



## The internet dilemma: An exploratory study of luxury firms' usage of internet-based technologies

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### ABSTRACT

Surprisingly, there exists a paucity of research examining the adoption of Internet-based technologies by luxury firms. This represents a major shortcoming in our understanding of how luxury firms maintain the image of their brand, sustain a personal link with customers, and retain an aura of exclusivity as they seek to provide their products and services to increasingly technologically-astute customers. Using content analysis, we present the findings of a qualitative investigation of 92 luxury firm websites across the categories of automobiles, fashion, jewelry, watches, and yachts. Study findings indicate that there are noticeable differences in website characteristics and functionality across sectors. Implications of the results are discussed, noting that decisions about using the Internet for branding and selling, one-way and two-way communications, as well as operational and innovative features, are driven by the characteristics of the products being offered. Avenues for future research are also offered.

### 1. Introduction

The past two decades have seen myriads of firms incorporate IT into their marketing, retailing, and customer service. One segment of the global economy that has been slow to adopt and utilize IT, however, is the luxury industry (Bjørn-Andersen and Hansen, 2011; Okonkwo, 2009). Luxury is a large and growing industry, with global revenues of over \$250 billion in 2013 (D'Arpizio, 2013). While growth in many industries is being driven by e-commerce, 40–50% of luxury firms choose not to sell online (Berger, 2012; D'Arpizio, 2013). In an effort to explain the slow adoption and usage of IT by luxury firms, discussion has centered around whether luxury firms should use the Internet purely as a means to communicate or whether to also use it as a sales channel (Hennigs et al., 2012; Kapferer and Bastien, 2012; Okonkwo, 2009; Seringhaus, 2005). Firms from Rolls-Royce and Ferrari, to Louis Vuitton and Prada, to Tiffany and Cartier face the “Internet Dilemma” of how to maintain the image of their brand, sustain a personal link with customers, and retain an aura of exclusivity as they seek to provide their products and services to an increasingly technologically-astute customer base.

Against this backdrop, we explore whether and how different luxury sectors have embraced Internet-based technologies. We focus

specifically on the firm website. Given that luxury firms place a high priority on the relationships that they form with their customers (Tynan et al., 2010), customer-facing technology such as the firm's website should be a key indicator of the firm's stance towards using the Internet as a branding and selling tool. Furthermore, web sites have taken on a prominent role in online communication and as a distribution channel (Keller, 2010). By examining and analyzing the elements used – or not used – on a luxury firm's website, we seek to uncover the characteristics of luxury firms, their products, and their strategies that lead them to make specific choices about the adoption of Internet-based technologies. The research questions guiding our efforts in this paper are: “What are the characteristics of luxury firms' websites?” and “How do luxury firms differ in their use of website characteristics across different sectors?”

Our primary intended contribution is an explanation of the systematic differences in website characteristics across different industry sectors. After first developing a descriptive account of website characteristics utilized by various luxury sectors, we then examine how product attributes, as well as existing literature and theory, provide insight into how customers want to interact with a luxury firm, before finally developing prescriptive suggestions for practitioners. We also present conceptual and theoretical insights into how and why firms use

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particular website features and characteristics.

Our paper is organized as follows. First, we review current literature on online marketing and e-commerce in the luxury industry, highlighting the debate in scholarly research about the role of the Internet. We then report a qualitative study of 92 global luxury firm websites across five different luxury sectors. We utilize one of the most-recognized conceptual frameworks for evaluating firm websites, the 8C framework (Bjørn-Andersen and Hansen, 2011; Lee and Benbasat, 2004; Rayport and Jaworski, 2001; Sabouri and Jalali, 2009; Yang et al., 2008). As we evaluate luxury firm websites, we are able to identify distinct patterns in the usage of various web interface elements across different industry sectors. After reporting our results, we discuss the theoretical and practical implications of these patterns for luxury firms as they consider their e-marketing and e-commerce strategies.

## 2. Literature review

### 2.1. Luxury firms

Many different definitions of luxury exist (De Barnier et al., 2012; Kapferer and Bastien, 2012), but they share a common core of six criteria: (a) a very qualitative hedonistic experience, (b) offered at a price that far exceeds what the functional value would command, (c) tied to heritage, unique know-how and culture, (d) available in restricted and controlled distribution, (e) offered with personalized accompanying services and (f) representing a social marker, where the purchaser feels special with a sense of privilege (Kapferer and Bastien, 2012). By their very nature, luxury brands can be characterized as conspicuous, unique, social, emotional, and of very high quality. Ultimately, the concept of luxury is built on consumers' perceptions, and is determined by personal and interpersonal motives and is strongly influenced by culture (Vigneron and Johnson, 2004).

The symbolic value of a luxury brand, acquired through quality, creativity, and status, is central to its success. In luxury, brand image is identified as a salient resource to gain competitive advantage (Kapferer and Bastien, 2012). Brand image is acknowledged to be a key component of brand equity which is defined as the “differential effect that brand knowledge has on consumer response to the marketing of that brand” (Keller, 2008). Not surprisingly, understanding those factors that increase brand equity is critical to brand management. There is an abundance of research that has examined the actions that organizations can take with customers to build brand equity (Yoo et al., 2000), but a lack of research on those actions taken within the organization.

Given the ultimate goal of building brand equity, luxury firms have considered ways in which IT can be used. Extant research on the use of IT within luxury firms can be generally grouped around several themes: consumer and purchase behavior in an online environment (Brun et al., 2013), website design (Kluge et al., 2013), the role of web and mobile technologies (Mahyari, 2013), the role of social media when engaging with luxury firms (Kim and Ko, 2012; Riley and Lacroix, 2003) and the role of the internet in communications strategy (Geerts, 2013). We observe that each of these themes touch on the importance of the Internet to luxury firms. We also observe, however, that a systematic study of how the Internet is used in these firms has not yet been undertaken. It is this gap in existing research that we seek to address.

### 2.2. Luxury firms and the internet dilemma

While online digital marketing has become decidedly mainstream, luxury firms have been slower than many non-luxury firms to embrace the Internet's potential. Part of the reason for this reluctance is what some have termed “the Internet Dilemma.” The Internet Dilemma is a term coined to describe the challenge luxury firms face as they seek to maintain the image of their brand, sustain a personal link with customers, and retain an aura of exclusivity as they simultaneously seek to provide their products and services to increasingly technologically-

astute customers (Kapferer and Bastien, 2012).

Not all accept the existence of an Internet Dilemma, however. There is no immediate reason that Internet-based technologies would erode brand exclusivity or reduce luxury firms' price premiums. Economists have shown mathematically that using the Internet to increase sales need not erode firms' profitability, consumer surplus, nor social welfare (Pruzhansky, 2014). Furthermore, luxury firms have demonstrated a willingness to invest in Internet-based technologies and engaging in online selling (D'Arpizio, 2014). These firms have clearly realized the potential for increased (rather than diminished) revenues online (Geerts, 2013) and have responded to consumers' desire for convenient interaction in each phase of their decision making process (Hennigs et al., 2015; Holmes et al., 2013). Researchers are investigating how to influence perceptions of luxury through website interactivity (Altarteer et al., 2013; Beuckels and Hudders, 2016) and have explored “web atmospherics”, as they discuss specific ways for luxury firms to provide a rarified shopping experience by appealing to the senses online (Kim et al., 2015; Okonkwo, 2010). There is a growing acceptance of Internet technologies by luxury brands. They are no longer asking whether to sell online, but are simply asking how.

As luxury firms identify ways to sell online, they nevertheless continue to ask how they can “optimize their online presence and preserve their highly valued prestige” (Beuckels and Hudders, 2016, p. 135). Researchers have echoed this, investigating ways luxury firms maintain their exclusive aura as they take advantage of the ubiquitous character of the Internet (Chandon et al., 2016; Kim et al., 2015). Ultimately, no agreement exists about the so-called Internet Dilemma. Questions remain about the ways in which luxury firms can use the Internet to provide consumers with information about their brand, products, and experiences while maintaining a luxurious and rarified customer experience.

Part of the disagreement arises from divergent opinions about the purpose of a luxury firm's website. It is generally acknowledged that a firm's website acts as a branding tool where information is exchanged between buyers and sellers (Kiang et al., 2000). In branding and communication strategies, the Internet is a complementary tool that is used to inform, remind, and persuade (Nyeck, 2004). A firm's website therefore helps to establish links between consumers and brands. A dilemma arises, however, when one also acknowledges that the firm's website has the ability to serve as a transaction medium (Kim and Stoel, 2004). Thus, one of the key considerations for luxury firms is whether they will use the Internet for *branding* or *selling*.

Some contend that the Internet strategy of a luxury firm should be limited to communication (Kapferer and Bastien, 2012). Selling – rather than simply communicating online – potentially undermines the feelings of exclusivity attached to the brand, significantly reduces the efforts of consumers to access luxury (efforts that are a core part of the creation of desire in luxury), and diminishes the personalization of the transaction (Hennigs et al., 2012). It has even been stated that if a luxury product is for sale on the Internet, and thus for sale broadly and commonly to the masses, it can no longer be considered a luxury product (Kapferer and Bastien, 2012). Researchers taking this perspective argue that the inability of the Internet to provide a rarefied, distinctive, multisensory shopping experience outweighs the potential benefits of selling online and therefore recommend that luxury firms wait for more immersive Internet experiences in the future.

Others, however, recommend that luxury firms should not only communicate online, but should also engage in online retailing (Hennigs et al., 2012; Okonkwo, 2009). Because the Internet has become a source of information and purchase for affluent consumers, luxury firms cannot afford to miss the opportunity to make use of this sales channel. When luxury firms can use the Internet to leverage movement, music, texture, space, and community to successfully, artfully, and compellingly communicate brand identity online, a premium and even luxurious online experience can be created, thus aligning the Internet experience with the overall identity of the luxury brand

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