Is Online Always Better?
Critical Considerations for Using Online Flagship Stores for Designer Clothing
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Abstract

Flagship stores provide experiential concepts that enable brand manufacturers to increase the strength of their own brand and distribute their products effectively. These sales outlets mainly are opened by consumer goods manufacturers, at locations selected to represent their brands. To fulfill these functions, flagship stores often are designed to evoke exclusivity and uniqueness, aligned with the individual manufacturer brand, in an effort to strengthen brand images. However, in view of their size, design, location, and operating costs, flagship stores, distinct from many other distribution channels, represent a high investment risk.

In contrast, the Internet represents a relatively low cost channel. Even in the luxury brand industry, its spread and acceptance has been extensive, which in turn has prompted the design and formation of so-called online flagship stores. They offer access worldwide, via a single platform, but unlike conventional online shops, these flagship stores prioritize a special world or experience. The interactive, personalized elements offered by an online flagship store enable each visitor to enter information about a relevant brand or its uses. However, the limitations of the digital channel mean that its characteristics are reduced to just two perceptual components: optics and acoustics.

In this sense, it is questionable whether online flagship stores can leverage the unique advantages of the Internet to reach branding goals, similar to those pursued by conventional flagship stores. This question is critical, considering the costs associated with the introduction and operation of online flagship stores. Even in the virtual environment, the planning and implementation of the necessary activities can require extensive resources, allocated for extended periods of time.

Introduction and Objectives

Flagship stores have received increasing research attention (e.g., Nierobisch et al. 2017; Arrigo 2015; Dolbec and Chebat 2013; Moore et al. 2010; Kozinets et al. 2002), largely due to their status as innovative means for brand manufacturers to increase the strength of their brands. However, understanding of what constitutes a flagship store is diverse; in a systematic sense, flagship stores can be classified as experience-oriented brand platforms that provide a brand-related consumption experience (Gröppel-Klein 2012). Such a channel is necessarily an element of a multi-dimensional branding effort, promising "multi-sensual brand management" (e.g., Springer 2008). But other channels similarly might provide brand experiences as their primary purpose (e.g., brand parks, theme stores, brand adventure worlds), and a precise conceptualization remains missing (Kilian 2008).

Furthermore, a different kind of flagship store has emerged, in response to the spread of the Internet. Specifically, so-called online flagship stores offer virtual accessibility worldwide, though a single platform, which is designed to be linguistically and/or culturally differentiated. Accordingly, internationally established brand manufacturers, across both luxury and other sectors, have adopted this model and developed devoted online flagship stores (YOOX NET-A-PORTER GROUP 2016).

Research Question

Despite this growth, in-depth examinations of online flagship stores and their uses remain scarce. A scientific perspective on their benefits, challenges, and implementation issues would be useful and could help inform continued scientific investigations of this subject area. With this foundation, our study seeks to address a central research question:

Should luxury brands establish online flagship stores in the digital age?

Answering this question takes on added importance when we consider the required investments. In particular, planning and implementing online flagship stores demand substantial resources, which also remain bound to that channel over time.

We seek to answer this central research question by comparing the essential features of flagship stores and online flagship stores in succession. Due to the lack of empirical data, this comparison relies exclusively on prior literature. In addition, various approaches for assessing the outcomes of this comparison are presented, which may help encourage further empirical processing of the object of this investigation.

Conceptual Framework

Luxury Goods

To examine our research question, we begin with an overview of some basic principles. To start, for this study, we define a product as any bundle of beneficial properties that satisfy customers' needs. Its useful components in turn define three product levels (see Table 1). First, a generic product represents the basic product form, which is not marketable. Second, an expected product represents a minimal bundle of properties necessary to market a product. These benefits are the minimum expected by consumers, so this level does not establish any comparative advantage or differentiation relative to competing products. Third, an augmented product provides unique, special properties that support its concrete differentiation from competing products, which in turn can invoke competitive advantages by providing consumers with pronounced additional benefits.

Product Feature	Luxury Brand	Conventional Brand
Basic	Protection from cold	Protection from cold
Expected	High-quality, durable materials and an appealing design	Affordable, modern clothing that is suitable for everyday use and easily replaceable (no financial risk)
Augmented	Social recognition, achieved because the value and high price lead to exclusivity and distinction from other clothing	Due to its nature, social recognition is hard to achieve

Table 1: Products' useful components

In the luxury industry for example, a brand manufacturer might design products that provide consumers with protection from the elements or coverage of their bodies, but the additional and distinctive benefit stems from their special design or use of high-quality materials. Fur-

thermore, purchases of clothing from luxury brand companies can support social recognition benefits, so the luxury brand positioning offers another augmentation option.

Finally, we define product quality according to its fitness for use. Several uses and useful components pertain to each product though, so we also understand each product as a bundle of beneficial properties. In this sense, we distinguish between objective and subjective quality: Objective quality implies suitability for fulfilling certain use purposes, which cannot be the only criterion for a quality assessment, whereas subjective quality pertains to perceptions of the desired properties. The presence of potential benefits is insufficient to guarantee market success; it is necessary for consumers to recognize these potential beneficial components and also regard them as appealing. Consequently, consumer perceptions determine how any particular product can be classified. For a luxury clothing brand to gain positive consumer perceptions, it must stand out from the competition and offer unique benefits in the luxury market, due to its special positioning. Accordingly, such products might rely on psychological differentiation, achieved through the use of communication tactics. For example, advertising aims to alter consumers' attitudes, positively influencing their perceptions of the brand and its subjective quality. This study considers whether online flagship stores can serve similar purposes.

(Online) Flagship Stores

Flagship stores are sales outlets that consumer goods manufacturers open at selected locations to represent their brands (Kozinets et al. 2002). In so doing, they also engage in forward integration, such that they take over downstream supply chain levels to perform sales functions (Hundt 2017). The manufacturers then can specify the appearance of their brands, according to their preferred positioning (Doyle et al. 2008). In many cases, they seek to establish exclusivity and uniqueness (e.g., Nobbs et al. 2012). Flagship stores represent individual brands, offered by a single manufacturer, and companies increasingly seek to strengthen their brand image by leveraging their appealing flagship stores (Dolbec and Chebat 2013). Relative to other distribution channels, flagship stores also exhibit unique size, design, location, and cost features (Moore et al. 2010; Nobbs et al. 2012; Arrigo 2015).

In principle, any manufacturer could establish flagship stores, though large, well-known companies are more likely to do so than small or unknown manufacturers, because they possess the financial resources needed to open the flagship stores and the reputation needed to attract customer traffic. Smaller manufacturers still might open flagship stores if their sales offices are financially self-supporting, because in this case, the economic risk would be mitigated. However, the expansive premises in attractive locations, high personnel costs, costly facades, and sophisticated sales areas all demand substantial financial resources (e.g., Moore et al. 2000), even before considering the costs of the extensive planning and coordination efforts.

For example, representative flagship stores must locate in appropriate settings and ensure appropriate presentations of the company, brand, and products to appeal to target consumers. Many flagship stores feature unique architectural designs, which in turn support special events and promotions at the point of sale to stimulate consumers' brand experiences. In the clothing sector, such flagship stores are present in nearly every city worldwide, but they also are spreading into other sectors, such as cosmetics and foodstuffs (e.g., Haribo Store in Bonn, Germany; M&M Worlds in many cities). In this sense, flagship stores perform more than a conventional distribution function; they take on an entertainment role (Kozinets et al. 2002)

and drive interactive brand experiences. According to Hundt (2017), we thus can define flagship stores according to the following characteristics:

- Forward integration (transfer of sales function)
- Comprehensive (multimedia) presentation of the product program
- Exclusiveness, achieved by minimizing the number of sales outlets
- Special architectural designs for the buildings and sales areas
- Focus on brand communication and image formation
- Interactive brand experience achieved through special events and personalized services

Flagship stores also enable manufacturers to stage a complete product program for their brand that matches their preferred positioning. They can increase the attractiveness of their product range by offering additional services, including personal interactions between trained staff and consumers, focused solely on the brand. With this platform, manufacturers can coordinate and independently define the market presence of their branded products, in contrast with an indirect distribution context, because they maintain control over any price or brand management instruments.

By leveraging such control, they can increase brand strength, brand recognition, and brand image (Keller 1993). For example, an increased brand presence and corresponding news coverage of new openings of flagship stores likely increase brand awareness. Consumers' positive experiences during visits to flagship stores can create positive brand associations, which prompt repeated contacts and additional sales, whether through the flagship store or other sales channels. In this sense, flagship stores do not necessarily need to be profitable. They represent brand investments that aim to increase brand awareness and branded experiences (Dolbec and Chebat 2013), which in turn may enhance demand in other existing sales channels.

Furthermore, flagship stores serve as instruments for developing and penetrating markets (Hundt 2017), because they help establish a holistic, authentic version of the brand for relevant stakeholders (Doyle et al. 2008). As a public face of the brand, flagship stores support not just the brand but also the entire distribution system. Accordingly, their high costs, especially in international purchasing metropolises, often are accepted, in return for their benefits for the brand identity and brand reputation (Moore et al. 2010). Particularly when entering new foreign markets, such a strong brand presence can increase the trust of potential distribution partners (e.g., franchisees, commercial companies) (Moore et al. 2010), as well as influence consumers' brand-related decision-making processes. Finally, flagship stores can serve as models for other sales channels: They establish the ideal presentation of (new) products, according to the manufacturer, and thus define the model for designing sales areas (Moore et al. 2010). For example, a new shop window design might be implemented first in a flagship store, before transferring it to other sales channels (Manlow and Nobbs 2013).

In principle, opening flagship stores should support monetary goals (e.g., sales, profit, market share). If manufacturers rely on ubiquitous product availability though (e.g., goods for daily use), a few flagship stores will not be sufficient to achieve the required market coverage. Instead, they would need to construct a nationwide system of branches, which conflicts with the exclusive image of flagship stores.

Thus, the concept and appropriateness of flagship stores depends on the brand policy and aims (Moore et al. 2000). The elements that support the use of this concept justify visits to the

store by consumers, even if they do not purchase, in that "flagship stores are maintained to act as publicity vehicles for the ranges and are not required to show a typical return on investment" (Fernie et al. 1998, p. 373). However, manufacturers still likely hope to achieve some economic goals, and perhaps even profitability targets (Hundt 2017). To increase their presence in the market though, even non-viable flagship stores might be maintained, so that the companies can achieve overlapping, image-related objectives. In an ideal case, a flagship store is profitable, such that it covers its own costs and perhaps even makes additional financial contributions to the company, and also strengthens the brand, with positive subsequent impacts in terms of increased demand in other sales channels. Thus, the image goals may go hand-in-hand with the economic goals.

To reach the greatest number of potential consumers, manufacturers often choose highly frequented city locations for their flagship stores (Moore et al. 2000; Moore and Birtwistle 2004). Renowned locations or buildings with famous architectural details can enhance brand visibility and attract more visitors. In addition, the agglomeration of multiple brands in city centers can enhance their combined attractiveness and increase the chances of walk-in customers, even if this agglomeration might increase competition across the different sales outlets. The enhanced possibilities of such positive market contacts increase the likelihood that the brand interacts with consumers who already have purchased and acquires new consumers (Nelson 1958; Arrigo 2015). Still, too many flagship stores close to one another might undermine the very concepts; instead of an exclusive, special experience, they appear inflationary and not particularly unique (Moore et al. 2010). The number of flagship stores in an area therefore should be carefully considered, both nationally and internationally.

A particular architectural design cannot ensure success or inspire potential consumers. However, when the design reflects some pertinent characteristics of the respective brand and its brand message (e.g., modernity, elegance, exclusivity), consumers' brand experiences in the flagship store provide a better fit with the brand identity (Dolbec and Chebat 2013). Accordingly, the selections of interior materials, lighting designs, and stimulating fragrances are critical, and a unique design by well-known architects within historical buildings can signal both a sense of tradition and an exclusive identity (Moore et al. 2010).

Online flagship stores constitute a distinct channel, different from both conventional flagship stores and traditional online shops. Similar to real-world flagship stores, they seek to establish a form of mediation, granting consumers a special brand experience, such that they might embrace a special design or appearance, as well as offer special brand-related events or personalized and interactive elements. However, these characteristics are inherently limited by the Internet context, reduced to the two perceptual components of optics and acoustics (Linxweiler and Siegle 2008). Combining optical and acoustical elements might allow for influences on two senses, but the lack of a means to touch individual elements means that visitors suffer a limited sense of the context, relative to what they might obtain through a multisensory approach in a high-quality atmosphere.

At the same time, online flagship stores can offer novel, immense advantages, derived from the expanded design options. For example, personalized interactive elements can help consumers search specifically for the information they want with regard to the brand, its background, or its uses, following any search path they prefer. In addition, potential customers might participate in digital shows. Such options can enhance brand associations and brand clarity, as well as brand loyalty. Online flagship stores also might establish an image of exclu-

sivity, through (real or digital) events, the experience of which might enhance the uniqueness associated with this store and its brand among the invited consumers.

Findings and Discussion

As noted, shopping experiences are critical, contributing to the formation of the brand image. As Pine and Gilmore (1998) note, the current state of the market is characterized by customers who demand brand experiences. For example, during shopping experiences in online flagship stores, they expect entertaining experiences, even if those channels inherently are limited to manipulating only optical and acoustic elements. The flexible use of such elements can vary their presentation, such that some elements might be available to all customers, whereas others could be individually modified to reflect users' preferences. The possibilities for identifying unique users on the Internet support the provision of individualized offers to visitors, in terms of both the products presented and the design of the overall shopping experience. Such personalization should have positive effects on consumer perceptions.

Whether online or offline, a positive experience requires an appropriate location selection. As noted previously, physical flagship stores tend to appear on central shopping streets in international cities, some of which feature separate, clearly identified districts for luxury brands. By locating in these areas, brand manufacturers signal the exclusivity of their brands and issue an appeal to their target market (e.g., prosperous tourists, rich locals). A location just outside the center of the luxury brand market might mean the failure of the flagship store and a powerful threat to the company's economic viability. The resulting competition for the best locations drives up the costs; there are only so many suitable premises available (Moore et al. 2010; Moore and Doherty 2007), especially in established of luxury centers such as Milan, Paris, London, or New York (Hollander 1970). In contrast, no spatial limitations apply to online flagship stores, nor are they limited temporally. However, online flagship stores may prevent consumers from visiting various alternatives in the same area. In a sense, there is no competition for prime locations, but when it comes to consumers' perception, online flagship stores still must compete in the usage context.

Because they contribute to image formation, public relations, and advertising efforts by the company, opening flagship stores is always a complex, challenging task. Planning, set-up, and ongoing operations all demand high costs, because in addition to classic sales functions, flagship stores must provide an entertainment experience. A successful flagship store accordingly demands well-trained employees, necessary financial resources, and top-level management support. The budgets required to maintain flagship stores represent long-term investments in the brand image, even when they operate at a loss (Kozinets et al. 2002; Mikunda 2015). For online flagship stores, these stages also are costly, especially to ensure consistent quality, which requires the use of qualified information technology service providers. Still, compared with a physical flagship store, the set-up costs for an online flagship store likely are considerably lower; in particular, it does not demand any high-priced real estate costs. The cost of running online flagship stores also is lower, because the employees are not limited to a particular geographic location, so the company can hire qualified personnel from all over the world, including places where labor costs are comparatively low. However, care must be taken in this respect, to ensure that the language quality in particular meets the requirements articulated by the stores' demanding clientele.

Finally, the brand experience in a real-world flagship store should increase brand appreciation among consumers, who feel connected with and develop loyalty to the brand. These devel-

opments can justify higher product margins in flagship stores: Customers tend to be willing to pay a premium for the (cost-intensive) experience (Dolbec and Chebat 2013; Schlesinger et al. 2009). In online flagship stores, higher prices also might be justified, because visitors still enjoy a unique experience but do not need to travel to an international city to visit the store. Thus, they save the time and financial expenses associated with visiting a real flagship store. However, the application of higher prices is not without difficulty. In particular, the Internet offers ready opportunities for consumers to compare prices quickly and easily, such that they might readily learn of more favorable offers from competitors. Furthermore, consumers who visit an online flagship store might consider the shopping experience relatively less important, compared with people who make the effort to visit the physical store so they can experience it. Such consumers thus may be unwilling to pay higher prices in an online flagship store than they would in other channels.

Conclusion

The establishment of online flagship stores is expensive, and their usefulness is questionable. Specifically, these channels can leverage only optical and acoustic elements to establish a brand experience, which limits consumers' available perceptions. In addition, these elements might be less likely to activate relevant stimuli than are physical flagship stores. Yet online flagship stores also offer promising possibilities associated with the benefits of Internet channels. In particular, they can present a brand without any spatial or temporal restrictions, and they offer varied options for entertaining customers, flexibly and individually, by identifying individual users and presenting them with customized experiences.

With these considerations, we recommend investigating the effectiveness of online flagship stores differently. The effect of physical flagship stores will be more pronounced, such that the benefits of online flagship stores might seem comparatively low. But a targeted demarcation can establish online flagship stores as a separate channel with their own benefits, including a means to highlight luxury brands and designer clothing, separating them from the mass of offers on the Internet. This offer is particularly relevant for potential customers who lack ready opportunities to visit physical flagship stores. Online flagship stores can help win these customers by giving them a special experience online.

Limitations, Further Research, and Managerial Implications

This study relies exclusively on an analysis framework, which is limited. We thus could not undertake an empirical investigation. Instead, we offer recommendations and also call for further research that establishes the use of online flagship stores as an additional channel, thereby generating empirically reliable results. Marketing decision makers should investigate realistic possibilities for using online flagship stores, while taking into account the restrictions that come with them.

In particular, the virtually unlimited possibilities for addressing all potential consumers worldwide in a uniform or individually designed form enables online flagship stores to achieve substantial potential in terms of brand recognition and brand awareness. In addition, relative to physical flagship stores, the cost-effective design and operations of online flagship stores would help companies generate economic advantages, even with relatively limited sales. In this context, the focus should not be on leveraging online flagship stores to encourage potential consumers to visit real (flagship) stores. Instead, we call for analyses of different sequences of multiple customer contacts, which could provide valuable insights and information about the economic benefits of online flagship stores.

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