

A Comparison of Consumer Behavior Towards Luxury Goods: Online vs. In-Store

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Abstract: The objective of this study is to compare how online and in-store shoppers behave towards luxury goods. The study is a descriptive survey with applied goals. The statistical population includes in-store and online customers of luxury watches in the city of Isfahan. Due to its complicated nature, the population was assumed to be infinite. A questionnaire was used as the data collection instrument. Patrons at several luxury watch stores in the city were asked to participate in the study. Furthermore, a number of online stores carrying luxury watches were contacted to help with the study. In compliance with privacy policies, copies of the questionnaire were sent to online customers by store administrators, as the researchers were not granted access to customer emails. The samples were inherently mixed in terms of online or in-store shopping experience. Therefore, the first item of the questionnaire asked participants to rate their tendency toward shopping luxury goods online. Sample size was determined using the designated formula yielding 368. Accordingly, a total of 370 questionnaires were collected from online and offline sources. Analysis of the data revealed that 122 individuals intended to buy luxury goods online or had previous experience doing so. This group was labeled as “online shoppers” (average rating above 3) and the remaining participants were classified as “in-store shoppers” (average rating below 3). Our findings show that online shoppers of luxury watches highly value convenience and access. Moreover, online stores enable them to compare prices and find the best deals. They claim to be price-conscious. However, they are more trusting and take more risks, as opposed to in-store customers who regard personalized service and personal interactions as important.

Key words: Online shopping, in-store shopping, customer purchase behavior, luxury goods, service

INTRODUCTION

Websites are the most common medium used in online shopping. As a result, it is important that considerable attention be paid to various aspects of an online store. Prior studies have found that poor design and incomplete information decrease the quality of a website which lowers customer trust and ultimately impacts purchase intentions. Many researchers believe that the perceived quality of an online store influences purchase intentions both directly and indirectly, through variables such as trust. A number of studies confirm that perceived website quality typically affects online purchase intentions through trust which refers to one's attitude toward a merchant's behavior based on his/her perceived capability, benevolence and honesty. Trust is a mechanism which guides human behavior when confronted with uncertainty. This definition is particularly useful in the context of online shopping where the interaction is characterized by uncertainty and information asymmetry. Various studies report different purchase intentions. This study focuses on intentions and drivers of online vs in-store shopping. In their seminal work on

purchase intentions Bellenger and Korgaonkar (1980) identify experience, convenience and social interaction as the drivers of purchase.

In recent years, the internet has played a major role in transforming the business environment. Pervasive use of the internet has many implications including the growth of online retailing, changes in consumer habits and improved attitudes toward online shopping. Online shopping environments enable special interactions to satisfy customer needs. Online shopping activities are different from normal shopping in the sense that computer and search skills are also required.

In order to survive in highly competitive markets and guarantee success, firms need to adapt to changes their environments and gain a thorough understanding of how their customers behave. This requires knowledge of customer intentions. Therefore, this study aims to provide insight into intentions of both online and in-store shoppers of luxury goods. In the following, theoretical background is presented and followed by the main research question.

Yavas (2001) demonstrated that reasonable prices can increase purchase intentions which proves that

competitive prices will improve sales. Price-conscious consumers spend a great deal of time looking for the best deals that they can find.

Theoretical background

Luxury goods: The market for luxury goods in Iran has rapidly expanded in recent years, with numerous instances to testify to this phenomenon. Global luxury brands such as Louis Vuitton, Gucci, Prada, Polo, Rolex, Omega and Versace are not present in the Iranian market.

A number of reason can be given for the recent changes in consumption behavior. As a Muslim country, Iran has distinct cultural features including the impact of religion on customer intentions and beliefs toward luxury goods as well as what is perceived to be valuable. Religion is the most important aspect of the Iranian life as a Muslim country. Furthermore, such markets are characterized by more complex and unique consumers. Overall, studying the consumption of luxury items in the Iranian market enables a deeper understanding of the culture itself.

Marketing experts are interested in purchase intention due to its relationship with purchase behavior. They claim that evaluating customers' intentions is the best way to predict their behaviors (Ghalandari and Norouzi, 2012).

Intentions are considered an important factor in the structure of attitudes and can be used to predict actual behavior. Higher purchase intentions lead to higher chances of actual purchase. Therefore, intention is the single most important predictor of final purchase (Lin and Lia, 2012).

The Internet has profoundly changed retailing and distributions management (Doherty and Ellis-Chadwick, 2006) However, due to concerns for losing their sense of exclusivity, luxury brands have been reluctant to enter the digital era (Okonkwo, 2007). Over the past 5 years, the situation has slowly begun to turnaround. With more and more customers adopting online shopping, some luxury brands have become faster to accept and use the Internet as a means to increase their online presence and customer awareness (Okonkwo, 2009). Managers and marketing experts hope to better understand the unique challenges and opportunities of the internet for the luxury sector.

Motivational theory is used as the basis for studying online shopping of luxury goods. According to this theory, human beings seek happiness and satisfaction. Previous authors have studied the impact of purchase intentions on consumer behavior Westbrook and Black (1985).

Compared to others, buyers of luxury goods have unique intentions. For instance, identifies the desire to

pay a premium in return for the prestige associated with luxury goods as a hint of social status. Others use luxury items to signal their wealth (O'Cass and Frost, 2004). points out that people often judge others based on their possessions and image. Furthermore, luxury goods are also attractive due to their high quality (Vigneron and Johnson, 1999). Consumers also enjoy the utilitarian and aesthetic values which are only associated with luxury brands. Donthu and Garcia (1999) were among the first authors to study online consumer behavior. They compared the intentions of online and in-store consumers and found that online consumers were more innovative and tend to make more snap decisions. Moreover, they generally seek more variety and have positive attitudes toward online shopping. Eastman *et al.* (2009) considered larger online stores and demonstrated that online shoppers have more positive attitudes toward online shopping. Xu and Paulins (2005) also found similar results. They showed that online shoppers tend to be more accepting of buying apparel online.

Factors impacting purchase behaviors of luxury goods online

Convenience: Convenience is the most cited reason for shopping online. The possibility to find products easily and place orders at any time from any place is very appealing (Stephenson and Willett, 1969). Both online and in-store customers value convenience thus, it can be concluded that similarities exist between the two groups.

Price: The second most common reason for online shopping is the ability to compare and find the best prices from various sources. The desire to buy luxury goods at lower prices can help explain people's tendency toward online shopping.

Availability: Availability and variety are also among the reasons individuals give for buying luxury goods online. Physical stores often have limited capacity and are not able to satisfy many customers in terms variety. Also, some individuals may live in areas far from luxury stores. Therefore, the variety provided by online stores can have a significant impact on the purchase of luxury goods in online stores.

Attitude toward online shopping: Attitudes toward online shopping and the pleasure associated with this activity are the fourth reason individuals prefer online purchases. Some buyers find internet shopping more desirable due to the absence of a salesperson who can pressure them into buying an item they do not want.

Trust: In order to persuade more individuals to buy online, luxury brands must inspire trust in their customers. Comments and ratings by other customers can serve to reassure customers that they are making the right choice. Similarly, customers are more inclined to trust online store which offer familiar brands. According to Lee (2007) there are two reasons for lack of trust in online transactions: customers are not able to control merchants' access to their information and they are concerned that their information can be accessed by unauthorized third-parties.

Customer perceptions: As shown in the Customer Trust model in online shopping (Lee and Turban, 2001), customer perceptions of online vendors include perceptions of credibility size and integrity. The construct of integrity is further divided into competence, benevolence and honesty. Consumer trust is mainly focused on vendor credibility as well as customer reviews and ratings. Luxury consumers often have greater concerns due to the large amounts of money that are exchanged in the purchase of luxury goods. Therefore, more favorable reviews and ratings can reinforce their purchase intentions.

Research goals

Main goal: Determining the differences between online and in-store consumers in terms of behavior.

Secondary goals:

- Determining the differences between online and in-store consumers in terms of importance of availability
- Determining the differences between online and in-store consumers in terms of price awareness
- Determining the differences between online and in-store consumers in terms of trust
- Determining the differences between online and in-store consumers in terms of risk-aversion
- Determining the differences between online and in-store consumers in terms of value for personal services
- Determining the differences between online and in-store consumers in terms of importance for interpersonal interactions

Hypotheses

Main hypothesis: Online and in-store consumers are significantly different in terms of purchase behavior.

Secondary hypotheses:

- Online and in-store consumers are significantly different in terms of value for availability

- Online and in-store consumers are significantly different in terms of price awareness
- Online and in-store consumers are significantly different in terms of trust
- Online and in-store consumers are significantly different in terms of risk-aversion
- Online and in-store consumers are significantly different in terms of value for personal services
- Online and in-store consumers are significantly different in terms of importance for interpersonal interactions

MATERIALS AND METHODS

This study presents a descriptive survey with applied goals. This is the case because the authors seek to highlight the different behaviors of online and in-store consumers of luxury goods. The population of the study includes individuals who buy luxury watches, either online or in stores, in the city of Isfahan. Since, population size was hard to determine, it was assumed to be infinite.

A convenience sample of in-store luxury watch buyers in the city of Isfahan was drawn and administered the study questionnaire. Moreover, online stores selling luxury watches were contacted to help with the study. Due to privacy policies, the researchers were not granted access to customer email addresses. However, store owners agreed to send out copies of the questionnaire on behalf of the authors via email.

The first item of the questionnaire was designed to separate customers with online and in-store shopping experience as the sample was inherently mixed. The item asked participants to state their preference for both online and in-store shopping. Subsequent to the administration of the questionnaires and determination of variance, sample size was calculated using Eq. 1. Table 1 presents the input and output values of this Eq. 1:

$$n = \frac{S^2 t_{\alpha/2}^2}{d^2} \quad (1)$$

Using the sample size formula, the population was calculated as 368. 370 questionnaires were collected and analyzed out of all those administered in shopping centers and on sales websites. Of these, 122 people who had the

Table 1: Sample size parameters

Symbols	Parameters	Values
n	Sample size	368
N	Population size	infinite
t	Confidence level	1.96
d	Error	0.08

Table 2: Distribution of questions

Dimension (Items)	Reference
Purchase intention (1-5)	Truong etc.,
Price consciousness (6-8)	Darden and Perreault
Availability (9-12)	Donthu and Garcia (1999)
Trust (13-15)	(De Wulf etc.)
Risk aversion (15-17)	Donthu and Garcia (1999)
Personalize sales service (18-20)	Brady and Cronin
Purchase interactions (21-23)	Rohm and Swaminathan

Table 3: Reliability coefficients of the questionnaire

Dimension	Reliability coefficient
Purchase intention	0.88
Price consciousness	0.79
Availability	0.90
Trust	0.91
Risk aversion	0.84
Personalize sales service	0.86
Purchase interactions	0.87

willingness and experience of shopping luxury brands online (average above average 3) were considered as online shoppers and 248 who were not willing and did not have the experience of online shopping for luxury brands (average less than average 3) as in-store consumers.

Since, the most common means of data collection in surveys is questionnaire, this study also collected data through questionnaire.

Questionnaire: The questionnaire used in this study is designed by Liu *et al.* (2013). Participants can choose grades 1-5 on the Likert scale and based on the type of questions. Table 2 shows the distribution of questions based on the variables.

The face validity of the study was confirmed through expert opinion as well as several members of the sample. Also, since the questionnaire is standard checking the content validity was not required.

To determine the reliability of the questionnaire Cronbach's alpha coefficient, one of internal consistency methods was used.

According to Table 3, reliability coefficients were calculated as 0.93 which shows the high accuracy of the measuring instruments used in this study.

RESULTS AND DISCUSSION

Data analysis

Descriptive statistics of variables: Descriptive statistics show that consumer intentions to buy luxury brands include: enhancing their image, a sense of uniqueness, importance of product prestige, revealing social status and a sense of sophistication. In both groups, these factors means were high Table 4.

Table 4: Mean and standard deviation of variables

Variables	In-store		Online	
	SD	Mean	SD	Mean
Availability	3.45	1.15	4.63	1.03
Price-awareness	3.47	1.13	4.58	1.15
Trust	2.91	1.29	4.64	1.02
Risk aversion	4.29	0.81	3.13	0.99
Personalize sales services	4.45	0.75	2.81	1.61
Purchase interactions	4.61	0.57	2.61	1.73
Higher image	4.51	0.41	4.30	0.56
Social status	4.44	0.36	3.93	1.10
Prestige	4.49	0.45	4.14	0.39
Uniqueness	4.34	0.90	4.56	0.41
Sophistication	4.46	1.23	4.37	1.30

Analytical results: In this section, analytical findings of the study are discussed based on the research.

- H_1 : online and in-store consumers are significantly different in terms of value for availability

Table 5 results show the difference between the averages of this factor between the two groups was significant. Value for availability has a significant difference between the online and in-store consumers. Based on independent two-sample t-test, value for availability mean is higher for online consumers than in-store consumers. The difference (1/18) is significant at the level of 0.05.

- H_2 : Online and in-store consumers are significantly different in terms of price awareness

Table 6 results show the difference between the averages of this factor between the two groups was significant. Price awareness has a significant difference between the online and in-store consumers. Based on independent two-sample t-test, price awareness mean is higher for online consumers than in-store consumers. The difference (1/10) is significant at the level of 0.05.

- H_3 : Online and in-store consumers are significantly different in terms of trust

Table 7 results show the difference between the averages of this factor between the two groups was significant. Trust has a significant difference between the online and in-store consumers. Based on independent two-sample t-test, trust mean is higher for online consumers than in-store consumers. The difference (1/73) is significant at the level of 0/05.

- H_4 : Online and in-store consumers are significantly different in terms of risk-aversion

Table 8 results show the difference between the averages of this factor between the two groups was

Table 5: Results related to the value for availability

Variable	Online		In-store		Comparison	
	Mean	Sig.	Mean	Sig.	Mean difference	Sig.
Availability	3.45	0.000	4.63	0.000	-1.18	0.00

Table 6: Results related to price awareness

Variable	Online		In-store		Comparison	
	Mean	Sig.	Mean	Sig.	Mean difference	Sig.
Price awareness	3.47	0.000	4.58	0.000	-1.10	0.000

Table 7: Results associated with trust

Variable	Online		In-store		Comparison	
	Mean	Sig.	Mean	Sig.	Mean difference	Sig.
Trust	2.91	0.30	4.64	0.000	-1.73	0.000

Table 8: Results related to the value for risk aversion

Variable	Online		In-store		Comparison	
	Mean	Sig.	Mean	Sig.	Mean difference	Sig.
Risk aversion	4.29	0.000	3.13	0.12	1.15	0.000

Table 9: Results related to the value for personal services

Variable	Online		In-store		Comparison	
	Mean	Sig.	Mean	Sig.	Mean difference	Sig.
Personalized sales service	4.45	0.000	2.81	0.20	1.64	0.000

Table 10: Results associated with importance for interpersonal interactions

Variable	Online		In-store		Comparison	
	Mean	Sig.	Mean	Sig.	Mean difference	Sig.
Availability	4.61	0.000	2.61	0.016	1.19	0.000

significant. Risk-aversion has a significant difference between the online and in-store consumers. Based on independent two-sample t-test, risk-aversion mean is lower for online consumers than in-store consumers. The difference (1/15) is significant at the level of 0/05.

- H_5^s : Online and in-store consumers are significantly different in terms of value for personal services

Table 9 results show the difference between the averages of this factor between the two groups was significant. Value for personal services has a significant difference between the online and in-store consumers. Based on independent two-sample t-test, value for personal services mean is lower for online consumers than in-store consumers. The difference (1/64) is significant at the level of 0.05.

- H_6 : Online and in-store consumers are significantly different in terms of importance for interpersonal interactions

Table 10 results show the difference between the averages of this factor between the two groups was significant. Importance for interpersonal interactions has a significant difference between the online and in-store consumers. Based on independent two-sample t-test, importance for interpersonal interactions mean is lower for online consumers than in-store consumers. The difference (1/99) is significant at the level of 0/05.

First secondary hypothesis: Online and in-store consumers are significantly different in terms of value for availability. Convenience and product availability is highly valued for online consumers of luxury watches. Physical stores are limited in terms of location and the lack of watch variety is one of their major problems. These problems can be resolved by online shopping. People who shop on the Internet demand more variety and spend more time on comparing different products. Online consumers of luxury watches not only value watches variety but availability is also important to them. This is very important for people who can afford to buy luxury watches. Since, watch variety can affect customer

satisfaction and loyalty, it is concluded that availability is one of the important factors for online consumers of luxury watches. Findings of this study are in line with other researches including Liu *et al.* (2013).

Second secondary hypothesis: Online and in-store consumers are significantly different in terms of price awareness. Online consumers of luxury watches can compare prices and purchase watches with a better price. Consumers claimed that tend to buy luxury watches at lower prices. This can help justify people's tendency to buy luxury watches online. Since, luxury watches are usually expensive, buying them at lower prices is desirable. Our findings are different from the results of other researchers on ordinary consumers. The exploratory study showed that ordinary online shoppers are worried about the price as the in-store consumers are lack of consistent between the findings of this research and previous researchers suggests that consumers of luxury watches and ordinary watches behave differently on the internet. Findings of this study are in line with Liu *et al.* (2013).

Third secondary hypothesis: Online and in-store consumers are significantly different in terms of trust. Manufacturers of luxury watches should consider the element of trust to encourage more people to shop via the internet. Consumer trust is mainly based on manufacturer credit and consumers' reviews and scores. This is in line with the results of other studies on customer concerns about the inherent risks of online shopping. Customer concerns are higher in purchasing luxury watches because usually a lot of money is spent to buy them.

Thus, higher user scores and more favorable reviews lead to a more serious intention to buy the product. Luxury watch sellers must focus on the quality of their services to attract online consumers. Gaining trust and maintaining a good relationship with customers will increase online sales of luxury watches. Online shoppers trust online shops and other users' comments but in-store consumers rely more on the physical environment. Since, buying luxury watches is costly, trust plays an important role in the process of purchasing. For a relationship to succeed, both sides must act ethically and be trustworthy.

Worrying about the watches originality is one of the main reasons that people prefer the physical store for buying luxury watches. When people buy expensive luxury watches online, their being fake is a huge risk. So, gaining trust and maintaining a positive relationship with customers will increase the number of online transactions. Findings of this study are in line with Liu *et al.* (2013).

Fourth secondary hypothesis: Online and in-store consumers are significantly different in terms of risk-aversion. Online consumers' level of trust is higher compared with physical consumers of luxury watches. The second group rely more on the physical store. Lack of trust is one of the key factors that make people unwilling to do online activities. Trust is very important in online shopping because people should feel safe before they buy a product. So choosing a reliable online store is very important. Shopping on the Internet is more dangerous than physical shopping. Online trust is derived from two factors: "general belief in an online store" and a combination of "trustworthiness, honesty, ability and integrity of an online store". In addition, people who buy luxury watches in stores are more concerned about online shopping, because usually a lot of money is spent to buy luxury goods. Physical consumers, who are more risk-averse, pay a lot of attention to seeing, feeling and touching the watches. The seller of luxury watches can hardly turn these physical feelings into a virtual mode, because virtual stores cannot pass the physical environment as well as a physical store. Findings of this study are in line with those of Liu *et al.* (2013).

Fifth secondary hypothesis: Online and in-store consumers are significantly different in terms of value for personal services. Sellers can help people make decisions and choose between a varieties of watches and provide order services. According to one of the respondents "personal customization services are not provided in online shopping. Acceptable services and polite clerks, make in-store shopping an attractive to people". Physical consumers value the shopping experience, friendly interactions and high-prestige environment greatly.

Employees respect gives, a sense of power and prestige to people. Findings of this study are in line with Liu *et al.* (2013).

Sixth secondary hypothesis: Online and in-store consumers are significantly different in terms of importance for interpersonal interactions. Shopping in a physical store is enjoyable and relaxing and is considered as a form of recreation after work for some people. For some people, being seen in a store with many expensive watches is half the fun of shopping. Shopping is often some kind of fun and is not done only to meet a need. In addition, some consumers believe that the luxury environment of a store encourages them to shop. Also, buying from a physical store creates the opportunity to interact with friends. Findings of this study are in line with those of Liu *et al.* (2013).

CONCLUSION

The findings of this study have implications for managers as follows: Luxury watches sellers must pay attention to an emerging group of consumers who not only tend to buy luxury goods but also are highly interested in price and variety. Luxury watch manufacturers can target these consumers with attractive pricing. However, these companies should ensure that they face is not threatened. Lack of physical stores limits shopping opportunities of luxury watches. To solve this, manufacturers of luxury watch should offer their goods online.

Lack of trust makes people unwilling to buy luxury watches online. Vendor's trustworthiness improves the relationship between the customer and the seller and increases the likelihood of attracting new customers. This study shows that online shoppers pay attention to other users' comments. So, online sellers should encourage consumers to comment on their services and products.

Consumers will decide about the usefulness of these comments. Thus, luxury watches retailers can attract customers and keep them.

Dealing respectfully with customers who come to the store is very important because these people care about shopping enjoyable experience and friendly interaction. Luxury watch retailers need to empower their employees to keep their customers and encourage them to do so.

SUGGESTIONS

Despite, the unprecedented growth of online technologies and social networks, research on luxury goods in the online world is scarce. By studying consumers of luxury watches, this study helps augment extant literature on the subject. Our findings are helpful in understanding the intentions of online consumers of luxury brands. Prior studies have only considered intentions in a general context, of which watch consumers are only a segment. Understanding the intentions of online shoppers reveals that those who buy regular brands behave differently from those who prefer luxury brands.

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