DIGITAL CHANNELS AND SOCIAL MEDIA MANAGEMENT IN LUXURY MARKETS

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PREFACE

In recent years, luxury goods markets have faced significant changes that have influenced both the dynamics of the competition as well as their strategies. The principal changes include the following:

- New geographical market developments, such as in the Far East, India, and some parts of Africa (these countries are added to a list of existing countries that are involved in luxury goods consumption, such as the Emirates, Russia, and South America).
- New consumers are streaming into these luxury markets.
- Diffusion of new media and new technologies in communication, which is characterized by a high degree of interaction.
- The evolution of distribution channels underway – these channels are moving toward new forms of integration that utilize both physical channels and digital ones.

With respect to new markets and new consumer development, we are facing a situation where an increasing numbers of consumers are interested in luxury goods consumption. These consumers are not fully educated about global brands, but they are looking for products that are able to differentiate themselves and/or guarantee unique experiences. Luxury players have to understand the factors that affect people who are making purchasing decisions, and they also have to be aware of the dynamics that characterize consumers' buying behaviors.

Concerning the diffusion of new digital technologies, in recent years, the increasing importance of the digital channels and the globalization of markets have changed both consumers' roles and the nature of the competitive landscape.

This has forced firms to revise their strategies and implement multichannel marketing strategies to continue to operate in increasingly international markets that are characterized by more demanding and informed consumers.

Recourse to a plurality of channels has proven to be a necessity for luxury goods, especially because digital platforms now constitute communication channels in their own right. From this standpoint, the digital channels serve as a meda that interacts with demand, and it further adopts a hybrid connotation: it can perform functions that are informative, transactional, and relational, and it alternately or simultaneously uses both physical and virtual contact modes. Based on this perspective, multichannel management policies can contribute significantly to establishing a brand's loyalty from existing consumers while acquiring new market segments. Although luxury firms initially had some reservations about using the Web as a distribution channel – especially given that they did not think it would be able to reproduce customers' experiences from the physical point of sale, and that it created a distance from buyers with high spending power – in recent years, the opportunities offered by digital channels have become clear. In this way, the logic underlying the development of digital channels for luxury players is one of integration with the physical channel; it is not to be viewed as a standalone distribution channel, but as one that completes the physical channel.

The book focuses on:

a) Up-to-date internet and social media strategies adopted by luxury companies with their brands.
b) How luxury companies are managing their communication and distribution channels to compete in the market and what the impact of digital marketing on their competition is.
c) What are the main models of direct and indirect distribution in digital channels.
d) Identifying the different social media strategies for luxury companies.

This digital channel has enabled firms to extend their market to new consumers who have different sociodemographic 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 extreme brand positioning believe it inappropriate to develop distribution activities in the digital channel. Most luxury players have developed a direct presence in the digital space; this strategic distribution option has largely been successful. The digital channel is increasingly connected with the activities of physical distribution, and this integration makes it possible to enhance the consumer's shopping experience, while also maintaining long-term relationships.

The latest trend in brand development centers on the growing integration between UGC and the various distribution channels. Brand communication in luxury markets has undergone further development with social media marketing that has dovetailed into both the digital and physical distribution space. The consumer is ready, even in luxury markets, to receive information from a specific brand, to share that information, and to respond by liking the product and purchasing it in a digital or physical channel. This growing integration between distribution and effective communication (both online and offline) follows a circular approach, whereby information channels and their flows surround the consumer. This is one of the frontiers of marketing high-symbolic-value goods.

The main issue of the book is to identify: how the Internet works for luxury players, today? What are the main models developed by Luxury Players and Pure Internet Players? How luxury players manage their distribution and communication channels? How luxury players are using social media today? How they develop integrated distribution and communication strategies by integrating digital and physical channels? How consumers are reacting to the actual multichannel strategies? What are the actual trends: social commerce and corporate social responsibility and how companies are reacting?

Channel integration in markets for luxury goods lies, in practice, in the introduction of innovative technologies to points of sale, in the integration between two-way communication activities in social networks, and in the physical channels of distribution. With regard to the first path of integration, the use of technology in luxury-brand stores clearly helps intensify consumers' feelings and stimulates their senses. New technologies make it possible to entertain customers, while enhancing the communication process.

The monograph is structured into six chapters: the first is titled marketing and digital innovation, the second digital channel in luxury markets, the third digital channels: reference models for direct and indirect distribution, the fourth social media and integrated communication in luxury markets, the fifth, the frontiers of luxury goods marketing: social media systems and channels integration and the last one the frontiers of luxury goods strategies: corporate social responsibility and online communication.

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Chapter 1
MARKETING AND DIGITAL INNOVATIONS

1.1. Introduction

At the end of the XX century, a completely new concept was introduced, having an immediate deep effect on the economic, social and cultural macro-environment and – in line with the topic of this work – on the way we understand marketing and company management today: the advent of digital systems which, in a wider perspective, include distribution and digital communication channels and *User Generated Content*.

A revolution in marketing activities has taken place since then, starting from consumer behaviors. Marketing activities have in fact been and keep being affected and deeply modified by the advent of digital systems.

Companies started a process of strategic and operational adaptation with the aim of acquiring the necessary tools to interpret the new mentality which stands at the origin of this change and gradually assimilating all new technologies, taking advantage of their potential.

The digital innovation can rightly be defined as a revolution, which doesn't overcome traditional marketing solutions but assimilates with them providing a fresh impulse.

"*The idea that the Internet would have replaced traditional business models overturning their known advantages dominated the scenario for some time. […] The Internet doesn't usually replace but integrates companies' traditional processes and competition strategies. Virtual actions do not provide a substitute for physical actions. On the contrary, they tend to magnify their importance. Moreover, the Internet creates new opportunities to satisfy customer needs more effectively*" (Lambin, 2012).

It is important to highlight how the digital revolution has been – and still is – a cultural event and not a mere technological phenomenon. Toward the end of the last century, people started to feel the need for different, more horizontal ways to connect and express themselves. Digital systems intercepted this need and provided the necessary technology to satisfy it. However, in doing so, digital systems didn't only affect the external form of the need they aimed to satisfy but modified its core substance in ways that are currently not predictable.

1.2. The virtual market

Within a marketing perspective, it's still difficult to identify all possible new scenarios that will present themselves in both the creation of marketing strategies and plans and the understanding of company structures. However, we can already analyze some changes, which are currently underway.

The first noticeable change has to do with what the market considered as a whole is: The worldwide market without any distinction by sector – in this market, the exchange of information is increasingly becoming more crucial than the exchange of goods. The digital innovation has brought forward an increased dependence on goods based on information, especially in more advanced societies and we can identify a convergence between the digital and the physical world. The environment in which consumers and companies act could be defined as "infosphere". (Vernuccio, 2014).

What is the current size of the infosphere and, therefore, of the digital market? According to data from January 2016 [1], Internet users in the world are more than 3.4 billion, over 2.3 billion of whom are active on social networks. Both figures increased by a staggering 10% in only one year.

People can constantly be connected to the world-wide web from anywhere using integrated devices such as computers, tablets and smartphones, exchanging information, goods, services and opinions in a faster, cheaper and more aware fashion than they have ever done in the past.

The traditional market characterized by the exchange of goods has not disappeared but it is operating side by side and in integration with (for now) the electronic market (Guo and Sun, 2004).

For example, from a distribution point of view, the physical channel – characterized by many retailers all over the world – is gradually integrated with a digital channel made up of new intermediaries and old, recently evolved players. These new economic subjects are a threat to the traditional distribution players.

"*GEM [Global Electronic Markets, e.d.] produce and distribute digital products and services worldwide whereas GTM [Global Traditional Markets, e.d.] work with EGM to fulfill the use phase or to implement the physical phase of production and distribution. Traditional companies direct their demand and offer to GEM while electronic market companies create new demand and offer for both GTM and GEM.* "*A spin off of GEM, the new market operators are become increasingly more important*" (Lambin, 2012).

Besides, it is important to distinguish between the global electronic market and the e-marketplace. The former consists of a network through which all market players – consumers, providers, distributors and sellers – exchange and share information, sell and buy goods. The latter (e-marketplace) has to do with B2B transactions and can be defined as an information system for providers and buyers. Using previously provided credentials, these companies can access the system to check in real time the situation of raw material, work progress, products and prices, bypassing the typical administrative hindrances responsible for supply chain slow downs.

The integrated double arena of exchanges conceived by Lambin consists of both electronic and traditional markets. The difference between the two doesn't have to do with the participants but with their motivations and the benefits they expect to receive.

Easy, quick and cheap access to information makes the customer's role in transactions stronger. This increases awareness of the relative value of different offers. Customers expect to find a large variety of products and more personalized services to choose from, comparing prices and exchanging information with other consumers around the world. Moreover, customers get access to a higher volume of information in a quicker and cheaper manner, and transaction costs are reduced.

The traditional consumer's limited sense gives way to a higher awareness, which takes consumers themselves to a perfectly rational micro-economic model. In fact, digital systems have modified consumer behaviors making a series of more precise and up to date information on prices, product availabilities, variations, delivery methods and times available to users.

Target markets are virtually increasing without limits, reducing (due to process automation) transaction costs and overall expenses, mainly on digital products.

Manufacturers can produce an almost limitless catalogue, offering infinite versions of the same product at almost insignificant adaptation costs. That is the "long tail" conceived by Chris Anderson (2004) – decreasing significantly the distribution costs of digital products (music, movies, news, services) removes the economic and physical restrictions limiting the variety of tangible goods. Companies operating in this field can therefore still profitably afford offering products that are not in big demand. The long tail creates market fragmentation, diversifying it into countless niche products. This is particularly true for consolidated markets.

The digital channel allows manufacturers to increase their market and drop production, distribution and supply costs. Manufacturers, like other market players, benefit from the integration between traditional and digital market (Guo and Sun, 2004).

Vernuccio's virtual market analysis (2014) investigates some aspects of

B2C and their evolution during the Internet era: parties involved, relationships and subject of the exchange. The advent of the Internet has deeply affected the identity of both parties involved – companies and end customers – and has modified consumer behaviors.

"*Beside the more traditional segmentation analysis techniques, consumers/users can be clearly identified and better known using the Internet. Internet websites, in fact, are often available to identified users only. Consumers leave their status as anonymous and indistinct components of a segmented market to become individuals representing their own identity*" (Vernuccio, 2014).

In this regard, *User Generated Content* as the main social media and blogs are powerful tools available to companies to obtain real-time information about the quality of services provided, prices and customer's current and future expectations in relation to the product concept. For example, when a new smartphone by Apple or Samsung – just to mention the two main manufacturers – are placed on the market, Internet blogs are inundated with positive or negative comments generated by global users. This massive amount of information is in fact a market research assessing the gap between the expectations and the actual new product performance and it is free of charge.

This new situation is beneficial to consumers also. In fact, consumers are more easily identified by companies, which – in return – are more visible and transparent to the consumers themselves. Digital media provide customers with information on products and services as well as company's good and bad behaviors and this can be easily accessed by potential customers from anywhere and at any time.

Consumers are empowered by the opportunity of receiving more information on brands and their products in a cheaper and quicker manner. This is now a renowned fact on which academics, consumers and Internet users agree.

A number of factors have a role in balancing out the relationship between companies and final customers: they can now compare competitors' different offers, purchase from anywhere in the world after finding the best offer, give and receive information about the quality of services, using blogs and posts – in a kind of contemporary word of mouth – and create a positive or negative buzz around a product, a brand or a company. Consumers can elude marketing activities by ignoring website advertisements and classifying unwanted emails as spam. On the contrary, the same consumers can actively take part in the creation of marketing campaigns by, for example, posting product tests run by them on YouTube.

This new power is not limited to digital systems users considered as consumers but involves their personal, cultural, political and social interests also. Internet users have now all the necessary tools to express their real time opinion on any topics, taking part in the social, political and cultural life of their own country as well as the entire world's. The widespread success of Movimento Cinque Stelle in Italy, a political movement that started off from an Internet blog, as well as the diffusion of the revolution in the Arab spring with Twitter, are meaningful examples of this. For this reason in several anti-democratic countries the use of the Internet is severely restricted and websites spreading opinions not considered in line with the system are temporarily shut down. However – we should briefly mention this here – we all know digital systems have also a dark side to them. They have favored criminals too, making them even more dangerous.

The direct consequence of consumer empowerment is a change in the relationship between companies and their customers. Beside the traditional linear and one-directional top-down/one-to-many approach, where companies are active players while consumers are mainly subject to their decisions, and beside the direct marketing's one-to-one type of approach, a new dimension is starting to emerge. This new dimension – not removing but integrating the already existing dimensions – is characterized by a many-to-many type of approach, based on "non-hierarchical networks" (Vernuccio, 2014) based on dialogues and conversations that express market relations in a context of customer advocacy (Urban, 2005). Companies – now more open and transparent than ever before – have to gain their customers' trust providing them with clear and honest information on products and services (Winer *et al.*, 2013).

Winer *et al.* (2013) cite a direct and meaningful extract by John Deighton, professor at Harvard Business School:

"*Marketing operators do not control the market anymore. They are invited guests. They will stay in the game only if they are stimulating, relevant and fun. If they try to dominate the market, they will be excluded*".

The Internet virtual market turns both physical and digital products into bits, making them a fundamental aspect of the network. Today's marketing strategies cannot avoid considering how the consumer's user experience has now become a virtual experience too.

New digital technologies allowed the creation of a new market space and now provide consumers with a series of instruments to access it.

Internet, emails, social networks, Extranet and Intranet networks are available digital media which allow users to be constantly in touch with each other through a large variety of devices like computers, smartphones, TVs and tablets.

This system based on digital media and technical supports represents an interesting challenge for companies. In fact, companies need to change their marketing actions making them really interactive, open to sharing and exchanging and available for activities of co-creation of information and content with the market, in a process of systemic supply and demand co-evolution.

Among the Internet connecting devices, Winer *et al.* (2013) consider smartphones bear stronger marketing potential, thanks to a wide range of functions, can be considered nowadays mobile marketing platforms which enable users to receive product information, exchange opinions about brands, gather information and make purchases.

Distribution and communication both physical and digital are now integrated in order to improve efficacy and effectiveness with the aim of winning over the final user.

For example, in some cases, retail outlets are the point of contact between the physical and the digital channels. Products are available on the shelves but can be purchased and personalized online by customers while they are browsing the shop. The opposite can happen too: customers buy their products online and collect them in a retail outlet.

1.3. New application areas

One of the main issues companies face nowadays is determining to which marketing areas these new technologies can be most effectively applied.

There are essentially four areas, two of which pertain to non-digital marketing also but acquire different connotations when operating on the net: B2C (Business to Consumer) and B2B (Business to Business). The other two areas can be defined as "native digital" since they are typical of e-marketing. In fact, before the digital era, they were almost irrelevant if compared to the importance they have today: C2C (Consumer to Consumer) and C2B (Consumer to Business).

B2B, which entails the direct sale of goods and services to consumers, is still the most popular one. People buy any kind of product online no matter what price range they belong to, from commodities to luxury goods. However, as previously mentioned, digital systems allow buyers to lead the exchange process as they can compare quality, prices and similar offers in order to make their final decision based on what product feels more convenient. Moreover, buyers can share the outcomes of their online investigations contributing to the good or bad name of the different products, services and brands.

B2B is mainly an information exchange space among companies. B2B avails of the Internet to make offers, issue invoices and provide before and after sales assistance.

One of the most significant differences between B2B and B2C is the number of buyers (as highlighted by Pellicelli, 2012). If buyers are only a few, then providers tend to be known (Pellicelli, 2012).

This is very important when considering companies' actions on the web for at least three reasons. First of all, B2B providers do not need to do online advertising while B2C providers must show their presence using internet ads, search engines priority lists and banners on other websites. Secondly, given the limited number of buyers, companies tend to maximize customers' retention, acquiring (and keeping up-to-date) as much information as possible on potential customers' needs and purchase histories (first purchase, new purchase, etc.) in order to provide the best possible offer on their websites. Lastly, customers can easily find all the information they need about providers operating on the market. These providers, in turn, upload to their websites a lot of information (new products and services, closed contracts, other customers' references, etc.) with the aim of retaining the highest number of buyers. This information virtuous circle has, however, a flipside: it provides competitors with a lot of useful information.

C2C and C2B key application domains are Internet related and testify how both customers' power and awareness have grown. The former has to do with the direct exchange of information, products and services among consumers, like an online auction. Word of mouth on a brand or a character is an important marketing strategy which falls into this category and is a key factor in companies' reputation.

The latter, on the other hand, bears some similarities with the B2B model as it has to do with how easily potential buyers (final customers) can find information on sellers and, possibly, make purchase offers, ask questions, file complaints and give suggestions.

1.4. Strategic and operational changes

The widespread use of the Internet and digital technologies changes both the marketing operational tools and the strategic approach to the market (Vernuccio, 2014). This brings along several different advantages (Lambin, 2012) in relation to how physical markets used to work and the way they can be approached.

The benefits of the Internet can be explained using the four strategic elements of Ansoff's product-market growth matrix (Pellicelli 2012): Market penetration (as it provides the opportunity to sell more products and services to those market where companies already operate), market development (as it opens up new markets without the need for infrastructures and local intermediaries), product development and diversification (as companies can offer new products and services, also to new markets, diversifying their ranges through the long tail (Chaffey, 2000; Hughes and Sweetser, 2009).

The marketing management's approach to the market has radically changed without losing completely its traditional channels, still efficient and effective on physical markets.

The change is however happening and it seems unstoppable as the two realities are perceived as more and more integrated and similar to each other (and often even confused) to the point that, with the necessary adjustments, the advantages of virtual reality are considered fundamental for the physical reality too (especially by click and mortar companies).

The approaches to marketing are shifting from a linear, one-directional, top-down and deterministic perspective to a reticular, interactive, decentralized, dynamic and cooperative one, more typical of digital markets (Vernuccio, 2014).

Traditional markets are characterized by a continuous and linear company-customer relationship while virtual markets entail the use of different links mirroring the architecture of the Internet network and therefore lacking a unique center. The relationship is thus fragmented into several possible connections between the company and the individual customer and among the customers themselves.

This reticular relationship is decentralized and highly interactive. Communication becomes bidirectional and increasingly multidirectional. Companies have to interact with their customers (for example through corporate blogs or official firm generated content) and are forced to reduce their traditional position of unique source of communication. Finally, marketing management gets very dynamic and cooperative as we mentioned when talking about the new Consumer to Business application area. Customers refuse to be placed in any specific target-segment by companies. On the contrary they actively decide which segments or temporary bubble demand (Brondoni, 2002) they belong to and take initiative in asking questions about products and services.

Clients turn from passive consumers into prosumers[2] (Toffler, 1980), actively taking part in the process of finding new solutions to create a higher value proposition and the Internet is "*an important tool to deeply understand the customers' problems. [...] the role of potential customers entails the development of new products and the identification of a provider able to realize it. [...] Consumers, as members of the online community, can* *play an active role in the innovation process, from the generation of ideas to the conception, design and testing*" (Lambin, 2012).

Tapscott and Williams (2008) talk about *Wikinomics* highlighting how digital technologies are democratizing the creation of value through a process of mass cooperation of Internet users. Users, in fact, get together and freely work inter pares to find new solutions to their problems.

Companies, intended as economic open social systems (Ferrero, 1980), operate in the market with the aim of satisfying the market needs sooner and better than their competitors. In this scenario, the goal of marketing is to safeguard the co-creation and the exchange of value with the market and the consumers.

Nowadays we can think of a dematerialized enterprise in which a growing number of activities of the value chain could be externalized and only one activity is still directly managed and strategic: the relationship with the customer.

Customer orientation, even in a digital scenario, is still fundamental and, according to Lambin (2012): "*the emerging pattern of* "*prosumer's centrality*" *relates to a model where customers actively and constantly take part in the creation of the products. Actually, consumers co-innovate and co-produce the goods they use and they do so for themselves, their networks and their own purposes*".

1.5. Structural changes for enterprises

Companies are changing, some more quickly than others, to partially or fully adjust to the new competitive digital arena. Moreover, new companies are emerging beside the old (and often changed) ones.

New technologies increase the technical and economic efficiency of all those activities of the value chain, which are based on the processing of information. Moreover, they lead companies towards an e-business strategy, making them rethink their value creation processes like the supply chain, the design of the offer system, the distribution and the management of the customer relationships. In other words, they are adopting a new business model (Pellicelli, 2012).

As of today, the majority of academics divide companies operating in the market in three large categories, reflecting the importance of digital marketing in their strategies: bricks and mortar, click and mortar and click only dotcom (or pure player).

Bricks and mortar companies, which are still the most common form nowadays, operate on a traditional business model generating most of their turnover – and sometimes all of it – in the physical market. However, even