

## What Happens When Luxury Brands are Sold via Online Shopping?: Comparing the Online Shopping Model Between a Luxury Brand and a Mass Brand

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Despite the emerging growth of luxury shopping online, there have been few studies examining what happens when luxury brands are sold online, from the perspectives of product quality and online shopping values perspective. Thus, this study developed an online shopping model, which was then empirically tested with structural equation modeling. Using a two-factorial research design, this study looked at a luxury brand (*Chanel*) by comparing a massbrand (*Uniqlo*) as the control variable. Data was obtained, using a within - subject survey, from 275 luxury consumers. Overall, the results showed that people perceived the brand quality of luxury and mass brands differently, when these products were sold online. Luxury consumers had the low quality perception on luxury brands online, and the positive relationship between the quality perception and shopping value for luxury brands was weaker than for mass brands. In contrast to the previous shopping literature, the study found that the online shopping values for luxury brands and entertainment did not affect purchase intention. Financial risk had a strong negative impact on online shopping values and positively influenced search intention. The results found that the online shopping values did not influence purchase intention online because of the low perception of luxury brand quality and a perception of high financial risk perception associated with online shopping. For the managerial implication, both luxury manufacturers and online retailers should be cautious when selling luxury brands online. They need to develop better online shopping value offerings, such as low financial risk and high entertainment.

*Key words* : luxury brand, online shopping value, risk perception, entertainment, search intention

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## Introduction

In the past, one of the generally-held beliefs about e-commerce was that it was difficult to sell luxury goods on the Web. Based on a variety of evidence, many early online studies supported this belief. For example, reports stated that online shopping environments could not provide offerings such as a high level of service, highly trained staff, or entertaining and fun conventional retail environments, which are typical devices used for obtaining a competitive advantage in “brick-and-mortar” environments (e.g., Burke, 1997; Wake field and Baker, 1998). Another reported weakness was that online shopping environments present low tactile information (they lack a range of sensory experiences). As a result, goods such as clothing, which require multi-sensory inputs to make product choices, are purchased less often on the Internet (e.g., Citrin, Stem, Spangenberg, and Clark, 2003).

In the noble world of luxury, luxury brands also long felt that the Web was no place for them to merchandise their exclusive goods. For that reason, luxury brands paid little attention to the emergence of the Internet for more than ten years, even though the e-commerce industry was experiencing dramatic growth. However, as the world economy faced recession in 2007, this belief was changed. Many luxury brands have started, or will soon start, selling their prestige products through their web sites. These include

such notable names as Marc Jacobs, Jimmy Choo, Hugo Boss, Vince, Lancome, Donna Karan, and more (The New York Times, 2010). These days, luxury brands are less hesitant to enter the Internet. In the past, they struggled with how to convey and create their flamboyant fashion atmosphere and rich shopping experience for their customers. With ongoing improvements in technology, elegant, sophisticated online stores can be established. When they compare the operation costs between online stores and luxury department stores, luxury brands might well rush to be online.

In 2009, the worldwide luxury goods industry fell 8% (amounts under \$230 billion), whereas the sales of luxury item sold online were estimated to have grown 20% (Bain & Company, 2009). According to a report on US retail e-commerce spending, household incomes of those who purchased online in the second quarter of 2010 were: under \$50K (22%), \$50~99K (41%), and more than \$100K (37%) (comScore, 2010). From these two sets of data, we are able to understand something about the evolution of today ’s online business. Apparently, affluent consumers are getting involved in e-commerce, and luxury brands are also entering the e-commerce market to meet their potential customers. In addition, online shopping malls for luxury brands are booming. The sales of luxury online shopping malls, such as Net-a-Porter and Yoox, have increased more than 40% in each of the last few years (Digital News, 2008).

Following the trend, Korean department stores and luxury brand distributors have also started, or are preparing, to respond to the emerging trend of luxury brands online. However, it should be noted that one of the major reasons for the recent consumer rush to the Web for luxury brands is discount pricing. Consumers are enjoying an actual reduction in purchase costs, with virtual retailers providing low transaction costs online, instead of making their purchases offline: e.g., Ashford.com provides heavy discounting (up to 35% off retail). Bluefly.com sells designer items at prices up to 75% below full-retail markup.

In the shopping literature, many of the previous studies about the relationship between discounted price and quality brought up several issues, such as the idea that discount pricing may influence the perception of the product quality, and may even negate purchase intention, depending on the shopping situation and the range of the discount prices. Considering the discount practices prevalent in luxury online shopping, a study is needed to investigate that how luxury consumers perceive the quality and shopping value when they experience luxury brands at discount prices in online stores.

As mentioned earlier, online might be not an appropriate shopping channel for luxury brands because of an inferior shopping experience offering, when compared with conventional shopping experiences in offline stores. Unfortunately, there are few academic studies

about whether or how perceptions of luxury brands change when they are sold online. Considering the recent emergence of luxury brands online, a study needs to be done to identify what specific challenges exist for these products.

In the literature, there have been a number of studies investigating the relationships among brand quality perception, shopping value and purchase intention, in various shopping situations and in various industries. In the online literature, risk and entertainment in online shopping have been heavily studied, so this should be included as a mediator or trigger when investigating the relationships. By investigating the relationships among the three factors in the online context, the results of this study will provide ideas on ways to protect or manage luxury brands online from a brand perspective, and how to increase online purchases of luxury goods. Thus, this study develops an online shopping model for luxury brands, including important factors for online shopping—brand quality and shopping value, purchase intention, and search intention, including significant mediators (financial risk and entertainment).

Therefore, the purposes of this study are: to identify some inhibitive factors when luxury brands are sold online; to identify ways to grow the recent market movement toward online purchases of luxury brands from luxury manufacturer or online retailer aspects by determining problems with shopping online

shopping for luxury brands; to contribute to the academic research about luxury brands online; and, ultimately, to provide managerial direction on both how to protect or manage luxury brands online from a brand perspective, and how to increase the purchase of luxury goods online for luxury brand manufacturers and luxury online retailers.

### **Theoretical Background**

#### Perceived Quality in online shopping

Since Leavitt (1954) initially examined the positive price-quality relationship, the research about the perceived price-quality relationship has been done in a variety of ways in diverse contexts. In the literature, there is a general agreement on the existence of a positive relationship between price and quality (e.g., Dodds, 1995; Monroe & Krishnan, 1985), but this positive relationship is not always consistent. For example, when price increases, quality increases within a range of acceptance and perceived value. Purchase intention first increases, and then decreases when price increases (Dodds, 1995). Thus, a general price-perceived quality relationship does not exist. Price is an indicator of quality, which in turn depends on other cues available to identify quality, such as the variation of price and product quality within a product category, the level of consumer

awareness of prices, and consumer ability to determine quality (Zeithaml, 1988).

Consumer perceptions about price vary because they are based on different backgrounds, purchase situations and competitive choices (Monroe & Dodds, 1988). As mentioned earlier, price is one of the significant factors driving the recent emergence of online shopping. Most of the online stores for luxury brands have tried to provide heavily discounted prices in order to compete with conventional luxury shopping offline. In general, a discount price negatively influences perceived quality because, if consumers purchase a discounted product, they often think that it was discounted because the product's quality is poor (e.g., Blattberg & Neslin, 1990; Dodson, Tybout, & Sternthal, 1978).

#### Online Shopping Value

Consumers shop for reasons other than purchasing products: personal motives (role playing, diversion from a routine, self-satisfaction, information about new trends, etc.) and social motives (social experience, peer group attraction, pleasure of bargaining, etc.) (Tauber, 1972). For extrinsically-orientated shoppers, shopping is a pleasurable activity (Babin, Darden & Griffin, 1994) and intrinsically-oriented shoppers consider shopping to be an errand or chore (Batra & Ahtola, 1991).

The essential components of shopping value perceptions are monetary concepts (e.g., price

promotion) and the quality of products or services (brands). They are influenced by intrinsic cues such as sensory attributes like color, texture and taste (Zeithaml, 1988), and by extrinsic cues such as shopping time and convenience (Doyle, 1984). Shopping value is likely to be a composition of variety, service, and facilities, as well as price and quality. The shopping value dimensions consist of four measures (quality, emotional, price, and social values); these four measures are inter-related because hedonic and utilitarian components of attitude are related (Sweeney and Soutar, 2001).

The literature on shopping values for online shopping reported some mixed results. Some studies reported that extrinsic shopping benefits, such as shopping entertainment, are the most significant factors for evaluating the shopping experience and that online consumers are more oriented with an experiential shopping value (e.g., Childers, Christopher, Joan, & Tephin, 2001; Li, Kuo, & Russell, 1999). On the other hand, some studies have reported that the utilitarian value is the most important factor for online shopping satisfaction (e.g., Szymanski and Hise, 2000). In the online clothing shopping literature, both hedonic shopping values and utilitarian shopping values influence online shopping behaviors, but between them, the utilitarian shopping value influence online shopping behaviors more (e.g., Park and Kang, 2005; Hong and Na, 2007).

## Risk Perception

Previous online studies have reported that perceived risk is a key mediator in the relationship between perceived values and purchase intentions (Sweeney, Soutar, and Johnson, 1999). In the Internet shopping literature, perceived risk has received particular attention because online stores have weaknesses such as limited brand information and a lack of the shopping experiences that conventional shopping can offer (Burke, 1997). The online shopping literature has also reported that perceived risk online is a barrier to Internet shopping's development, while risk-reduction is a major key to inducing consumer participation in online shopping (Jarvenpaa and Tractinsky, 1999; Miyazaki and Fernandex, 2001).

Prior online studies have categorized the classifications of perceived risks in online shopping in various ways. For example, Jarvenpaa, Tractinsky, & Vitale (2000) reported risk perception with four categories (economic risk, social risk, functional risk, individual risk, and privacy risk) whereas Corbitt, Thanasankit, & Yi (2003) identified four different categories (performance risk, financial risk, psychological risk, time risk) with online shopping. When people shop on the Internet, they are tempered by financial risk perception, which is defined as a total financial loss and includes repairing, replacing, or refunding (e.g., Jarvenpaa and Tractinsky, 1999; Miyazaki and

Fernandex, 2001).

### Entertainment in Online Stores

As stated above, sometimes consumers shop for reasons other than purchasing products; their motives might be personal and/or social (Tauber, 1972). People tend to be influenced by the levels of pleasure and arousal the characteristics of products create in them during their early web browsing. In addition, their later shopping behavior can be influenced by their previous experiences (Menon and Kahn, 2002). Li, et al. (1999) stressed that online stores should offer more extrinsic shopping benefits because offline shoppers have a higher experiential orientation than frequent online shoppers. In particular, luxury brands are likely to offer more extrinsic shopping pleasures in their conventional retailers' shopping environments because they provide more interaction with a sales person, affluent trend information, self-satisfaction, etc. Thus, entertainment might be a significant contributor to a high prestige brands' online shopping experience.

Online retailers have attempted to provide entertainment atmospherics and services, such as chat rooms or communities. However, many online retailers have failed to compete with what offline retailers already provide for their consumers; the online displays are inferior and/or consumers are given too much information or stimulation (Buchanan, Simmons, and Bickart,

1999). As a result, people tend to engage in arousing and exploring activities less when perusing in online stores and examining products (Menon and Kahn, 2002).

### Search Intention

Search intention is defined as a consumer's willingness to search other brands for a satisfactory purchase. The intention to search for price information is contingent on the buyers' trading off the perceived benefits such as money saved, with search costs (Marmorstein, Grewal, and Fische, 1992). Previous studies reported that when consumers (buyers) are exposed to a discount price, their search intentions decrease because of an increase in their value perception (e.g., Urbany, Bearden, and Weibaker, 1988; Grewal, Monroe, & Krishman, 1998).

### **The Proposed Online Shopping Model for Luxury Brands**

The main purpose of this research is to find some inhibiting factors for luxury brands being sold online, and to figure out how to enlarge the recent market movement of the online purchase of luxury brands, by finding the interaction between perceived values and perceived risks in online luxury shopping. Based on the theoretical literature in the previous chapter, this study develops a conceptual

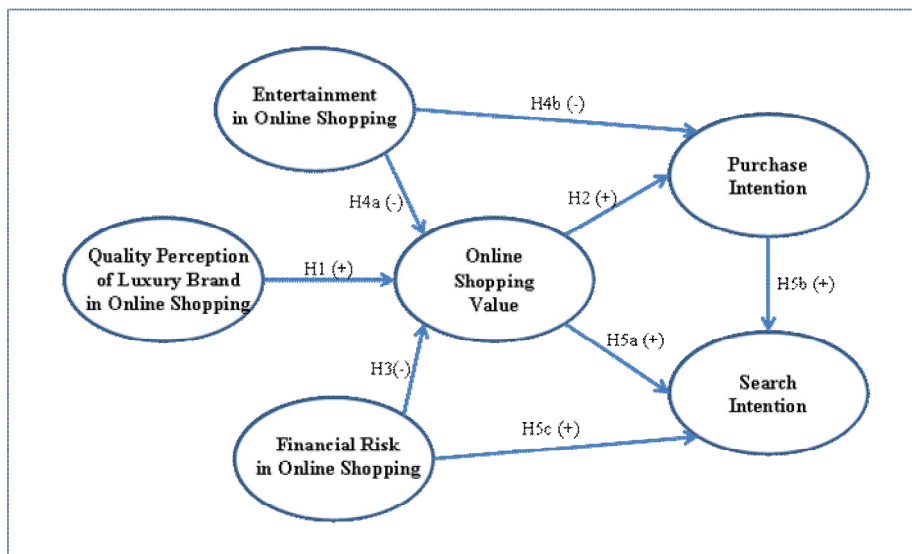


Figure 1. A conceptual model of luxury brands in online shopping

research model, which consists of significant related factors for luxury online shopping: brand quality at discount prices; shopping values for online luxury shopping; financial risk perception; entertainment in luxury shopping; purchase intention; and search intention. The conceptual research model depicts the direct influences among these constructs. (see Figure 1).

#### The Relationship among Quality Perceptions, Shopping values, and Purchase Intentions

There is wide agreement among earlier studies about the positive relationship between perceived quality and perceived value (e.g., Dodds, Monroe, & Grewal, 1991); Grewal, Krishnan, Baker, & Borin, 1998; Grewal et al., 1998). However, it should be noted that luxury online

shopping has recent negative phenomenon of the consumption of luxury brands online such as an increasing consumption of counterfeit products and heavy discount practice online. Comparing experiences of luxury goods in conventional offline stores, luxury consumers might be reconcile disparate and conflict information and image from luxury goods in online shopping.

Thus, a luxury brand's quality perception in online shopping needs to be investigated independently from the perception of the shopping value. It is important that the luxury brand manufacturers understand, from a brand management perspective, how their luxury brands' quality perception changes when they are sold online. This study investigated how the quality perception of luxury brand influences general online shopping values. Recent market

situations for luxury brands in online luxury shopping might negate consumers' perceptions and bring misgivings about the luxury brands' value, particularly when discussing brand quality. Through the luxury brand buyer's experience, the quality of the perceived luxury brand might positively influence the online shopping value.

***H1: The quality perception of luxury brands in online shopping positively affects the online shopping values.***

Purchase intention has been considered to be a predictor for subsequent purchases in the literature. A number of studies have reported a strong positive relationship between perceived value and purchase intention (e.g., Monroe & Chapman, 1987; Zeithaml, 1988). Thus, the perception of brand quality toward luxury brands in online shopping is positively related with the perception of value in online shopping. A higher value in online shopping will increase purchase intention.

***H2: Online shopping value positively affects purchase intention.***

#### The Impact of Financial Risk and Entertainment on Online Luxury Shopping

The financial risk has been tremendously reported as a mediator to shopping decision-making in the literature on the relationship

between shopping value and risk perception (e.g., Sweeney et al., 1999). The financial risk for the purchase of luxury brands will form a negative perception toward online shopping, negatively influence online shopping values, and, eventually generate search intentions for a better transaction. Furthermore, due to the high price of luxury brands, financial risk might strongly influence the purchase of a luxury brand online, so consumers might hesitate in decision-making for online shopping.

***H3: Financial risk in online shopping negatively affects online shopping values.***

According to the balance theory (Heider, 1958), if there is a discrepancy between the online store environment and merchandises' brand equity (e.g., relevantly superior brand equity with relatively inferior entertainment by online stores), consumers might try to compromise the discrepancy through psychological pressure. Despite many online retailers' efforts, they have failed to compete with what offline retailers are already providing for their consumers (e.g., Li et al., 1999; Burke, 1997). Luxury brand shoppers are likely to find pleasure in more extrinsic shopping motivations, because the shopping environments of conventional offline retailers offer more interactions with a sales person, VIP service, affluent trend information, self-satisfaction, etc. Thus, people might feel the online stores are inferior in terms of



entertainment, when comparing them with an existing perception of the entertainment that offline stores provide. Psychologically, consumers might feel that the inferior entertainment of online stores compromises the existing high prestige brands' high brand value as they work to assimilate the discrepancy. Consequently, entertainment obtained in online stores is predicted to decrease luxury brands' online shopping value, and thereby decreases the consumer's purchase intentions as well.

***H4a: Entertainment in online shopping negatively affects online shopping values.***

***H4b: Entertainment in online shopping negatively affects purchase intentions.***

In general, when consumers are exposed to a discount price, their search intentions decrease because of an increase in their value perception (e.g., Urbany et al., 1988; Grewal et al., 1998). Offering inferior displays and/or too much information and stimulation to consumers makes people less likely to engage in the arousing activities that lead them to examine products and stores (Menon and Kahn, 2002). However, the perception of online shopping values also requires an overall assessment of all of the products and the online stores themselves, with the goal of having luxury consumers eager to search for more information about the luxury product to assess its value. Thus, in contrast to the previous literature, this study predicts that

luxury consumers are more willing to search when they have a greater purchase intention in online shopping.

***H5a: Online shopping values positively affect search intention.***

***H5b: Purchase intention positively affects search intention.***

Also, if perceived risk increases, search intentions to find more information about other brands are likely to increase, in order to avoid the financial risk. In particular, as it is easy to search for information in online shopping, when people perceive risks, they might be eager to search for more information about other brands. Thus,

***H5c: Financial risk in online shopping positively affects search intention.***

#### Alternative Model

A key issue that must be addressed is whether the proposed online shopping model explains the nature of how consumers perceive luxury brands sold in online stores. To confirm whether a face-validity problem exists, it is proposed that the same model be created for mass brands (Model 2), as a rival model. Thus, this alternative model is used as a control group, to support the proposed online shopping model for luxury brands in this study.

## Methodology

### Research Design and Data Collection

This study aims to identify how perceptions of luxury brands change when they are sold online, so it is important that the data collection for this study was executed with real luxury shoppers, and that the research model in this study was examined in a real shopping environment, in order to match the reality of the luxury industry. A survey for this study was conducted through the cooperation of two luxury department stores: *Avenuel* and the *Galleria Department Store* in Seoul, Korea. Visitors to these luxury department stores were asked to participate in the survey.

For this study, two focus group discussions (FGDs) were executed with both offline luxury consumers and online luxury consumers. During the FGDs, participants were asked to answer questions on what kind of brands are the opposite of the luxury brands in fashion clothing purchases. Most of the participants thought that luxury brands and “fast fashion” brands were opposite concepts to each other because of price discrepancies and purchasing frequency. In general, these luxury consumers frequently purchase fast fashion brands such as *Uniqlo*, *Zara*, and *Mango*, wearing them for a short period of time, as they followed the recent fast fashion trend. On the other hand, when they purchase luxury fashion brands, they expect to

possess them for a long time, so they purchase them less frequently. This polarization trend has become a trend in the fashion industry (&themost,2009). Based on the luxury consumers’ perception, a fast fashion brand was chosen to represent the mass brands for this study. This became the control variable for this study. Through the FGDs, it was also found that the participants felt the only reason for buying luxury brands online is for the discount pricing, whereas fast fashion brands are repurchased online for the convenience; discount pricing was not a key factor. Therefore, the discount price setting was included in the questionnaire for the luxury brand.

From the FGDs, it became clear that there are large individual differences in perceptions between offline and online luxury shopping, as well as between the independent variable (a luxury brand) and the control variable (a fast fashion brand). In addition, there were few potential subjects in the luxury department stores and they were difficult to get. Thus, a within-subjects method was chosen for this study. Consequently, to test the proposed model for luxury brands online, this study employed a survey method using a two factorial design (a luxury brand and a fast fashion brand) within subjects.

This study had two stages for data collection. First, in-depth interviews were conducted as a pilot-test, with consumers who are loyal customers of luxury brands. They were asked to

name representative luxury brands for clothing shopping, for shopping model 1. They were also asked to name representative mass brands for clothing shopping, for shopping model 2. Through the pilot-test, *Chanel* was selected as the luxury brand and *Uniqlo* was selected as the mass brand. Based on the pilot-test, two survey questionnaires were developed: the first questionnaire was for *Chanel* and the second questionnaire was for *Uniqlo*.

Interviewers trained for this study asked a screening question to the department store visitors, to determine whether they had had previous experiences searching or browsing for luxury brands in online stores. Only subjects who had previous experience with luxury brands online were asked to participate in the research. In the introduction to the questionnaire, subjects were asked to respond based on their previous online experiences with luxury brands.

To avoid the order effect in the execution of the luxury brand questionnaire and the mass brand questionnaire between subjects, subjects were asked to randomly select one of the two questionnaires and to fill out the selected questionnaire first; after finishing it, they were asked to finish answering the other questionnaire. 300 samples were collected and 275 useable samples were generated for this study.

31% of the subjects were male visitors and 69% were female visitors. The average age was 37.2 years old. The average household monthly

income was 3.8 million (KRW); the range of the family monthly income was from 2 million (KRW) to more than 18 million (KRW); and the average household monthly income was 5.3 million (KRW). Subject occupations included 28.5% white collar workers, 4.9% technical workers, 16.4% specialists with higher education, 16.8% small business owners, 10.7% students, 9.3% housewives, and 13.4% others. Among the subjects, 20.2% had purchased luxury brands offline. As the survey was only executed with subjects who had experience in online shopping for luxury brands, 100% of the subjects had had a luxury brand purchase experience.

Finally, AMOS and SPSS were used for the statistical analysis in this study.

## Measurement

“Perceived quality in online shopping” was measured with two items: good quality and the reliability of the product from a previous online shopping experience, as used by Grewal et al. (1998). “Perceived shopping value in online shopping” was measured with three sub-constructs of the PERVAL scale (emotional value, price value, and social value). The five items for emotional value consisted of preferred style, like, feel free, feeling good, and happiness, all associated with the previous online shopping experience. The four items for price value included reasonable price, worthiness, better price among the other prices, and economical product,

and the two items for social value included good impression on other people and social satisfaction (Sweeney and Soutar, 2001). “Entertainment” in online shopping was measured with three items proposed by Mathwick et al. (2001), consisting of attractive demonstrations of products, a fun and exciting look to the online store and the products in it. The two items for “financial risk” in online shopping were developed to fit within the context of the study: “Considering the price of the product, it was financially risky to make a transaction for the product in the online store.”; “It was financially risky to purchase the product in the online store as other deals for a discount on this product may exist.” Finally, “search intention” was measured with two items used by Grewal et al. (1998), and purchase intention was measured with two items adapted from Sweeney et al. (1999). All items for the constructs used the seven-point Likert scale, except for background questions. The bipolar scale was presented as “1 = very low,” “7 = very high.” Some of the wordings of

these instruments were changed to adjust for the online shopping context (refer to Appendix 1).

## Results

Cronbach’s alpha reliability test was conducted in the measurement model, to test reliability. (Refer to Table 1). Correlations among the items are also provided in Table 1.

A confirmatory factor analysis was undertaken, based on a partial disaggregation approach on all items for all constructs, to avoid the problems of an aggregate approach, such as the loss of information, and from disaggregation, such as producing unwieldy, high levels of random errors in the items (Bagozzi and Heatherton, 1994). Thus, some items were summed and/or combined with related items to form compositions for a certain construct. Specific items used in the constructs, as well as their allocations to composite indicators, are shown in Table 2. The estimation of the CFA

Table 1. The result of reliability test of the online shopping model for luxury brands and mass brands

		Perceived brand quality		Online shopping value			Financial Risk	Entertainment	Search Intention	Purchase Intention
		V1	V2	Emotional Value	Price value	Social value				
Reliability	LUX	.73	.75	.75	.80	.70	.77	.88	.89	.75
	MASS	.71	.70	.60	.68	.66	.75	.86	.88	.73
Factor Loading	LUX	.584	.944	.742	.769	.751	.678	.829	.837	.615
	MASS	.654	.783	.643	.838	.712	.693	.773	.756	.678

\* LUX = luxury brand / MASS = mass brand

Table 2. The result of the online shopping model for luxury brands

	Construct								
	Quality perception of luxury brand		Online shopping value			Financial Risk	Entertainment	Search Intention	Purchase Intention
	V1	V2	Emotional Value	Price value	Social value				
Indicator 1									
LUX	2.925								
MASS	1.877								
Indicator 2									
LUX	1.345	2.038							
MASS	.901	1.650							
Emotional V.									
LUX	.101	.517	1.171						
MASS	.408	.531	.871						
Price V.									
LUX	.705	.665	.763	1.673					
MASS	.545	.496	.534	1.219					
Social V.									
LUX	.333	.509	.732	.914	1.422				
MASS	.304	.460	.400	.715	1.062				
Financial Risk									
LUX	-.569	-.465	-.505	-.619	-.441	2.045			
MASS	-.152	-.153	-.105	-.252	-.255	2.127			
Entertainment									
LUX	-.015	.163	.110	.001	.037	-.027	2.120		
MASS	.175	.162	.345	.490	.303	.254	1.645		
Search Intention									
LUX	.066	.379	.277	.204	.150	.307	-.024	2.717	
MASS	.308	.117	.328	.446	.365	.229	.513	1.903	
Purchase Intention									
LUX	-.275	.074	.236	.041	.113	.056-.059	.181	.663	1.394
MASS	.331	.331	.304	.415	.317		.104	.350	1.604

\* LUX = luxury brand / MASS = mass brand

model for Model 1 resulted only in an adequate fit, with  $\chi^2(16, n = 400) = 40.687$ ;  $\text{NFI} = .993$ ,  $\text{NNFI} = .976$ ,  $\text{CFI} = .980$ , and  $\text{RMSEA} = .043$ . Modification indices did not suggest

any major improvements. It was, therefore, used in the testing of all of the structural models discussed below.

The Results of the Structural Model for the Online Shopping Model

*The structural model of the online shopping model for a luxury brand (model 1)*

As can be seen in Figure 2, the model fits for the structural equation model for online shopping of a high prestige brand (Model 1) are  $\chi^2(21, n = 200) = 45.643, p < .01$ ; NFI = .887, NNFI = .885, CFI = .933, and RMSEA = .077. The findings partially supported the

hypotheses. Perceived brand quality was a significant predictor of the perceived brand value in terms of emotional, price, and social values ( $\beta_1 = .280, p < .05$ ). H1 was supported. Contrary to the hypothesis about perceived brand value, however, brand value did not influence purchase intention. H2 was not supported. On the other hand, financial risk negatively influenced perceived value ( $\beta_3 = -.492, p < .05$ ). That is, when there is a bigger financial risk, people tend to search more for ultimate brands and prices. Therefore, H3a was supported. Interestingly, entertainment has a slightly negative impact on perceived brand value ( $\beta_{4a} = -.006, p < .05$ ), where as there is no

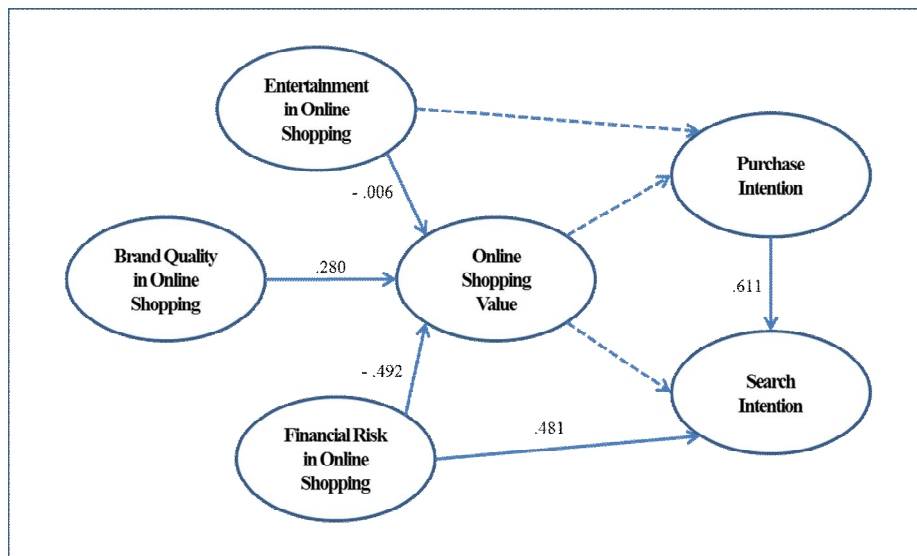


Figure 2. The result of online shopping model for luxury brands

Figure 2. Standardized path coefficients representing effects of perceived quality, shopping value, risk, entertainment, purchase intention, and search intention.  $\chi^2(21, n = 200) = 45.643, p < .01$ ; NFI = .887, NNFI = .885, CFI = .933, and RMSEA = .077. All paths in solid lines are statistically significant as at  $p < 0.05$ .

significant relationship between entertainment and purchase intention. It was found that purchase intention for a luxury brand was not influenced by entertainment and perceived brand value, so H4a was supported but H4b was not. Contrary to H5a, perceived brand value was not supported. Purchase intention is a significant predictor of search intention ( $\beta_{5b}=.611, p<.05$ ). Financial risk positively influenced search intention, as proposed ( $\beta_{5c}=.481, p<.05$ ). Both H5b and H5c were supported. Thus, people tend to search for alternative information when they have high financial risk and purchase intention in the high prestige brand context.

***The structural model of the online shopping model for a mass brand (model 2)***

As mentioned earlier, the low prestige brand was used as a rival model for the model for high prestige brand. Model 2 is a structural model for mass brands in online shopping. As can be seen in figure 3, some of the paths were statistically significant at the .05 levels. Model 2 for mass brands showed a better model fit.  $c^2(21, n = 200) = 35.795, p < .05$ ; NFI = .991, NNFI = .931, CFI = .960, and RMSEA = .059.

The findings for model 2 partially supported the hypotheses. In model 2, perceived brand quality was a significant predictor of the

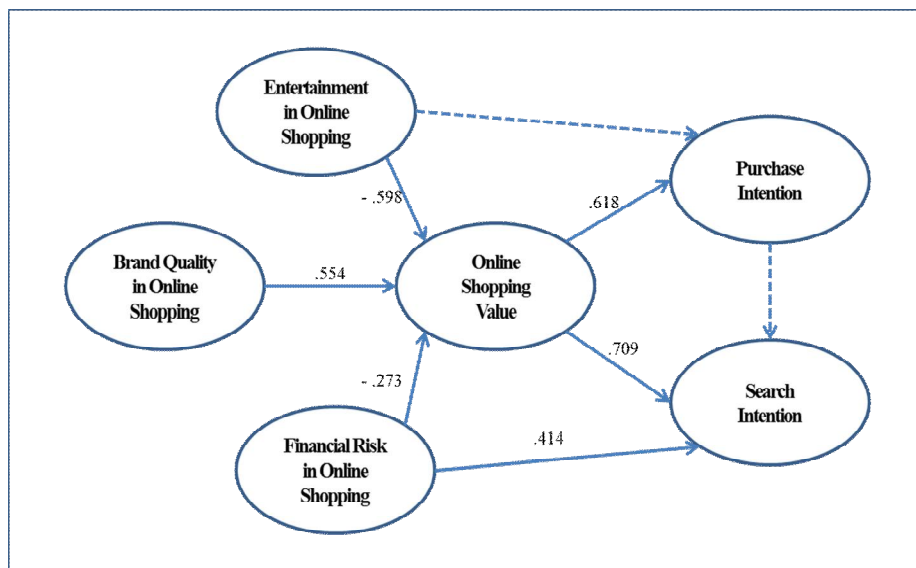


Figure 3. The result of online shopping model for mass brands

Figure 3. Standardized path coefficients representing effects of perceived quality, shopping value, risk, entertainment, purchase intention, and search intention.  $c^2(21, n = 200) = 35.795, p < .05$ ; NFI = .991, NNFI = .931, CFI = .960, and RMSEA = .059.

perceived brand value, in terms of emotional, price and social values ( $\beta_1=.554, p<.05$ ). Perceived brand value was also found to influence purchase intention( $\beta_2=.618, p<.05$ ). H1 and H2 were supported in model2. Financial risk negatively influenced perceived value( $\beta_3=-.273, p<.05$ ). H3 was also supported.

Entertainment negatively influenced perceived brand value, as hypothesized ( $\beta_{4a}=-.598, p<.05$ ). On the other hand, entertainment did not influence purchase intention. Therefore, H4a was supported but H4b was not. Perceived brand value was a predictor of search intention ( $\beta_{5a}=.709, p<.05$ ). Financial risk positively influenced search intention ( $\beta_{5c}=.414, p<.05$ ). Perceived brand value was also found to influence search intention. H5a and H5c were supported, but H5b was not supported in model2.

## Discussion

Overall, the findings of this study demonstrated that luxury brands in online shopping do not fit well with the findings of previous shopping studies, which focused on general brands. The hypotheses of this study were partially accepted and some interesting results emerged. All of the results of this study are summarized in Table 4.

First, the results showed the positive relationship between the quality perception of the luxury brand and the online shopping value, as hypothesized. Interestingly, the strong positive relationship between the online shopping value and purchase intention, which has been theoretically and empirically proven in other studies, was not supported in this study. In addition, this study found that the relationship

Table 4. The results of the acceptance of hypotheses

H	Relationship	Directions	Acceptance of Hypotheses		Comparison
			Luxury Brands	Mass Brands	
H1	Positive	quality perception → online shopping value	O	O	LUX < MASS
H2	Positive	online shopping value → purchase intention	X	O	-
H3	Negative	financial risk → online shopping value	O	O	LUX > MASS
H4a	Negative	entertainment → online shopping value	O	O	LUX < MASS
H4b	Negative	entertainment → purchase intention	X	X	-
H5a	Positive	online shopping value → search intention	X	O	-
H5b	Positive	purchase intention → search intention	O	X	-
H5c	Positive	financial risk → search intention	O	O	LUX > MASS(lightly)

\* LUX = luxury brand / MASS = mass brand



between online shopping values and purchase intentions for luxury brands was weaker than for the mass brands.

These results can be interpreted in three ways. First, luxury consumers may perceive a low level of brand quality for the luxury brand in online shopping due to the heavy discounts practiced by online stores, as well as the growing consumption of counterfeit products. Second, luxury consumers might not have fully realized the online shopping values. This means that even though luxury consumers have perceived the online shopping value consisting of the emotional benefits, price, and social value, they did not purchase. Third, it there may be other key factors that influence purchases for online luxury shopping.

The findings suggested that financial risk is a significant mediator for perceived online shopping values and purchase intentions for luxury brands. This is consistent with previous shopping studies (e.g., Jarvenpaa and Tractinsky, 1999; Miyazaki and Fernandex, 2001; Sweeney et al., 1999). The impact of the perception of financial risk on shopping value was higher for luxury products than for mass market products. Indeed, the risk perception has been revealed as a key mediator to the relationship between perceived value and purchase intentions in the online luxury context. In spite of the recently emerging online luxury brand shopping malls and the increasing sales of luxury brands, luxury consumers still seem to hesitate to shop online.

Entertainment – which has been regarded as a facilitator for online shopping in general – does not seem to play a role here in generating purchases. Contrary to the literature on Internet shopping studies (e.g., Blakney and Sekely, 1994; Kim and Lim, 2001), this study found that entertainment in an online luxury shopping context lowers the online shopping value, and that, furthermore, there is no significant relationship between entertainment and purchase intention. Even with recent improvements in Internet techniques, consumers still do not seem satisfied with the entertainment factor when shopping online for luxury brands (Buchanan et al., 1999). Some limitations still exist in recreating an online retail setting for luxury brands that resembles those in the physical stores. As a result, entertainment does not generate purchase intentions in the online luxury shopping context.

The results of the search intention were interesting. Previous studies had reported that when consumers are exposed to discount prices, their value perceptions increase and search intentions decrease (e.g., Urbany, et al., 1988; Grewal et al., 1998). This study found that online shopping values did not influence search intentions, in contrast with the hypothesis. The results of this study showed that online luxury shopping is different from general brand shopping. In contrasting with previous online shopping studies (e.g., Urbany, et al., 1988; Grewal et al., 1998), the results showed that

the relationship between purchase intention and search intention is a strongly positive relationship in the online luxury shopping context. That is, exposing luxury consumers to discount prices did not increase their purchase intentions, but they are eager to search for finding better shopping values. In addition, financial risk was found to generate search intention, and the positive relationship between financial risk and search intention in online luxury shopping was slightly higher than that in mass online shopping. Thus, luxury manufacturers and luxury online retailers should pay attention to satisfying their luxury consumers in online retail stores, in order to meet their needs for searching for more information and/or better offers.

Consequently, the emerging luxury brands' rush to online might be a mega trends, but luxury manufacturers should pay more attention to how they build their own luxury shopping malls, from a luxury customer's perspective. To decrease the perception of financial risk and to increase the entertainment in online shopping, luxury manufacturers or online retailers should try to provide better information about their luxury brands, better prices, and better services, with satisfactory offerings in their online store environments.

### **Conclusion and Managerial Implications**

This study began with the question of what

happens when luxury brands are sold online. To investigate the relationship among the key factors in online luxury shopping, this study developed a conceptual model for online shopping, which consisted of quality perception, online shopping values, purchase intentions, financial risk, entertainment, and search intentions. By collecting data from real luxury consumers, this study found that the low level of the luxury consumers' quality perception for luxury brands online affected the online luxury shopping values, but that the shopping values did not influence purchase intentions. The positive relationship between the perception of brand quality and online shopping values was not relatively strong, when compared with the same perceptions for low prestige brands. This study found that financial risk negatively affects online shopping values. Even though entertainment has been regarded as a significant feature for increasing online shopping in the online shopping literature, indeed, entertainment has a negative effect on brand value in online luxury shopping. Consumers tend to have more search intentions when they are willing to buy luxury brands, whereas they seem to not do so for low prestige brands.

### **Managerial Implications**

Consequently, the findings of this study have provided important implications for luxury goods being sold in online stores. The fact that

consumers perceive luxury brands in online shopping differently should be recognized. Also, manufacturers of luxury brands should consider the financial risk associated with the online stores selling their brands. This may damage the online shopping values of their brand quality perceptions, and may eventually mitigate decision-making for purchases of their luxury brands online.

Taking the results of the study into consideration, brand managers for luxury brands should be very careful when selling their brands online. Financial risk may damage their customers' perceptions of brand quality and online shopping value. Thus, luxury manufacturers should determine how consumers perceive financial risk when they purchase their brands in particular online stores and/or their web site, in order to lessen the risk. Also, even if their luxury brands provide great brand values, consumers do not seem to be willing to purchase, but continue to search for more information.

While there generally needs to be more entertainment, luxury product sites don't need as much as mass merchandise sites. To date, the entertainment value of online stores has not been enough to meet potential luxury customers' standards and needs. Recent developments in internet technology have allowed some luxury sites to provide more entertainment, but they haven't received the same "bang for their buck" out of the enhancements as other online stores.

Ironically, the lack of entertainment may damage online shopping values, rather than increase online shopping values.

Thus, it is important to select appropriate online stores or for companies to develop their own online sites. Luxury brands that operate their own online stores, or have plans to launch their own online stores, should be careful when developing entertainment for the website. To increase the luxury consumers' purchase intentions in online stores, luxury manufacturers and online luxury retailers need to offer entertainment comparable to the entertainment offered in the offline stores. For example, luxury online stores can use recently developed techniques on their websites such as augmented reality, which is a live direct- or indirect-view of a physical real-world environment, whose elements are augmented by virtual computer-generated sensory input such as sound, graphics or a fancy web atmosphere based on 3D, with more information about the luxury products and designers.

Based on the Balance theory (Heider, 1958), Jacoby and Mazursky (1984) explained a relationship between a retail store's environmental cues and the brands sold in the store environments. According to their research, consumers try to make sense of disparate information between retail store environments and brands, and eventually achieve reconciliation. The incongruity between two different images might be important as the incongruity can

produce an influence for a relatively positive inferior brand's image when it is sold in an online store with a relatively superior image. The reverse is also true; the incongruity can produce a relatively negative influence for brands with a superior image when sold in an online store with a relatively inferior image. Hence, according to the Balance theory, when a luxury brand is sold through an inferior online shopping environment, consumers are likely to need to balance the discrepancy between their existing perceptions of the product's quality and the shopping value in that online store. Thus, a future study should investigate the quality or value perception of luxury brands and the perception of the online shopping values.

#### Future Study

Recently, a variety of online retail formats have become popular, such as officially owned luxury brand shopping sites, luxury shopping malls, P2P marketplaces for luxury brands, and online buying agencies for luxury goods, social shopping, and so on. There may be limitations to this study because it did not differentiate among these various luxury shopping formats and it executed the survey based on the luxury consumers' previous online luxury brand experiences. Thus, further studies need to classify the online retail formats, then, based on the classifications, they need to look at how the

online shopping model in this study differs among the various types of online retail formats for luxury brands.

In this study, discount prices for luxury brands were used to allow for the huge range of discount prices currently found online for luxury brands. It would be interesting to study how consumers' perception of quality and shopping values change as discount prices change. Also, a future study needs to look for other factors that were not included in this study can encourage purchases, so as to understand specific features of luxury online shopping. The question of whether luxury online shopping is free of cross-cultural issues still remains. There have been a few cross-cultural studies about online shopping, but they have had mixed results: some cross-cultural online shopping studies reported some differences in a demographic-sociological aspect, whereas some reported that no cross-cultural differences exist (e.g., Jarvenpaa and Tractinsky, 1999). Thus, a future study should be followed cross-culturally to answer to the question.

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## 명품 브랜드가 온라인 쇼핑에서 판매 시 어떤 일이 일어날까?: 명품 브랜드와 일반 브랜드간의 온라인 쇼핑 모델 비교

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최근 럭셔리 브랜드의 온라인 쇼핑 판매가 급격히 증가함에도 불구하고, 명품 브랜드가 온라인 판매 되었을 때, 명품브랜드 품질 관점과 온라인 쇼핑가치 관점에서 어떤 일이 발생하는지를 검토한 연구가 부족하였다. 이에 따라, 본 연구는 새로운 온라인 쇼핑 모델을 개발하고 명품 소비자 대상의 구조방정식 모델링을 통해 실증연구를 진행하였다. 본 연구는 two-factorial research design 기반으로, 명품 브랜드로는 샤넬을, 제어변수로는 일반 브랜드(유니클로)를 통해 설문조사 진행하여 총 275명의 샘플을 수집하였다. 전반적으로, 조사결과는 명품브랜드와 일반 브랜드는 온라인으로 판매 때 사람들은 다르게 인식하는 것을 보여주었다. 명품 소비자들은 온라인상의 명품 브랜드에 대한 품질지각이 낮았으며, 브랜드의 품질지각과 온라인 쇼핑 가치간의 정의 관계는 명품브랜드는 일반 브랜드 대비 약했다. 또한, 온라인 쇼핑 가치는 구매 의도에 영향을 주지 않았다. 이전 쇼핑관련 연구문헌과 달리, 온라인 쇼핑에서 지각되는 재무적 위험이 높을수록 온라인 쇼핑 가치를 낮게 느꼈으며, 검색 의도는 크게 높아졌다. 흥미롭게도, 온라인 쇼핑에서의 엔터테인먼트는 명품브랜드의 구매의도에 부정적 영향을 미쳤으며, 럭셔리 소비자들은 온라인 명품 브랜드의 가치를 인식하더라도 명품브랜드의 구매 의도뿐만 아니라 검색 의도도 없는 것으로 나타났다. 따라서, 업계에 시사하는 점은 명품제조업체나 명품 온라인 소매업체들은 명품 브랜드의 온라인 판매에 있어서 브랜드관리 차원에서 더욱 신중을 기해야 할 필요가 있다. 명품브랜드의 온라인 판매를 촉진하기 위해서는 온라인 쇼핑에서의 재무적 위험을 낮추고, 온라인쇼핑에서의 엔터테인먼트를 증가해야 할 것이다.

주제어 : 럭셔리 브랜드, 온라인 쇼핑, 위험 인식, 엔터테인먼트, 검색 의도



Appendix 1. Measures

Perceived Quality in Online Shopping		The product in the online store looked like good quality. The product in the online store looked reliable.	
Perceived Shopping Value in Online Shopping (Online Shopping Value)	Emotional Value	The product in the online store was in my preferred style. The product in the online store made me feel like I wanted to use it. The product in the online store was of a style that I can feel free to use. The product in the online store made me feel good. The product in the online store made me happy.	
		Price Value	The price of the product in the online store was reasonable. The product in the online store was worth its cost. The product in the online store was better among those of similar price. The product in the online store was economical.
			Social Value
		Financial Risk	I thought that the product in the online store may cause me to spend my money because it won 't work properly or may need to be repaired. It was financially risky to purchase the product in the online store.
	Entertainment	The demonstration of the product in the online store was attractive. I liked the looks of the product in the online store. The online store looked fun and exciting, and made me want to stay.	
Search Intention	I wanted to check out the price in other online stores before making a decision. I wanted to look for the lowest price in other online stores before making a decision.		
Purchase Intention	I considered buying this product in the online store. I would recommend this product in the online store to my friends and relatives.		