

# Conjoint analysis for luxury brand outlet malls in Korea with consideration of customer lifetime value

Gyeongmu Kim, Angela Kim, So Young Sohn \*

*Department of Information and Industrial Engineering, Yonsei University, 134 Shinchon-dong, Seoul 120-749, Republic of Korea*

## Abstract

As Asian economies have grown rapidly, Asia has become a new leading market of the luxury goods industry. This paper used conjoint analysis (CA) for the optimal design of a luxury brand outlet mall to maximize the customer lifetime value (CLV). This approach complements a simple CA by considering CLV. The proposed approach is then applied to designing a suburban luxury brand outlet mall in Korea, a new concept to Korea. The results indicate that the optimal design for the outlet mall is the medieval European-style mall, with the linkage to Natural Tourism, which consists of the restaurants with delicious food and the stores with similar ratio between mass-tige and luxury brands.

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## 1. Introduction

As the economy of Asian countries has grown rapidly, the market of luxury goods in Asia has also developed. Although Asian countries earn less per capita than developed countries in North America and Europe, this economic development has given more potential buying power to the Asian market. Recently, the Asian luxury goods market represents up to 45% of the world's luxury goods market (Lee & Kim, 2003). Japan has already become an important market for the luxury item industry with Hong Kong and Korea following the trend. This economic growth also made various distribution channels possible in Asia allowing major distribution companies to introduce suburban luxury brand outlet malls in Asia. Luxury brand outlet malls began in the USA and Japan 10 years ago and have a large demand potential in Asia.

To successfully establish the market for new luxury brand outlet malls in Asia, it is essential to understand the customers' preferences. Regardless of the specific tools and methods used to develop successful outlet malls, customer orientation is a prerequisite (Lengnick-Hall, 1996). There are two methods to discover customer needs, passive and active. The passive method simply classifies the existing customers. Alternatively, the active method finds customers who over their lifetime can be profitable for companies. By searching and sorting out valuable customers into different groups based on their potential lifetime profits, developers can better meet different needs and expectations (Day, 2003). Consequently, to the ability to evaluate the lifetime value of customers is important.

The main purpose of this study is to design a luxury brand outlet mall for the Asian market using a conjoint analysis (CA) in consideration of the customer lifetime value (CLV).

The remainder of this paper is organized as follows; Section 2 reviews previous studies regarding the luxury brand industry, shopping malls and the related research methodology for CA and CLV. In Section 3, a CA is conducted to design a luxury brand outlet mall in Korea. In Section 4,

\* Corresponding author. Tel.: +82 2 2123 4014; fax: +82 2 364 7807.  
E-mail address: [sohns@yonsei.ac.kr](mailto:sohns@yonsei.ac.kr) (S.Y. Sohn).

the CA results are enhanced with the CLV. In Section 5, the market share of a designed luxury brand outlet mall in a competitive environment using choice simulation is predicted. Section 6 concludes this paper and suggests future research directions.

## 2. Related literature

### 2.1. Conjoint analysis and shopping mall design

Currently, shopping malls are operating in an increasingly competitive environment (LeHew & Fairhurst, 2000). Competition is strong due to the shopping center development boom that began in previous decades and continues today (Fickes, 1998).

In order to find ways to stay ahead of the competition, many prior studies have applied CA and CLV separately. CA has been used extensively by marketing researchers for understanding consumers' preferences (Green & Srinivasan, 1978) and is a method for analyzing the utility of the customers. It is based on the simple premise that consumers evaluate the value or utility of a product or service by combining the separate amounts of utility provided by each attribute (Lee, Kim, & Ahn, 2000). Also, it is based on the premise that the relative values of attributes considered jointly can better be measured than when considered alone (Lee, 2003). CA presents the respondent with a set of independent attributes, usually in the form of a hypothetical or actual alternative and then asks for an overall evaluation or preference of the alternative (Ulengin, Ulengin, & Guvenc, 2001). In this sense, CA is superior to other methods because it permits a realistic and quantitative examination of the attribute trade-offs consumers make (Wilhelm & Mottner, 2005).

Previous studies of shopping malls using CA have typically used convenience samples, traditional surveys and importance or desirability rating scales (Eastlake, Lotz, & Shim, 1998; Ibrahim & Ng, 2002; Kinley, Youn-Kyung, & Judith, 2003; Wesley & LeHew, 2002).

Recently, Wilhelm and Mottner (2005) attempts to discover what type of shopping mall teenagers generally preferred. They addresses the primary research questions (objectives) in CA: (1) What are the important attributes that teens consider when choosing among shopping malls; (2) What does the "ideal" shopping mall look like to teens; and (3) What trade-offs are teens willing to make among different mall attributes and attribute levels? The authors surveyed 918 US teens by asking them to choose among profiles of mall products through the internet. According to the results, the most important attributes in the teens' choice of malls are how friendly and welcoming the mall was to the teen and whether the mall contained 'cool stores'. In addition, the mall is considered a good place if the teen can hang out with friends and the mall offers a variety of experiences (i.e., skateboard and theme parks, cultural and live music events and theaters).

In general, previous studies indicate that the major characteristics of shopping malls preferred by customers are 'coolness', variety of stores, physical environment and entertainment.

First, one of the most important characteristics, 'coolness' of the mall, is related to the types of clothes and the merchandise the stores carry (Baker & Haytko, 2000). 'Coolness' is associated with a certain level of fashion, but is not necessarily 'image' related (DeMarco, 2004). In the case of tourists who are the main customers of a mall, unique, contemporary and sophisticated merchandise was considered 'cool' (Kinley et al., 2003).

Additionally, Wakefield and Baker (1998) and Wang et al. (2000) identify the variety of stores in a mall as a significant factor affecting customers' desire to stay in a mall and the level of excitement regarding the mall. Choices of food options also represent one type of variety store in a mall (Baker & Haytko, 2000).

The malls' physical environment and excitement level has been shown as positively related to a desire to stay (Wakefield & Baker, 1998). Accordingly, mall developers should not ignore the contribution that esthetic experiences could add to the shopping enjoyment of customers (Wilhelm & Mottner, 2005). This type of experience may be best captured through the physical environment of the malls such as mall interior design, layout, lighting and music (Wilhelm & Mottner, 2005). The esthetic experience of the mall includes all the elements of the atmosphere, thus engaging all of the customer's senses (Michon, Chebat, & Turley, 2005). Especially for tourists, the overall environment and image were found to be important (Kinley et al., 2003).

Lastly, many mall developers and managers have focused on making the shopping experience more entertaining or amusing by adding entertainment facilities such as movie theaters or live performances that consumers passively view (Wilhelm & Mottner, 2005). According to Lee and Kim (2003), customers get a distinctive image of a certain mall by evaluating its entertainment facilities. For example, the international council of shopping center (ICSC) surveyed eleven shopping malls in 1996. According to this survey, 60% of theater-goers shop while visiting the theater.

### 2.2. Trends of the luxury goods industry

One of the important attributes for a mall design is 'coolness' as represented by merchandise sold in the mall. The recent trend in the mall industry deals mainly with luxury goods only.

The luxury brand is the highest level of prestigious brands encompassing several physical and psychological values, such as perceived conspicuous value, unique value, social value, hedonic value and quality value (Vigneron & Johnson, 1999). In recent years as the Asian economy grew, the luxury goods industry also expanded rapidly. As the Asian luxury goods market represents almost half of the

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