

**LUXURY CONSUMER BEHAVIOUR DURING THE COVID PANDEMIC.  
THE REDISCOVERY OF THE STRONG VALUE OF THE INSTORE  
EXPERIENCE PROMOTED BY THE DIGITAL WORLD.**

Anna Claudia Pellicelli, University of Turin, Italy<sup>1</sup>  
Carola Romana Garrone, University of Turin, Italy<sup>2</sup>

**ABSTRACT**

Starting from the history and a detailed definition of the luxury market, we analyse the main market sectors and segments involved. We take a close look at the evolution of shopping during the Covid pandemic to understand, both from the point of view of the end customer and that of the companies themselves, just how the pandemic has affected online and instore shopping channels. Information was collected using a questionnaire, filled in by end users, and from interviews with some of the leading figures behind the most prestigious luxury brands. We found that, far from cannibalising the instore experience, online shopping has actually strengthened it. While almost all instore purchases are influenced by online channels, offline shopping continues to be the beating heart of the luxury experience.

**METHOD**

Questionnaires were answered by a sample of 106 end consumers and some prestigious luxury brands were examined, with a close analysis of their official websites and declarations issued in stakeholder reports and by boards of directors, along with a thorough reading of the trade press and specialised articles.

**INTRODUCTION**

**The history of the luxury market**

In the 1960s, it was the US that was most strongly attracted by luxury goods (with 40.7% of total exports travelling across the Atlantic); during the 1980s, Japan too began to become an important destination for European exports (attracting 18.1% of Europe's exports)<sup>3</sup>.

Between the 60s and 80s, this market segment grew very quickly in Europe, but the manufacturers of these goods had the typical structures of SMEs and, due to a lack of financial and marketing resources, weren't able to satisfy the demand and grow at global level.

The first company to respond to this problem was Moët & Chandon, purchasing Ruinart

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

<sup>2</sup> [carolaromana.garrone@gmail.com](mailto:carolaromana.garrone@gmail.com)

<sup>3</sup> The first exports began in 1955, following the entry into force of the "General agreement on tariffs and trade", which allowed the adoption of export liberalisation policies. On 22 September 1985, the Plaza Agreements were signed in New York, regulating exchange rates between France, Japan, the United Kingdom, the German Federal Republic, United States and Canada and making the Japanese Yen a strong currency. Donzè P.Y., Fujioka R., *European luxury big business and emerging Asian markets 1960-2010*, "Business History", Vol. 57, (aprile) 2017

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in 1962, Mercier in 1970 and Parfums Christian Dior and Cognac Hennessy in 1972. This not only fortified the organisational and structural arrangement but also diversified the company's business and, consequently, its product portfolio, making it the world's leading luxury group of the time. This strategy was also adopted by Louis Vuitton in 1985, with the purchase of Parfums Givenchy and Veuve Clicquot. Then, in 1987, these two new groups gave birth to what is now the most important group in this sector, LVMH.

Between 1994 and 2004, sales of luxury goods in the UK increased by 50%, compared to a mere 7% increase in sales of standard goods, while this sector was the fourth generator of income in France.

An obstacle faced by the sector was the appearance on the market of fake and second-hand products. This became a fashion trend in its own right, mainly because the prices were much more accessible. The problem persists today but without having a significant impact on the market. Despite being the nation that produces the largest number of fakes in the world, China represents the third global power, with an annual growth rate of 3% in this sector.

A study by Bain & Company in collaboration with Altagamma, published in November 2018, explains the reasons behind the growth in sales of luxury goods.

Chinese consumers will be increasingly attracted by luxury products and the Asian populations in general will represent 45% of buyers in the world. Sales will rise thanks to the online channel, but this won't cause a loss of importance in instore retail, which will become the real point of contact between companies and their customers.

The new generations, Generation Z and the Millennials, will become the heart of this growth, representing approximately 55% of total buyers and contributing 130% to growth in the sector.

Luxury products will be influenced increasingly by art and culture, and the companies operating in the sector will focus on adapting quickly and taking a flexible approach to new, constantly changing trends<sup>4</sup>.

### **The democratisation of the luxury market**

The concept of the "luxury pyramid" was developed in 1997 by Danielle Allères<sup>5</sup>, who divided the luxury sector into three macro areas, accessible luxury, at the base of the pyramid, intermediate luxury and inaccessible luxury, at the top. This bottom band of the pyramid comprises products that are distributed on a large scale but are differentiated from fast fashion and premium products, so goods that are fashionable but more exclusive than mass-produced products, thanks to the brand image. The concept of the democratisation of the luxury sector was born, offering consumers the chance to purchase limited editions of certain products at lower prices. Many brands created a second line in addition to their main range, such as Versus by Versace or Marc by Marc Jacobs. Some of the world's leading designers created capsule collections with mass-market brands, the most important in recent years resulting from the partnership between Giambattista Valli and H&M.

Intermediate luxury is the market segment that was born in the 70s, when the Italian fashion industry began manufacturing products that combined the creativity of the catwalk with the simplicity of the basic textiles industry. Products of the finest quality

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<sup>4</sup> Annama J., Jeff J.W., Tsang-Sing C., John F. S., Geng C., M(Art) Worlds: Consumer Perceptions of How Luxury Brand Stores Become Art Institutions, "Journal of Retailing", Vol 90, (March) 2014, pages 347-364.

<sup>5</sup> Danielle Allères Olivier Mellerio, *Luxe... Strategies de Marketing*, IV Edition, Economica, 2005

but easy to source, such as the prêt-à-porter collections of Gucci and Balenciaga, with a price range of 600.00 to 5,000.00 euros.

The top of the pyramid is occupied by inaccessible luxury goods, “items for connoisseurs” with prices in excess of 5,000.00 euros, such as the Haute Couture collections of Dior, Chanel and Hermès.

“Luxury is a necessity that begins when necessity ends”. These words uttered by Coco Chanel describe the characteristics of luxury goods, linked to excellent quality, high prices, limited availability and exclusivity, as well as history and heritage.

The main characteristics of luxury goods are divided into two macro areas: objective, so functional and tangible, and subjective, capable of making clients feel that they are part of an elite “club”, and enabling the brand to stand out from its competitors.

The functional characteristics comprise high prices and the high quality of the raw materials used, as well as the place where they are made. The concepts of being “Made in Italy” or “Made in France” are fundamental in the fashion world.

The further up the pyramid we climb, the greater the desire for unique and inimitable products, often customised specifically to astound consumers and inspire dreams.

Historical labels have the advantage over more recent arrivals of their brand heritage.

A perfect example is that of Dior’s 2018/2019 relaunch of the “saddle bag”, which was a restyling of the model first launched in 1999.

Luxury brands have to activate all five senses, offering the consumer a hedonistic shopping experience.

Consumers in mature countries (USA, Italy and France) buy luxury products to create a social status which identifies them and which they use to express themselves, while consumers in emerging countries (Russia, India, China and Brazil) purchase the most famous brands more for personal satisfaction and gratification<sup>6</sup>.

Different countries also desire different types of product. The Chinese, for example tend to buy luxury watches, while Americans are attracted by cars and Europeans by the clothing sector<sup>7</sup>.

In recent years, the main value of luxury goods, such as their heritage, rarity, and the fact that they are handmade, have been joined by inclusiveness, authenticity and sustainability.

### **The many consumers of luxury goods and the focus of Generation Y and the Millennials**

Consumers of luxury goods are divided into 12 categories which combine age, geography, disposable income, luxury attitude and product preferences, from the Fashionista, a young woman attracted by the world of fashion, familiar with the various brands, even those that are less well-known, to the Timeless Proper, with her preference for classic elegance, faithful to just a few brands, from the young Little Prince, enamoured of labels and design, to the Omni Gifter, the older man who loves spending money, mainly to purchase gifts.

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<sup>6</sup> Kauppien-Raisanen H., Bjork P., Lonnstom A., Jauffret M.N., How consumers’ need for uniqueness, self- monitoring, and social identity affect their choices when luxury brands visually shout versus whisper, “Journal of Business Research”, Vol 84, 2018, pages 72-81.

<sup>7</sup> Shulka P., Banerjee M., Singh J., Customer commitment to luxury brands: Antecedents and consequences; “Journal of Business Research”, Vol 69, Issue 1, (January) 2016, pages 323-331.

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Unexpectedly, generation Y, born between 1981 and 1996, has gone back to instore shopping following the Covid pandemic, while older consumers, with no previous tendency to shop online or a reluctance to do so, continue with shopping virtually even now that the shops have reopened.

A symbolic picture is a photo taken outside a Chanel store in Asia, where everyone in the queue of people waiting to enter belongs to “Generation Y”.

Those that find it hardest to engage “Millennials” are the manufacturers of watches and jewellery, which are of less interest to younger consumers than to their older counterparts, partly because they are much more expensive than a pair of sneakers, a t-shirt or a handbag (at least some handbags). TAG Heuer has invested enormously in a marketing campaign featuring actor Chris Hemsworth, who publicises the brand’s watches by posting photos every day on his social media accounts, attracting the attention of thousands of clients through what is considered to be the best and most successful channel for making young consumers aware of the brand<sup>8</sup>.

It has also been proven that the product-influencer match-up has a much stronger and more permanent impact on the consumer than verbal content<sup>9</sup>. Brands like Tissot have decided to create a second range of products, characterised by the same quality and by being “Swiss-Made”, but sold at much lower prices, to conquer “Millennials”. Baume, on the other hand, has decided to focus both on price and sustainable production processes, launching a range of watches costing somewhere in the region of 600 euros. This group of consumers reaches its peak in China, where it represents over half of the consumers who buy luxury goods, generating 42% of total sales. As the luxury brands are almost exclusively of Western origin, they have to overcome the difficulty of conquering the typical Chinese Millennial. Focusing on the case of “Pandora” jewellery, it has become evident that the personalisation of products boosts sales considerably and this is a Western characteristic. The company had to adapt to the Asian market, introducing charms featuring the Chinese zodiac signs, for example. If we examine the Gucci phenomenon in China, we see that, while Gucci was a brand associated mainly with middle-aged women, there it was seen as a brand suitable for older women and younger women too. Despite being one of the leading Italian brands, the generational revolution actually began in China.

Chinese Millennials, the driver of the luxury market, especially when it comes to megabrands like Louis Vuitton, Gucci and Cartier, despite the Asian population’s preference for leather goods over jewellery, because only these brands are able to offer a certain differentiation and personalisation, in significant demand among consumers, while smaller players are unable to afford the necessary investments<sup>10</sup>.

It is estimated that Millennials will account for 45% of the consumers of luxury products by 2025, with spending forecasts of approximately 65 billion a year<sup>11</sup>.

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<sup>8</sup> Godey B., Manthiou A., Pederzoli D., Rokka J., Aiello G., Donvito R., Singh R., Social media marketing efforts of luxury brands: Influence on brand equity and consumer behaviour, “Journal of Business Research”, Vol 69, Issue 12, (December) 2016, pages 5833-5841.

<sup>9</sup> McCormick K., Celebrity endorsements: Influence of a product-endorser macho Millennials’ attitudes and purchase intentions, “Journal of Retailing and Consumer Services”, Vol. 32, (May) 2016, pages 39-45.

<sup>10</sup> Scarale T., Si scrive “lusso” si legge “Millennials”; “We Wealth”, (September) 2019

<sup>11</sup> A study of a sample of 264 Millennials who were asked to fill in two different questionnaires, one relating to luxury brands and products, filled in by 142 participants and the other relating to non-luxury brands and products, filled in by the other 122 participants, revealed that the average income of those interviewed with the first questionnaire was 66,000.00 US dollars/year and this group consisted mainly of women, who

### **The revenge of retail**

The consumer interviews we conducted prove the strong desire to return to in-store shopping.

While roughly a year of virtual shopping has forced some department stores to close, luxury boutiques are reopening and revamping everything. The Hermes boutique in Milan's Via Montenapoleone offers customers a sort of ceremony. Depending on how much time customers have at their disposal, tailor-made experiences are offered. The boutique's three floors house a world of excellent craftsmanship in which technology is present but at the service of discretion: there are several points throughout the store where you can pay while sitting comfortably in an armchair.

The real innovation is D2C, direct sales to the customer that take place on a double track, between social media showcases on Instagram and travelling temporary or pop-up stores. This successful formula offers a flexible and personal approach, with interaction with customers via direct message as well as a series of events designed to tell the story of their brand vis-à-vis. Clienteling is a technique used to establish long-term relationships with key customers, combining people's preferences and behaviour with data related to them, using "machine learning" for example<sup>12</sup>.

The case history of Hermes is just one example of the many brands that have chosen to reopen their doors with immersive multimedia experiences, like Gucci with Gucci Garden Archetypes.

The desire for experiences is evident from interviews conducted with Millennial consumers, a segment that was the main in-store purchaser group before Covid, thanks to the role of influencers who convey messages of inclusiveness and sustainability, telling the story of a product with iconic features, handmade and linked to the territory. Although the most important aspect of buying luxury goods is the experience in itself, Covid has made it possible for digital technology to continue playing an important role even now that the emergency is over, and to be of help in the offline shopping experience.

### **Boutiques reopen and experience-based marketing wins, with new forms of shopping.**

#### **Focus on the Pop up store.**

Experiential marketing is the evolution of traditional marketing and is based on the concept that an immersive and personalised experience conveys far more emotions and sensations to the end consumer than anything that can be conveyed by an advert which, however engaging it may be, always presents a certain note of detachment.

An experiential marketing experience makes it possible for many more consumers to approach a brand and product, even if they are not looking for it, as they are more likely to make a purchase after having an experience with the brand.

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accounted for 51.4%. In the second group, the average income fell to 57,000.00 US dollars/year and the percentage of women fell to 48.4%. The fundamental aspect of this study was that those who answered the first questionnaire were much more faithful to a specific brand than those who answered the second questionnaire. This phenomenon is dictated by a series of characteristics, such as brand prestige, product quality, the customer experience offered by the brand, the desire to own a certain exclusive product and the unique nature of that product. De Kerviler G., Rodriguez C.M., Luxury brand experiences and relationship quality for Millennials: The role of self- expansion, "Journal of Business Research", (February) 2019.

<sup>12</sup> With a view to sharing significant information with sales staff and consequently improving interactions with customers. Source. "A New Era and a New Look for Luxury", Boston Consulting Group, June 24, 2020

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Experiential marketing takes the form of events, games, shows and immersion in the relative business realities in order to provoke and motivate consumers, placing them at the centre of attention. In a world where demand is rising more than proportionally to rising incomes, creating marketing campaigns that engage consumers, driven increasingly by an irrational component rather than by rational buying behaviour, is essential for companies<sup>13</sup>.

The term “feel marketing” is used in relation to the inner feelings and emotions of customers. It aims to create emotional experiences which generate astonishment and wonder in the consumer. “Think marketing”, on the other hand, is what creates the cognitive experience, which has to instil a certain idea, a precise concept, in the mind of the consumer. Rolex, a brand that symbolises Swiss watchmaking, has an immediate ability to instil the concept of punctuality in the mind of the consumer.

So, if, in the past, the store was a place where the customer was used to picking up the product and paying that, finding the best product according to their needs at the best price, today the store is a theatre where the customer comes for many reasons: to be educated in new markets and to be entertained.

Companies take these elements into serious consideration because they must be evident not only in physical store, but also online. The touch points of customer journey are mixed between online and offline.

For the past years consumers have presented a shift in their behaviour from being interested in buying personal goods, to investing in new experiences.

This fact, plus the increase of the e-commerce, represented bad news for big retailers, who have been facing tough times.

To fight the shift in consumers behaviour, brands have been adopting experiences into their business both online and offline.

It’s been said that 1 in 4 customers are willing to pay more for a tailored product or service, which has drawn brands to include product customisation and experience personalisation into their retail business.

The decline in sales for physical retail has made brands get creative to keep customers coming back. Brands have created in-store experiences that the consumer is not able to acquire online

One of the most popular experiences for brands to include in their business is dining experience, because if someone is going to keep memories of an experience, it will most likely be related to food. Therefore, we have seen many brands opening cafes in their flagship stores or the restaurants that embody the identity of the brand. Fashion brands are also using art as a way of advertising and letting the consumers get to know the brand and deepen their relationship. Instead of waiting for art institutions to ask for a collaboration, fashion brands are creating their own exhibitions around the world.

At the beginning of 2018 Gucci opened Gucci Osteria in Florence as a part of the Gucci Garden complex mentioned above.

The restaurant is a fusion Michelin starred chef Massimo Bottura and Gucci’s creative director Alessandro Michele. It’s an eccentric take on classic Italian dishes. The interior of the restaurant refers to Gucci’s cultural heritage. Pink patterned plates and monochrome napkins, that offer a very Gucci like aesthetic to the restaurant. The

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<sup>13</sup> According to Bernd.H: Schmitt, the best experience available to consumers is obtained by focusing on the following sensory categories: sense, feel, think, act and relate. The term “sense” covers the sensory perception generated by the five senses. An example of sense marketing is the experience of Illy, founder of the Aromalab, open to visitors, which stimulates their sense of smell. Their sense of smell is stimulated by coffee tasting sessions, while their sight is stimulated by Illy’s cup collections, each one created by a different artist.

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restaurant is made to be a desired place for fashion-loving travellers wanting to get into the Gucci experience and upgrade their Instagram feeds with the beautiful interior of the restaurant.

In addition to the experience, another element that plays a crucial role is entertainment. An example of Retail Entertainment is that adopted by Porsche.

Jebsen Motor recently opened a concept showroom in Shenzhen called Porsche City Service Centre. The showroom features from murals of racing crew changing tires, to asphalt imitating racing fields in which Porsche has been famous for winning.

The concept store has the aim to offer customer the experience of being on a racetrack. The store also has TV's that apart from showing clips from races and video campaign, it also greets the customer when entering the store.

The moment the car is ready to be picked up the client get a text on Wechat, and in case the customer decided to wait for the car in the store, it has been installed a waiting room with floor to ceiling glass windows that allows the customer to see their car while is getting its maintenance. It also has a coffee machine with a 3D foam printer.

An example of the union between the two channels, renewed proof of the fact that digital technology is instrumental to offline shopping, is Balmain's digital instore in Milan, the flagship store of this prestigious and iconic brand.

For the launch of its flagship store in Milan, Balmain featured a virtual reality experience, which was based around the inspirations behind the designs of the creative director.

The experience was named "My city of lights" and took the consumer into the mind of the creative director while wearing the custom Oculus VR Headsets designed by him.

The experience was only available for the first two weeks of the opening of the store.

The opening of the store and the availability of the VR experience coincided with Milan Design Week, which resulted in long lines for the try-out of the experience and a hype around it.

As anticipated, the luxury brands, have developed pop-up shops as part of their campaigns like Bulgari, Gucci, Louis Vuitton and Valentino.

Pop-up shops serve some very basic marketing needs. The fleeting shops can introduce a consumer to a brand or provide a format for direct interaction with consumers. They pull in consumer data and provide a unique opportunity for fans to step into a brand encounter.

The traditional department-store format is driving less traffic to shopping malls as consumers move their retail activity online. With online retail creating choice overload, consumers are beginning to appreciate curated retail concepts. "Pop-up" stores that provide distinctive products for a short period are one significant response.

An example is the case of YSL for the cosmetics industry.

YSL Beauty had launched a unique pop-up experience that replicated a gas station during Coachella 2019 Weekend One. The temporary shop, which was located in route to the annual music and arts festival, is described by the brand as a makeup oasis where customers were able to touch and feel some of YSL Beauty's latest and most popular products. The three-day concept store offered a range of best-selling items from the luxury cosmetics brand. Apart from gas pumps emblazoned with the iconic YSL logo and retro convertibles, the pop-up site also featured a field of black, heart-shaped balloons in front of which many festivalgoers stopped for a Kodak moment.

Pop-up shops are taking over the retail world and rethinking traditional brick-and-mortar and big-box stores. From art to fashion to tech gadgets and food. Pop-up stores are exciting because they create short-term stores that are as creative as they are engaging.

And they come in all shapes and sizes. Pop-up stores at art museums, beaches, apartments, airports, parks, festivals offer an immersive experience to customers to build a stronger brand connect and are spreading across the globe.

Luxury industry has also adopted pop-up retail style in its core, to stay relevant and be a pioneer in terms of customer experience.

A pop-up space is a fun and personal way for luxury brands to connect with consumers. Many luxuries pop-up stores do not even sell any product, they simply focus on providing the customer an unforgettable experience. Alibaba launched the Luxury Pavilion on Tmall to bring the same brand exclusivity and tailored shopping experience that consumers would get in a brick-and-mortar store to the world of e-commerce. Tmall's Tspace, a new "online pop-up store" marketing tool, to hold the 24-hour flash sale. The feature allows brands to design custom shopping experiences dedicated to unique inventory as well as flash-marketing campaigns for the Luxury Pavilion. The pop-up store closes after the sale has ended.

In recent times, online pop-up store has also become another added feature of pop-up retail environment.

### **The luxury sector during Covid and the importance of the online channel**

Now that the emergency seems over, online traffic continues to remain at significantly high levels, both about shopping and to offer consumers details of products before they visit the store to buy them<sup>14</sup>.

Influenced by this behaviour, companies are improving their websites, with some changing them dramatically, making them attractive and conveying their brand identity. The LVMH group is a master of this and its website arouses a desire in the online visitor. Browsing photos of shop windows, pictures of new flagship stores and experiences to try out in store, the world's most prestigious luxury group sets the standard.

Looking back at the most complex moments caused by the health emergency helps us understand the evolution that has led brands to revamp their virtual windows.

Lockdowns imposed by governments to curb Covid-19 dramatically changed consumer behaviour. Businesses were left wondering which of these changes would last, in order to plan their recovery.

These lockdowns and other restrictions have had a significant effect on our way of life. Behavioural patterns suddenly changed. An activity as simple as going to the supermarket or jogging became risky and, in some cases, was even forbidden. The isolation period, the fear of contagion, economic uncertainty and the freeze on production activities, which for many led to a drop in income, have had a far-reaching impact and, according to various studies, will continue to affect consumer behaviour even after the health crisis is over.

During the harshest phase of the pandemic, sales of essential products, such as groceries and household items, increased, while sales of discretionary products, such as clothing and furniture, and of services such as restaurants and travel, suffered a decline, sometimes coming to a complete standstill.

The most obvious change has been the movement towards e-commerce and the partial abandonment of "physical" stores. Online consumption has risen significantly in every country. This is due to the fact that consumers are homebound or fear that leaving the house will encourage contagion, and because being at home gives them more time to

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<sup>14</sup> According to McKinsey, about 80% of purchases in this sector are influenced by the digital world . McKinsey & Company, *Digital in the post covid Era*, 2020



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spend online, searching for what they want. This trend is going to continue as we return to normality. Companies in the luxury world have responded quickly and online shopping has begun to embrace product categories that were previously sold almost exclusively in “physical” stores (e.g.: high-end cosmetics).

The lockdown hasn't affected everyone equally. Amidst the inevitable diversity, it identified trends that were common to the various countries and signs that consumers have managed to adapt to the new situation.

As we entered the second phase, some types of behaviour, including online purchases of services and home delivery, gained momentum. For many who are housebound they have become a necessity and for others a welcome simplification of life. An increasing number of consumers have been using services offered free of charge by businesses that have quickly adopted new strategies. If the experience of the potential customer is positive, the digital contact can be transformed into an “in-person” shopping relationship when the crisis is over<sup>15</sup>.

Sales of used luxury brand items are growing parallel to the luxury market, not only due to a need to curb spending, but particularly in relation to a spirit of eco-sustainability that is spreading and forming new habits. This phenomenon stems from the fact that traditional brands are suffering the consequences of the crisis in the United States and Europe and are focusing on the rapid recovery in China, increasing sales of used clothing and accessories by famous brands. Many people have discovered that clothes that have been hanging in their wardrobes for years can generate cash/liquidity. The phenomenon has assumed such significant proportions in the United States that some large chain stores - such as Macy's, Nordstrom and Gap - have opened departments for the sale of used clothing. Young people are the main customers, as they are sensitive to environmental issues and less willing to spend.

The Kering Group has invested in Vestiaire Collective (5% of the capital), Europe's leading platform for second-hand sales of high-end brands, tapping into the second-hand market, which attracts young people and those sensitive to environmental issues, and which boomed during the pandemic.

Kering's decision is another sign that the luxury industry's traditional reluctance to even consider second-hand sales, for fear of losing control over distribution and price, has dissolved. But Kering isn't the first company to do something like this. In 2018, Richemont bought a website specialising in selling watches, and, in 2019, Neiman Marcus bought a minority stake in a website selling second-hand bags and accessories. The number of consumers seeking to improve their status through the purchase of luxury products, not always at a high price, is increasing and the base of the luxury pyramid is expanding.

The conversion to e-commerce has made it possible for fashion brands to continue selling despite lockdowns. Some brands have changed or expanded their target audience by courting older customers. For example, Gucci is courting an older, richer

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<sup>15</sup> “With online shopping, the Covid -19 pandemic has changed the way we shop forever”. This is the conclusion drawn by a survey conducted among approximately 3700 consumers in nine developed and emerging economies. The “Covid-19 and E-commerce” survey has revealed that consumers use e-commerce and digital solutions particularly in Brazil, China, Germany, Italy, South Korea, Russia, South Africa, Switzerland and Turkey. Over half of those interviewed now shop online more than they did before the pandemic. This trend is stronger in emerging countries. McKinsey & Company, *Digital in the post covid Era*, 2020

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clientele to stabilise revenue as the considerable five-year growth in the demand for luxury is waning.

Respect for the environment and the principles of ethics is encouraging consumers to seek understated, discreet, essential, and “timeless” luxury. The rarefaction of international tourists is leading some brands to launch distribution strategies that depend less on tourism.

Lockdowns and foreign travel restrictions have curbed a major source of luxury sales. It is estimated that between 20 and 30% of the turnover of the luxury market is generated by purchases that take place outside the country of origin. It is a well-known fact that Asian customers in particular shop extensively when travelling in Europe, not only because prices are lower, but also because shopping is an important part of the “travel experience”. Buying a luxury product in the country of origin gives it authenticity and arouses emotion.

With the arrival of the pandemic, live shows and “fashion weeks”, two effective ways of staying in touch with “big buyers” and keeping consumers interested, were forced to stop. The virtual alternative just wasn’t the same<sup>16</sup>.

At the end of March 2020, stores reopened in China and the demand for luxury clothing recovered weakly. In the luxury world, it is difficult to predict consumer behaviour because, when times are hard, not all rich people react in the same way. While many people’s shopping habits remain the same during a crisis, others decide to cut back on spending. The latter category then has more money to spend when the effect of the crisis ends or is contained. In China they call this “revenge spending”. Some rich people spend less during the pandemic and when it ends, some of them quickly spend everything they have saved. So the contrast with people on low incomes grows even more and the risk of crisis-generated social division becomes greater.

**Fashion brands lead the recovery. The case histories of Tiffany and Moncler**

In the LVMH Group, higher sales of the fashion brands Louis Vuitton and Dior have offset the decline of other brands such as those in the champagne business: Veuve Clicquot, Moët & Chandon, Dom Pérignon and Ao Yun.

The group's results also show how luxury brands gained market shares during the pandemic. Sales at Louis Vuitton, Dior and Hermes have risen since their boutiques reopened following lockdown.

According to the CFO of LVMH, the reasons behind the recovery lie in the wide range of products in the “pipeline”, in continuing to hold fashion shows, albeit in a reduced format, in investing in digital technologies, in proposing products featuring the finest materials, of the visibly highest quality, with some of the highest prices on the market, often with clearly visible logos that confirm personal values, the identity of those who use them, and also the emblem of environmental sustainability guaranteed by their origin.

The LVMH Group and Moncler have understood how crucial it is to analyse consumer behaviour and have made acquisitions aimed at consolidating their position.

Two brands, two companies and two similar visions, but each with its own positioning and brand identity.

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<sup>16</sup> This is confirmed by McKinsey research carried out on a sample of 1000 American and European habitual buyers of luxury goods, 24% of whom shopped online for the first time while stores were closed, with 75% of these considering their experience to be positive. McKinsey & Company, *Digital in the post covid Era*, 2020

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Both LVMH, with the acquisition of Tiffany, and Moncler, with that of Stone Island, are responding to the needs of multiple customer segments by expanding their product range.

While the expansion policies of other companies came to a temporary halt during the pandemic, these two case histories were an exception.

LVMH analysed luxury consumer behaviour and realised that the acquisition of Tiffany would enable it to acquire Asian customers and therefore help offset the decline in sales in countries where boutiques were still closed, and also in the longer term, with Asian customers representing the new geographic target area.

This satisfies all three levels of the luxury pyramid.

Before the acquisition, the LVMH group was present in the jewellery sector with the Bulgari brand alone, which was unable to meet the needs of the base of the pyramid, i.e.: accessible luxury (the entry-level Heart Tag bracelet) or the needs of the top of the pyramid with Red Carpet jewellery.

Remo Ruffini, chairman and CEO of the luxury brand Moncler, decided to face the “new normal”, realising that he had to change a business model no longer valid in times of crisis. “For Moncler this means accelerating the digital transformation, reconfiguring the sales network and giving the supply chain more support, inventing a new way to present and sell the collections and conceiving new methods for reaching a new customer base”<sup>17</sup>.

Ruffini stresses that what needs to change is “how” and not necessarily “what”. He reminds us that the fashion industry is based on “face-to-face” contact with designers, colours and fabrics, with the “fitting”, so contact with “physical” things. The digital transformation is a welcome one, but the luxury product also requires “in-person” contact. He is also very clear in relation to the risks of applying a discount policy to recover revenues at a time of a critical reduction in demand. “A short-term policy cannot hold a long-term vision and strategy hostage”.

On the official website, [monclergroup.com](http://monclergroup.com), you can find the letter to the shareholders relating to the Annual Report for 2020, in which Remo Ruffini thanks shareholders, employees and stakeholders for their tenacity in facing the crisis. He goes on to explain that the company has begun the internationalisation of its increasingly strategic online business while also inaugurating the flagship store on the Champs-Élysée in Paris which, with 1000 square metres of floor space, is the largest store in the network that encapsulates the essence of the brand’s strategies, confirming the analysis of the online and offline consumer shopping process.

This example indicates the brand's presence in the new luxury segment, characterised by an experience-based approach, inclusiveness, a sense of belonging to a community and the contamination of different worlds, such as art, culture, music and sport.

Moreover, the acquisition of Stone Island confirms the farsightedness of purchasing a brand that allows the acquisition of new market segments in the pyramid.

The letter tells readers how the Covid-19 crisis has forced brands to analyse consumers and even the most conservative brands to adapt to the new way of shopping and the new luxury identity.

Ruffini’s words echo the message conveyed on the company's website: “Inspired by the common vision of a new concept of luxury, the Group believes that each brand must offer its own interpretation of luxury, while maintaining its identity and distinctiveness and, at the same time, benefiting from synergies that allow the brands to develop their full potential.”

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<sup>17</sup> Annual Report for 2020, [monclergroup.com](http://monclergroup.com)

**Consumer reactions during Covid: market questionnaires**

To understand how the pandemic has impacted online and offline channels from an end-consumer perspective, we asked a sample of 106 end-consumers to fill in a questionnaire.

The first difference that emerged from the analysis of the results of the questionnaire is that 85.8% of consumers are willing to buy products online that are priced below two hundred euros, while only 41.5% are willing to buy products online that are priced above 200 euros.

The questionnaire also showed that, when it comes to purchasing products priced below 200 euros, customers have a significant preference for apps. The most popular app of all is Farfetch.

If we consider the frequency with which they shop online, it was found that 61% of people who buy products online at a price of less than 200 euros once a fortnight, buy products priced over 200 euros once a month.

Of those who buy products priced below 200 euros online once a month, 79.16% never buy products priced above 200 euros online.

Among the population surveyed, only 9.4% buy products priced below 200 euros online more than once a week, but among these, 40% never buy products priced above 200 euros online.

Regardless of the amount spent, it emerged that the service that mainly encourages customers to buy products online is home delivery, while the possibility of a shopping experience is what mainly encourages consumers to buy products in physical stores. An example is given in the attachment indicating percentages and a graphic representation of one of the questions included in the questionnaire.

The questionnaire examined the Covid-19 period, which affected the global population from February 2020 to May 2021, asking three questions to analyse the way people shopped during this period.

The results given by crossing and combining the data from the answers.

People who increased their online purchases by less than 25% account for about 64.20% of the total population surveyed. Among these, 86.76% would not have increased their online purchases by this percentage had mandatory closures not been imposed and 50% of this segment of the population misses being able to buy “luxury” goods at physical stores.

The segment of consumers who increased their online purchases by 25 to 50% accounts for 23.58% of the total population surveyed. Within this group too, the vast majority of people, 88% to be precise, would not have increased their online purchases by this percentage had they not been forced to do so by mandatory closures. 86.36% of this subgroup misses being able to shop at physical stores. 44.44% of those who would have increased their online purchases by this percentage anyway still miss shopping at physical stores.

Also, in the case of consumers who increased their online purchases by between 50 and 75% it was found that, for 90.9% of consumers, this increase would not have occurred if stores had not been forced to close. Again, 90% of the population in this second subgroup misses buying “luxury” goods at physical stores. This is also highlighted by the one consumer who said that they would have increased their online purchases by this percentage anyway, regardless of the mandatory closures.

The case in which online purchases increased by more than 75% is very rare, with only 1.89% of consumers doing so. In this case, however, both consumers who increased their online purchases by this percentage again confirm that they would not

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have increased their online purchases so much without the mandatory closures. In all cases, the online purchase of products would not have increased by these percentages had it not been for mandatory store closures and travel restrictions. As far as the shopping experience in physical stores is concerned, 83.96% of interviewees think that there is a difference between buying a “luxury” product online and offline, and 66.29% of this customer segment think that one of the differences between the two types of purchase is the possibility to enjoy a shopping experience inside the physical stores, which is not possible if you decide to buy online. Even among the respondents who answered that there is no difference between buying a “luxury” item online and buying it offline, it emerged that the shopping experience is still an important factor for 47.05% of consumers belonging to this group. Overall, the shopping experience is an important factor for 64.15% of respondents, followed, in terms of importance to consumers, by direct contact with the seller (40.56%), the possibility to consider products that they would not consider through e-commerce (33.96%) and, last but not least, the availability of a range of products sold exclusively in store (31.13%).

As regards a more technical aspect of offline shopping, it emerged that, for 86.79% of those interviewed, it is essential to see the luxury item chosen at the time of purchase and try before they buy, while just 2.83% prefer to order it online and try it at home and 10.37% are indifferent.

Moving on to an aspect related more to brand image, it emerged, as explained later by Luca Marcato, Manager of Brunello Cucinelli, that a flagship store, besides giving importance to the brand, offers the customer an even more unique experience. 83.96% of customers believe that buying a “luxury” item at a flagship store makes shopping even more satisfying.

Most of the people who answered the questionnaire (60.37%) were women and 76.41% of the total respondents were aged 21 to 35. Despite the fact that this age group belongs to the generation that is more inclined to shop online, it has emerged that, with regard to the purchase of luxury goods, they prefer to shop at physical stores, thanks to the better experience offered and perceived. This is confirmed if we compare the propensity to buy luxury goods online (products priced over 200 euros) with the gender and age of the interviewees.

It emerged that 58.49% of respondents do not buy goods that cost more than 200 euros online and, among these, 74.19% are female respondents. Among the 41.50% of consumers who are inclined to buy luxury goods costing more than 200 euros, it was found that the majority (56.81%) are male consumers.

As regards the analysis of these figures in relation to age, it emerged that, among respondents who are inclined to buy luxury goods priced above 200 euros online, the majority are Millennials aged 21 to 35 years, who account for 86.36%. Among this small group of Millennials, 60.52% are men. This percentage drops to 69.52% among consumers who are unwilling to buy products priced above 200 euros online.

As regards the frequency of purchasing products online, the situation is very different for products priced below 200 euros and products priced higher. Starting with the analysis of online purchases of products priced less than 200 euros, grouping the consumer segments by gender and age, it was found that the majority of consumers, 38.67%, buy products priced below 200 euros online more than once a week. This group is represented by 58.53% women, who always make up the majority in each subgroup of frequency of purchase. From an age point of view, the majority of respondents, 80.48%, belong to the 21-35 age group.

The situation is different with regard to the frequency of online purchase of products

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priced at over 200 euros. 55.66% of consumers never buy products in this price range online. In this subgroup, the majority, 74,57%, is represented by female consumers. In terms of age, 71.18% of consumers in this segment fall within the 21-35 age group. Regarding this type of purchase, most women never shop online, and the majority of those interviewed who buy these products online from once a fortnight to once a month were men.

The willingness to purchase products priced above 200 euros online was analysed on a more statistical level by relating it to the variables of gender (female or male) and two age groups (35 and younger and 36 and older). This study was carried out to understand whether the variables considered, willingness to purchase products priced above 200 euros online – consumer gender, and willingness to purchase products priced above 200 euros online - consumer age, were related to one other and to what extent they were linked. It was found that “willingness to purchase products priced above 200 euros online” and “consumer gender” are significantly related, as proven by the chi-square test, while “willingness to purchase products priced above 200 euros online” is not significantly related to “consumer age”.

### **The consumer educates the brand**

If luxury brands used to represent a forbidden dream and laid down the law, now even the luxury brand has to adapt and understand that online shopping does not diminish the product, as the new age group of luxury consumers wants to buy or at least see online first and then in store.

E-commerce and online communication (websites and social media) in general can convey even elitist messages with elegance.

Consumer behaviour is a school for the brand.

The milestones area of the LVMH Group's website talks about the various brand acquisitions, which have enabled it to cover all consumer and product segments, arousing a desire in online visitors for an experience that drives them to enter a boutique, cross the threshold of a fabulous hotel or board the magical Orient Express.

**Keywords:** luxury instore experience, luxury consumer behaviour, online shopping channels

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