

## Selling Luxury: How High-end Brands Are Embracing the Internet

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**Date :** June 20, 2016



Online shoppers won't find a price list or an "add to cart" button when they visit the website of iconic watchmaker **Patek Philippe**. The most prominent visual on the home page is not a limited edition timepiece but a commercial featuring a father congratulating his young son for winning a cricket match. The ad ends with the slogan: "You never actually own a **Patek Philippe**. You merely look after it for the next generation."

Patek Philippe's online store, where customers can look but not purchase, is certainly atypical of most shopping websites. But that's kind of the point, Wharton **marketing** experts say. It's also an excellent example of how some high-end retailers are dealing with a dilemma born of the **digital** age. How does a luxury **brand** retain its extravagant feel while catering to the growing horde of consumers who love to shop online?

"Luxury is about scarcity, exclusivity. The internet is about mass and reducing those boundaries, and so it's a real conflict," said **Barbara Kahn**, a Wharton **marketing** professor and director of the school's Jay H. Baker Retailing Center. "But of course, if people are shopping online, luxury is going to have to go in that direction. "

Despite the rising tide of online shopping, luxury retailers are only dipping a toe in the water. Research shows that only 10% of sales in that market happen online. But that doesn't mean that luxury retailers aren't getting onboard. Wharton experts say these purveyors of posh are exploring how to harness the power of online channels in a way that augments their image, their customer service and, ultimately, their profits.

The Baker Center recently held a conference that drew academics and business executives interested in taking a deeper dive into the topic. A report from the conference highlights seven aspects of online luxury retailing, including pricing, **brand** strategy, in-store experience and even counterfeiting, which is rampant online.

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“The differences are narrowing in quality and perception” of knock-offs, said **Denise Dahlhoff**, research director at the Baker Center. Many manufacturers are trying to work with **digital** platforms, such as Google and Alibaba, to combat fakes. But different regulations in each country makes that a difficult task, **Dahlhoff** and **Kahn** said. The two recently appeared on the Knowledge@Wharton show on Wharton Business Radio on SiriusXM channel 111 to discuss the findings outlined in the report.

## Premium vs. Luxury

**Kahn** said the research starts with the distinction between premium **brands**, such as **Michael Kors** or **Tory Burch**, which are prevalent in the United States, and true luxury **brands**, such as **Hermes** or **Chanel**, which originate in Europe. Luxury **brands** have a story to share, a legacy to maintain and an experience for the customer. That’s why many of them often don’t sell their products online or offer only a curated number of items for online purchase. Instead, they use their websites as a **digital** extension of the customer experience.

“If you do a good job online, you can actually use that channel to enhance the **brand**, and then you can have the luxury in-store experience going on in the physical store,” **Kahn** explains.

An attractive, engaging website and a well-fed **social** media account can add dimension that draws more potential customers to a **brand**. Chanel’s website, for example, features video clips from its runway shows, celebrities and legendary **designer** Karl Lagerfeld. More online customers mean more data can be collected, which can help hone a **marketing** strategy, **Dahlhoff** notes.

One downside for luxury **brands** trying to sell opulence online is price transparency. It’s more difficult for the companies to post different prices for the same item in different countries when everyone can comparison shop. Chanel solved this problem by standardizing its prices, **Dahlhoff** said.

“One of the ways to counter that is to have specific items that you only sell in certain countries so you can’t easily compare prices across borders,” she said.

For others, posting prices is not part of the luxury experience.

“When you think about luxury pricing, you’re supposed to think about it like art,” **Kahn** said. “You can’t compare; you can’t put a price on it.” After all, customers don’t buy a \$50,000 Patek Philippe watch only because it tells time accurately. “A Swatch watch would tell time just as well as a luxury watch,” she said.

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## A Generational Shift

**Digital** outlets also provide an important avenue for luxury **brands** to snag younger customers and build a loyal following with them. But that's proving to be tough with the under-30 crowd.

"The other issue is whether or not millennials and Generation Z really respect the luxury **brands** in the way the older generation did," **Kahn** said. "You're seeing a real shift in the generations to more sustainability, to more of this online, to more of this tech, so it's not clear the millennials will relate to the luxury **brands** the same way the past generations have."

Wharton experts contend luxury manufacturers must adapt to the fast-changing **digital** era if they want to survive in the next generation. The ideas and the drive are there, and the strategy will continue to be a work in progress.

"There's more experimenting, but I think we'll see way more changes," **Dahlhoff** said.

*This article first appeared in [www.knowledge.wharton.upenn.edu](http://www.knowledge.wharton.upenn.edu)*