

# Chapter 10

## Old and New Distribution Channels in the Luxury Sector

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### ABSTRACT

*The focus of this chapter is to provide scientific evidence to luxury businesses for competing in a competitive global market, providing for further research opportunities of old and new distribution channels. Thanks to a qualitative method, it emerged that 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: a growing investment by luxury brands in direct distribution activities; the integration between distribution and communication activities; the development of the digital channel in luxury markets; and lastly, the growing integration between User Generated Content and distribution channels. As the distribution variable influences the constitution of brand identity, old and new distribution channels have to be differently articulated according to the exclusivity of the brand.*

### INTRODUCTION

Italy and other countries are universally renowned for its strong vocation for luxury. In particular, the Italian and French luxury sectors are important to the Italian and French economy, thanks to a strong tradition in these fields and strong efforts into innovation policy. The market seems to be particularly susceptible to external pushes linked to the socio-demographic, cultural, political and economic context, which impact on to the tastes and desires of individuals and, consequently, to the company's choice.

As the market of a luxury companies is a globalized market, a company has to understand the variables that impact on this marketing mix variable (the distribution variable), and tries to obtain advantages from them. In addition, it is appropriate to place different types of distribution channels into different categories of luxury, in relation to the affordability of a brand (Non affordable luxury and Affordable luxury).

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Some winning companies permit us to identify successful business models in different luxury sectors, such as the core luxury sectors (fashion, jewelry and watches, perfumes and cosmetics, and cars) and new luxury sectors (wines, spirits and other gourmet products, tourism and catering, and furniture and household items).

The aim of this work is to analyze the distribution strategies of high-symbolic-value goods, highlighting the main trends, and providing scientific evidence to luxury businesses for further research opportunities of old and new distribution channels.

The chapter is structured as follows. The first section analyzes the theoretical background of the distribution variable into the luxury sector. The second section outlines the main focus of the chapter. The third section presents future research directions for this topic. Finally, the last section presents the conclusion, implications and limitations of the study.

## **BACKGROUND**

The luxury business represented a very interesting topic on which many researchers focused.

Luxury in an elitist connotation, but also a social manifestation in a community. A specific target is attracted, firstly, for a status symbol connotation and for intrinsic quality of the products, price, rarity and creative content. More precisely, luxury fashion is divided into non-affordable luxury and affordable luxury, according to the target audience.

Firstly, the *human need* has been analyzed, as luxury companies have to satisfy it. A need is a symptom of what an individual is lacking: it is influenced by his cultural, economic and social context and his expectations and preferences and has different levels (Airoldi, Brunetti & Coda, 2005; Erner, 2004; Giacosa, 2011; Giacosa, 2012; Kemp, 1998). If it is a primary need, the individual seeks to obtain an object that is necessary for his survival and whose purpose is to help him deal with the daily struggle for nutrition, warmth and a certain level of health. When it is a secondary need, the individual is driven by the desire to own a variety of luxury goods that are beyond the simple requirements of daily life. Often, this secondary need will grow until the consumer gains possession of that object, after which the desire diminishes. On this subject, the CEO of Hermès has reconstructed the paradox of luxury: “The more one is desired, the more one grows, but the more one grows, the less desirable” (Thomas, 2011). This paradox is the manifestation that the world of luxury should be considered a phenomenon in its own right, since it is a powerful generator of causal ambiguity (Chailan, 2013; Orton & Weick, 1990; Weick, 1976). The Luxury business falls into the category of secondary needs, and aims to meet several types of needs. First of all, the creative need, namely the need to look a certain way, thanks to the availability of a particular series of objects designed to enhance the body. Secondly, there is a communicational and social need, namely the need to communicate a given message to the outside world and the feeling of belonging to a social group, through tangible factors (such as a handbag) or intangible ones (such as the brand of the bag). Lastly, there is the need to feel up to date with fashion trends, which is satisfied by possession of objects from the latest designer label collections. Manifestation of a series of secondary needs is to some extent the result of improved economic conditions for a section of the population, and the ageing of the population. Indeed luxury has gained new customers amongst the wealthy sections of the population in emerging countries and amongst the new seniors, that is, those individuals whose good

health in adulthood means they can afford higher-quality goods (Duesenberry, 1949; Tynan, McKechnie & Chuon, 2010), a trend that is encouraged by the luxury houses, who have adopted a series of adult testimonials (Demi Moore for Helena Rubinstein, Sharon Stone for Dior, Bono for Louis Vuitton).

Many studies focused on the *environment* in which the luxury companies operate, as the needs perceived by consumers are strongly influenced by the context in which they live, which influences style and membership of a social group. It means that this environment impact also on the company's choices about in terms of distribution. For example, the French, who are the founders of modern luxury, prefer more sophisticated luxury with an emphasis on detail, unlike the Russians who prefer to show off their wealth and this is also seen in the way they dress. Hence, there is no single vision of luxury, rather it is also influenced by environment. The environment in which the consumer lives influences his desires and the demand they generate, just as the environment in which the company operates influences its production. Broadly speaking, environment is everything that surrounds the company, whereas narrowly speaking, the environment is what influences the structure and behaviour of the company and is the source of the company's conditions of life, survival and development (Giacosa, 2011 and 2012). The environment conveys a series of opportunities to the company, but there are also restrictions, which limit the sphere of action. The company may in turn influence the trends that drive consumerism. Trends are influenced by different aspects of the environment, which can be viewed by dividing the environment into many sub-environments, such as social, cultural, economic, political and legislative, physical and natural, and technologic sub-environments (Ferrero, 1987; Mosca, 2010). Some of these sub-environments have a strong effect on the trends that drive consumerism.

First, social sub-environments significantly affects the trends (Amatulli & Guido, 2011; Casaburi, 2011; Nueno & Quelch, 1998), which are generated by the work of companies operating in the sector and by street trends, in other words, they are generated or strongly influenced by individuals. The needs expressed by individuals are influenced by the social groups within society, which identify themselves and the desire. Luxury trend is a tool that conveys, albeit non-verbally, the attainment of a given social status (Paquot, 2007): the more luxurious the item, the higher the social standing conveyed by the individual. Communication of a certain social status by the consumer also requires knowledge of the style of the target opinion leader. In this context, communication from the companies and from the media must promote understanding of the style emerging from the target leader, so that the consumer can properly align himself and feel part of that group. Furthermore, consumer attitudes are influenced by the degree of maturity shown towards luxury (Bourdieu, 1984; Chaudhuri & Majumdar, 2006; Eastman, Goldsmith & Flynn, 1999; Vigneron & Johnson, 1999): if he is particularly accustomed to using luxury items, the consumer's attitude is mature, with every purchase consolidating this habit. On the hand, when his experience of luxury is only occasional, every purchase brings him closer to the world he is discovering and this experience is often enhanced during periods of price reductions.

Even the cultural sub-environments in which the company operates influences expectations and luxury trends alike, owing to the ideologies and cultural values of consumers (Hall & Hall, 1990; Harrisson & Huntington, 2000; Hoecklin, 1996; Kapferer, 1997; Nwankwo, Hamelin & Khaled, 2014; Ritzer, 1999; Yeoman, 2011; Stokburger-Sauer & Teichmann, 2013). Levels of education affecting levels of culture, the importance assigned to religion, lifestyles, the age at which consumers become financially comfortable and the role of women in society are just some of the values that influence consumer choices. This means that different brands may have different value depending on the cultural context. A number of

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important studies (Hauck & Stanforth, 2007; Mulyanegara & Tsarenko, 2009) have focused on the relationship between luxury and youth, who represent a strong potential for future demand and who should be the key targets of business distribution policies (Banathy, 1996; Choi, 2011; Guercini & Ranfagni, 2012; Jones, 2002; Taplin, 2014).

In terms of the natural sub-environment, a company's operations may also affect the environment in terms of defence and promotion of natural resources and local traditions. When a company aims to use wool from a local breed of sheep that has been conserved, the rarity of the raw material becomes an aspect of the resulting product's exclusiveness. This leads to the concept of sustainable luxury, in ecological and environmental, social and organizational terms (Guercini & Ranfagni, 2013; Guercini and Woodside, 2012; Kapferer, 2012): if the offering is also ecologically and environmentally sustainable (Allen, Walker & Brady, 2012; Jones, Clarke-Hill & Comfort, 2008), then this is perceived as added value that enhances the competitiveness of the offering, especially if customers are sensitive to sustainability issues. Furthermore, when raw materials are authentically linked to a local area, they become a distinctive feature of the product, and as a consequence, the brand. So in addition to being sustainable, luxury is also authentic (Thompson, Rindfleisch & Zeynec, 2006) (because it retains the characteristics of a local area) and this increases its chances of differentiation of the product and the consumers choosing it.

A significant area of research is focused on *distribution* considered as 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 consumer 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.

In the luxury context, the distribution represents a fundamental moment of the relationship between a luxury company and its customers, as the boutique represents the place in which brand expresses itself and where the customer can satisfy their dream and expectations. For understanding the right strategy for selling a luxury product, the details of point of sale have to reflect the customers' needs and perceptions. In other terms, only if the point of sale is perceived as a cathedral of luxury, the customers are sufficiently involved in the shopping experience.

The company has to understand how to sell someone, in addition to sell something (Kapferer & Bastien, 2009). The distribution variable influences the constitution of brand identity, due to how a product is presented and is accessible in terms of availability (Giacosa, 2012; Saviolo & Testa, 2005). In addition, the type of distribution channel depends on the degree of the luxury exclusivity, which consequently impacts on the degree of intensity of the distribution channels (Pellicelli, 2005). The elements of uniqueness and rarity characterizing high-symbolic-value goods must be consistent with marketing and business-development goals (Mosca, 2010). 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 (Kapferer & Bastien, 2013). 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.

Old and new distribution channels state together in the luxury market. 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 (Mosca, 2014) 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.

## **MAIN FOCUS OF THE CHAPTER**

### **Issues, Controversies, Problems**

The focus of this chapter is to provide scientific evidence to luxury businesses for competing in a competitive global market. In particular, in terms of the distribution channels, we state that old and new distribution channels state together.

In order to achieve the research objective, we developed the following hypothesis:

**HP:** Non-affordable and affordable luxury products present differences in distribution channel, as the distribution variable influences the constitution of brand identity.

With the aim of exploring the hypothesis mentioned above, the research methodology has been carried out in the following phases:

1. **First Phase:** The hypotheses were analyzed by examining the existing literature about the luxury sector and the drivers in the consumption trend, this highlighted a series of variables that impact on luxury consumption. The findings was illustrated in the previous sentence.

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2. **Second Phase:** We made a qualitative analysis. In particular, we analyzed literature on the topic. In addition, we analyzed companies' information of 10 non-affordable companies and 10 affordable companies by using their web sites, journals and newspaper on them. The purpose is to identify the key drivers within the luxury companies and differ considerations in terms of distribution strategy.

The distribution variable is included in the marketing mix (Borden, 1964; Bruner, 1988; Constantinides, 2006; Dixon & Blois, 1973; McCharty, 1964; Pellicelli, 2005). It has to represent the luxury brand, as boutiques interpret the brand's concept: consequently, the place of sell is the network between the customers and the luxury universe. The distribution permits to construct the brand identity, since the point of sales bolsters or undermines the consumer's dream.

For develop our hypothesis, we try to differ the distribution strategy in terms of the luxury typologies (Chevalier & Mazzalovo, 2008; Giacosa, 2011; Okonkwo, 2007):

- **Non-Affordable Luxury:** It represents highly exclusive luxury products, whose price is very high and affordable only for HNWI's (high net worth individuals) (Tartaglia and Marinozzi, 2006). It means that democratization is not for non-affordable luxury. Indeed, the high quality, the exclusive distribution and scarce availability justify the high price; limited editions or, sometimes, single pieces are strongly customised and are linked to the company heritage. Louis Vuitton, Chanel and Hermès for fashion luxury, Ferrari and Rolls Royce for car sector, Gaia and Moët Chandon for wines and spirits, Armani Hotel for travels and holidays, are great examples;
- **Affordable Luxury:** It represents the democratization of the luxury. A wider range of products categories, such as accessories, glasses, perfumes and cosmetics, are inspired by non-affordable luxury, and customers could dream to be part to the luxury universe (Silverstein, 2006; Corbellini & Saviolo, 2009). A sort of "trading up" phenomenon happens (Silverstein, 2006; Gandini & Turinetti, 2009), for which the customer make a sort of zip between luxury products and more traditional ones. Generally, companies of non-affordable luxury are not involved to the phenomenon. Tod's, Gucci, Prada, Mercedes, Audi, are examples of affordable luxury.

In this chapter, we are interested in solving the problem of understanding and identifying successful characteristics of distribution strategy for luxury products, distinguishing in non-affordable or affordable luxury, and in old and new distribution channels.

## **The Findings**

Defining the reference target follows the potential customers' wealth level criterion, it would be interesting to focus on the variable distribution, which is defined according to the different typologies of luxury:

- Non-affordable luxury.
- Affordable luxury.

### **1. Non-Affordable Luxury**

Referring to non-affordable luxury, distribution has to be distinguished in terms of direct, indirect option and old and new channel formats.

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.

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 because 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.

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

An analysis of the distribution strategies of a sample of firms clearly shows a marked acceleration in exclusive direct distribution, in particular for high end products: 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.

It must be noticed that the direct distribution coverage presents some disadvantages.

The main disadvantages and risks of exclusive direct distribution are: insufficient distribution coverage, increased investment in fixed assets, slowing of growth, difficulties in managing human resources.

### *Old Channels of Distribution*

The boutique represents a traditional place where the customer meets the company and an exclusive brand's universe. The distribution of luxury products is exclusive. The limitation of the distribution

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policy to limited points of sales increases the exclusivity of the brand. For this purpose, the company chooses to commercialise the product through a small number of boutiques with reference to a geographical area, selecting only the main towns to reach the commercial rarity of their products. Although the company boutique requires considerable investment, a selective distribution networks is preferred, privileging mono-brand boutiques, based exclusively on single-brand self-owned boutiques, both for increasing brand image, allowing the customer relationship, skipping the intermediation of wholesalers and agents, and control more directly the distribution system. Exclusive distribution choice, combined to great post-sales services, may be remarkably expensive: for this reason, high prices are necessary for products commercialized in an exclusive manner.

The rareness of the product avoids its value dilution: it means that the company tries to maintain its potential in the minds of the élites who can afford it (Kapferer & Bastien, 2009; Giacosa, 2012). The distribution is exclusive: that is, the company chooses to commercialise the product through a limited number of resellers with reference to a geographical area, who employ highly qualified staff and offer a particular post-sales service. The purpose is to convey the exclusivity of the product, besides carrying out strong control of the distribution system.

Only rareness boutiques may interpret this concept: a small number of exclusive boutiques located in important cities and commercial location means reflect non-affordable luxury; in addition, a small number of product pieces are available on the market. Thinking about Ferrari: the rareness is a strength of the company strategy. Sometimes, the rareness is only virtual: some products are not limited in the quantity, but they are social limited due to their high price. La Prairie caviar essence skin cream is an example: even without a selective distribution and limited editions, this product is perceived as a luxury cosmetic thanks to its price.

Thanks to the featured elements of a brand (Ceriani, 2001), an high involvement of the customer has to happen (Holbrook & Hirschman, 1982; Huang, 2001). Boutiques became a sort of consumption cathedral (Giacosa, 2012; Ritzer, 2000), where the brand (and consequently the products) try to attract the customers in a good-looking way. Customer perception is satisfied in a visual, tactile, olfactory and auditory sense. To reach this purpose, every details of the boutique are extremely studies (Cheng and Chi, 2009; Wang and Ha, 2011): the sign, the furnishings, the lighting, the dummies, the shop window, the fitting room and other elements linked to a virtual communication (Haenlein & Kaplan, 2009) contribute to creating the brand atmosphere (Ceriani, 2001; Parsons, 2011; Pellicelli, 2005; Sacerdote, 2006). To reach this purpose, the internal and external layout is so important, as it strikes the five senses of the customer and increases the desire to buy in a short-term period. When Tom Ford opened in 2007 in Madison Avenue for its haute couture men's collection, a luxurious environment was created: customers found a sort of private residence, where every kind of service was offered, such as personal vendors, butlers, seamstresses, waiters and pattern makers.

In addition, the location choice is significant, as it impacts on a series of factors, such as the budget available to the company and the brand image: 85% of the London stores are located in Bond Street and Sloane Street, and in Madison Avenue and Fifth Avenue for New York (Giacosa, 2012; Moore, Doherty & Doyle, 2010). Boutiques have to be set in the first-tier cities circuit (Jansson & Power, 2010) (Milan, New York, Tokyo and London) or in nouveau riche cities (such as Dubai, Shanghai and Singapore) or well-established stores (such as Galeries Lafayette in Paris), in exclusive touristic places or international airports, as it permits to strengthen the brand image. Only a good location permits to confirm the exclusivity of the brand's universe. Thinking about Montenapoleone street in Milan and Bond Street in London, all is luxury, and all become an experience for luxury: walking along these streets, the consumer's desire



is intensified and the attraction by membership of that universe is very high. It happens that a company with several brands prefer to have different locations for each brand to permit a customer and brand differentiation (Corbellini & Saviolo, 2009): for instance, Prada has different location in Milan: the Galleria, via Montenapoleone and Viale Venezia. Tourists mainly frequent the Galleria and via Montenapoleone stores, while residents go to all shops.

A preferential treatment has to be received from regular customers, but also occasional shoppers have to be attracted both from assistant's professionalism and politeness. The shop assistant become the ambassador of the brand: they have to exalt the status of the brand, the company's heritage and all brands details in terms of images, reliability, comfort and scents. For this reason, the shop assistant have to be motivated and trained. In addition, a great post-sales service is offered to increase the brand image. During the interaction with the customers, the price is not a relevant variable, differently from standardized products. On the contrary, competition is based on quality and the protagonist of the relationship are the brand and the customer.

### *New Channels of Distribution*

In addition to traditional channels of distribution, distribution methods are influenced also by the process innovation, which is focused on the introduction of a new operating method, or improving an existing method in the distribution area (Giacosa, 2011; Re et al., 2014). In particular, distribution innovation concerns the types, characteristics and locations of the point of sales, and the other distribution channels. The use of multi-sensorial instruments to attract the consumers permits to attract new consumers and strengthen the retention of old consumers and perfect management of the customer relationship (Binz, Hair, Pieper & Baldauf, 2013; Miller & Le Breton-Miller, 2005; Kapferer, 2002; Poza, Alfred & Maheshwari, 1997; Ward, 1997).

Innovation in distribution could be introduced in different terms:

- **In Strict Sense (i.e. Technological Innovation):** Despite their initial reluctance, non-affordable luxury has been influenced by new technology (Blomback & Ramirez-Pasillas, 2012; Botero, Thomas, Graves & Fediuk, 2013; Ha and Perks, 2005; Micelotta & Raynard, 2011; Mosca, 2014), as the target has a growing confidence with the digital technologies, such as the internet web site and social networks. The website represents an information instrument to present the firm, provide information on location of the sales boutiques and present the collections (Kim & Lennon, 2010; Levy & Weitz, 2006; Macchi, 2011; Okonkwo, 2010; Ries & Ries, 2000; Schlosser, 2007; Yang & Young, 2009), or is also an instrument to sell the products (Guelfi & Giacosa, 2011; Kwon & Noh, 2010; Park & Lennon, 2009; Steinfield, Bouwman & Adelaar, 2002). Gucci was the first, launching Guccieyeweb.com in 2009, a social network site for a new collection of sunglasses targeting digital generation customers, and updating its Facebook site three times a day and tweeting on Twitter. Also Louis Vuitton followed Gucci's example, broadcasting its fashion shows live on its blogs. The social networks may be considered a new distribution channels, but also a communication tool. In strict sense, the social networks like Twitter, Facebook and YouTube represent a great way to benefit from the widespread diffusion of these media in a large section of the clientele (Kim & Ko, 2012; Kim & Lennon, 2010; Levy & Weitz, 2006; Macchi, 2011; Okonkwo, 2007; Okonkwo, 2010; Phan, 2011; Schlosser, 2007; Yang & Young, 2009), to interact with customers both for the growing confidence with the digital technologies and for the low cost of this instru-

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ment (Kietzmann, Silvestre, McCarthy & Pitt, 2012; Kim, Choi, Agrusa, Wang & Kim, 2010; Pardo & Tajeddini, 2013; Kaplan & Haenlein, 2010). Chanel, Gucci and Ralph Lauren created some iPhone applications that allow their customers to interact with their brands; Louis Vuitton showed its fashion shows in live broadcasting on its blogs. It emerged that the social networks have a good effects on the brand reputation, as this possibility is perceived as a friendly tool and also stimulates the desire for a brand (Donaldson, 2011; Geerts & Veg-Sala, 2011; Ha & Perks, 2005; Kim & Ko, 2012; Okonkwo, 2009). 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 D.O.S.. These include (Mosca, 2014):

- **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. 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 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;
- **In a Wider Sense (Related to the Typologies of Distribution Channel):** Considering innovation in the broad sense, the purpose could be to increase the clientele with new means of distribution, respecting the brand myth and revisiting it. The characteristics of this innovation is to valorize the traditional elements of the brand, but stimulating new desires. When the purpose is to attract new younger customers, new distribution channels have to be used, including:
  - **Flagship Stores:** Flagship stores represent single-brand self-owned sale boutique set in famous locations in the most prestigious cities (in terms of tourism, trade or business) which strengthen the prestige of the brand identity (De Chernatony, 2001; Fabris & Minestrone, 2004; Kapferer & Bastien, 2009; Okonkwo, 2007; Ross & Harradine, 2011; Vaid, 2003). Their dimension is variable: they could have a limited dimension and commercial offer, but permitting to increase the visibility of the brand. In addition, limited series of exclusive customised products are created exclusively for the flagship stores, or the products are only displayed and not offered for sale, almost like a museum (Bruce & Hines, 2007; Fernie, Moore & Lawrie, 1998; Kozinets, Sherry, DeBerry-Spence, Duhacheck, Nuttavuthisi & Storm, 2002; Moore, Doherty & Doyle, 2010). Alternately, they are very big, organised on several floors (Kent, 2007). When Renzo Piano projected the Hermès flagship store in Tokyo in the Ginza district, he created a sort of monument for the brand;
  - **Temporary Stores:** They appear suddenly and then close a few months later: they have to test the attraction to the customers about a new product idea, or a new city or an area of the

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city probably considered interesting (Giacosa, 2012). Informal style in the boutique and a selection of the products (sometimes created for the pop-up stores) varies according to the characteristics of the customers and the city where the shop is based (de Lassus & Anido Freire, 2014). When the opening of a pop-up store is an event for the city, it means that the brand has a great attraction: we could remember Hermès pop-up stores in Time Warner Center at Columbus Circle across from Central Park in New York, Louis Vuitton in the Dover Street Market in London, and Marc Jacobs in New York. 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

## **2. Affordable Luxury**

Also for affordable luxury, distribution has to be distinguished in terms of direct, indirect option and old and new channels.

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.

### ***Old Channels of Distribution***

Competition is based on quality in terms of intrinsic characteristics and distribution, permitting the customer retention with the aim to achieve an optimal trade-off between the rarity and the volume sold (Catry, 2003; Phau & Prendergast, 2000).

This luxury typology abandons exclusive rareness for a selective distribution. It increases the number of boutiques and location in which a wider range of products are sold: a new target is reached through the production and distribution of different merchandise categories (especially accessories) to an affordable price, permitting to customers a belonging to the luxury universe (Danziger, 2005). A limited number of

opportunistically selected mono-brand or multi-brand points of sale or specialised corners (their own shops or selected boutiques) increase the brand image, favouring the level of customization.

The point of sales represents a traditional channel of distribution. This is fundamental, attracting the attention of new and old customers in several ways: the point of sales is a place in which customers have time to convince themselves to buy (Saviolo & Testa, 2005) and, starting from the windows, the shops is a brand mirror. Armani's megastore in Milan is an example. Via Montenapoleone in Milan, via Condotti in Rome, rue Faubourg St. Honoré in Paris, Ginza quarter in Tokyo, Bond Street in London favour the brand image and increase the customers' desire for a brand.

### *New Channels of Distribution*

Outlets are used to clear stocks, which are multi-brand and owned by third parties or managed directly by the firm, mainly located outside the big centres, in shopping villages or in areas used as factory shops (Giacosa, 2012). The previous years' collections, and a line produced specifically for the outlet, is sold in the outlets. The channel of outlet is not used by non-affordable luxury companies, as it decrease the exclusivity of the brand.

New technological distribution channels are also used for affordable luxury: flagship stores and internet web site are some examples. As for non-affordable luxury, flagship stores permit the customer to enjoy an all-enveloping sense of luxury, where the sensation of luxury is closely connected to the city where the point of sales is located (Giacosa, 2014). The main purpose is not an high return on investment (especially due to the cost of the location), but the brand visibility.

Also digital channels, such as internet web site and social networks, are used by affordable luxury firms. For example, Dolce & Gabbana uses the social media for a direct feedback from their customers: thanks to the collaboration with the fashion bloggers, the fashion shows are instantly uploaded on Facebook and Twitter, and the desire for the that brand increases.

It is to notice that even for more accessible high-end products such as perfume and leather goods, the importance of direct distribution has grown. 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.

### *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 (Mosca, 2014).

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.

## ***Old and New Distribution Channels in the Luxury Sector***

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.

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:** 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. 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.
  - **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
- **Selective or Exclusive Indirect Distribution:** It 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 distribution 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

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. 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

We said that the distribution variable influences the constitution of brand identity, and this brand identity differs from non-affordable luxury and affordable luxury. Consequently, distribution channels (old and new ones) have to be differently articulated according to the exclusivity of the brand.

*HP is confirmed.*

## **FUTURE RESEARCH DIRECTIONS**

This study holds theoretical and practical implications. The theoretical implications are linked to an analysis of the distribution in luxury sector, distinguishing between non-affordable and affordable luxury and focusing on the possible actions available to a company. In addition, the analysis of a series of specific features of luxury companies may be useful to better define the optimal distribution strategy.

The practical implications of our study are relevant for companies operating in the luxury context, for those strictly connected with the production and commercialisation of luxury products, and those

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engaged in allied industries, such as in external R&D and consulting activities. The study revealed the importance of the distribution variable, as it increases the brand identity and consequently increase the competitive advantage of a company.

This study has some limitations. We chose to adopt the qualitative method focusing on distribution strategy in the luxury business. It could be useful to widen the boundaries of the research, by making some successful case studies to analyse the key factors of their success, or making a comparison between luxury context and others.

Business studies need to be increased in this field: while the manufacturing sector has declined in terms of value added, number of companies and employment, the luxury sector has had the opposite tendency. In particular, researchers should analyze its ability to increase the circulation of luxury brands in the world, with the aim of strengthening their consumption. In addition, business researches should encourage politician to increase and facilitate investments in the luxury sector, also in terms of protection of “Made In” against south-Asian countries production.

## **CONCLUSION**

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 multi-media 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.

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## KEY TERMS AND DEFINITIONS

**Company Environment:** It is the context in which a company operates, that affects the company's input–output logic and impacts on the consumption choices of individuals.

**Distribution Variable:** It represents a fundamental moment of the relationship between a luxury company and its customers, as the point of sale becomes the place where the customer meets the company and the company convinces the customers on the validity of its brand.

**Human Needs:** They are each individual needs, dictated by perceptions of aspects that are lacking. Such human needs are perceived according to the framework of a mental rating scale: consequently, they could be classified in different categories, such as primary and secondary needs.

### ***Old and New Distribution Channels in the Luxury Sector***

**Luxury Sector:** It is made up of a number of luxury companies that share one or more of the following criteria: the process of acquiring the productive factors; the process of manufacturing goods and services; and the process of distributing them.

**Marketing Mix Variables:** They are the traditional “4Ps” directly controlled by companies, i.e. product, price, promotion, and place (distribution).