be implemented in all parts of the e-business strategy. (LabBrand)

iv. Overall

Luxury brands need to implement the newest tools to make shopping experience more real and exclusive; for example Oscar de la Renta's "True Fit" technology tool, which personalizes the shopping experience for customers. Additionally it is important that brands engage in social media, to not only create a community and strengthen the brand loyalty but also lead traffic to the e-commerce store. Coach is one of the brands, which have achieved to increase its e-business traffic by using social media to lead consumers to the e-store and directly increase traffic and sales. Once led to the website it is important to offer an innovative site. Thirdly, brands need to find ways to reach out to customers and make them feel special. As this is easier to achieve in a physical store, luxury brands need to find the right strategies to recreate the in-store experience online. For example, campaigns such as the "Art of Trench" by Burberry. "Share your Love" by Tiffany, or the "Choo Campaign," are good examples for successful campaigns to create a community and make customers feel

exclusive. Once having customers attracted to the e-store it is important to meet the high standard expectations. The website needs to offer an exclusive experience and be personalized and customized to consumers' needs. Luxury brands need to create a unique "webmosphere". First of all the design of the page must be clearly structured and easily to use. Products need to be perfectly photographed and shown from all angles, sizes and colors. Brands need to highlight details and make everything look perfect, just like in the store.

Visuals are one of the most important aspects for luxury e-stores. Visual tools consist of pictures, 3D product view, slide shows, video films as well as the zoom tools in style and size, graphics and finally full screen mode (Okonkwo). Video tools such as "behind the scenes" video, streaming of fashion shows or shot movies are always a good way to give the visitor an insight into the brand. Brands need to find those sounds and videos suitable to the brand image and should the use them on the website but also giving the customer the chance to mute or skip it. This counts for all tools. Consumers need to have the ability to skip videos or other additional tools. All these aspects are what finally will differentiate luxury brands from mass-market brands such as H&M and Zara. If brands manage to create the unique webmosphere they will be able to use the Internet as a great opportunity and still maintain the brand image without losing their customer base.

Finally, it can be said that it is profitable and good for luxury fashion brands to have distribution online. More and more luxury consumers are using the Internet as purchasing channel due to lack of time and more information. Nevertheless brands need to accept the Internet as an essential distribution channel and invest time and money into the strategy to make it perfect. The Internet offers a wide range of opportunities for luxury brands and it is essential that they understand and make use of it. In order to answer the main research question, if luxury brands can overcome the challenges of selling online and not diluting the brand image, yes it is possible. With the right strategy, luxury brands can not only maintain the image and customer base but even reach out to a bigger target market.

X. Conclusion

“The key challenge in overcoming consumers’ hesitations in buy luxury goods online is to create their trust by offering high quality content, fast delivery, personal shopping assistance and an unique website design.” Bec Clarke
Manager of AstelyCarke.com

Luxury companies may argue that all aspects defining their brands such as quality, uniqueness, and high status, all come back to one main characteristic, which is exclusivity. On the other hand online purchases and the Internet in general, have the purpose of accessibility and reaching out to a large audience. Now looking at both definitions at first one might say these two businesses a opposite to each other and do not go hand in hand. At the end of the report it can be finally said that this assumption is not correct which is why luxury companies why many luxury companies need to improve their online strategies.

The previous chapters have analyzed the major luxury markets in regard to their growth as well as consumer behavior. All three markets, US, Europe and China have shown great potential for e-businesses in general as well as for luxury brands. Nevertheless brands need to be aware of the fact that in each market brands will face not only the same challenges but also several problems, which will slightly differ. Especially for China companies need to be aware of the cultural differences as well as political regulations when it comes to public websites. Brands need to change the social media strategies and adapt it to the local platforms. Additionally even though Chinese customers are currently the strongest purchase power for luxury items they also show high expectations. E-stores must have innovative designs creating an atmosphere online, which is just like the one in a physical store.

Finally it can be concluded that if brands implement the right online strategy into their overall marketing strategy and have a clear idea of the market they are entering, it is possible to sustain a successful online business while maintaining brand exclusivity. Luxury brands need to be focused and targeted online. The attraction, and connection, to a luxury brand is all about affiliation to a unique experience. By constantly implementing new content, videos, images and other innovative tools they are able to translate the exclusive in store atmosphere. If additionally they are engaged in social media and share videos such as “behind the scenes” or interact with the consumer, they can even built a strong community with eventually will increase brand awareness and consumer loyalty towards the brand.

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Glossary

Blogs: Shortened from the original term “Weblogs,” these self-published web sites containing dated material, are usually written in a journal format. Content such as text, pictures, video and/or audio have URLs plus other ways of identifying them by keywords (tags). This allows visitors to pull items to their desktop through subscriptions or aggregators without having to visit the actual web site. Blogs often have links to other relevant online content, plus invite feedback through “posts” which are comments from readers.

Comments: Adding feedback comments under blog posts and other content.

Community Building: The process of recruiting potential community or network participants, helping them to find shared interests and goals, and using technology to develop useful conversations

Interaction marketing: Interactive Marketing refers to the evolving trend in marketing in which marketing has moved from a transaction-based effort to a conversation.

E-Commerce: The buying and selling of products and services by businesses and consumers through an electronic or digital medium, without using any paper documents.

Networks: Structures defined by nodes and the connections between them. In social networks, the nodes are people and the connections are the relationships they have. Networking is the process by which you develop and strengthen those relationships.

Post: Item on a blog or forum.

RSS: Standing for Really Simple Syndication, RSS is the XML format that allows you to subscribe to content on blogs, podcasts and other social media, and have it delivered to you through a feed.

Search engine optimization (SEO): Is the process of improving the volume and quality of traffic to a Web site from search engines via “natural” (or “organic” or “algorithmic”) search results.

Sharing: Offering other people the use of text, images, video, bookmarks or other content by adding tags and applying copyright licenses that encourage use of content.

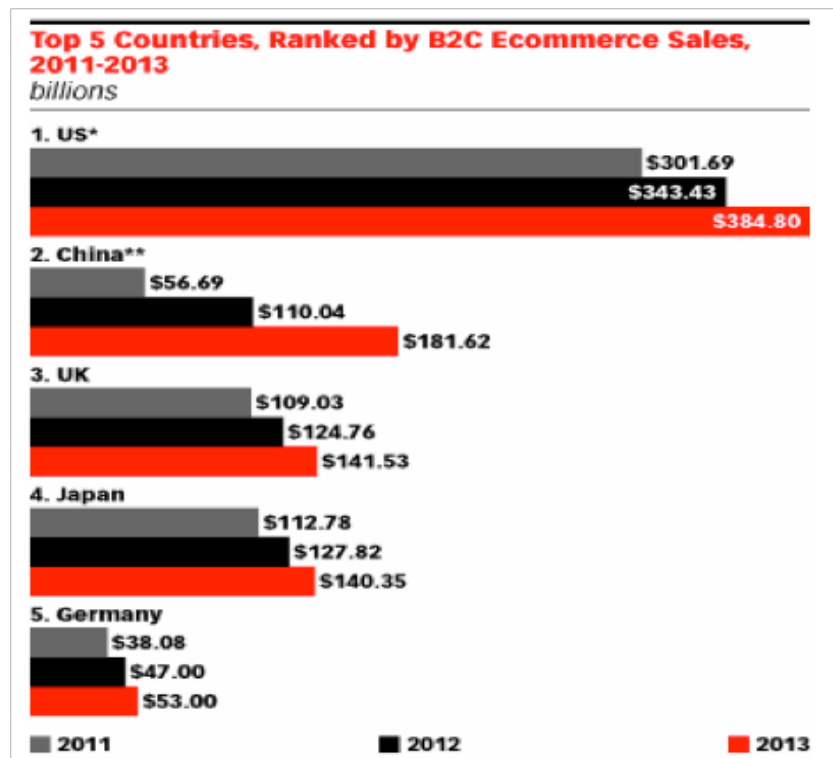
SNS: A social networking service is an online service, platform, or site that focuses on facilitating the building of social networks or social relations among people who, for example, share interests, activities, backgrounds, or real-life connections.

Omnichannel: Within Omnichannel retailing companies are trying to reach customers desires and needs by deploying specialized supply chain strategy software. Omnichannel strategies are concentrated on the goal of targeting the consumer by letting him experience all distribution channels. This means taking the customer through mobile internet devices, computers, magazines, television and catalogs.

Appendix

Appendix 1

The graph indicates the growth of the five strongest e-commerce markets from 2011 until 2013 (Emarketers)



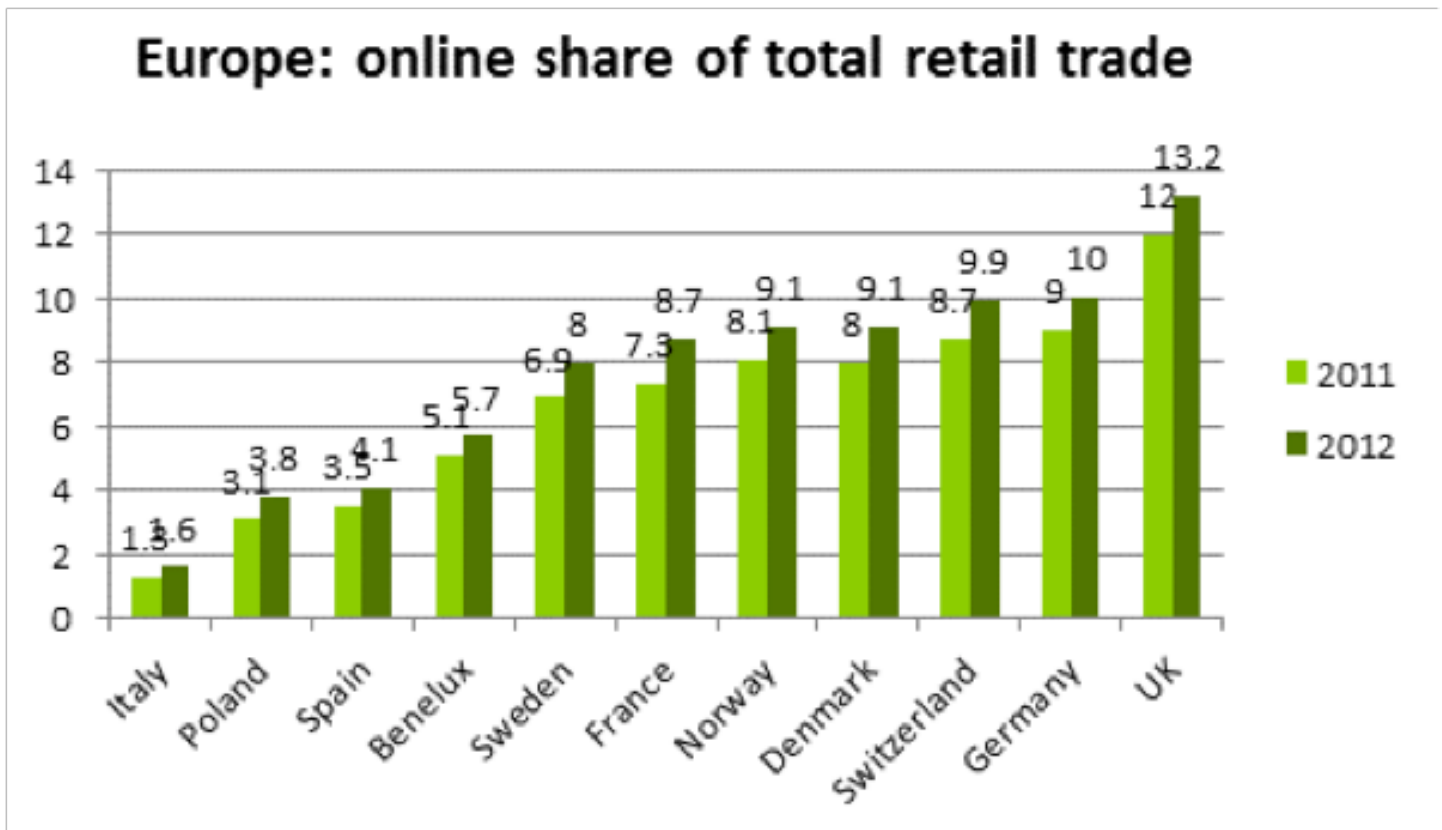
Appendix 2

The graph highlights the development in revenue of online luxury goods worldwide. (Emarketers)



Appendix 3

The graph compares the development of total online retail shares in Europe from 2011 to 2012. (Chiel Liezenberg)



Appendix 4

Appendix 04 shows the development of companies engaged in e-commerce.

	Enterprises with e-purchases			Enterprises with e-sales			Enterprises' turnover from e-commerce		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
all enterprises	33%	37%	35%	13%	15%	15%	12%	14%	14%
large	50%	55%	56%	32%	35%	37%	17%	19%	19%
medium	40%	44%	43%	19%	22%	23%	10%	11%	10%
small	31%	35%	33%	11%	13%	13%	4%	5%	4%

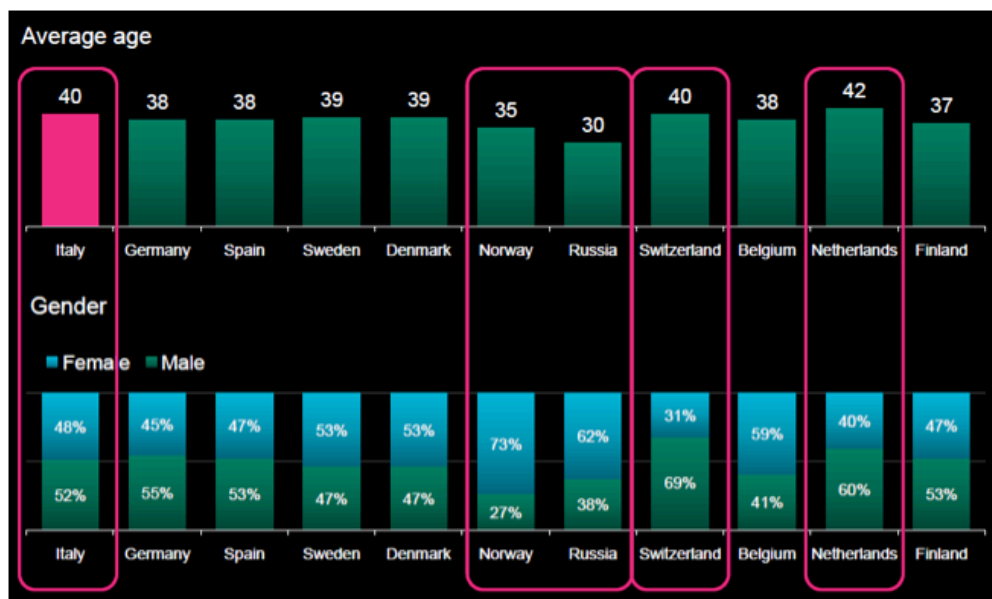
Appendix 5

The table below shows the different definitions luxury consumers have in each country throughout the world. (Stefan Saviolo, Erica Corbellini)



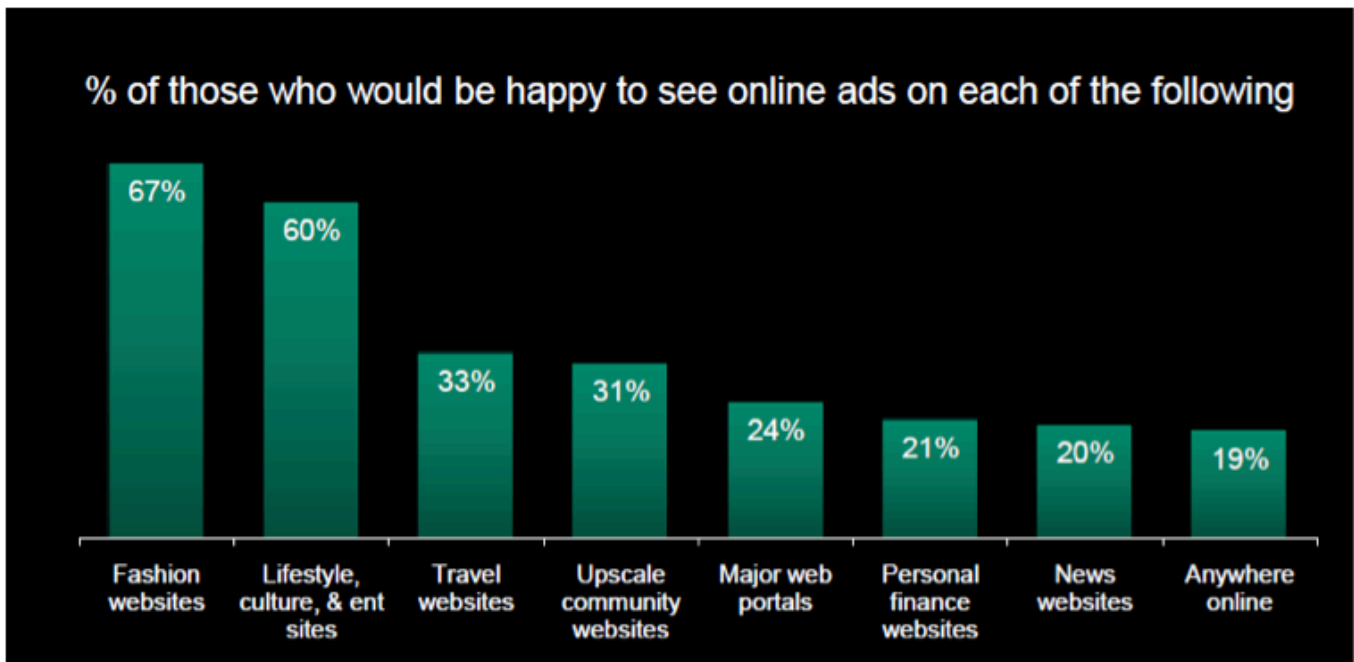
Appendix 06

The figure below indicates the age variation in luxury consumers throughout Europe.



Appendix 7

The graphs indicates what online ads luxury consumers are expecting to find when using the internet.(BPG Group)



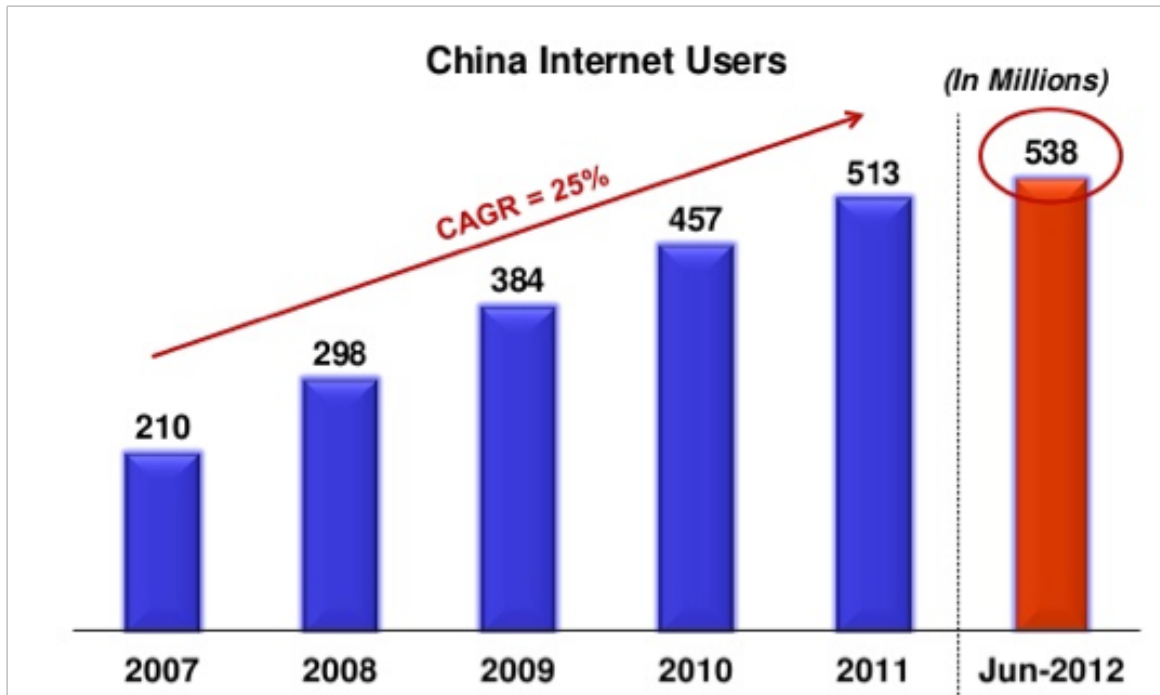
Appendix 08

The table indicates increase of luxury goods in China from 2008 to 2011.



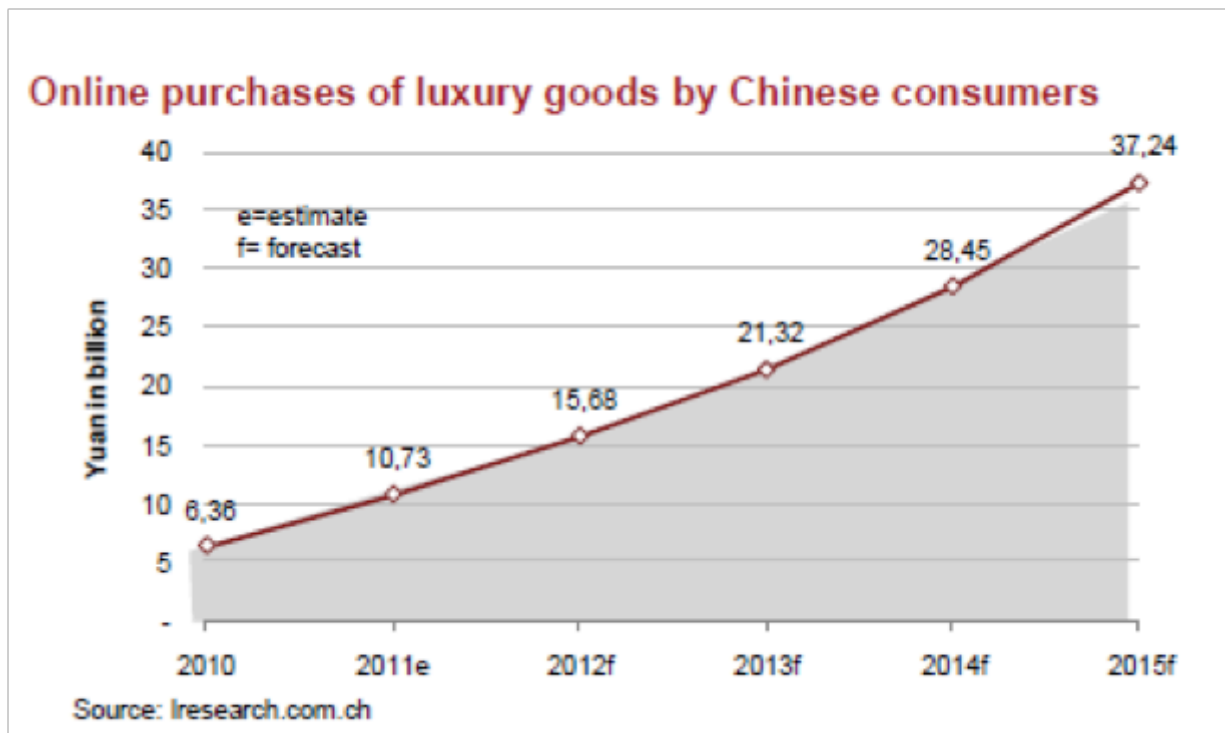
Appendix 09

The figure indicates the growth of Chinese internet users from 2007 until 2012 highlighting that in five years it doubled from 210 to 538 million.



Appendix 10

The graph shows the growth of online luxury retail sales in China starting in 2010 and predicts that it will reach a value of 37.24\$ million in 2015.



Appendix 11

Oscar Del la Renta "True Fit" example

T
TRUE FIT 101
Receive your own personal fit rating and size for every women's style in just 60 seconds
CREATE YOUR PROFILE >

The more you shop, the smarter it gets

True Fit knows what fits you, because it has blueprints for the top designer brands and styles

It analyzes data to learn the unique fit and style attributes for each item and customer

The powerful fit engine crunches the numbers to identify which styles fit you, and which size is best

The result is your own personal fit and

Every click improves your fit

Tell True Fit about more of your favorite styles

Edit height, weight, body type or favorite styles for accuracy

TTTTTT

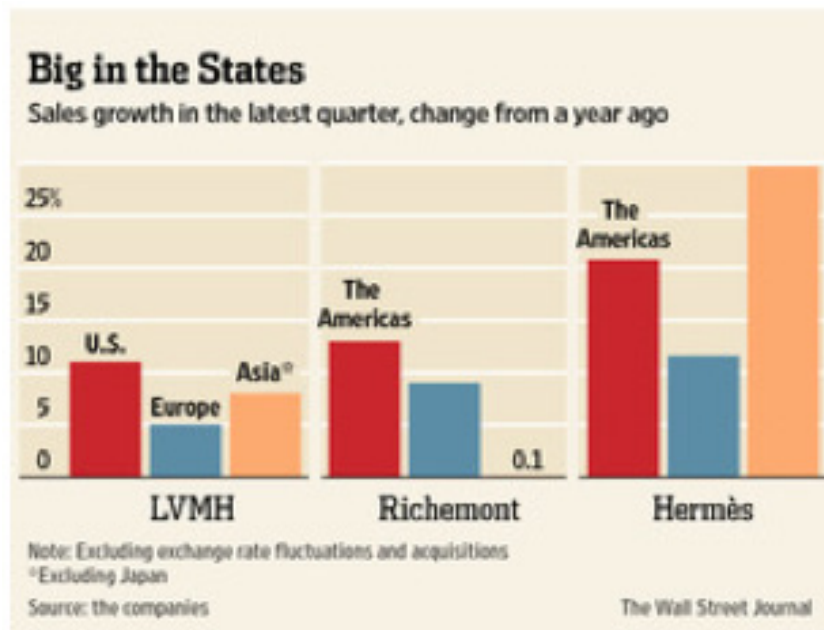
Appendix 12

The table lists the strongest e-commerce luxury brands in terms of total visits from 2011 to 2012

Site	Total Visits				YoY Growth
	July 2011	% Share	July 2012	% Share	
Céline	6,291	0.1%	24,115	0.3%	283%
Sergio Rossi	6,482	0.1%	17,024	0.2%	163%
Proenza Schouler	2,012	0.0%	4,218	0.1%	110%
YSL	41,493	0.5%	83,398	1.1%	101%
Michael Kors	481,146	6.2%	931,382	11.8%	94%
Bottega Veneta	19,438	0.3%	36,936	0.5%	90%
Nanette Lepore	6,423	0.1%	11,501	0.1%	79%
Emilio Pucci	5,495	0.1%	9,491	0.1%	73%
Manolo Blahnik	8,140	0.1%	13,556	0.2%	67%
Lanvin Paris	6,240	0.1%	10,040	0.1%	61%
Givenchy	3,662	0.0%	5,106	0.1%	39%
Hermès	124,605	1.6%	162,849	2.1%	31%
Vince	17,121	0.2%	21,496	0.3%	26%
Longchamp	39,921	0.5%	50,016	0.6%	25%
Chloé	10,462	0.1%	12,876	0.2%	23%
Oscar De La Renta	30,509	0.4%	37,276	0.5%	22%
Marc Jacobs	116,011	1.5%	141,032	1.8%	22%
Gucci	989,255	12.7%	1,119,241	14.2%	13%
Fendi	42,091	0.5%	46,993	0.6%	12%
Alexander Wang	7,220	0.1%	7,938	0.1%	10%
Versace	47,115	0.6%	51,586	0.7%	9%
Mulder	3,008	0.0%	3,280	0.0%	9%
Mulberry	21,037	0.3%	22,466	0.3%	7%

Appendix 13

This graph shows the growth in sales of luxury brands in the U.S., Europe, and Asia in the last quarter of 2012.



Appendix 14

The table shows the reasons consumers follow brands on social networks as of 2011.

Reasons for Following Brands/Companies on Social Networks According to US Affluent vs. General Population Internet Users, by Income, Feb 2011
% of respondents in each group

	Affluents (\$200K-\$500K)	Affluents (\$500K+)	General population
I wanted to get deals/discounts	39.4%	29.0%	44.3%
I love the brand and wanted to follow it	39.7%	52.3%	36.9%
I wanted to keep up with news about them	31.3%	34.8%	27.5%
I noticed someone following the brand/company profile	22.2%	31.0%	18.8%
The social network recommended it	21.2%	33.5%	16.1%
An ad (print, TV, online) led me to it	25.9%	31.0%	14.8%
It was mentioned in an article	22.6%	23.9%	12.8%
I have a professional interest	18.9%	15.5%	10.7%
Their tweets/posts are entertaining	3.4%	7.7%	9.4%

Source: The Affluence Collaborative survey conducted by NowResearch, April 13, 2011

127553 www.eMarketer.com

Appendix 15

This is a screen shot showing Neiman Marcus' "Beauty Replenishment Service."

The screenshot shows the Neiman Marcus website interface. At the top, there is a navigation bar with the Neiman Marcus logo, a search bar, and links for ASSISTANCE, YOUR ONLINE ACCOUNT, Change Country, and SHOPPING BAG. Below the navigation bar, there are category links: DESIGNERS, WOMEN'S APPAREL, SHOES, HANDBAGS, JEWELRY, ACCESSORIES, BEAUTY, THE MAN'S STORE, NM KIDS, HOME, GIFTS, SALE. A banner below the categories reads "Discover our BEAUTY REPLENISHMENT SERVICE! Click for Details".

The main content area features the product "La Mer The Moisturizing Soft Cream". The product description states: "The new Moisturizing Soft Cream delivers miraculous benefits. Its luxurious formula penetrates deeply to replenish moisture and strengthen skin. Renewed and energized, skin looks youthfully radiant." It also includes an "About La Mer" section and a note that the product is not available for shipping to Canada.

Two product options are shown:

- La Mer The Moisturizing Soft Cream, 2oz.** Price: \$275.00. SKU: NMS13_C13M4. In Stock. 4.2 star rating with 6 reviews. A dropdown menu for "Select Frequency" is open, showing options: Purchase this time only, Every 30 days, Every 45 days, **Every 60 days** (selected), Every 90 days Suggested, and Every 120 days.
- La Mer The Moisturizing Soft Cream, 1oz.** Price: \$150.00. SKU: NMS13_C13M2. In Stock. 4.7 star rating with 11 reviews. A "Replenish?" dropdown menu is visible with a "QTY" field set to 0.

At the bottom of the product section, there are social media sharing buttons (Twitter, Pinterest, Facebook Like, 40) and "ADD TO WISH LIST" and "ADD TO SHOPPING BAG" buttons. Below this is a "YOU MAY ALSO LIKE" section.

Appendix 16

This is a screen shot showing the social media buttons on Oscar de la Renta's e-commerce site.

The screenshot shows the Oscar de la Renta e-commerce site. The top navigation bar features the Oscar de la Renta logo, a search bar, and links for SIGN IN and CHECKOUT. Below the navigation bar, there are category links: READY TO WEAR, ACCESSORIES, FRAGRANCE & BEAUTY, CHILDREN, GIFTS, HOME, BRIDAL, RUNWAY, THE HOUSE.

The main content area displays a product page for the "3/4 SLEEVE MACRAME JACKET" priced at \$2,490.00. The product image shows a woman wearing the jacket. To the left of the main image is a "More Views" section with four smaller images of the jacket from different angles.

Below the product image, there are social media sharing buttons: Like (14), Tweet (0), +1, Pinterest, and Fancy. There are also buttons for "need.", "obsessed.", and "own.".

Below the social media buttons, there is a "What size will fit you best?" section with a "Find Your True Fit" link and a "SIZE GUIDE" link. A "Qty" dropdown menu is also present.

At the bottom of the product section, there is a large "ADD TO BAG" button, followed by "ADD TO WISH LIST", "CONTACT OUR PERSONAL SHOPPER", and "SHARE" buttons. A "LIVE CHAT" button is also visible, indicating the chat is "(OFFLINE)".

At the bottom of the page, there is a "MY BAG (0)" link.

Appendix 17

Interview with Neiman Marcus Direct Site Merchandiser Jordan Kragen

1. What is the best/most successful thing NM has done in relation to e-commerce?

In my opinion, there are two successful strategies we have implemented in the last year. One of those is expanding internationally and allowing international shipping. This has been extremely successful, and we have exceeded our original plan by a significant amount. We are now working on creating different skins for specific countries and concentrating on specific copy for certain areas. We also have worked a lot on the omnichannel shopping experience. On both BG.com and NM.com, we have started carrying store only items as well as allowing items to be shared for both store/online. While this has not rolled out to all areas, it has been successful in the areas that do carry store merchandise. We also now have a filter for products that allows you to see if the product online is available in stores.

2. What is NM's e-commerce strategy?

Right now, we are working on having a faster site as well as concentrating on improving the omnichannel experience. We also work on having the best customer service and providing a luxury shopping experience online.

3. Does NM direct work with the social media team? If so, in what way?

Yes, specifically within the buying offices. While I do not know a lot about this, I know we all have the option to send in pictures for Instagram and NMdaily.com. While online is not showcased as much in social media, a lot of our sales and events are featured on FB, Twitter, etc. We also have Insite stories online that we can request for certain products or designers. Marketing and creative then take over these specific stories.

4. How many people approx work at NM direct (e-commerce specifically)?

Okay, honestly have NO idea on this but it has to be upward of 100? And we also have all the warehouse workers too that are part of online. The merchant team though (my team!) is about 25 if that is helpful. But it is a lot of people.

5. How often is site merchandise updated/added?

Daily! We used to do loads twice a week but at the end of last summer, we now have product coming through on a daily basis.

6. Is there anything that NM's competitors are doing that you think NM should be doing?

Personalization which is something we are working on and testing now. Also, we can definitely improve our filter capabilities and can improve on omnichannel (all things we are working towards though!).

7. Do customers stop purchasing online once a certain price level is reached? Meaning, for example, if customers buy very expensive items online or prefer to do so in stores?

I do think that is the case for some customers BUT we do have wealthy customers who live in non-store trade areas (especially the case for BG.com). For example in jewelry, we've started carrying a lot of precious jewelry from the stores that can cost upwards of \$20,000. We do have people buying these products. That being said, we do not put in the same kind of money in our buys for higher priced items that the stores can do.