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LUXURY 2.0.

Can e-commerce become a competitive advantage for fashion luxury brands?

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# INTRODUCTION

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Imagine living in a world without the Internet and no technology ... Could you imagine your life without your laptop or your mobile phone? Where do you read the news every morning? How do you keep in touch with your friends? How will you book your next holidays? What would this Master's thesis look like without the use of the Internet and technologies?

We have entered the digital era and the digital revolution is here, breaking down geographic and economic barriers. The prefixes cyber-, net, online, digital, virtual, e- are added to an increasing range of existing words. Digital is everywhere. This is highly valued by consumers and represents a tremendous opportunity for businesses, in terms of communication, promotion and sales. As a matter of fact, the meaning of the prefix e- in e-commerce, which is originally electronic tends to be substituted by everywhere (UK Trade & Investment, 2014). A lot of companies and organizations have embraced the digital opportunity and rely on e-commerce to increase their sales profit. The great availability of information and goods on the Internet seems unreal. Yet, exceptions exist for every generality ...

During my student exchange program in Thailand and travels around Southeast Asia, I was surprised to see the number of new flamboyant luxury boutiques in the largest cities. At the same time, I am very interested in fashion luxury and regularly read the news on this topic. Many articles were concerned with the adoption of the digital opportunities and e-tailing for luxury brands. They usually highlighted the growth of e-commerce in the industry. In its global luxury report, Bain & Company (2015) confirms this trend, stating that the online luxury market amounted to €16.8 billions in 2015 – or 7 percent of the market share, compared to 1 percent in 2005. The opening of a large number of luxury stores in some markets while the Internet offers a great opportunity to sell goods online sounds paradoxical. After further investigation, I noticed that the luxury industry is often viewed as a digital latecomer. Some 35 percent of luxury brands still did not offer their products online in 2014 (Bain & Company, 2014). In light of these considerations, I have chosen the subject of e-commerce for fashion luxury goods – soft luxury, and suggest to address the following question:

Luxury 2.0. – Can e-commerce become a competitive advantage for fashion luxury brands?

In order to tackle this question, the Master's thesis is composed of two parts: the literature review and the strategy diagnosis analysis and the ensuing recommendations.

The literature review includes the description of three concepts, namely luxury, fashion and electronic commerce. The concept of luxury is defined and examined in terms of customers, characteristics, brands, consumption and levels. It is also compared to fashion, which is further explained through the fashion cycle, the "fashion pipeline" and the structure of the fashion industry. Then, the drivers of e-commerce, the typologies of this concept, the benefits and the barriers and risks are described. The coexistence of the offline and online channels is also detailed. Last but not least, the three concepts are combined to explore the application of this trading method to fashion luxury goods. The literature review offers a theoretical base and directions for the research and analysis in the second section.

This second part starts by defining sub-questions. Firstly, one must determine whether fashion luxury brands should use e-commerce to offer their products. Their interest and capability to sell online are assessed through a strategic diagnosis. The external and internal analyses focus on typical characteristics of fashion luxury brands. Second, depending on the results of the strategy diagnosis, one should find out how to embrace e-commerce, or what is the alternative to remain relevant and effective in a global digital environment. A qualitative research based on the selection and analysis of documents and observations is used to conduct the strategic diagnosis and develop appropriate recommendations. Finally, the answers found for the sub-questions provide the response to the primary question: *Luxury 2.0*. – Can e-commerce become a competitive advantage for fashion luxury brands? and conclude the research along with limitations and directions for future research.

The following Master's thesis contributes to clarifying the issue of e-commerce for fashion luxury brands. Furthermore, it depicts the latest trends and significant changes occurring during this key period. This refers specifically to digitization, the new coming generations, the globalization and the after-crisis. It also provides an overview of digital improvements achieved by forerunners within the luxury industry, and offers consistent and creative recommendations for fashion luxury brands.

# LITERATURE REVIEW

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## 1. LUXURY

### 1.1. WHAT IS LUXURY?

Bling-bling, quality, craftsmanship, simplicity, huge or disproportionate prices, ... There is no internationally agreed definition of luxury. The answers are many and diverse (Chevalier & Mazzalovo, 2008).

The following quotations or ideas of luxury leaders provide an overview of the subject.

Gabrielle Coco Chanel (1883-1971) used to say “Luxury is a necessity that begins where necessity ends.” Ms. Chanel also asserted that “Some people think luxury is the opposite of poverty. It is not. It is the opposite of vulgarity.” (as cited in Okonkwo, 2010, p.13)

Her successor Karl Lagerfeld claims that “Luxury is the ease of a t-shirt in a very expensive dress. If you don’t have it, you are not a person used to luxury. You are just a rich person who can buy stuff.” (as cited in Thomas, 2007, ch. 10 para. 1)

According to Jean-Louis Dumas, Chairman of Hermès, “Luxury can be very simple, for example, staying 15 minutes longer in bed.” (as cited in Forbes India, 2013)

Mr Pinault, Chairman of Kering argues that “Luxury is now for the masses and the classes, [...] Exclusivity is no longer a criterion for luxury.” (Pinault at the 2012 Financial Times Business of Luxury Summit as cited in Doran, 2012)

In parallel, Bernard Arnault, founder and CEO of Louis Vuitton Moët Hennessy (LVMH) describes modern luxury as “The ordinary of extraordinary people and the extraordinary of ordinary people.” (as cited in Kapferer, 2010, p.92)

The massive luxury goods conglomerate possesses a well-defined spirit: “The LVMH group brings together truly exceptional Houses. Each of them creates products that embody unique savoir-faire, a carefully preserved heritage and a dynamic engagement with modernity. These creations make our Houses ambassadors of a distinctively refined art de vivre.” (LVMH Spirit on the LVMH official website)

The definition of luxury depends on whom (Kapferer, 2014) and when you ask the question (Som & Blanckaert, 2015). It might differ according to the connoisseur of these goods (Som & Blanckaert, 2015). Luxury producers attempt to deliver products or services procuring a feeling of exception, emotion and privilege. They can achieve it thanks to rare features like savoir-faire, culture, art, beauty and heritage. For luxury customers, such purchases are synonym of craziness. They go over daily constraints and tight budgets to shine in their environment and feel great pleasure. On the contrary, anti-luxury people think these goods are not worth their price. They are used as tools to compete in a society where physical appearance is prioritized (Kapferer, 2014 as cited in Paredes, 2014).

The definition is dynamic and tends to develop over time. What represents luxury for some people today might not be considered as luxury for others and, not even perceived as luxury over the years (Som & Blanckaert, 2015). Initially regarded as a value linked to the public sphere, it is more and more associated to great individual experiences (Corbellini & Saviolo, 2009). Since there is no single definition of luxury, going back to the roots and traveling through the story of luxury will help to clarify the concept.

## 1.2. THROWBACK

The unconscious of language allows contemporary societies to understand the real meaning and use of a word. One may not mistake the true etymology of luxury with *lux*, which means light. The noun luxury derives from *luxatio* (Sicard, 2013), the Latin word for distance (Kapferer, 2012). Then, the adjective *luxus* means excess or splendor (Chevalier & Mazzalovo, 2015) out of which comes *luxuria*, a strong desire for self gratification. There are noticeably two meanings coming from the same etymology. *Luxus* as in grandeur, is rather positive whereas *luxuria* tends to have a negative connotation with a sense of decadence. The bottom line is that luxury relates constantly to opposite meanings of excessive and useful, extravagance and brilliance, devilish and grandiose (Corbellini & Saviolo, 2009).

The concept has evolved over centuries (Corbellini & Saviolo, 2009). Already present in Egyptian artifacts in times of lavishness (Som & Blanckaert, 2015), luxury used to be associated with majesty and sacred symbols. Luxury goods were offered to divinities until the end of the Middle Ages (Corbellini & Saviolo, 2009). The second type of luxury took place during the Italian Renaissance characterized by talented painters, architects and sculptors. What ensued

was the Reign of the King Louis XIV and the French Court (Som & Blanckaert, 2015), which transformed luxury in ostentation and profanation (Corbellini & Saviolo, 2009). The next wave brought the notion of Haute Couture with the British designer, Charles Frederick Worth. In the mid 19<sup>th</sup> century, he decided to travel to Paris to improve and develop his art as a business. Worth introduced the use of fashion labels and presented the first fashion shows. Coco Chanel and Christian Dior invented modern fashions during the end of the 19<sup>th</sup> and 20<sup>th</sup> centuries. In the meantime, New York City became a capital of luxury. The next revolution regarding luxury took place in Italy during the sixties and seventies. The Italian brand Gucci and Bernard Arnault began implementing strategic management rules to modern luxury. Louis Vuitton Moët Hennessy group is the primary multibrand conglomerate. Consolidation of the industry is now strong and this trend will keep growing. Finally, the information technology revolution appears as the ultimate significant innovation for the luxury and high fashion goods. Information about companies, products and brands are shared and circulate very quickly on that huge planet called internet (Som & Blanckaert, 2015).

### 1.3. AS THE 21<sup>ST</sup> CENTURY DAWNED ...

Five main trends reshape the concept of luxury.

Globalization – In the pursuit of growth, globalization and expansion in emerging markets form a significant part of the luxury business model these days (Pike, 2016). Wealth is being redistributed and the growing global middle class constitutes a major target, especially in Asia (Tesser, 2015). The most substantial concentration of affordable luxury and luxury brands is located in Hong Kong, Singapore, Tokyo, Beijing and Shanghai (Som & Blanckaert, 2015). A lot of self-made millionaires as well as new vibrant customers come from emerging markets. They are ready to spend unbelievable amounts of money to get the top and best products or services (Tesser, 2015).

Changing retail landscape – Clients have high expectations in terms of experiencing a brand. Concept stores in valuable locations play a significant role in bringing luxury fashion, art, design, technology and architecture together. Retail footfall is decreasing. Thus, concept stores around the world, as well as sponsorship of big events are getting more important (Tesser, 2015). However, as a result of the fast international expansion, some megabrands

are overexposed. They have to be strategic and determine the right places and number of stores (Pike, 2016).

Off-price retailing – Defining strategic locations also applies to outlet stores. Off-price retailing, usually linked to excess inventory, has spread in the industry. Off-price retailers attract large amount of people. It is getting to the point that luxury brands invest considerably in their own outlet stores, in partnerships with outlet retailers and, sometimes, design special collections for the off-price channel. The drawback is that off-price activities harm the brand equity. Iconic products that have created the history and reputation of the brand should not be discounted. Marked down items differ from the offer in flagship stores. Ensuring a physical distance between city center shops and outlets can facilitate this differentiation. However, on the internet, it is another matter ... (Pike, 2016)

Digital world – The next trend is reflective of the increasing predominance of the internet. The majority of luxury customers are born in the digital era (Tesseras, 2015). Connected and constantly online, they wish to find their favorite brands on the internet (Pike, 2016). Luxury brands, even the most traditional ones, need to update their strategies to remain pertinent and successful (Tesseras, 2015).

Importance of quality – Last but not least, exclusivity is no longer what it used to be in the luxury industry (Tesseras, 2015 ; Pike, 2016). Digital media, off-price retailing and globalization threaten it. One can identify two kinds of reactions to it. On the one hand, some analysts claim that luxury players need to regain the balance between exclusivity and accessibility. According to them, the magic of luxury has always consisted in finding this equilibrium. If the brands' most important objective is to sell, massive offering is the answer. In contrast, if brands want to keep their whole image intact and be part of luxury, they need to look for other tactics. Reducing heavy-logo and entry-level products to focus on iconic and higher priced items is one of them (Pike, 2016). On the other hand, some tend to focus on the customer perspective, which puts quality over exclusivity. Studies show that exclusivity is no longer one of the most determining criteria for clients when they purchase luxury items. Quality seems to be the key global characteristic and definer for customers. One reason is that luxury is becoming more democratic (Tesseras, 2015). Another is the growing number of Millennials, whose main purpose of buying luxury products is to have something that lasts and can be pass on to next

generations (Painter, 2015). Accordingly, the importance of exclusivity is declining and brands should concentrate even more on quality (Tesseras, 2015).

Luxury is not frozen in time and social codes are continuously changing (Boutillier & Uzunidis, 2013). The story of evolution of luxury has been shaped by the transformation of society (Som & Blanckaert, 2015). Luxury customers create and influence the demand of luxury goods. It is therefore of interest to understand who they are and their expectations.

#### 1.4. LUXURY CUSTOMERS

The use of the word *customer* should prevail on the expression *consumer*. In the luxury industry, products are seen as specific items that customers would like to buy and keep in the long term. They do *not* typically *consume* the products and purchase new ones in the following weeks (Chevalier & Mazzalovo, 2008).

Different stages have built the luxury customer over time. The primary step is deprivation, which brings the appetite to consume amongst citizens as soon as they got rid of poverty. Accordingly, they are enticed into purchasing luxuries that are functional like cars or practical gadgets. Then in a second time, the upper class begins acquiring luxury items. The third stage is the desire to show wealth. This is followed by citizens' necessity to fit in with their peers thanks to suitable social markers once they are wealthy and have enough resources. Sooner or later it becomes a way of life for which it is difficult to reverse and go back to former habits (Som & Blanckaert, 2015). Nowadays, luxury is not especially related to social status or wealth. It is rather linked to pleasure and personal preferences (Som & Blanckaert, 2015). Roussel, Chairman and CEO of LVMH Fashion Group states that the majority of luxury customers are people who look for good treatment in return for the efforts and hard work they have contributed. They crave something seductive, something they really like (Sibony & Tochtermann, 2014).

Specifically, there are four segments amongst luxury customers. The fortune of the Millennium involves athletes, celebrities and people who have built their personal wealth thanks to the internet revolution. The old-money families, companies or people whose lifestyle is independent of their salary make up the second category. Thirdly, the nouveaux riches know the value of money because they have worked a lot and keep working to maintain

their wealth. The fourth segment includes the upper middle class who controls spending. For them, money is not endless as it comes from professional or salary activities. Nonetheless, this list is not exhaustive (Chevalier & Mazzalovo, 2008). Dubois and Laurent (1999) suggest an additional division to the global customer base: the excursionists or luxury day trippers (Kapferer, 2012). They suggest that the luxury customer is almost the man in the street (Chevalier & Mazzalovo, 2008). Even if they are less rich than the groups mentioned above, they are advanced regarding sociocultural aspects. Hence they occasionally buy luxury objects in order to celebrate or when they are simply driven by enjoyment or self-indulgence (Kapferer, 2012). They mix really cheap goods with a few authentic luxury products (The Economist, 2005). Such clients await excellent quality, expensive, rare and quite exclusive items that are timeless. At the same time, they recognize that their purchase is not really necessary. Their trip, in other words the shopping journey, must be a multi-sensory, different and memorable experience (Chevalier & Mazzalovo, 2008). The last group of luxury customers involves the 'fractional ownership' users. The trend is growing and implies time sharing for luxury goods or services such as buying driving days for a Bentley (The Economist, 2005).

Coming back to the four main customer segments, all of them purchase luxury articles in good economic times. However, in case of economic turmoil and recession, they tend to be more cautious and to moderate their spending. Their wages or disposable incomes are not significantly affected but their assets consisting of financial investments and real estate usually depreciate (Chevalier & Mazzalovo, 2008). Since 1970, the world has faced several crises. The last one is the global financial crisis in 2009. During the next four years, the luxury industry suffered from it and its consequences. Transforming potential customers into actual customers demanded more resources and more time. The explanation lies in the fact that customer behavior changed. They started to spend more time comparing brands, prices and buy less than they used to (Som & Blanckaert, 2015). Karl Lagerfeld said in an interview that "This whole crisis is like a big spring housecleaning – both moral and physical. There is no creative evolution if you don't have dramatic moments like this. Bling is over. Red carpetry with rhinestones is out. I call it the new modesty." (as cited in Sciolino, 2009). It seems like Pinault is of the same opinion. The CEO of Kering believes that people perceive luxury differently. The notions of craft and heritage are important factors for this new sophisticated and discrete luxury (Som & Blanckaert, 2015). After the turmoil, the challenge is to keep

making customers dream thanks to luxury items in line with new perceptions (Som & Blanckaert, 2015).

### 1.5. LUXURY GOODS

Recently, there has been democratization regarding luxuries, especially with accessories lines (Evrard & Roux, 2005). Nevertheless, luxury goods still stand out from the crowd. Ten characteristics make them special.

To begin with, luxury items are not ordinary. They are limited and rare by definition (Heine, 2012). Even if an increasing number of consumers can afford luxuries, they are harder to obtain than everyday goods. They remain somewhat out of reach (Chevalier & Mazzalovo, 2008).

Second, luxuries are excellent. Quality is never an option. Quality must be observed in manufacturing characteristics like materials, standards and craftsmanship (Fraser, 2014). Luxury items are normally handmade or own strong human traits. This is because luxury is a social phenomenon in a society directed by human beings (Kapferer, 2012). The relation between craftsmanship and luxury has always existed. Highly skilled people, time and costly materials are the necessary conditions to produce articles of craftsmanship that only the wealthier can afford. Note that since techniques of production and income levels have changed, these items have become more readily available worldwide. Hence, luxuries are not only of outstanding quality but also international (Roberts & Armitage, 2015).

Third, these goods stand out by their expensiveness. All expensive products are not luxuries. Nevertheless, all luxuries are high-priced. This characteristic plays a big role in making them harder to get and raising trust regarding excellence (Fraser, 2014).

The next feature is the timelessness of luxuries. They have a past and are immortal as they deliver an eternal impression (Fraser, 2014).

Then, luxury objects are authentic, honest and simple (Fraser, 2014). They must be easily recognizable as part of a family of products and possess aesthetic codes. Luxuries are well-known and visible (Chevalier & Mazzalovo, 2008).

Another trait is this feeling of tailored offer. Even if luxury items are not always made to measure, they give this impression. Generally, luxury is able to guess customers' desires before they do. This great ability to anticipate is key to provide goods that feel bespoke (Fraser, 2014), specifically prepared for the buyer and unique (Chevalier & Mazzalovo, 2008).

The seventh characteristic is the pleasurable sensation of luxuries, whether emotional or rational. Possessing luxury goods responds to the quest for personal satisfaction and pleasure (Fraser, 2014). In this case, hedonism outweighs functionality (Kapferer, 2012). In popular discourse at first glance, luxury products are even considered as unnecessary (Roberts & Armitage, 2015).

In parallel, the artistic (Chevalier & Mazzalovo, 2008) and aesthetic aspect including the design, the style and the color create the beauty of luxury goods (Wiedmann & Hennigs, 2012). There is always an extensive and sophisticated process in the creation of luxury goods (Chevalier & Mazzalovo, 2008). Admittedly subjective and highly personal, the aesthetic is essential because it leads people to touch and feel the object when they see it (Kapferer, 2012). On top of that, luxuries are not only agreeable to see but usually nice to touch, taste, hear or smell (Dubois et al., 2001).

The penultimate point is the symbolism reflected by luxury goods. The symbolic appetite to be a member of a superior class is the DNA of luxury (Kapferer & Bastien, 2009).

Last but not least, luxury is a whole experience and not simply a single product. The experience involves the attitude of the sales staff, the packaging, the environment, the message linked to the object and the service. In the luxury industry, the experience is impeccable in the smallest details (Fraser, 2014) and is the key to success for luxury branding according to some researchers (Atwal & Williams, 2009).

## 1.6. LUXURY BRANDS

### Unique name, identity and image

Luxury brands need a strong name. They oftentimes use a person's name and usually that of a designer or craftsman who differentiates himself by exploiting his remarkable skills (Chevalier & Mazzalovo, 2008). For instance, Gabrielle Chanel fashioned hats and clothes

while she has made a great contribution to women's fashion during the last century. The name has become a reference and serves as a pledge for exclusive high-quality features. Giorgio Armani, Valentino Garavani, Salvatore Ferragamo, Louis Cartier, Sotirio Bulgari, Boucheron, Van Cleef & Arpels, ... all of these brands are originally family names. Even the three large luxury groups namely, Richemont, LVMH and PPR Gucci are headed by families. Although there are some exceptions, this recognizes the importance of a distinct family name and identity for luxury labels. These are traditionally family businesses. The family name also manifests a certain heritage and remind that such items are ordinarily made for small groups of close friends – at least at the very beginning (Chevalier & Mazzalovo, 2008).

The specific identity shall then be extended. It shall be continuously fed with new reasons of being and additional values (Chevalier & Mazzalovo, 2008). While at the same time, brands looking for sustainable growth must stay true to their roots and remain authentic (Dauriz & Tochtermann, 2013). Evolution of the brand identity is not always easy when the name tends to restrict the business activities to the field of expertise of the founder (Chevalier & Mazzalovo, 2008). Departure of the founder may facilitate collaborations with competitors or brand extension in other categories, like timeless accessories and cosmetics. Luxury brands usually prefer brand extensions to line extensions in order to maintain a certain level of exclusivity. When resorting to brand extensions, they enlarge their brand image to other products categories (Corbellini & Saviolo, 2009).

Designers and creative directors possess a remarkable talent to reinterpret and update luxury brands. However, it is not the designers' creativity but the brand with its heritage and emblematic product lines that forms the heart of the luxury fashion label. Ensuring the right brand identity and desirable brand image is vital. Luxury companies normally benefit from vertical integration both in terms of manufacturing and retailing. This offers a greater control on every step of the value chain and allow them to precisely modulate the delivered brand (Corbellini & Saviolo, 2009). Still luxury brands have a strong specific image on the eyes of consumers and it is very difficult to modify their perspectives. That is why such brands can not be modified overnight and it takes time to see noticeable results from strategic decisions (Chevalier & Mazzalovo, 2008).

## Roles

The brand plays a major role, especially in the luxury industry (Chevalier & Mazzalovo, 2008).

Undoubtedly, luxury act as a social marker which explains the need for brands. Luxury brands are able to recreate social stratification. People living in a democracy are free to use any luxury items to integrate socially to the extent of their financial means. Owning luxury goods is linked to the symbolic desire to be part of a better social class, defined subjectively by everyone's dreams. In this respect, anything that emphasizes your sense of belonging to a social group becomes luxury (Kapferer & Bastien, 2012). More importantly, luxuries are not only material trappings. These labels also embody sophistication, influence, desirability, prosperity. They make people want to have or even be luxury, seen therefore as a dynamic social force (Pinkhasov & Nair, 2014).

The key social function of luxury brands is reinforced by the important personal and pleasurable component of luxury (Kapferer & Bastien, 2012). In order to achieve long term success, luxury goods must represent a social statement as well as individual pleasure (Riad, 2011). Luxury brands rely the most on faithful customers who truly love their identity, philosophy and image the brand creates. Best customers are the ones submerged in the brand's culture (Kapferer & Bastien, 2012). The ones who are fascinated by the strong emotional value associated to the brand (Chevalier & Mazzalovo, 2008) and the incredible experience the brand has to offer. Strong luxury brands offer a certain lifestyle. They might not try to please everybody but rather engage with clients whose beliefs are similar to theirs (Grigorian & E. Peterson, 2014).

Finally, the strong influence and essence of luxury brands set the bar very high. They become points of reference on which others count for knowledge and inspiration (Pinkhasov & Nair, 2014).

### 1.7. CONSPICUOUS & INCONSPICUOUS CONSUMPTION

Luxury as a social marker leads to the concept of conspicuous consumption. The expression was first launched over a century ago by Thorstein Veblen in his book "The Theory of the Leisure Class". He argued that spending money extravagantly on expensive but truly wasteful

goods is a sign of wealth. The inability to spend or buy in due quality and quantity is synonym of fault and inferiority (Veblen, 1899 as cited in The Economist, 2005).

However, it is becoming harder to be Veblen's conspicuous consumer in the 21<sup>st</sup> century. Goods and services that used to be accessible to only a very rich few are increasingly getting attainable to millions of consumers worldwide. Some analysts claim that certain customers of the top very wealthy tend to try to hide their wealth because conspicuous consumption of luxuries is now spread to the masses. Being a millionaire is quite commonplace nowadays (The Economist, 2005). As a consequence, the idea of inconspicuous consumption introduced by Granot and Brashear (2008) has become more and more trendy. The authors call it popular opulence as "it involves mass production and distribution of premium goods or services, and allows the majority of consumers to select and choose their consumption amongst new luxury brands." But as Kapferer noticed, the two researchers use the term 'premium goods'. They omit the essential difference between a premium (or trading up) strategy and a luxury strategy.

Alongside, the philosopher Gilles Lipovetsky has formulated the expression *hyperconsumption*. Such consumption influences people to buy for their own personal pleasure and satisfaction rather than to boost their social reputation (The Economist, 2005).

Despite all that, Kapferer (2010) is able to demonstrate that "conspicuousness is here to stay, with differences within the luxury population". According to him, the bright future of luxury companies belongs to the ones who recognize the necessity for status and apply a real luxury strategy – not a premium strategy! Hermès is a perfect example of a brand that truly adopts a luxury strategy (Kapferer, 2010). Interestingly, Hermès is also the brand showing the highest profit amongst competitors during the economic crisis with 8.5% growth (Kapferer & Tabatoni, 2010). Indeed, Hermès is proud to show the greatest operating profit after tax and the largest return on invested capital for thirteen of the last fifteen years. This old French brand succeeds in making its products universally available and impossibly exclusive at the same time (Solca, 2015).

The core social function of luxury is closely linked to the social hierarchy. While premium goods are best in class products on performance criteria, luxury is far from these comparisons. Luxury is tied to the comparisons between people and their aptitude to stand out. Status

comes from the elites, characterized as people able to deliver status. The competition between elites reflects the evolution of luxury, and far is the time where only one single elite dominated. Conspicuousness is indubitably constitutional of the luxury behavior. People will always look for status. One reason is the mating society we are living in. The mating mindset inspires people to attach more importance to exhibiting success through conspicuous items. Another is the storytelling society and fairytales about ordinary people who become rich and famous quite fast. This status need calls for visible and famous brands. According to the reference group of the status they desire, customers will prefer one brand to another, which is known by diverse people or just a few of them. Indeed, needs vary amongst different segments. On the one hand, customers with a lot of money but less status will look for more status (Kapferer, 2010). They are willing to affirm their status in conspicuously buying the favorite brands of people already rich. Consumers in emerging countries are keen on top luxury brands disclosing large visible logos (The Economist, 2005). On the other hand, rich people who already have a great status do not get any gratification from displaying their wealth. They rather compare and identify themselves to their peers. Wealthy people with a status find various ways to differentiate themselves from the masses. They prefer brands experienced by them only. Only people in the know will recognize what they wear (Kapferer, 2010). In addition to connoisseurship, some of them are early adopters and own first a new technology. They also enjoy being part of clubs where entry fee is extremely high and enrolling their children into the best education systems. They buy more enjoyable gadgets like private planes or even try space tourism while others create foundations or charities (The Economist, 2005). These customers have come to a point where they have the freedom to choose and buy for themselves (Kapferer, 2010).

## 1.8. LEVELS OF LUXURY

In 1990, Alleres classified luxury regarding three different levels of selectivity and exclusivity of the products. The first one is the inaccessible level involving exclusive, unique and sometimes handmade items like special watches, Rolls Royce or the Haute Couture. The second level is the intermediate luxury covering expensive replicas of the inaccessible luxury such as a Porsche 911 or bespoke dresses inspired by Haute Couture models. The third category is the accessible luxury. Products are manufactured in factories in large production and include ready-to-wear clothing, Ferragamo shoes or perfumes for instance. It is worth

mentioning that the accessible luxury accounts for 98% of luxury markets nowadays (Chevalier & Mazzalovo, 2008).

Currently, there is much talk about the democratization of luxury and new concepts like mass luxury and new luxury (Roberts & Armitage, 2015). On the one hand, democratization results from the willingness to further increase profits in broadening the offer to global markets. On the other hand, the trading up movement is on the rise amongst the middle class and brands (Kapferer & Bastien, 2012). The increasing proliferation of affordable luxury brands, both from western and eastern countries, leads to new opportunities. Particularly in the light of the economic crisis, new labels and new markets appear making the world of luxury even more enigmatic. The industry seems more open and goods range from premium, super-premium and ultimate luxury (Som & Blanckaert, 2015).

### New Luxury & Trading-up phenomenon

The recent so-called 'new luxury movement' envelops the middle-class consumers who trade up premium products in chosen categories (W. Stern & S. Deimler, 2012). The Boston Consulting Group defines the new luxury as "the democratization of high-quality goods, making them accessible in many forms, at different price levels, and through various retail channels [...]" (J. Silverstein & Fiske, 2002, p. 2-3). New luxury brands find their place where goods and services have become dull and expensive, or undifferentiated and low-priced (J. Silverstein & Fiske, 2003).

One can identify three main types of new luxury goods. First, the accessible superpremium represents items for which the price is at or near the top of their category. If the middle-class can afford it, it is mainly due to the fact that they are quite low-ticket products like Starbucks coffees. The second kind of new luxury consists of lower-priced versions of products that used to be accessible only to the very rich – in other words, the old-luxury brand extensions. Burberry, Zegna, Mercedes-Benz are examples of brands who extended their traditional lines (J. Silverstein & Fiske, 2003). These brands sell products for which the price ranges from \$20 socks to \$20 000 couture dresses (Okonkwo, 2007). Third, the "masstige" or mass prestige lies between class and mass. These goods are sold for a price well below old-luxury goods and superpremium. For instance, Coach is a lot cheaper than Gucci but also clearly above the price of bags at Target. Both new and traditional luxury own refined and emotional features.

However, despite their relatively expensive prices, new luxury goods differentiate from traditional luxury goods in the large volumes produced (J. Silverstein & Fiske, 2003). They are different. Kapferer & Bastien (2012) insist on this difference. New luxury including premium goods should not even be called luxury according to them.

### Premium & luxury – no more confusion

While luxury is complicated to describe, the multiplication of these new concepts (new luxury, mass luxury,...) adds even more ambiguity to it. Eventually, they seem to stand out like a staircase between traditional luxury brands and mass brands. But it is not the case. Quite the opposite: there is a clear gap. The confusion comes from the overlap between premium and luxury regarding their pricing. Because some mass-consumption products have increased their prices in their trading-up approach, they have reached the prices of entry-level luxury products (see Appendix 1). As mentioned above, all expensive items are not luxuries and pricing is no longer one of the most determining characteristics of luxury. Luxury requires different techniques and quite the opposite way of doing things than the one for upper-range products and mass consumption (Kapferer & Bastien, 2012). Luxury brands create a 'luxury-specific symbolic meaning', something to communicate and to believe in in addition to their product components. If brands cannot achieve it, they will not possess the 'aura' or emotions specific to luxury and will remain premium brands (Berghaus et al., 2014). Hence, the only kind of 'new luxury' regarded as real luxury for Kapferer & Bastien consists in the extension of old-luxury brands, which matches the entry-level luxury category. Kapferer (2010, p. 94) wrote "Luxury exists because just some people cannot have access to it." Discriminatory pricing should always apply if luxury wants to stand as the dream of people with growing wealth and revenues (Kapferer, 2010).

## 1.9. LUXURY AND FASHION

Another distinction applies between luxury and fashion. Yet, luxury is very much in fashion and it is quite easy to confuse these two notions (Kapferer & Bastien, 2012). Some two centuries ago, the ones who could afford luxury goods were the only persons who were also able to follow changing fashion trends. But times have changed. Even if Haute Couture remains the trendsetter, street wear brands make fashion more accessible (Som & Blanckaert, 2015).

Luxury and fashion may coexist (Som & Blanckaert, 2015) as it is the case for Dior or Chanel that are both fashion and luxury brands (Chevalier & Mazzalovo, 2008) – the subject of the thesis. Nevertheless, as mentioned in previous sections, luxury goods are timeless. Conversely, fashion is continuously changing overtime. How is it possible then that these two exist side-by-side?

According to some points of view, a brand starts as a fashion brand and becomes part of luxury once she has gained some stability. This implies that brands must be highly creative in the beginning. Then, while evolving towards luxury, brands need to come up with timeless products, impose a strong style and constant best-sellers. However, this does not preclude these luxury brands from being inventive and innovative to continuously impress customers (Chevalier & Mazzalovo, 2008). They offer fashionable items in order to stay up-to-date and maintain interest in their traditional luxury products (Som & Blanckaert, 2015). Corbellini & Saviolo (2009) in their book 'Managing Fashion and Luxury Companies' argue "Luxury brands have to fulfill both of these needs: projecting the present into the future, creating iconic, readily recognizable products associated with their genetic code, and 'eternalizing' the present by challenging codes with radical creativity, beyond all expectations."

## 2. FASHION

### 2.1. WHAT IS FASHION?

Luxury turns out to be timeless and founded in the past whereas fashion is forward looking. Fashion influences the life and taste of everybody (Corbellini & Saviolo, 2009). Jennifer Craik (1994) says, “fashion is perplexing, intriguing, irritating and, particularly, compulsive. Like it or not, fashion exerts a strong hold over people – even those who reject it”. Sometimes viewed as irrelevant but also as a very significant topic, it ranges from glossy magazines and catwalks to wealth creation and jobs (Corbellini & Saviolo, 2009). Clothes are nearly spread globally but it is not the case for fashion. Fashion is not part of all civilizations and all ages (Lipovetsky, 1994). There is no consistent and objective interpretation of fashion, especially on an international scale. Besides, it is absurd to try to understand fashion out of a specific context. What is regarded as fashionable is closely related to one public in a particular moment and social environment (Corbellini & Saviolo, 2009).

“Fashion is not something that exists in dresses only. Fashion is in the sky, in the street. Fashion has to do with the ideas, the way we live, what is happening.” Gabrielle Coco Chanel

Like the notion of luxury, the word fashion is hard to describe. Yet, it seems clear that even if taste reflects individual orientation, it also struggles against a system of social rules. The latter determines what can be treated as fashionable in diverse situations. Etymologically, it is no coincidence that mode/moda – fashion in French, Spanish or Italian, and the word ‘modern’ are similar. This underlines the institutional and evolving facet of taste. The definition of fashion for modern sociologists states that it is an arrangement of meanings where aesthetic and stylish features prevail on functional attributes (Corbellini & Saviolo, 2009).

Although fashion addresses many area of life, the focus in this paper will be primarily on clothing and accessories. The outfit forms everyone’s social identity and speaks for the person wearing it. Clothes are powerful tools in nonverbal communication in order to signal group affiliation, class and rank, wealth, position in the active society, gender and so on (Corbellini & Saviolo, 2009). Fashion, and thus clothing, are usually used to demonstrate one’s status. Based on what people wear, others are able to judge and identify their social worth (Barnard,

2013). The limit between classes tends to be blurred and fashion plays a major role in the expression of subtle dissimilarities regarding taste and lifestyle (Kawamura, 2004; Ciarniene & Vienazindiene, 2014).

Fashion is also the outcome of both an industrial and creative system. It is a combination of design, production, distribution and, consumption processes in a changing and innovative context. Meanwhile it meets cultural needs to outline social relationships and identities, this combination incites people to consume on a seasonal basis (Corbellini & Saviolo, 2009).

## 2.2. THE FASHION CYCLE

In the fashion world, notably the luxury fashion market, everything revolves around the fashion cycle. The latter influences the way fashion luxury companies run their business (Chevalier & Mazzalovo, 2008).

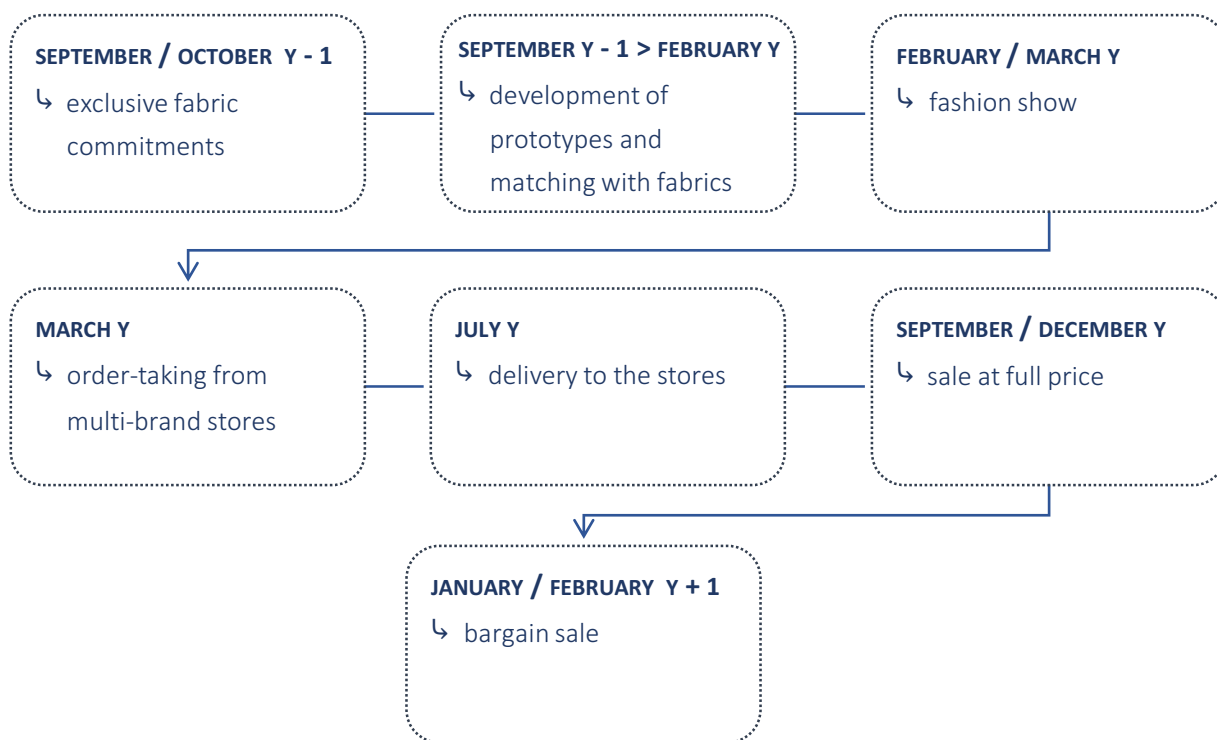
In September and October of each year, the fabric manufacturers open the cycle. They come in France (Paris) and in Italy to show their samples of materials. They propose new designs, new colors, new patterns and new fabric touches to the designers. Designers choose the colors and style they will work with in their next Fall/Winter collections. If they want to have an exclusivity on one precise design, designers need to commit themselves to buying a certain length of the fabric. This material will give the influence to their collections of the next year (Chevalier & Mazzalovo, 2008).

Then, fashion designers start working and preparing the collections that will be presented on the catwalks (Chevalier & Mazzalovo, 2008). Collections are created according to the season. They include different lines and regroup many products all related to specific criteria. Collection is the key word in fashion companies (Corbellini & Saviolo, 2009). The presentation of the collections happens in February or March. Journalists and buyers from multi-brands and department stores attend the fashion shows with a well-defined budget for each brand. Afterwards, they place their orders for goods they consider they could promote in magazines or sell in their stores (Chevalier & Mazzalovo, 2008).

These items are manufactured and stores receive them by July in order to be sold in September as the new Fall/Winter collection. Only in February, in other words at the end of the sales period, people are able to evaluate how successful the collection is. They know how

many items have been sold at full price and in the sales as well as how many pieces are left unsold (Chevalier & Mazzalovo, 2008).

FIGURE 1 - FASHION CYCLE FOR A FALL / WINTER COLLECTION



Key:  $y$  = years

**Source:** Chevalier, M., & Mazzalovo, G. (2008). *Luxury brand management: A world of privilege*. Singapore: John Wiley & Sons. p.10

The cycle lasts eighteen months. The Spring/Summer collection is also being developed on the same duration but during different months of the year. The Spring/Summer collection follows the same pattern – first the selection, then the realization, the presentation, the delivery and results of sales are known at the end of the process, in September in this case (Chevalier & Mazzalovo, 2008). While the commercial department studies sales results of the past season and observes the evolution of current season, designers invent and set up the collection of the upcoming season (Corbellini & Saviolo, 2009).

In this light, it is understandable that it takes time to see the concrete results of strategic decisions. A new designer will need two years to impose his personal view of the brand and make his mark. Such time framework obliges fashion brands to plan their actions a long time in advance (Chevalier & Mazzalovo, 2008).

Of course, there are exceptions to this strong system and the pace of fashion is slowly changing. On the one hand, one should note the existence of pre-collections and flash collections that complete the two main collections. Pre-collections anticipate what will be seen on the traditional catwalks at least three months before they happen. Flash collections come later and these capsules bring a fresh touch of the last seasonal trends to the main collections (Corbellini & Saviolo, 2009). Some brands also present an additional collection called the 'cruise or resort collection' (Chevalier & Mazzalovo, 2008). It is another sort of capsule collection displaying summer lines in December/January for wealthy customers who travel at this time of the year (E. Renfrew & C. Renfrew, 2009). On the other hand, some young brands in the mass market reject this system. Zara, for instance, offer twenty-six different collections per year. But despite the high volume they produce, it is quite hard for such brands to get the exclusivity on fabrics. They usually are forced to manufacture clothes in solid color fabrics (Chevalier & Mazzalovo, 2008).

### 2.3. THE 'FASHION PIPELINE'

The duration of the fashion cycle also emphasizes the complexity of the process. The final goods one can purchase in stores are much more than the efforts of the fashion designers. They represent the product of a long developed chain of steps and actions made by interrelated industries (Corbellini & Saviolo, 2009; Macchion et al., 2015). The whole supply chain goes from raw material suppliers to retail channels (Kim, 2013). The concept of 'fashion pipeline' (see Appendix 2) depicts the various stages of this supply chain in fashion. It describes the vertical system beginning with the production of raw materials to the manufacturing and distribution of the textile and apparel industries. They involve different sectors like clothing, accessories, fiber, textile, etc. that are further segmented according to product usages, categories and price ranges. The pipeline also underlines activities outside of the vertical production cycle but that support the entire process such as the textile machinery industry

and fashion services like advertising, publishing, communication agencies, trade fairs, and so on (Corbellini & Saviolo, 2009).

When observing the development of the fashion pipeline during the latest decades, some facts are worth noticing. First, synthetic fibers are now available for use, driving innovation (Corbellini & Saviolo, 2009) and contributing to the emergence of fast fashion with new production techniques (Godart, 2014). Second, retailers have increased their bargaining power to the detriment of the manufacturers. Manufacturing is highly influenced by the country (Europe vs. Asia) and the type of production (Corbellini & Saviolo, 2009). New important markets enter the competition and many brands outsource their production to low-cost parts of the world. Even if the oligarchic structure containing Paris, Milan, London and New York is still powerful (Godart, 2014), the supply and demand networks regarding the textiles and clothing are absolutely international nowadays (Hines & Bruce, 2007; Macchion et al., 2015).

It is crucial to be aware of this scheme as the disparities in supply chain strategies will determine the different types of fashion businesses. Mass market brands tend to opt for more dispersed strategies and outsourcing whereas luxury labels will prefer concentrated strategies (Kim, 2013). In the luxury industry, characteristics of the 'fashion pipeline' have an impact on the quality of goods (Corbellini & Saviolo, 2009). Nonetheless, luxury is not the only player in the fashion industry and operates together with other actors.

## 2.4. STRUCTURE OF THE FASHION INDUSTRY

### Luxury & High-street

Basically, there are two big players in the fashion industry: luxury brands and high street brands (V. Nieto, 2015). In fashion, luxury differentiate itself from the mass fashion market through the unique and aspirational quality offered (Okonkwo, 2007). Luxury includes ready-to-wear collections and Haute Couture. Highly creative and international, it is the primary source of inspiration for the fashion world (Agogué & Nainville, 2010). Luxury has been explained in detail in the previous section. High street – or fast fashion, stands for low-cost collections of clothes that imitate the current luxury trends. They continuously provide new designs and bring fashionable and affordable products to the mass market (Joy et al., 2012;

Godart, 2014). Sull & Turconi (2008) describe fast fashion as “the retail strategy of adapting merchandise assortments to emerging and current trends as effectively and fast as possible”. The high street retail market covers an incredible amount of brands – examples include New Look, Primark, Peacocks from UK, Zara and the Inditex group from Spain, Gap and Victoria’s Secret from the US, Kookai from France, H&M from Sweden or Benetton from Italy (McColl & Moore, 2011; Clark, 2014). Furthermore, the trading-up phenomenon and premium brands are part of this broad market of high street brands (Kapferer, 2009; 2010). Luxury and fast fashion are conflicting on some points but they also complement each other on others. Luxury houses are respected for their high status and serve as valuable models for high street brands. Those are becoming very stylish and customers can seamlessly combine high street with luxury items. They also copy luxury brands in terms of shopping experience by offering personal services in their stores (V. Nieto, 2015). Things are evolving at a rapid pace. Some luxury brands tend to adapt their offering strategy to the continuously changing offer of high street brands in presenting more than two traditional collections (Corbellini & Saviolo, 2009; V. Nieto, 2015). However, this raises the question of the limit between luxury and high street? Should they slow down?

### Specialized & Non specialized retailers

Another interesting way to understand the fashion industry is to look at retailers. “Retail trade provides an interface between producers and consumers. It represents the ultimate segment of the fashion and luxury goods chain. [...] retailers engage in commercializing goods directly from wholesalers or manufacturers and sell products directly to consumers, usually without developing or changing products” explain Corbellini & Saviolo (2009).

Clark (2014) summarizes the different retail formats, their business model and unique selling proposition. They can be classified in two main categories namely, non specialized and specialized (Corbellini & Saviolo, 2009).

Specialized retailers include five actors. First, luxury is the fashion leader with renown and high status (e.g. Chanel, Ermenegildo Zegna). The second type of specialized retailers consists in the specialty or multiple chains that own a broad distribution network and offer value for money (e.g. Top Shop, Zara). Thirdly, the independent stores are specialized in one or more categories, selling different brands as well as their own brand with high service levels (e.g.

Colette, Jeffrey, Maxfield). Next is the specialist that sells more variations of one limited product type (e.g. Accessorize) and fifth, the niche retailer proposing alternative approaches, like ethical approach (e.g. Timberland) (Corbellini & Saviolo, 2009; Clark, 2014).

Non specialized retailers also involve five actors. First, the department stores that have a well-defined store location and a large range of items (e.g. Selfridges, Barneys New York, Bloomingdale's, Printemps). Second, the hyper/supermarkets offer clothes that are cheap, very simple and easy to buy (e.g. Tesco, Carrefour). Third, the outlets sell many products at discounted prices (e.g. Marshalls, T.J. Maxx, Ross Stores). Then, mail order retailers like catalogue (e.g. La Redoute) and finally, online shopping (e.g. Asos, Amazon) which excludes any physical point of sale. E-commerce allows home or mobile shopping twenty-four hours a day (Corbellini & Saviolo, 2009; Clark, 2014).

Online shopping is spreading very quickly. Successful retailers are now selling through more than one channel in combining brick-and-mortar shops with online offering (Clark, 2014). "Clothes, glasses, shoes and just about everything we thought would never move fully will be online. The reason is simple: why leave the comfort of your own home when you can get something custom made to your exact size for less? I believe this is the future." says Patrick Curtis from wallstreetoasis.com

This will be thoroughly analyzed in the following chapter.

### 3. E-COMMERCE

#### 3.1. WHAT IS E-COMMERCE?

Electronic commerce or e-commerce is part of e-business and what is often called the 'digital revolution'. E-commerce and e-business are very often confused hence the importance to clarify the two words (Isaac & Volle, 2014).

IBM (International Business Machines Corporation), pioneer of the information technology refers to e-business as "a business process transformed to leverage the World Wide Web (Internet, intranet and extranet) technology for business benefit." Adopting e-business consists in exploiting the broad Internet infrastructure with its connected technologies in order to empower business activities whenever and wherever it is needed. E-business makes the most of the actual Internet infrastructure to deliver a diversity of goods and services. It is not a technical matter but a business matter that comprises typical business transactions like "providing products and services for sale, access to product and service information, sales and marketing, and communications with suppliers and customers." (Smith et al., 2001)

Electronic commerce is a subgroup of e-business. E-commerce does not relate to various activities conducted in e-business (Chaffey, 2009). Although it represents only one part of e-business, it is its principal element. E-commerce involves "selling goods and services on the Internet" usually through an electronic store called e-store. This applies both to the business-to-consumer (B2C) and business-to-business (B2B) marketplaces (Smith et al., 2001). According to the OECD (Organization for Economic Co-operation and Development) (2011) "an e-commerce transaction is the sale or purchase of goods or services, conducted over computer networks by methods specifically designed for the purpose of receiving or placing of orders. The goods and services are ordered through these methods, but the payment and the ultimate delivery of the goods or services do not have to be conducted online. An e-commerce transaction can be between households, enterprises, individuals, governments, and other public or private organizations." They specify that "the type is defined by the method of placing the order. Orders made over the web, extranet or electronic data interchange are included whereas orders by telephone calls, facsimile or manually typed e-mail are excluded." The OECD (2011) mentions the difficulty to define e-commerce because it

is usually practiced together with traditional commerce on one hand, and because of its very fast, brilliant growth and expansion on the other hand. Ngai and Wat (2000) support this point in their literature review and classification of e-commerce research. They list the wide variety of areas in which e-commerce is now being used: “interorganizational systems, electronic payment systems, financial services, retailing, online publishing, auctions, interorganizational electronic commerce (Intranet), education and training, marketing and advertising and even additional activities (Internet gambling) that cannot be classified in the previous groups”. Since the thesis tackles the fashion luxury goods, the main focus will be on retailing.

Another related concept that is worth mentioning is mobile commerce. M-commerce represents electronic transactions and exchanges handled in a wireless environment, in other words through mobile devices like mobile phones, laptops or PDAs (Chaffey, 2009; K. Rainer & G. Cegielski, 2010).

### 3.2. DRIVERS OF E-COMMERCE ADOPTION

Several factors have promoted and still facilitate the adoption of electronic commerce in today's society.

Business environment – Globalization, worldwide increased competition and deregulation have changed the whole business environment. Nowadays, the adjective ‘global’ characterizes opportunities, markets, customers, suppliers and shareholders (Smith et al., 2001). Since the environment is becoming more and more competitive globally, customers are more demanding. They expect greater sophistication and additional options hence the willingness of companies to develop their goods and services in terms of scope and quality. Adopting e-commerce helps firms to keep up with competition and reduces the risk to loose market shares against competitors already involved in e-commerce (Smith et al., 2001; Chaffey, 2009).

Technology environment – The Internet and social or commercial uses of technologies progress at breakneck speed! Significant investments nourish the growing Web traffic to prevent any saturation of Internet resources (Smith et al., 2001). One can observe a large scale deployment of optical fiber. WiFi is now available in many public places and quite easy and relatively accessible to install in homes. In addition to that, the advent of high-speed 3G, and even 4G mobile wireless networks further increase the number of potential customers online.

Each of the technological advancements outlined enlarge the e-commerce opportunities (Isaac & Volle, 2014). The well-known reference .coms is firmly rooted in everyday life. Now in the twenty-first century, the Internet is the cornerstone of communication and commerce (Smith et al., 2001).

Financial environment – The level of banking cards ownership is an important factor for the development of electronic commerce. This factor can partially explain the faster development of e-commerce in developed countries (Isaac & Volle, 2014). Furthermore, security issues are being tackled quickly (Smith et al., 2001). One can notice the emergence of secured online payment solutions, such as PayPal (Isaac & Volle, 2014).

Legal environment – Some countries or regions have passed legislations encouraging and protecting e-commerce players. In Europe for instance, both professionals and consumers benefit from strong legal instruments to support and reduce the risks related to their online activities (Isaac & Volle, 2014).

Fiscal environment – Similarly, the fiscal environment affects the evolution of e-commerce. The United States used to enjoy the Internet Tax Freedom Act enacted in 1998. The latter aimed at promoting the commercial, informative and educative power of the Internet. This might justify the exploding development of electronic commerce in that part of the world (Isaac & Volle, 2014).

Penetration rate of electronic devices – Less than five years were needed to connect fifty million people around the world since the Internet has known the most rapid adoption rate any emerging medium has ever known (Smith et al., 2001). Cisco (2016) reports “the number of devices connected to IP networks to be more than three times the global population by 2020. There will be 3.4 networked devices per capita by 2020, or 26.3 billion networked devices worldwide, an increase of 2.2 networked devices per capita compared to 2015”.

The question is no longer about going or not on the Internet, but rather “How to adopt electronic solutions?” (Smith et al., 2001).

### 3.3. TWO-SIDED E-COMMERCE

E-commerce generates two types of transactions depending on the stakeholder concerned. It splits in two views: buy-side from the view of the buyer and sell-side from the view of the seller. Buy-side e-commerce involves one buying organization and its suppliers. It represents the transactions realized to provide the organization with the resources it requires from the suppliers. Sell-side e-commerce involves one supplier organization and its clients and concerns transactions suggesting the selling of goods to customers (Chaffey, 2009) (see Appendix 3). Buy-side e-commerce refers to the upstream supply chain whereas sell-side e-commerce is linked to the downstream supply chain (Chaffey & Smith, 2013).

### 3.4. TYPOLOGIES

Isaac & Volle (2014) use classifications to underline the major components of e-commerce and better understand this concept. Note that this does not preclude the possibility of other more specialized structures.

#### According to the nature of players

This approach focuses on the nature of active parties in the commercial transaction. The first one and probably the best known is Business to Consumer (B2C) e-commerce. It reports the highest growth since the advent of the Internet and the list of business-to-consumer websites is extensive and varied. B2C e-commerce represents the sales achieved by a company to the general public through any website (Isaac & Volle, 2014). It leaves consumers with the possibility to navigate, select, and purchase goods online amongst a larger diversity of sellers, usually at a cheaper price. In that case, selling companies communicate prices, discounts as well as shipping and delivery options (Bhasker, 2009). In parallel, Bhasker (2009) mentions its opposite Customer to Business (C2B) e-commerce in which the company has to meet customer's requirements and desired prices for any goods, commodities or services. The customer is behind the transaction and able to choose both the item and the range of prices he/she would pay. This results in a shorter bargaining process and makes it easier and more flexible for the seller and the buyer at the point of sale. Then, Business to Business (B2B) e-commerce refers to online commercial transactions between enterprises and simplifies their exchanges (Bhasker, 2009; Isaac & Volle, 2014). Electronic trade between enterprises started

earlier than B2C e-commerce when companies relied on interconnected networks solutions using electronic data interchanges (EDI) (Isaac & Volle, 2014). Next is Consumer-to-Consumer (C2C) e-commerce. Commerce between consumers emerged long before Internet (e.g. small adverts between individuals). However, the Internet has enabled significant progress as it increases the scope for exchanges and makes it easy for individuals to search their desired goods. For instance, the online auction site e-Bay succeeded in building a reliable structure and providing consumers with many services including sellers/buyers rating opportunities, marketing tools and secured payment solutions (Isaac & Volle, 2014). Auctions and classified ads are the two most common ways to run C2C e-commerce (K. Rainer & G. Cegielski, 2010). Afterwards, government can also be considered as an actor. This leads therefore to two additional types of online commercial transactions, Government to Citizen (G2C) e-commerce and Government to Business (G2B) (Isaac & Volle, 2014).

#### According to the number of players

This classification indicates the possible number of players involved in an electronic commercial transaction and shows that it is a determining factor in the selection of technologies employed. Hence, four types of e-commerce stand out. Firstly, one buyer for one seller (one-to-one) transactions particularly characterize the B2B sector. Business-to-Business electronic exchanges still rely very much on EDI technologies. Authentication and securing data exchanges oblige the use of specific technologies distinct from those observed in Business-to-Consumer operations for instance. The second form is currently the most extended on the Internet and suggests one seller with many buyers (one to many). They regroup retailers' websites directed at the general public or targeted audience. Thirdly, the opposite scenario, however not very widespread involves many sellers and one buyer (many to one). It corresponds to the way of processing of central buying services. The last situation of this categorization concerns many buyers and many sellers (many to many) such as e-marketplaces mostly dedicated to businesses. Marketplaces help companies to deal with procurement and supply management. Nowadays, they struggle to remain competitive – the best-known e-marketplaces are stock exchanges like the NYSE-Euronext or the NASDAQ. It is also worth noting that the greatest achievement in term of electronic marketplace is the C2C system e-Bay (Isaac & Volle, 2014).

### According to the process

This typology is built on three dimensions, namely product, process and logistics, and specifies eight kinds of trade. In practice, six of them can be identified, from traditional commerce to absolute electronic commerce. When conducting traditional trade, all dimensions are physical whereas in pure e-commerce, the three dimensions are digital. The forms in between are characterized as partial electronic commerce as they combine physical and electronic dimensions (K. Rainer & G. Cegielski, 2010; Isaac & Volle, 2014). This approach has several advantages. On the one hand, the categorization highlights the differences between digital and physical products distribution. On the other hand, it helps to evaluate the various skills and resources needed as well as the appropriate strategy according to the types of electronic commerce. Note that when it comes to physical logistics, operational issues turn out to be more complex and require considerable logistical efforts already at the conception of the electronic infrastructure (Isaac & Volle, 2014).

Appendix 4 illustrates the three qualities used for classification, namely the nature of the products, the automation of order processing and the logistics required for delivery. Each of them will reflect a greater or lesser degree of digitalization (K. Rainer & G. Cegielski, 2010; Isaac & Volle, 2014). Additionally, Isaac & Volle (2014) propose the following table to report the six types of transaction, both digital or non-digital.

FIGURE 2 – TYPES OF TRANSACTIONS BASED ON THE PROCESS

PRODUCT/SERVICE	LOGISTICS	ORDER PROCESS	TYPE OF TRANSACTION	EXAMPLES
Physical	Physical	Physical	Traditional commerce	Purchase of a book in a supermarket like Carrefour
Digital	Physical	Physical	Traditional commerce	Purchase of games on CD-ROM in shop like Micromania
Physical	Physical	Digital	Classic e-commerce	Purchase of a book on the website Fnac.com
Digital	Physical	Digital	Electronic service	Purchase of photo development service and receipt by post
Digital	Digital	Physical	Electronic service	Purchase of a flight ticket via call center
Digital	Digital	Digital	Pure e-commerce	Purchase of a song on iTunes Music Store

**Source:** translated from Isaac, H., & Volle, P. (2014). *E-commerce: De la stratégie à la mise en oeuvre opérationnelle* (3<sup>rd</sup> ed.). Paris: Pearson Education France. p.25-26

### 3.5. BENEFITS

The advantages of e-commerce and e-business are both for business and consumers and depend on the type of organization and its value proposition. Yet IBM identifies four shared benefits (Smith et al., 2001) supported by other authors.

The first advantage is the increased customer satisfaction which is due to multiple reasons. One of them is the amazing personalized access to the business and information customers have twenty-four hours a day. The Internet is available 24x7, non-stop and information is easier and faster to obtain (Smith et al., 2001; Bhasker, 2009). Another is the speed with which products and services can be delivered to the clients without asking them to move. The result may enhance customers' loyalty (Bhasker, 2009; Chaffey, 2009). Also, the information about customers automatically captured from the electronic transactions represents a useful tool for businesses to forecast trends, personalize services and satisfy clients (Damanpour, 2001).

The second benefit consists in increased revenue. It has been shown that adding an "e" to your business suggests rapid ROI (Return On Investment). Consumers can access the Internet from nearly every part of the world and the digital culture goes across frontiers and languages. Consequently, firms are able to reach new customers and new markets without any physical presence (Damanpour, 2001; Smith et al., 2001). This substantially extend the geographic and demographic scope of the market and thus, the size of the customer base (Dinlersoz & Pereira, 2007; Bhasker, 2009; Chaffey, 2009). Moreover, profit per consumer tends to be higher in the digital market, mainly thanks to costs reduction (Dinlersoz & Pereira, 2007).

Thirdly, companies can observe a reduction in costs. Electronic commerce is able to lower transaction costs in terms of searching, invoicing, ordering, payment processing, information exchange or regarding materials like paper. In addition to that, electronic technologies can cut down the costs linked to traditional forms of trade like sales employees and physical locations. And, cuts in costs are supposed to be boundless. (Smith et al., 2001; Dinlersoz & Pereira, 2007; Bhasker, 2009; Chaffey, 2009).

Finally, consumers enjoy lower prices since e-commerce creates a highly competitive environment. Products and services focusing on customers are sold at very good prices. Electronic commerce eliminates distributors who do not add value to the business and makes

the supply chain smaller which in its turn brings the prices down (Smith et al., 2001; Bhasker, 2009).

Appendix 5 regroups Bhasker's diagrams (2009) which summarize the impact of e-commerce on the distribution chain, *on* the future perspective of the industry, *from* the future industry's perspective, from the consumer's perspective and on global society.

### 3.6. BARRIERS & RISKS

Even if adopting electronic technologies offers many advantages, it is also a gamble.

Since retail is the main focus here, the first point concerns the relative reluctance of consumers to worldwide online purchases. The latter may restrain firms from adopting e-commerce. The following factors are still perceived as potential barriers: "worldwide and return shipping costs, too slow delivery time, unavailability of preferred payment solutions, security concern regarding financial information or identity theft and fraud, lack of buyer protection and concern about counterfeit products" (Ipsos as cited in Peyper, 2015).

Secondly, businesses have to balance benefits against strategic and practical risks. They must manage practical risks since poor experiences online impact negatively their reputation. Practical risks include ignored electronic enquiries by customer service, poor website efficiency due to traffic saturation, hacking problems leading to stolen banking details and more generally, issues linked to crime prevention and privacy protection in networks of information (Chaffey, 2009; Bhasker, 2009). Then, the main strategic risk is to make a mistake about electronic investments. While many firms were able to achieve a competitive advantage in investing in e-commerce, others have not reached the expected returns because of wrong plans execution or inappropriate approach, especially for existing businesses. The extent to which companies will integrate e-commerce and the efforts put into it will be decisive for success (Chaffey, 2009). Inappropriate implementation for firms already established may result in channel conflict (Tsay & Agrawal, 2004).

### 3.7. OFF / ON? BOTH?

'Bricks and mortar', 'clicks' or 'clicks and mortar' are now commonplace in the retail environment. Bricks and mortar (B&M) is the name given to traditional businesses with a

strong physical presence but none or small presence on the Internet. Through the development of an e-shop, they progressively become bricks and clicks/clicks and mortar (C&M) companies. The other way round, virtual firms that necessitate to establish warehouses and shops to ensure their growth are also characterized as clicks and mortar (i.e. Amazon.com). Then, the clicks only or 'Internet pureplayer' operate strictly on the Internet (Chaffey, 2009; Isaac & Volle, 2014). Since the all process is virtual, these companies are also called 'bits vendors' (i.e. iTunes Music Store, Telecharger.com) (Isaac & Volle, 2014). In the recent literature, special attention is directed to the clicks and mortar businesses. First, they concern many existing companies in their pursuit of growth. Second, they prove to be the more complex (Chaffey, 2009; Ishfaq et al., 2016; Hübner et al., 2016). The intricacy may come from the difficulty to blend distinctive characteristics of clicks and bricks-and-mortar strategies.

Li et al. (2015) provide a comparison of online vs. bricks-and-mortar retailing. They identified three big differences. First of all, the shopping experience differentiates the two retailing strategies. When shopping online, customers expect their order to arrive as fast as possible whereas the main concern in traditional shopping is to avoid stock shortage. Therefore, B&M retailers must focus on their inventory in order to balance the costs of overstock and out of stock. Online retailers will rather concentrate on the delivery time of their orders. The preference goes in favor of online retail when goods can be delivered at low cost and quickly, or in favor of traditional retail when delivery cost are expensive and consumers are not patient. Second, offline retailers partially base their pricing strategy on store traffic however online retailers do not. Third, in terms of assortment strategies, online retailers tend to offer more variety than bricks and mortar because they benefit from lower inventory cost.

Many companies are wondering how they can create the best combination of bricks and clicks, and this depends on their own characteristics. They need to intelligently mix traditional and online approaches in order to offer a smart, valuable and interactive experience to consumers (Chaffey, 2009). This is where the concepts of multichannel and omnichannel come in.

### 3.8. FROM MULTICHANNEL TO OMNICHANNEL

The last decade has seen significant changes in retail logistics, principally caused by the emergence of a powerful online channel. Bricks and mortar companies develop e-commerce and increase their online turnover. Nonetheless, there is also a growing overlap between B&M and online retailing (Hübner et al., 2016). Hence the need to cleverly align both channels and provide a seamless experience to consumers (Chopra, 2016; Ishfaq et al., 2016).

In identifying respective features of multi- and omnichannel models, Hübner et al. (2016) emphasize the relevance to provide an omnichannel experience. In addition, they build a framework to help companies in transitioning from multichannel to “fully integrated and expanded omnichannel approaches” (see Appendix 6). They found seven areas on which companies should focus. The two first points are related to inventories and picking. Multichannel retailers operate with independent inventories and picking processes. In other words, they dedicate one warehouse for direct delivery to consumers, and an other for the traditional channel. Each place has its own inventory. Conversely, omnichannel retailers opt for an integrated warehouse solution along with the inventory. This offers the opportunities to proceed to picking across channel in one common place, and to flexibly allocate inventory. Their findings also point out that the benefits of integrating inventories and warehouses exceed the cost of complication for cross-channel picking. The third area is concerned with variants in assortment. As mentioned earlier (Li et al., 2015), online channels usually have a larger assortment than traditional stores. In the multichannel structure, variety in assortment is harder to achieve since it is quite complicated to match online and in-store appearances. However, in advanced omnichannel model, the e-shop serves as a virtual extension of traditional shelves and enables more diversity (Hübner et al., 2016). The fourth and fifth areas involve the delivery and return processes. While multichannel retailers propose postal delivery of products, the omnichannel retailers are able to offer additional options through integrated processes. Options include click-and-collect (i.e. pick-up of products in store delivered from the warehouse inventory), click-and-reserve (i.e. orders made online reserved from store inventory) and free shipping for orders exceeding a certain amount. Omnichannel companies continuously try to develop the right distribution process in order to get the faster delivery, the lower charge and costs, and effective return options. As a result, consumers can appreciate delivery services anywhere at any anytime and return possibilities across channels

(Hübner et al., 2016; Ishfaq et al., 2016). Such process does not only delight customers but also add an opportunity to “cross-sell and up-sell” for retailers when customers come to the stores (Zhang et al., as cited in Hübner et al., 2016). The two last points concern organization and IT systems. The integration of organizational structures enables the integration of logistics channels. Multichannel models divide the responsibilities according to the channels whereas integrated omnichannel logistics models focus on cross-channel coordination. This can also be applied to IT systems where again, omnichannel models join channels to obtain one ERP system with access in real time. The latter simplifies the communication with customers, the article tracking and the management of cross-channel inventory – providing both customers and retailers with a seamless omnichannel experience. Finally, the transition to omnichannel retailing model mainly consists in integration that creates synergies across channels, and expansion improving customers service options (Hübner et al., 2016). Successful omnichannel retailers integrate their tangible and intangible assets and therefore enjoy a competitive advantage (Ishfaq et al., 2016).

## 4. E-COMMERCE & FASHION LUXURY GOODS

The association of the three previous concepts: luxury, fashion, and e-commerce will conclude this literature review. One should recall that a significant and growing number of luxury customers are connected and expect their preferred brands to be online on the one hand. On the other hand, electronic commerce, especially the omnichannel model represents a key opportunity. In this regard, it must be questioned what has been done so far regarding e-tailing for fashion luxury goods.

Luxury in the digital era seems paradoxical at first sight. While the luxury world relies on selectivity, the Internet promotes the idea of the broadest possible accessibility. As a result, luxury brands have long been averse to tackling the issue of their own website implementation (Geerts & Veg-Sala, 2014). Corbellini & Saviolo (2009) claims that luxury companies are latecomers to the Internet, and Okonkwo (2010) confirms this statement in showing that they have been evolving slower than their customers.

However, luxury brands managers have noticeably changed their minds and now believe that the Internet is appropriate for all luxury brands. Moreover, they are aware that their absence on the web would be detrimental. The Internet is now naturally integrated into communication strategies and their strategic reasoning has changed. The question is not about going on the web or not but rather how to implement it for luxury brands – mainly regarding the form and content of the website (Geerts & Veg-Sala, 2014).

### 4.1. LUXURY WEBSITES

Each luxury website has strong unique characteristics, yet Som & Blanckaert (2015) identified the following common features. They display good-quality images, multimedia and well-chosen surprising elements letting users' imagination soar when they enter the website. Thanks to pictures, videos or short movies, brands are able to communicate the storytelling behind their brand and make customers dreaming. Videos may compensate for the disadvantage of not feeling the products when surfing online because they provide customers with different possible views and angles. Furthermore, the Internet enables companies to record useful data like how and where customers find the website, and to better interpret marketing activities and customer behavior (Som & Blanckaert, 2015). Any research on the

web will prove that many luxury brands now possess their fast-loading websites with catalogues, products information, selling points, contact button and even Privilege Clubs (Geerts & Veg-Sala, 2014; Som & Blanckaert, 2015). Nonetheless, they do not go so far as selling products on their website or combine in-store and e-shopping experiences by fully integrating their offer as they could do (Som & Blanckaert, 2015).

The debate on the idea of online distribution is going on amongst luxury fashion players. Except a few of them, luxury brands and high-end designers remain hesitant about it. Luxury e-tailing is still in the early stages of growth (Corbellini & Saviolo, 2009; Som & Blanckaert, 2015). In 2014, some 35% of luxury brands still did not sell on the Internet (Bain & Company, 2014). The ones who have already embraced the online channel do it through partners including full/off price and events platforms, or through their own e-boutique (McKinsey & Company, 2015). The more sophisticated term 'e-boutique' tends to be preferred rather than 'e-shop' or 'e-store' for luxury companies (Okonkwo, 2010). Some clear developments are in progress (Geerts & Veg-Sala, 2014) – but are they fast enough for the fast-running pace of the e-commerce growth? Bain & Company (2015) argues "E-commerce is becoming disruptive, yet fashion luxury brands are still struggling with it."

#### 4.2. REASONS FOR SLOW ADOPTION OF E-COMMERCE

Fashion luxury brands encounter some challenges when considering selling online. The first tricky point is their brand image. Brands are concerned with the opposing natures of e-commerce and luxury. The e-commerce strategy emphasizes the great availability and is often linked to online bargain hunting whereas luxury is about scarcity and exceptions. Mixing them could engender a loss of prestige (Som & Blanckaert, 2015). The second issue is about storytelling. How to transmit the story of the brand and its DNA? How to recreate the personal and emotional experience linked to luxury purchases, and drive sales at the same time? As mentioned above, some claim that videos and advanced technologies can do it but nothing has been proven yet. The third challenge concerns the difficulty to precisely describe the product on the website in terms of exact colors, fit, touch and feel. Fourth is the possibility of conflict between traditional and online channels leading to cannibalization (Corbellini & Saviolo, 2009; Som & Blanckaert, 2015). Corbellini & Saviolo (2009) also mention the potential technical problems of distribution transfers between different warehouses. This requires

significant investments in logistics, and can affect the assortment and breadth of their products. They add that clothes bought online show a high return rate. Another barrier is the lack of legal limitations on the Internet. On the one hand, this drives illegal dealers to freely offer counterfeits online. On the other hand, social media and online data go across continents and social classes. Anyone can participate in discussions and millions of unknowns can break but also build the brand image (Corbellini & Saviolo, 2009; Som & Blanckaert, 2015) – because, yes, there might be great benefits too.

# RESEARCH & ANALYSIS

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## 5. METHODOLOGY

### 5.1. STRUCTURE

The primary step of this part consists in defining sub-questions to solve the question:

Luxury 2.0. – Can e-commerce become a competitive advantage for fashion luxury brands?

The first sub-question consists in determining whether fashion luxury brands should rely on e-commerce: Should fashion luxury brands rely on e-commerce to offer their products? A strategic diagnosis analysis will be conducted in an attempt to provide the answer. The structure of this diagnosis is drawn on the basis of the book « Stratégique » of Johnson, Scholes, Whittington et Fréry (2011). The strategic diagnosis involves an external analysis and an internal analysis. The exploration of the external environment covers a PESTEL analysis, the industry analysis through the competitive forces (5+1), the segmentation of the customer markets, a strategy canvas build upon the observation of six selected brands and the key success factors. The internal analysis includes the description of typical strategic capabilities for fashion luxury brands, the formulation of the value chain and the differentiation between threshold and distinctive capabilities. The results of the analyses are summarized in the creation of the SWOT and TOWS matrices. They conclude this part in answering and commenting the first sub-question.

Depending on the response to the first sub-question, the second one is given in two forms. If fashion luxury brands should take advantage of the online channel to sell their products, one must question how they should use it: How can fashion luxury brands embrace e-commerce? If e-commerce is not appropriate for these brands, the second sub-question is: How can fashion luxury brands remain relevant and effective in a global digital environment?

In both cases, the answer involves recommendations with initiatives and future actions.

Finally, the combination of the two responses provides the solution for the main topic of the thesis.

## 5.2. COLLECTION OF INFORMATION

The information gathered in this second part relies on a qualitative research. The strategic diagnosis analysis is based on observations and diverse documents thoroughly analyzed to collect a significant number of trustful and up-to-date data. Firstly, reports of consulting companies and organizations offer global, updated and reliable conclusions on the subject. Secondly, Passport Euromonitor International, as a global market research database, allows to select different criteria to obtain numbers but also analyses of the luxury fashion and leather goods markets. Then, words of experts and people working in the field are interesting to consider. The reading of professionals' interviews and a questionnaire based on three points are conducted in this regard. This questionnaire aims at gaining some insights regarding the priorities emphasized in the field. The scope of the subject described in the form purposely omits the notion of e-commerce to avoid bias in the answers. Nonetheless, it is critical to note that this method is limited to a very small number of acquaintances and should be used together with other sources of information. Finally, websites of luxury brands as well as comparisons of recent articles and news on the topic complete the collection of information.

One must make clear that the analysis provided in this paper focuses on individual brands. One reason is that the diversity of brands is large within luxury conglomerates or groups. Many of these brands are not consistent with the chosen topic, namely fashion luxury. Another reason is that each brand has its strong unique DNA. This is further justified by the independence the conglomerate structure offers to brands, as indicated on their website.

FIGURE 3 – SCHEMATIZATION OF RESEARCH QUESTIONS



## 6. STRATEGIC DIAGNOSIS – EXTERNAL ANALYSIS

### 6.1. MACRO ENVIRONMENT

The PESTEL analysis explores the macro environment and identifies the elements likely to affect firms in a given industry (Johnson, 2011). The following table summarizes the political, economic, social, technological, environmental and legal factors which may impact the luxury industry – specifically fashion luxury brands. Appendix 7 provides more details and mentions the sources of the following table.

FIGURE 4 – PESTEL ANALYSIS

POLITICAL – HIGHLIGHT THE ROLE OF PUBLIC AUTHORITIES	
Socio-political tensions: terrorist attacks – Middle-East & Europe	
Geopolitical risks in Russia	
Tensions between Mainland China & Hong Kong	
Presidential elections in the US	
ECONOMIC – MACROECONOMIC FACTORS	
GLOBAL SLOWING ECONOMIC GROWTH	
<u>FLUCTUATIONS OF CURRENCIES:</u> ↑ or ↓ HNWS' travels for luxuries	
weaker <b>€EU</b>	against principal global currencies
weaker <b>¥CNY</b>	↓ travels to Singapore, HK, USA
stronger <b>\$US</b>	↓ tourism revenues + unsteady local demand
'15 weak <b>¥JPY</b>	) slowdown in Japan but still top market
vs.	
'16 strong <b>¥JPY</b>	
<u>TRENDS</u>	
↓ oil prices    ↑ customer spending for oil consuming customers	
INDIA – explosion of luxury market: shift from black to formal market	
L growth: ↑ 25% YoY and 86% by 2018 in constant value	
CHINA – Chinese stock market turmoil: => ↓ growth but higher than most other countries	
SOUTHEAST ASIA (except Singapore) – intra-regional tourism (+Chinese) & local demand	
RUSSIA & BRAZIL – bad economies	

SOUTH AFRICA – high inflation

AFRICA (except South Africa) – growing attention

#### FUTURE OUTLOOKS

MAINLAND CHINA + TAIWAN – back to growth by 2010 ✕ HK & MACAU

MATURE MARKETS – recovery by 2020

Transatlantic Trade & Investment Partnership (TTIP) – EU & US

Brexit? What and how will be the exit?

#### GLOBAL PERSONAL LUXURY GOODS GROWTH RATE

Low single digit real growth in 2015 > *same expectations in 2016*

'95'15 CAGR +6%

'15'14 YoY +13% (current exchange rate) | '15'14 YoY **+1%** (constant exchange rate)

≈ ready-to-wear, leather goods, shoes '14'15 growth rate

'16'15 YoY **±0/+2%** (constant exchange rate) ⇨ slower but stable growth for the next era

### SOCIAL – CULTURAL AND DEMOGRAPHIC EVOLUTIONS

#### DEMOGRAPHICS

Gen Y – ↑ numbers: mainly supported by Chinese middle-class = Millennials ♡ LIVE experiences

Gen X – ↑ spending: changes in consumption habits leading to higher spending in luxuries

L both become interesting luxury customers

#### INCOME

↑ Global middle-class – especially supported by Chinese and Brazil to a lesser extent

↑ High-Net-Worth customers – less interest in winning status through luxury brands, smart and curious audience making comparisons

↑ HENRYs or High-Earners-Not-Yet-Rich – next ultra-affluent customers ♡ experience & lifestyle enhancing goods

#### CULTURAL SHIFTS

Men's growing interest in fashion luxuries

Craving for personalization – made-to-measure products and experience

Cultural diversity

Increasing number of worldwide travelers

↓ use of traditional media ↑ use of social media

## TECHNOLOGICAL – IMPACT OF SIGNIFICANT INNOVATIONS

### GROWING DIGITIZATION WORLD

The Internet and social media power leads to new opportunities in digital innovation

#### FACTS

≈ 50% of the global population = Internet users

95% of the global population = access mobile cellular network

95% of luxury customers = digitally connected

#### DEVELOPMENTS

Instagram<sup>1</sup> = new lookbook for luxuries

Success of Snapchat<sup>2</sup>

Social media ↑ electronic commerce

Success of mobile devices

Price transparency worldwide

Augmented reality technology<sup>3</sup>

Virtual reality<sup>4</sup> – Facebook's Oculus first commercial virtual reality headset to be available

Artificial intelligence<sup>5</sup> – more sophisticated and widespread

Sophistication of messaging apps – WhatsApp, WeChat, Messenger mobile i.e. messenger's concierge service

<sup>1</sup> **Instagram:** "Instagram is a social media platform with sharing, editing, photo, and video capabilities. [...] Interactions on Instagram take place through likes, comments, or hashtags. Users can discover other users through the explore tab or through the Popular page where posts with a high level of interaction during a set time period make it on to the page. The geotagging or location tagging is powered through Foursquare on Instagram and is another element of discovery for users on the platform." <http://trackmaven.com/marketing-dictionary/instagram/> (retrieved on July 19, 2016).

<sup>2</sup> **SnapChat:** "SnapChat is a photo messaging application that was initially released in 2011 on Android and iOS platforms. Its key objective is to improve the social networking experience in a fun and interactive way while providing users with complete control over the visual content they share. SnapChat allows users to take pictures and videos called "snaps." Users can set a time limit, after which the picture or the video is removed from the SnapChat server and the recipient's device. This provides security for users who are concerned their images may be stored on the Internet or used without their permission." <https://www.techopedia.com/definition/5471/snapchat> (retrieved on July 19, 2016).

<sup>3</sup> **Augmented Reality (AR):** « an enhanced version of reality created by the use of technology to overlay digital information on an image of something being viewed through a device (as a smartphone camera)". <http://www.merriam-webster.com/dictionary/augmented%20reality> (retrieved on July 19, 2016).

<sup>4</sup> **Virtual Reality (VR):** "an artificial world that consists of images and sounds created by a computer and that is affected by the actions of a person who is experiencing it." <http://www.merriam-webster.com/dictionary/virtual%20reality> » (retrieved on July 19, 2016).

<sup>5</sup> **Artificial Intelligence (AI):** "an area of computer science that deals with giving machines the ability to seem like they have human intelligence or: the power of a machine to copy intelligent human behavior." <http://www.merriam-webster.com/dictionary/artificial%20intelligence> (retrieved on July 19, 2016).

#### ENVIRONMENTAL – ECOLOGICAL CONCERNS

Social and environmental concerns affect all consumers no matter their revenues.

Millennials – even more concerned about social and environmental issues

Younger people – concerned by ethical and environmental impacts of luxury brands

↳ 14% young vs. 3% Baby Boomers

Slight increase in ethical attitudes i.e. All Armani lines fur-free

#### LEGAL – LEGAL CONSTRAINTS, REGULATIONS, RESTRICTIONS OR SECURITY NORMS

Biometric visa – Europe

Stricter visa for mainland Chinese tourists in Hong Kong

Importance of intellectual property – existence of copyright, trade-/services marks, patents, encrypted websites, secured means of payment both offline and online – lower in emerging countries especially China

Laws protecting privacy and information of customers

## 6.2. THE INDUSTRY

Michael Porter has built the five forces analysis of competitive position which describes the forces of new entrants, substitutes, suppliers, buyers and the industry rivalry. Johnson et al. (2011) add the role of public authorities, to create the theory of the five (+1) forces model that is used here.

### Threat of new entrants

The threat of new entrants depends on three barriers: financial, commercial, and resources and skills related barriers (Johnson, 2011).

With regard to financial barriers, the luxury industry requires massive capital investments. Luxury brands have to be seen as powerful, rich but also international in today's interconnected global world. Even the smaller brands spend significant amount of money to ensure their appearance and notoriety. Spending includes marketing, distribution, management and HR costs. The breakeven point in the luxury industry is therefore very high and poses a barrier for potential entrants (Chevalier & Mazzalovo, 2008). In addition to that,

transfer costs are high. As mentioned in the literature review, luxury players clearly emphasize the importance of the brand, its name and brand image. Added to this, luxury brands constantly seek to create strong relationships with their customers through developed CRM (Chevalier & Mazzalovo, 2008; see 1.6. Luxury brands). However, one may notice that luxury customers are more and more likely to switch from one brand to another due to the emergence of new markets. On the one hand, wealthy people with lower social status wish to increase it and may easily move from one brand to another brand stating equal status. Conversely, traditional customers in mature markets favor quality, craftsmanship, exclusivity, relationships and innovation (Kapferer, 2010; see 1.7. Conspicuous & inconspicuous consumptions). Such customers are interested in superb experiences when purchasing their coveted delicate products. The Internet enables very good marketers to bring other kinds of products in a very interesting way to these luxury customers. Consequently, brands that only rely on economies of scale models will see their traditional customers shift to brands that accurately target customers using “niche-oriented business model” or disruptive “economies of small”. (Lenihan as cited in Cardamenis, 2016). Although the economies of scale may still be present, especially with the rise of conglomerates, they are not that strong anymore in the industry.

Regarding commercial barriers and the access to distributors, luxuries tend to be sold through broader distribution networks. The Internet supports this evolution. Nevertheless, despite their growing availability, luxury goods require an exquisite environment to be sold in whatever the channel used. In department stores and independent stores, the biggest usually have the priority over smaller brands to fill the shelves. Conglomerates resort to vertical integration for instance (Som & Blanckaert, 2015).

Finally, one can say that resources must be of top quality and the level of skills very high in the luxury world. Vertical integration also applies to suppliers. It helps to ensure scarce resources needed in the luxury industry, concerning both manpower and raw materials (Chevalier & Mazzalovo, 2008; Som & Blanckaert, 2015).

→ The entry barriers used to be very high but the luxury industry is currently facing significant challenges somewhat lowering its barriers to entry.

### Threat of substitutes

Theoretically, there are no substitutes for luxury goods since they strongly put emphasis on their uniqueness and rarity. Yet, it is worth mentioning three categories of products that have slightly changed the rules of the game recently. First, the incredible development of premium brands (see 1.8. Levels of luxury). Particularly after the crisis, middle-class consumers who used to purchase a limited amount of luxuries are more apt to switch to premium products (Kapferer & Bastien, 2009). Second is the grey market and the counterfeit issue, mainly problematic in China. On the one hand, the extra bags are genuine products manufactured in Chinese brands' factories but sold for lower prices through clandestine networks. Yet the biggest concern is about very well replicated items. There is even an informal way to classify counterfeit ranging from "1:1", "super A", "A" to "C" (Flora, 2014). Thirdly, the evolution of fast fashion and high street brands has proved more sophistication in terms of style (see 2.4. Structure of the fashion industry). Despite all this, customers' propensity to substitute remains relatively low. With respect to premium brands, rich people still can afford luxuries and these premium brands do not offer the same experience (see 1.8. Levels of luxury). However, brands should keep an eye on middle-class consumers as they account for a large part of their profit. When it comes to counterfeits, some consumers purposely buy them, even just for fun, like it is amusing to own a Breitling for \$1 for instance (Bell, 2016). Others rather look for the original products at discount price, and there may lie the problem (The Economist, 2015). The real issue refers to situations when customers are misled about product's authenticity. Nonetheless, it has been reported that a large majority of customers know precisely what they get when purchasing fake luxuries (Bell, 2016). Moreover, in any case, customers are disappointed in the quality of luxury copies (Flora, 2014). Finally, although they may be very stylish, high street brands do not meet the same kind of needs and expectations luxury brands fulfill (see 2.4. Structure of the fashion industry).

→ Threat of substitutes has become moderate to low in general. Middle-class consumers are the ones to keep an eye on.

### Buyer power

First and foremost, buyer concentration is decreasing. Bain & Company (2015) reports that the overall number of luxury customers has grown from "140 million worldwide to 350 million

over the last 15 years". Globalization, rising middle-class in emerging economies, and increasing number of self-made super-affluent consumers are the main reasons. Then according to the previous literature, one can underline the very demanding nature of luxury buyers. They may easily switch to another brand if they are not satisfied, as long as their emotional attachment to the brand is not too high. Nonetheless, luxury brands are extremely good at creating such connection. They can take advantage of the endless humans needs for any kind of status or sense of belonging; needs luxury brands usually address very well. Finally, one should not forget that luxury brands also use indirect distribution channels. Intermediate retailers are gaining more and more power in the industry, particularly with the rise of online multi brand platforms (Corbellini & Saviolo, 2009). For example, Yoox and Net-à-Porter have merged in 2015 to form the world's leading online fashion retailer YOOX NET-A-PORTER GROUP<sup>6</sup>.

→ Buyer power is quite low regarding final customers but somewhat higher for retailers and therefore defined as moderate in general.

### Supplier power

Concerns about the lack of precious resources and skills needed to sustain luxury businesses bolster the drive towards vertical integration (Reddy, 2009). The manufacturing process of luxury items requires high level of craftsmanship and highly skilled labor (see 1.5. Luxury goods). Production of luxuries is really distinctive from other industries and can not be effectively substituted. Switching costs are high since there are risks of lower quality produced. The same pertains for the supply of high quality raw materials which is crucial. Nonetheless, environmental tensions are increasing and brands must ensure the longevity of their precious materials.

→ Power of suppliers is therefore seen as moderate to low since many brands now rely on vertical integration.

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<sup>6</sup> "Milan, 31 March 2015 – YOOX S.p.A. ("YOOX"), (MTA, STAR: YOOX) the global Internet retailing partner for leading fashion brands, has entered into an agreement with the Compagnie Financière Richemont SA ("Richemont"), controlling shareholder of The Net-A-Porter Group Limited ("Net-A-Porter"), the world's premier online luxury fashion retailer, on the terms of an all-share merger. The transaction will create the YOOX Net-A-Porter Group (the "Combined Group"), the independent leading online luxury fashion retailer worldwide, with combined 2014 net revenues of €1.3 billion, and Adjusted EBITDA of approximately €108 million." <http://www.yooxgroup.com/pages/investor-relations/merger-with-the-net-a-porter-group/> (retrieved on July 20, 2016)

## Role of public authorities

Governments also play a role regarding competitiveness within industries. Nowadays, “the world is upside down” says Solca (2015) when enumerating risks for the luxury industry. Liberal economies (Europe and the US) tend to go for more ‘socialist’ policies whereas old communist economies now prefer the “the form of *de facto* capitalism”. This results in higher tax rates in the USA and Europe. Luxury companies can counterbalance such disadvantage if they succeed in increasing sales in countries like China or Russia. Nevertheless, social tensions are likely to keep rising in China. If the Chinese government goes back to more populist policies, the luxury industry which is very dependent on the Chinese market may suffer from higher luxury taxes and customs duties (Solca, 2015). Besides, some regulations have already occurred on lavish spending of Chinese consumers (Aroche, 2015).

→ Public authorities power is therefore seen as moderate.

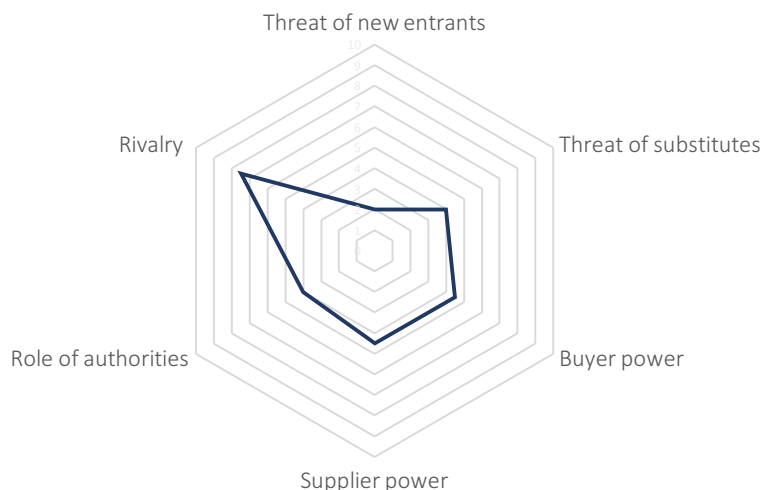
## Industry rivalry

When comparing brand or company shares of the top ten amongst three categories: total luxury goods, luxury ready-to-wear (designer apparel and footwear) and luxury leather goods, some interesting facts stand out regarding the size of luxury players (see Appendix 8). First, it confirms that conglomerates reduce competition since the market share percentage of the top ten is lower when taking into account groups – compared to individual brands: 37.20% vs. 29%). Second, the three big players including LVMH, Kering and Richemont form the top three in the total luxury industry (excluding luxury cosmetics). Note that LVMH remains the leader in both luxury ready-to-wear and leather goods whereas Richemont does not play in apparel and shoes. Otherwise in terms of brands market share, the biggest ones tend to keep their rank across different categories. Afterwards, growth rate is another factor impacting competitiveness. As already mentioned in the PESTEL analysis, the industry will enter a new era characterized by a slow and steady growth. Porter used to say that slowing growth is synonym to increased competition in the industry. Furthermore, luxury brands own very specific assets. Fixed costs are high raising the exit barriers which in their turn also encourage competition.

→ Despite strong unique attributes favoring differentiation, one can say that luxury groups and brands play in a competitive environment – not perfect though.

The figure illustrates the competitive forces identified above according to their importance.

FIGURE 5 – COMPETITIVE FORCES OF FASHION LUXURY BRANDS



The five forces (+1) analysis (Johnson et al., 2011) helps to identify which type of industry best suit the one selected. The luxury industry tends to be oligopolistic by nature. One reason is the power of conglomerates that try to avoid competition between their brands and rather seek synergies. Another is the limited power of both suppliers and buyers. Nevertheless, the analysis also emphasizes changing trends in the traditional model which increase competitiveness. Also note that even if one considers groups and conglomerates, market shares of the ten top and top three account respectively for only 37.2% and 19.8% (see Appendix 8). The industry is increasingly competitive and fashion luxury houses need to engage in disruptive innovations if they want to survive.

### 6.3. SEGMENTATION OF CUSTOMER MARKETS

In this context, the segmentation of the fashion luxury customer markets provides an overview of the different luxury customers according to their age, their disposable income and their nationality.

## How old is the luxury customer?

Bain & Company (2016) identifies five main segments regarding the age of luxury customers. First, the youngest are defined as generation Z. They are not luxury customers yet but will account for a very small share of them by 2020. Second is generation X which currently represents 25% of the luxury customers. By the year 2020, consumption habits will have evolved across different regions and generation X will enjoy greater luxury spending. Third is generation Y. They account for 37% of the total luxury customers. Generation Y will keep growing, mainly pushed by the middle class in China. Conversely, baby boomers depicting 33% of the luxury customers nowadays and the silent category 5% will lose some importance to the advantage of the other new generations<sup>7</sup>. By 2020, generation X together with Y will bring an estimated fifty million new luxury customers. Furthermore, forming a trio with Z, they will make up three-quarters of the luxury market worldwide (Bain & Company, 2016).

Each generation presents different characteristics in terms of preferences and behavior. Research does not have much statistics on generation Z yet. However, their digital smartness is sure. They are aware of brands through social media and are influenced by young models who pose in fashion luxury brands campaigns (Arthur, 2016). They love new experiences they can share online. Choices about their style must be linked to their identity and they look for authenticity and personality in brands. Also, this youngest generation is aware of social issues and tends to consume accordingly (Pike, 2016). They show some similarities with generation Y. Millennials – or generation Y have not achieved yet their highest level of wealth (Danziger, 2015). They are very different from the previous generations (Deloitte, 2016). As the primary digital natives (Goldman Sachs, 2016), Y luxury customers own on average four digital devices each (McKinsey & Company, 2015; Deloitte, 2016) and 97 percent of them use social media (McKinsey & Company, 2015). They want their shopping experience to be through multiple channels yet like a seamless experience of the online and offline worlds. Such as their younger brothers, they attach a lot of importance to experiences (Ben-Shabat, 2015) but also to holidays, leisure time and adequate work/life balance. Although it seems that they have less disposable income than previous generations at the same time in life, they usually have been in touch with luxuries earlier and this makes them even more attracted by luxuries (Deloitte,

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<sup>7</sup> Age of each group in 2015 – Z: 0-15 | Y or Millennials: 15-35 | X: 36-50 | Baby Boomers: 51-70 (Goldman Sachs Global Investment Research)

2016). Furthermore, they are rather qualified as “spenders” than “savers” (Passport, 2016). The diversity and the amount of information they continuously receive expose them to various influences but also smaller brands. Generally, they show less loyalty to brands (Deloitte, 2016). Quality and authenticity are key for Millennials and they want value for money (Goldman Sachs, 2016; Passport, 2016). Additionally, they value justice and care more for the environment (Ben-Shabat, 2015; Passport, 2016). After generation Y comes X who is currently achieving its greatest level of wealth. Consumers are expected to reach this point between the age of 35 and 54 years old (Danziger, 2015). Consequently, they may represent the key target for luxury brands. However, they do not account for a large number of individuals. The largest generations nowadays are Millennials and Baby Boomers who count more affluent consumers than generation X (Danziger, 2015). X individuals are typically more loyal than younger generations since they used to establish authentic and close relationships with brands. Then, they respond to both traditional and modern approaches (Lamb, 2011). McKinsey & Company (2015) confirms in their study that they own on average three mobile devices each and spend as much time as Millennials on the Internet. These numbers can further be applied to Baby Boomers. The latter have already achieved their highest level of wealth. They have obtained the type of luxury lifestyle they used to hope for and they are now also looking for experiences (Danziger, 2015).

#### How much can the luxury customer afford to spend?

The next criterion for segmentation identifies luxury customers according to their disposable income. Boston Consulting Group (2010) created five segments. First, the aspirational mass-market households are not big spenders but account for large number of individuals who look for an above-average lifestyle. Second, the rising middle-class households consist of middle-class consumers having jobs with good salaries. Third, the new-money households have made their own fortune and are the most significant segment of luxury customers in terms of purchase value. Together with the old-money households, they represent the high-net-worth individuals (HNWIs). Old-money households have inherited their fortune. Fifth, the beyond-money households are quite similar to the previous group. Yet, in opposition to old-money individuals, they will avoid brands that ostentatiously show their wealth (The Boston Consulting Group, 2010). One first striking fact today is the growing size of the global middle class, which is supposed to come for 85 percent from Asia and reach 3.2 billion people by

2020– and even 4.9 billion by 2030 (OECD as cited in Tesserias, 2015). In line with this, latest trends about wealthy consumers indicate that the number of affluent households will keep growing around the world by 2030. On the one hand, North America will keep its largest number of affluent families. On the other hand, Asia Pacific is likely to prove the fastest growth (113%) regarding the number of wealthy households with disposable incomes over US\$300,000. The evolution of global high-net-worth individuals is also promising. HNWI's pertain to “consumers with US\$1 million or more in investible assets” (Euromonitor International – Passport, 2016). They accounted for 14 million in 2000, 34 million in 2015 and are expected to be 88 million individuals by the year 2030. This means 54 million more wealthy people in the luxury customer base. HNWI's are mainly situated in mature economies and China is the emerging market counting the highest number of these customers. By 2030, South Korea with Seoul is predicted to be part of the top ten HNWI's' countries (Euromonitor International – Passport, 2016). A new class is also worth noting. The category is called “HENRY's” standing for high-earners-not-yet-rich. They have incomes ranging from \$100k and \$249k. The young “HENRY's” which are found amongst Millennials are particularly interesting for luxury brands since their wealth will increase in the coming years (Danziger, 2015)

#### Where does the luxury customer come from?

As far as customers' nationalities are concerned, one can quickly identify two main categories: mature markets such as Western European, Americans or Japanese, and emerging markets including Chinese, Brazilians, Indians, Russians, etc. (Ben-Shabat, 2015; Deloitte, 2016)

Since the number of nationalities is too large to be enumerated, the subgroups defined by Bain & Company (2016) will be listed here. Nowadays, Europeans, Americans and Japanese represent respectively 18%, 24% and 10% of the total luxury customers. Over time, customers from mature countries will lose some importance while the number of customers in emerging countries will increase. Chinese accounted for 31% in 2015. They form the largest group of luxury customers which is expected to keep growing and maintains its first position. The remaining subgroups consist in other Asian customers accounting for 10%, and the rest of the world 8%; both likely to grow by 2020 (Bain & Company, 2016). The most promising regions in the rest of the world include Africa (Sub-Saharan) (Bain & Company, 2016) and India with its fast growing population of big spenders (Euromonitor International, 2016).

Europeans, Americans and Japanese usually buy luxuries locally but growth for luxury brands in mature markets is increasingly dependent on purchases carried out by tourists (Bain & Company, 2015). Also, mature markets have embraced luxury e-tailing more readily (Euromonitor International, see Appendix 8). However, some emerging markets are particularly digitally connected. Brazilians, Chinese and Russians are the most susceptible to search online in their purchasing process (Chehab & Merks-Benjaminson, 2013). Finally, Deloitte's report (2016) explains the current shift amongst Chinese customers. Chinese luxury customers used to be known for their extravagant luxury purchases in order to display their "new wealth". They wanted to be told what to buy by the big luxury names. Contrarily, the next Chinese generation is more similar to luxury customers in mature markets who are not so dependent on big brands. They rather enjoy sophisticated and subtler designs from what they call "cool brands" (Petrova as cited in Rahman, 2014; Deloitte, 2016).

#### → Who is the strategic customer?

Today's strategic target is made up of generation X and most importantly Millennials, as they differ widely from previous generations. Generally, the strategic customers are increasingly demanding. Calling for the best in terms of experiences and lifestyle (Danziger, 2015; Bain & Company, 2015/2016; Deloitte, 2016; Euromonitor International – Passport, 2016) they expect more than what stands in classic luxury stores. Retail footfall is decreasing (Tesserias, 2015; Ellison, 2016). Traditional boutiques are becoming quite common and do not meet their expectations in the quest for the most valuable and original experiences (Bain, 2015; Tesserias, 2015; Pike, 2016). Moreover, being digitally savvy, they wish to be comfortably connected with their favorite brands and shop across various channels smoothly (Bain, 2015; Euromonitor International – Passport, 2016; Deloitte, 2016). The luxury customers value quality to a greater extent and exclusivity is not as relevant as it used to be (Tesserias, 2015; Euromonitor International – Passport, 2016). They are also looking for trendier and modern styles combined with the authenticity of luxury classics (Ben-Shabat, 2015; Euromonitor International – Passport, 2016). Finally, they are socially aware and puts growing pressure on luxury brands for cleaner, ethical and sustainable ways of conducting business (Ben-Shabat, 2015; Passport, 2016; Winston, 2016).

## 6.4. STRATEGY CANVAS

The strategy canvas aims at comparing the respective ability of industry players to meet principal customer needs, from the most relevant to the less important (Johnson et al., 2011). The following canvas regroups six fashion luxury brands amongst the top ten largest market shares (see Appendix 8). The choice includes the four best performing brands in terms of digital competitiveness since the objective is to determine whether brands should embrace e-commerce (see Appendix 10). While completing the graph, the exploration of Burberry, Ralph Lauren, Louis Vuitton and Gucci provides further useful insights regarding strategic digital achievements. The two other brands, Michael Kors and Hermès, achieve interesting growth. Born in 1981, Michael Kors is admittedly quite a new brand. However, despite slowing economies, the brand achieves a compound annual growth rate of 39.9% for financial years '10-'14. On the contrary, Hermès is one of the oldest fashion luxury house and still shows healthy growth after being almost 180 years in business (see Appendix 9).

The x-axis summarizes customer needs found in the last section.

Experience – The strategic customer wants more than simple products and values new experiences above all.

Quality – The strategic customer attaches greater importance to good quality.

Designs – The strategic customer looks for modern and trendy designs combined with the authenticity and heritage of classics.

Ability to communicate and shop across channels – The strategic customer is digitally savvy and wants to experience the real and virtual worlds as an inseparable unity.

Sustainability & ethics – Aware of the environmental and social issues, the strategic customer tends to prefer brands displaying transparent and proper business activities.

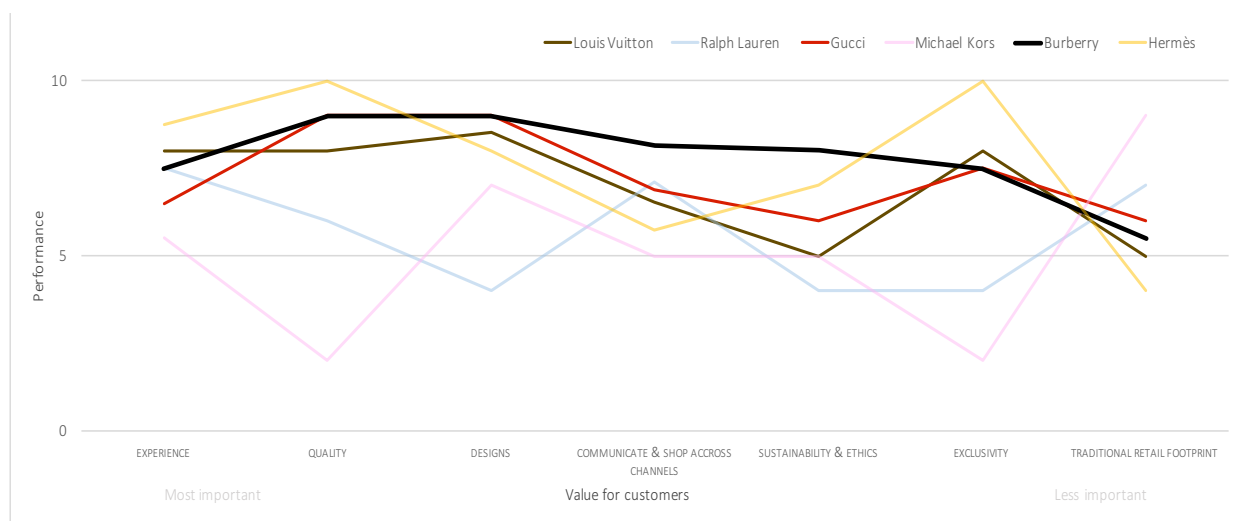
Exclusivity – Even if exclusivity is in some ways etched in luxury, it is now of a lesser importance for the strategic customer.

Traditional retail footprint – The strategic customers is not much interested in shopping in common luxury boutiques. Traditional stores refer to self standing stores and shop-in-shops.

Their important number usually results from the ‘physical’ expansion strategy luxury brands have gone through. These boutiques do not offer any particular experience and should not be confused with flagship stores<sup>8</sup> which immerse customers in the brand universe.

The y-axis quantifies brands ability to fulfill these needs on a scale of one to ten. The scores have been attributed according to observations gathered in Appendices 9, 10 and 11.

FIGURE 6 – STRATEGY CANVAS: SIX FASHION LUXURY BRANDS



The detailed analysis emphasizes the possible overlap between the experience and cross-channels shopping and communication. Indeed, experiences enable to communicate the brand and the most exciting experiences very often involve digital features.

Regarding quality, the biggest brands invest and work to maintain their quality level. Ralph Lauren and Michael Kors show lower score on this point. Note that both have extended their offer to premium price products. Michael Kors seems to follow a completely different strategy than its competitors. The brand has engaged in politics of huge expansions of retail footfall, especially in Asia (see Appendix 9). Experts say that this omnipresence start to damage the

<sup>8</sup> **Flagship stores:** ‘flagship’ originally means « the ship in a fleet which carries the commanding admiral ». It is also used to indicate « the most important thing owned or produced by a particular organization » (Oxford Dictionaries). Applied to the retail industry, it is a store in an important and strategic location with architecture, designs and merchandise mix that stands out in comparison to other traditional stores. Depending on their attractiveness and uniqueness, they may become tourist attraction (Farfan, 2016). They often offer coffee shops/restaurants and leisure area (Corbellini & Saviolo, 2009). (Retrieved on July 26, 2016)

brand. Cannibalization within its product lines may occur destructing the upmarket range and the luxury aura (Wahba, 2015). 'Quality or quantity' is a recurring theme however the solution is clear if one wishes to stay in the authentic luxury industry. The ever increasing customer demand for quality confirms this point (see 6.3. Segmentation of customer markets).

With respect to designs, the ability to choose and retain the best talent for the artistic direction is crucial. Well-chosen new artistic directors may help to fulfill the need for stylish authentic designs with their fresh ideas and strong skills, especially when entering a new era (see Appendix 9).

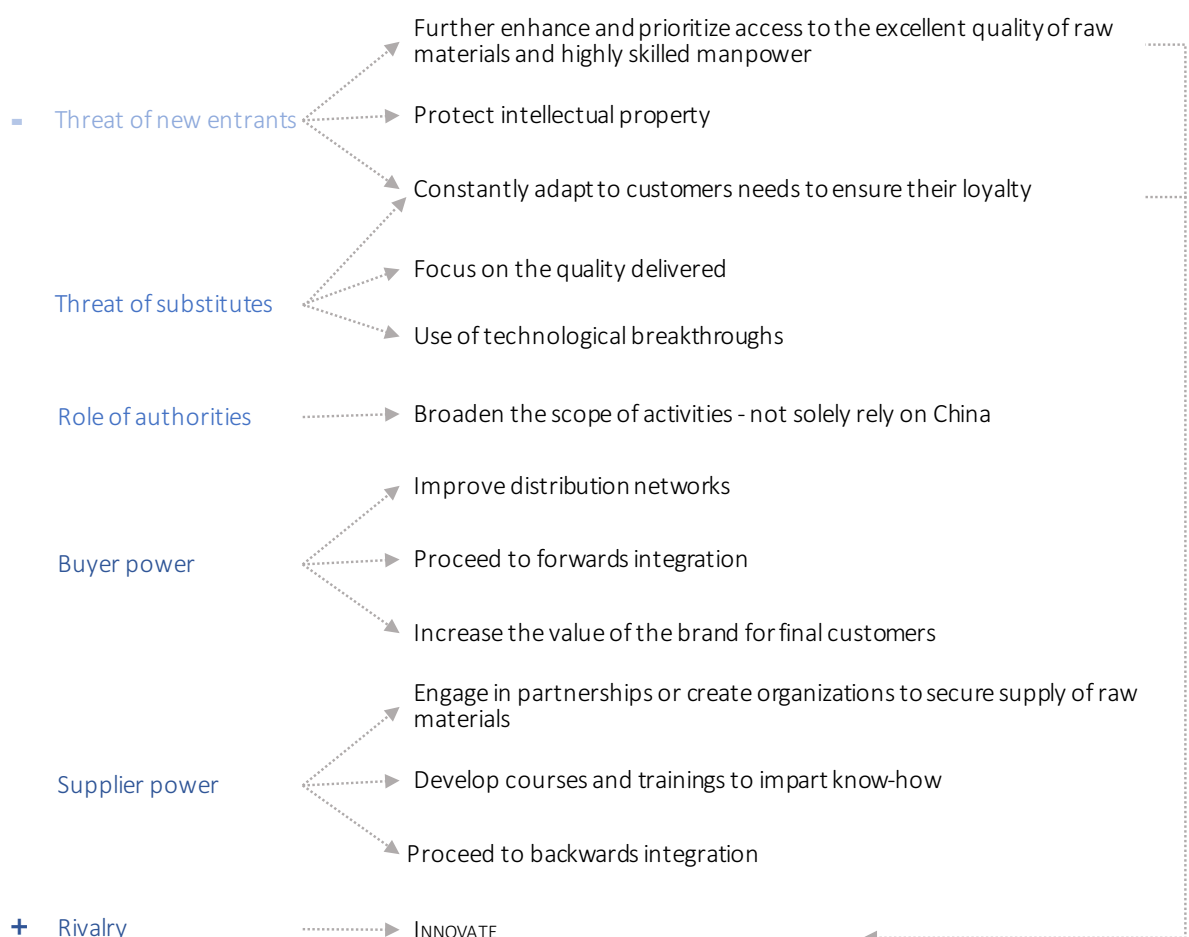
The graph is consistent with latest findings reported by consulting companies. As mentioned in the literature review, noticeable disruptive innovations occur regarding digitization and e-commerce (Bain & Company, 2015). In their 2015 market study, Bain & Company (2015) reveals that luxury e-tailing "grew to 7% market share, nearly doubling its penetration since 2012". Ralph Lauren and Burberry are examples of brands that have remarkably and successfully integrated the Internet to their corporate strategies (Som & Blanckaert, 2015; see Appendix 9). Burberry, Ralph Lauren, Louis Vuitton and Gucci stand above the average. They open flagship stores, launch exhibitions with applications, organize events, use social media, videos, online catwalk shows, enhance their website and e-boutiques (see Appendix 9). Bain & Company (2015) also adds that the biggest luxury brands "with existing direct online and omnichannel platforms are outperforming", but most of the luxury brands still fall behind, particularly European companies. Generally, they still have not used their whole potential to deliver the best cross-channels experiences and solutions.

## 6.5. KEY SUCCESS FACTORS

To succeed and sustain their business in an industry, companies must simultaneously handle the competition and address customer needs. The industry analysis and identified customer preferences consequently allow to discern essential strategic elements: the key success factors (Johnson et al., 2011; Grant & Jordan, 2015).

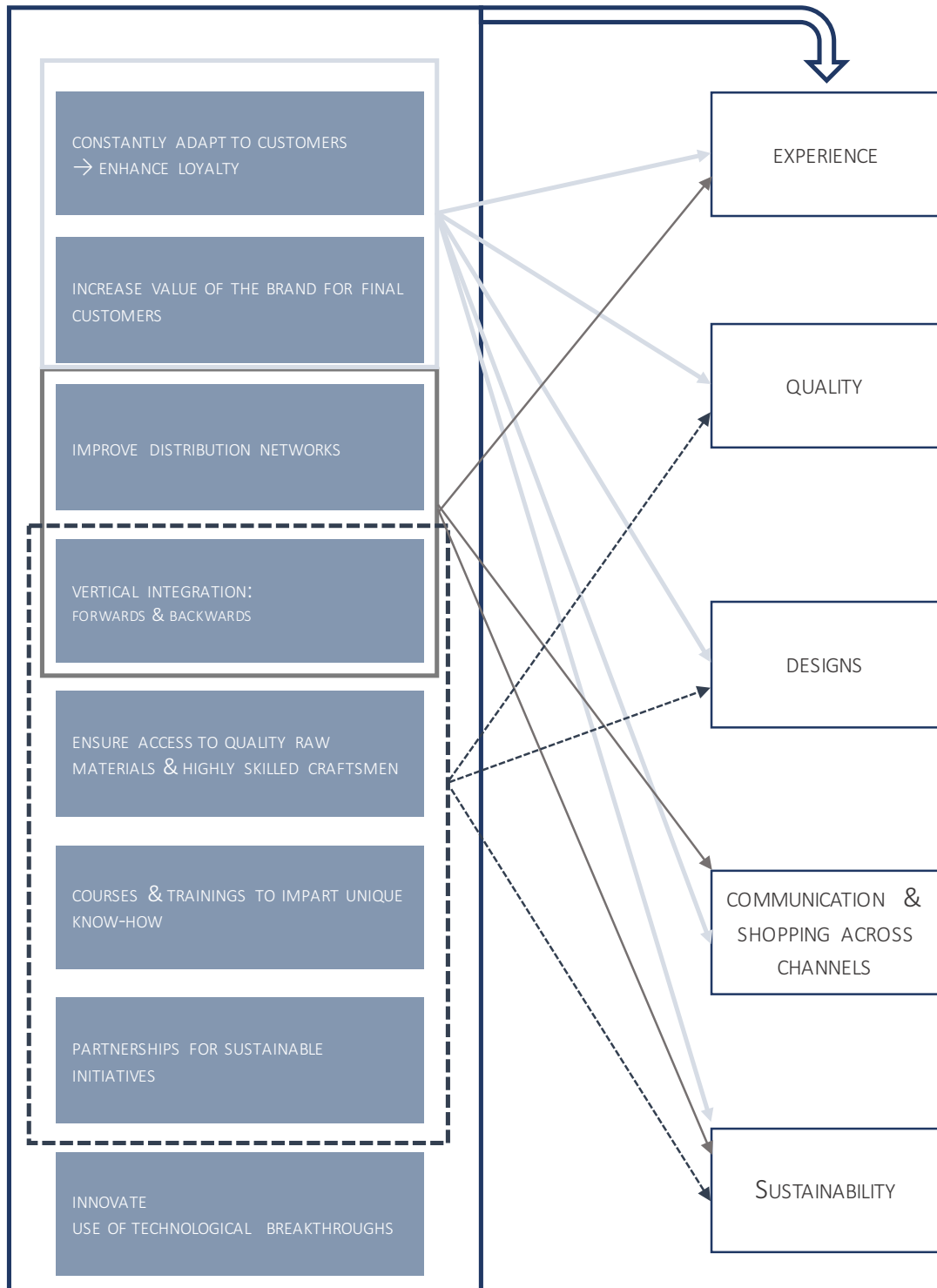
The following diagram shows the strategic responses to the forces of competition identified in the industry analysis (see 6.2. The industry) and listed in order of importance.

FIGURE 7 – STRATEGIC FACTORS



The most important strategic elements can be linked to customer needs to identify the key success factors as illustrated below.

FIGURE 8 – KEY SUCCESS FACTORS



BROADEN THE SCOPE OF ACTIVITY – NOT ONLY CHINA → SOUTHEAST ASIA, AFRICA, INDIA

## 7. STRATEGIC DIAGNOSIS – INTERNAL ANALYSIS

The internal analysis seeks to identify common features of fashion luxury brands<sup>9</sup>.

### 7.1. STRATEGIC CAPABILITIES: RESOURCES AND COMPETENCIES

Strategic capabilities refer to the resources and competencies needed to survive and prosper as an organization. While resources refer to assets – *what an organization owns*, competencies include activities through which an organization best exerts these resources – *what it does well*. Both resources and competencies may be physical, financial or human in nature (Johnson, 2011). This section describes the typical strategic capabilities of fashion luxury brands. The information provided is based on the literature review, more specifically the books of Corbellini and Saviolo (2009), and Som and Blanckaert (2015), the six brands analysis (see Appendix 9) and answers to the questionnaire (see Appendix 11).

#### Tangible assets

Fashion luxury houses generally own spacious heritage or modern buildings designed by renown architects where they can carry out their activities. They benefit from strategic locations for retailing or exhibition spaces. Regarding manufacturing activities, they possess well-equipped workshops with specific machineries to produce high-quality goods when production is not outsourced. In order to further ensure the quality, they have access to top quality raw materials. However, it is becoming quite controversial due to environmental issues. As regards financial resources, the size and company to which luxury brands belong to have an influence. While conglomerates have significant financial power, the family-owned or independent houses may sometimes struggle to compete next to these huge actors as far as their financial resources are concerned. The last tangible resource is the accurate customer data they possess.

#### Intangible assets

Typically, fashion luxury brands have achieved a great notoriety with both, customers and non-customers of their products. They usually benefit from the trust of consumers with respect to the quality they deliver as well as the trust of high street or premium brands

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<sup>9</sup> The scope of the internal analysis involves established fashion luxury brands with a relatively significant market shares in terms of retail value (i.e. >0.1%)

regarding their designs and trends. They display a strong brand image linked to their essence and try to hold strong their intellectual property.

### Human resources

Human resources involve talent, suppliers and customers. Talent in fashion luxury include the renowned creative director supported by designers, the sales force, well organized managers and craftsmen. Highly skilled craftsmen are becoming harder to find. Most of them are getting older and young people are not really interested in these jobs. On the supply side, luxury houses handle relationships with various reliable suppliers around the world. On the sell side, they control a large customer base whose characteristics have been described in the external analysis (see 6.3. Segmentation of customer markets).

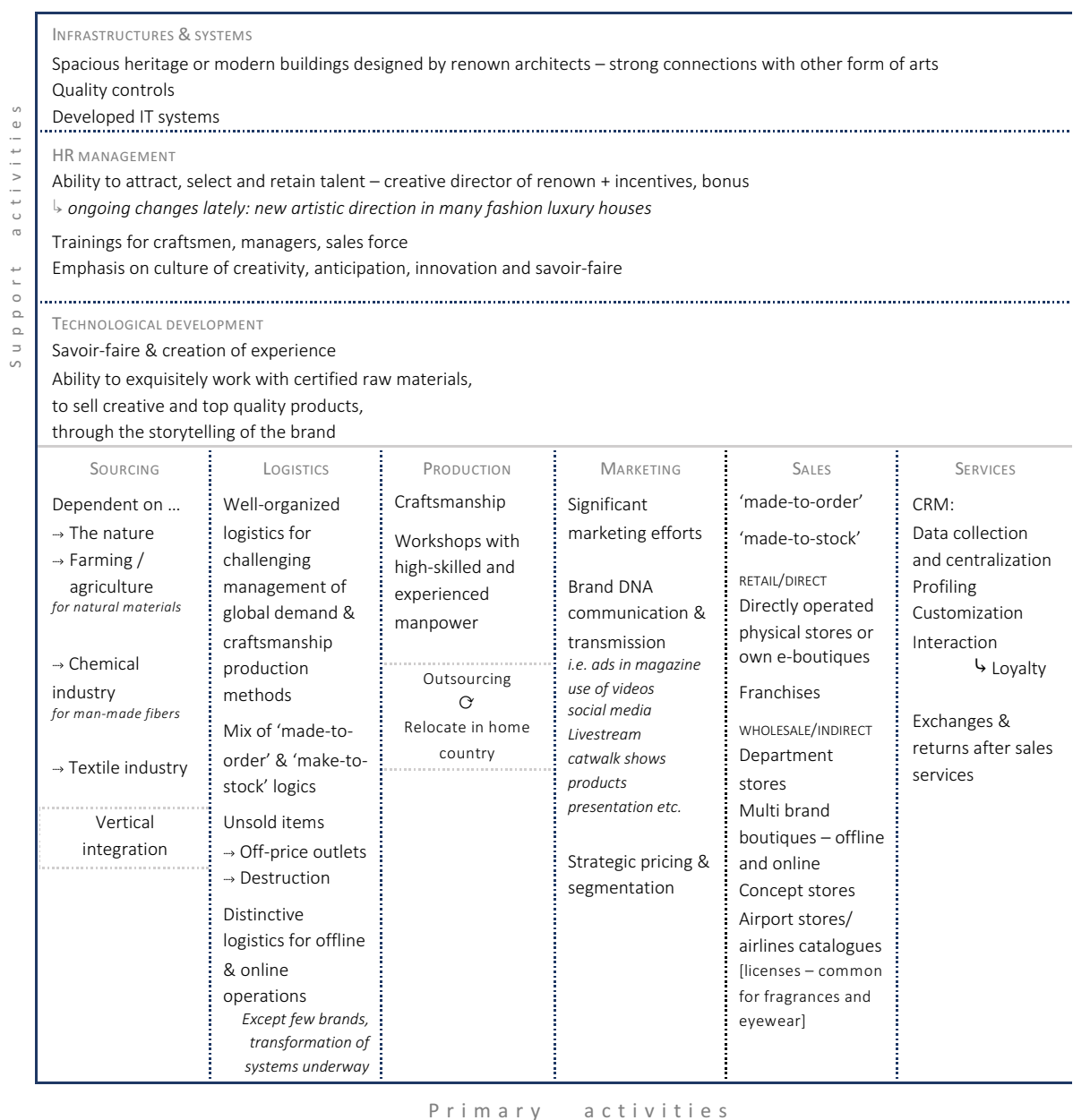
### Organizational capabilities

Fashion luxury houses continuously renovate, maintain, update their buildings and interior designs. They collaborate with other arts and launch exhibitions to communicate the brand essence. In order to cultivate brand DNA, brands also set up trainings. They are able to select and/or develop talent who are curious, creative, flexible, agile, loyal and committed to the brand. Attention to details, aesthetics and innovation are also emphasized. Moreover, the highly skilled human resources help to protect the intellectual property and sustain the brand image which has to match the essence of the house. Concerning their suppliers, they establish and manage good relationships in order to ensure the quality produced. Suppliers can be part of the company when the latter use vertical integration. Maintaining healthy relationships also pertains for retailers in case of indirect selling. The latter tend to gain more and more power nowadays. When it comes to the final customers, luxury brands used to have a very strong loyal and convinced customer base thanks to efficient CRM policies. Note that values and markets are changing. Loyalty and trust are not as assured as before (see 6.2. The industry). These CRM tools also enable to collect accurate customer information. Finally, fashion luxury brands have an effective organization and efficient logistic systems. This is essential to deal with the challenge of delivering top quality items (which necessitate time to produce) to a large number of people worldwide in the best conditions. Such systems are well established for the traditional retailing channel but e-tailing activities are usually conducted separately.

## 7.2. VALUE CHAIN

The identified strategic capabilities are also found in the value chain. As part of this strategic diagnosis, the value chain is used to describe the different activities performed by fashion luxury houses. It helps to determine the operations likely to create value for customers and question their respective role (Johnson, 2011).

FIGURE 9 – VALUE CHAIN

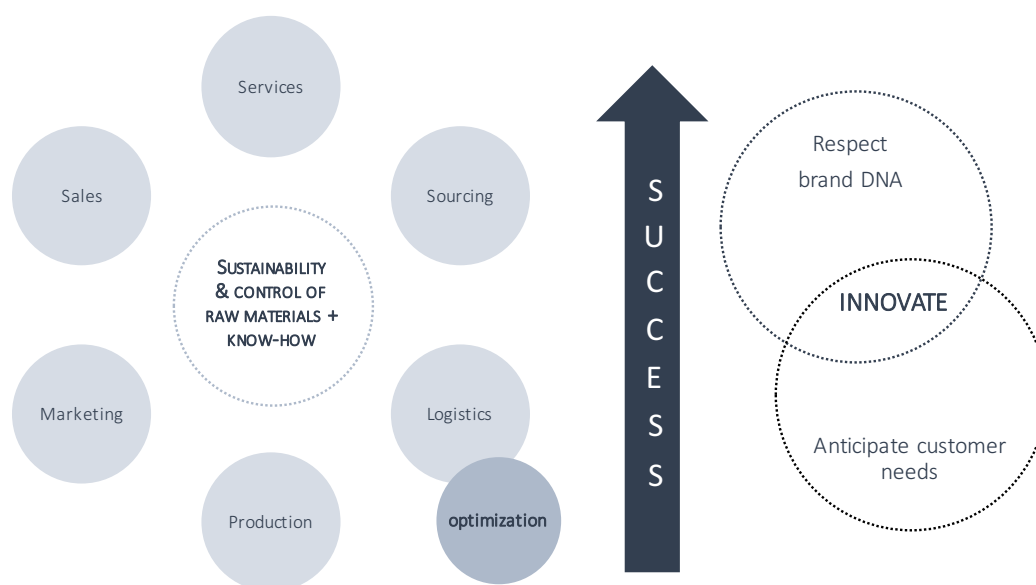


### 7.3. THRESHOLD & DISTINCTIVE CAPABILITIES

Capabilities divide in two types. On the one hand, threshold capabilities involve activities needed to operate and survive on a market. On the other hand, distinctive capabilities enable the organization to gain a competitive advantage (Johnson, 2011).

Still on the basis of the literature review, the six brands analysis and questionnaire replies (see Appendices 9 & 11), one can say that requirements to enter the industry are high, and thus threshold capabilities are numerous. Fashion luxury brands' competitive advantage will mainly depend on the extent to which they make the most of their competencies and their ability to transform them into distinctive capabilities. First, quality and know-how are necessary to play in the luxury game. However, success depends on the degree to which brands are able to offer the savoir-faire and quality in their sales and services activities. Besides, once genuine and transparent, these capabilities can be more easily communicated. This is directly linked to sourcing, logistics and production operations. In ensuring the sustainability and control of their raw materials and savoir-faire combined with the optimization of their logistics, they also guarantee the quality of their offer. Last but not least, the ability to innovate while conserving the brand DNA and go beyond customer needs will allow fashion luxury brands to thrive in these uncertain economic times. The figure below illustrates how distinctive capabilities complement threshold capabilities to achieve success.

FIGURE 10 – COEXISTENCE OF THRESHOLD AND DISTINCTIVE CAPABILITIES

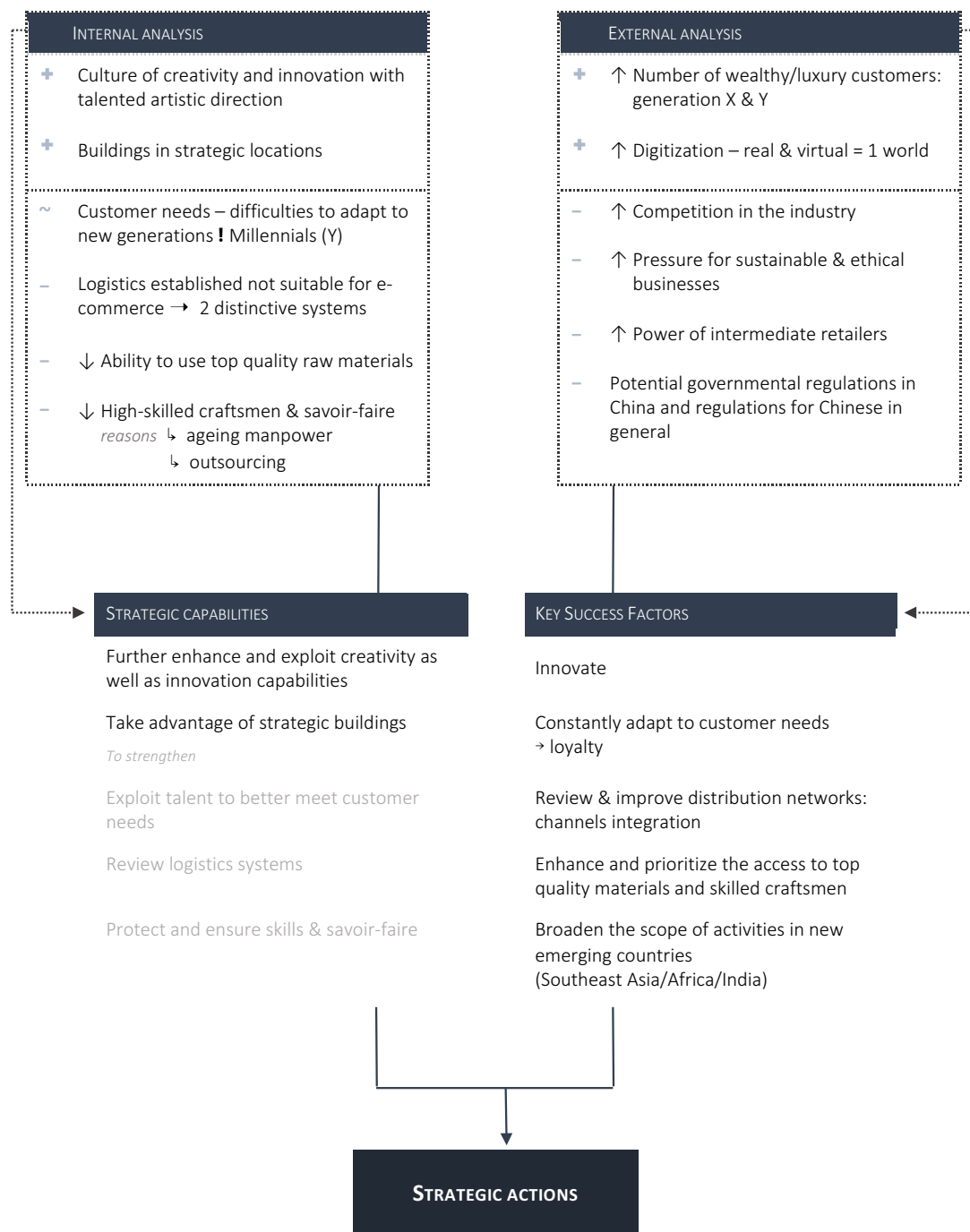


## 8. SYNTHESIS OF EXTERNAL & INTERNAL ANALYSES

### 8.1. SWOT

The SWOT analysis summarizes the internal and external analyses in regrouping the strengths, weaknesses, opportunities and threats (Johnson, 2011).

FIGURE 11 – SWOT ANALYSIS



## 8.2. TOWS

The TOWS matrix uses conclusions of the previous SWOT analysis and help to distinguish strategic options in combining external and internal factors (Johnson, 2011).

FIGURE 12 – TOWS MATRIX

		INTERNAL FACTORS	
		STRENGTHS [S]	WEAKNESSES [W]
EXTERNAL FACTORS	OPPORTUNITIES [O]	[ SO ]	[ WO ]
		<p><b>Maximize the exploitation of talent as well as creative and innovation capabilities to</b></p> <ul style="list-style-type: none"> <li>- surprise next generations of luxury customers</li> <li>- <b>fully integrate digital opportunities in the comprehensive strategy of luxury fashion houses</b></li> </ul>	<p>Adapt to new generations to increase customer base</p> <p><b>Review logistics to fully take advantage of the digital opportunities</b></p>
		[ ST ]	[ WT ]
	THREATS [T]	<p>Maximize the exploitation of talent as well as creative and innovation capabilities to</p> <ul style="list-style-type: none"> <li>- deal with the increasing competition</li> </ul> <p>Take advantage of strategic buildings to</p> <ul style="list-style-type: none"> <li>- create better environments than competitors</li> <li>- reduce the power of intermediate retailers</li> </ul>	<p>Adapt to new generations to</p> <ul style="list-style-type: none"> <li>- better and faster anticipate or meet customer needs</li> <li>- respond to the pressures linked to environmental issues</li> </ul> <p><b>Review logistics to</b></p> <ul style="list-style-type: none"> <li>- <b>be more efficient and at the cutting edge of technology next to competitors</b></li> <li>- <b>reduce the power of intermediate retailers – prefer direct channels enter new emerging markets</b></li> </ul> <p>Protect and sustain skills, savoir-faire and access to raw materials</p> <ul style="list-style-type: none"> <li>- ensure the best quality</li> <li>- respond to environmental concerns</li> </ul>

### 8.3. SHOULD FASHION LUXURY BRANDS RELY ON E-COMMERCE TO OFFER THEIR PRODUCTS?

The strategic diagnosis confirms the interest and capability of fashion luxury brands to use e-commerce. Five strategic possibilities of the final TOWS matrix underscore this assertion. The first one suggests to maximize talent potential and focus on creative and innovative culture in order to fully integrate digital opportunities in the corporate strategy. The second option consists in reviewing logistics systems to take advantage of the digital world. The other options also support a revision of logistics systems. On the hand, it would help to perform better than competitors in increasing efficiency and being at the cutting edge of technology. On the other hand, it allows to concentrate on direct channel sales and deal with the increasing power of intermediate retailers. Finally, enhanced logistics enable brands to enter new emerging markets in order to diversify and cover themselves with respect to regulations impacting the Chinese market.

### 8.4. BENEFITS OF E-COMMERCE ADOPTION

As noted in the PESTEL analysis, approximately 95 percent of luxury customers use Internet. With mobile Internet, they are the fastest growing channels in retail (Som & Blanckaert, 2015). McKinsey & Company (2015) accurately reports that “luxury brands own websites which account for 25 percent of online luxury sales, are the fastest growing channel with the online offering of leading department stores.”

While some luxury brands judge the great accessibility as an issue, others rather look at it as an opportunity to access new markets. Almost everyone can access websites in the world, at any time. This is particularly relevant in regions where there is not enough bricks and mortar shops, or if stores location is not convenient for the wealthy or super-wealthy customers, like in young and emerging economies.

In addition, the online offer provides non-stop access to the luxury world, its products and related information. Potential customers can observe, compare and dream of luxury products whenever and wherever they want. They should also have the opportunity to converse with the brand online. The website along with the e-boutique can be used to communicate the brands' universe, increase awareness and visits in store meanwhile online sales can benefit from cross-channel marketing too.

One also notices that affluent customers expect a memorable and unique experience, either in shop or online. The experiences might be different but the objective is the same for luxury brands (Som & Blanckaert, 2015). “The moment customers land on the doorstep or the homepage, the exclusiveness of the brand needs to be reflected to entice customers in a world filled with aspirations.”, write Som & Blanckaert (2015). E-tailing is a chance to create even more sophisticated concepts and customized designs, which may enhance customer relationship management through profiling, loyalty solutions, surveys or clustering promotions. This adds familiarity and improves the overall experience of customers (Corbellini & Saviolo, 2009; Som & Blanckaert, 2015).

A further advantage is the control the e-commerce presence offers to authentic luxury brands. It may help to face counterfeiters which in some ways “fill in the gaps” and allows to take the lead on the online platform (Som & Blanckaert, 2015).

Finally, as far as customers’ expectations are concerned, in-store shopping is still preferred but electronic commerce is increasingly gaining acceptance in the luxury industry. This is now true for all luxury products, not only cosmetics and accessories but also clothes and jewelries. One must insist on the complementarity of e-commerce with the traditional shopping experience and reject the idea of substitution. The traditional channels remain significantly important (McKinsey & Company, 2016). If channels complement each other, physical stores can be turned into assets to use as a strong competitive tool next to internet pureplayers (Rigby, 2011). The web is not an alternative way of selling but rather an instrument to integrate in the comprehensive strategy of luxury companies (Corbellini & Saviolo, 2009; Geerts & Veg-Sala, 2015). Now the challenge is to determine how to do it.

## 9. RECOMMENDATIONS

The strategic diagnosis demonstrates that fashion luxury brands should take advantage of e-commerce. Subsequently it makes sense to determine how they can embrace this opportunity.

### 9.1. HOW CAN FASHION LUXURY BRANDS EMBRACE E-COMMERCE?

The literature on e-commerce underlines the overlap or conflict between traditional and online retail resulting from multichannel strategies. Firstly, e-commerce can impact negatively the return on investment of the physical stores (Kapferer as cited in Doran, 2015). Secondly, isolating channels actually increases internal competition, adds more complexity and cost for companies and consequently lowers the quality of the customer experience (McKinsey & Company, 2016). If bricks-and-mortar companies consider the adoption of e-commerce, aligning the offline and online channels is a smarter way to embrace the digital opportunity. The omnichannel strategy provides customers with a seamless experience (see 3.8. From multichannel to omnichannel). The need for customers to smoothly communicate and shop across channels matches with the theory, as does the study of Bain & Company (2015). They observed the success of e-tailing for fashion luxury brands when the houses opt for direct online and omnichannel platforms. Latecomers relying on multichannel solutions and operating with each channel as a distinct organization lag behind. In their report of global omnichannel retail index, Strategy& (2015) notes that omnichannel strategies are in their early stages but will expand very quickly in the current technological environment. Interestingly, they argue that “since the lines between offline and online become indistinct, omnichannel retailing will simply be the way we shop. It will be ubiquitous and no longer a differentiator. It will be what retailers must do to be profitable.”

In order to be effective, e-commerce must be integrated into the entire strategy of fashion luxury brands. The fact is that providing a truly omnichannel experience proves to be difficult. It must be clear that the omnichannel solution involves serious implications but it does not necessarily demand such massive actions – like completely changing the organization structure or IT system to regroup channels. On top of that, companies must be aware of the diversity amongst customers when it comes to their shopping journeys and needs fulfillments.

As a consequence, the first important step implies the description of customer behaviors around significant variables to build 'personas'. The latter lead to more complete and precise segmentation. Afterwards, following 'personas' steps and understand their needs through a journey's map are essential to point out problematic areas and define operations to redesign. They will serve as a baseline for the list of possible improvement actions (McKinsey & Company, 2016). The literature already highlighted some points to consider in order to provide a truly omnichannel experience. It is worth reminding that the omnichannel solution puts the emphasis on cross-channel coordination which is reflected in logistics and IT systems. The outcome consists in one ERP system in real time access simplifying communication, items tracking and management of inventories across channels. Furthermore, the alignment of channels integrates the different warehouses in one common structure allowing flexibility regarding inventory allocation and cross channel picking. This enhances customer satisfaction since inventories and thus stocks are broader. It is directly linked with the diversity of the offer which tends to be larger as well. The e-boutique and physical shop are considered as one unique 'shop'. Regarding delivery and return processes, the omnichannel model adds further options such as click-and-collect or click-and-reserve, and free shipping is made possible thanks to the increased efficiency of the whole system. This results in advantages for both customers who enjoy flexible services, and retailers who may benefit from the "cross-sell and up-sell" opportunities during visits in stores (see 3.6. from multichannel to omnichannel). Finally, as part as a long continuous process, the adoption of omnichannel platforms requires constant changes and improvement. Therefore, rethinking internal governance, capabilities and performance is crucial to fit with cultural shifts in the ever-evolving environment (McKinsey & Company, 2016).

The creative and innovative culture in fashion luxury companies along with their talent present the qualities required (see 7.1. strategic capabilities) to restructure the internal governance and work as cross-unit teams. Additionally, empowering their talent and encouraging this culture make it possible to elaborate one unique experience integrating the offline and online channels. On the one hand, offline improvements should involve a reduction in the number of traditional stores to massively invest in flagship stores. The latter contribute to the creation of magic environments to deliver unexpected incredible experiences. On the other hand, fashion luxury brands should develop their websites in order to establish strong

links between these flagship stores and their e-boutiques. It is worth reminding that brands must first and foremost ensure fluent navigation on their website, provide worldwide delivery, products details and payments security. The different experiences obtained through the different channels must be perceived by both the customers and the organization as one single experience providing multiple options. Here are some examples.

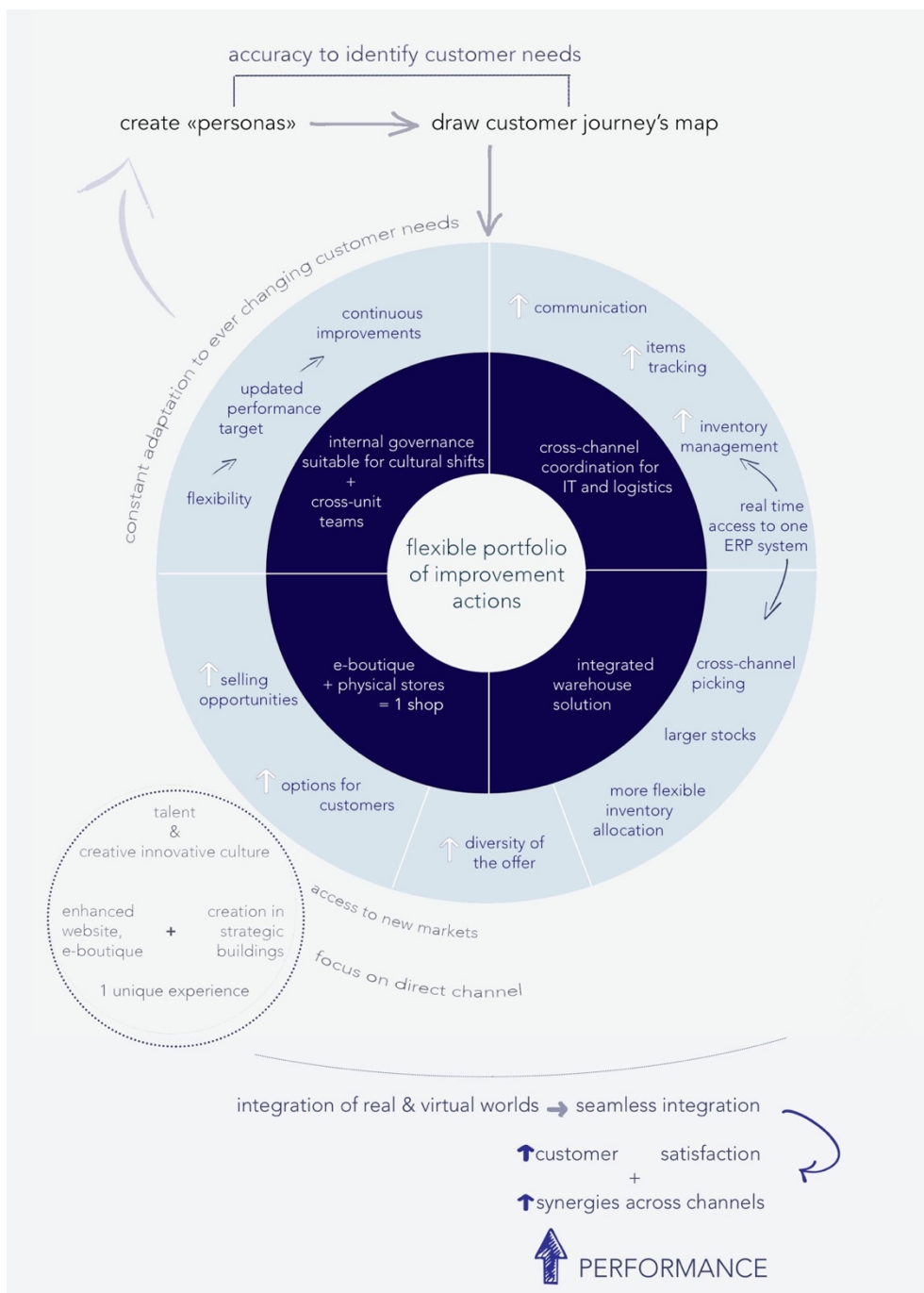
Regarding physical stores, some of the biggest brands have already created innovative experiences in their flagship stores. As mentioned in the six brands analysis, Ralph Lauren has for instance installed interactive fitting rooms and mirrors in its NYC flagship store. Together with an RFID enabled system on products, it recognizes the selected items when customers enter the fitting room. The mirror allows customers to look for other products and request other models and sizes. In addition, smartphones directly connect to the mirror and make it possible to send pictures of tried on clothes. Results can even be greater if this connection is done through the brand's website and e-boutique. Creating interactions between flagship stores and e-boutiques is crucial. Another example could be the promotion of in-store events with guest list inscriptions available through the online channel.

Added to this, three recent technological developments deliver great performances. Now commercialized, the new virtual reality headsets present another opportunity for fashion luxury brands. They could create diverse virtual shopping journeys. This could look like a virtual shopping journey across the galaxy where customers are able to buy the products discovered on the different planets through voice command. Then, the artificial intelligence also offers qualities brands should consider. Sophisticated AI systems enable the ultimate personalized experience online. Luxury customers could talk to their mobile or computer which will react according to human commands and facilitate navigation on the website. Even better, artificial intelligence records customer information and preferences. Consequently, each frequent visitor or customer could have his/her own personalized access to the e-boutique including personal advices and suggestions. Online help can be transmitted 'orally' through devices and offer an enhance video chat service. Also, since mobile devices have a lot success, mobile commerce should be emphasized in the online channel. For instance, the augmented reality technologies make it possible for customers to virtually try clothes or accessories. Fashion luxury brands can upgrade their mobile e-boutiques with AR so that

customers can look at themselves in the mirror through the lens of their smartphone or digital camera and try their favorite clothes wherever and whenever they want.

Finally – although the list is not exhaustive of all possibilities – by constantly adapting, modifying and enhancing their website, fashion luxury brands can regularly come up with new visual features and experiences. This reduces the need for inter-seasonal collections and help to keep authentic the traditional fashion cycle.

FIGURE 13 – MAPPING OF RECOMMENDATIONS



## CONCLUSION

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This paper aimed at discovering whether electronic commerce can become a competitive advantage for fashion luxury brands. The objective is achieved through the literature review as well as research and analysis including a strategic diagnosis and recommendations.

The literature review depicts the specific characteristics of luxury. It emphasizes the rare, exceptional, eternal and magic qualities of luxuries. By contrast, fashion is everywhere, ephemeral and continually changing. Fashion luxury brands thrive on the coexistence of these two concepts. They succeed in visualizing the past and the present into the future to bring it to life now. Hence eternalizing their unique essence with unexpected, creative and fashionable designs. Thanks to their creative and innovative culture, fashion luxury brands are forerunners in many areas.

Afterwards, the theory on electronic commerce underlines the success and rapid development of this trading method. The literature also highlights the potential issues bricks-and-mortar companies encounter when they adopt the online channel in retail. In this respect, it proposes a more proper way to embrace the digital opportunity, which consists of moving from a multichannel approach to an omnichannel solution.

Applying the concept of e-commerce to fashion luxury reveals interesting findings. Although fashion luxury brands usually act as examples for other sectors, one notices their earlier reluctance towards the Internet and digital technologies. The reason lies in the opposing natures of scarce luxury and the outstanding accessibility of the digital world. Fashion luxury houses only start to close the gap in terms of digitization. Regarding communication, most of them are convinced and enjoy the benefits of digital marketing. However, e-commerce has long been controversial and might still be for older generations. Experts report the progressive adoption of e-tailing for fashion luxuries. Yet they further insist on the struggle many brands face in their attempt to adopt it. Fashion luxury houses question the impact of the online channel on their brand image, the difficulties to reproduce storytelling and accurately transmit products information. They wonder how to avoid cannibalization or conflicts between channels and how to control the huge sharing of information on the world wide web.

This leads on to the research and analysis. The main purpose is to address the following question: Luxury 2.0. – Can e-commerce become a competitive advantage for fashion luxury brands? Two sub-questions are defined to respond to this. As a first step, the results of the literature review raise the sub-question of whether fashion luxury brands should rely on e-commerce to offer their products. Through the strategic diagnosis, the concluding TOWS matrix advocates the interest and capability of fashion luxury brands to use e-commerce. Since the online channel offers many advantages, the next step aims to answer the second sub-question: how can fashion luxury brands embrace e-commerce? Specialists agree to reject the substitution of one channel by another and confirm the complementarity of the online and offline channels. As part of a complete integration into the strategy, both physical stores and e-boutiques can be turned into valuable assets.

This coincides with the omnichannel solution described in the literature review, which seamlessly integrates the online and offline channels in the comprehensive strategy of an organization. The omnichannel platform allows to take advantage of the digital opportunity and responds to the next important generations of luxury customers. Such a strategy merges the virtual and real worlds to provide a seamless experience. This accordingly increases customer satisfaction and loyalty, as does the enhanced flexibility to continuously adapt to customer preferences. Moreover, since it makes the online channel profitable, the omnichannel solution enables to address new emerging markets efficiently. Some powerful emerging economies tend to be undeserved while they have a great potential for fashion luxury brands in terms of affluent customers. Entering or increasing their presence in markets like Southeast Asia, India or Africa counterbalances the risks linked to regulations for Chinese consumers. This structure also handles the threat posed by the increasing power of intermediate retailers in promoting direct channel sales. Finally, the omnichannel solution generates synergies between activities of the value chain, which together with the increased customer satisfaction improve the performance of the company.

On the basis of the answers to the two previous questions, one can argue that electronic commerce and the omnichannel solution do not provide a competitive advantage as they are. Rather, they will become the rule to survive in the retail industry. Fashion luxury companies are extremely good at creating, innovating and exceeding customer needs. Consequently, the

greater the extent to which talent maximize these strategic capabilities in the omnichannel adoption, the finest will be the unrivalled omnichannel experience.

## LIMITS & DIRECTIONS FOR FUTURE RESEARCH

It must be recognized that the study has some limitations. Firstly, e-commerce applied to fashion luxury is quite a new topic, and researches or results sometimes lack hindsight. Furthermore, most of the persons who received the questionnaire did not return it. Interestingly, the answers given by the two respondents point in the same direction. Replies are also in line with the other findings however this is not sufficient evidence to draw lessons. Hence the need for an extensive information base obtained from other sources, which are detailed in the methodology. Secondly, this research suggests solutions that consider one global luxury customer, but barely takes into account cultural disparities – the most important ones being between mature and emerging markets. Thirdly, as mentioned in the methodology, the paper focuses on fashion luxury brands rather than on groups or conglomerates they belong to. Yet it should be stressed that adopting the omnichannel solution for fashion luxury brands may depend on, and involve interactions with their respective group or conglomerate.

This paper addresses the question of e-commerce for fashion luxury brands. It suggests solutions to take advantage of opportunities and strengths, and to deal with some weaknesses and threats. However, the strategic diagnosis identifies additional issues, including concerns about the supply of top quality raw materials or the decreasing number of highly skilled craftsmen. It would be interesting to investigate the application of the ever-growing technologies to these areas. For instance, can 3D-printing sustain the sourcing of raw materials for fashion luxury brands? or make up for the lack of skilled craftsmen?

“We must always try to be a little bit against the current. As the Chinese proverb goes—only a dead fish sails in the direction of flow. We do not do marketing ... We are in a group that creates. The creation of our innovations is what creates the market and not vice versa ... We create, invent, and from there, as our inventions are quite successful, the market adheres.”

—Bernard Arnault

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## APPENDICES

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