

E-commerce

Case study eLUXURY.com

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1. Many dot.com companies are depending on Venture Capital. What advantages and disadvantages do you see for e-Luxury in having VC?

Like many of today's online businesses, also eLuxury is financed by venture capital. The term Venture Capital hereby refers to "high risk" capital, which is given to a start-up company by a private investor in order to finance the building phase. The high risk for the investing company is often compensated by the prospect of high returns on investment if the company goes public in the future.

eLuxury, with start-up costs of about \$50 million can be considered as a rather heavy financial investment for the contributing parties, as there are not many. But what exactly makes Venture Capital so interesting for eLuxury?

It has to be said, that basing investment on Venture Capital presents both advantages and disadvantages to eLuxury:

Advantages:

One of the main reasons for having Venture Capital is certainly the independence from ordinary investors as for example banks. In many cases in the e-business, it cannot easily be foreseen when a company will first break even. And according to CEO Alain Lorenzo, it might not even be the first priority for eLuxury to become profitable as soon as possible. He rather considers the launch of the online venture as a long term investment which also contributes to the involved companies corporate image and is a first step into a new future-oriented business.

It becomes obvious that the achievement of these goals would prove problematic if the company was financed by loan capital only. High fixed interests would have been a heavy burden that could have constantly increased the companies debts as interest needs to be paid regardless of the business's situation. Especially in the first years of operation newly founded companies often have trouble to generate a positive cash flow.

Considering the critical view of the Investment bank Lehman Brothers, it is also questionable if banks would want to invest in such a businesses at all or only under the conditions of high interest rates and substantial securities.

This conflict of interests cannot occur with their current investors. The major stake of LVMH SA (Louis Vuitton Moet Hennessey) who is at the same time the initiator of eLuxury's launch, assures a sensible and sustainable approach to business as well as the realization of their and therefore eLuxury's vision. The other investors are also deeply involved in the business' activity.

Moreover, they can profit from their shareholder's expertise and business connections which pose very valuable assets.

The interest in the future development and the success of eLuxury from each of the stakeholders will guarantee further strong support and thus a long term growth. If the company goes public one day, it will be them who will profit when issuing shares to the general public.

But eLuxury should also consider the disadvantages that Venture Capital might bring.

Disadvantages

Most crucial argument here is certainly the high influence that some of the stakeholder could try to exert on the company. As there is more than one investor, they might have some deferring goals and different concepts about how to achieve them. That might have not been the case with an external investor who is not as involved in the business and its outcome.

Conflicting opinions might slow down the whole business process and prevent an effective planning.

As the venture is relatively risky, the few existing shareholders might press for short-term returns, even though this seems unlikely in the case of eLuxury.

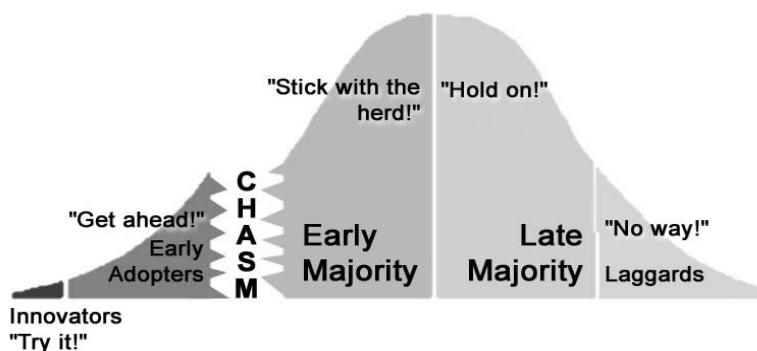
The other disadvantage of Venture Capital shows once the business becomes profitable, as then it will have to distribute part of its profit to its shareholders in form of dividends. As any company financed at least partly by equity capital eLuxury needs to take care not annoy its shareholders.

Conclusion

But considered the overall situation it can be said that taking Venture Capital has probably been the right way to go for eLuxury with the advantages probably outweighing the disadvantages. As the luxury market is one of the most rapidly growing markets in the consumer goods sector, few doubts are raised that the investments made will not pay back for the investors in the future.

2. How are the chances to attract loyal customers to eLuxury.com? Will there be a lot of returning buyers?

To assess the chances to attract loyal customers it is necessary to estimate who your customers are and how they react to new technologies. When examining the adoption of new technologies, we see that certain consumer groups of the market place are faster and others slower. Geoffrey Moore divides in his book "Inside the Tornado" the market into four groups (Innovators, Early Adopters, Early Majority, Late Majority and Laggards) and the chasm:



The customer base for luxurious goods can be divided into the new-rich who have made fortunes during the dot.com boom and the traditional wealthy, represented for example by rich families, bankers, politicians, etc. On the one hand, the new-rich became rich with high tech companies,

they can be easily innovative businesses such as eLuxury. Therefore, they belong to the Innovators and Early Adopters and Early Majority. On the other hand, the traditionalists, being Late Majority and Laggards, can not be easily excited for new innovations and prefer to follow technological trends instead of moving first.

Therefore it will be very difficult to increase customer loyalty with the latter group as they will probably still prefer the brick-and-mortar luxury stores as they can touch and feel their products and additionally gain status as other people see them in such places.

However, it will be possible to increase customer loyalties with the new-rich. Customer loyalty can be achieved by value creation, that is by making switching costs high for your customers which turns out to be very difficult, as entry barriers for online shops are very low. However, several strategies can be implemented to increase customer loyalty.

Trust

Providing the customer with very good service, security and trust keeps them satisfied and loyal. A flexible return policy and the fact that they are authorised dealers for the prestigious brands helps to reduce the risk and inconvenience of buying online. As trust is very hard to earn, it means an entry barrier for any possible competitors. Yet, trust is very easy to lose and customers who lost their trust will not buy again.

Information portal

Page visits of your customers can be increased by offering an information portal where they can inform themselves about the latest trends in fashion and design, as well as providing guides for cities, including restaurants, events and shops. When eLuxury can be their portal and creates loyal visitors it will also be able to increase their visit to purchase conversion rate.

MyLuxury

Recording and analysing customer's behaviour, including surfing behaviour on the webpage and purchase behaviour is a way to understand him. When customers feel that eLuxury knows their wishes they will unlikely turn to the competition as they had to start the get-to-know process from all over again.

Additionally, eLuxury can help their customers to organize their private life. When they opt-in to give information about their friends, spouse or family, the eLuxury sales team can remind the customer about birthdays and other important events and suggest presents which fit to their needs. Of course these presents should not include any company logo, as it should seem to be a product of the customer's effort. This could increase customer loyalty, as the customer would develop an emotional relationship to the company.

Try to build a marketing plan

The shareholders of eLuxury have invested heavily in the company both in terms of financing and expertise. Although these may be sufficient foundations to develop a successful business what is needed is a internally – consistent and mutually supportive marketing plan to ensure a sustainable long-term growth.

Strengths	Weaknesses
<ul style="list-style-type: none"> ▪ Largely financed by equity capital ▪ Shareholders interested in long-term growth; possess expertise ▪ Large product portfolio ▪ Well-made internet portal ▪ High prices ▪ Business intelligence & ERP (E.piphany and eFORCE) ▪ Well-designed security system 	<ul style="list-style-type: none"> ▪ Unproven business concept → insecure returns ▪ Long delivery times ▪ Lack of personality ▪ Products cannot be physically examined ▪ Internet classically low-price, mass-distribution, fast-moving environment ▪ Complex website ▪ Italian & French companies: Reluctant to use the Internet
Opportunities	Threats
<ul style="list-style-type: none"> ▪ Change in customer behavior → internet usage up ▪ Broadband internet connections ▪ New customer group: the newly-rich ▪ Multi-lingual website 	<ul style="list-style-type: none"> ▪ Competition carried out on price in the Internet ▪ Dot.com bubble: burst might destroy wealth of newly-rich ▪ Diluting the brand ▪ Fast-moving environment vs. long-term approach ▪ Social and cultural factors (barriers and attitudes towards internet shopping)

To clarify the frame conditions of the market we will at first break down eLuxury's current situation and possible future influences using a SWOT analysis. Due to its simplicity the SWOT analysis provides a useful tool to introduce eLuxury's business environment. The second step will consist of applying the marketing mix craft a marketing plan.

The SWOT analysis at this point provides an oversight of the company and market conditions and influences. In the following we will outline a marketing mix strategy. Some of the more general influences on the strategy which do not fit into one of the marketing mix's categories will be dealt with later.

Product

The basic products eLuxury is selling are luxury goods, together with an air of security and exclusivity. As a result of its affiliations with LVMH the company boasts a broad variety of

more than 130 different brands. Though an advantage the product portfolio needs to be well-presented in order not to confuse possible customers. If correct and unobtrusive guidance is offered to customers it would be sensible to constantly enhance the number of products offered. This might not only help raising the revenue but moreover serve as a barrier to entry as possible niches allowing market access to possible competitors would be closed.

Hot trends usually do not last long but trend products incur high margins. Spotting hot trends as fast as possible is therefore vital. Even though the company is taking a long-term approach to business overanalyzing an opportunity might lead to it being obsolete before it is offered to customers.

eLuxury should continue with offering information to its customers. Still, if this information is not constantly up-dated and exclusive in nature it might miss its target group and could alienate existing customers as these have high expectations.

Therefore, considerable effort needs to be put in the information side of the internet portal. Good examples are for example including an online-version of the Johnson wine guide or to arrange for comments and recommendations by experts on the selected product segment. Additionally, handheld service pointing to the next luxury boutique or restaurant could be incorporated.

To overcome the lack of personal interaction and physical examination of the goods a superior service needs to be developed. After-sales calls by telephone operators, a chat room, the opportunity to send back unsatisfying products and around-the-clock availability of service employees are essential in this respect to give the business a more human face. An interesting feature would be to at wish disguise the origin of presents. A person sent a present would then be hardly aware that the sender has bought the present via the internet instead of in a posh 5th-Avenue designer store.

Product lines which might be added to the portfolio are sportswear (golfing, sailing or outdoor equipment) and pet accessories.

Price

The price might be a controversial issue. Normally the internet is regarded as a low-price distribution channel where competition is based on price. But as in the luxury segment a high price typically conveys quality it seems sensible to stick to the current approach. A higher price might imply superior service and quality and could even prove helpful in overcoming the disadvantage of not being able to physically examine a product.

Discounts and other sales promotions based on price would most probably be harmful to the image and the long-term profitability of the business.

Place

Creating a marketing plan, the distribution channel plays a major role in the case of eLuxury. The main weakness in this respect is the long delivery times of eLuxury. Even though the fulfillment center processes orders fast, efficiently and with a high degree of personalization, the goods take up to four days to arrive. The option to choose express delivery is little consolation for the customer as in the luxury goods sector every delivery should be of utmost importance. As FedEx's competitive advantage probably depends on a streamlined, reliable and cost-effective service there is little room for customization and to service individual customers' wishes. Especially a company which sends a small number of relatively small packages like eLuxury will not be able to take a lot of influence. The final delivery is of great importance to eLuxury, especially as it operates in a business with little face-to-face interaction. Using FedEx's as an intermediary limits the opportunities to receive feedback from the customer and to provide him with an appropriate and exclusive delivery. All this points to choosing a different, faster and eventually more expensive delivery service than FedEx.

The website as a platform for the business seems to be well integrated into the business. But as broadband internet connections are not yet too widespread two versions of the website

should be offered: one which is best accessible with a broadband connection and another one which is simplified and can be browsed using a modem connection.

A different venue to sell and advertise are duty free shops. These are supplied partly by LVMH but can only offer a limited product range. In return for price discounts by LVMH, increasing the duty free's margins, advertisements might be offered in duty free magazines or catalogues might be offered which contain not only duty free offers but also part of eLuxury's product portfolio.

One possibility to bridge the gap between the customer and eLuxury would be to give the customer the opportunity to collect the ordered item from a nearby designer store (affiliated with or belonging to LVMH), upper-class gym or hotel (those including stores). There the customer could touch the product prior to purchase and have it sent back right away in case it does not meet his expectations. Not only would this decrease customers' reluctance to buy but it would also provide them with the satisfying opportunity to enjoy the prestige connected with buying luxury products in public.

Promotion

The topic of promotion is rather delicate as the promotional activities are not only meant to target the traditional up-market customers but also the newly rich. A balanced promotional mix is therefore required.

A list of activities might include:

- Sponsoring sailing / golf events
- Ads in international magazines (Businessweek, Fortune, Financial Times, ...)
- Glossy catalogues
- Prominent but discreet placement on web pages (no banner advertising or blinking buttons)
- Team up with duty free shops
- Advertising agreements with exclusive publications

Advertisements which might harm the exclusivity of eLuxury (e.g. TV or radio advertisements) should be excluded. Targeting the affluent young would be sensible as they have grown up with Internet shopping and would provide considerable lifetime profits if they continue to stay with the company.

Promotion based on price discounts and monetary benefits would be counterproductive. Still, gifts such as theater tickets or the possibility to reserve concert or theater tickets earlier than others would probably work. An exclusive form of advertising would be sponsoring a boat at a sailing regatta and auctioning or distributing places on the boat by chance.

An interesting feature might be setting up a multilingual website. A Spanish language website might target the Spanish speaking population whose purchasing power is not yet fully developed but who present a growing market in the US. Translating parts of the website in French and Italian might convey the image of an exclusive luxurious company which is also present in Europe.

Positioning

The company combines apparently contradictory features. It sells at high prices via the internet and seeks selective and exclusive instead of a mass distribution. This might be successful as it is an approach different to that of the majority.

Expansion into Europe, especially Eastern Europe can be regarded as promising. Venturing into Asia offers high yields but inhibits several hazards. The purchasing power is concentrated in urban centers which are likely to be equipped with luxury goods outlets already. Serving the country side in the region would prove ineffective due to an underdeveloped transport infrastructure. Moreover, the lack of personal contact is a severe

constraint on e-commerce, especially in Asia. In front of this background, expansion into Asia should be approached carefully with detailed market research and geographically limited trial runs.

A big threat is that the company concentrates so much on its long-term approach that it overlooks current short-lived trends and misses to capitalize on them. Especially in a fast-moving technology and trend driven environment too much planning can breed complacency and be an excuse for being the second.

3. Is there a substantial differential advantage?

As the e-commerce sector is fast moving it is often difficult to achieve a substantial differential advantage. eLuxury possesses one big advantage: without having to appease shareholders by creating short-term growth the company has time to focus on long-term business development and still has considerable financial resources at its disposal.

Moreover, as a result of LVMH's numerous brands and market expertise eLuxury can offer a broad product portfolio. These are two substantial differential advantages. Even though, this is only true when they are made use of correctly. Financial resources are worthless without a detailed investment strategy, so is a broad brand portfolio without a corresponding marketing mix.

Other factors such as psychological switching costs for customers, a well-made homepage and high-profile advertising are differential advantages. Still, the question remains if they can be considered substantial and sustainable.

4. What do you think about the statements of CEO Lorenzo? ("We are looking at this business as a long-term activity and we are in the learning phase right now.")

When CEO Alain Lorenzo states that the eLuxury venture is in the learning phase, he refers to two aspects of the company: Firstly, the market environment and secondly, its internal operations itself.

Learning phase of Internal Operations and the Industry

When we have a look at every company which produces, we see that in the beginning when staff and management are not familiar with processes and the company's value chain, productivity is relatively low. However, as the business runs and its employees gain more experience over time, the learning phase effects takes effect. We can also see this effect in a whole industry as now, companies learn from each others technological advances and productivity increases. As no other venture tried to sell such a broad line of luxury products in the internet, eLuxury can therefore not profit from external experiences. Thereby Lorenzo warns the investors who might expect profits in the short term. eLuxury is a long-term investment and is not to meant establish a strong market position in the long term.

Learning phase of the society

The internet is still a recent development and it is currently changing society. And even as Late Majorities and Laggards are reluctant to use new technology they will adopt over time (e.g. there is no substantial group of consumers today who still refuse to use a telephone). For eLuxury it means that their target customer base is currently limited to innovators and early adopters but will grow over time as society learns to integrate (learning phase) the internet into their lives. Again, this is a warning to investors who expect from eLuxury to target the overall market and generate according revenues.