

Distribution Strategies in Luxury Markets: emerging trends



Fabrizio Mosca

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Introduction

The aim of this work is to analyze the distribution strategies of high-symbolic-value goods, as evinced by the behavior of firms in recent years, highlighting the main evolutive trends.

Distribution strategies implemented by firms operating in luxury markets are typical and specific with respect to firms in other markets and represent a source of competitive advantage. Four phenomena have characterized distribution in this area in recent years.

First, a growing investment by luxury brands in direct distribution activities, with the development of innovative formats – such as flagship stores, DOS and temporary stores – that are used to represent the brand's reference values and the product's symbolic attributes to the consumer in a tightly controlled distribution channel. Here luxury firms enlarge their markets and increase their market share by strengthening their control over the distribution channel. Vertical integration downstream into directly managed distribution activities does not lead luxury firms to abandon indirect distribution options, which they maintain especially in markets characterized by a higher degree of risk and which allow for balanced distributive coverage.

Second, the integration between distribution and communication activities, which finds its most concrete expression in the point of sale managed from an experiential perspective. The consumer has the opportunity to see all the reference values of the brand in the show space, represented by modern means of communication, including multimedia productions, at the point of sale. Numerous distribution formats play an essential communication role, enabling firms to strengthen their long-term relationship with consumers.

Third, the development of the digital channel in luxury markets. This distribution channel has enabled firms to extend their market to new consumers who have different socio-demographic characteristics and are located in emerging countries. High-symbolic-value goods are traditionally considered incompatible with the digital channel; even today some companies that maintain an extreme positioning of their brand believe it inappropriate to develop distribution activities in the digital channel. Most luxury players have developed a direct presence in the digital channel, however, and this strategic

distribution option has been successful. The digital channel is increasingly integrated with the activities of physical distribution, and this integration makes it possible on one hand to extend the consumer's shopping experience, and on the other to maintain long-term relationships.

The latest trend concerns the growing integration between User Generated Content and distribution channels. Brand communication in luxury markets has undergone further development with social-media marketing dove-tailed into digital and physical distribution channels. The consumer is ready even in luxury markets to receive information from brands, to share that information and to respond by liking the product and purchasing it in the digital or the physical channel. This growing integration between distribution and effective communication (online and off), following a circular approach in which information channels and their flows surround the consumer, is one of the frontiers of the marketing of high-symbolic-value goods.

The book is organized in six chapters. The first examines the reference scenario of markets for high-symbolic-value goods and the influence of variables of the macro- and micro-environment on the firms under consideration. The objective of this chapter is to highlight how the reference scenario and the characteristics of the luxury good influence distribution strategies.

The second analyzes the determinants of strategic decisions regarding the distribution of high-symbolic-value goods, with a particular focus on the characteristics of the consumer and of the brand and product. Certain endogenous and exogenous factors influence consumers' purchasing process, for example. In addition, the chapter examines the distribution strategies typical of the luxury markets, such as direct, indirect and mixed options, and the strategic decisions relating to distribution coverage.

The third and fourth chapters examine the formats of direct and indirect distribution typical of the markets for high-symbolic-value goods. Attention is focused on understanding when it is appropriate to use the different formats, taking into account the primary function performed by each in its channel and the aim of achieving balance within the channel between distribution coverage and brand protection.

Chapter five undertakes an analysis of the digital channel for the distribution of high-symbolic-value goods. The focus is on recent changes that have made the digital distribution channel important for luxury brands. In addition, the chapter highlights the

paths of current and future development on the part of market players and the main business models that can be identified at the present time.

Chapter six focuses on recent changes that characterize distribution and communication strategies: the integration of the physical and digital channels, the development of communication in social-media marketing, and the integration between communication and distribution.

This book is the result of research into the high-symbolic-value product markets of recent years and is the result of a complex system of relationships between the author, who assumes responsibility for what is written, and other persons.

I sincerely thank my colleagues in the Department of Management of the Campus of Economics at the University of Turin for the valuable suggestions they have kindly given me.

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CHAPTER 1

REFERENCE SCENARIO FOR HIGH-SYMBOLIC-VALUE PRODUCT MARKETS AND CONSEQUENCES FOR THE MANAGEMENT OF DISTRIBUTION

1.1 Introduction: the markets for high-symbolic-value goods

To provide a rigorous definition of the market for high-symbolic-value goods – also termed luxury goods, sometimes with a negative nuance – is not easy, for two reasons.

Firstly, because the products and services that are considered high-symbolic-value goods belong to different product categories, which often do not coincide with any particular sector of origin.

For example, high symbolic value can be given to a fork, a piece of furniture, or a cruise – all goods or services that are manufactured or provided by companies that belong to different sectors and which, nevertheless, may find themselves in the same arena when competing for consumers who want high-end goods.

Secondly, because the symbolic meaning that consumers attach to products and services is subject to change over time and, consequently, something considered a luxury good in a given historical period may no longer be so in the next period, or vice versa. For example, jukeboxes today are used as furniture in stylish homes, while in the seventies they were simple objects for playing music.

The very concept of luxury takes on different meanings over time and, through a process called democratization, many players in this market tend to extend the boundaries to products and services that traditionally do not belong to the categories of luxury.

Despite the difficulty of providing a precise snapshot of high-end goods markets there are numerous qualitative and quantitative signals that highlight their growing economic importance in global markets.

The most obvious driver of growth for luxury goods is the increase in purchasing power, i.e., the increase in the availability of consumers' financial resources and time. Globalization, in addition to accelerating the growth of purchasing power through wage increases and the decrease in prices of most manufactured products, offers access to new

products and markets and is a major factor in the disappearance of social stratification – at least as important as democratization. New segments of consumers have gradually grown up globally, and particularly in developing countries, creating new, unexplored market areas showing high potential if one looks at purchasing power. Consider, for example, the emerging middle class in the second-tier cities in China.

Another driver of change is the evolution of global communication and the development of digital media. The consumer has the option of selecting products that represent different cultures, having unlimited access to information.ⁱ

In general we can ideally represent the greater market for high-symbolic-value goods as the sum of a set of markets in which products and services are sold that communicate a way of being and living that is elegant, refined, attentive to style and quality and that touches many moments of everyday life.

Luxury is not regarded as a category, but simply as an extreme limit of a number of attributes, none of which (price, for instance) is alone sufficient to define it. Luxury could be described, therefore, as a carrying to extremes of all attributes, elevated to a doctrine of design, production, distribution and communication.ⁱⁱ

From the above, it follows that it is quite difficult to obtain complete and consistent data that describe the size, extent and, in general, the economy of markets for high-symbolic-value goods and to propose a widely shared definition. If we look at the supply side, the firms that operate in the market for high-symbolic-value goods are numerous and belong to different sectors.

We witness a convergence on the demand side when those companies from different sectors face off in the high range: in the competitive arena of high-symbolic-value goods, the rules for managing the marketing mix and the strategies of segmentation and positioning become uniform and are independent of the product category to which the good belongs.ⁱⁱⁱ

Given that it is not possible to identify the luxury goods sector in a technical sense,^{iv} and that, consequently, we cannot refer to a single market for high-symbolic-value goods, it is appropriate to describe some of the characteristics of supply and demand. The greater market for high-symbolic-value goods must be imagined as a competitive arena consisting of the sum of several markets in which the offerings of numerous businesses from

different sectors that adopt typical marketing strategies and appeal to the same types of customers when competing with high-end goods, converge.

Regardless of the type of market, it is possible to segment consumers on the basis of their global or local orientation – where global orientation refers to the level of awareness and acceptance to the path of globalization and local orientation, to the intensity with which people appraise their local culture, considering it unique and inimitable.^v

1.2 Analysis of the characteristics of the markets for high-symbolic-value goods

The analysis of the characteristics of high-symbolic-value markets concerns:

- consumers;
- sectors of origin;
- the greater market as the sum of global niches;
- high profitability;
- competitive advantage and the country system;
- the concentration and development of multi-brand and multi-product conglomerates

Consumers

The analysis aimed at defining consumers is based on one of the fundamental principles of marketing: market segmentation, the process by which mass markets are divided into segments that have different behaviors or purchasing needs. The goal is to create uniform groups of consumers who have considerable similarities. Within each segment, the company will organize the marketing mix variables, such as advertising or product characteristics, price or distribution to reach them in the most efficient and effective way.^{vi}

Consumers of high-symbolic-value goods are influenced in their buying process by exogenous and endogenous factors that do not change with variations in the categories of merchandise. This means that the factors that influence a purchase are identical when the consumer purchases, for example, a high-quality, high-priced garment or wine.

Before buying a product, consumers usually acquires information. Their research can be more less thorough and is largely focused on price. In this context a distinction is drawn between the experience of the price and the interest in the price.^{vii}

Even consumers' buying process does not change in relation to the type of high-symbolic-value good that is purchased. In the buying process we find the typical steps involved in the customer's problem-solving process. In general we can distinguish five stages: problem identification, information search, evaluation of possible alternatives, purchase decision, and after-purchase behavior.^{viii}

Culture is one of the main factors influencing individuals' needs, desires and behaviors, because every aspect of their lives unfold within the framework of the cultural system, the society in which they live.^{ix}

In the greater market we see a form of convergence on the demand side, in the sense that consumers of prestigious products and services, regardless of whether they are traditional or occasional, show uniform buying behavior with respect to the product category of the item they are buying.

In addition, the distinctive characteristics of high-symbolic-value goods, such as brand image, excellent quality, high price, scarcity and uniqueness, aesthetics, historic heritage and personal history, and superfluity, do not vary with variations in the product nature.

The symbolic value the brand takes on, for consumers, guides and orients buying in every manifestation of consumption and, consequently, a luxury brand with an established and recognized image can be articulated on a plurality of products even belonging to different product categories.

Consumers tend to let themselves be guided by the same brand in the purchase of products that are very different, as it is the brand itself that identifies the chosen lifestyle, the expression of a set of attributes/values codified over time.

The brand and the product symbolize the set of attributes/values consumers consider the expression of their own manifestation of consumption.

This explains the considerations expressed earlier, namely that a classification of high-symbolic-value goods by product category is very dangerous because it is possible to identify a luxury niche in almost all markets. The aspects that are important are especially the nature of the need that is satisfied with the product and/or service and the target to which that need makes reference.

On the supply side the result of the convergence of demand in a single large meta-market is the birth and development of multi-product and multi-brand companies and groups that produce and sell high-symbolic-value goods and that have a global presence.^x

Despite the development of large multinational groups, there is still a high degree of fragmentation of supply with a number of small and medium-sized companies, known worldwide for their brand and the quality of their products, that nevertheless experience difficulty in their international growth and development: the majority of these are Italian. According to some well-grounded analyses by the Osservatorio Altagamma and the consulting firm, Bain & Company, carried out on a sample of five hundred global corporations, the global market for luxury goods in retail value amounted to 146 billion euros in 2005 and 160 billion euros in 2006, after a period of low growth in 2001–2004. Despite the downturn in 2008 and 2009, 2010 witnessed a rapid recovery of the sector: the consumption of high-symbolic-value goods increased by 12% over the previous year. The global market for luxury goods in 2011 grew 11% over the previous year, mainly due to the central role of consumers in emerging countries.^{xi}

From 2012 to the present, there has been steady growth in all areas of luxury and especially in those of leather goods, apparel and accessories, watches and jewelry. This growth, according to many, will remain constant in the coming years: it is estimated that the luxury goods sector will reach an annual turnover of 900 billion in 2020.

In order to identify the different behaviors on the basis of the degree of involvement, Assael has proposed a classification of purchasing processes through a matrix based on two elements: one measures the degree of involvement of the consumer, the other the perception of differences between brands of products, which is divided into significant and insignificant.

From the combination of these dimensions four types of purchasing processes can be inferred.

- *Complex purchasing behavior*, which is thought to adequately represent the purchase of a high-symbolic-value good, takes place when there is high consumer involvement in the decision and when the differences between the various brands are clear and known to the purchaser.
- *Purchase behavior to reduce dissonance* occurs when the consumer, while being deeply involved in the purchase, is not able to detect significant differences between brands: in this case, too, the high involvement is given by the fact that the good is expensive, purchased only occasionally and difficult to purchase. After the purchase of this good, the consumer may enter into a state of cognitive dissonance, noticing

unreassuring elements of the good purchased. At this point the consumer will try to get new information to justify the decision and thus reduce the state of dissonance.

- *Habitual buying behavior* occurs when the purchase takes place in situations of low consumer involvement and irrelevant differentiation between brands. Many authors (Kotler, for instance) argue that, in these cases, the buying process does not pass through the normal sequence of opinions/attitudes/behavior because the consumer would not seek in-depth information (on products or on brands) nor would evaluate inherent characteristics to arrive at a careful and thoughtful decision.
- *Buying behavior in the search for variety*, finally, is characterized by low consumer involvement and significant differences between brands.

Where the luxury sector is concerned, traditional consumers' purchasing processes can be defined as complex and symbolic.

The dimension of complexity is related to the weight of the rational component and the greater commitment with respect to impulse buying.

The greater strength of rationality and involvement in the purchase, for traditional consumers of high-symbolic-value goods, are attenuated by the influence exerted by the brand. Traditional consumers' purchasing process can be defined as symbolic to the degree buyers feel the need to buy the object not for functional reasons alone, but to affirm their own lifestyle.

The brand is a symbol of the lifestyle and consumer behavior of an individual who aims to ensure a higher quality of life through consumption.

Traditional consumers feel especially the influence of cultural and social factors, i.e., those classified as external factors in marketing studies.

Traditional consumers express, with their purchase of high-symbolic-value goods, not so much their need to flaunt a higher status before third parties, as their need to assert and maintain a lifestyle suitable for a model that they themselves have created in their own mind in every consumer activity.

The brand of a high-symbolic-value good, for traditional consumers, assumes the role of leadership and orientation in every manifestation of consumption.

The consequence of the above is that a brand with a strong image can be applied to a variety of products belonging to different product categories (e.g., apparel, household items, perfumes, food and so on) and traditional consumers will tend to be guided by the

same brand in the purchase of products that are very different, as it is the brand itself that identifies their chosen lifestyle, the expression of a set of values codified over time. Traditional consumers choose the brand for a high-symbolic-value product for four main reasons:

- *Self-concept*. Each individual has his or her own personal way of being, thinking and feeling. The set of values, thoughts, feelings, beliefs and attitudes can be summarized in the idea of self-concept. In short, individuals choose a brand or a high-end product if it identifies their self-concept.
- *Audience*. The reference groups to which traditional consumers belong or aspire to belong influence their consumption. The brand that becomes a symbol of the group acquires a strong power of attraction.
- *Product and brand image*. Traditional consumers tend to associate closely the reference values of a brand with the values of the person. Purchasing decisions are influenced by the association of the stereotypical opinions about the luxury product and brand and the typical consumer of that product.
- *Self-image and product and brand image congruency*. There is a connection between the self-image projected by traditional consumers and their purchasing decisions. Consumers use product and brand as traditional tools to improve their self-image, and the values attributed to the product are transferred to the person.

Occasional consumers, as opposed to traditional ones, show a greater general commitment – emotional and personal – to the good.

Occasional consumers of high-symbolic-value goods are individuals, mostly belonging to a middle socio-economic group, who occasionally buy for themselves or for others.

Contrary to what we might think on the basis of a first, superficial analysis, this category of consumers is large and represents a significant target for businesses.

Indeed, in recent years the markets for luxury goods have grown in terms of size and number of consumers.

The following attributes are perceived by consumers of high-symbolic-value goods, for the items in question:

- *Excellent quality*. The mental association between excellent quality (an attribute) and luxury good (a thing) is so intense that for some occasional consumers the two are almost synonymous. The evaluation of the quality of a product by occasional

consumers, however, is not based on the evidence of competing goods, such as might occur in the case of non-problematic, repeat-purchase goods; the significant things are rather the perceived quality of the components used and the expertise and experience required for the manufacture of the goods.

- *Very high price.* As a direct consequence the high price of the good is justified by the value perceived by the consumer, who does not make a direct correlation with the cost of production. For the occasional consumer elasticity of demand with respect to price is low.
- *Scarcity and uniqueness.* The third attribute perceived by consumers is the uniqueness and scarcity of the high-symbolic-value good. Uniqueness is an element to which the consumer attaches particular importance because it is able to provide a differentiation with respect to other consumers: highly selective or exclusive distribution and the sensory experience at the point of sale play crucial roles in highlighting uniqueness and scarcity.
- *Aesthetics and sensuality.* The fourth attribute is the design and aesthetics of the good. The aesthetic dimension does not concern the good alone, but also the context in which it is presented: the experience at the base of the purchase has a hedonistic component.
- *Historical heritage and personal history.* The fifth attribute perceived by consumers is the historic-heritage and personal-history value of the good or the brand: to be considered as such, luxury goods have to have a history and their production, as well as their consumption, must respect a tradition.
- *Superfluity.* The last attribute is superfluity: the occasional consumer always perceives the good as non-essential. In many psychological studies luxury goods are often contrasted with necessary goods.

The sectors of origin

Luxury arises in opposition to the normal, to convention, to what is accessible to the masses. The challenge for luxury brands is therefore to define a strategic positioning that is exclusive and inaccessible for much of the market, noting the difference with what is considered mainstream.^{xii} The sectors from which high-end goods traditionally originate are apparel, footwear, cosmetics, jewelry, eyewear, watches, leather goods and perfumes.

To these should be added *l'art de la table* and the furniture industry. To these eight sectors, closely linked to the fashion system, we can add two more: the automotive industry and the leisure boat industry, which often respond to marketing strategies more closely linked to their specific contexts.

In addition to the traditional sectors, we must consider luxury services, including cruises, spas, hotels and restaurants, holiday villages, experiential travel, first-class air travel – a part of the market characterized by strong growth and high profitability.

In the field of food and wine, too, it is now possible to identify certain luxury niches.

Lastly, we should consider cultural assets – the artistic and cultural products and services that, from an economic standpoint, may be considered luxury goods.

The long list above confirms that a classification of high-symbolic-value goods by product category is very dangerous indeed, as it is possible to identify a luxury niche in almost every market.^{xiii}

Watchmaking is one of the oldest luxury sectors and is characterized by high entry barriers, so that one of the key success factors is the brand heritage, i.e., the set of elements that over time have contributed to making the brand a *myth*. Nevertheless there are many competitors in this area, which requires large investments in research and development and advertising in order to strengthen the brand. Among the most important players in the sector are Rolex, Patek Philippe, Bulgari, Cartier, Omega, Jaeger-Le Coultre, Baume & Mercier.

The jewelry sector can be divided into two main categories. The first regards non-branded products (which account for three-quarters of the total market), or those items sold on the basis of the percentage of noble metals present in the product. The second category regards branded jewelry. As for the non-branded segment, often the jewelry is designed by consumers themselves, who bring the gemstones to their trusted jeweler who, in turn, applies them to jewelry according to the specific requests of the customer. The branded segment, in contrast, develops standard products (while offering, at times, the ability to personalize the product to the customer) and can rely on the strength of the brand. The range of products varies according to the material and the presence or absence of precious stones; the type of stone can greatly affect the value of the product and, consequently, its price.

The fields of perfumes and cosmetics, while different, have some common characteristics that assure the primacy of certain major players in both sectors. Although they represent a relatively new market, the two fields are, together with eyewear, leather goods, footwear, apparel, jewelry and watches, among the eight original luxury sectors. It is a very large market. Scholars say that consumers in more developed countries acquire at least two scents a year and a considerably higher number was found for cosmetic products.^{xiv}

Perfumes and cosmetics (the latter include skin-care products, make up, as well as solvents and more) represent a category of luxury goods grouped under the name of affordable luxury: consumers in fact buy these products because they give them access, even if they are not habitual luxury consumers, to high-end consumption.

The market for luxury leather goods can be divided into three main segments: handbags, luggage and accessories. In general, the luxury leather goods sector is profitable because it ensures high margins for manufacturers: bags, suitcases and wallets last more than one season, so the customer is willing to pay a higher price for them, considering the expense a long-term investment. Some of the major manufacturers are Louis Vuitton, Coach, Hermès, Prada, Bottega Veneta, Fendi, Longchamp, Loewe, Furla and Mulberry.

The luxury apparel segment is undoubtedly one of the most important original areas and also that in which there is the most competition. We have to distinguish the ready-to-wear segment from *haute couture*, specifying that most competitors are to be found in the former. It is good to draw a distinction between consumers in the two segments: the *haute couture* segment is directed toward an élite group of savvy, privileged consumers who receive much better and much more personalized service than consumers of ready-to-wear.

The market for luxury goods as a whole has experienced extraordinary development, with an overall growth rate of 30% in the second half of the nineties, followed by a period of stability in sales in the period 2001–2004, a recovery with annual growth of 7–10% in the period 2005–2007, followed by a decline during the global recession of 2008–2010 and a subsequent recovery with growth rates of 7 to 9% per annum over the years 2010–2014.^{xv} According to many observers, several markets, in particular, will retain significant growth potential: attention is focused on Russia, China and India and other Asian markets where a class of newly wealthy people with huge resources to be allocated to showy purchases is

forming, together with a prosperous middle class that can indulge occasionally in the consumption of luxury goods.

In the Chinese market, some scholars have estimated 13 million consumers (1.4% of the population^{xvi}) have a disposable income adequate to approach the consumption of high-symbolic-value goods, though with reduced purchasing power and a sensitivity to consumption that is yet to develop. The Chinese market, already an established reality regarding the strategies of raw material supply for and distribution of luxury goods, is growing continuously and steadily and is destined to become one of the main markets in coming years. In the Indian market, the people accustomed by culture and tradition to the consumption of luxury goods, who are already educated and who have sophisticated needs, are estimated to be three million. Despite these emerging markets, the most important markets to date are the mature areas represented by the United States, Europe and Japan. These three macro-areas represent about 70% of the global market for luxury goods.

According to the most reliable estimates, the most dynamic original sectors that will drive growth for luxury goods will be leather goods, footwear, accessories, and especially in the next few years, jewelry. Some important results are expected also for household goods, wine, food and high-quality tourism.

LVMH. The Louis Vuitton Moët Hennessy group is the most important player in world markets for high-symbolic-value goods; its growth, expressed in terms of sales, profitability, number of subsidiary brands, of product categories and of markets, in the last decade, is a reference model for all competitors. LVMH, as it is structured today, was created in 1987 with the integration of two major French companies: Moët-Hennessy and Louis Vuitton. After numerous acquisitions it has become the world leader in key luxury markets, with a diversified portfolio of over sixty brands. The group's strategic approach has been clear from the beginning: it chooses to grow by integrating many brands, both in product lines closely related to the group's principal activity, and in unrelated product categories. The group's mission, as set out in the *Annual Report*, is to be "a leading ambassador of Western 'art de vivre' throughout the world." LVMH is organized into strategic business groups, each of which contains a number of brands/products/services belonging to like categories. LVMH's total turnover of over 23 billion euros is divided into six areas of activity; the leading one for sales and profit is Fashion and Leather Goods (mainly with the Louis Vuitton brand), which is responsible for more than half of the operating income after depreciation (EBIT) and enjoys a high rate of growth that is expected to continue in the next five years. Geographical diversification is balanced and covers the historical markets – North America, Europe and Japan – and fast-growing emerging markets such as India, China, Russia and the United Arab Emirates.^{xvii}

The greater market as the sum of global niches

The greater market for high-symbolic-value goods, understood in the sense of a single, large competitive arena where businesses that look to the same category of consumers face off, is global.^{xviii}

The internationalization of firms operating in the context the high-symbolic-value goods began long ago. The factors that have facilitated their development of an international presence are:

- a) the existence of a transnational segment of consumers who have similar characteristics;^{xix}
- b) the global flattening of socio-demographic, lifestyle and consumption style factors;^{xx}
- c) the uniformity of the buying behavior of consumers in the transnational segment;
- d) the gradual standardization of brand communication activities to achieve a consistent level of brand perception in all countries;
- e) the need to extend national niches toward similar niches at the global level so as to ensure adequate market potential;
- f) the presence of economies of "replication" in distribution.

These prime factors have led to major international growth of all activities in firms' value chain.

The greater market for high-symbolic-value goods can be considered as the sum of numerous niche markets, which are small when analyzed within the product sector to which they belong, but large in terms of turnover and number of consumers if they are considered at world scale.

This is another important reason that leads us to cross-analyze marketing strategies – in other words, not to focus exclusively on companies in fashion, watchmaking or recreational boating.

Consumers of high-symbolic-value goods are transversely uniform in their preferences and buying behavior in each country. To simplify we can say that a senior executive of a multinational Dutch firm and an Italian one buy the same set of high-end goods and have similar purchasing models. The affluent consumers of Paris are certainly much more similar to affluent consumers in New York than to other segments of French consumers. Aging populations, declining birth rates, the increase in disposable income in the retirement years and in leisure time after age fifty, and the increase in female employment

are phenomena common to all industrialized countries. So a trend towards homogenization of consumption by social class and age at the international level is only natural.

The main consequences of the globalization of markets for high-end goods can be summed up as follows.

Global presence. Historically, the first Asian country to move closer to Western culture was Japan. After the Second World War, with industrial development, countries such as South Korea, Singapore and Taiwan began to be influenced by the glamor of the world in the West, taking on luxury goods as symbols of Western modernity, prestige and respect.^{xxi} The competitiveness of a company that operates in markets for high-symbolic-value goods is endangered if the company is not in a position to market its goods and services in all countries of the world, and more specifically both in mature areas and in emerging areas where there are customers with high disposable income to devote to consumption. If until now the main geographic areas of the market for high-symbolic-value goods have been Europe, Japan and North America, the geographic area of emerging markets will be South East Asia, South America, Eastern Europe and Africa.

The current processes of globalization in luxury markets are not related to the relocation of manufacturing activities, which in many cases are the subject of a reverse process of return to the country of origin; rather the phenomenon of globalization is related to distribution activities. We are witnessing the gradual opening of retail activities, often under direct control, in emerging markets.

Reduced entry barriers. To replicate a serially-produced high-end good is not difficult. The quality craftsmanship of the early phases of a firm's development soon gives way to high industrial quality, which is more easily imitated by competitors. The only real barrier is based on brand image. This entails, for companies that want to maintain a significant market position, need to develop a global presence and a recognized and distinctive high-value brand.

Globalization of the value chain. Of course this, too, affects the ways in which businesses are organized to produce and sell their goods on the market. The activities of planning, product development, design, production, marketing and distribution are carried out in different locations and goods are distributed in all major global markets. The value chain of the enterprise and the value chain systems represented by the main business and

business partners are de-localized in many countries. Certain designers have long shifted their activities to different markets. For example, some firms that produce high-end apparel entrust styling to Italy, production to Poland and distribution to intermediaries in many geographic areas.

Alongside the globalization of value-chain activities, the last few years have witnessed an inverse process of relocation of manufacturing activities in global brands' countries of origin.

This phenomenon has come about on one hand for economic reasons, mainly related to a general improvement in the competitiveness of the home country, and on the other hand due to marketing decisions.

Consumers are paying more attention to the terms and conditions of production, and the link between the product and the skill systems of the territory of origin is a key success factor. For this reason some firms, such as Brunello Cucinelli, have chosen not to relocate any phase of the value chain – indeed, to tightly bind the design and production system to the system and the values of the region where the firm is located.

High profitability

The greater market for high-symbolic-value goods is characterized by relatively low volumes and high profitability. In the markets for luxury goods it is possible for businesses to compete with two different approaches:

- high volume and high profitability: this is the approach chosen by the big global corporations, such as Gucci, Prada and LVMH, which pursue positions of leadership in global markets;
- low volume and high profitability: alternatively it is possible for companies to achieve high profitability even in the presence of small production volumes.

Regardless of the size of the company (we often find small and medium-sized enterprises in the market for luxury goods), the profitability of the business is very high: although many costs must be covered to ensure top-quality service, the margins are quite high and, once the fixed costs have been covered, part of these margins generates profit.^{xxii}

If the market for luxury goods can be considered as a sum of many niche markets, small when analyzed within the segment to which they belong but large in terms of turnover and

number of consumers when considered globally, then the profitability of firms in the greater market for high-symbolic-value goods is higher than the average of other markets. A recent study on a sample of medium-sized companies has highlighted how niche brands such as Celine, Emilio Pucci, Bottega Veneta, Saint Laurent and Roger Vivier are now experiencing much higher growth than megabrands like Gucci and LVMH; the trend can partly be explained by the current economic crisis and the growing weight of "mature" or "élitist" consumers, which leads to an orientation that are more sophisticated and refined than those of mainstream designer labels.^{xxiii}

Godiva. Godiva was founded in 1926 and is a high-end chocolate brand with a low market share for each country, but it leads the market in luxury chocolate if the latter is considered globally.

Technogym. Technogym is a leader in the field of Fitness & Wellness, with more than 2,200 employees and 14 subsidiaries in Europe, the USA, Asia, the Middle East and Australia. Over 65,000 Wellness centers and 100,000 private homes all over the world are equipped by Technogym. Technogym is a world leader in the niche market of high-end sports equipment and enjoys high profitability even though it does not cover the whole market of sports sectors.

Ferrari. Founded in 1947, Ferrari has always produced cars at its current headquarters in Maranello, staying true to its vocation. The company has grown steadily thanks to planning characterized by great scope and vision, both in design and in the level of the quality of work. Today it is a leader in the sports-car niche: while not turning out high production volumes, it presents outstanding profitability.

The competitive advantage of the “country system”

In the high-symbolic-value goods market some firms – particularly Italian and French firms – enjoy an advantage over their competitors. The origin of this advantage can be traced to macro- and micro-environmental factors. Interestingly, Italian and French firms in the fashion industry control more than half of the world market for some luxury goods.

In recreational boating the group that has the highest share of the global market for motor boats in excess of twenty-five meters is the Azimut-Benetti group, followed by the Ferretti group and companies like Perini Navi. Famous Italian and French designers such as Armani, Valentino and Chanel have created fashion and style the world over. The typical elements of the “country system” on which these firms’ success is founded are the

traditional ability to combine a high level of quality in an innovative design with standardized production, creativity and style even in the simplest products. Another significant phenomenon behind the success of Italian firms is the competitive drive that arises in industrial districts: most luxury goods have been developed in industrial districts, very typical productive realities that characterize the Italian industrial system. The business systems of the districts are characterized by craft tradition, specialization of industry, lattice organizational structure, widespread entrepreneurship, high circulation of knowledge and technology, trust-based relationships among people, and spirit of emulation. In Italy everyone knows the districts of Brianza, Triveneto, Biella, Prato, Sassuolo, Agordo, Langhe and Roero. The Tuscan district, for example, is the industrial area with the highest concentration in the world of know-how on luxury leather goods; it is here that some of the biggest names in the industry, such as the Italians Ferragamo, Prada, Fendi, Tod's, and Cavalli, as well as some global players such as Louis Vuitton, Gucci, Cartier, Dior, Chanel, Yves Saint Laurent, Celine, Ralph Lauren, Donna Karan and Tommy Hilfiger, have created their production operations. LVMH, in contrast, has located its production of shoes on the Riviera del Brenta, one of the districts most specialized in high-end manufacturing.

In addition to this we cannot forget the local availability of many small and medium-sized craft enterprises with a high degree of flexibility in production and openness to continual product innovation. The ability to create innovation in style and design that distinguishes this system of small and medium-sized enterprises is very strong, notwithstanding the issues of the professional skills and financial resources needed to grow luxury businesses and their goods in world markets.

The systems of relations and the osmosis of skills in the region in which the company maintains its headquarters, its design and manufacturing activities, and its brand now represent a key success factor for companies in the global luxury markets. The reference model is Brunello Cucinelli, which has successfully integrated brand values with the values of the region, benefitting both. The activities of design, development and production remain firmly anchored to the territory in which the company is located, whereas the activities of distribution and communication are given a global dimension.

Concentration and development of multi-brand and multi-product conglomerates

Numerous firms operate in the greater market for high-symbolic-value goods. Generally speaking, Italian companies are still fragmented into a plethora of small or medium-sized groups, whereas French firms are concentrated in a few large groups – although in recent years, in Italy too, some large multi-brand and multi-product firms have grown up that operate on all major international markets. The direct consequence of the globalization of the greater market for high-symbolic-value goods is that businesses, to compete in all areas and support investment in their communication and distribution, must reach an optimum size, in terms both of turnover, and of local presence.

In other words, the investment required to sustain global competition must be supported, in its turn, by high turnover, which can be achieved only by being present in several countries. In recent years, some firms have been the subject of an increasing number of integrations that have given rise to large diversified groups controlling many brands of luxury goods: the reference model is LVMH. Historically, the first major integration between companies with brands from various sectors took place in 1987 between Louis Vuitton, the world market leader in leather accessories, and Moët Hennessy, a large group in the field of high-end alcoholic beverages: this merger created the first global corporation in the luxury sector.

In Italy the luxury sector is, as we have said, still highly fragmented; some groups have nevertheless have achieved an important position. Among the most significant are Armani, Prada^{xxiv}, Luxottica, Dolce & Gabbana, Ferragamo, Max Mara, Marzotto, Miroglio, Zegna. Some of them were Italians and now are owned by non Italians investors: Kering-Gucci^{xxv}, Loro Piana, Valentino Fashion Group, Versace, Replay and Aeffe. A firm that stands out for significant growth achieved without acquisitions is Tod's.

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CHAPTER 2

DISTRIBUTION STRATEGIES IN LUXURY MARKETS

2.1 Introduction

Distribution is one of the strategic variables in the management of the marketing mix for high-symbolic-value goods.

The distribution channel is the combination of organizations through which the product passes to the user or end consumerⁱ and plays a key role because it gives consumers access to products and services, putting them in a position to make the purchase. The goal of a distribution system is to effectively realize the contact between consumers and products.ⁱⁱ

In the markets for high-symbolic-value goods in the ten years from 2000 to 2010, firms have increased their investment in points of sale with a view to strengthening their direct presence in distribution and increasing their control of the relationship with end consumers. The following period, 2011–2014, witnessed a consolidation of the structure of global distribution, with a more pronounced growth of direct points of sale in markets such as China and Russia and, in recent years, also in Africa and India.

The main factors that influence decisions on distribution are the characteristics of the consumer, of the product and of the firm.

The elements of uniqueness and rarity characterizing high-symbolic-value goods must be consistent with marketing and business-development goals. At first glance it is possible to identify two opposite, conflicting needs for firms that have to manage the distribution of goods in high-end markets: to preserve and strengthen the brand image and the idea of the uniqueness of the product, and to make products available in an efficient and effective way in the markets of reference. The first requirement leads management to adopt a selective approach to distribution and to prefer choices regarding the control of intermediaries that enable it to maintain leadership in the distribution channel. The second induces management to give the products maximum market presence, via indirect as well as direct options.

It would be wrong to say that firms in the market for high-symbolic-value goods do not view increasing market share through the distribution of their products as a priority; so, if

on one hand the easiest option for the businesses we're dealing with here appears to be control of the channel and selection of intermediaries, on the other there is a risk of inadequate presence in markets where management's choices are too selective.

In this sense, the strategic management of luxury goods' distribution variable involves a balancing act between the two conflicting requirements of preserving the exclusivity of the brand and the product and gaining market share – in other words, between control of the channel and adequate distribution coverage.ⁱⁱⁱ

2.2 Distribution strategies

To distribute is, first of all, to communicate, and the point of sale is the stage on which products are presented.^{iv}

Strategic decisions concerning the distribution variable touch on the following aspects:

- Strategic decisions regarding the vertical structure of the distribution channel, i.e., the choice between direct or indirect distribution and, in this respect, between short or long channels and the allocation of functions between the different actors. When distribution is direct, the firm sells its goods and services to the final consumer through its own sales personnel or proprietary points of sale. Conversely, distribution is said to be indirect when there are one or more intermediaries between the manufacturer and the end customer. In indirect distribution the channel can be short, when there are few intermediaries, or long, when intermediaries are numerous.
- Decisions regarding distribution coverage, which apply to the number of intermediaries required to achieve the desired level of market coverage. Here firms can use a distribution coverage index, such as the intensity of distribution defined as the number of points of sale at which the finished product is available for purchase. On the basis of indexes of this kind many scholars distinguish between intensive, selective and exclusive distribution.^v

2.2.1 Factors influencing distribution strategies

The determinants of strategic decisions relating to the distribution of high-symbolic-value goods concern the characteristics of the consumer, the product and the firm. Manufacturers' choice of a specific structure for the distribution channel is determined by a number of constraints specific to the relevant market and to buying habits, as well as to the charac-

teristics of the product and the manufacturers themselves.^{vi} It is crucial to remember that a luxury brand is something that must be earned. The greater the inaccessibility, the greater the desire.^{vii} This characteristic or attribute is important in the choice of distribution strategy.

The characteristics of consumers of high-symbolic-value goods mainly concern the following aspects:

- a) decisions about the vertical structure of the distribution channel;
- b) decisions regarding distributive coverage.

Any firm operating in the markets can organize a distribution channel with the aim of facilitating maximum dissemination of its products to end customers. In markets with high symbolic value, the goal is the same but the above factors make it more difficult to pursue, because it is necessary to promote products whose connotation of rarity and exclusivity have priority status.

Moreover, even the consumers of reference are looking for an experience and want to access the product, like any consumer, while escaping from the anonymity of mass consumption.

In the market for high-symbolic-value goods, distribution options are also related to the different levels to which the goods belong.

French doctrine^{viii} has developed the “luxury universes” concept: access to high-symbolic-value goods is spreading to a growing number of consumers through a process defined as “democratization,” whereby groups of potential customers traditionally excluded from the target market now become customers as they gain access to lower-level high-symbolic-value goods.

Along the road of democratization of high-symbolic-value goods, some authors distinguish between inaccessible, intermediate and accessible high-symbolic-value goods. The products and services of the inaccessible level are mostly unique pieces or limited series and are manufactured in a traditional, artisanal way, integrating a certain degree of technology to achieve perfection. In addition, these pieces have value as models and serve as symbolic references.

The products of the intermediate level include the most popular designs of classic creators and the designs of new ones, with a less complex composition. The relevant aspect in this

context is the ability to make use of the brand image of the higher-level goods while generating adequate volumes at lower levels.

The products on the accessible level tend to break the selectivity rules of the higher-level goods. These products are contemporary and very sensitive to "fashion"; their cost is average and the quality/price ratio is well studied in relation to the expectations of the customers of reference.

At all three product levels – inaccessible, intermediate and accessible – choices regarding distribution are strategic in that they are designed to support and reinforce the attributes of rarity and uniqueness of the product and the brand image, which are drivers of the process of consumer purchase.

Regarding the characteristics of consumers, factors that are taken into account are income, propensity to change, and culture. The brand and consumers' relationship with it is another factor to be taken into account, as brands and their symbolic meanings enter consumers' psyche, providing multiple opportunities for personal identification, realization and expression.^{ix}

Disposable income

Traditionally, high-symbolic-value goods are expensive in relative and absolute terms and, because they are deemed "unnecessary" – as they do not provide any functional benefit compared to common goods – they have always been considered the preserve of the more affluent classes.

High disposable income is one of the main characteristics of consumers of high-symbolic-value goods, as numerous studies on the subject demonstrate. Thorstein Veblen, in his essay, "The Theory of the Leisure Class," (1889) argues that the élite use luxury goods, characterized by a very high price, as a means to flaunt their economic well-being and therefore express their higher income. Disposable income is certainly a driver in the consumption of luxury goods, but this consumer feature is not sufficient, by itself, to fully explain the reasons for consumption. Other factors influence the purchase as well.

Although the reference to social status belongs to the panorama of the past, it may still be important for classifying consumers, in part. One possible classification based on disposable income in relation to social position is shown below.

Wealthy, high-social-status consumers. These consumers generally prefer classic products, but in some cases they may also follow the latest trends, especially when a trend becomes relevant at the global level. Consumers in this category are influenced by the brand, but they look for less ostentatious patterns of consumption in which the brand has a place only when it signals the high quality of the product. Consumers in this category are expert and look to the consumption of luxury goods less to draw attention to themselves than to attain personal, intimate, experiential self-satisfaction.

“New money” consumers. These consumers have worked their way to wealth, but because their prosperity is newly attained they feel the need to highlight their social position through the acquisition of exclusive goods. In particular, they prefer items more related to fashion trends, which allows them to stand out from the crowd. They rarely buy classic products.

Upper-middle-status consumers. Generally this group consists of consumers with professional roles. They are looking for a style that can represent their social and professional level in the workplace. When they are not in their working environment, this reference group uses fewer high-end products and makes traditional purchases.

Lower middle-status consumers. This category is represented by public servants, merchants and skilled workers who occasionally access the consumption of luxury goods.

Willingness to change

More recent studies have highlighted the fact that the purchasing behavior of consumers of high-symbolic-value goods is not influenced by the economic situation of the consumer alone. High-symbolic-value goods, in addition to having a high price, are loaded with symbolic and social meanings: they enable consumers to distinguish themselves socially, to appear wealthy and successful, to increase their individual level of satisfaction.

Undeniably, since the eighties, high-symbolic-value goods have spread beyond the traditional bounds of the leisure class to be consumed, albeit randomly, by the middle class, too.

In recent years the boundaries of high-end goods markets, once exclusive, have been enlarged by democratization to include increasingly numerous consumer groups.

This has been possible because the number of people who have purchasing power adequate to gain access to the consumption of these goods has increased.

The hypothesis has been advanced that, in the current context, the propensity to consume luxury goods is not related to disposable income only, but to other factors as well. In their research, Bernard Dubois and Patrick Duquesne^x have explored the influence of the propensity to change, in addition to the importance of income, on the purchasing behavior of consumers of luxury goods.

Individuals with a high propensity to change can be defined as those who accept risk, consider themselves as masters of their own destiny, have confidence in the future and try to adapt to the trends of society. They are usually people who are not closely tied to traditions, do not believe in hierarchy and formality, appreciate spontaneity and wish to develop their mental, physical and emotional potential.

Individuals with a low propensity to change are attached to their roots and to their security, are conservative and feel bewildered in the face of society's constant changes.^{xi}

Subjects were classified as more or less open to change depending on the result achieved in the test.

The hypothesis that the two researchers tested are:

1. the higher the individual income, the greater the propensity to buy high-symbolic-value goods;
2. the greater the propensity to change, the greater the propensity to buy high-symbolic-value goods.

Both hypotheses were confirmed on the basis of the data considered and the questionnaires evaluated.

The study allows us to observe that high income and high propensity to change are important factors influencing the consumption of luxury goods, and that consumption is greatest in cases in which these two factors act together. From the research examined above it follows that management, in the study of consumers and the identification of valid bases of market segmentation, can look at disposable income alone, or can also consider the attitude to change.

The first mode is the traditional one, corresponding to the managerial practices most frequently followed in the sector. Considering the leisure class as their target, industries in the high-symbolic-value goods sector market their products at a high price and through very selective distribution channels and media. These customers are looking for product quality, aesthetics and excellence of service; but they may also acquire these goods to

flaunt their wealth. The second mode of access to luxury goods is given less consideration. The study revealed a strong link between the attitude to change and the consumption of luxury goods: these products are purchased for their symbolic meaning. In fact, they satisfy the senses and make one dream (hedonistic consumption), but they also convey social messages, such as being a wealthy and successful person. In this case, a strategy that businesses in the sector might use would be to examine the values expressed, implicitly or explicitly by the brand and the products, checking periodically that they are aligned, or even that they anticipate, those of the target audience.

The culture factor

The culture factor plays a significant role in the field of high-symbolic-value goods.

Douglas Holt,^{xii} inspired by the sociological theories of Pierre Bourdieu, has investigated the influence of cultural capital on consumption behavior. For "cultural capital" Holt, as Bourdieu, means a set of tastes, manners and knowledge (the level of education is highly influential in this regard) that shape the way we think, feel and act individually.

Pierre Bourdieu had measured the differences in taste between those who had high or low cultural capital, in the arts; Holt has analyzed those concerning objects of mass consumption,^{xiii} such as food, furniture, apparel, holidays and so on.

The underlying concept is that the culture factor is significant: more than ensuring distinction through the possession of rare goods or élite consensus, high cultural capital guarantees the respect of others through the consumption of difficult-to-understand objects (Mondrian's paintings, for instance), which can be enjoyed only by those who have acquired the ability to do so.

Differences in education and family background are also reflected in consumption practices. For example, people with low cultural capital have often grown up in hardship and thus tend to appreciate functionality and practicality. Individuals with a high degree of culture, by contrast, have lived in wealthy families and have been educated to discuss abstract ideas: for them the choice of consumer goods is not dictated by the need to satisfy material needs; it is a way to assert their own personality through taste.

Setting out from Bourdieu's theories, the American researcher has shown that the structure of consumption varies depending on the individual's cultural capital. In particular, the cultural élites strongly perceive the contradictions of the mass society in which we live, as

they more than the others feel the desire for uniqueness; their problem is how to stand out in a market that offers products made in series. For example, they prefer to shop in small local shops, where they find local products and satisfy their desire for authenticity, rather than buying in large commercial spaces or in the centers of global cities, which instead have many admirers among the lower classes.

Disposable income alone is not always an accurate driver of consumption of high-symbolic-value goods. In fact, important variations in cultural capital can be discerned among consumers with the same disposable income. For example, people who have abundant economic capital tend to have a materialistic consumption style: they follow fashion, purchase goods with the latest technology and products that are more luxurious and conspicuous. The cultural élites, instead, to stand out, emphasize the experiential and aesthetic aspects of consumption; in addition, they disparage the materialism of those who have high economic capital, calling it "ostentation" and "bad taste". It is wrong, however, to consider the materialists simply as social climbers: they are neither more nor less interested in social prestige than those who have a higher education. Indeed, while the economic élite tries to improve its status through the purchase of luxurious and extravagant goods and services, the cultural elite, decrying materialism as a form of vulgar ostentation, seeks to distinguish itself socially through consumption patterns that are more refined and less related to physical matter.

The interconnection between the income and culture factors profoundly influences the choices related to distribution.

Management, when developing distribution coverage, must create display spaces that satisfy both groups' search for products: conspicuous consumers, and those who have a more intimate approach and are looking for more sophisticated consumer experiences.

2.2.2 Factors influencing purchase: concluding remarks

International development strategies are carried out by acting on distribution – no longer by relocating production, but by creating direct and indirect distribution agreements.

The factors^{xiv} that were at once causes and effects of the internationalization of markets – the origin of which can be traced to certain considerations that encouraged internationalization – are primarily scientific and economic growth. Investments to create more innovative products have grown exponentially, and at the same time the life cycle of each prod-

uct has shortened, leading to rapid obsolescence. In view of these considerations it becomes imperative to expand into new markets.

The progressive improvement of transport systems has allowed shorter transit times and an evolution of much more prompt and efficient logistics, even in non-local markets.

Innovation in communication – the Internet, for instance – has become the protagonist of data transmission that has changed the way we communicate anytime, anywhere in the world, with a small expenditure of time and money.

The liberalization of markets. By international agreement, the GATT (General Agreement on Tariffs and Trade, 1947) was signed to establish the basis for a multilateral system of trade relations with the aim of promoting the liberalization of world trade. Later it became the WTO (World Trade Organization, 1995) whose goals include liberalizing trade, standardizing the treatment of imported products and eliminating the differences between economic operators.

The international development of firms. In addition to the transfer of goods, capital, human resources and knowledge, there has been the possibility of increasing production by decreasing average costs per unit of product.

Finally, the homogenization of lifestyles and consumption and the opening of financial markets. The reduction of cultural distances has facilitated contacts between different socio-economic realities, bringing out those realities having greater purchasing power and progressive per capita increases.

From the nineties onwards studies on the factors that influence the consumption of high-symbolic-value goods have undergone a major change – probably a much more pronounced one than that from Veblen (1899) to Mason (1981).

Roux^{xv} has noted that major changes have come about in the behavior of consumers of high-symbolic-value goods since the nineties. These changes in effect denote a transition to a new period, the “post-modern”

The social component of the purchase of high-symbolic-value goods begins to be put aside, though interest in its influence on consumer behavior remains strong. The big change regards the approach to the description of consumption: whereas in the past it was based mostly on other-directed aspects of the consumption of high-symbolic-value goods, especially involving individuals in their social relations, now the focus shifts more to self-directed aspects of consumption, which refer to individual consumption and private luxury

(underestimated in the past). Whereas in the analysis of other-directed determinants of consumption motivations related to the comparison with others, such as the search for belonging or for differentiation, assumed greater prominence, self-referenced consumption satisfies the requirements of personal gratification and pursuit of well-being.

In particular, with other-directed consumption we can associate forms of consumption identified by Leibenstein in 1950: the Veblen effect, the snob effect and the bandwagon effect.

Self-directed consumption is linked to the phenomenon of experiential (emotional) consumption, which identifies a component of hedonistic consumption, related to the personal pleasure arising from the possession and use of goods and is now taking over as the most important reason influencing the consumption of high-symbolic-value goods. The leading authors of the most recent studies on consumers of high-symbolic-value goods are representatives of the French school (Dubois, Laurent, Czellar, Roux), and it is to mainly them that we owe the change in mentality: they emphasize above all the great shortcomings in research on the consumption of high-symbolic-value goods. Economic theory has modeled the effects of the level of demand for high-symbolic-value goods, and marketing has sought to bring into sharper focus the characteristics of consumers of high-symbolic-value goods in terms of culture and social demographics, buying patterns and life style. There are two limitations to this research: the first is that, despite growing interest in the topic, we still lack a systematic exploration of the domain of "luxury" from the point of view of consumers. Few studies have examined demand. The second limitation is that the bulk of available theoretical and empirical research deals with the many attitudes of "traditional" consumers of high-symbolic-value goods. We have very limited knowledge of occasional consumers of high-symbolic-value goods, who nevertheless now represent the largest part of the market. Dubois has often highlighted the change in the consumption of high-symbolic-value goods, pointing out that occasional users are the ones studies must pay attention to.

What has come to the fore lately is that individual taste and aesthetic sensibilities can influence the consumption of high-symbolic-value goods more than any other factor. Regarding the reasons for purchasing high-symbolic-value goods, Roux^{xvi} highlights two factors that influence consumer choice: personal and interpersonal. Personal factors, such as the degree of need for the pursuit of pleasure, emotions and aestheticism, encourage the

consumption of this type of item. The consumption of high-symbolic-value goods is hedonistic. Reinforcing the meanings related to objects, postmodern consumers search for emotions and sensations, and want to have experiences that plunge them into the imaginary and into dream. The hedonic value underlines the importance of notions related to the pleasure of the moment, the momentary gratification. This dimension can serve as a basis for understanding consumers of high-symbolic-value goods who are increasingly in search of sensuality and satisfaction of their own personal pleasure. Pleasure is in fact the first intangible benefit sought in the products. Regarding interpersonal factors, consumption of high-symbolic-value products always has an important social function, as it allows one to enter into relationship with the world that surrounds individuals through the search for ostentation (Veblen effect). Conspicuous consumption plays a role in the preferences and choices of the products consumed in public. The consumption of visible and recognizable luxury products enables the affirmation of oneself and one's status. The reasons behind this type of purchase may also be a search for differentiation, or snob effect. In this case, the logic of social climbing prevails and the consumption of luxury products reflects individual or collective strategies of differentiation or distinction. This need stems from a search for exclusivity. "Snobs" seek a limited distribution of high-quality, high-priced products to meet their need for uniqueness. In other special cases, consumers of high-symbolic-value goods even try, through this consumption, to conform to a prestigious reference group or to distinguish themselves from a less prestigious group. The motivation for the consumption of high-symbolic-value goods, in this case, is to join a group.

In conclusion, what can best be seen from the contributions of the French school is that consumers of high-symbolic-value goods show multiple and fragmented behavior. The individual belongs to several micro-groups that bring together people who maintain a strong emotional bond as opposed to the strong social ties of traditional society. The most important aspect to consider is, therefore, that the consumption of high-symbolic-value goods, without ceasing entirely to be a social phenomenon, no longer has as a primary determinant "appearing" and "showing" the goods to others. The main motivation for the consumption of these goods is to affirm a lifestyle through personal gratification, with a good or service that is perfect in all its components and attributes.

2.3 The evolution of strategies for the distribution of high-symbolic-value goods

To analyze the evolution of distribution for high-symbolic-value goods is not easy because, as already noted, these goods belong to different product categories and in the past have been distributed in markets in which the structure of the distribution channel proper to each context, with its related intermediaries, prevailed.

However, it is possible to identify some common characteristics for high-symbolic-value goods without distinction, based on a good's belonging to a specific product category.

We can identify certain periods. In 1970–1980 the distribution system was characterized by a clear separation of the parties involved and their specific functions and a balance of power within the channel favoring manufacturers.

Firms in the fashion system, for example, grew primarily by using indirect channels of distribution and independent retail distribution.^{xvii} Pronounced spatial dispersion of wholesale brokers together with small average size of retailers created a situation in which manufacturers enjoyed greater market power than distributors.

Manufacturers, or the entities that held control of the brand, maintained their leadership in the distribution channel by defining the rules for the management of functions within it.

Manufacturers controlled distribution flows: the flow of the right of ownership of the good, the physical flow, the flow of orders and the cash flow.

The distributor's role was not perceived as a source of competitive advantage, and the flow of information from the market to the manufacturer, though not adequate, was considered sufficient for the planning and development of products.

The number of intermediaries in the distribution channel increased over these two decades: first the small, unspecialized points of sale turned into selective sales points.^{xviii}

Then the retail points grew in number and presented select multi-brand offerings.

At the intermediate level of the distribution channel wholesalers carried out most of the functions of physical distribution of products in a given geographic area.

The decade of the nineties is characterized by two phenomena that gradually gained in importance.

- a) Superior control of the distribution channel by the manufacturer: networks of independent agents are replaced with sales staff directly employed by the manufacturer and with proprietary points of sale. Manufacturers integrating downstream appropriate the

margin of distributors and see an increase in revenue, although their investment in distribution grow at the same time.

- b) Improvement of relations with end customers:^{xix} with relationships of trust the firms give stability to sales and reduce the risk of unsold stock because they anticipate the weak signals of their target market. This trend was reinforced in the following decade (2000–2010).

The evolution of the distribution system in recent years is characterized by the development of a mixed, direct and indirect system, in which firms flank their networks of directly controlled or franchised single-brand points of sale with new distributive forms^{xx} where the communication component and the role of the relational approach with the customer prevail. Under all distribution options we see a particular emphasis on the ability of the point of sale to stimulate consumers' emotional and sensory side. The downstream vertical integration of the supply chain and the development of relationships with the end customer are the two elements that have most moved the evolution of distribution in the markets concerned toward the current model.

In recent years, the two most significant phenomena that have characterized distribution strategies are:

- International development. Firms have increased investments for the opening of new points of sale in growing markets, with a particular focus on the areas of the Far East;
- Streamlining and focusing on profitability. Firms have initiated a process of reorganization of distribution by focusing on profitability at point-of-sale level.

The economic downturn and the consequent contraction of trade margins require firms to assess the formats of distribution under both direct and indirect management, focusing attention on profitability in relation to investment.

2.4 Selective or exclusive direct distribution

The direct distribution channel involves contact between manufacturer and consumer that is not mediated by other entities.

Direct government of distribution activities favors businesses that sell prestige goods in the achievement of certain benefits.

First, the quick, direct flow of information from the market to the firm delivers greater knowledge of consumer needs and a better ability to grasp new trends in consumption even when the signals are still weak and uncertain.

In fashion markets, particularly, where the time to market is very short and product life cycles quickly pass maturity, timely information becomes a source of sustainable competitive advantage by putting the firm in a position to achieve innovation in its product, range, prices, style, design and service.^{xxi}

The second advantage for firms that adopt direct distribution is due to the ability to maintain a strong consistency between the brand image and the style of the point of sale.

The brand's attributes and values are represented uniformly in all places of direct distribution in order to maximize their effectiveness in the communication process of the firm's supply system.

When distribution is direct, the manufacturer can apply unitary and coordinated management of all variables of the marketing mix in the distribution channel without giving rise to vertical channel conflicts: for example, the manufacturer's control of the pricing policy guarantees consistency between the communication policy, the brand image and the level of service offered in the point of sale.

Other advantages of direct distribution in the high-symbolic-value goods market are: uniform level of customer service in all points of sale, training of specialists in the sale of prestige goods, coordinated management of logistics through a centralized warehouse system for each market with real-time supply, higher profit margins for the manufacturer, control of the disposal unsold products, and integration of the sales system in the firm's information system through the computerized management of the order-sale-reorder flow.

This distribution option for high-symbolic-value goods consists in the direct management of the channel by the manufacturer, without the use of intermediaries, and in the choice of distribution coverage with a limited number of points of sale.

An exclusive direct distribution system is the most extreme form of selective distribution and favors firms that wish to differentiate their products with a policy of quality and prestige, improving their relationships with customers.

The advantages of direct distribution in terms of superior knowledge of the customer, the availability of the best and most reliable information from the market, price control, reduction of intermediation and management margins, brand image consistent with the val-

ues offered to the consumer and control of unsold inventory have facilitated the movement of the strategies of the firms under consideration toward this option.

The need to obtain a high level of control of the distribution channel is especially important for enterprises that produce high-symbolic-value goods: in all categories, in fact, the distribution channels chosen, their specificity (catchy, very extensive, very selective, simplified) and their monitoring are essential for the proper positioning of products and brands.

In the period between the second half of the nineties and the second half of the next decade, all major players in luxury markets started an intensive program of opening directly controlled and managed single-brand points of sale.

An analysis of the distribution strategies of a sample of firms clearly shows a marked acceleration in exclusive direct distribution:^{xxii} the number of points of sale owned by firms and the turnover resulting from them increases as a percentage of sales volumes through independent intermediaries.

Many brands, such as Bulgari, Prada, Armani, Loro Piana, Zegna, Gucci, Tod's, Montblanc, Lancel and Louis Vuitton, have gradually increased their presence in direct distribution by opening new points of sale in major world markets, reducing the percentage of turnover from indirect distribution activities in favor of direct distribution.

The proportion of turnover through direct distribution (direct retail) has grown, but is still lower than that created through indirect distribution^{xxiii}. For example, Richemont, which controls some major brands of high-end watchmakers, adopts a mixed selective direct and indirect strategy for certain subsidiary brands such as Cartier, Van Cleef & Arpels, Piaget, Vacheron Constantin, Jaeger-LeCoultre, IWC, Panerai and Montblanc.

Cartier is the brand that has the best distribution network within the group, and the number of directly operated points of sale has grown steadily and progressively over the past decade, with a policy of expansion to North American and Asian markets.

The importance of direct distribution has also grown for more accessible high-end products such as perfume and leather goods. Lancel, for example, has expanded its global presence. Various factors underpin the growth, including the strengthening of its management, the proposal of a new distribution concept, the launch of new products and the growth of the global distribution network, particularly in Asia where the leather accessories market is a great success.

2.4.1 The risks of selective distribution

The main disadvantages and risks of selective or exclusive direct distribution in the markets for luxury goods are:

- insufficient distribution coverage;
- increased investment in fixed assets;
- slowing of growth;
- difficulties in managing human resources.

Insufficient distribution coverage. If on the one hand selective or exclusive direct distribution improves the consistency of the firm's brand image as perceived by consumers, from another point of view the main risk of this distribution system is that it may not ensure a sufficient diffusion of high-symbolic-value goods in the market. In other words, the need for uniqueness of the product and exclusivity of the brand may be in conflict with the development of adequate sales volumes in the appropriate markets.

In this regard, one study^{xxiv} carried out on a sample of manufacturers of high-end goods has formulated the hypothesis that most high-symbolic-value goods, particularly those of French firms, ran the risk of being under distributed in the sense that the intensity of highly selective or exclusive distribution was less than that of firms in other countries that competed in the same market: the result is a lower sales potential for firms that use the selective direct distribution.

The same can be said of some Italian firms in the industry that, despite having opted for selective or exclusive direct distribution, have not yet achieved an adequate sales potential, especially in international markets.

Insufficient intensity of distribution in the context of direct distribution also affects another variable of the marketing mix: communication.

When the sales potential of the distribution system is inadequate, communication investments are less effective. For example, Estée Lauder has chosen a selective distribution system with a number of points under both direct and indirect management, in the perfume market. Consistent with this strategy, Estée Lauder for a long time has long shunned advertising in classic mass media, such as television, except at year's end. When, faced with the pressure of competition on the perfume market brought by Dior and other com-

petitors Estée Lauder had to use television more intensively, it raised the question of the return on investment in communication.

With the distribution coverage of the Estée Lauder brand in the French market the potential return on investment in communications was 40% lower compared to certain competitors, such as Dior,^{xxv} that had adopted a more intensive distribution coverage.

Increased investment in fixed assets. Direct distribution involves investments by the firm for the opening and management of show spaces.

The investment required is a multi-annual burden that weighs on the firm's asset structure and that adversely affects the income statement with regard to the annual amortization of fixed assets and possibly financial charges deriving from commitments for the financing of the investments themselves.

Slowdown in growth. The exclusive option for direct distribution slows down the growth of the market share, binding it to investments by the firm in new points of sale.

Difficulties in the management of human resources. The firm must possess the skills to properly manage the dedicated sales staff of show spaces.

The sales staff is, in fact, a strategic asset for maximizing customer satisfaction during the purchase process.

2.5 Selective or exclusive indirect distribution

The strategic option of selective or exclusive indirect distribution is adopted when the firm chooses to make its products available to end consumers through intermediaries in the distribution channel.

Indirect distribution is defined as "long" when there are numerous intermediaries in the distribution channel, and "short" in the opposite case.

The firm adopts an indirect channel to improve distribution coverage and to avoid the risk of an inadequate market presence even in competitive contexts in which it is necessary to preserve the image of the brand, as the consumer perceives the exclusivity and uniqueness of the goods.

The need to obtain proper distribution coverage, which would be unfeasible if the only distribution option were proprietary points of sale, for the firm involves the choice of an indirect channel, generally in one phase.

The selection of intermediaries in the distribution channel is particularly delicate, in the case of high-symbolic-value goods, because the firm must in each case achieve the objectives mentioned above: maximize the relationship with the end customer, control inbound and outbound information flow, and ensure loyalty.

The risks associated with a wrong choice are significant if we consider the strong inertial tendency of the distribution channel: taking on long-term commitments, including contracts, involves a difficulty in resolving the relationships in place.

The main advantages firms obtain by using an indirect distribution channel are:

- lower investment of financial resources and consequent higher availability of resources to devote to other activities;
- lower fixed costs, as these are borne by the intermediary;
- rapid market penetration, provided that the independent distributors are adequately organized;
- use of experienced staff possessing thorough knowledge of the ways and customs of a given market;
- risk sharing on unsold inventory;
- greater efficiency in the management of working capital.

The main disadvantages are:

- mediated relationship with end customers: the firm gets less direct information on market trends and developments in consumer tastes;
- dependence on the distributor when implementing marketing strategies;
- risk of debasing the brand image, as the image is mediated by the intermediary;
- tendency of the intermediary to seek short-term results and to maximize the total profit of all brands with respect to that of the single brand;
- Less control over unsold inventory.

The reasons for choosing an indirect distribution channel in a given market, for the big players in the sector, are mainly related to a strategy of risk reduction for less attractive markets in the first phase of development of the brand, or a need for rapid penetration of new markets in order to exploit “first mover” advantages.

Small and medium-sized enterprises adopt indirect distribution to gain visibility in the short term and increase their market share when they do not possess the necessary critical mass and financial resources to take on the commitment of direct distribution. Indirect dis-

tribution enables firms to make distribution costs variable, based on actual sales volumes, without stiffening their financial structure.

2.6 The distribution strategy of luxury goods in the real world: the mixed option

As noted above, selective direct distribution gives the manufacturer strong control over the distribution channel and, consequently, over the relationship with end consumers, avoiding the ever-present risk of a deterioration of the brand's symbolic value.

On the other hand we can say that there are few firms that adopt a selective direct distribution system only; directly and indirectly managed points of sale often coexist, sometimes even in the same market.

The option for mixed distribution was found in all product categories analyzed, although there is a clear differentiation between prestige products in the higher price range, in which the brand's selective direct presence generally prevails, and prestige products in the lower price range, in which indirect distribution prevails over direct.

The concomitant presence of direct and indirect distribution options, however, involve, an important consequence for the proper management of the channel: one needs a clear and defined mission for the different categories of intermediaries.

Indirect intermediaries must perform the primary function of ensuring a steady flow of revenues and profits, and an increase in market share. Distribution coverage, even in luxury goods, is always functional to the achievement of market-share objectives. For indirect distribution intermediaries the function of ensuring an adequate and constant flow of information between manufacturer and consumer becomes less important. Direct points of sale, in contrast, must comply with the primary function of communicating and conveying the brand image to end consumers.^{xxvi}

That the functions to be performed by indirect intermediaries and direct points of sale are different does not mean that the latter do not have revenue targets: much research has shown that when the enterprise adopts direct distribution this choice often favors the stabilization of its market share. The consequence of the differentiation of functions means that some typical categories of directly managed points of sale are set up and structured with a primary goal of communicating brand values without placing priority attention on sales targets.

Having identified the strategic options in luxury goods along a path that leads from exclusive direct distribution to selective indirect distribution, we can now ask which option is currently most used by market players.

Strategic behavior in the distribution of luxury goods is changeable and varies in relation to three main dimensions:

- multinational extension of the brand;
- perceived value and brand image;
- economic value of the product category.

The options are described below:

- exclusive direct distribution
- selective or exclusive indirect distribution
- mixed distribution.

Exclusive direct distribution. The major players in multi-brand luxury for some brands of their very high-level portfolio with positioning at the inaccessible market level and global single-brand players in the same situation tend to adopt primarily an exclusive direct distribution strategy.

LVMH. The Louis Vuitton Moët Hennessy group has become the world leader in key luxury markets with a diversified portfolio, by integrating a plurality of brands, both in product lines closely related to the group's principal activity, and in unrelated product categories. The group increasingly adopts the exclusive direct distribution option. The points of sale are created with care in order to ensure exclusivity and authenticity of the product and convey its high symbolic value, thanks to a careful conceptual architecture in stores.

Hermès. Hermès uses a predominantly direct, highly selective distribution with proprietary points of sale exclusively dedicated to its products, including those in different product categories.

Exclusive direct distribution is rarely used because firms fear losing market opportunities due to excessive restriction of points of sale in a given geographic area.

Selective or exclusive indirect distribution. Selective or exclusive indirect distribution is adopted mostly by small firms that do not have the economic resources to make direct investments or by firms that do not wish to get involved in the management of the distribu-

tion network because they prefer to concentrate their efforts on the development of brand image and communication activities.

Selective or exclusive indirect distribution is adopted by businesses as a strategy to enter new markets with uncertain macro-environmental scenarios. Many Italian luxury firms that maintain a dimension of craftsmanship and have not yet developed financial and/or logistics expertise do not undertake investments in the development of their own points of sale.

Mixed distribution. Most of the firms that compete in luxury-goods markets adopt a mixed distribution strategy: direct and indirect, selective and/or exclusive.

With this approach, firms are able to achieve a balance between the need to achieve sufficient sales volumes and market shares and the need to preserve and strengthen the brand image to support the premium price.

In a mixed option the functions assigned to direct and indirect distribution are well identified. The activities carried out in the directly managed points of sale are intended to communicate the brand's values and products and to ensure shopping experiences to consumers. The activities of the indirect points of sale are mainly aimed at ensuring a steady flow of revenues and adequate margins.

The search for balance in mixed distribution.

A further point to be considered is the balance between direct and indirect distribution.

From an examination of several case studies it is possible to highlight the following.

- *Unstable balance.* It is not easy to identify a consistent approach or a typical strategy in firms' choice between which part of their revenues can be generated by direct distribution and which by indirect. A presence in key markets with 40% of sales in the direct channel seems appropriate for high-end goods.
- *Brand image.* Firms that have a higher presence in direct distribution, in general, have a higher perceived brand value, higher sales margins and lower losses in periods of recession. A brand must possess certain characteristics and values, such as a "mythical" value as well as an exchange value, but also an emotional and ethical value.^{xxvii} This is the case for example of Hermès and Tod's, which have a significant presence in direct distribution.

- *Balance and risk.* In markets with higher levels of risk it is advisable to reduce the percentage of direct distribution.
- *Maturity of consumers.* Mature markets are characterized by the presence of more expert and demanding consumers. In these markets, it is advisable to increase the share of revenue from direct distribution.

The current trend in the distribution of luxury goods goes in the direction of increasing the proportion of sales from direct distribution, although the recent global crisis has led to a slowdown in investment in developing new DOS (Direct Operated Stores) and a focus on formats ensuring sufficient profitability with respect to investment.

2.7 Paths to internationalization in emerging markets

Recent years have witnessed a strong push of the big players toward the development of forms of both direct and indirect presence in distribution activities, in line with strategies already adopted in other international markets.

A firm choosing a direct distribution approach does not rely on intermediaries and becomes the stage-director of the channel input and the local distribution system, operating in the target market through its own sales organization, which may have a different degree of depth. It puts in place all initiatives for penetrating the target market: it identifies potential buyers, initiates and maintains direct contacts with customers and intermediaries, carries out market research and analysis, and defines its own marketing strategies independently. This policy involves a greater use of human resources as well as higher costs and risks, but at the same time provides a series of advantages: the ability to conduct more stable penetration in foreign markets, obtain more information on the market, acquire higher return on sales and greater control over the methods of distribution.

The modes of direct entry of Western luxury players in emerging markets are sales agents, business units abroad, and e-commerce.

With the development of a network of sales agents, it is assumed that the firm initiates a program of market penetration through contracts with local agents who take on the role of intermediary between the exporter and the buyer with the aim of representing the principal firm, promoting sales, contacting potential customers, collecting orders and transmitting information on the markets.

The opening of operational units abroad is geared more toward an intense control of the factors of the marketing mix.

The firm establishes an operating unit of its own in the foreign market of interest with a view to directly distributing and coordinating activities with those of local agents and distributors. This unit can take two basic legal forms: the branch, without legal personality, and the subsidiary, with legal personality. Wholly owned subsidiaries or those with a controlling majority stake offer the highest level of control.

The third mode of operation of direct entry calls for the development of e-commerce activities. E-commerce is the most recent avenue of direct contact with end users. It has a number of advantages, such as rapid response to consumer demands, and higher customization and lower cost due to the reduced costs of communication and advertising in the digital channel. It may therefore be a winning entry mode for small businesses with limited resources.

With regard to indirect distribution, reference is made to the transfer of goods and services across national borders using indirect methods, i.e., using the mediation of third parties who have a high degree of knowledge of the local market.

Through this entry strategy, the firm builds its presence in the new market without transferring any assets of its own know-how and without adopting a specific organization for sales in the foreign market, but relying on local organizations that already exist.

The advantage of this strategic approach is that all charges relating to the costs and risks of internationalization will be transferred to and borne by the intermediary, while the disadvantage lies in the limited level of control over the foreign market exercisable by the firm itself.

This technique is particularly useful when knowledge of the target market is relatively low: in fact entrusting sales to intermediaries is a way of verifying the potential for absorption in a given market and acquiring information about the needs and characteristics of potential buyers without directly assuming the associated risks.^{xxviii}

This form of indirect presence in the target market is also the one used most widely by small and medium-size businesses, due to its limitation of risks, its low involvement of resources and its high flexibility of action, given that it involves the mediation of an organization independent of the exporter that undertakes to purchase and import the products in the domestic market as well as to manage their subsequent distribution.

The local distributor finds itself having to manage, on behalf of the incoming player, all the activities of foreign market penetration, such as the purchase and import of products, the creation of storage facilities in the market where they will be sold, the promotion of the brand, the sale (usually exclusive) of the products and the selection of distribution channels.

What is certain is that almost all the major Western luxury players have entered the emerging markets where they now operate thanks to the support of a local importer-distributor – and that it can be a winning strategy also (perhaps, especially) for the small to medium new entrant. In fact, brands that have limited resources and low levels of awareness in Europe and the United States may find the support of an importer-distributor essential to the development of their business and the creation of interest around their brand: what in fact the brand loses in terms of control, it gains in terms of market presence.

The solution most widely used by small and medium-sized enterprises is indirect export, which, thanks to a reduction of costs and risks compared to methods that require direct presence in the market, is particularly suitable for players that have limited financial and managerial resources.

However, cases of entry in the luxury market by small and medium players through direct export are not rare. In this case firms often limit themselves to using a sales network abroad and working with agents.

E-commerce, while presenting some advantages in economic and organizational terms, is not always the most appropriate entry technique – especially if the brand is not well known in emerging markets.

2.8 Differentiation strategies borne by the distribution variable

From the previous paragraphs it is clear that firms in the high-symbolic-value goods market have trouble increasing their market share and sales volumes while keeping their positioning and brand image with end consumers unchanged.

Spread of the product, product-line extension and brand extension, or the application of the brand to multiple categories of products even in market areas other than the traditional ones,^{xxix} involve a process of trivialization that must be countered with appropriate strategies.

All scholars and observers of the market for high-symbolic-value goods are in agreement that the most prestigious brands face competition with emerging firms that, while not appearing as obvious direct competitors, tend to chip away at their market share.

For example, firms that have recently gained a position in the ready-to-wear fashion market, such as Zara and Hennes & Mauritz (H&M), offering products with balanced price/quality positioning and very efficient service in terms of time and place of delivery, are able to erode the market shares of the firms whose products are positioned in the high range.

The democratization of consumption in the markets for high-symbolic-value goods enables the consumer to migrate easily from the purchase of a high-end product to a ready-to-wear one and often to use a combination of products.

Consequently, firms that offer high-symbolic-value upmarket goods, in addition to defending their brand image, to increase their market share have to broaden their competitive-advantage base by incorporating into their enterprise systems the competitive advantages typical of firms at the bottom of the range: time to market, speed of response to the market, service, an adequate quality/brand image for money performance ratio, and an efficient logistics system.

The growth in market share of firms producing high-symbolic-value goods inevitably passes through the broadening of their offerings in certain directions:

- the development of products for a wider range of consumers;
- the creation of new products belonging to previously unexplored categories;
- the application of the brand to a plurality of lines and product categories;
- the creation or acquisition of new brands to be applied to products currently sold.

In other words, we witness a broadening of the firm's product range through the creation of new lines contained under the same brand, or through the acquisition of other firms positioned at a different level of the market or simply in a different market sector (following this strategy the company then finds itself with a diversified brand portfolio).

Choosing to work with a differentiation based on an extension of brand and products, as noted, presents the risk of a devaluation of the brand image that could affect overall profitability. In most cases the global players in the fashion and luxury markets develop differentiation strategies based on the acquisition of various distinctly positioned brands.

Through this approach, the firm manages a portfolio of differently positioned brands. The distribution system is often made available to the brands controlled in order to ensure adequate distribution coverage and synergies between the various activities.^{xxx}

There are three classic strategies that firms in the market for high-symbolic-value goods put in place to defend their brand image when product lines are extended and progressively trivialized. One of these concerns distribution. The strategies are:

- Product customization: in the presence of an increase in the intensity of distribution, via indirect as well as direct forms, the firm counteracts the negative effect on brand image by increasing customization of the product.
- Brand differentiation: use different brands for different product lines and/or product categories.^{xxx} Often distribution, too, is differentiated by brand. Each brand adopts its own distribution system, whose mix of direct and indirect options varies depending on the product, the product category, the country and the brand itself. Gucci and LVMH adopt this approach, for example. Managing a variety of brands is not always easy, however: the brand identity of one product line must reinforce the other, and at the same time, consumers must perceive them as alternatives.
- Distribution differentiation: the third strategy allows the firm to differentiate products, product lines and/or product categories depending on their point of sale.

Some of the firms analyzed did in fact use the strategy of differentiating through distribution.

In mixed distribution that calls for the simultaneous presence of selective indirect options, such as wholesale distribution, and selective direct options, through proprietary or franchised single-brand points of sale, the firms considered aim their offerings at different customer groups, differentiating distribution according to the reference segment.

Consumers' perception of the point of sale and of the offering is through the image of the space, which expresses the degree of differentiation.^{xxx}

For each group of target customers a "motivational framework" (Collesei, 2000) is created that leads them to choose the set of products/product lines–points of sale that is most likely to respond to the requirements expressed by their system of needs.

Moreover, the choice of the offering mix in terms of products/product lines/product categories to be activated for each group of target customers is closely related to and consistent with the corresponding distribution system.

This distribution strategy, which provides for differentiation by categories of point of sale, has certain advantages:

- a) it promotes a clear segmentation of the market;
- b) it preserves the brand image.

Concerning the second aspect, diversification by point of sale allows the firm to support the brand image even when, to increase volumes and revenues obtainable from the brand, it increases its product lines and product categories to cover the largest possible number of market segments. In these cases the risk of trivializing the brand image is countered by differentiating distribution by category of points of sale, getting target customers to perceive the brand image itself as it is proposed in its own distribution system.

In other words, consumers do not perceive the dissonance between the firm's supply system and the brand image, as they find a consistency with their needs system in the category of points of sale addressed to them.

Through distribution diversification monobrand firms are able to apply different prices to product categories, as the distribution system that addresses a specific category of product with its price is perceived as consistent by its target customer group.

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- ^{iv} J.N. Kapferer, V. Bastien, *Luxury strategy – sovvertire le regole del marketing per costruire veri e propri brand di lusso*, Franco Angeli, Milano, 2013.
- ^v Distribution is intensive when the finished product is made available at as many points of sale as possible. It is selective when the product is made available at a limited number of points of sale, but not all. It is exclusive when it is sold only in a few selected points of sale. Cf. G. Pellicelli, *Il Marketing*, Torino, Utet, 2009, p.476.
- ^{vi} J.J. Lambin, *Market-driven management. Marketing strategico e operativo*, Mc Graw-Hill, 2012.
- ^{vii} J. N. Kapferer, V. Bastien, *The Luxury Strategy*, Kogan Page, London, 2009.
- ^{viii} D. Alleres, “Spécificités et stratégies des différents univers du luxe”, in *Revue française du marketing*, nos.132–133, 1991.
- ^{ix} A. Carrol, “Brand Communications in Fashion Categories Using Celebrity Endorsement,” *Journal of Brand Management*, 2009, 17: 146–158.
- ^x The research of Bernard Dubois and Patrick Duquesne has contributed extensively to the greater understanding of the marketing of high-symbolic-value goods.
- ^{xi} B. Dubois e P. Duquesne studied the influence of income and inclination to change on the willingness to buy luxury goods in their research published in 1993 under the title, “The Market for Luxury Goods: Income versus Culture.”
- ^{xii} Douglas Holt, at the time of his study “Does Cultural Capital Structure American Consumption?”(1998), p.1.
- ^{xiii} Holt decided to make the object of his research common consumer goods, as one of the main limits on the applicability of the French theories to the reality of the United States was the scarce popularity of the arts among the American cultural élite.
- ^{xiv} M. Caroli, *Economia e gestione delle imprese internazionali*, McGraw-Hill, Milano, 2008.
- ^{xv} Cf. B. Dubois, G. Laurent, “Y a-t-il un euro consommateur du luxe? Une analyse comparative des profils sociodemographiques des acheteurs européens”, in *Recherche et Applications en Marketing*, 8 (3), 1993, pp. 107–124; B. Dubois, P. Duquesne, “The market for Luxury Goods: Income vs. Culture”, in *European Journal of Marketing*, 27 (1), 1993, pp.35–44.
- ^{xvi} E. Roux, S. Nyeck, “Valeurs culturelles et attitudes par rapport au luxe. L’exemple du Québec,” in *Asac Proceedings*, Association des Sciences Amministratives Canadienne, Halifax, Nova Scotia, Canada, June 2003, pp. 13–17.
- ^{xvii} S. Saviolo, F. Testa, *Le impresa del sistema moda*, Milano, Etas, 2000.
- ^{xviii} For example, shops specializing by product category and price level develop in the apparel market.
- ^{xix} For example, showrooms have favored vertical integration downstream of the distribution chain and the development of relationships of trust with the customer.
- ^{xx} Think of specialty stores, department stores, malls, factory outlet centers and flagship stores.
- ^{xxi} In this regard Pellegrini notes that “if the physical points of sale can become a very effective relational platform for communication and the exchange of information between the firm and the customer, and for this reason become an increasingly strategic tool, those who now have them, hence distribution, end up increasing their weight in the creation of value within the various production chains.” Cf. L. Pellegrini, “I luoghi di acquisto: strumenti chiave delle strategie di marketing”, in *Micro & Macro Marketing*, anno X, n.3, dicembre 2001, pp. 393–394.
- ^{xxii} The most significant case is the choice of LVMH, which gradually developed a network of financially controlled points of sale and did not hesitate to reduce the intensity of distribution where it considered it too intensive, as for example in the USA.

^{xxiii} Richemont uses the term, wholesale, to classify the indirect sales network consisting of franchised points of sale and other independent retailers.

^{xxiv} Cf. A. Charrueau, "Les stratégies internationales de distribution des métiers du luxe", in *Revue Française du Marketing*, no. 132–133, 1991, p.137.

^{xxv} Dior is one of the most widely distributed prestige brands on the high-end perfume market, with about 2,400 points of sale in France.

^{xxvi} This feature is consistent with the evolution of consumer characteristics as shown in B. Busacca, R. Grandinetti, G. Troilo, "Transizione del marketing e concezione sistemico- evolutiva del consumatore", in E. Rullani, S. Vicari (eds.), *Sistemi ed evoluzione del management*, Milano, Etas, 1999, pp. 107–133.

^{xxvii} M. Chevalier, G. Mazzalovo, *Luxury Brand Management*, John Wiley, 2013.

^{xxviii} G. Pellicelli, *Il marketing Internazionale. Mercati globali e nuove strategie competitive*, Etas, 2007.

^{xxix} The policy of extending the brand is particularly important when considering the potential inherent in the brand image intended as an intangible heritage used to increase the customer's trust in the firm, not only in traditional activities, but also in new areas (C. Baccarani, G. M. Golinelli, 1992).

^{xxx} Typically brands are sold in expressly dedicated points of sale, but in this case the distribution system is not the primary source of differentiation.

^{xxxi} For example YSL and Saint Laurent Rive Gauche coexist on the market with a distinct positioning; similarly Cerruti reserves the brand "1881" to the products created directly, while the brand "Nino Cerruti" is used for licensed products.

^{xxxii} Cf. U. Collesei, *Marketing*, Padova, Cedam, 2000, p. 525.



CHAPTER 3

DIRECT DISTRIBUTION POINTS OF SALE

3.1 Introduction

This chapter presents a description of direct distribution channels and an analysis of the functions they perform. Different distribution patterns coexist in the high-symbolic-value goods market and, as noted in the previous chapter, firms often do not consider direct and indirect options to be alternatives.

In direct channels, the product remains under the firm's control from the phase of production to that of sale. Indirect channels, in contrast, are independent of the firm, which delegates the distribution of the product or service to others.¹

The consequence of the above is the presence in the distribution channel of different points of sale that can be distinguished in terms of their size, their location and the intensity of their communication activities.

In the following pages we will analyze the main forms that characterize the distribution of high-symbolic-value goods in practice, distinguishing between direct distribution, which will be analyzed here, and indirect distribution, examined later.

Gucci. The Gucci group operates in high-symbolic-value goods markets, in four strategic business areas –accessories, apparel and footwear; perfumes and cosmetics; watches and jewelry – each of which includes several brands. The Gucci group has chosen a mixed direct and indirect distribution structure. The sales trend over the last ten years highlights a significant percentage in revenue generated from directly controlled points of sale. Brand differentiation is adequately supported by a strategy of distribution networks with different points of sale. Regarding management of distribution for the Gucci brand, a distinction must be made between the distribution of product lines more closely related to the fashion system, such as apparel, bags and leather accessories, which are grouped in the Gucci Fashion and Accessories business unit, and that of jewelry and watches. Over the last few years Gucci has increased the number of directly operated points of sale in its strategically and economically more significant markets while reducing the number of franchise contracts. The direct points of sale include numerous flagship stores located in cities whose markets are strategically important. Gucci duty-free boutiques are an important distribution channel especially for certain fashion products such as handbags, small leather goods, ties and scarves. Duty-free franchise distributors, too, operate under a short-term contract that provides standardized parameters for display and setting of the boutique to ensure uniformity of image. The Gucci brand is also distributed in department

and specialty stores in North America and in other multi-brand specialty stores in Europe. Even in the context of indirect distribution options, the Gucci Group pursues the maximum possible control of the channel to obtain uniformity and consistency of image.

We can classify direct points of sale in relation to:

- a) the main function they perform in the distribution channel;
- b) the set of value-attributes they transmit to the end customer;
- c) size and geographic location;
- d) assigned goals.

Direct distribution in luxury makes it possible to attain the following advantages: support a unique brand identity, fix the selling price and range of goods in the point of sale, differentiate offerings from those of competitors, personalize the relationship with customers, gain greater control and availability of customer information, and monitor consumers' decision-making process during their purchase.ⁱⁱ

The most important point-of-sale formats in direct distribution are flagship stores, directly operated stores, shop-in-shops, factory outlets centers and temporary stores.

Typical intermediaries in indirect distribution are multi-brand boutiques, department stores, dedicated spaces or corners, duty-free shops and franchise sale points.

3.2 Direct distribution formats

Firms can use many possible strategies to distribute their products. The main formats of direct distribution are intended to maximize the return on sales while preserving the brand image over time. They are analyzed below.

Flagship stores

The development of directly managed concept stores responds to the goal of presenting the brand values in a context that is tightly controlled by the firm and in which communication is more important than sales.

Flagship stores are directly managed by the manufacturer, characterized by a large display area,ⁱⁱⁱ located in the most prestigious centers of major international markets,^{iv} and offering a wide range of products and product categories bearing the manufacturer's brand or brands.

The main function flagship stores perform in the distribution channel regards communication, as all the values at the basis of the brand image are evoked and represented in the display space.

Flagship stores, in other words, offer a multi-sensory experience of the brand's values and of the way of life of which the brand is a symbol.

Because the primary function is communication, these points of sale are not subject to tight turnover constraints by manufacturers and do not have the primary goal of achieving high sales volumes. Sometimes, the products in certain flagship stores are not even for sale. The examples of flagship stores are numerous: analysis of a sample of leading firms in the field of high-symbolic-value goods showed that all the major brands have a flagship store in each of the major markets in which they are present.

Chanel. Chanel has recently opened its largest British flagship. The French firm has taken on 1000 square meters in New Bond Street, in the heart of Mayfair, London's luxury headquarters. The concept of the boutique has been created by Peter Marino, archistar of the luxury greats. The store unfolds on three floors connected by an elevator. The central staircase, lined with marble, gold and bronze, is adorned with an XXL pearl necklace. The store is inspired by Coco Chanel's apartment in Rue Chambon and is destined to become a landmark in the city's urban landscape. Chanel has opened a number of flagship stores, including a spectacular building in Seoul.

Studies carried out on the profitability of these points of sale has shown that in most cases it is not possible to recover the invested capital through the sale of merchandise.

Flagship stores serve the purpose of maximizing the visibility of products, product lines or collections in the life-cycle phases of launch, development and, to a lesser extent, maturity.

In many cases observed, flagship stores differentiate themselves from other stores by offering highly customized products not available for purchase elsewhere.

The consumer's perceived value of the brand is reinforced by the creation of limited series, produced in colors or with accessories available only in flagship stores, accompanied by exclusive certifications of quality bearing the name of the store on the product or packaging and employing other techniques intended to emphasize the sense of uniqueness.

Apple. An exemplary flagship store is the Apple Store on Fifth Avenue in New York. Its design is unique: it appears suspended above street level, although it was built below ground. From street level it looks like a cube consisting of fifteen huge glass panels with Apple's logo in the center; from here the store is entered via a spiral staircase, which is also made of glass.

With this solution Apple has created two spaces simultaneously: an exterior space on the plaza, around the cube, and the interior space of the underground store.

To date, Apple's 5th Avenue flagship store has the highest turnover of any shop on 5th Avenue.

The flagship store is often used as a theater set to stage displays or shows for new collections and takes an active role in conveying the brand image.

Prada. The Prada brand's Epicenter flagship store in New York, for example, recently presented a display of all the costumes and accessories made for Baz Luhrmann's film, *The Great Gatsby*.

Flagship-store points of sale represent the highest achievement of the communication strategies typical of the high-symbolic-value goods market.

Poltrona Frau. The Italian luxury furniture brand recently opened its first flagship store in China – 370 square meters of showroom on two floors in the luxury district of Shanghai. With this new store Poltrona Frau intends to tell of the brand's added value and its history, but the new store is above all the tangible proof of a turnaround in this market.

If we examine the strategies of internationalization through distribution we see that flagship stores often take on the function of the first and central point of sale during penetration in a foreign market.

Many global players, when internationalizing, choose to open a point of sale of this kind, which becomes a symbol of the brand and its products and becomes the reference point, as well as the model, for the entire direct and indirect distribution system. More specifically, in many cases, within the flagship store, in separate spaces, sales offices are opened to coordinate the activities of distribution in the reference market.

Directly managed single-brand points of sale (Directly Operated Stores, DOS)

This format is characterized by a sales area smaller than those described above.^v It is located in major cities and other important centers.

Brand manufacturers aspire to assert their presence in major tourist cities, which guarantee an adequate return on investment considering the large number of potential customers reached. In the phase of penetration of a new market, the firm first identifies

the most important city, where it will locate its flagship store; only in a second phase it develops a network of points of sale to ensure sufficient coverage of the market.

Market coverage is the main task assigned to this category of sale points, which must ensure adequate return on investment and the achievement of sales targets.

The investment required for the opening of a point of sale under direct management is lower than the allocation of economic resources to a flagship store.

The lower costs of construction make selective development in key markets available even to small and medium-sized enterprises.

In recent years firms have continued to invest in the opening of new stores; the number of directly managed sale points (DOS and franchising) has grown at an average rate of 5% from 2011 to 2013.^{vi}

Borsalino and Pomellato. Borsalino, the famous Italian hat maker, and Pomellato, which produces and sells luxury jewelry, have developed a network of directly controlled points of sale (DOS) that integrate with indirect distribution. Despite the lower costs of implementation, their turnover often exceeds that of the flagship store. Their primary task is sales, which is pursued by putting all available space to work.

DOS are ideally positioned on global high streets such as, by way of example in order of cost per square meter of space, Madison Avenue, Bond Street, Fifth Avenue, 57th Avenue, Ginza, the Champs-Élysées, Oxford Street, Faubourg St-Honoré, Covent Garden and Avenue Montaigne.

Grand openings of new DOSs have increased in recent years at the global level, and the yields in terms of return on sales are, on average, higher in the direct sales channel.

Taking into consideration the major listed groups, it should be noted that revenue from retail has performed better than that from wholesale. The percentage of revenue generated by single-brand points of sale (DOS) is continuously increasing. The percentage of sales through this channel is around 55% with the exception of brands such as Hermès and Ferragamo, for which the percentage is higher.

In recent years the trend among firms has been to expand the openings of DOS particularly in the Chinese market; examples include brands such as Gucci and Tiffany. For Prada and Tod's, almost all the openings of recent years have taken place in China.

Well behind come America, Japan and the rest of the world, markets in which distribution coverage is higher.

Some brands, using the market information of the area in which they hold points of sale under direct management, have developed a greater understanding of their consumers and have expanded their presence, at a later stage, with points of sale specialized by product category (accessories, menswear or home furnishings) in order to maximize the yield of the total sales area. Often these sale points are located in close proximity to others of the same brand and present complementary offerings.

Armani. Armani points of sale are divided by category, with different sales units: Giorgio Armani, Armani Collezioni, Emporio Armani, Armani Jeans, Armani Junior, Armani Casa, Armani Fiori and Giorgio Armani Accessories. Some of these retail spaces are directly managed and some are franchised: often the points of sale are located a few meters away from each other.

In addition to ensuring an adequate return on sales, flagship stores are strategic for collecting information from the market. Through proprietary points of sale firms ensure, as mentioned earlier, a direct observatory that allows them to establish strong and lasting relationships with their customers.

Recently, the process by which large global players have developed by opening of single-brand points of sale in major markets has made progress. Some designers have continued to invest resources in the opening of DOS with an approach that is new compared to the past.

The style and layout of the store are customized and tailored to the characteristics of the place in which it is opened.

The standardization of the single-brand point of sale is replaced with local adaptation and customization of each display space.

Prada. Prada is a reference model in this sense as it designs single-brand points of sale with the goal of leaving tangible and evident marks on the architecture of the place. The latest Prada single-brand points of sale are architectural achievements destined to become, themselves, factors attracting consumers. This trend is even more evident in flagship stores.

Brunello Cucinelli. Brunello Cucinelli is an Italian fashion firm that operates in global luxury markets and stands out as one of the most exclusive brands in the fashion industry worldwide.

Its manufacturing process takes place exclusively in Italy thanks to a network of qualified external artisans' workshops and highly specialized medium-sized firms – its so-called *façonisti*, primarily located in the region of Umbria – with which the firm has developed strong, long-term partnership relationships. At the base of each Brunello Cucinelli collection is an extensive search for and careful selection of high-quality raw materials – yarn, woven fabrics and leathers – starting with cashmere, a particularly rare and precious fiber that for years has been the heart of the firm's production, mainly from Italian suppliers.

Brunello Cucinelli is a reference model for competition in luxury.

The factors on which the firm has established its differential advantages are local production and a product concept firmly anchored to values of the *terroir* and local craft skills. Finally, global distribution allows Brunello Cucinelli to export the tradition of Italian know-how, positioning the company in the competitive arena of the major players in global luxury.

Its strategic choices in global distribution are consistent with best practice in the sector of high-symbolic-value goods. Direct distribution is used to protect the values of the brand during the process of internationalization and expansion of the market, through proprietary points of sale that convey an accurate and studied image of the firm. During 2013 the group achieved, through the retail channel, revenues of 115 million out of a total of 322 million euro, confirming the growing importance that the direct distribution channel has played in recent years, especially for brands in the high-end sector.

Shop in shops

This distribution format is a single-brand point of sale with a small sales area, located under a commercial sign or in a department store that offers a variety of selected brands.^{vii}

The size of the retail space is similar to that of a corner, the difference being the presence of sales staff of the firm that controls the brand.

The costs of management, logistics and personnel are fully borne by the manufacturer, who can implement a completely autonomous marketing strategy even if, at times, communication activities may be planned jointly with the host department store.

A shop-in-shop generally presents the whole range of products on the brand (the breadth of the range depending partly on the surface area available). The concept implemented in these commercial spaces, as well as the layout, the atmosphere, the decor and the windows are in every way similar to the ones in single-brand proprietary stores, with the aim of rendering brand identity uniform at the international level and enabling consumers to share in the brand's values.

In processes of international development this direct-management distribution format allows adequate control of distribution activities, lower costs compared to other formats, such as DOS, and is often used in combination with a central flagship store.

This distribution format is particularly effective when distribution coverage in a new market is in an intermediate phase, because it allows an acceleration of the direct presence with investments that are lower than those of developing a DOS network.

Factory outlet centers. This distribution format, in its present configuration,^{viii} is characterized by a large display area^{ix} that houses several single-brand points of sale (factory-outlet stores) directly managed by the sales staff of the manufacturer.

Manufacturers of high-symbolic-value goods traditionally use the outlet channel to distribute unsold or damaged products and the previous year's collections at prices lower than those normally charged in the other points of sale.

We can classify these distribution formats on the basis of two criteria: the specialization of the range and the location of the display space (historical area of a big city or completely new area).

Before looking at the functions of factory outlet centers in the distribution channel of high-symbolic-value goods, we must analyze the main features of this format in greater detail.

Factory outlet centers are distinguished by:

- a) sales assortment;
- b) location of sales space;
- c) pricing policy;
- d) customer service policy;
- e) communication policy.

Sales assortment. The range of products offered in factory outlet centers and in factory outlet stores is made up of articles from the previous season, discontinued items, excess inventory, samples and models from the end of a collection or returning from fairs and displays, second-choice articles or articles with small manufacturing defects that, especially in the case of high-end products, cannot be sold at the normal list price. More recently, the growth in importance of this category of points of sale has meant that some

firms have extended their production to articles made exclusively for their factory outlet store.

This phenomenon is particularly evident in negative cyclical phases, in which firms selling luxury goods develop markets and products at reduced prices.

Factory outlet centers allow firms to obtain certain advantages in particularly difficult market contexts:

- Development of more accessible luxury products. The firm extends the product line downward, by introducing specific products for the outlet channel, sold at lower prices.
- Reduction of price. The firm reduces the selling prices of products in the outlet channel without communicating the idea of a discount to consumers.
- Preservation of brand image. Factory outlet centers allow firms to reduce prices while protecting the brand.
- Experimentation. In this channel new products can be developed at lower prices by engaging target customers not traditionally served – for example young people.

The composition of the product offering focuses essentially on items for the person.^x

The predominance of these categories is due to their strong seasonality and the speed that characterizes the life cycle of products increasingly tied to the rhythms of fashion.^{xi}

The great success of this sales format is due to the high quality of the products and the prestige of the brands hosted. The major luxury players coordinate distribution with the price variable when using factory outlets to sell their goods directly.

In the case of factory outlet centers the manufacturers' brand image is an essential feature in the selection of individual factory outlet stores: to maintain a high level of quality of the overall offerings, points of sale in this format must make a rigorous selection of brands. In Italy, for example, in addition to the prestigious Italian brands, factory outlet centers feature a very wide range of high-quality brands that are not always known at the international level, and that offer a wide and varied assortment.

Factory outlets should not market the products of the current season, in order to avoid horizontal conflicts with other intermediaries in the channel.

Location. The location of factory outlet centers is a key element for the task they perform in the distribution channel as well as for their expected profitability.

According to studies carried out in the market areas in which the largest number of these distribution formats are found (United States), factory outlet centers tend to be located between two or more urban areas according to a logic that aims to reduce the transport costs of consumers residing in the potential catchment area.

In Europe the majority of factory outlet centers is located on city outskirts, while a minority is located at regional focal points.^{xii} The distance from residential areas to the centers gives the latter access to a vast catchment area and allows them to limit conflicts with other points of sale present on the urban perimeter. Furthermore, the increasingly widespread choice of location on the border between two countries^{xiii} makes it possible to attract significant and constant streams of consumers.

Most factory outlets are located in strategic areas, preferably along motorway networks, in order to facilitate access, or in areas with high tourist flows.^{xiv} The U.S. experience has shown that consumers visit factory outlet centers not more than four times a year, so it is necessary to make the centers easily accessible and visible, and to locate them in close proximity to densely populated areas in which consumers have adequate disposable income.^{xv}

When a factory outlet store is not in a factory outlet center, it is located in the vicinity of the manufacturing facility or in the suburbs of a major city, in a place easily identifiable by consumers and often in close proximity to other factory stores. Although the use of buildings largely owned by the manufacturing firm significantly reduces operating costs with respect to those incurred by firms that choose the village distribution model, their proximity to urban centers can be dangerous for traditional points of sale.^{xvi}

Both from the perspective of demand, and from that of supply, several factors are taken into account when choosing the location of a factory outlet center. On the supply side, the main factors considered by firms are proximity to the motorway system and to the public transport network. A fundamental issue remains control of the "safe" distance from authorized points of sale located in urban areas, where the product is sold at list price. On the demand side, factory outlet centers must be accessible and must have adequate facilities. The attractiveness of the architectural environment plays a strategic role for consumers. For this reason it is important that the brands hosted in a factory outlet center present a homogeneous positioning in the high range and a strong brand image. Another influencing factor is the integration in the structure of additional services such as

restaurants, sports and entertainment, as well as the location in proximity to tourist attractions.

Price policy. The success of the outlet distribution formula is linked to its prices, which are lower than those of other points of sale.

Price, in fact, represents the priority variable for a wide range of consumers interested in owning products of prestige and value difficult to access in non-outlet stores.

Generally prices are reduced an average of 30%, but the reduction can reach 70% when sales are on.

The transparency of the formula and the protection of the consumer are ensured by the characteristics of the products, whose reputation makes them easily comparable with those distributed in traditional retail points of sale. Sometimes comparison between prices in the outlet and those of regular points of sale is favored by manufacturers, who display an article's original price in addition to the reduced price.

The discount policy is guaranteed by the direct management of individual points of sale by manufacturers who, not having to acknowledge margins to intermediaries, have more opportunities to steer the price variable.

Customer service policy. Factory outlet centers, in their current configuration resemble retail points of sale both in the characteristics of the environment and in the range of services they offer to consumers.

The primary service is to enable the consumer to find, in one place, a number of points of sale with major brands of high-symbolic-value goods and with a presence in all product categories.

The customers are not considered marginal; on the contrary, they can enjoy the same level of service reserved for traditional patrons of non-outlet stores.

Entertainment activities bring many benefits to outlet centers, in addition to that of lengthening customers' visit. Theaters and other venues serve to extend the opening hours of the centers and to attract more consumers by offering them more symbolic benefits related to entertainment, thus enhancing normal promotional activity. Cafés and restaurants are places where shoppers can relax between one purchase and another: the quality and variety of food is an important component, to which the center's managers pay particular attention. The philosophy of the large outlet centers is to promote the

recreational activity that characterizes the process of buying consumer goods of high symbolic value.^{xvii}

Communication policy. Communication is mainly used to inform consumers of the presence of large multi-brand factory outlet centers: the forms most commonly used in practice are newspaper and magazine ads, websites and newsletters, press releases, flyers and billboards. Usually the advertisements are aimed at potential customers residing in the cities in the center's catchment area.

The key elements of the promotional messages are the presence of a large number of manufacturers and known brands, the ease with which one can reach the center, the steep discounts, and the variety of brands and product types concentrated in one place.

Promotional activities such as contests allow management to increase the center's database of clients with whom to start a process of communication, employing newsletters that tend to retain them by keeping them informed of events at the center.

At certain times of the year market research is also carried out by surveying random samples of consumers who have visited the center, with a view to identifying the target and the characteristics of the buying process in order to develop programs for the improvement of marketing activities.

Regarding the architectural features of factory outlet centers, it is good to remember their importance as elements that influence consumers' buying behavior.

Entertainment activities, concerts and events are held in factory outlets to attract as many customers as possible and to enhance their shopping experience.

McArthurGlen. McArthurGlen, a leader in the management of factory outlet centers that holds more than twenty villages in Europe, has recently reported a further increase of its turnover in all major centers and an increase in non-European customers. To attract an ever-increasing number of customers to their factory outlet centers, the firm has developed a busy schedule of concerts and events in the spring and summer, inviting famous singers and creating art installations in their centers. McArthurGlen has recently organized a series of musical performances in its factory outlet centers in Italy, including a live tour of Manhattan Transfer, a historic American jazz group.

The most common architectural idiom today in Europe is the *village style*,^{xviii} in which individual single-brand points of sale are positioned so as to reconstruct the environment of a village or a street in the city center.

The originality of the distribution formula and the characteristics of the product offered are the reasons for the strong transversality of factory outlet visitors: families with children, students, groups of friends, young couples and retirees are unified by the offerings guaranteed at the outlet.

Families usually spend the entire day in the center.

Outlet customers assess value for money, look for targeted purchases and allow ample time for the purchase, surrounded by a welcoming atmosphere and helped by friendly and competent staff.

Investigations carried out on shoppers at factory outlet centers indicate that the average reference target is female, married, middle-aged (between 30 and 50 years old), with a good level of education and upper-middle income, and generally gets around in her own car.^{xix} Three further customer profiles can be identified:

- *Recreational shoppers*: consumers who make their purchases in factory outlets because they believe the experience is fun. The characteristics of the target are, they do not believe in advertising and "word of mouth," but are attracted for recreational reasons.
- *Serious economic shoppers*: these consumers consider factory outlets places to buy high-quality products and brands at affordable prices. The characteristics of the target are, they are aware of the various alternatives, visit a large number of shops, buy in just a few, are interested in deals and spend the most.
- *Time-conscious deal-prone shoppers*: these consumers believe that factory outlet centers offer not only good deals but also substantial savings of time. The features are, they are interested in special sales, pay attention to advertising, visit a small number of stores, but buy in most of them.

The reasons that drive consumers to buy in factory outlet centers are essentially four: the price-to-perceived-value of the products, recreational factors, time savings and deal hunting.

Main function in the channel. The primary function of factory outlet centers in the distribution channel is to sell unsold luxury goods in a protected and controlled environment.

This lead function is consistent with the management of the price variable, which is lower than full price, and with the life-cycle phase of the product, which passes through maturity or decline.

The factory outlet center is the typical distribution format for high-symbolic-value goods in the decline phase of their life cycle.

In order to protect the brand image while disposing of unsold products, however, the format, location, style, service and range of factory outlet centers must be managed with attention to the overall quality level of the offerings in the point of sale.

The individual factory outlet stores in factory outlet centers must accommodate brands with equal dignity and image: otherwise, consumers' perception of the overall quality offered by factory outlet centers may be reduced, with a consequent negative effect for all the brands hosted.

In other words, it is desirable that the total offerings of brands in factory outlet centers be homogeneous with regard to the perception of the brand by the end consumer.

Analysis of the characteristics of factory outlet centers in the market for high-symbolic-value goods reveals a significant new development regarding the role played by the distribution channel.

Innovations in the outlet channel. The primary function in the distribution channel described above, to dispose of unsold inventory, has progressively lost its importance with respect to the new function outlet centers perform: attracting fresh market segments.

The factory outlet center is no longer a cut-price residual channel in which one pours products from obsolete collections; instead it becomes an innovative sales format that allows high-symbolic-value brands to differentiate their offerings, targeting market segments not previously explored by applying different price levels and reducing the risk of arbitrage.

Traditional consumers perceive the outlet format as a completely different system of offerings compared to other direct-distribution formats.

With factory outlet centers a new market segment develops, represented mostly by occasional consumers of high-symbolic-value goods who wish to consume luxury goods but cannot or do not intend to access them through other distribution channels.

There are few official data available regarding the percentage of revenues from the outlet channel for luxury brands, as businesses are reticent to communicate information that is

also an indirect indicator of the level of exclusivity of their brand; however, some reliable estimates place the figure at 20%.^{xx} This percentage tends to increase during periods of recession.

As for the Italian market, examining a sample of firms in the high-symbolic-value goods sector it was observed that nine of these are now using outlets in Italy as the main channel for the disposal of unsold inventory, and most of them support a presence in other channels for managing remainders.

According to some studies,^{xxi} the most widely used method of disposing of unsold inventory was represented by stockists, followed by factory outlet stores, in-store sales and sales in foreign markets. The recent shift from the prevailing use of low-added-value and low-profitability channels to models more attentive to the protection of brand image and product value points to a greater degree of development of this distribution format on the part of businesses and to a greater degree of interest on that of consumers.

In recent years, including the period of the global recession, factory outlet centers have shown significant growth rates in sales – in absolute terms, but also relative to the average amount spent per customer.

The recent development of the digital channel poses new competitive challenges to factory outlet centers. In fact, the target customers who visit these formats with a view to price-opportunity perceive on-line offerings as alternative to offerings in factory outlet centers. How does one curb cross the cross-competition of factory outlets online? The strategy that many players have implemented consists in stepping up the provision of additional, entertainment-related services and experiences with the aim of adding value to the purchasing process.

Factory outlet visitors' approach to consumption. Consumers choose this type of distribution formula in their search for affordable opportunities to purchase, even if they are not clear about what they want to buy, as well as for an experience that allows them to combine purchases with recreational activities.

The factors that affect consumers at the time of purchase are basically price, quality, variety, convenience and service.

The reasons that lead them to buy in a factory outlet center rather than a shopping mall are, in addition to the factors mentioned as influential at the time of purchase, curiosity

and the idea of making a trip. The reasons why potential consumers go to a factory outlet center are willingness to buy in general and the desire to shop in particular stores.

The perception of quality is high and consumers are aware of the fact that one can find products with minor defects and from previous seasons.

Temporary stores

A temporary store is a point of sale under direct management opened by a firm for a limited period of time and is undoubtedly a trendy phenomenon at the moment.

A temporary store is the physical setting of the temporary communication and sale experience of which firms can take advantage through a suitable location. A temporary store has the primary function to inform, to arouse emotions, wonder and amazement, involving the consumer from the emotional point of view and reinforcing the brand image.^{xxii}

The first temporary store was opened in Berlin in 2003 by Commes des Garçons in a former library, showing a collection by Yoji Yamamoto in an informal setting. This experiment was a great success and was imitated by numerous players.

Max Mara in Milan, during the renovation of its flagship store, opened a temporary store designed with the aim of giving customers a sense of impermanence and unrepeatable exceptionality.

On the occasion of a one-person show by artist Takashi Murakami at the Brooklyn Museum of Art in New York, Louis Vuitton set up a temporary store where customers could buy Louis Vuitton branded products made in collaboration with the Japanese artist and attend the world preview launch of the latest line of accessories, sold exclusively in the temporary store at the museum during the exhibition period. Also for sale was an unusual pattern in a limited edition, Monogramouflage, created by the artist along with Marc Jacobs, which represented a preview of a new product line later launched in just a few Louis Vuitton single-brand stores.

Temporary stores' main function in the distribution channel is communication and support of the brand image.

The secondary function is to generate traffic at the point of sale and boost buying.

Salvatore Ferragamo. Ferragamo opened a pop-up store on Omotesando, an avenue in the heart of Tokyo. Opened at the launch in Japan of *Vara e Varina MTO*, the pop-up store was a first for the Florentine brand in Tokyo. The store stayed open eleven days while the *Vara e Varina MTO* project continued in the most important and Salvatore Ferragamo boutiques and corners in Japan.

The benefits of temporary stores. The benefits of temporary stores are manifold. First, they allow the brand to reinforce the perception of scarcity of the luxury product, by limiting consumers' exposure to it in time, through the creation of a unique and unrepeatable event. The event itself facilitates the customization of the product and the strengthening of the brand image. Temporary stores are also useful distribution formats for gathering information and increasing media visibility. In the event that a brand has a need to renovate a store, a temporary store is a solution that allows the companies to boost sales and create movement in view of the subsequent re-opening of the flagship store.

The advantages of the development of a system of temporary stores are numerous. First, the firm reinforces the brand image, promoting consumers' interaction with the brand in a less formal context. In addition, temporary stores allow reinforcement of the attribute of scarcity and the perception of rarity and uniqueness of the product. The opening of a temporary store is an event that is important for corporate communication more than distribution, as the media tend to highlight special events created by a brand. Also important to remember is that temporary stores allow management to get in touch with those consumers who follow the brand more closely and to collect strategic information on new trends in less formal contexts. Finally, it can also be used to create unique and unrepeatable events, linked to phenomena that combine fashion, culture and entertainment and support the launch of new products.

Techniques for setting up a temporary store. The communication of the opening of the store is done by almost clandestine word of mouth, with a sense of co-optation among "chosen" consumers. It is important that the architecture be bare-bones and transmit a sense of impermanence, with products arranged in a random and seemingly disorderly way, on the border between an art installation and a sales display. The temporary store must appear as a place of meeting and entertainment, where consumers can listen to relaxing music and soundtracks, play video games and enjoy food in a relaxed, informal

atmosphere. The sales staff is small and customers have the opportunity to try the products without limitations and barriers.

One of the current trends in the development of temporary stores is the choice of location in extremely evocative spaces, such as museums, art galleries, on the occasion of cultural, sporting or artistic events of global resonance.

The combination of products and locations of distribution with events and places helps keep the brand's sense of modernity alive. Physical temporary stores are increasingly integrated with the most advanced forms of digital communication and e-commerce sites in order to create integrated physical and virtual spaces and extend consumers' experience and possibly buying opportunities even after their visit to the temporary store.

Temporary stores in department stores. A very interesting format is opening a temporary store within a well-established context such as a department store, where the brand often is already present.

Department stores are a perfect solution for temporary stores because they are located in central areas known the world over.

In addition, department stores offer brands that opens a temporary store inside an established client base, large windows and traffic to their site. Department stores are favorite destinations of tourists during their travels, and offer skilled staff and equipped areas that reduce set-up times.

Pasquale Bruni, a Valenza firm that creates fine jewelry established in 1976, opened around Valentine's Day a temporary store in the Galleries Lafayette on Boulevard Haussmann in Paris, where it showed the artist's most exclusive collections and a unique piece: a 26.59 carat white gold and diamond ring.

It is now customary for fashion house Miu Miu to open a temporary store in the Parisian department store at Christmas time. The temporary store consists of a precious capsule with an aesthetically sophisticated interior.

ⁱ R. S. Winer, R. Dahar, F. Mosca, , *Marketing Management*, Apogeo, 2011, p. 465.

ⁱⁱ P. Re, A. C. Pellicelli, F. Mosca, E. Candelo, S. Bresciani, B. Bertoldi, E. Cerruti, *Strategie di marketing applicate a differenti mercati*, Giappichelli, 2007, p. 154.

ⁱⁱⁱ The average exhibition area is greater than two hundred square meters.

^{iv} In major world capitals certain streets are occupied by flagship stores of the brands best known worldwide. The success of a flagship store point of sale cannot be separated from its location, which must support the image and be accessible to the target. The development of neighborhoods where high-symbolic-value goods are sold does not regard just the most important capitals – New York, with 57th Street and Madison Avenue; Milan; Tokyo, with the Ginza district; London, with Bond Street; Paris, with Faubourg Saint-Honore – but also small towns considered trendy at the international level – Portofino and Capri in Italy, Carmel in California, and many others.

^v Studies carried out by the consultancy Pambianco Strategie di Impresa and presented at the conference "Made in Italy Strategies: the challenges of direct distribution" in February 2005, identified an average size ranging from fifty to two hundred square meters.

^{vi} *International Fashion & Luxury Listed Companies Annual Survey*, 2011.

^{vii} The average size ranges from thirty to one hundred and twenty square meters.

^{viii} The concept of factory shop has been used for many years to indicate the stores through which business owners and managers got rid of surplus production and lower-level products, selling them to their employees. Today factory outlets are a modern distribution formula, characterized by a specific business logic. Moreover, in recent years, attention has focused increasingly on factory outlet centers, even if individual locations managed directly by the manufacturer and used for the sale of returns and unsold products at discounted prices (factory outlet store) are still of considerable importance.

^{ix} In the United States the factory outlet center is called such if it has a surface area of at least 4,650 square meters. The average size of the most recent European centers is approximately 12,000 square meters, and that of the individual store bays in their interior is 220 square meters. These commercial structures are located in high-access areas, often tourist destinations, and the logic of choice of location is similar to that adopted for integrated business parks.

^x In fact, adult apparel accounts for 59%, followed by footwear (13.9%), accessories (11.3%), and children's and baby apparel (5.7%), adult underwear (5.1%) and home textiles (4.9%). Cf. G. Ferrari, N. Martorana *Outlet: la rivoluzione dei consumi*, Milano, Sperling & Kupfer, 2005.

^{xi} In this regard, Mario Deaglio notes that the philosophy of the factory outlet is to "ensure to consumers not only the goodness of the merchandise but also the pleasure of the purchase, to reduce costs with no reduction in quality but with the distribution of fixed costs over relatively large volumes."

^{xii} In the latter case, although the granting of licenses by the local authorities may be easy, the issue of the protection of the existing distribution network and direct competition with traditional retail stores becomes acute and important.

^{xiii} Examples are the Swiss centers of Mendrisio, Zurich and Villeneuve, located respectively near the border with Italy, France and Germany, situated in economically developed contexts with higher purchasing power by both residents and tourists.

^{xiv} Many promoters through outlet centers also seek to support development projects in their areas of location: for example, McArthurGlen has tried to increase understanding and appreciation of regional peculiarities through partnerships with local tourist boards, tourist consortia and wine producers in the areas where it sites centers.

^{xv} Gulfport, Mississippi is a prime example as it is one of the major centers but is able to attract millions of tourists every year, thanks to its beaches and its casino. Cf. study in *European Factory Outlet Center Report Institut Fur Gewerbezentren*, 2011, p. 20.

^{xvi} In America, the tendency of many companies is to locate factory outlet stores in old buildings and unused warehouses, restored mills and farms, historic buildings or new buildings, and converted malls.

^{xvii} In factory outlet centers opening hours adapt to leisure activities: they are open on Sunday and admission is free to all. This promotes high weekend visitor circulation.

^{xviii} This form of architecture, born in the United States, characterizes 44% of factory outlet centers in Europe, while the proportion is higher in Great Britain, where it represents 55% of all outlets. The second most widely used type of construction is the enclosed shopping center or center mall, which represents 28%, followed by refurbished former factories with 12%.

^{xix} A study carried out by Kiran Karande, of Old Dominion University, and Jaishankar Ganesh, of the University of Central Florida, on a sample set of buyers (182 individuals) in a factory outlet center in the northern United States, analyzed the reasons that induce consumers to buy at factory outlets and the relationship between these reasons and variables such as demographics, attitudes while shopping, models of customer behavior and attributes of the outlet. Cf. K. Karande, J. Ganesh, "Who shops at factory outlets and why: an exploratory study," in *Journal of Marketing Theory and Practice*, Fall 2000, p. 34.

^{xx} The Ralph Lauren company, for example, reported that the percentage of revenues from the outlet channel is 25% of worldwide turnover.

^{xxi} The data are reported in a study by McArthurGlen and Coscom Bocconi.

^{xxii} The phenomenon of temporary pop-up stores is recent and a consolidated literature on the subject is not yet available. The technique of opening these stores is rooted in guerrilla marketing, also used to promote rave parties in trendy cities around the world, and tin experiential marketing. Cf. B.H. Schmitt, *Experiential Marketing*, The Free Press, New York, 2011.

CHAPTER 4

INDIRECT DISTRIBUTION FORMATS

4.1 Indirect distribution formats

The following point-of-sale formats acquire particular importance in indirect distribution: single-brand boutiques, department stores, corners, duty-free shops and franchised points of sale.

The advantage of this strategic approach is that all charges relating to the costs and risks of internationalization are transferred to and borne by the intermediary. The disadvantage lies in the limited control over the foreign market exercisable by the manufacturer.

The technique is particularly useful when the degree of knowledge of the target market is relatively low: entrusting sales to intermediaries is a way of verifying how much a given market can absorb and of acquiring useful information about the needs and characteristics of potential buyers.ⁱ

Specialized intermediaries: multi-brand points of sale or boutiques

A multi-brand point of sale is an intermediary specialized by product type or customer target.

A traditional point of sale has a wide range of selected brands positioned in the higher price ranges and assures customers personalized service. Although these characteristics are appreciated by distributors, which can offer a broad variety of products, and by end customers, who are guaranteed a wide choice, they bear a high risk for the brand. The superimposition of numerous brands, in fact, can confuse the consumer and devalue a single brand's image and positioning. For the manufacturer it therefore becomes essential to manage the intermediary properly and possibly to implement a marketing policy whose goals include a sell in or, in any event, the establishment of collaborative relationships with a view to generating upward information flows on new market trends and customer expectations.

The location of multi-brand points of sale in desirable and prestigious positions in the historical centers of European cities is one of the parameters taken into account by the

major players in luxury when they select their intermediaries. Other factors considered are specialization, the image established in the geographic context, and the relationships of trust that retailers establish with their customers. The consistency of the image of the multi-brand point of sale with that of the firm is an essential prerequisite for any distribution relationship. The lack of adequate multi-brand points of sale, in some cases, may burden firms with "distribution bottlenecks" that limit the possibility of expansion in certain markets. This is one of the reasons that have led manufacturers of high-symbolic-value goods to engage directly in distribution.

Using this distribution format is nevertheless consistent with the trend among the firms considered here to ply a market approach focused on consumers. Indeed, brands leverage the relationships established between retailers and customers in a given geographic context to maximize market penetration.

Department stores

The department storeⁱⁱ is a distribution format characterized by a large surfaceⁱⁱⁱ where prestigious brands, for which a premium price is charged, and private labels, whose offerings are accessible to a wider segments of the market, coexist. Despite their imposing size, department stores were born, mostly, in the central streets of urban centers, where spatial congestion favored the characteristic vertical development on several floors.

A distinguishing feature of this form of distribution is its notoriety in the area or district in which it is set. Department stores are often a landmark buildings in the historic center of the city that hosts them.

For instance, La Rinascente in Milan, Selfridges and Harrods in London, Printemps in Paris, Isetan in Shinjuku, Tokyo, are located in historic buildings that are familiar enough as to constitute a central point of reference for consumers well as a symbol for the city in which they are located. The last, in particular, under the guidance of Hiroshi Onishi, chief executive of the entire Isetan Mitsukoshi group, is considered the best department store in the world, located in a building, dating from the 1930s, that is a historical monument. Completely renovated to underscore the quality of its products and services, it is characterized by a high turnover of presentations and a growing interest, in the fashion and food departments, in working with Italian brands. Recently in fact it completed a major display for Ferragamo, which required a year's work to complete and will certainly contribute to strengthening Ferragamo as a global fashion brand.

In department stores products may be displayed in different spaces, which are assigned by product category. Department stores may offer more variety and longer opening hours than traditional points of sale, which increases the attraction to customers.

When department stores are owned by a distribution chain, purchasing is centralized and the process of selecting brands and products to be included in the range is managed by a single buyer for all points of sale.

Channel conflicts

Under a scenario in which the average size of a chain of specialist points of sale grows, in terms of floor space, turnover and market presence, the conflictual relationship between the large-scale retailer and the manufacturer becomes apparent.

The manufacturer of a high-symbolic-value good with a known and recognized brand has no difficulty placing its products in the department store's range, but it still generates a form of vertical conflict with the distributor with respect to the other functions of the distribution channel – namely the positioning of the brand, the method of displaying its products in the point of sale, the quality and quantity of staff available to customers in the point of sale and the resultant level of service, the minimum range, the reordering of products, and the management of unsold stock and the timing of payment.

The conflict over this division of functions, to which scholars are wont to refer in the case of non-problematic goods with a broad consumer appeal, assumes a certain importance in the context of high-symbolic-value goods, especially at the accessible level and in the markets where the presence of department-store chains is high. To date, this conflict has affected less established luxury brands only. The major players in the market for high-symbolic-value goods, in fact, are able to transfer the advantage gained in the consumer market to distribution. Often distributors have an interest in offering products of a brand highly appreciated by consumers in their range, because this leads to positive image return.

The department store, being able to exploit the force of attraction of the high-symbolic-value brand, gains an advantage in terms of lower investment in communication to reach its customers, with an overall benefit to its entire range.

The vertical manufacturer-distributor conflict can be eased by following the model already tested for non-problematic goods in cases of conflict between large retail chains

and branded industry – specifically, by cooperating in the exchange of important information available to the department store on the purchasing behavior of customers of a specific brand.^{iv}

The information collected by the distributor on the customer inside the department store has strategic value for the brand manufacturer, which can use it to adjust its product policies, to meet the needs expressed by consumer demand, in real time. Timely information is a source of competitive advantage especially in the fashion and luxury markets, where the life cycle of collections and related products is extremely short in temporal terms.

Another form of cooperation between brand manufacturers and department stores concerns the management of the display space of the point of sale. Managing this space together permits the manufacturer to preserve the brand's style and identity, even in a multi-brand context, at the moment of contact with the consumer, while allowing the distributor to save on the costs of the personnel required to run distribution activities.^v

Unlike the big players, small and medium-sized Italian firms in the fashion-luxury sector, mainly belonging to districts, encounter increasing difficulties in relationships with large-scale distributors – which, as noted, are found mainly in overseas markets. This happens for two reasons.

Firstly, because the market power within the distribution channel is skewed in favor of the large distributors, which determine the conditions for carrying out the main functions in the channel.

Secondly, because the large quantities of product required for each provision does not allow the small and medium enterprises to respect delivery times, and this implies the need to resort to subcontracting.

The phenomenon is relatively small at the moment, as department store networks are not yet widespread in Europe in general and in Italy in particular. The small and medium-sized enterprises operating in the market for high-symbolic-value goods, moreover, exhaust their production capacity before tackling this category of large intermediaries. However, it should be noted that the inability to obtain a stable presence in department-store networks, in the future, could place a limit on the international development of small and medium-sized enterprises in this sector.

The dedicated space or corner

The dedicated space or corner is a display area allotted to the offerings of a single brand, which is not managed directly by the company that holds the brand.^{vi}

Decisions about the range, atmosphere and physical evidence of the dedicated space are the responsibility of the firm that controls the brand, but the sales staff is provided by other parties.

Although a dedicated display area under indirect management is not the most appropriate solution for maximizing the exclusive image of a brand, it does favor the achievement of the following objectives.

- a) It improves distribution coverage, increasing the number of points of sale to end consumers and achieving higher intensity distribution.
- b) It reduces the fixed costs of direct distribution: the presence within a larger display space allows the firm that owns the brand to avoid the costs of property management and related services, together with the other expenses of maintaining an autonomous point of sale.
- c) It preserves the brand image even with more intense distribution coverage: the uniqueness and differentiation of the brand and the values it offers to consumers are better protected in a dedicated display space.

For upmarket goods, the corner is not always a satisfactory solution, especially if it is located in a department store with a generalist range and a peripheral location. However it is an almost inevitable distribution solution, particularly in international markets, for firms that do not have the financial resources to create and manage directly a network of single-brand stores large enough to allow adequate distribution coverage.

Jacuzzi. Jacuzzi, a historical Italian firm, has manufactured and sold high-end Bath & Shower products since 1915. Lately the firm has set out to strengthen its position in luxury products for its spa, bath and wellness line.

The strengths of the Jacuzzi brand are its historical origins and tradition, the quality and technology of its products, their style and design, and the brand loyalty of its customer base. The brand has become so popular that the firm's name has entered the vocabulary of the whole world as a synonym for "hot tub."

The main competitors are global brands, frequently controlled by multinational groups. Jacuzzi is a particularly interesting case, as it provides a role model for the development of corners in large display spaces by small and medium-sized enterprises. To distribute its products the firm very often creates an exclusive area for its brand in specialized points of

sale or during important events – dedicated corners that the company considers part of a program of customization of its display space. The customization is done by Italian architects directly coordinated by Jacuzzi.

Duty-free shops

The duty-free shop is an intermediary located in the transit areas of airports, large railway stations and international tourism hubs such as cruise-ship terminals.

The importance of the duty-free shop in the distribution of high-symbolic-value goods is related to the characteristics of consumers and their buying processes.

As we have noted in previous chapters, studies on consumers of high-symbolic-value goods highlight the following:

- the chance consumer often buys products on the basis of an irrational impulse determined by sensory stimuli induced by the atmosphere of the store;
- both traditional and chance consumers customarily make purchases of high-symbolic-value goods abroad, even if the same goods are available in their country of origin;
- the propensity to buy is higher in situations where the time available is greater;
- in the culture of some consumers the gift of a precious good to a loved one after a long trip is an established tradition.

These observations make the duty-free channel particularly interesting for winning over traditional and chance consumers who are traveling for business or tourism and who represent a significant segment of reference for firms that wish to gain or strengthen an image in international markets.

In order to benefit from the potential arising from the presence of products in duty-free shops, particularly at international airports, the image of the point of sale must be carefully managed.

The brand image must be coherent and consistent with the choices made in other distribution options in international markets. This implies that international customers should perceive a general consistency between the duty-free shop and other points of sale, with regard to the concept, the atmosphere, the policies of visual merchandising and quality of offerings, in terms not only of the mix of the product line but also of the care of the premises and the professionalism of staff.

The main weakness of international duty-free shops, at least in their current configuration, is their excessive diversification of offerings, which implies the presence in the same

display space of items of very different product categories as well as mundane items such as food or tobacco.

Moreover, the limited space available puts significant constraints on the definition of an appropriate mix of offerings, so that firms have to limit the availability of the range to one or a few products.

Burberry. For example, Burberry, one of the brands expanding most aggressively in travel retail, determines the mix of offerings based on the location and the space available; however, it always presents the basic items in its collections, as they are easier to sell. One of the most recent openings is the duty-free shop at the airport in Abu Dhabi.

International airports that have been built or renovated recently have larger available display spaces, and this has enabled a clearer division of spaces by product categories and brand positioning. The Dubai airport, for example, has created a dedicated central gallery in which each of the major global luxury brands has a display space, in some cases with points of sale exclusively devoted to the brand, in other cases in multi-brand points of sale.

The leading firms in high-end global markets have considered duty-free a dangerous intermediary, because of the potential negative effect on brand image, but one that is appealing, due to the volume of sales it can generate, especially given the direct contact of duty-free points of sale with the important market segment of consumers who travel for business or tourism.

For these reasons, many global players in these markets use duty-free as a distribution channel only if they are granted exclusive, dedicated display and sales spaces.

Zegna. Zegna chooses its ranges on the basis of the space available and introduces in duty-free shops only the products that sell best in the domestic market. In any case, the sportswear line is offered only in a branded area or corner, and formal dresses, jackets and trousers are not sold through this channel.

A presence in branded areas, even if they are operated by personnel not directly employed by the firm that controls the brand, allows the firm to monitor and ensure better coherence with the brand image globally. One possible solution that helps overcome the weakness of duty-free shops understood as terminals for the distribution of high-symbolic-value goods

is the development within duty-free shops, especially in large international airports, of spaces exclusively dedicated to high-end goods, with a clear distinction between brands, well separated from the points of sale of non-problematic goods.

Some recent data indicate a trend toward an increase in revenues from the sale of high-symbolic-value goods in this distribution format, which would represent nearly 40% of total duty-free sales. Items from the textile-apparel-leatherwear-eyewear fashion system are the best sellers in duty-free shops, representing more than 40% of sales for some firms.

Likewise, the geographical distribution by market area of revenues from the duty-free channel highlights a significant fact: the markets where duty-free will sales be more important, compared to the current situation, are Asia and the United States.

In recent years, luxury brands have used display spaces in international airports to create temporary presentations of products that were in the process of introduction in international markets. For example Marinella, a famous Italian brand of ties, at the launch of its new scent, *Marinella 1888*, opened a temporary display space for the product in a few duty-free shops in Italian airports to underscore the scent's introduction on the Italian market.

Franchise networks

In a systemic perspective the firm must assess through its governing body the extent to which membership in, or development of, a franchise network will yield benefits for the system in relation to other supra- and sub-systems.

This evaluation is carried out by considering the benefits attainable by the firm as a living system with respect to the available alternatives, in an analysis of intersystemic relationships and the different interactions to which they give rise.^{vii}

Franchising is the most highly developed form of contractual vertical distribution system characterized by independent firms located at different levels in the channel. The definitions relating to this form of distribution are numerous. For our purposes, we can say that a franchise relationship is established between business systems when, by contract, one firm grants to another the right to use its commercial formula in a certain geographic context, according to clearly defined rules and with a given sign or brand.

The franchisor generally offers the franchisee ongoing support, enabling the latter to

perform its commercial function in the area of competence under the best possible conditions.

The franchisee is committed by contract to pay the franchisor a fee for the right to use the brand and for the benefit deriving from the franchisor's contribution of know-how.

Gucci. Gucci, a world leader in luxury apparel and accessories, over the years has developed a network of franchised points of sales, especially in the most important historic town centers and the most prestigious cities globally.

In the market for high-symbolic-value goods, the firm that controls franchise relations with independent points of sale provides, in addition to strategic knowledge for the management of the display space, especially the right of use and exploitation of the brand. Specifically, distribution by franchise agreement takes place in the reference market through the development of a network of points of sale, generally in the format of single-brand boutiques.

Ferragamo. The Salvatore Ferragamo group uses franchise especially in those markets that are not yet sufficiently large to justify a direct presence. The furnishings and design are provided directly by the group, whereas the franchisee is responsible for ensuring the achievement of minimum levels of revenues and the payment of royalties on revenues.

This option is an indirect form of distribution because the manufacturer delegates, albeit on the basis of a contractual relationship, an independent intermediary to manage the phase of sales to end consumers.

It is important to note that, among indirect options, the franchise is the form of distribution that allows the firm that owns the brand the highest possible level of control over intermediaries.

In franchising relationships for the distribution of high-symbolic-value goods, which by their nature are attributable to the broader category of problematic goods, channel conflicts between manufacturers and intermediaries are reduced to a minimum.^{viii} The firm that owns the brand acts as channel leader by exercising over the franchisees its superior market power, which derives from the absolute value acknowledged by consumers to the brand, as well as by the constraints imposed by contract. The consequence is that the firm that holds a well-known brand can count on the loyalty of the

consumer who decides to make the purchase, choosing first the brand and only afterwards the point of sale, and thus has a high degree of control over affiliates and little conflict with them. The affiliates in this case are passive subjects of the decisions of the franchisor and channel leader, which with its policies determines the vertical distribution of marketing functions and the division of sales margins.^{ix} Interpreted in this light distribution through intermediaries in franchising can be considered as the option that maximizes control over indirect points of sale.

Borsalino. By way of confirmation, Borsalino, the historic Italian hat firm, uses agreements that have some special clauses for its single-brand franchise network: the fixed costs and the costs of maintaining the stocks are borne by the franchisor. The warehouse is managed as if it were proprietary, while the franchisee is entitled to commissions calculated as a percentage of sales.

If the firm wants a higher degree of control it must necessarily choose direct channel management. For the reasons stated above, high-symbolic-value market players often choose distribution through franchise agreements. The main advantages of the development of a network of franchised points of sale can be summed up as follows.

- **Information flows.** Easy access to information about customers and the market and a continuous exchange between the two living systems in cooperative arrangements within the distribution channel in which the brand's interest in maximizing sales coincides with that of the point of sale.
- **Global consistency of the brand image.** The spread in international markets of a brand image that is consistent and characterized by the same traits. The atmosphere and layout of the points of sale, and communication in the point of sale, are unique and uniform.
- **Local relations.** The offer of a network of specialized points of sale to suit increasingly complex and hard-to-please demand, with reasons for purchase that are not only utilitarian but also hedonistic-experiential.^x
- **Economies of scale.** The achievement of economies of various kinds, through the centralization of business functions such as marketing and logistics.
- **Entry barriers.** Overcoming barriers to entry in certain countries with complex regulations.

The reasons that lead firms operating in the market for high-symbolic-value goods to

develop networks of franchised points of sale can be classified as follows.

- The need to carry out a strategic action in order to achieve long-term goals.^{xi} The brand image strengthens the confidence of potential customers in the quality of products; this leads to a lasting bond with customers and therefore to increasing revenue for the manufacturer.
- The necessity to reach potential customers in a more capillary manner without incurring additional costs, which stiffen the financial structure.
- The desire to penetrate a new market rapidly using the knowledge and skills of local entrepreneurship and then, in a second phase, appropriate the network to increase its efficiency.
- The necessity to expand abroad without incurring the costs of setting up a direct network (the firm may not have the necessary resources), but at the same time ensuring contact with the market and greater image coherence with respect to a multi-brand distribution.
- The need to develop customer activities, service and relations in local contexts that require a specific adaptation to market conditions.

Hermès. As part of a mixed distribution strategy, the French firm has developed a franchise-concession indirect distribution system. The concession system, covering a percentage of points of sale that oscillates between 35% and 40%, is adopted mainly in three situations: in airports where the cost of renting display spaces are high and the firm needs to follow a model that is more economical compared to other points of sale, in regions where by law the foreign investor may not hold a majority interest (such as the Middle East), and finally in geographical areas where the brand is not well represented among consumers of reference.

On the other hand, firms that intend to build a distribution system through franchises must evaluate if they possess the necessary requirements: the brand must have a sufficient reputation, while the firm has to ensure the franchise the support services and advice provided by the contract and the ability to create an organizational structure that encourages the development of new knowledge and the dissemination of information in order to adapt constantly to changes in the competitive environment.

As can be seen from the case studies analyzed, the network of franchised points of sale is part of a mixed distribution system; it flanks a framework of proprietary points of sale to

allow for greater coverage of the market when the firm does not have enough resources for an exclusively direct management of the channel.

Or at other times, firms may limit management in franchise to markets presenting difficulties of entry that do not to allow direct management.

Of all the distribution organization models for firms that have begun the process of internationalization, franchising is the one that is undergoing the strongest development. It continues to grow in different economic-geographic areas thanks in part to the relentless spread of new information and communication technologies.

4.2 Evaluation of points of sale: Key Performance Indicators

After analyzing the various types of direct and indirect distribution, it is essential to analyze and evaluate the performance of the points of sale, regardless of the type of product/service offered.

These indicators should help firms and organizations align their daily management with their strategic goals.^{xii}

Points of sale play a fundamental role in firms' distribution strategy. Key Performance Indicators are defined as quantitative measures identified and defined in advance and used by firms to monitor and evaluate the enterprise's performance. They are quantifiable measures used to assess whether and to what extent goals are being achieved.

To be effective, KPIs must have certain characteristics. First of all, they have to be linked to business objectives and be realistic and achievable; they must be measurable (that is, allow one to check the enterprise's real progress); they must be relevant (directly related to the business), and finally they must place their objectives within a time frame. Performance indicators have real value only when compared with those of previous years, with the KPIs of other points of sale with similar characteristics, or with the budget.

However, it is possible, through an integrated assessment and management of luxury stores, to divide the variables to be considered and the related measurement techniques on the basis of *location, physical evidence, point-of-sale management, staff evaluation and management of the relationship with customers*.

Creating this reference model allows one to improve key performance indicators and to use them more effectively. A possible application of the model might consist, for example, in matching with each distribution format areas of assessment and KPIs that

contribute most to its accurate evaluation.

Let's look at directly managed points of sale. The flagship store is one of the most important distribution formats for luxury brands, as we have seen. Because it is considered an investment in communication, priority can be given to the assessment of location, physical evidence, personnel and customer relations. Emphasis can be shifted away from economic and financial issues, which ordinarily play an important role in the evaluation of the performance of a DOS, given that the main task of this format is to ensure adequate market coverage at a certain level of profitability. For the evaluation of shop-in-shops it is best to focus on physical evidence, as luxury brands often use this format to spread brand values and a consistent brand image internationally. This aspect is important also for factory outlet centers, which, in addition to looking after physical evidence, must be careful to maintain their status of exclusivity and uniqueness. In the evaluation of temporary stores it is essential to measure performance in terms of sales generated and, because of their temporary nature, it is often useful to continue to maintain a relationship with clients even in periods when the point of sale is inactive.

Among the most important indirect distribution formats, multi-brand boutiques must be assessed on the basis of economic and financial measures, although it is important not to underestimate customer relations and location, Shop-in-Shop in Department stores, which are often used as initial vehicles of expansion into new markets, are mainly concerned with generating revenue; therefore the KPIs most suitable for their assessment are economic and financial. Essential for the evaluation of corners, in contrast, is physical evidence, as for this type of format the atmosphere, the range and the display of products must be consistent with the brand image. Physical evidence is fundamental also for duty-free shops which, being geared for well-off consumers who travel, must also be evaluated from an economic and financial standpoint, too. The franchise, like all other indirect-distribution formats, should provide an adequate level of sales, but it should also be evaluated from the standpoint of customer relations, as it allows the firm to obtain information relating to its customers and to new trends.

Evaluation is necessary because everyone needs points of reference against which things may be compared, to measure progress and try to improve. Specifically, for a point sale, comparing present results with those of a previous period is crucial to understanding if performance is improving or getting worse.

Last but not least, one may choose to compare the results of a point of sale to the budget. The latter represents the goals the point of sale has set for itself. It is a reasoned forecast that takes into account any difficulties the point of sale is expected to encounter. The budget is created by certain performance indicators – things the point of sale generally considers most important for success, and on which it will focus its efforts.^{xiii} These are:

External attractiveness indicators, which measure the ability of the store to attract customers.

Internal attractiveness indicators. Consumers choose if and what to buy on the basis of their needs, once they have entered the point of sale.

Indicators of the quality of conversion and management of the point of sale. From the moment customers enter the point of sale, it is up to the store and the staff working there to create the perfect setting so that visitors feel at ease and are motivated to extend their stay and to buy.

Profitability and cost indicators. The evaluation of a store's performance also requires analysis and understanding of data regarding sales results, margins and profitability. For each store one needs to consider profitability indicators and costs, as performance evaluation also requires the analysis and understanding of data regarding the store's sales results, margins and profitability, as customer loyalty and satisfaction is, always, the key factors in the management of points of sale.

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- ⁱ G. Pellicelli, *Il marketing internazionale. Mercati globali e nuove strategie competitive*, 2007, Etas.
- ⁱⁱ The English name is used in foreign languages, too, because the distribution format originated in the US market, where it is prevalent.
- ⁱⁱⁱ In general, the size is greater than 400 square meters.
- ^{iv} The point of sale has the option of gathering a great deal of information on customers: for example the frequency of purchase of a product or brand, preferences and requests expressed to sales personnel, the average time of purchase – all correlated, in markets where the privacy laws permit, with socio-demographic data on the customer obtained from a credit card or by filling in the forms issued to facilitate participation in promotional activities carried out in the point of sale.
- ^v A common form of cooperation occurs in practice when the manufacturer staffs its brand's department store display space with its own personnel.
- ^{vi} In practice the dedicated space is often an area of ten to thirty square meters within a multi-space environment.
- ^{vii} Cf. G.M. Golinelli, *L'approccio sistemico al governo dell'impresa*, vol. 1, L'impresa vitale, Padova, Cedam, 2000, pp. 167–176.
- ^{viii} A.M. Bruno Biancone, *Il sistema di franchising nei servizi di tipo terziario. Aspetti internazionali*, Torino, Giappichelli, 2003, pp. 61–67.
- ^{ix} Anglo-American literature on the subject describes control of the channel in terms of a *vertical marketing system*. In this connection, cf. R. Varaldo, *Potere e conflitti nei canali di distribuzione*, Pisa, ETS, 1971; L.W. Stern, A.J. El Ansary, *Marketing Channels*, third edition, Englewood Cliffs, Prentice Hall, 1988; L. Pellegrini, "I rapporti industria-distribuzione nel contesto italiano", in L. Guatri (ed.), *Trattato di economia delle aziende industriali*, Milano, Egea, 1991.
- ^x P. De Luca, D. Vianelli, "L'influenza delle variabili culturali sullo sviluppo del franchising internazionale: il caso italiano", in *Sinergie*, no. 60, 2003, pp. 145–161.
- ^{xi} A.M. Bruno Biancone, *op.cit.*, p. 23.
- ^{xii} D. Parmenter, *Key Performance Indicator. Developing, Implementing, and Using Winning KPIs*, John Wiley & Sons, New Jersey, 2010.
- ^{xiii} E. Schmidt, *Gli indicatori di prestazione del negozio – I numeri che orientano le decisioni*, Franco Angeli, Milano, 2013.



CHAPTER 5

NEW TRENDS IN THE DIGITAL CHANNEL

5.1 Introduction

The aim of this chapter is to analyze the role of the digital channel and its effectiveness and efficiency as distribution intermediary in the market for high-symbolic-value goods.

The study of the Internet and its impact on the market can be approached from many points of view: for the purposes of our publication we have chosen to analyze the Internet as a possible intermediary in the distribution channel, and hence to evaluate, in view of the enterprise-system in the market for high-symbolic-value goods, whether and to what extent the digital channel represents a viable option in the context of distribution strategies.

The evolution of the digital channel in markets for high-symbolic-value goods has been swift: the considerations made only five years ago by scholars and by management on the marginal character of this channel, are no longer current.

The main doubts about the ability of the digital channel to represent a valuable outlet for luxury goods could be effectively summarized by the following questions: Is the Internet able to guarantee the shopping experience to consumers of luxury goods? What is the real number of consumers buying luxury goods online? Have luxury firms already acquired the skills to sell over the Internet? The answers of management and scholars until 2005 were still strongly negative.

In the following years several factors of change have fundamentally altered the role of the digital channel. The main factors of change have been the evolution of technologies, the development of broadband, the spread of new devices such as smartphones and tablets, and the increasing interconnection and capacity for sharing information among consumers thanks to the development of social networks.

Recent years have also seen an increase in the purchasing power of a wide range of new consumers, especially in emerging areas such as China, South America and Africa, who have a high propensity to buy in the digital channel. Add to this that a wide range of consumers in mature areas of the market are gradually getting used to trusting the digital

channel for their purchases.

Today we can say that the digital channel has assumed strategic importance for firms in markets for high-symbolic-value goods. In fact, both use by consumers, and turnover achieved by the firms, are growing constantly.

5.2 The advantages of the digital channel

Preliminarily it is appropriate to identify the main benefits that the use of the digital channel allows one to gain to then assess to what extent they are repeatable in the market being analyzed.

The Internet is a digital space for transactions to the degree it activates an innovative distribution channel that provides benefits to subjects that use it.ⁱ

The advantages can be distinguished according to those who potentially benefit from them: the firm and consumers.

The digital channel, from the point of view of supply, the firm generates the following advantages for firms.ⁱⁱ

- Enlargement of the market. The potential market is expanded beyond imaginable geographical limits with the result that, at least in theory, even small firms can expand their offerings without having to invest in the physical structures of distribution in foreign markets. Kalakota and Whinston (1997) have shown that the costs of access to virtual stores are absolutely low and independent of distance.
- Development of direct, real-time two-way communications. The firm has the opportunity to develop a communication relationship with consumers. The advantage of the interactivity of the channel has the consequence that the access time to the digital point of sale is null (Hoffmann and Novak, 1996).
- Information on consumers. As a corollary to the possibility of developing two-way communications, the Internet provides a superior understanding of consumers with which the firm develops transactions through the acquisition of information at low cost. In fact, consumers themselves, upon request, furnish their data, and/or news about tastes, needs and lifestyle.
- Mass Personalization: even in the presence of numerous contacts with consumers it is possible to establish, at an acceptable cost, a personalized relationship with each individual and entity. In consequence, it is possible to act effectively to optimize

customer loyalty, not only as regards communication but also for the content of the offering.ⁱⁱⁱ

- Reduction of time constraints: the digital channel one can make a sale that is not bound to any point in time, thus overcoming the physical time barriers of non-digital distribution.
- Integration of marketing processes: the collection of information from the market, the design of new products, the sales process, the collection of orders, and the management of logistics, accounting and finance can be integrated with greater effectiveness and efficiency in the digital channel.
- Integration of the digital channel with User Generated Content: the spread and interaction of information that characterizes social networks and that firms use in a perspective of communication can be integrated with the digital channel in order to create flows of consumers towards the points of virtual sale.

With regard to demand, the advantages of the digital channel for consumers are attributable to the following.

- Enlargement of the opportunities of access to markets, goods and services: consumers can overcome physical and temporal limitations, which constitute a constraint on the research and selection of offerings, expanding the bases of products and services, accessible geographic markets, and number of firms. The traditional limited rationality of consumers as understood in marketing studies tends to decrease in digital-channel purchasing process, in which consumers' ability to collect information grows exponentially.
- Reduce the burden on consumers in the purchasing process: the monetary burden connected with the costs of physical movement and the search for the product or service, and the burdens of time to devote to the purchase are reduced. Consumers can access in real time without the time constraints of time of day or day of the week.
- Increase the basis of information in the buying process: consumers have a direct, real-time flow of information from the manufacturer, without mediation that can lead to distortion effects.
- Superior customization of offerings: the product available can be highly customized based on the customer's specific requirements.
- Ability to compare prices.

The literature has highlighted a number of weaknesses of the digital channel.^{iv} The main reasons of incompatibility between the Internet channel and high-symbolic-value consumer goods are attributable to the following:^v

- a) lack of emotional character of the purchase;
- b) lack of experience in the point of sale;
- c) inadequate relationship with the seller;
- d) lack of activation of relations of trust with the seller;
- e) inability to obtain the desired product.

To the points listed above one must add three reasons that are ingrained in the Internet channel in all markets. The first is due to the fact that consumers of luxury goods perceive problems related to the security of transactions more acutely, as the average value of each sale is higher. The second reason for incompatibility is related to the phenomenon of counterfeiting of branded products, which spreads in consumers the insecurity of having made a purchase that is not guaranteed.^{vi} The third is the presence of cognitive barriers to the use of the medium.

The presence of many reasons of incompatibility makes, even in a rapidly changing scenario, very high still the possibility of making mistakes in the selection and management of the digital channel in the context of markets for high-symbolic-value goods.

With regard to points (a) and (b) above we should point out that the shopping experience and the atmosphere of the point of sale are much harder to reproduce in the context of the digital channel than in the physical channel.

Boo.com. It is a case in point, remembered for its unsuccessful attempt to develop a digital intermediary in the high-symbolic-value market. Boo.com was to be the first global e-tailer of fashion and prestige products to offer services to consumers in the language of their country. The goal was to offer fashion-related luxury goods in Europe and the United States. The characteristics of the digital intermediary Boo.com were as follows: excellent high-end brands, presence in key international markets, offering a virtual environment organized to provide a unique experience of purchase to consumers, and finally ensuring a high level of customization.

The main strategic error that led to the failure of development of a digital intermediary in the market for high-symbolic-value goods was the lack of coherence of the role played by the intermediary with the variables of the marketing mix.

Consumers, therefore, did not perceive a real product differentiation and their attention was focused on the price variable.

With reference to this variable, Boo.com had chosen to fix prices in line with the market conditions of physical intermediaries, thinking it was sustaining the brand image with this option.

In contrast, consumers, in search of an emotional experience, at the same price, preferred to purchase from physical intermediaries.

In this case it is possible to observe a situation of lack of coherence between the variables of the marketing mix and a horizontal conflict between the physical points of sale and the digital intermediary, which is perceived as a direct competitor.

In addition to the lack of consistency, which is the main strategic reason for the failure of Boo.com, there are other aspects more related to errors in operational marketing during the launch of the digital point of sale. The main ones are: lack of properly trained management, high cost of logistics, and the substantial costs of the communication campaign at the time of launch.

Furthermore the use of technologies what were not yet widespread among consumers resulted in a slowdown in sales potential.

The benefits to firms and consumers identified above were not, in the past, actually attainable in the market for high-symbolic-value goods.

Taking as a reference the classification of barriers to the development of the digital channel as technological, economic, psycho-cultural, legal and socio-legal and cultural,^{vii} the latter assumed particular importance in the context of the market for high-symbolic-value goods.

The preference for face-to-face interpersonal contact with the seller, the importance attached by consumers to multi-sensory physical contact with the product and the playful value connected with the buying process made the Internet channel a difficult distribution option.

The barriers to the development of the digital channel in the high-symbolic-value market, in order of importance, were: characteristics of the buying process for consumers and the product, diffidence of management, potential conflict with physical points of sale, low skills and high costs of logistics, low computer literacy of consumers, high perception of risk, and the lack of business models of reference.

The current scenario, as noted above, is radically changed. The development of some successful cases, such as Yoox.com, is due to the combined action of the factors of change examined above.

Yoox. Yoox.com is an independent pure Internet player that operates in the markets for luxury goods and that started up at the end of the nineties. Yoox.com boasts a good track

record, of exponential growth in turnover and operating profit, with a presence in key market areas such as Europe, the USA, Canada and Japan. Each month the Yoox.com site sells more than one million products to consumers in world markets in which it operates with over 14 million visitors per month on average. Just three months from the start of operations, Yoox.com had reached one million purchase orders; revenues, cash flows and earnings were also positive in subsequent periods. The turnover in 2000 was twenty-two million euro, in 2008 one hundred thirty-two million euro and in 2009, despite the recession, has not suffered declines. The firm was listed on the Milan stock exchange in 2010 and at the end of the same year had a turnover of two hundred million euro. In 2013, the group reported sales of five hundred million euro.

The strengths of the group have been from the outset the coherence of the function assumed by the digital distribution intermediary in the market in high-symbolic-value goods, focusing on products that are passing through the declining phase of their life cycle by acting with a view to reducing the price, while remaining consistent with the nature of high-symbolic-value goods. Moreover, intermediaries are perceived by consumers as highly differentiated as regards both the price variable, and the product range, and there appears to be no risk of arbitrage between the digital intermediary and physical points of sale. Its extensive network of relations make Yoox.com an accessible and visible site, and therefore favors the enlargement of its potential market. Finally, efficient logistics management ensures orderly and timely delivery of the products; in e-commerce this plays an essential role and is a key factor for success. In recent years the product and pricing policy has changed. Yoox.com produces collections dedicated to the digital channel, marketed under a policy of full price, having gradually abandoned the reduced-price approach.

It is possible to say today that the digital channel represents a significant and growing opportunity for firms that operate in the markets for high-symbolic-value goods.

It is necessary to conclude our analysis of the compatibility between the digital channel and high-symbolic-value goods, by pointing out that, even today, the main risk of an inappropriate use of the Internet is the possible negative effect on brand image. In this regard, Kapferer (2000) explains that e-commerce represents both an opportunity and a threat for luxury brands. The opportunity is to be able to reach potential consumers who do not have direct access to physical points of sale or who are intimidated to access them. For this reason, there are a few luxury firms that have decided not to develop their own online store.

Brunello Cucinelli, in order to safeguard the extreme exclusivity of its products and its brand, has decided to rely on a few selected online store such as Yoox.com, but not to develop its own directly managed online store.

The reasons for not developing the digital channel in the market for luxury goods are ascribable to the following: consumers use the Internet to gather information but buy in

the physical channel; the digital channel is not consistent with the brand strategy of the firm, and the relevant consumer is not interested in buying products or services online; The digital channel is not consistent with the firm's distribution strategy and remains marginal. Many players sell online through channel partners, as they believe that the management of the digital channel is complex and expensive.

5.3 Analysis of compatibility between consumer characteristics and the digital channel in the context of high-symbolic-value goods

The reference scenario in the use of the digital channel for luxury goods has completely changed in recent years.

The numerous success stories of independent e-commerce sites such as Yoox.com, Net-a-Porter.com, Victoriasecret.com, Bag Borrow or Steal.com, NeimanMarcus.com, Gioie.it, BlueNile.com and of Internet sales sites directly controlled by luxury player such as LVMH, Christian Dior, Burberry, Gucci, Armani and others, have highlighted the growing importance of the digital channel in the context of the strategies of distribution of high-end goods. Studies on the spread of the digital channel, the views of managers and experts, and empirical cases studied have pointed to a scenario of rapid change in which the main reasons of incompatibility between the digital channel and consumers of high-symbolic-value goods are being overcome.

The following are the main barriers to the spread of the digital channel for high-end goods and the reasons for their mitigation in recent years.

Consumers are not prepared to buy online. Consumers have rapidly changed their attitude toward buying luxury goods in the digital channel in recent years. In particular, new consumer profiles have emerged.

The behavior of consumers buying online is different from offline shopping behavior in several respects.

The behavior of consumers who buy in the digital channel has some specific characteristics, discussed below.

- Emotional bond. The emotional relationship of consumers with the brand is important. It is determined by past experience and the brand image.
- Online experience: consumers consciously or unconsciously look for experience even in the digital channel.

- Development of fiduciary relationships. Consumers gradually develop, with their experience, relationships of trust within the digital channel. These trust relationships are related to the functionality of the channel understood as ease of use, to familiarity understood as custom, to interaction and the availability of additional information content.

The assessment of consumers' experience emphasizes the need for firms to provide consumers with a positive and pleasant feeling when buying online. The basic requirement for a positive consumer experience is the ability of the digital channel to highlight the characteristics of the brand and to make the experience special and unique for each individual.

- Socio-cultural factors. Consumers who purchase high-end goods have a high level of schooling, are young and innovative, and are characterized by a high propensity to change. These subjects have a high level of knowledge of alternative offerings and have at their fingertips a wide choice of brands in the digital channel with small switching costs. This means they have the ability to view different products and make comparisons, selecting the right good, which possesses the desired characteristics, without wasting time. Luxury consumers on the Internet also have very high expectations. In this regard it is important that, notwithstanding a site is accessible by millions of consumers, firms are able to maintain a style of exclusivity also in the digital channel.

Some researchers have tried to divide the community of online consumers based on their purchasing influences. Other studies have looked at the distinction between the buying behavior in the digital and traditional channels.

One can identify typical profiles of online consumers by adopting, for example, the classification proposed by Nielsen in the book, *Designing Web Usability*. According to this classification the typical profiles of online consumers are the following.

Social shoppers. Individuals who associate the acquisition of goods with pleasure and social encounters. It is the group less prone to electronic commerce.

Habitual shoppers. Individuals who always make purchases in the same shops and do not change brand frequently. This group will remain faithful to traditional business for a long time to come.

Ethical shoppers. Individuals who, when buying, are more concerned with ethical

issues such as the origin of materials and the conditions of workers than with the brand. The potential for purchase on the Internet is medium and the site should meet their ethical expectations.

Value shoppers. Individuals who are looking for added value in the quality of products and service offered, in terms of quality and prices. It is therefore likely that they can try to obtain these features by purchasing on the web.

Experimental shoppers. Individuals who are open to trying new brands and channels of purchase. This group is very likely to purchase online.

Convenience shoppers. Individuals who prefer to buy without wasting time. This is the group of target customers most suitable for the digital channel. The majority of online luxury consumers is composed of the Experimental and Convenience groups.

- **Less brand loyalty:** Notwithstanding online consumers tend to switch brands frequently, they are likely to repeat their visit and even their purchase in the event of a positive experience on the site. At the same time in case of a negative experience, for the online channel they are less likely to repeat the visit rather than in the traditional channel. This is because the traditional point of sales, even if it has not completely satisfied the expectations of consumers, is often characterized by economies of proximity to consumers. In the case of online retail, economies of proximity do not apply because consumers have no difficulty identifying alternative purchase options. Management must be able to transfer to the digital channel, also, consumers' exceptional shopping experience by acting on issues that stimulate the sensory receptors. In general, the key elements or sensory stimuli to transfer emotions during the purchase process are: touch, sight, sound, accessibility, customization, scent.

Lack of buying experience in the in the point of sale. Many consumers, mostly young people, prefer to spend leisure time in other activities and buy luxury goods through the digital channel, which provides unlimited availability of options, speed of acquisition, accurate information and product presentation with high-quality images.

The physical experience is replaced with a virtual buying experience that is more immediate, faster, more intense, less repetitive, with greater detail of information available to consumers who want to deepen their knowledge of the product.

The phenomenon of the online buying experience, difficult to predict just a few years ago, is spreading, consistent with the evolution of digital media such as YouTube, Facebook,

Instagram and recently Twitter, whose main reason for success is the ability to share experiences through the delivery of digital content. To the above must be added that many consumers buy luxury goods online because these are not available in points of sale in the cities or countries in which they live.

The phenomenon is particularly evident if one looks at the breakdown of turnover of some online retailers of luxury goods, which shows that there are many Chinese consumers in smaller towns.

These people buy luxury goods online partly because a physical point of sale of their favorite brand is not yet available in their cities.

Inadequate relationship with the seller and poor activation of fiduciary relationships.

The presence in the digital channel of configurators that present the product purchased under different viewing angles and sizes, together with significant information and details of availability and with the ability to communicate online or through Skype with a vendor, make it possible to overcome the need for direct relationships with a sales assistant.

Inability to find the product selected. The evolution of the digital channel has enabled firms to provide online products and services with a high degree of customization and variety. The availability of advanced logistics platforms in the service of websites allows firms to manage variety at acceptable costs.

Technological constraints. Finally, the historical problems of the digital channel connected to technological developments and the inadequate security of the transactions have been almost completely overcome.

5.4 The digital channel in the market for high-symbolic-value goods: prospects for development

In view of what has been observed in the previous paragraphs, it is evident that among the factors that have contributed to the evolution of the digital channel for luxury goods in recent years, we can identify technological evolution, the buying behavior of consumers and the management of logistics.

The opportunities for the development of the digital channel. It should be noted at the outset that the opportunities identified have different degrees of exploitation of the channel and, consequently, different levels of difficulty as far as sales of the products are concerned. The main opportunities for the development of the digital channel identified

by the observation of empirical cases are ascribable to:

- a) digital channel with communication function;
- b) digital channel under direct management integrated with a direct or indirect physical channel;
- c) digital channel under direct management for the sale of products in the decline stage of their life cycle;
- d) digital channel run by a Pure Internet Player that competes on the market for high-symbolic-value goods with the price variable;
- e) digital channel under direct management aimed exclusively at the intermediate market (b2b);
- f) digital channel run by a Pure Internet Player, dedicated to specific product lines, services and markets, that competes at full price.
- g) digital channel directly managed by a luxury brand at full price.

Digital channel with communication function. The digital channel used to communicate with consumers presents itself as a showcase inserted in the virtual network where consumers can find information about the firm's mission, activities, values, history, achievements and products. At this first level of use of the digital channel the approach to the market is not changed and the transaction is not yet present. The site becomes a medium for communicating with consumers, sometimes interactively, and for the transmission of information flows.

Directly-managed digital channel integrated with direct or indirect physical channel. The second opportunity relates to a directly managed digital channel integrated with a direct or indirect physical channel.

This option provides a plural method of distribution and an integrated approach that involves the need for the firm to use extreme care in the management of intermediaries, also in order to avoid dangerous reactions by distributors in the physical channel and established intermediaries that often control very large shares of the end market.

By means of the digital channel one can choose the product and realize the customization of the same within the range of options provided.

The digital channel shows the physical points of sale where one can find the product configured according to consumers' requests, and the transaction takes place in the physical point of sale, which may be managed directly or indirectly.

The advantages of this solution are mainly due to the absence of operating expenses in the distribution logistics in general connected with sales on the digital channel and to the minimizing of conflicts with physical intermediaries who may consider the digital channel a valid support to the development of sales rather than a threat to their own market share.

Two reference cases that represent this option are Neiman Marcus, which has integrated the physical channel of points of sale and the direct sales channel (direct mail) by means of a mail order catalogue, with the digital channel, and Gioie.it, which has integrated digital channel with the development of a network of affiliated points of sale.

Neiman Marcus.com. NeimanMarcus.com is an independent intermediary who sells many high-end brands in the digital channel integrating its own system of online offerings with the physical department stores and traditional activities of catalog sales.

NeimanMarcus.com was created in 1999 by the Neiman Marcus group, and from the beginning has been as the chief competitor (and follower) of Net-a-Porter. com.

Annual sales in the digital channel are greater than \$300 million, and have grown steadily in recent years. Today Neiman Marcus is one of the few groups with over a hundred years of history, which continues to sell under its original name and maintains its headquarters in the same city where it started its business.

The site is the digital version of a great catalog, it shows no special elements of innovation, product descriptions are simple and often there are no pictures of the product from different angles. The site sells a wide range of high-end products and brands, mainly relying on the price variable in order to attract consumers.

NeimanMarcus.com has embarked on a path of upward repositioning with a view to selling luxury brands at full price.

The principal strengths are: a high level of customer service, expertise in logistics management, a wide range of luxury products and brands, the ability to develop long-term relationships and synergies with the physical channel.

Gioie.it. The case of Gioie.it shows a reverse path, from the digital channel to the physical. Gioie.it, in the Italian jewelery industry, is a medium-sized company that happens to be one of Europe's leading digital intermediaries in the sale of high-end gold and jewelery and one of the leading sites on the Internet for the sale of jewels of Italian craftsmanship. The markets served are primarily the US and France, followed by Germany, Great Britain and Scandinavia. Of lesser importance are the Spanish and Italian markets, notwithstanding the latter represents the intermediary's area of origin.

The digital intermediary presents an assortment of approximately 11,000 items for a total of approximately 25,000 variants. Every day new products are launched on a proposal from the intermediary's network of suppliers, which are chosen among the companies that produce the best jewelry, designed by the best Italian designer goldsmiths, selected in the districts of Valenza, Vicenza, Arezzo, Naples and Milan. The digital intermediary completes its offerings with a selection of prestigious brands. There are both front-line products at full price, and second lines and collections from previous years at a discount.

The characteristics of the digital intermediary's offering form the basis of its success and

can be ascribed to the following: minimum price guaranteed, high quality level of products available in the digital store, short delivery times, possibility to rescind the purchase after receiving the goods, insurance, broad and deep range, assurance of confidentiality and adequate customer service. Gioie.it guarantees consumers that buy online the lowest price for the product and is willing to reduce the selling price if there is another competitor with a comparable offer at a better price. The range of products available is vast. The catalog contains thousands of items with new features every week. The breadth of the range also provides the option of contacting segments of consumers with different disposable-income levels. Of particular interest are the security systems, the service and the possibility for customers to customize their products. Gioie.it has followed a growth path that from the digital channel is evolving towards traditional forms of distribution. This evolutionary process is anomalous with respect to the classical model of development of distribution in the market for prestige goods, in which the digital option follows a well-established and significant presence in the traditional channel.

Colette.fr. Another case of integration between the digital channel and the physical channel is Colette.fr's e-commerce site. The site was born from the need to offer on the Web products in Collette offline points of sale. The site design is original: the home page takes the form of a virtual store in which the color blue prevails and on the back wall appear small images appear, each linked to a specific collection of products. Consumers have the option of buying online, simply and directly, of seeing the news about the latest collections and of accessing a blog. Furthermore, one can sign up for a newsletter. The strategy of this site is based on a logic that aims to bring online the goods and services of the points of sale in the physical distribution channel, often at lower prices.

A number of companies adopting mixed distribution systems tend to integrate the physical channel and the digital channel. Swarovski, for example, chose a strategy of prevalently direct distribution in the physical channel and is present in the digital channel both with a site dedicated exclusively to communication, and with an e-commerce site.

Directly managed digital channel for the sale of products in the decline phase of their life cycle. The third option that one can make out from the analysis of empirical cases concerns the directly managed digital channel for the sale of high-symbolic-value goods in the decline phase of their life cycle.

The direct digital channel is often adopted to make products available in the market that are going through the decline phase of their life cycle. The management of the digital channel can be assigned to a dedicated business unit or assigned to third parties.

The life cycle of high-symbolic-value products, especially in the apparel and fashion market, is complex. The time between the launch phase and decline is often just a few months.

Management must therefore deal with the problem of selling the products of the previous

collection when they are in the decline stage of their life cycle. The digital channel allows one to dispose of these products quickly while acting on the price variable.

The consumer is induced to purchase in the digital channel mainly through reduction in price. The digital channel, managed with this approach, allows certain advantages:

- Reduction of the risk of uncontrolled circulation of unsold items: the channeling of products in the digital system reduces the possibility that the products should be disposed on parallel markets with serious damage to the brand image. The risk that unauthorized parties should acquire goods online for subsequent resale in the physical channel cannot be eliminated and remains ever present-
- Different market segments: consumers who buy in the digital channel belong to a different market segment than traditional or chance consumers who purchase from physical intermediaries. For consumers who purchase luxury goods in the digital channel the elasticity of demand with respect to price is very high and the emotional component of the brand is perceived with less intensity.
- Price discrimination: differences in prices for the product can be justified keeping distinct the channels and the time at which the product is sold.

With this approach consumers who buy through the physical channel perceive the product available in the digital channel as a non-comparable system of offerings and therefore does not feel the injustice of even a significant reduction of the selling price.

Digital channel managed by a Pure Internet Player competing on the market with the price variable. This is the case of Yoox.com and other independent companies that, especially in the first stage of their development, have sold in the digital channel high-end goods from previous years' collection at reduced prices. Currently the most successful Pure Internet Players, like Yoox.com, have changed their business model: the products available in the digital channel are not only discounted items from previous collections. Also sold are special products exclusively dedicated to online sale, sometimes at high prices. This new trend highlights the opportunities that the digital channel offers management to bring to market new collections, which are characterized by originality and innovation, and are aimed particularly at a young target audience.

Bluefly.com. The site was founded in 1998 and for over a decade has been considered a world leader in online sales of high-end products and original fashion. It is fully owned by

the firm, Bluefly Inc., listed on the New York Stock Exchange. It also has its headquarters in New York. Bluefly.com offers in the digital channel a wide range of apparel and accessories for women, men's apparel and accessories, and household items. In total there are over 10,000 products from top brands selected and presented with a price averaging 40 to 70% less than that found in physical channels. The offering is renewed daily.

The products are presented with a style and layout similar to that of a fashion magazine. From the pictures one can have access to the complete collections, organized by product category. Searches can be made by category, size, color, designer or second price level. Each product is presented with a description of the item and the material, the market price and the discounted price.

The bluefly.com site, to continue to grow, has decided to differentiate and to offer a wide range of products. First, it has decided to focus on product price and the initial mark-up; the merchandising strategy calls for direct purchase of products from manufacturers early in the season and a periodic replenishment.

Bluefly.com has decided to put primary emphasis on the quality of the offering even when the price is reduced, and in this respect it differs from other competitors.

Directly managed digital channel exclusively dedicated to the intermediary market (business to business). The digital channel in this case is dedicated to wholesalers and retailers can place orders online; end consumers do not have the possibility of accessing this channel.

Brandsdistribution.com. Brandsdistribution.com is a recent Italian start-up that, six years after the start of its activities in the B2B sale of fashion and high-end accessory bands, has undergone remarkable development.

Brandsdistribution.com addresses its offering to small points of sale and is a leading digital B2B distributor of fashion products and brands, with a global presence in over 170 markets and 70 thousand clients. Recently, the company has developed a website dedicated to the Chinese market, Xiu.com, and developed synergies in e-commerce for the North American market.

Pure digital channel run by a Pure Internet Player dedicated to specific product lines, services and markets that competes at full price. The business model refers to independent players selling, online, luxury brands and products with a pricing strategy that does not include price reduction.

Net-a-Porter.com. Site launched in 2000 for the sale of fashion apparel, footwear and accessories of the current season at full price. After eight years of development it is the main e-commerce site.

Net-a-Porter has been since its founding the Pure Internet Player with the fastest rate of growth in recent years in the United Kingdom. Natalie Massenet financed the start of the

project with \$1.3 million. The website increases the number of customers in a consistent way and has a high percentage of consumers buying frequently.

Net-a-Porter.com recently acquired the site Girlshop.com, which also allowed the acquisition of a database of over ten thousand contacts. Another significant operation of external growth was the acquisition of Fashion.com. These acquisitions have enabled Net-a-Porter.com to rapidly expand the number of customers in the site's database. Net-a-Porter.com has also opened a distribution center in New York optimizing distribution costs and market share in the United States.

The site structure is a distinctive competence of Net-a-Porter.com. While browsing the site, users have the feeling of leafing through a paper magazine. The site provides the visual impact of a fashion magazine, but at the same time is characterized by the ease of reference in a catalog.

Net-a-Porter.com takes particular care to illustrate its privacy policies and delivery service and efficiency, because its management believes that these items are relevant to consumers of high-symbolic-value goods. Customers can order some products online before they are officially launched in the market (Net-a-Porter.com ensures priority delivery of the products booked) and can be updated in real time about new products in the market. Most Net-a-Porter.com customers reside outside of the UK, and the majority of these live in the United States. Net-a-Porter.com is a reference model in the context of the digital channel throughout the world.

Innovation and new marketing strategies in the digital channel

The major luxury brands have developed and currently manage the digital channel directly. The commercial logic calls for the sale of the products in the collection at full price and no discounts. The reference scenario in the digital channel is rapidly changing and the main trends are:

- New features in the digital channel;
- Digital channel and personalization;
- Digital channel and life product cycle;
- Channel digital and virtual communities;
- Integration of the communication function and the digital channel.

The digital channel is also used by luxury players as a non-residual channel to distribute in the market innovative collections, dedicated products and accessory services. The high-end goods made available for purchase in the digital channel increasingly have high sales prices.

The original function of the digital channel for the disposal of unsold products has been joined by the new selling roles of supply systems characterized by uniqueness and exclusivity at high prices. The digital channel, with technological change, is gradually

developing a special ability to guarantee to consumers of luxury goods excellent virtual experiences updated in real time, positively influencing the purchasing process.

A figure that confirms this trend is the increase in online transactions of high-end goods at high market prices and the increase in their average value.

A reference cases is BluNile.com in the jewelry market.

BluNile.com. The story begins when BlueNile.com Mark Voden, first CEO and founder of BlueNile.com, turns to the Internet to search for information and get a chance to compare the prices of different rings. During the search process he runs into InternetDiamonds.com, one of the first online jewelers that made it possible to have certificates on the color, clarity and carat weight of diamonds sold on the site. Voden acquired InternetDiamonds.com with an offer of five million dollars.

The name was changed from InternetDiamonds.com to BlueNile.com, the largest online jewelry store with annual retail sales of more than \$200 million, which have grown in recent years, with the exception of the period of recession. The site has over 60,000 stones and a worldwide network of suppliers of diamonds. The company is listed on the Stock Exchange, and is still a role model for marketing in the digital channel of high-symbolic-value goods. BlueNile.com has built its business model around a specific niche market: consumers who buy expensive jewelry, especially engagement rings.

Most of BlueNile.com's sales are on the American market, but the fastest-growing clientele is resides outside of the United States (Bluenile Canada and Bluenile UK).

The key to the success of BlueNile.com is the attention to detail, which gives customers the impression of buying from experts. Before any order is actually packaged and shipped, the jewel and its packaging undergo twenty-six different controls (every product is inspected with a magnifying glass in order to ensure that the characteristics declared by the certificate are in compliance) – all while respecting the declared delivery times.

The main competitors of BlueNile.com are Bidz.com, Tiffany.com and RossSimons.com.

The digital channel and customization. Another recent trend is to use the digital channel to increase the degree of customization of a product or service, raising the perceived value of the supply system as a whole.

The sale is often made in the physical channel, and the customization is done online by the customer prior to delivery of the product or in the physical point of sale during checkout.

The digital channel and product life cycle. The digital channel, traditionally adopted in the decline stage of the product life cycle, is used by firms in the process of introducing goods onto the market.

Numerous campaigns to launch new high-end products call for an online advance sale of a limited number of copies, sometimes numbered and personalized.

Strategies to reinforce the concept of uniqueness and exclusivity of some brands sold through Yoox.com provide for dedicated collections, exclusive areas on the site for experimental brands, and innovative partnerships with certain luxury brands in the development of initiatives that integrate art, design and fashion.

The digital channel and virtual communities. Another frontier of the digital channel is its integration with the virtual communities that come together online around a brand or a style.

Virtual communities of consumers who share similar interests for a product, a brand or a style and visit dedicated blogs can be identified and made a system in an e-commerce website, signed up for specific lists and regularly informed of events, news, new products and special offers.

Marketing efforts aimed at creating and maintaining virtual communities in markets for high-end goods are intended to transfer to potential customers the idea of the exclusivity of access to the community and the temporary availability of the offer. In this sense it is necessary, for example, that new members of the community be presented and accepted by a process of selection.

Vente-Privee.com. Vente-Privee.com, the market leader in offering low-priced products from unsold collections (physiologically, 8-10% of unsold inventories of a collection), is organized as an invitational online club where the product is made available for purchase for limited periods of time and only to those invited. Vente-Privee.com organizes forty-eight-hour online fashion shows referred to as "sale events," where members get discounts up to 70% off the initial price.

Other Pure Internet Players in Italy that have adopted similar business models are, SaldiPrivati.it, Privalia and Amazon BuyVip.

Integration of the communication function and the digital channel. Sites offering information and communication of news and trends in fashion, style and design are plying another path of development of the digital channel.

These sites, in their early stage of their development, take the form of online communication media of information, trends, and fashion, style and design phenomena, and are often tied to a founder or a group of charismatic people who claim the site as a reference point. The next step after acceptance of the site as a provider of information (infomediary) may be the development of e-commerce business in high-end goods and

services.

Glam.com. The site was founded in 2002 as a Web-based fashion magazine, and hence as an information and communication channel for events and phenomena of leading high-end brands.

The idea behind the creation of Glam.com was to improve consumer perception of a brand through online communication.

The site is now considered among the most comprehensive in the fashion market in the United States, as well as the most popular.

After the results achieved by organizing the site as a fashion magazine, the management has added a section devoted to the sale of a few select high-end brands.

Over the years Glam.com has acquired a leading position among online fashion magazines thanks to the quality of its content and its network of relationships with the most influential luxury brands. In the future it will be possible to think of a space dedicated to the growth of e-commerce sections of the site, as the female target of reference that frequently visits Glam.com has expressed interest in the direct purchase of the goods and brands spotlighted in the online communications.

5.5 Concluding Remarks

The present scenario highlights the growth of the digital channel as an important channel of distribution of high-symbolic-value goods, not only for the disposal of unsold stock, but also as an independent intermediary in direct competition with physical intermediaries or even as an alternative channel adopted to convey new trends and/or sophisticated alternative offering systems. Regarding the development of the digital channel by firms that hold a brand or a brand portfolio, strategies are different and the evolution under way is moving quickly. It is possible to state that most of the leading companies in fashion and luxury markets have a presence on the Internet, some with an approach to communicating the values of the brand, others with sales activities in the digital channel in specific market areas or in all major markets. The role played in the distribution channel, also, is interpreted differently across the sample of firms we have considered.

Some companies adopt the digital channel only to dispose of unsold collections, others have attributed to the Internet dignity as the primary channel in competition with other channels.

Most of the companies examined have used all the best techniques to ensure the digital experience to their customers of reference.

Finally, companies that hold a diversified portfolio of brands use the digital channel only for some of them and in some markets.

ⁱ In this sense, it has been defined a *marketspace* to distinguish it from the *marketplace* understood as the place where physical transactions are made. J.F. Rayport, J. J. Sviokla, "Managing in the marketspace," *Harvard Business Review*, November–December, 2004.

ⁱⁱ R. Kalakota, A.B. Whinston, *Electronic Commerce*, Addison Wesley, Mass., Reading, 1997.

ⁱⁱⁱ S. Sciarelli, R. Vona, *L'impresa commerciale*, Milano, McGraw-Hill, 2000, pp. 84–85.

^{iv} Some weaknesses highlighted have already been overcome or are being overcome. The main ones are: the Web does not have enough bandwidth to handle significant increases in traffic and especially the transfer of multimedia content in an efficient, timely way (Nemzow, 1997); the problems surrounding the security of transactions are still not completely solved; mechanisms for the protection of corporate information systems connected to the Web from intrusion by unauthorized individuals are more complex and expensive (Nemzow, 1997); digital reality environments that allow human-machine interface to effectively simulate the physical realities of customer-seller interaction are not yet available; there is no specific, internationally valid legislation governing the management of legal and tax issues concerning transactions on the Internet (Kalakota and Whinston, 1997; Morgan Stanley, 1997); there are social and cultural resistance to replacing traditional purchases with digital transactions, in consideration of the recreational and social components of the act of shopping (Mandelli, 1997). Cf. A. Mandelli, *op.cit.*, Milan, McGraw-Hill, 1998, pp.95–96.

^v The constraints of compatibility between consumers in the luxury market and the digital channel were also analyzed in a survey conducted in France in 1997 on a sample of consumers, in which the authors came to the conclusion that high-symbolic-value goods and the digital channel were incompatible. Cf. F. Dall'Olmo Riley, C. Lacroix, "Luxury branding on the Internet: lost opportunity or impossibility," *Marketing Intelligence and Planning*, 21, February 2003. Even later, other scholars of the subject have argued similar theses; cf. McCusker, "Can luxury brands ever shine online," in *Revolution*, Haymarket Business Publications, 2008, p. 52.

^{vi} To demonstrate this, a survey carried out by an international consulting firm on a sample of consumers of luxury goods has shown that 54% of respondents said that they had never visited an unofficial site, that is, one not controlled by the brand that makes or sells high-symbolic-value goods. The fear of running the risk of purchasing a counterfeit product often leads consumers to ask the manufacturers, by e-mail, for further information on the product. Cf. Benchmark Group, *Marques de luxe et Internet: l'attente est bien là*, April 25, 2012.

^{vii} The classification of barriers to the development of the digital channel and e-commerce is in Sciarelli S., R. Vona, *op. cit.*, pp. 88–90. Technological barriers are due to the low operating speed of the means and to security. The economic obstacles are the high costs of logistics, whereas the legal constraints are connected to the difficulties of dealing with online sales in typical forms of contract. See also S. Sciarelli, R. Vona, *Management della distribuzione*, Milano, McGraw-Hill, 2009, pp. 86–97.

CHAPTER 6

THE FRONTIER OF THE MARKETING OF HIGH-SYMBOLIC-VALUE GOODS: INTEGRATION OF DISTRIBUTION, COMMUNICATION AND DEVELOPMENT CHANNELS IN SOCIAL MEDIA SYSTEMS

6.1 Introduction

Firms are traditionally considered the exclusive source of communication messages and brand-related content designed to influence the behavior of consumers and create brand equity. With the advent of social media, traditional one-way communication has gradually been replaced by two-way, peer-to-peer communication.ⁱ Consumers can now create and distribute their own content.ⁱⁱ In the Web 2.0 era, firms are increasingly forced to develop their own marketing relationships in a context that is completely new compared to the previous year. The new post-modern consumers are gradually changing their buying behavior and other things as well; the most significant phenomenon is that they have changed their way of dealing with what they buy. Consumers are increasingly autonomous and their power lies in the knowledge and ability to master a medium such as the Internet, which allows them to exert this new ability to interact with, and act on, the world of brands. The new consumers are competent: they have acquired a lot more information on their consumption choices, have developed a body of appropriate knowledge and are able to evaluate. Precisely because of their competence, modern consumers have very little in common with the naive individuals of the past. On the contrary, they are demanding, asking more and more of those who produce, not in terms of quantity but of quality, performance and attention to their needs. For a luxury product to be successful in the digital channel, two conditions need to be fulfilled: correct and personalized identification and a multi-sensory experience.ⁱⁱⁱ

6.2 The development of multichannel marketing systems and the integration of the physical and digital channels for luxury players

In recent years, the increasing importance of the digital channel and the globalization of markets have changed both the role of consumers and the competitive landscape. This has forced firms to revise their strategies and implement a multi-channel marketing to continue to operate in increasingly international markets that are characterized by ever-more demanding and informed consumers.

Recourse to a plurality of channels has proven to be a necessary choice for luxury goods, especially because the digital is now a communication channel in its own right. From this standpoint, the digital channel is a means of interaction with demand that takes on a hybrid connotation: it can perform functions that are informative, transactional and relational, alternately or simultaneously using both physical and virtual contact modes. In this perspective, multichannel management policies can provide an important contribution to bonding the loyalty of existing consumers and acquiring new market segments. Although luxury firms initially had some reservations about using the Web as a distribution channel, because they considered it unable to reproduce the customer experience of the physical point of sale and distanced from buyers with high spending power, in recent years, on the contrary, the opportunities offered by the digital channel have become clear.

The logic of development of the digital channel for luxury players is therefore one of integration with the physical channel; it is not to be viewed as a stand-alone distribution channel, but as one that completes the physical channel.

The traditional store always plays a major role in the experience of buying luxury goods, but the huge success of the digital channel turns it into an inescapable variable for players in the market for high-symbolic-value goods. A Web strategy is essential for a luxury brand.^{iv}

The development of non-conventional marketing allows firms to engage consumers by placing at center stage the goal of transmitting the values of a brand through involvement, entertainment and fun. Consumers become leading actors, and firms can develop measures of engagement and take advantage of word of mouth, with a proactive and dynamic approach.

The analysis of the evolution of consumer behavior in the purchasing process is particularly important for manufacturers and distributors because the Internet allows two-way communication flow, transforming the classical approach to communication characterized by lack of interaction.

6.3 The multichannel logic

Multichannel marketing allows one to place information, products and services on the market, before and after sales, through two or more channels. It is an approach to the management of relations with demand that goes beyond the logic of recourse to single, independent channels, valuing instead the potential unleashed both by the growth of the service sector and by the spread of digital technologies. A perspective that allows the firm, at the same time, to overcome the information and distribution constraints imposed by recourse to traditional points of sale, taking full advantage of the separation between physical flows and information flows. Consumers can therefore interact with firms, or their specific components, at their leisure and discretion.^v

Adopting a managerial perspective, multichannel marketing thus endeavors to understand, design, coordinate and exploit different channels with the aim of increasing in time the value generated by the customer base (customer equity) through targeted actions of acquisition, retention and development. Taking advantage of the potential provided by such an approach to multichannel marketing, firms are able to manage the increasing variety of demand using the potential flexibility of communication offered by digital technologies.

In this perspective, multichannel management policies can provide a decisive contribution to the acquisition of new market segments and therefore to growth in size. At the same time, customer relationship management can benefit from careful channel management, collecting new and uncommon information on consumer habits, being able to use digital environments as a privileged laboratory for behavioral observations. Finally, the customer base can be incentivized to continue the relationship thanks to the incremental value generated by supply in terms of greater availability and systematic adaptation of the channels of contact with the company on the basis of consumption opportunities but also of the evolution of the relationship's life cycle.^{vi}

The spread of multi-channel behavior by demand results in an increase in competition, combined with a greater chance for consumers to identify the best combination of good/service/price.

On the other hand, understanding the ways in which consumers use different channels requires the adoption of innovative models of segmentation of demand, capable of taking into account the reasons for the choice of both digital and physical channels.^{vii}

For luxury players it is therefore essential to develop a strategy that integrates the digital channel with the physical channel and not a stand-alone digital policy.

Noting that the development of the digital channel even in luxury markets is a strategic path already taken by the major players and that positive business models have been created both by luxury brands and by independent parties that perform distribution functions only, such as Pure Internet Players, the current frontier is the identification of pathways to integration between physical and digital channels of distribution and communication.

The logic is that of multichannel marketing, the virtual channel in most cases being additional and complementary to the traditional channel.

The virtual channel substantially changes the processes and activities of the distribution chain because products purchased online are often the same products purchased offline, but with different service and information content.

It is essential that the different sales channels – physical and digital – be integrated in order to have a complete view of customer behavior (customer journey).

The spread of digital environments has certainly helped to broaden the spectrum of possibilities for managing channels, while opening new areas of competitive confrontation. The new technologies have contributed to the definition of a hybrid environment in which pre- and post-digital-revolution habits coexist.

A consumer may decide to purchase online from a physical point of sale, or vice versa may buy offline from the point of sale only after visiting the online site, and in the physical point of sale can access multimedia content that helps give value to the purchase.

The increased penetration of digital environments, in their different forms, feeds the growth of consumers who associate new activities with the traditional rituals of consumption; searching for information about products and brands, comparing the prices

offered by different selling points, choosing the nearest point of sale, are activities now largely carried out with digital tools.

We must also keep in mind that consumers accustomed to purchasing in full-price channels tend to stick longer to their choice of using a second channel than those who habitually use channels that are less costly both in terms of money and of knowledge.^{viii}

Increasing degrees of synchrony between channels result in a greater reassurance for consumers and therefore higher profits with respect to firms that adopt different approaches.^{ix} Several arguments that strongly oppose the encouragement of digital channels have also been presented. The latter, in fact, tend to reduce transaction costs, facilitating exit from the customer base and so thwarting the efforts of acquisition and relationship management. A digital channel in the channel mix, furthermore, tends to decrease the use of alternative channels, and, therefore, occasions for interaction.^x

Clarks. The British brand has chosen to adopt Aurasma, the best known browser for exploring augmented reality, to enrich its advertising campaigns. With this technology it is possible to trigger the campaign by pointing one's smartphone at the pages of British newspapers that promote the company's products. In a few seconds one can watch a video and, after viewing, connect to the brand's official website. For now, the technology is available exclusively for the UK site, with the objective of increasing e-commerce traffic.

The multichannel strategic approach carries benefits for the company and for consumers.

The spread of multichannel marketing encourages customer interaction and helps the company to capture market changes in a timely manner.^{xi} The use of multiple platforms to reach the public offers firms the opportunity to achieve a number of business advantages.

- It increases the ability to receive comprehensive feedback on what the customer wants and what the company can improve. Brands can achieve significant benefits in terms of customer loyalty. In fact, customers may be willing to pay a higher price.
- It increases sales. Multichannel retailing, by offering a variety of points of contact with the customer, increases the convenience and ease of purchase, thus increasing profit.
- It increases productivity. Employees can benefit from the use of new technologies to achieve greater efficiency in customer service.

To manage multichannel marketing in the best possible way, attention must be focused on the customer rather than on the channel, because today the customer is considered an integral part of the production process.

Consumers too can reap benefits from a multi-channel approach:

- Easy access to information. The broad availability of information offers consumers the opportunity to become more aware at the time of purchase, considering all possible alternatives in detail.
- Savings in time. This is one of the most discriminating variables with respect to the physical channel. With the availability of multiple channels, consumers can make a comparison quickly and constructively.
- Opportunities for interaction. In virtual contexts interactions can be expanded with respect to physical contexts, thus determining greater involvement on the part of consumers, as they are attracted by social relations.
- Shorter delivery times. Virtual and digital points of sale characterized by the immediate availability of the product are often preferred by consumers.

6.4 Integration of the physical and digital channels: technologies applied to points of sale

The frontier of channel integration in the markets for luxury goods lies, in practice, in the introduction of innovative technologies in points of sale and in the integration between two-way communication activities in social networks and the physical channel of distribution.

With regard to the first path of integration, the use of technology in luxury-brand stores clearly helps intensify consumers' feelings and stimulate their senses.

New technologies make it possible to entertain customers and enhance the process of communication.

The variety of communication options available online allows firms to send messages tailored to capture the attention of consumers because they reflect their special interests and well-established habits. The Internet is a reliable medium and the effects of a campaign are easily traceable.^{xii}

Firms are in a position to define an offer to convey in an integrated manner, that is, by using multichannel strategies, consisting in the development of a coordinated and comprehensive set of means and channels of contact between supply and demand.

It is an approach to managing customer relationships that tends to overcome the logic of the single channel, tending to the physical, thanks to the progressive growth of the

economic weight of the service sector and the increasing use of electronics and digital networks, which make it possible to go beyond the logistics limits imposed by traditional points of sale.^{xiii}

A study by Rohm and Swaminathan (2004) points out some motivational differences between shopping online and shopping at physical points of sale, using various categories of reasons, the most important of which are convenience and time savings, the need to collect information about products and brands, immediate desire to possess a product, desire for social interaction, and desire to seek a greater variety of products.^{xiv}

The direct point of sale is the terminal of the relationship with the customer; in direct distribution system firms have introduced gradual innovations intended, on the one hand, to improve the relationship with the customer and, on the other, to develop a rewarding experience at the time of purchase.

In the directly managed point of sale the activities of offline and online communication are integrated. Innovation in the management of the distribution variable is accomplished through the progressive adoption of new technologies in display spaces to entertain clients, enhance inbound and outbound information flow between the luxury brand and consumers, and ensure complex experiences during the purchasing process.

The examination of numerous cases of this sort among the most innovative currently available has enabled us to take a summary inventory of the technological innovations adopted by luxury brands in their show spaces. These include:

Smart labels. A smart label communicates, via radio signals, with a reading/writing device in a fixed or mobile position up to one meter away. This system consists of three components: an antenna, a reader and a transponder (TAG). A smart label can store information that is important to the customer, such as the date of manufacture and the bar code.

It is an evolution of bar-code labels: unlike these, the tag can be read in less-than-optimal conditions – in a dusty room, for instance, or with materials interposed between the tag and its reader. Label reading takes place in real time and can be multiple.

High-end brands are using this technology more and more, as it allows them to facilitate the logistics of the finished product and tends to ensure full traceability of the supply chain. Many brands such as Prada, Gucci and Burberry make extensive use of smart-label technology in their points of sale.

Interactive dressing rooms. This is an evolution of the traditional dressing room that allows customers to view all the variants in which the product they are trying on is available on a touch screen; it is also equipped with a responsive screen that permits customers to review all the products previously tried. The objective of this innovation is to accelerate the selection of garments and reduce the number of returns. **The technology associated with RFID labeling.** Very recently, a well-known American apparel chain equipped its sale points with a technological evolution of the interactive dressing room, *dressing room 2.0*. This kind of dressing room has a webcam inside that lets one send photos and videos of the garments tried to the major social networks. The images or videos are sent to the social network by simply downloading an app that can connect to the mirror of the store. In this way one can ask friends for an opinion in real time. Boucheron, for example, allows prospective customers to try its jewelry on its site using their webcam and face-recognition software.

In its New York Epicenter Prada has an interactive dressing room where the customer can change color, light intensity and selected garments.

Body scanning. Body scanning is an innovative tool that circumvents the need to try garments on physically, giving the client the possibility to observe the garments worn virtually. This is made possible by a 3D body scan that is reproduced on a screen as a digital avatar. It creates a virtual 3D model on which it is then possible to try items of apparel in different sizes and colors.

The screen can be of different sizes and offers customers an interactive experience that can configure all the products and accessories in the collection.

In addition, thanks to special programs installed on the dressing-room displays, customers can create a personal avatar that can be reused, via a login, each time they go to the point of sale. This system allows the customer to use the personal avatar in any of the brand's stores around the world. The buying experience at the point of sale is completely different from the present one, creating loyalty and above all letting customers avoid wasting time trying on clothes.

Body scanners were first introduced in Selfridges and Harrods department stores.

A similar service can be enjoyed on the Web, too. This technology is called My Virtual Model and follows the same principle as body scanning, using one's body measurements to create a digital avatar.

Luxottica has recently developed, for the Ray-Ban brand, software that combines several models of glasses with a virtual reproduction of the customer's face by integrating a webcam and a facial representation application.

Interactive displays. The shop window is the first element with which consumers come into contact, making it an ideal tool of brand identity. Until a few years ago, the message it conveyed was one-way: from the brand to consumers. Today, however, firms can directly interact with customers in various ways. One can obtain different information about the products on display and for sale and, in this way, be drawn into the store. Furthermore, it can ensure the function of sale even after hours. The window itself becomes a giant touch screen with which customers can buy and browse the entire offering. The products at the point of sale can be inspected at any time and thus be always available. In addition, *Window Shopping* enables one to customize the content on the screen visible from the outside.

Regarding luxury brands, the first to develop this new technology has been Ralph Lauren in its New York and Milan stores, followed by the Pinko store in Antwerp.

The famous Parisian Maison Chanel, has set up Window Shopping devoted to the brand's iconic lipstick, Rouge Allure, at fifteen perfume dealers. Consumers can get useful make-up tips through the interactive shop window.

The ability to access information on the brand and its history, discover upcoming events, download multimedia content and get news on fashion shows, leaf through new catalogs and even buy when the store is closed – actions reserved in the past only to customers in the digital channel – is now available even in physical outlets.

QR code. QR – Quick Response – is defined as a two-dimensional matrix bar code. A QR code is made up of black modules arranged in a square pattern. It is used to store information simply and rapidly, generally for retrieval on a mobile phone or smartphone equipped with special reading program. Luxury brands can use QR codes by inserting their logo or other images. This system allows consumers to read web links, images, videos, promotional offers and event announcements.

The use of these technologies appropriately integrated with cutting-edge software foster greater awareness while buying and represent new ways of in-shop communication at the time of purchase.

6.5 Integration between communication and distribution

The relationship between firms and the market develops not only on the physical plane, but also through distribution channels, logistics and the sales network, and of course through communication. In general, communication brings together and bonds the other elements and can be seen as the carrier of relationships within the firm and between the firm and the market.

The importance of communication in business and marketing decisions is indisputable. It acts within the company as well as in relations with the outside environment. In relations with the environment surrounding the enterprise, the role of communication is vital. In fact, it allows the company to understand and influence the external environment with the ultimate goal of changing its internal order and its relations with the outside world. Therefore, communication is the means by which the continuous process of mutual adaptation between the firm and the market is activated and performed, and for this reason, too, it generates value. With it, in fact, develop relationships of trust and knowledge that constitute a fundamental source of competitive advantage.^{xv}

The way we communicate has changed dramatically over the last fifteen years; the development of the Internet and the emergence of smartphones have contributed to this change substantially. The spread of the Internet has therefore necessitated, for luxury brands, too, an approach to the digital world both in terms of e-commerce, and, above all, in terms of Social Media Marketing, a branch of marketing that leverages the power of social networking, choosing the most suitable channel to transfer value to the community. Every day new data confirm the importance of social media and their effectiveness as a communication tool.

Cartier. Although it was suggested firms should use as a means of communication both Online Marketing and social media as early as 2006,^{xvi} the first luxury brand to use a social network in its marketing strategy was Cartier, which in 2008 created its first official page on MySpace, in order to advertise one of its brands (Love) and its charity campaign.^{xvii}

The term, social media, which achieved great popularity in 2005, is used to describe various types of digital contents that are publicly available and are user generated. More precisely the term refers to all those internet applications that derive technologically and ideologically from the Web 2.0 concept and that allow the creation and exchange of User Generated Content.^{xviii}

Firms' uses of social media differ in terms of the target set, which can range from improving service or increasing sales, to building brand awareness or increasing traffic on the website. The continuous presence of people online during the day has created the need to be directly present in social media.

Oscar de la Renta. After experimenting with the sale of accessories and perfumes exclusively from its special Facebook page, for the sale of high-end apparel this designer has focused on a social network niche, The Fancy, which has a catchment area of 750 thousand subscribers. A winning strategy because, by addressing a social network with a relatively low number of users, the firm can make a rigorous selection, proposing a collection that is not for everyone. The proof is one of the leading garments, a sequined vest inspired by baseball priced at 1990 euros.

The almost null cost is one of the strengths of the Web 2.0 phenomenon, so much so that it has become an "ordinary" working tool, with a particular emphasis on its use in terms of communication. In this regard, many studies have been made in the attempt to understand how the relationships and interactions among users develop and therefore how to identify the influencers and opinion leaders in social networks. The motivation underlying this study is that understanding the workings and logic behind the formation of the network could help identify the opinion leaders and consequently predict consumers' future preferences.^{xix}

The simplicity and flexibility allow one to personalize the content, which can be instantly disseminated in the network to reach target customers with a few clicks, amplifying the social impact of communication. Until a few years ago, all the experts were convinced that very few would buy luxury goods online; in recent years, however, the only fast-growing segment has been that of Internet purchases.^{xx}

Burberry. The UK company has long been considered a pioneer of digital fashion with an allocation of 60% of resources available for marketing in the digital arena. Burberry wins record of luxury brand with the strongest presence in the digital channel, to the degree that it is considered a multimedia company. The official website is available in six languages and in 45 countries. In it consumers find different sections, including one dedicated to shopping and designed to offer custom service; in addition, there is the service called Burberry Bespoke, which opens the door to mass customization, allowing one to design and order one's own custom trench. Today, Burberry is not only a brand of high fashion, but a true multimedia company, and in great expansion, highlighting a strategic capacity in the management of social networking and in the engagement of consumers. With live streams of fashion shows and interesting Web initiatives,

Burberry has developed millions of contacts, opening more and more to an international audience (especially considering that less than 10% of sales take place in the UK).

The architect of the development strategy in the digital channel using the integrated management of a variety of social media and e-commerce sites has been Chief Executive Officer Christopher Bailey. Burberry has tapped the pride of being "Brit," sponsoring personalities of outstanding style and ability such as musicians, models and actors, including the star Emma Watson. It has launched *Burberry Acoustic*, a program where the firm selects a few British artists and promotes their songs.

Sixty percent of the marketing budget has been allocated to digital marketing activities. With more than 12 million followers on Facebook, Burberry has given rise to a broad community with whom it shares daily status updates, pictures and other content created directly by Creative Director Bailey. With the start of *Tweetwalk*, a fashion show live on Twitter, Burberry has sent an important break signal to the traditional distribution system, allowing customers to buy online the garments present on the runway within 72 hours of the event. In addition, the brand is present with its own channel on YouTube, and on iTunes, through which one can download the songs used in the background of the fashion shows.

6.6 New models of communication in the fields of luxury goods

Digital technology has brought about a radical change in the dynamics of marketing. It has become increasingly important.

The spread of social media and mobile media offers new business opportunities to enterprises, which have the possibility to create communication campaigns that expand virally. The new media can reach multiple market segments and provide the ability to customize messages. Hence the need for firms to be present online, not only through websites, but providing content and services to the virtual community.

In recent years there has been a growing interest in so-called user-generated content, or UGC – i.e., the new media generated by consumers: YouTube, Twitter, Facebook, Instagram, Pinterest, Vimeo, Google Plus, and many others.

All businesses, including those operating in the field of luxury goods, are aware of the need to be on the Internet through “showcase websites,” becoming real leading players in the creation and exchange of information and experiences, offering dedicated spaces, content and additional services to users and fans of the brand.

The concept of integrated communication becomes inseparable from that of sharing stakeholders’ common values: people talk about social values, of corporate social responsibility, which assumes an attitude of protection of the environment (geographical, economic and social) in which an organization intends to develop its strategy. Integrated communication basically allows the simplification of access to information, making messages more effective and reducing product-related risks in the mind of consumers.

Integrated marketing communication differs from traditional communication in several ways. It has differences that bear a positive affect on the competitive advantages of the firms that use them.

Three macro trends contribute to substantial change in the consumption of goods, including those with high symbolic value.^{xxi}

The first is the search for experience and personal gratification. Many have observed how the decade in which we live is characterized by the centrality of experience. The emphasis is no longer on what, but on how one buys.

The second is the pervasiveness of technology. Nowadays the overwhelming role technology has had, over the past decade, in the scenario of buying and using goods is clear. Thanks to advances in innovation, consumers have changed their behavior and role in the purchase, from passive customer to active user.

The third and last trend is the one that has been referred to as hyper-mediation. Social stratification has always been the basis of the consumption of fashion and luxury in an other-centered logic of ostentation. Recently other reasons have been added that see luxury consumption as directed toward the satisfaction of personal needs for self-fulfillment, pleasure, experience and fun – hence as self-centered.

The presence of these logics of consumption has given rise to demand bubbles and new consumption behavior.^{xxii} This has happened because of the ongoing change characterized by the modification of the buying patterns of consumers who other scholars (Okonkwo, 2010) define as shrewd, well-informed, always on the lookout for experience and

relationship with the brand, powerful and influential, individualistic but at the same time seeking constant connections with a reference group.^{xxiii}

Our decade is witnessing the growing importance of the experience of visiting a point of sale, which becomes the central element in the process of integrated communication, capable of influencing the brand image by guaranteeing consumers a unique and engaging consumption experience.

For example, Burberry's London flagship store appears as the physical transposition of the British luxury fashion house's website, with display spaces and showrooms that are inspired by sections of the website one sees online and that immerse customers in a combined digital and physical experience thanks to the use of innovative technologies of in-store communication.

Engagement with luxury goods is often entrusted to the call of history and heritage. In luxury markets, to convince consumers to make a purchase is not enough. To involve them, however, through an exclusive journey and experience of the values of the brand and the product is the key to success. Tiffany has developed its own microsite, *What Makes Love True*, and a mobile application, to highlight its growing digital presence by communicating the history and heritage of the brand.

Luxury firms therefore address their system of offerings to consumers with a view to producing any number of functional benefits. With this in mind, the physical quality of the good, while important, is instrumental in the creation of the emotion sought and shared.

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